ECONOMIC NOTES

*Economic Notes is supplied by the Labour Research Service (LRS), Cape Town*

# Prospects for 1993

## Will the economy grow in 1993?

### *Let's hope we've got it right this time*

Predictions of growth in 1992 were wrong. The economy shrank by between 1% and 1,7%. What will happen in 1993?

Basically, the revival has been delayed. Most economists now expect a very slow recovery in 1993. But it may not be evident until the third quarter, and will not pick up steam until 1994.

Standard Bank and Sanlam both say growth will be 2% in 1993. The positive factors are the recovery in the world economy, also delayed from 1992; the expected build up of stocks; a normal agricultural year; heavy government spending; lower interest rates and lower inflation; and stabilised company profits.

## Gross Domestic Product

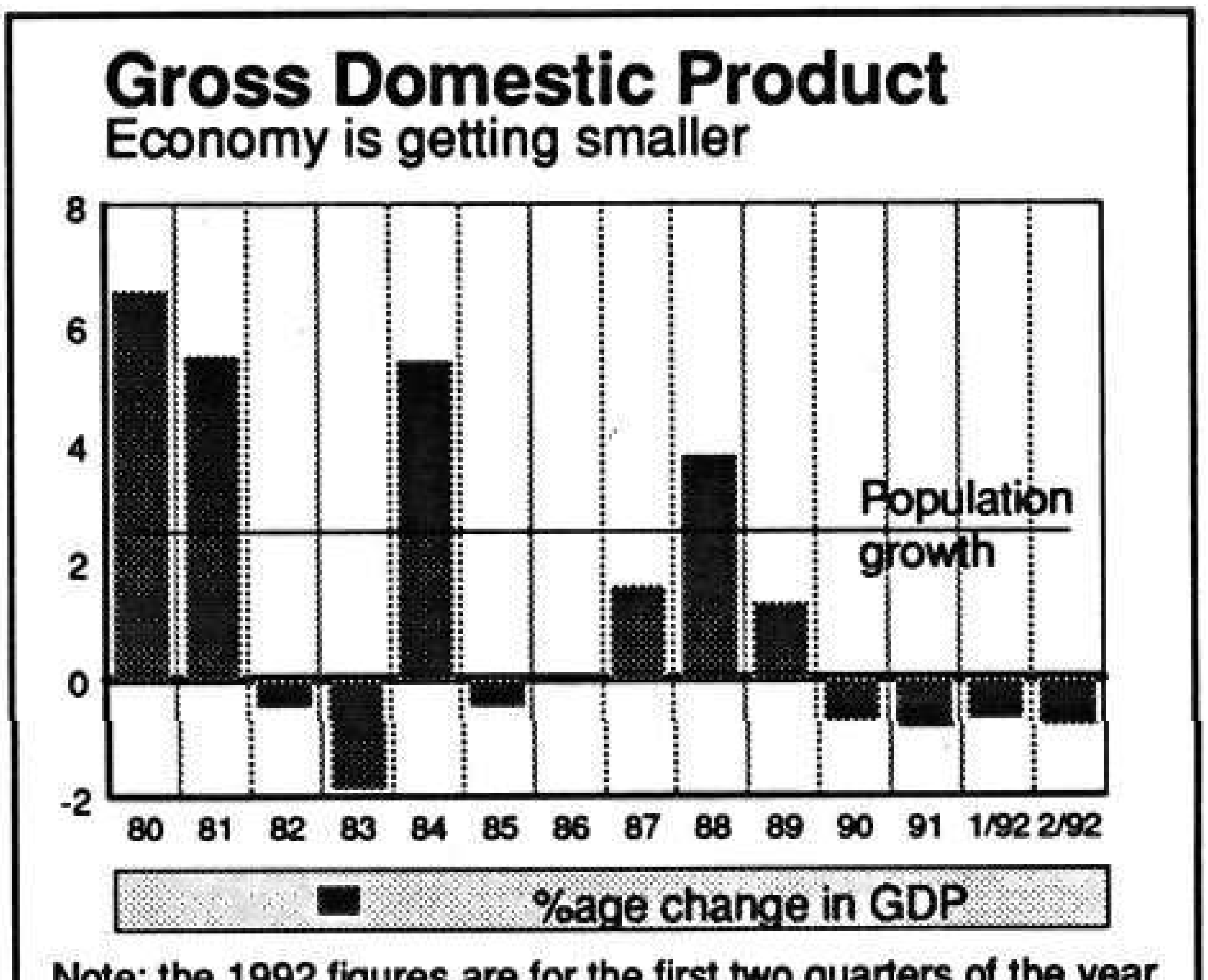
### *Economy is getting smaller*

But Old Mutual warns that the recession might spill over into 1993. A full recovery might be delayed until 1994.

The negative factors are:

- Heavy debt of government, companies and consumers.
- Low confidence levels amongst consumers and companies.
- Poor state of government finances.
- Slugging world recovery.

Old Mutual expects wage increases to be very low in 1993. Workers must rely



Note: the 1992 figures are for the first two quarters of the year instead on lower interests rates and inflation to provide some comfort.

The manufacturing sector may do better than other sectors. The expected devaluation of the rand against the dollar will make exports cheaper-and therefore exports will grow. We can also expect some growth in stocks – if only because they are now too low to be *sustainable.*

Exporters have obtained several new advantages. Exports are now zero-rated for VAT, local inflation has been reduced, and the costs of circumventing sanctions have been removed.

But imports are also likely to increase. Some grain imports will still be required as a result of the drought. South Africa normally has a surplus on its trade in food – but in 1992 it went into deficit owing to the drought. There will be some carry-over of food imports in early 1993.

And a growing economy always needs more imports, especially of machinery and equipment.

# International prospects

### *IMF says world economy will grow by 3%*

The International Monetary Fund says that the world economy will grow by 3%. Some economists believe that the figure will be lower. Whoever is correct, a 3% or lower growth rate will be insufficient to help commodity markets-which are very important for South Africa.

So expect no boom in mining or base minerals in 1993.

The United States economy will give the biggest boost to trade since it began to recover in late 1992. The USA will grow by 2,3%. The *French economy is also* expected to be strong with 1,8% growth.

But exporters to Japan will be disappointed by low levels of growth there.

"Disappointing" in the Japanese context means growth of about 2,4%. The British economy is also expected to be sluggish at 1,2%.

In Germany, enormous growth is expected in the eastern half, formerly East Germany. But the cost to the German economy will be high, limiting its growth prospects overall to about 0,6%. Of the 13 largest market economies, only Sweden will decline.

The economies of the former Soviet bloc in eastern Europe shrank by a massive 17% in 1991. Eventually they will recover, but this is not expected to have positive impact on the world economy for some years.

In short, a modest recovery in the world economy will give some opportunities to South African exporters of manufactured goods. For minerals, the outlook is flat.

There is better news about inflation. Price increases are expected to be no more than 3% or 4% in the world's largest economies.

But unemployment is still very high, despite the growth. In Germany, 7% are unemployed, in Spain 15% and in Switzerland – where unemployment has never been a problem – it is 3,5%. Unemployment is very high *in Britain at 10,1%, and in the* USA at 7,5%. The priority of capitalist government has been inflation-at the cost of jobs. They have succeeded in taming inflation. In the process, they have discovered that high levels of unemployment *can* be tolerated – by the majority of voters, if not by the trade unions.

Enormous dangers still hang over the world economy. These include the share markets where prices are still extremely high and do not reflect real value; the Japanese property market which is extremely fragile and would take many financial institutions with it if there was a collapse; the prospect of a full-scale trade war between the new European free trade area and the North American free trade area; and Third World debt which is now regarded as manageable but is still large and in arrears.

Finally, political disturbances in the Balkans could boil up into a real war with disastrous consequences for Europe.

# Final round-up

## *What can trade unions expect?*

The year 1992 was disastrous for most unions. Jobs were lost on a massive scale – 106 000 in the year of June 1992 alone. Real wages were reduced in most sectors and numerous strikes were lost.

In 1993 elections may be held and an interim government installed. It will be handed a poisoned chalice:

- Government finances are in crisis thanks to Mr. Barend Du Plessis' last budget. The government should cut wasteful spending: it will probably raise taxes.
- Investment in new factories and machinery is too low to encourage growth. The government will feel pressurised to make concessions to capital-owners to bribe them to invest. This could include restrictions on trade unions and limits on wage increases; or lower taxes on profits and higher taxes on workers.
- Unemployment is high enough – about 40% – to threaten social stability. But it will not fall until investment increases.
- Consumer spending is falling for the first time since 1985. That hits retailers and manufacturers. When factory orders fall, companies cut wages and retrench – and that reduces consumer spending further. There is no sign of a break in this vicious downward-spiralling circle.

Unions have not for a long time entered a new year with grimmer prospects for wage bargaining.

In the mining industry retrenchments will continue in gold. There may be a slow recovery in other minerals, leading to a more stable environment for bargaining.

Consumer goods industries will perform badly in 1993, and the retail and wholesale trades likewise. Consumers' real spending power will be lower due to real wage reductions and retrenchments. Bargaining will be difficult in these sectors.

In the public service, wages and jobs will be cut in 1993. Government finances are in such a poor way that workers will be forced to make large sacrifices. Local authority finances are in better shape but pressure from property owners will keep rates below inflation-and wages will probably follow.

In the manufacturing sector, large exporters like the paper industry will continue to do well, and may do better. But industries which cannot compete internationally, such as textiles, tyre and rubber, glass and chemicals, will be severly threatened by the reduction in import protection. South Africa has to reduce its protection levels in order to join GATT, the General Agreement on Trade and Tariffs, which regulates world trade. So expect lower wages and more retrenchment in 1993 in industries which are vulnerable to foreign competition.

The engineering industry is unlikely to grow, except in exports, until fixed investment picks up. There is no reason for this to happen in 1993. Expect poor bargaining conditions in this industry overall.

Keep a special watch on companies with large debts. The collapse of the Tollgate group was not the last bankruptcy. Many companies which just manage to survive a recession are paradoxically unable to survive the recovery phase, as they cannot find any more cash to expand. Expect several more large bankruptcies-leading to retrenchments-among companies with heavy debt burdens.

# Hopeful signs

## *There are some hopeful signs.*

Companies which export may do well in 1993. If the rand is devalued as many expect, exporters will do even better. So will manufacturers selling to the local markets, as imports will become more expensive.

Union drives to mobilise workers' savings for productive and socially responsible investments will also gather pace in 1993. The beauty of retirement funds is that they are contractual, not discretionary, savings vehicles. So the members' contributions keep coming in whatever the state of the economy.

In the year in which the unions' *collective bargaining power* will be weaker, the unions' *investment power* will assume even greater importance.

The move towards centralised bargaining will also strengthen unions' hands in 1993. Centralised bargaining raises all wages throughout an industry, which makes wage increases more palatable to competing companies. With their backs to the walls, unions may find central bargaining forums a defence against wage cutting.

Finally, unions have the opportunity to form a strong political lobby to urge economic reforms on the government. This has already begun with the national Economic Forum. It remains to be seen whether the unions have yet formulated a strategy to use their *political power* as effectively as they use their collective bargaining power.

In their political lobbying, unions will also have to make difficult choices. Will they demand government protection *against* competition, or will they ask for assistance to make their own industries *more* competitive?

One key demand could be for a substantial *devaluation of the rand* against foreign currencies. Devaluation would save the gold mines, help manufacturers to compete with imports locally, and make exports more competitive abroad. The dangers of inflation resulting from devaluation could be curtailed by various fiscal means, such as cutting import levies and fuel tax.

Finally, will the employers respond to the challenges set by the trade unions, who want more jobs and higher living standards? A social contract requires agreement from three parties-government, employers and trade unions-who in South Africa have never worked co-operatively before.

1993 will be an interesting year. ✩

## Inflation

| Area | Consumer Price Index (1990=100) Sept 1992 | Annual rate of inflation (% increase over 1 year) Sept 91 – 92 |
|---|---|---|
| Cape Town | 136.7 | 14.5% |
| Port Elizabeth | 135.7 | 13.8% |
| East London | 135.2 | 14.2% |
| Durban | 132.5 | 13.4% |
| Pietermaritzburg | 137.3 | 15.5% |
| Witwatersrand | 134.9 | 13.1% |
| Vaal Triangle | 129.6 | 11.5% |
| Pretoria | 134.2 | 13.7% |
| Klerksdorp | 133.5 | 12.1% |
| *Bloemfontein* | *130.1* | *14.8%* |
| OFS Goldfields | 131.7 | 10.1% |
| Kimberley | 134.5 | 14.6% |
| **South Africa** | **134.7** | **13.5%** |

Source: Central Statistical Service

| Area | Oct 1992 | Oct 91 – 92 |
|---|---|---|
| Cape Town | 137.4 | 12.9% |
| Port Elizabeth | 135.8 | 11.8% |
| East London | 135.6 | 12.2% |
| Durban | 132.3 | 10.6% |
| Pietermaritzburg | 137.1 | 12.9% |
| Witwatersrand | 135.4 | 11.5% |
| Vaal Triangle | 130.3 | 10.6% |
| Pretoria | 134.7 | 12.0% |
| Klerksdorp | 134.1 | 9.9% |
| Bloemfontein | 131.1 | 12.7% |
| OFS Goldfields | 132.7 | 9.9% |
| Kimberley | 134.8 | 11.8% |
| **South Africa** | **135.2** | **11.7%** |

Source: Central Statistical Service