ECONOMIC COMMENTARY - By Dr. Francois Stofberg

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CORROSIVE-CONFIDENCE

Last night we heard the good news that we will not be placed back under hard lockdown, but remain on Level 3, albeit with some additional restrictions. For one, President Ramaphosa explained that the National Coronavirus Command Council and Cabinet decided that alcohol would be banned. South Africans will also have a night-time curfew between 21:00 and 04:00, as well as much stricter enforcement of the wearing of masks. Economic agents will be legally obliged to ensure that anyone entering their premises wears a mask. I say good news because as things stood, I believed there was a chance that we could be placed under Level 4 lockdown again. But as the President explained, the benefits of placing South Africa under hard lockdown now would most likely not outweigh the cost to livelihoods. A decision I support. However, from the Swedish it seems that the result of the pandemic, as it forces shut global supply chains and with it trade, is such that deep economic hurt is unavoidable. Although the Swedish economy remained mostly open, new data seems to indicate that their economy will experience similar levels of contraction to peers who were under hard lockdown. The only difference is that the Swedish death toll is almost between four and ten times higher on a per-capita level.

In this week, after many delays, it seems creditors will finally vote on the business rescue plan for South African Airways (SAA). Business rescuers seem to have finally come up with a deal that can keep most stakeholders happy, including possibly the taxpayer. Conceding to unions, the practitioners seem to have agreed to allow 1 000 of the 4 700-odd employees to retain their positions; 1 000 will be placed on a temporary training lay-off scheme and 2 700 might be laid off. During the year-long lay-off scheme, employees will continue to receive R4 650 towards their pension, UIF, and company medical aid. In total, the suggested layoffs will cost the carrier around R2.2 billion. For the plan to be accepted a 75% majority is needed. Should creditors, however, reject the plan, SAA can face liquidation and all the nasties that go along with it.

Consumer confidence, as measured by FNB and the Bureau of Economic Research, fell to -33 in the second quarter of 2020, down from -9 in the first quarter, and close to the 1985 all-time-low of -36. Back then South Africa was battered by violence, a partial state of emergency, and a debt crisis. Now, households are unsure about their financial positions during a pandemic and an economy that is on a slippery slope. Lockdown had a negative impact on the ability and willingness of consumers to spend. Not even specials offered on durable items and interest rates at 50-year lows could do much to bolster consumption.

On a side note: the consensus view is that the South African Reserve Bank will once again cut interest rates during their meeting next week, by another 25 basis points, bringing the total decline in 2020 to 300 basis points, i.e. 3%, leaving the prime interest rate at 7.2%. With the repurchase rate at 3.7% and inflation not expected to be any higher than 3%, this implies that we will maintain positive real interest rates: a healthy position for capital owners (savers) and our capital markets.

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