



destea

department of
economic, small business development,
tourism and environmental affairs
FREE STATE PROVINCE

**[Impact of the Covid-19
pandemic on the
provincial manufacturing
sector]**

[An Economic Intelligence Report]

[December 2020]

[This issue of the Economic Intelligence Report provides an overview of the economic performance of the manufacturing industry during the Covid-19 national lockdown. The report also provides the results of the Free State Manufacturing Covid-19 Business Impact Survey; This survey is developed to provide insight on the initial financial and non-financial performance of provincial manufacturing companies as well as to share additional experiences and lessons learned during the Covid-19 pandemic.]

DISCLAIMER

This report is compiled using available information from various sources.

Any views or opinions expressed in this report are not necessarily those of, nor endorsed by, the Department of Economic, Small Business Development, Tourism and Environmental Affairs. Information disclosed in this report may not be accurate, current or complete and the Department disclaims all liability in this regard.

The issue of the Economic Intelligence Report focuses mainly on trends in economic indicators for the year 2020.

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Free State Covid-19 Business Impact Questionnaire: Manufacturing Sector

1. INTRODUCTION AND BACKGROUND

The Covid-19 pandemic has created major disruptions to both society and the economy. The South African government placed the country under a national lockdown from the end of March 2020. This was in an effort to reduce the spread of the virus. Subsequently, many industries experienced adversities as a result of subdued economic activity including reduced output and employment.

Nationally, manufacturing production decreased by 49,4% in April 2020 compared with April 2019. All ten manufacturing divisions reported negative growth rates over this period¹. Although the sector has continued to report decreased year-on-year production and sales, month-to-month figures indicate gradual improvements (see table 1). South Africa's manufacturing production continues to recover but remains below pre-coronavirus disease 2019 pandemic levels.²

Table 1: Key growth rates in the volume of manufacturing production

	April 2020	May 2020	June 2020	July 2020	August 2020	September 2020
Year-on-year % change, unadjusted	-48.7	-32.8	-13.9	-10.2	-11.1	-2.6
Month-on-month % change, unadjusted	-43.7	28.0	21.9	5.6	3.3	3.2
3-month change, seasonally adjusted	-16.7	-25.4	-29.1	-1.9	21.9	32.9

Data Source: Statistics South Africa Manufacturing: Production And Sales September 2020

National Gross Domestic Product (GDP) figures show that the sector was among the hardest hit by the initial effects of Covid-19 national lockdown. Between April and June 2020 (Q2:2020), the sector reported a negative growth rate -74.9%, contributing negatively to Q2:2020 GDP growth.³ The sector also reported 250 000 job losses nationally during this period.⁴ Both employment and GDP⁵ figures have shown

¹ Statistics South Africa Manufacturing: Production And Sales April 2020

² Statistics South Africa Manufacturing: Production And Sales September 2020

³ Statistics South Africa. 2020. Gross Domestic Product Q2:2020

⁴ Statistics South Africa. 2020. Quarterly Labour Force Survey Q2:2020

⁵ Statistics South Africa. 2020. Gross Domestic Product Q3:2020

improvements with employment up by 4 000 and industry growth reported at 210.2% in the Q3 2020.⁶

The initial effect of the pandemic on national sectors has been well documented by various data agencies. It is equally important to establish what the initial impact of the Covid-19 pandemic and subsequent lockdown have been on the provincial economy. The following report is a first in a series of Economic Intelligence reports developed to establish the pandemic's impact on various economic sectors. This issue of the Economic Intelligence report focuses specifically on the initial impact of the pandemic on the provincial manufacturing sector. A sample of key stakeholders in the manufacturing sector has been identified to provide data as per the Free State Manufacturing Covid-19 Business Impact Questionnaire (attached as Annexure A).

2. FREE STATE MANUFACTURING: GDP AND EMPLOYMENT

Data from previous quarters, as illustrated in figure 2 below, shows that the provincial manufacturing sector had already been struggling prior to Covid-19. In the three quarters preceding the national lockdown the sector's quarterly growth average at -0.17%. During this same period the sector shed approximately 5 700 jobs (down -9.67%). In the beginning of second quarter 2020, the country was placed under alert level 5. This was the most restrictive of all the alert levels, with only essential services permitted under sectors lockdown⁷. During this period the Free State manufacturing sector reported a 73.9% quarter to quarter decline in GDP growth. In contrast, the provincial sector recorded a slight increase in its employment figures during this period. This is possibly because employment and unemployment are lagging indicators; employment tends to increase two or three quarters after an upturn in the general economy and vice versa.⁸ Another possibility could be a due to the province's relative prevalence in the fuel, petroleum, chemical and rubber products sub sector as this sector was functional during the level 5 lockdown.

Figure 1: Alert level 5 manufacturing sector regulations

⁶ Statistics South Africa, 2020. Quarterly Labour Force Survey Q3:2020

⁷ Figure 1 below illustrates regulations placed on the manufacturing sector alert level 5

⁸ Davies, R and van Seventer, D.2009. Leading Indicators of Employment In South Africa

1. Manufacture of all retail products permitted to be sold under Level Five, and all input products, permitted scaling up to full employment, except where otherwise indicated;
2. Manufacture of paper and paper products, excluding stationery, permitted scaling up to full employment;
3. Manufacture of packaging, including glass, plastic bottles and containers, permitted scaling up to full employment;
4. Manufacture of winter clothing, bedding and heaters, and all inputs required, permitted, commencing at 25% and scaling up to 50% employment;
5. Petroleum smelters, refineries and furnaces, permitted scaling up to full employment

Data Source: SA Coronavirus: 2020. COVID-19 Risk Adjusted Strategy

As lockdown restrictions began to allow for more economic participation, the provincial sector's output increased significantly at 215.8% quarter to quarter. This was in line with the national increase of 210.2% quarter to quarter. The manufacturing industry recorded the highest growth rate among industries in the secondary sector in Q3:2020. On a national level, all ten manufacturing divisions reported increases during this quarter, but most notably growth in the sector was said to be driven largely by increases in iron, steel and machinery; and petroleum and chemicals. It is assumed that the provincial sector's growth, mimicking the national sector, was also driven by the same subsectors. In contrast to improvements in output, the effect of the hard lockdown was only reflected in the manufacturing labour force in Q3. Provincial manufacturing recorded an 11.5% decline in employment between Q2:2020 and Q3:2020. The Free State was among two other provinces, Mpumalanga and the North West, which reported declines in manufacturing employment between these two quarters.

Figure 2: Free State Manufacturing Sector GDP and Employment



Data Source: IHS Regional eXplorer 2070 (2.6p) and Statistics South Africa. 2020. Quarterly Labour Force Survey Q3:2020

3. FREE STATE MANUFACTURING COVID-19 BUSINESS IMPACT SURVEY RESULTS

The following section presents the results of the Free State Manufacturing Covid-19 Business Impact Survey. The survey is a first in a series of surveys developed to determine the initial impact of the Covid-19 pandemic on the provincial economic sectors. The full impact of the pandemic on the economy may only be realised in the long term. The accuracy of the survey is fully reliant on businesses' willingness to participate and offer accurate information. In adherence with national restrictions, the survey was administered electronically.

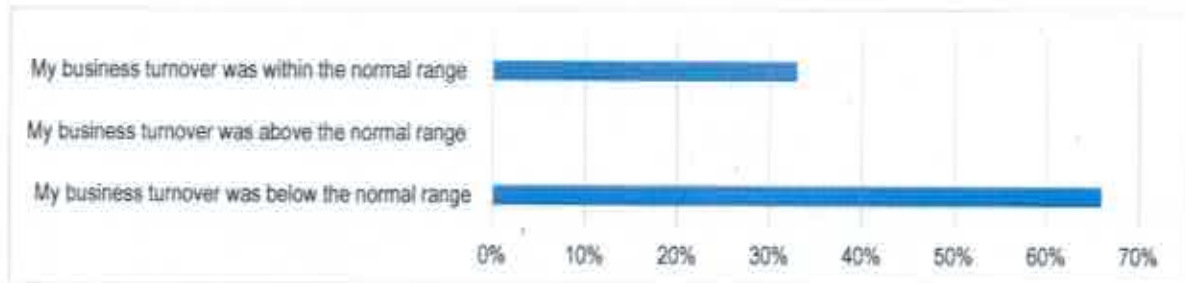
3.1 Financial Performance

Turnover relates to the income generated by a business when conducting its core operations within a specified timeframe, and forms a key measure of business performance. As defined by Statistics SA, turnover includes sales of goods, services rendered, leasing and hiring of capital assets, and rental/leasing of land, buildings and other structures.⁹

The survey showed that 66% of responding businesses had a turnover that was lower than their normal range; while 33% reported that turnover was within the normal range. None of the respondents indicated turnover above the normal range.

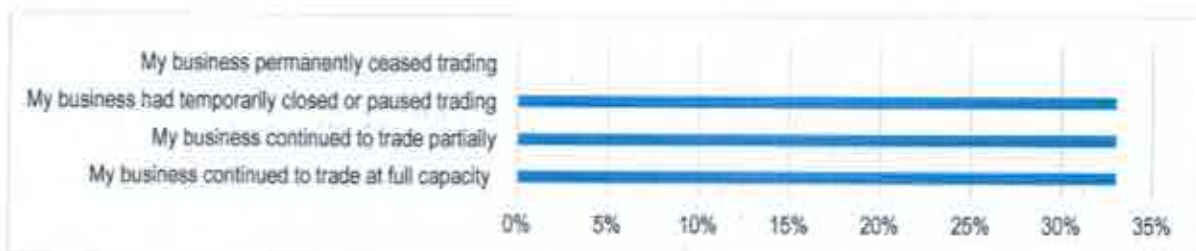
⁹ Statistics South Africa.2020. Annual Financial Statistics Survey

Figure 3: Impact on business turnover



When asked about businesses' trading status during the period in question, the surveyed manufacturing companies reported an even split in results; 33% of businesses indicated they had temporarily closed or paused trading, 33% continued to trade partially, 33% continued to trade at full capacity while none of the businesses permanently ceased trading. None of the businesses permanently ceased trading.

Figure 4: Trading status of businesses



As illustrated in Figure 5 below, all of the surveyed manufacturing companies reported that their access to finance remained the same. Companies applied for various financial assistance incentives including; government relief schemes (25% of respondents), deferring payments to SARS (25% of respondents), debt relief holidays (25% of respondents) and other incentives not specified in the questionnaire (25% of respondents). These additional financial assistance incentives were namely the Employment Tax Incentive (ETI) and Skills Development Levy (SDL). Figure 7 below shows that all respondents indicated that their business had been financially impacted by the Covid-19 pandemic.

Figure 5: Change in ability to access financing

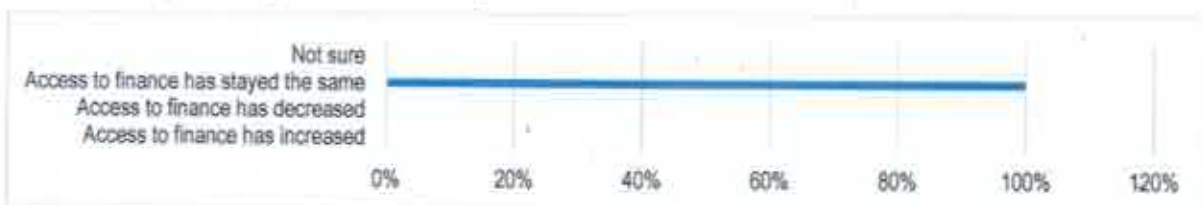


Figure 6: Financial assistance incentives applied for

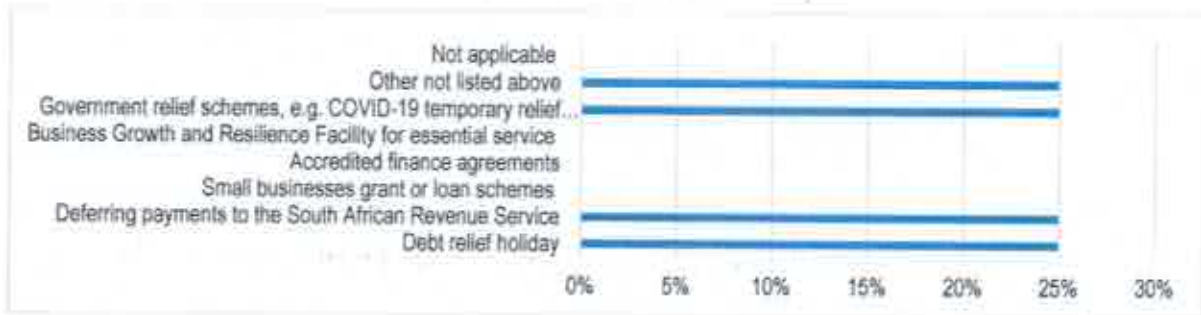
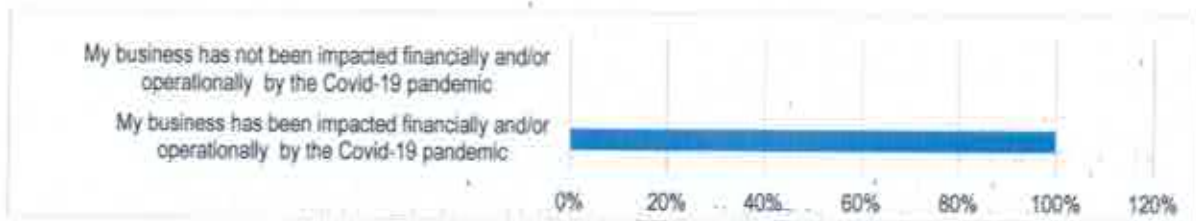


Figure 7: Financial and/or operational impact of covid-19 on business



3.2 Workforce Implications

Employment tends to be a lagging economic indicator, as such the full impact of the COVID-19 pandemic on employment will be determined over time. Notwithstanding, certain groups of workers remain vulnerable. These include workers underlying health conditions and those more sensitive to labour market conditions, e.g. construction workers. Businesses were requested to indicate how their workforce changed in size due to the pandemic. All of the surveyed business indicated that their workforce size remained unchanged (Figure 8). Surveyed businesses were also requested to indicate what measures were taken to cope with the impact of COVID-19 on their workforce (as illustrated in Figure 9). A quarter of respondents indicated that their businesses either recruited additional staff for the short term, laid off staff for the short term, decreased working hours or took other measures not stated in the questionnaire. All of the surveyed businesses indicated that despite the pandemic, their workforce was able to meet business demands (Figure 10).

Figure 8: Changes in workforce size

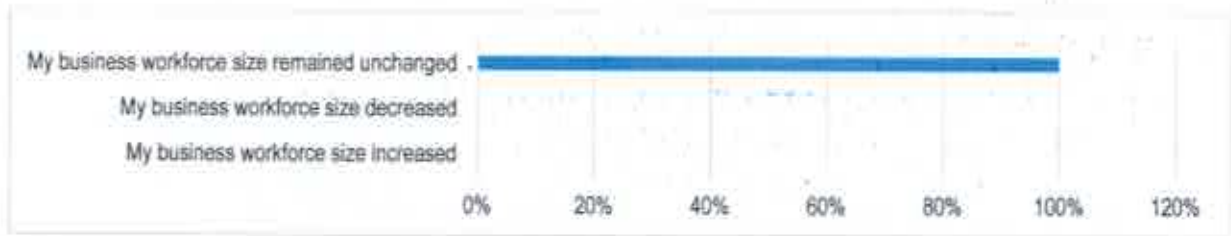
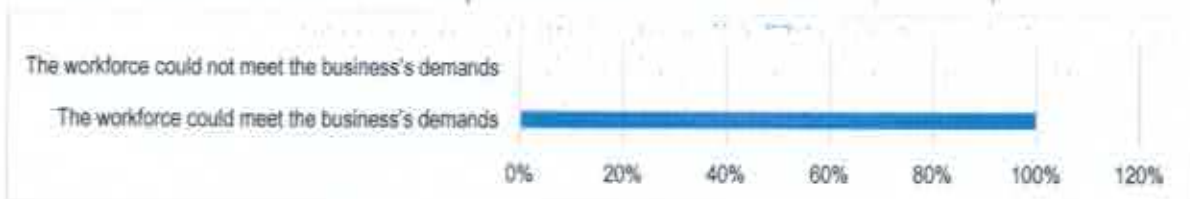


Figure 9: Workforce measures implemented



Figure 10: Ability of workforce to meet business demands



IT systems have played a critical role in keeping businesses functional during the pandemic. While some respondents indicated that their entire workforce worked from their normal place of business, two thirds indicated that less than 20% of their workforce worked remotely. All of the respondents reported that their businesses' IT systems were robust enough to handle the demand of employees working from home.

Figure 11: Share of workforce working remotely

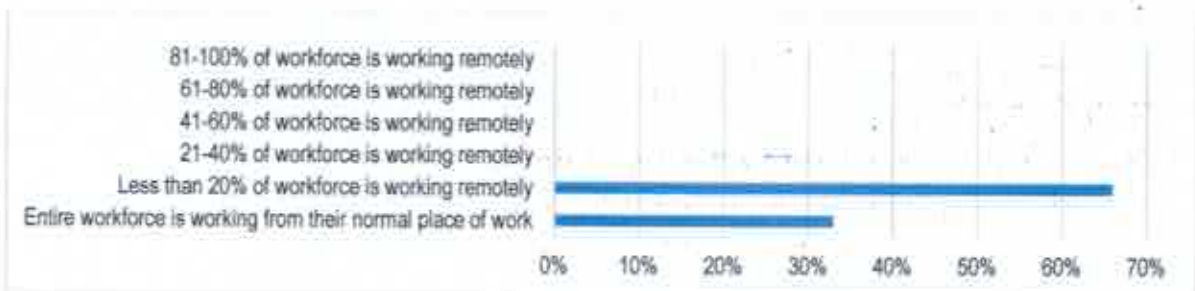
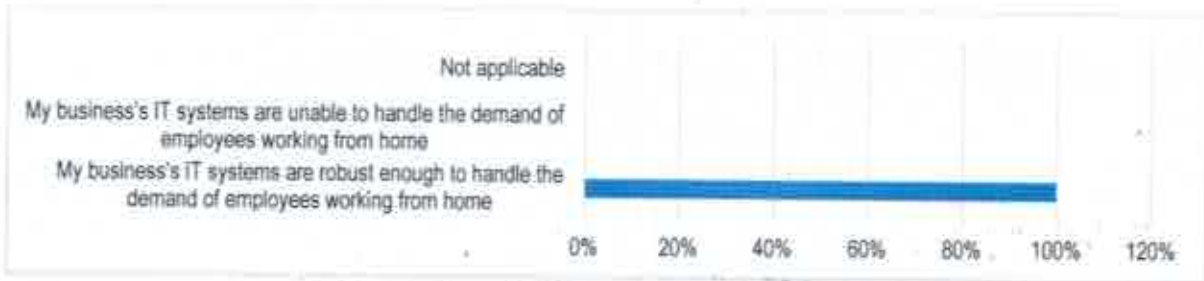


Figure 12: Robustness of IT systems



3.3 Access to Goods and Services

Restrictions placed by the national lockdown posed a challenge to businesses in need of materials, goods and services. Of the respondents, 66% indicated that as a result of the pandemic, importing of goods and services was affected. Business involved in exporting goods and services also reported that they were affected by the lockdown (66%).

Figure 13: Exporting and importing of goods and services

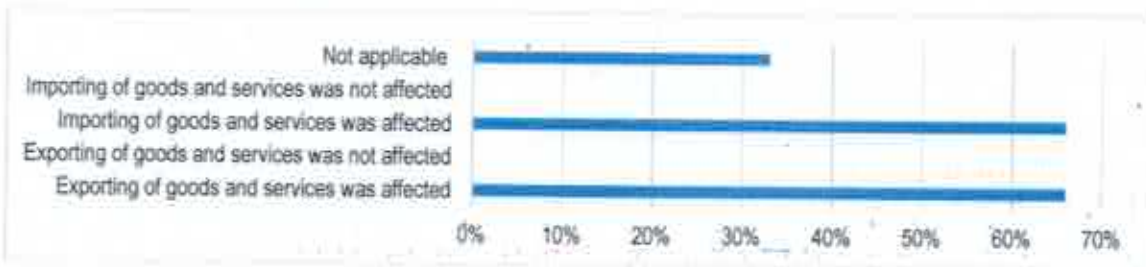
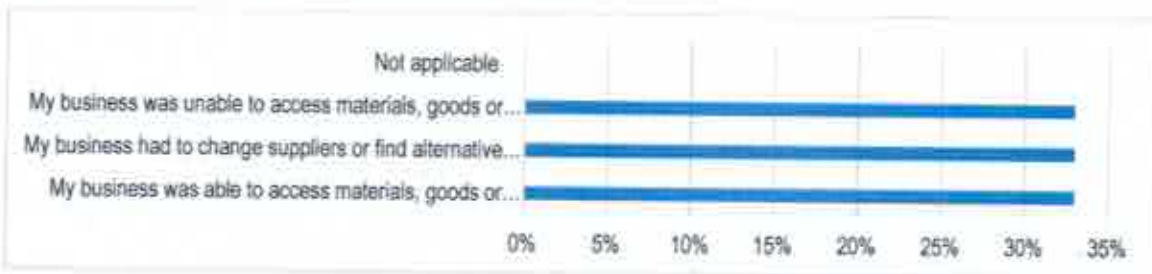
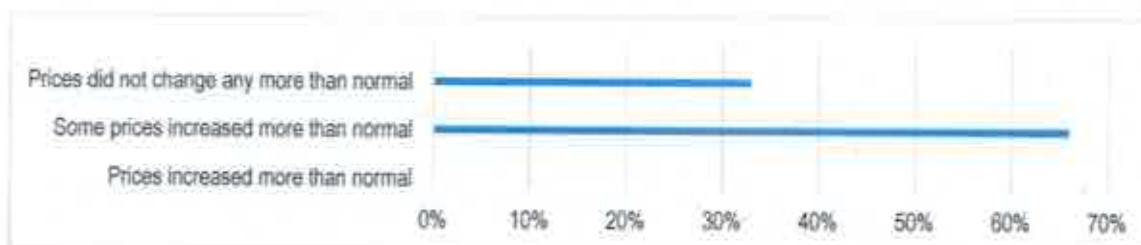


Figure 14: Ability to access materials, goods or services



Two thirds of the respondents indicated that some of the prices of supplies increased more than normal while the remaining third indicated that prices did not change any more than normal.

Figure 15: Change in price of supplies



3.4 Additional Findings

Surveyed businesses were asked to elaborate on how productivity or output had been impacted by the pandemic. Among the respondents, one indicated that they had fully closed in the month of April 2020 and only began to partially reopen in May 2020. Another respondent indicated that their business was unable to access raw materials in the beginning stages of the national lockdown. A third respondent indicated that although business output was not impacted, different working shifts and rosters had to be implemented in an effort to adhere to national regulations.

When asked about the pandemic's impact on business's workforce, respondents again expressed their need to implement rosters. Some businesses had to make special transport arrangements for employees. Although some respondents reported that no major impact on their workforce, a third of the respondents indicated that due to positive covid-19 cases employees had to go into quarantine.

Some of the lessons learned by businesses included the importance of being able to adapt to change. Businesses also highlighted the value of having procedures and measures in place such as those relating to employee wellness, health and safety as well as business finances. The importance of keeping higher volumes of raw materials was also reported. Business shared that one of the lessons learned was that it is not advisable for government to implement a total shutdown of the economy as this impacts on company's ability to compensate employees.

4. CONCLUSIONS

The initial impact of the Covid-19 pandemic and the national lockdown have had a major effect on the Free State manufacturing sector. The initial shock experienced in Q2:2020 resulted in a sharp decline in provincial manufacturing output. With relaxing of lockdown restrictions, the sector slowly began to show signs of rebounding in

Q3:2020. In contrast, the initial effect of the national lockdown on provincial manufacturing employment went against national trends. The Free State province along with the North West Province reported increases in manufacturing employment in Q2:2020. As explained in the report, employment tends to be a lagging indicator, thus the sector reported a decline in employment in Q3:2020.

Some of the key results of the Free State Manufacturing Covid-19 Business Impact Survey included the following:

- 66% of responding businesses had turnover that was lower than their normal range
- 33% of businesses indicated they had temporarily closed or paused trading, 33% continued to trade partially and 33% continued to trade at full capacity. None of the surveyed Free State businesses ceased trading permanently
- All respondents indicated that they were able to access finance and applied for various financial incentives
- Although the size of business workforces remained unchanged, measures had to be taken to cope with changes resulting from the pandemic
- Businesses expressed that their IT systems were robust enough to deal with business demands and some staff were required to work remotely
- Access to goods, services and resources was impacted by the pandemic

The survey respondents agreed unanimously that the Covid-19 pandemic impacted their business operations both financially and non-financially. One of the major takeaways from the survey is the importance of having adequate business processes in place. This has helped business to be more agile and able to adapt to unforeseen changes and the new normal resulting from the global pandemic.



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FREE STATE PROVINCE

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REQUEST FOR ASSISTANCE: Economic Intelligence Report

Dear Sir/Madam,

The Department of Economic, Small Business Development, Tourism and Environmental Affairs (Destea) is in the process of developing an Economic Intelligence Report (EIR) for the third quarter of 2020. The report is a quarterly publication with the purpose of analysing industry trends affecting the performance of the Free State economy, especially in light of the effects of Covid-19 on the provincial economy. The EIR aims to determine the impact of Covid-19 on Free State businesses.

The Department has identified a sample of key stakeholders in the various industries to help us gather data for the EIR. As such, we kindly request your organisation's assistance by completing a short questionnaire.

I would like to take this opportunity to thank you in advance for giving your valuable time, despite your busy schedule, to assist Destea in this research.

Yours faithfully,

Adv. J. Mosia

Director: Economic Research

Destea

Date: _____

ECONOMIC INTELLIGENCE REPORT

QUESTIONNAIRE CONSENT FORM

I, the participant, voluntarily agree to participate in the Economic Intelligence Report questionnaire, administered by the Department of Economic, Small Business Development, Tourism and Environmental Affairs (DESTEA) Free State.

I, the participant agree to the following:

- The purpose of the research has been explained to me
- My participation in this questionnaire is for research purposes only
- No incentives have been promised to me; and
- I can withdraw from the research at any time

I also understand that there are no risks involved in participating in this activity, beyond those risks experienced in everyday life.

I have read the information above. By signing below and returning this form, I am consenting to participate in this research project as designed by DESTEA

Participant name (optional): _____

Company name: _____

Signature: _____

Date: _____

The information provided by you in this questionnaire will be used for research purposes. It will not be used in a manner which would allow identification of your individual responses. Please note however that your company information may be used as part of a company database for DESTEA. If you agree to participate in this research project, please answer the questions on the questionnaire as best you can. Please keep a copy of this consent form for your records. For any additional queries concerning your participation in this research, please contact Mr A. Jansen on 051 400 9459 or jansen@destea.gov.za

Thank you very much for agreeing to participate in this research project.

ECONOMIC INTELLIGENCE REPORT

Free State Covid-19 Business Impact Questionnaire: Manufacturing Sector

Section A: Company Information

1. Name of Company: _____
2. Company Contact Number: _____

Tick Applicable Box

3. Area of Operation (Please select District and Local Municipality):

LEJWELEPUTSWA		FEZILE DABI	
Tokologo		Ngwathe	
Tswelopele		Moqhaka	
Masilonyana		Mafube	
Matjhabeng		Metsimaholo	
Nala		MANGAUNG	
XHARIEP		THABO MOFUTSANYANA	
Kopanong		Phumelela	
Mohokare		Nketoana	
Letsemeng		Dihlabeng	
		Maluti-a-Phofung	
		Setsoto	
		Mantsopa	

Section B: Close Ended Questions

Please answer the following questions for the period 27 March 2020 (national lockdown level 5) to 30 September 2020 (national lockdown level 2)

1.	Impact on business turnover (please select one accurate statement).	
1.1.	My business turnover was below the normal range	
1.2.	My business turnover was above the normal range	
1.3.	My business turnover was within the normal range	
2.	Trading status of business (please select one accurate statement)	
2.1.1.	My business continued to trade at full capacity	
2.1.2.	My business continued to trade partially	
2.1.3.	My business had temporarily closed or paused trading	
2.1.4.	My business permanently ceased trading	
3.	Changes in workforce size (please select one accurate statement)	
3.1.1.	My business workforce size increased	
3.1.2.	My business workforce size decreased	
3.1.3.	My business workforce size remained unchanged	
4.	Workforce measures implemented to cope with impact of Covid-19 (Please select one or more accurate statements)	
4.1.	My business increased working hours	
4.2.	My business decreased working hours	
4.3.	My business laid off staff for the short term	
4.4.	My business recruited additional staff for the short term	
4.5.	My business retrenched staff	
4.6.	My business implemented other measures not stated above	
4.7.	No measures have been taken by my business	
5.	Ability of workforce to meet business demands (please select one accurate statement)	
5.1.	The workforce could meet the business's demands	
5.2.	The workforce could not meet the business's demands	
6.	Workforce working remotely (please select one accurate statement)	
6.1.	Entire workforce is working from their normal place of work	
6.2.	Less than 20% of workforce is working remotely	



6.3.	21-40% of workforce is working remotely	
6.4.	41-60% of workforce is working remotely	
6.5.	61-80% of workforce is working remotely	
6.6.	81-100% of workforce is working remotely	
7.	Robustness of IT systems (please select one accurate statement)	
7.1.	My business's IT systems are robust enough to handle the demand of employees working from home	
7.2.	My business's IT systems are unable to handle the demand of employees working from home	
7.3.	Not applicable	
8.	Exporting of goods and services (please select one accurate statement)	
8.1.	Exporting of goods and services was affected	
8.2.	Exporting of goods and services was not affected	
8.3.	Not applicable	
9.	Importing of goods and services (please select one accurate statement)	
9.1.	Importing of goods and services was affected	
9.2.	Importing of goods and services was not affected	
9.3.	Not applicable	
10.	Access to materials, goods or services to conduct day-to-day operations (please select one accurate statement)	
10.1.	My business was able to access materials, goods or services.	
10.2.	My business had to change suppliers or find alternative solutions	
10.3.	My business was unable to access materials, goods or services.	
10.4.	Not applicable	
11.	Change in the prices of supplies used to conduct day-to-day operations. (please select one accurate statement)	
11.1.	Prices increased more than normal	
11.2.	Prices decreased more than normal	
11.3.	Some prices increased more than normal	
11.4.	some prices decreased more than normal	
11.5.	Prices did not change any more than normal	
11.6.	Not applicable	



12.	Change in ability to access financial resources (please select one accurate statement)	
12.1.1.	Access to finance has increased	
12.1.2.	Access to finance has decreased	
12.1.3.	Access to finance has stayed the same	
12.1.4.	Not sure	
13.	Financial assistance initiatives applied for (please select one or more accurate statements)	
13.1.	Debt relief holiday	
13.2.	Deferring payments to the South African Revenue Service	
13.3.	Small businesses grant or loan schemes	
13.4.	Accredited finance agreements	
13.5.	Business Growth and Resilience Facility for essential service	
13.6.	Government relief schemes, e.g. COVID-19 temporary relief scheme	
13.7.	Other not listed above	
13.8.	Not applicable	
14.	Impact on other financial and/or operating activities (please select one accurate statement)	
14.1.	My business has been impacted financially and/or operationally by the Covid-19 pandemic	
14.2.	My business has not been impacted financially and/or operationally by the Covid-19 pandemic	

Section C: Open Ended Questions

1. Has your business's productivity or output been impacted by the Covid-19 pandemic? Please elaborate.

2. Has your business's workforce been impacted by the Covid-19 pandemic? Please elaborate.

3. What lessons has your business learned as a result of the Covid-19 pandemic? Please elaborate

4. Any suggestions/recommendations how to address the challenges experienced during the Covid-19 pandemic?

THANK YOU FOR YOUR CO-OPERATION.