ECONOMIC COMMENTARY - By Dr. Francois Stofberg

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COVID, CONSUMERISM, AND A CONCERNING BUDGET

As COVID-19 continues to grip many countries around the world, a few interesting ideas about how consumer behaviour will change are starting to emerge. For one, it is believed that the new consumers will be in a flux of "never normal" for the next couple of years. Adding together trade uncertainties, localized political tensions in important growth countries, tensions between the East and West, an expected second wave of market disruption, followed shortly after by an inflation-induced correction in the developed world, makes for a nasty concoction. As uncertainty mounts, consumers seem even more concerned with profit for purpose, issues of inequality, and meaningful consumption. These changes in consumption patterns will have important ramifications for long-term asset allocation.

Some exciting, but concerning, news about South Africa's government continuing their relentless pursuit of nuclear energy. Mineral Resources and Energy minister, Gwede Mantashe, announced that the department was giving members of the public one month to respond to its request for information about a 2,500 MW nuclear energy build program which they want to complete by 2024. Currently, more than 77% of South Africa's energy needs are met by coal-fired power plants. The ministry aims to receive feedback about the public's appetite for nuclear energy, although given our current fiscal predicament we doubt the environmental benefits outweigh the tremendous cost. Nevertheless, South Africans have a month to converse with government about costs, costs recovery, sustainability, ownership structures, and the lot.

Wednesday 24 June, Finance minister Tito Mboweni will finally present his much-anticipated rescue budget. Like other market observers, we believe revenue will most likely be R300 bn to R400 bn lower than what was announced during Tito's budget speech in February. Lockdown caused incomes to deteriorate, implying fewer income taxes being paid. Also, less consumption means less value added tax. Of course, forcing companies into lockdown and closing the borders mean no company income taxes or customs duties. If that was not enough, markets crashing, and a closed property sector mean no capital gains taxes. On the spending side, we know government spent about R500 bn more than expected, some of which will be repatriated from other expenditure items. Nevertheless, from the leaked rescue budget figures it seems that the budget deficit will in fact reach the expected 14% of GDP; the February budget indicated that we were expecting a figure of 6.8%. Debt levels, which were previously expected to reach 66% in 2020/21, will now be closer to 85% and can reach 100% in a few years' time. The impact of this means our primary budget (spending excluding interest payments) can be 3-5% smaller this year and increase every year thereafter. By implication there will be even less to spend on important, GDP-enhancing expenditure items. But not all is doom and gloom, shocks have a funny way of bringing about healthy transformational change.

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