22 April 2020

Experian Africa 2020

Weekly Market Impact Report (Week 3)

A look at a rapidly changing economy

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Introduction

While the lockdown in multiple countries across EMEA has appeared to have had a positive effect on decreasing the spread of COVID-19, it continues to have a negative impact on various industries.

With many countries announcing extensions of lockdown periods, the extent of the pandemic's economic impact continues to be largely unknown. However, through tracking and analysis of the emerging patterns in the credit and related industries, we see early indicators of what is to come over the next few months.

In this report, we will revisit the last two weeks of consumer credit trends, discuss what trends have been observed in the SME sector, and analyse specific industries with insights into the potential impact the COVID-19 crisis could have on them.

We are committed to continually sharing insights and trends as they emerge, keeping you informed to support your strategies.

All emerging trends are tracked weekly with a focus on how they impact overall market activity, changes in consumer behaviour and the impact on overall performance at a total market and business vertical level.

Week 3 ending 17 April 2020 focus areas:

- Review of Week 2.
- Summarised update of market trends for Week 3.
- How is the SME sector holding up?
- Industry-specific analysis and insights.

Executive Summaries

Week 1

The extent of the drop in enquiry volumes across the Experian EMEA region directly correlates with the level of confinement in each country.

- The stricter the lockdown criteria, the more significant the impact on overall enquiry volumes across all industries.
- In countries where the confinement criteria are less stringent, enquiry volumes are less affected, with ECommerce transactions still growing positively.
- For countries where stringent lockdown measures have been in effect the longest (Italy and Spain), it took circa 21 days for enquiry volumes to reach a new normal.

South African trends appear to be more aligned with countries where similar severe lockdown measures are in place.

- The most significant drop in enquiry volumes occurred from the date the lockdown was formally enforced.
- The drop in enquiry volumes was similar across all industries, with retail and non-bank loan industries the most severely impacted due to complete closures.
- An immediate drop in the number of accounts opened and outstanding balances was observed at the same time as the lockdown took effect.
- While the number of applications for Debt Counselling remained relatively stable, approved applications significantly reduced.

Week 2

Enquiry activity trends seem to be stabilising across the Experian EMEA region. However, still in its early stages, South Africa continues to experience a negative effect on enquiry level.

- On average, the month of March was only 12% lower than February; we expect April to be significantly lower than March due to the impact of the extended lockdown in South Africa.
- The retail and non-bank loans industries in South Africa remain hit the hardest due to the total lockdown.
- Overall, the lack of credit activity across multiple industries (clothing and furniture retail, telcos, asset-based finance, short-term loans, credit cards, etc.) will have a medium- to long-term impact on these industries.
- While volumes of requested and approved debt review applications have decreased considerably during the past week, they are expected to dramatically increase once the lockdown is lifted and the courts reopened.
- Fraud attacks are expected to increase; however, we expect our fraud solutions to remain stable and provide the desired support to our clients.

Week 3

Enquiry activity trends appear to be further stabilising across the EMEA region. However, South Africa continues to experience a negative effect on enquiry level as we move through the lockdown period.

- Europe continues to struggle with the effects of COVID-19 with the lockdown in Italy and Spain having the biggest impact.
- The impact on the rest of Europe is starting to increase as more stringent lockdown criteria are put into effect.
- South Africa's infection trends continue to increase however at a rate lower than that observed in the rest of Europe.
- The lockdown continues to negatively impact enquiry volumes with only the telco industry showing growth due to the increased demand for data.

Key indicators Experian tracks weekly continue to show distress due to the lack of economic activity:

- New account volumes and outstanding balances remain depressed due to lack of market activity.
- Applications for debt review dropped to almost zero due to non-essential service classification.
- Increased consumer demand for both deferred payment and restructures have not yet materialised, however it is expected to increase over the coming weeks and months as the impact of the lockdown takes effect on consumers.
- Both bureau scorecards and segmentation models remain stable.

SME sector suffering the same fate as the consumer sector due to depressed demand:

- Enquiry volumes significantly lower since the onset of the lockdown.
- Experian Business Debt Index is expected to significantly deteriorate in coming quarters due to the pre-COVID-19 ailing economy and impact of the strict lockdown criteria.
- Average debtors days already show initial signs of deterioration, with significant extensions expected.
- While all industries show destress, the construction, transport and communication industries are most severely impacted.
- Business conditions are expected to significantly deteriorate in the coming months as the impact of the lockdown and weak economy result in increased company closures and job losses.

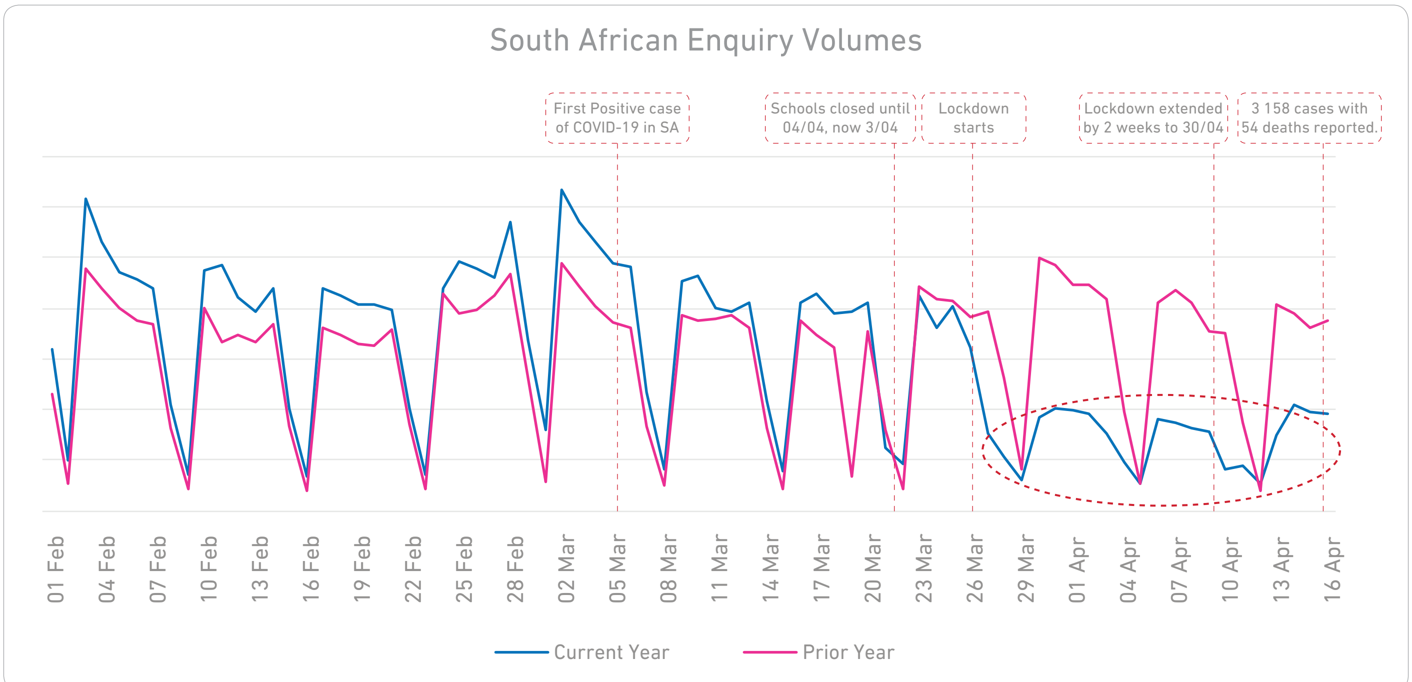
Experian continues to actively track all components of our value chain to ensure that all available data is loaded timeously and is complete. We further actively monitor our various scoring solutions to ensure ongoing accuracy.

What does credit activity look like in week 3?

The enquiry activity trend seems to be stabilising across the Experian EMEA region.

Situation as of 13 April	Level of confinement *	Total cases (variance vs the day before)	Quarantine start date	Estimated end date
Italy	High	159 516 (+3 153)	10/03	13/05
Spain	High	170 099 (+3 268)	14/03	25/04
Netherlands	Medium	26 551 (+964)		
Norway	Medium	6 603 (+78)		
Denmark	Medium	6 318 (+144)		
South Africa	High	3 158 (+99)	25/03	30/04

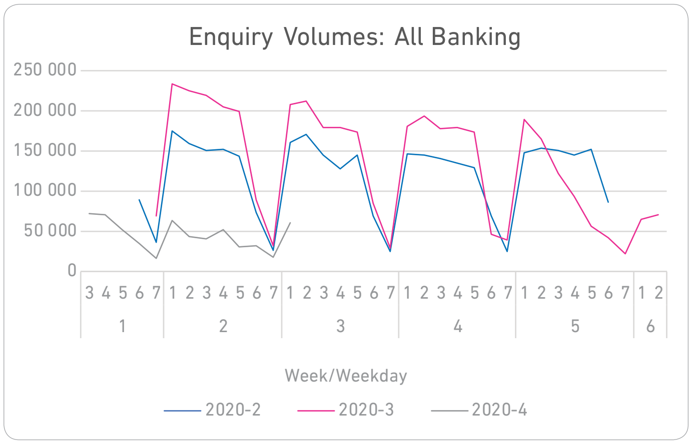
* High: full quarantine (schools closed, forced home office), Medium: partial quarantine (schools closed, recommended home office, possibility to go outside home), Low: soft quarantine (early stage of economic activities reduction).

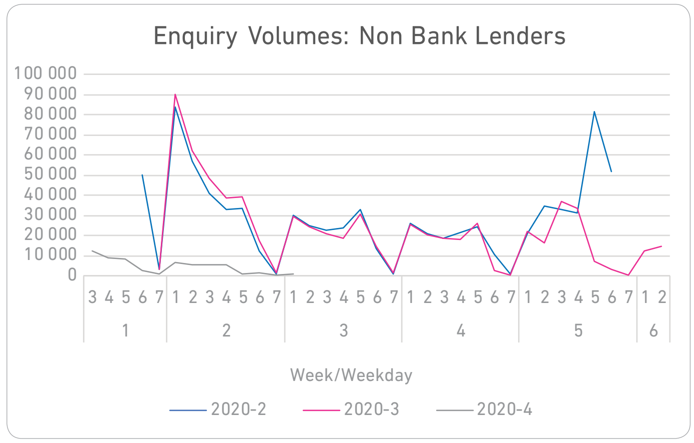


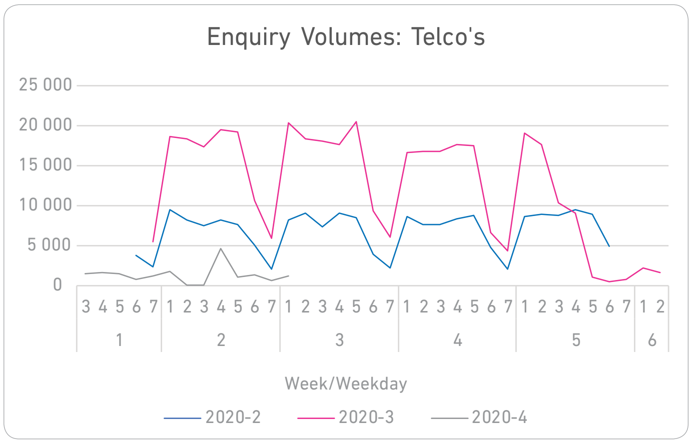
Key Insights

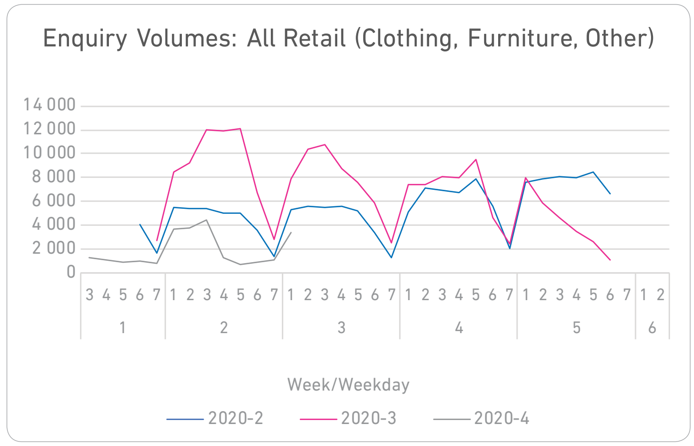
- The trends observed during the first two weeks remain consistent across the EMEA region with Italy and Spain most severely impacted as the total lockdown continues, with new infections and deaths still at unfortunate high levels.
- Volumes continue to drop across the Netherlands, Norway and Denmark as more stringent lockdown criteria are introduced.
- While the enquiry trends in South Africa correlates with that of Spain and Italy, infections and subsequent deaths are growing at a significantly slower pace due to the early lockdown.

All industries continue to struggle with lower application volumes due to the strict confinement measures in place in South Africa.









Key tracked criteria continue to show distress or lack of activity due to lockdown:

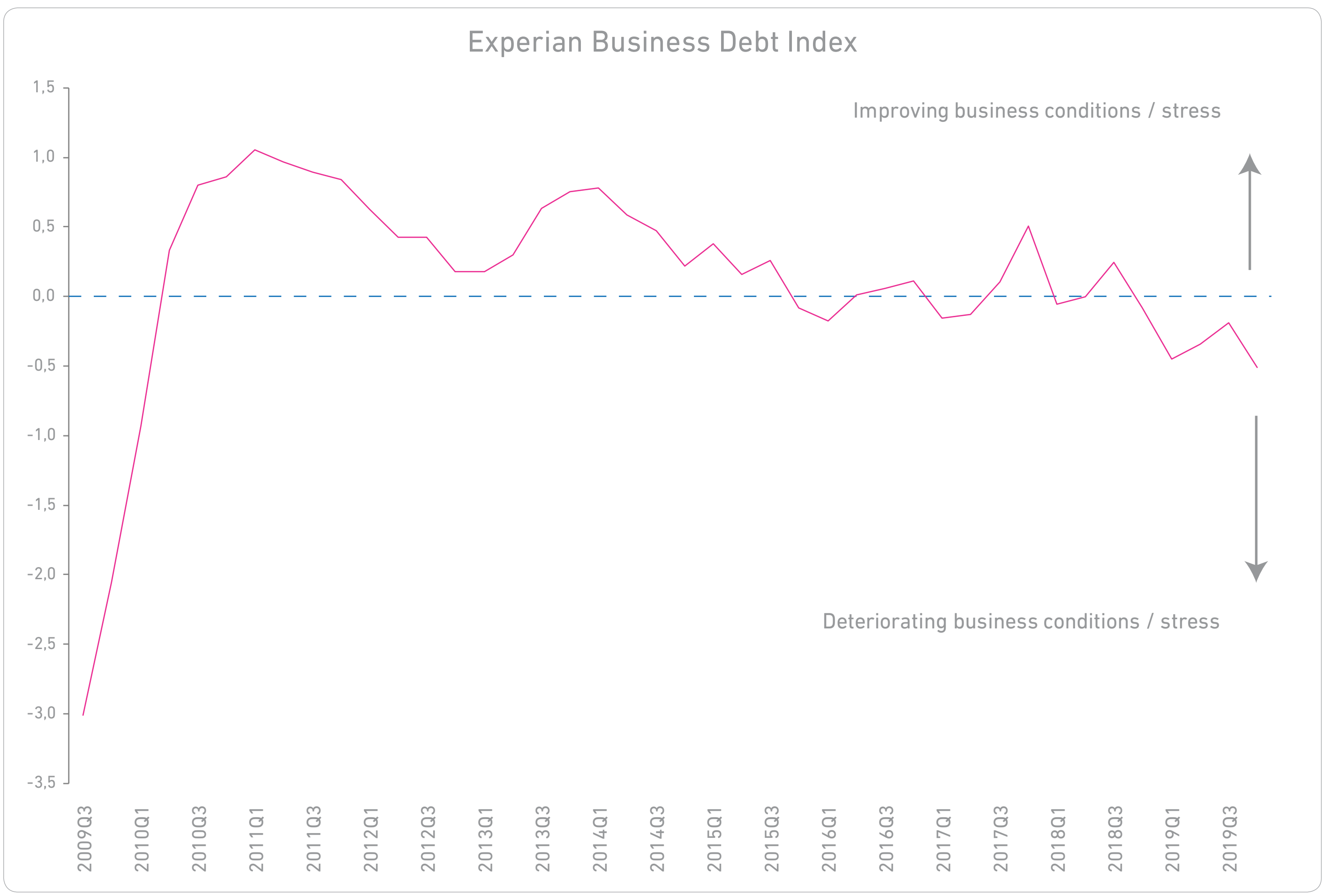
Measure	Comment	Week 1	Week 2	Week 3
New accounts opened	The volume of new accounts opened remains under pressure as payday loans, short-term loans, secured lending products and retail loans demand remains subdued.	↓	↓	→
Total outstanding balances	Similarly, outstanding balances remain under pressure due to low renewal of short-term and payday loans, and lack of activity in the secured lending market. Credit card balances are the least impacted due to preferred payment mechanism status.	↓	↓	→
Debt review	Requested and approved volumes continue to drop as industry seen as non-essential service. Post-lockdown growth expected as requests increase.	↓	↓	→
Deferred payments	Deferred payment volumes remain in line with pre-COVID-19 levels. This is expected to increase in the coming weeks (post lockdown) as consumers take advantage of the option to manage cash flows.	→	→	→
Restructures	Restructures remain in line with pre-COVID-19 levels. This is expected to increase in the coming weeks (post lockdown) as consumers take advantage of the option to manage cash flows.	→	→	→
Bureau scores	Bureau score distributions and characteristic stability remains in line with development expectations.	✓	✓	✓
FAS stability	Segmentation distributions and characteristic stability remains in line with development expectations.	✓	✓	✓

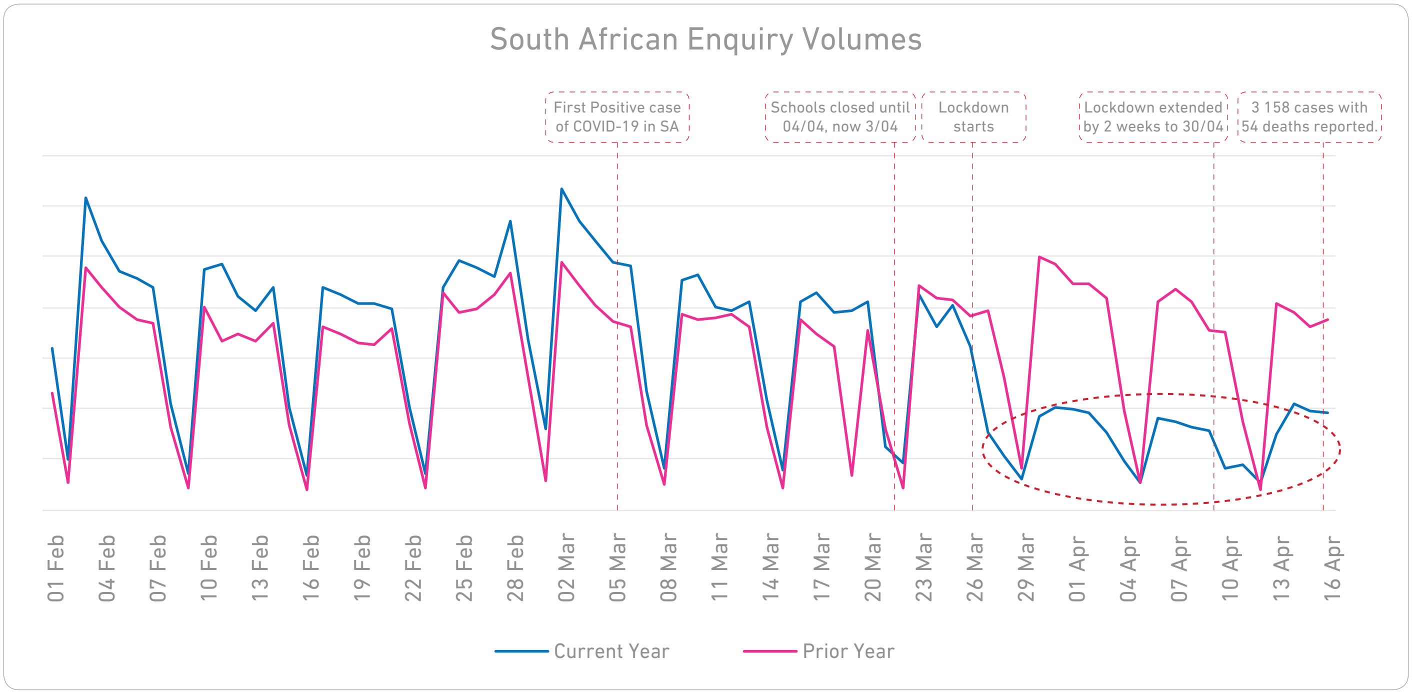
What trends are we observing in the SME area?

SMEs in South Africa have found – even in good times – business to be difficult. The importance of small businesses in South Africa is mostly understated as they are the future of job provision to reduce unemployment in a country that has an unsustainably high unemployment rate.

The forced closure and subsequent loss of income is creating additional stress in an already difficult market. The majority of these businesses cannot move overnight to remote working. They rely on foot traffic, logistics, manufacturing, direct sales, amongst other factors to ensure their businesses stay afloat.

Global statistics show that on average SMEs have anything between 23 and 74 days of cash flow availability to sustain the business during shocks. As this statistic looks at the average impact across the entire industry, individual industries will be impacted differently across the stated scale. In South Africa the outlook is even grimmer, with most in the country fighting to survive monthly rather than thrive. Relaxing or completely ending the lockdown is expected to have a lag effect on the South African SME sector, with most consumers likely being reluctant to return to the "old way", which is expected to add further burdens to cash strapped SMEs.

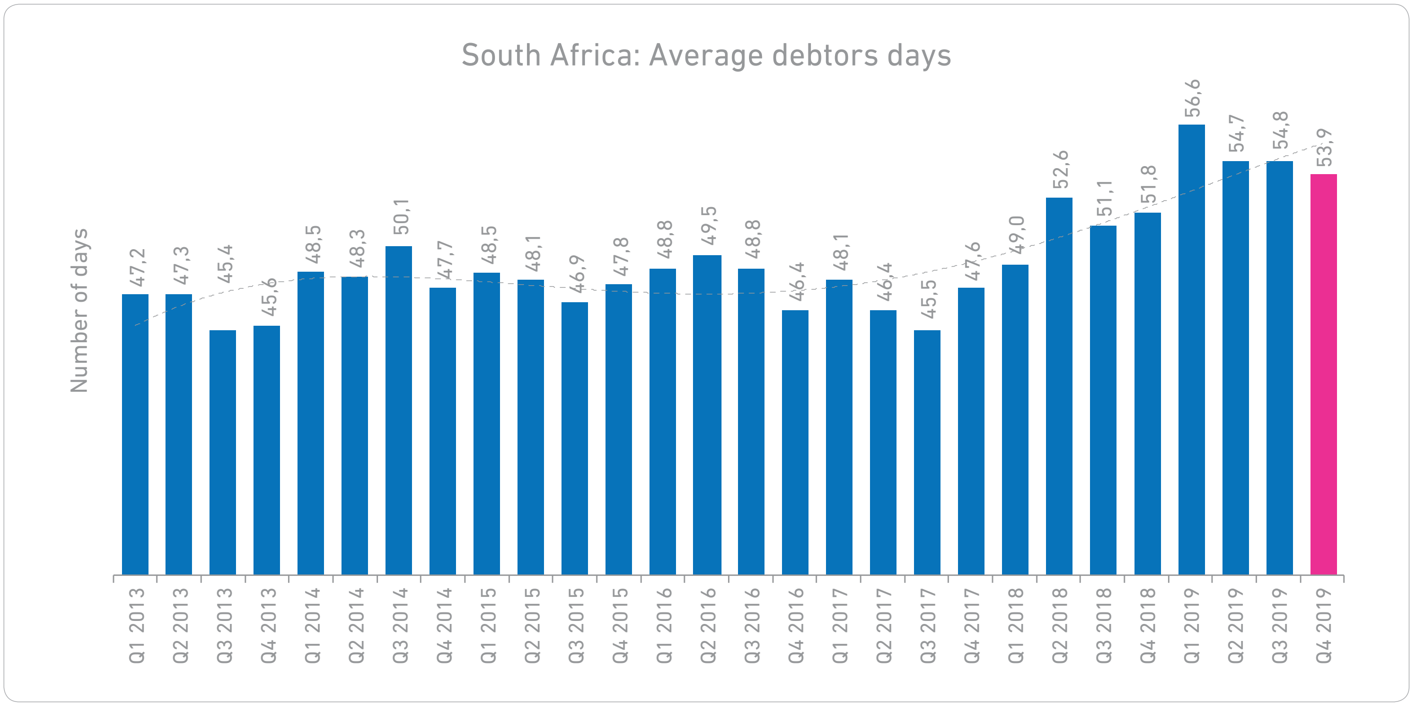


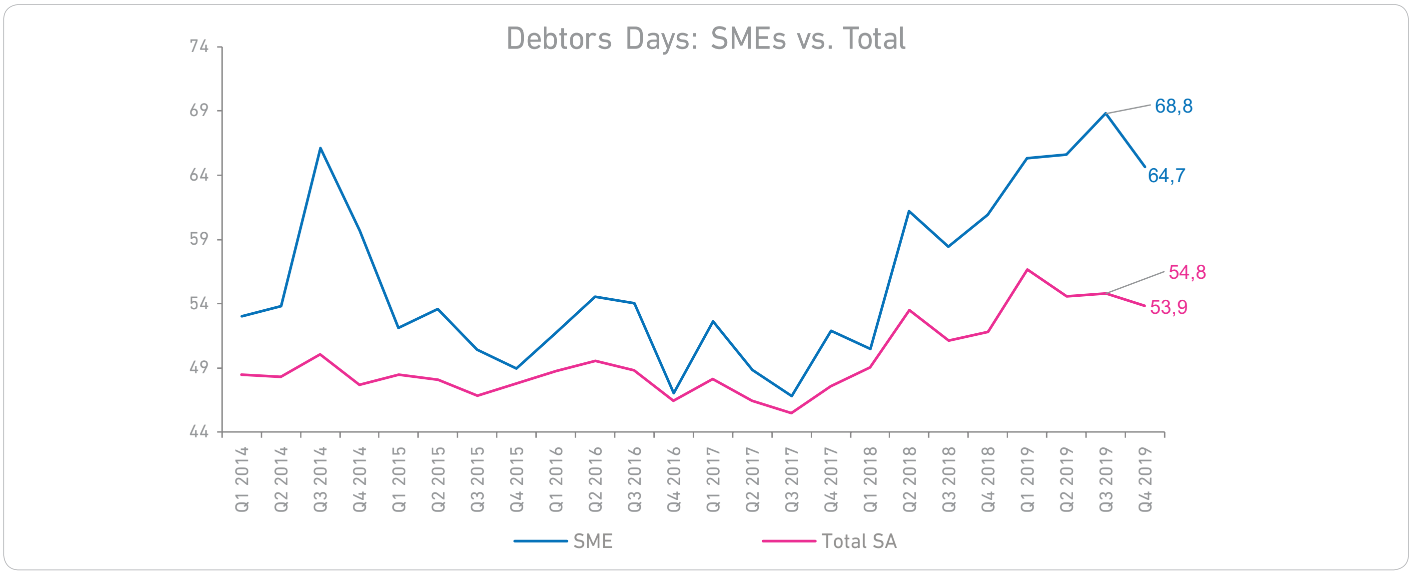


Key Insights

- The Experian Business Debt Index (BDI), which reflects the level of health of businesses in the economy, worsened sharply in Q4 2019 to an index value of -0.51, which is indicative of the fastest pace of deterioration in business debt conditions since the global financial crisis in 2009.
- When looking at the enquiry trends since end-March, the reduced activity caused by the COVID-19 crisis is destined to result in a further deterioration in the BDI and thus the health of businesses in the South African economy.

Average debtors days are expected to deteriorate as the impact of the lockdown takes effect across the industry.

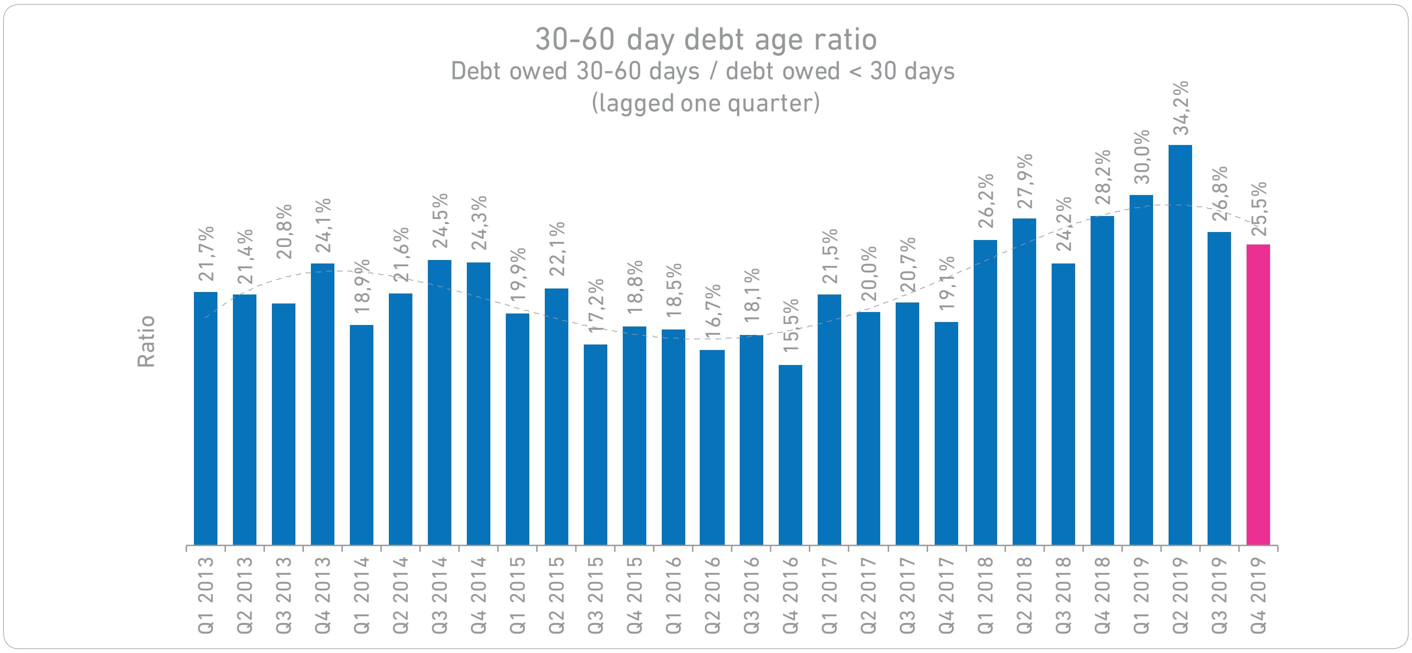


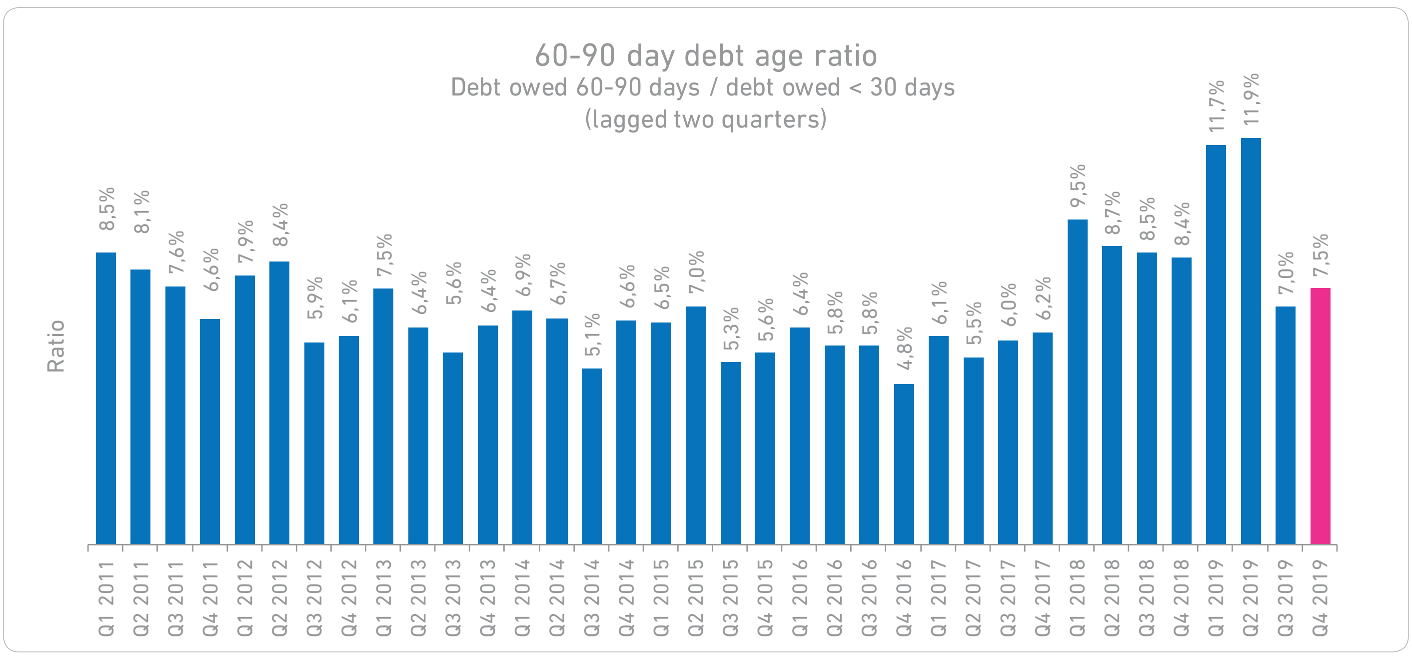


Key Insights

- Even though average debtors days, which gives a broad indication of outstanding debt conditions in the business sector, remained relatively stable in Q4 2019, it is expected to deteriorate significantly into the first half of 2020.
- Where the average overall debtors days fell across the market, those of SMEs fell sharper. However, this trend is expected to reverse as the lockdown impact takes effect.
- What is most concerning, however, is the fact that prior to the lockdown SMEs were failing far more rapidly than larger firms, reducing the sample size and stimulating an apparent recovery in outstanding debtors days.

Debtors age is also expected to deteriorate significantly in coming quarters.

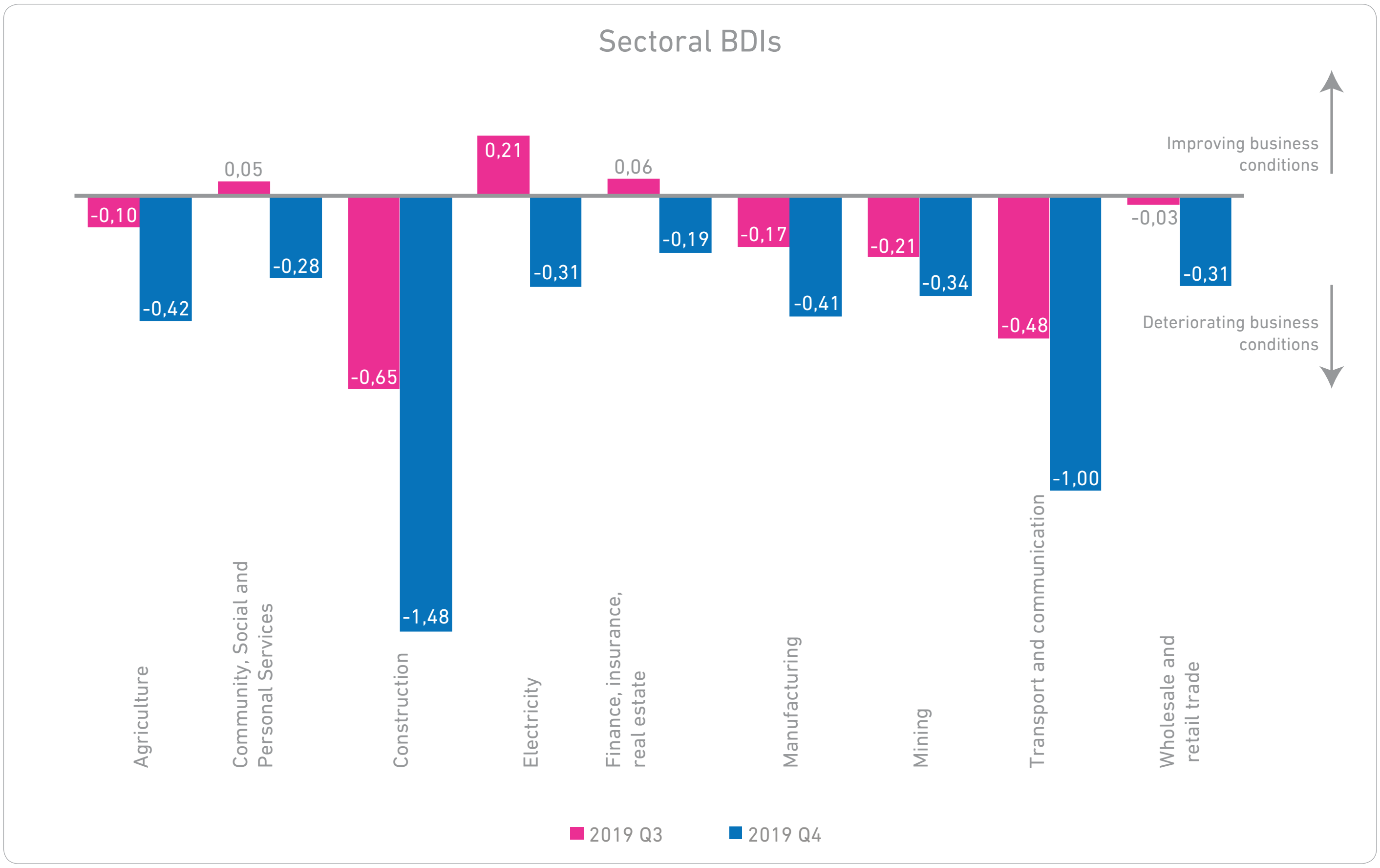


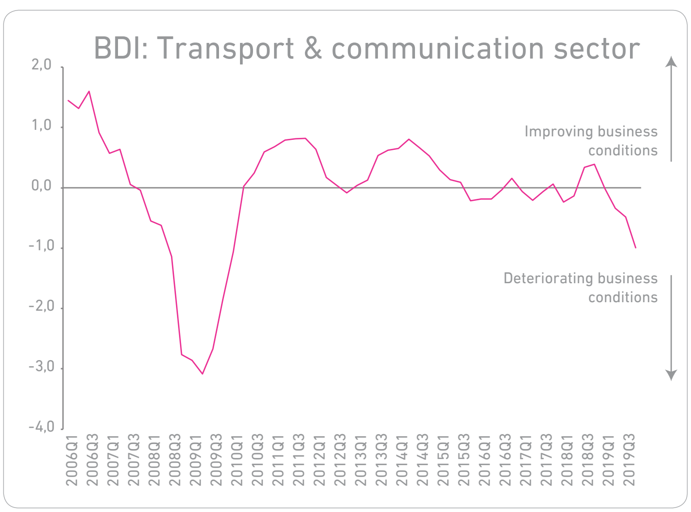


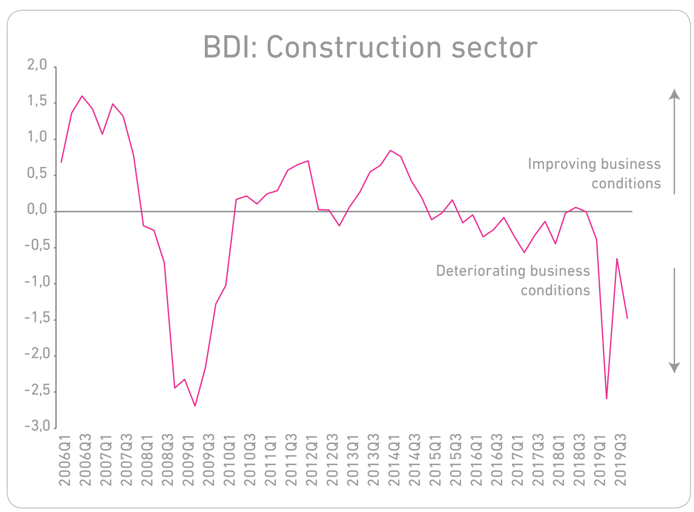
Key Insights

- While the last quarter of 2019 saw debt age ratios marginally improve, both the 30-60 day and 60-90 day debt age ratios are expected to deteriorate significantly in the coming quarters.
- These ratios are expected to be negatively impacted as payment terms are extended and reduced payment rates requested across the industry.
- Many market commentators have suggested that the SME segment will see many companies closing during and after the lockdown, with an estimated 1.5 million job losses across the market.

While not all industries were equally impacted at our last reading, the crisis is expected to be merciless in the coming quarters.





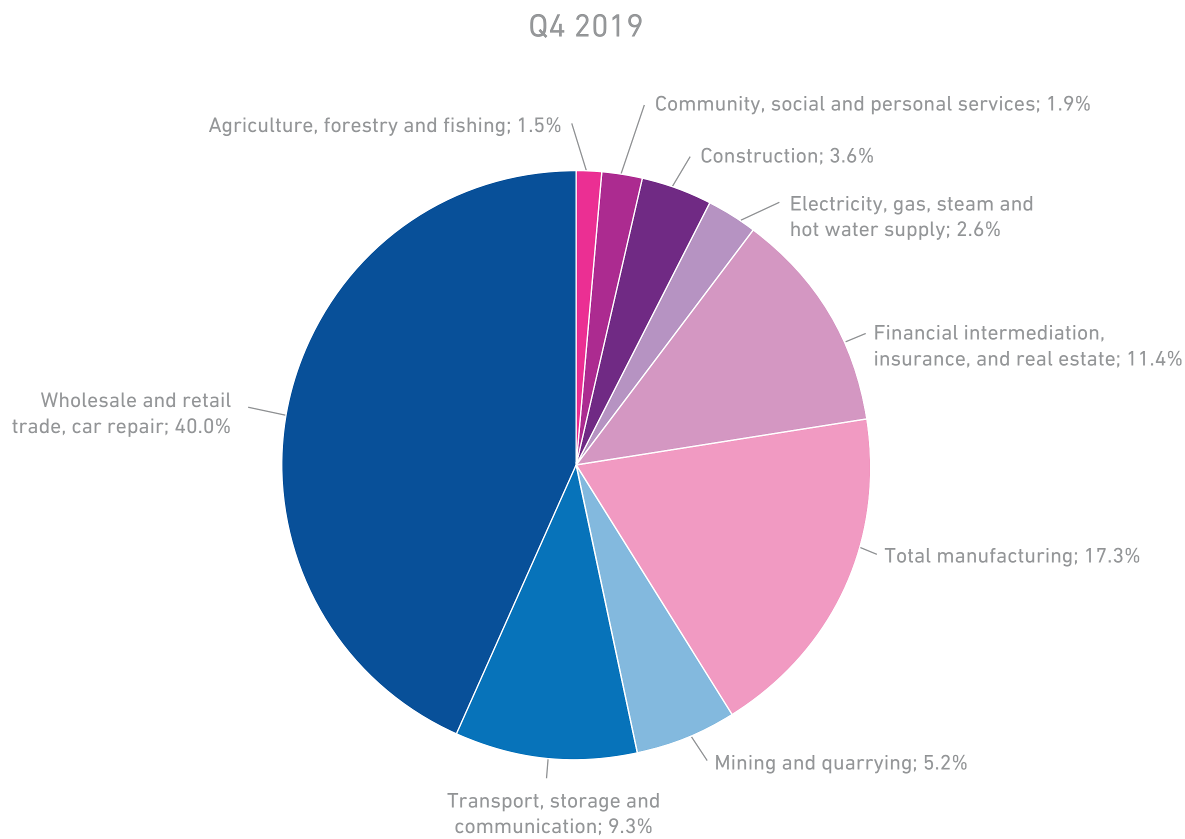


Key Insights

- All industries are expected to be negatively impacted by the COVID-19 crisis, with the wholesale and retail, mining, manufacturing and construction industries expected to suffer the most.

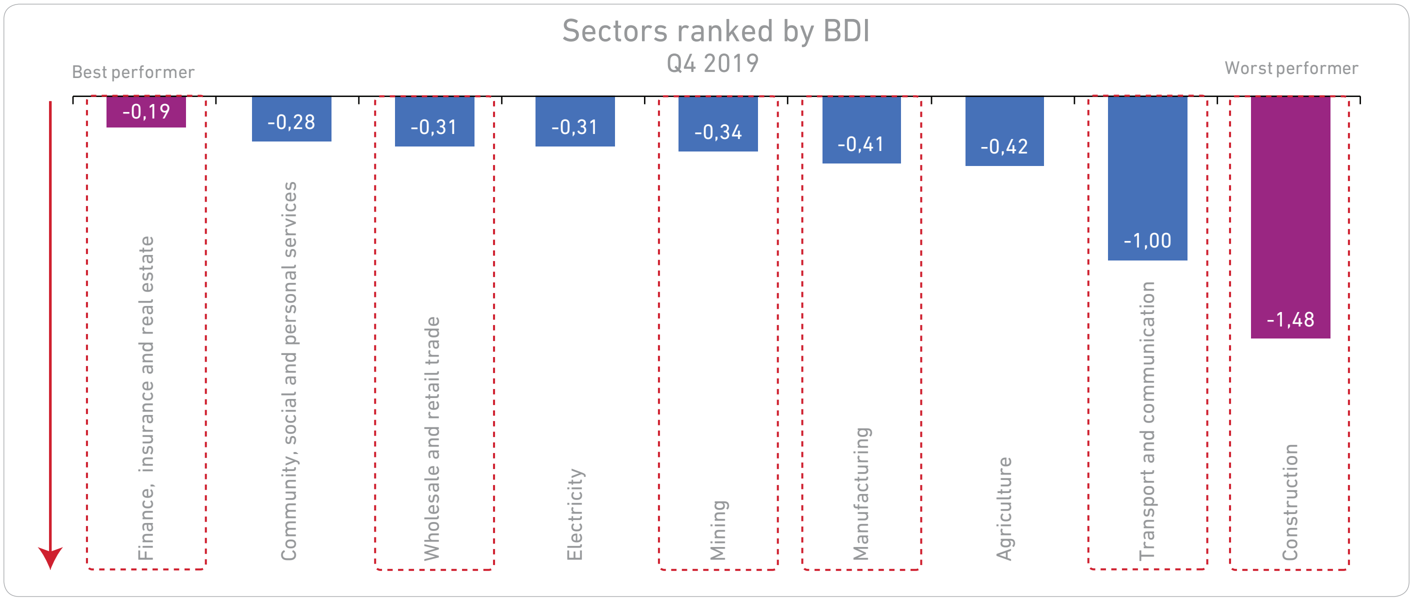
- The construction sector's GDP declined for a sixth consecutive quarter, recording q/q annualised growth of -5.9% in Q4, a visible victim of the cutback in investment by both the public and private sectors.
- The transport and communication sector's GDP fell for a fourth consecutive quarter, at an accelerated pace of -7.2% q/q in Q4. The sector has been hit hard by declines in transport demand for basic metals and manufactured metal products which have certainly been heavily constrained by slowing global growth.

The wholesale, retail trade and car repair industries remain the highest indebted in the market.



We expect universal deterioration across the BDI metric, debtors age ratio and debtors days for all SMEs.

Industry	Movement of BDI	Debt age ratio	Debtors days
Agriculture	↓	↓	↓
Services	↓	↓	↓
Construction	↓	↑	↑
Electricity	↓	↓	↓
Finance and insurance	↓	↓	↓
Manufacturing	↓	↑	↑
Mining	↓	↓	↑
Transport and communication	↓	↓	↓
Wholesale and retail trade	↓	↑	↓



Key Insights

- All industries are expected to be negatively impacted by the COVID-19 crisis resulting in the risk status for all changing in the coming quarters across all three core measures.
- The construction, transport and communication industries are expected to deteriorate further. However, the lockdown is expected to severely impact the finance and insurance, wholesale, retail, manufacturing and mining industries.

Conclusion

The onset of the COVID-19 crisis has resulted in business confidence and optimism taking a severe knock. Before the COVID-19 crisis, business confidence was around 48%, but the latest data from McKinsey, Absa, Deloitte and the SME Fund show that this has dropped to below 21%.

The data shows that optimistic business owners are only expecting recovery to take start in 6 months' time, with the more pessimistic view being consistent with many market commentators that the world will enter a global recession which will have a significantly more severe impact on the SME sector.

Reports suggest that two-thirds of companies have already started reduced spending – from a natural response perspective as well as a strategic drive. This is a combination of postponing procurement until the lockdown changes, reducing costs and reducing stock purchases.

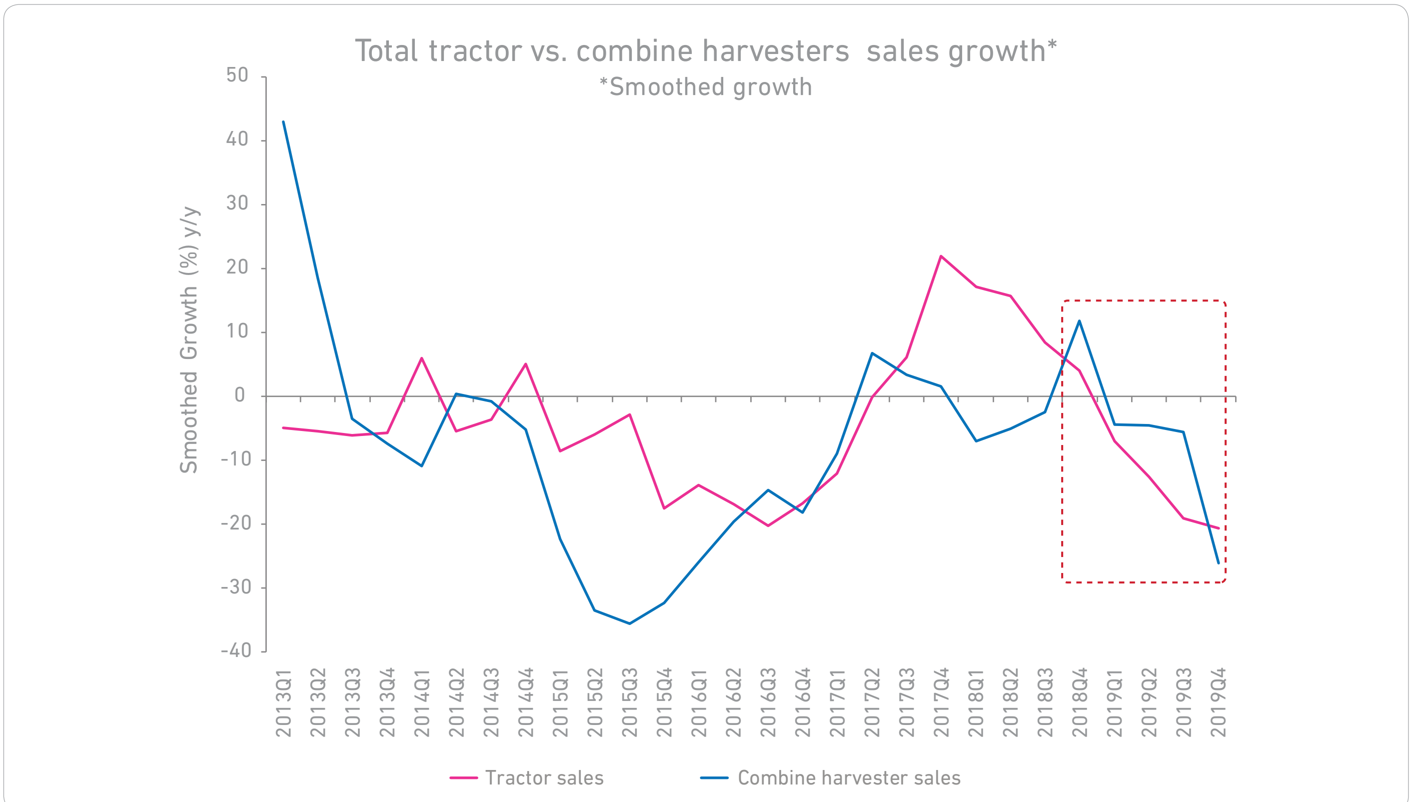
There are a number of steps that SMEs could take at this time to survive the lockdown and economic knock on:

1. Engage with staff – keep them informed, ask for support to keep business and employment going, positively drive the business once the lockdown conditions change and allow for trading to resume.
2. Use the quiet time to rethink strategy, pivot, plan and prepare for the new day 1.
3. Build a digital access strategy to increase and retain engagement with customers.
4. Have a positive mindset and know that in chaos, opportunities present themselves.
5. Focus on sales – offer vouchers, free deliveries, build online sales streams, enhance social media presence, relook at revenue models.
6. Focus on procurement processes and find ways to optimise and reduce costs.
7. Keep financial records in place to be able to apply for support through these difficult times.
8. Use the time where everyone in the same circumstances negotiate new deals that enhances cash flows.

Industry Overview

There is not one industry in South Africa that is not affected by the current COVID-19 pandemic; however, the majority of industries are severely negatively impacted. In many cases, the COVID-19 pandemic is compounding pre-existing negative influences on their growth.

Agriculture – key economic criteria are positive, but the risk of reduced demand is a concern



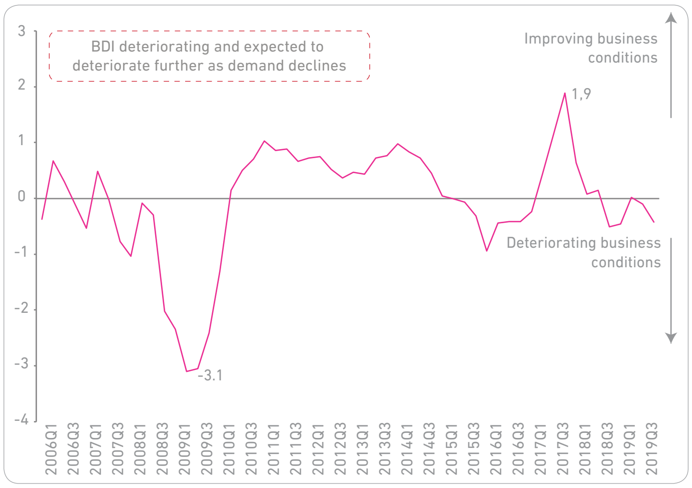
Source: South African Agricultural Machinery Association

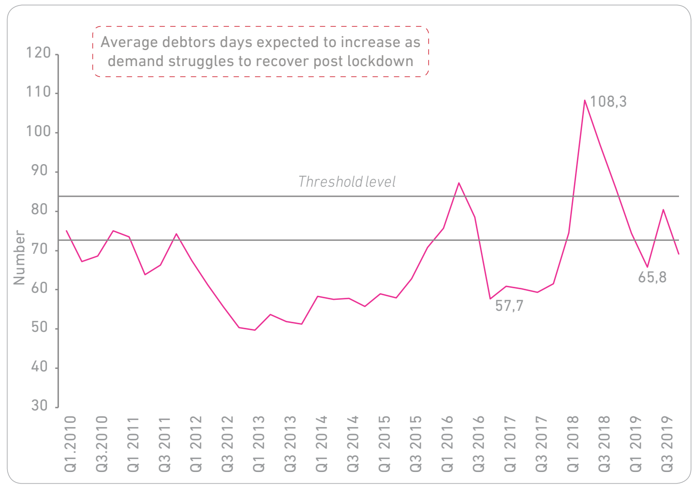
Key Insights

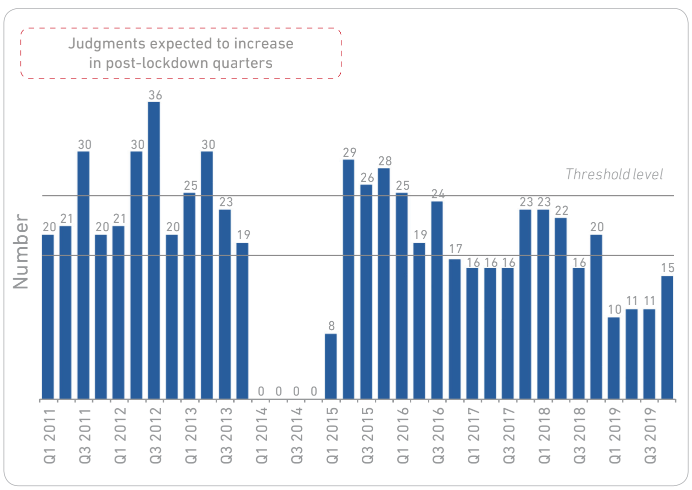
- Agricultural conditions are expected to improve in 2020. The Crop Estimates Committee expects total maize production for 2020 to be 14 560 160 tons, which is 29,1% more than the 2019 season.
- The bullish 2020 crop outlook – with increases in expected crops for sunflower (+3% y/y), soybeans (+6%), groundnuts (+180%) and sorghum (+6%) – will help offset the impact of the poor winter crop harvest on agricultural GDP.
- According to a report by Farmers Review Africa, "good rains have replenished soil moisture and dam levels although dryness persists in parts of the Eastern Cape and Northern Cape.
- The rebound in production conditions afforded farmers to plant more area relative to the previous year and the summer grain and oilseed crops are in good shape though more follow-up rains are needed in some areas to ensure a good finish."
- Unfortunately, the Agricultural Business Chamber (Agbiz) has warned that "South Africa's agricultural sector could take a R39 billion export hit as a result of the coronavirus dampening demand from Asian countries: South Africa products sold into Asian countries include wool, fruit, grains, beverages, vegetables and red meat. In all, Asia – which is at the epicentre of the outbreak – accounts for 25% of South African agricultural exports".

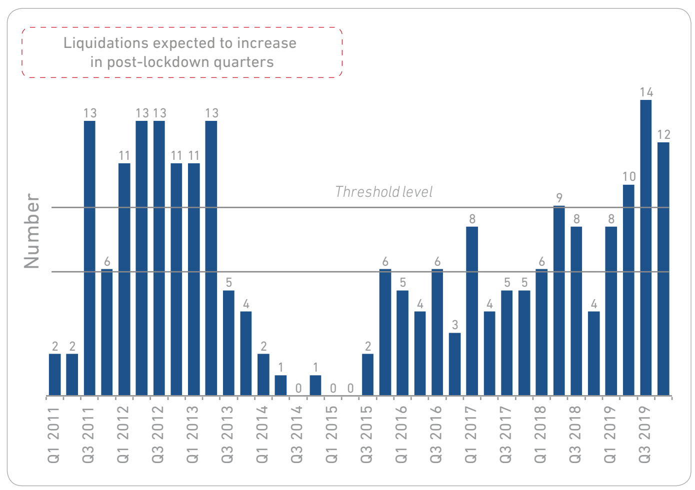
- The South African Poultry Association recently applied to the International Trade Administration Commission of South Africa for a tariff increase on imported frozen bone-in pieces and frozen boneless cuts.
- Government agreed to tariff increases up to 62% on bone-in chicken portions, while the tariff on boneless portions was raised to 42%. South Africa's poultry sector has been under pressure due to cheap chicken imports from Brazil, the USA and Europe.
- CPI inflation for food dipped slightly to 3.7% in January 2020, from 3.8% in December 2019. This downward trend is expected to continue in 2020.

Agriculture – NEUTRAL moving to AT RISK

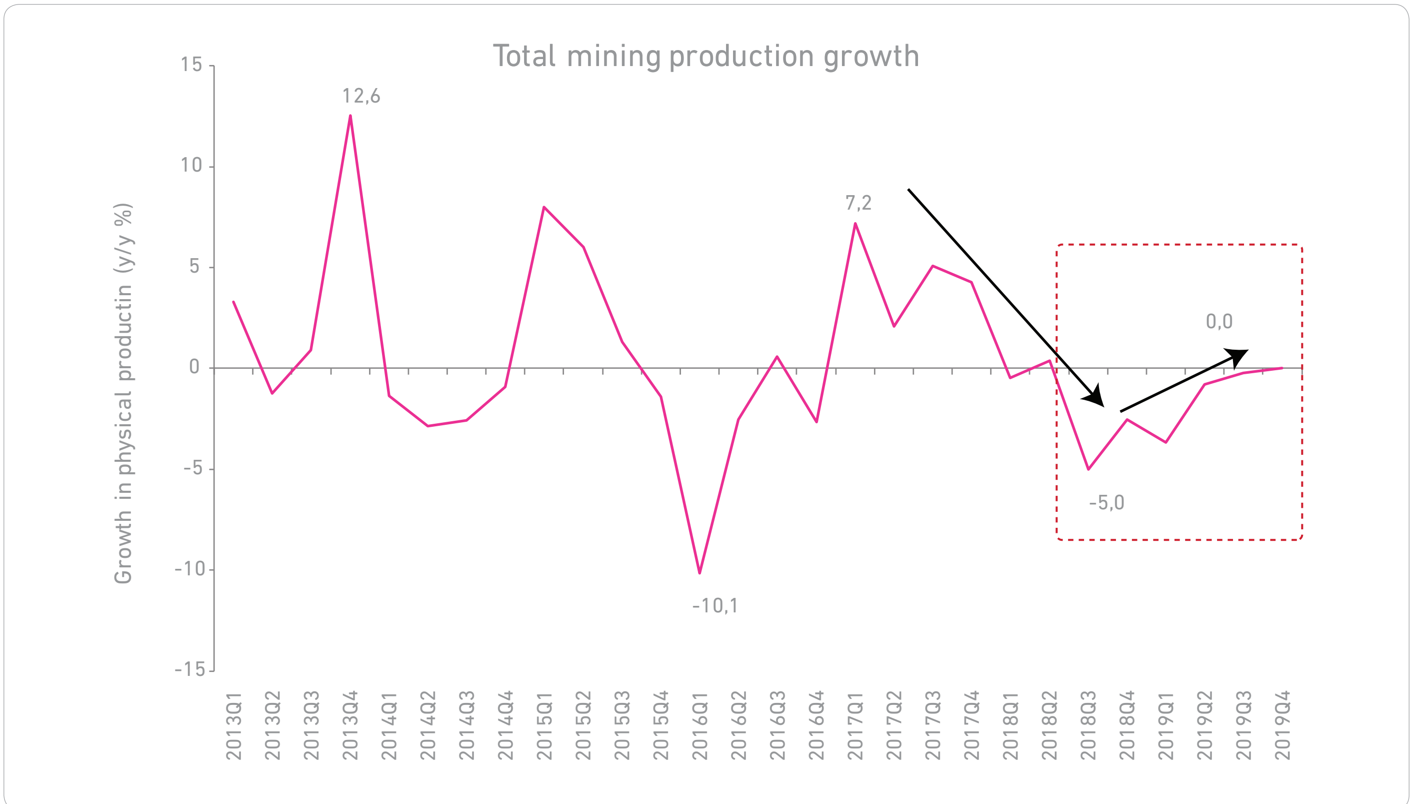








Mining – key economic criteria continue to stack up against the sector with load shedding impacting production.

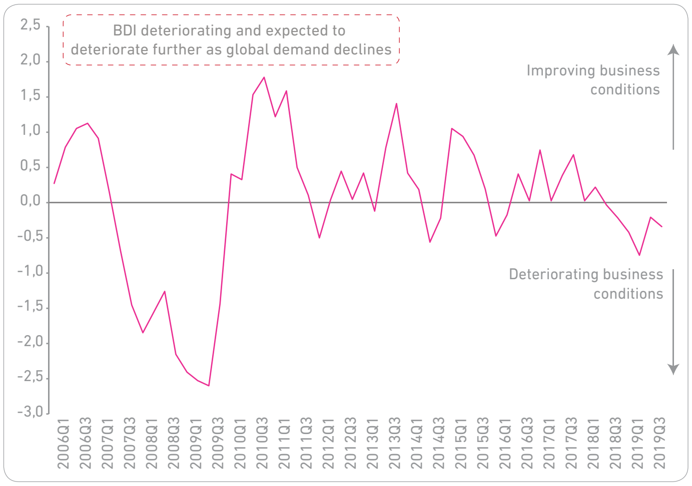


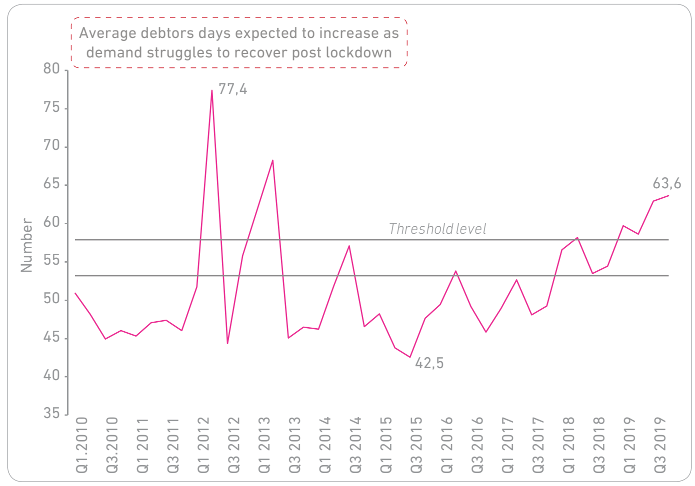
Source: Stats SA

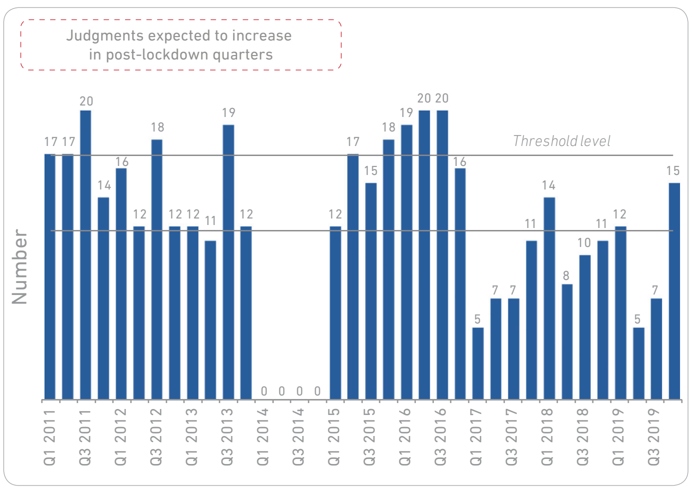
Key Insights

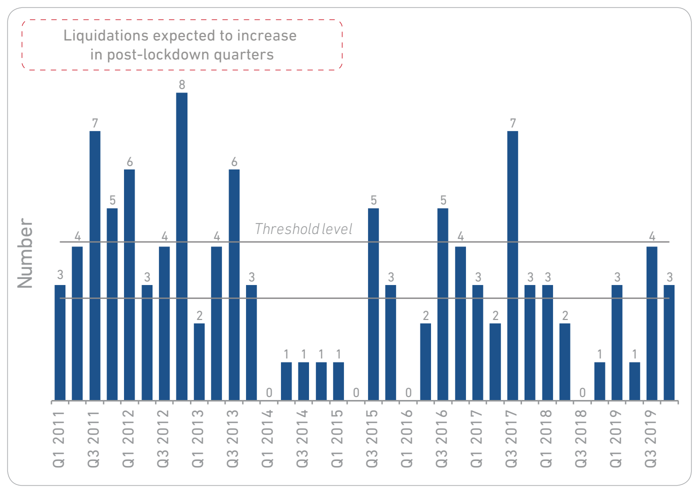
- Mining in South Africa is a "sunset" industry, as mining's contribution to the South African economy in continuous decline. Of South Africa's four main production categories, gold production continues to decline sharply, PGMs and coal have largely stabilised since 2004, and it is only iron ore that has seen an increase in production.
- Mining is no longer a dependable source of income for the South African economy; expensive labour, transformational schemes, stifling government regulation and increasingly difficult geological extraction are all putting pressure on the industry.
- Nevertheless, mining output in 2019 was more or less at the same level as it was in 2014 and about 5% below where it was in 2017, which suggests that mining output is not collapsing completely in the manner frequently perceived.
- This is despite the enormous headwinds faced by the sector such as damaging industrial action, sharply rising electricity prices and an unstable energy situation, rising water and steel costs, costs of improving safety measures on mines and government interference in the sector.
- One concern is that the detrimental effect of the coronavirus on Chinese economic growth and industrial output might call forth a reduction in demand for key minerals in 2020, which could depress overall mining output in the coming year.
- Against this, we appear to be facing a weaker exchange rate in 2020, which might compensate to some extent for the falloff in output. In addition, it is important to bear in mind that precious metals prices have been holding up quite strongly. In particular, palladium and iridium prices have soared on account of their importance for use in pollution control.
- In the case of gold, its price has been rising as a safe haven over the past year against international trade tensions and more recently due to the disruption caused by the coronavirus.

Mining – AT RISK remaining AT RISK

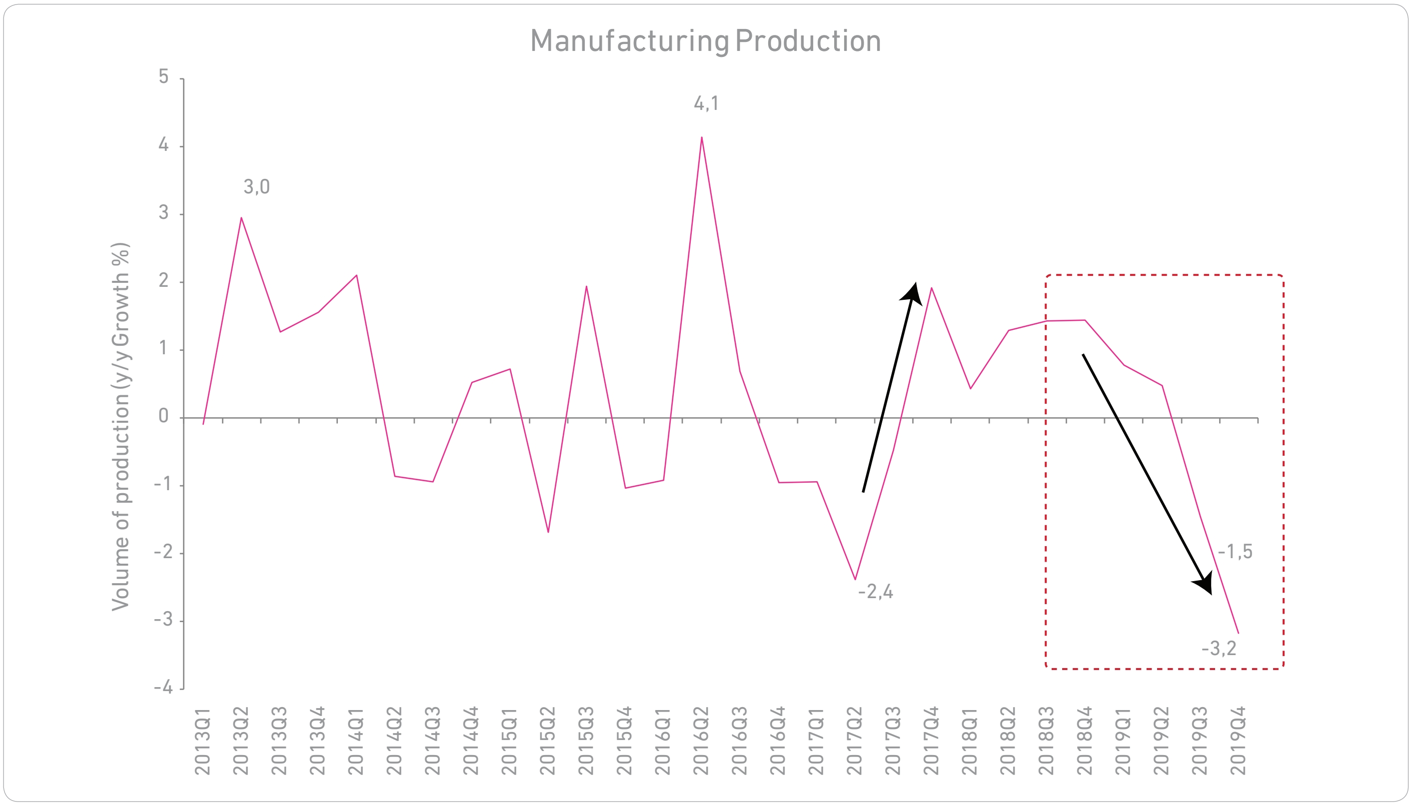








Manufacturing – manufacturing output is steadily declining as an ailing economy impacts the industry.

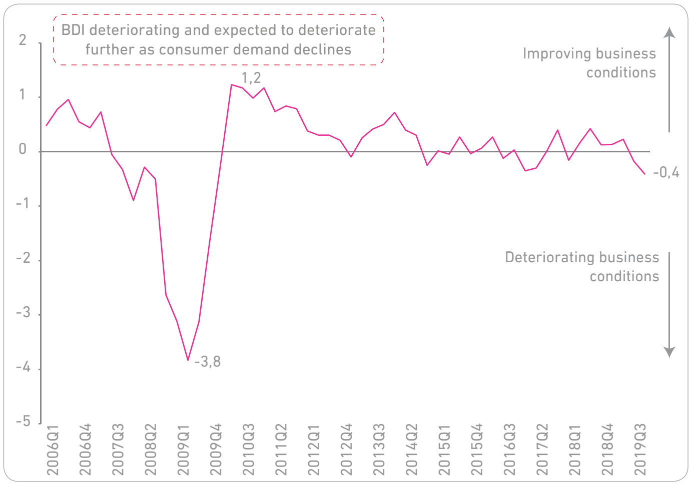


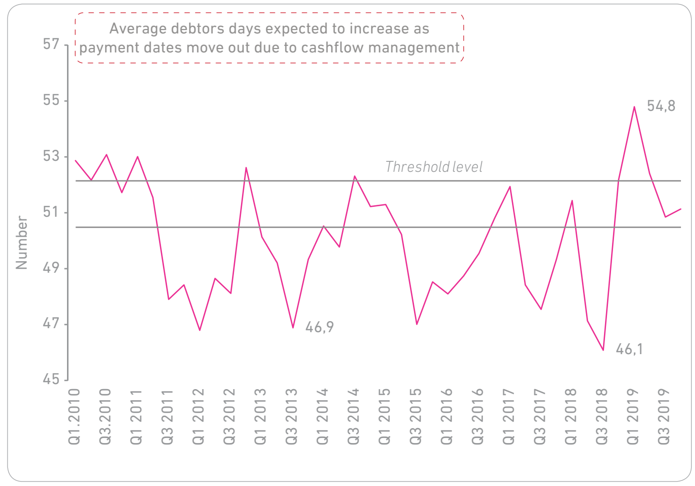
Source: Stats SA

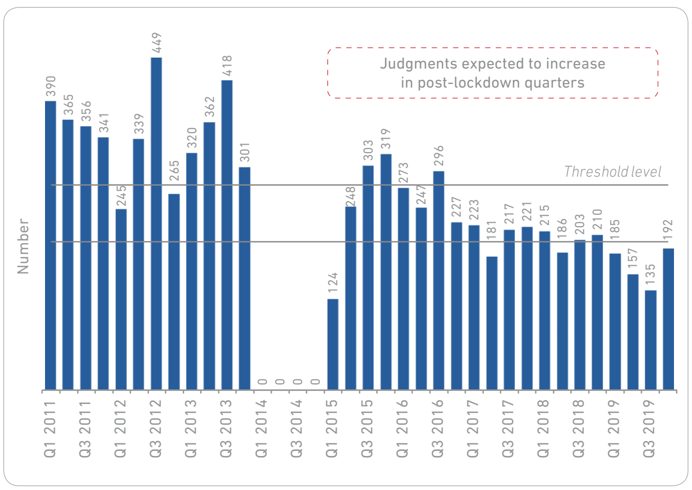
Key Insights

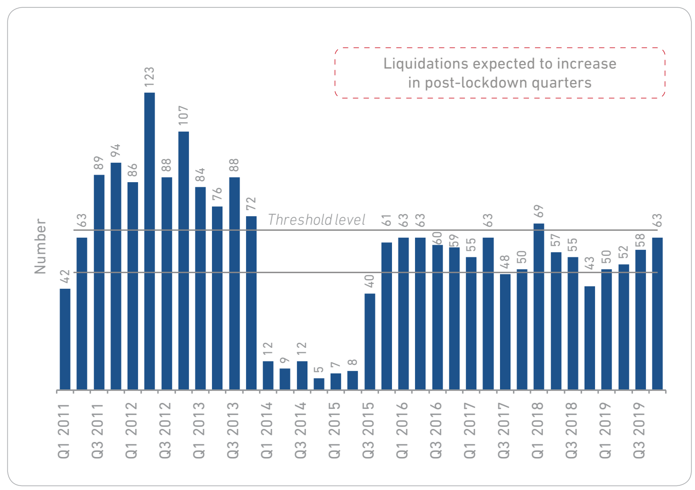
- Manufacturing's long decline underlines an undeniable pattern of deindustrialisation over the last four decades.
- Part of this can be attributed to global factors, but there is a myriad of domestic issues that have exacerbated the situation: confusion over government's industrial direction, fragmented incentive programmes, onerous labour regulations and energy instability, create an environment that makes it difficult for entrepreneurs to build competitive businesses.
- The **Purchasing Managers Index** (PMI), which gives an expectation of future business activity, is indicative of subdued growth in manufacturing this year. The Absa PMI declined sharply in February 2020. This was the lowest reading since the second half of 2009 when the economy started recovering from the global financial recession. Two main factors contributed to this:
- Firstly, the realisation that sporadic electricity load-shedding is likely to be the order of the day for the next 18 months to two years as maintenance work is conducted to ageing power plants, has shattered confidence regarding any possible recovery in domestic manufacturing.
- Secondly, the outbreak of the coronavirus and its spread during the course of February has highlighted the extent to which the global economy might slow and in particular demand for South African manufactured goods from the likes of China might suffer.
- One of the only possible areas of optimism found in the manufacturing picture is the fact that the recent substantial depreciation of the Rand may offer domestic manufacturers a form of insulation against the global economic downturn.

Manufacturing – NEUTRAL moving to AT RISK

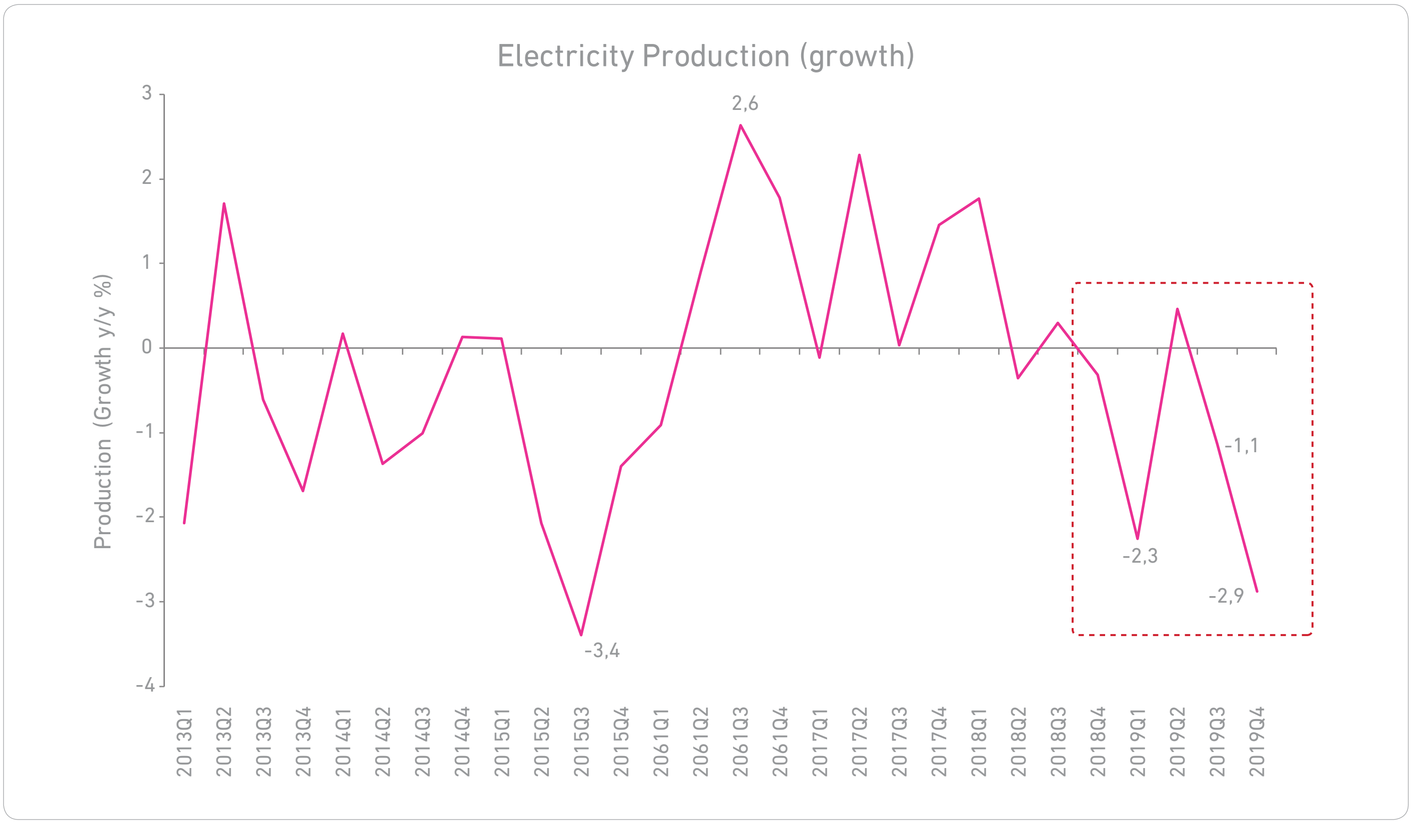








Electricity - production fell back sharply due to maintenance issues that continue to put the sector at risk.

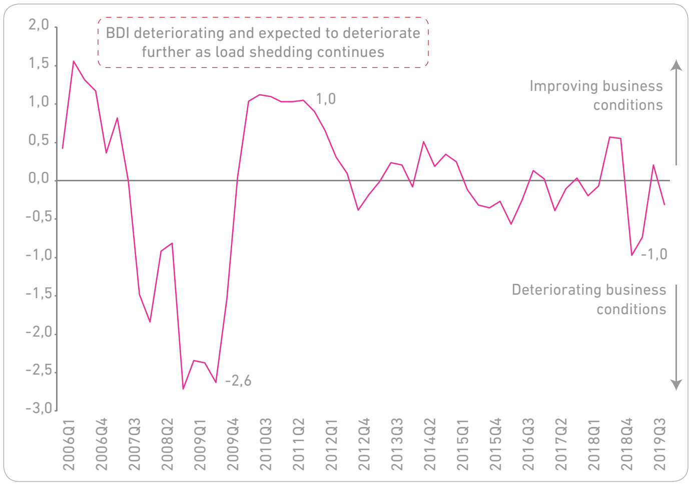


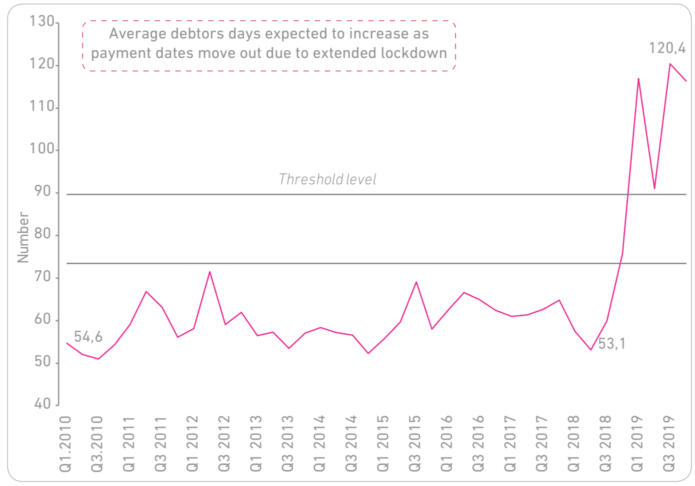
Source: Statistics South Africa

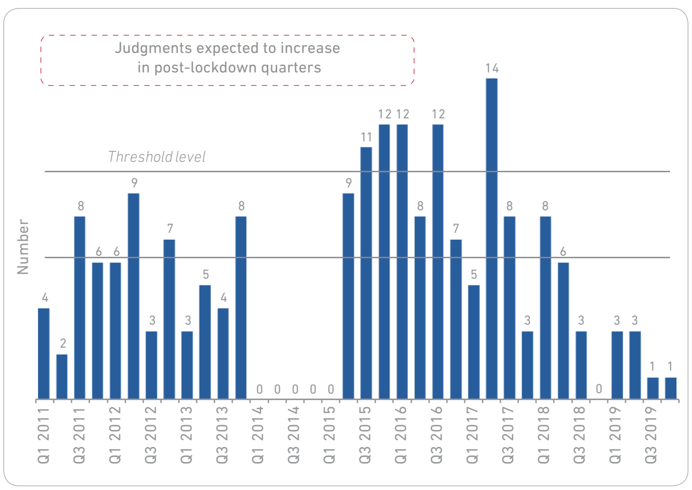
Key Insights

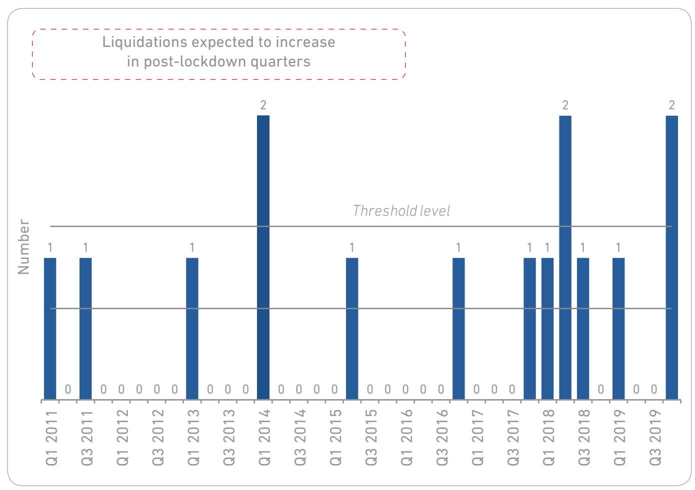
- Load-shedding, which resumed in December last year, forced the fragility of the South African economic situation back into the general private sector consciousness.
- Already the effects of a loss of confidence and general pessimism are being seen in the data. PMI data for February 2020 was the lowest since the second half of 2009 when the economy was still recovering from the global financial recession.
- Load-shedding provides a sobering reminder that real productive economic growth (which typically requires more, not less electricity) is being increasingly undermined, along with the incentive to invest in such type of production.
- This runs exactly counter to what South Africa needs, i.e. increased industrialisation to absorb the mass of unemployed, unskilled labour which tears at the fabric of social cohesion and democratic progression.
- The government remains on the hook for supporting South Africa's beleaguered state-owned enterprises, and this burden is expected to intensify in the coming fiscal years.
- Over the next three years, the government is expected to transfer R112 billion to Eskom to meet its short-term obligations. This is expected to partly offset the savings made in other areas of the budget, including wage bill reductions.
- While Finance Minister Tito Mboweni highlighted the urgent need to address the risk stemming from the financing demand of these state-owned companies, until such time that we begin to see evidence of reforms being implemented at these SOEs, risks to the national fiscus will continue to feature prominently.

Electricity – AT RISK and remaining AT RISK

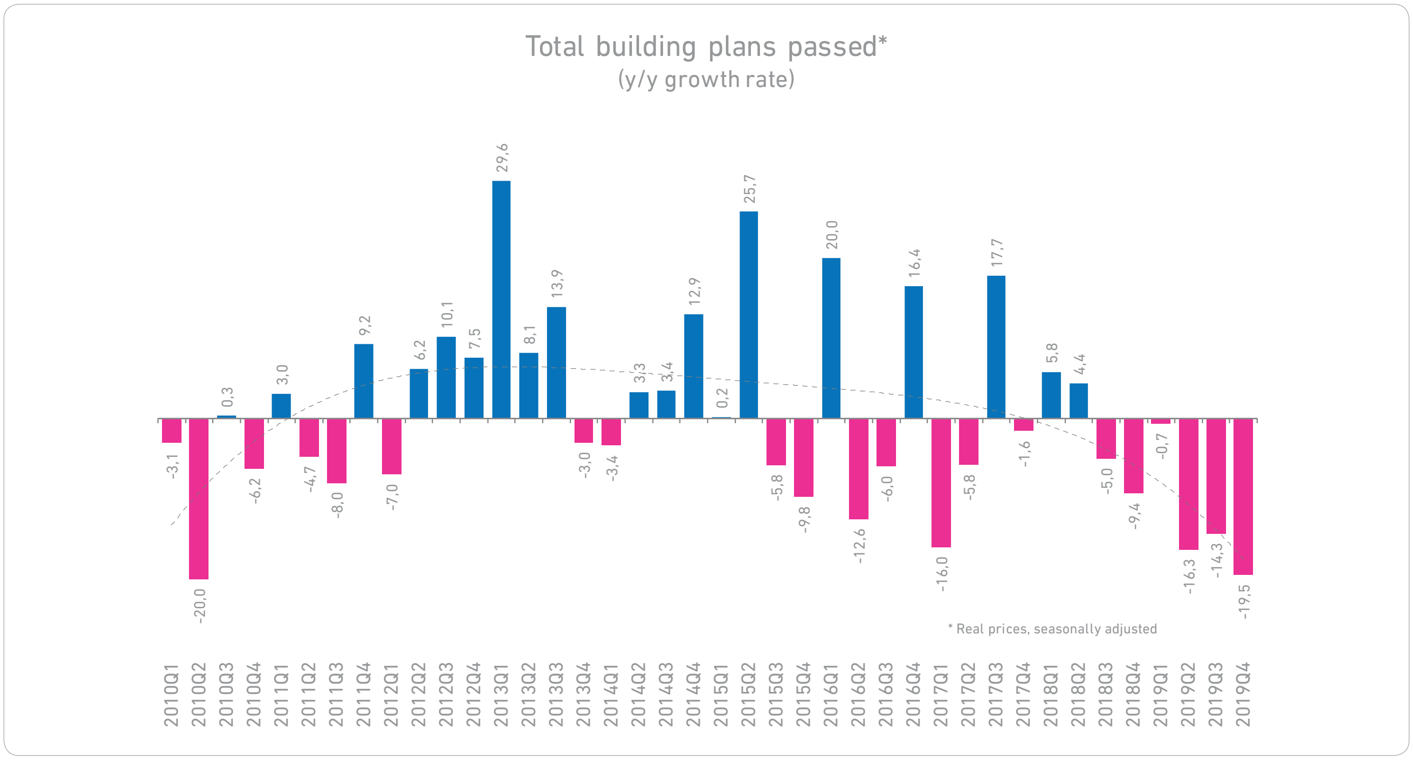








Construction – the sector has contracted for the eleventh successive quarter indicative of an industry in distress.

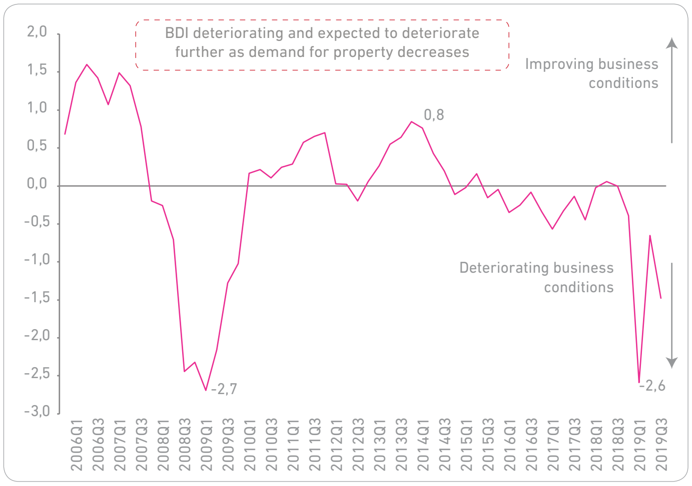


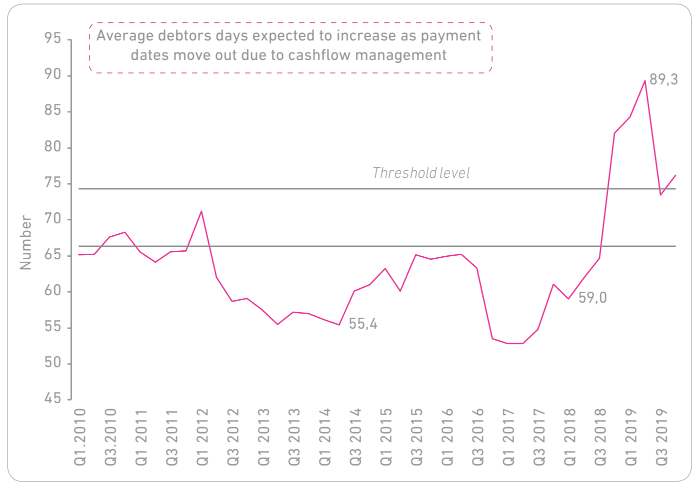
Source: Stats SA

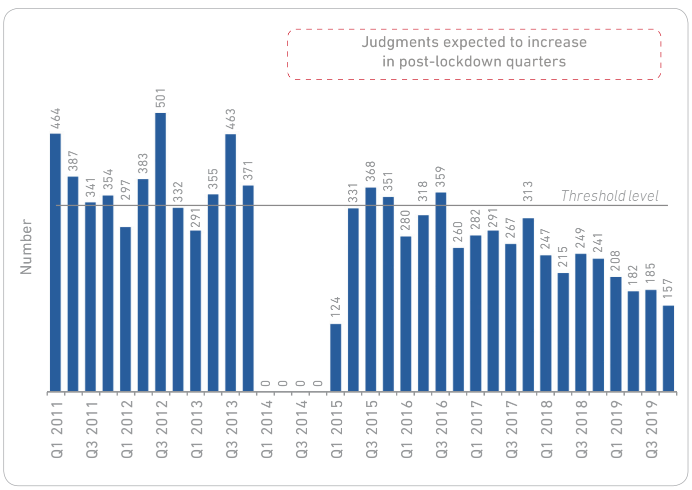
Key Insights

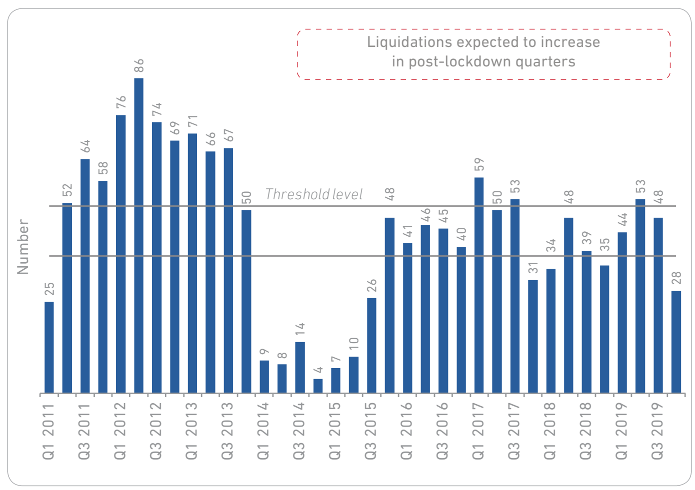
- The construction industry is a highly cyclical sector. When the business cycle expands, investment in infrastructure booms as businesses become more profitable, and governments bring in more tax revenue.
- When the business cycle contracts, the reverse occurs. The longer the period of business cycle contraction, the more severely this infrastructure spending dries up.
- Unfortunately, South Africa is now entering its 70th month of downturn in the business cycle (as defined by SARB), the longest on record.
- Stagnation in the growth of the economy means households are not getting any wealthier, and the middle class is not expanding. This, combined with numerous other factors, such as ever-rising unemployment, emigration, and a loss of confidence in future prospects, have all worked to reduce the growth in house prices, which in turn feeds back into household wealth and demand for new residential construction.
- On the public side, a fiscally constrained government is allocating more and more revenue towards short-term costs like salaries, and away from large-scale investment and civil engineering projects, whose tenders have become the lifeblood of the industry.
- After falling to its lowest level since 2000 in Q3 2019, at 22 index points, the FNB/BER Building Confidence Index improved slightly in Q4 2019. However, this outcome is still well below the 50 neutral level and a continuation of a five-year decline.
- The low reading for Q4 indicates that around 75% of respondents are dissatisfied with prevailing business conditions. According to BER, four sub-sectors registered higher confidence in Q4 2019: hardware retailers, architects, sub-contractors and main contractors.
- This was almost entirely offset by a huge drop in building material manufacturers confidence.

Construction – AT RISK and remaining AT RISK

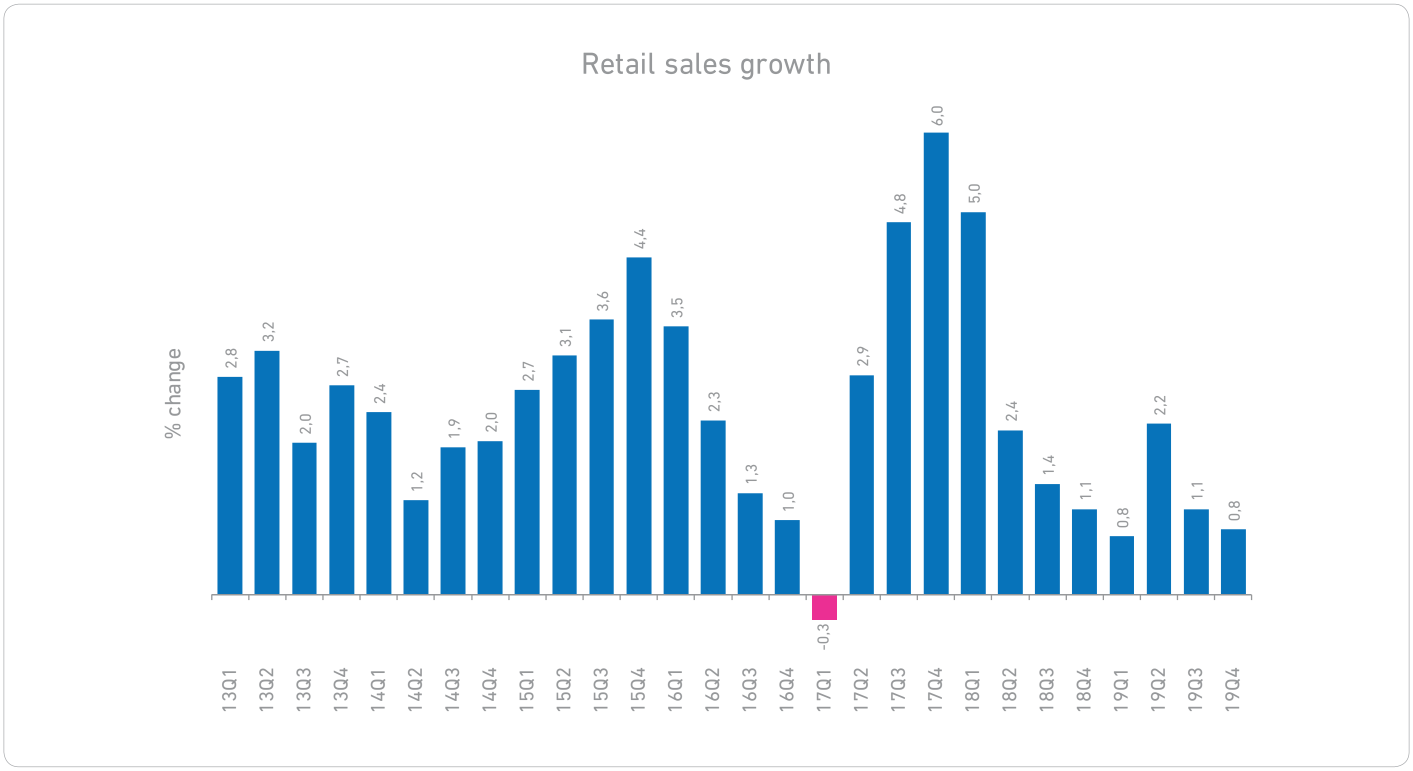








Wholesale and Retail Trade – this sector is confronted by a struggling economy and consumers reluctant to borrow.



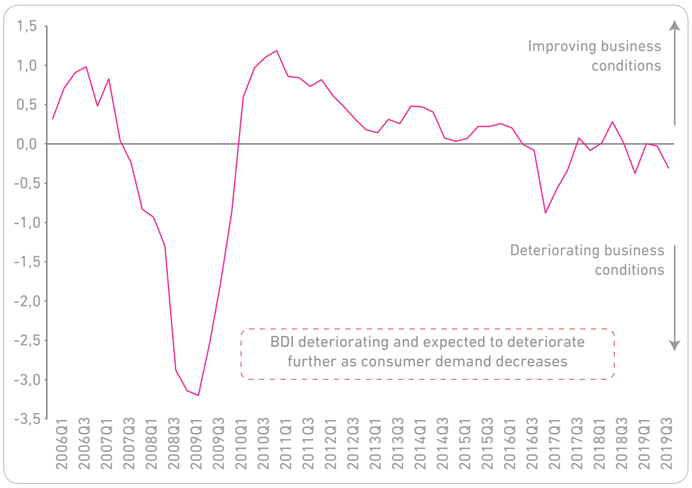
Source: Stats SA

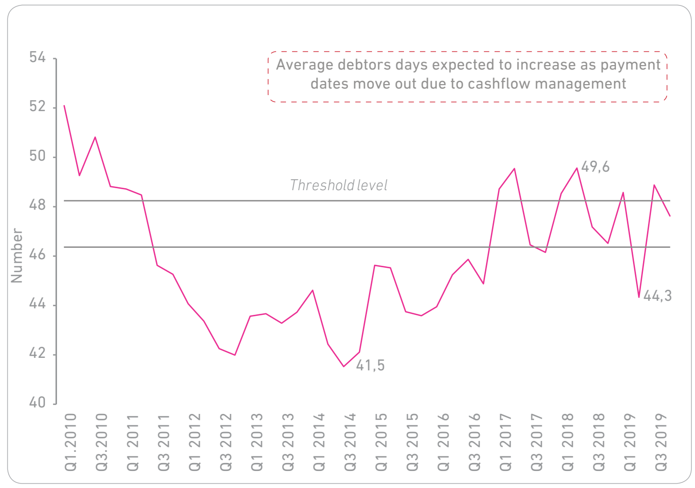
Key Insights

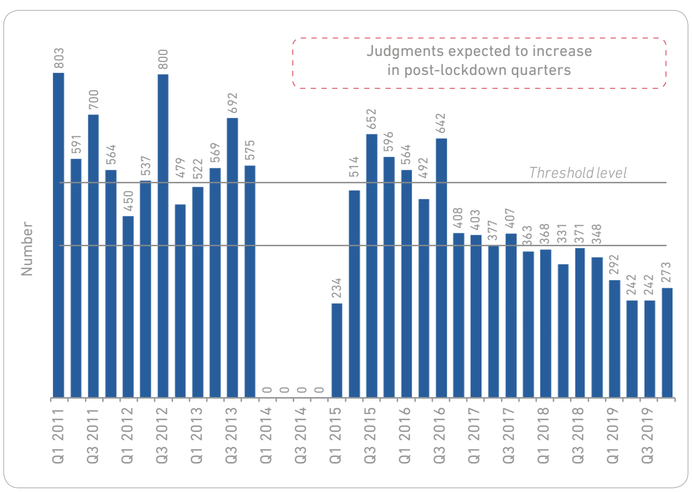
- Lower-income growth is representative of an economy that is struggling to make headway. In a stagnant growth environment, businesses suffer and pass these struggles on to employees through lower wage increases, and in a growing number of instances, outright retrenchment.
- Employees, in turn, become more pessimistic and cut back expectations of future earnings potential. They cut back on discretionary consumption, which in turn feeds into slower economic growth – consumption is the main driver of South Africa's economy.
- Slower income growth is certainly not conducive to an economic recovery any time soon and will feed through negatively to retailer prospects. Recent consumption data supports the conclusion that households are switching to distressed rather than discretionary borrowing and consumption patterns.
- Retail sales growth is clearly dependent on income growth, and is therefore likely to slow, although increased household borrowing appears to be helping it maintain a margin of growth above what would otherwise be expected based on income alone.
- Beyond just reducing overall retail sales growth, slow income growth will compress the size of the middle class, resulting in a simplification of the retail sector as more niche, and many goods and services will fail to find a market. If this situation persists long enough, much of the international exposure of South Africa's retail sector that has occurred in the last decade will disappear.
- There are some positives to slower income growth, primarily it reduces demand price pressures and will help keep domestic inflation subdued.

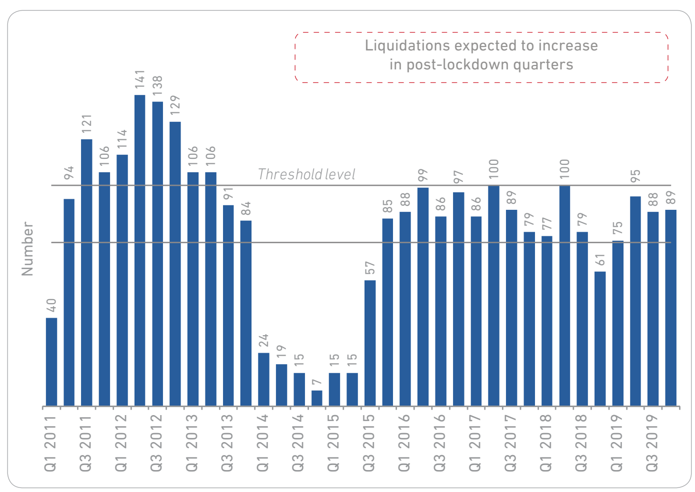
- Tourism Minister Mmamoloko Kubayi-Ngubane called an emergency meeting with the Tourism Leadership Forum on 9 March 2020 to discuss the repercussions that the virus will have on the tourism and travel sector and find ways to mitigate the impact. According to the Minister, "the outbreak of the coronavirus in December 2019 has already affected the tourism industry very negatively, and this will continue until the world finds a way of containing this virus." *
- *https://www.dailymaverick.co.za/article/2020-03-11-sa-tourism-industry-set-to-take-big-knock-from-coronavirus

Wholesale and Retail Trade – AT RISK

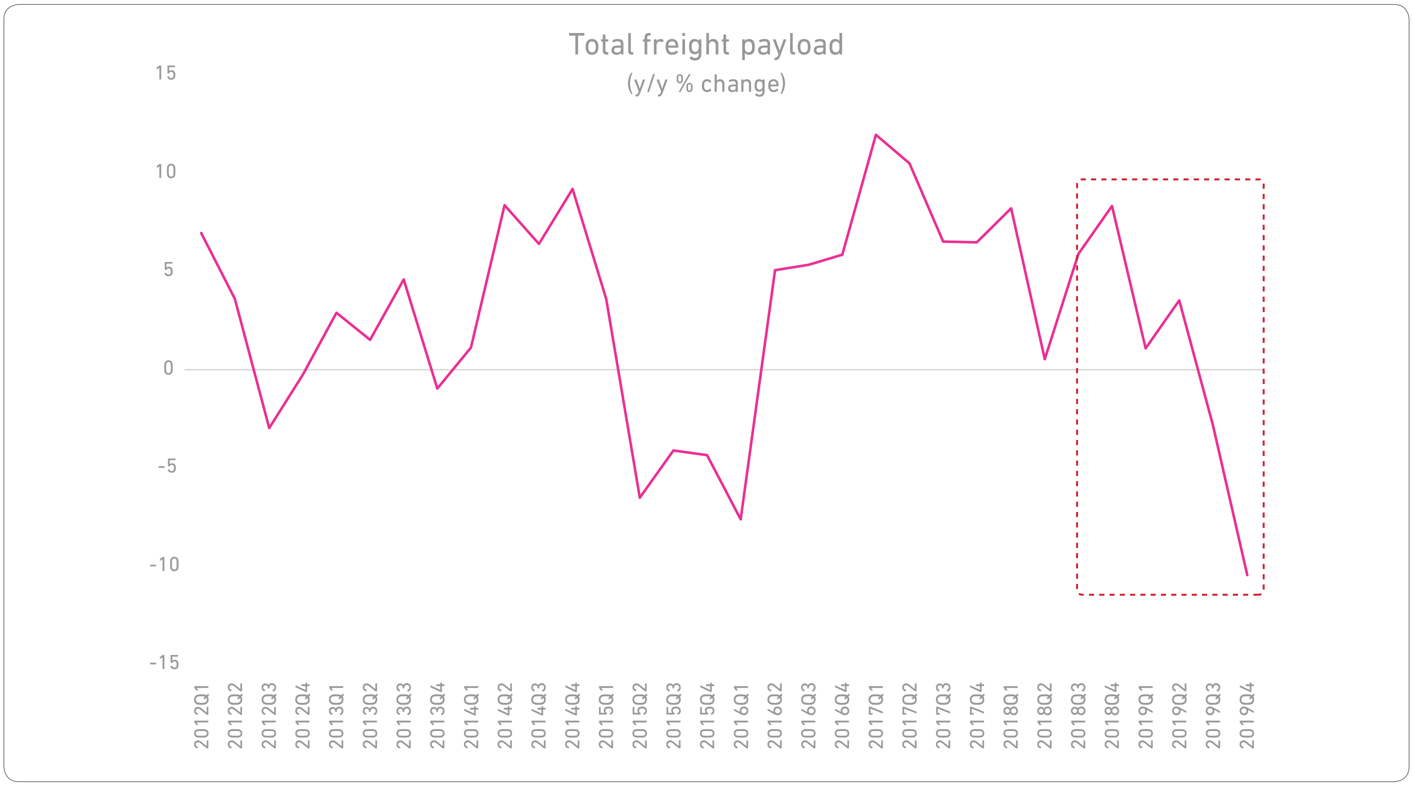








Transport and Communication – recorded one of the steepest declines in many years as the economy starts to bite.

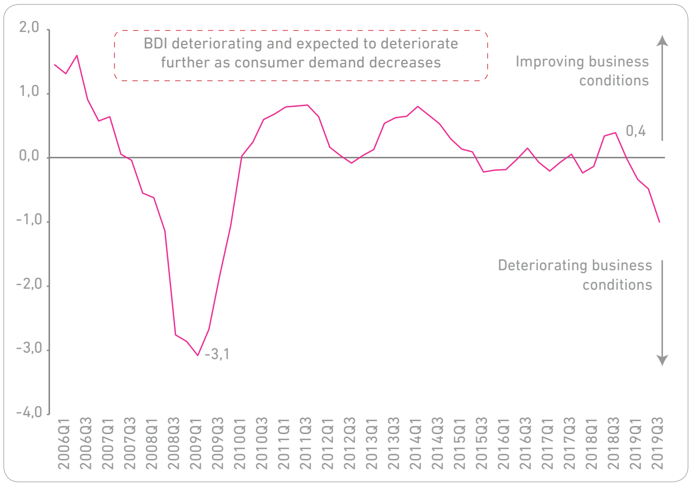


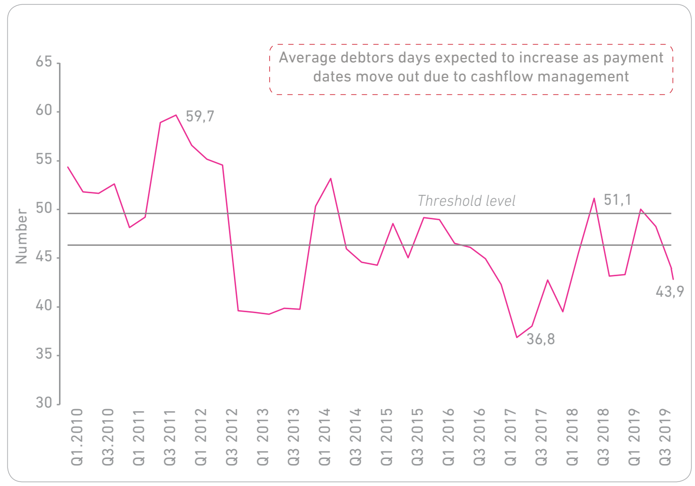
Source: Stats SA

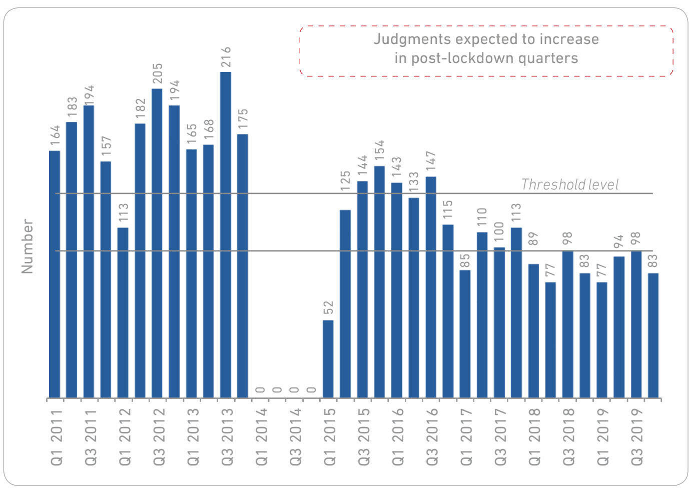
Key Insights

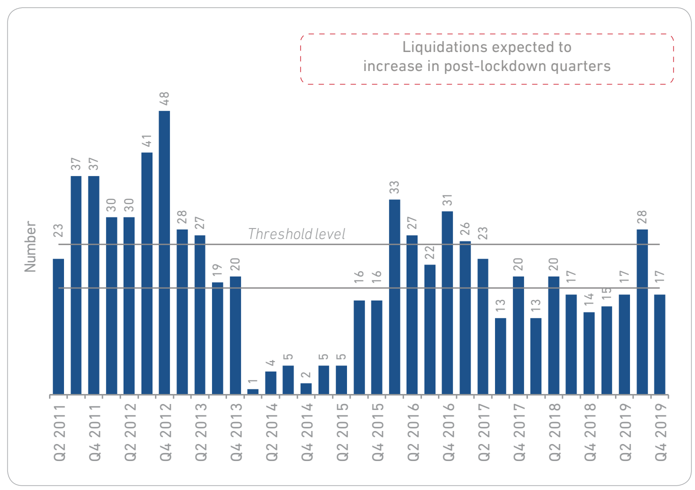
- It is difficult to address the transport and communication sector without addressing the plethora of struggling state-owned enterprises (SOEs) that operate within it.
- The new CEO of Transnet, Portia Derby, will hopefully start the process of rebuilding an organisation where state capture and large-scale corruption has previously had an enormous negative impact.
- The impact of the coronavirus pandemic alone on South African Airways is unlikely to lead to its end as it is already in the process of limiting its operations and cost base considerably and operating on a much lower scale.
- In addition, the lower oil price will lead to lower costs for jet fuel. The vital question is whether SAA can be restructured rapidly enough to keep its clients. However, the impact of the coronavirus on other airlines will be significant.
- South Africa's public broadcaster SABC is to receive a R1.1 billion bailout in March. This is the second portion of a promised R3.2 billion commitment given on condition the SABC makes certain cuts and improvements. The conditions include reviewing its broadcasting policies to respond to advances in technology, costing the developmental mandate, and evaluating opportunities for private-sector participation.
- The Competition Commission and Vodacom have reached a settlement agreement over the reduction of data prices. Vodacom was the first to act on the recommendations made by the commission in a Data Market Inquiry report and has agreed to a significant reduction of monthly data bundles across the board. As from 1 April 2020 prices will come down by over 30% across all channels.
- According to a report by PwC, mobile phones are South Africa's largest import category (by value) from China, supplying 85% of South Africa's mobile phone imports. A disruption in supply due to the coronavirus would have knock-on effects on South Africa's wider telecommunications sector.

Transport and Communication – NEUTRAL moving to AT RISK

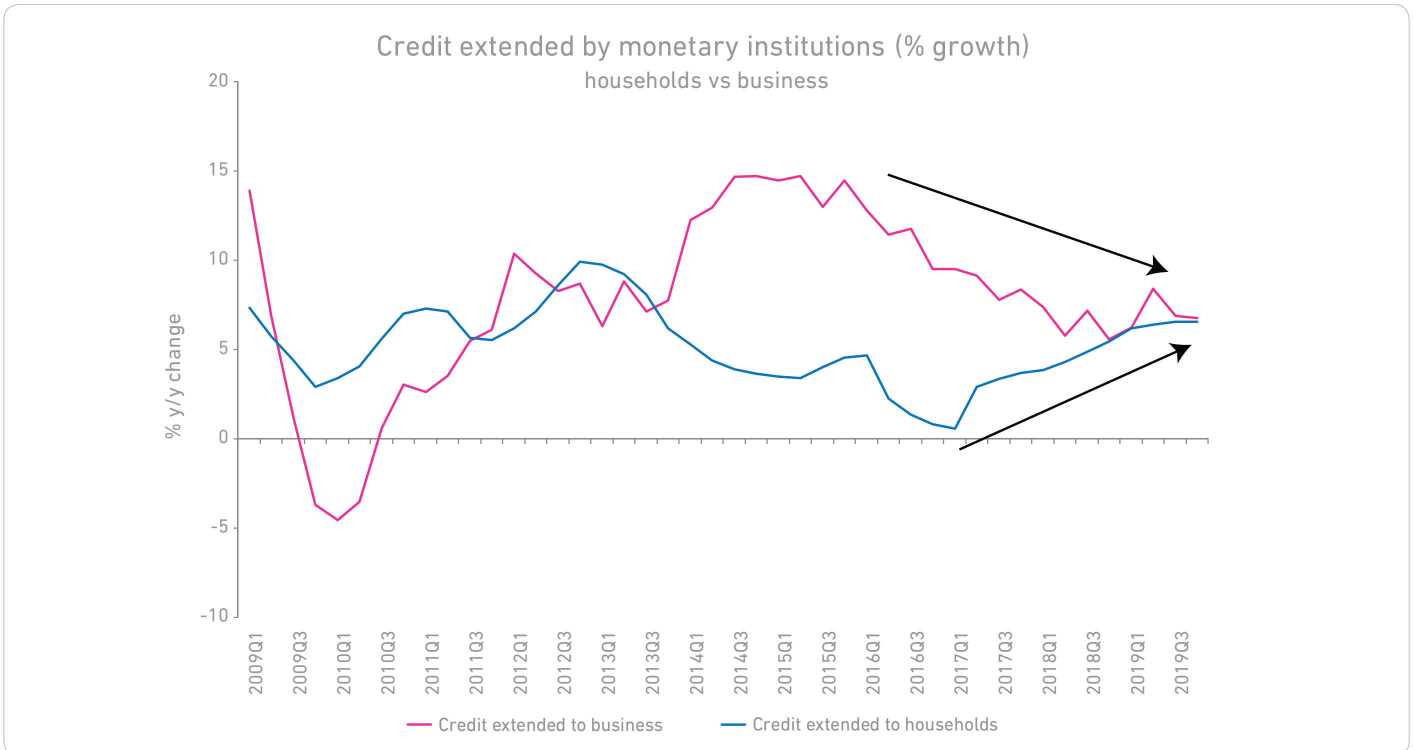








Finance and Insurance – after strong growth in 2019 Q4 the industry is expected to contract due to the lockdown.

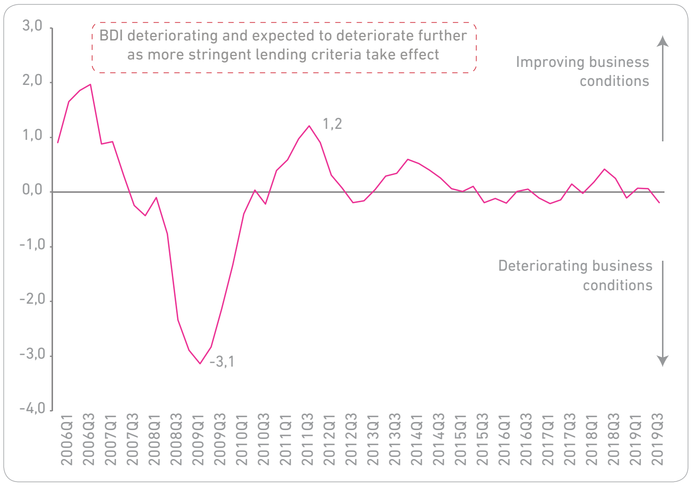


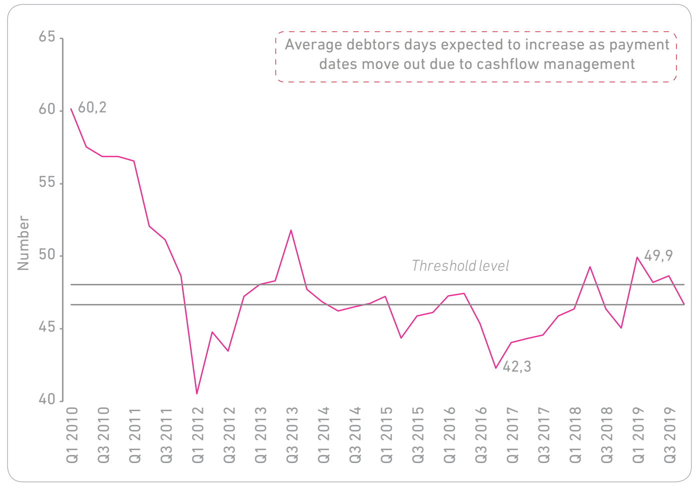
Source: SARB

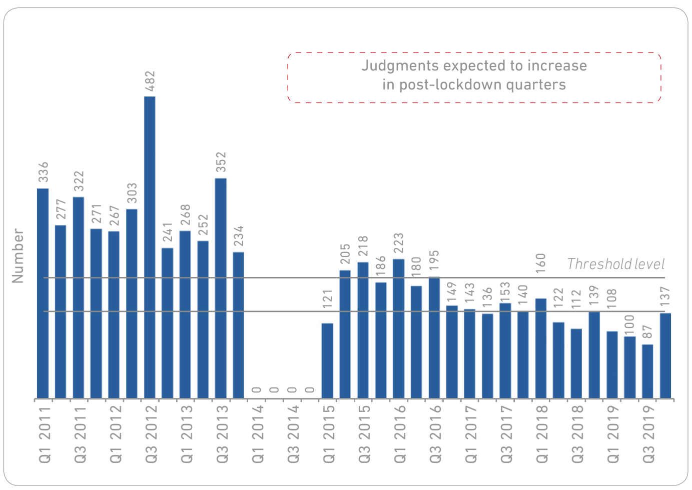
Key Insights

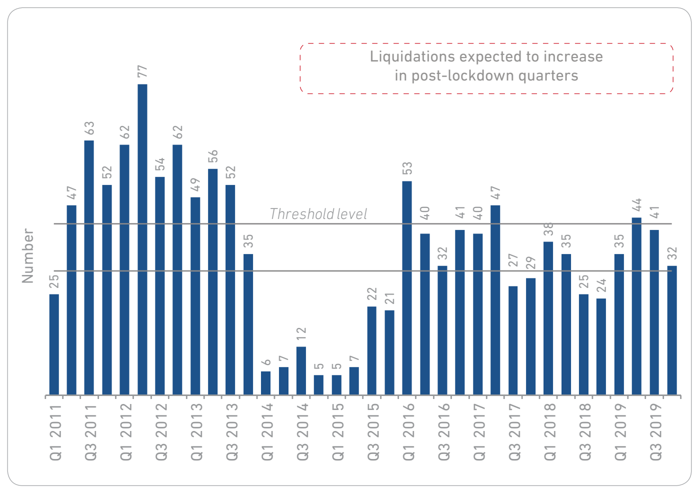
- Difficult economic conditions and the return (and expected long-term continuation) of load-shedding have severely blunted the willingness of both firms and households to take on further costly debt. Businesses are still struggling financially and are trying to consolidate their operations rather than attempting to expand.
- Overall, subdued domestic credit demand has both negative and positive consequences. Negatively, in the short term, a slowdown will have negative ramifications for the consumptive sectors of the economy.
- The retail sector has long outperformed the overall economy and may well see slower growth as credit demand falls off. On the positive side, however, a slowdown in retail will assist with the country's balance of trade and a slowdown in credit implies the debt burden on households should start to improve. This will assist with savings accumulation which in turn is required for future economic growth.
- According to a recent TimesLIVE article, the Banking Association South Africa (BASA) said it was urgently consulting banking regulators and competition authorities to determine how best the banking industry could protect its customers, small businesses and staff from COVID-19 and its social and economic impact.
- According to the report, Nedbank commented that "it was mindful of the economic impact the COVID-19 pandemic was likely to have on its clients, many of whom are already under pressure due to the country's low levels of economic growth. We will assess each case on its own merit and continue to be guided by our existing lending policies, which include a number of solutions designed to assist clients experiencing payment difficulties".
- The article states that these include tailored payment arrangements, allowing consumers to repay their arrears over time, restructuring of debts by means of term extensions and reduced instalments, and suspending or stopping legal action "under certain instances". *
- * https://www.timeslive.co.za/news/consumer-live/2020-03-18-we-are-nervous-banks-mull-impact-of-coronavirus-on-sa/

Finance and Insurance – NEUTRAL moving to AT RISK

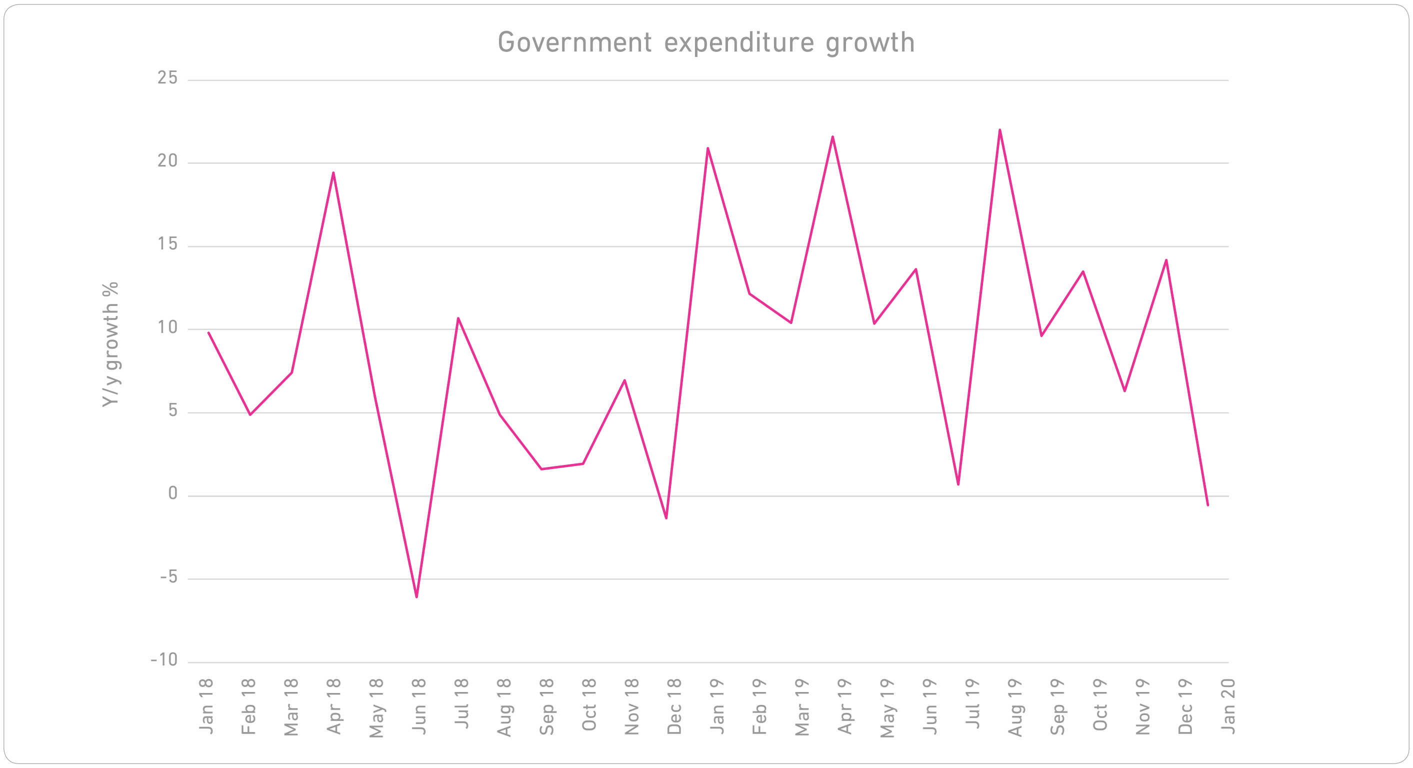








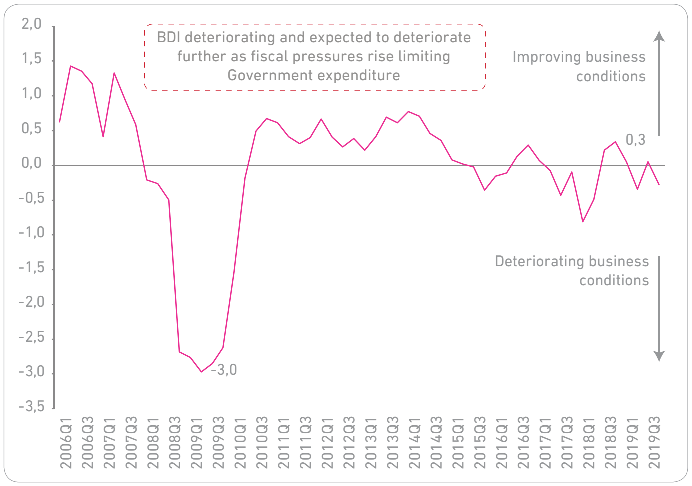
Community, Social and Personal Services – after strong growth in 2019 Q4 the industry is expected to contract due to the lockdown.

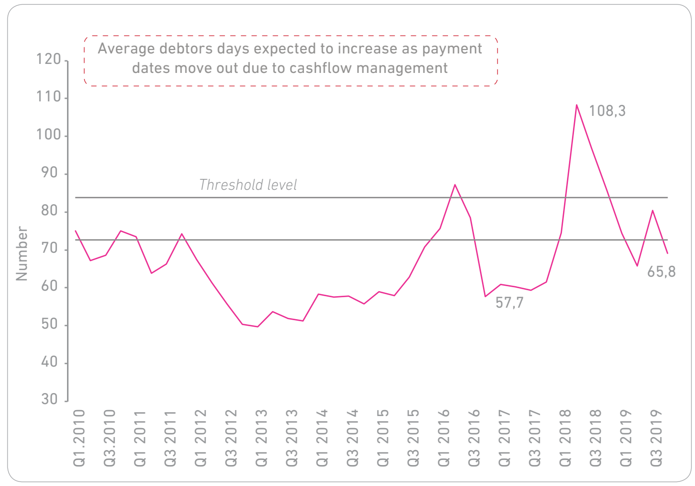


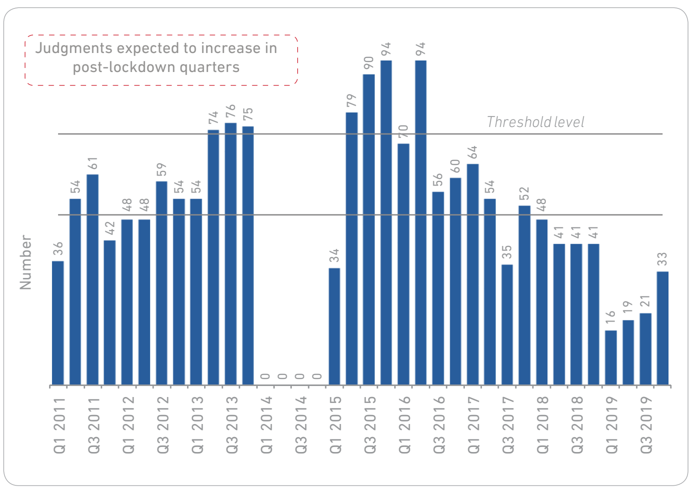
Key Insights

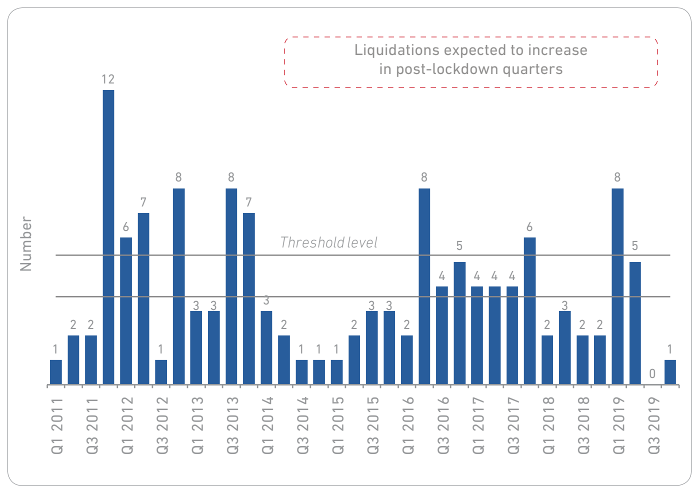
- South Africa's fiscal outlook still looks alarming given the shrinking tax base, sluggish levels of economic growth, excessive government spending and the continued support for failing SOEs.
- February's annual budget reaffirmed this as Finance Minister Tito Mboweni painted a bleak picture for South Africa's fiscus as deficits are expected to rise to 6.8% of GDP in 2020/21. That said, the government aims to cut R160 billion from the wage bill over the next year three years.
- Minister Mboweni emphasised in his budget speech that the public sector wage constraint would be achieved not by cutting back on employment in the public service unilaterally, but by seeking ways through which to trim employment and remuneration where appropriate and at different scales of remuneration.
- On the contrary, employment creation might be the order of the day in respect of certain vital areas of public service. Significant reductions in the growth of expenditure allocations have been made in respect of education, health, defence and state security, police and "general public services".
- Encouragingly, in the opposite direction, there is a slight increase in growth of expenditure on economic infrastructure and network regulation, as well as in science, technology and innovation.
- There appears to be a reversal in the erstwhile rising trend of public sector remuneration and falling growth of capital expenditure by government, reinforcing the desire expressed in President Ramaphosa's State of the Nation address in February calling for more investment rather than consumption as a means of facilitating sustainable growth.
- Even more aggressive fiscal consolidative measures are called for on the back of the recent rating downgrades by Fitch and Moody's, as they remain sceptical as to whether the R160 billion public sector wage cuts will materialise given the vehement opposition threatened by the trade unions.

Community, Social and Personal Services – NEUTRAL moving to AT RISK









Conclusion

The impact of the COVID-19 pandemic on our industries and economy is not a straight-forward cause-and-effect relationship. Each industry, and our economy as a whole, has been experiencing fluctuations and in many cases declines in growth due to non-COVID-19 influences, such as political, social, meteorological and other disturbances. The current pandemic has, however, clearly compounded the issues industries and the economy were already experiencing.

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