



TRADE & INDUSTRIAL POLICY STRATEGIES

TIPS
TRACKER



Tracking trends and analysing the COVID-19 pandemic and responses

THE ECONOMY AND THE PANDEMIC

29 JUNE – 12 JULY

KEY FINDINGS

On the pandemic

- Daily growth in reported new cases has exceeded 7% a day in Gauteng, KwaZulu-Natal and the North West, and was at 5% in the Eastern Cape. Total reported cases more than doubled over the past two weeks to reach 264 000, while the seven-day rolling average of new cases climbed from 5 000 on 26 June to 11 000 on 12 July. For the week to 11 July, South Africa reported more new cases per million people than the United States or Brazil, which have been famously unable to control the spread of COVID-19.
- Newly diagnosed cases have essentially plateaued in the Western Cape since 20 June at around 1 200 a day. As a result, the Western Cape's share of new cases reported in South Africa fell from half a month ago to a sixth in the past week.
- The divergent regional trends raised the question of how to understand the factors driving infection rates. The much-heralded "peak" is, after all, only visible when the number of new cases starts to fall. In contrast to seasonal flu or diseases like measles, for which preventative measures exist, the only way to bring down the number of cases is behavioural change on a mass scale. Yet the government reimposed limited restrictions on especially risky activities only on 12 July, six weeks after the growth in new cases began to escalate.

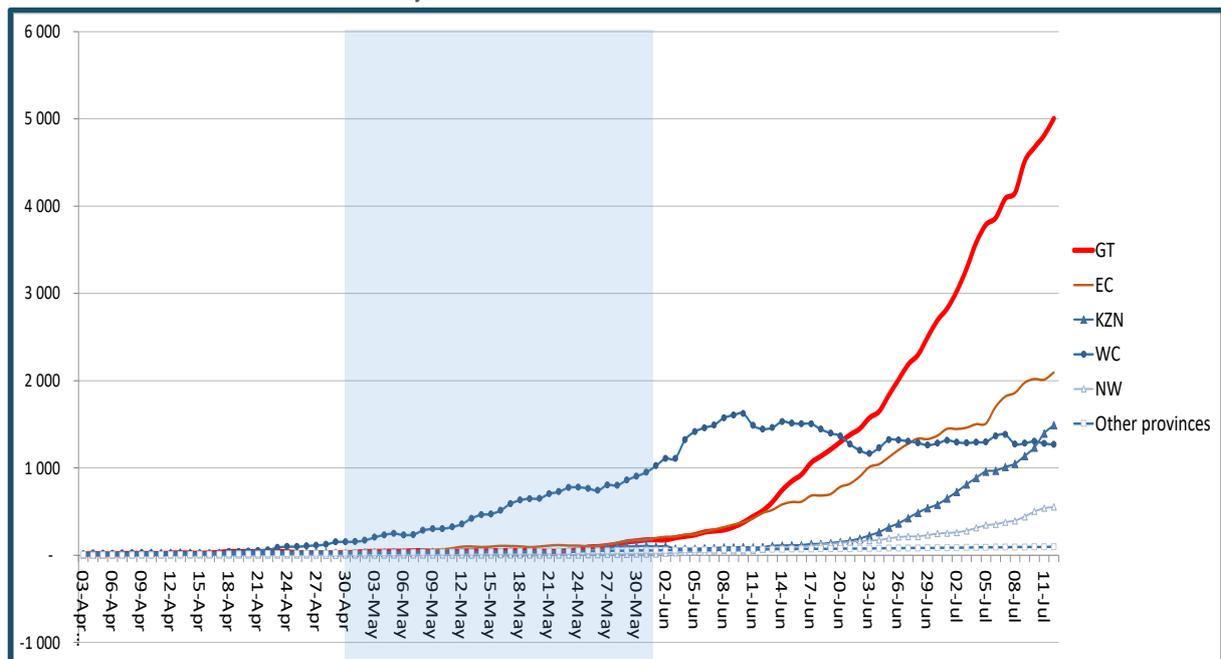
On the economy

- Looser restrictions on business contributed to the rapid spread of COVID-19 but, after a spurt in economic activity, the available indicators suggest that the recovery remains very slow. The challenges appear primarily in suppressed demand as escalating risks of infection in the metros, South Africa's economic drivers, keep high-income consumers largely at home; most households have lost income; and export demand remains largely flat, with most commodity prices still lower than before the pandemic.
- In the past week, both the ANC and Business for South Africa (B4SA) published proposals on how to boost the recovery. They share some important themes, notably around the need to mobilise both private and public financing for an infrastructure drive, the critical importance of fixing Eskom, and the need to avoid disruption to commercial agriculture. The main substantive disagreements emerge about how best to manage Broad-Based Black Economic Empowerment (BBBEE) and create a more dynamic and competitive economy.
- Neither paper appears to have any new ideas on immediate measures to cushion the effects of the anticipated depression-level economic decline over the coming year. Income losses are likely to be severe for low-income households, small business and local governments.

TRENDS IN THE PANDEMIC

Reported new cases continued to escalate in Gauteng, KwaZulu Natal and the North West, with a somewhat slower rate of growth but a higher underlying incidence in the Eastern Cape. In contrast, the number of reported new cases in the Western Cape has essentially plateaued over the past month. The result was that the number of new cases in Gauteng in particular has escalated.

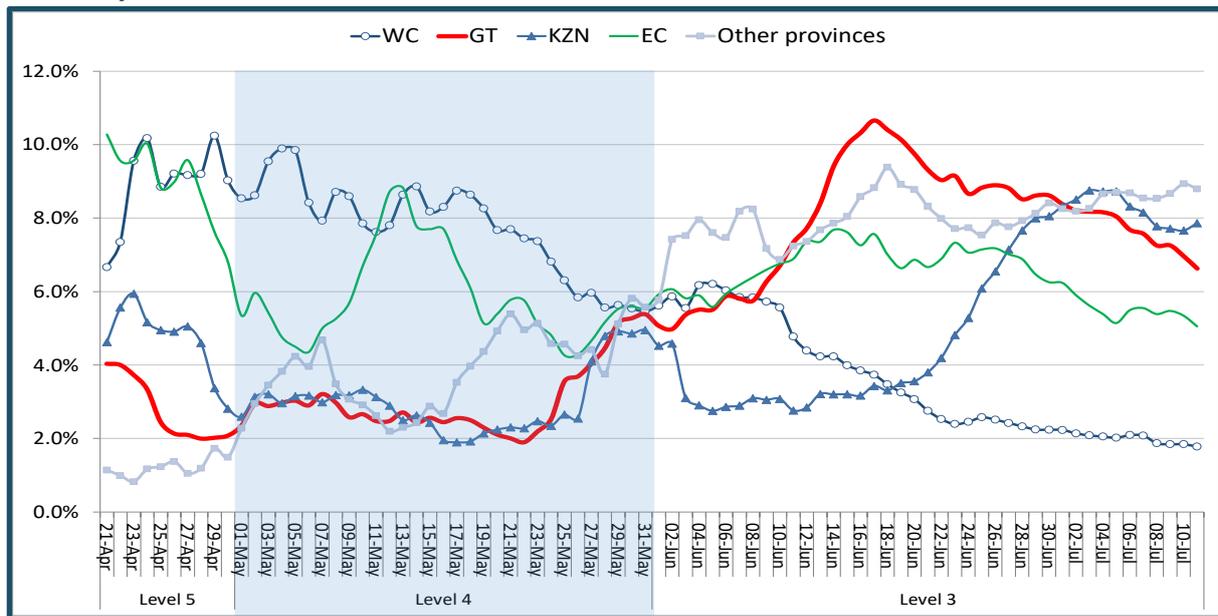
Graph 1. Rolling seven-day average of new cases, 3 April to 12 July, by province (shaded area shows Level 4 restrictions)



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

The extraordinarily rapid rate of growth in new cases in the most affected provinces moderated somewhat over the past week, but remained very high at over 7% a day in Gauteng, KwaZulu-Natal and the North West, and 5% daily in the Eastern Cape (using seven-day rolling averages). In the Western Cape, in contrast, the growth rate fell to 2% a day.

Graph 2. Growth rate in new cases based on seven-day rolling average, by province, 3 April to 12 July

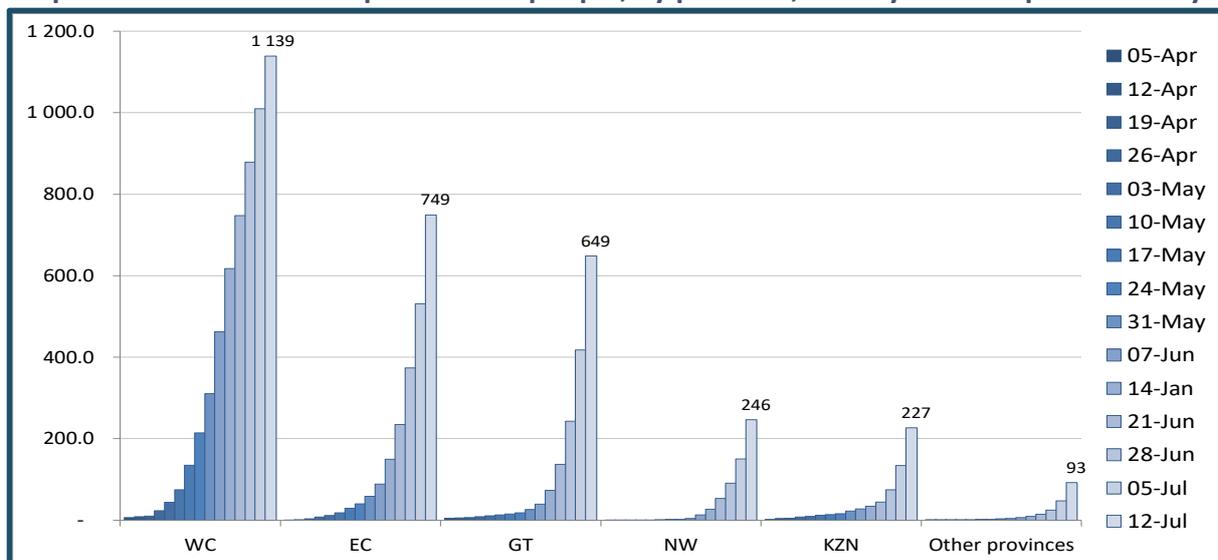


Source: Calculated from data accessed at www.sacoronavirus.co.za on relevant dates.

The rapid growth in cases meant that, according to the Johns Hopkins database on COVID-19, in the past week South Africa ranked ninth out of the 181 countries covered in terms of reported new cases. In terms of new cases per million population, to control for differences in country sizes, South Africa ranks fifth globally, after Bahrain, Oman, Qatar and Panama. It reported slightly more new cases per million people than the US and Brazil – two countries that are better known for a marked inability to control the spread of COVID-19.

As a result of the rapid growth in newly diagnosed cases, in Gauteng the cumulative number of cases per 100 000 people tripled over the past three weeks to over 600, just behind the Eastern Cape at around 700. Continued, albeit slower, growth in the Western Cape meant that it had exceeded 1 100 cases per 100 000, which means it is approaching the levels seen in New York City.

Graph 3. Cumulative cases per 100 000 people, by province, weekly from 5 April to 12 July



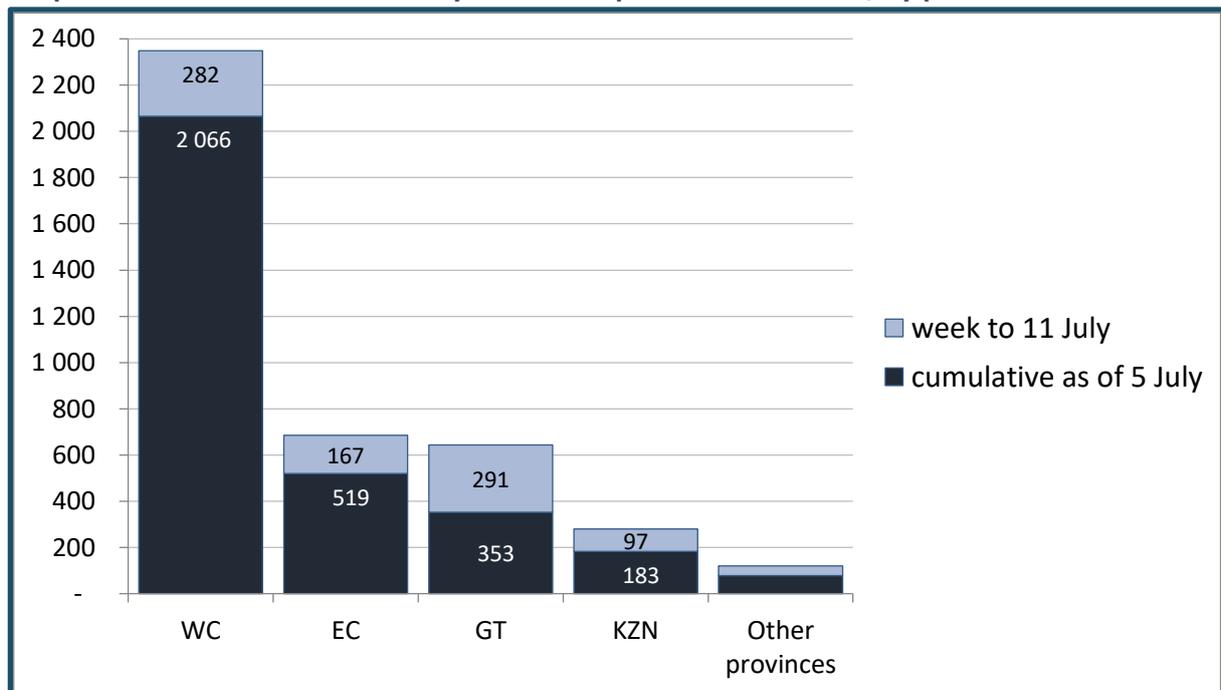
Source: Calculated from data accessed at www.sacoronavirus.co.za on relevant dates.

As anticipated, deaths have now begun to accelerate in the provinces where contagion took off after the move to Level 3.

In Gauteng, the number of reported deaths from COVID-19 almost doubled over the past week.

Again, the number in the Western Cape remains far higher, although the rate of growth is still slower.

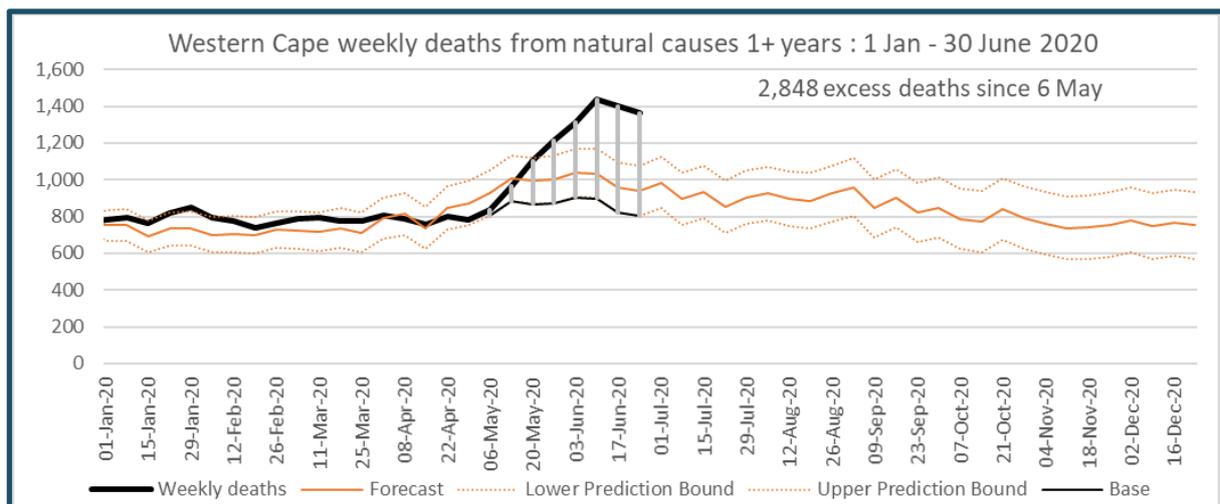
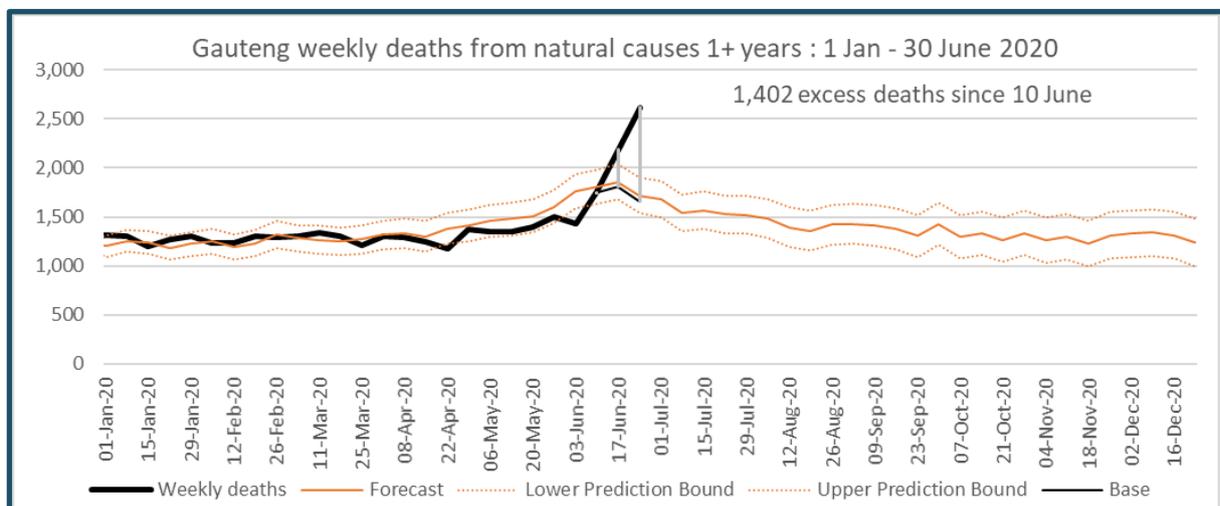
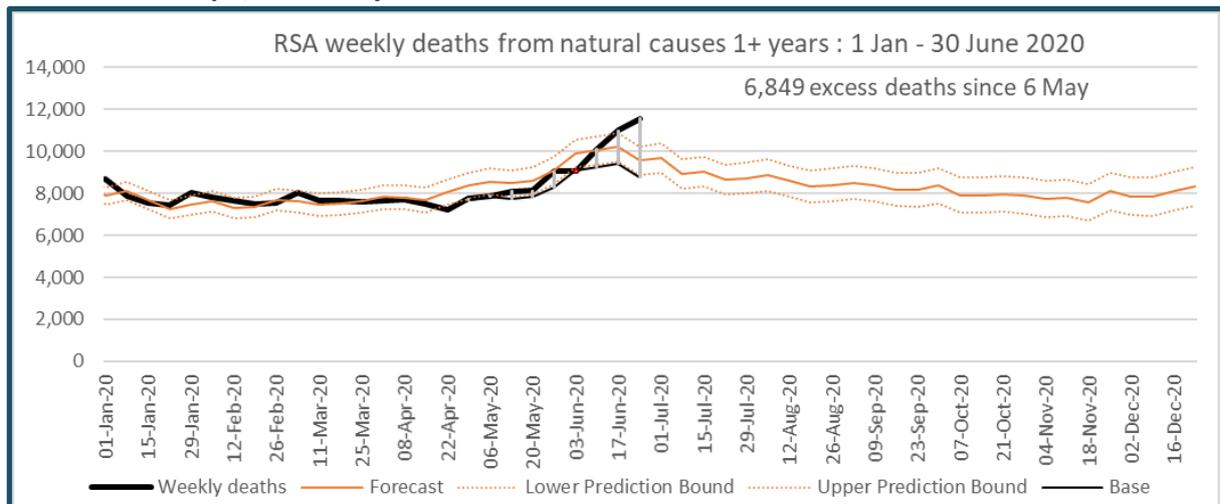
Graph 4. Deaths in week to 12 July and in the period before then, by province



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

Figures for total deaths from natural causes suggest that the number of deaths attributed to COVID-19 may be understated. This situation has emerged in many countries with severe COVID-19 outbreaks, since people often die at home without a positive test. The South African Medical Research Council tracks the number of people who have died compared to projections based on past years. According to these data, from 6 May to 30 June, South Africa as a whole had 6 850 more natural deaths than would normally be expected, with 2 500 in Cape Town, 650 in Nelson Mandela Bay, and 600 in Johannesburg. For comparison, in this period, the number of reported COVID-19 deaths nationally was only around 700, with 500 in the Western Cape. That said, some of the excess deaths could have resulted because people with other health problems avoided going for care or medications out of fear of catching COVID-19.

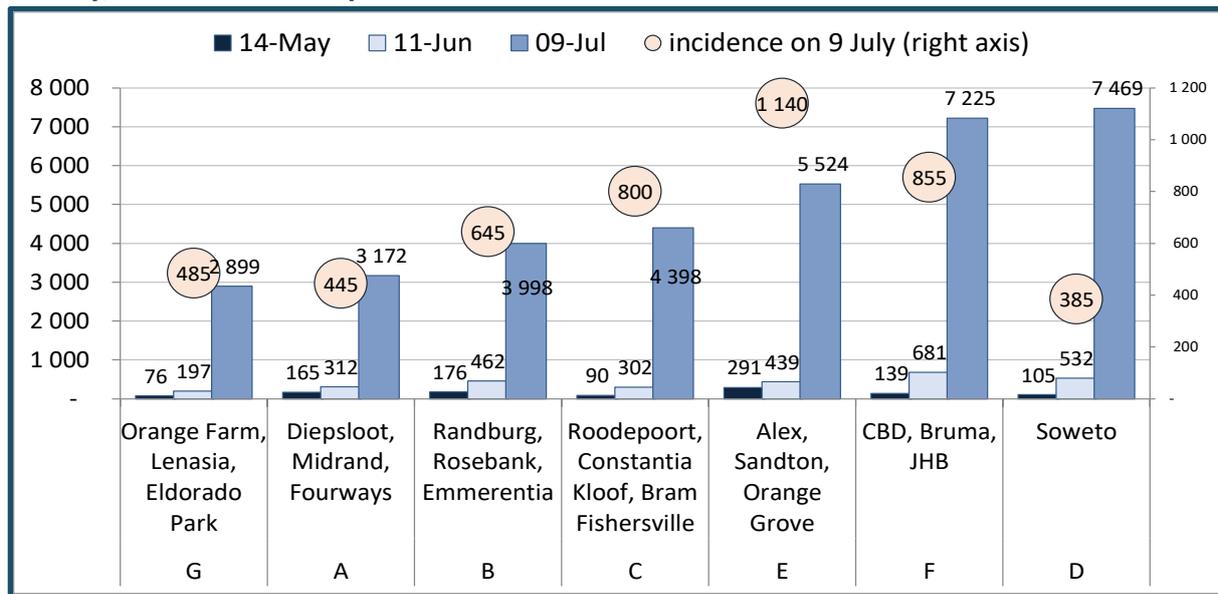
Graph 5. Weekly deaths compared to norm from other years, nationally and in Gauteng and the Western Cape, 1 January to 30 June



Source: Debbie Bradshaw et. al. 2020. *Report on weekly deaths in South Africa, 1 January – 30 June 2020 (week 26)*. Downloaded from www.samrc.ac.za in July 2020.

In Johannesburg, the highest incidence was still in the Alexandra/Sandton area, but the largest number of cases was in Soweto. Graph 6 indicates the extraordinary escalation in diagnosed COVID-19 cases over the past month.

Graph 6. Reported cases and number per 100 000 residences (incidence) in Johannesburg, 14 May, 11 June and 9 July



Source: For case numbers, calculated from Gauteng Department of Health. “Gauteng confirmed COVID-19 cases district breakdown.” Media release for relevant dates; population from Quantec EasyData. Accessed at www.quantec.co.za in July 2020.

As in the rest of the world, older people are at most risk of severe complications from COVID-19. In the past two weeks, the President has emphasised that they should shelter at home and be particularly careful to avoid infection. Yet experience in other countries – notably Sweden and the UK – shows that the risk to older people inevitably rises as the overall incidence of COVID-19 climbs. This is particularly true when the elderly rely on outside help. The fact that the premiers of Gauteng, the Western Cape and the North West all announced that they were infected last week points to the difficulty of avoiding the contagion once the incidence starts to rise.

Globally, a particular concern has emerged about old-age homes, which in Europe and the US accounted for between 20% and 50% of deaths. Residential facilities are often sites of rapid spread, with high rates of infection for both caregivers and residents. In South Africa, however, a far smaller share of elderly people lives in care homes than in the global North. Over a million people live in old-age homes in each of the US and the UK. There are no figures available for South Africa, but the number appears to be below 100 000. Still, to date 69 care facilities across South Africa have reported Covid-19 cases, with around 240 residents and 280 caregivers infected. Some 35 residents have died. Over half of the diagnoses and most of the deaths were in the Western Cape.

The sharp regional differences in the trends in reported COVID-19 cases over the past month point to the importance of understanding the so-called “peak” in infections. Politicians and epidemiologists often talk about the peak like an inevitable natural phenomenon – a storm or a hurricane – that will hit the country and then, just as inevitably, pass on. Experience shows that outbreaks of many different types of diseases climb and then decline, although the timeframes differ from weeks to decades. But the factors behind the decline vary widely for different diseases. They range from the development of vaccines or preventative treatments to seasonality to the broad achievement of immunity to modifications in behaviour to improved public health measures that prevent transmission.

In the case of COVID-19, the available ways to bring down new infections are to change behaviour on a broad scale and to improve tracing and isolation. In contrast to the flu, simply waiting for a decline to occur naturally would lead to unnecessarily, possibly disastrously, high levels of infection. From this standpoint, when public health measures have been overwhelmed, as in the North Eastern states of the US and in Cape Town, the number of infections declined because people have strengthened their efforts to avoid infection. That in itself slows economic activity even in the absence of government restrictions.

Over the past few weeks, the national government did not act either swiftly or decisively to increase restrictions on risky behaviours, even as new cases began to increase at an explosive rate, especially in Gauteng. We here discuss two reasons for the delay: on the one hand in South Africa's particularly deep socioeconomic inequalities, and on the other in the fractured and bureaucratic nature of the state.

In terms of socioeconomic inequality, well-off people can generally protect themselves from catching COVID-19 by working from home, using protective equipment when they go out, driving to work in private cars, and researching how to avoid infection. In contrast, the majority of urban dwellers live in dense settlements with inadequate facilities; rely on crowded and poorly ventilated taxis to get to work; often cannot afford much protective equipment; and typically have limited access to information on why and how to protect themselves.

In these circumstances, some businesses and industries lobbied heavily to end restrictions on economic activities as rapidly as possible, including for non-essential personal services. The result was both an increase in clusters at work and more crowded public transport. Moreover, lifting restrictions sent the implicit message that the risk of contagion had been reduced, when in fact it was rising. At the same time, faced with fiscal constraints, government was reluctant to extend Unemployment Insurance Fund (UIF) and social grant support, which could have enabled people to stay at home and avoid the risks. A similar pattern emerged in Latin America, where upper-middle-income countries are also deeply unequal, and new cases have climbed rapidly over the past few months.

As cases escalated, the premiers of the Eastern Cape and Gauteng asked that the national government institute greater restrictions to reduce transmission. The national government delayed action for over a week from their first public request. In this period, the incidence of cases climbed by 50% or more in Gauteng, the North West and KwaZulu-Natal, while in the Eastern Cape it rose by a third. Higher levels of contagion in itself make it harder to contain transmissions even with more restrictions on risky behaviour.

The delay in imposing new measures largely reflected the difficulty of reaching agreement within government. In effect, the different agencies of the state took time to negotiate a common position. This kind of delay is frequent in policymaking in South Africa. It mainly reflects the sharp contestation over policies that, in turn, arise inevitably from deep economic and social inequalities. The problem is that, unlike most socioeconomic problems, the virus does not wait for policy decisions.

At a substantive level, the past few weeks have seen a sharp readjustment of the national strategy on the pandemic. The government originally promised a risk-adjusted approach that would deal with local outbreaks by adding district-level restrictions on economic and social activities. In practice, however, it has become clear that government and especially its scientific advisors want to avoid renewed restrictions on economic activities, however risky,

at any cost, with the sole exception of alcohol and tobacco. In this vein, on Sunday the national government actually relaxed requirements for physical distancing in taxis for trips of under 200 kilometres, or around two hours.

A concern is that the government has relied on epidemiologists and other medical scientists rather than economists and other social scientists in managing economic policies around the pandemic. Most economists agree that the high rate of contagion in itself constitutes a critical threat to an economic recovery. This is particularly true in South Africa, where the richest 10% of households account for over half of household consumption, and a much higher share for personal and recreational services like restaurants and movies. This group is also most able to work and consume from home as the risk of contagion rises.

Instead of reimposing substantial new restrictions, the government has tried to build more capacity in the healthcare system and again banned alcohol sales. It has also, belatedly, begun to establish ward-based forums to mobilise and educate communities to modify their behaviour. This is, of course, a critical measure – but, again, the virus will not wait for the new structures to start work.

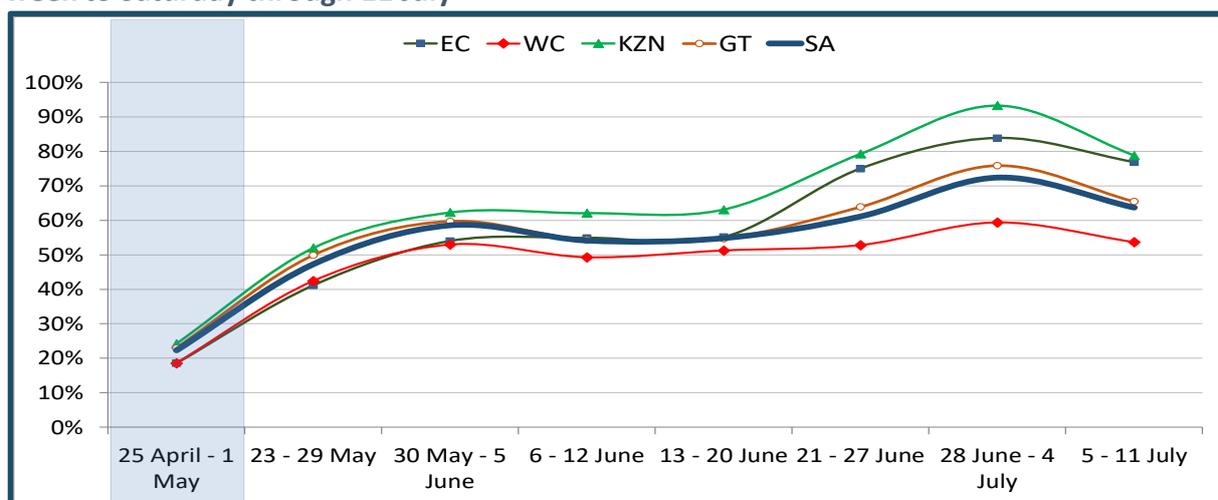
TRENDS IN THE ECONOMY

Overall trends

The available indicators point to continued flattening in the economic recovery. This outcome results both from fears about the virus and lower domestic incomes, and from the continued stagnation in major export markets. In other words, in South Africa as in most of the world, the supply-side shock of the lockdown has translated into a demand-side challenge that is far harder to address.

As Graph 7 shows, turnover at small businesses points to a boost in the last two weeks of June, but a decline in the past week. More significantly, both the Western Cape and Gauteng increasingly lag behind other provinces. The provinces with lower contagion levels all have higher levels of economic activity relative to the start of the year than those shown here.

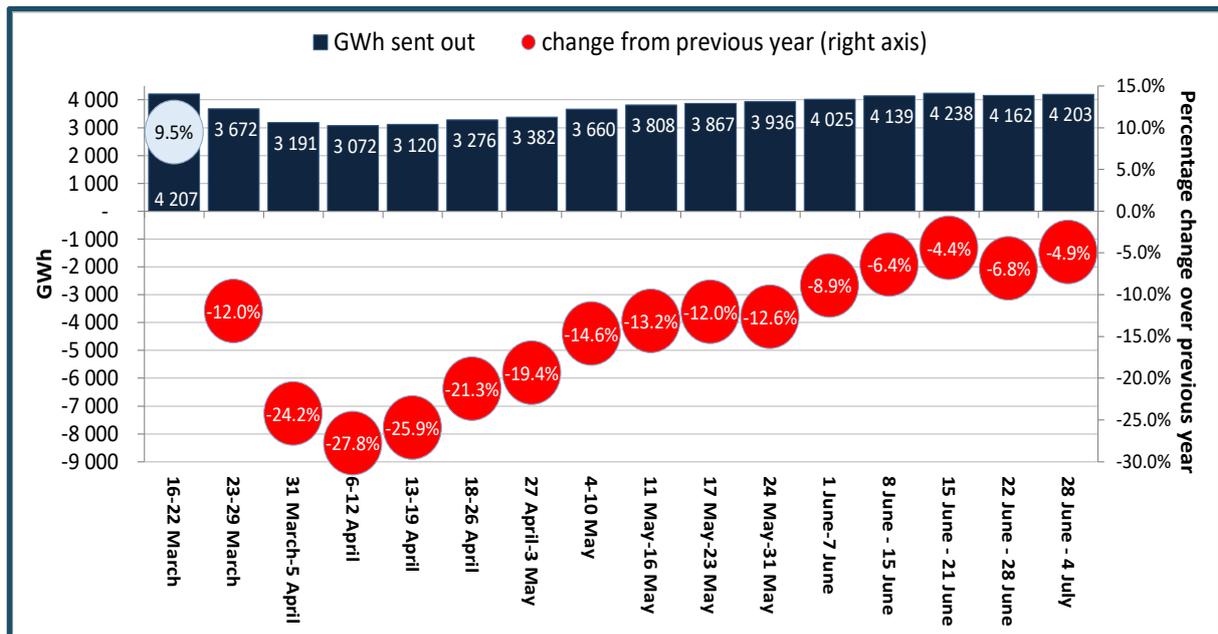
Graph 7. Small business turnover relative to the first two weeks of January, average for week to Saturday through 11 July



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

A similar pattern emerges from figures on electricity use. In the past four weeks, it has stabilised at more than 4% below 2019 levels.

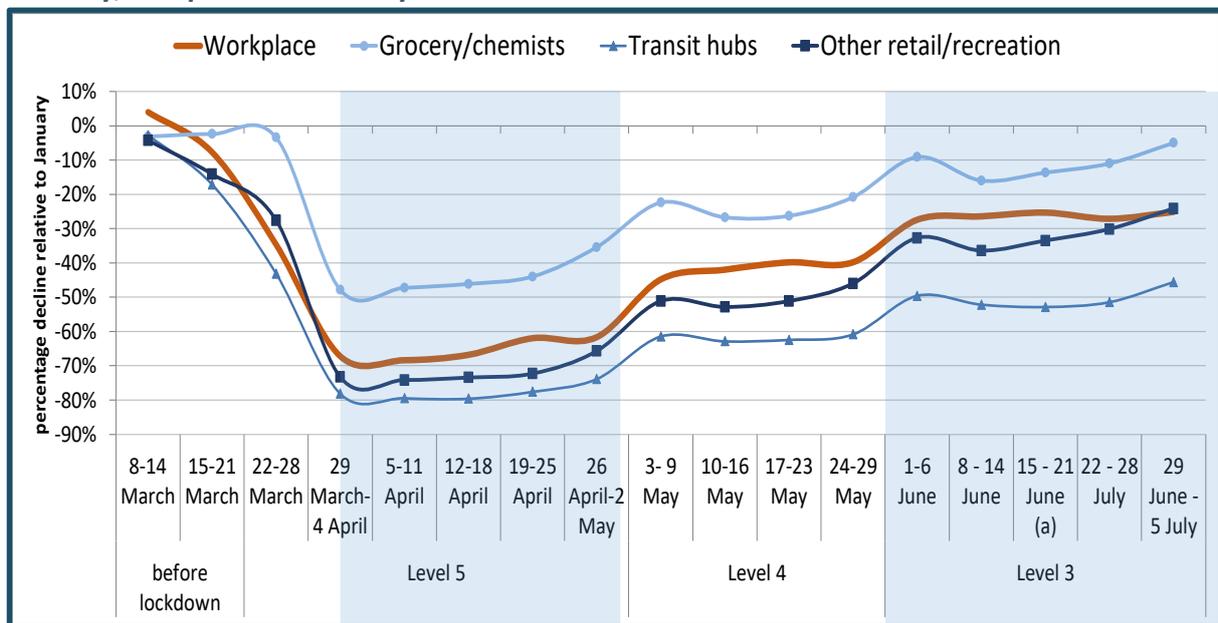
Graph 8. Electricity sent out in GWh, weekly, 24 March to 4 July, and percentage difference from the same week in 2019



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

Similarly, travel remains well below January levels. Travel to work in particular has levelled out, although travel for shopping and on public transport increased in the first week of July.

Graph 9. Percentage change in travel by type of destination, weekly average from 8 March to 5 July, compared to January 2020

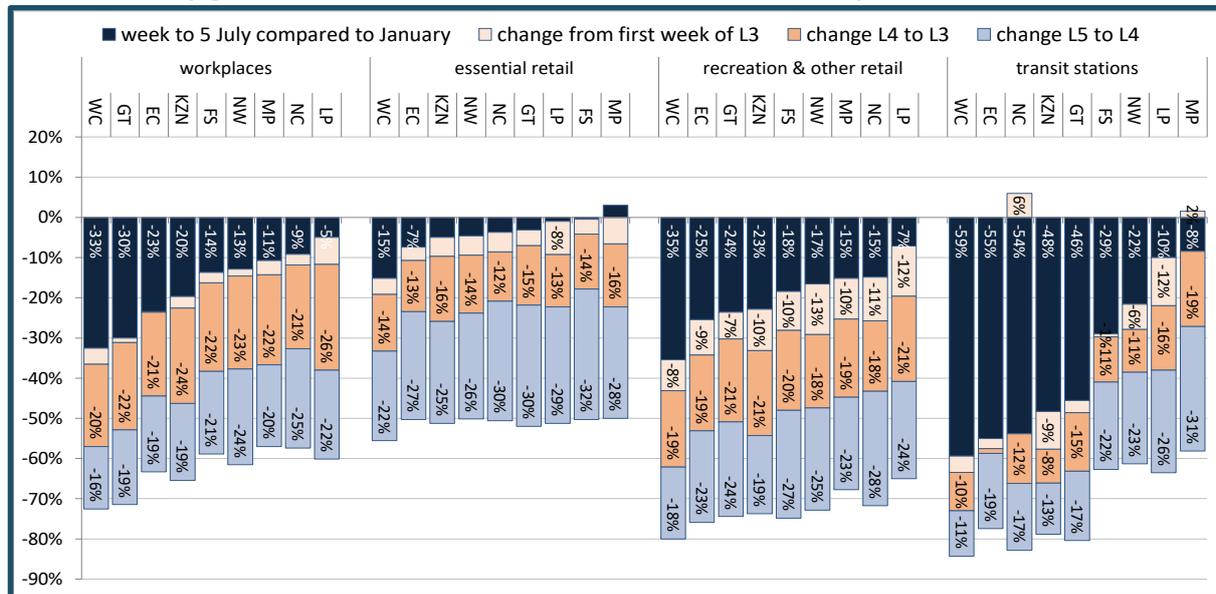


Source: Calculated from Google COVID-19 Community Mobility Reports. Accessed at <https://www.google.com/covid19/mobility/> on 13 June 2020.

Again, at provincial level, the recovery in the most affected provinces, especially the Western Cape, lagged behind provinces with a lower incidence.

Graph 10. Percentage change in travel by type of destination, by province, weekly average from 26 April to 5 July, compared to January 2020

Note: Positive figures mean that travel declined relative to January.



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

The FNB/BER Consumer Confidence Index fell lower in the second quarter of 2020 than at any point since 1985, when there was a national uprising. Confidence was lowest among low-income people, but substantially higher for the better off. This finding reflects the differentiated impact of the pandemic in both economic and healthcare terms.

The ANC and Business for South Africa recovery proposals

This week, the ANC and B4SA both published proposals for the economic recovery when the pandemic winds down. The tasks are daunting, as gross domestic product (GDP) is expected to shrink by 7% over the year, a decline unprecedented in modern times. As a result, working-class South Africans face a drastic fall in incomes, especially when the special social grants and UIF COVID-19 TERS programme end; the municipalities anticipate a 30% drop in revenues, which will constrain their ability to provide basic infrastructure to both industries and households; and many small business owners will shut down.

In response, the policy papers have a broadly congruent approach. Neither grapples with how to respond to the economic and social challenges arising from the downturn in the coming year. Instead, they focus on programmes for the medium term, with implementation over the next two to three years or more. In that context, they agree that the recovery should help build a more inclusive and equitable economy, not just achieve faster growth. They agree that this objective requires a more competitive and innovative economy, with greater collaboration between stakeholders on policy issues and a drive to end corruption. Neither, however, focuses on how the gaps in income, asset ownership and education should be addressed as the economy rebuilds in the wake of the pandemic.

Both papers call for increased infrastructure investment to drive the recovery, with an emphasis on large-scale network projects funded as far as possible by the private sector. In that context, they agree that fixing Eskom is critical. They also expect the infrastructure programme to bolster local procurement, particularly from small business. Neither, however,

explores the systemic and regulatory blockages that have beset these efforts to date, despite repeated commitments to increase it.

The two papers agree on the need to utilise savings in social protection and retirement schemes more effectively, especially to finance infrastructure. This is, however, an area in which the devil is in the details: the main question is always what kind of returns and guarantees will be given to members of the UIF, Compensation Fund, and retirement schemes.

The papers also agree that commercial agriculture should be supported. Neither seems to see much role for land reform, either to enhance rural livelihoods or to promote urban densification. They effectively agree that rules on expropriation should be clarified, although again the devil may be in the details. In practical terms, the ANC paper downplays expropriation in favour of the redistribution of state land and a tax on under-utilised land.

It is noteworthy that both papers effectively target policymakers and politicians. That is, they do not speak to their base, but rather to government decision-makers. As a result, the proposals are mainly technical and detailed, with an emphasis on describing the desired outputs rather than addressing the more political challenge of building coalitions to achieve them. The ANC document does not discuss the role of the ANC separately from government.

The papers also have some gaps in common. As discussed, they do not propose any immediate measures to address joblessness and deepening poverty in the near future, especially after the current relief programmes run out. Neither suggests scaling up community-based work programmes. Instead, both suggest that infrastructure and efforts to green the economy could boost the Expanded Public Works Programme. This is a longstanding proposal that so far has largely not worked out. Experience shows that the bulk infrastructure projects favoured by both papers do not generate many lower-skilled jobs, which limits the scope for public employment schemes.

The programmes also have very little to say about general education. Yet the persistence of deeply unequal schools is central to the reproduction of inequality as well as the skills shortage. The B4SA paper does discuss the need to expand access to post-secondary education, but that is possible only on a very limited scale if general education remains both inequitable and, for most learners, low quality.

Finally, neither paper explores how South Africa should respond to the likely decline in export income over the next two or three years. The extent of the decline will depend largely on the speed with which the US and Europe, in particular, recover; China seems to be doing better already, based on its comparatively coherent response to the pandemic. It is also uncertain when demand will revive for tourism and other services such as the provision of private education and healthcare to foreign visitors.

In theory, slower export markets should prompt diversification away from the excessive dependency on mining as well as measures to prolong support for workers and small businesses that depend on foreign visitors. Instead, both papers propose measures to promote mining exports, especially by providing new bulk freight and more reliable electricity, without discussing how to manage if commodity prices remain depressed.

The papers do have some important areas of disagreement. Above all, they diverge about how to achieve competitiveness. The ANC proposes measures to promote new entrants into the economy. In contrast, the B4SA document effectively says that government monopolies

and regulations should be cut back. This disagreement emerges in the debate about BBBEE. B4SA argues that it should be achieved on a collaborative basis, as companies develop a culture of transformation and the parties work together to address obstacles. For its part, the ANC argues that BBBEE should be enforced more consistently and effectively. It also backs increased support for microenterprises and co-ops, although it does not specify how.

In sum, both the ANC and the B4SA use the crisis mostly as evidence of why their long-standing proposals should be implemented more rigorously and urgently. It is not clear how this approach will help in anticipating and dealing with the very different world that South Africa will enter once COVID-19 is under control.

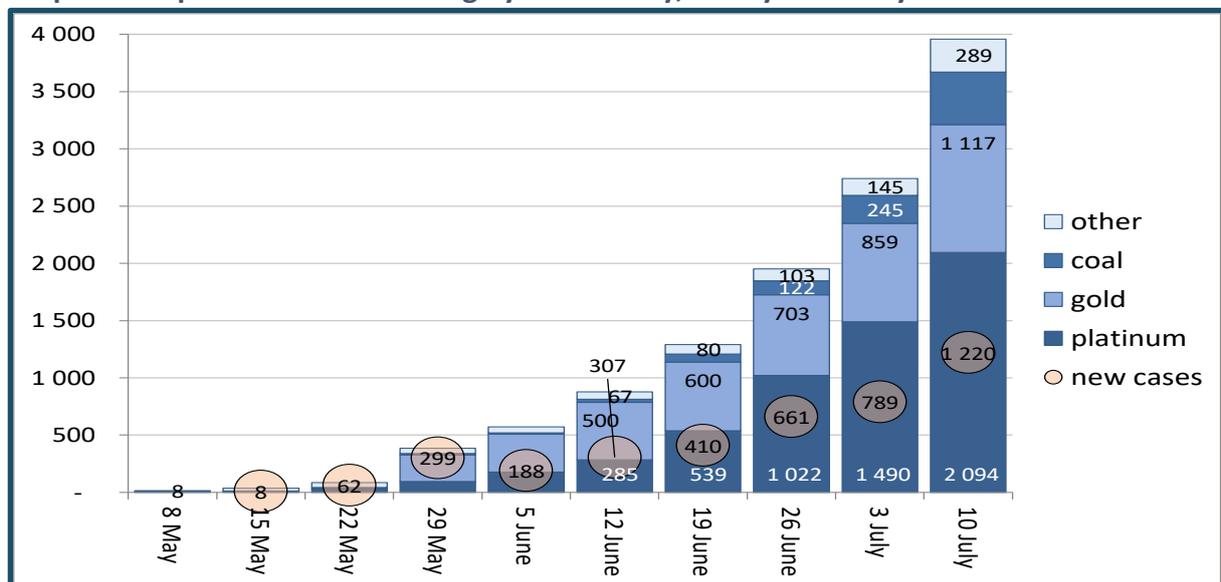
Company developments

Infections

The number of workplace infections soared as the overall incidence increased in the past two weeks. Still, mining remains the only private industry that reports consistently on industry trends.

In mining, the number of new diagnoses continues to climb rapidly, as Graph 11 shows. Most of the cases are still in the underground platinum and gold mines, although the number in coal climbed substantially in the past two weeks. Only around three quarters of miners – under 300 000 – had returned to the mines, but they contributed 1.7% of all new cases in the week from 3 July to 10 July. They constituted half a percent of all South Africans. Some 900 cases had been diagnosed for every 100 000 miners, which was more than twice as high as the incidence for the rest of the country.

Graph 11. Reported cases in mining by commodity, 8 May to 10 July



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

The incidence of testing on the mines was also almost twice as high as in the rest of the country, at almost 6 000 tests per 100 000 people. Nonetheless, tests on the mines were more likely to end up positive, which meant there was a higher underlying incidence. As of 10 July, 16% of tests of miners came back positive, compared to 12% for the rest of the country, according to the Minerals Council.

While the mines are conducting screening and testing for workers as they come to work, they have not provided these services in most nearby communities. Since miners now mostly live off mine, often in informal settlements, the risks in these communities are now high. The rapid growth in cases in the North West is connected to the platinum mines.

Retail outlets continue to generate clusters, mostly affecting their employees, with the numbers growing particularly sharply in Gauteng. The mobile telephone stores were illustrative. As of 6 July, MTN had closed six stores and a warehouse in Gauteng as a result of COVID-19; Vodacom had closed 21 franchise stores; and Telkom also had several cases of employees testing positive, mostly in Gauteng and the Western Cape. Cell-C said around 2% of its store employees had tested positive.

The private services sector also reported a number of clusters. In the City Lodge in Roodepoort, eight of 17 employees tested positive. Around 5% of all employees at the private Gordon Woods hospital had tested positive by mid-July.

Figures for cases in manufacturing were hard to come by because industry associations apparently did not track and certainly did not publish them. In the B4SA document, food processors – which have seen large outbreaks in other countries – requested assistance with protective equipment and testing, which suggests concerns in that industry despite limited reporting on clusters.

The public sector has reported more consistently on outbreaks. Still, it also did not appear to undertake consistent efforts to monitor and analyse them with a view to improve prevention.

According to the South African Municipal Workers' Union (SAMWU), as of 7 July, 4 600 municipal workers had been infected and more than 60 had died. The hardest hit have been first responders in the police, fire and ambulance services, community health workers and refuse removal workers. Again, the infections tracked regional incidence, with half of the infections in the Western Cape, with around 500 each in Gauteng and the Eastern Cape. In Johannesburg, from mid-June, 45 workers were infected at Pikitup, and one had died. Both the Roodepoort and Marlboro depots were closed temporarily as a result.

As of the end of June, 4 800 healthcare workers in both the public and private sectors had tested positive. Around half were nurses, and most were in the Western Cape. The national Department of Health said it had instituted a range of measures to reduce infections in the industry.

Healthcare workers were more likely to claim from the Compensation Fund. As a result, four out of five claims for occupational cases of COVID-19 had come from women as of mid-July. Of the 950 direct claims, 650 were from the Eastern Cape, with 350 finalised by mid-July.

In the past week, three more Gauteng labour centres closed due to infections, at Mamelodi, Pretoria and Alberton. Labour centres also closed due to infections at Brits and Klerksdorp in the North West. Although only temporary, the closures aggravate crowding and queues at other centres.

Department of Employment and Labour inspectors, who responded largely to whistleblower complaints, found that compliance with COVID-19 prevention requirements was only 47% in the public sector and 57% in the private sector. As of mid-July, it had issued 2 500 notices and almost 400 prohibition notices. It imposed fines on a factory in KwaZulu Natal where it

found workers locked into the building doing unpaid overtime in unsafe conditions while producing face masks for protection against the contagion.

Workers still often protest that employers are reluctant to help infected employees quarantine or self-isolate. Not helping to identify and isolate infected workers puts many more at risk, both on the job and in their communities. Workers also often demand “deep cleaning” when a colleague tests positive, in part because cleaning companies argue it is required. In fact, most analyses show that COVID-19 is spread mostly through the air, and especially close contact between people in confined spaces, rather than from surfaces. Normal cleaning with disinfectants such as bleach are adequate to kill it on surfaces.

Industry and company developments

The mining value chain (including electricity)

According to the B4SA document, the mines now expect that sales for the year will be down by 20%. So far, almost 300 000 miners have returned to their jobs, or around two thirds of the total.

Sasol has begun to publish its plans for selling off assets as it downsizes to a core business of coal-based liquid fuels in South Africa and specialty chemicals mostly overseas. It aims to reduce its debt by US\$4 billion, with at least half from asset sales, although domestic and international prices are depressed due to the pandemic, and the rest from equity. The largest item on the sales list is a share in its Lake Charles facility, which it hopes to finalise by the end of the year. It has sold a majority share in explosive production, including in South Africa, to a Chilean partner; is selling its Canadian shale gas assets; and has returned its exploration licence for gas offshore from Mozambique, although it continues in other areas of the country. But it expects to remain invested in coal production and refining around Secunda for decades to come.

The steel value chain continues to suffer from low demand. MacSteel says it has had to extend credit for many fabricators. The Department of Trade, Industry and Competition has requested the International Trade Administration Commission (ITAC) to explore the impact of exports on the availability and price of scrap metals.

In the week of July 11, four units tripped at Eskom, leading to loadshedding even though demand remains more than 4% below 2019 levels. One of the units was at Eskom’s brand-new Medupi plant, which it has had to retrofit extensively due to design and construction faults.

The unreliability and high price of Eskom electricity, as well as its climate impacts, is leading major producers across the economy to turn to self-generation mostly based on renewable energy. The trend accelerated after the government agreed to facilitate small, new producers in light of the shortfalls at Eskom.

Steel producer ArcelorMittal South Africa (AMSA) is looking for partners to install six generation plants at its various sites for around 600 MW all told, which would largely eliminate its dependence on Eskom. Sasol is also looking to install 600 MW, and Samancor hopes to generate 54 MW using heat from its furnaces. The Minerals Council estimates that its members could generate 1 500 MW if regulations permitted. Some malls have also introduced solar power; for instance, Clearwater Mall in Johannesburg can generate

almost 3 MW at peak. One real estate trust calculates that this kind of project will pay for itself in five years through savings on purchases from Eskom.

Most of these projects are in the pipeline, with permits and approvals still often long delayed despite the national electricity emergency. As of 2 July, the National Energy Regulator of South Africa (Nersa) had registered 130 embedded projects generating under one megawatt for a total of 59 MW, and five more generating over a megawatt. That figure excludes small projects that registered with municipalities, however. Nersa says it has licensed all larger producers that applied if they have all the necessary approvals from local government and environmental authorities.

Nersa has also sped up procurement from larger producers compared to its initial estimates, since the pandemic has ruled out public hearings. As a result, the Department of Mineral Resources and Energy expects to go out on tender for 2 000 MW, with no defined technology required, this month, rather than only next year as originally expected. Moreover, most of the older independent power producers have agreed to refinance their projects to reduce the cost to Eskom, and ultimately consumers, of their energy. Government is supporting the refinancing process, and the producers have pledged to pass on at least half the savings to customers.

More broadly, Nersa has begun to lobby for a more responsive tariff-setting process. It would replace the current Multi-Year Determination System, which has built-in cost escalators if demand falls and which makes prices extraordinarily slow to change in the face of unpredictable market conditions.

Auto

Domestic car sales for June were down 30% on 2019, at 32 000 units. Domestic sales of passenger cars were affected by the sharp downsizing by rental companies due to lower demand at airports and the interruption to tourism. Auto exports were 29% below June 2019, with foreign sales of new vehicles 38% lower, at 19 000. They were particularly affected by the fact that assembly opened only on 1 June.

New car sales also face headwinds because of lower household incomes. Moreover, although depreciation makes exports more competitive, it raises domestic car prices since production relies heavily on imported components. At the same time, sales of used cars by rental companies on a large scale has pushed down their prices. As of mid-July, BMW expected a 20% decline in premium market for the full year, with less impact on other segments. That said, BMW exports largely go to the UK, which will also be affected by what looks increasingly like a difficult exit from the European Union.

According to the business association NAACAM, most components manufacturers are open but with low employment levels. Their production has been disrupted by depressed demand from the assembly plants and delayed imports. Two thirds of components producers brought back less than 90% of their workers, and many anticipate downsizing over the long run. Some have also faced temporary closures because of infections on site, although employers contend that some spread of COVID-19 in workplaces is unavoidable. The industry is lobbying for tax incentives through modifications to the existing auto industry support programme.

A consortium of component manufacturers invested in ventilator production during the lockdown. They form part of a national project, together with the CSIR, which is financed by the Solidarity Fund. The ventilators do not require intubation, which is increasingly preferred

for supporting COVID-19 patients, and use less oxygen than more invasive ventilators – useful since there is a national (and global) shortage of oxygen. Moreover, at R10 000 each, they are a tenth less expensive. The first thousand ventilators should be available in two weeks, with a 1 000 produced weekly for the next two months. Historically South Africa had a total of only 3 000 ventilators, of which two thirds were in the private sector.

During the lockdown, Ford turned to production of face shields at its Silverton plant, with 85 workers involved. In the past four months it has produced 300 000 shields, donating most in South Africa but selling 50 000 to the US Department of Defence.

Barloworld is leaving the logistics business with the loss of 2 500 jobs. Avis will lose at least half its workers and the logistics division and auto retail almost a third, with some dealerships closing. These activities generated almost half of Barloworld's revenue before the pandemic, but less than a third of its profits. It now plans to focus on its equipment business in South Africa and Russia.

Retail

Retail sales, especially at larger malls, continue to lag. The property trust L2D expects that the value of its retail space through June will be 10% to 20% lower than in the second half of 2019.

Massmart has begun downsizing at Game. Its initial proposal foresees the loss of up to 18 000 jobs, but the numbers usually fall during consultations with labour.

Tourism and recreation

The hardest hit industry is still likely to be tourism and recreation, in large part because potential customers are nervous about risking travel and nightlife. Many individual restaurants and bars are closing, although figures are not available outside of some franchise chains. Hout Bay's Mariner's Wharf is shutting its doors. Flight Centre is closing 40% of its outlets and its cruising brand. Hilton is closing down a branded hotel in Cape Town, although it is retaining others in Johannesburg and Durban as well as another franchise in Cape Town. Although movie theatres can restart in theory, the big chains are still closed because few new films are available, physical distancing requirements will reduce revenues, and many people may not feel comfortable going to the theatre.

Phumelela Gaming and Leisure, which runs four racecourses in South Africa, has gone into business rescue. The Oppenheimer family has, however, bailed it out with R100 million, because it wants to stabilise the horse racing industry. Phumelela faced difficulties even before the lockdown because its payout from the betting levy was reduced.

The insurance companies are increasingly under pressure to pay out on business-interruption policies that include infections (apparently a relatively small share of the total). They face claims from over 500 companies for around R4 billion. Most of the insurance firms, which include Sanlam and Old Mutual, argue that the lockdown was separate from the contagion, as opposed to closures due to infections amongst employees or customers. In the past week, however, both the Western Cape high court and the Financial Sector Conduct Authority found that the lockdown is a result of the contagion and therefore should be covered.

Meanwhile, the saga continues at South African Airways (SAA). The Department of Public Enterprises agreed to put 1 000 workers on the UIF's training lay-off scheme, which would reduce retrenchments to 2 700 (out of 4 700 now on staff). But the retrenchment packages are mostly around R350 000, with almost R2 million for pilots, so the cost will be R2.2 billion

– and National Treasury told Parliament that it will not provide any additional funds. The airline’s creditors meet on Tuesday, 14 June, to vote on the proposed package; if it fails, SAA will go into liquidation.

Media

Altogether, the media lost an estimated 700 jobs through early July. Then Media24 announced that 510 jobs could be lost out of a total of nearly 3 000, 660 positions may be reduced, and 150 vacancies scrapped as the company accelerates its move to digital platforms and phases out some, but not all, of its print publications. It is closing the *Weekend Sun*, four community newspapers in KwaZulu-Natal, and some magazines, including *Men’s Health* and *Women’s Health*. *Drum* will now only be online.

Internationally as well as in South Africa, the pandemic has led to widespread closure especially of local news outlets, mostly because of a sharp fall in advertising. The risk is that, as newspapers cannot sustain coverage, a critical pillar of democracy may be weakened.

The South African National Editors Forum (SANEF) has set up a fund to support journalists, including freelancers as well as retrenched people. It is seeking private donations; MTN has donated R500 000, as has FirstRand and its operating businesses, FNB, RMB, Wesbank and Ashburton Investments.

Banking

As of 7 July, South African banks had approved R31 billion in relief, mostly in the form of deferred payments, for individuals and businesses. Relief for enterprises came to R12 billion, with 96% of the 140 000 applications granted some support. Most of the deferrals in payments were to end in June, but most banks say they will consider extensions on application. As of 27 June, individual customers had received R18 billion in relief. The banks approved four out of applicants, supporting 2.4 million people.

Separately, close to R11 billion was been extended to around 7 000 distressed businesses under the Covid-19 Loan Guarantee Scheme as of mid-July. The scheme is guaranteed for up to R200 billion, forming a central pillar of the government’s stimulus plan. It received almost 34 000 applications; 3 500 did not meet the eligibility criteria; 9 200 did not meet the bank’s criteria for providing credit; 13 800 were still being processed; and 315 loans worth R104 million had been approved but were not taken up by the applicants.

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)

info@tips.org.za | +27 12 433 9340 | www.tips.org.za