Covid-19 note: The South African economy continues to see much worse outcomes than was originally expected, while the impact of Covid-19 on the population's health, in contrast, is proving less severe than was originally feared

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- The number of take-home pay salaries recorded by the BankservAfrica Take-home Index (BTPI) over July fell by -34.8% y/y, while June saw a drop of -21% y/y, May -14% y/y and April -1.0% y/y, as the lagged effect of the state induced collapse in the economy in Q2.20, to limit the spread of Covid-19, continued to come through in the wage data.
- BankservAfrica Take-home Index (BTPI) “records the majority of payments from large corporates and a fair number of medium-sized firms that are served by payroll service providers and firm-owned payroll administrators, the recent decrease may not reflect the full impact of salary declines on small firms."
- The very severe lockdown the economy has experienced has weakened corporate balance sheets, with many businesses closing permanently or temporarily. Millions of workers were either placed on reduced pay, unpaid leave (furloughed) or even retrenched with a dire, and forward reaching, impact on household incomes and expenditure.

- Employment lags (is affected by earlier periods of) economic activity, and the outcome in July shows a worsening trend in payroll activity, and hence unemployment (even with statistical anomalies aside). That is, the -51% qqsaa (quarter on quarter, seasonally adjusted, annualised) drop in Q2.20 GDP negatively affected firms hiring and retention of staff.
- The drop in incomes and earnings on the restrictions to economic activity have meant that the savings of corporates and households have been used to service debt and meet costs (including paying salaries), as the vast majority of the indebted have been battling financially, despite low interest rates.
- Corporates have indicated in a number of surveys from Stats SA through April to June that their ability to survive on reduced to no income was falling each month, and that they were using savings to survive, and were also increasingly making use of debt holidays and laying off staff.
- The ability of individuals to purchase goods and services has been greatly harmed, weakening economic demand and so greatly harming the turnover of corporates, and in turn their ability to offer employee remuneration concomitant with last year, or indeed at all.
- Firms by and large are still not even operating at pre Covid-19 activity levels. The level of economic activity experienced in Q3.20, and particularly in July, is not at the level of economic activity of Q1.20. As corporate savings erode and the need for employees remains low, staff, or wages are cut.
- While the impact of the lockdown on the economy was likely underestimated, and indeed consensus expectations of the contraction in GDP have shifted weaker every month this year since April, the impact of Covid-19 on the health of South Africa’s is proving to be at the low end of countries globally.

- The private sector is seeing markedly lower levels of remuneration this year than last year, with lower salaries, wages and bonuses (to none), lower levels of incomes from other sources such as rental properties, dividends etc, and also just with lower numbers of individuals in the private sector employed.
- BankservAfrica says that the sharp drop in its Take-home Index (or BTPI) “implies that nearly 50% of the private sector has not been paid … we estimate around 30% of all BankservAfrica Take-home Pay is for government employees as the payroll system is typically used by government, large and medium-sized firms with a few smaller firms”.
- Civil servants have not seen the collapse in remuneration that the private sector has seen, managing to avoid their salaries being reduced by and large, and instead even pushing via unions for higher levels of remuneration on the back of previous agreements despite the collapse in government’s tax revenues this year and collapse in private sector remuneration.

- BankservAfrica has noted that "(s)ome of the decline in the BTPI for July 2020 comes off the very high base experienced in July 2019. … the number of incomes paid increased by 12.6% on the year before while June showed a 7% annual increase." BankservAfrica ascribes this to May 2019 "South African national election."
- However, accounting for these base effects, the -34.8% y/y drop in the Take-home Index (BTPI) over July would lessen to closer to around -30% y/y. In turn this would take the drop estimated for private sector salaries closer to around -40% y/y instead of -50% y/y.
- However, BankservAfrica also notes that "in July and probably in August, most of the TERS payments and some other normal parts of employees' salaries were paid via a different system that the usual payroll system would not pick-up." This will also reduce the impact on private sector, but not nullify it.
- BankservAfrica notes that "(t)he impact on employment will only be seen in the coming months as the UIF TERS payments come to an end, some interim laid-off workers are re-employed and get their income back, and the economy normalises to a certain degree."
- Private sector expenditure is down sharply still year on year, with consumers and corporates constrained in their access to further borrowings. The substantial number indicating they are using debt payment holidays indicates a deterioration in the good standing of borrowers – who had to be in good standing to take a debt payment holiday, but are feeling financial distress.
- The transition to level 1 next week on Monday 21st September, will assist in lifting economic activity somewhat, but it will still be suppressed year on year. The number of consumers who still have discretionary income, and are not reduced to expenditure only on basic necessities, has been sharply reduced, weakening the economic recovery in Q3.20.