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Columnist

NEVA MAKGETLA: Facing up to the Covid-19 depression

Economic disaster looms as leaders focus on return to pre-pandemic normality instead of a second wave

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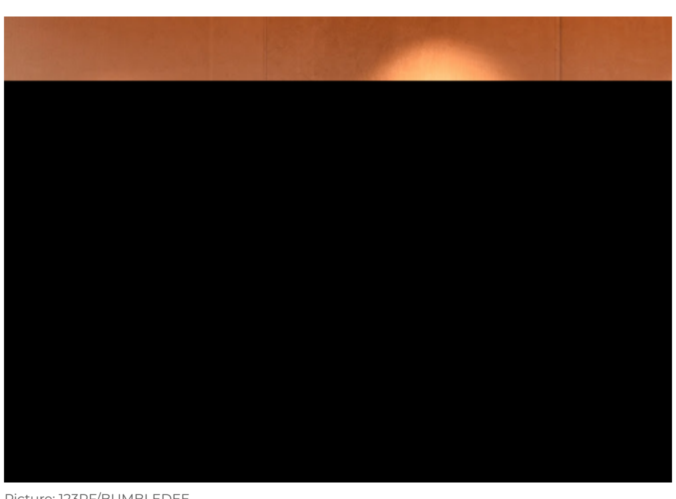
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The economy has enjoyed a significant, albeit only partial, recovery since the Covid-19 pandemic hammered it in March and April. Two immediate policy choices will determine if the rebound persists: the extension of relief to households and businesses, and appropriate regulation of holiday entertainment and travel.

Instead, policymakers and business leaders seem to be chasing the chimera of an untrammeled return to pre-pandemic normality instead of dealing with the reality of a looming second wave. That way lies economic disaster.

Already SA faces an unthinkable downturn. The IMF forecasts an 8% contraction in 2020, cancelling out almost a decade of growth. Worse, it expects SA to recover only 4.5% through 2022. In contrast, even excluding China, the global economy is expected to shrink under 6% in 2020, and to recover 7.5% by 2022.

Employment has dropped faster than GDP, and rebounded more slowly. In the third quarter it was still 1.5-million lower than before the pandemic, wiping out jobs gains from 2012. Employment losses mostly hit the working poor outside agriculture — ordinary formal workers, informal businesses and domestic workers — who are not eligible for normal social grants because they are physically able to work.

Quarterly data obscures both the depth of the April decline and growth trends thereafter. Notably, in September manufacturing sales in constant rand were equal to March 2020. In November, the mines employed more workers than a year earlier.

Predictably, businesses where customers face a high risk from Covid — especially indoor restaurants, bars and accommodation, which directly contribute about 2% of GDP and 3% of employment — have recovered more slowly. Even absent regulations many customers won't return while the pandemic persists. After crashing to near zero in April, by October food sales had recovered 65%, liquor sales 40% and accommodation 30%.

The broader recovery faces two immediate threats: the termination of the largest relief programmes, and a second surge from holiday socialising and travel.

The Covid-19 Temporary Employer/Employee Relief Scheme (Ters) ended registration in October, which means most payments will stop by the end of the year. The Covid-19 special grant for working-aged people with no other income is scheduled to disappear in January.

Neither programme was extravagant. Ters provides an average of R3,500 a month and the special grant just R350, far below the poverty line for an individual. Still, terminating them while employment remains 10% lower than in 2019 will push many working-class households into destitution, risking a downward cycle in demand. Moreover, ending Ters will force business closures and retrenchments, making it harder for producers to recover when demand improves.

The government's caution in regulating the holiday season also poses a serious threat to the economy. In Europe and the US the summer holidays fuelled an alarming upsurge in Covid-19 cases, which slowed and in some places even reversed the economic recovery.

In SA all the coastal provinces are experiencing a sharp increase in clusters from public entertainment and private socialising. In these circumstances unconstrained holiday travel will bring the surge to the rest of the country. That would likely wipe out gains even in less risky (and much larger) sectors such as mining and manufacturing.

Since April lower-cost ways to limit Covid-19 have been developed, especially controlling indoor drinking, dining and socialising; promoting mask use; and managing interprovincial travel. To be effective, however, these instruments have to be applied urgently and consistently.

Governments always battle to institute measures that impose significant costs on a vocal minority while providing larger but less tangible and more thinly spread benefits for the majority. So far the SA state has caved to the tourist industry, on the one hand, and financial advisers and creditors on the other. In the coming year we are likely to end up paying an extortionate economic and social price.

• Makgetla is a senior researcher with Trade & Industrial Policy Strategies.

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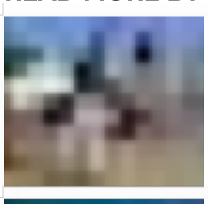
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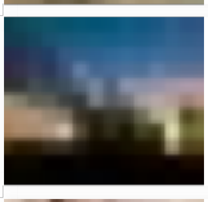
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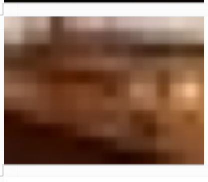
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