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

Research Document on Various Economic Indicators

An Economic Intelligence Report

Impact of the Covid-19 pandemic on the Trade, Retail and Wholesale Industry

March 2021

This issue of the Economic Intelligence Report provides an overview of the economic performance of the Trade, Retail and Wholesale industry during the Covid-19 national lockdown. The report also provides the results of the Free State Trade, Retail and Wholesale Covid-19 Business Impact Survey; developed to provide an insight on the economic performance of provincial 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 (DESTEA). Information disclosed in this report may not be accurate, current or complete and the Department disclaims all liability in this regard.[1] The issue of the Economic Intelligence Report focuses mainly on trends in economic indicators for the year 2020.

Comments and enquiries relating to this report are welcomed and should be addressed to:

Email: kgwalep@destea.gov.za or jansen@destea.gov.za.

[1] Cover image sourced from https://www.lsretail.com/blog/ways-the-covid-19-pandemic-transform-physical-retail-stores-long-term

The report was compiled by:

Palesa Kgwale

Researcher: Economic Intelligence Sub-Directorate

Economic Research Directorate

Signature: Kgwale

Date: **26-03-2021**

Verified by:

Abram Jansen

Deputy Director: Economic Intelligence Sub-Directorate

Economic Research Directorate

Signature:

Date: 29-03-2021

Approved by:

Jonas Mosia

Director: Economic Research Directorate

Signature: 31/03/2021

Date:

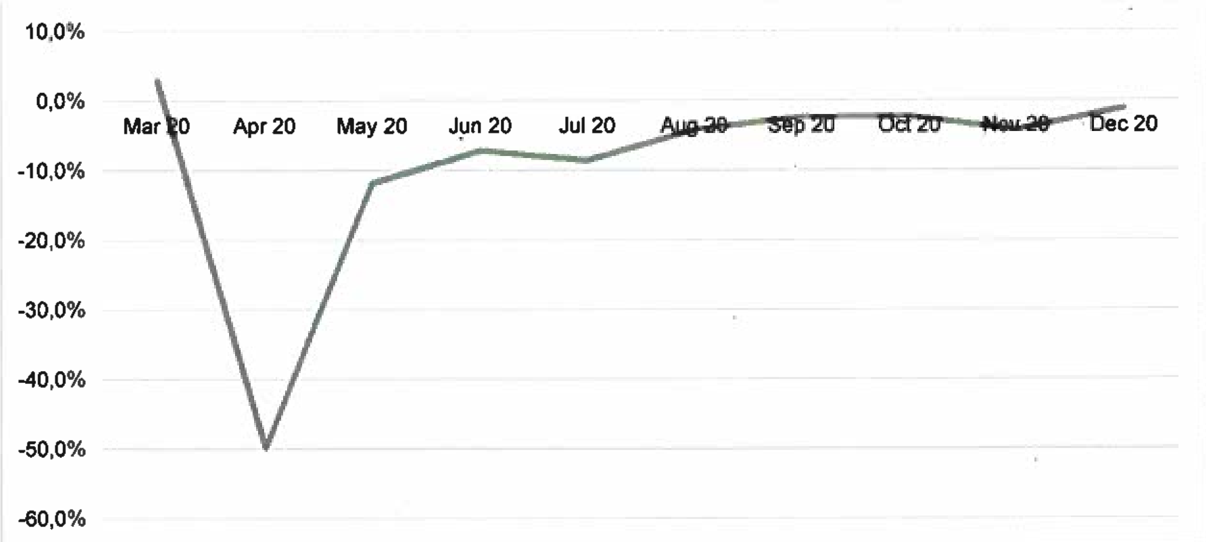
Contents

1. INTRODUCTION AND BACKGROUND

The South African government introduced hard lockdown restrictions at the end of March 2020 as the Covid-19 crisis escalated. This tough lockdown meant that borders were shut to international travellers, trade of non-essential items was prohibited and economic activity almost came to a standstill and even schools were closed. In June of the same year, the government began a gradual reopening to ease economic tension, but restrictions were reintroduced in July as infection rates began to rise again. In August 2020, a National State of Emergency was declared and another lockdown was reintroduced at the end of December 2020 at the peak of the second wave.

Throughout this period, the Trade, Retail and Wholesale industry (hereafter referred to as the Trade sector) suffered a major hit. Retail trade sales data, released by Statistics South Africa show that since the beginning of the Covid-19 national lockdown, Trade sales have fallen on an annualised basis for 9 consecutive months.[2] The sector is feeling the pain from the pandemic on two fronts; *(1)* store closures during lockdown and *(2)* the sharply reduced purchasing power of households. In addition, increased unemployment and looming uncertainity regarding the duration of the pandemic do not fare well for the sector.

Figure 1: Growth rates in retail trade sales at constant 2015 prices March to December 2020 (Year-on-year % change, unadjusted)



Data Source: Statistics South Africa Manufacturing: Retail trade sales.2021

The preliminary impact of the pandemic on national economic sectors has been well documented by Statistics South Africa, however provincial data remain very limited. The Economic Research Directorate has found it necessary to determine what the initial impact of

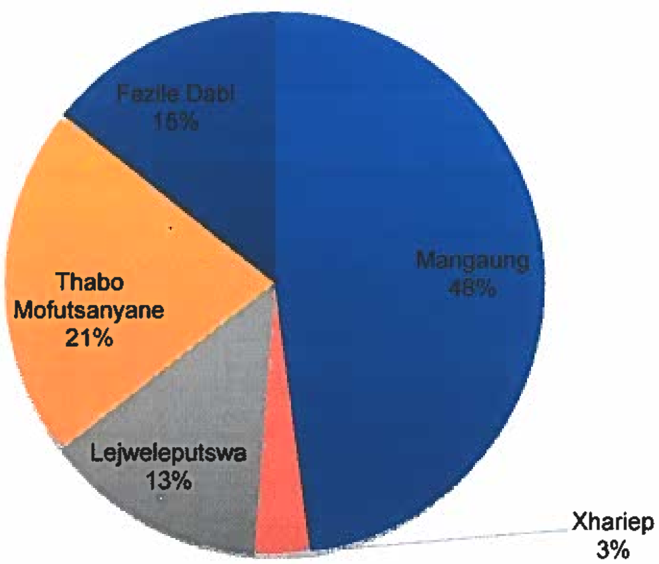
[2] Statistics South Africa Manufacturing: Retail trade sales

the Covid-19 pandemic and subsequent lockdown have been on the provincial economy. This report is the second in a series of Economic Intelligence reports developed to establish the pandemic's impact on various provincial economic sectors. This issue of the Economic Intelligence report focuses specifically on the initial impact of the pandemic on the Trade sector. The report presents the impact on provincial Trade Gross Domestic Product (GDP) and employment. Thereafter, the report presents the findings of the Free State Trade, Retail and Wholesale Covid-19 Business Impact Survey. This survey was developed to assess the impact on Trade business productivity and workforce as a result of the Covid-19 pandemic.

2. FREE STATE TRADE, RETAIL AND WHOLESALE: GDP AND EMPLOYMENT

The Trade sector is the third largest in terms of contribution towards the Free State's GDP. The sector accounts for 15% of the provincial GDP. Historically, the sector recorded a positive annual growth rate of 1.92% between 2009 and 2019. In contrast, forecasts estimate that the sector will experienced subdued growth over the next few years; estimated to grow at a negative rate of -1.08% between 2019 and 2024. Among the province's various regions, the Mangaung Metropolitan Municipality accounts for the largest share of Trade Gross Value Added (GVA) at 48% of the overall provincial total. The metro is followed by Thabo Mofutsanyana District Municipality at 21% and Fezile Dabi District Municipality at 15%. The Xhariep District Municipality accounts for the smallest portion of provincial Trade GVA at only 3%.[3]

Figure 2: Free State Regional Share of Trade GVA Q3:2020

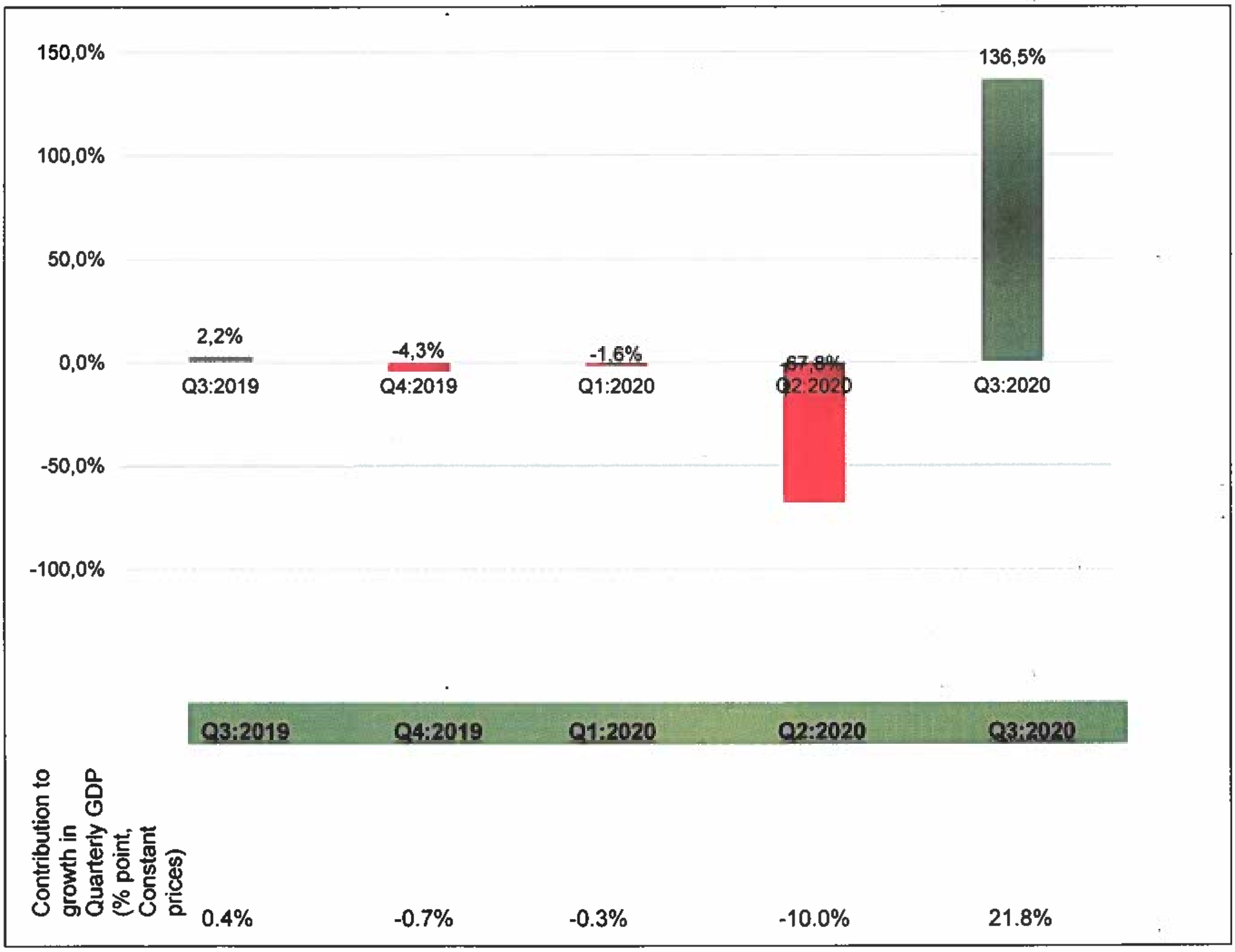


Data Source: IHS Markit Regional eXplorer version 2070

[3] IHS Markit Regional eXplorer 2070 (2.6p)

Data show that even prior to the national Covid-19 lockdown, the provincial Trade sector had been in decline. In the fourth quarter of 2019 (as depicted in figure 3 below), the sector's GVA dropped by 4.3% contributing -0.7 of a percentage point to provincial GDP growth. This trend continued in months to follow with the sector's GVA recording negative growth for three consecutive quarters, further exacerbated by the hard lockdown restrictions place in Q2:2020. During this particular quarter, the provincial GVA plummeted down to -67.8% contributing -10 percentage points to provincial GDP growth. Although figures for Q3:2020 show the sector recording positive triple digit growth, it is important to contextualize that this growth stemmed from a very low base. Nationally, the Trade sector increased at a rate of 9.8% in Q4:2020, contributing 1.3 percentage points to GDP growth. Increased economic activity was reported for retail trade, motor trade, catering and accommodation.[4] Although provincial data for the fourth quarter has not yet been released, by observing ongoing trends it can be inferred that the provincial Trade sector is also likely to record similar positive growth for the fourth quarter.

Figure 3: Free State Trade GVA % change quarter-on-quarter (seasonally adjusted and annualised) and contribution to growth in Quarterly GDP from Q3:2019 to Q3:2020

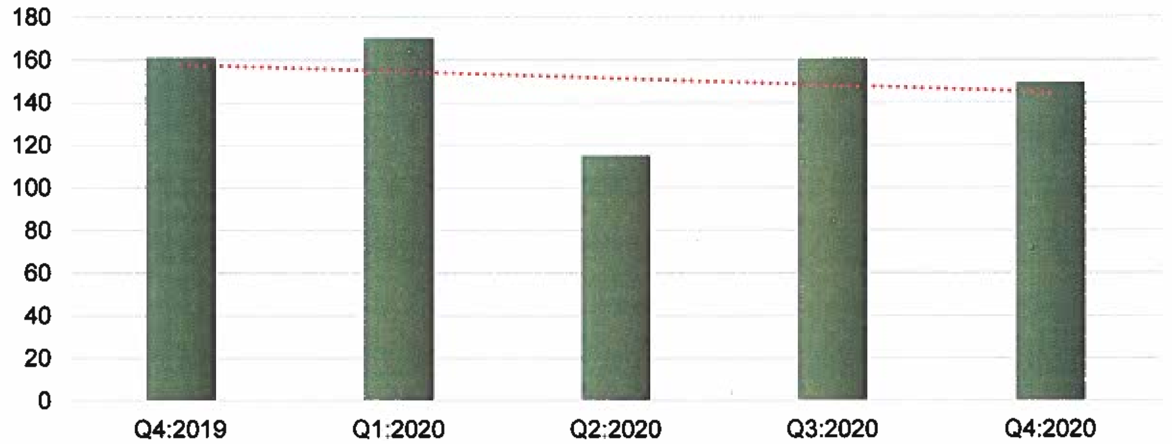


Data Source: IHS Markit Regional eXplorer 2070 (2.6p)

[4] Statistics South Africa. 2020. Gross Domestic Product Q4:2020

The Trade sector is the second highest formal employer in the Free State, accounting for 22% of the province's formal employment. The sector also records the highest contribution to informal employment making up 47% of the total informal employment. This can be expected as the barriers to enter the Trade sector in terms of capital and skills required are less than with most of the other sectors.[5] In the fourth quarter of 2020, the Trade sector employed 149 000 people in the Free State province (see figure 4 below), the majority of whom were adults aged between 35 and 64 years of age. Employment in the sector dropped both quarter-to-quarter and year-on-year, declining by 6.9% and 7.2% respectively. When considering disaggregated employment figures, it can be seen that adults aged between the ages of 55 and 64 suffered the most job losses. On a quarter-to-quarter basis, people in this age group experienced a decline of 36.9% in employment while, a decline on 43.4% was recorded year-on- year. As illustrated in figure 4 below, the sector recorded a major dip in employment during the second quarter of 2020 (down 32.4%). This coincided with the beginning of the hard national lockdown. As restrictions began to ease in the months to follow, the sector recorded a quarter-to-quarter increase in employment of 39.1% between Q2:2020 and Q3:2020.[6]

Figure 4: FS Trade Employment (in '000) Q4:2019 to Q4:2020



	Q4:2019	Q1:2020	Q2:2020	Q3:2020	Q4:2020	Quarter to Quarter ('000)	Year on Year('000)	Quarter to Quarter (%)	Year on Year (%)
Youth	65	71	49	80	63	-17	-2	-21.3%	-3.1%
Adult	96	99	66	81	83	2	-13	2.5%	-13.5%
Total	**161**	**170**	**115**	**160**	**149**	-11	-12	-6.9%	-7.2%

Data Source: Statistics South Africa.2020. Quarterly Labour Force Survey Q4:2020

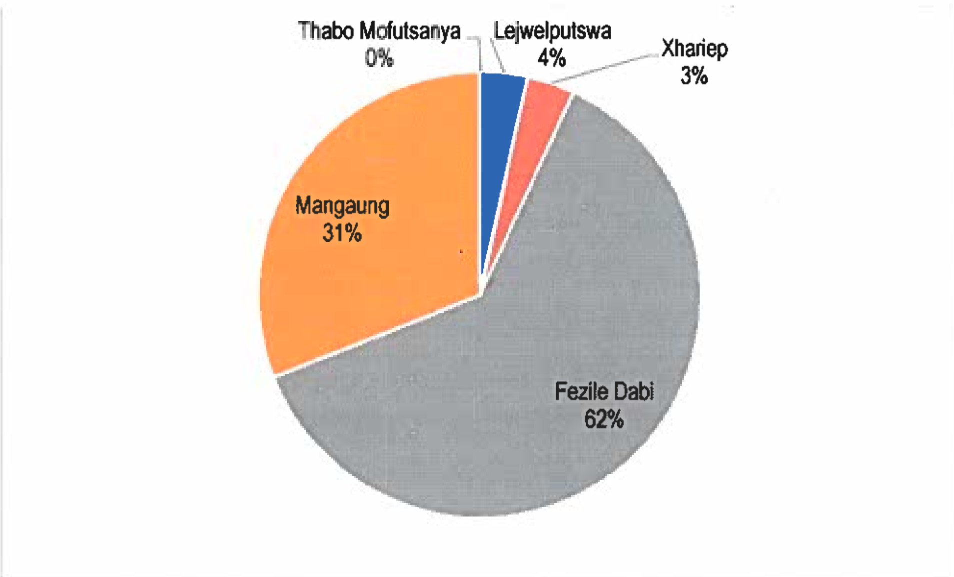
[5] IHS Markit Regional eXplorer version 2070

[6] Statistics South Africa.2020. Quarterly Labour Force Survey Q4:2020

3. FREE STATE TRADE, RETAIL AND WHOLESALE COVID-19 BUSINESS IMPACT SURVEY RESULTS

This section of the report presents the results of the Free State Trade, Retail and Wholesale Covid-19 Business Impact Survey conducted by Destea. The survey is a second 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 majority of surveys were administered electronically. Where possible with the assistance of Destea Service Centres staff, a number of questionnaires were physically distributed throughout the province. Approximately n=94 businesses were requested to participate in the survey, of which a mere total of n=29 complied (accounting for 31% participation rate). Figure 5 below provides an illustration of the geographical spread of the participants. Most notably, the majority (62%), of the respondents originate from the Fezile Dabi District Municipality, followed by Mangaung Metropolitan Municipality (31%). Due to human resource limitations and lack of participation, no data from the Thabo Mofutsanyana District are included.

Figure 5: Surveyed Business' Area of Operation



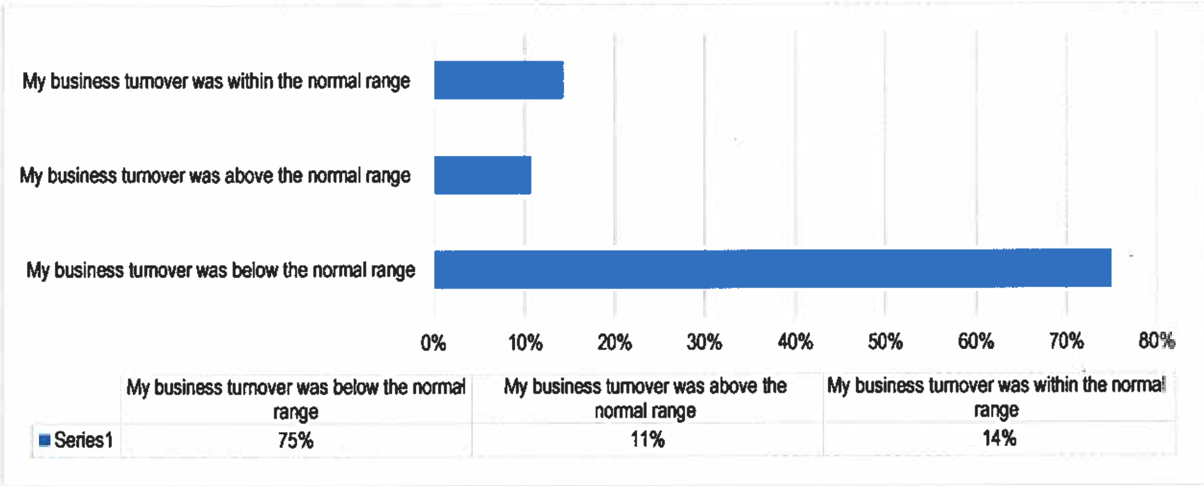
3.1. Financial Performance

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.[7] The data indicate

[7] Statistics South Africa. (2020). Annual Financial Statistics Survey

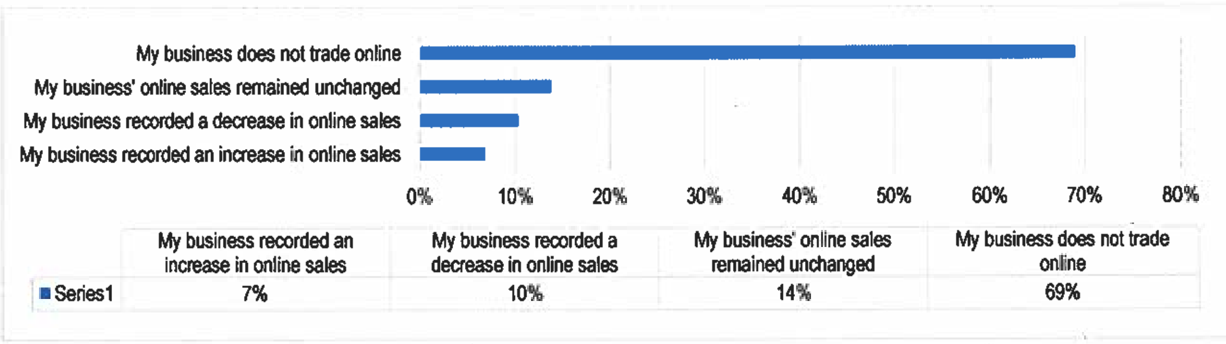
that 75% of the respondents had turnover that was lower than their normal range; while 14% reported that their turnover was within the normal range and 11% reported above average turn over as illustrated in the figure 6 below.

Figure 6: Impact on business turnover



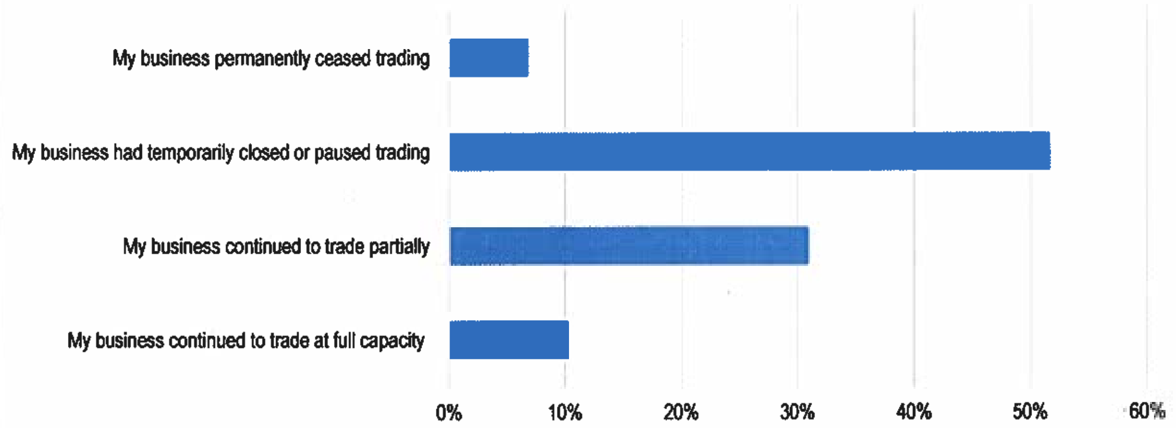
The lion's share of businesses (69%) reported that they do not trade online, while 7% reported an increase in online sales and 14% reported that their online sales remained unchanged (figure 7 below).

Figure 7: Impact on online sales



The survey enquired about businesses' trading status (figure 8 below) during the period in question, 52% of trade businesses reported that they temporarily closed or paused trading; while 31% continued to trade albeit partially and 10% continued to trade at full capacity. A minority of (7%) of the respondents permanently ceased trading during this period.

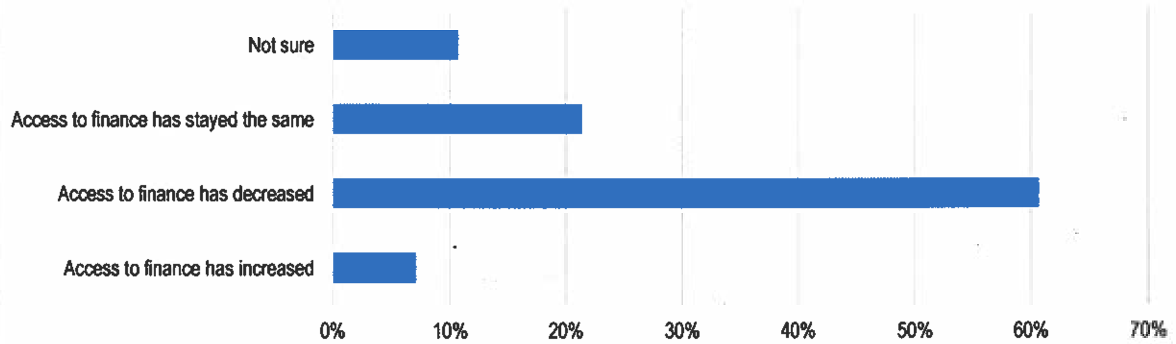
Figure 8: Trading status of businesses



	My business continued to trade at full capacity	My business continued to trade partially	My business had temporarily closed or paused trading	My business permanently ceased trading
■ Series1	10%	31%	52%	7%

As illustrated in figure 9 below, 61% of the respondents indicated that their ability to access finance had decreased, while 21% of respondents stated that their ability to access finance remained unchanged. A total of 11% of the respondents indicated that they were unsure of whether there was a change in their ability to access finance, while the remaining 7% indicated that their ability to access finance had increased since the Covid-19 national lockdown.

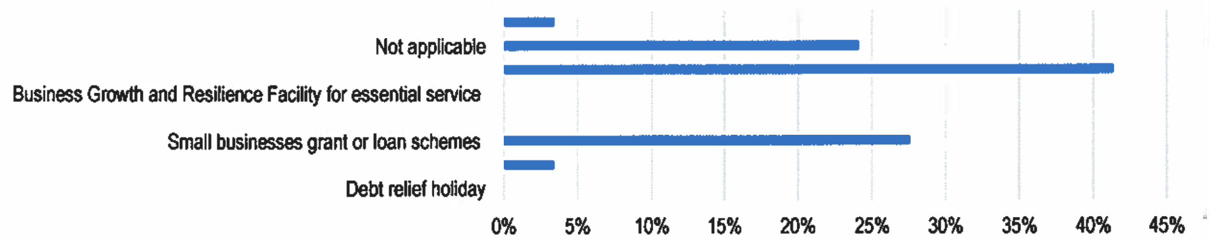
Figure 9: Change in ability to access financing



	Access to finance has increased	Access to finance has decreased	Access to finance has stayed the same	Not sure
■ Series1	7%	61%	21%	11%

Figure 10 below reflects on the various financial assistance incentives available during the period of the Covid-19 pandemic.

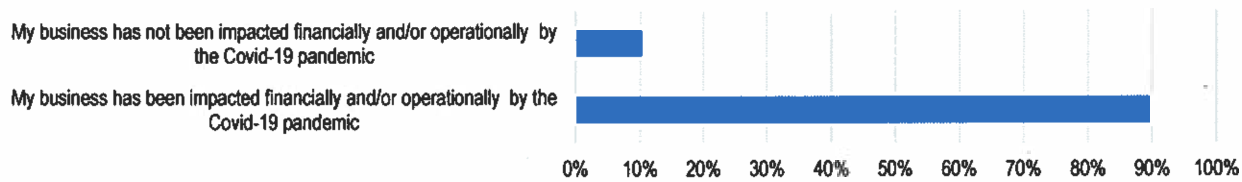
Figure 10: Financial assistance incentives applied for



	Debt relief holiday	Deferring payments to the South African Revenue Service	Small businesses grant or loan schemes	Accredited finance agreements	Business Growth and Resilience Facility for essential service	Government relief schemes, e.g. COVID-19 temporary relief scheme	Not applicable	Other not listed above
Series1	0%	3%	28%	0%	0%	41%	24%	3%

Amongst the various financial incentives offered during the period of the pandemic, the most popular were the Government Relief Schemes (41%) as seen in figure 10. Businesses agreed almost unanimously that they had been impacted financially and/or operationally by the Covid-19 pandemic (see figure 11 below).

Figure 11: Financial and/or operational impact of Covid-19 on business



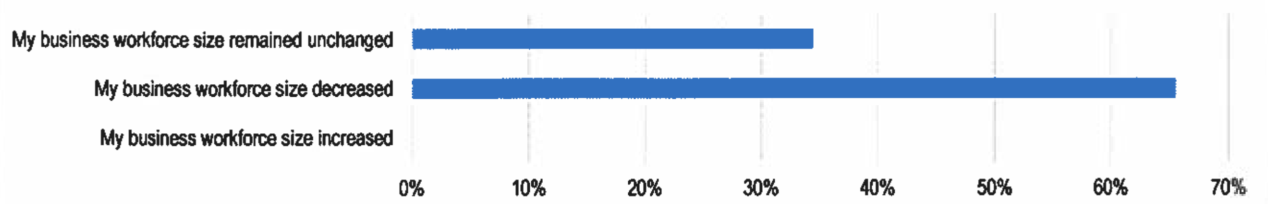
	My business has been impacted financially and/or operationally by the Covid-19 pandemic	My business has not been impacted financially and/or operationally by the Covid-19 pandemic
Series1	90%	10%

3.2. Workforce Implications

The full impact of the COVID-19 pandemic on employment will be determined over time as employment tends to be a lagging economic indicator. Notably, certain groups of workers remain vulnerable including those characterised as lowly skilled. During the pandemic, people deemed as high health risks face even higher levels of job vulnerability. As explained in section 2 in the report, the majority of job losses both year-on-year and quarter-to-quarter recorded in the Trade industry were among adults aged between 55 and 64 years of age. Businesses were requested to indicate how their workforce changed in size due to the pandemic.

The feedback from the respondents indicates that, a majority (66%) of their workforce had decreased in size since the beginning of the lockdown. None of the respondent's experienced an increase in workforce size (figure 12).

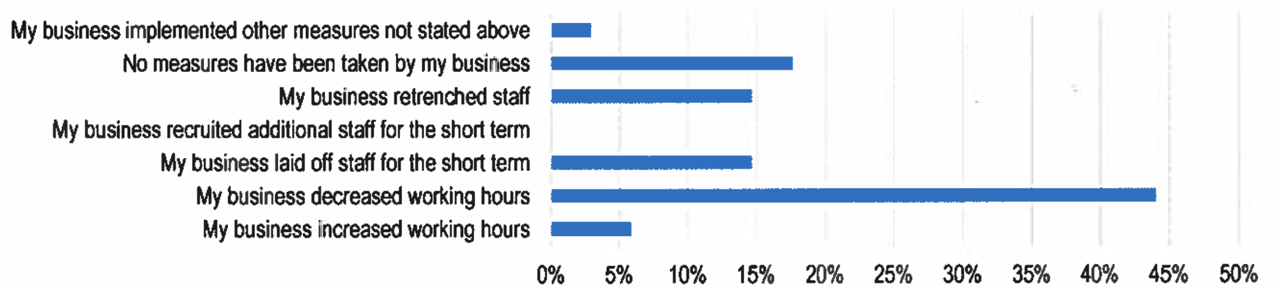
Figure 12: Changes in workforce size



	My business workforce size increased	My business workforce size decreased	My business workforce size remained unchanged
Series1	0%	66%	34%

The surveyed also requested businesses to indicate which measures were taken to cope with the impact of Covid-19 on their workforce (as illustrated in figure 13).

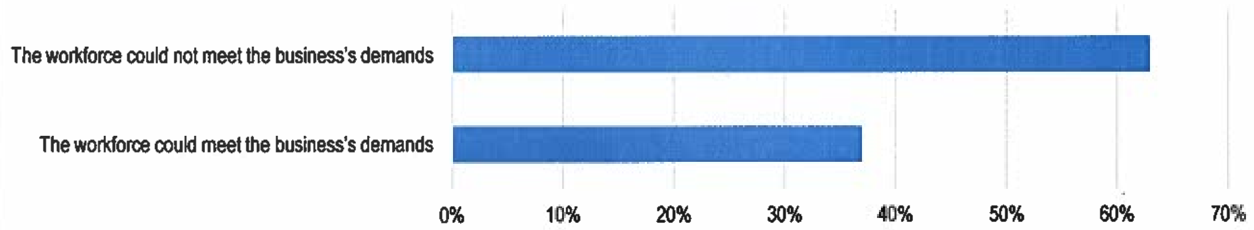
Figure 13: Workforce measures implemented



	My business increased working hours	My business decreased working hours	My business laid off staff for the short term	My business recruited additional staff for the short term	My business retrenched staff	No measures have been taken by my business	My business implemented other measures not stated above
Series1	6%	44%	15%	0%	15%	18%	3%

Many of the respondents (44%) reportedly decreased working hours while 18% of the respondents indicated that no workforce measures have been taken to cope with the impact of the pandemic. A further 15% reported that they had retrenched staff, 6% increased working hours and 3% implemented other measures to cope with the impact of the pandemic. The majority (63%) of the surveyed businesses indicated that as a result of the pandemic and lockdown, their workforce was unable to meet business demands (Figure 14 below).

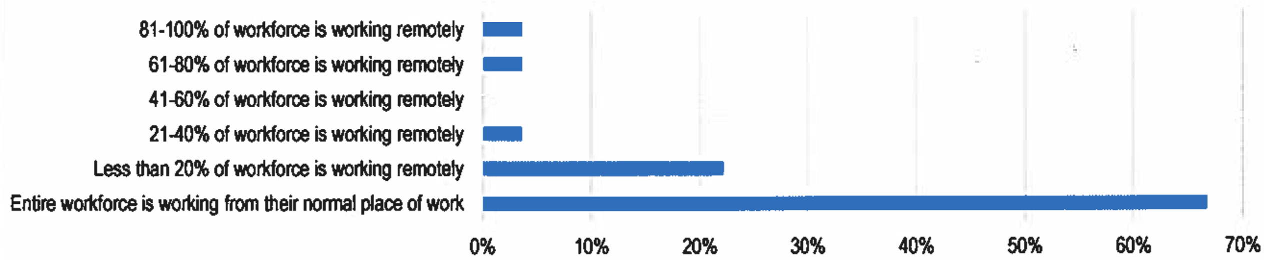
Figure 14: Ability of workforce to meet business demands



	The workforce could meet the business's demands	The workforce could not meet the business's demands
Series1	37%	63%

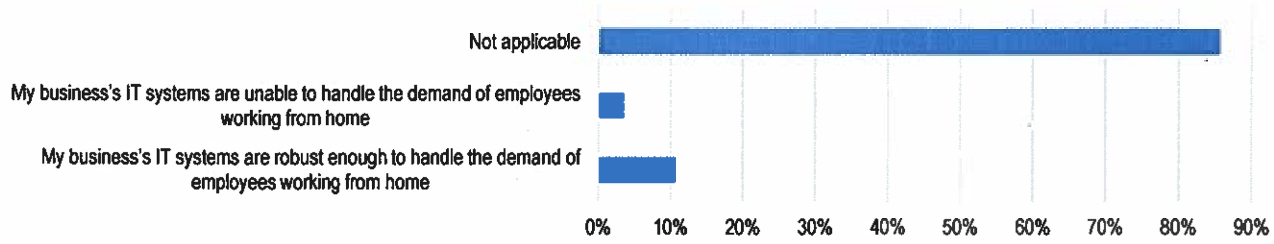
The pandemic has forced businesses to rethink how their workforce functions in the interest of protecting the health and safety of both staff and clients. Having robust Information Technology (IT) systems have become vital keeping businesses functional during the pandemic. Providing staff members with the necessary tools of trade to ensure that they are able to remain efficient while working remotely became very crucial (as depicted in figure 15 below). While the majority of respondents (67%) indicated that their entire workforce worked from their normal place of business, the remaining 22% specified that less than 20% of their workforce worked remotely. A mere 11% of the respondents reported that their businesses' IT systems were robust enough to handle the demand of employees working from home (as per figure 16).

Figure 15: Share of workforce working remotely



	Entire workforce is working from their normal place of work	Less than 20% of workforce is working remotely	21-40% of workforce is working remotely	41-60% of workforce is working remotely	61-80% of workforce is working remotely	81-100% of workforce is working remotely
Series1	67%	22%	4%	0%	4%	4%

Figure 16: Robustness of IT systems



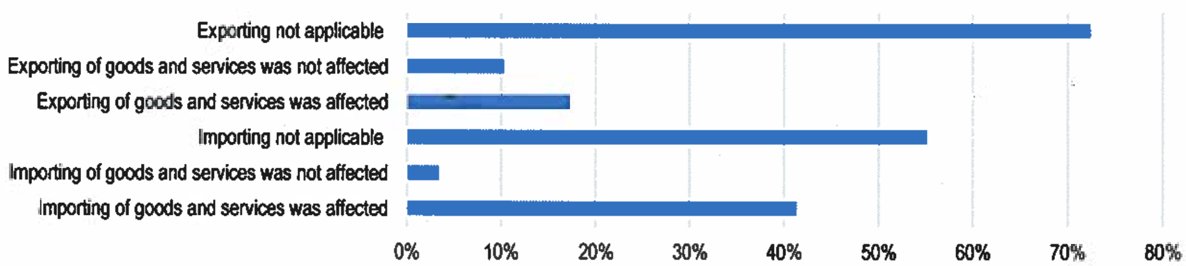
	My business's IT systems are robust enough to handle the demand of employees working from home	My business's IT systems are unable to handle the demand of employees working from home	Not applicable
Series1	11%	4%	86%

National retailers have also reported that there is growing investment on their part in online platforms as the industry has huge long-term growth potential. Investment in technology and supply chains are increasing across the country, and the Covid-19 outbreak and lockdown have driven an unprecedented increase in online spending and adoption.[8]

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 (as per figure 17 below), 72% reported that their businesses were not involved in exporting while 55% indicated that their business did not import any goods or services. A total of 41% of businesses indicated that as a result of the pandemic, importing of goods and services were affected. Businesses involved in exporting goods and services further reported that they were affected by the lockdown (17%).

Figure 17: Exporting and importing of goods and services



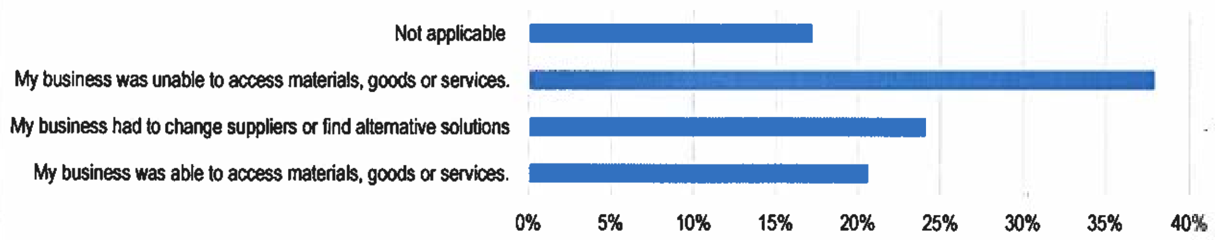
	Importing of goods and services was affected	Importing of goods and services was not affected	Importing not applicable	Exporting of goods and services was affected	Exporting of goods and services was not affected	Exporting not applicable
Series1	41%	3%	55%	17%	10%	72%

The national lockdown led to challenges in business' ability to access materials, goods or services to conduct day-to-day operations; 24% of the respondents had to change suppliers

[8] Who Owns Whom. 2020. The Online Retail Industry in South Africa

or find alternative solutions and 38% were unable to access materials, goods or services (see figure 18).

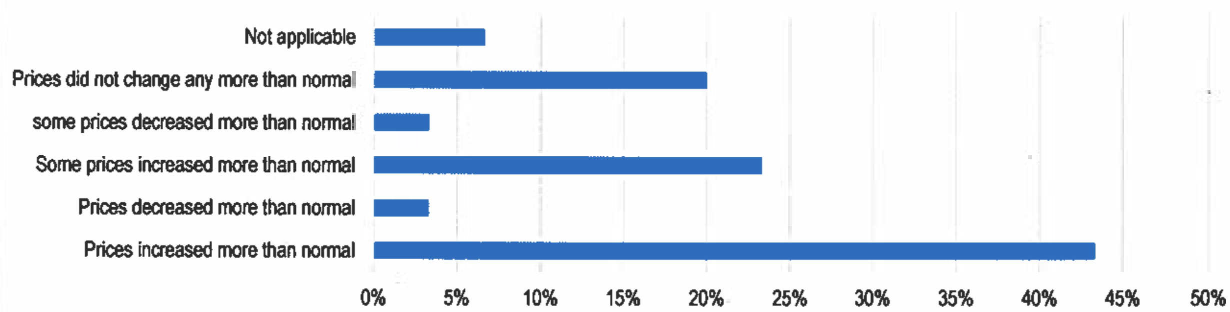
Figure 18: Ability to access materials, goods or services



	My business was able to access materials, goods or services.	My business had to change suppliers or find alternative solutions	My business was unable to access materials, goods or services.	Not applicable
Series1	21%	24%	38%	17%

The survey investigated whether there was a change in the prices of supplies (figure 19 below) used to conduct day-to-day operations, the majority of the survey's respondents (43%) indicated that prices increased more than normal.

Figure 19: Change in price of supplies



	Prices increased more than normal	Prices decreased more than normal	Some prices increased more than normal	some prices decreased more than normal	Prices did not change any more than normal	Not applicable
Series1	43%	3%	23%	3%	20%	7%

3.4. Additional Findings

The survey requested businesses to elaborate on how productivity or output had been impacted by the pandemic. Among the respondents, one stated the following:

"With struggle brought about by delays in importing of stock, output was affected. The productivity was also affected because for a period of months, our operations were affected"

Another respondent with an auction business indicated that their business' productivity was affected as they were unable to hold auctions during the lockdown period. The general sentiment expressed among respondents were that their business' productivity had in fact been impacted by the Covid-19 pandemic, with only two businesses reporting that it had not been.

When asked whether the pandemic had impacted business's workforce, respondents provided mixed answers with 55% responding in the affirmative. Providing further elaboration, one of the respondents stated the following:

> *"We have had to retrench over 20 of our workforce across the country because of the strain in demand of our products brought about by Covid-19 pandemic".*
>
> *"Due to 3 months not trading and lower clientele staff hours was decreased".*

Of the 45% of respondents who indicated that their business' workforce had not been impacted by the pandemic, one explained that this was because their business was small in nature and only had two employees. Another respondent stated that they managed to keep all of their employees despite the pandemic.

Some of the lessons learned by businesses included the importance of investing more in online and digital migration. A number of respondents highlighted the importance of saving money and building up cash reserves. One of the respondents affected by imports stated the following "*Source my stock locally*" as a lesson learned. This realisation by the participant emerged from the challenges experienced as a result of the pandemic. While other participants expressed that they require more assistance from the government in terms of funding and skills training. Once again, the importance of digital platforms was re-emphasized with participants also highlighted the value using social media as a marketing platform.

4. CONCLUSIONS

The Trade sector has been greatly impacted by the Covid-19 pandemic and national lockdown restrictions. National retail sales have recorded declines on an annual basis for 9 consecutive months since the beginning of the lockdown.

Some of the key results of the Free State Retail, Trade and Wholesale Covid-19 Business Impact Survey included the following:

- 75% of respondents had turnover that was lower than their normal range
- 69% reported that they do not trade online, while 7% reported an increase in online sales
- 52% of businesses had temporarily closed or paused trading, 31% continued to trade albeit partially and 10% continued to trade at full capacity. None of the businesses permanently ceased trading

- 67% of the respondents indicated that their entire workforce worked form their normal place of business, the remaining 22% specified that less than 20% of their workforce worked remotely.
- Only 11% of the respondents reported that their businesses' IT systems were robust enough to handle the demand of employees working from home.
- Almost all of the survey's participants (90%) reported that their businesses have been impacted financially and/or operationally by the Covid-19 pandemic.

A key observation has been a lack of adequate IT systems among the participants. Moving forward it will be important for businesses in the trade sector to move towards digitization of trade. Many South Africa's retail stakeholders have identified online retail as an important driver of sales growth and customer engagement for the foreseeable future.

Based on the feedback provided by the participants, this report strongly recommends that *(1)* the Free State Provincial Government create and invest in a shared online platform that would serve as a virtual market place for SMMEs who may be unable to bear the costs of trading online individually. *(2)* Businesses in the retail sector should consider forming cooperatives. Being part of a business collective can increase purchasing power and cut costs through service sharing. Using their combined buying power, businesses in the trade sector will be able to save money and also have influence on pricing of supplies.