Re-opening the economy: A summary of sectoral issues

Input to Economic Session

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The problem

- Both South Africa and the world now face an economic crash as a result of the COVID-19 pandemic – and it may rival the Great Depression
- Internationally:
  - Disruption to global supply chains;
  - Plummeting demand, especially in the global North;
  - Dropping export prices except for gold – platinum particularly hard hit;
  - Capital flight from emerging markets, including South Africa.
- In South Africa:
  - Sharp fall in domestic production with rapid increase in joblessness
  - Falling household and business demand
  - Declining government revenues with escalating need for healthcare and social protection.
- The only growth in demand is for key inputs for fighting COVID-19, especially personal protective equipment, ventilators, relevant medications, sanitiser and hospital furnishings.

- Global and national economy were weak before the crisis
- South Africa has seen slowing growth since the international metals price boom ended in 2011

Impacts of the lockdown

- Closed down all economic activity outside of essential services
- Defined primarily as food, healthcare, utilities and security, including inputs (agriculture, packaging, freight and commuter transport, etc.)
- Mining also has processes to open up
- But challenges for bulk exports due partial shutdown at Transnet plus somewhat unpredictable health controls at ports

- Cellphone analysis shows 50% decline in travel to work, 60% for retail and 80% for recreation
- All major industries are largely on care and maintenance except food, healthcare, utilities, security and parts of mining value chain
- Virtually all businesses have cut output, even if in essential services
  - Had to cut non-essential parts of businesses, e.g. packaging only for food and healthcare, taxis only for essential commuting, clothing only PPE
  - Even essential services have seen falling demand – e.g. fewer non-COVID patients using private healthcare
  - Work from home only possible for professionals and management
    - Around a fifth of all working people, and a third of formal sector
    - Works best for professional services, but not well for any kind of manual labour (manufacturing, personal services)
    - Often not possible to remain fully productive especially given rapid onset
  - Formal businesses mostly, but not always, continuing to pay wages, but running into liquidity problems
  - Informal businesses largely shut down, even if in food
- Of a (non-scientific) sample of 180 companies, 17% said they would shut down if re-opening delayed much, and another third said they would retrench and downsize
- Large companies face problems but disastrous for smaller producers

The health risks

- Until there is effective treatment or prevention for COVID-19, workplaces and commuting can become vectors for contagion
- Risk is particularly high in
  - Retail and services that are both labour intensive and require direct engagement with the public
  - Only exceptions are digital services, delivery and takeaway food, individualised public transport, and security and cleaning services
  - Risk also higher in labour-intensive sectors in manufacturing (food, clothing, plastic products, etc.)

- Retail and services account for two thirds of employment and the GDP in South Africa.
- They are also the main areas for small business, especially in the informal sector

Four main constraints on re-opening

- Depressed global and domestic demand
- Not clear how quickly will bounce back
- China: manufac-turing at 95%, services at 65%
- US and Europe just starting to re-open

- During the lockdown, businesses had to meet fixed costs (salaries, rent, rates, etc.) despite an extraordinary decline in sales.
- Now most have exhausted their liquid resources.
- Both large and small business will need substantial financing in order to re-open, especially given mostly weak demand.

- Managing the health risks:
  - Approach varies by location
  - Individual workplaces and commuter transport must ensure physical distancing, sanitation, PPE, possibly even regular screening

- Recovery in employment and small business will likely lag major export industries that are comparatively capital intensive
- Severe risks to social, political and economic stability – and to public health measures

Phasing with different challenges:
Immediate (next few months): Re-opening production without reigniting epidemic
Medium term: Recovery that addresses core socio-economic challenges

Imperatives for re-opening (1)

- Prioritise main export value chains (excluding services) for re-opening in the short run
  - ➢ Lead industries are mining value chain including capital goods and downstream products, auto (when the global industry opens up), and food – together account for three quarters of SA exports
  - ➢ Requires procedures along the value chain to ensure safety – mining has inspectorates; how to certify other producers quickly and efficiently?
  - ➢ Also need:
    - Functional freight service and ports
    - Liquidity support on a huge scale, with tweaks to auto incentives
    - Adequate and affordable electricity

- Also support local production of healthcare inputs now imported where have capacity
- Possibilities: PPE (which SA exports already for mining and construction), hospital beds and furniture, linens, uniforms, packaging and plastic products, medications, ventilators
- To date, has helped keep some companies open but not at a sustainable scale
- Procurement remains a challenge
- Need to define sustainable niches
  - ➢ Competing with virtually every other country in the world, especially China – could see a glut in 2 years
  - ➢ Except for Botswana and Namibia, neighbours may require donor funding for products

TIPS

Imperatives for re-opening (2)

- Other industries:
  - ➢ Constraint: has to be safe – need to be able to implement quickly:
    - Approval to open
    - Screening especially in larger workplaces
    - Shutdown and isolation if required
  - ➢ Requires clear responsibility, efficient procedures and adequate capacity in the state
  - ➢ For retail and services, encourage innovation around:
    - Delivery services for consumer goods in addition to food
    - Takeaway food from restaurants
    - Supply of streaming content
    - Cleaning and security (Bidvest withdrew cleaners even when not required to)
  - ➢ Again, liquidity is a challenge – smaller companies often already nearly bankrupt
    - Under R1 bn on offer from state, R2 billion from SAFT and Rembrandt Group (only formal)
    - Would help if could defer some payments (rates and municipal services, debt, UIF, taxes)

- Expand redistribution
  - ➢ Joblessness will remain high for the foreseeable future, so need other roads to greater equality
  - ➢ Extreme social, economic and political risks if burden continues to fall primarily and visibly on poor
  - ➢ Components: UIF offerings, social grants, infrastructure and (denser) housing, education system, community mobilisation
  - ➢ Requires extensive and innovative financing on a very large scale
  - ➢ Consider a solidarity tax

TIPS

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