

## QUARTERLY ECONOMIC REVIEW

### SUMMARY AND CONCLUSIONS

(1) The South African economy has now been in an expansion phase of the business cycle for more than 18 months. All the available evidence indicates that the economic upswing continued during the fourth quarter of 1962 at more or less the same rate as during the third quarter.

(2) Merchandise exports continued to move downwards during the fourth quarter of 1962 and private consumption appeared to increase at a somewhat slower rate, but the current expenditure of the Government and other public authorities, as well as fixed investment in both the private and public sectors, increased at a noticeably higher tempo. In addition, the gold output showed a substantial further increase.

(3) Despite the marked further increase in the total spending of the economy, the upward movement in imports lost considerable momentum during the fourth quarter of 1962 and the early months of 1963, mainly owing to a slightly decreasing tendency in private imports. With merchandise exports declining, however, the seasonally adjusted surplus on the balance of payments on current account decreased further from the abnormally high levels attained earlier in the year. On capital account, there was a moderate net outflow during this period, mainly owing to the relaxation of exchange control and large repayments of both private and official foreign loans. The net result, nevertheless, was a further increase in the total official gold and foreign exchange reserves, although at a considerably slower rate than during the preceding three quarters.

(4) Noticeable changes began to take place in the monetary and banking situation during the closing months of 1962 and the early months of 1963. The rate of increase in the seasonally adjusted supply of money and near-money slowed down, the liquidity of the banking system declined more than seasonally, money

market conditions tightened somewhat and short-term interest rates began to edge upwards. On the whole, however, the monetary and banking situation still remained highly liquid and favourable to economic expansion.

(5) In the capital market, gilt-edged interest rates tended to stabilise at the relatively low levels reached in November, 1962, but the yields on mining, financial, industrial and commercial shares declined further as suitable scrip remained relatively short in relation to the pressure of funds.

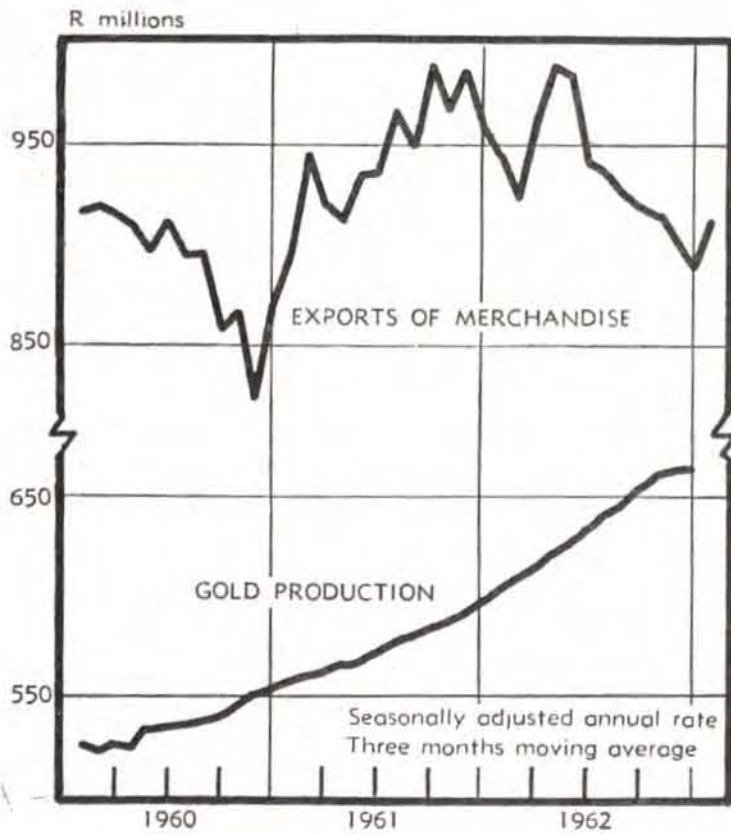
(6) Although the economy probably came closer to the full employment "ceiling" during recent months than it has been for some time, there has thus far still been no evidence of aggregate *over-spending*, i.e. of total demand pressing unduly upon available resources.

### NATIONAL ACCOUNTS<sup>1)</sup>

#### *Gross National Product*

The gross national product continued to increase during the fourth quarter of 1962 at more or less the same rate as that achieved during the third quarter. For the year 1962 as a whole, it is provisionally estimated to have amounted to about R5,973 million, compared with a revised figure of R5,580 million for 1961. This represents an increase of 7.0 per cent, compared with one of 3.8 per cent between 1960 and 1961. If allowance is made for price increases, the *real* gross national product increased between 1961 and 1962 by 5 to 6 per cent, compared with a rise of about 2 per cent between 1960 and 1961. Since the annual rate of population growth is about 2.3 per cent, the real gross national product *per head*, which had tended to decline during 1961, therefore increased by about 3 per cent between 1961 and 1962.

1) Unless otherwise stated, the data used in this section of the review have been corrected for seasonal fluctuations.



### Expenditure Tendencies

With the notable exception of merchandise exports, which continued to move slightly downwards, all the main components of total expenditure increased noticeably during the fourth quarter of 1962, in some cases even at a higher rate than during the third quarter.

Private consumption, which had risen at an accelerated rate during the third quarter, again showed a substantial increase during the fourth quarter, although its rate of increase tended to decline somewhat. For the year 1962 as a whole, private consumption is provisionally estimated to have amounted to about 5.7 per cent more than during the previous year, mainly as a result of higher outlays on durable consumer goods. If allowance is made for the increases which occurred in the consumer price index and in the population between these two years, real consumption *per head* increased by about 2 per cent, which again brought it up to more or less the 1959 level or just below the peak of 1958.

A further stimulus was provided by the current expenditure of the Government and other public authorities, which increased at a somewhat faster rate during the fourth quarter than during the third quarter and reached a total for the year of R745 million, compared with

R652 million during the previous year. The main reason for this increase of no less than 14.3 per cent was the higher rate of spending on defence. Although a considerable part of these additional outlays took the form of imports, expenditure on locally produced goods and services also increased substantially and contributed much to the expansion of economic activity in certain industries.

Gross domestic fixed investment in both the private and public sectors likewise increased at a faster rate during the fourth quarter. The increase in private fixed investment was mainly accounted for by a further rise in the capital outlays of manufacturing enterprises and by a substantial increase in expenditure on residential construction, while the rise in public fixed investment was spread fairly evenly over a wide field. Thus, although total gross domestic fixed investment during 1962 as a whole was only about 2 per cent higher than in 1961, it would appear to have achieved a noticeably higher rate of increase during the second half of last year.

Inventories rose fairly substantially during the last quarter of 1962, particularly commercial and industrial inventories. Over the year as a whole, total inventories increased by about R27 million and commercial and industrial stocks by about R30 million. The record increase in the country's gold and foreign exchange reserves during 1962, therefore, did not take place at the expense of its reserves of physical goods. On the contrary, the economy in general found itself with a relatively high inventory level at the end of last year.

Despite the marked further increases in both consumption and investment, the upward movement in imports which had begun round about the middle of 1962, lost considerable momentum during the fourth quarter, as will be set out in more detail later on.

### Saving

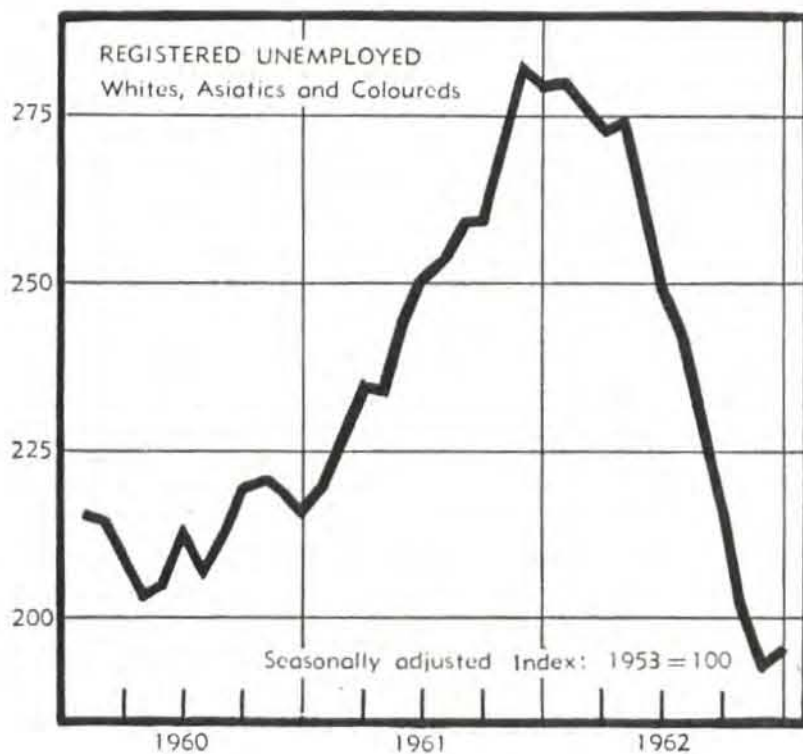
Gross domestic saving declined further during the fourth quarter of last year. As during the preceding quarter, this was again largely attributable to a decline in personal saving, which, to some extent, represented the counterpart of the upward movement in private consumption referred to above.

## PRODUCTION AND EMPLOYMENT

Production in most branches of secondary industry continued to move upwards during the last quarter of 1962. During this period the average index of the physical volume of manufacturing output (1956/57=100) amounted to 136.0, compared with 125.2 during the fourth quarter of 1961. This represented an increase of 8.6 per cent. For 1962 as a whole, the average index showed an increase of 5.9 per cent over that of the previous year.

Employment in general likewise continued to rise during the fourth quarter of last year. The available seasonally adjusted indices indicate a further increase in employment in both private manufacturing and mining, and a slight decline in construction.

During the same period, the number of registered unemployed Whites, Coloureds and Asiatics declined from 27,000 at the end of September, 1962, to 20,000 at the end of December, the lowest year-end figure since 1957. This meant that at the end of 1962 only about 1.3 per cent of the labour force comprising these groups were registered as unemployed. During January of this year the unemployment figure increased somewhat, but this was mainly attributable to seasonal factors.



If seasonal movements are excluded, it appears that the index of unemployed Whites, Coloureds and Asiatics reached its peak as far back as November, 1961, and then declined sharply during the course of the following year. Although it is not yet possible to obtain an accurate picture of short-term tendencies in regard to Bantu unemployment, it is evident from the above that, as far as Whites, Coloureds and Asiatics are concerned, the unemployment situation has returned to normal.

## PRICES

Although a certain amount of slack still appeared to exist in the economy at the time, the general price level continued to show an upward tendency during the last quarter of 1962 and January, 1963. The index of *wholesale* prices (1953=100) increased further from 111.5 in September to 112.6 in December, before declining to 112.0 in January of this year. During this four-month period the *consumer* price index, which had tended to level off during the middle months of the year, resumed its slow upward movement and reached 122.1 in January, 1963, compared with 121.4 in September, 1962.

## OTHER ECONOMIC INDICATORS

The movements of most other seasonally adjusted economic indicators point to a further improvement in general economic activity during the last quarter of 1962 and January of this year. Thus bank debits, although again fluctuating considerably from month to month, maintained an upward tendency. The indices for railway earnings and "building plans passed" similarly showed random fluctuations, but attained considerably higher levels during the fourth quarter of 1962 than during the third quarter.

Real estate transactions, which had increased substantially during the third quarter, registered a slight decline during the fourth quarter, but then moved sharply upwards again in January of this year.

Finally, the retail sales index showed the largest quarterly increase in over 10 years, before declining slightly in January.

## BALANCE OF PAYMENTS

*Current Account*

As was anticipated, the surplus on the current account of the balance of payments declined further during the fourth quarter of 1962 and amounted to about R50 million, compared with R78 million, R108 million and R59 million during the first, second and third quarters respectively. This was mainly attributable to a continuation of the downward tendency in merchandise exports and a further increase in imports. After reaching a peak in October, however, total imports tended to decline somewhat, mainly owing to a downward tendency in private imports.

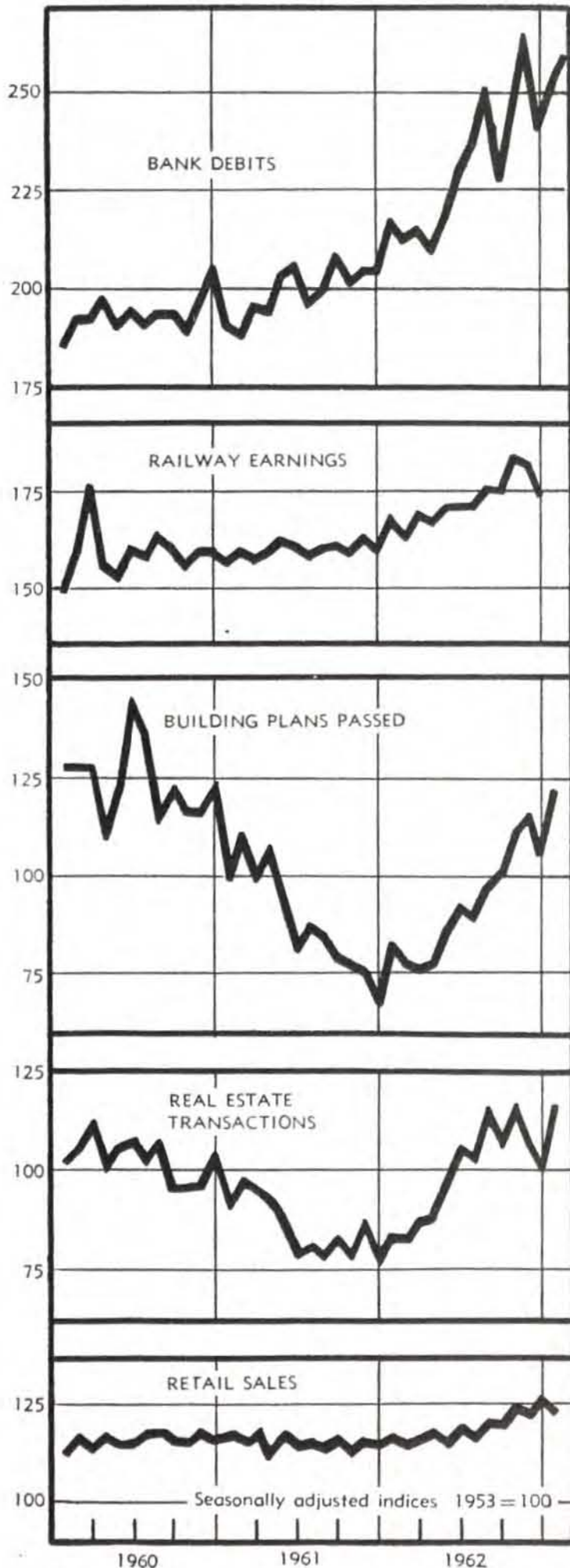
Since the fourth quarter is normally the most favourable quarter of the year for the current account, the decline in the current surplus during that period becomes even more marked if correction is made for seasonal movements. Nevertheless, even after such correction, the current surplus during the fourth quarter was still equivalent to an annual rate of over R100 million.

*Private Capital Movements*

It is provisionally estimated that a further net outflow of private capital of approximately R20 million occurred during the fourth quarter. Net purchases by South African residents from foreigners of listed South African securities actually amounted to R24 million,<sup>2)</sup> of which the major part represented purchases effected in terms of the *permit* and *arbitrage* schemes of exchange control relaxation. But as not all these purchases were paid for during the fourth quarter, the actual transfer of funds abroad was considerably less. The net figure of R20

2) The following table shows the purchases and sales by South African residents from and to foreigners of securities listed on the Johannesburg Stock Exchange, as reported by stockbrokers (unadjusted for nominee and direct transactions):

	Purchases by S.A. Residents R millions	Sales by S.A. Residents R millions	Net Pur- chases R millions
1962			
First Quarter . . . . .	7.5	6.2	1.3
Second Quarter . . . . .	13.6	9.8	3.8
Third Quarter . . . . .	20.2	11.0	9.2
October . . . . .	8.1	2.2	5.9
November . . . . .	15.2	4.2	11.0
December (Provisional) . . . . .	7.5	2.6	4.9
1963			
January (Provisional) . . . . .	8.4	2.8	5.6
February (Provisional) . . . . .	8.2	4.1	4.1



million also includes repayments of uranium, municipal and Industrial Development Corporation foreign loans to an amount of R12 million. From this, as well as other evidence, it would appear that there was also some inward movement of foreign funds during this period, probably for direct investment in South African enterprises.

For the year 1962 as a whole, the net outflow of private capital is provisionally estimated at R72 million, most of which occurred during the second half of the year following the relaxation of exchange control.

#### *Official and Banking Capital Movements*

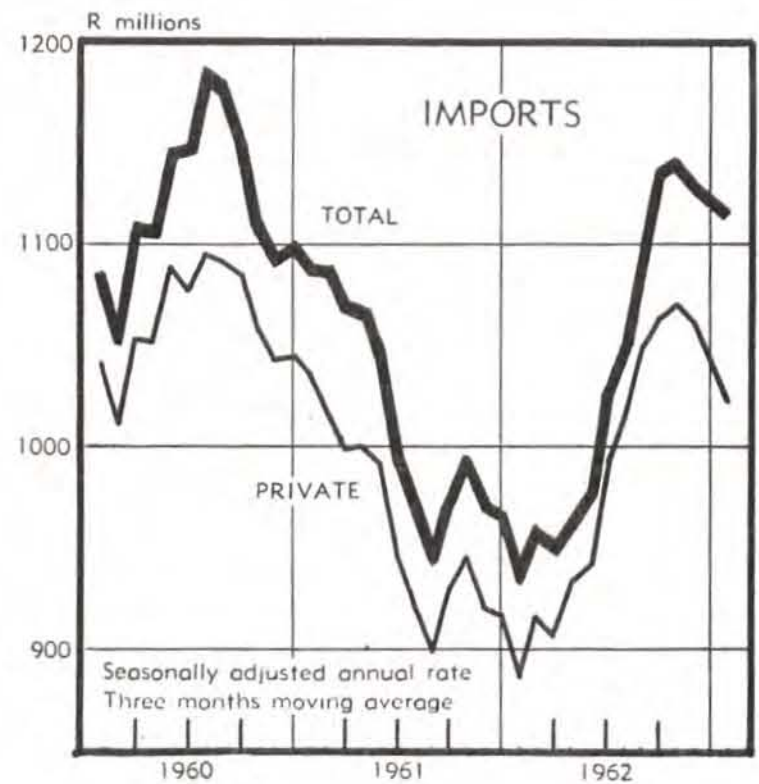
A small net outflow of official and banking capital of about R5 million was registered during the fourth quarter of 1962. The Government actually repaid foreign loans to the extent of about R11 million, but against this had to be set a small net inflow of banking and short-term official capital, as well as new investments in blocked rand bonds of about R5 million. These capital movements brought the total net outflow of official and banking capital for the year 1962 up to R57 million.

#### *Gold and Foreign Exchange Reserves*

As a result of the various tendencies in the balance of payments discussed above, the total official gold and foreign exchange reserves of the country increased at a considerably slower rate during the fourth quarter than during the first three quarters of the year, namely by R19 million, compared with increases of R48 million, R76 million and R45 million during the first, second and third quarters respectively. This brought the total up to R491 million at the end of the year, of which the commercial banks held the exceptionally large amount of R57 million. Of the latter figure, R40 million consisted of funds temporarily invested abroad by the banks under special "swop" arrangements with the Reserve Bank, to which reference will again be made later.

#### *Developments during January and February, 1963*

During January of this year, seasonally adjusted imports showed a marked increase, but then declined equally sharply during February, so that the three months moving average plotted



on the accompanying graph continued to move slightly downwards. The temporary rise during January was attributable to a sudden increase in Government imports to a level of R15 million, compared with a monthly average of only R3 million during 1962. As far as seasonally adjusted *private* imports are concerned, however, the slight declining tendency which began after October, 1962, would appear to have continued during the first two months of 1963.

The net gold output remained at a very high level and merchandise exports, after declining further in January, recovered strongly in February. The result was that, after also taking into account net invisible payments to the rest of the world, the current account of the balance of payments during the first two months of 1963 probably still showed a surplus equivalent to an annual rate of roughly R100 million.

Very little information on capital movements during these two months is available at this stage, but it would appear that a small net inflow of official and banking capital may have occurred, together with a small net outflow of private capital, mainly through stock exchange dealings.

The total official gold and foreign exchange reserves increased further by about R17 million during this period and amounted to about R508

million at the end of February. Between the end of February and the 22nd March, the Reserve Bank's gold and foreign exchange holdings increased by another R8.6 million, but this may have been partly offset by a decline in the foreign exchange held by the commercial banks.

## MONETARY AND BANKING SITUATION

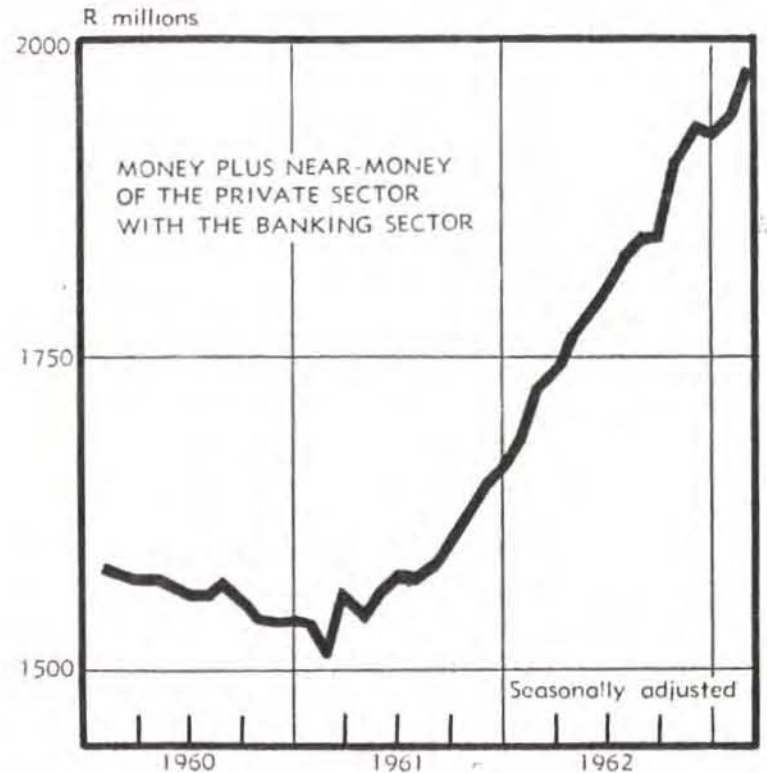
Although a high degree of liquidity continued to prevail in the South African economy during the fourth quarter of 1962 and the first two months of 1963, noticeable changes in the monetary and banking situation began to take place during this period, quite apart from the marked seasonal fluctuations which normally occur at this time of the year.

### *Supply of Money and "Near-Money"*<sup>3)</sup>

In the first place, the rate of increase of the seasonally adjusted supply of money and near-money held by the private sector with the banking sector, which had been consistently high since the first quarter of 1961, decreased noticeably after November, 1962. The main reason for this change in tempo was the decline which occurred during the fourth quarter in the total gold and foreign exchange reserves *after correction for seasonal movements*. The effect of this decline on the supply of money and near-money would have been even more noticeable if it had not been for the moderate upward tendency shown during this period by the discounts and advances of the commercial banks, which tended to have an offsetting effect.

If the definition of near-money is extended to include also the liquid assets of the private sector held with the Government sector, i.e. the private sector's holdings of Treasury bills, tax redemption certificates and short-term Government stock, the rate of increase of the seasonally adjusted total of money and near-money also declined after November, 1962.

3) Attention should be drawn to the fact that the definitions of "money", "near-money" and "banking sector" used in this Bulletin now differ somewhat from those used previously. The new definitions are discussed in the article *A Monetary Analysis for South Africa*, which appears in this issue.



### *Commercial Banks*

The second change was a marked reduction in the liquidity of the commercial banks. The strong upward movement in their cash, money at call and investments and the downward drift in their discounts and advances, which had been features of the banking situation during the preceding months, were both reversed at the same time, namely from the end of October, 1962. Accordingly, the ratio of their liquid assets to their liabilities to the public declined sharply from a peak of 53.3 per cent at the end of October, 1962, to 45.8 per cent at the end of February, 1963. Although these changes were mainly the result of the large seasonal shift of tax funds from the private to the public sector, they nevertheless indicated that the upward tendency in the liquidity of the banks had been arrested. It is also significant to note that, if discounts and advances to the Land Bank are excluded, the seasonally adjusted figure for the banks' discounts and advances actually began to recover from as far back as May of last year and by February had reached a level not far below the previous peak attained in May, 1961.

### *Merchant Banks*

The experience of the merchant banks during recent months has likewise been in accordance with the general monetary and banking tendencies mentioned above. Partly as a result of the seasonal shift of tax funds from the

private to the public sector, their total deposits, which had shown a declining tendency after reaching a peak of R53 million in August, 1962, moved slightly further downwards to R45 million at the end of February, 1963, while their acceptances increased from a low point of R44 million in October, 1962, to R71 million in February of this year.

*Building Societies*

The building societies as usual suffered a slight seasonal decline in their deposits during the fourth quarter, but their share capital continued to increase strongly, so that they remained able to meet the moderately increasing demands made on them for loans. At the end of January, 1963, their share capital and deposits amounted to R748 million and R626 million respectively, while their total mortgage advances outstanding were R1,112 million.

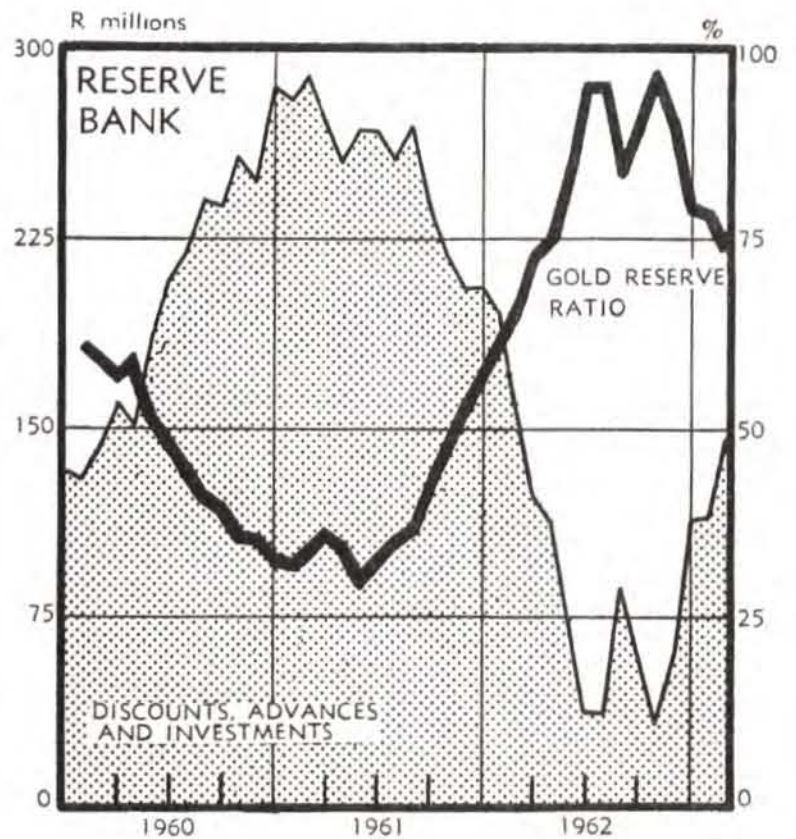
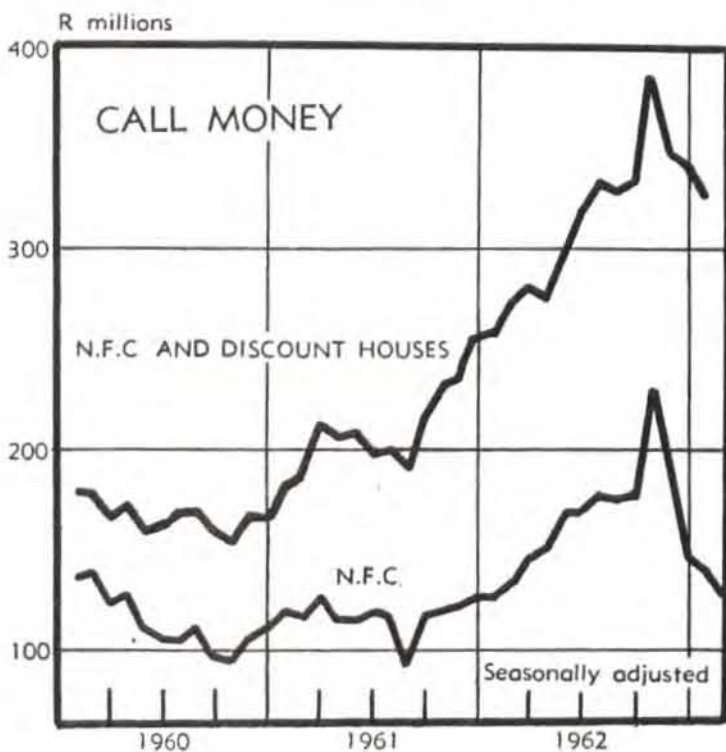
*National Finance Corporation and Discount Houses*

The most striking change of all was the sharp decline in the total amount of call money held with the National Finance Corporation and the discount houses from a record month-end peak of R408 million at the end of October to R279 million at the end of February, mainly owing to a withdrawal of funds by the commercial banks. This was considerably more than the usual seasonal decline, as is evident from

the accompanying graph which depicts the recent movements of these funds *after correction for seasonal changes*. The graph also clearly indicates that the major part of the decline was experienced by the National Finance Corporation.

*Reserve Bank*

Finally, the change in the general monetary and banking situation was reflected in changes in the Reserve Bank's asset structure. Mainly as a result of credit extended to the National Finance Corporation and the discount houses to assist them in meeting the withdrawal of call money referred to above, the Bank's total discounts, advances and investments rose rapidly from a low point of R33 million at the end of October, 1962, to R145 million at the end of February, 1963. This extension of credit took the form mainly of repurchases of medium and long-term Government securities which had earlier been sold to the money market institutions for limited periods at prices based on short-term money rates. Since the Bank's gold and foreign exchange holdings changed little during this period (the commercial banks' foreign exchange holdings were rising at that stage), these changes helped to produce a decline in its legal reserve ratio from the record level of 96.8 per cent at the end of October to 73.8 per cent at the end of February.



## CREDIT POLICY AND SHORT-TERM INTEREST RATES

Although the various changes in the monetary and banking situation discussed above were mainly a reflection of the underlying tendencies in internal economic conditions and the balance of payments, they were, to some extent, also influenced by policy measures designed to reduce excess liquidity and to prevent the Treasury bill and related money market rates from falling too low. Thus, apart from the *permit* and *arbitrage* schemes of exchange control relaxation, which helped to relieve the pressure of liquidity, the Treasury continued to issue Treasury bills at a rate of about R16 million per week, even though it did not require all the funds at the time, while the commercial banks, as mentioned earlier, were allowed to invest limited amounts abroad under cover of "swop" arrangements with the Reserve Bank. While the latter transactions did not affect the *total* gold and foreign exchange reserves of the country, but only that portion held by the Reserve Bank, and therefore did not directly influence the amount of money and near-money in the hands of the private sector, they did exercise a significant effect on money market conditions.

As a result of all the various influences referred to above, the persistent decline in the Treasury bill and related money market rates was arrested before the end of 1962. Indeed, after declining to 1.80 per cent early in December, the lowest rate ever reached in the case of 91-day or 3-months bills, the Treasury bill rate gradually increased to 2.02 per cent on the 15th February. Thereafter it declined somewhat, but then increased again to 2.03 per cent on the 22nd March.

Nevertheless, despite the various developments discussed above, the monetary and banking environment remained favourable to economic expansion throughout the period under review and the monetary authorities remained conscious of the need to assist the upswing in economic activity by stimulating both investment and consumption. It was to contribute to this end that the Reserve Bank reduced Bank Rate from 4 to 3½ per cent on the 27th November, 1962, which led almost immediately to a reduction of ½ per cent in the lending rates

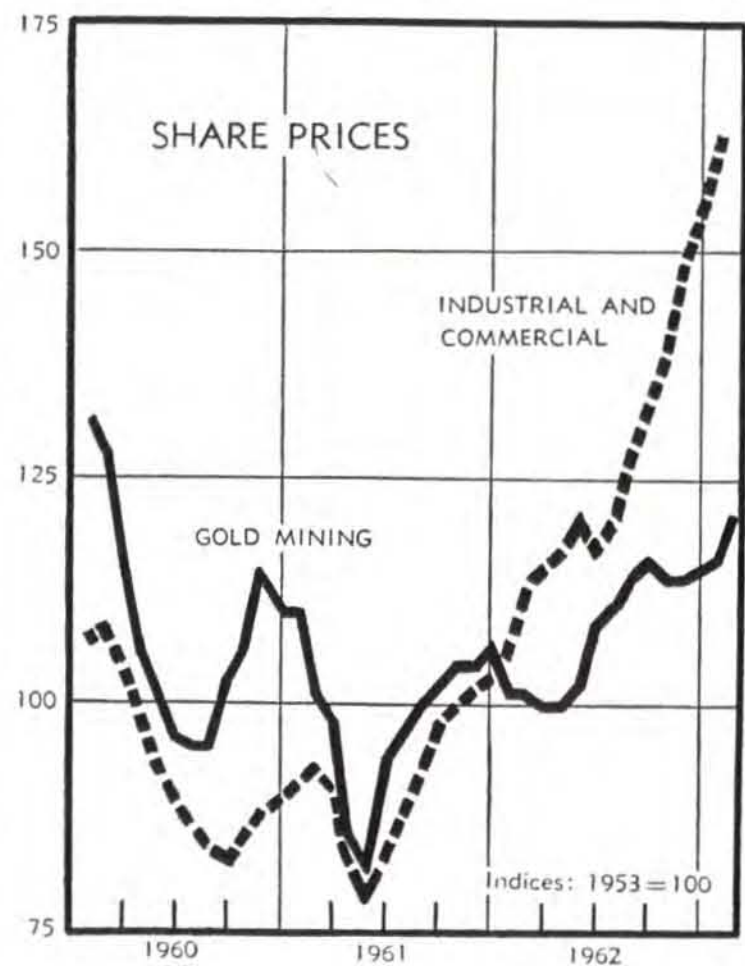
and in some of the deposit rates of the commercial banks.

More recently, as the money market experienced a noticeable tightening owing to the seasonal tax drain as well as the other factors mentioned earlier, the funds which had been temporarily invested abroad by the commercial banks gradually began to be repatriated, while the authorities, as in previous years, again transferred a part of the Government's deposits from the Reserve Bank to the money market to help relieve the temporary strain.

## CAPITAL MARKET

In the gilt-edged market the pressure of funds eased noticeably during recent months. Indeed, since the reduction of ¼ per cent in the Reserve Bank's pattern of rates for Government stock on the 1st November, there would appear to have been a greater degree of balance between supply and demand, with only occasional purchases and sales of stock by the Bank, i.e. other than the special repurchases from the National Finance Corporation and the discount houses referred to earlier.

The index of industrial and commercial share prices (1953=100), however, continued to rise unabatedly and by January, 1963, had reached





a level of 163, compared with the lower turning point of 80 in May, 1961. This was the highest level in about 15 years.

The index of gold mining share prices tended to level off during the last quarter of 1962, but resumed its upward movement during the first quarter of this year. In March the prices of gold shares on the London market increased even more steeply than the local prices, so that the price differential between the two markets narrowed to about 8 per cent, the lowest since the extension of exchange control to

dealings in South African securities between the Johannesburg Stock Exchange and the London and Bulawayo Stock Exchanges in June, 1961.

These capital market tendencies were, as usual, the result of a combination of various influences, including the improved outlook for internal economic expansion and the changing conditions in the foreign exchange markets. In general, however, they still reflected a relative shortage of suitable scrip in relation to demand in a high-saving and very liquid economy.

*Indices — Excluding Seasonal Changes*

(1953=100)

	1961	1962				1963	
	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Jan.	Feb.
Bank Debits .....	203	215	219	238	248	252	259
Discounts and Advances of Commercial Banks .....	187	186	183	181	183	186	192
Stock Exchange Turnover .....	177	197	299	373	387	380	381
Value of Gold Production .....	200	206	212	219	225	225	232
Value of Imports .....	112	113	115	128	130	142	124
Value of Exports .....	166	156	166	157	151	148	167
Railway Earnings .....	161	167	170	174	180	....	....
Value of Retail Sales .....	114	116	118	119	124	123	....
Value of Property Transactions .....	80	84	97	108	107	116	....
Value of Building Plans Passed .....	73	79	85	96	111	122	....
Employment:							
Private Manufacturing .....	120	120	121	123	124	....	....
Private Construction .....	104	106	109	110	107	....	....
Mining .....	126	125	122	124	127	....	....
Unemployment .....	278	276	262	230	197	....	....