

Short-term impacts of the Covid-19 crisis on the African manufacturing sector

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Initial reports and data on the impacts of the Covid-19 crisis between March and June 2020 highlight the relative resilience of African countries when compared to other emerging countries such as Brazil. While the economic crisis is generally affecting all sectors (apart from healthcare), the manufacturing sector would appear to be holding up fairly well - and even recovering in certain countries at end-June 2020 - based on the Purchasing Manager's Index (PMI).

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Measuring the vulnerability of the African manufacturing sector to the fallout from the Covid-19 pandemic is a complex task. Context is the overriding factor in the analysis so it is difficult to use the experience of other continents to understand the phenomenon.

Because African countries were affected later, only partial information is available for the moment.

Added to that, the Continent is not as well "covered" by international data and national data is not produced as quickly as it is elsewhere. Nevertheless, certain trends are already emerging

at the end of the first wave which hit Africa between March and June 2020.

Initial assessment

In spring 2020, initial reports published by the IMF, the World Bank and the United Nations show that most African countries remain relatively unaffected by the health impacts of the crisis. This can be explained by the fact that they are not as well integrated into the global economy, a younger population and lower population density than in other continents, and more rapidly deployed preventive measures (IMF, 2020 and World Bank, 2020). For example, as of 1 April, 28 out of 50 African countries for which data was available had introduced at least local restrictions, and eight countries were encouraging their populations to self-isolate (UNECA, 2020).

Although they differ greatly between countries, medium-term forecasts are more fraught, due to the shortcomings of health systems and problems enforcing lockdowns and barrier gestures among poor populations.

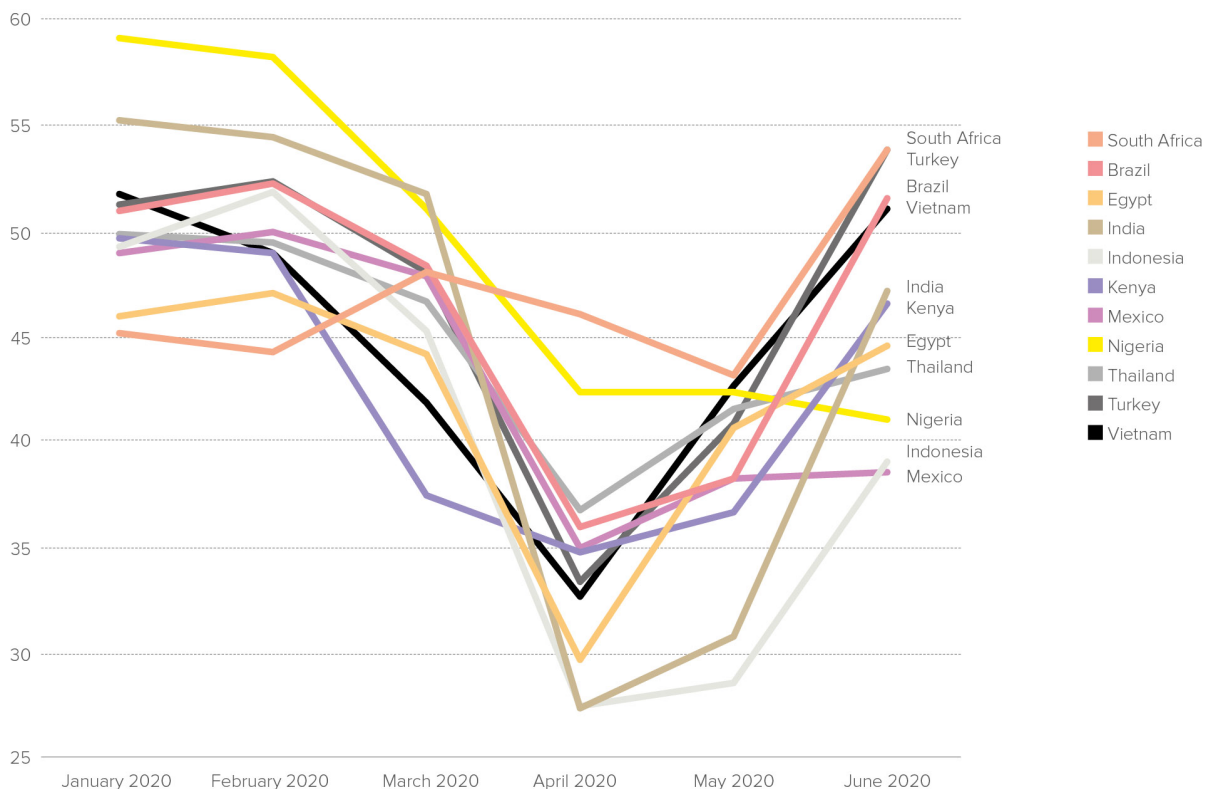
So in the first few months at least, the economic fallout appears to be greater than the health impact. International demand for the raw materials exported by Africa is down, domestic production and supply chains requiring imported inputs have been prone to disruption, and income originating outside the country (i.e., investment, international aid, migrant remittances, etc.) is expected to decline. Governments ultimately have less money to help businesses suffering from the effects of health restrictions.

Relatively unaffected manufacturing sector?

While the crisis has hit nearly all areas of the economy, manufacturing appears to be less affected than services - especially tourism and transport - or raw materials. In April, using an economic simulator for Sub-Saharan Africa, the World Bank (2020) even estimated that the impact of this crisis on value added would be positive in 2020, with a 5% gain in manufacturing output - due to the substitution of local products for imported products - while agriculture would contract by around 3%, services by 6% and the energy sector by 21%.

However, this positive impact needs to be kept in perspective given the lesser role of manufacturing in the African economy. It undeniably exports less (especially to Chinese and European markets), is less integrated within value chains and is more informal than elsewhere, even though the Continent is characterized by considerable diversity in this respect (Contemporary Africa, 2018).

Graph 1 The Purchasing Manager's Index between March and June 2020



Source: Authors, based on data from <https://tradingeconomics.com/country-list/manufacturing-pmi> (consulted on 29/07/2020)

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The Purchasing Managers' Index (PMI) for manufacturing is an advanced composite indicator put together from monthly business outlook surveys. Less than 50 signals a predominant decline while more than 50 points to an improving situation. The index covers four African countries - Egypt, Kenya, Nigeria and South Africa - all of which have been severely affected by the epidemic.

The pattern appears similar for all of the countries represented in the graph: a sharp deterioration in April/May as all countries report a decline, generally followed by a recovery in May/June, although the sector is continuing to contract in most countries. This is the case with Kenya and Egypt (the latter was already reporting a deterioration in January/February), mirroring trends in Thailand and Vietnam (i.e., countries deemed to have handled the crisis effectively). The recovery witnessed in Kenya and Egypt is apparently due to the relaxing of restrictions and lockdowns and the resumption of sales in certain sectors and export markets, particularly to Europe. However, South Africa - which like Egypt was already reporting a deterioration in January/February - did not witness a sharp drop in its PMI. It initially continued to decline before experiencing a marked recovery in June, reporting an overall improvement, just like Turkey. Despite the severity of the health crisis in South Africa, the recovery here also appears to have been driven by the relaxation of lockdown-related restrictions. Nigeria on the other hand is a bit different: it was reporting a clearly improving outlook in January/February, followed by a less severe drop than other countries in April/May but no recovery in May or June, mainly due to a continued decline in export orders. The pattern in Nigeria is similar to that in Mexico, one of the countries most severely

affected by the pandemic. Therefore, the initial (short-term) severity of the crisis or related measures does not appear to trigger a bigger decline in, or to hamper a recovery of the PMI index. This apparent mismatch between the severity of the crisis and how it is handled, and changes in the PMI index highlights the specific features of each economy, the complex interplay between the various factors and specific manufacturing sector trends.

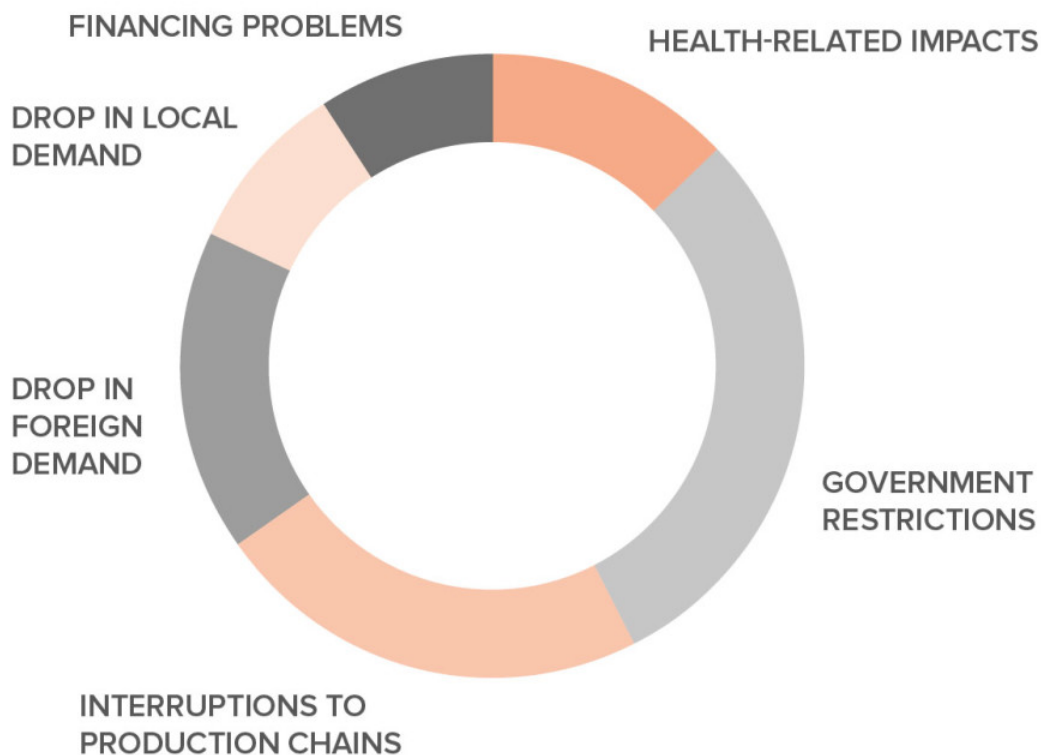
The most severely affected sectors by country

Various business surveys provide us with information on the most severely affected manufacturing sub-sectors by country. In Morocco, surveys conducted in 2020 by the General Business Confederation (Confédération générale des entreprises) and the High Commissioner for Planning (Haut-commissariat au Plan) (2020) show that the textiles, metallurgy and mechanical engineering sectors (i.e., export-driven), together with construction, were hardest hit. The UNDP-Tunisia development programme reports that the most severely exposed sectors in Tunisia are tourism, transport and textiles and that micro-businesses have become more vulnerable financially. In Cameroon, while research conducted by an inter-employer body, Groupement inter-patronal (2020), points to a negative impact for industrial businesses, this is not as pronounced as for service companies. The Togolese Chamber of Industry and Commerce survey (2020) reports on the many difficulties being experienced by industrial companies, mines and the construction and civil engineering sector. In Burkina Faso, the “Covid-19 Impact” study carried out by the Chamber of Industry and Commerce (2020) stresses that the industrial sector has been just as badly affected as services and the “Forge Afrique” research unit (2020) demonstrates how the textile sector has been the most severely affected manufacturing activity.

Although UNECA (2020) and UNIDO (2020) reports unsurprisingly reveal that large export-driven companies have suffered most, analyses also indicate that many small businesses (especially trades and crafts) have been badly hit, and - just as importantly - that these appear less resilient than much larger structures. This mirrors the findings of the studies conducted by the Ivorian Ministry for Economic Planning and Development (2020) into the formal and informal sectors.

To round out these findings, we surveyed African experts, economists from academia and senior managers in government departments via the network of CERDI alumni. The questionnaire was designed to flesh out their analyses concerning the short-term impact of the crisis on their country’s manufacturing industry. Between 14 May and 13 June 2020, 86 African experts from 19 countries¹ replied to this questionnaire (see graphs 2a and 2b).

Graph 2a – Survey of African experts: drivers of economic impacts ▼

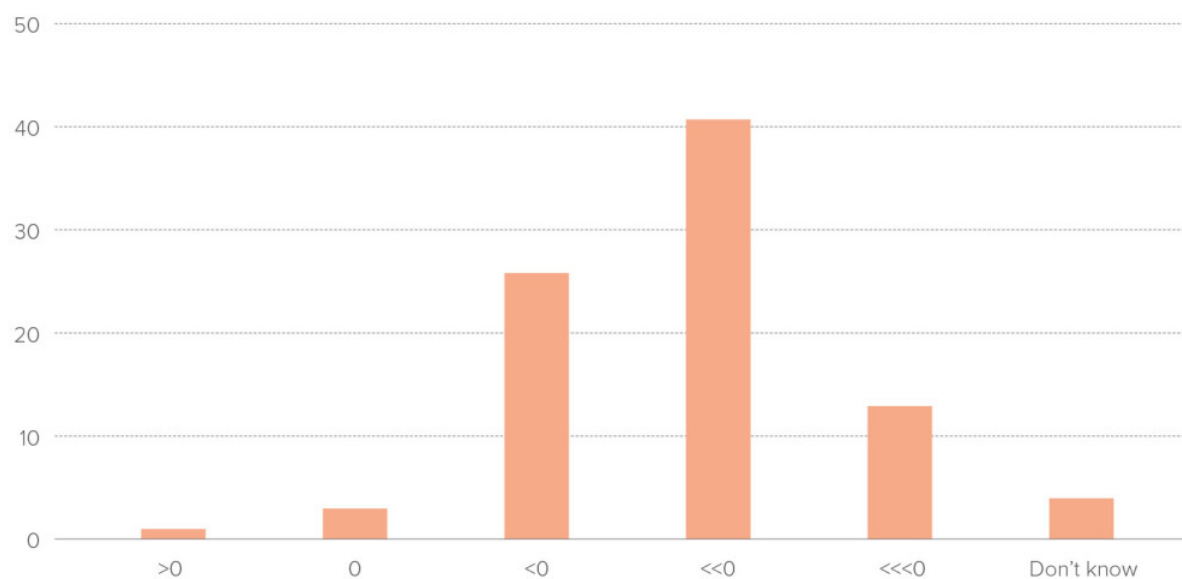


Participants were asked: “In your opinion, the economic impact in your country is mainly due to...(several answers possible)”. On average, the 86 respondents selected 3 causes out of a possible 6.

Source: Goujon and Mien, 2020.

Question put to participants: “In your opinion, the economic impact in your country is mainly due to...(several answers possible)”. On average, the 86 respondents selected 3 causes out of a possible 6. *Source:* Goujon and Mien, 2020.

Graph 2b – Survey of African experts: impact on manufacturing output ▼



Participants were asked: “What is the estimated impact of Covid-19 on national manufacturing output?” Possible responses: positive (>0), no impact (0), slightly negative (<0), negative (<<0), strongly negative (<<<0), don't know (D).

Source: Goujon and Mien, 2020.

Question put to participants: “What is the estimated impact of COVID on national manufacturing output?” Possible responses: positive (>0), no impact (0), slightly negative (<0), negative (<<0), strongly negative (<<<0), don't know (D). Source: Goujon and Mien, 2020.

The responses generally bear out the trends observed previously while also highlighting the variability in findings together with the complexity and context specificity (Goujon and Mien, 2020). While the experts generally considered the impact on manufacturing output to be negative, it was much more marked for export-driven production. Moreover (and although the trend is less clear-cut here), output has been hardest hit in urban areas, in the formal sector and in very large businesses. The most severely affected sub-sectors are “food, beverages” and “machines, equipment and transport vehicles”, followed by “construction materials, cement” and “textile, clothing and leather.” The experts believe that government restrictions and interruptions to production chains are the main negative factors affecting production – even before the decline in non-domestic demand is factored in.

While Africa faces an uncertain health outlook, the economic consequences could well be drastic as they are driven by specific context-related factors, namely, economic or even political vulnerability, the proportion of the population living below the poverty line, high under-employment rates, and limited financing resources, etc.

Based on IMF estimates from June 2020, African growth in 2020 is expected to fall by around six percentage points year on year, equivalent to the decline being recorded in the Middle East, Central Asia, and in developing Asian countries, but less than that being reported by Latin American, Caribbean and developing countries.

It remains to be seen whether the African manufacturing sector will prove resilient in the medium term in the face of a crisis of an unprecedented nature and size. Maybe there is even a possibility that it will be able to reap some of the benefits of replacing imports by locally produced goods.

Footnote:

¹ Algeria, Benin, Burkina Faso, Burundi, Cameroon, Democratic Republic of the Congo, Côte d'Ivoire, Djibouti, Guinea, Mali, Madagascar, Morocco, Mauritania, Niger, Uganda, Senegal, Chad, Togo and Tunisia.

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