

Second wave and cuts to COVID-19 relief are main threats to economic recovery

The latest economic data highlight that the economy has recovered better than expected since April, outperforming International Monetary Fund (IMF) forecasts. However, the recovery is threatened by the second wave in the COVID-19 pandemic, fuelled by Christmas socialising and travel.

Moreover, the planned effective termination in January of the two largest relief programmes – the UIF Temporary Employer/Employee Relief Scheme and the COVID-19 Special Grant, which together reach well over five million people – could set the recovery back significantly.

This cautionary note emerged from the third quarter Real Economy Bulletin (REB), released today by Trade and Industrial Policy Strategies (TIPS). The REB conducts a deep dive into the latest economic data. It notes that the quarterly data on the GDP and employment obscure the rapid monthly changes during the pandemic. The economy shrank sharply in April but regained much, albeit not all, of the lost ground in May and June. Since then, growth has continued at a more gradual pace. In constant rand terms, exports exceeded January figures in the third quarter, driven mostly by higher prices for gold as well as higher production of platinum and autos. Manufacturing sales in September were equal to those in March in constant rand terms, although growth was slowing. In contrast, despite the lifting of restrictions, accommodation and catering remain “the hardest-hit industries,” with sales still more than 50% below pre-pandemic levels.

The pandemic has deepened inequalities globally and in particular in South Africa, which already ranks amongst the most unequal societies in the world. The REB points out that “job losses amongst formal-sector managers and professionals, who held almost a third of all formal jobs, fell just 1% or around 35 000. In contrast, for other formal workers, employment shrank 12%, or around a million.” A similar picture emerges when comparing job losses in formal as compared to the informal sector which saw a 22% decline in employment in the second quarter, and regained 8% in the third quarter. As a result, the inform sector “suffered a net loss of over 450 000 positions. That equalled almost a third of total job losses, although the informal sector contributes less than a fifth of total employment.”

More broadly, employment rebounded only 4% in the third quarter after dropping 14% in the second quarter. Since more labour-intensive jobs tend to be at higher risk from the infection, they are unlikely to return until the pandemic is fully under control. Indeed, a second wave is likely to see more job losses from catering and accommodation. In these circumstances, the planned termination of key relief programmes in January will see many households going hungry.

Issued by: TIPS.

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