Briefing Note: Stimulating consumer spending post COVID-19 lockdowns

Consumption spending by households is an important driving force of an economy. In 2019, household consumption spending accounted for 61% of the R5.1 trillion expenditure[1] on gross domestic product. Spending on essential goods and services such as food, transport, health and education accounted for 62.3% (or R1.9 trillion) of final household consumption. Spending on non-essentials like recreation and culture as well as restaurants and hotels accounted for 7.2% (or R219.6 billion) of final household consumption. However, in 2020, the COVID-19 lockdown has and will continue to negatively impact consumer spending in the absence of alternative incomes or financial resources for those consumers.

Due to the lockdown, businesses have suffered, leading to closures, retrenchments of employees and loss of income. Where businesses have not retrenched, workers have had to work fewer hours and/or had their salaries reduced, some by as much as 20%[2] to 50%[3]. The budget reprioritisation, along with stimulus measures introduced by government, mainly focused on supporting businesses through lower interest rates, tax relief and assistance with payments of salaries to employees.

Compared to other upper-middle-income countries, the government has provided substantial relief to working people and the poor. Over a third of formal private workers have benefited from the UIF COVID-19 Temporary Employee/Employer Relief Scheme (TERS). It provided R40 billion or an average of around R3 500 a month, to four million workers. In addition, government increased existing social grants and established a new R350 grant for working-aged people who do not have any other income. The grant is expected to transfer over R10 billion to around 4.5 million recipients.

While the average sums provided were low, the combination of enhanced social grants and UIF support for furloughed workers cushioned the most vulnerable people from the worst effects of the pandemic downturn. At the same time, they mobilised resources as a stimulus for the economy. The risk, however, is that both these programmes are drawing to an end, and there is no move to replace them even though a full economic recovery is clearly still some way off.

With declining salaries and limited cash transfers to households, disposable income will decline and continue the cycle of low consumption of non-essentials, which will in turn adversely affect businesses in non-essential sectors. This will have far-reaching impacts for local value chains, given that when consumers have no disposable income, they spend only on necessities. Thus, as

[1] Stats SA. GDP Q1 2020
[2] https://ewn.co.za/2020/04/06/some-sa-companies-cut-working-hours-salaries-over-lockdown
[3] https://www.iol.co.za/news/south-africa/covid-19-and-gyms-virgin-active-staff-in-limbo-as-salaries-cut-by-75-51218933

South Africa emerges from the hard lockdown, there is a need to consider strategies that will incentivise consumer spending to jump-start the economy. Some lessons can be learned from countries that emerged from their lockdowns earlier, such as China, South Korea, Australia and New Zealand.

Australia, New Zealand and South Korea have not taken active steps to boost consumer spending, but they introduced stimulus packages, including wage assistance for businesses to continue paying their workers. However, consumer spending has mainly shifted towards discount brands, resulting in a rise in their market share, especially in Australia[4]. While China initially introduced stimulus packages, some new measures have been introduced to actively boost consumer spending. In June 2020, the Beijing municipality announced that US$1.7 billion would be used to provide vouchers for consumers to spend in sectors that suffered during the lockdown, like tourism and retail. In Shanghai, the local government urged businesses to offer discounts to consumers to boost spending.

Austerity, which South Africa has opted for in the wake of COVID-19 (much of the stimulus was budget reprioritisation, tax deferral as well as loan guarantees), will not help the economy; nor will it help consumers whose incomes have declined since the lockdown began in March. This is not a call for the government to issue shopping vouchers. However, it would be appropriate for government to consider using measures to put money in the hands of consumers, who will in turn help the economy grow. Measures could be in the form of increased and extended grants to households, a reduction in value added tax to reduce the cost of goods and services and increased infrastructure spending to create jobs.

[4] https://www.smh.com.au/business/the-economy/pandemic-thrift-consumers-are-switching-to-discount-brands-and-borrowing-less-20200503-p54pev.html