TRADE & INDUSTRIAL POLICY STRATEGIES

TIPS TRACKER

Tracking trends and analysing the COVID-19 pandemic and responses

THE ECONOMY AND THE PANDEMIC

13 JULY – 26 JULY 2020

KEY FINDINGS

On the pandemic

- The number of diagnosed new cases levelled out in Gauteng and Eastern Cape in the past 10 days and continued to decline gradually in the Western Cape. As a result, the number of active cases reported declined in the past week for the first time, despite escalating growth in KwaZulu-Natal and the Free State.
- The reasons for the decline in reported active cases remains unclear, and it may not be sustained. In any case, unless the number of cases starts to fall more rapidly, South Africa will be living with a very high rate of cases per person by international standards for some time. That in turn makes it harder to control transmission generally. Moreover, it means individuals face higher risks than a month ago, especially in Gauteng, the Western Cape, the Eastern Cape and KwaZulu-Natal.
- The Medical Research Council has found that the total deaths from natural causes has climbed by over 12 000 above the expected number of deaths at this time of year, even after taking into account reported deaths attributed to COVID-19. This pattern reflects a common experience internationally. It typically arises because more people have died at home during the pandemic either without a COVID-19 diagnosis or because they avoided getting treatment for some other ailment due to fear of contagion.

On the economy

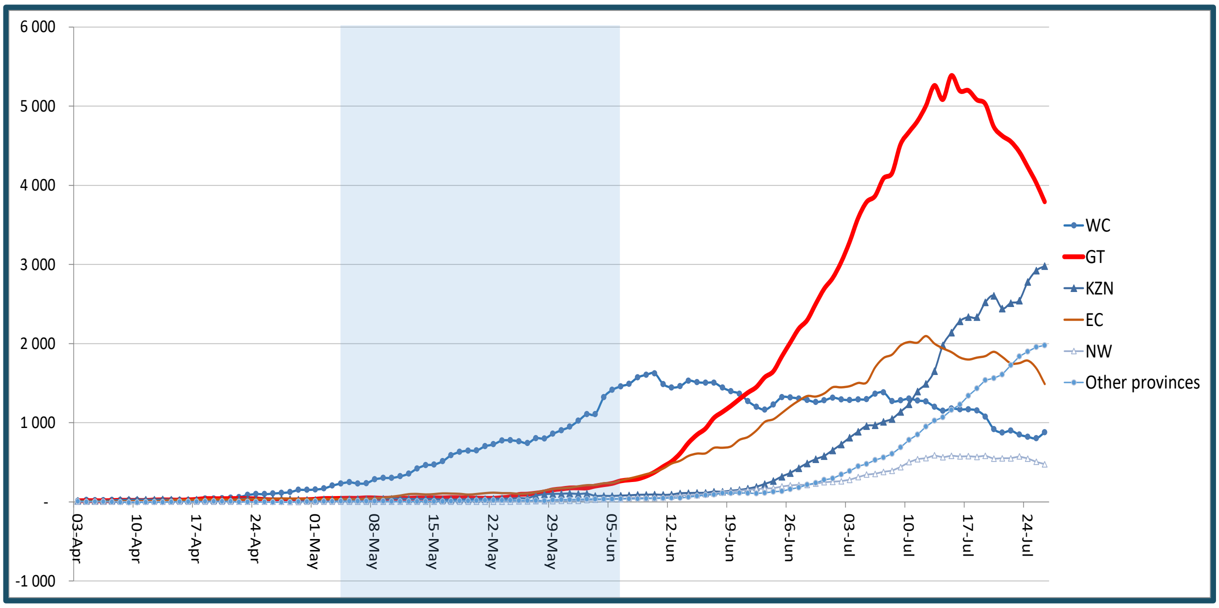
- As in other countries, the sharp increases in reported new cases and lower employment and incomes appear to be weighing down the economic recovery. The available indicators point to a slight fall in household consumption over the past two weeks. In the longer run, the South African Reserve Bank now expects a 7,2% downturn for the year.
- From March to May, consumer prices in South Africa dropped by 1%, and inflation from May 2019 to May 2020 fell to 2%, lower than any time since 2005. But food prices rose 4,5% from March to May, offset mostly by the sharp fall in global oil prices. As a result, the lower-income group, which spends more on food and less on petrol, experienced higher inflation than the richest 10% of households.
- International experience continues to demonstrate that, as in South Africa, economic recovery can be heavily set back by ending restrictions on risky activities before the virus is under control. In this context, the often-cited trade-off between lives and livelihoods turns out to be misleading. The real challenge is to cushion low-income households as far as possible from the economic slowdown.

THE TIPS TRACKER: THE ECONOMY AND THE PANDEMIC
IS PUBLISHED EVERY TWO WEEKS

TRENDS IN THE PANDEMIC

Over the past two weeks, newly diagnosed cases in Gauteng and the Eastern Cape declined sharply. The Western Cape and the North West maintained a more gradual downward trend in reported cases, as did the North West. In contrast, the figures rose sharply in the Free State and KwaZulu-Natal, and less rapidly in the other provinces.

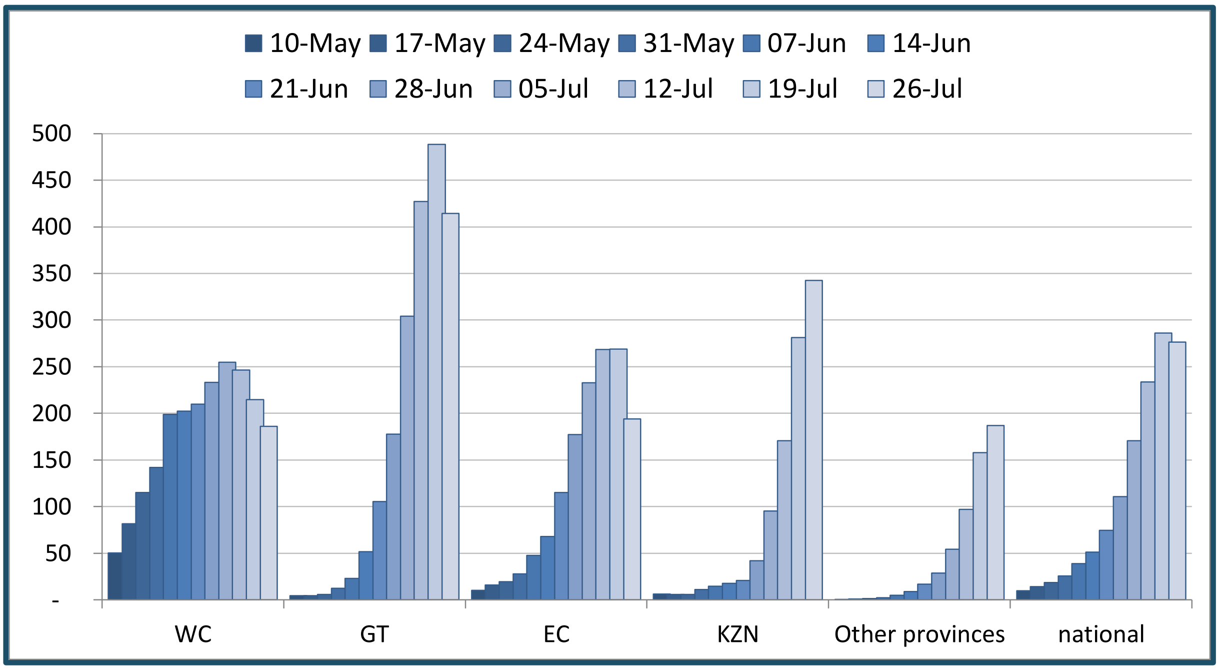
Graph 1. Reported new cases by province, 3 April to 26 July



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

The reported fall in the number of new cases meant that, for the first time, the number of active cases nationally fell. But the incidence of active cases remained high, especially in Gauteng, at almost 400 per 100 000 people. By extension, the risk of infection was still significant for individuals. Moreover, the high level of infection, even if was declining, made it harder to hold the line on transmission going forward. As of 22 July, the Gauteng government reported tracing an average of two contacts for every three newly diagnosed cases. In contrast, two months ago it was finding 15 people for every three new cases. Nationally, 28% of tests came back positive over the past 10 days, after climbing steadily from early April. The World Health Organization considers COVID-19 to be under control if this positivity rate is under 5%.

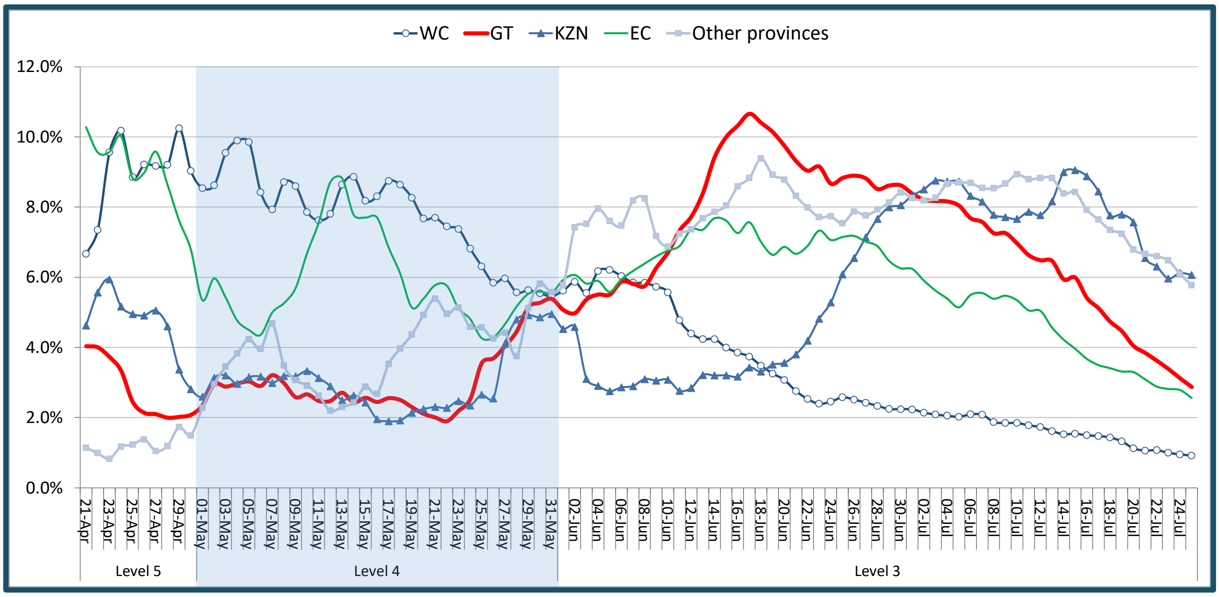
Graph 2. Number of active cases reported per 100 000 residents, by province, weekly from 5 April to 26 July



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

As the following graph shows, the rate of growth in COVID-19 diagnoses in Gauteng and the Eastern Cape is now under 4%, not far from where it was when the move to Level 3 initiated faster transmission.

Graph 3. Growth rate in new cases based on seven-day rolling average, by province, 3 April to 26 July



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

On 24 July, Gauteng's MEC for Health noted the decline in reported new cases but argued that it should not lead to complacency. The province apparently continues to plan for a "peak" in August or September, despite the slowdown in diagnoses.

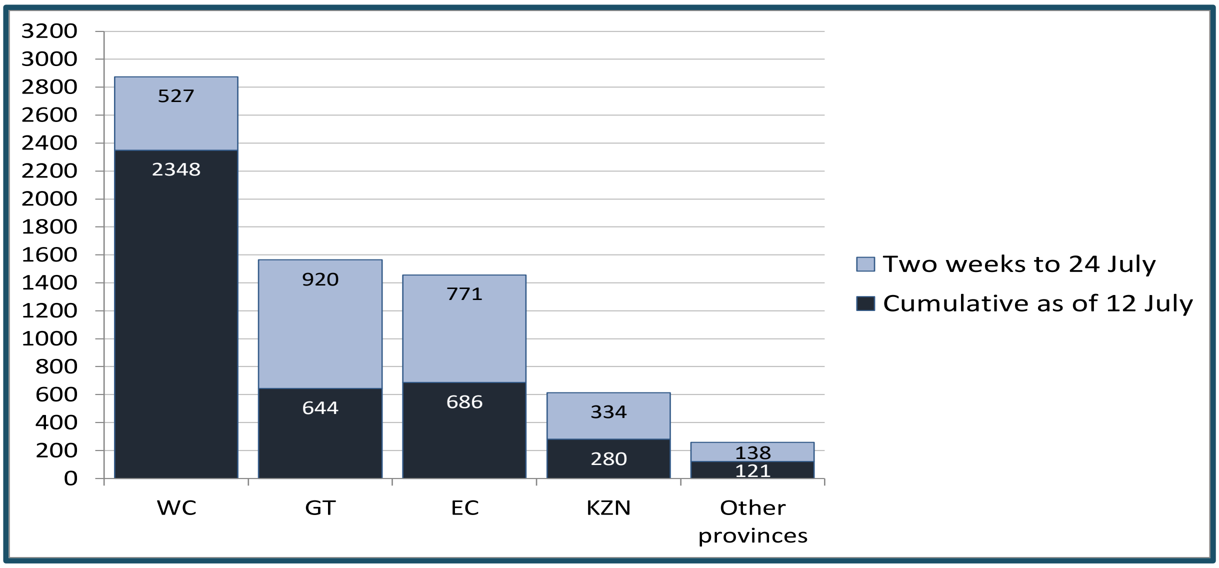
In practice, the "peak" metaphor for COVID-19 is problematic. It projects as inevitable a sharp increase, followed by a similarly steep decline. Comparing the surge in COVID-19 cases to a storm has similar flaws. These metaphors transform COVID-19 into a natural phenomenon that can be predicted but not contained or controlled. We can only endure until it goes away. Yet international experience shows that where transmission of COVID-19 has declined, the root cause has been behavioural changes to prevent new infections. In contrast to the flu, communities and countries have proven universally unwilling to endure the very high levels of infection, and the resulting suffering and deaths, that would follow from just letting COVID-19 spread until maximum saturation. Estimates suggest that 70% of the population would have to become infected to achieve that aim; to date, even countries with unusually high levels of contagion have found that under 15% of the population has had COVID-19.

In reality, the "peak" of COVID-19 infections shown in mathematical models is not inevitable, predictable, or even just once-off. As American, European and Asian countries have variously shown, COVID-19 may come as an initial tsunami followed by smaller waves, although rarely complete calm; in a few significant waves separated by months; or in a steady flow of ripples as clusters emerge and are contained. To shift to another metaphor often used by epidemiologists, it is clear that Gauteng failed to put out the initial embers. It may, however, have contained the resulting fire before it turns into an inferno, mostly because millions of citizens wore masks, stayed home, and maintained physical distance as far as possible. That said, it is still too early to tell if the success of the past two weeks reflects a real trend in caseloads, and if it will be sustained.

In this context, the government has stepped up efforts to improve communication and information around infection protection. According to the Minister of Social Development, the new Ministerial Advisory Council established to assist in this aim has reached out to behavioural scientists, non-governmental organisations and community groups to strengthen these efforts. In heavily affected areas, the government wants ward forums to assist in these efforts.

Despite the downturn in diagnoses, deaths from COVID-19 will continue to rise since they typically lag infections by around three weeks. As Graph 4 shows, total reported deaths from COVID-19 climbed by almost two thirds in the two weeks to 26 July, to 6 769. In Gauteng, the number of deaths reported from COVID-19 climbed over 140%; in the Western Cape, they grew just over 20%, but off a much higher base.

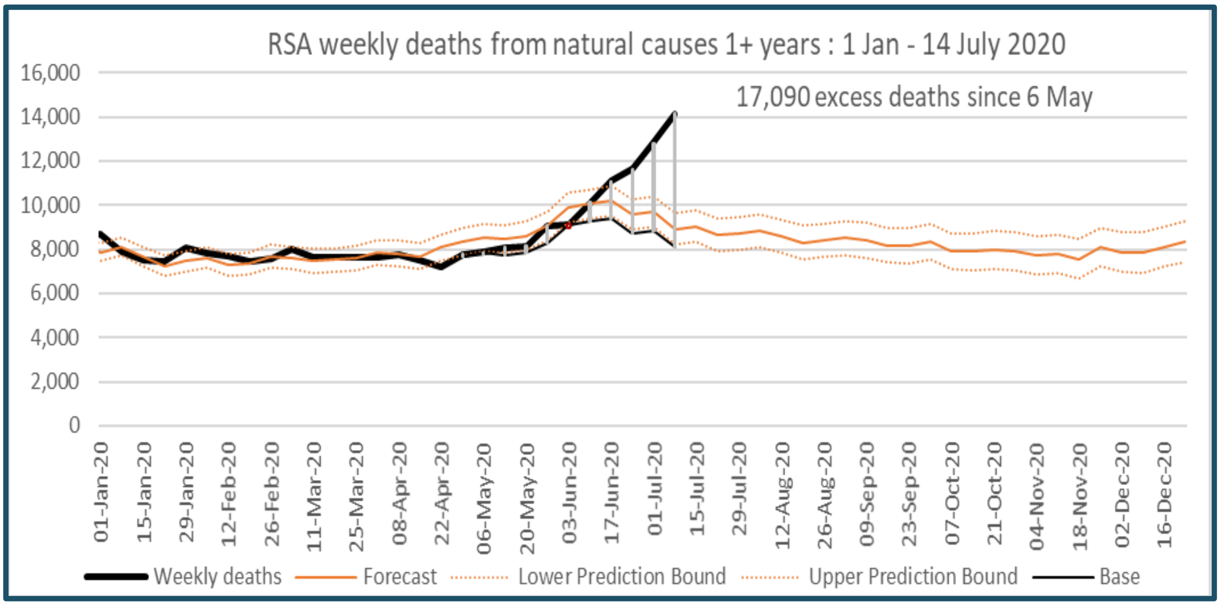
Graph 4. Deaths in the two weeks to 26 July, by province



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

The South African Medical Research Council regularly compares the number of deaths from natural causes (that is, not from accidents or other physical traumas, as shown on death certificates) relative to past years. For the five weeks from 6 May to 14 July, it estimated that there were more than 17 090 actual deaths than the anticipated figure.

Graph 5. Weekly deaths compared to norm from other years



Source: Debbie Bradshaw et al, 2020. *Report on weekly deaths in South Africa, 1 January – 14 July 2020 (week 28).* Downloaded from www.samrc.ac.za in July 2020.

If the deaths reported from COVID-19 from 6 May to 14 July are excluded, the Medical Research Council figure suggests over 12 700 additional deaths were not directly attributed to a COVID-19 diagnosis. International experience indicates that this is not that unusual, although on the high side. An analysis by The Economist found excess deaths were around twice the number of COVID-19 fatalities at the peak of the pandemic in Spain, Italy, the Netherlands, Ecuador, Peru and, at the subnational level, Mexico City and Moscow. (See https://www.economist.com/graphic-detail/2020/07/15/tracking-covid-19-excess-deaths-across-countries)

In most cases, The Economist analysis found excess deaths represented fatalities from COVID-19 that were not confirmed by a test. In some cases, however, people may have died from other diseases because they avoided clinics or hospitals due to fear of catching COVID-19. In April, during the hard lockdown, the immunisation rate fell to around 60%, compared to 80% in 2019. Moreover, workers often insist that clinics close at least temporarily whenever an employee tests positive. An article in *Spotlight* noted that this often made it harder for people to seek care, including getting medications, routine immunisations or pre-natal check-ups.

That said, in most countries where excess deaths have been very high, the hospitals have been visibly overwhelmed, with often widespread reporting of additional deaths at home and overloaded morgues. To date, this kind of reporting has not emerged in Gauteng, which has the highest number of excess deaths. There is no doubt, however, that deaths from COVID-19 are substantially higher than the official statistics show.

TRENDS IN THE ECONOMY

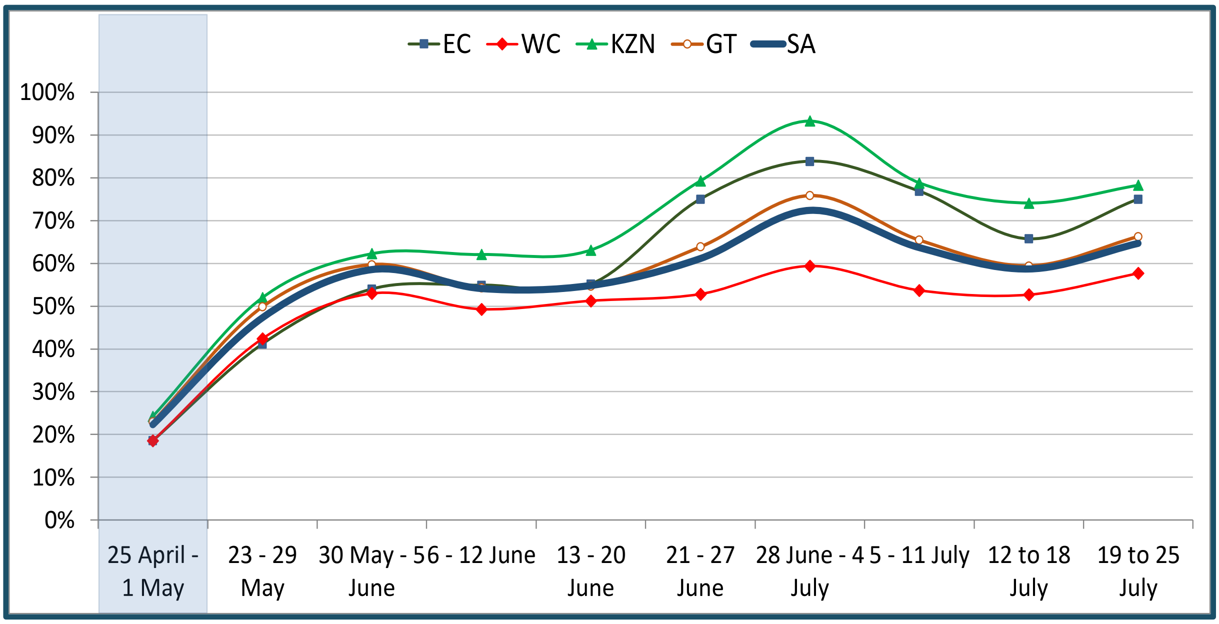
Overall trends

The available indicators suggest that the economy has levelled out significantly below pre-pandemic levels. In part, this reflects the dampening effect of the contagion itself on economic activity, both by disrupting production and because people are reluctant to leave their homes for recreation. In part, it results from a downward spiral in demand as incomes and employment levels have dropped both in South Africa and internationally.

The Yoco small business monitor tracks turnover (based on its payment system for small businesses) as a percentage of the level before the lockdown. For South Africa as a whole, the index peaked around 75% at the end of June, which for many workers was the first payday since the lockdown started in late March.

In contrast, at the end of July the index was around 65%. The lowest levels were recorded for the Western Cape, which was hard hit by the combination of high COVID-19 levels and the abrupt halt to all international and most domestic tourism.

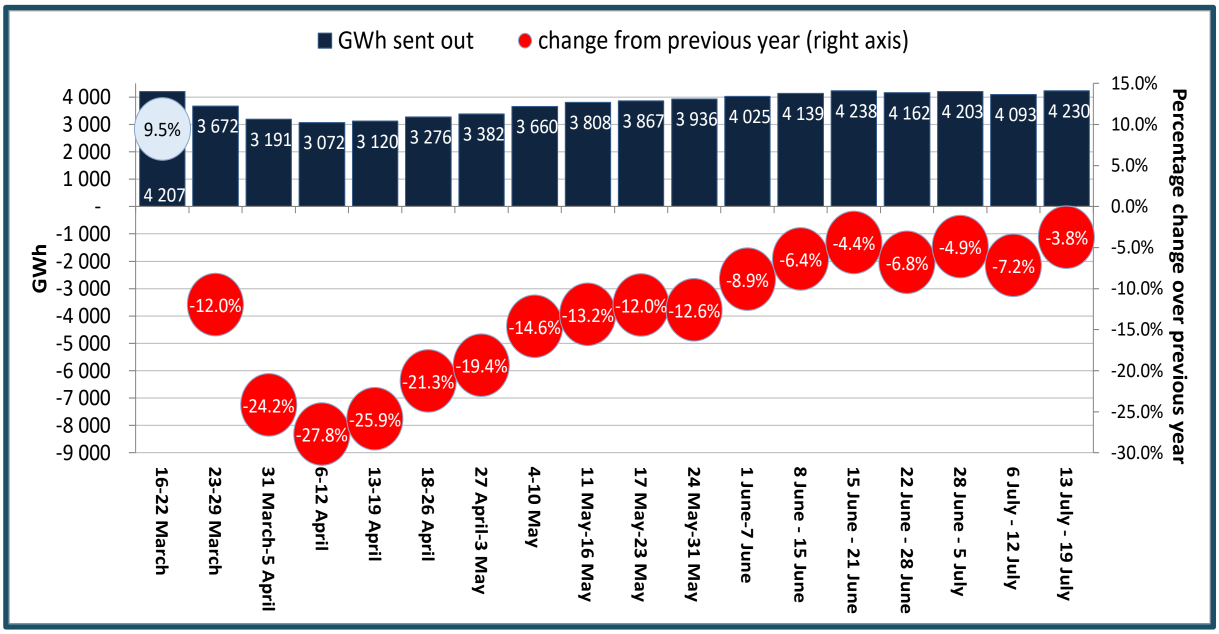
Graph 6. Small business turnover relative to the first two weeks of January, average for week to Saturday through 25 July



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

In the third week of July, Eskom sent out more electricity than at any point since before the lockdown. Still, overall electricity use remained almost 4% below 2019 levels. Electricity use in the previous week was much lower compared to 2019, but it was constrained by breakdowns at Eskom and the subsequent loadshedding.

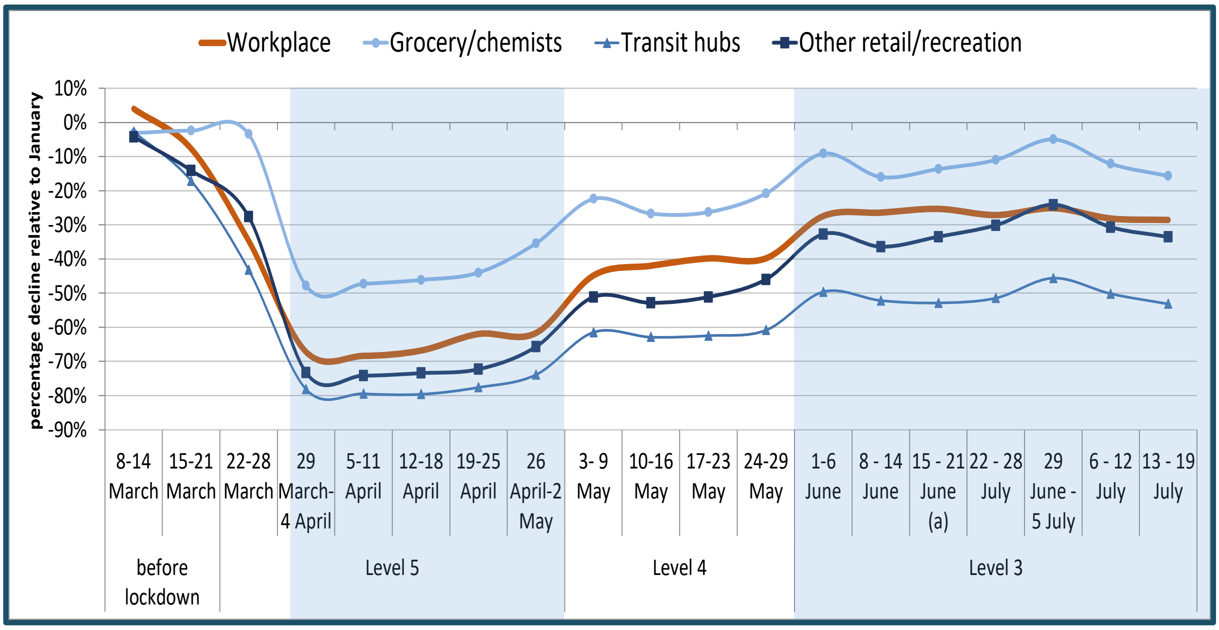
Graph 7. Electricity sent out in GWh, weekly, 24 March to 19 July, and percentage difference from the same week in 2019



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

Data from Google on travel to work, transit hubs, shopping and other recreational services also suggest a slowdown over the past two weeks. Trips to work remained stable, but it declined for essential and non-essential shopping and to public transport hubs. The decline may reflect, in part, an effort by many people to avoid unnecessary trips as the spread of COVID-19 accelerated.

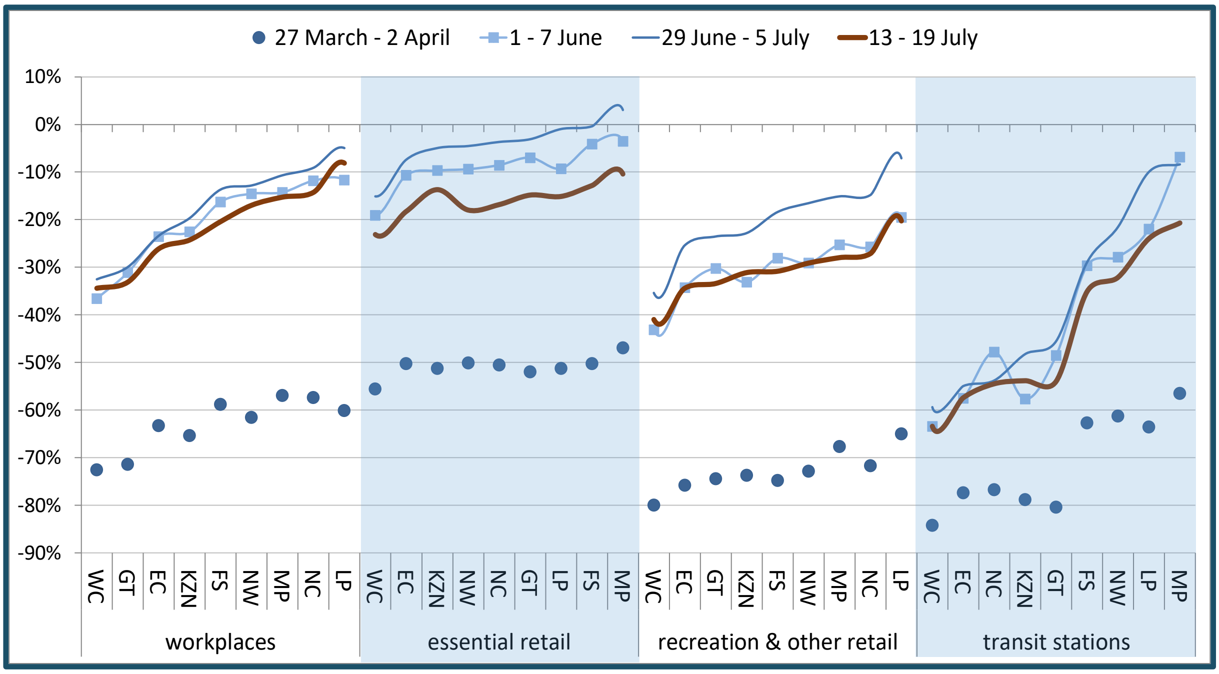
Graph 8. Percentage change in travel by type of destination, weekly average from 8 March to 19 July, compared to January 2020



Source: Calculated from Google COVID-19 Community Mobility Reports. Accessed on 25 June 2020 at https://www.google.com/covid19/mobility/.

As Graph 9 shows, at provincial level, travel over the past week was substantially lower than two weeks ago, although far above the levels during the Level 5 lockdown in April. The decline was largest for retail and recreation. The Western Cape and Gauteng have consistently lagged behind other provinces relative to pre-lockdown levels.

Graph 9. Percentage change in travel by type of destination, by province, weekly average from 26 April to 19 July, compared to January 2020



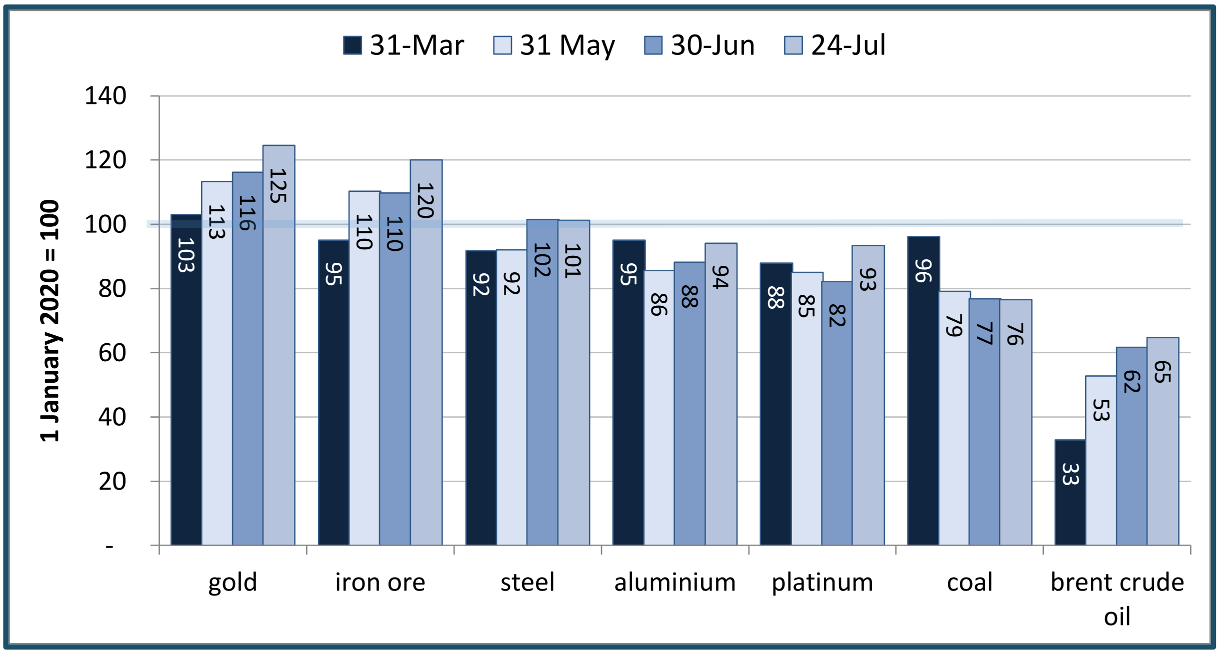
Source: Calculated from Google COVID-19 Community Mobility Reports. Accessed on relevant dates at https://www.google.com/covid19/mobility/.

The Reserve Bank cut interest rates by 0,25% in the past week in response to low inflation – indeed, deflation over the past two months – and slight deterioration in its gross domestic product (GDP) forecast. It now predicts a 7,3% decline in the economy for 2020, followed by 3,7% growth in 2021 and 2.8% in 2022. In other words, it expects the GDP will return to 2019 levels at best in three years.

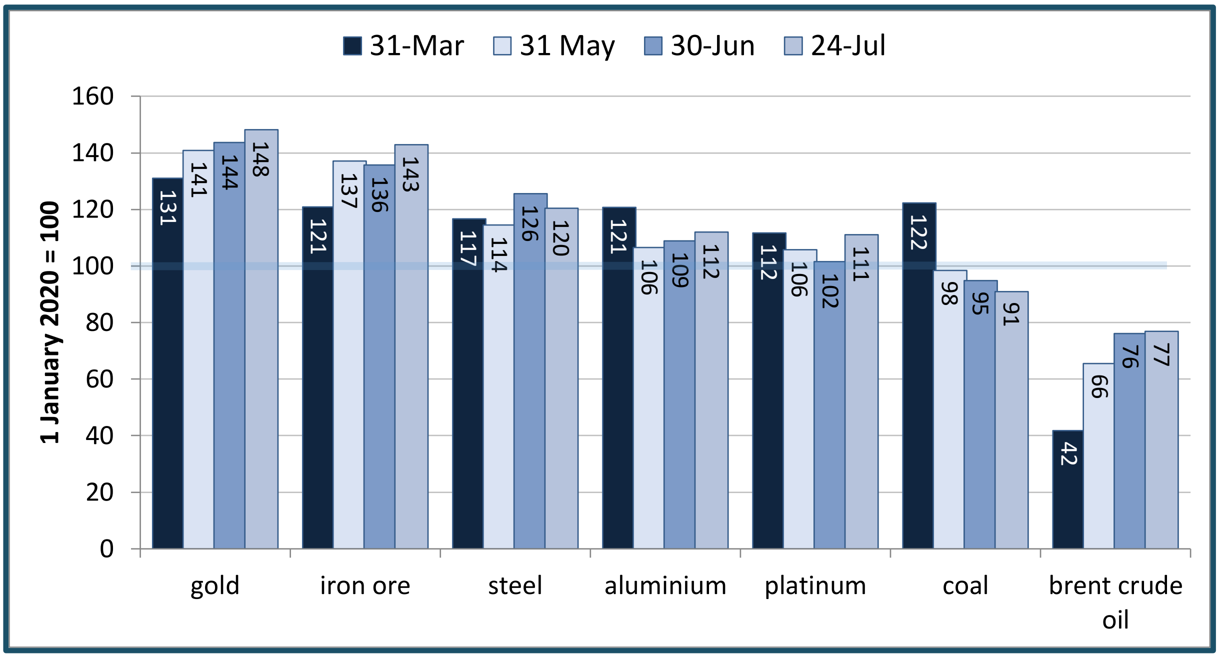
Despite this gloomy forecast, commodity prices recovered significantly over the past month, driven mostly by a combination of reopening in China and to a lesser extent Europe, and a flight to gold by some investors in response to the uncertainty arising from the pandemic. Still, as the following graph shows, only gold, iron ore and steel prices had returned to their pre-pandemic levels in US dollars. In contrast, depreciation meant that as of 24 July, the rand price of all of South Africa's major export commodities except for coal had more than recovered. Gold was almost 50% higher than it had been at the start of the year.

Graph 10. Indices of prices of major commodities, 31 March to 24 July, in US dollars and rand (1 January = 100)

A. In US dollars



B. In rand



Source: Calculated from data accessed at www.tradingeconomics.com on 26 July 2020.

Recently released Statistics South Africa data on retail sales underscore the impact of the lockdown as well as the recovery compared to Level 5. Overall, retail sales plummeted 50% in constant terms in April 2020 compared to April 2019. General retailers, which mostly sell food, and chemists, saw only a 15% fall compared to a year earlier. Clothing and hardware stores, in contrast, lost around 90% of their sales. Retail then saw a substantial recovery in May, with the move to Level 4 of the lockdown. Food and pharmaceuticals remained around 5% lower than in May 2019, but clothing and hardware actually gained 3% on the previous year. Still, retail as a whole was 12% below May 2019 levels, with other specialised shops, which accounted for a seventh of sales, recovering to only between 30% and 50% of May 2019 levels.

Extremely low consumer inflation underscored the decline in household demand. In the year to May, consumer inflation fell to a 15-year low at 2,1%. From March to May of 2020, prices actually dropped by more than 1%. But the trend varied by product. Food prices climbed 0,7% over the two months, which represents an annual rate of almost 10%, and were 4,5% higher in May than a year earlier. In contrast, virtually every other consumer good declined in price from March, with clothing prices dropping by 1,2% and household furnishing by 1,3%. The main reason for the deflationary trend from March to May was the fall in the petrol price, which reflected the huge decline in international demand due to the pandemic.

The fact that food prices did not decline means that deflation was more muted for low-income households. For the poorest 10% of households, prices dropped just 0,1% from March to May; for the richest decile, in contrast, they fell by 1,5% (which is an annual rate of 20%), mostly due to the sharp decline in petrol prices.

The Reserve Bank notes concerns that depreciation and administered prices, especially for electricity, will push up the CPI despite low demand. In effect, that would be a recipe for stagflation, as price hikes reflecting higher costs result in depressed sales due to constrained household and business incomes. This again underscores the importance for the economy overall of remedying the high cost as well as the unreliability of Eskom electricity. In addition, the inflationary impact of depreciation can be moderated if it enables local producers to compete more effectively on both domestic and international markets.

A central challenge remains large-scale job losses. The extent of permanent downsizing as opposed to temporary layoffs remains unclear, however. In the past week, government extended the Unemployment Insurance fund (UIF) COVID-19 Temporary Employee/Employer Relief Scheme (TERS) programme, which provides an incentive to avoid retrenchment, by six weeks to 15 August. The National Economic Development and Labour Council (Nedlac) has agreed to explore ways to provide similar social protection to self-employed people. As of mid-July, the scheme had paid R34 billion to 7,5 million workers. However, many employers anticipate that they will still have to shed jobs when the programme comes to an end, mostly because of depressed domestic and foreign demand.

The impact of the pandemic on the types of jobs available emerged from an analysis by a UK listing company Adzuna. In South Africa, on-line jobs advertisements dropped 40% in April, and by May had recovered to only 8% below pre-lockdown days. In contrast, listings were still more than 20% below the start of the year in the US, Germany, Brazil, India, Singapore and New Zealand. Advertisements for hospitality and domestic workers saw the largest losses in South Africa, falling by three quarters. In contrast, advertisements climbed steeply for healthcare workers as well as occupational health and safety officers and the production of protective equipment.

Company developments

Infections

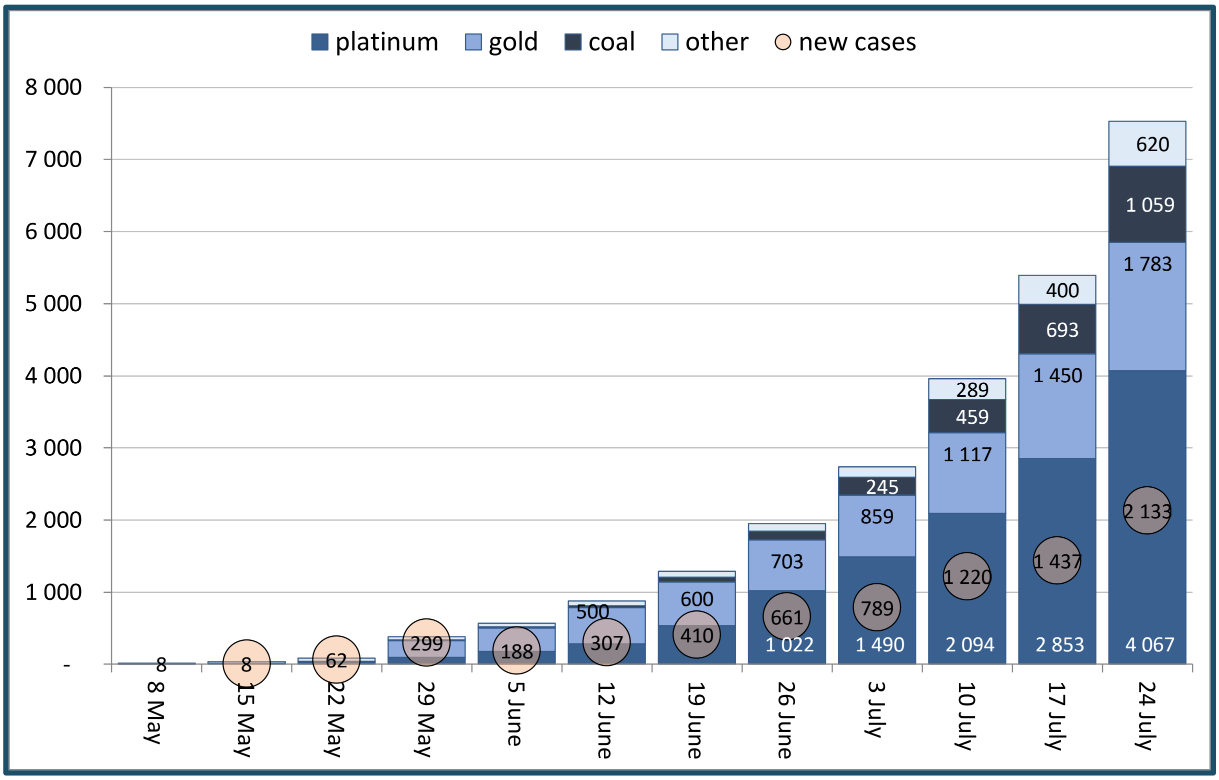
Information on workplace clusters remains hard to come by. The lack of consistent reporting has two negative effects: it makes it harder for companies to learn from industry experience; and it means that workers tend to suspect that managers are covering up cases. The result is that outbreaks often escalate workplace tensions.

Commuters are now substantially more at risk because government agreed two weeks ago that taxis could run at 100% on trips of up to 200 kilometres, or over two hours, which makes social distancing impossible. The concession enabled it to avoid choosing between steep price increases or a subsidy to cover the taxis' losses, estimated at around R3 billion. According to news agency Bloomberg, the chair of the South African Medical Association argued that the result would be substantially higher infections and ultimately deaths. Union federation COSATU said the taxis were risking workers' lives and threatened protest action. In theory, the taxis are supposed to operate with open windows to reduce the risk of contagion, but in practice that seemed unlikely in mid-winter.

Mining is still the only private-sector industry that consistently reports on diagnoses of COVID-19. The numbers rose some 40% in the past two weeks, with just under 4 500 new cases reported. The number of deaths more than doubled in this period, to 70. For comparison, 23 miners died in workplace accidents from the start of the year. Some 1 760 miners per 100 000 tested positive as of 24 July, which was more than 2,5 times the national rate.

Platinum accounted for over half of the new cases in mining, although it contributes only around a third of employment in the sector. In contrast, the gold mines managed to hold the growth in new cases to around 20%. Around 0,7% of platinum miners were infected, compared to 0,3% in gold, even though they have similar workplace conditions. In coal, the infection rate was 0,5%.

Graph 11. Reported cases in mining by commodity, 8 May to 24 July



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

The mines reported higher testing rates than South Africa as a whole, but also a higher share of positive diagnoses. As of 24 July, they had conducted 7 550 tests per 100 000 workers, with 23% coming back positive, up from 16% two weeks earlier. By their estimate, nationally 4 430 tests had been conducted per 100 000 people, but only 16% came back positive in the week to 24 July, compared to 12% in the week to 10 July. They cited a lower positivity rate for the country than indicated by national reports, however.

The Department of Employment and Labour announced that its inspectors are now aiming to respond to complaints rather than maintaining routine schedules. It encouraged workers to call if they were concerned about inadequate infection controls in the workplace.

Last week, labour inspectors briefly shut down the Hisense factory in Atlantis, which employs around 700 people, because it failed to ensure social distancing, supply adequate personal protective equipment, or provide COVID-19 risk-management plans. The inspectors found some employees working closely together in a small room, and other workers living in a boardroom.

Volkswagen in Uitenhage faced a work stoppage, in part because workers said employers were calling people back before they received test results, a practice that can lead to cluster outbreaks. The stoppage also resulted from other grievances, including that many employees had not yet received the expected UIF COVID-19 TERS payments for May and continued short time. Because of slower demand, the company has been operating on two shifts rather than the pre-pandemic norm of three.

In the public service, Ministers regularly report on the extent of diagnoses in the major social services and the police.

The most affected is healthcare, with 13 000 public sector workers infected and over a hundred deaths as of 23 July. The figure had climbed 150% from 30 June, when under 5 000 healthcare workers were reported to have COVID-19. Private hospitals also reported high levels of infection and quarantine.

Infections and isolating among healthcare workers continue to lead to staff shortages even as demand for services escalates. At mid-week, the Albert Luthuli Hospital had 300 cases, leading to understaffing on the wards, the closure of some support departments, and considerable stress for managers and workers. In the Eastern Cape, a hundred case were reported at the Frere hospital, and 165 at a hospital in Mdantsane.

On 23 July, the President closed schools for most learners for a month to slow transmission as cases escalated. The aim was both to reduce the risk of infections for teachers and learners at schools, and to limit travel generally. In Gauteng, before the closure, 1 303 educators had been infected, or around 1,7% of the total – a far higher rate than for the total Gauteng population. In contrast, only around 0,3% of learners, or just over 1 500, had tested positive, reflecting the relative resilience of children to the virus. Before the President's announcement, more than one state school in 10 in Gauteng had been closed temporarily as a result of an outbreak. In contrast, in the private sector less than one in 30 had been affected.

In the police, over 9 000 officers and civilian employees, or 4,6% of the workforce, had been infected as of the third week of July, and 83 have died. The figure for diagnoses had quadrupled since the start of the month. As a result, many policy stations closed temporarily in the past few weeks. According to the South African Police Service Twitter account, as of the middle of last week seven were closed in the Free State, four in the North West, six in Mpumalanga, three in Limpopo and around ten in Gauteng. Typically, the stations close for 12 to 24 hours for cleaning.

In addition, at the beginning of last week, the Police and Prisons Civil Rights Union (Popcru) said there were 4 000 cases in the prisons. It said managers were not adhering consistently to safety protocols.

Industry and company developments

Auto

Car exports in June were 39% lower than in June 2019, at 19 000 units. Local sales were 31% lower than a year ago, at 32 000. For the year to June, sales were down by 40%. Sales were depressed in part because of the radical downsizing of rental car agencies, which are suffering from the effective halt to tourism.

Lower interest rates may help revive car sales but may also mean that fewer people end up buying pricier models. That said, auto companies generally expect a drop in sales of premium models as household incomes fall, with estimates of the decline varying between 20% (from BMW) to 35% (Landrover). Globally, demand is expected to return to 2019 levels only around 2024. Worldwide, passenger sales are down, with a drop of 40% in Europe. China, however, now has higher car sales than a year ago.

A major parts company says it is operating at around 60% of capacity, after closing entirely during the lockdown. Its exports to the rest of Africa are stable, but they are lower to Europe than before the lockdown. Its sales to assembly factories are still constrained by limited demand.

The mining value chain

As noted, rand prices of South Africa's major mining exports, except for coal, have recovered to pre-pandemic levels due to a combination of a partial improvement in dollar prices and depreciation. Still, the industry continues to anticipate a decline of 8% to 10% in sales for 2020 compared to 2019.

In response, the adjustment budget speech for the Department of Mineral Resources and Energy (DMRE) announced that it was working on a new Mining and Energy Recovery Plan. In practice, the plan appears to comprise already long-standing initiatives, including support for new coalfields in the Eastern Cape and a Bushveld refineries complex; fuel cells; and small-scale and artisanal mines. It also expects to revive the state-owned nuclear-based pharmaceuticals project, Ketlaphela, which has been a hardy perennial for over a decade.

The speech promised new interventions to support ferrochrome refining, which has been squeezed by competition with Chinese refineries that rely on South African chromite. South African ferrochrome producers risk losing their dominant position globally if the Chinese producers retain access to low-cost South African chromite. The DMRE expects to submit proposals for addressing this situation to Cabinet in the near future.

For now, the mining value chain, and especially the metals refineries, continue to struggle.

ArcelorMittal South Africa (AMSA) expects a headline loss of R2 billion, three times as high as its 2019 losses. It is still being squeezed by export-parity pricing at Kumba, which sells only 10% of its output in South Africa. As with chrome, by charging AMSA prices linked to international markets, Kumba effectively captures the rents from South Africa's high-quality iron ore. AMSA plans to close two blast furnaces in Gauteng as global demand remains stagnant. It has announced plans to cut up to 2 000 jobs; in response the National Union of Metalworkers (NUMSA) has proposed that workers take a 20% cut in remuneration.

In an effort to salvage the steel industry, the Department of Trade, Industry and Competition is fast-tracking the Steel Master Plan. It is also exploring measures to limit scrap metal exports to moderate costs to local smelters and refineries.

The combination of high electricity prices and export-parity pricing on ores is a common theme across the metals industry. Manganese producer Metalloys has been placed on care and maintenance. It has been under threat for a long time due to low international prices and the rising cost of electricity (which contributes around a third of total costs). In this context, the drop in exports due to the pandemic was a final blow. As noted, chrome alloys production is being squeezed by increasing Chinese competition in the context of rising electricity costs. In contrast, both Hillside and Mozal aluminium are working at full capacity. The owner, South32, hopes to negotiate a new deal with Eskom to ensure it continues to enjoy low electricity prices.

Energy

The Mineral Resources and Energy budget speech confirmed earlier commitments to bolster generation outside of Eskom. The strategy aims to relieve the stress on Eskom, giving it space to improve maintenance and repairs as the basis for a more reliable energy supply in the long run. So far, it appears that the proposed measures will increase the national generation capacity by around 2 600 MW, or 7%.

The strategy has three prongs: procurement of 2 000 MW for the grid from small generators, starting no later than early August; Eskom procurement of 550 MW based on existing generation by mines and refineries for their own use; and easing the regulatory requirements for small-scale generation by companies and municipalities. As of 21 July, the national energy Regulator of South Africa (Nersa) had registered 139 new private generation projects with a combined capacity of 59 MW and issued five licences for plants generating over 1 MW. The department plans to publish regulations designed to facilitate generation by municipalities in August.

Meanwhile, Eskom continued with periodic loadshedding, vigorous efforts to compel municipalities to pay their debts, and limits on use in areas with high levels of illegal connections. Arguably all of these approaches effectively let Eskom externalise its internal operational and debt collection problems onto consumers, and in particular low-income communities and businesses that rely on the municipal supply. On 20 July, COSATU in Gauteng province protested the cut-offs in electricity to communities in mid-winter, arguing that Eskom should rather address the stress on transformers and substations through by improving maintenance and repairs.

For the longer run, the Mineral Resources and Energy budget speech promised to continue efforts to expand offshore gas production and build up local processing and consumption. Increased use of gas should both reduce emissions and relieve pressure on Eskom. The speech also noted that petroleum refineries were suffering because of the lower demand, especially for jet fuel (Natref actually closed down temporarily), and promised to explore support measures. It stressed that the department's request for information on nuclear options aimed only at identifying possibilities and was not in itself a commitment to procurement.

It is not clear if the proposed expansion in gas use will entail a significant increase in procurement from Mozambique. A US$20 billion (approximately R330 billion) liquefied natural gas (LNG) project there was approved a year ago, led by Total (which owns 26%) in collaboration with the Mozambique state gas company and other companies. The project is progressing despite lower energy prices internationally as a result of the pandemic, as well as a reactionary Islamist insurgency in the region. It is expected, however, to export mostly to Europe and Asia, not to South Africa.

To date, both the Development Bank of Southern Africa (DBSA) and Standard Bank have announced they will help finance the Mozambique project. The DBSA will provide US$120 million (around R2 billion) in expectation that the project will support development of the South African gas value chain. Standard Bank is lending US$485 million (R8 billion). In addition, South Africa's Export Credit Insurance Corporation is extending cover for some subcontractors.

Hospitality

The hospitality sector remains among the hardest hit both nationally and internationally, as flights have been grounded and borders closed. Statistics South Africa found that income for the tourist accommodation sector in May was 98% lower than a year earlier, and it was 88% lower for food and beverages. Spur reported that revenues across its franchises were 80% lower in May and June than in 2019, even though it had been able to partially reopen.

On Friday, the insurance industry reached a settlement that should provide modest relief for companies with business interruption policies. The settlement came only after insurers lost a court case in the Western Cape and the regulator ruled against them. They had argued that policies did not cover government action to limit the spread of COVID-19, but rather would compensate only for damage caused directly by an outbreak. Similar disputes have emerged internationally since the lockdowns caused such extensive damage to the restaurant industry.

The settlement aims to provide short-term relief to businesses while court cases and appeals continue – a process that could take years, with the affected businesses often facing bankruptcy in the interim. It provides for modest lump-sum payments, which beneficiaries will not have to pay back whatever happens in the courts. Reports suggested that one major insurance company expected to cap payments at R200 000. Moreover, it would only pay businesses with less than R25 million turnover that faced a 30% reduction in sales. Still, it expected a thousand claims, and it is not clear if reinsurers will cover them.

In the past week, the President's decision to ban liquor sales led to an uproar, and some protest action, from producers, restaurants and bars. As usual when government announces regulations that affect an industry negatively, lobbyists threatened job losses. In this case, as in most others, the high estimates for retrenchments hovered around the million mark. In fact, according to Statistics South Africa, the restaurant industry as a whole employs around 350 000 people, with fewer than 30 000 jobs in beverages production. The wine industry also pushed its claim as South Africa's second-largest agricultural exporter, although it exports only a fifth as much as fruit and nuts producers.

Restaurants contend that alcohol sales are crucial for their survival. The main threat to jobs in the industry, however, is the difficulty of preventing contagion during food and especially bar service, which is a central reason for banning alcohol sales. Any inside gathering can foster the spread of COVID-19, especially when it is not possible to wear masks much of the time and maintaining physical distancing is difficult. That is why, internationally, bars are the last businesses to open as a pandemic is brought under control, and the first to be closed when outbreaks occur. The problem is particularly acute in South Africa, which according to the World Health Organization has the second highest level of per-person alcohol consumption among countries with over five million people.

Industry lobbyists also complained that other risky activities have been allowed to open, in this case noting church services and taxis. That argument fundamentally misunderstands the risk-adjusted approach to COVID-19. The strategy depends specifically on the selective opening of relatively risky activities that are seen as a social or economic priority, while keeping as many other, often equally risky, activities closed as possible. The aim is generally to reduce social contact as far as possible while maximising social gains. That is, the criteria for opening should combine national priorities and risk, rather than being uniform for all similar activities.

In a deeply divided and unequal society, any list of priorities will prove contentious. Government decisions to date indicate that religious services, tattoo and massage parlours, movie theatres and public transport are all perceived as more important to society than bars, alcohol sales and education, assuming that all of these activities carry similar levels of risk.

Government spokespeople noted that trauma caseloads at hospitals rose significantly when the alcohol ban was briefly lifted, and since then have fallen. In Gauteng, trauma cases climbed by 50%, or 66 patients, when the ban was eased in May, mostly in the form of car accidents and violence. On the other hand, three alcohol stores were looted in the past week, in the North West and the Western Cape.

Tourism

According to the budget speech by the Minister for Tourism, South Africa is expected to rank among the 15 countries most affected by the near closure of the international travel industry. Revenues for tourism are expected to be reduced 75% in 2020 compared to 2019.

In response, like the Department of Mineral Resources and Energy, the Department of Tourism is presenting a recovery plan to Cabinet next month that apparently relies principally on long-standing commitments. Specifically, it intends to sort out the electronic visa programme, improve licensing for tour operators, and plan for stronger marketing campaigns once air travel returns. It also plans to take forward an existing project to support delivery services for restaurants, which the pandemic has obviously made more relevant. It also intends to start already to bid aggressively for international conventions and other business events. The Tourism Department’s 2020 budget has, however, been cut by 40%, with most of the reduction affecting marketing by SA Tourism.

It remains unclear clear how plans to boost tourism can be implemented as long as South Africa ranks in the top 10 countries for transmission of COVID-19. That in itself means foreign airline operators, regulators and tourists are wary of visiting. Moreover, efforts to control the contagion have led to restrictions on most in-door recreational activities. Nonetheless, the Tourism Business Council now intends to sue the government to compel it to end restrictions on travel, irrespective of the escalation in the contagion over the past month.

Air travel

The travails of the aviation industry underscore the challenges facing tourism. Moody's baseline model is that it will return to 2019 demand levels only in 2023. Even then, it may have to meet new, lower emissions requirements.

According to the International Air Travel Association (IATA), passenger numbers in South Africa in June were 60% lower than a year earlier. Still, the East London, George and Kimberley airports reopened, albeit only for business travel, on 21 July.

Both South African Airlines (SAA) and Comair are now at risk of liquidation. SAA lost almost R2 billion more from April to June 2020. Although creditors approved a rescue plan that would establish a new, leaner company, it depends on government guaranteeing additional funds. For its part, the state hopes to mobilise the resources from strategic equity partners, local and global investment institutions, and the pension funds, but it has committed not to use additional budget resources. Creditors agreed to extend the deadline for the financing to Monday, 27 July; if government does not meet it, they will meet again on 30 July to decide what to do.

Comair's business rescue is also facing serious challenges. It needs R226 million to meet its costs before the process is finalised, with a plan expected on Tuesday, 28 July. But the business rescue practitioners could not get its creditors, a mix of banks and airline financiers, to provide the funds. The risk is that it ends up in liquidation.

Public transport

In South Africa, as internationally, public transport operators face higher costs, mostly because they are under pressure to reduce capacity, as well as having lower revenues during the pandemic. The problems go beyond the well-publicised vicissitudes of the taxi industry.

Like the taxis, contracted bus services like Golden Arrow face considerable costs for compliance, especially running below capacity, maintaining hygiene and providing protective equipment. The industry estimates the cost at R175 per day per bus, and there are 7 500 buses in service, meaning the total cost approaches R40 million a month. It has approached Nedlac to explore relief measures.

For Prasa, the costs of reopening have been aggravated by the looting of cable and station fixtures on a large scale while the lines were closed during the lockdown. That has delayed a return to operations on lines in Cape Town.

Gautrain started operations in Level 4. From March to July, however, it had only 12% of its normal four million passengers. Most of them are in the high-income group, which can work from home or, in many cases, may prefer driving to avoid the risk of infection.

ECONOMIC POLICY RESPONSES

The largest component in government's stimulus package is the R200 billion credit-guarantee scheme. After extremely low take up (R12 billion as of last week since its launch on 12 May), it worked with the commercial banks in an effort to make it more attractive to businesses. To that end, it ended size limits on borrowers, which excluded companies with over R300 million in turnover, and explicitly permitted sole proprietorships. As a result, the scheme will now guarantee loans of up to R100 million to companies of any size. It also extended the duration of the loan to six months from three. Perhaps more important, the financial institutions committed to greater flexibility in their lending requirements, although they retain the option of insisting on personal surety for some loans.

In the past week, the government also announced that it had concluded negotiations with the International Monetary Fund (IMF) for a US$4.2 billion (R70 billion) loan. The IMF Board will finalise its decision on Monday, 27 July. This type of finance usually has only low conditionalities, with the most stringent requirements reserved for countries with much higher debts. The barriers will be higher if South Africa has to return to the IMF for financing in the coming years. So far, 71 other countries have already received emergency aid in response to the pandemic, out of 189 IMF members.

Assisting low-income households remains a central pillar of the response to the pandemic. A crucial response to the persistence of the pandemic, as noted, was the extension of the UIF COVID-19 TERS through mid-August. In addition, government has committed to providing R350 a month to unemployed people who do not get other grants, as well as supplementing existing grants, for six months. As of mid-July, 3,4 million people, out of 7,5 million applicants, had actually received the new grant, with another million approved but not yet paid. The cost came to R1,2 billion. All the declined applications were being reviewed after it became clear that some had been inaccurately listed as receiving support from the UIF. In addition, the Department of Social Welfare established an appeals process for rejected applicants.

The Minister of Social Welfare floated the idea of a more permanent Basic Income Grant, initially for all individuals aged 18 to 24 or 50 to 59. She still had to submit the proposal to Cabinet, however.

The response to the housing crisis arising from the pandemic is less coherent. According to both local and national leaders, land invasions have increased as people are evicted from backyard and other existing informal housing because they can no longer pay rent. Cape Town, for instance, saw at least 17 new unauthorised settlements in the past week, with one new settlement (including subsections named “Covid” and “Sanitation”) in a nature reserve. The response has largely been to tear down the new houses, arguing that they are not yet occupied. The courts have permitted the demolition of unoccupied shacks but required restitution where inhabitants were pushed out. The result is that municipalities claim that every house they pull down was uninhabited, while the owners say they were living there.

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