

COVID-19 and DURBAN'S ECONOMY

Preliminary Impact Indications

On the 15th March 2020, the President of South Africa declared a National State of Disaster, following the global and national Corona Virus outbreak. At the time, 61 people resident in South Africa had tested positive for the virus (now 1 462, with 7 confirmed deaths); with the President declaring it the most severe challenge the country has been confronted with since the dawn of democracy.

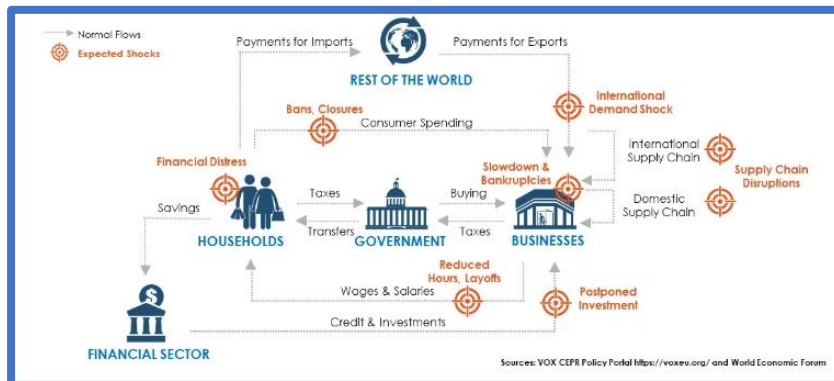
Reports on the impact of the virus on the global economy are generally grim; firstly that the global economy is already in recession; and secondly that 2020 economic growth will be 'way worse' than that experienced in the 2008 – 2009

Global Financial Recession (GFR). The worst forecasts by analysts are around 1% global GDP growth in 2020.

Most importantly for this report, the President announced that COVID-19 will have a significant and potentially lasting impact on the country's economy. While is still too early to provide a detailed impact analysis, the considerations below offer an idea of the severity of the impact on Durban's economy.



Disrupted income and impacted sectors: The pandemic's negative impact can be explained firstly by a disruption in income, mainly through constricted household and business spending in



response to regulations seeking to “flatten the curve”. The key factors in the City's economy are the limited ability for households to spend (household expenditure accounts for 56% of Gross Geographic Product/GGP) due to regulations. The immediate result is that local businesses receive less income, in turn

reducing labour hours and laying off workers where possible. Less income is available to households; repeating the cycle. Another significant factor is limited income from exports (26% of GGP); from countries who are under the same regulatory pressure.

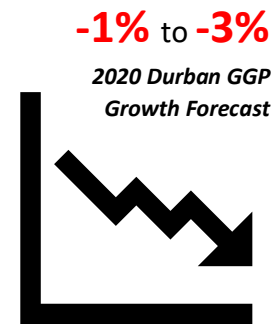
It can also be explained by the resulting impact on each sector. Those which the City is highly dependent on; namely tourism, logistics and manufacturing, are most affected by the pandemic. In addition, while big business in the formal sector is largely able to absorb short- and medium-term shocks; the informal economy is exceptionally vulnerable. Sectors and the informal economy will be discussed further in the report. Finally, industries most able to adapt are those which are integrated into the 4IR and highly automated; allowing employees to work from home. As such COVID19 may be the key factor driving the City's economy further into 4IR.

Source: D Code FC Analysts, “Decoding Economic Impacts of COVID19; Potential Winners and Losers”



Negative growth rate: The [RSA Reserve Bank forecasts a 0,2% decline in South Africa's GDP in 2020](#). However to put this into perspective, the City's economy contracted by 1,3% in 2009 due to the Financial Recession. The economy was significantly stronger just before the recession with a 4,4% growth rate. In contrast, the City's growth before the pandemic was already weak, at 0,1% in 2019, with the whole country in recession in the second half of the year.

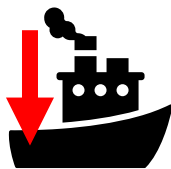
While the GFR impact was due to dampened global and domestic demand, the current recession is due to a combination of this **and** a forcible *restriction* on consumer demand. For this reason, the Durban EDGE's economic growth forecast for the City in 2020 is closer to that of [Economist Dawie Roodt](#); between -1% and - 3%. COVID-19 may be the final nail in an already anaemic economy.



Dampened household expenditure: Due to restrictions on all expenditure except essential services in the 21-day lockdown; we expect significantly dampened household demand.



We forecast a **50% (or R6.1 billion) decline in Durban's total household** expenditure over the lockdown month; the most notable expenditure declines being in transport and entertainment; but balanced out by early increases in expenditure on food and beverages, pharmaceutical and health products, cleaning products, as well as medical services. We also forecast a milder 5% or R8 billion decline in household expenditure over the year. This is, assuming fewer restrictions after the 21-day lockdown, and a depressed economy thereafter. This is significant because where expenditure is concerned, households are the biggest drivers of the City's economy.

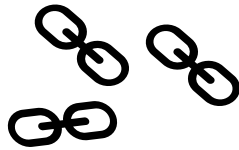


**Over half (R20bn) of
Durban's export
market is now on
'lockdown'**

Declining exports: Exports contribute 26% to the City's GGP. At the time of publication, countries who had instituted the most [significant COVID-19 business lockdown](#) regulations were buyers of over half (53% or R20bn) of Durban's goods on average. This includes some of Durban's top export markets, including Namibia, Botswana, Germany, France, Malaysia, and China. The impact will be a significant decline in demand from these markets both due to lockdowns, and then a slowdown in economic activity after the pandemic. Even then, some of Durban's top buyers such as China are likely [worse](#) hit now than they were during the GFR (China's GDP is estimated to have contracted by 9% in Q1 2020). Although restrictions have largely been lifted off China's economy, many of [China's own export markets are under](#)

[lockdown](#); meaning that demand for their products has declined. This means that until China's export economies have recovered, demand for inputs from Durban, will also be low (China also happens to be the top buyer of much of Durban's input goods, including agricultural and agri-processed products such as ores, pulp wood, and copper. China buys R2,5 billion worth of these goods from Durban annually). Although China is a clear example, the same applies to Durban's export markets in general.

25% - 30%



of intermediary inputs
are from China.

Broken value chains: Value chains in Durban are highly dependent on imported inputs; particularly those from China. An estimate by Bloomberg indicates that **25% - 30% of the country's intermediary inputs are Chinese**; meaning this will negatively affect the country and City's exports as well. China and in particular Wuhan are Durban's top source of machinery and parts, as well as components crucial to production such as nuclear reactors (also Durban's top import from Italy). China's economy is but one example. While China's economy is set to recover slowly, inputs from other economies on lockdown may be of more concern.

Drop in tourists: Tourism accounts for much of Durban's economy, with tourists spending R12 billion (or 3% of GGP) in the City annually between 2015 and 2018 and contributing to over 42 000 jobs. Changing travel restrictions make it impossible to forecast the impact of the virus on the City's tourism economy. However the lockdown season alone falls over a significant peak period for the tourism businesses; the combination of school holidays and Easter (reported to have raked in 100 000 tourist trips alone last year). Hotels, restaurants, entertainment facilities and attractions, will all miss out on this peak season's income. The tourism sector is also important for its ability to absorb informal labour; but for this same reason it is especially fragile. During interviews conducted by the Durban EDGE team on the City's Beachfront, one rickshaw driver estimated that while sales had been uncharacteristically bad since the end of the festive season (sometimes only generating R100 a week), his income loss over the lockdown period is approximately R5 000 because of the combination of school holidays and Easter.



Two rickshaw drivers noted that they had hoped that the coming peak season would compensate for the bad year, as "tourists who spend" such as those from overseas, Gauteng, the Western Cape and the Free State would be back in Durban. Other businesses on the beachfront commented that their sales had dropped by more than 50%, on a good day, particularly after [bathing on beaches was prohibited](#) by the City.

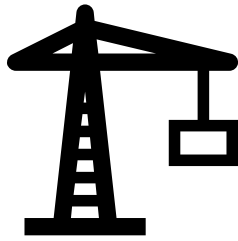
99% (est.) of the
Durban ICC's events



**cancelled or
rescheduled.**

Cancellation of events: Even before lockdown; the MICE tourism industry had particularly suffered. For example the first wave of restrictions meant that expenditure from major events- a key income generator for the City- was put on hold. A case in point is the Durban ICC, which accounts for R2,1 billion worth of direct expenditure into the economy, including its own revenue, international and local delegate expenditure, and expenditure by organisers & exhibitors. In an interview with the Durban EDGE after the President's initial announcement, [Spokesperson for the Durban ICC](#) (Scott Langley) commented that the prohibition on events of above 100 people had amounted to **an estimated 99% of the State-Owned Entity's events being postponed or cancelled.** This is also significant as the Durban ICC held 29 international and

429 national and local events in the 2018/19 financial year. The epidemic has had a severe and hugely devastating effect on the catering and food and beverage sector in general, because of the number of the ICC's suppliers; including SMMEs and 5 472 temporary and permanent jobs indirectly supported. While continued restrictions would eventually result in small businesses having to shut down; Langley noted that they were working with organisers to reschedule their events, meaning a certain proportion of them would be hosted after the restrictions are lifted. Needless to say, all events for all venues have been cancelled until the 17th April.



Deteriorating foreign direct investment:

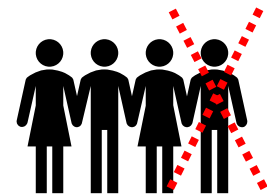
Since 2015, Durban has attracted R23,4 billion worth of FDI into the City, which amounts to almost 15% per year of all investments annually. FDI is a life-line to the City, including some of the City's largest and most globally competitive firms such as Toyota, Mara Phone, Mahindra, etc. According to UNCTAD, **global investment could decline by 5% - 15%** as investors repurpose their plans due to lower profits, and interruptions in supply chains. More than two thirds of the 100 multinational enterprises that UNCTAD tracks as a barometer of overall investment trends, have

issued statements on the (negative) impact the virus has had on their business. The worst affected sector is automotive manufacturing; a key investment sector for Durban. Already due to low global growth, FDI in the City declined to R901 mill (its lowest level in over 6 years), meaning the virus could plummet FDI to its lowest level in a decade.

Lost employment: High skilled labour is largely able to adapt to short to medium shocks, however the impact worst for employees who cannot work from home and are most likely low skilled.

The 21-day lockdown is most significant for Durban's 281 000 informal workers, entrepreneurs (85 000 of who own non-VAT registered formal businesses), and temporary workers. This is because the lack of job security is most poignant amongst them.

Amongst informal workers there are 43 000 permit holding informal traders and 108 000 private household workers (primarily domestic workers, gardeners, etc) affected. There are also numerous car guards, recyclers and other informal workers that are highly dependent on daily large volumes of movement and or human contact. These most vulnerable and least protected individuals have all but completely lost income over the first 7 days of the lockdown. However, amendments to lockdown regulations made on 2nd April, state that permit holding informal food traders **will be allowed to operate for the remainder of the lockdown period**. While the majority of the R38,1 million made on average a week by legal street traders is generated by food vendors, sales will be low due to significantly reduced foot traffic.

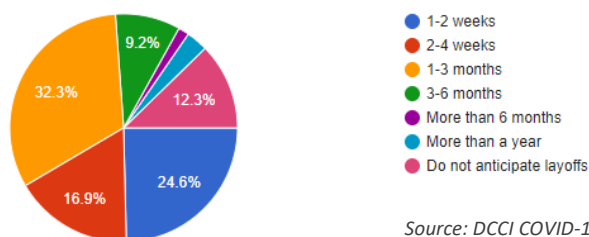


Job losses worst in
tourism, retail and
domestic work.

After the lockdown job losses are also expected to be **worst in tourism, retail trade and construction** sectors. This is particularly because of the temporary and demand driven nature of the jobs

If the current business climate were to continue as a result of COVID-19, how long would it take for your business to layoff staff?

65 responses



Source: DCCI COVID-19 Survey, 2020

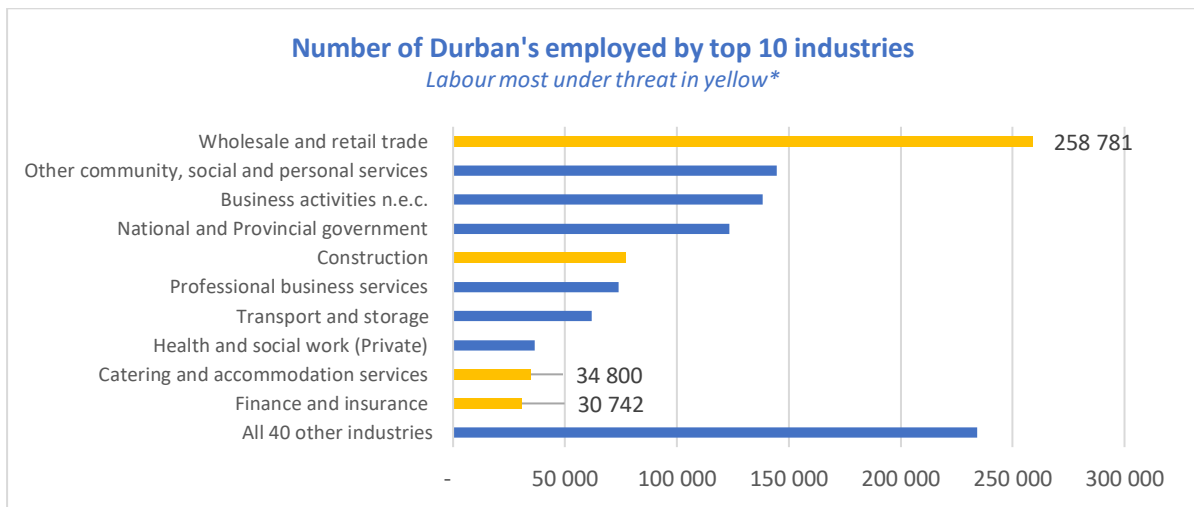
*The survey was first distributed on the 24th March, and is currently active.

in these sectors; the close human contact required, and restrictions which may continue to apply in crowded places such as malls and tourist sites.

[In a survey conducted by the Durban Chamber of Commerce and](#)

[Industry](#), almost three out of every four respondents (74,1%) indicated that they would have to **lay off workers within 3 months** if the current business climate were to continue.

The figure below illustrates the industry breakdown of people employed in Durban.

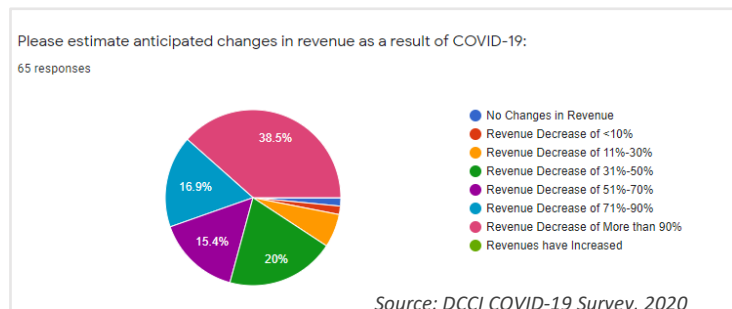


Source: Quantec, 2020

Mixed business confidence and business sales: Almost two thirds of [businesses surveyed by the Durban Chamber of Commerce and Industry](#) indicated that they **expect company profits to decrease**, while almost

40% expected a **decrease in revenue of more than 90%.**

while interestingly a fifth indicated that their revenues have increased. Of the City's database of Durban's almost 16,800 mainly formal businesses, almost 1,300 provide relevant medical services and retail; 74 manufacture medical devices, and 9 manufacture pharmaceutical chemical products. A further 33 manufacture soap and other cleaning compounds; while 330 are in communications, telecoms and IT. Finally, 64 are in essential deliveries. These are the businesses most likely to benefit from the impact of the virus.



Some businesses in Durban likely to benefit from increased sales



1,285

relevant medical
services and retail

74 medical
device
manufacturers



33 soap and
detergent
manufacturers

9 pharmaceutical
product
manufacturers



330 IT and communication related services

64 courier and essential delivery services



Contingency plans and notable business initiatives: Nonetheless, 83,3% of businesses surveyed by DCCI indicated that they have implemented contingency plans to counteract the impact of the virus on their business, and or to stop the spread within their premises. Over and above this, businesses have also offered their assistance to curb the spread of the disease and its impact of the economy.

A large HR company has offered the City's Communications Unit their in-house video clips on the 'Do's & Don'ts', and instructional video information at no cost, for the City to use, adapt, and disseminate if desired.

An Australian company has offered to supply rapid COVID-19 test kits, high-spec face masks and gloves in large quantities on a commercial basis. These are being intentionally held or kept aside for South African delivery within 7 days, despite enormous global demand.

In summary, the impact on Durban's economy will clearly be far-reaching for businesses and labour; both formal and informal. The President is due to announce a national stimulus plan in response. However, because of the City's greater dependence on manufacturing, construction, tourism, and exports than the rest of the country on average, it is important that a tailor-made plan is implemented at the City level.

An **Economic Response Plan** is being developed by the City, in collaboration with local and provincial business formations. The Plan will take into account relief packages offered by national government.

If you would like to contribute to the City's response, kindly **fill out the 2-minute survey below**, and forward it to all Durban businesses in your network:

[Bit.ly/CVD19EDGE](https://bit.ly/CVD19EDGE)

Where to get assistance: The City will widely distribute its Economic Response Plan, with contact information in due course. In the interim, [click on this link](#) to access a comprehensive list of support packages, or visit the Durban EDGE portal (edge.durban - click to access) and search for "Covid-19".

The Durban EDGE is also in partnership with the [Durban Chamber of Commerce and Industry](#), and [Open Cities Lab](#) to consolidate all assistance related to COVID-19 into a user friendly tool on the Durban EDGE [portal](#).