BARGAINING MONITOR

VOLUME 22 NO.170
April 2008

the inflation edition

INSIDE

Rising Prices and Raised Voices
Trenton Elsley, Labour Research Service

South Africa's Flawed Inflation Targeting Policy
Rudi Dicks, COSATU, Coordinator, Labour Market Policy

Monetary Policy in South Africa
Réjane Woodroffe, Chief Economist, Metropolitan Asset Managers

A Less Demanding Approach to Inflation
Gordon Young, Financial Advisor to the Ethical Investment Trust, DITIKENI

Are We on the Road to Stagflation?
Jeremy Wakeford, Senior lecturer in the School of Economics at UCT and Research Director of the Association for the Study of Peak Oil South Africa

Memorandum to the Parliamentary Finance Committee: COSATU's Approach to Budget Hearings on the Role of the South African Reserve Bank and Monetary Policy

Inflation Monitor
A Practical Guide to Inflation for Trade Union Negotiators

Editor – Trenton Elsley
Print and Layout by Fingerprint Co-operative Ltd
Publisher – Labour Research Service, April 2008, Cape Town.
Acknowledgements – Thank you to all our contributors for taking the time
to assist in popularising this important social and economic debate.

the inflation edition

This edition of Bargaining Monitor aims to help trade union representatives to interpret inflation figures better, to assist you in protecting real wages through collective bargaining and to introduce you to the debate around inflation and monetary policy in the context of the wider developmental imperatives facing South Africa.

There are some signs that the debate around monetary policy[1] in South Africa, specifically the inflation-targeting approach, is opening up. Representatives of organised labour, private sector economists, acade-mics and politicians have weighed in with opinions and criticisms of monetary policy in South Africa.

Bargaining Monitor invited guest articles on the theme of inflation from diverse sources and also draws on secondary sources to provide as rounded a perspective as possible. We do not set out to make a judgment as to what is the correct approach. We encourage trade union representatives to deepen their understanding of this complex debate, to debate the issues themselves and to develop their own informed opinions.

This edition of Bargaining Monitor is funded by the Solidarity Fund for Democratic Media in the World (Solidaritätsfonds Demokratische Medien in der Welt). We thank the German service sector federation (Vereinte Dienstleistungsgewerk-schaft), its unions and their members for contributing to the popularisation of this important debate in South Africa ■

Footnotes

[1]Monetary policy is " any conscious action taken by the monetary authorities to change the quantity, availability or cost…of money" – Dwivedi DN, Macroeconomics: Theory and Policy, 2nd Edition, Tata McGraw-Hill, New Delhi

Rising PRICES and RAISED voices

by Trenton Elsley, Labour Research Service, March 2008

It can be argued that inflation comes in more than one shape. So while interest rates might be useful in tackling inflation which is driven by domestic demand, they are counterproductive if inflation is being driven by factors other than consumer demand.

Inflation is the measure of the increase in the price of goods and services over time. Inflation is most commonly expressed and understood as an annualised percentage increase in prices, which means the change in prices over a twelve month period stated as a percentage. According to Statistics South Africa the bundle of goods and services that make up CPIX cost 8.8% more in January 2008 than it did in January 2007.

The South African Reserve Bank practices what is referred to as strict or fully fledged inflation targeting monetary policy and has committed itself to holding inflation between three and six percent. The tool they use to influence inflation is the raising or lowering of interest rates.

The Reserve Bank argues[1] that inflation targeting:

1. Limits public uncertainty by limiting policy changes to expected developments in inflation;
2. Improves coordination between monetary policy and other economic policies provided that the target is consistent with other objectives;
3. Makes the central bank more accountable and transparent; and
4. Dampens inflationary expectations and inflation itself if the targets are deemed credible;

The first point effectively says that when CPIX inflation increases the Reserve Bank will raise interest rates. It will also tend to reduce interest rates when inflation declines. Fully fledged inflation targeting is supposed to create the perception that the Reserve Bank is serious, very serious about combating inflation and that it will go about it using a defined set of policy instruments (interest rate manipulation) to achieve its goal. This establishes predictability as a counter to uncertainty.

What is important however is the underlying belief that interest rates are an effective tool for managing inflation. It can be argued that inflation comes in more than one shape. So while interest rates might be useful in tackling inflation which is driven by domestic demand, they are counterproductive if inflation is being driven by factors other than consumer demand.

"The adoption of inflation targeting in recent years has entrenched the single-minded focus on inflation over considerations of long-term growth and economic development. It in many ways represented continuity rather than change in a monetary policy agenda that relied on one instrument, interest rates, to try to reduce inflation no matter the underlying causes."[2]

There is a further question about *who* inflation represents. When Statistics South Africa releases its monthly inflation data, the country accepts a single figure for inflation (be it CPI or CPIX). What is lost is that different households experience different rates of inflation. The average rate of inflation does not represent all households and in fact it best approximates the spending patterns of the wealthiest households. While it is argued that neither rich nor poor households experience rates of inflation significantly higher than the average over long periods, these differences can be very significant over shorter periods.

As an example, average CPIX inflation between January 2007 and January 2008 was reported to be 8.8%. However, 'very low' expenditure households are estimated to have experienced CPIX inflation of 12.2%, while very high' expenditure households experienced inflation of 8.2% over the same period. So between January 2007 and January 2008, poor households experienced an inflation rate that was 50% higher than the rate of inflation for wealthy households.

The idea that inflation affects the population differently depending on what goods and services are driving it, is a way of suggesting that inflation requires a range of responses that are sensitive to how inflation affects different sectors of society.

Future inflation data will be influenced by the findings of the 2005 Income & Expenditure Survey recently released by StatsSA, although this will only take effect in 2009. The two most significant changes in spending patterns appear to be a reduction in the proportion of total expenditure on food products and an increase in total expenditure on transport items.

Point three of the Bank's rationale for inflation targeting talks about accountability and transparency, but again is really about predictability. The Bank is accountable in that it predicts what it will do and what it will aim for, and is transparent in that the actions it will take in pursuit of the goal are entirely predictable. It also believes that popularising the fact that it will deploy a well defined or narrow set of measures to achieve its goal should make inflation forecasting easier or more reliable than if it adopted a more ad hoc approach. In other words, this should make it easier to forecast (predict) lower rates of inflation.

So between January 2007 and January 2008, poor households experienced an inflation rate that was 50% higher than the rate of inflation for wealthy households.

While a number of commentators are critical of monetary policy in South Africa, they do not uniformly agree on what corrective measures are required and most stop well short of providing a comprehensive alternative.

All this predictability (alternatively called certainty, transparency and accountability)' comes together in point four and is meant to contribute to the credibility of the inflation target. This in turn is intended to dampen inflation expectations and ultimately inflation itself.

Inflation targeting is characterised by efforts to shape inflation expectations in the broader economy. The target band of 3-6% is in effect a forecast, a predetermined expectation of what inflation will be in the future. What is clear is that the Reserve Bank believes that certainty or predictability in respect of monetary policy shapes expectations and is deflationary.

To some extent then, inflation-targeting monetary policy sets out to be a self-fulfilling prophecy. Inflation targeting is partly about attempts to manage inflation through the manipulation of interest rates and partly about talking inflation down.

It is fair to say that the Reserve Bank has been spectacularly successful in bringing predictability to monetary policy in South Africa. What speculation remains is not about *if* the Reserve Bank will raise interest rates in the face of rising inflation, but rather by *how much* it will raise interest rates.

In fact, the Reserve bank's approach to inflation is so rigid that it openly admits that it is committed to managing inflation above all other macroeconomic variables. In a remarkably frank assessment of monetary policy the chief economist of the Reserve Bank says,

> ***"If the Bank is of the opinion that the attainment of the inflation target can only be achieved at costs too high to the economy, it is still obliged to attain the inflation target."***[3]

At this point we remind the reader of the second rationale for inflation targeting, namely that *"it improves coordination between monetary policy and other economic policies provided that the target is consistent with other objectives".* The question of course is whether or not the target is in fact consistent with other (developmental) objectives. By the Reserve Bank's own admission inflation targeting is not about consistency with other objectives. Inflation targeting is concerned with achieving the inflation target at any cost.

What are the Alternatives?

While a number of commentators are critical of monetary policy in South Africa, they do not uniformly agree on what corrective measures are required and most stop well short of providing a comprehensive alternative.

COSATU questioned South Africa's monetary policy in a submission to parliament as far back as 1998. Rudi Dicks, COSATU Labour Market Policy Unit, is concerned that the current approach undermines efforts to tackle unemployment and is particularly hard on the poor. COSATU are clear that monetary policy needs revising, but stop short of saying what shape it should take. For the moment they are happy for alternatives to emerge from a more open debate.

On the other hand, Gordon Young, financial advisor to the DITIKENI ethical investment trust, argues that a government which allows inflation to rise is stealing from its citizens and that the South African Reserve Bank is doing what it can to limit inflationary pressures by attempting to limit demand for money. He also argues that South Africa's real interest rates are not high when compared to those of similar economies.

Rejane Woodroffe, Chief Economist at Metropolitan Asset Managers, agrees that low inflation is good for sustainable growth, but argues that 'low' could be higher in the South African context, saying that there is little evidence to support an inflation target much below 10%. She is concerned that the outlook for economic growth is far more serious than that for inflation.

Brian Kantor[4] expresses a similar sentiment when he calls for monetary policy that is more growth-

sensitive and less concerned with inflation, at least in the short term. A perception that inflation is being driven by external factors, which the Reserve Bank has little or no control over, underlies such a perspective. He is solidly against any further raising in interest rates and believes that the Reserve Bank may have gone too far already.

In an article for the South African New Economics Network, Jeremy Wakeford suggests raising bank reserve requirements as an alternative to raising interest rates, citing China as an example. He believes that inflation is unlikely to decline any time soon and that there is a real possibility of rising prices and declining growth (stagflation) on our current course. He also argues that consumption and production patterns need to change radically if we are to avoid the crises that will inevitably result from the pursuit of perpetual growth in the face of finite resources.

Others[5] argue for a move towards *"flexible inflation targeting, where interest rates are used to control demand-side pressures, but are not deployed when it is patently clear that the pressures are arising from supply-side factors."*

A similar proposal[6] for introducing flexibility into current monetary policy suggests State responses to inflation targeting at the level of individual goods and services. These responses should be based on an assessment of how much and in what way they contribute to inflation, along with who they affect. This could enable government to be more responsive to the plight of poorer households in times of accelerating inflation. An example given here is a government subsidy of a staple good during times of accelerated price increase, such as mealie meal during the 2002/2003 upswing in inflation.

What is clear that civil society needs to move from criticism to the construction of a consensual, clear and comprehensive alternative to current monetary policy. This would provide an effective base from which to attempt to shift official policy. In the absence of clear alternatives, the Reserve Bank and government are unlikely to prove responsive to calls for change.

It is the centrality of 'perception' and 'expectation' in the inflation targeting regime which makes it difficult for the Reserve Bank to entertain alternative policies for fear they will appear soft on inflation and in so doing will push up inflation expectations ultimately leading to higher rates of inflation ■

Footnotes

[1] EJ vd Merwe, July 2004, *Inflation targeting in South Africa*, Occasional Paper No 19, South African Reserve Bank.
[2] Malikane & Roberts, 2005, *Inflation, interest rates and economic development*, CSID, Wits University
[3] EJ vd Merwe, July 2004, *Inflation targeting in South Africa*, Occasional Paper No 19, South African Reserve Bank.
[4] Professor of Economics at UCT and investment strategist at Investec Securities.
[5] Terence Creamer, *Inflation threat, reputational risk*, www.polity.org, 01 February 2008.
[6] Morne Oosthuizen, *Consumer Price Inflation across the income distribution in South Africa*, Development Policy Research Unit, University of Cape Town

South Africa's Flawed inflation targeting policy

Rudi Dicks, COSATU, Coordinator, Labour market policy, March 2008

In recent times we have seen an upsurge in prices of some of the most basic food stuffs, energy and transport costs. It does not take a rocket scientist to know that the increase in cost affects the poor more than the rich.

The release of the Income and Expenditure survey of households, illustrates that poor families pay a greater proportion of their meagre income on food, energy and public transport. About 30% of the lowest income households spend an average of 30% of their money on food, while the richest 30% of households spends only 10%. So when prices rise, as we have seen recently, the poor are hit the hardest.

On average, we have seen the price of a loaf of brown bread rise by 16.2%; a loaf of white bread increased by 20%; a 5kg super maize meal by 22%; vegetables by 38%; and dairy products (milk and cheese) by an average of 33%.

So how do we understand this in relation to inflation? Inflation is the increase in the price of goods and services over a certain period. In South Africa, the government has adopted an inflation targeting strategy. This means the South African Reserve Bank (SARB), responsible for the policy, has to keep inflation within 3-6% target range.

Secondly, most of the increases in prices are not determined by local factors; but influenced through prices determined on international markets. Increase in oil and maize for example are determined internationally and thus impact extensively on the inflation rate.

The neo-liberal monetary policy approach through inflation targeting means that when prices or inflation rise above 6%, as have happened, the SARB uses interest rates to curb an increase of prices. When inflation is high, the Reserve Bank will introduce higher interest rates to bring down inflation. This is disastrous for the working poor and unemployed. Not only do they have to fork out more money to buy food but if they have a loan, higher purchase accounts or a bond; higher interest rates increase the cost of that borrowing.

In addition higher, interest rates curb business from borrowing money for building factories or other construction investment initiatives; including the purchasing of machinery, with dire consequence for economic growth and jobs.

An incorrect monetary policy such as our inflation targeting strategy has inescapable consequences for the developing challenges we face; while unemployment continue to hover at 40%, increasing inequality between the rich and poor and poverty levels remaining stubbornly high in rural and former Bantustan areas. There are already indications that growth target of 6% set though ASGI-Sa will not be achieved. Already we starting to move back into a jobless growth scenario with fewer and fewer jobs being created, albeit these jobs being casual and insecure.

This policy is contrary to our development challenges and will continue to hamper reducing unemployment, repulsive levels of inequality and poverty.

Clearly, this policy must change. We cannot continue to have an inflation targeting strategy that fails to take into account fundamental employment challenge nor the significant cost this has on society. While it is important that inflation does not spiral out of control, such a conservative policy in the short term will hamper our development interventions.

Secondly, most of the increases in prices are not determined by local factors; but influenced through prices determined on international markets. Increase in oil and maize for example are determined internationally and thus impact extensively on the inflation rate. While the Reserve Bank can opt out of the inflation targets in this instance, it has chose to ignore this choice and instead continue to pass this burden on the poor and unemployed.

Thirdly, higher interest rates attract foreign capital and less investment in improving productive capacity. Lessons of globalizations shows that large sums of money entering our financial markets can exit just as fast, adding to our economic woes. Already, we are importing more and more of our goods and services with fewer exports. Surely, with more foreign capital entering our country and less exports do not spell well for a developing economy.
With increasing prices and rising interest rates, our demands must continue to be fought on two fronts. As organized labour, we must continue to demand a change in monetary policy. This policy is contrary to our development challenges and will continue to hamper reducing unemployment, repulsive levels of inequality and poverty.

More importantly, this wage negotiating round will be tougher and would require greater emphasis on the increasing cost of living on workers and the poor during negotiations. Increasing cost of food, public transport and other basic items and services will pressurize wage negotiators in ensuring that workers get a real wage increase ■

Monetary Policy
IN SOUTH AFRICA

Réjane Woodroffe, Chief Economist, Metropolitan Asset Managers, February 2008

Having enjoyed three consecutive years of consumer inflation rates around 4%, due mostly to a benign and stable global inflation environment and a strong Rand, it seemed low inflation rates were here to stay. In mid-2006 however, the Rand weakened significantly from the 5.80 low, relative to the US dollar, that it had reached in January of that year to a high of 7.80.

However, the SARB is committed to keeping inflation within a 6%-3% band and because it only has interest rates with which to carry out this mandate, it chose to curb economic activity in order to keep inflation in check.

During 2007 the Rand regained some stability but remained relatively weak. It was during this same period that the dollar oil price increased some 40% and food prices were boosted by adverse weather conditions. These price pressures began to threaten the inflation outlook in South Africa and the South Africa Reserve Bank (SARB) responded by increasing interest rates in June 2006 by half a percentage point. Interest rates have since been hiked eight times and the prime interest rate is now four percentage points higher than what it was in 2006.

Critics of the SARB argue that because the inflationary pressures were caused by external forces, like the dollar oil price and food prices, interest rates could have little impact in curbing those pressures. Interest rate hikes are only able to curb excessive spending by consumers and have no impact on external pressures. At the time that the SARB began to increase rates, consumer spending was healthy but by no means excessive given the capacity of the economy to facilitate such spending. However, the SARB is committed to keeping inflation within a 6%-3% band and because it only has interest rates with which to carry out this mandate, it chose to curb economic activity in order to keep inflation in check.

It can be argued that a 6-3% inflation target is a stringent one given the level of economic development in South Africa. While the economic literature is clear that low inflation is necessary for sustainable economic growth, there is much debate on what 'low' inflation is. Above 40% is definitely bad for growth. Most studies recommend a level between 10% and 20% and there is little evidence that it should be significantly below 10%. Thus there may be a case for re-opening the discussion about the appropriate level of our inflation targets.

Inflation is now expected to peak at just over 8% in the next few months and to then return to within the 6%-3% band by the end of the year. Following four percentage points in interest rate hikes, the outlook for economic growth, however, is more dire. Recent economic indicators show that consumer activity has slowed markedly with vehicle sales, a good indicator of broader economic activity, now in deep negative growth territory. Interest rate hikes take 9-12 months to feed through to the broader economy, thus, the slowdown will be with us at least until the beginning of 2009 ■

A LESS DEMANDING Approach to Inflation

Gordon Young, financial advisor to the ethical investment trust, DITIKENI, February 2008

THE CRIME

I am startled by the news that trade union leaders are pushing for higher inflation.

Now I have an old wallet in my possession, which contains banknotes worth hundreds of thousands of Chinese currency. Am I rich? Alas, no. The banknotes, issued by the Chinese Nationalist government in their last days, are worthless. Hyper-inflation had so devalued the Chinese currency that you had to carry your cash around in a suitcase. It's the same in Zimbabwe today. In both cases, the government engaged in a printing frenzy, issuing more and more money - in the vain hope that more paper money was the solution to their problems.

Dear reader, even today in South Africa (a long way from China *circa* 1949 but not very far away from Zimbabwe *circa* 2008) a shortage of money is not what stands between us and prosperity, a shortage of money is not what stands between us and jobs-for-all. If only economics were that simple!

That is why recent demands that the South African Reserve Bank should ease its monetary policy – translation: let inflation rip – begin to sound either like ignorance or gross populist posturing.

South African inflation has been increasing for many months and is now well beyond the Reserve Bank's upper target of 6%. Some economists think that Mr. Mboweni and his team should be sacked for that. This failure to tame inflation has done South African workers no good at all – it has only robbed them of a fair chunk of their buying power. Because that's what inflation is - theft. It is legally mandated, avoidable, government-sanctioned theft. The rand in your pocket today can buy you only 91 cents' worth of goods compared to one year ago. If that is not theft, what is it? The State has just picked your pocket. You and I would go to jail if we did the same. Yet some union leaders seem to want more of it.

THE VICTIMS

The union movement seems to have lost its memory. In the 1980s inflation went above 20% per annum, and the very real threat of hyper-inflation was just over the horizon. Workers lost out hugely, as it proved to be very difficult to match wage increases to price increases.

The higher the rate, the harder it is to tame inflation. The pain of tackling Zimbabwe's almost incredible 66 000% inflation will be severe. The burden will fall on workers, as it did in South Africa when inflation was brought under control in the 90s. We can read in histories about Germany in the 1920s, China in the 1940s. Argentine and Peru are more recent examples in our own lifetime where populist politicians thought that printing money in ever-larger quantities was the way to prosperity. All they got was hyper-inflation and one helluva hangover after the party stopped.

Let's be quite clear who the victims will be. Inflation hits the poor hardest. Rich people can protect themselves against inflation, mainly by buying hard assets (property, gold, art, and exotic sports cars) or by buying hard currencies (the euro for example).

Large companies cope with inflation by raising their prices more frequently.

What can poor people do? Nothing at all. Their meagre savings – normally held in cash or bank accounts – are immediately depreciated, even wiped out in the event of hyper-inflation. Pensioners see their fixed pensions eroded by the day. Non-unionised workers see their wages growing smaller, in real terms, without being able to raise them. Even stronger groups of workers, in strong unions, generally fail to achieve compensation for persistently high inflation, as any union negotiator from the 80s will remind you. Of course, if you are unemployed, you simply get poorer.

In Germany, hyper-inflation destroyed the savings of the middle and working classes, and paved the way for Hitler's Nazis who had their own simple but violent solutions which led to world war.

So why on earth would anyone with the interests of the poor at heart want higher inflation? Beats me.

THE TRADE-OFF THAT ISN'T

There is no credible economist anywhere who still believes that there is a trade-off between inflation and unemployment. Higher inflation does not reduce unemployment. Inflation is not a cause of growth. Inflation is not the price you have to pay for "development". It simply ain't so.

If it were so, if inflation did cause growth, then why isn't Zimbabwe the fastest growing economy in the world? If there is a trade-off between inflation and unemployment, why aren't jobs being created in vast numbers by our northern neighbour? Why aren't we seeing unemployed South Africans streaming northwards across the Limpopo to become illegal immigrants in Zimbabwe, instead of the other way round?

The truth is that there are no easy fixes. Ignorant experiments in printing money have been tried many times and have never succeeded. Why on earth can't we learn from Argentine, Peru and Zimbabwe?

The three developing countries most often compared with South Africa – China, India and Brazil – all have lower inflation rates and higher rates of growth than we do. Our problem is not that we don't print enough money, it's that we don't save enough. We choose to spend too much, relatively, on consumer goods, and too little on investment goods. When you notice that China spends 45% of its gross domestic product on investment – more than double what we South Africans do – it is not surprising that China is growing more than twice as fast as we are.

A LITTLE INTELLECTUAL DISHONESTY

The inflation debate has not been advanced by crude, and intellectually dishonest, criticism of the Reserve Bank, who are alleged to be trying to reduce the price of oil and the price of food by raising interest rates, both of which are obviously beyond the Reserve Bank's control.

Actually, the Reserve Bank is not that stupid. They know that higher interest rates do not directly affect prices. But higher interest rates do affect Demand. What any central bank tries to do, when it raises interest rates, is to reduce Demand for goods and services. Indirectly, this will reduce price pressures, and therefore inflation. We know from historical statistics that this works, every time. Higher interest rates are a blunt weapon, but there is little else that a central bank can do.

Higher interest rates are already reducing the Demand for housing as measured by new mortgage loans, for example. The rate of growth of mortgage lending has fallen off sharply in recent months. We can expect that this will feed through to lower demand for building materials, and so price pressures in that sector will moderate. It takes about 18 months for higher interest rates to make their full impact.

What happened in 2006 and 2007 was this - higher oil prices and higher food prices started to push up the inflation rate, but consumers did not adjust their behaviour correctly. The hard truth is that when your petrol tank costs more to fill, you have to cut back somewhere else. We didn't. Instead we borrowed money to fill the gap. The middle classes especially increased their access bonds etcetera so that they could maintain their living standards, taking full advantage of the fact that interest rates were relatively low.

The level of debt in the economy started to rise alarmingly. We were living beyond our means. The Reserve Bank was in fact very slow to react – like

all of us they hoped the problem would somehow solve itself, or pretended it wasn't there. Eventually, it did start raising interest rates, probably too late and too little. But there are signs now – such as the reduction in the rate of growth of mortgage loans – that Demand is falling and inflationary pressures are reducing.

THE OTHER SIDE OF INTEREST RATES

Behind the appeasement of inflation, lies the idea that South African interest rates are too high. Actually, when you deduct inflation, South Africa's interest rates are not high at all. The real prime interest rate (14.5% minus 9%) is only 5.5%. Why does anyone think that is high? Brazil's real interest rates are significantly higher, India's only a little lower.

The Money Illusion helps people to think that interest rates are high – but it is only an illusion. Every Zimbabwean employee (those few who still have jobs) is a millionaire many times over – but tragically his millions are almost worthless since he can scarcely buy a loaf of bread with it. (Bread cost $3.7 million in Harare this week, but who knows what it will be next week.) This is an extreme case of the Money Illusion.

Interest rates are the price of capital. Every employer has a choice: more labour or more capital? The cheaper capital is (i.e. the lower interest rates are), the more capital will be acquired relative to labour. It is baffling to find union leaders actually wanting to reduce the price of capital, since capital and labour are always in competition with each other. Reducing interest rates below the real cost of capital simply amounts to a subsidy for capital, and this will lead to greater capital intensity and lower employment of labour.

It doesn't make sense, does it, to call for capital to be cheaper relative to labour. Unless you actually want capital to substitute for labour. When they call for lower interest rates, it almost sounds as if the union spokespersons are representing only the National Union of Borrowers. Of course borrowers prefer lower interest rates. The truth is, though, that unions also represent the National Union of Savers. Most workers have savings – millions of them save, in banks or less efficiently under their carpets. And most workers now belong to provident funds, which keep 35% or more of their assets in fixed-interest investments. Higher interest rates are good for the National Union of Savers.

DOWN WITH FALSE PROMISES, DOWN!

What we want, all of us, are more jobs and better jobs. I place this at the apex of good policy, because so many other goods things follow from more, better jobs. When we have more, better jobs, we'll be well on the way to better housing, education, living conditions.

But how to achieve this? If only the Reserve Bank would just print more money? Sorry, dear comrades, that simply won't fly. All we'd have is higher inflation, more Money Illusion.

This article may sound very conventional. In reality, of course, there are several different paths to growth. Brazil, India and China are taking vastly different paths, to give just three examples. The first two are democracies with vibrant trade union movements, while China retains a very odd mix of Stalinist central political control combined with unbridled capitalism, red in tooth and claw. Yet none of them practices the sort of undisciplined monetary policy that, in South Africa, would see inflation unleashed.

We'll prosper if we save more and consume less. We'll prosper if we use more local savings, and rely less on foreign investors (who now own a substantial part of the South African economy because we've chosen to sell it to them and spend the proceeds on imported consumer goods). We'll prosper if we exercise stern self-discipline, and use the commodities boom to rebuild our backward infrastructure. We'll prosper if we avoid populist cheap-money sloganeering, and if our leaders tell the people that the choices are hard.

How and by whom – the institutional context - all of this is carried out, we'll have to leave to another article. There are many paths to prosperity – you have only to look at China.

But inflation, the printing of money, is not one of them ■

Are we on the road to STAGFLATION?

by Jeremy Wakeford, Senior lecturer in the School of Economics at UCT and Research Director of the Association for the Study of Peak Oil South Africa, March 2008

The optimistic inflation projections beg two questions: what is driving inflation, and are these forces likely to abate soon?

The barrage of 'bad' news about the domestic economy seems to be both unrelenting and intensifying. In the past week we have seen CPIX inflation continue its upward march, to 8,8%; petrol prices will rise to over R8 per litre this week; the rand has weakened to around R8 to the dollar; the current account deficit has widened further; and a slew of real indicators - from business confidence to new car sales - show that growth is slowing down, even before the effects of the continuing electricity crisis show up in the official data.

News from the US, UK and Europe is nearly as bad, and in some cases worse. The US economy is widely expected to enter a recession while prices are still rising. Europe seems to be following its lead, albeit with a lag.

This raises the ugly spectre of stagflation: the simultaneous occurrence of stagnation (or contraction) in the real economy together with rising price inflation.

Yet most private sector economists in SA and the Reserve Bank are still stubbornly predicting that the local inflation rate will peak within a month or two and then gradually decline towards the upper end of the target range (6%) by early next year. They also express the hope that government's infrastructure spending and the 2010 World Cup will buoy the economy even as consumer spending dips. The optimistic inflation projections beg two questions: what is driving inflation, and are these forces likely to abate soon?

The answer to the first question is plain to all: rising energy and food prices - the latter spurred by growing demand in China and India as incomes rise, as well as by booming bio-ethanol production in the US. Biofuels have now directly bridged the food and energy markets, with potentially dire consequences for food security in poor countries. Other inflationary pressures will likely strengthen too as China exports its broadly rising prices to its foreign customers.

Will energy and food prices drop any time soon? This seems unlikely. Everyone needs food and energy, so demand for these commodities is inelastic and their prices won't come down much in a hurry.

The only way oil prices could fall substantially is if the US drags the world economy into a severe recession. Growth in China and India would have to slow down dramatically to suppress their increasing appetite for oil and food. Meanwhile the OPEC oil cartel has been unwilling - or unable - to halt the oil price rise, and looks set to defend a floor of around $85 per barrel.

So with global inflationary pressures robust, the only thing that could lower domestic inflation is a

much stronger rand or a dramatic contraction in demand for imports. With the trade deficit continuing to widen as a result of rising oil prices and capital imports, and foreign investors seeking 'safe haven' assets, the possibility of a strengthening rand looks remote.

The lagged effect of oil prices near $100 per barrel, grain prices having doubled in the past year, and the rand's recent slide will still take some time to feed through into final inflation figures. Double-digit inflation could be just around the corner.

What's more, Statistics SA will this week release the latest Income and Expenditure Survey, which will be used to recalculate the weightings of items in the CPI basket. Surely the proportions of income households spent on food and fuel in 2005/6 were higher than in 2000, so that further hikes in prices of these items from 2009 will weigh more heavily on a reweighted CPI.

So it would appear that either the Reserve Bank and private sector economists are using faulty forecasting models, or they are deliberately trying to dampen inflationary expectations by 'talking down' inflation. They are certainly not warning of an imminent, sharp recession as an antidote to price hikes.

The monetary policy committee is in an increasingly uncomfortable position as it weighs up the risks of slower growth and faster inflation.

Part of the problem is that it insists on using one, very blunt instrument: the repo rate. Demand for credit and the money supply continue to grow rampantly (above 20%) despite the 4% increase in interest rates since June 2006. Perhaps raising banks' reserve requirements - as the Chinese have done - would be more effective. Higher interest rates do little to curb demand for essential goods like petrol and food, and therefore don't have much impact on inflation. If rates rise too high, they could induce a collapse in the housing market as is happening in the US.

The last time the world experienced stagflation was in the wake of the 1973 and 1979 oil shocks, which precipitated the most severe downturns in the global economy since the Second World War. In both instances oil prices trebled after about 5% of world oil production was taken off the markets, showing how inelastic short-run demand is.

On those occasions South Africa's economy was initially buffered by a soaring gold price, but it too succumbed to recessionary pressures as demand for our exports contracted sharply after a couple of years.

We need to adopt a monetary system that is less prone to booms and busts, is not inherently skewed in favour of the rich, and does not systematically discount the future.

The price of oil in real terms is how as high as it was at its previous all-time peak in 1980. The share of GDP being spent on oil in major industrialised economies like the US has also regained its historical peak. The oil price shock that many have been fearing for a few years seems to be kicking in at last.

The future outlook could be even bleaker. The international media and politicians in many countries are finally awakening to the reality that global oil production will peak and then decline, probably in the next decade. If production declines at a rate of 2-5% per annum, which many experts predict, the economic consequences could be devastating.

These are all signs that the current economic model is not working.

We need to replace the holy grail of perpetual growth with the goal of sustainable development and the realisation that a finite Earth imposes physical constraints. This will require a cultural shift from materialism and competition to sufficiency and equity. Linear production functions that consume ever greater quantities of non-renewable or exhaustible resources must be replaced by zero waste circular flows of renewable resources.

We need to adopt a monetary system that is less prone to booms and busts, is not inherently skewed in favour of the rich, and does not systematically discount the future. Perhaps hardest of all, humans need to reduce the size of their populations before nature does it for them.

These are some of the defining challenges of the 21st Century. Our children and theirs are depending on us for enlightened leadership ■

First published by South African New Economics Network, SANE Views, Vol.8, No.1, 06 March 2008.

10 YEARS AGO...

Memorandum to the Parliamentary Finance Committee: COSATU's Approach to Budget Hearings on the Role of the South African Reserve Bank and Monetary Policy

6 March 1998

Need for Public Hearing

COSATU is concerned that despite its original request to Parliament's Finance Committee that Public Hearings be held on the role, policies and structures of the Reserve Bank and functioning of the Reserve Bank and despite an agreement by the Committee to this effect (at its meeting of 5 August 1997), no such Public Hearings have to date been arranged by the Committee.

COSATU is concerned that the establishment of a Task Group which has chosen to investigate the matter through the mechanism of domestic and overseas visits and through the input of a select group of experts, should not serve as a substitute for Public Hearings on the role, policies and structures of the Reserve Bank.

Such Public Hearings are important as they will allow for the kind of public process which will stimulate the necessary public debate on monetary policy and the role and structure of the Reserve Bank. Public debate is an important part of public accountability. Processes, such as the present Task Group process, which occur outside of public view may unintentionally stifle debate and side-step the difficult issues.

COSATU is convinced that if the Finance Committee had provided a platform for public debate in the form of Public Hearings, Reserve Bank Governor Chris Stals would have been less likely to have made his recent announcement that the debate on the workings of Reserve Bank independence was "losing its momentum" before it even got started.
In this context, therefore, COSATU wishes to reiterate our view that Public Hearings are urgently required

regarding the role, policies and structures of the Reserve Bank. In our view such hearings should inter alia address the following related areas:

Policy Questions

1. Negative social impact of restrictive monetary policy

Monetary policy - the domain of the Bank - has a profound impact on the South African economic environment and the ability of the country to meet its development goals. Monetary policy influences the conditions under which the private financial sector can create credit, it determines the growth rate of the money supply and the level of the interest rate. The interest rate, perhaps the most influential price in the entire economy, then impacts on core areas of economic activity - aggregate demand, investment, inflation, and the sustainability of the public sector.

Determination of monetary policy is therefore not a purely technical question, but also not a purely technical question, but has profound implications for all aspects of economic life. We therefore believe that hearings need to investigate the negative social impact of restrictive monetary policy, as well as alternatives to this policy approach.

2. Restrictive monetary policy based on questionable theories

Quantity theory of money

There is a serious flaw in the Bank's rationale for restrictive monetary policy. The Bank bases its views on the quantity theory of money, which argues that when the supply of money goes up, prices will also go up. This theory, however, must make the assumption of full employment. Without the assumption of full-employment (an indefensible assumption in present day South Africa), the decrease in interest rates associated with an increase in the money supply could stimulate economic activity, increase output, and create jobs. While prices might be bid-up during the economic expansion, the direct link between the money supply and inflation is broken.

The issues are made more complex if one begins to look at the structural factors in the South African economy which contribute to inflation. In other words, despite the claims of Monetarists 'inflation is not always and everywhere a monetary phenomenon'. The existence of these structural factors means that interest rate policy only has a weak impact on price increases (or inflation levels), with the effect that high interest rates can co-exist with a high rate of inflation.

Link between savings and interest rate

Another argument which is often put forward by conservative economists to justify high interest rates is that savings in the South African economy are too low and that any reduction of the interest rate in a moderately inflationary environment would lead to financial repression — that is, more demand for investment than the available level of savings can accommodate. Financial repression is often associated with negative real interest rates, when the market interest rate falls below the rate of inflation. Rationing of the small amount of available savings would then occur and viable, productive investments could get squeezed out because of credit rationing.

There are many problems with the financial repression argument. First, it is difficult to show empirically that savings respond significantly to interest rate changes. Second, most of the domestic savings in South Africa are corporate savings which respond more vigorously to an expanding economy than they do to high interest rates. Third, financial repression assumes that an economy is primarily constrained by available savings. Much recent research has shown that investment often leads to savings in many economies, particularly those with a high cost of external financing.

Any investigation into current monetary policy therefore must also take into account alternative economic perspectives, rather than simply being a one-sided and myopic engagement with inappropriate monetary policy theories.

3. Questionable interventions by the Bank

Apart from the broad thrust of South Africa's monetary policy, other practices of the Bank must be questioned. The Bank has often intervened in order to protect corporate and financial interests

at the expense of the citizens of South Africa. For example, the Reserve Bank also intervened into the ABSA scandal, providing billions of rand to stabilise the banking sector. Furthermore, in 1996, the Reserve Bank provided a substantial amount of forward-cover during the rapid depreciation of the rand in an attempt to supply a veneer of stability to an unstable financial situation. The result was an increase in government liabilities in order to transfer resources to nervous investors.

It therefore needs to be closely questioned whether there is an appropriate policy framework or charter guiding such interventions by the bank.

Institutional Questions

1. International experience

Central banks around the world do not conform to one given model or one particular institutional structure. The different structures of central banks define their role in the economy. Some central banks have a very close relationship with the government, which allows co-ordination of macroeconomic policies; others are strongly independent. Currently, the SA Reserve Bank falls into the latter category. We need to examine which model, or hybrid, is best suited to our conditions.

2. Constitutional position

The South African Constitution stipulates a form of Reserve Bank independence which requires that the bank “perform its functions independently” but in “regular consultation” with the Minister of Foreign Affairs. This has been interpreted to mean that the bank enjoys ‘instrument’ rather than ’goal’ independence. Further, given the constitutional formulation it is clear that independence cannot be equated with a lack of accountability.

The constitution also outlines the goals which the Bank must set out to achieve: “The primary object of the Reserve Bank is to protect the value of the currency in the interest of balanced and sustainable economic growth in the Republic.”

It is important that an assessment be made of whether the legislation governing the Reserve Bank (the South African Reserve Bank Act 90 of 1989) is in line with the provisions of the constitution and where necessary amendments should be made to the legislation to bring it in line with the constitution.

3. Amendments to Reserve Bank Act

An analysis of the Reserve Bank Act would suggest that *inter alia* the following aspects should be considered for legislative amendment, or modernisation:

- Definition of the primary objective of the Bank
- Reporting requirements to the Department of Finance, Parliament and NEDLAC
- Mechanisms for Bank accountability and transparency
- Composition and Representivity of the Board of Directors ■

Inflation MONITOR

A PRACTICAL GUIDE TO INFLATION FOR TRADE UNION NEGOTIATORS

by the Labour Research Service

Whatever your opinion of the proper relationship between inflation and wage negotiations, it remains important that negotiators are familiar with key aspects of inflation and have a strategy for dealing with this issue. At the very least, inflation benchmarking can be used as a tool for formulating a bottom-line wage demand or a demand that seeks to protect real incomes from declining.

This article provides the latest inflation figures (at the time of publication), draws out some trends and puts forward a few guidelines for using inflation in the context of collective bargaining.

The inflation rate for the historical metropolitan and other urban areas was 9.8% at February 2008 (i.e. the CPI at February 2008 compared with that at February 2007). The rate was 0.6 of a percentage point higher than the corresponding annual rate of 92% at January 2007.

The annual percentage change in the CPIX (Consumer Price Index excluding interest rates on mortgage bonds) for the historical metropolitan and other urban areas was 9.4% at February 2008. This rate was 0.7% of a percentage point higher than the corresponding annual rate of 8.7% at January 2008.
The Core inflation rate for the historical metropolitan and other urban areas was 8.9% at February 2008. This rate was 0.8 of a percentage point higher than the corresponding annual rate of 8.1% at January 2008.

The CPI annual rate for transport increased to 13.2% at February 2008 from 10.7% at January 2008.

Highlights

Historical Metropolitan & Other Urban Areas	Feb 2007 to Feb 2008
CPI	9.8%
CPIX	9.4%
Food	14.1%
Transport	13.2%
Core	8.9%

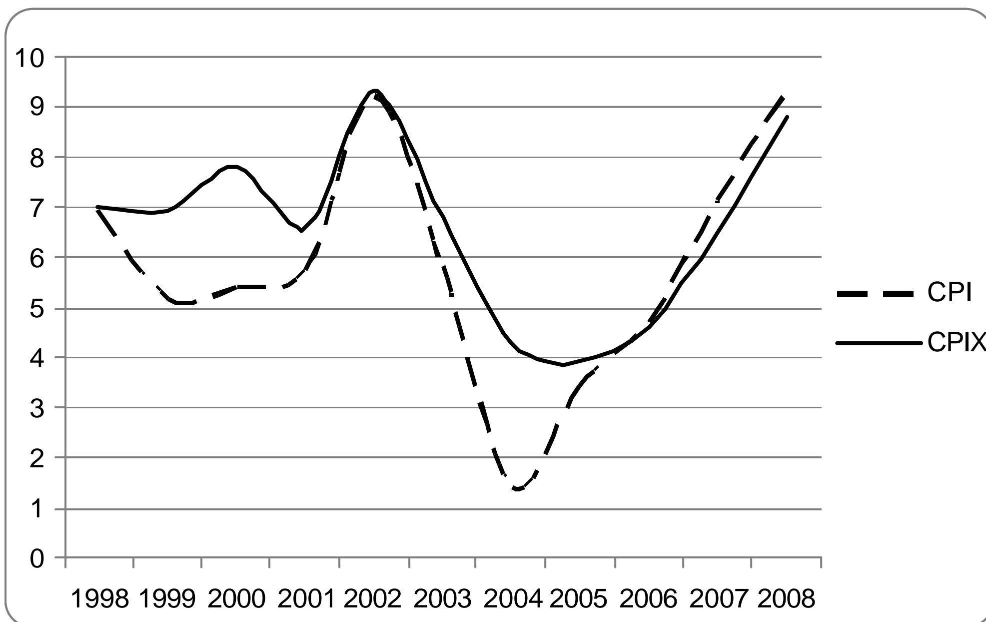
Source: Statistics South Africa, publication P0141, available at www.statssa.gov.za

RECENT TRENDS

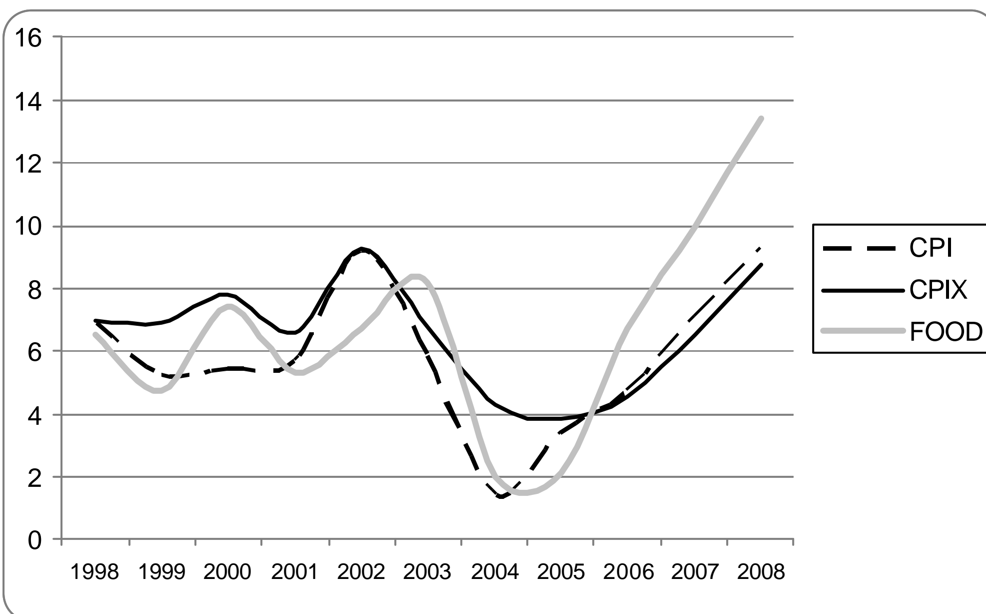
It is well known that CPIX inflation is central to the Reserve Bank's monetary policy. The Reserve Bank holds an aggressive commitment to holding CPIX within a band of 3-6% and tends to raise interest rates in response to rising inflation.

Inflation figures remain in an up-cycle. Food and transport costs have led these increases for the last three months (December, January and February).

Average annual increase in (annualised) inflation (%): 1998-2007



Average annual increase in (annualised) inflation (%): 1998-2007



As the figure on the next page suggests, CPIX is generally a higher value than CPI. A recent trend for CPI to exceed CPIX is linked to a series of upward adjustments of the interest rate by the Reserve Bank in recent times. CPIX inflation specifically excludes the inflationary effect of interest rates.

The figure below introduces average annual food price inflation. It is evident that average food price inflation tended to shadow the movement of CPIX between 1998 and 2002 but at a lower level. This changes in 2003 and food price inflation begins to diverge from CPIX to a far greater degree.

The annual averages do hide some month on month variation though. The figure below shows month by month increases in these (annualized) inflation indices in more recent years.

We note that annualized monthly CPI has been higher than CPIX since June 2006 and that food inflation began to exceed overall inflation from December 2005.

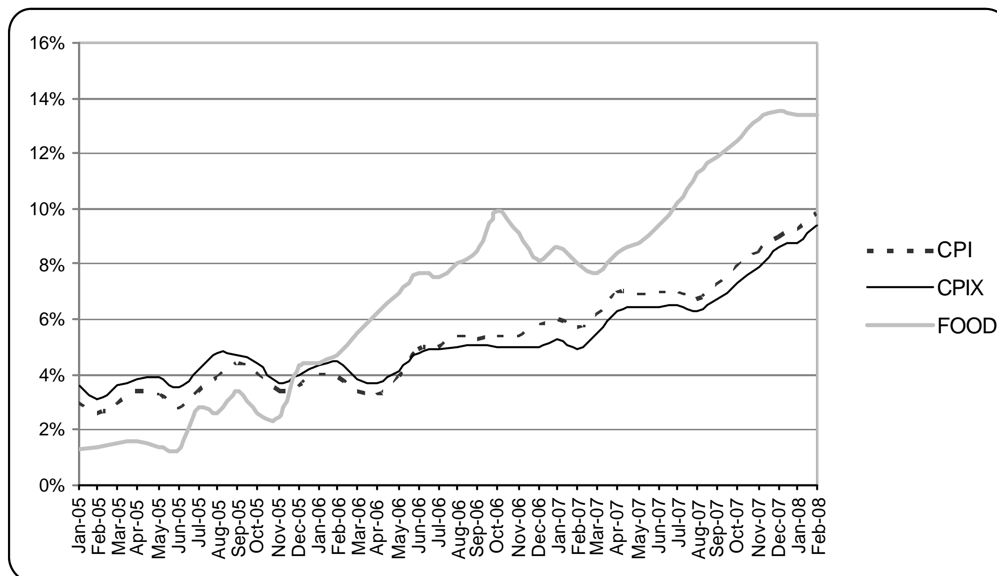
Food price inflation remains the highest benchmark of inflation. The CPI annual rate for food increased to 14.4% at February 2008 from 13.6 % at January 2008.

Food inflation is a part of CPI and CPIX and accounts for roughly 50% of expenditure (spending) by households in the lower expenditure groups. The rate of food price inflation has been higher than average inflation since December 2005. The inflationary effect of increases in food prices on low expenditure households is greater than for higher expenditure groups, because low income

households spend a greater proportion of their income on food items than do higher expenditure groups.

In other words, low expenditure households are likely to have experienced a higher overall rate of price increases than average CPI or CPIX figures after December 2005 would suggest. The "Low Income Households" section which follows provides further detail of this dynamic.

Annualised monthly inflation: January 2005 to the present



In summary, CPIX remains the better protection against price inflation on average, although heightened levels of food price inflation suggest that lower expenditure groups (and perhaps low income earners) will experience a rate of inflation that is higher than average CPIX in any month. A related conclusion is that a reading of more than one inflation index provides a better assessment of the actual inflation risk to wage incomes.

Some Thoughts on Negotiating Inflation

Looking Back

The increase in average CPIX between February 2008 and February 2007 was 9.4 %. As an example we use an annual wage increase to be implemented in February. If the last wage increase (February 2007) was less than the rate of inflation over the last 12 months, then the real value of wages has fallen. The difference should be added to the new wage demand to address this shortfall. If the wage increase in February 2007 was 5% then an extra 4.4% in the current wage demand would go some way to restoring buying power.

The reader may assess the real value of a wage increase by using the inflation tables included at the end of this chapter.

Low Income Households

The increase in CPIX was measured to be 9.4% between February 2007 and February 2008. The corresponding figure for CPI was reported to be 9.8%. These figures are released monthly by Statistics South Africa and are subsequently picked up by the media, employers and trade unions. These figures are averages and neglect the fact that Stats SA actually calculates inflation for five different expenditure groups.

Households spending different amounts experience different rates of inflation. Here are the most recent inflation rates for the different expenditure groups. It shows how households in the lowest

expenditure group tend to experience the highest rate of inflation and that this rate declines as one moves to the higher expenditure groups.

CPIX Inflation by Expenditure Group for historical metropolitan and other urban areas: February 2008

Expenditure Group	Expenditure*	% increase in annualised inflation
Average CPIX	**-**	**+ 9.4%**
Very low	up to R1023 per month	+ 12.7%
Low	up to R1554 per month	+ 12.0%
Middle	up to R3087 per month	+ 11.1%
High	up to R6989 per month	+ 10.0%
Very high	R6990 per month and more	+ 9.5%

*The expenditure groups provided by Statistics South Africa date back to the year 2000. We adjust the upper limit of each group by CPIX to make them current at February 2008 prices. The results of the 2005 Income & Expenditure Survey where due in 2007, but do not appear to be available yet.

It appears that households spending less than about R3100 per month are experiencing significantly higher rates of inflation than the average.

A Living Wage

Using R3000 per month as a very conservative money-only estimate of a living wage, any wage below this level is not sufficient by itself to support a household and the same households are hardest hit by current inflation patterns.

This living level is a very modest estimate of the expenditure required to meet 'the most basic material needs' of a household of five. It does not provide for the advancement of the household through savings or investments in education and healthcare, nor does it consider social needs. We introduce this estimate to illustrate a point and not as any kind of recommendation as to where a living wage should be pitched. In fact, we prefer a more complex conception of a living wage which supports the Constitution of South Africa.

Looking Forward

A wage increase is generally operational for the coming year and so it is important to have an informed opinion of what inflation might do in the near future.

Current evidence suggests that inflation remains in an up-cycle. It would not be unreasonable to forecast a 2% increase in inflation over the next 12 months.

It is also reasonable to say that despite preliminary evidence of a slowdown in some retail indicators, significant cost pressures remain for South Africa at present and the Reserve Bank is quite likely to continue increasing interest rates until these pressures ease. This means that individuals and households that have accessed credit will face higher debt servicing payments to credit institutions.

Multi-Year Agreements

The longer the time period the more difficult it is to forecast inflation trends. There is a strong possibility that inflation rates depart from the level of predetermined wage increases over a three year period. This is one reason to be cautious of multi-year agreements.

Wage formulas such as those based on "CPIX plus an agreed percentage" provide some protection for wage incomes against subsequent increases in inflation. There are also a number of multi-year agreements which include clauses that allow for annual wage increases to be renegotiated if inflation goes beyond agreed levels during the lifespan of the agreement.

Wages & Remuneration

The extent to which wage increases are linked to other components of remuneration will determine the degree to which the value of the total package keeps up with inflation. As an example, contributions to benefits such as medical or provident that are set as a percentage of wages (e.g. 6%) will maintain their value insofar as wage increases are keeping up with inflation. Contributions that are set as money amounts (e.g. R120 per month) will devalue over time unless they too are adjusted by inflation ■

Appendix 1 A History of Selected Inflation Indices

Here is a short description of three inflation indices and a history of their movements since January 2000.

The Consumer Price Index (CPI)

The Consumer Price Index (CPI) for metropolitan areas is known as the Headline Inflation Rate and is also referred to as the 'official inflation rate'. The month to month prices of over a thousand goods and services go into the calculation of CPI. CPI measures the full 'basket' of goods.

Table 1: Consumer Price Index (CPI) and the annual inflation rate on a monthly basis for the historical metropolitan areas

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ave.
2000	2,6%	2.3%	3.4%	4.5%	5.1%	5.2%	6.0%	6.9%	6.9%	7.0%	7.0%	7.0%	**5,2%**
2001	7.1%	7,8%	7.4%	6.5%	6.4%	6.3%	5.3%	4.6%	4.4%	4.0%	4.3%	4.6%	**5.7%**
2002	5.0%	5.9%	6.2%	7.4%	7.8%	%8	9.6%	10.4%	11.2%	13.0%	12.9%	12.4%	**9.2%**
2003	11.6	10.3%	10.2	8.8%	7.8%	6.7%	5.2%	5.1%	3.7%	1.5%	0.4%	0.3%	**5.8%**
2004	0.2%	0.7%	0.4%	0.2%	0.6%	1.2%	1.6%	1%	1.3%	2.4%	3.7%	3.4%	**1.4%**
2005	3%	2.6%	3%	3.4%	3.3%	2.8%	3.4%	3.9%	4.4%	4%	3.4%	3.6%	**3.4%**
2006	4%	3.9%	3.4%	3.3%	3.9%	4.9%	5%	5.4%	5.3%	5.4%	5.4%	5.8%	**4.7%**
2007	6%	5.7%	6.1%	7%	6.9%	7%	7%	6.7%	7.2%	7.9%	8.4%	9%	**7.1%**
2008	9.3%	**9.8%**											

The main contributors to the annual increase of 9.8% in the CPI in January 2008 were food (+3.6 percentage points), housing (+1.9 percentage points), transport (+1.7 percentage points), medical care and health expenses (+0.5 of a percentage point), house hold operation (+0.4 of a percentage), education (+0.3 of a percentage), fuel and power (+0.4 of a percentage point), cigarettes, cigars and tobacco (+0.2 of a percentage) and personal care (+0.2 of a percentage point), clothing and footwear (+0.2 of a percentage point).

The Consumer Price Index excluding Interest Rates on Mortgage Bonds (CPIX)

The Consumer Price Index excluding interest rates (CPIX) is used as a gauge of monetary policy by the Reserve Bank. The Reserve Bank uses CPIX as one means of evaluating the impact of inflation targeting policy. Since CPI is influenced by interest rate hikes it cannot be used a measure of the effect of interest rate hikes.

Table 2: CPIX: Consumer Price Index excluding interest rates on mortgage bonds and the annual inflation rate on a monthly basis for the historical metropolitan and other urban areas.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ave.
2001	7.7%	7.7%	7.5%	6.7%	6.5%	6.4%	6.4%	6.0%	5.8%	5.9%	6.3%	6.5%	**6.6%**
2002	7.1%	7.4%	7.7%	8.3%	8.6%	9.2%	9.1%	9.9%	10.8%	11.3%	11.3%	10.8%	**9.3%**
2003	10%	9.3%	9.3%	8.5%	7.7%	6.4%	6.6%	6.3%	5.4%	4.4%	4.1%	4.0%	**6.8%**
2004	4.2%	4.8%	4.4%	4.4%	4.4%	5.0%	4.2%	3.7%	3.7%	4.2%	4.6%	4.3%	**4.3%**
2005	3.6%	3.1%	3.6%	3.8%	3.9%	3.5%	4.2%	4.8%	4.7%	4.4%	3.7%	4.0%	**3.9%**
2006	4.3%	4.5%	3.8%	3.7%	4.1%	4.8%	4.9%	5%	5.1%	+5%	5%	5%	**4.6%**
2007	5.3%	4.9%	5.5%	6.3%	6.4%	6.4%	6.5%	6.3%	6.7%	7.3%	7.9%	8.6%	**6.5%**
2008	8.8%	**9.4%**											

The annual consumer price change in CPIX, which is the consumer price index excluding interest rates on mortgage bonds, for the historically metropolitan and urban areas was 9.4% at February 2008 (that is the CPIX at January compared with that at February 2007. This rate was 0.6 of a percentage point higher than the corresponding annual rate of 8.8% at January 2008.

The Food Price index

The Food Price Index provides an indication of the increase in the price level of food products only.

The annual rate of increase in food prices for the historical metropolitan areas increased to 14.4% in February 2008 from 13.6% in January 2007. This was due to increases in the prices of grain products, meat, vegetables, milk, cheese, eggs, other food products, fats and oils, fruits and nuts, fish and other seafood, coffee, tea and cocoa and sugar.

Table 3: Food inflation for the historically metropolitan areas

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ave.
2001	5.0%	5.3%	4.6%	4.0%	3.9%	3.2%	3.7%	4.0%	4.6%	6.3%	8.5%	11.4%	**5.4%**
2002	12.3%	12.7%	13.0%	14.2%	14.0%	15.9%	16.8%	18.1%	19.1%	19.8%	18.4%	16.1%	**15.7**
2003	15.5%	14.2%	12.4%	11.1%	11.0%	8.6%	7.3%	6.2%	4.2%	2.8%	3.2%	2.6%	**8.1%**
2004	2.7%	3.3%	3.1%	2.7%	2.3%	2.7%	2.0%	1.6%	1.6%	1.9%	1.9%	1.5%	**2.3 %**
2005	1.3%	1.4%	1.5%	1.6%	1.4%	1.3%	2.8%	2.6%	3.4%	2.6%	2.4%	4.3%	**2.2%**
2006	4.4%	4.7%	5.5%	6.2%	6.9%	7.7%	7.5%	8%	8.5%	9.9%	9.1%	8.1%	**7.2%**
2007	8.6%	8%	7.7%	8.4%	8.7%	9.5%	10.2%	11.1%	11.9%	12.4%	13.3%	13.5%	**10%**
2008	13.4%	**14.4%**											

The Transport Price index

The transport price index provides an indication of the increase in the price level of transport items in the basket of goods and services that make up the inflation index.

Table 4: Transport price index for the historically metropolitan areas

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ave.
2003	7.1%	6.7%	8.1%	6.0%	0.7%	0.6%	1.5%	3.8%	2.2%	0.8%	1.6%	0.7%	**3.3%**
2004	0.3%	2.1%	0.0%	1.1%	4.2%	9.1%	6.3%	3.2%	4.4%	7.0%	8.4%	6.8%	**4.8%**
2005	3.8%	1.2%	3.5%	4.7%	6%	2.5%	5.6%	5.9%	9.0%	6.1%	5.9%	3.6%	**4.8%**
2006	5.6%	6.3%	5.6%	4.2%	5.7%	8.8%	8.4%	6.3%	3.7%	4.5%	1.6%	3.3%	**5.3%**
2007	4.5%	2.1%	4.3%	7.4%	7.1%	6.3%	4.2%	1.4%	3.1%	6.6%	8.1%	11.4%	**5.5%**
2008	10.7%	**13.2%**											

The CPI annual rate for transport increased to 13.2% at February 2008 from 10.7% at January 2008 ■

MAY DAY 1990

FORWARD TO WORKERS CHARTER

WE DEMAND A LIVING WAGE!

FIGHT FOR WORKERS CHARTER

MAYDAY

CAPITALISM DIVIDES - MAYDAY UNITES

STRIKES 1979

WE DON'T BUY FATTIS & MONIS

Worker power

ORGANISE OR STARVE

SOUTH AFRICAN RAILWAY AND HARBOURS WORKERS UNION

SARHWU

AN INJURY TO ONE, IS AN INJURY TO ALL

1936-1986 (50 YEARS)

HLANGANANI BASEBENZI

CHILD LABOUR

NATIONAL COUNCIL OF TRADE UNIONS

YOU NEED NUM

JOIN NOW

NUM NEEDS YOU

21 DAYS THAT ROCKED THE CHAMBER

FORWARD WITH THE STRUGGLE FOR A LIVING WAGE

COSATU

UNITE AND FIGHT FOR A LIVING WAGE

VENUE:

WORKERS OF THE WORLD UNITE

MAY DAY

ONE YEAR OF UNITED ACTION

WOMEN WORKERS

FEDERATION OF WOMEN

TO FIGHT TO STRUGGLE TO RIGHT THE WRONG

TOWARDS A JUST PEACE

MAYDAY 1991

ADVANCE TO WORKER CONTROL DEMOCRACY AND SOCIALISM

WORKERS' DAY IN ALL COUNTRIES

MAYDAY

WORKERS!

UNITE & FIGHT FOR YOUR RIGHTS

6 MONTHS PAID MATERNITY LEAVE

TWENTY YEARS OF WORKERS STRUGGLE

COSATU

solidarity with detained workers

their struggle is ours