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Highlights

- Economic activity is reviving as countries around the globe ease the lockdown restrictions imposed earlier in the year to contain the Covid-19 pandemic. The extent of the recovery is, however, impossible to determine, especially in light of the considerable risk of a 2nd wave of viral infections.

- Given the extraordinary nature of the current global economic crisis and associated uncertainty, significant changes continue being made to growth forecasts, which span an unusually wide range.

- The World Bank projects a 5.2% contraction of the world economy in 2020 - the worst recession since the Great Depression of the 1930s – followed by a potential rebound to 4.2% growth in 2021. It cautions, however, that the outlook could be worse if it takes considerably longer to contain the pandemic.

- Large stimulus packages have been put in place, especially in advanced economies, to cushion the adverse impact of lockdown restrictions on households and businesses and to support an economic recovery. However, their implementation has not generally been as swift and smooth as initially intended.

- Global purchasing managers’ indices (PMIs) for the month of May suggest that economic activity is recovering in the world’s largest economies, particularly the United States, the Eurozone and China, as lockdown restrictions have either been lifted or relaxed.

- Several emerging market economies continue facing fast-rising Covid-19 infection rates. With limited fiscal space and tighter credit markets, they are generally struggling to provide the required stimulus to counter the ongoing crisis.

- Ultimately, the world’s growth trajectory in the short- to medium-term will be highly reliant on the extent to which confidence levels recover among consumers, businesses and investors. Policy support will also be crucial, for the production bases of most economies have taken a considerable knock, resulting in substantial job losses.

- The unlocking of economic activity, initially in China and considerably later in other parts of the world, has led to a price recovery in the industrial commodities complex. While positive price responses have been supported by expectations of demand recovery from depressed levels, it is global commodity supply-side responses, or the lack thereof, that should tighten market balances and support prices going forward.

- Sub-Saharan Africa (SSA) is set to experience its first economic recession in more than 25 years. Growth outcomes will vary across countries, depending on the degree of national success in containing Covid-19 and developments in key trading and investment partner nations. Investment activity in the region may suffer delays, especially in extractive industries, energy and other infrastructure development.

- South Africa’s economic downturn continued in Q1 2020, following a technical recession in the second half of 2019. This is evidenced by data on key economic indicators, including sharp contractions in manufacturing and mining output, sharply lower sales of new passenger vehicles and weaker retail sales.

- Economic activity in Q2 2020 will have been severely impacted by the stringent lockdown rules imposed under levels 5 and 4 of the South African government’s risk-adjusted strategy to contain the spread of the Covid-19 pandemic. Private sector activity in general, including manufacturing output, all but collapsed as gauged by the PMIs for April and May 2020. Motor vehicle sales, both in domestic and export markets, were a shadow of the norm.
Economic overview

- The nominal value of South African exports tumbled by 55.2% (month-on-month) in April 2020, affected by significantly weaker demand in key export markets and by domestic production restrictions and logistics constraints. The balance of trade consequently posted its worst monthly deficit on record, at R53 billion.

- Business confidence tumbled to a record low of 5 index points in Q2 2020 as Level 5 restrictions imposed unprecedented supply- and demand-side shocks on all surveyed sectors. The retail trade had the best reading, at a mere 11 points, mainly linked to the fact that sales of essential goods, including food and pharmaceutical products, were permitted.

- South Africa's gross domestic product (GDP) is forecast to decline by 7.5% in real terms in 2020. Massive job losses are anticipated, resulting in a substantially higher unemployment rate by the end of 2020. The severity of the economic recession will also be reflected in a steep drop in fixed investment activity.

Implications for South African businesses

Potential implications of global economic developments

- With the global economy in a deep recession, demand for South African exports, from industrial commodities to manufactured goods as well as services, is likely to be substantially weaker. Many export-oriented businesses may experience considerably lower revenue streams in such an adverse global environment.

- Global as well as domestic supply chain disruptions have been impacting on the operations of numerous local business enterprises due to interruptions in the supply of intermediate products, raw materials, capital equipment, as well as final goods. Although lockdowns are being lifted or relaxed both globally and domestically, production backlogs may result in such disruptions continuing for some time.

- Foreign direct investment (FDI) flows globally are expected to drop considerably in 2020 according to UNCTAD. In a highly uncertain and depressed economic environment, South Africa will find it challenging to attract a meaningful quantum of FDI in the short- to medium-term.

- Travel restrictions and recessionary conditions will continue having a devastating impact on the tourism sector for quite some time, whether in the leisure or business segments. In the absence of foreign tourists, potentially until early in 2021, the domestic hospitality industry will remain under extreme duress.

- In the shorter term, generally low commodity prices are likely to weigh on the export earnings of the local mining industry in USD terms. The impact will, however, be softened by a considerably undervalued rand. Relatively weak global demand and low commodity prices could have adverse implications for fixed investment in the South African mining sector in general, although some segments may not be as harshly affected.

- Increased financial market volatility and risk aversion towards emerging market assets could keep the Rand undervalued for some time. Although this could provide improved price competitiveness for South African products in global and local markets, it may also lead to inflationary pressures.
Potential implications of regional economic developments

- The downturn in economic activity across Sub-Saharan Africa (SSA) will have negative implications for South African investments in other parts of the region. Several businesses operating in SSA may experience difficulties in accessing hard currencies for their import requirements and other external financial transactions.

- Substantially reduced consumption expenditure and investment activity in SSA will have a negative bearing on demand for South African exports, potentially affecting the performance of companies that are significantly reliant on regional markets.

- The economic outlook for the SSA region is expected to improve in the medium-term. Together with the implementation of the African Continental Free Trade Area agreement, this could bring along a multitude of investment, business and trade opportunities. South African companies should position themselves to take full advantage of such opportunities as and when they become available.

Potential implications of domestic economic developments

- With the South African economy expected to experience a very deep recession in 2020, the implications for domestic demand, production activity, confidence levels, investment plans and employment, among others, will be generally severe.

- The economic crisis is impacting all spheres of the economy directly and/or indirectly, requiring varied and very sector-specific approaches from the South African government regarding developmental assistance.

- Numerous business enterprises may experience severe distress over a prolonged period. The tourism sector is likely to be most affected, with adverse ramifications for supplier industries.

- As would be expected in a highly uncertain environment, excessive volatility in equity, commodity and currency markets will emerge from time to time, potentially posing significant risks to many South African businesses.

- The ongoing crisis has, however, also brought to the fore important economic opportunities for South Africa going forward, largely associated with the following developments:
  - The strategic imperative for companies all over the world to diversify their sources of supply, for the crisis has highlighted the threats to global supply chains brought about by excessive concentrations of market power. This may open up opportunities for:
    - Further integration of South African businesses into global supply chains and other export market development opportunities;
    - Import replacement in the domestic market.
  - An increased awareness of the importance of environmental sustainability across the world, which is leading to growing calls for an enhanced focus on climate change mitigation and adaptation action.
  - The extent to which digital technologies have been swiftly embraced, especially digital communication technologies, during these extraordinary times. A huge acceleration in the uptake of the digital revolution may thus ensue as the world emerges from the current crisis.
  - The imperative of dealing with prevailing inequalities in the world of today, and especially in a highly unequal society such as South Africa's.
The global economy in a deep recession

As economies across the world start to emerge from Covid-19 induced lockdowns, economic activity is gradually recovering. The pace and extent of the recovery process is impossible to determine, keeping uncertainty at elevated levels.

The full or partial lockdown of national economies by governments around the globe in efforts to contain the pandemic was unprecedented. Such measures have caused havoc in the global economy, disrupting social and economic systems on an extraordinary scale. Trade, production and investment activity across the world declined considerably, with the World Trade Organisation having indicated a drop in global trade of between 13% and 32% in 2020.

The largest financial support packages in history are being released by several advanced and emerging economies as well as institutions to support business enterprises and households around the globe.

The duration of lockdowns has generally exceeded initial expectations, resulting in global growth forecasts being revised more frequently and markedly than has historically been the case.

In 2020, the world economy is consequently set to record its worst performance since the Great Depression of the 1930s, with the World Bank projecting a 5.2% decline in global GDP (June forecasts, at market exchange rates). This compares with the 4.2% contraction (~3.0% on a purchasing power parity basis) projected by the International Monetary Fund in April, reflecting the highly uncertain economic environment.

A rebound in global growth may ensue in 2021, with the World Bank forecasting it at +4.2%.

A subdued recovery is based on expectations of an incomplete resumption of activities such as tourism, the impact of weaker balance sheets on household and business spending, and, among other factors, the loss of significant production capacity due to the closure of numerous enterprises during 2020.

Importantly, the risks of a prolonged global recession are high, for the pandemic has not been contained yet and is causing considerable and potentially long-lasting damage to the global economy.

**Figure 1: The world economy is in its worst crisis since the Great Depression**

![Graph showing world GDP growth forecasts](image)

Source: IDC, compiled using World Bank data
United States: The US economy is expected to contract by 6.1% in 2020, according to the World Bank. The USD3 trillion federal stimulus package approved thus far has been assisting in softening the impact of various levels of restrictions imposed by individual states, some of which imposed relatively short lockdown periods.

With most of the US economy under Covid-19 related restrictions from the latter part of March to end-April, the number of individuals filing for unemployment benefits skyrocketed to around 40 million, pushing the unemployment rate upward from 4.4% in March to 14.7% in April. The reopening of various parts of the economy subsequently supported a drop to 13.3% in May.

The US Federal Reserve Chair, Jerome Powell, painted a grim outlook for the economy on 11 June, expecting the recovery to be slow, starting in the second half of 2020 and possibly extending over the next two years. The Fed is forecasting GDP growth of -6.5% for 2020 and expects unemployment to remain high for quite some time. Interest rates have thus been left unchanged at near zero, with no plans to raise them any time soon. The US Composite Purchasing Managers Index (PMI) came in at 37 points in May. Despite the improvement from 27.4 points in April, it still reflects the highly adverse conditions in the US economy.

Moreover, concerns over a second wave of viral infections are mounting, for the number of infections has increased significantly in various states since the relaxation of lockdown measures.

Eurozone: The Covid-19 pandemic and measures to contain it are having a far greater impact on the Eurozone than in the US. The World Bank is projecting this regional economy to shrink by 9.1% in 2020 and the European Central Bank’s June forecast is not far off at -8.7%. Double-digit declines are projected for fixed investment spending and exports.

Eurozone unemployment increased to 7.3% in April, from 7.1% in March. The significantly smaller rise in the unemployment rate compared to the US experience is largely due to the introduction of furlough schemes, whereby European governments pay a portion of the salaries of workers idled by their companies, supporting around 40 million employees.

The fiscal support announced by Eurozone countries and the European Commission has limited the damage inflicted by lockdown restrictions on economic activity and is supporting the recovery as such measures are gradually lifted. The Eurozone PMI increased to 31.9 points in May, from 13.5 in April. Several Eurozone countries are starting to open their borders to neighbouring states, a move which is particularly important for southern
European countries that are highly dependent on tourism income. However, with infection rates ticking up once again, fears of renewed harsh control measures are emerging.

**China:** The Chinese economy is set to grow at its slowest rate since at least 1980, with the World Bank projecting a 1% expansion in GDP for 2020. The bulk of the domestic impact of the Covid-19 pandemic on industrial production was felt in the first quarter of the year, as shown in Figure 3, but the collapse of economic activity in most of the world during the second quarter has been highly detrimental to China’s export sector.

The Chinese authorities did not announce major stimulus measures but directed fiscal resources towards improving health facilities and providing unemployment benefits. In sharp contrast with historical practice, the authorities have not set a growth target for 2020, reflecting the high degree of uncertainty. Nearly all Covid-19 related restrictions on economic activity have been lifted, supporting the recovery of China’s PMI to 54.5 points in May (refer to Figure 2 above), from 46.7 in April.

The heavy debt burden of non-financial companies and local governments continues to cast a large shadow on the country’s financial system and associated sustainability risks.

**Figure 3: Collapse in industrial production across the world**

[Graph showing growth in industrial production: February to May 2020]

Source: IDC, compiled using Bloomberg data

**Other emerging markets:** Brazil, Russia, India, Mexico and South Africa, along with most other emerging market economies, have also been dealt severe blows. National lockdowns have constrained production activity and domestic spending. Travel bans have led to their tourism industries being in a prolonged standstill, with little hope of a recovery any time soon. Export oriented economies have witnessed the collapse of external demand due to Covid-19 related restrictions in key global markets. Commodity exporters have generally suffered from sharply lower export volumes and weaker prices, with oil producing economies under particular strain as crude prices plummeted.

2020 will be the first year since at least 1960 that the emerging market and developing economies as a group will record a negative annual rate of growth in real GDP (forecast by the Word Bank at -2.5%). This is significant, as emerging economies have been the engine of global expansion for many years. Most emerging market economies will be in recession and the continued exponential growth in the number of Covid-19 infections and recorded deaths may push the eventual economic recovery further into the future. At the time of writing, 11 of the 12 countries recording the largest number of new confirmed infections globally were emerging economies (Brazil, India, Russia, Pakistan, Chile and others).
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Figure 4: Emerging market currencies substantially weaker against the US dollar

Emerging market currencies’ performance vis-à-vis the US dollar: 1 January to 11 June 2020

Downside risks to global growth abound. A second wave of viral infections could lead to the re-imposition of control measures, deepening and prolonging recessionary conditions. This eventuality has underscored excessive volatility in equity-, commodity- and currency markets in recent times. Renewed tensions between the US and China are also aggravating an already challenging global trading and investment environment.

Figure 5: High levels of volatility in financial markets reflecting investor concerns

Financial market volatility

Despite significant sell-offs in global stock markets since the onset of the pandemic, the functioning of financial markets has remained relatively smooth, with central banks at times stepping in for this purpose. The additional liquidity provided by various major central banks has also put downward pressure on government borrowing costs. The balance sheets of banks are also generally healthier than in 2008, when the world faced a deep financial crisis.

However, this is no time for complacency. Financial stresses could evolve into financial crises. Emerging markets are particularly vulnerable, since they have experienced massive capital outflows and, by and large, do not have the wherewithal to deal with financial and healthcare system shocks simultaneously. As stated by the International Monetary Fund (IMF) in its Global Financial Stability Report: Markets in the Time of Covid-19, “This crisis presents a very serious threat to the stability of the global financial system”. It highlighted the rapid tightening of financial conditions after the Covid-19 outbreak, sharply higher market volatility, rising borrowing costs and large capital outflows from emerging markets. The IMF also cautioned that “A prolonged period of dislocation in financial markets could trigger distress among financial institutions, which, in turn, could lead to a credit crunch for nonfinancial borrowers, further exacerbating the economic downturn”.

Considerable downside risks to a global recovery, particularly a potential 2nd wave of infections and renewed US-China tensions
Economic overview

Industrial commodities: Price recovery poised to continue

The unlocking of economic activity as lockdown restrictions were gradually lifted, initially in China and considerably later in other parts of the world, has led to a price recovery in the industrial commodities complex.

While a positive price response in most industrial commodity markets has been supported by expectations of demand recovery from depressed levels due to restarts in industrial activity, it is global commodity supply-side responses, or the lack thereof, that should tighten market balances and support prices going forward.

**Figure 6: The prices of key commodities for South Africa have generally recovered**

A deep global recession in 2020 has significantly curtailed new mine capacity development plans across the commodities complex, inducing significant downward revisions to both short- and medium-term supply growth expectations. Furthermore, reduced operating rates at metal processing facilities globally, owing to force majeure and adjustments to weaker demand conditions, have accelerated the destocking of available refined metal stockpiles amid improving industrial demand.

In addition, the continued low oil price environment has raised investment risk premia across the industrial metals complex. As such, a cluster of industrial commodities, as shown in Figure 7, are expected to continue experiencing inventory drawdowns and a tightening of market balances that should support positive price movements in the months ahead.

**Figure 7: Fundamental cycle of key commodities for IDC and anticipated developments**

Source: IDC, updated and adapted from Macquarie graphic
The risks of further curtailment in commodity price supplies are additionally enhanced by the continuing impact of Covid-19 on more labour-intensive operations globally. In the case of iron ore, for example, sustained force majeure at Vale (a major iron ore producer) due to reported coronavirus infections in its labour force, will likely further weigh on iron ore supply expectations, thus lifting market prices well above consensus expectations.

The recent recovery in crude oil prices, precipitated by an historic OPEC+ agreement to cut 9.7 million barrels in oil supply per day over the period April 1 to end-July 2020 and, thereafter, to limit the output reduction to 7.7 mbpd until December, will likely reinforce the stabilisation of industrial commodity prices. Even though world demand for oil in 2020 will be significantly lower than the level recorded in 2019, the OPEC+ supply cuts are expected to swing the global oil market into a deficit by the end of Q3 2020, with positive implications for prices over the remainder of the year.

While geopolitical risks such as renewed tensions between the US and China could curtail a steeper recovery in industrial commodity prices in the months ahead, precious metals should benefit from sustained safe-haven investment inflows at least in the short-term.

Sub-Saharan Africa set to record its 1st recession in over 25 years

Sub-Saharan Africa (SSA) is expected to record its first economic recession in more than a quarter of a century. The World Bank has put forward a bleak growth outcome for the region, at -2.8% in 2020, with the risks being clearly tilted to the downside.

Plummeting export receipts due to substantially weaker external demand, particularly for commodity exports, the evaporation of tourism earnings due to travel restrictions, the adverse impact of national lockdowns on domestic spending and economic activity, as well as considerably lower inflows of foreign investment capital and emigrant remittances, underpin a grim prognosis for most countries in the region.

Growth outcomes will vary considerably across SSA, with the degree of success of national efforts to contain infections and developments in key trading and investment partners largely determining the extent of adversity and the strength of an economic recovery. Table 1 indicates the expected growth outcomes for South Africa’s principal export markets in SSA in 2020 and 2021, as well as the type and extent of vulnerabilities which characterise them.

Table 1: Growth expectations for, and vulnerabilities of South Africa’s key export markets in Sub-Saharan Africa

<table>
<thead>
<tr>
<th>South Africa’s 10 largest export markets in Africa</th>
<th>% share of SA’s total exports in 2019</th>
<th>GDP growth forecasts 2020</th>
<th>GDP growth forecasts 2021</th>
<th>Vulnerabilities to Covid-19 shocks</th>
<th>Debt sustainability analysis</th>
<th>Lockdown status</th>
<th>Start date</th>
<th>Easing from</th>
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<tbody>
<tr>
<td>Country</td>
<td></td>
<td>(Global financial conditions</td>
<td>Trade linkages with China &amp; Europe</td>
<td>Tourism dependence</td>
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<tr>
<td>Botswana</td>
<td>4.4</td>
<td>-9.1</td>
<td>4.2</td>
<td>Low vulnerability</td>
<td>Localised</td>
<td>2-Apr</td>
<td>8-May</td>
<td></td>
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<tr>
<td>Mozambique</td>
<td>4.1</td>
<td>-1.3</td>
<td>3.6</td>
<td>Medium vulnerability</td>
<td>National</td>
<td>30-Mar</td>
<td>n/a</td>
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<tr>
<td>Namibia</td>
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<td>Low vulnerability</td>
<td>National</td>
<td>28-Mar</td>
<td>5-May</td>
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<tr>
<td>Zambia</td>
<td>2.3</td>
<td>-0.8</td>
<td>2.4</td>
<td>High vulnerability</td>
<td>Localised</td>
<td>21-Mar</td>
<td>8-May</td>
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<td>Zimbabwe</td>
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<td>2.9</td>
<td>Low vulnerability</td>
<td>National</td>
<td>30-Mar</td>
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<td>Eswatini</td>
<td>1.5</td>
<td>-2.6</td>
<td>2.7</td>
<td>Low vulnerability</td>
<td>National</td>
<td>27-Mar</td>
<td>8-May</td>
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<td>Lesotho</td>
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<td>-5.1</td>
<td>5.5</td>
<td>Low vulnerability</td>
<td>National</td>
<td>30-Mar</td>
<td>6-May</td>
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<tr>
<td>DRC</td>
<td>1.2</td>
<td>-2.2</td>
<td>3.5</td>
<td>Low vulnerability</td>
<td>Localised</td>
<td>7-Apr</td>
<td>25-Apr</td>
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<tr>
<td>Kenya</td>
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<td>1.5</td>
<td>5.0</td>
<td>Medium vulnerability</td>
<td>Localised</td>
<td>27-Mar</td>
<td>27-Apr</td>
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<td>Tanzania</td>
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<td>5.5</td>
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<td>Localised</td>
<td>14-Apr</td>
<td>1-Jun</td>
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<td>Other major economies in Sub-Saharan Africa</td>
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<td>Angola</td>
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<td>-4.0</td>
<td>3.1</td>
<td>Low vulnerability</td>
<td>National</td>
<td>27-Mar</td>
<td>3-May</td>
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<td>Nigeria</td>
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<td>-3.2</td>
<td>1.7</td>
<td>Low vulnerability</td>
<td>National</td>
<td>29-Mar</td>
<td>4-May</td>
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<tr>
<td>Ghana</td>
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<td>3.9</td>
<td>Low vulnerability</td>
<td>Localised</td>
<td>30-Mar</td>
<td>21-Apr</td>
<td></td>
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<tr>
<td>Uganda</td>
<td>0.1</td>
<td>3.3</td>
<td>3.7</td>
<td>Low vulnerability</td>
<td>Localised</td>
<td>30-Mar</td>
<td>5-May</td>
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<tr>
<td>Senegal</td>
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<td>Ethiopia*</td>
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<td>Low vulnerability</td>
<td>National</td>
<td>8-Apr</td>
<td>n/a</td>
<td></td>
</tr>
</tbody>
</table>

* Ethiopia declared a ‘state of emergency’ rather than a lockdown.

Source: IDC, compiled using SARS trade data, World Bank GDP growth forecasts, IMF assessment of vulnerabilities, various sources regarding lockdown status
The most vulnerable to shocks emanating from the Covid-19 pandemic are clearly those that are dependent on commodity exports (particularly to China and Europe), external capital flows and tourism receipts.

Exporters of oil or industrial and metal commodities such as Nigeria, Angola, the Democratic Republic of the Congo, Zambia, Botswana and South Africa are likely to be among the hardest hit. Even exporters of agricultural commodities, such as Côte d’Ivoire, Kenya and Ethiopia, have not been left unscathed, for global demand for their products has tumbled.

International and domestic travel restrictions are weighing heavily on the tourism sectors of a number of countries in the region, such as Mauritius, Seychelles, Cape Verde, Ethiopia, South Africa and many others.

Significant lower inflows of external capital, including foreign direct investments, portfolio inflows and/or foreign aid, are anticipated. Various investment projects, especially in extractive industries, the energy sector and other infrastructure development are likely to be delayed or postponed, if not cancelled outright. A prolonged period of lower external capital flows could reduce investment activity markedly in countries such as Mozambique, Ethiopia, Kenya and Rwanda, thus weighing on their growth performances.

Nearly one-third of African countries are vulnerable to declines in remittances, for these have become an important external source of capital. Remittances from the African diaspora have been falling considerably due to recessionary conditions in numerous host countries. In southern Africa, remittance-dependent countries such as Lesotho and Zimbabwe will be severely affected by the deep recession in South Africa.

Following a relatively slow start to the spread of Covid-19 in Africa, confirmed cases have gathered considerable pace, albeit still lagging behind those in other regions and/or countries. The SSA region has recorded more than 100 000 cases of the virus, with South Africa being the most affected country. However, such numbers could be a gross underestimate of infections due to the limited testing capacity of many countries.

Most SSA countries implemented full or partial lockdown measures at a national or localised level from the first quarter of 2020 onwards. Several governments have, however, been easing restrictions and working towards reopening their economies to protect livelihoods and improve economic and business conditions battered by lockdowns.

On balance, the medium-term economic outlook for the region is likely to remain very challenging. A protracted period of socioeconomic weakness is almost certain, given the challenges of inadequate healthcare systems, limited capacity to implement pandemic containment measures (social distancing, provision of personal protection equipment and hygiene products), constrained fiscal space to respond to Covid-19 induced shocks and intensifying external debt vulnerabilities.

South Africa is facing a brutal economic crisis

South Africa’s macroeconomic environment worsened further in the first quarter of 2020, before the implementation of national lockdown measures to contain the Covid-19 pandemic. This followed a technical recession in the second half of 2019, which took the expansion in real GDP to a mere 0.2% for the year as a whole – a decade low.

Manufacturing output was 8.4% lower (quarter-on-quarter) in Q1 2020. A massive drop of 50.2% was recorded by the petroleum products sub-sector. Several other sub-sectors reported sharply lower production levels, including those producing motor vehicle parts (-28.3%), beverages (-13%), basic iron and steel (-12.4%), as well as clothing, textiles, footwear and leather (-9.8%).
Mining output, in turn, fell by 21.8% in Q1 2020 compared to the previous quarter. The decline was particularly steep in the case of iron ore (-65.8%), manganese (-69.8%) and chrome (-56%), as mining production was largely brought to a halt as from mid-March due to restrictions on operations and weaker Chinese demand.

Lower retail sales and the steep drop in new vehicle sales bore testimony to the difficult consumer environment, while continuously falling electricity sales reflected protracted load-shedding by Eskom as well as the weak economic environment.

**Figure 8: Economic conditions remained challenging at the start of 2020**

The adverse economic and social impacts of the unprecedented lockdown measures have been immense

The economic environment has deteriorated enormously

Economic conditions worsened dramatically in the second quarter of the year as extraordinary lockdown measures were introduced, initially under Level 5 and subsequently in Level 4 of a risk-adjusted strategy, to flatten the Covid-19 infection curve.

The restrictions imposed unprecedented demand- and supply-side shocks on the economy, having a major bearing on spending, production and investment activity. Most segments of the economy went into a complete shutdown, with the exceptions being providers of essential services.

The socioeconomic impacts have been enormous, with the consequential drop in household incomes - whether brought about by reduced pay, massive job losses or the inability of micro-enterprises to conduct their normal businesses - leading to increased poverty and humanitarian crises in many parts of the country. Extraordinary stimulus packages continue being announced to soften the adverse impacts, but roll-out challenges have often prevented them from reaching the targeted beneficiaries timeously.

Unfortunately, data collection and the release of key statistics (such as high frequency data on mining and manufacturing output, retail trade sales, etc.) have been affected by Covid-19 restrictions on mobility and economic activity. Notably, the release of GDP data for Q1 2020 is now scheduled for June 30. Delays in the release of such statistics have been compromising analyses of the economic and social impacts of such measures.

Nonetheless, important barometers of the economy’s health status continue being released. These include the Absa Purchasing Managers’ Index (PMI) for the manufacturing sector and the IHS Markit South Africa PMI, which provides valuable insights into business activity in the private sector at large.
Manufacturing: The adverse impact of the lockdown measures is reflected in the dramatic collapse of all but one of the sub-components of the ABSA Manufacturing PMI in April 2020. Its business activity sub-index (production) plummeted in April to the lowest reading on record, at 5.1 index points, but rebounded to 43.2 in May as many manufacturing enterprises started operating again under Level 4. The wider private sector oriented IHS Markit PMI, in turn, fell to 32.5 (an all-time low) in May 2020, as demand fell sharply.

Such readings attest to the collapse of economic activity in Q2 2020. Manufacturing production will recover gradually as most manufacturers returned to work under Level 3, but the challenge of highly constrained demand may linger for a long while.

**Figure 9: Collapse in business activity and manufacturing output**

The automotive industry and motor trade services sector have been clear victims of the damaging demand-side effects of global and domestic lockdowns. Vehicle sales in the local market plunged 98.4% in April and 68% in May (both figures on a year-on-year basis). Exports of motor vehicles also collapsed, with the number of units sold in global markets falling 97.3% in April and 64% in May, compared to the equivalent periods a year ago.

Considering the size and importance of the automotive industry to the economy, both directly and indirectly, its plight has extensive implications. A gradual recovery is anticipated, but it will take quite some time before it returns to “normal” production levels.

**Figure 10: Vehicle sales plunged both in local and export markets**
Mining sector: Mining output declined by 47.3% (year-on-year) in April 2020 as lockdown restrictions prevented the sector from operating at full capacity. This was by far its worst performance on record. Among the largest mining sub-sectors, the following posted massive contractions in output: iron ore (-68.7%); platinum group metals (-62.0%); and gold (-59.6%). The coal mining sub-sector posted a lesser rate of decline, at -9.1%, as it continued supplying the resources required to fuel the country’s essential electricity services.

Mining activity is likely to remain constrained for some time due to domestic operational challenges (recruitment of migrant miners; health safety measures; transportation, etc.); adverse demand conditions (weak world demand; generally lower commodity prices; constrained domestic spending, production and investment activity) and global logistics constraints.

Tourism: The tourism sector has been the hardest hit by the ongoing crisis and a recovery is not yet in sight. Travel and lockdown restrictions globally, regionally and domestically have limited the mobility of individuals, whose concern over infection risks is likely to reduce their propensity to travel long after restrictions are lifted.

Furthermore, economic recessions and substantial employment losses in key source markets of foreign tourists as well as in South Africa have reduced the spending power of households and business enterprises. In addition, the proliferation and increased usage of digital communications technologies will have adverse long-term repercussions for the business travel, hospitality and conferencing industries.

The industry is likely to remain under enormous strain for an extended period, considering that domestic travel is unlikely to resume until at least the end of the year, while foreign tourists may not be allowed to enter the country until next year.

Electricity: The lockdown of the South African economy since the end of March had major consequences for electricity consumption and generation. Consumption declined by 23.3% (year-on-year) in April to only 14 356 Gwh (a record low), compared to 18 711 Gwh a year earlier. However, high frequency data provided by Eskom indicates that electricity demand has picked up gradually as lockdown restrictions have been eased. The Energy Availability Factor (EAF) increased from 59.51 in early April (Level 5 lockdown) to a reading of 72.40 by end-May as the economy reopened under Level 4.

Although demand for electricity remains quite subdued, it will recover progressively as economic activity gains momentum under less restrictive lockdown conditions.
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Trade balance records a massive deficit

South Africa’s balance of trade recorded a deficit of R35 billion, the largest on record, as merchandise exports plummeted by 55.2% (month-on-month) to R53 billion. Import demand remained comparatively resilient considering the strict lockdown measures applicable under Level 5, as the nominal value of imports declined by 6.5% to R88 billion.

In April, South Africa’s trade balance recorded the largest monthly deficit on record

Exports of motor vehicles, parts and accessories (included under transport equipment in Figure 12) fell 89.1% to R1.9 billion in April, from R17.4 billion in March. Only 901 motor vehicles were exported during April, compared to 28 889 vehicles in March. Sharply lower exports were also recorded for clothing, textiles, footwear and leather (CTFL); machinery and equipment; base metals; mineral products; chemicals; and to a lesser extent, food and beverages. Collectively, these sectors accounted for 77% of all merchandise exports in April.

From a regional perspective, exports to the European Union were most affected, falling 71.5% in nominal values to R9.6 billion in April. Exports to other African countries plummeted by 58.1% and to the USA by 45%. Exports to China, a key destination for mining and mineral products, fell 19.1% to R7.9 billion. Although exports to South Korea (-59.4%) and India (-59.3%) dropped considerably, these countries claim relatively smaller shares of South Africa’s export basket. Exports to South Korea were dominated by iron ore and other mineral products, while coal accounted for 45% of the export basket destined for India.

Figure 13: Exports adversely affected by lockdown restrictions in key global markets

Exports significantly impacted by global lockdown measures and supply-chain disruptions

Merchandise exports to key trading partners fell sharply in April 2020
Manufactured goods were severely affected, with exports to the EU decreasing by 77.4%, followed by the USA (-69.2%), Africa (-61.5%) and Japan (-56.9%). Combined, these markets accounted for roughly 70% of South Africa’s total manufactured exports in April 2020.

Among the import categories, there was a sharp drop of 47.9% (or R3.7 billion) in the import bill for refined petroleum products in April 2020, whereas imports of motor vehicles, parts and accessories declined by 25.7% or R4.3 billion. In sharp contrast, imports of textiles rose 372% (or R3.4 billion) compared to March. This was perhaps associated with the increased demand for personal protective equipment to combat the spread of Covid-19. Imports of wearing apparel declined by 22.1% to R1.5 billion.

**Business confidence dramatically down to an all-time low**

Business confidence in the South African economy plunged to an all-time low of 5 index points in Q2 2020, from an already depressed reading of 18 points in the previous quarter. Almost all survey respondents were thus unsatisfied with current economic conditions.

Sentiment levels fell sharply in all of the five broad sectors surveyed, with only retail trade managing to see confidence above 10 points (see Figure 14). In manufacturing, confidence in the transport sub-sector tumbled to zero, whereas the food sector recorded an increase from 11 to 17 points as food production was allowed during the lockdown period. Insufficient demand was a major constraining factor in many sectors, as restrictions on individual mobility and economic activity reduced household and business.

Considering the close correlation between business confidence and real GDP growth, such developments confirm expectations of a sharp contraction in output in 2020.

**Figure 14: Business confidence at a record low as the lockdown takes its toll**

![Business confidence in South Africa](source: IDC, compiled using BER data)

**Major employment losses anticipated**

Huge job losses are expected across the entire economy. An early indication of the drastic reduction in manufacturing employment was provided by the decline in the employment sub-component of the manufacturing PMI to a reading of 26.6 in April, an all-time low, followed by a very modest recovery in May to 26.8 index points (refer to Figure 15). South Africa’s composite PMI has also seen its employment index falling sharply, a forewarning that the country should brace itself for considerable job losses in the months ahead.

Although the economy has been re-opening under Level 3, various services-related activities (for example restaurants, accommodation and other hospitality services, hair and beauty
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Salons, entertainment services) are to remain shut for the time being. This could have devastating consequences for numerous business enterprises involved in such activities, many of which will be forced to close down permanently.

**Figure 15: Massive job losses are anticipated**

The unemployment rate is forecast to rise from the 29.1% recorded in Q4 2019, when some 6.73 million people were unable to find a job, to 41.2% by Q4 2020 (IDC projections). It may remain at alarming levels for quite some time due to the significant loss of production capacity in the economy during the ongoing recession, its weak growth prospects and limited labour absorption capacity.

**Growth outlook for the South African economy**

The South African economy will be in a deep recession in 2020. GDP is projected to decline by 7.5%1 in real terms as domestic and global demand drop sharply and, on the supply-side, firms have been prevented from producing at normal levels. Significant production capacity is also likely to be permanently lost, particularly in the small- to medium-sized enterprise segment of the economy.

The lockdown of major parts of the economy, alongside strict restrictions on the mobility of individuals and their purchases over a considerable period has resulted in a steep drop in consumer spending, especially on durable and semi-durable items. Household consumption expenditure is forecast to decrease by 7.1% in 2020 and, despite an anticipated recovery in subsequent years, its rates of growth may remain quite subdued over the outlook horizon.

Challenging conditions globally are likely to aggravate demand conditions in the short- to medium-term, for these will impact adversely on South Africa’s export performance, potentially lead to higher import penetration and affect inward foreign direct investment, among other transmission mechanisms. However, the export sector will be supported by competitive exchange rates for the rand and is likely to pursue market development

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1 The downside risks to the growth outlook depicted in the IDC’s Base Case forecasts for the South African economy are quite substantial. In an alternative Highly Adverse Scenario, real GDP declines by 11.9% in 2020 as a 2nd wave of Covid-19 results in the re-imposition of harsh measures to control it both domestically and globally. Consumer spending drops by 9.4% in 2020, affected by renewed demand-side restrictions, further employment losses due to highly adverse economic conditions and a significant decline in household income. In such a scenario, fixed investment expenditure is not expected to recover to its pre-crisis levels, in real terms, over the next five years, while exports remain under extreme pressure throughout the outlook period to 2024.
opportunities in Sub-Saharan Africa on the back of the African Continental Free Trade Area agreement.

Very low levels of business confidence in the domestic economy, largely due to adverse trading conditions and production constraints, will impact negatively on private sector investment decisions, particularly in 2020 and 2021. Worsening public sector finances, in turn, will severely limit spending on infrastructure development by general government and key state-owned companies.

Should it materialise, the anticipated 10.7% fall in gross fixed capital formation in 2020 will result in the overall quantum of capital outlays in the economy being the lowest since 2010 in real terms. The severe recession and adverse economic environment will have a long-lasting impact on investment spending.

The economy's poor performance in 2020 and the modest recovery expected thereafter will have adverse repercussions for government revenue. Set against the increased expenditure associated with the substantial stimulus programme to soften the impact of Covid-19 and support an economic recovery, this will result in a significant worsening of the fiscal metrics over the next 5 years. The budget deficit-to-GDP ratio is projected at 12% for 2020. South Africa's fiscal position will therefore remain precarious throughout the five-year outlook period, leaving the fiscus with very limited room to manoeuvre. Monetary policy is expected to remain highly accommodative over the medium-term.

With the global economy and most of South Africa’s key trading partners in a deep recession, the export performance in 2020 will be considerably weaker. In real terms, exports are projected to drop by 10.8% in 2020, with a modest rebound anticipated in 2021.

The economy is expected to record very modest growth over the outlook period to 2024, affecting detrimentally ongoing efforts to reduce unemployment, alleviate poverty and address prevailing inequalities through economic transformation. A rebound in GDP growth in the order of 3.1% is anticipated in 2021, but growth rates over the subsequent three years could be within the range of 1.9% to 2.5%.

The economic landscape will also undergo drastic changes beyond Covid-19, some of which may turn out to be irreversible. On the positive side, the current global crisis has brought to the fore important economic opportunities going forward, largely associated with the following developments:

- The strategic imperative for companies all over the world to diversify their sources of supply, for the crisis has highlighted the threats to global supply chains brought about by excessive concentrations of market power. This may open up opportunities for:
  - Further integration of South African businesses into global supply chains and other export market development opportunities;
  - Import replacement in the domestic market.

- An increased awareness of the importance of environmental sustainability across the world, which is leading to growing calls for an enhanced focus on climate change mitigation and adaptation action.

- The extent to which digital technologies have been swiftly embraced, especially digital communication technologies, during these extraordinary times. A huge acceleration in the uptake of the digital revolution may thus ensue as the world emerges from the current crisis.

- The imperative of dealing with prevailing inequalities in the world of today, and especially in a highly unequal society such as South Africa’s.