# Chapter 6.5:
# Other Economic Sectors

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|---|---|
| Prof. Raymond Durrheim | Mining |
| Prof. Erika Kraemer-Mbula | Manufacturing |
| Prof. Corné van Walbeek | Tobacco |
| Prof. Harold Ngalawa | Finance and banking |
| Prof. Kola Akinsomi | Real estate |
| Dr Janine Thorne | Convenor |

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# Part 1:
# Overview, mining, manufacturing and tobacco

Presenter:

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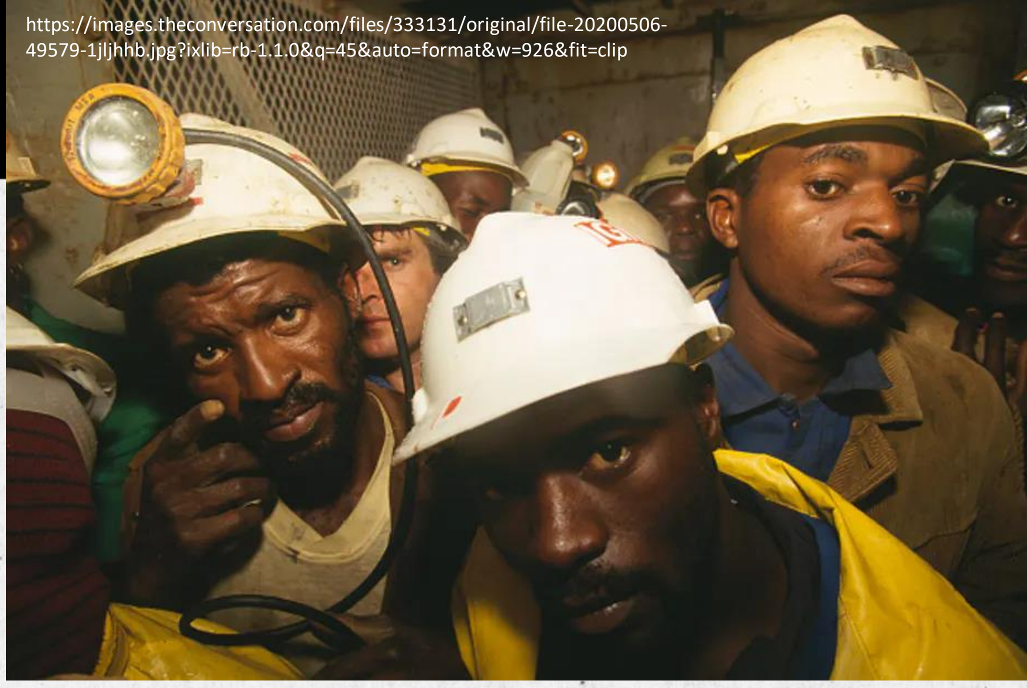
# Overview

- Pandemic had asymmetrical impact on different economic sectors, with relative 'winners' and 'losers' (UNDP, 2020).
- In some sectors, the impact was less clear-cut, with certain subsectors badly affected whereas others recovered relatively better.
- Focus in the first edition of the Country Report on:
  - Mining
  - Manufacturing
  - Tobacco
  - Finance
  - Real estate.
- Aim to expand on sectors such as SMMEs and insurance in the second edition and to add new sectors, including construction, wholesale and retail trade, and personal services.

# MINING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## Before lockdown

- ~460 000 employees; 8,3% of GDP
- Covid-19 threat considered significant because of (1) cramped underground working conditions, (2) transportation in packed 'cages', and (3) high incidence of respiratory diseases

## During lockdown

- Mines producing coal for ESKOM area declared 'essential services'
- All other mines placed on care and maintenance; workers return home; work resumes in May, initially at 50% capacity
- DMRE, Minerals Council and unions engage; guidelines and standard operating procedures published
- Mines implement screening, testing and quarantine

## Status as of 14 May 2021

- 490 427 employees; 35 089 infections; 396 deaths; 362 active cases; 946 healthcare workers vaccinated
- Mining output near pre-lockdown levels
- Mineral sales exceed pre-lockdown value

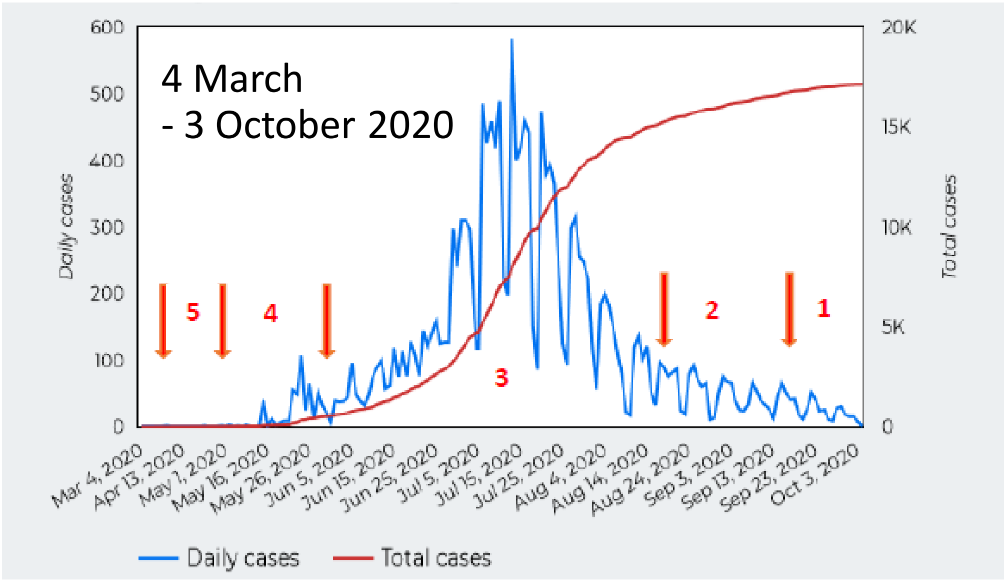
## Recommendation

- Mechanism(s) to be put in place to ensure that the inspectorate, industry and organised labour rapidly converge on one set of standards to manage the challenge and thereby minimise the potential for ongoing conflict.

# MINING IMPACT

Covid-19 Cases

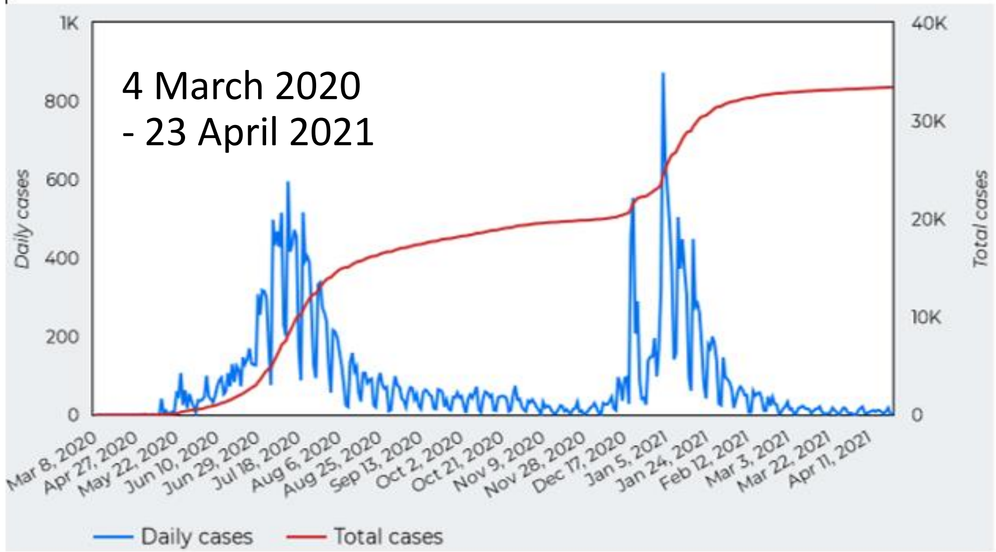
DAILY
TOTAL




*Source: Minerals Council, Dashboard, 5 October 2020*

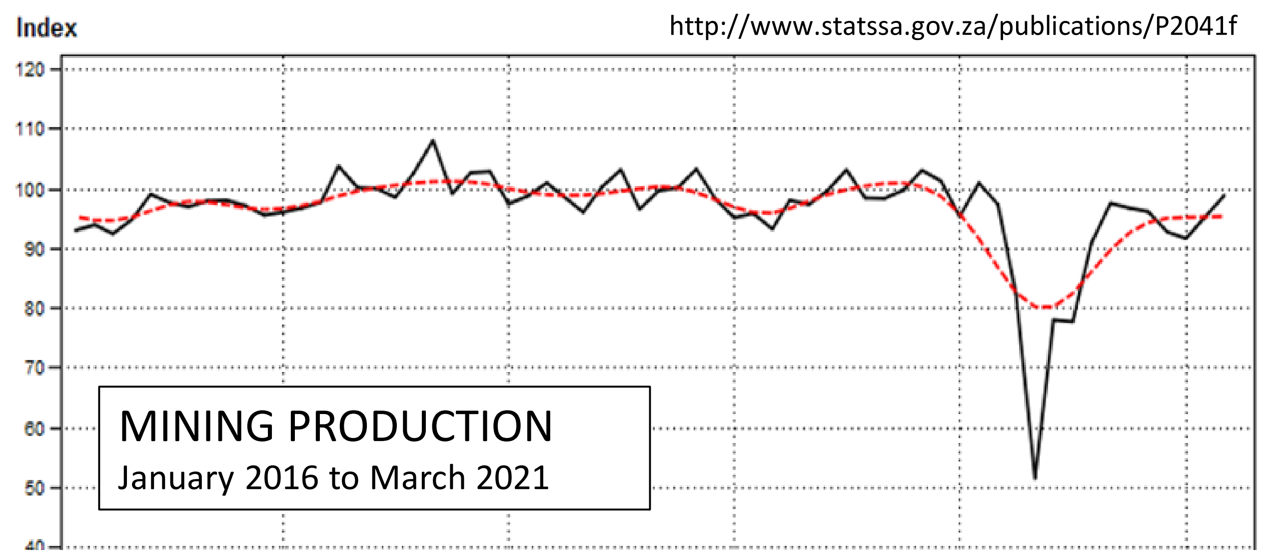
Covid-19 Cases

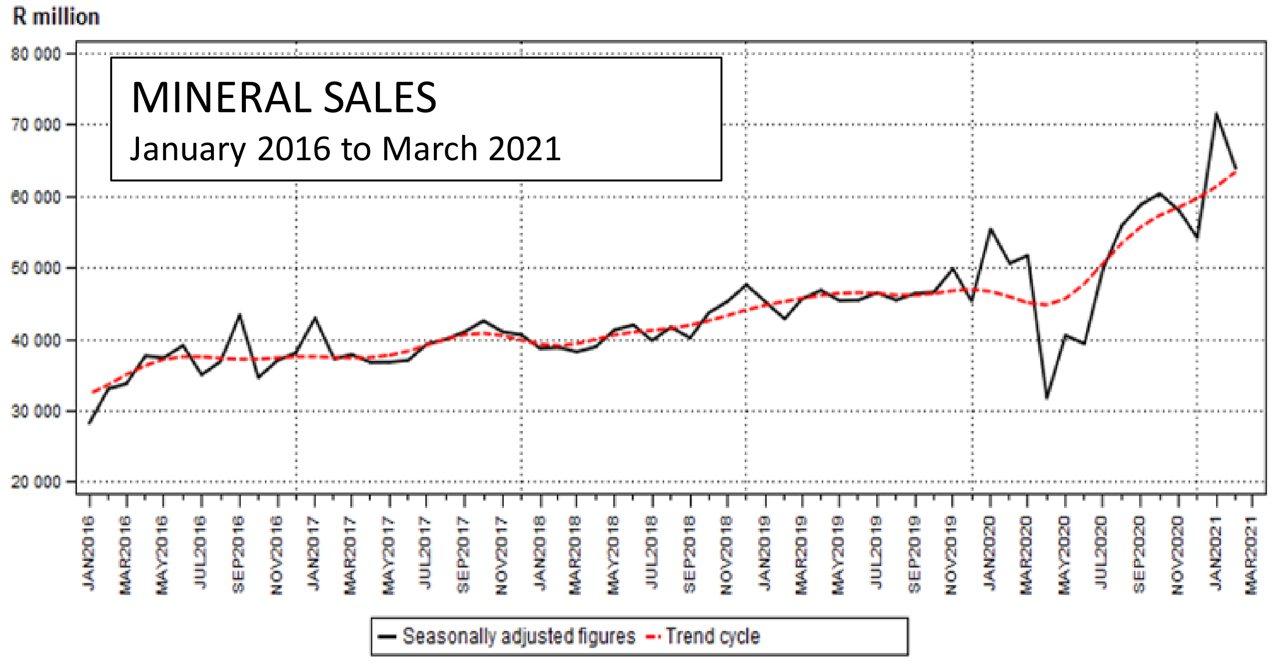
DAILY
TOTAL




*Source: Minerals Council (2021a) Dashboard, 23 March 2021*

http://www.statssa.gov.za/publications/P2041f

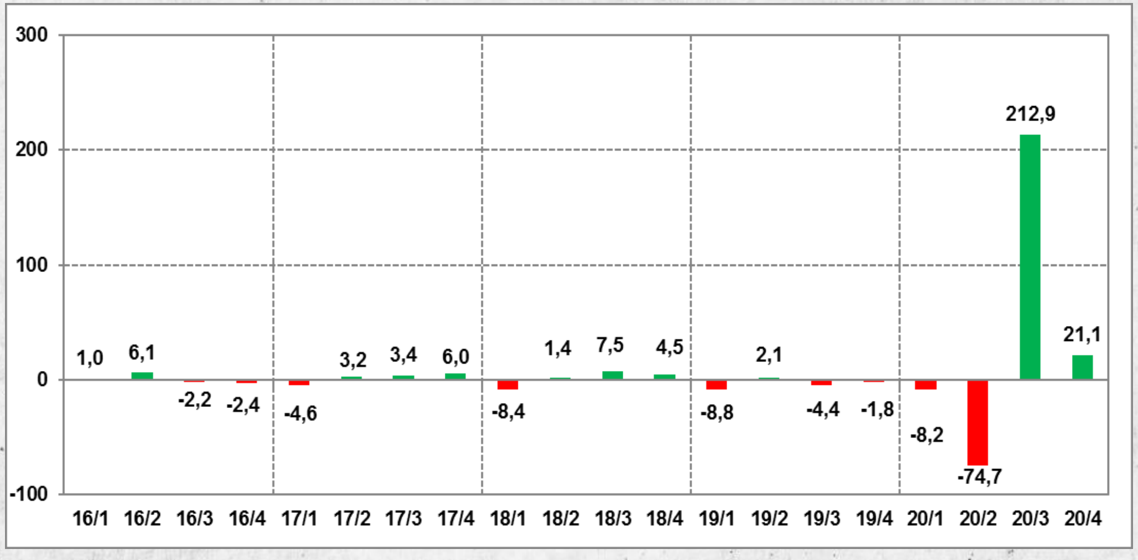


# MANUFACTURING

**Manufacturing growth rate (%)**

Source: Stats SA (2021)




## The manufacturing context

- **Manufacturing central to economic development, modernisation, and building a knowledge-based economy**
- **Fragile manufacturing sector pre-Covid-19**: gradual process of "deindustrialisation" over several decades
- **Pandemic hastened process of deindustrialisation in South Africa**

## Effect of lockdown regulations on manufacturing

- **Manufacturing severely affected during the early stages of lockdown**
  - Different effects on manufacturing activities (essential vs non-essential)
  - Production contracted: Q1 (-8,2%), Q2 (-75%)
- **Ease of lockdown restrictions – manufacturing rebounded:** Q3 (+210%)
- **Manufacturing job losses:** decrease of 106 000 employees (-8,8%) by Dec 2020 vs Dec 2019. Majority of job losses are F/T employees.
- **Increased vulnerability of small and microenterprises**

## Responses from manufacturing

- **Repurposing manufacturing:** mobilisation of local manufacturers to produce medical supplies and protective equipment
- **Adapting to the 4IR:** acceleration of Internet use and new IT solutions
- **Uncertain long term-effect** on production an innovation capabilities

# THE TOBACCO SECTOR

- The ban on the sale of tobacco products was lifted on 18 August 2020.
- During the ban, 8–15% of smokers quit smoking (between 750 000 and 1,5 million people).
- By December 2020, a quarter to a third of lockdown quitters had relapsed.
- The total market after the ban is about 5% smaller than before.
- The multinationals increased the price of cigarettes by an average of 5%, relative to pre-ban.
- The price of local (non-multinational) brands increased by an average of 30% relative to the pre-ban period.

# THE TOBACCO SECTOR

- In February 2021 the Minister of Finance increased excise tax by 8% from R17,40 to R18,78, despite industry requests for no change.
- The Minister of Finance specifically mentioned that tax and price increases reduce people's consumption of alcohol. This also applies to tobacco.
- The National Treasury budgeted for a 17% year-on-year decrease in legal cigarette sales in 2021/22; with only a 5% decrease in the total market, this suggests they expect the illicit market to grow.
- A BAT-sponsored study on illicit trade points the finger at local manufacturers as the source of illicit cigarettes (i.e., cigarette prices are too low to account for the full tax amount).
- An international study points the finger at BAT for oversupplying Mali with cigarettes that are distributed by jihadist groups and raise tensions in the Sahel.
- It is time for SARS and the enforcement authorities to take illicit trade seriously and implement effective counter-measures.

# Part 2:
# Finance, Banking, Insurance and Real Estate

Presenter:

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# FINANCE, BANKING AND INSURANCE

- The financial sector constitutes banks, investment companies, insurance companies and real estate firms (Joshi et al., 2013).
- In lockdown, the sector was deemed an essential service provider and players in the sector continued to function.
- However, the sector cannot be described as a distinct ‘winner’.

# FINANCE, BANKING AND INSURANCE

- The banking sector
  - Reduction in the repo rate (5 times in 7 months; 300 bps).
  - Regulatory relief measures, e.g., directives on a temporary debt service relief to firms and individuals issued by the SARB
  - South African Future Trust
  - Loan guarantee scheme
- The insurance sector
  - Insurance firms will bear the adverse effects of the pandemic longer than banks.
  - Things may get complicated if insurance firms selectively decide not to pay out certain 'legitimate' claims associated with Covid-19.

# THE REAL ESTATE SECTOR

- Property Industry Group (SAREIT, SAPOA and the SA Council of Shopping Centres) formed in March 2020 to coordinate the pandemic response of the commercial real estate sector.
- In the hard lockdown, many tenants of commercial real estate (e.g., retail tenants who sold non-essential goods) were unable to pay rent.
- SAREIT members provided rent relief for SMMEs:
  - Level 1: Badly affected retailers (e.g., travel agents, restaurants, hairdressers): 35–100%.
  - Level 2: Moderately affected retailers: 35–50%.
- REITs rental relief amounted to R2,6 billion by December 2020 (R3 billion to date), in the form of both deferrals (~20%) and discounts (~80%).
- In March 2020 SAREIT asked the National Treasury to suspend the mandatory payment of dividends for two years. Several REITs said they would not pay dividends because of liquidity constraints.

# THE REAL ESTATE SECTOR

- The office sector was significantly affected, especially by remote working. SAPOA (2020) put vacancies in office space at 13,3% in December 2020 (the highest since 2004).
- The share of office tenants in good standing fell from 75% in March 2020 to 59% in May and then rallied to 67% in July (Mathe, 2020).
- FNB (2021) estimated commercial property values would decline by 7% in 2020 and by 9% in 2021.
- At a retail level, annualised trading density fell by 13,4% year-on-year in September 2020 (SAPOA, 2020b). The average vacancy rate of retail space was 6,9% in Q3 2020.
- The industrial sector was fairly resilient, with vacancies of only about 5% in Q4 (Rode, 2020).
- The ABSA (Q2 2020) homeowner sentiment index measures confidence in residential property. The general indication is that it is still a good time to buy rather than sell property.

# CONCLUSIONS & LESSONS LEARNT

- An increase in the supply of loanable funds, coupled with a reduction in the cost of borrowing, does not necessarily ensure that businesses with cash flow problems will get relief. Rather, structural issues in the loanable funds market must also be addressed.
- There is no quick fix to turn around the economy after a deep slump, as observed in 2020.
- It is inappropriate to treat all firms in the same way.
- In the real estate sector, policy geared to suspending mandatory requirements to distribute profits to shareholders would help REITs in the long run. The sector is supported by the SARB's monetary policy stance.

# Thank You

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