South Africa 21 de abril, 2020

CONEXIG RSA ARTICLE – PART 1

The SIP that could Overturn the Economic Impact of COVID-19 in South Africa

The COVID-19 pandemic could not have come at a worse time for the global economy in general and the South African economy in particular.

According to the South Morning China Post, a 55-year-old individual from Hubei province in China may have been the first person to have contracted COVID-19, the disease caused by the new coronavirus spreading across the globe; that case dates back to Nov. 17, 2019.[1]

However, reported cases of infections and deaths continued to increase across the globe daily, culminating in the World Health Organisation (WHO) declaring COVID-19 a pandemic on March 11, 2020.

[1] Josephine Ma, 'Coronavirus: China's first confirmed COVID-19 case traced back to November 17', China South Post, 17 March 2020

By 5 April 2020 the disease had killed more than 64,800 people and infected more than 1.2 million, according to data compiled by Johns Hopkins University and, according to WHO, this represents more than 180 countries and territories. Furthermore, as at 14 April 2020 which is just over a week, the number of infected people had shot up to nearly 2 million, with over 120 000 people dead globally.

In this article, the Author argues that the Strategic Infrastructure Programme (SIP) may hold the answer to overturning the long-term negative impact of COVID-19 on the South African economy.

By firstly exploring the economic impact of COVID-19, then the state of the global economy prior to COVID-19 and lastly comparing COVID-19 with the 2008 financial crisis, the Author concludes by outlining why he believes South Africa is well poised to ameliorate the economic impact of COVID-19 by implementing, or rather accelerating the pace of, the Strategic Infrastructure Programme (SIP).

Therefore, we present this article in a three-part series as follows:

Part1- Economic impact of the COVID-19 and the state of the global and South African economies pre-COVID-19 outbreak
Part 2 – Reflections on the 2008 Financial Crisis and how South Africa and the rest of the global community responded
Part 3: Perfect time for South Africa to Accelerate Implementation of Strategic Infrastructure Projects (SIPs).

This is part 1 of the series.

COVID-19's Immediate Impact on the Global and the South African Economies

The impact of the Coronavirus on the Chinese and the global economy was almost immediate; the Wallstreet Journal reported that China's exports plunged 17.2 percent in the first two months of 2020 after the outbreak brought much of the country to a halt.[2]

Furthermore, as shown by information from DataStream reported on the World Economic forum platform (figure 1 below), the Chinese factories' Jan-Feb 2020 profits plummeted to their lowest in a decade; this was after sustained industrial profits for every month of the period 2016 to 2018.

In addition to this, just like everywhere else in the world, job losses have mounted up, regardless of the many cheap loans being offered to businesses. Accordingly, China's Producer Price Index (cost of goods at factory gate) dropped 0.4 percent year-on-year in February 2020, after rising 0.1 percent in January; now many economists expect 2020

[2] Staff Writer, 'China's Exports Plunge Amid Coronavirus Epidemic', Wall Street Journal, 7 March 2020

growth to be around 2%, which is a third of the "around 6%" targeted by the Chinese authorities.[3]

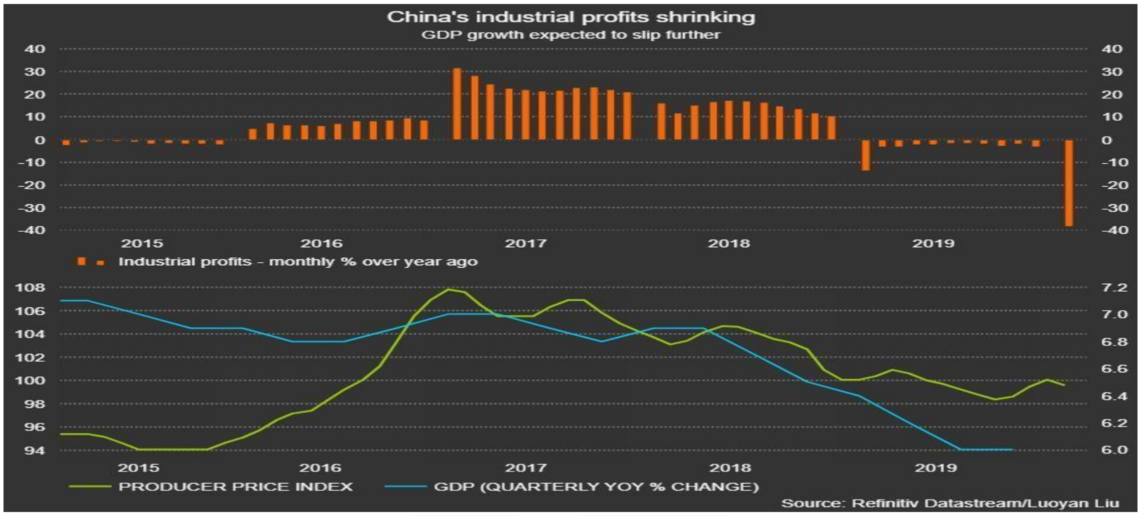

Figure 1 - China's falling industrial profits

For the rest of the world, perhaps the following information paints some picture of the immediate impact of COVID-19:

- Following the conference call of 23 March 2020 of G-20 Finance Ministers and Central Bank Governors, IMF's Managing Director Kristalina Georgieva issued a statement that:

  "For 2020 it is negative - a recession at least as bad as during the global financial crisis or worse…."[4]

- Angel Gurría, secretary general of the Organisation for Economic Co-operation and Development (OECD) stated on BBC that:

  "the economic shock was already bigger than the financial crisis."[5]

- Richard Kozul-Wright, Director, Division on Globalization and Development Strategies at UN's trade and Development Agency (UNCTAD) stated that:

  "We envisage a slowdown in the global economy to under two per cent for this year, and that will probably cost in the order of $1trillion…"[6]

- Bloomberg news quoted the Asian Development of Bank as saying:

[3] Staff Writer, '5 charts that show the global economic impact of coronavirus,' Reuters, 31 March 2020
[4] Rosamond Hutt,' The economic effects of COVID-19 around the world ', Reuters 17 February 2020
[5] Szu Ping Chanlobal,' Global economy will suffer for years to come, says OECD', BBC 23 March 2020
[6] UN trade Agency, 'COVID-19 likely to cost economy $1 trillion during 2020. UN News 9 March 2020

"The cost of the coronavirus pandemic could be as high as $4.1 trillion, or almost 5% of global gross domestic product, depending on the disease's spread through Europe, the U.S. and other major economies"[7]

- On April 3 2020, the U.S. Bureau of Labour Statistics reported a 0.9 increase in the unemployment rate from 3.5 % to 4.4% from February to March 2020 and added that:

"The changes in these measures reflect the effects of the coronavirus (COVID-19) and efforts to contain it. This is the largest over-the-month increase in the rate since January 1975, when the increase was also 0.9 percentage point, and it represents a 1.4 million increase to 7.1 million unemployed individuals in March 2020."[8]

- Japan and the USA have announced a $1Trillion and $2Trillion stimulus package, respectively; for Japan the stimulus package represents 20% of GDP.[9]

- Consulting house McKinsey has forecast a potential loss of over USD 90 billion to Africa's GDP.[10]

- On 27 March 2020 South Africa instituted a 21-day lockdown, which has now been extended by another 14 days to 30 April 2020.

These are just a few examples of developments, responses and projections due to COVID-19. It is worth noting that all these events have come within the first quarter of 2020, the same quarter when WHO declared COVID-19 a global pandemic. That's how quickly the economic ramifications of COVID-19 have spread around the globe.

The Impact of the COVID-19 on the South African economy has already been evidenced by some key economic indicators such as new vehicle sales and household spending.

New vehicle sales are a good measure of economic activity in South Africa and on the 1st April 2020, the National Association of Automobile Manufacturers of South Africa (Naamsa), released the new vehicle sales statistics for March 2020 that showed an aggregate domestic sale of 33 545; that is a substantial decline of 14 150 units or 29,7% from the 47 695 vehicles sold in March last year.

Naamsa added that the export sales at 28 883 units also registered a huge fall of 7 905 units or a decline of 21,5% compared to the 36 788 vehicles exported in March last year, concluding that:

[7] Siegfrid Alegado, 'Global Cost of Coronavirus May Reach $4.1 Trillion, ADB Says', Bloomberg, 3 April 2020

[8] Press Release, The Employment Situation-March 2020, US Bureau of Labour Statistics, 3 April 2020

[9] Mari Yamaguchi, 'Japan PM to declare state of emergency as early as Tuesday', Associated Press,6 April 2020

[10] Kartik Jayaram et al, Tackling COVID-19 in Africa: An unfolding health and economic crisis that demands bold action, McKinsey & Company, April 2020

“The performance of vehicle exports over the course of 2020 is linked to the duration of the COVID-19 pandemic and its impact on the global economy.”[11]

Regarding household expenditure, Fisch Solutions has forecast real household spending for 2020 to decline by 1.36% y-o-y, from the pre-coronavirus forecast of 2.1%, which is significantly lower than the 1.04% growth for 2019.[12]

As a result of COVID-19, the Reserve bank is now projecting the South African economy to contract by between 2 to 4%, as opposed to a pre-COVID-19 lockdown projection of 0.2% contraction.[13]

The Global Economy was Already Slowing Down

For the last quarter of 2019 (figure 2 below), the IMF was forecasting an end of year Global growth of 3.0 percent for 2019, its lowest level since 2008–09 and a 0.3 percentage point downgrade from the April 2019 World Economic Outlook; this is a contraction of 0.6% on the 2018 Global growth figure. For 2020, the IMF projected a growth of 3.4 percent, reflecting primarily a projected improvement in economic performance in a number of emerging markets in Latin America, the Middle East, and emerging and developing Europe that were forecast to an aggregate growth of 4.6%.

However, for advanced economies a 1.7 % growth, or zero improvement on 2019, was forecast; this was based on uncertainty about prospects for several of advanced economies and a projected slowdown in China and the United States.[14]

Figure 2 - IMF World Economic Outlook

The Chinese economy, on the other hand, grew 6.0 percent year-on-year in the December quarter of 2019, the same as in the previous quarter and matching market expectations.

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[11] Press Release, NAAMSA releases March 2020 New Vehicle Stats, Naamsa, 1 April 2020

[12] Fisch Solutions, COVID-19 Lockdown: Initial Impact Assessment on South Africa Consumer & Retail Outlook, 02 April 2020

[13] Jan Cronje and Lameez Omarjee, ‘Economy may shrink by up to 4% due to coronavirus, warns SA Reserve Bank’, Fin24, 6 April 2020

[14] Gita Gopinath, ‘The World Economy: Synchronized Slowdown, Precarious Outlook, IMF, 15 October 2019

Nonetheless, this still represented the weakest growth rate since the first quarter of 1992, amid trade pressure from the US and sluggish demand from home and abroad.

Considering the full 2019, the economy grew by 6.1 percent, the slowest pace in 29 years but still within the government's target of 6 to 6.5 percent, as shown in figure 3 below.[15]

Figure 3 - China's Quarterly Economic Growth - Jan 17-jan20

For South Africa, however, the picture was glim as GDP declined 0.5% year-on-year in the fourth quarter of 2019, after expanding 0.1% in the previous period and compared with market expectations of a 0.1% drop (figure 4). This was the steepest economic downturn since the fourth quarter of 2009.

The impact of unprecedented power blackouts was reflected across sectors, namely utilities (-3.6% vs -2.4% in Q3); manufacturing (-2.6% vs -1.5%); mining (-1. % vs -0.7%); transport, storage & communication (-3.7% vs -1%) and construction (-4.6% vs -3.7%). As a result, the economy only advanced by 0.2% in 2019, the least since the global financial crisis in 2009, and far below 0.8% a year ago.[16]

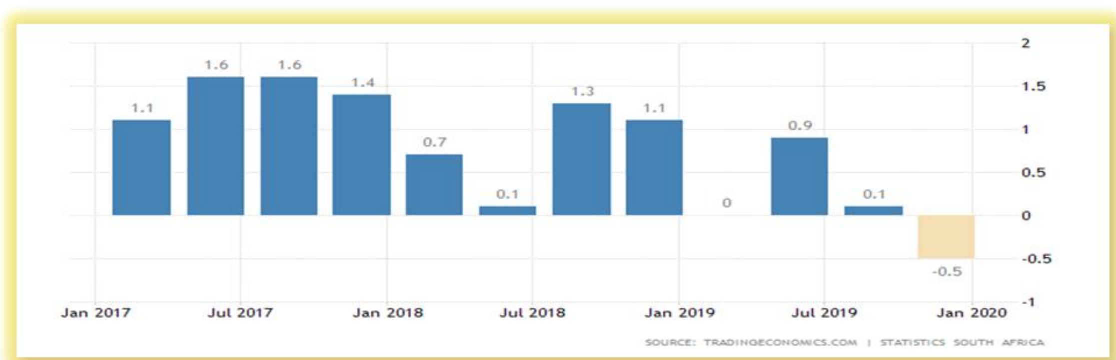

Figure 4 - South Africa's Quarterly Economic Growth - Jan 17-Jan20

[15] https://tradingeconomics.com/china/gdp-growth-annual

[16] https://tradingeconomics.com/south-africa/gdp-growth-annual

Part 2 of the series will reflect on the 2008 Financial crisis and how South Africa and the rest of the world responded, with a conclusion on the effectiveness of the measures that were put in place.

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