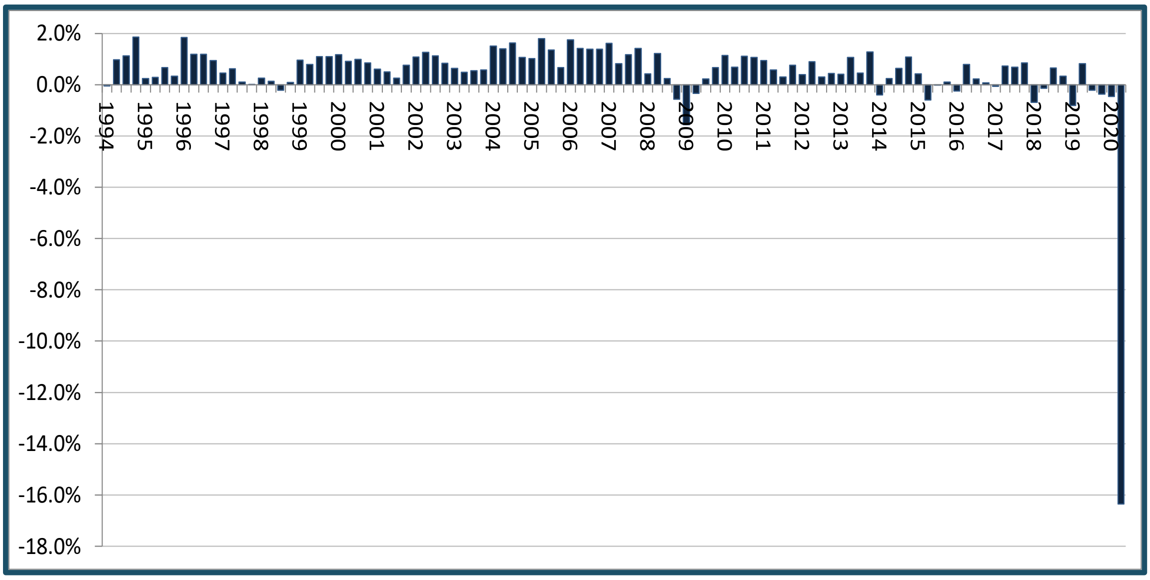
The GDP

As expected, the GDP dropped sharply, by 16% in seasonally adjusted terms, in the quarter ending in June 2020 as a result of the COVID-19 pandemic. Economic activity crashed in April, during the strict Level 5 of the lockdown. The gradual relaxation in restrictions since then have seen a bounce back to near pre-pandemic levels. Still, COVID-19 continues to pose a threat, limiting recovery especially in tourism and recreational services even in the absence of regulations. Moreover, long-standing structural challenges and declines in major trading partners will slow recovery.

In the second quarter of 2020, the GDP shrank by 16%, seasonally adjusted but not annualised. As the following graph shows, the fall dwarfed both the 2008/9 crisis and the recession of the three preceding quarters.

Graph 1. Quarterly change in GDP, seasonally adjusted

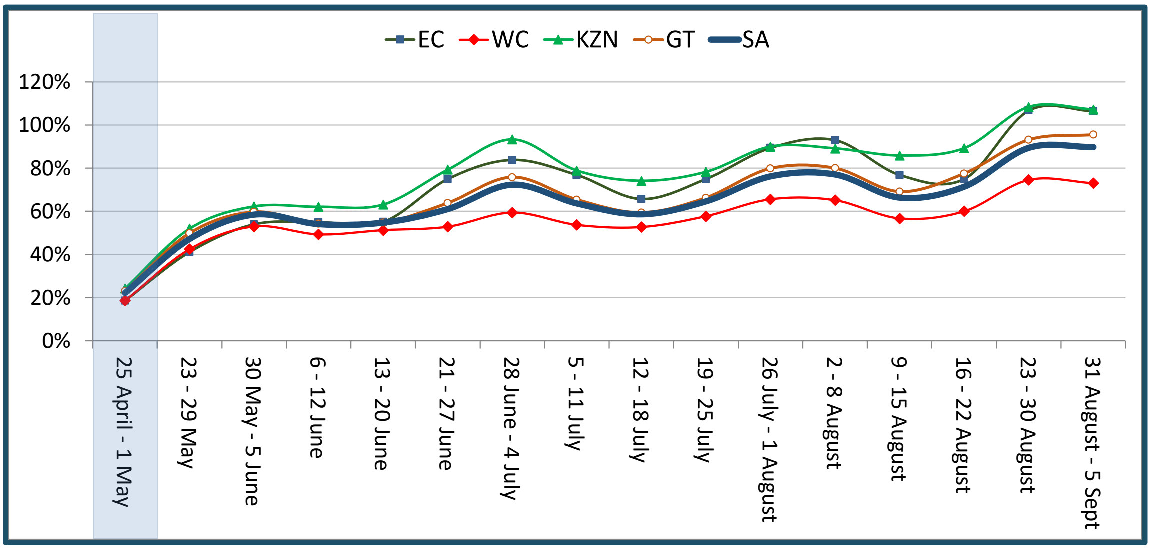


Source: Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded www.statssa.gov.za March 2020.

The GDP is only reported on a quarterly basis, which obscures critical month-on-month trends. Statistics South Africa's monthly data, which tracks sales and production by sector, are only available through June. TIPS has tried to provide a more accurate and up-to-date view using private transactional figures in its Tracker on the pandemic and the economy (see ***TIPS Tracker: The economy and the pandemic***). These data indicate that GDP declined very sharply in April, when the economy was in lockdown as public health authorities sought to slow the spread of the COVID-19 pandemic while developing less costly responses to prevent infections as well as ensuring adequate treatment. As the restrictions on economic activity gradually lessened from 1 May, the economy recovered, at first sharply and then much more gradually. It continued to lag pre-pandemic levels through August, with the Western Cape falling persistently behind the rest of the country.

Yoco, which provides financial transaction systems for small business, publishes an index of its turnover as a percentage of levels before the lockdown. As Graph 2 shows, its findings underscore both the extraordinary fall in economic activity in April, and the subsequent recovery. As of early September, small business turnover as measured by the index was 10% below March levels, although in the Western Cape it remained 25% below March.

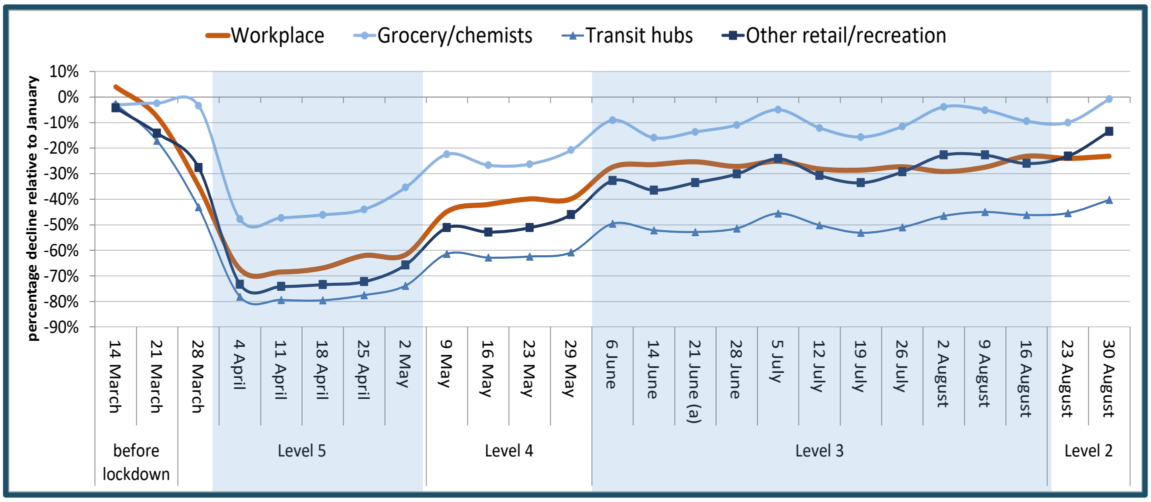
Graph 2. Small business turnover relative to the first two weeks of January, average for week to Saturday through 5 September



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

A similar picture emerges from figures on travel to work, essential retail and recreational businesses. The figures derive from Google figures on customers' mobility. Again, the data show a sharp initial improvement following the move to Level 3 on 1 May, with slower recovery thereafter. As of early September, the Western Cape remained something of an outlier. Travel to work there, for instance, was still 30% below pre-pandemic levels, compared to 20% in the rest of the country.

Graph 3. Percentage change in travel by type of destination, weekly average from week 8 March to week to 30 August, compared to January 2020 (a)

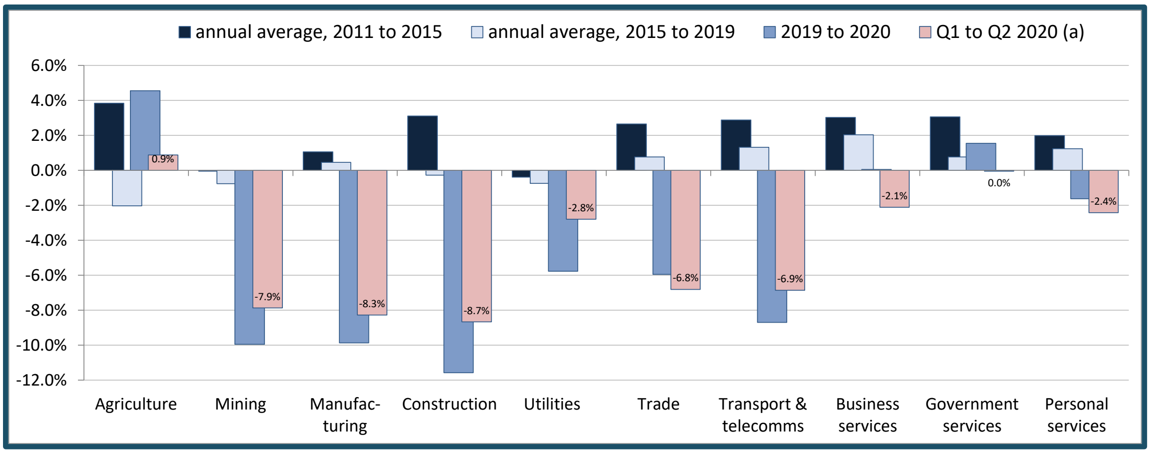


Note: (a) Data for week to 16 August exclude 10 August, which was a holiday, and may not be fully comparable to other weeks. *Source:* Calculated from Google COVID-19 Community Mobility Reports. Accessed at https://www.google.com/covid19/mobility/ on relevant dates.

By sector, the real economy excluding agriculture saw the sharpest fall in GDP in the second quarter of 2020. From the first to second quarter, seasonally adjusted, mining, manufacturing and construction declined by over 8%, and logistics by almost 6,5%.

In contrast, agriculture saw a 4% increase, in large part because it was less affected by the lockdown and enjoyed good rains in most of the country. Retail and wholesale trade fell by over 6%. The services sector saw a somewhat less disastrous performance, with personal and business services shrinking just over 2% and government services remaining essentially unchanged.

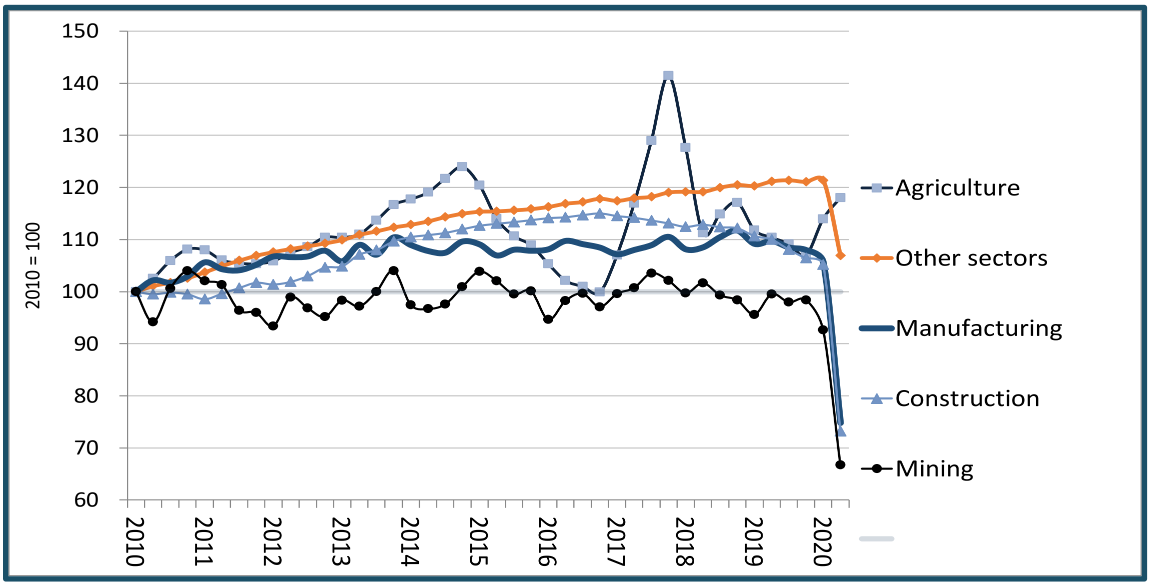
Graph 4. Growth rates by sector, averages for year to second quarter from 2011 to 2020 and first to second quarter 2020



Note: (a) Seasonally adjusted. *Source:* Statistics South Africa. Gross Domestic Product (Quarterly)(2019Q4). Excel spreadsheet downloaded from www.statssa.gov.za in September 2020.

As Graph 5 shows, the real economy outside of agriculture produced almost a third less in the second quarter of 2020 than it had in 2010. Other sectors – mostly services, logistics and retail – grew more strongly and fell less sharply, leaving them ahead of 2010 in total output (although lower in per person terms due to population growth). Agriculture performed better than any other sector, recovering after years of decline driven mostly by droughts linked to the climate crisis. The question remained how quickly goods producers would recover from the pandemic crisis.

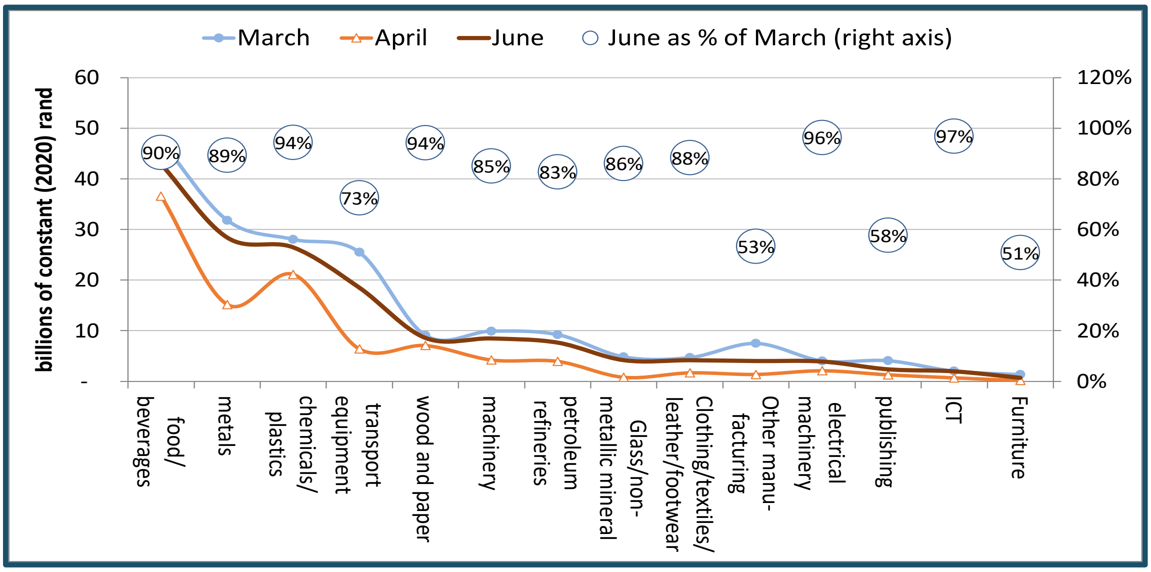
Graph 5. Indices of quarterly contribution to GDP in constant terms, seasonally adjusted, by sector (first quarter 2010 =100)



Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in September 2020.

Monthly figures for manufacturing sales point to both a differentiated impact by industry and the start of the recovery from May. As a whole, manufacturing sales in constant terms (deflated with CPI) fell by over half from March to April. By June, however, they had returned to 85% of the March figure. As Graph 6 shows, June sales in most of the major industries except auto hovered around 90% of the pre-pandemic level. Auto, which was hard hit by the downturn in Europe as well as South Africa, had only reached three quarters of its March sales.

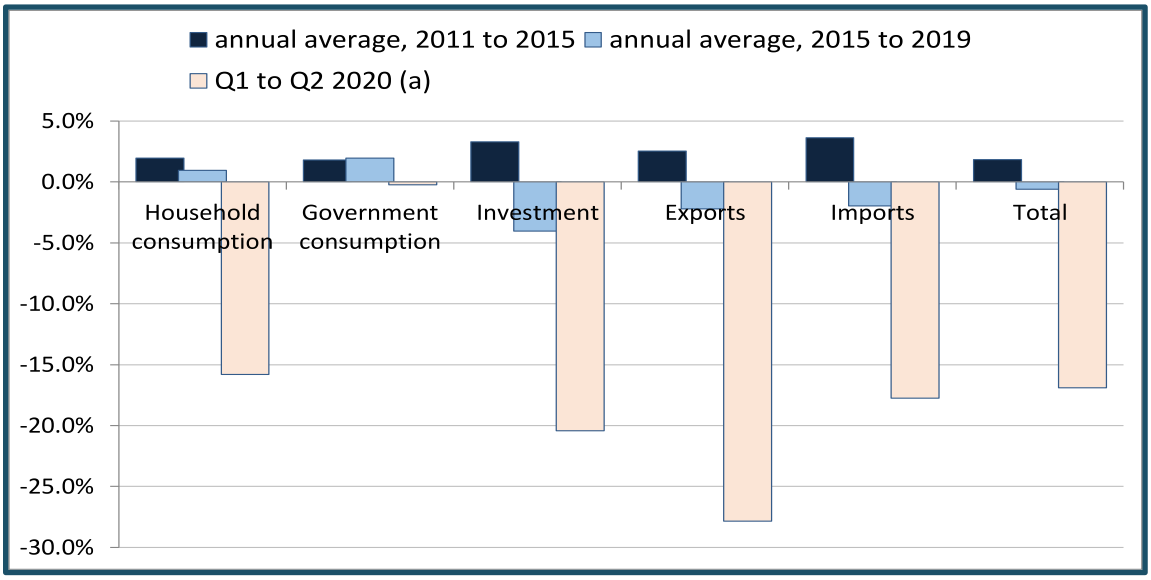
Graph 6: Monthly manufacturing sales in billions of constant (2020) rand (a) for March to June 2020, and June as a percentage of March sales



Sources: Statistics South Africa. Manufacturing production and sales. Series on actual sales. Excel database downloaded from www.statssa.gov.za in June 2020. Notes: (a) Deflated with CPI.

In terms of expenditure, the decline in GDP from the first to the second quarter was driven by falling household consumption, followed by investment and net exports. In contrast, government consumption remained virtually unchanged.

Graph 7. Change in expenditure on GDP, average for year to second quarter from 2011 to 2020 and first to second quarter 2020

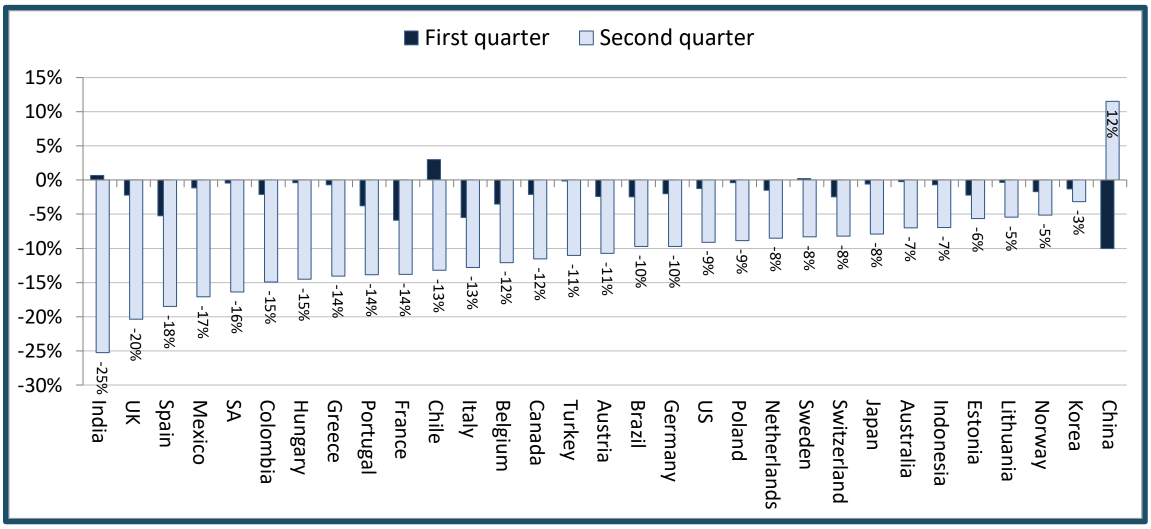


Note: (a) Seasonally adjusted. *Source:* Statistics South Africa. Gross Domestic Product (Quarterly)(2019Q4). Excel spreadsheet downloaded from www.statssa.gov.za in September 2020.

Of countries included in Organisation for Economic Cooperation and Development (OECD) data, South Africa came in at the lower end for GDP decline in the pandemic, after India, the United Kingdom, Spain and Mexico and slightly worse than Columbia, Hungary, Greece and Portugal.

The data also indicate the extent to which the pandemic already affected global growth in the first quarter of 2020, as the Chinese economy shrank by 10% with a knock-on effect in most other countries. The Chinese economy recovered almost entirely in the second quarter, however, and is expected to grow slightly in 2020. Still, except for China, all of South Africa's main trading partners – the UK, Germany, the United States and Japan – shrank by at least 8% in the second quarter of 2020. That decline will in itself make it harder for South Africa to recover.

Graph 8. Change in GDP in first and second quarter 2020, selected reporting countries

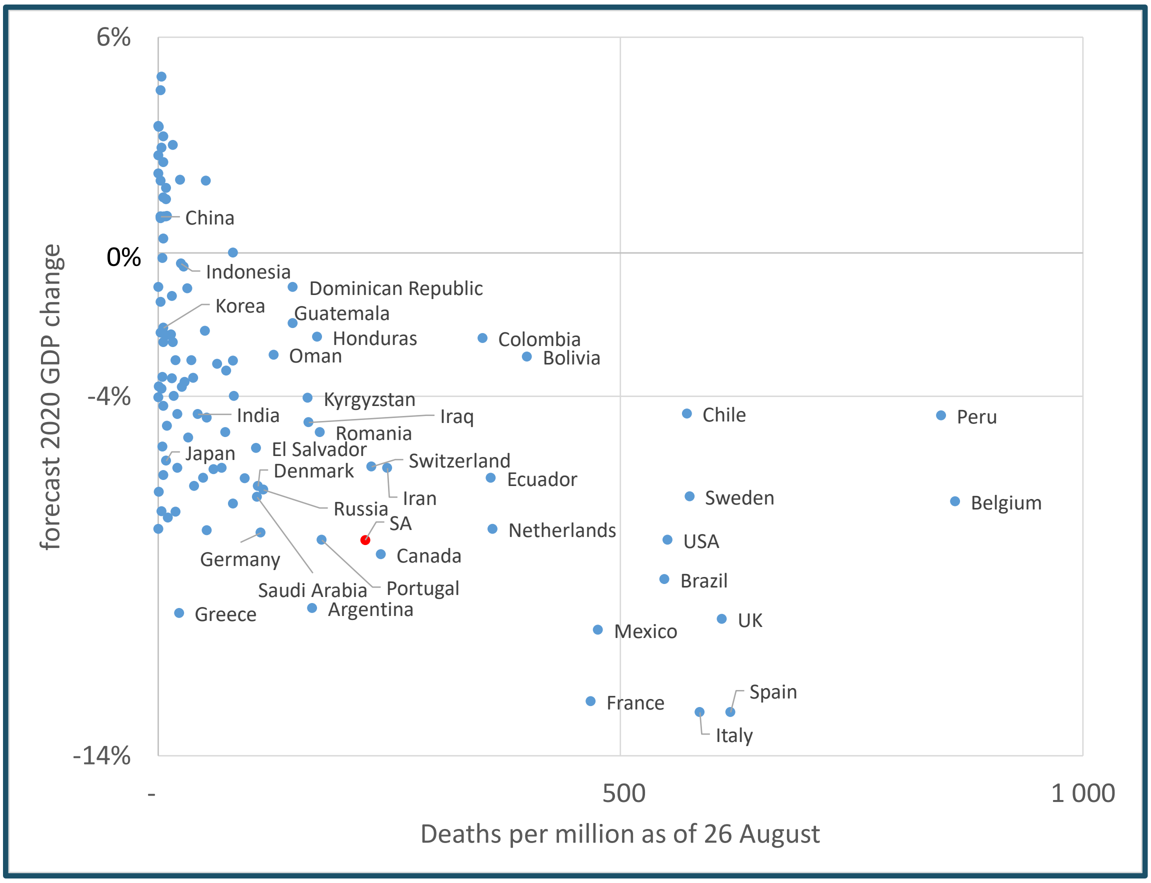


Source: OECD. Quarterly national accounts. Interactive dataset. Downloaded from www.stats.oecd.org on 9 September 2020.

Internationally, recovery in the coming year will depend on the extent to which the pandemic is contained. As Graph 8 shows, the International Monetary Fund (IMF) forecasts slower growth for countries with higher death rates from COVID-19.

Virtually no hard-hit economy is expected to recover quickly. From this standpoint, there is no trade-off between lives and livelihoods. Rather, in the short run, recovery will depend on the ability to find ways to prevent the virus that minimise economic restrictions. As a rule, that means reducing social and recreational contacts, maintaining social distancing and other protections at work, and wearing masks.

Graph 9. Deaths per million and forecast growth rate for 2020



Note: Countries with over five million residents. *Source:* Deaths per million from Worldometer. Reported Cases and Deaths by Country, Territory, or Conveyance. Downloaded on 26 August 2020 from https://www.worldometers.info/coronavirus/#countries. GDP forecasts from the International Monetary Fund, World Economic Outlook, June 2020 update for larger economies, as provided; for other countries, World Economic Outlook for April 2020. Accessed at www.imf.org in August 2020.

Some industries cannot operate safely and profitably on their old business models until the pandemic is fully contained. These activities include most in-door entertainments such as bars, restaurants, concerts and clubs, as well as some forms of public transport and retail. Moreover, consumers may be reluctant to risk some kinds of activity that are not strictly necessary, such as in-store shopping for clothes and in some cases working from the office. The challenge for the affected activities will be to develop new models that are both actually and visibly safe, for instance through greater use of delivery services and streaming. But the disruption will often be severe and many especially smaller businesses are unlikely to survive.

These factors mean that overseas tourism to South Africa is unlikely to recover any time soon. Although Statistics South Africa estimates that tourism as a whole provides only 3% of the GDP and 4,5% of employment, it is more important in the Western Cape. Various factors limit international travel, especially over long distances, even if it were legally permitted. Above all, consumer anxieties about long flights, quarantines imposed on returning visitors and lower incomes in key source markets mean tourism to South Africa is unlikely to recover any time soon. As discussed in the latest TIPS tracker (***TIPS Tracker: The economy and the pandemic 24 August-6 September 2020)***, businesses will likely have to base any recovery in the short run on domestic travellers.

That said, the apparently slower recovery in the Western Cape and Gauteng may also reflect their relatively high share of senior managers and professionals in private formal employment. These high-level positions are often more able to work from home and limit shopping in order to avoid contagion, which would depress indices for both small business turnover and travel. According to Statistics South Africa's Labour Market Dynamics, in 2018 a quarter of formal private jobs in Gauteng and almost a fifth in the Western Cape were senor professionals or managers. In the rest of the country, the figure was just over a tenth.

In addition to the pandemic, South Africa must still grapple with complex economic challenges, for which there are no easy or cheap solutions. There is broad agreement across stakeholders and analysts that structural changes are required. Except for fixing electricity generation and ending state capture, however, there is no agreement about what that means in practice or about who should pay. These disagreements ultimately reflect deep economic inequalities, which mean that economic power is heavily concentrated while political power must respond to the needs of the majority of citizens. As a result, any strategy will be contested, and implementation requires painstaking consultation to obtain at least sufficient consent for effective implementation. A recent TIPS Policy Brief on reconstruction indicates some strategic directions in this context (see ***Towards a reconstruction programme***).