EFFICIENT GROUP

ECONOMIC COMMENTARY

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Newsletter

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SURVIVALISTS ENTREPRENEURS AND BILLIONS IN SUPPORT

Previously, I wrote explaining that although certain industries have been forced to slow down due to the COVID-19 pandemic, others were forced to speed up and work harder. As investment specialists and market observers, we count ourselves among the latter. Colleagues from many different industries had a similar story to tell and I finally came across a relevant article that explains this phenomenon. Working from home, where the boundaries between work and leisure are not as clear, can often cause productive employees to overwork. Of course, a prudent employee would work harder (and hopefully smarter) during times of crises in an effort to prove his or her worth. But there is also another possibility. With all the uncertainty at the moment, individuals can easily fall into what is considered a manic defence. When individuals go into manic defence, they find comfort in overworking, believing that if they work hard enough, they can hold unto the world that was, without coming to grips with reality. However, we all know the world is changing, and change is usually for the better, although it hurts in the short run. Keep in mind that recessions produce many millionaires, as survivalist entrepreneurs enter industries with low education requirements and small start-up costs. At least seven of the billionaire families in the United States started their entrepreneurial ventures during the great depression; the closest comparable recession to the one we are currently in.

In other news, President Cyril Ramaphosa, gave yet another speech last week. However, this time he didn't really say anything (we think that maybe he just missed us). Unfortunately, we're still holding our breaths regarding the economic recovery plan that we've yet to hear anything about. We're hoping that Finance Minister, Tito Mboweni, will provide more detail about this plan when he tables the adjusted budget before Parliament on Wednesday, 24 June. The importance of this recovery plan cannot be overstated. PWC recently released their estimate of the likely contraction South Africa will experience during 2020. By their estimate, the contraction could have been as much as -19.2%, was it not for the fiscal and monetary policy intervention provided by the government, which now totals as much as R800 billion. The interventions should each reduce the contraction by 5.2% and 1.2%, respectively, reducing the contraction to -12.8%. This estimate is in line with our own estimate. Treasury's estimate is that the economy will contract by -16.1%, causing more than 7 million people their jobs. However, we doubt the impact will be as large on unemployment, not with all the assistance provided by the government and the private sector. The Oppenheimer family alone has assisted more than 27 000 enterprises.

Fiscal policy relates to the R500 billion funnelled through government that has been targeted at consumers and businesses in distress. Poor and struggling households received additional grant assistance. Individuals who lost a part of their income also qualified for UIF relief, others received payment breaks on their debt, and the list goes on. However, as the lockdown continues, it becomes more important to support the private sector, those enterprises paying to keep their workforce quite literally alive. The government's loan guarantee scheme, worth R200 billion, was set aside specifically for this reason, to help struggling enterprises meet their operational expenses. The scheme was, however, only launched on the 12th of May, but if it can be rolled out at a similar speed as the COVID-19 tests, it can go a long way towards keeping enterprises alive. Monetary policy is estimated to inject more than R300 billion into the economy through various instruments, bond repurchases and interest rate reductions, amongst others.

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