

Reimagining the South Africa economy after COVID-19: Build back better

21 September 2021





PwC's ADAPT: Global trends accelerated by COVID-19 pandemic

A

ASYMETRY

- The poor (people, regions, countries) will get hit the hardest
- Unemployment at the bottom of the wealth pyramid, which will also grow
- Massive failure of small business
- Sovereign debt and GDP growth issues

D

DISRUPTION

- Strength and influence of big technology platform companies will grow faster
- People are likely to become more socially conscious

A

AGE

- Increased pressure on young countries as there are fewer workforce opportunities
- Increased pressure on pensions and social welfare systems in older countries
- Challenges stimulating job creation in developing markets compounds the issue
- Intergenerational debate

P

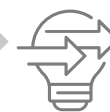
POLARISATION

- Increased localisation of economies due to supply chain issues
- Heightened nationalism as nation states look to blame "other" and protect themselves
- The potential for humanity to come together after the crisis to solve important problems

T

TRUST

- Distrust in institutions and their ability to respond fairly will grow
- Some institutions and leaders will come out of the crisis with stronger reputation



The pandemic negatively affected the South African economy across all sectors – but the recovery has been uneven across industries.



Economy

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21
Whole-economy PMI	-2.6	-3.6	-8.8	-30.2	-34.1	-14.5	-9.7	-8.9	0.4	3.2	3.5	5.5	5.2	3.7	13.0	53.0	63.7	20.0	2.7	10.2
Exports	13.0	10.6	11.0	-50.0	-9.7	9.3	6.1	9.8	22.7	19.4	17.5	23.3	9.6	20.1	45.6	212.7	62.3	43.8	18.1	
Imports	2.1	0.8	-6.3	-18.1	-22.0	-32.6	-26.9	-21.1	-3.2	-5.3	-7.8	5.7	-5.8	4.1	22.7	25.4	26.9	55.8	27.6	
Transactions volume index	3.2	4.9	3.3	-12.9	-9.1	6.5	0.5	-2.8	3.2	8.8	-2.1	10.4	-2.5	0.3	13.1	21.8	17.2	26.0	16.8	
New vehicle sales	-5.0	0.2	-29.7	-98.4	-68.0	-30.7	-29.6	-26.3	-23.9	-25.4	-12.0	-10.1	-13.9	-13.3	31.8	6132.6	197.8	20.2	33.1	24.6
Coincident business cycle indicator	-2.1	-2.8	-13.0	-33.9	-36.2	-30.3	-23.5	-16.5	-14.7	-13.0	-10.9	-10.0	-11.1	-10.1	0.5	31.4	40.8			
Leading business cycle indicator	-0.7	-2.1	-3.1	-10.3	-10.0	-5.1	-2.2	2.4	6.0	9.1	10.0	10.8	12.1	14.5	18.1	31.4	36.9	27.6		

Industry



Mining production	7.4	6.3	-18.1	-50.3	-24.8	-25.2	-6.2	-3.3	-2.4	-5.5	-9.7	-2.5	-8.2	-1.9	22.4	117.4	21.9	19.1	10.3	
Mining sales	24.4	18.1	12.6	-30.1	-12.7	-13.4	10.4	19.6	26.5	31.2	15.6	22.8	24.9	26.0	50.1	151.1	88.2	94.0	32.6	
Manufacturing production	-1.9	-2.1	-5.1	-48.9	-32.3	-13.2	-9.6	-10.4	-2.0	-3.9	-4.2	2.4	-4.3	-2.5	5.4	88.3	36.0	11.9	-4.1	
Manufacturing sales	-0.7	2.7	-5.2	-50.7	-30.6	-15.8	-11.4	-11.9	-1.7	-0.9	1.6	5.9	0.2	3.3	18.6	119.8	52.0	29.1	3.2	
Freight transportation	-7.2	-4.9	-5.3	-39.7	-22.5	-18.6	-10.5	-11.9	-6.0	-8.7	-4.9	4.2	-10.7	-8.3	0.6	55.1	20.8	11.6		



Consumer

Wholesale sales	2.6	1.4	-3.3	-42.0	-19.9	-2.9	-5.0	-3.8	0.0	-4.6	-3.9	1.8	-6.4	-4.3	5.0	67.4	30.9	10.8	-2.0	
Retail sales	1.3	1.9	2.9	-49.9	-11.9	-7.2	-8.6	-4.1	-2.4	-2.3	-4.3	-1.2	-3.7	2.0	-2.3	95.1	15.5	10.5	0.8	
Restaurants, coffee shops and catering sales	2.6	0.4	-31.4	-95.5	-86.6	-59.3	-50.9	-44.1	-39.0	-30.9	-26.8	-28.1	-37.6	-26.5	2.7	1961.3	573.3	98.3		
Tourist accommodation	4.9	6.4	-33.6	-98.6	-97.9	-95.0	-88.6	-80.6	-72.0	-66.3	-64.7	-57.9	-72.8	-72.6	-45.4	3259.7	2027.7	1012.4		
Nominal take-home pay	12.6	9.8	4.3	2.6	3.4	7.9	5.6	4.3	1.7	6.3	3.8	5.4	3.0	4.7	3.8	6.8	4.5	4.4	5.1	
Real take-home pay	8.3	5.2	-0.3	-1.4	0.3	5.3	3.1	1.5	-1.3	3.0	0.6	2.1	-0.2	1.7	0.7	3.1	0.1	-0.5	0.0	

Public sector



Total government revenues	15.1	6.7	4.6	-14.5	-29.7	-26.3	-14.8	-13.6	-10.2	-0.7	3.9	10.0	-4.2	-8.2	4.5	35.5	40.6	88.2	26.9	
VAT revenues	33.7	28.4	6.5	-1.6	-38.6	-36.3	-13.5	2.2	-1.1	17.4	20.2	0.4	-1.3	-24.7	15.9	31.4	83.6	68.1	21.7	
Electricity distribution	-2.5	1.0	-4.0	-22.8	-13.2	-5.8	-4.5	-0.4	-2.1	-2.8	-2.4	1.1	-3.2	-4.3	1.8	25.6	12.2	3.2	3.5	

Monthly economic data showed sharp % y-o-y declines in many of South Africa's major economic indicators during 2020Q2 and 2020Q3. due to the lockdown. Green shoots have been gaining momentum in 2020Q4 and 2021Q1.



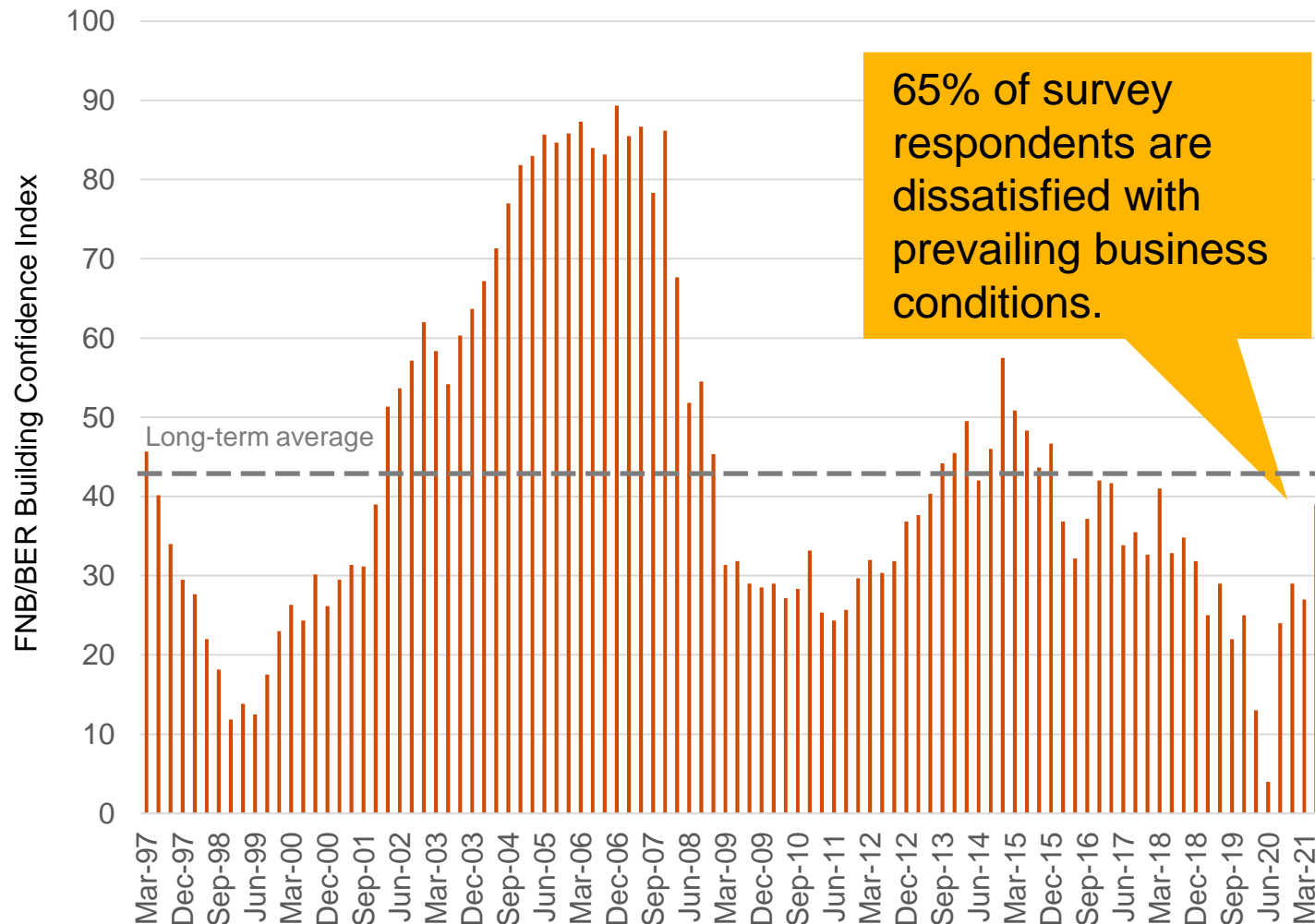
Difference between 2020 and 2021 budget expenditure



R billion	2019/20	2020/21	2021/22	2022/23	2023/24	MTE (2022-2023)	% difference
	Outcome	Revised estimate	Medium-term estimates				
Energy	-23.6	-21.1	-8.2	5.0	55.4	-3.1	-3.2%
Water and sanitation	-11.1	-2.2	-3.6	0.2	43.2	-3.4	-4.2%
Transport and logistics	-20.0	-21.3	-12.7	-9.0	98.3	-21.7	-10.3%
Other economic services	-7.3	11.6	8.5	8.4	19.9	16.9	68.2%
Health	0.2	5.4	0.0	-0.4	12.8	-0.4	-1.6%
Education	-2.0	-2.2	-1.0	-1.2	19.3	-2.2	-5.5%
Human settlements	2.1	-1.7	0.0	0.0	14.5	0.0	-0.1%
Other social services	-5.8	-8.2	-8.2	-8.4	1.9	-16.6	-82.8%
Administration services	-2.1	-1.1	-1.1	-0.8	10.5	-1.9	-8.6%
Total (Sectors)	-69.5	-41.0	-26.2	-6.2	275.7	-32.5	-5.9%
National departments	-2.0	-3.5	-2.2	-2.2	15.3	-4.4	-12.9%
Provincial departments	0.2	3.1	2.1	0.6	62.1	2.8	2.4%
Local government	-20.5	0.8	-4.9	-5.1	66.4	-10.0	-7.5%
Public entities	-4.2	-0.8	-0.2	0.3	21.5	0.1	0.2%
Public-private partnerships	0.0	0.9	0.0	-0.4	6.3	-0.4	-3.6%
State-owned companies	-43.1	-41.4	-21.0	0.5	104.2	-20.5	-9.7%
Total (Government entities)	-69.5	-41.0	-26.2	-6.2	275.7	-32.5	-5.9%



Building confidence remains negative and below the long-term average due to multiple challenges.

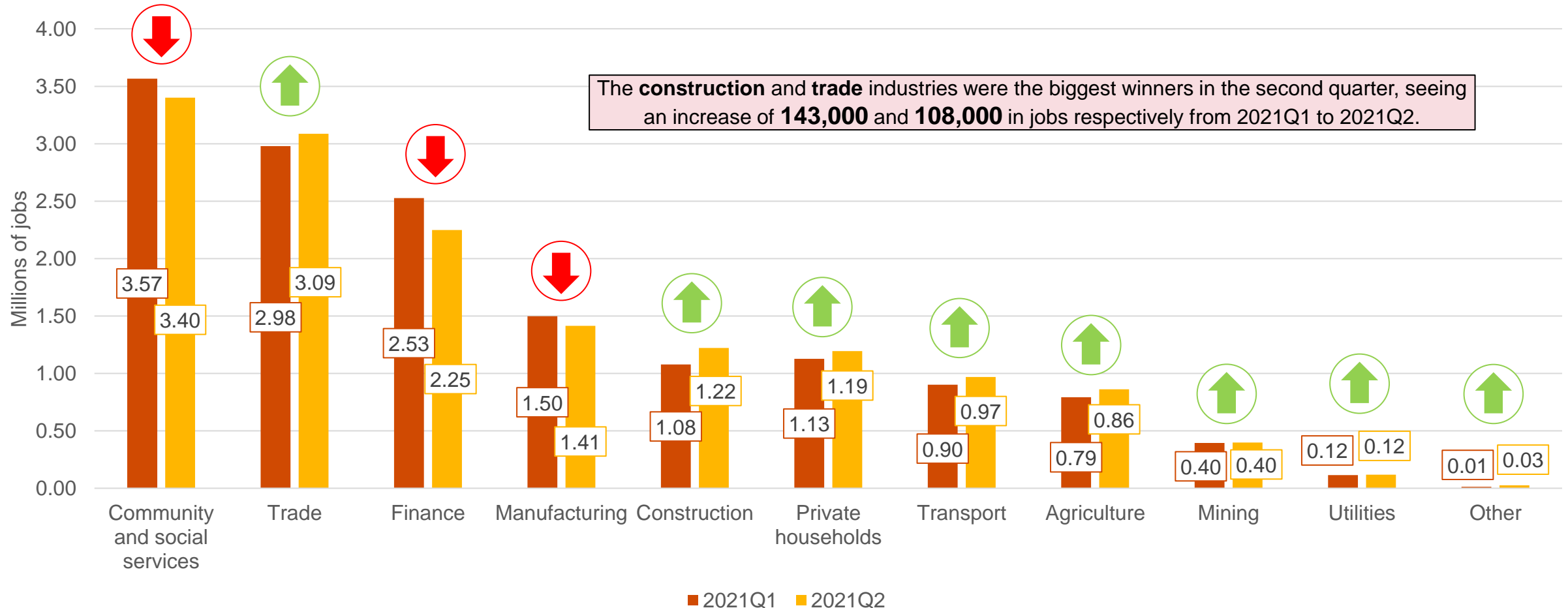


KEY CHALLENGES FACED BY THE CONSTRUCTION INDUSTRY AT PRESENT

- Weak contractor activity
- Pressure on overall profitability - contractors are unable to pass higher input costs on to clients
- Delays in the municipal approval of projects
- So-called 'construction mafia'
- Government inaction regarding the rollout of key building project
- Worse-than-expected domestic demand for building materials

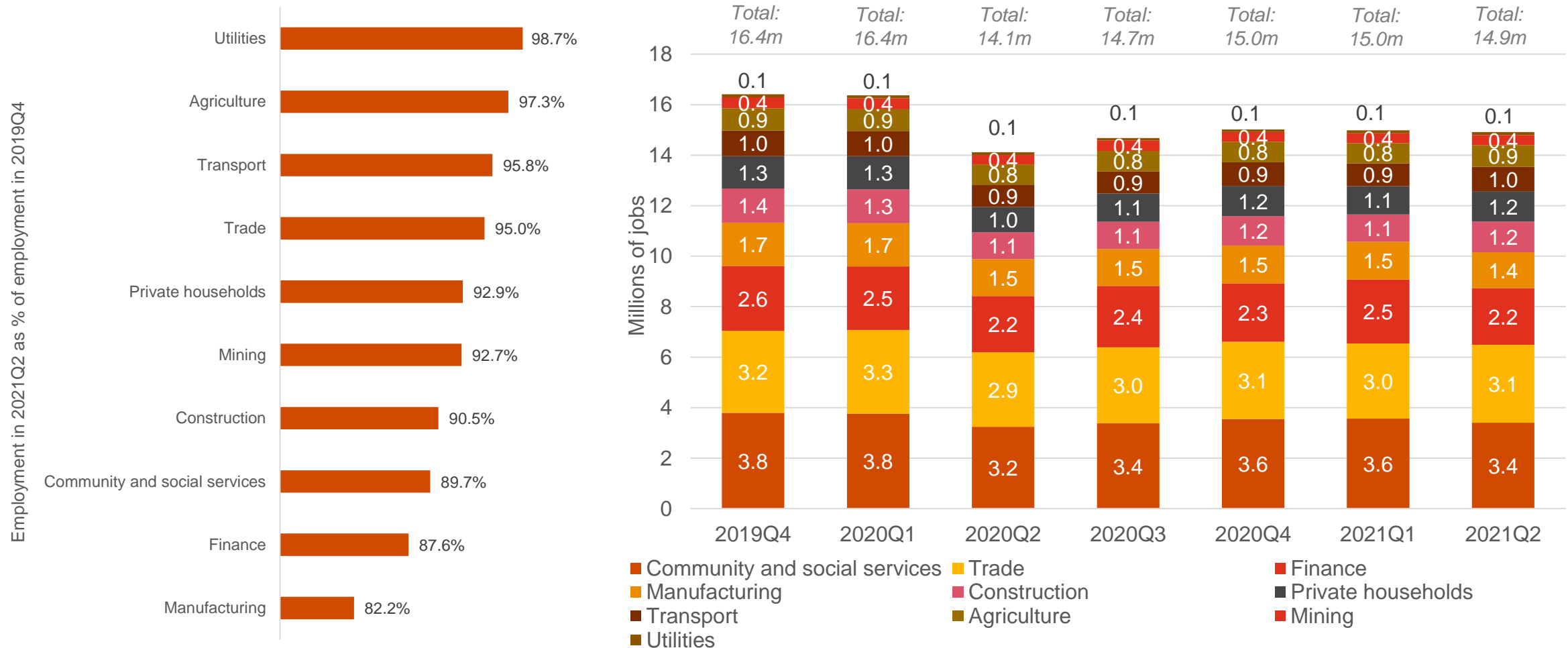


Total employment fell by 54,000 from 2021Q1 to 2021Q2. However, only the community and social services, finance, and manufacturing industries saw job numbers fall (a decline of 527,000 jobs).





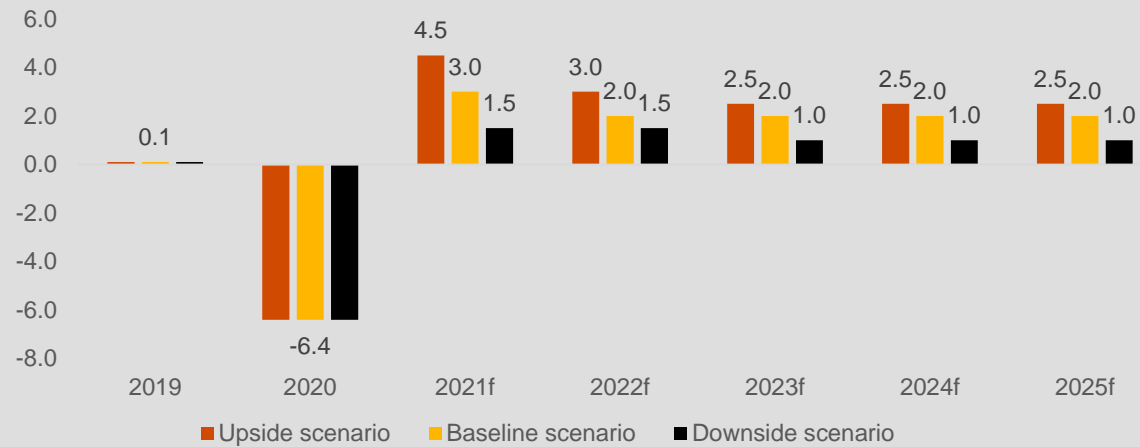
2021Q2 employment was only 90.9% of the pre-pandemic (end-2019) level. Some services industries have taken a hit this quarter, while manufacturing continues to struggle.



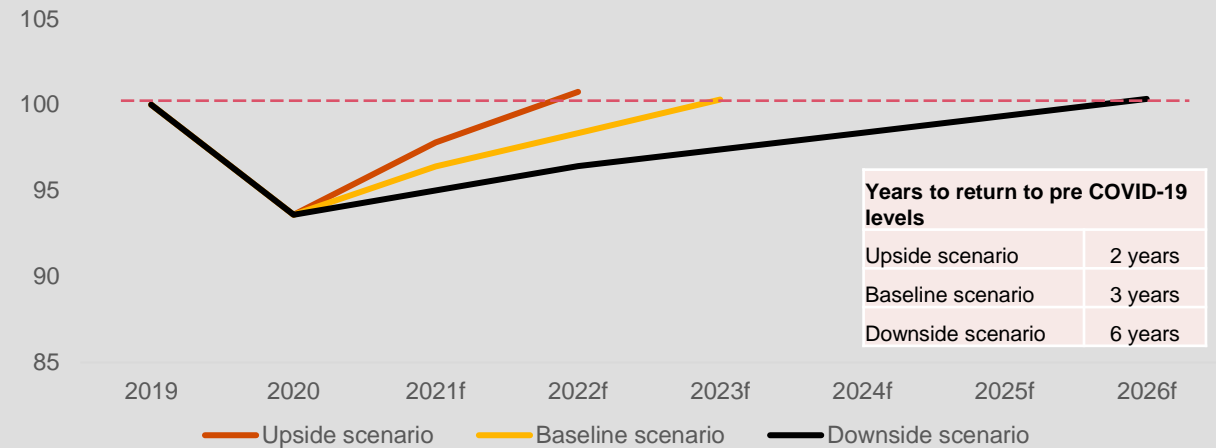


How long before South Africa's GDP returns to 2019 levels?

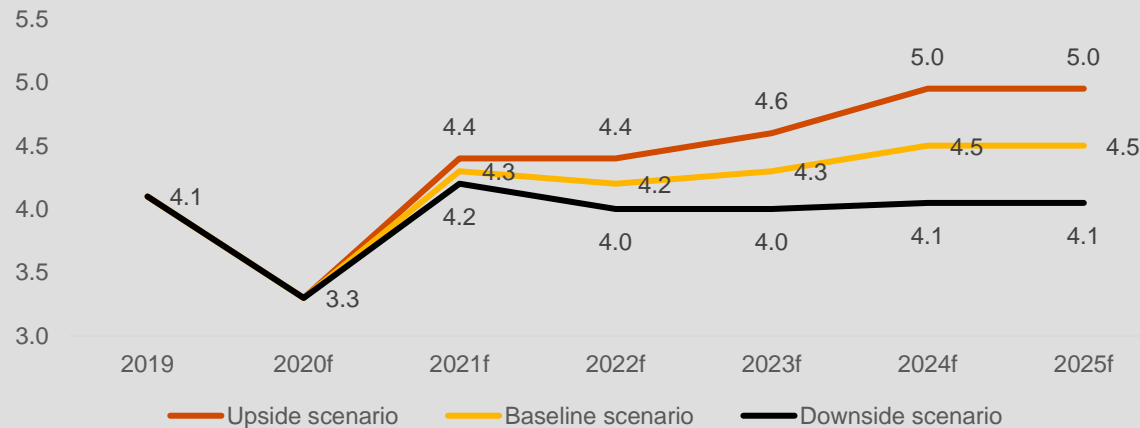
GDP GROWTH OUTLOOK (Y-O-Y % CHANGE)



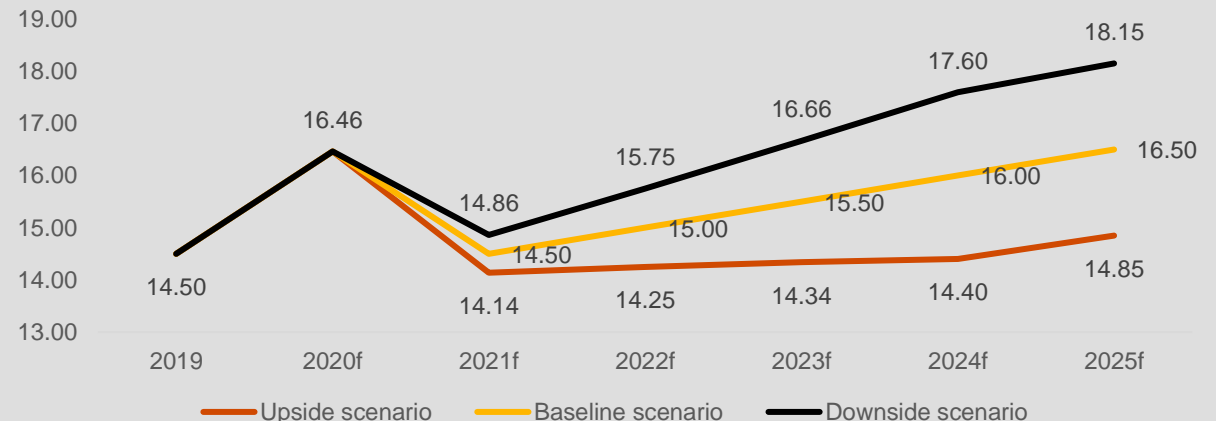
RETURN TO PRE-COVID-19 GDP LEVELS



CPI FORECASTS (Y-O-Y % CHANGE)



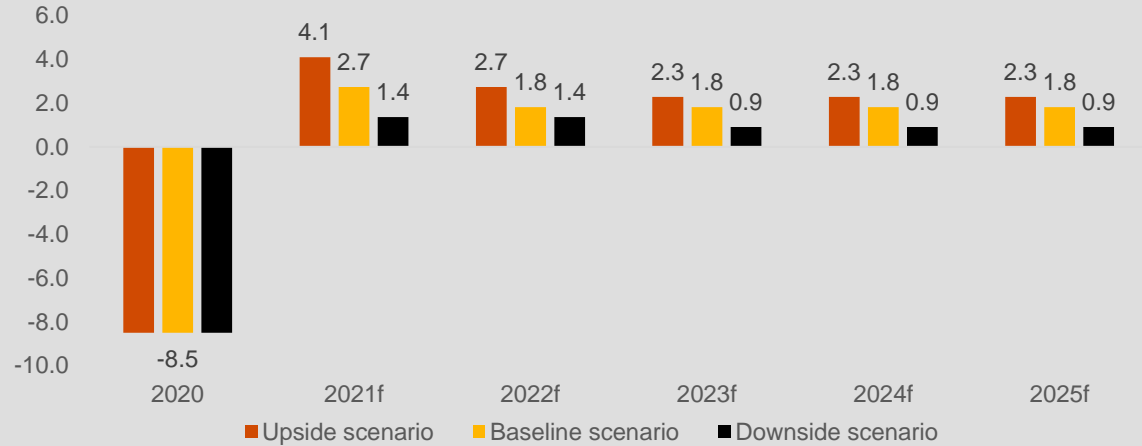
ZAR/USD FORECASTS (YEARLY AVERAGE)



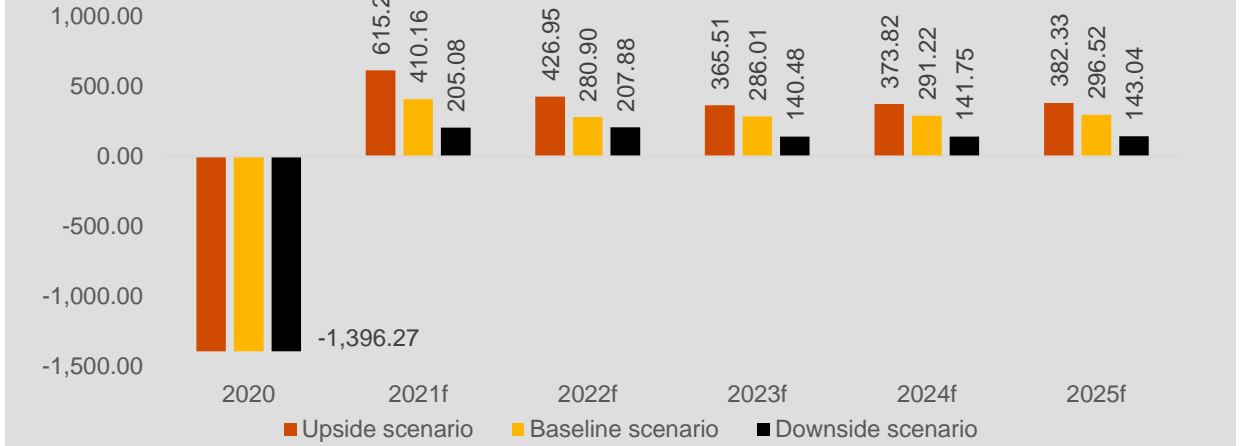


How long before South Africa's employment returns to 2019 levels?

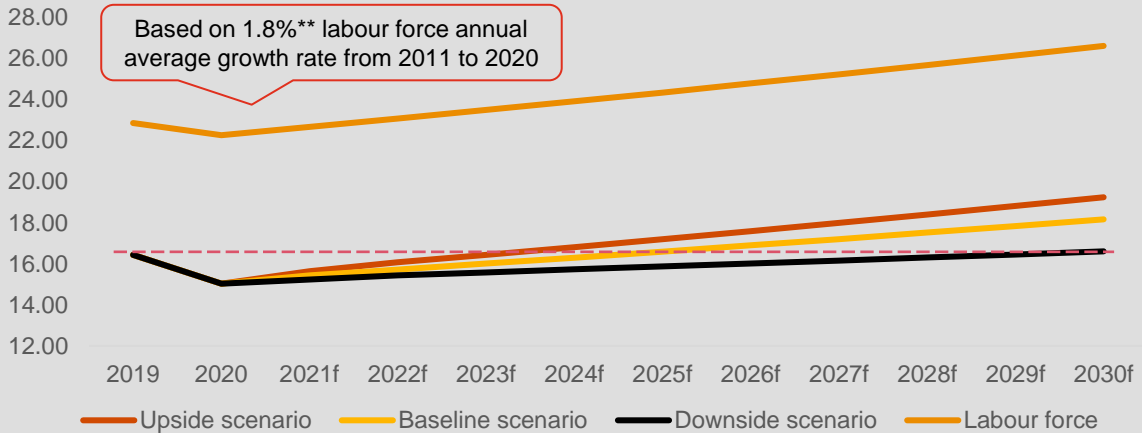
EMPLOYMENT OUTLOOK (Y-O-Y % CHANGE) *



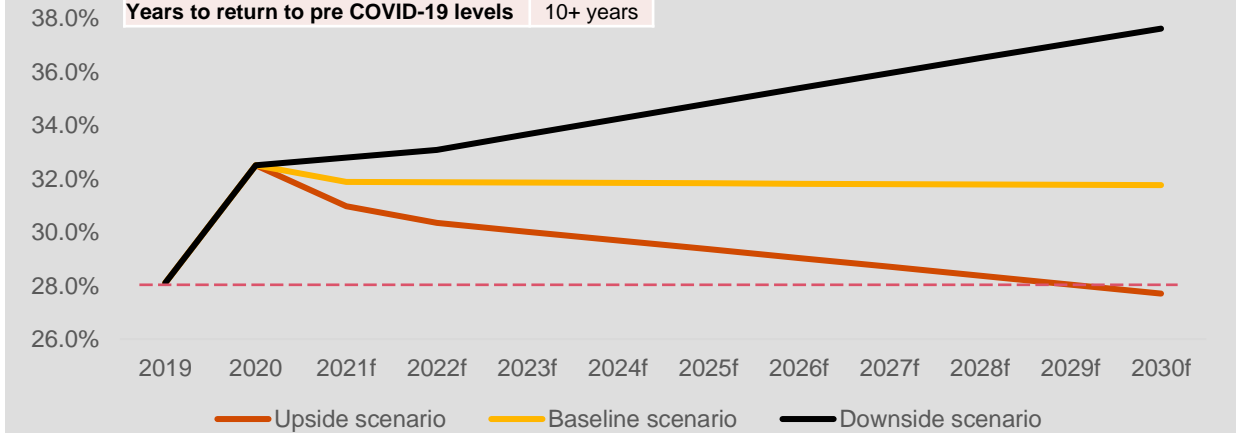
EMPLOYMENT OUTLOOK (THOUSANDS)



EMPLOYMENT NUMBERS VS LABOUR FORCE (MILLIONS)



UNEMPLOYMENT RATE (RETURN TO PRE-COVID-19 LEVELS)



Source: SARB, StatSA, PwC analysis
PwC

* Note: The employment numbers are based on PwC's estimation that for every 1% increase in GDP, jobs increase by 0.91% (Quarterly from 2010Q1 – 2021Q2).

** Note: 2020 saw a -2.5% decrease from 2019's labour force number – the first time since the previous recession in 2009.



A myriad of uncertainties leave the private sector unable to retain workers and/or create new jobs

South Africa continued to lose jobs in 2021Q1 despite four consecutive quarters of real GDP growth.

- By the end of 2019, every one percentage point increase in real GDP would translate to a 1.01 percentage point increase in employment. In addition, real GDP change during a specific quarter would explain 74% of the change.
- When extending the regression period to 2021Q2, we observe that a one percentage point increase in real GDP now only translates to a 0.91 percentage point change in job creation. The calculation also has a reduced model fit of 0.67 – this means that, at present, **the change in real GDP can only explain two-thirds of the change in jobs.**

A diminishing relationship between real GDP and employment growth

Time period	% change in employment as a result of a 1% change in real GDP	Proportion of the change in employment explained by the change in real GDP
2010Q1 – 2019Q4	1.01	0.74
2010Q1 – 2020Q1	1.02	0.73
2010Q1 – 2020Q2	0.95	0.71
2010Q1 – 2020Q3	0.95	0.70
2010Q1 – 2020Q4	0.92	0.68
2010Q1 – 2021Q1	0.92	0.68
2010Q1 – 2021Q2	0.91	0.67

The big question is: why are we seeing a jobless recovery?

- The answer might lie in the other third of the drivers behind employment growth that our GDP-only regression model could not explain.

A number of factors are keeping the private sector from retaining and appointing new workers, including:



Potential higher future tax burden



Vaccine delays and lingering lockdown



Risk of further social unrest

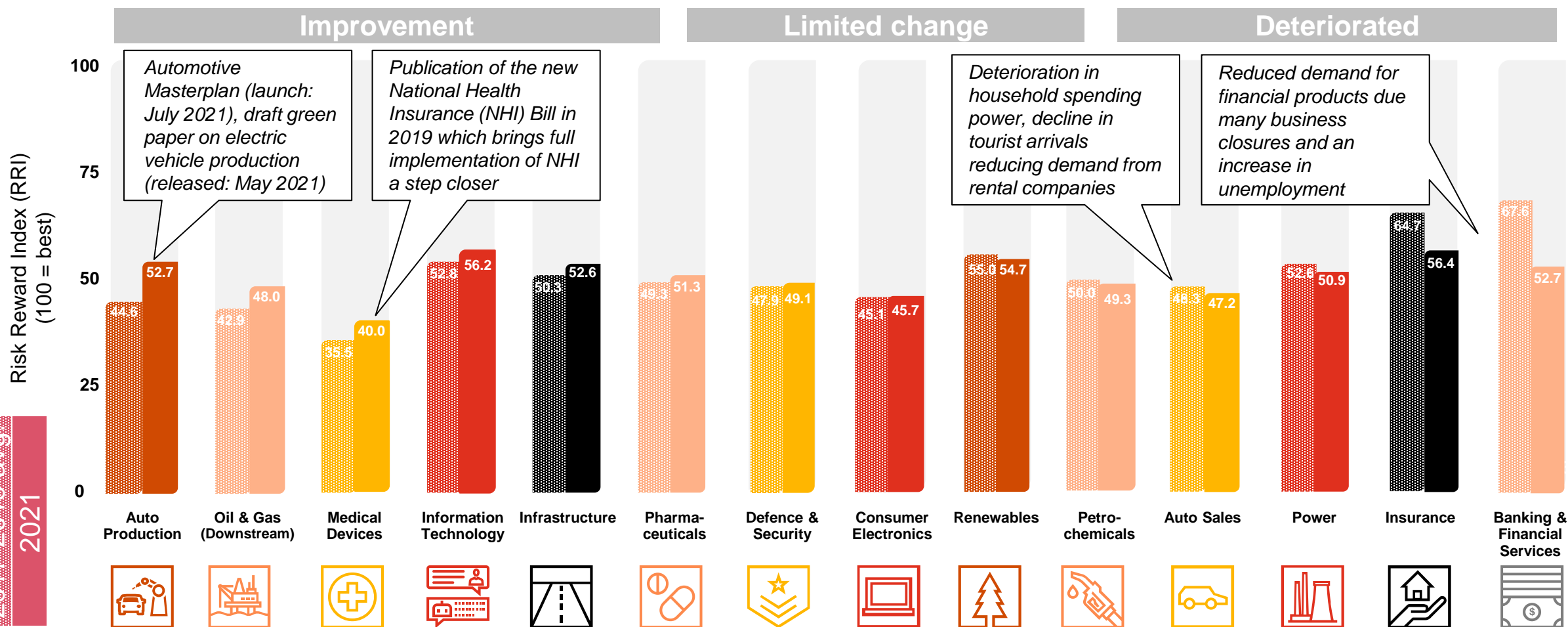


Increased electricity load-shedding

There is a direct link between policy certainty and business confidence

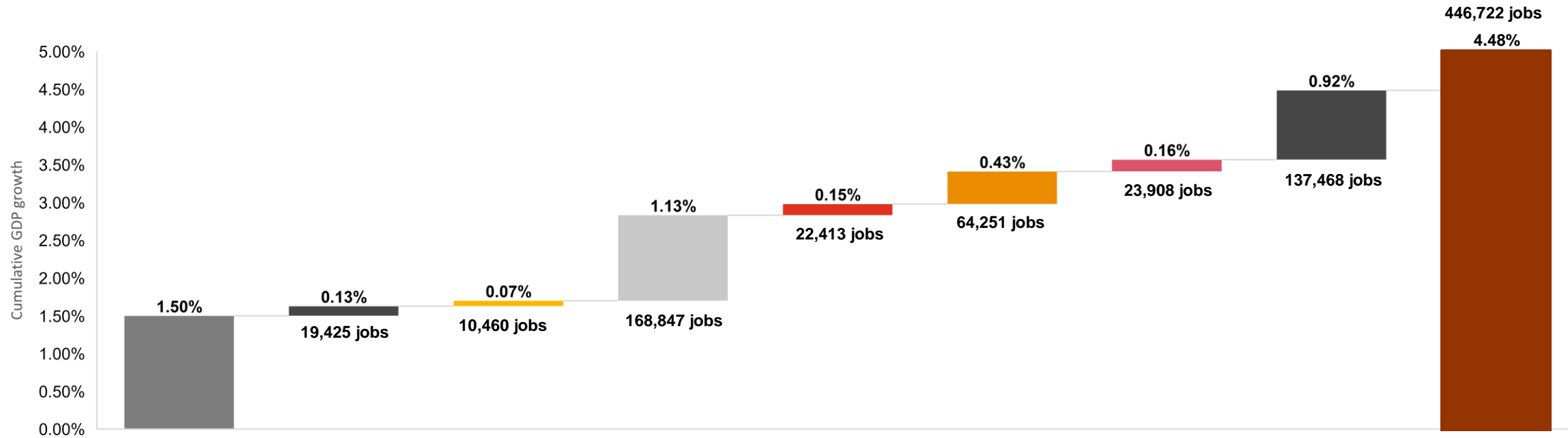


A “new normal” with COVID-19 and lockdown restrictions have changed the risk/reward profile of local industries – some are quite different from the pre-pandemic norm.





The South African recovery path: potential to change the direction



	Current potential long-term annual GDP growth	1% increase in FDI	1% improvement in ease of starting a business ranking	1% improvement in electricity availability/supply	1% improvement in digitilisation	1% increase in pvt sector investment	1% increase in local content	1% improvement in knowledge capital	Potential achieved GDP growth rate 2031
Potential share of GDP improvement		4.30%	2.40%	37.90%	5.00%	14.42%	5.25%	30.73%	
Incremental Increase in GDP growth rate		0.45%	0.25%	3.94%	0.50%	1.44%	0.52%	3.00%	
PwC	<i>PwC calculations adapted from Short-lived supply shocks to potential growth, B. Botha, F. Ruch and R. Steinbach, SARB Working paper series, WP/18/02 June 2018</i>	<i>PwC calculations adapted from The role of country income levels and institutional strength, EIB Working paper 2020/02</i>	<i>PwC calculations adapted from Improvements in the World Bank's Ease of Doing Business Rankings: do they translate into greater foreign direct investment inflows?, Development Policy Centre, Discussion Paper 8, J Dinuk, 2011</i>	<i>PwC calculations adapted from Exploring the nexus of electricity supply and economic growth in South Africa, H. Khobai, G. Mugano and P. Le Roux, Economic Research Southern Africa, 2017</i>	<i>PwC Strategy&, Maximizing the impact of digitization, 2012</i>	<i>PwC calculations using Social Accounting Matrix</i>	<i>PwC calculations using Social Accounting Matrix</i>	<i>PwC calculations adapted from For long-term economic development, only skills matter, E.A. Hunushek, IZA World of Labour, 2017</i>	<i>PwC calculations</i>

Note: The job numbers are based on the 2019 official employment figure of 16.42 million and the PwC estimation that for every 1% increase in GDP, jobs increase by 0.91%.



CONTACT US

Lullu Krugel
Partner Strategy &
Chief Economist, PwC South Africa



(082) 708 2330



lullu.krugel@pwc.com



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