Lockdown easing will ramp up recovery

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Pres. Cyril Ramaphosa has certainly lifted the spirits of the country with the announcement over the past weekend of a sweeping removal of lockdown restrictions.

The move was widely anticipated, especially after an earlier televised interview with one of government's leading medical advisors, Prof Salim Abdool Karim, who stated that the country had most likely reached the peak of Covid-19 infections.

Although market reaction to the easing of lockdown regulations was fairly muted, with wide-ranging differences in the performances of affected equities, the South African currency was 1.7% stronger against the US dollar on the first trading day after the announcement than a week earlier.

Equity prices reacted in a divergent manner, with some hospitality and beverage shares posting gains on 17 August, whilst others took a further knock. Sun International, City Lodge and British American Tobacco were the winners, with share price gains of 7.6%, 3.3% and 2.2%, respectively.

Pres. Ramaphosa also announced an extension of the national state of disaster, but significantly only for a further period of one month – a clear indication that economic recovery is now being prioritised above the strict precautionary measures that were imposed to prevent possible overcrowded health facilities.

The key changes to the regulations underpinning the lockdown are:

- The sale of alcoholic beverages is again permitted, but under the same conditions as before, namely only on Mondays to Thursdays from 09h00 to 17:00.
- All restrictions on inter-provincial travel are lifted
- Restaurants, bars and taverns will be permitted to operate and sell alcohol for on-site consumption, but with limits to the number of patrons
- Tobacco products may be sold again
- Family and social visits are allowed
- Gymnasiums and fitness centres may re-open
- Sporting events are allowed, but without spectators
- General aviation, maintenance and training flights are permitted again

The economic significance of level 2

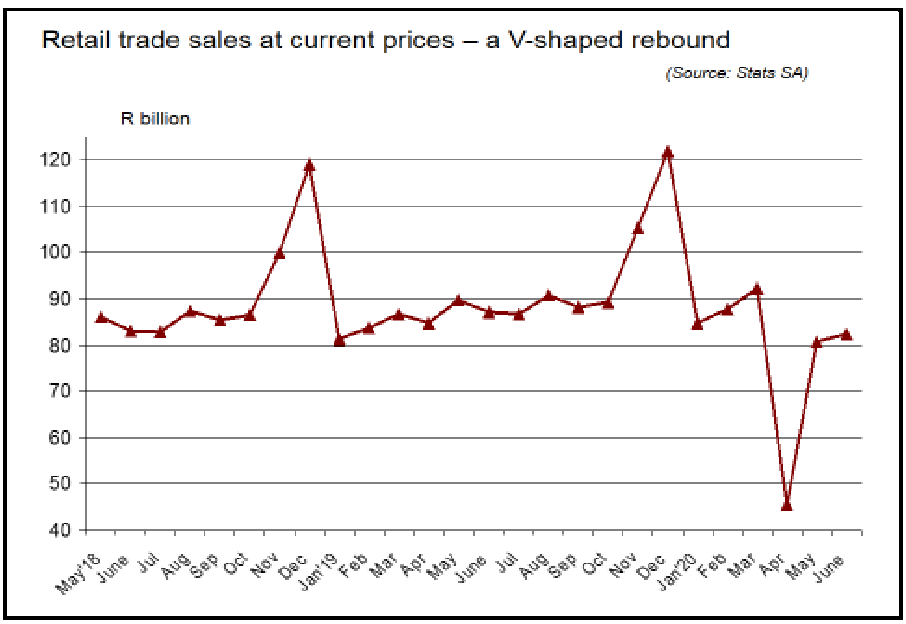
Within hours of the latest easing of the lockdown regulations, many lodges and guest houses around the country started experiencing fully booked status again for the first time in five months, with the website of the Kruger National Park having crashed at one stage.

Domestic tourism remains the mainstay of the South African tourism industry and the lifting of restrictions on inter-provincial travel will provide a strong boost for the imminent recovery of a sector that is labour-intensive and possesses a supply chain that does not rely heavily on imports.

The lifting of the ban on the hospitality industry and the sales of alcohol and tobacco products is bound to exert a meaningful impact on the nature and speed of economic recovery, which has already gained momentum since the disastrous month of April.

A cursory analysis of the weighting that is utilised for the basket of goods and services comprising the consumer price index reveals a significant contribution by the sectors that are now allowed to conduct business again, namely 14.3%. In terms of value, this translates into an annualised demand injection of up to R436-billion (based on total private consumption expenditure in 2019).

Viewed collectively, the latest removal of fairly strict lockdown regulations will undoubtedly lead to a strong recovery in the relevant sectors, including re-employment. Taxation revenues from these activities will also start flowing again and the Commissioner of SA Revenue Services would have been delighted by the move to lockdown level 2.



More importantly, however, is the fact that several key indicators have already bounced back from the abnormal hiatus in economic activity that occurred during the month of April. These include mineral sales, retail sales and the latest HIS Markit Purchasing Managers' Index (PMI).

Combined with the move to lockdown level 2, a V-shaped recovery for most sectors of the economy seems to be firmly on track.