

# REVIEW OF NATIONAL ACCOUNTS FOR THE YEAR 1962

by

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This review deals with the recent trends in the national accounts of South Africa.<sup>1)</sup> The figures to which the discussion relates, appear in tabel XXXI van hierdie kwartaalblad, terwyl while more particulars of gross domestic capital formation are contained in Table XXX.

### *Gross National Product*

The gross national product at market prices increased from R5,571 million in 1961 to R5,942 million in 1962 i.e. by R371 million, compared with a rise of R198 million in 1961. This increase represented a rise of 6.7 per cent in 1962 as against an increase of only 3.7 per cent in 1961.

The industries mainly responsible for this substantial increase were private manufacturing, commerce, transport and the gold mining industry. The contribution of private manufacturing to the net domestic product rose by no less than 10.0 per cent, followed by increases of 7.8 per cent, 6.8 per cent, and 5.8 per cent in commerce, transport and the gold

mining industry, respectively. The contribution of agriculture, however, declined by 3.1 per cent, and that of other mines by 5.0 per cent.

To determine the changes in the real gross national product, price changes have to be eliminated. A popular method is to deflate the national product by the consumer price index. However, as this method is subject to serious shortcomings, *inter alia* that it gives an indication of price changes pertaining to a restricted part of national expenditure only, a more accurate method has been used here. The procedure adopted consists of either the deflation of an expenditure item by an appropriate price index, or else the extrapolation of the relevant item by a volume index from the base year. The results are shown in Table 1 and it will be observed that real national product increased by 5.6 per cent in 1962 compared with 2.4 per cent in 1961. If allowance is made for the increase of approximately 2.4 per cent per annum in the population, it appears that real gross national product per capita increased by 3.2 per cent in 1962, while it showed no change in 1961 compared with 1960.

Table 1. *Expenditure on Gross Domestic Product at 1960 prices*

	1960 R m	1961 R m	1962 R m
1. Personal Consumption Expenditure .....	3,624	3,517	3,638
2. Purchases of Goods and Services by Public Authorities .....	595	636	711
3. Gross Domestic Capital Formation .....	1,128	1,116	1,132
4. Exports of Goods and Non-Factor Services .....	1,532	1,649	1,744
5. Less Imports of Goods and Non-Factor Services .....	1,312	1,220	1,241
6. Expenditure on Gross Domestic Product .....	5,567	5,698	5,984
7. Less Net Factor Payments to Abroad .....	194	219	194
8. Terms of Trade Adjustment .....	—	5	24
9. Real Gross National Product or Expenditure .....	<u>5,373</u>	<u>5,484</u>	<u>5,814</u>

1) For national accounts purposes South Africa is defined to include South West Africa and the British Protectorates.

*Total Supply and Uses of Goods and Services*

Particulars of changes that occurred during 1961 and 1962 in the total supply of goods and services, i.e. in the sum of the gross domestic product and imports, and in the uses thereof, are given in Table 2.

Table 2. *Changes in the Total Supply and Uses of Goods and Services*

	1961 R m	1962 R m
<b>Supply</b>		
Gross Domestic Product .....	+223	+344
Imports: Goods and Services .....	-107	+ 29
<b>Total Supply</b> .....	<u>+116</u>	<u>+373</u>
<b>Uses</b>		
Personal Consumption Expenditure .....	- 40	+178
Purchases of Goods and Services by Public Authorities .....	+ 57	+ 92
Gross Domestic Capital Formation .....	+ 1	+ 16
Exports: Goods and Services .....	+ 98	+ 87
<b>Total Uses</b> .....	<u>+116</u>	<u>+373</u>

As can be seen from Table 2, the total supply of goods and services increased by R373 million in 1962 compared with R116 million in 1961. The factors mainly responsible for these increases may be deduced from the nature of the uses of the goods and services. The substantial increase in 1962 was largely accounted for by personal consumption expenditure, which rose by R178 million, or 5.0 per cent, but also by the increase of R92 million, or 14.1 per cent, in purchases of goods and services by public authorities, and to a lesser extent by a further increase in exports of goods and services. Quarterly estimates indicate that the latter increase occurred mainly during the first half of the year while the rise in personal consumption expenditure was concentrated in the second half. The increase in 1961, on the other hand, was largely attributable to exports of goods and services and to a lesser extent to purchases of goods and services by public authorities. Although the increment of R178 million in

personal consumption expenditure during 1962 appears to be substantial in absolute terms, it represents, relative to the absolute size of total personal consumption expenditure, a moderate increase if cognisance is taken of the decline in the preceding year.

*Personal Income*

Total personal income increased by R292 million during 1962, compared with R168 million in 1961. Slightly more than half of the former figure, viz. R166 million, consisted of additional salaries and wages, while R120 million took the form of higher profits of unincorporated enterprises and interest and dividend receipts of persons. The remaining R6 million consisted of a rise in current transfers from public authorities to persons in the form of pensions, higher benefits received from social security funds, etc. Considering that net national income increased by R313 million during 1962, it is noteworthy that almost the whole amount (as can be seen from Table 3) accrued to persons and unincorporated enterprises, while that part of corporate profits not disbursed in the form of dividends, i.e. corporate saving and direct taxes on corporations and income from property of public authorities, showed only a small increase.

Table 3. *Distribution of the National Income*

	1961 R m	1962 R m	Change during 1962 R m
1. Persons: Salaries and Wages .....	2,799	2,965	+166
Income from Property <sup>2)</sup> .....	1,327	1,447	+120
2. Corporate Saving .....	195	213	+ 18
3. Direct Taxes on Corporations .....	256	253	- 3
4. Public Authorities: Income from Property .....	122	134	+ 12
<b>5. Net National Income at Factor Cost</b> .....	<u>4,699</u>	<u>5,012</u>	<u>+313</u>

<sup>2)</sup> Income from property consists of profits of unincorporated enterprises and interest and dividend receipts of persons.

After deducting direct tax payments from personal income, total disposable income of all persons rose by R290 million during 1962, compared with an increase of R170 million in 1961. Of the increment of R290 million in 1962, R178 million was spent on additional consumption while current transfers to the rest of the world was R18 million less than during the previous year. The net result therefore was that personal saving increased by R130 million in 1962, compared with a rise of R213 million in 1961. The increase in personal saving during the two years was reflected in the growth of capital market institutions e.g. insurance-companies and pension funds and the substantial increase in deposits with commercial banks, building societies and other deposit-receiving institutions.

#### *Income and Expenditure of Public Authorities*

The most important phenomenon in the consolidated current account of public authorities was the expanded expenditure on goods and services. Although a portion of this increase of R92 million in 1962 could be attributed to normal expansion of governmental activities, higher defence expenditure was responsible for the major share of this increase. A considerable part of these additional outlays took the form of imports, but expenditure on locally produced goods and services also increased substantially and contributed much to the stimulation of economic activity in certain industries.

As direct tax collections remained more or less the same, and indirect taxes and income from property together showed an increase of only R42 million, the current surplus of public authorities declined by R62 million in 1962 i.e. from R151 million in 1961 to R89 million in 1962.

#### *Gross Capital Formation*

It is estimated that gross capital formation amounted to R1,145 million in 1962, compared with R1,129 million in 1961. This increase of R16 million consisted of a rise of R13 million in fixed capital formation and an addition of R3 million to investment in all types of inventories. The above increase of R16 million is the net result of rises in capital expenditure by public authorities, public corporations and private enterprises of R3 million, R9 million and R4 million, respectively.

Regarding capital expenditure by public authorities, it is noteworthy that expenditure by the South African Railways, Harbours and Airways Administration declined by a further R20 million in 1962, and amounted to only R90 million compared with a record outlay of R218 million in 1958. Whereas the Administration's share of total capital expenditure by public authorities amounted to no less than 50 per cent in 1958, it fell to only 25 per cent in 1962. The Administration's share of total gross domestic capital formation dropped from 20 per cent in 1958 to only 8 per cent in 1962. Notwithstanding this considerable decline, total capital expenditure by public authorities, nevertheless rose by R3 million, mainly as a result of increases in the expenditure of provincial administrations, the general government and local authorities.

The increase of R9 million in the capital expenditure of public corporations represents a rise of R13 million in investment in fixed capital assets, and a decline of R4 million in the net addition to inventories. Fixed capital expenditure by public corporations should increase considerably as from 1963, due to the implementation of large capital projects announced during the past two years by, *inter alia*, Iscor, Sasol, Foscor and Escom.

Expenditure on residential buildings amounted to only R87 million in 1962, compared with peaks of R122 million and R123 million in 1955 and 1960 respectively. Although this figure is the lowest recorded during the past eleven years, a strong upward tendency was displayed by this type of capital expenditure in the course of the year.

Capital expenditure in agriculture showed little change during 1962 compared with 1961. On account of the large scale mechanisation in agriculture during the period just after World War II, a substantial level of gross capital expenditure will have to be maintained, particularly with regard to machinery, to provide for the replacement of existing assets due to wear and tear.

Following the gradual increase from R94 million in 1957 to a peak of R143 million in 1961, fixed capital expenditure in mining declined to R117 million in 1962. If cognisance is taken of the fact that all new gold mines, except one, have already reached the production stage and as no development schemes have yet been announced for new gold mines, a

declining tendency could be expected in the future capital expenditure by mining, unless new gold fields or other mineral deposits should be discovered and exploited. In the next few years this declining trend will to some extent be neutralised by projects such as the exploitation of copper deposits at Phalaborwa.

Fixed capital formation by private manufacturing recorded a considerable increase, viz. from R165 million in 1961 to R182 million in 1962. It should be noted in this regard that manufacturing is the largest single contributor to the domestic product, and provides employment to a large section of the labour force. Judging by the capital projects already announced, expected developments in the motor industry and the government's policy of the development of border industries, further improvement may be expected in this sphere.

Compared with 1961, commerce, private transport, finance, etc. also displayed a rise in fixed capital formation during 1962. However, an important tendency in this group is the considerable increase in inventories, viz. from a decrease of R7 million in 1961 to an increase of R18 million in 1962.

On the whole, capital expenditure during 1962 did not keep pace with the advance in gross national product. Gross capital formation, as a percentage of gross national product, decreased from 25.8 per cent in 1954 to only 19.3 per cent in 1962. The declining trend in the rate of net capital formation to net national product is even more pronounced if allowance is made for the fact that depreciation allowances increased every year. Net fixed capital formation, however, was not only lower relative to net national product in 1962, but was also lower in absolute terms compared with 1954, before adjustment is made for price increases over the period.

#### *Gross Domestic Saving*

Gross domestic saving amounted to R1,452 million in 1962, compared with R1,332 million in 1961, an increase therefore of R120 million or 9.0 per cent. Of the saving of R1,452 million, R1,145 million was used for the financing of gross domestic capital formation. This left a balance of R307 million which was reflected in an addition of R188 million to the country's gold and foreign exchange reserves, a net decline of R130 million in South Africa's

foreign liabilities and an unappropriated balance of R11 million.

With regard to the increase of R120 million in gross domestic saving during 1962, personal saving, as already mentioned, rose by no less than R130 million, depreciation allowances by R34 million and corporate saving by R18 million. In contrast, the current surplus of public authorities decreased by R62 million, mainly as a result of the already mentioned sharp increase in expenditure on goods and services.

#### *Summary*

The salient points arising from the preceding discussion are the following:

1. The gross national product, which was substantially higher in 1962 than in 1961, rose at a considerably faster rate. During the first half of the year this higher rate was largely the result of further increases in exports, while the latter's role was taken over by a strong increase in personal consumption expenditure during the second half of the year.

2. The real gross national product per capita increased by 3.2 per cent during 1962, while in 1961, it remained constant compared with 1960.

3. Personal consumption expenditure displayed a considerable increase after the decrease experienced in the preceding year. The large addition to public expenditure on goods and services was primarily the result of higher defence expenditure.

4. Almost the entire increase in net national income accrued to persons in the form of wages and salaries, profits of unincorporated businesses and interest and dividend receipts of persons.

5. A large part of the increase in personal income, namely R178 million, was used for consumption, while R130 million more was saved by persons.

6. Gross capital formation again only showed a moderate increase, although the trend during the course of the year was upward, while, as a percentage of gross national product, it showed a decline. Net fixed capital formation recorded a decline during 1962.

7. Gross domestic saving exceeded gross domestic capital formation in 1962 by R307 million, the difference being accounted for by a net decrease in South Africa's foreign liabilities and an addition to the country's gold and foreign exchange reserves.