

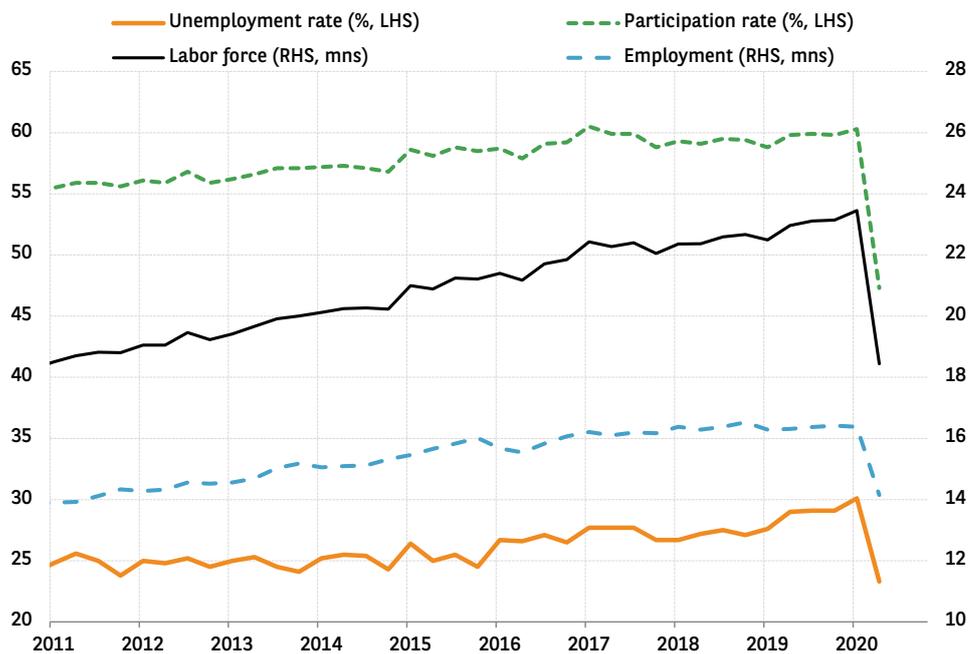
CHART OF THE WEEK



4 November 2020

SOUTH AFRICA: THE EPIDEMIC IS HITTING AN ALREADY CONTRACTING ECONOMY AND A FRAGILE SOCIETY

Christine Peltier



Source: Statistics South Africa

The Covid-19 crisis has hit an economy that had already been in recession since mid-2019. In Q2 2020 (which was the period when lockdown measures were the tightest), real GDP collapsed by 16% q/q seasonally-adjusted. Activity contracted sharply across all sectors in April before reviving slowly. The economic growth rebound from H2 2020 is expected to be difficult. Real GDP is projected to contract by 8.5% in 2020 and should increase by a mere 2.5% in 2021. Economic growth will remain constrained by South Africa's very low potential growth, resulting notably from deep structural brakes such as weak human capital and deficient transport and energy infrastructure.

The social context, with very high levels of poverty, income inequality and unemployment, is worsening further this year. Total employment fell by 2.3 million in H1 2020 to reach 14.1 million at the end of June 2020. It is estimated that about half of the job losses during the lockdown consisted of complete job terminations, suggesting a persisting effect on the labour market. Moreover, the fall in employment has hit more severely the poor, unskilled, female, rural and informal workers. This situation is not well depicted by the trend in the official unemployment rate, which reached an all-time high of 30.1% in Q1 2020 but then declined to 23.3% in Q2. In fact, many workers left the labour market in Q2 and the participation rate fell to a very low 47.3%. However, both the participation and unemployment rates should surge in the coming quarters.

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