



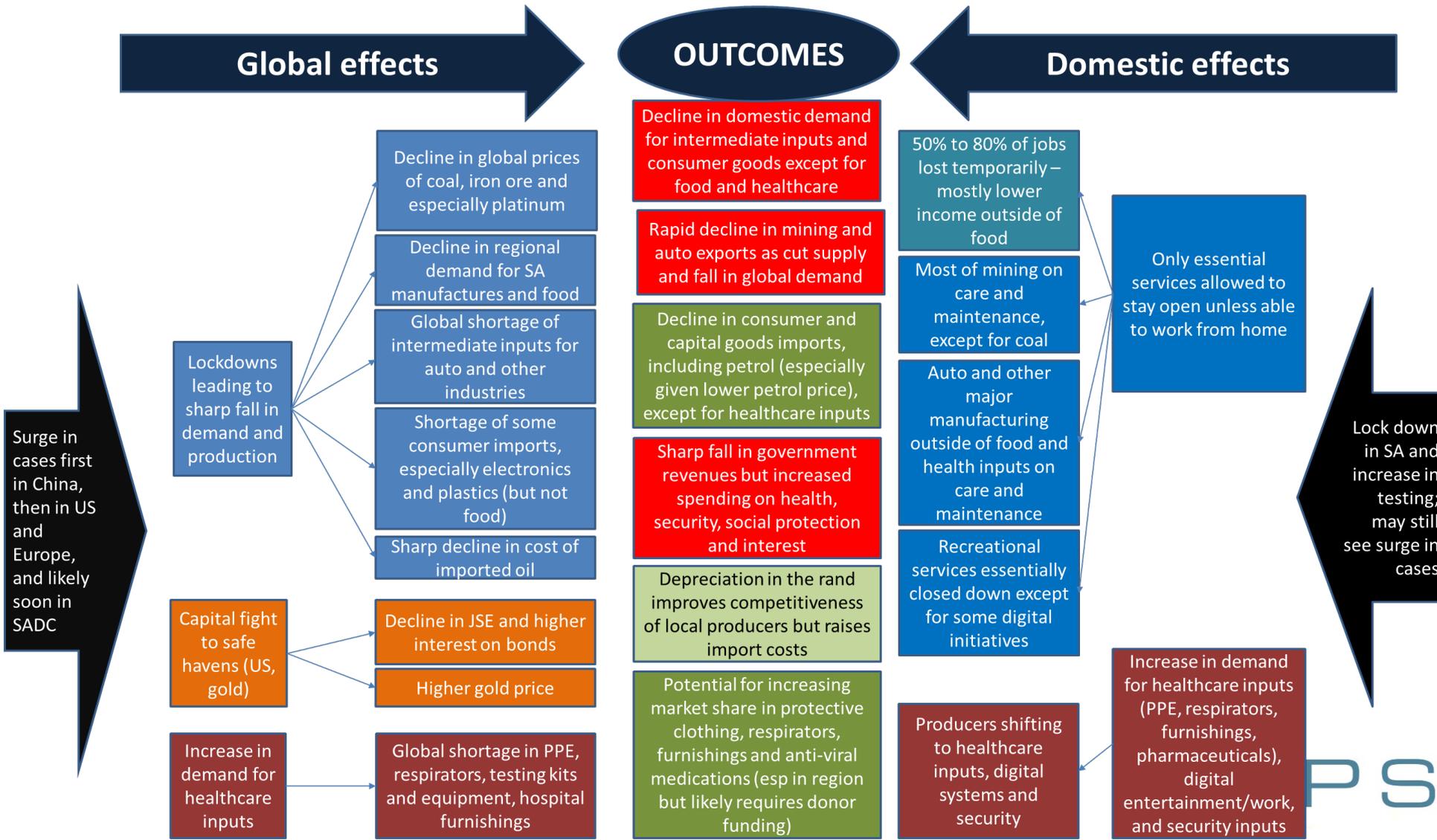
# **COVID-19: Some sectoral impacts and opportunities**

V1

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Initial draft

# 1. The economic impacts of COVID-19 pandemic



# Immediate developments and projections

- Global

- International recession in first and second quarter, mostly due lockdowns in lead economies
  - Extent of GDP decline not yet clear, but expect to be bigger than 2008
- Recovery time and modalities also unclear - depends in large part on
  - Ability to manage first wave of contagion effectively (China already recovered most of manufacturing, although not services; prospects for US and Western Europe are uncertain)
  - How long it takes to develop effective treatments or higher immunity levels
  - If the virus is seasonal
  - Effectiveness of government stimulus packages

- Local

- Initial impacts from falling international commodity prices except gold
- Swamped in short run by effects of lockdown
  - Cellphone analysis shows 50% decline in travel to work (travel is down 60% for retail and 80% for recreation)
  - All major industries are essentially on care and maintenance except food, healthcare, utilities and security value chains, plus parts of the mining value chain under a special dispensation
  - Closures extend to key export industries of mining and auto, which account for well over half of total foreign sales

# Case studies: Large companies

Mining: Only the coal mines supplying Eskom were considered essential, but open-pit coal, iron ore and manganese mines (not platinum) as well as some gold mines were allowed to open as long as required no more than half of workforce

- Estimate that production down by over 40% through scheduled end of lockdown in mid-April 2017
- No retrenchments yet but become likely if lockdown extended
- Transnet providing bulk transport to coast

Electricity demand fell by between 9000 and 12 000 MW (normally generates over 26 000 MW) – resulting in a R2,5 bn loss for Eskom, which has declared *force majeure* on purchases from wind farms

Arcelor Mittal had virtually all staff working from home with pay cuts, and on 3 April declared *force majeure* on both suppliers and customers – due to both lockdown and weaker global demand

Clothing retailers: Edcon group may collapse, eliminating up to 100 000 jobs, as sales down by 45% as fears of pandemic grew even before the lockdown; Woolworths management taking 30% pay cut

30% decline in domestic car sales with closure of major plants, including BMW, even before the lockdown, and similar decline in export markets. High cost of re-opening but lose market share if do not open when global industry re-starts.

From the declaration of a global pandemic, tourism saw mass cancellations by international travellers and locals avoiding restaurants, cultural events and travel even before the lockdown

SA Express will be liquidated unless government provides a bailout

# Some individual businesses

Clothing company with just over 50 workers

- now producing only PPE, having closed down other lines
- Uses sanitation and PPE for all staff
- 12-hour shifts due transport constraints
- Will go bankrupt if restrictions on other products extended

Producer of tissues and toilet paper with 2000 employees has introduced PPP and sanitiser, but has not had to reduce production since counts as essential

Company with 230 workers producing corporate (branded) bags and clothing

- has completely closed down and expects to retrench 150 workers;
- waiting for permit to produce face masks, with plans for physical distancing during production;
- expects limited recovery as corporate demand would be down due to broader slowdown even if restrictions lifted
- would go bankrupt if restrictions continue

Clothing producer with over 500 workers

- closed for five days, then began producing face masks
- has not downsized in part due agreement with UIF
- if restrictions continue after 17 April would likely retrench and might just close down

Property management company with 300 employees

- has closed down 70% of mall space, leaving only essential services (food and chemists)
- almost all employees working from home
- would like government to assist in dispute over rentals with major retailers

# Sectoral threats and opportunities

## • Threats:

- World auto and platinum demand has plummeted
  - Platinum price down a third from beginning of 2020
- International and domestic tourism down around 80% due to lockdowns and travel restrictions
- Recreational and cultural activities largely closed to ensure physical distancing, except where digital delivery
  - Affects bulk of informal and most small businesses
  - Two thirds of jobs are in retail and services – hard to provide and maintain distance
- Demand for consumer goods limited by restrictions on non-food retail in many countries
- Food demand affected by falling incomes

## • Opportunities:

- International gold price up 6% from 1 January to 3 April, although highly variable
- Iron ore, steel and coal prices down around 10%, far less than platinum and oil
  - presumably less affected because Chinese manufacturing at 95% recovery from pre-COVID level (services only at 65%)
- Massive global demand for PPE, respirators and other medical equipment
  - SA has long exported protective clothing, although mostly for mining and construction – can it be adapted?
  - Auto components working on simple and affordable respirator (a tenth the price of U.S. product) – a real market gap
  - NB: Risk that all countries gearing up to produce the same health inputs, and China has a headstart
- Food exports – falling incomes may affect demand but all countries facing supply-side constraints, so may have opportunities

# 2. Restoring production

- Ability to open up will depend on results of mass testing
  - Very different restrictions according to extent of spread, with continuum from
    - widespread across the country to
    - high incidence in some provinces to
    - community and institutional hotspots
  - Final proposals only with more evidence
  - But likely better than feared
- Core challenge:
    - Labour-intensive industries mostly least open to physical distancing
      - Exception is where can work from home
      - But mostly on open to professionals, as impossible for manual work and most lower income workers don't have wifi at home
    - If grow primarily through relatively large, capital-intensive industry plus some digital services, then need much stronger redistribution through the state
  - Need to distinguish short-run opportunities in mining value chain from long-term need to find a new growth model given low commodity prices
  - High likelihood that both domestic and international demand will be stagnant for at least a year

# Strategies to support short-run restoration of production

- Substantial support for economies that can produce safely with high value add and exports
  - Processed and fresh food (in production anyways – ensure logistics in place for exports)
  - Mining, especially gold because of high prices (platinum at very low prices; gold and iron ore in between)
    - Already have agreement on managing safety
    - Need to scale up as fast as possible
  - Auto – can only gear up when global VC restarts, but have to be ready for that
  - Inputs for healthcare – PPE, ventilators, hospital furnishings, oxygen, medicines, others – but need to fix state procurement
- Process for individual companies to apply to re-open
  - Have to demonstrate safe in terms of both
    - Production process
    - Commuter transport
  - Need to fast-track system to approve applications efficiently and quickly
  - Challenge for consumer goods if do not open up non-food retail – but harder to open up retail safely
- Support for SMMEs
  - Assume will retain substantial restrictions on services, entertainment and non-food retail
  - Need to work with health authorities to see if possible to reduce risks through limits on customer numbers, masks and cleaning
  - If not, will see very high joblessness persist
  - Current support systems are entirely inadequate



**Re a leboha!**