

Understanding the Economics of Covid-19 in South Africa: Early Impressions

Labour Market Intelligence
research programme

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Outline

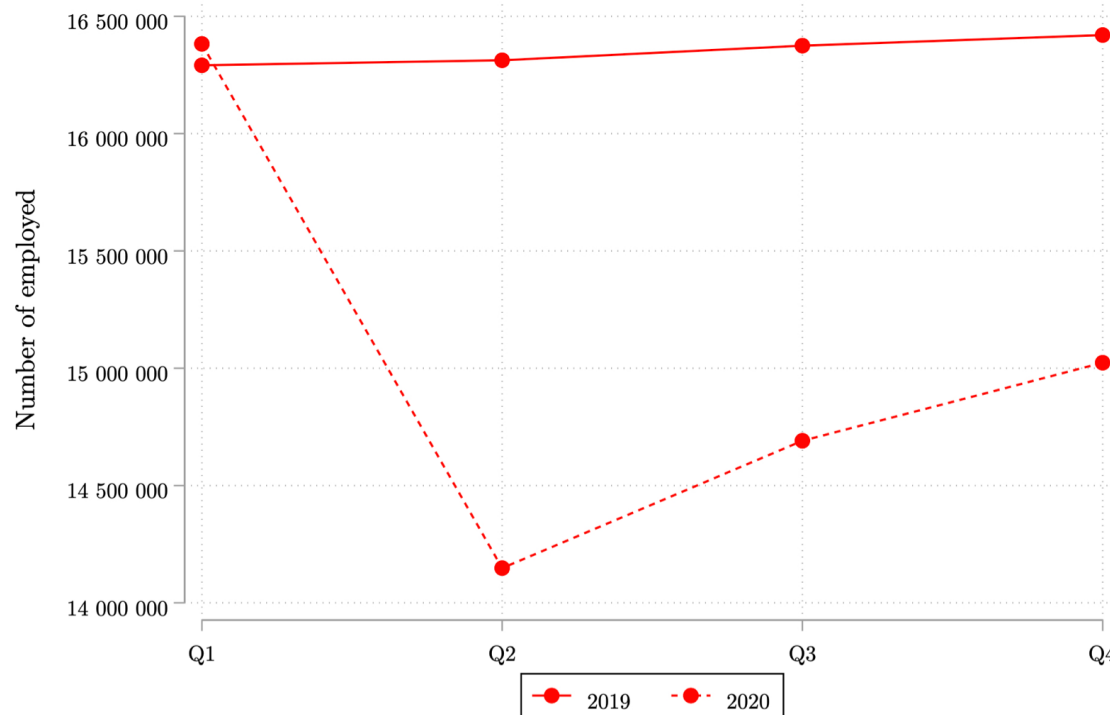
- Covid-19 Economic Shocks in South Africa:
 - GDP, Employment and Inequality
- A Covid-19 Stimulus Package: The Ramaphosa Plan
 - The Covid-19 Social Assistance Package
- The Macro-Economic Fallout: From Stimulus to Deficits and Debt
- Towards An Innovative Policy Response

Negative Economic Shocks in South Africa

Source	Date of Forecast	GDP	
		2020	2021
Pre-Crisis Forecast			
National Treasury	26-Feb	0.9	1.3
Current Forecasts			
HSBC	02-Apr	-6.7	4
BER	08-Apr	-7	5.1
SA Reserve Bank	14-Apr	-6.1	2.2
IMF	15-Apr	-5.8	4.0
Nat. Treasury	15-Jun	-7.2	2.6

- Pre-Covid19 forecasts of tepid growth.
- Revised significantly downwards. Simple average of core forecast teams place economic contraction in 2020 at about 6.6% decline in GDP.
- Important: Bounce-back of between 2 and 5% projected for 2021.
- *Forecasts make projections on intensity and length of lockdowns to varying degrees.*

Non-Linear Employment Shifts in 2021: 'A Weak V'?

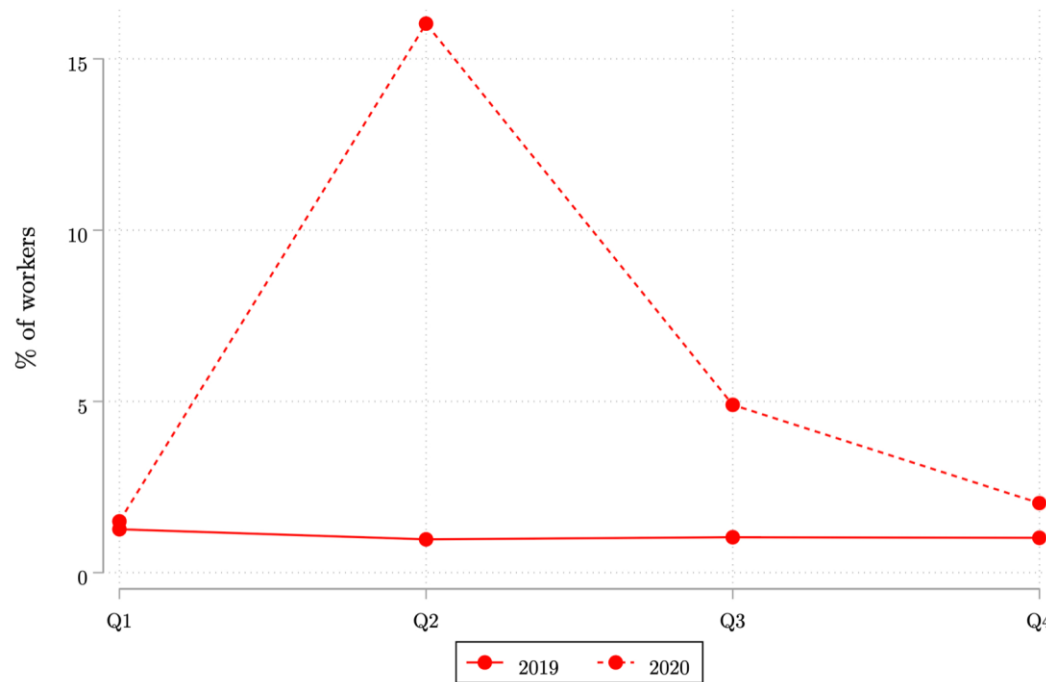


Authors' own calculations. Source: QLFS 2019Q1 – 2020Q4 (StatsSA).

Notes: [1] Estimates weighted using relevant sampling weights. [2] Sample restricted to working-age population (15-64 years).

- By end of 2020 SA records net job loss of 1.4m (decrease of 8% from Q1>Q4).
- Beyond Q2, an initial but slow job recovery of 700 000 jobs (6 % increase from Q2>Q4).
- Initial large shock in Q2 followed by a moderate & rising recovery.
- Key question: Strength and pace of recovery?

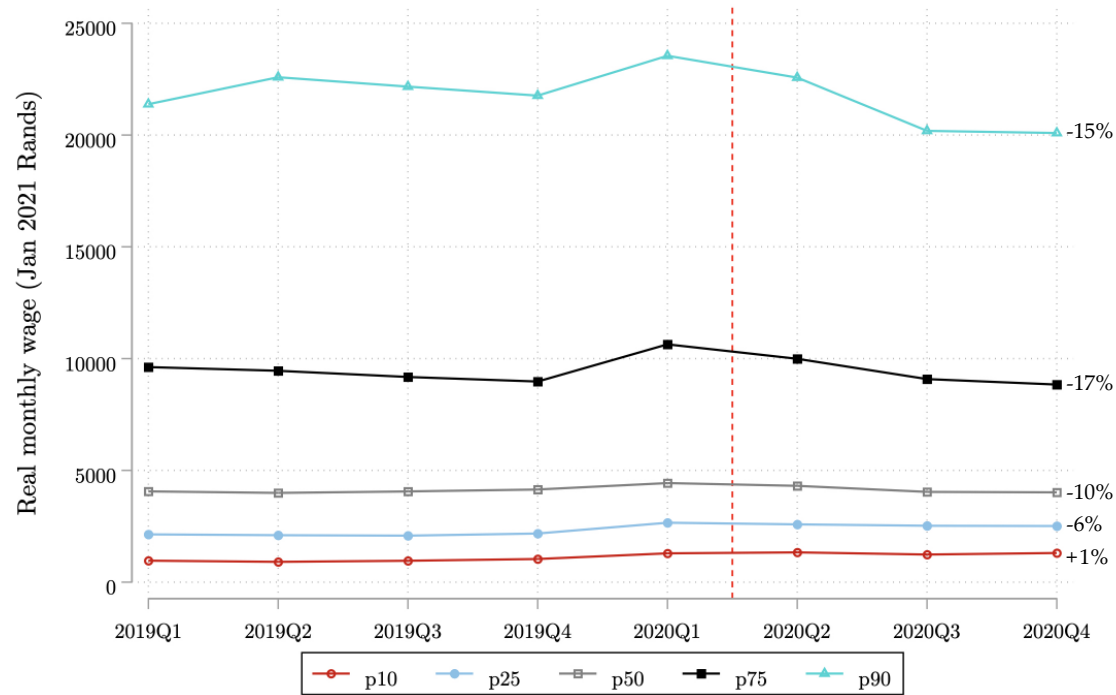
An Intensive Margin Adjustment: Hours of Work of Employed



Authors' own calculations. Source: QLFS 2019Q1 – 2020Q4 (StatsSA).
Notes: [1] Estimates weighted using relevant sampling weights. [2] Sample restricted to working-age population (15-64 years).

- Firms possibly cope with lockdown by reducing hours to zero but retain workers.
- Share of employed working zero hours jumps above 15% (2.3 million people).
- Approx. 1 in 6 workers.
- Zero-hour workers face same or reduced wages.
- Close to full recovery by 2020Q4 (share working zero hours down to 2%).

Income Losses Through Wage Decline

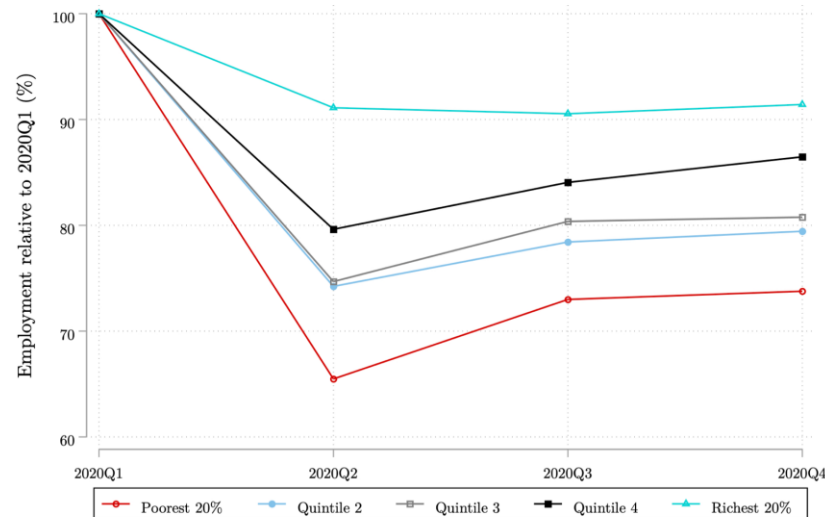


- *Wage data still preliminary.*
- Suggests larger perc. decline in upper half of wage distribution.
- Median monthly wages fell by 10% from Q1>Q4.
- Negative income shocks for households and recovery from this – requires closer examination.

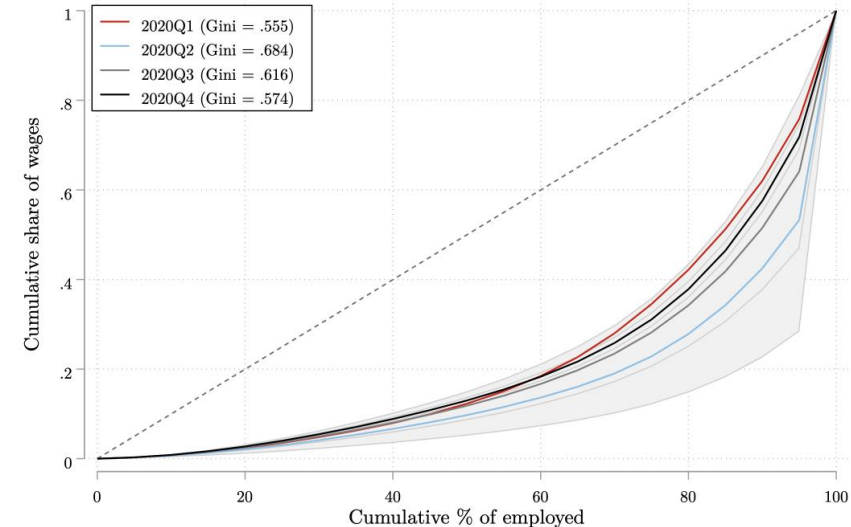
Authors' own calculations. Source: QLFS 2019Q1 – 2020Q4 (StatsSA).
 Notes: [1] Estimates weighted using computed StatsSA sampling weights. [2] Sample restricted to the employed (employee, employer, or self-employed) working-age population (15-64 years). [3] Wages expressed in January 2021 Rands. [4] Wage data adjusted outliers. [5] Data excludes bracket responses.

Labor Market Dynamics: A Brief Examination

- Job Loss most severe for those living in lower quintile households.
- Higher job loss burden among low skilled, informally employed.
- Wage inequality rises sharply in Q2 then returns toward Q1 levels.



Authors' own calculations. Source: QLFS 2020Q1 – 2020Q4 (StatsSA).
Notes: [1] Estimates weighted using computed bracket weights. [2] Sample restricted to the employed (employee, employer, or self-employed) working-age population (15-64 years). [3] Wages expressed in January 2021 Rands. [4] Wage data adjusted for bracket responses and outliers. [5] Zero working hours replaced with mean working hours for a given year and quarter.



Authors' own calculations. Source: QLFS 2020Q1 – 2020Q4 (StatsSA).
Notes: [1] Estimates weighted using computed bracket weights. [2] Sample restricted to the employed (employee, employer, or self-employed) working-age population (15-64 years). [3] Wages expressed in January 2021 Rands. [4] Wage data adjusted for bracket responses, outliers. [5] Zero working hours replaced with mean working hours for a given year and quarter. [6] Shaded regions represent 95% confidence intervals.

Employment and Inequality: The COVID-19 Impact

Table 2: Changes in employment by industry and occupation, 2019Q2 – 2020Q2

	2019Q2	2020Q2	Change		Employment shares (%)		Share of change
			Absolute	%	2019Q2	2020Q2	
Industry							
Primary	1 223 144	1 172 236	-50 908	-4.2	7.5	8.3	2.3
<i>Agriculture, etc.</i>	842 062	799 033	-43 029	-5.1	5.2	5.7	2.0
<i>Mining and quarrying</i>	381 082	373 203	-7 879	-2.1	2.3	2.6	0.4
Secondary	3 303 486	2 634 571	-668 915	-20.2	20.3	18.7	30.6
<i>Manufacturing</i>	1 789 388	1 455 825	-333 564	-18.6	11.0	10.3	15.3
<i>Utilities</i>	151 339	112 926	-38 412	-25.4	0.9	0.8	1.8
<i>Construction</i>	1 362 759	1 065 820	-296 939	-21.8	8.4	7.5	13.6
Tertiary	11 780 270	10 314 562	-1 465 709	-12.4	72.2	73.0	67.1
<i>Trade</i>	3 428 621	2 946 463	-482 158	-14.1	21.0	20.9	22.1
<i>TSC</i>	982 502	884 683	-97 819	-10.0	6.0	6.3	4.5
<i>Finance</i>	2 495 239	2 234 281	-260 958	-10.5	15.3	15.8	11.9
<i>CSP</i>	3 622 492	3 243 976	-378 517	-10.4	22.2	23.0	17.3
<i>Private households</i>	1 251 416	1 005 159	-246 256	-19.7	7.7	7.1	11.3
TOTAL	16 306 900	14 121 369	-2 185 531	-13.4	100.0	100.0	100.0
Occupation							
High-skilled	2 367 575	2 360 096	-7 479	-0.3	14.5	16.8	0.3
<i>Legislators</i>	1 527 944	1 287 769	-240 175	-15.7	9.4	9.1	10.8
<i>Professionals</i>	839 631	1 072 327	232 696	27.7	5.1	7.6	-10.5
Semi-skilled	9 228 963	7 790 407	-1 438 556	-15.6	56.6	55.3	64.6
<i>Technical professionals</i>	1 436 393	1 213 133	-223 259	-15.5	8.8	8.6	10.0
<i>Clerks</i>	1 708 008	1 470 386	-237 622	-13.9	10.5	10.4	10.7
<i>Service workers</i>	2 687 359	2 301 782	-385 577	-14.3	16.5	16.3	17.3
<i>Skilled agriculture</i>	53 782	67 454	13 671	25.4	0.3	0.5	-0.6
<i>Craft</i>	1 957 006	1 520 915	-436 091	-22.3	12.0	10.8	19.6
<i>Plant and machine operators</i>	1 386 415	1 216 737	-169 678	-12.2	8.5	8.6	7.6
Low-skilled	4 715 050	3 935 253	-779 797	-16.5	28.9	27.9	35.0
<i>Elementary occupations</i>	3 720 516	3 190 566	-529 950	-14.2	22.8	22.7	23.8
<i>Domestic workers</i>	994 535	744 687	-249 847	-25.1	6.1	5.3	11.2
TOTAL	16 311 588	14 085 756	-2 225 832	-13.6	100.0	100.0	100.0

Source: QLFS 2019Q2 and 2020Q2. Authors' own calculations.

Notes: [1] Sample restricted to working-age population (15 - 64 years). [2] All estimates weighted using relevant sampling weights. [3] Industry and occupation totals do not sum because sample here excludes workers in 'Other' industries and occupations.

- 67% of jobs lost emanate from tertiary sectors, 30% from secondary sector.
- Over 300 000 jobs lost in manufacturing and CSP.
- 250 000 domestic workers lose their jobs.
- Majority of workers losing their jobs are semi-skilled (65%) or low skilled (35%).

Employment and Inequality: The COVID-19 Impact

Table 4: Changes in employment by select demographic and labour market groups, 2019Q2 – 2020Q2

	2019Q2	2020Q2	Change		Employment shares (%)		Share of change
			Absolute	%	2019Q2	2020Q2	
Total	16 312 706	14 148 215	-2 164 491	-13.3	100.0	100.0	100.0
Race							
<i>African/Black</i>	12 250 320	10 554 996	-1 695 324	-13.8	75.1	74.6	78.3
<i>Coloured</i>	1 686 611	1 412 289	-274 322	-16.3	10.3	10.0	12.7
<i>Indian/Asian</i>	530 391	488 224	-42 167	-8.0	3.3	3.5	1.9
<i>White</i>	1 845 384	1 692 706	-152 678	-8.3	11.3	12.0	7.1
Gender							
<i>Male</i>	9 179 612	7 977 963	-1 201 649	-13.1	56.3	56.4	55.5
<i>Female</i>	7 133 094	6 170 252	-962 842	-13.5	43.7	43.6	44.5
Age group							
<i>15-34</i>	5 964 514	4 869 685	-1 094 829	-18.4	36.6	34.4	50.6
<i>35-54</i>	8 749 069	7 866 851	-882 219	-10.1	53.6	55.6	40.8
<i>55-64</i>	1 599 122	1 411 680	-187 442	-11.7	9.8	10.0	8.7
Formality							
<i>Formal</i>	12 012 387	10 881 660	-1 130 727	-9.4	73.6	76.9	52.2
<i>Informal</i>	3 249 666	2 435 950	-813 716	-25.0	19.9	17.2	37.6
<i>Private households</i>	1 273 358	1 019 109	-254 249	-20.0	7.8	7.2	11.7
Sector							
<i>Private</i>	13 629 880	11 599 189	-2 030 691	-14.9	83.6	82.0	93.8
<i>Public</i>	2 843 080	2 698 836	-144 244	-5.1	17.4	19.1	6.7
Unionisation							
<i>Member</i>	3 948 660	4 203 095	254 436	6.4	24.2	29.7	-11.8
<i>Non-member</i>	9 339 867	7 280 290	-2 059 577	-22.1	57.3	51.5	95.2
<i>Do not know</i>	475 084	320 010	-155 074	-32.6	2.9	2.3	7.2

Source: QLFS 2019Q2 and 2020Q2. Authors' own calculations.

Notes: [1] Sample restricted to working-age population (15 - 64 years). [2] All estimates weighted using relevant sampling weights.

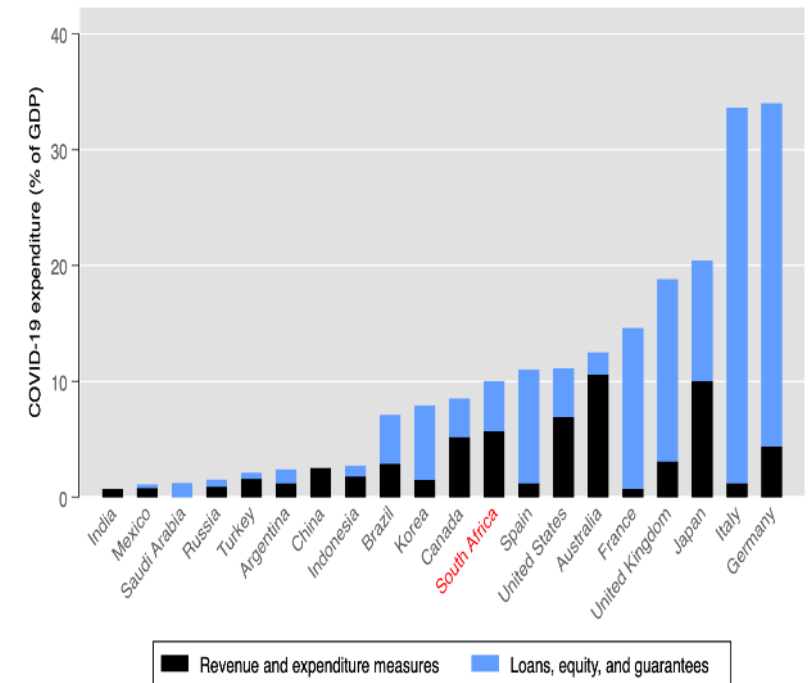
- Young, African, Males dominate job losses in 2020:2-1 comparison.
- Whilst 52% of jobs lost were in formal sector, 37% in informal sector, and 11% for domestic workers.
- Informal and domestic work constitute about 50% of all jobs lost due to Covid-19 pandemic.
- Almost no jobs lost in public sector.
- All jobs lost were individuals not union members.

A Covid-19 Support Package

- The Ramaphosa Plan

Intervention	R (bn)	% of Total
Expenditure & Tax Measures		
Additional Health Support	20	3.98
Municipal Assistance (water and sanitation)	20	3.98
Social Assistance (Grants)	50	9.96
Wage Protection (UIF)	40	7.97
Job Protection & Creation	100	19.92
SMME Support	2	0.40
Tax Relief	70	13.94
Loans		
Credit Guarantee Scheme	200	39.84
Total Allocation	502	100.00
(Less - Reprioritisation & Tax Deferrals)	174	34.66
Total Net Spend	328	65.34

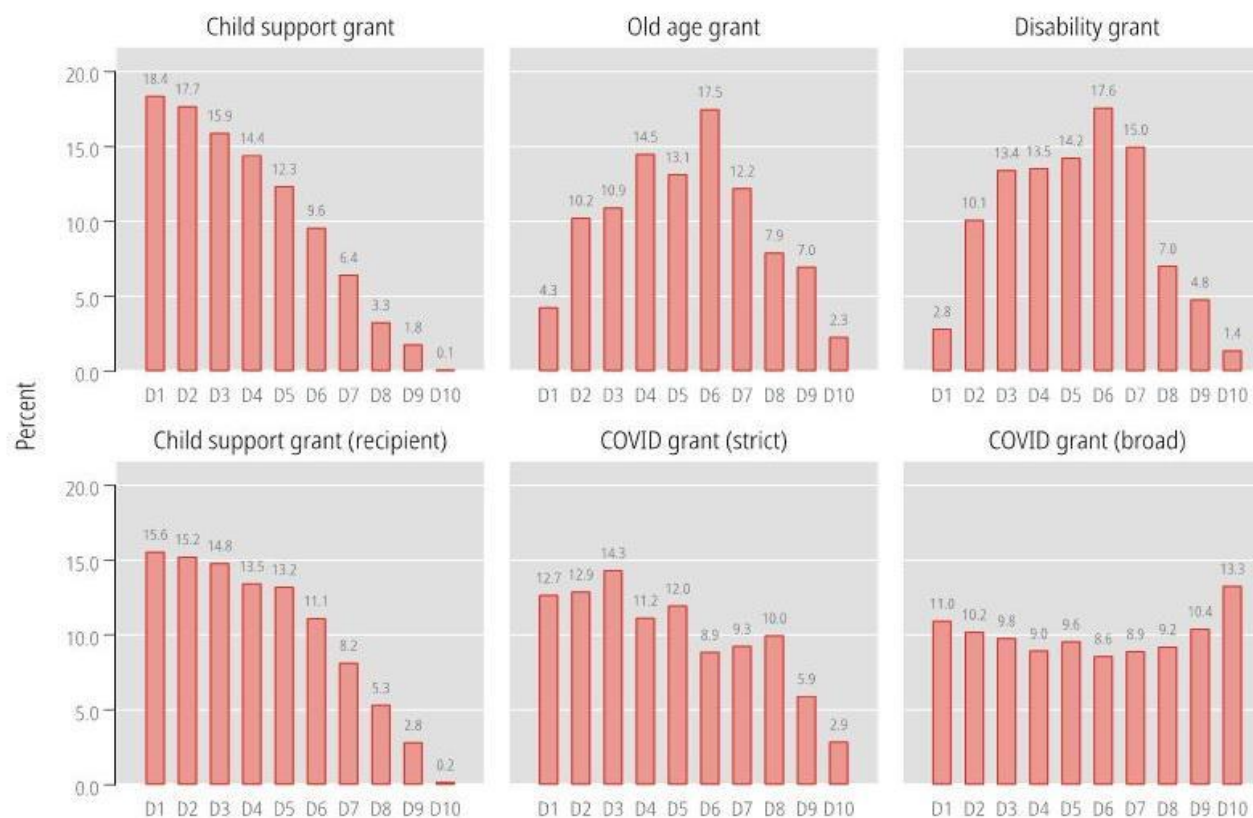
Covid-19 Expenditure as Share of GDP, By Country



Source: <https://www.csis.org/analysis/breaking-down-g20-covid-19-fiscal-response> & own calculations

Existing Grants *and* Covid-19 SRD Grant: Targeting Outcomes

- Distribution of Grants, By Household p.c. Income Decile

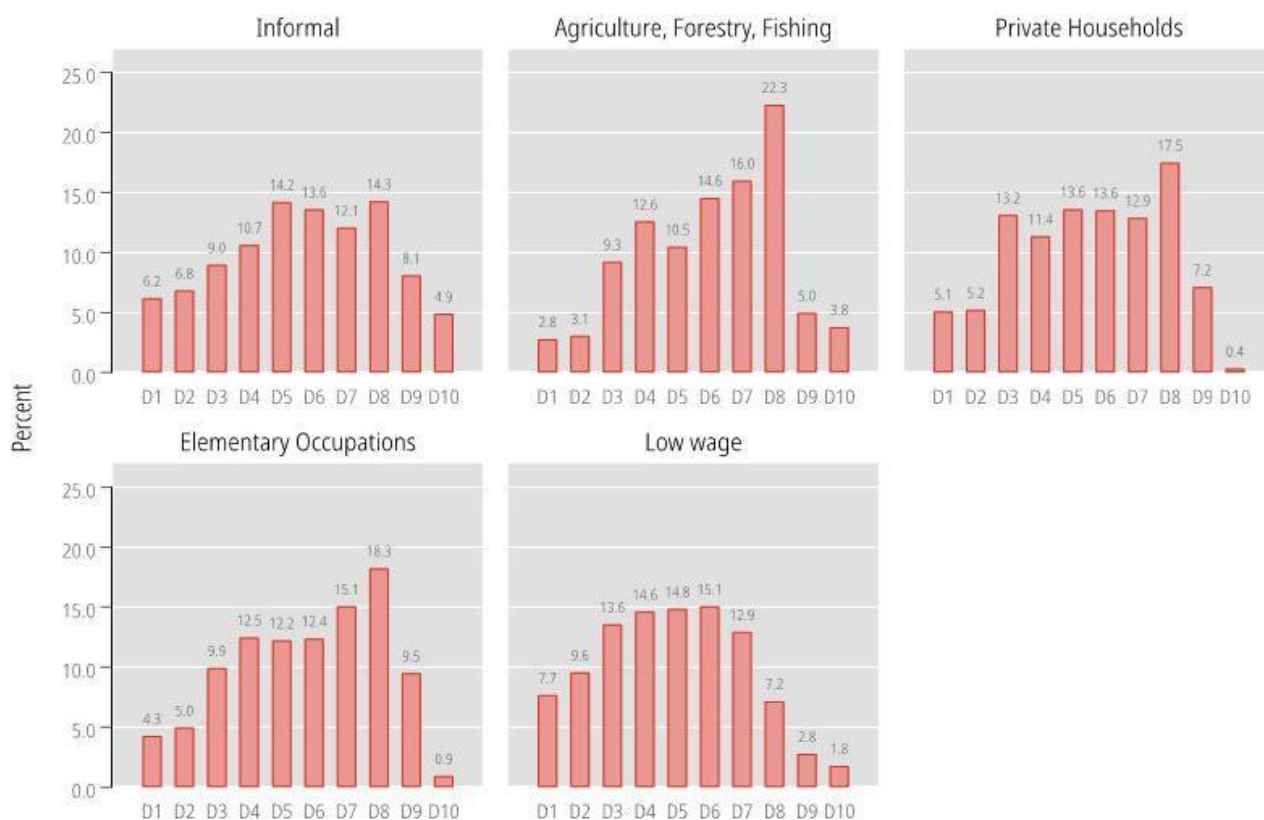


Source: NIDS (2017), own calculations.

- Grants: Most direct way to transfer cash to a large number of SA's most vulnerable.
- Strong progressivity in CSG. More even distribution of OAP and DG, peaking at 6th decile (R1980 pc).
- Coverage of Covid-19 Grant more even across income deciles – but 40% (80%) of recipients in deciles 1-3 (1-7).
- Some Leakage: Over 3 million people eligible for the grant in deciles 8, 9 and 10.

Existing Grants *and* Covid-19 SRD Grant: Targeting Outcomes

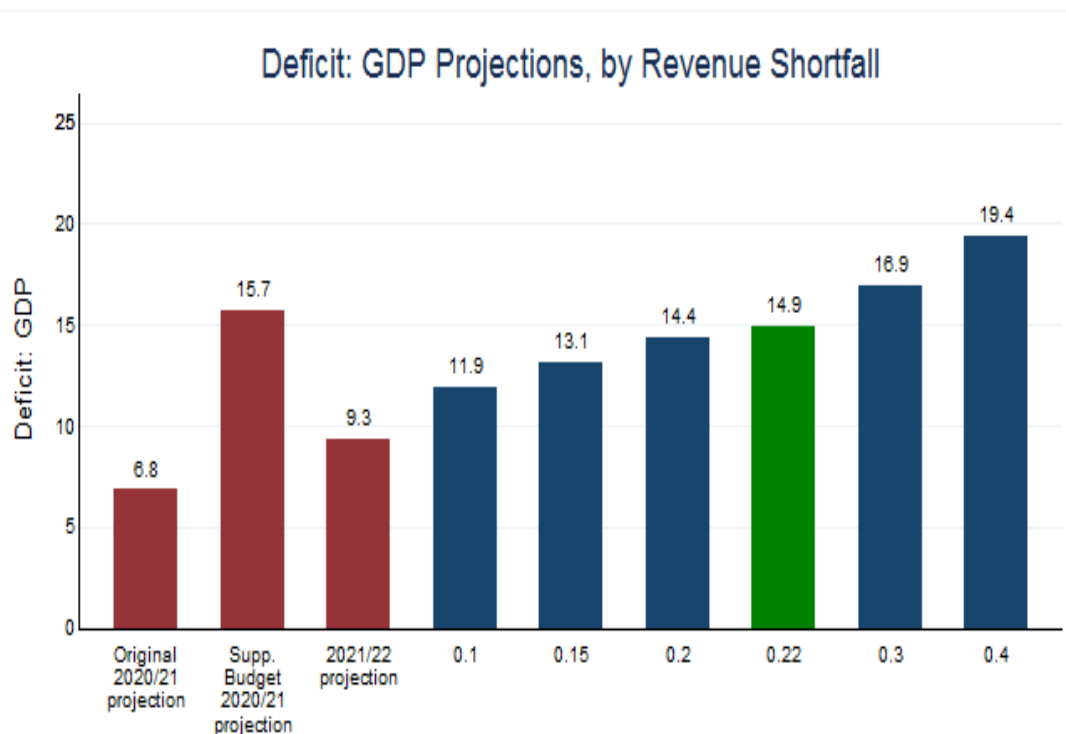
- Distribution of Vulnerable Workers, By Household p.c. Income Decile



Source: NIDS (2017), own calculations.

- Importance of targeting households working in occupations and sectors considered vulnerable.
- Regular transfers may not have reached them – hence need for Covid-19 SRD Grant.
- Key to target the vulnerable most negatively affected by the lockdown.

The Macro-Economic Fallout: From Stimulus to Deficits and Debt



Note: (1) Maroon bars are based on official Treasury projections of Revenue and GDP in each of the 2020/21 original, 2020/21 supplementary and 2021/22 original budgets.
 (2) Navy bars represent the Deficit:GDP ratio for a given shortfall in revenue collection.
 (3) Green bar represents the Deficit:GDP ratio in the event that revenue shortfall in 2021/22 is at the same level as projected in 2020/21 supplementary budget -i.e. 22%.

Source: National Treasury, 2020 and own calculations.

- Original Budgeted Deficit: 6.83%.
- No change in GDP or Revenue and with Covid-19 Stimulus Package: 8.53%.
- NT Projected deficit of 15.67% for 2020.
- *Revenue windfall: New deficit at 9.3% of GDP.*
- Revenue shortfall of 30% with GDP contraction of 6%, deficit: GDP rises to 16.9%.
- 2022 growth is critical for deficit reduction & fiscal consolidation path.

Towards an Innovative Policy Response

- 4 Key Government Relief Policies
 - Temporary Social Grant Top-Up
 - Temporary COVID-19 SRD Grant
 - TERS
 - Public Employment Programs.
- Policy Focus should be on:
 - Overcoming damage in labor market through moving support from households to firms
 - Recovering those 1.4 million jobs lost in 2020
- Policy Options:
 - Expanding and deepening the ETI
 - Continuing TERS for lockdown-damaged sectors
 - A possible moratorium on specific new pieces of labor regulation
 - Greater public/private partnerships in ALMPs (e.g. placement agencies)
 - Revisiting approach to informality (own-account workers, MSMEs)
- Use the Jobs Funds innovative programming, reach into firms and existing Covid support as platform for (faltering) Credit Guarantee Scheme?
 - Pivot Covid Stimulus Package in 2nd phase, toward firms (protection and growth enhancement is key).

Conclusions

- Significant economic shock estimated at about 7% contraction in GDP, although bounce-back projected for 2021.
 - 1.4 million jobs lost with majority of these (based on Q2 data) in the informal sector and household domestic services.
 - Very few jobs lost for union members or public sector employees.
 - Critical to recognize heterogeneity in job losses, and to formulate policy accordingly.
- The Covid-19 Ramaphosa Support Package is largest of its kind since 1994.
 - Highest amongst emerging markets, at 6.7% of GDP.
 - Potential to reach over 60% of South Africa's population across the income distribution.
- Macroeconomic challenge going forward: Management of a massive increase in the Deficit:GDP ratio, amidst declining short-term revenues and a rise in the share of dollar-denominated debt.

THANK YOU
