



TRADE & INDUSTRIAL POLICY STRATEGIES



Tracking trends and analysing the COVID-19 pandemic and responses

THE ECONOMY AND THE PANDEMIC

10 AUGUST – 23 AUGUST 2020

KEY FINDINGS

On the pandemic

- The number of reported new cases fell to an average of 3 350 a day in the week to 23 August, from a peak of over 12 000 in mid-July. In response, government relaxed restrictions to Level 2 from Tuesday, 18 August.
- The government was clearly concerned that removing legal restrictions could lead the public and businesses to weaken their efforts to limit transmission, especially physical distancing and masking. Despite the progress from mid-July, the number of reported new cases in the week to 23 August was still three times as high as when Level 3 started on 31 May. If people engage in more risky behaviour, cases will start to surge again in two to three weeks.
- The move to Level 2 underscored that, as long as the pandemic is not fully under control, some industries cannot be both profitable and safe unless they transform their business models. This applies above all to public in-doors entertainment, restaurants and bars; large malls; most personal services such as gyms and hair salons; public transport; and tourism, especially from overseas.

On the economy

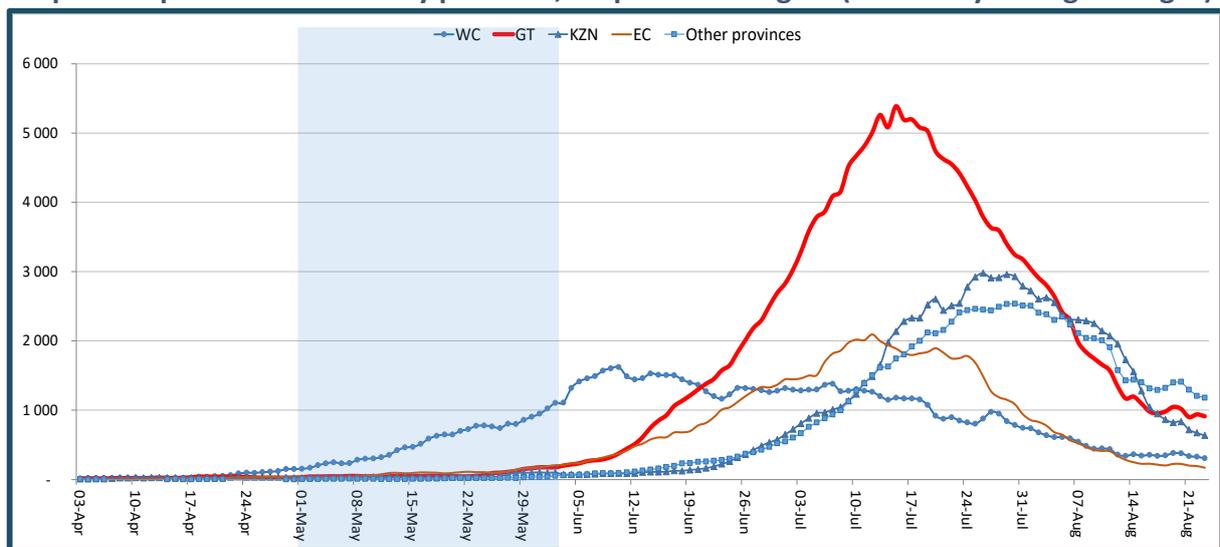
- The available evidence indicates that the economic recovery remains slow.
- Big companies have begun to announce their financial results for the period to June, and most are not pretty. There are, however, big differences depending on the industry and the state of the business before the lockdown. State-owned companies that have relied on government bailouts over the past decade now face the real risk of liquidation.
- Following the public outcry over corruption around the pandemic response, the government has introduced measures to capacitate state institutions to initiate investigations and prosecutions. In light of the open pushback from some politicians, the success of the new initiatives will depend on support from civil society, and especially the media and advocacy groups, as well as on the ability of the legal system to move far more quickly and decisively.

TRENDS IN THE PANDEMIC

The number of reported new infections continued to decline in the past two weeks, as did the share of tests returning positive results. In consequence, all of the country except the Northern Cape recorded fewer than 10 new cases per 100 000 people in the week to 23 August.

New cases declined in every province in the past two weeks, but the rate of decline flattened out, as the following graph shows. Moreover, the number of new diagnoses remained well above the level on May 31, when the country moved to Level 3. That in itself increases the risk that the contagion could accelerate again.

Graph 1. Reported new cases by province, 3 April to 23 August (seven-day rolling averages)



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

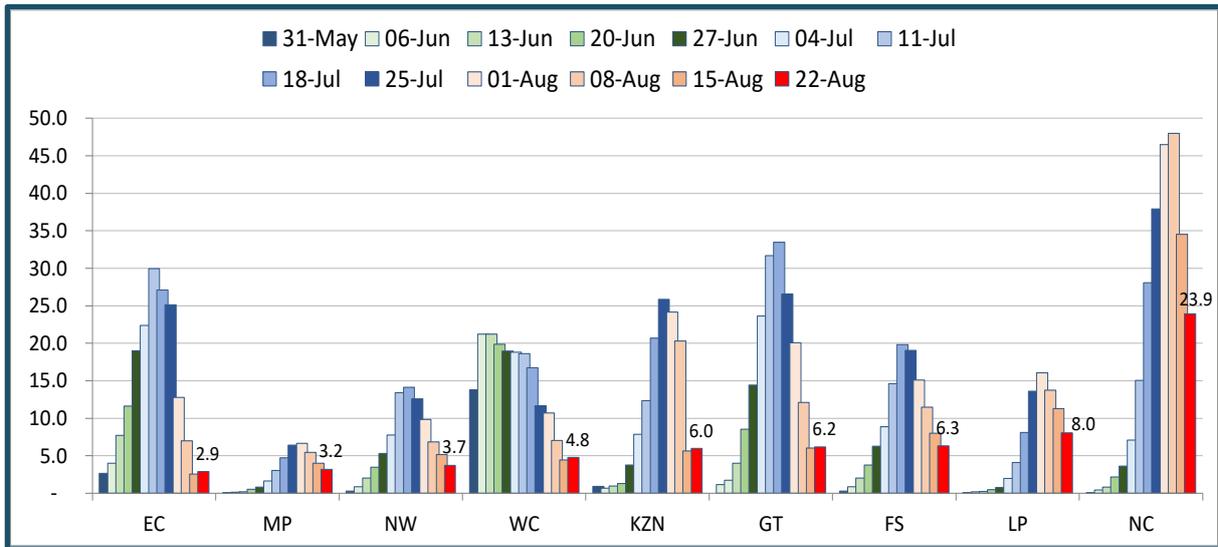
All the provinces, except the Northern Cape, reported fewer than 10 new cases per 100 000 people in the week to 23 August. According to a dashboard developed by the Harvard Global Health Institute and the Safra Centre for Ethics,¹ this level of contagion means these provinces are in the yellow zone – they have manageable levels of community spread, but it could accelerate fairly quickly.

Internationally, when countries open up schools at this level of exposure, they have often experienced clusters and had to close them again after a few weeks. The Northern Cape had a far higher rate of reported new cases than the other provinces, recording 24 diagnoses of COVID-19 per 100 000 people in the week to 23 August. It accounted for a tenth of all newly diagnosed cases, although it makes up just 2% of the national population.

TIPS Tracker: The economy and the pandemic compiled by Neva Makgetla

¹ Harvard Global Health Institute and Edmond J. Safra Centre for Ethics. *Key Metrics for COVID Suppression: A Framework for policy makers and the public*. July 1, 2020. Downloaded from https://globalepidemics.org/wp-content/uploads/2020/06/key_metrics_and_indicators_v4.pdf in August 2020.

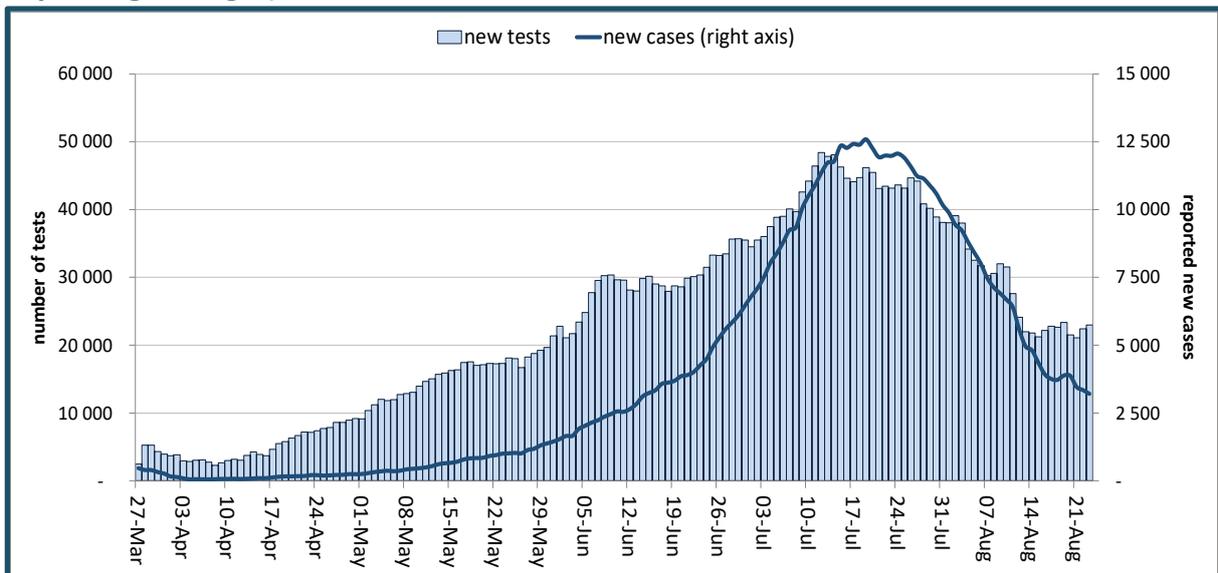
Graph 2. Number of new cases per 100 000 residents by province, seven-day rolling averages



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

The figures for new cases may have been distorted by a 50% fall in the number of tests since the end of July (Graph 3). Despite the falling numbers, the share of positive tests continued to decline. For the country as a whole, on average 14% of tests returned positive on average as of 23 August. For comparison, the figure was closer to 30% in mid-July. The World Health Organization sets 5% or less as the benchmark for when the pandemic is under control. It is not clear if the decline in the number of tests reflected difficulties in getting inputs or shrinking demand as the numbers infected fell.

Graph 3. Number of tests compared to number of new cases, 27 March to 23 August (seven-day rolling averages)

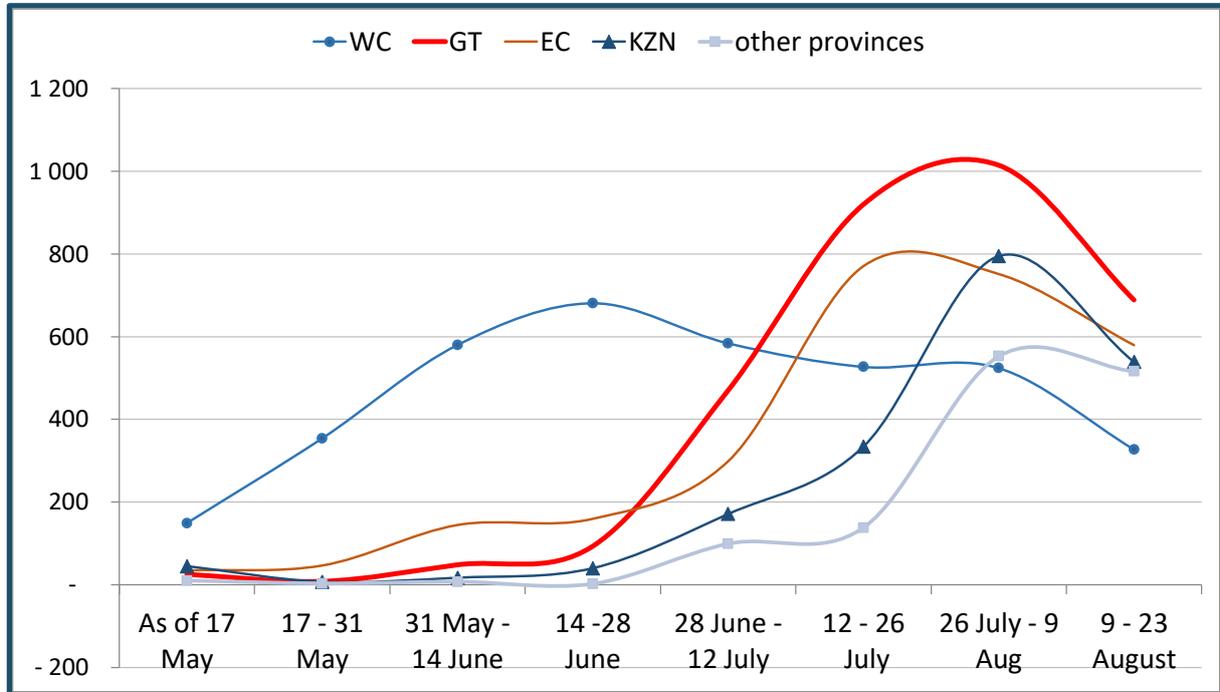


Source: Calculated from data accessed at www.sacoronavirus.co.za on relevant dates.

Deaths attributed to COVID-19 continued to climb rapidly over the past two weeks, at 25%, reflecting the upward trend in reported infections three weeks earlier. The rate of growth was far lower than in the previous two weeks, however. The fastest growth in the number of

deaths in the past two weeks was in Mpumalanga, at over 80%, followed by the North West, Northern Cape and Free State at between 62% and 72%. In all of these provinces, the figures were off a fairly low base. In contrast, the number of deaths grew 37% in KwaZulu Natal in this period; around 25% in Gauteng and the Eastern Cape; and just 9% in the Western Cape.

Graph 4. Reported deaths from COVID-19 by province in two-week intervals, 17 May to 23 August



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

The number of reported COVID-19 deaths per 10 000 people was much higher in the Western Cape, at over five, than in the rest of the country. The figure was between two and three deaths per 10 000 people in Gauteng, the Eastern Cape and KwaZulu Natal; 1,4 in the Free State; and under one in the rest of the country. The higher mortality rate in the Western Cape reflects the fact that it saw a surge in cases early in the pandemic, when less was known about how to treat COVID-19, as well as a lag in deaths compared to reported cases.

The relatively low level of new cases justified the move to Level 2 on 18 August. Under Level 2, virtually every kind of business except clubs are allowed to open, but must maintain measures to minimise infection and respect a curfew from 22h00 to 04h00. In addition, family visits are allowed, although discouraged.

The challenge with removing restrictions is that it inherently, and falsely, signals a lower risk of contagion. In reality, the daily number of new cases in South Africa at the time of the move to Level 2 was more than three times as high as it was during Level 5. The difficulty of lifting restrictions without implicitly encouraging more risky behaviour can be seen from the sharp increase in infections two to three weeks after Level 4 was instituted, with an even bigger jump in new cases following the move to Level 3. A similar pattern has been seen in most other countries, and in some cases has required the reimposition of restrictions. With the move to Level 2, government has visibly sought to counteract the signalling effect of looser restrictions by vastly improving communications around the need to maintain masks, physical distancing and hygiene.

With the elimination of most legal restrictions on businesses, it has become clear that the pandemic itself, rather than the national public health response, imposes the main constraints on economic recovery. Businesses that historically have served customers inside, especially for entertainment, accommodation, public transport and other personal services, face the greatest disruption. On the one hand, to curb transmission, these activities generally have to limit the number of visitors; require masks except when people are eating or drinking; and maintain physical distancing. All of these measures tend to depress capacity utilisation and sales. On the other hand, consumers generally view entertainment and personal services as luxuries, which means they are more likely to consider them unnecessary risks and expenses. The implications for some of these industries is discussed in more detail in the section on the economy.

In effect, the historic business models in many industries that serve households are not viable as long as they must implement measures to prevent the transmission of COVID-19. Unless they find innovative ways to deliver services, they cannot be both profitable and safe until the pandemic is controlled. That will likely be in only six months to a year at best. These realities leave the affected industries with four options.

- They can develop fundamentally new business models that are less inherently risky for infection, such as streaming, e-commerce and outdoors services and entertainment.
- They can set up learning networks to improve the effectiveness of infection-prevention measures in ways that permit higher-capacity use of facilities with less discomfort, for instance through improved ventilation and fixed barriers between tables in restaurants.
- They can close down or accept losses and lower incomes until the pandemic is under control.
- They can ignore the safety requirements and return to business as normal. This approach is usually not sustainable, as many customers will not be interested in their services under these conditions. Moreover, if the contagion starts to swell again, the government may have to reimpose tighter restrictions.

Where industries continue to face constraints from the pandemic even without government regulations, they require assistance to achieve a just transition. As with any disruption, the risk is that the most vulnerable – less qualified workers and small businesses, in particular – end up with the greatest costs, because they cannot easily invest in innovative solutions or find alternative livelihoods.

In these circumstances, it makes sense for the state to provide assistance to develop innovative business models and to cushion vulnerable groups against the loss of income in the interim. For instance, government can promote new platforms such as e-commerce and streaming; set up networks for businesses to learn from each other how to prevent infection more effectively and unobtrusively; and assist workers and business owners to find new livelihoods where re-opening profitably seems out of reach for the foreseeable future.

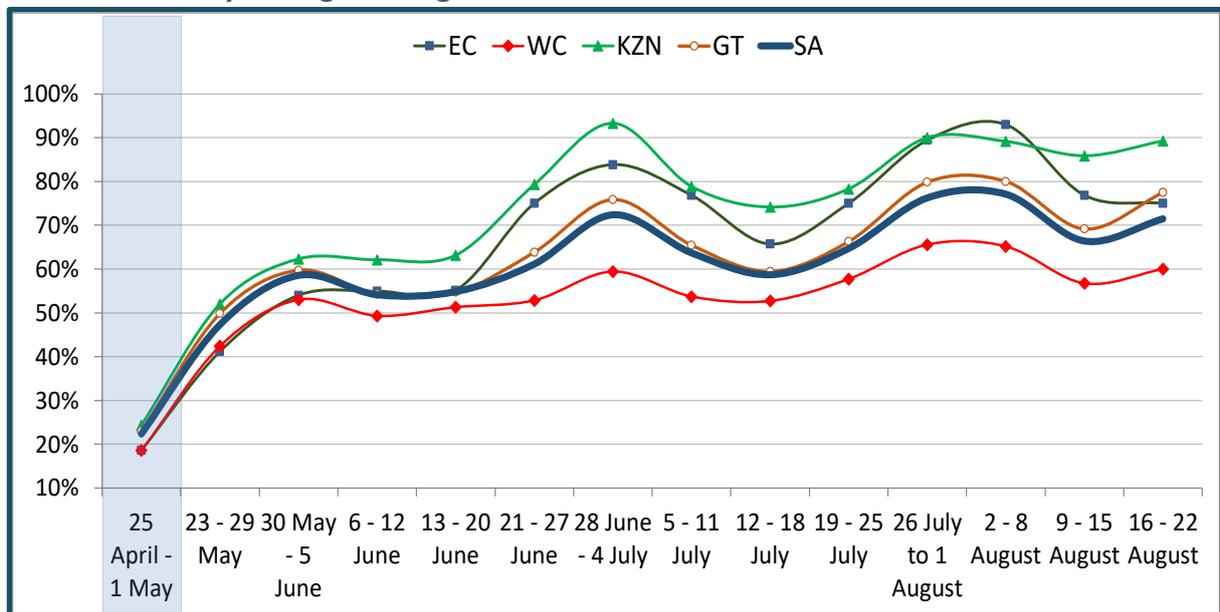
TRENDS IN THE ECONOMY

Overall developments

The economy continued to recover slowly over the past week, according to the available indicators. The move to Level 2 will likely bring an initial rebound in the next week or two. Experience suggests, however, that the impact on the economy will depend on the extent to which the contagion is controlled in the context of fewer restrictions on contact and movement.

The Yoco Small Business Index, which reflects business turnover through the payment system, indicated a continued gradual improvement in sales. The index is cyclical, with a bump when salaries are paid at the end of the month. For the month to August 22, sales were 10% higher than in the month to July 22, although they were still 30% below their pre-pandemic level.

Graph 5. Small business turnover relative to the first two weeks of January, average for week to Saturday through 22 August

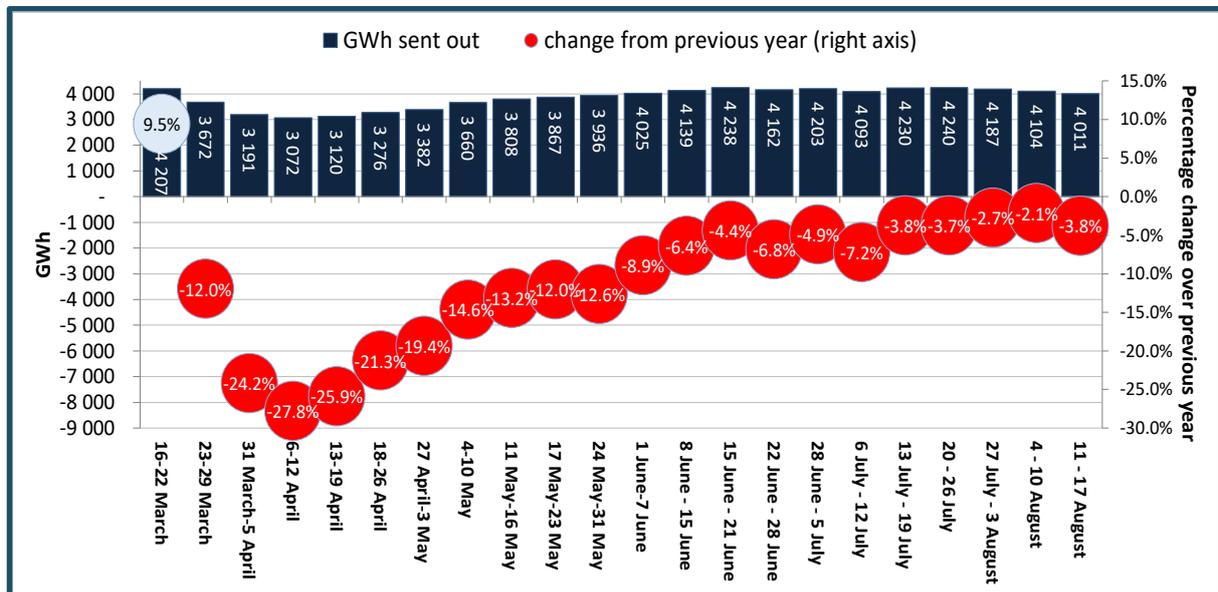


Source: Calculated from Yoco Small Business Recovery Monitor. Downloaded at www.yoco.co.za on relevant dates.

According to the Yoco index, the Western Cape continued to lag behind the other provinces. This situation may have resulted because of the relatively harsh impact of the pandemic there. It could also reflect the disappearance of overseas tourism and government travel, which became increasingly important for the Western Cape over the past decade.

Electricity use declined slightly in the second week of August (Graph 6). In the week to 17 August, it was almost 4% below the same week in 2019.

Graph 6. Electricity sent out in GWh, weekly, 24 March to 17 August, and percentage difference from the same week in 2019



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

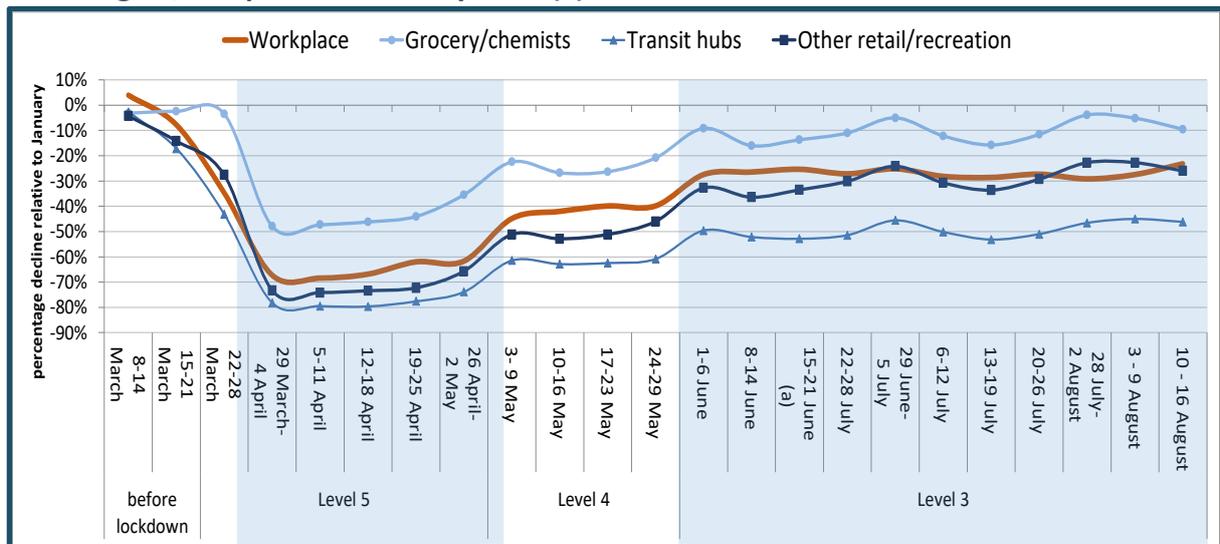
The decline in electricity sent out increasingly reflected loadshedding. Eskom has again become a growing constraint on the economy, with repeated bouts of rationing as its generating plant breaks down, even though demand remains low compared to last year. Its availability rate (that is, the share of its capacity actually available for generation) sank to 66% in the past year; it needs over 70% to ensure reliable supply for the country.

In response, last week Eskom reshuffled its generation executives, replacing but not dismissing the head of power generation (who had been in the post for just over a year). A consultant told City Press that Eskom had effectively lost control of its power stations and failed to maintain them for the past five years.

The challenge for government is to find ways to bring in additional capacity from smaller, private and often cleaner producers to give Eskom space to fix both its management systems and its production capacity.

Figures for local travel by type of destination were somewhat distorted for the second week of August – the latest available – because 10 August was a holiday. Still, they continue to show limited improvements during Level 3, after a substantial increase in mobility through Level 4. Travel to work remained around 25% lower than in January, and transit hubs were down 50%.

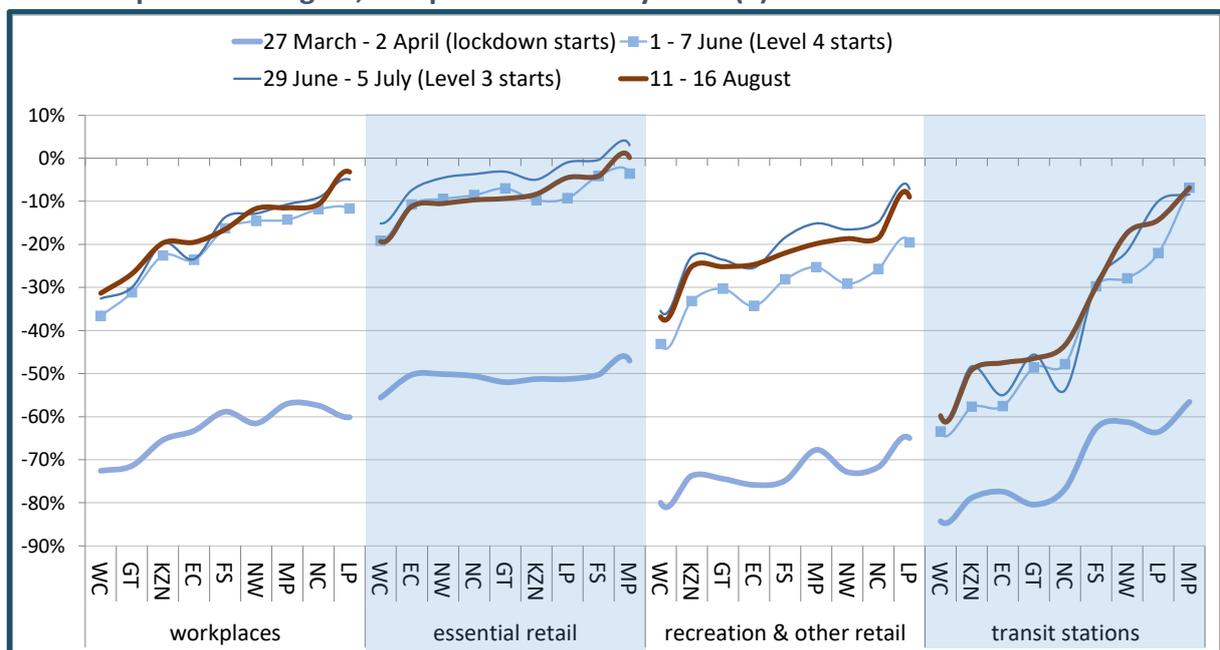
Graph 7. Percentage change in travel by type of destination, weekly average from 8 March to 16 August, compared to January 2020 (a)



Note: (a) Data for week to 16 August exclude 10 August, which was a holiday, and may not be fully comparable to other weeks. *Source:* Calculated from Google COVID-19 Community Mobility Reports. Accessed at <https://www.google.com/covid19/mobility/> on 25 June 2020.

The figures at provincial level also show only very limited changes in travel over the past six weeks. The Western Cape still has the weakest recovery for all kinds of local travel.

Graph 8. Percentage change in travel by type of destination, by province, weekly average from 26 April to 16 August, compared to January 2020 (a)



Note: (a) Data for week to 16 August exclude 10 August, which was a holiday, and may not be fully comparable to other weeks. *Source:* Calculated from Google COVID-19 Community Mobility Reports. Accessed at <https://www.google.com/covid19/mobility/> on relevant dates.

Increasingly, commentators have raised concerns that the pandemic is deepening inequalities both nationally and internationally. This arises, not only because poor communities are more likely to see a high rate of infection, but because of the economic response.

First, stock markets have recovered strongly from an initial downturn in early March, boosted heavily by monetary stimulus measures in the global North, which range from purchases of public and private bonds to slashed interest rates. Major stock markets, including the JSE, recovered to February levels by the beginning of August. In South Africa, however, only the richest 5% of households own much in the way of financial assets outside of retirement funds. Even pension savings are held almost exclusively by the best-off 20% of households. In these circumstances, the asset bubble on financial markets has tended to enrich the already relatively well off.

Obviously, it is not clear how long the financial markets can prosper with the real economy in a deep recession. As discussed below at industry level, in the past two weeks a number of major companies announced their yearly or half-yearly results. Most saw sharp declines in earnings, with hospitality, banking and clothing retail particularly hard hit. A few industries – notably gold mining and logistics – were less affected or even saw an increase in revenues. Within each industry, companies that were in a weak position before the pandemic have typically suffered the most from the COVID-19 downturn.

Second, the pandemic has had a dualised impact on employment. Lower level workers outside of essential services were the most likely to be furloughed or retrenched during the lockdown, as they cannot generally work from home. Professionals and managers, however, were often able to work offsite, keeping their jobs although sometimes with a salary sacrifice.

The move to Level 2 means that many companies are no longer eligible for the Unemployment Insurance Fund (UIF) COVID-19 Temporary Employer/Employee Relief Scheme (TERS), because there are no legal restrictions on going to work. The result is likely to be a wave of retrenchments, as companies see no chance of a fast recovery in demand.

In July, the Commission for Conciliation, Mediation and Arbitration (CCMA) received 190 large-scale and 1 307 smaller retrenchment referrals. The Labour Relations Act defines large-scale retrenchments as threatening at least 50 jobs, which means the referrals in July alone reached well over 10 000 employees. For comparison, from April to July 2019 the number of jobs affected by retrenchment referrals to the CCMA averaged under 4 000 a month.

Third, the sharp fall in tax revenues at national and municipal level makes it harder for government both to cushion vulnerable groups from the impact of the pandemic and to stimulate recovery. Treasury estimates a 30% fall in municipal own revenue and a 20% fall in national tax returns. Company income tax revenue alone is expected to drop by 55%. The challenge is underscored in the recent spate of company financial reports. Many anticipate paying no company tax for the year to June as a result of losses. The diversified manufacturing company KAP, for instance, paid R533 million in company tax in 2019. For 2020, it expects to earn a tax credit of R471 million instead.

In light of the constraints on the fiscus, government has generally based its stimulus plans on efforts to leverage private investment or mobilise savings from social protection funds and other financial savings. The UIF's COVID-19 TERS is the flagship for this effort. It has so far provided R40 billion in payments to support around a third of all formal workers, who were furloughed due to the lockdown. This programme has been critical to maintaining employment relationships and consequently resilience in the economy, as well as cushioning workers against retrenchment. In light of the slow return to normalcy, it was extended from

its original deadline of end June, but only to 15 August. That means payments will be made through September. Given the slow pace of the economic recovery in South Africa and globally, the termination of TERS will probably result in a slowdown in consumer demand and growth, as well as a surge in retrenchments.

The government has seen the leveraging of private direct investment in infrastructure as the main way to mobilise off-budget funds for the stimulus. On 17 August, the National Treasury signed an agreement to provide initial funding to Infrastructure SA, a new agency at the Department of Public Works that is expected to mobilise R10 billion a year in public and private finance over the next 10 years for a coordinated infrastructure programme. For comparison, in 2019 the government and state-owned companies jointly invested over R225 billion in social and economic infrastructure. Treasury has budgeted R4 billion for the 2021/2 financial year, and another R6 billion in the following year. The Development Bank of Southern Africa, which will manage Infrastructure SA, is expected to use these resources to leverage additional funding from private sources and development finance institutions.

Developing a more effective legal framework for public-private partnerships is central to the infrastructure effort. According to Creamer's Engineering News, at a Gautrain webinar last week the Minister of Public Works said the department was working to simplify the current laws. She cited Gautrain as an example of success. In practice, it has been costly and had dubious socio-economic impacts. Gauteng Province provided a subsidy of over R1,5 billion in 2019/20. In that year, Gautrain returned R200 million in profits to Murray and Roberts, which owns half of its parent company. Gautrain provides an excellent service for high-end commuters, but is far too expensive for most working people to use regularly.

The government also established a R200-billion loan-guarantee scheme to relieve liquidity problems, especially for small businesses. The scheme was the largest component in the R500-billion stimulus package announced at the start of the lockdown. In practice, however, it paid out only R13 billion as of mid-August, despite efforts to make it more user-friendly in recent weeks.

The banks also provided payment deferrals for customers, which rose rapidly to R30 billion in mid-June and since then have largely levelled out. As of mid-August, households had received R19 billion in deferrals, and businesses R13 billion. This relief comes at a cost, however, since the loans must ultimately be repaid with added interest. Credit analysts have estimated the cost per customer at around R30 000, for a total of over R20 billion. Often, however, the additional payments will be spread out over a long period, especially for mortgages and revolving loans.

Company developments

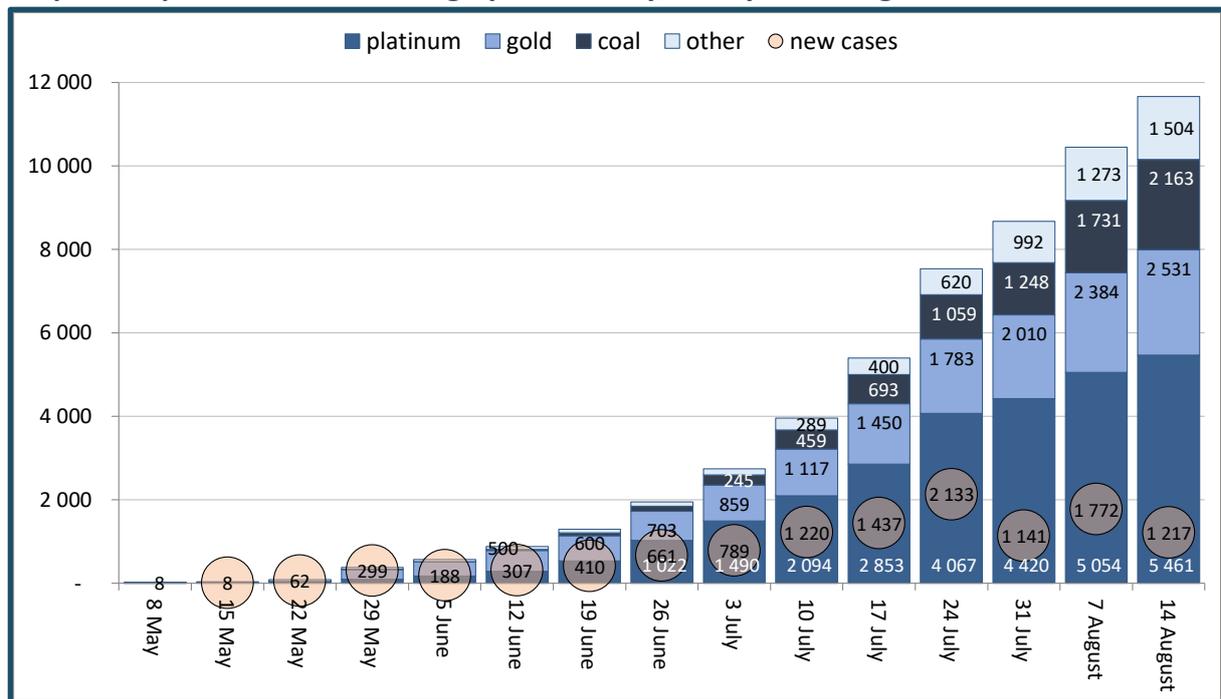
Infections

Outside of mining, private-sector employers generally do not report on workplace outbreaks, which makes it difficult to track and learn from them. The health and safety regulations explicitly allow employees to stop work if they feel unsafe, but do not require managers to give them details of cases on-site. In the past week, New Frame reported that a worker at a Clover plant was dismissed because they told their doctor about infections at work.

In practice, COVID-19 cases have become a fact of working life. In its Annual Report, the mixed manufacturing company KAP reported that its 15 000 employees had experienced 386 infections, with eight deaths and 269 recoveries as of 17 August. But it did not say if transmission had occurred in the workplace or the community.

Only the mining industry reports regularly on COVID-19. It continues to experience a very high level of infection, especially in the underground platinum and gold mines. The number of new cases per 100 000 was 43 in the week to 21 August, or about seven times the national average. The figure has fluctuated around that level for the past two months, even as the level of contagion nationally has declined sharply. The Minerals Council reported that 29% of all tests on the mines had come back positive, compared to its estimate for cumulative national tests of 17%.

Graph 9. Reported cases in mining by commodity, 8 May to 14 August



Source: Minerals Council. COVID-19 Dashboard. Downloaded on relevant dates from <https://www.mineralscouncil.org.za/minerals-council-position-on-covid-19>

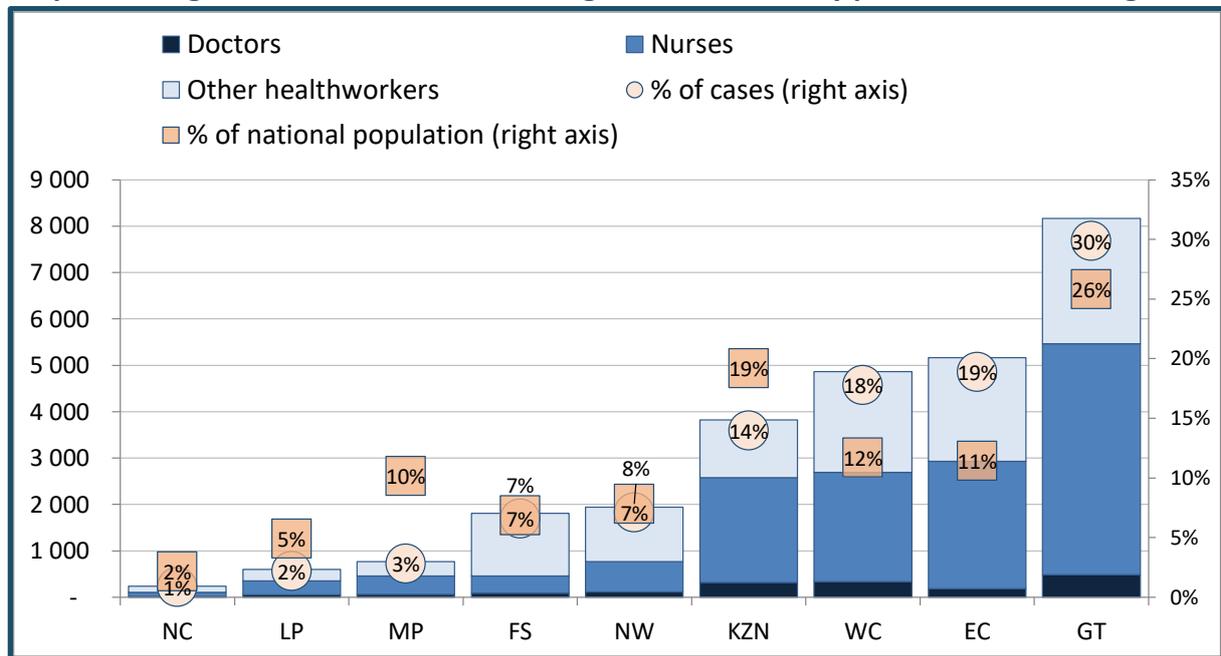
Reporting on outbreaks in the public sector is irregular, but more comprehensive than in the private sector. The information is generally limited to the number of cases in healthcare, education, policing and correctional services.

As of 12 August, the National Department of Health reported 27 360 cases amongst health workers. Just over half were nurses and 6% were doctors, with the rest spread among other health professionals and support staff. Some 240 healthcare workers had died, and 16 000 had recovered.

By province, health workers were disproportionately likely to catch COVID-19 in the Eastern Cape, followed by the Western Cape. Health workers in Gauteng and KwaZulu-Natal, which also saw high levels of contagion over the past two months, saw comparably low rates of infection. The cumulative case fatality rate for health workers was 0,9% nationally, but it rose to 1,6% in the Eastern Cape. The Department of Health did not explain why the rate was so

much higher there. It does not appear that the Eastern Cape has seen a much higher case fatality rate for all patients than the rest of the country, judging by deaths relative to cases reported three weeks earlier.

Graph 10. Diagnosed COVID-19 cases among health workers by province as of 12 August



Source: National Department of Health.

According to News24, at Charlotte Maxeke Hospital in Johannesburg, which has 5 000 workers, 730 have tested positive and two nurses, five cleaners and a cashier have died. There are currently under 40 active cases among the staff, but four of them are in the ICU. As usual, workers and managers disagree about the mode of transmission. The workers blame defective protective equipment, some of which the hospital had to return due to defaults. In contrast, management argues that the number of cases fell after the hospital introduced staggered lunch breaks and demarcated spacing in kitchens, preventing colleagues from infecting each other.

The National Education, Health and Allied Workers' Union (Nehawu) now plans national protests around health workers' occupational health and safety as well as pay. The union's expressed concerns centre on access to protective equipment, poor compliance with safety regulations, and poor training of frontline workers to deal with COVID-19. Because healthcare providers are listed as essential workers under the labour law, however, there are limits on how many can go on strike. Nehawu is therefore organising a mass application on 24 August for leave on 25 August, with lunch hour pickets from 24 to 27 August. It is urging workers to stay home on 28 August because they do not feel employers are adequately respecting safety regulations, followed by work to rule through 31 August. Experience suggests that some facilities will experience considerable disruption; Nehawu will claim most health workers participated in the actions, while employers will argue that only a minority took part.

The National Department of Health has sought to reassure workers that it is taking occupational health and safety seriously. It has emphasised that its own tracking system shows adequate protective equipment overall, while acknowledging some facilities have seen shortfalls due to distribution problems. It has also noted that the law requires larger facilities

to establish health and safety committees with union participation, but again recognised that some institutions have fallen short. It has included unions in its behavioural change work stream.

In Parliamentary hearings last week, the KwaZulu-Natal provincial government complained about unprocedural work stoppages whenever a healthcare worker is infected, despite the presence of health and safety committees at both institutional and provincial level. It listed seven such stoppages, with workers demanding fumigation and, in two cases, that more workers be tested. It also disputed Nehawu claims about two facilities; in one case, for instance, Nehawu said two workers were suspended for demanding information on COVID-19 cases, but management said they assaulted a manager during a demonstration in a hospital.

As of last week, the Department of Correctional Services had seen almost 6 500 cases in total, of which two thirds were among officials. A total of 180 inmates and officials had died. Some 80% of the cases were in three provinces – the Eastern Cape, the Western Cape and Gauteng. Outside of the Eastern Cape, the number of cases among officials far outnumbered those among inmates. In the Eastern Cape, however, 830 officials but 1 170 inmates were diagnosed with COVID-19.

The lockdown combined with infections have contributed to a backlog of almost 40 000 cases at district courts, and 22 000 at regional courts. The backlog includes cases that are at least six months old. The Department of Justice told Parliament that overcoming the backlog was difficult because when a COVID-19 infection occurs, the courts are closed for cleaning. It expected that it would be able to catch up only after the rate of infection had fallen.

Industry and company developments

State-owned companies

As in the private sector, the pandemic has hit hardest at state-owned companies (SOCs) that were already in a weak position. A core change is that the severe fiscal constraints on government make it politically impossible to continue to support failing enterprises. As a result, it seems likely that a number will end up either liquidated or privatised. So far, South African Airways (SAA), Denel, Alexkor and the South African Nuclear Energy Corporation (NECSA) have failed in attempts to obtain bailouts, while NECSA has started a rationalisation process.

The business recovery plan for SAA has been approved by creditors but is still not funded. The Department of Public Enterprises told Fin24 that it will complete downsizing by the end of September, with almost 3 000 workers qualifying for voluntary severance packages, leaving around a thousand for the anticipated replacement company. To succeed, however, the recovery plan requires an additional R10 billion, including R2 billion for the voluntary severance packages. The Director General of Public Enterprises says it is in talks with four possible investors, but did not identify them. It hoped SAA would follow in the path of Telkom, which has been privatised and listed. Telkom also downsized massively and no longer has any accountability to government or the public interest.

A number of smaller SOCs are facing the real prospect of closure. Denel lost R1,8 billion in the year to March, even before the lockdown. It has been ordered to pay staff salaries, with a

backlog of several months. The budget provides funds to pay down its debt, but it may not use the money for any other purpose. Alexkor has long been losing money and will be bankrupt in September. The Department of Public Enterprises says it has no funds to rescue it. Alexkor's headquarters is being wound down and it currently has no revenues. NECSA has also been making losses. It will embark on a rationalisation process in September, but still expects a loss of R331 million this financial year. It blames the pandemic for a loss of R400 million in revenues. If restructuring succeeds, however, it hopes to cut its administrative costs enough to survive, with a slight profit in 2021/22.

The South African National Roads Agency (Sanral) does not count as a SOC, although it is a state entity that gets around half its revenue from toll roads. National roads that are not tolled are funded through the petrol tax. The Department of Transport experienced a significant budget cut to pay for the COVID-19 response. In the process, it managed to shift R2,5 billion to Sanral to pay for the Gauteng freeways, where a tolling project failed due to overwhelming public resistance.

In contrast to Sanral, the supplementary budget handed the Passenger Rail Agency of South Africa (Prasa) a R1 billion cut in its programme to renew rolling stock. Under Level 2, Prasa is legally able to reopen if it can maintain physical distancing and other infection-prevention measures. But it experienced widespread theft of cable and pillaging of stations during lockdown, in part due to internal disputes over the provision of security. In Pretoria, it has had to introduce some diesel engines because electric trains can no longer run. Cable theft has also delayed its reopening in Cape Town, where lines were affected long before the pandemic.

Chemicals

The pandemic has also laid bare the weaknesses at Sasol. For the year to June, it has announced impairments of over R100 billion, resulting in a loss of some R91 billion (compared to profits of R6 billion reported for the previous year). Its revenues fell from R227 billion to R215 billion. The losses were driven largely by the sharp fall in the petrol price as a result of the pandemic – it fell over 30% in US dollar terms, and 18% in rand. Its only profits came from coal mining in South Africa, but even these were down 30% to R4,7 billion. It lost R94 billion on chemicals production, mostly as a result of writing down assets in the US.

The extraordinarily large impairments cut the value of Sasol's equity by R75 billion, while its debt climbed to almost R190 billion from R130 billion. It plans to moderate its gearing ratio by selling chemicals assets, again mostly in the US, since it expects the petrol price will not recover in the coming year.

Construction

The South African construction industry has seen declining profitability for five years. Historically, its strengths have been in mining and public works, which provided it with a platform for international expansion, especially in Australia, the Middle East and the Americas. The downturn resulted from the end of the international commodity boom that lasted from the early 2000s through 2011. Falling metals and fuel prices led to plummeting investment in both mining and infrastructure, which imposed significant losses on the dominant construction firms.

Group Five delisted in July; it was in business rescue even before the lockdown. The downturn has made it more difficult to liquidate its assets.

Murray and Roberts anticipates that the direct effects of the pandemic will cut its profits by R622 million. As a result, it anticipates a loss of around 80 cents per share for the first half of 2020, compared to profits of 80 cents per share a year ago. But it says it still has a strong order book, although it is largely in North America and Australia. At the end of 2019, it expected revenues primarily from underground mining and fuels, with only a quarter from Southern Africa. As noted, Gautrain remains an important source of profits for the company.

Mining and metals

In contrast to other sectors, the mining industry has proven fairly resilient. As of August, 328 000 miners were back at work, compared to the pre-pandemic labourforce of 442 000.

The uncertainties around the pandemic fuelled a soaring gold price. As a result, Goldfields saw its operating profit and headline earnings quadruple internationally (it has mines in Ghana, Peru and Australia as well as South Africa). To reduce its dependence on Eskom's increasingly costly and unreliable electricity, it hopes to gain approval for a 40 MW solar power project at South Deep in the next month or two. It has been waiting for three years, but expects to benefit from the change in policy to promote small-scale generation.

Exxaro's revenues climbed 18% and its headline earnings 11% in the first half of 2020 compared to a year earlier. It was able to operate throughout the lockdown as an essential service, largely to provide coal to Eskom.

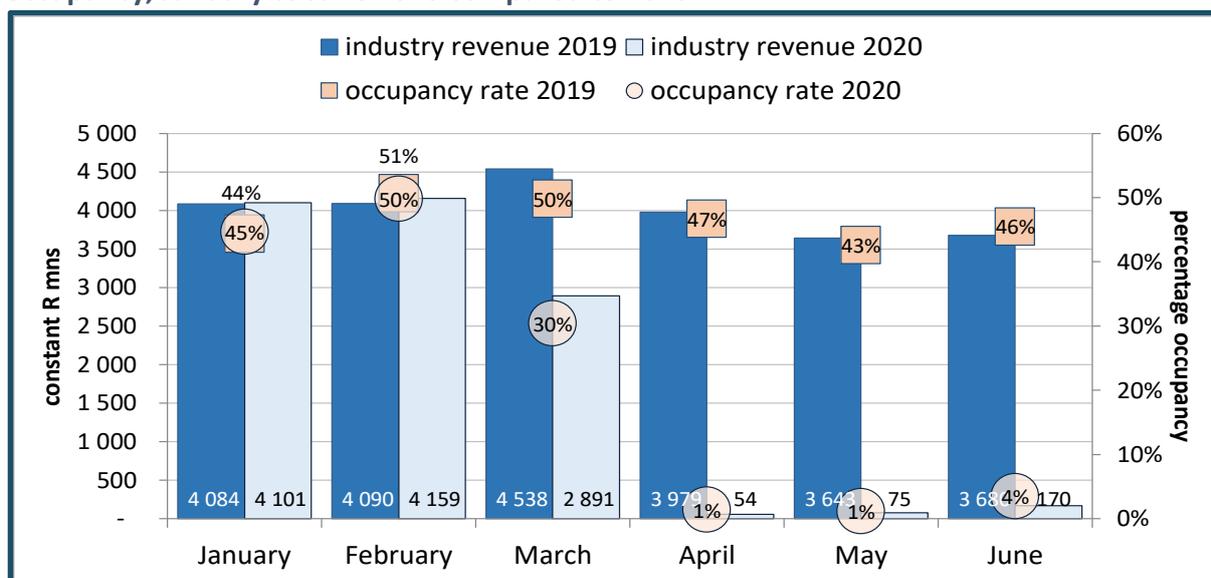
South32 is renewing its contract with Eskom for its Hillside aluminium refinery, which depends entirely on low-cost coal-fuelled electricity for survival. It has agreed on terms with Eskom but is awaiting approval from the National Energy Regulator of South Africa (Nersa). The new contract will be delinked from the aluminium price, in contrast to the earlier deal, which put the risk from international markets mostly on Eskom.

The dependence on coal-based electricity at both Hillside and Mozal, which South32 also owns, leaves them vulnerable to efforts to reduce climate change. The London Metals Exchange has launched a platform for low-carbon aluminium, which relies on renewable energy (usually hydro-electricity), which is expected to trade at a premium. South32 anticipates sufficiently high demand for aluminium to offset these problems. It also claims that Mozal benefits from electricity from Mozambique's Cabora Bassa Dam. In practice, Cabora Bassa sells electricity to Eskom, rather than directly to Mozal; Eskom then sells electricity to Mozal; and over 90% of Eskom's total generation uses coal.

Tourism

The accommodation and tourism industry lobbied heavily (and sometimes mendaciously) against restrictions, arguing that they cost the nation millions in jobs and revenue. In practice, recent Statistics SA data shows that in constant rand (deflated with CPI), industry revenues have been essentially flat since 2010, with a decline from 2017 to 2019. As Graph 11 shows, the lockdown then brought an extraordinarily sharp fall in occupancy and revenues, with an associated decline in room rates even after reopening for business travel in June.

Graph 11. Accommodation industry revenue in millions of constant rand (a) and percentage occupancy, January to June 2020 compared to 2019



Note: (a) Deflated with CPI rebased to June 2020. Source: Calculated from Statistics South Africa. Excel – Tourist Accommodation. Excel spreadsheet. Published in August 2020. Downloaded from www.statssa.gov.za in August 2020.

The move to Level 2 brought some indications of a rebound in domestic tourism, although international flights remained closed. Experience in other industries both in South Africa and internationally, however, suggests the reopening tends to bring an initial bounce followed by very slow growth. In any case, even before the lockdown the industry faced a downturn, which makes a fast recovery even less likely. Moreover, local travellers are typically unwilling to meet the prices international tourists are charged, which means high-end hotels will have to mark down their offerings to attract them.

The accommodation industry reflects the deeper challenge facing industries that provide services to the public as long as the pandemic is out of control. It has to maintain safety measures, which generally raise cleaning costs and reduce capacity utilisation; moderate prices to attract domestic customers; and still try to return to profitability. The difficulty emerges in split messaging from the Minister of Tourism, who has simultaneously urged people to go on holiday and strongly emphasised the need to adhere to safety protocols in order to achieve a sustainable reopening.

Entertainment and restaurants

As government has ended restrictions on restaurants and some public services (but not clubs), these businesses have also had to grapple with the reality that the lockdown was not the main constraint arising from the pandemic. Instead, the real challenge is to continue to provide personal services of all kinds without risking infections. In the US, almost one in 10 new infections has been traced back to bars, and internationally bars and gyms have been the first businesses closed down when new cases surge.

An additional problem is that many office-based employees have continued to work from home. That in turn hits hard at demand for many restaurants in malls and city centres. In this case, the problem is not just that people are avoiding going to restaurants because of the risk, but rather that new working arrangements may obviate them altogether.

As noted, four strategies have emerged for these vulnerable industries: developing less risky business models; trying to minimise risk within the existing business models, even if it means making a loss; closing down at least temporarily; or allowing risky behaviour, which is ultimately not sustainable.

The challenges can be seen at Ster Kinekor. It is opening 32 cinemas out of its 58 complexes. But bookings and food orders must be done online; customers are limited to 50 a show, and must exit by row; patrons aged over 60 are discouraged; and all venues are fogged with disinfectant before their doors open – a practice condemned by the World Health Organization.

Food processing

Food processing was able to operate throughout the lockdown. But the major companies have faced disruption from the closure of restaurants, which required different products and packaging, as well as blockages to exports.

RCL Foods forecasts a decline of between 50% and 75% in headline earnings per share for the year to June. It also plans to write down R1,5 billion in assets due to depressed demand, especially from fast-food restaurants, while the sovereign debt downgrade has led to higher interest costs.

Libstar, which produces deli products including for fast food (among others, Denny mushrooms and Lancewood dairy products) expects a marginal improvement in revenue. But it is also affected by a fall of two thirds in sales to the fast-food industry, offset in part by higher household demand; the cost of preventing infection in its workplaces, including providing protective equipment and transport for staff; and export delays. It has spent R18 million to rent taxis for its employees since March, in an effort to avoid contagion through public transport.

Retail

The pandemic has seen a shift to e-commerce, but off a very low base. According to Who Owns Whom, e-commerce accounted for under 2% of retail sales in South Africa in 2019. It has grown by around 40% during the lockdown, but that would still mean only 3% of sales. Still, there has clearly been a paradigm shift at least among high-income consumers as well as retailers and suppliers, which means the growth is likely to continue for some time.

For comparison, in the US e-commerce accounted for 16% of retail sales in the second quarter of 2020, having risen by almost a third. In contrast, total retail sales had fallen 4%.

Grocery shopping spiked during the lockdown, largely benefiting the main chains. It remained high even after panic buying subsided, presumably at least in part due to the closure of restaurants. Woolworths estimates that its monthly sales of food, by volume, increased by over a quarter year-on-year, with disproportionate growth in online shopping, assisted by a material increase in demand for online shopping services.

Non-essential retailers have had a harder time. Mr Price saw a 90% decline in sales in April, under Level 5; an initial boost in Level 4, when it was allowed to reopen, with group sales up 12% from 20 May to 20 June; but stagnation since then, with a 0,4% decline in sales through mid-August. As a result, its sales for the entire lockdown period are still around a fifth lower than the previous year for the entire lockdown period. That said, its sales of home products

actually grew rapidly throughout the lockdown, offset by a decline in clothing. It has seen the biggest hit from older women, which it blames on their continued reluctance to risk going to malls. Its online sales have climbed 75%, although off a very small base. It expects sales will continue to stagnate as relief efforts come to an end, especially the government's enhanced social grants and TERS programmes as well as private debt repayment deferrals.

As a mixed retailer, Massmart has also seen mixed fortunes. In the year to 28 June its sales were down 12% in real terms, although for June itself they were only 2% below 2019 levels in June. In nominal terms, Massmart's sales fell R40 billion in the first half of 2020 compared to 2019, and it expects profits will be a third lower. The company estimates that protective equipment and hygiene measures have so far cost it R62 million – far less than the combined impact of customers' efforts to avoid crowds and the fall in household incomes.

Finance

All of the banks have announced major losses due to the pandemic, with ABSA taking the hardest hit among the major institutions. The main causes are higher provisions for bad debt, which is expected to more or less triple, as well as reduced demand for credit despite lower interest rates. The South African Reserve Bank does not, however, anticipate major liquidity problems at any large bank, thanks in part to stricter requirements introduced in the aftermath of the global financial crisis in 2008/9.

ABSA expects a fall of 85% in earnings in the six months to June. It has been particularly affected because, after leaving Barclays, it tried to reclaim market share, leading to higher levels of bad debt even before the pandemic. Nedbank expects a 70% decline in headline earnings, and Standard Bank 44%.

The decline in profitability at Standard Bank is almost entirely due to personal banking, which fell 60% compared to just 7% for company and investment services. As a result, operating profits from personal banking fell 1%, while business banking climbed 11%. The credit loss ratio on its banking activities doubled in the first half of 2020 compared to a year earlier, and credit impairment charges consequently tripled. As a result of falling earnings, it expects to pay 40% less in tax. It expects the slowdown to continue through the second half of 2020.

The insurance companies all face lower earnings and higher claims. Momentum expects its headline earnings will be down by 25% to 65% in the year to June. Liberty expects a loss of R2,3 billion in this period (compared to profits of R2 billion a year earlier). The main reasons are an increase in life insurance and funeral scheme pay-outs, including higher provisions for the rest of the year. Santam expects its headline earnings will fall around 30%, but that is due in large part to a subsidiary in Morocco.

CORRUPTION

Some kinds of procurement are particularly open to corruption, notably armaments, infrastructure and disasters. The COVID-19 pandemic has been true to form both in South Africa and globally, with overpricing, poor-quality supplies and theft among the most common complaints.

Faced with massive public outcry over the cases that have come to light in South Africa, the government has initiated a range of investigations, backed by efforts to improve the capacity and coordination of the relevant institutions. The Department of Justice has used the

opportunity to increase the ability of the prosecuting authorities to direct investigations, after its capacity in this regard was limited by the 2008 law that abolished the Scorpions.

The Special Investigations Unit (SIU) was established in 1996 to undertake corruption inquiries when mandated by the Presidency. It has been authorised to investigate the misuse of state resources in the pandemic response. As of 19 August, according to an input to Parliament, it was investigating 658 contracts worth R5 billion across the government, in response to requests from the Gauteng Director General as well as whistleblowers, largely government officials, in other provinces. Gauteng requested that they look at its entire R2,2 billion expenditure on 157 contracts for the pandemic response. Limpopo also asked the SIU to investigate, although the provincial health department argues it has not violated procurement rules. In addition to looking into health spending, the SIU is investigating contracts by provincial health education departments (largely for ICT for distance learning) as well as social welfare and public works departments. Its first report is due in September.

At least four provinces – the Western Cape, Gauteng, KwaZulu-Natal and Limpopo – have published the names of all suppliers to their pandemic response projects. In Mpumalanga, the premier has commissioned a two-week independent investigation into procurement of protective equipment after an initial review found substantial problems.

The government response to corruption has also included efforts to improve coordination between both political leaders and officials. On 5 August, it established an inter-ministerial committee that will mostly provide transparency and facilitate complaints. It is consolidating and plans to publish all contracts related to the COVID-19 response. The government has also set up a “multi-agency centre” that brings together the prosecuting and security services. In effect, that should give the prosecuting authority greater capacity to influence investigations, although the 2008 law still bars it from hiring its own forensic or criminal investigators.

Finally, the government plans to add more Specialised Commercial Crimes Courts, which the Department of Justice considers central to prosecutorial-led investigations. Currently there are 12 of these courts, with half in Gauteng and none in Limpopo, Mpumalanga or the Northern Cape. They have a 75% backlog. Government plans to establish one more court in every province except Gauteng and KwaZulu Natal (which now has two), increasing the total to 19. It is also investigating ways to improve the efficiency and effectiveness of court systems, from investigation to prosecution to adjudication.

Efforts to combat corruption have led to a visible split in the ANC as the ruling party. It has pledged to bring in outside experts to back up its internal investigations into officials and leaders accused of corruption, after long delays and attacks on findings. The ANC provinces have been required to report members who face charges or allegations of corruption and other major crimes. In future, ANC leaders will have to register economic interests. On 23 August, the President wrote a strong letter arguing that the ANC must be more consistent and forceful in combatting corruption, which effectively responded to several cases in which leaders facing criminal charges were reinstated.

Observers such as Steven Friedman have noted that corruption in South Africa finds fertile ground because of deep inequalities, which power both lobbying and bribery. In effect, different fractions of business use the state in different ways for economic gain, ranging from lobbying for relief from COVID-19 restrictions as well as for trade protection and subsidies, to bailouts for private and state enterprises, to corruption. In this context, there is clearly

pushback by some politicians to limit the efforts to reinvigorate anti-corruption measures. By extension, measures to contain corruption need broad support from advocacy groups, the media and membership-based organisations such as the unions. In addition, history shows that long delays in investigations and court cases make it far harder to sustain anti-corruption efforts.

RELIEF FOR HOUSEHOLDS

South Africa has been unique among upper-middle-income countries in the strength of its relief efforts for low-income households, workers and businesses during the lockdown. This strategy builds on a history of redistribution since the transition to democracy, which has effectively maintained social and political stability while unusually profound economic inequality persists. While the state has borne the main burden, private interests have also played a role.

As noted, around a third of formal workers have received relief under the UIF TERs programme, getting a minimum of R3 500 a month through mid-August. In addition, social grants were increased and a special COVID-19 grant introduced to provide R350 a month for people with no job or other source of income. As of 19 August, 4,4 million people were registered for the COVID-19 special grant – an increase of over a million compared to the end of June. The Department of Social Development received a budget of R11 billion for the grant under the Supplementary Budget.

The department also reported that the provincial governments, mostly working through NGOs, had distributed 800 000 food parcels from April to June. That comes to an average of one parcel a month for every 30 households. The number dropped sharply from May to June, however, falling from 330 000 to 170 000, mostly because only Gauteng, KwaZulu-Natal and Limpopo reported maintaining the programme in June. For each thousand residents, the Northern Cape provided an average of 14 parcels a month from April to June; Gauteng, Mpumalanga and Limpopo supplied around six; and the remaining provinces delivered three or fewer parcels.

In May, Social Welfare restored its subsidies to Early Childhood Development centres that had already been approved for them, even though they were closed until Level 2. The annual cost of the subsidies comes to R3 billion.

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 imports, and their likely impact on industry.

Trade & Industrial Policy Strategies (TIPS)

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