VinIntell

March 2020 Issue 43

AND THEN CORONA STRUCK

CONTENTS

Background

By the time of writing, South Africa as indeed the world is trying to make sense of this new dystopian world we live in. Whereas this edition would have been dedicated to packaging in a world in climatic crisis, Covid-19 (coronavirus disease 2019) struck and suddenly that theme seemed inappropriate for now at least. All over the world extreme measures are implemented and extraordinary plans made to save people and economies. Socially and professionally everything is different, unknown at times scary. The particulars are startling: companies such as GE and Ford retooling to make ventilators, the scramble for protective gear, beaches and malls deserted, city centres quiet and empty, the economy in freefall. We feel overwhelmed because so much is beyond our control. We wonder how we are going to pay salaries and wages. A restaurant in Cape Town is selling vouchers for meals redeemable in the future just to be able to keep the engine room open. We are bunkered in our homes and so much feels unreal, detached. It's as if we are in a movie. There is no one that with confidence predict what the future post corona will look like. A disruptor that has no historical equivalent, no handbook;[i] yet history will show that South Africa became the first country in the world to impose a strict shutdown before a single death due to the virus. Although it saved the lives of countless people, it also came at a massive economic cost, and poorest citizens are suffering worst. The state is not moving fast enough to feed and help them.

Tracking coronavirus' global spread

Since December, the virus has spread to nearly
every continent and case numbers continue to rise

What do we know

All we can work with is what we know now. The world after corona is expected to be different and changed but how different and how changed and whether or not we will go back to our old ways are unanswerable questions at this stage. Here are a few realities in the context of business and trade:

- The pandemic is a massive demand shock coupled with a supply shock. This was last seen in the 1930s. Indeed experts indicate that we should compare this to the Great Depression and not to the 1980's and 1990's slumps or to the 2008 global financial crisis.
- Export-dependent commodities may face lower demand from markets. Logistics constraints and the availability of shipping services could also have an impact on export commodities. South Africa is a net exporter of agricultural products and domestic food security is still robust.
- This is the real economy that infected the financial markets, not the other way around.
- The world economy cannot escape widespread recession anymore. The damage is done. For South Africa the junk status is real. The only remedy left is to allow the current liquidity crises to become a solvability crisis, and then global depression is in our future. We will be much poorer for much longer.

- They are manufacturing as many respirators / ventilators as they possibly can. The suppliers are running 100% of the time. It is just that we never stockpiled anything. We all counted on just-in-time (JIT) use. Suddenly when they put in an order of 50 000 rather than 5 000, all that capacity becomes terribly inadequate for the need.
- The most connected in the world are paying the highest price due to their connectivity, i.e. infection.
- There is no magic drug out there. Not yet and when there is one, there is the probability in the future of recurrent super-viral tsunamis. The world of disease prevention, management and cure will hopefully forever change.
- Now that the virus has a foothold in so many countries, the threat of a global pandemic is real. But it remains a respiratory disease. Medical science has solved these problems before and will again. Yet for now, the virus' properties are not fully understood and could change.
- Lower oil prices are great news for consumers, but terrible for producers, except if you are Saudi Arabia. Low fuel and diesel prices do not do much if schools are closed, you cancel your trip or you are working from home.
- Governments have turned to proven public health measures, such as social distancing, to physically disrupt the contagion. Yet, doing so has severed the flow of goods and people, stalled economies, and is in the process of delivering a global recession. Economic contagion is now spreading as fast as the disease itself.
- If you are asking for when the financial markets see peak virus, it will probably be during April 2020.
- We are going to lose a chunk of activity, and then we will grow out of it. That is the faint glimmer of good news. The question is: are we going to boom out of it or crawl out of it? Crawling is looking more likely.
- It is temporary, but it is a tornado-like headwind, so it is going to be powerful for a period.
- There are no winners here. Only degrees of losing.
- On the testing issue, this is one of our darkest moments in public health. This time we have failed to do what we should have done. When South Korea can test more people in 1 day than the USA in 8 weeks, that should tell you who has the health crises.
- There are three kinds of people in this country: those who are in lockdown, in quarantine and those who are ill or will fall ill.
- The impact of COVID-19 could vary and will be different for the various agricultural commodities produced in South Africa.

Impact on wine trade and sales

The impact of the coronavirus pandemic on global trade volumes, and South African exports to other markets in particular is not known as yet. The Agricultural Business Chamber (Agbiz) says South Africa farming exports are looking at a R39 billion export slump as demand deteriorates and global commodity prices fall. Especially exports to Asia which represent 25% of South Africa's agricultural exports (including wool, grains, beverages, vegetables and red meat) will be affected. Some of these markets placed severe restrictions on human movements as a method to contain the spread of the virus, thereby negatively affecting consumer demand as well as buying power also declined due to income coming under stress. To put the Asian market exports into perspective:

- China, with 8% of global agricultural imports, is the second largest importer in the world.
- Japan, with 4% of global agriculture imports, is the sixth largest importer in the world.
- South Korea and Hong Kong together account for 4% of global agriculture imports.

Our own wine industry's activities and exports came to a standstill with the lockdown in March 2020 together with all wine activities like the production, distribution and sales of alcohol (local and for export). Wine at first was classified as non-essential cargo and therefore not permitted to be moved. Fortunately for the industry, this situation was reversed on 7 April 2020. All other wine exporting countries could continue with their wine exports and shops may continue selling wine[ii] [iii] [iv]. Exports are however expected to be negatively impacted by restrictions at ports around the world and by lower demand.

In South Africa off and on trade sales have come to a standstill due to the ban on the trade in liquor. Demand has further been impacted with the virtual drying up of tourist numbers and people movement restrictions. Events have been cancelled and public attractions have been closed. Wine estates that derive valuable income from tourist activities all of a suddenly have no visitors and no sales. They have had to close their hospitality business (wine tours, restaurants, bars, tastings, events and estate sales). Although some restaurants have adapted their business models to manage the lockdown period, no wine sales on or off premise are allowed.

What lies ahead?

S&P Global Ratings

South Africa is entering a period worse than the international sanctions of the 1980s. Fitch ratings agency has downgraded South Africa sovereign rating further on 2 April 2020 to BB (from BB+) with a negative outlook. The main reason for the downgrade is the absence of a clear government strategy to ensure debt stabilisation. Standard and Poor (S&P) will likely further lower its sovereign rating when publishing its review in May 2020. Moody's downgrade of South Africa end March 2020 too cited debt stabilisation as a key concern for that downgrade together with concerns about structurally weak growth. Moody's does not expect current policy to address these concerns effectively. Its downgrade automatically triggers South Africa's expulsion from the World Government Bond Index (WGBI) end April 2020. This is a very loud and desperate wake-up call.

Underlying uncertainty and fear is pervasive and will continue for some time. Life as we know it has changed at east for the time-being. South Africa has limited fiscal capacity and South Africans have limited reserved to absorb economic disasters. In the short term, the effects of lockdowns in whichever form is extremely damaging to businesses that rely on people coming together in large numbers: restaurants, cafes, bars, nightclubs, gyms, hotels, theatres, cinemas, art galleries, shopping malls, craft fairs, museums, musicians and other performers, sporting venues (and sports teams), conference venues (and conference producers), cruise lines, airlines, public transportation, private schools, day-care centers. South Africans are further stressed by matters such as caring for the elderly and vulnerable and keeping them safe from Covid-19, home-schooling children and making ends meet not only immediately, but also in the future at a time when employers are unable to meet the salary and wages bills. Jobs are being threatened to a large degree.

We will probably see central banks across the world taking unprecedented measures to reduce interest rates in a bid to arrest a downward economic spiral and cushion the blow. Targeted relief plans such as those we see in Denmark, China, the US and also in South Africa are targeted including economic support packages for small and medium enterprises. Several tax regulations have been relaxed for compliant businesses and South Africa will expedite value-added tax refunds in the next few months, as well as delay categories of tax payments to their respective revenue services without penalties. Banks have been instructed to suspend and extend loan repayments for affected businesses with existing facilities, as well as allow for higher borrowing limits. Stimulus packages are able to boost the economy and provide funding to cover the rising costs of the pandemic which include boosting health expenditure. A total of R30 billion has been allocated to a special National Disaster

Benefit Fund, which will pay Unemployment Insurance Fund benefits for up to three months to qualifying workers whose income has been impacted by the coronavirus pandemic.

From 1 January 2020 to date, there have been over 152 million social media mentions, globally, on the ‘coronavirus’, with South Africa contributing to over 600,000 social media mentions.

Summary of expected characteristics of a post Corona South Africa

Even is the very best scenario, South Africa will still emerge from this crisis naked and junked:

- The unemployment rate grows to an unthinkable percentage. Currently estimated at 29%.
- The economy may shrink by between 2% and 6%, the worst economic year in four decades.
- Tax income will fall because companies and individuals are not earning enough income to tax, and because government is offering tax breaks to keep the economy afloat. Government has to ramp up spending to cope with the crisis, and will have to borrow so much more to pay for services and salaries, right when its bonds have been stripped of their investment-grade rating. Its bonds are now deemed riskier and investors will demand higher interest rates. More and more will be spent on interest, leaving less for investments in the economy.
- South Africa’s debt burden will balloon to 91% of GDP by 2023.
- The National Health Plan will probably be shelved for now at least simply because the funds are no longer available.
- Eskom’s position will worsen, as its income will take a big hit from lower power demand.

But there will also be changes that will have longer term positive impact:

- South Africa is amongst countries that will benefit most from the decrease in the oil price (almost 50% recently) as oil is by far our largest import. This means that despite the 20% fall in the rand over the past month, inflation is basically dead in South Africa.
- Lower fuel prices and transport costs (among the biggest inputs determining food prices), along with a dearth of demand in a recessionary economy, will kill off any signs of inflation, paving the way for a new normal in interest rates.
- The Reserve Bank has been overly conservative in keeping rates high, households and business should save billions in interest rates cuts in the months to come.
- Government is using the crisis to formalise the economy. The central message is clear: you will get government help if you are on the books (have a permit). All the state’s relief measures so far including tax breaks and cash payments are reserved for businesses which are registered with the authorities. Spaza shops have been allowed to do business during this time, but only if they have permits. Also, under a new scheme, they can get government cash if they register with SARS.
- In a similar vein, government is pushing for greater regulation in the taxi industry: Transport Minister Fikile Mbalula is telling taxi drivers that they would have received money in this time from the Unemployment Insurance Fund, if they were registered. So the tax net is widening and could result in a permanent boost to productivity.
- The lockdown will also hasten South Africa's digital evolution. Companies have scrambled to equip thousands of workers to work from home, as churches, schools and all kinds of businesses move their activities online. Companies are finding that spending thousands on air travel were unnecessary - big decisions can be made over video calls.

Concluding remarks

In conclusion, disasters begin suddenly and never really end. The future will not, in crucial ways, be anything like the past, even the very recent past of a month or two ago. The economy, our priorities and our perceptions will not be what they were at the outset of this year. Things that were supposed to be unstoppable stopped, and things that were supposed to be impossible become possible. No country is safe until every country is safe – a fact of our deeply interconnected and interdependent realities.[v] But change is not something new. The world has changed many times, and it is changing again. All of us will have to adapt to a new way of living, working, and forging relationships. There will be some who lose more than most, and they will be the ones who have lost far too much already. Some businesses will persevere, some will change drastically and others will not survive at all. During this crisis, change had to happen extremely fast: There is the experience of a wine merchant that up 23 March 2020 was a 100% on-trade wholesaler, supplying wine mainly to restaurants and bars across London. As soon as all on-trade outlets were ordered to close it had to turn its business on its head. Overnight it became a direct to consumer business with every member of staff manning the phones and ploughing through their personal and Linked-in contacts to see if they could sell their wines direct. Less than two weeks later and it has been able to plough back over 25% of its usual takeover and rising. It can be done.

One of the best articles written recently on this crisis is the one by Prof Brian Kantor in which he says we have no idea how long the current disruption will last or how much income, wealth and production have been sacrificed. "We do not know how businesses will survive or what the future of jobs will look like: Whilst we were busy debating the future of work in a world of artificial intelligence, robotics and the Fourth Industrial Revolution, here comes a viral storm uprooting the world as we knew it".[vi] Policy responses will be uneven, often delayed, and there will be missteps; but we will persevere.

To conclude with this quote by Indian writer Arundhati Roy:

"Normality in our part of the world is a bit like a boiled egg: its humdrum surface conceals at its heart a yolk of egregious violence. It is our constant anxiety about that violence, our memory of its past labours and our dread of its future manifestations that lays down the rules for how a people as complex and as diverse as we continue to coexist – continue to live together, tolerate each other and, from time to time, murder one another. As long as the centre holds, as long as the yolk doesn't run, we'll be fine. In moments of crisis it helps to take the long view."

---

[i] *Grant Pattison, 2020. 5 April 2020. (interview with Hanlie Retief, Rapport)*
[ii] *Disaster Management Act 57 of 2002 – Sea ports 7 April 2020*
[iii] *www.netwerk24.com/Sake/Landbou/wynbedryf-soek-vinnig-antwoorde-oor-uitvoerverbod-20200406*
[iv] *www.wineland.co.za/sa-wine-industry-update-covid-19-lockdown-5-status-of-exports-and-ports/*
[v] *www.dailymaverick.co.za/article/2020-03-27-covid-19-economic-impact-on-east-and-southern-africa/*
[vi] *Prof Brian Kantor, 2020. In Reserve Bank needs to think of an SA beyond Covid-19: www.businesslive.co.za/bd/opinion/columnists/2020-03-19-brian-kantor-reserve-bank-needs-to-think-of-an-sa-beyond-covid-19/*

Compiled, in collaboration with SAWIS, by
Dr Marie-Luce Kühn, IBIS Business and Information Services (Pty) Ltd
P O Box 7048, Stellenbosch 7599
Mobile +27 (0) 833777843
e-mail: mlm@ibis.co.za website: www.ibis.co.za

A SAWIS Publication

ibis™
strategic environmental analysis