



TRADE & INDUSTRIAL POLICY STRATEGIES



Tracking trends and analysing the COVID-19 pandemic and responses

THE ECONOMY AND THE PANDEMIC

WEEK 11 TO 17 MAY 2020

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This TIPS tracker highlights important trends in the COVID-19 pandemic in South Africa, and how they affect the economy. It analyses publicly available data, research and media reports to

- identify current developments and
- reflect on the prognosis for the contagion, the economy, and policy responses.

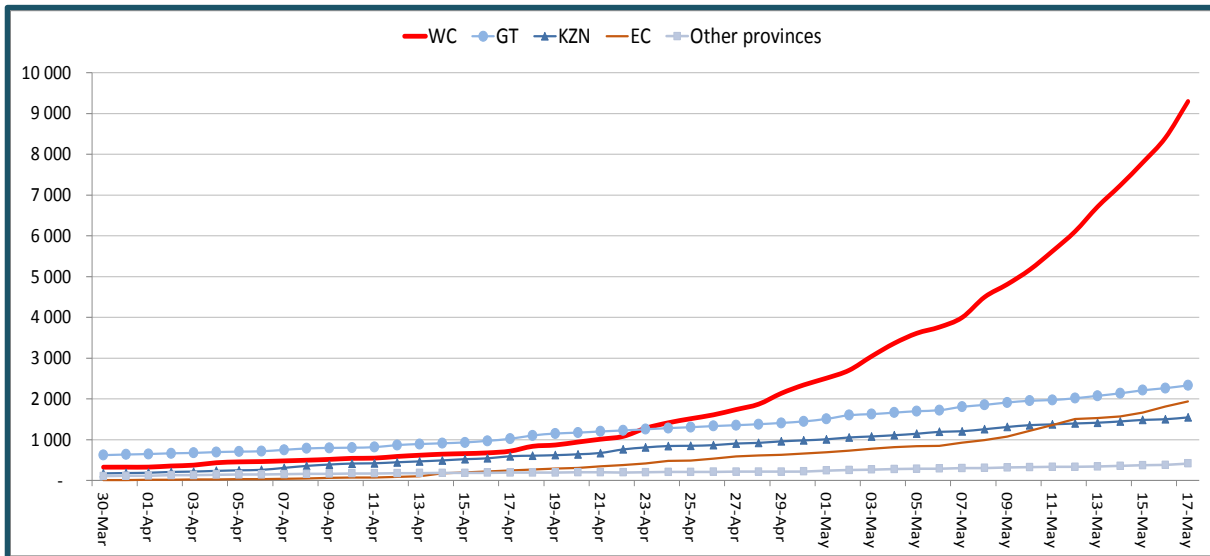
Trade & Industrial Policy Strategies (TIPS)

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THE PANDEMIC

In the week to Sunday, 17 May, cases outside of the Western Cape increased by 1 340, which saw the number of people infected with COVID-19 grow from 4 847 to 6 221 – a 24% uptick. In the Western Cape, which accounts for around 15% of the national population, cases increased by 3 236 over the week, rising by 67%. The Eastern Cape saw an increase of 594 cases, or 55% for the week; Gauteng, 310 cases, or 16%; KwaZulu Natal, 145 cases, equal to 11%; and the rest of the country, 55 cases, for a 17% increase.

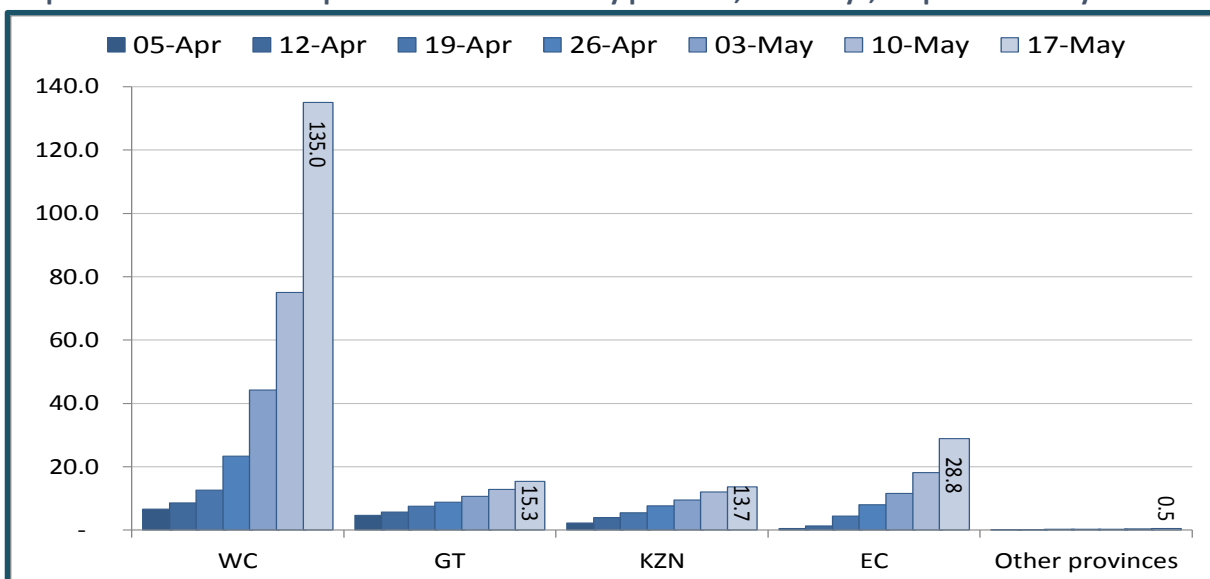
Graph 1. Seven-day rolling averages of new reported cases by province, 30 March to 17 May



Source: Calculated from data accessed at www.sacoronavirus.co.za on relevant dates.

In the week to 17 May, the incidence of cases per 100 000 of the population rose from 75 to 135 in the Western Cape; from 18 to 28 in the Eastern Cape; and from 9 to 12 in the rest of the country.

Graph 2. Number of cases per 100 000 residents by province, Saturdays, 4 April to 16 May

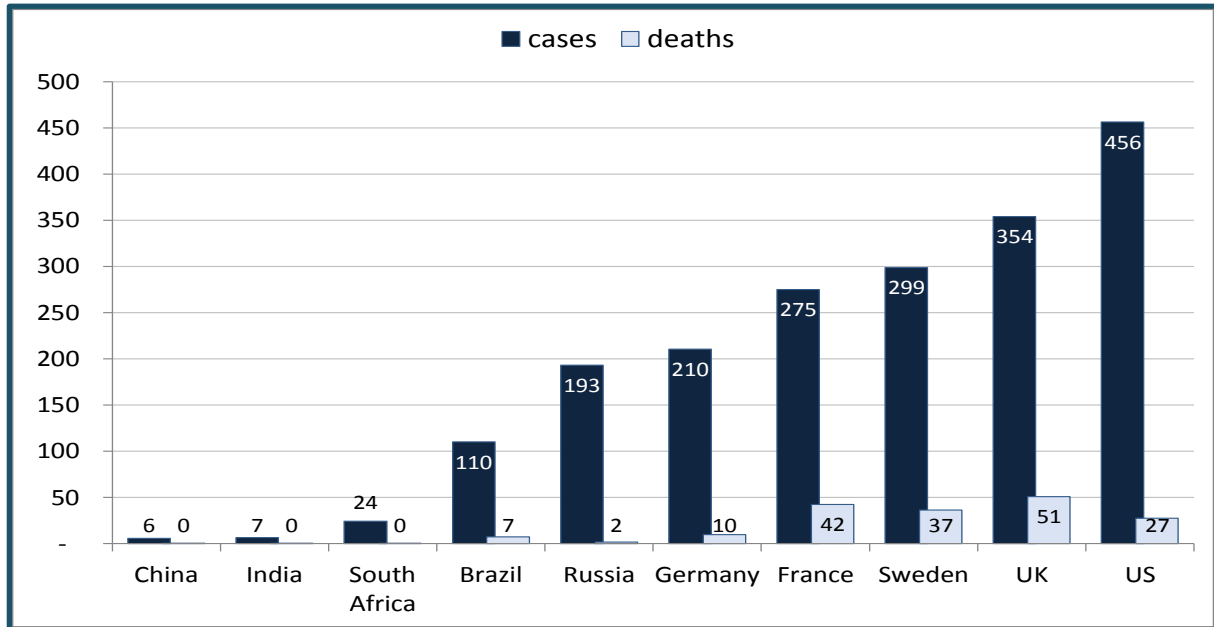


Source: Calculated from data accessed at www.sacoronavirus.co.za on relevant dates.

Note: Thanks to Annie Neo Parsons for public-health advice; errors, as always, are our own.

Because South Africa locked down when COVID-19 had barely entered the country, the incidence was low compared to countries with major outbreaks. On 16 May, the number of known cases per 100 000 people was 456 in the US, close to 300 in the EU, 110 in Brazil, 193 in Russia, seven in India and six in China. The initial outbreaks largely followed trade and tourism routes. As a result, because the numbers reflect the cumulative total of cases, the incidence was highest in the centres of the global North.

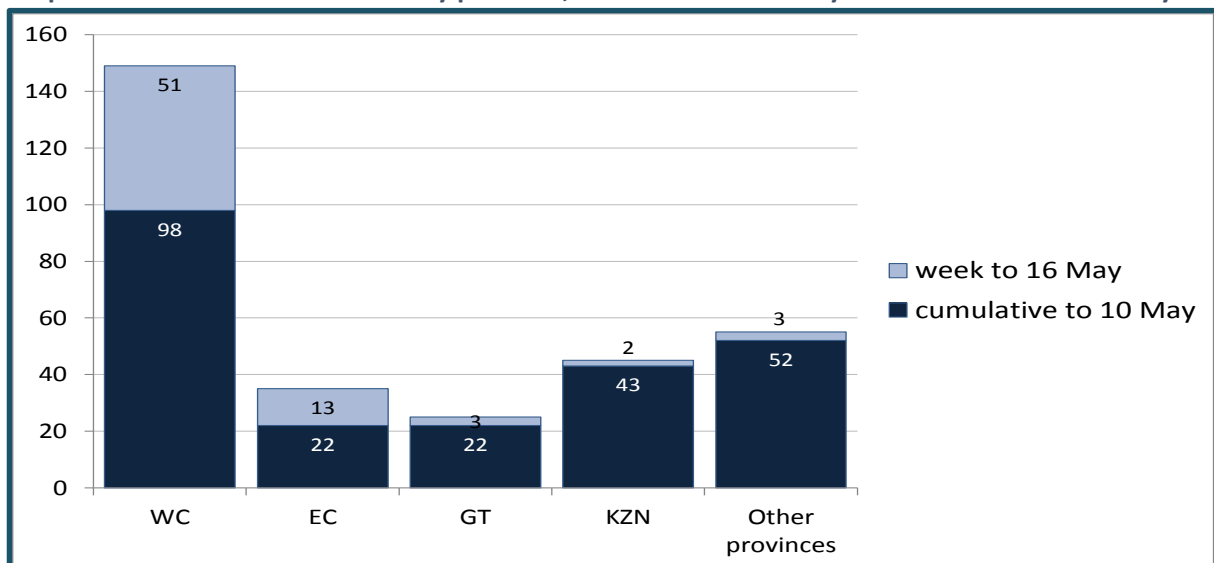
Graph 3. Cases and deaths per 100 000 people, as of May 17



Source: Calculated from Worldometer. Accessed at <https://www.worldometers.info/coronavirus/#countries> on 17 May 2020.

Nationally there had been 261 deaths from COVID-19, with 75 in the week to 16 May. Of the deaths in the past week, 54 were in the Western Cape, 11 in the Eastern Cape and seven in Gauteng. Typically, death occurs only three weeks after infection, so the mortality trends lag the figures for new cases.

Graph 4. Known COVID-19 deaths by province, cumulative to 10 May and in the week to 16 May



Source: Calculated from data accessed at www.sacoronavirus.co.za on relevant dates.

The level of deaths per reported cases is not easily comparable between countries. It depends, among others, on reliability of figures for cases and deaths from COVID-19, which countries measure in different ways; the age and health of the population; and whether new cases are increasing or decreasing (because of the time lag between infection and deaths). On 16 May, South Africa had 17 reported deaths for each 1 000 known cases, compared to 60 in the US, 144 in the UK, 46 in Germany, 67 in Brazil, nine in Russia, 30 in India and 52 in China.

The process of screening people, testing those with symptoms, and isolating them and their contacts is central to controlling any contagion. The South Africa government, however, only reports regularly on testing, not on screening and quarantines. As of 16 May, it had screened over seven million people. Around 250 000 of them were in the Western Cape, and apparently half were in Limpopo (which had a very low incidence of COVID-19).

South Africa conducted an average of 16 370 tests a day in the week to 16 May, compared to 13 050 in the previous week. The Western Cape captures tests only when it gets results, which means it revises its figures continually and they are not fully comparable to the rest of the country. Still, in the week to 13 May, it accounted for roughly a quarter of all tests in South Africa (compared to around half of all cases). For the week to 13 May, the share of positive tests was almost 20% in the Western Cape, and under 2% in the rest of the country. While differences in testing practices may explain part of the difference, a positive rate at close to 20% suggests a relatively high disease burden.

As of 17 May, South Africa had conducted 440 000 tests in total, or 750 tests per 100 000 people. Out of 81 countries that had over 10 million citizens and reported testing numbers (China in particular did not report on testing), South Africa ranked 30th in the number of tests per 100 000 people. In this group of countries, the number per 100 000 ranged from 6 500 per 100 000 in Spain and Portugal to under 100 in Burundi, Malawi and Yemen. The population-weighted average for all of the countries was around 900 per 100 000.

Continuing to expand testing in South Africa had begun to run up against the global shortage of inputs as well as an overload at laboratories, which led to up to a week's delay in obtaining results. As a result, the use of screening and the isolation of cases that were suspected, but not confirmed, became increasingly important, as illustrated by the debate around the Marula mine, described below.

THE ECONOMY

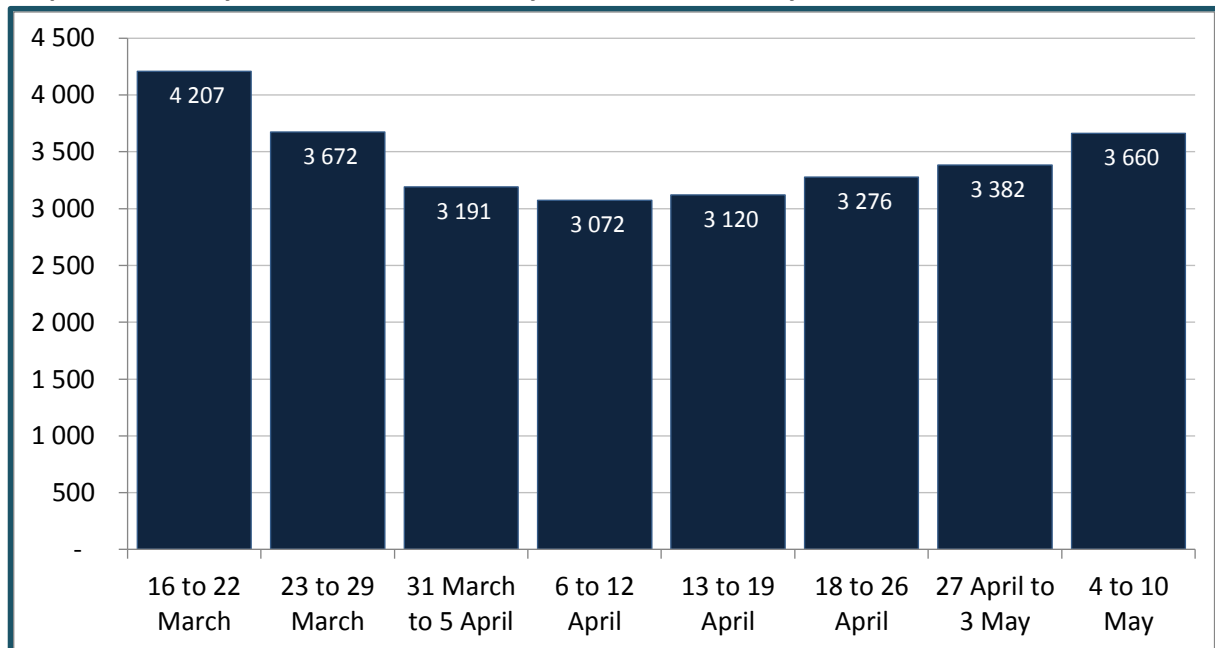
Overall trends

The pandemic affects the South African economy primarily in two ways: by halting domestic production outside of essential services, with gradual relaxation from 1 May; and through the global depression, as most other major economies also locked down in the second half of March. In April, the South African Reserve Bank forecast that the GDP would contract by 6,1% for the full year. All of South Africa's top trading partners except China also expected a significant economic contraction in 2020. The Chinese economy was forecast to grow less than 2% – far below the rates it has reported for the past two decades.

The effects of the limited relaxation in economic restrictions as the country moved from Level 5 to Level 4 on 1 May emerged from data on electricity use and travel for work and other purposes. These indicators point to a substantial revival of economic activity, although still lagging well behind pre-lockdown days.

Electricity sent out by Eskom increased by 8% in the week of 3 May 10 May. It remained 13% below the level before the lockdown started on March 26. Still, in the last week of Level 5 restrictions, electricity use was some 20% lower than before the lockdown compared to the previous week.

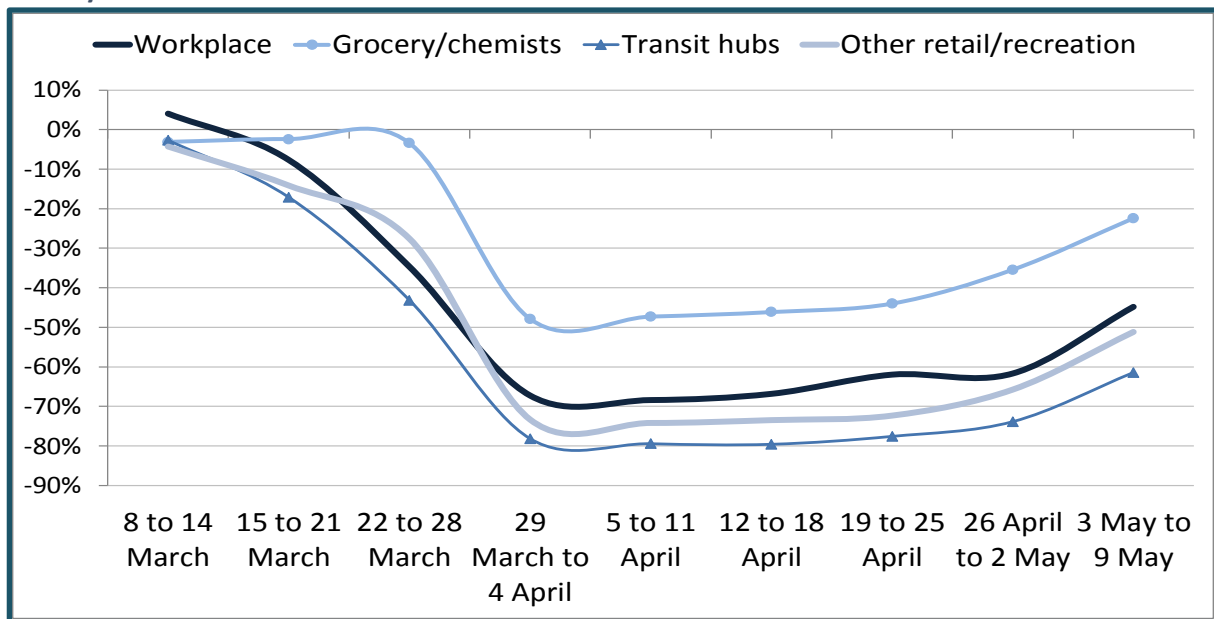
Graph 5. Electricity sent out in GWh, weekly, 16 March to 10 May



Source: Calculated from Eskom System Adequacy Reports for relevant weeks. Accessed at <http://www.eskom.co.za/Whatweredoing/SupplyStatus/Pages/SupplyStatusT.aspx>

Google’s mobility monitor (which uses cellphone location to measure travel) also shows a significant recovery from Level 5 to Level 4, although again without returning to pre-lockdown levels. Travel to work increased by 27% in the week to 10 May compared to the previous week. In contrast, travel to public transport hubs and non-essential retail only recovered by around 20%. That aligned with global experience, which finds that public fears of contagion often suppress consumer demand even more than government regulations.

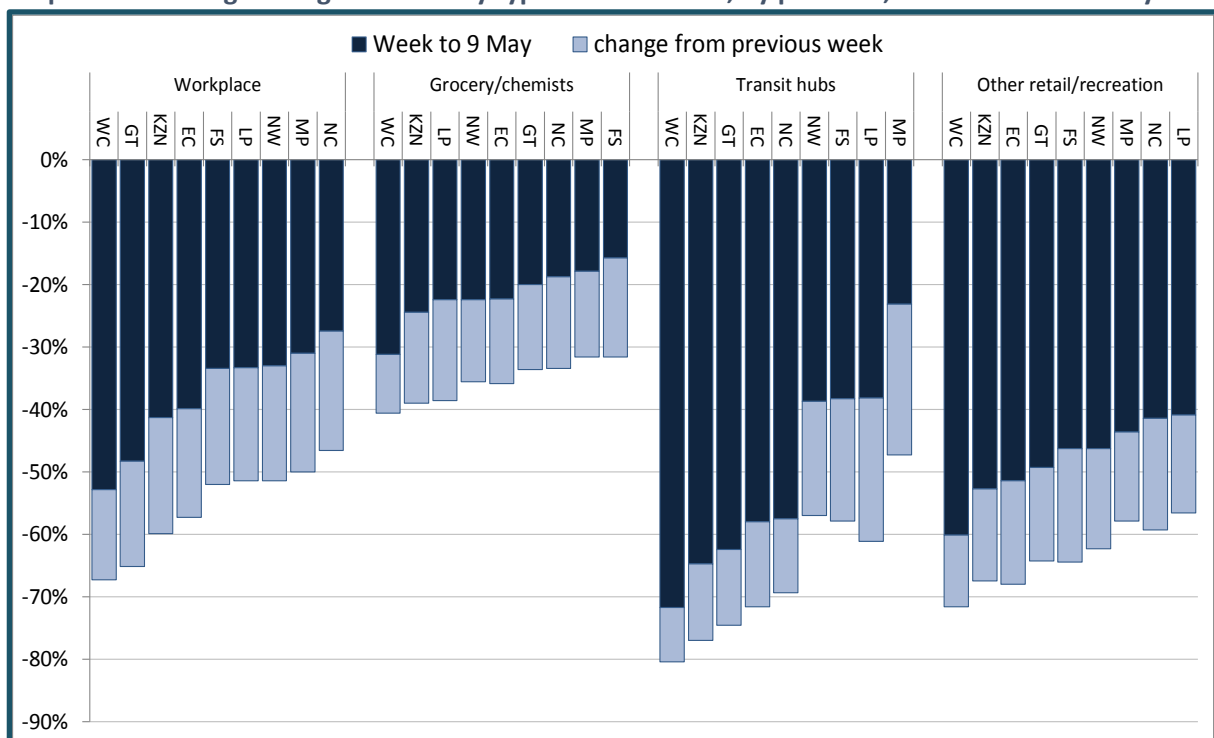
Graph 6. Percentage change in travel by type of destination, 8 March to 9 May, compared to January 2020



Source: Calculated from Google COVID-19 Community Mobility Reports. Accessed at <https://www.google.com/covid19/mobility/> on 17 May 2020.

At the provincial level, the mobility data suggest that the impact of the lockdown on transport to work was greatest in the Western Cape and Gauteng. Those provinces, however, account for most jobs in professional services and finance, which means that more of their workers could shift to working from home, rather than simply being unemployed during the lockdown.

Graph 7. Percentage change in travel by type of destination, by province, in the week to 9 May



Source: Calculated from Google COVID-19 Community Mobility Reports. Accessed at <https://www.google.com/covid19/mobility/> on 17 May 2020.

The Western Cape saw both the deepest fall in transport for any reason, and the smallest recovery. This outcome likely results from the relatively high incidence of COVID-19 in the province. Experience internationally shows that the greater the spread of the disease, the larger the decline in commerce.

The economic impact of the lockdown appears from applications to the Unemployment Insurance Fund (UIF). It established a special programme to support workers who would otherwise be dismissed due to the lockdown, in addition to the regular UIF payments to retrenched workers. As of 15 May, it had paid out almost R13 billion for 2,3 million workers, or around a quarter of all formal employees. Payments per worker range from a minimum of R3 500 to a maximum of R6 730. The UIF was initially overwhelmed by applications. It now has a call centre with 500 agents handling up to 70 000 calls a day and claims a 48-hour turnaround time. Still, employers' associations complained that over half their members had not yet received funding as of 11 May. Moreover, applications were very low for domestic and farmworkers, many of whom were not registered with the UIF despite the legal mandate.

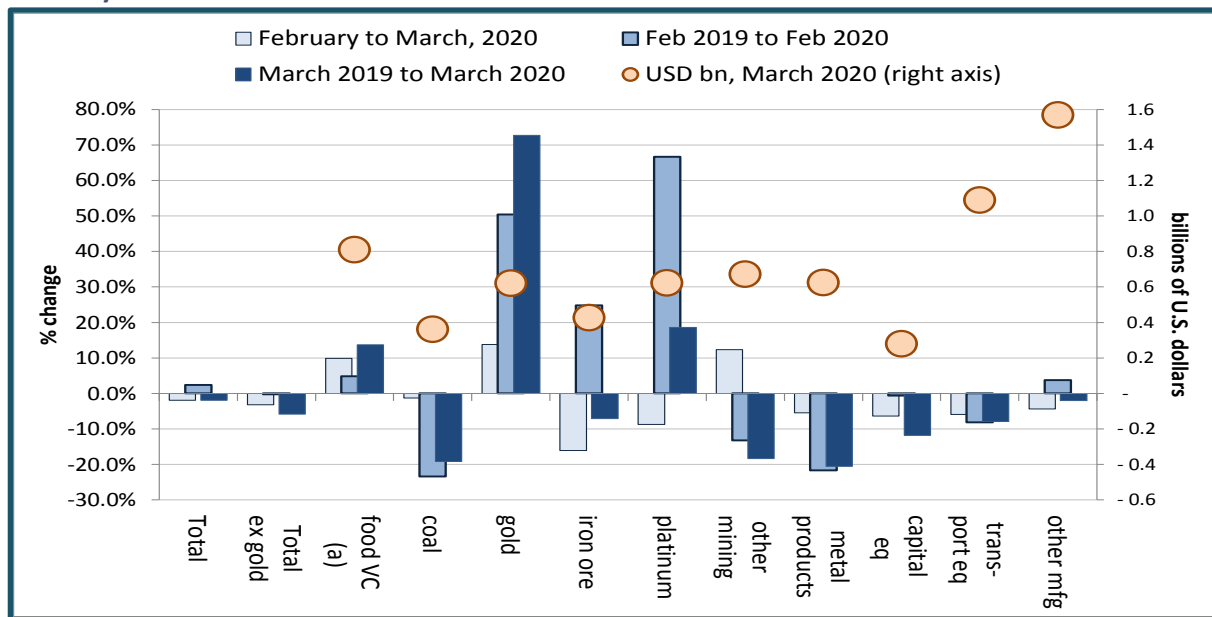
In addition, the South African Social Security Agency (SASSA) established a special COVID-19 grant, that would provide R350 a month for six months from 15 May to jobless adults who do not receive a social grant. As of mid-May, it had received 3,5 million applications. The grant was equal to just under half the poverty line for a single person.

The global slowdown will affect South Africa both by reducing investment in emerging markets and through lower export demand.

Data on capital flows are not yet available, although the sharp depreciation of the rand during the pandemic points to the extent of the outflow.

As Graph 8 shows, South African exports fell 2% in dollar terms from February to March. The trend varied substantially between commodities. In particular, gold prices surged as investors sought a safe haven, leading to a 14% increase in the dollar value of gold exports from February to March. But gold now accounts for only around a tenth of South Africa's total foreign sales. In contrast, in dollar terms, iron ore exports dropped by 16% from February to March, and platinum by 9%. Transport equipment, which contributes a seventh of South Africa's total exports, fell by 6%. Internationally, car sales fell an estimated 40% in March.

Graph 8. Change in South African exports in US dollar terms February to March 2020 and year to February and March 2020



Source: Calculated from Quantec EasyData. RSA National Trade. Accessed at www.quantec.co.za on 17 May 2020.

Developments at company and industry level

Infections

The Western Cape government has blamed the high level of spread over the past month primarily on clusters within companies and institutions serving the public. Most of the outbreaks were in retail chains, hospitals and police stations (plus at least two large factories), accounting for around 790 cases or a tenth of the provincial total. A similar pattern emerged in the Eastern Cape, which also saw a spike in cases from prisons, funerals and SASSA offices, where grants are paid. That said, clusters linked to economic activity – mostly retail, private hospitals and factories – appeared to affect much larger numbers in the Western Cape than in other provinces.

When workers are exposed to colleagues with COVID-19, they are expected to self-isolate for two weeks. This poses a problem for many who live in dense areas or in relatively small homes. Internationally, most COVID-19 cases come from transmission within families, followed by public transport and work. In both public and private workplaces, employees frequently protest that they are not given sufficient protective equipment or information about test results.

A number of retail stores, mostly in the Western and Eastern Cape, had to close temporarily for deep cleaning due to clusters of infections. In the Western Cape, around 25 closures were reported in the first two weeks of May, as well as about five in the Eastern Cape. Neither provincial governments nor the major retail chains published information on how many workers or shops were affected overall.

In Cape Town in the past week, a Blue Ribbon bakery in Salt River found 27 cases among its 1 200 workers. A third of the workforce was asked to self-isolate because they had had contact with infected people. The company already screened workers and delivery people

and had workers wear masks, and deep-cleaned the factory every seven days. Still, the union argued that the factory should be closed down until workers' tests had been returned.

Level 4 restrictions permitted the mines to bring back half of their labourforce, with screening, social distancing measures and sanitation. In the past week, Implats's Marula platinum mine in Limpopo found a cluster of 14 miners plus three workers in its clinic, out of over 2 500 employees. Implats said the virus was contracted locally, in townships around Burgersfort. It was forced to close the mine down temporarily in the second week of May. The provincial government argued that it should also pay to quarantine all of the miners, which Implats opposed.

In contrast, as of 13 May Amplats reported no cases. Its staff used a screening app as well as undergoing screening at the workplace, and it had set up testing and quarantine facilities

Industry and company developments

Airlines in South Africa and internationally have faced a particularly abrupt drop in business, with recovery expected to be slow both because of the difficulty of physical distancing and consumer concerns. Before the lockdown, around 30 000 people flew daily between Gauteng, the Western Cape and KwaZulu Natal; now, most of the planes are grounded and airports are largely deserted.

Comair expects to reopen fully only in around five months. On 10 May, the airline (which operates Kulula as well as British Airways flights in South Africa) announced it was going into business rescue, although it hoped to avoid actually closing down. Meanwhile, SAA's travails continued with no end in sight – and a government that, faced with a national disaster, cannot afford to keep paying its tab. FlySafair was operating at under 10% of its capacity.

Tourism and hospitality services are also expected to recover slowly, thanks to the double blow of limits on both international travel and many entertainment services, including restaurants. Flight Centre expected to close 40% of its network. Restaurants, which all told employed 400 000 people in 2019, are unlikely to be able to open fully even under Level 3.

Under Level 4, which allows deliveries but not in-house dining, many restaurants have remained closed because they could not cover their costs with only takeaways and deliveries. For example, Spur reported that two thirds of its franchises remained closed.

The mining value chain, and the associated bulk infrastructure, faced less stringent regulations under both Levels 5 and 4, and does not have to deal directly with the public. Still, as noted, under Level 4 it could only employ half its workforce in order to avoid crowding especially at lifts and in transport to work. On 13 May, Sibanye Stillwater said that the understaffing meant it was running at a loss, and it would close down if couldn't bring in 75% to 80% of its labourforce in the near future.

In April, Transnet was running at 60% of capacity. It expected its revenue to fall by between R8 billion and R12 billion for the year. In response, it planned to cut its investments by R2,4 billion over the 2020/21 financial year. Even after the lockdown, it anticipated a significant fall in trade as a result of the global slowdown.

The decline in electricity demand noted above, which resulted largely from the partial closure of mines and refineries, meant Eskom lost R2,5 billion in April. That said, it was able to

undertake more planned maintenance. Nonetheless, it anticipated some loadshedding as production recovered in the second half of the year.

In addition to the fall in exports, domestic auto sales crashed during the lockdown, with showrooms only reopening from early May. Car sales plummeted from an average of over 40 000 a month in the year to March 2020 to under a thousand in April. Production virtually halted during the lockdown, in large part because the industry closed down globally. Local assembly plants planned to restart production in the first two weeks of May, but some anticipated going on short time due to low demand at home and abroad. A few turned to production of protective equipment during the lockdown, but that did not come close to replacing the revenues lost on car sales.

Barloworld (AVIS car rentals and CAT earthmoving equipment, among others) began retrenchment consultations with senior management in the second week of May. Initially the company provided 13 days' special leave, but after that ran out it required its employees to use their annual or unpaid leave.

The Chinese-owned appliances producer Hisense shut down its factory on 26 March. When it did not get UIF support on time for its May salaries, it applied a conditional no work, no pay policy for its employees. It paid their salaries as loans, which it would deduct from the UIF funds when they were received.

Clothing retailers worldwide faced challenges, with companies that were already in a weak position experiencing the most serious problems. Even after restrictions on their sales were lifted, the fall in household incomes meant that recovery would be slow. In South Africa, Edcon filed for business rescue in early May, after it lost R2 billion in revenue. It also filed for UIF support to help pay salaries. This was its second restructuring in two years.

Arena Holdings, Independent Media, the Mail & Guardian, and Naspers have all had to cut salaries as advertising revenues have plummeted. In April, Independent Media reduced pay by up to 45% for senior executives. In early May, two major magazine publishers closed down, ending local production of Cosmopolitan, House and Garden and Bona, among others.

The ban on alcohol sales could lead to the loss of 2 000 jobs at SA Breweries, which said it might have to dump around 132 million litres of beer that could not be transported for packaging under the disaster regulations. Similarly, South African wine producers face a glut of wine, with plummeting demand abroad and at home during the lockdown. Still, the news isn't all bad: consumers will likely see lower prices as a result – when we are allowed to buy wine again.

Government support programmes

On 12 May, banks began to accept applications for the government's COVID-19 loan guarantee scheme for small and medium enterprise (annual turnover under R300 million). The participating banks are Absa, First National Bank, Investec, Mercantile Bank, Nedbank and Standard Bank. The National Treasury provided R100 billion for the scheme, but could increase it to R200 billion if the scheme proved successful. Details are available at <https://bit.ly/3fYvSkT>.

PROGNOSIS

The prognosis for the economy depends in large part on the medium-term trends anticipated for the contagion in South Africa. Unfortunately, there is little consensus on that issue. Globally, two patterns have emerged.

- Some countries managed to control the virus before it became entrenched in the population; they could then contain it by identifying new cases, tracing their contacts, and stringently isolating them to eliminate new infections. These countries include New Zealand, Australia, Singapore, Taiwan, China, Greece and Germany. Before they brought the virus under control, all of these countries save Taiwan (and China outside of Wuhan) had a higher rate of infection than South Africa does this week.
- Other countries did not detect the virus until it had spread widely. In these cases, which include most of the EU, Russia, Brazil, and the US, the lockdown aimed to entrench social distancing systems and practices and generally to reorganise society to reduce infection levels. The situation was worse in the US, which has only rudimentary tracing capacity and therefore hoped to fall back on near-universal testing – which as of mid-May was not possible due to global shortages of inputs and processing equipment, as well as a lack of personnel.

These divergent international experiences appeared to influence debates on where South Africa is in the pandemic and, by extension, what its strategies should be on opening up.

The government effectively held that, because South Africa locked down when cases were relatively limited, it still had a chance of limiting the spread to relatively low levels. It planned to combine mass screening for symptoms to guide testing with contact tracing and isolation of cases, including in new quarantine centres. Reorganising economic activities, with strict limits to ensure social distancing in public transport and businesses that serve the public, would be critical to achieve this aim. Moreover, the authorities would need to have the political will to isolate hotspots, whether enterprises or municipalities. Even with these measures, the government anticipated that cases would pick up in winter as more people stayed indoors.

Some academic experts, in contrast, argued that South Africa would be unable to undertake social distancing in dense settlements and had inadequate capacity for testing. In this view, the Western Cape is not an outlier but a forerunner of uncontrollable outbreaks in other provinces. Some proponents of this prognosis argued explicitly that South Africa should not think it could do better than the UK and the US, which have seen particularly high infection levels. In this view, the lockdown serves no further purpose and should be ended; in this context, testing should be used, not to find hotspots, but to identify infected individuals. These views rest in large part on the contention that current screening and testing measures miss many cases, although there was no published evidence to support that belief.

In business, the debates in South Africa and internationally effectively centred on how the costs of the lockdown affected longer-run growth. Some businesspeople argued that the cost to the economy would in itself reduce the quality of life and cause deaths, which had to be weighed against the potential deaths from COVID-19. Others viewed the costs of the

lockdown as an investment in stabilising the economy. From this perspective, if the contagion became uncontrolled, the economy would end up worse off. By extension, the critical question is whether measures to contain the pandemic could be managed more efficiently, rather than seeking to speed up and end to restrictions to boost the economy as an end in itself.

As of May 18, the Presidency had signalled that the country would move to Level 3 no later than the end of the month, and possibly sooner. Under Level 3, the extent of economic activity permitted would be decided at district level. It was not clear how that would affect the metros, which are the epicentre of the economy as well as the pandemic. It seemed likely, however, that restrictions (and consumers' safety concerns) would continue to weigh heavily on retail, in-door recreation, restaurants and personal services, which interact more with customers, than on the rest of the economy.

TIPS TRACKERS

[TIPS Tracker: The economy and the pandemic](#) highlights important trends in the COVID-19 pandemic in South Africa, and how they affect the economy.

[TIPS FDI Tracker](#) monitors inward foreign direct investment projects. It reports on new FDI projects, analyses these, and adds them to an ongoing list of investment projects.

[TIPS Export Tracker](#) provides updates on export trends, and identifies sectors and products that are performing well and those that are lagging.

[TIPS Import Tracker](#) provides an overview of import patterns and looks at the causes of surges in manufacturing imports, and their likely impact on industry.

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