



Africa  
Foresight  
Group

# Foresights: Thinking about the next recession

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# This Foresights publication covers...

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What the current global recession forecasts look like



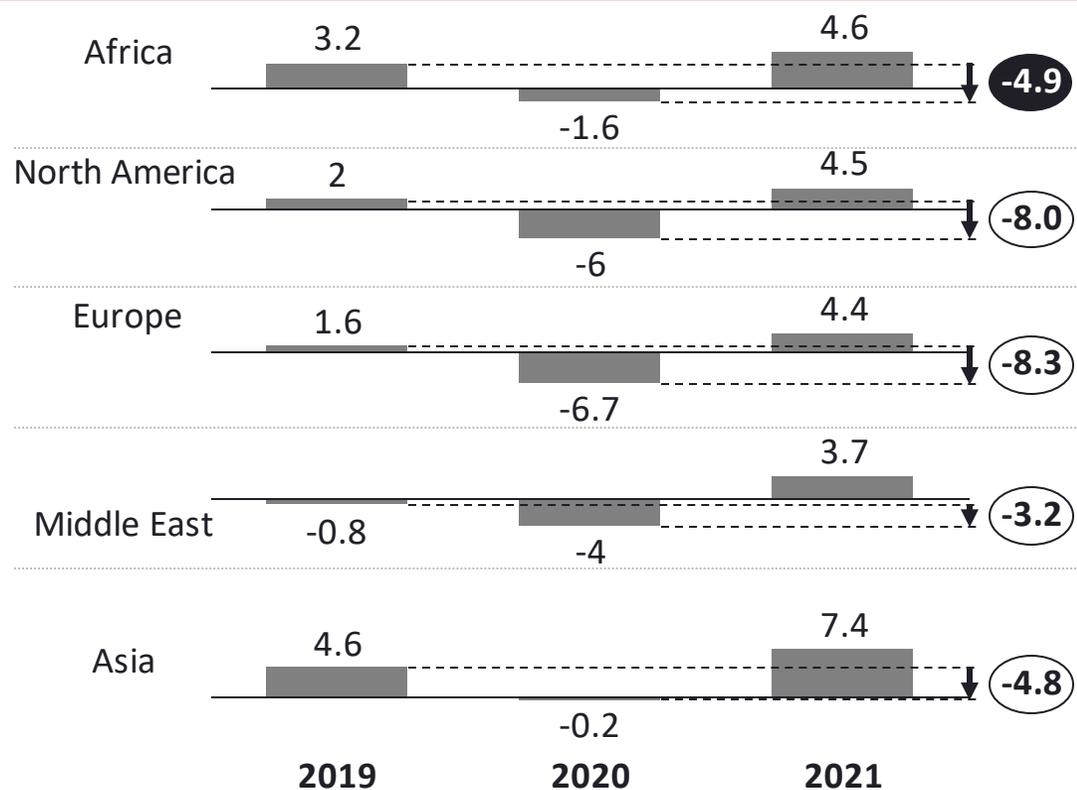
A quick analysis of how Africa has fared in past recessions



Examples how companies in Africa can manage recession

# The World Bank announced that the world is heading into a global recession, with Africa projected to be hit by a **triple shock**

## 2019-21 Regional GDP Growth Rate (%) and projections



Economic growth expected to rebound in 2021, if the virus is successfully contained

## 2020 Recession in Africa: "Triple shock" logic

Africa is projected to be hit by the recession with **'The Triple Shocks'**



**Stricter virus containment measures are disrupting production and cut demand.** Countries with export-driven economies can be particularly hit by this.



**Spillover from the worsening global financial conditions.** A significant rise in capital outflow is projected. Already happening in South Africa where investors recently sold \$1.2bn of South African government Bonds.



**Declining commodity prices will impact majority of African countries** whose economies are resources-export driven.

# The “triple shock” was also felt during previous recessions in 1980s and 2007-2009 global recessions...

## 1980s Global Recession

## 2007-2009 Global Financial Crisis



**Demand Shock**

- Africa experienced a **decline in non-oil exports of over 20%** as local and foreign demand for products declined

- **Exports declined by 42%** leading to an export import imbalance in African economies as global demand for products declined



**Global Crisis Spillover**

- As global markets plunged, **Africa lost over \$30bn in exports** of goods and services while **FDI inflows plunged to 0.07%**

- There was **contraction in flow of remittances by over 5%** leading to **foreign exchange shortages** and **rising poverty levels**



**Commodity Price Shock**

- Between 1978 and 1980, **real commodity terms of trade dropped by nearly 35%** in real terms

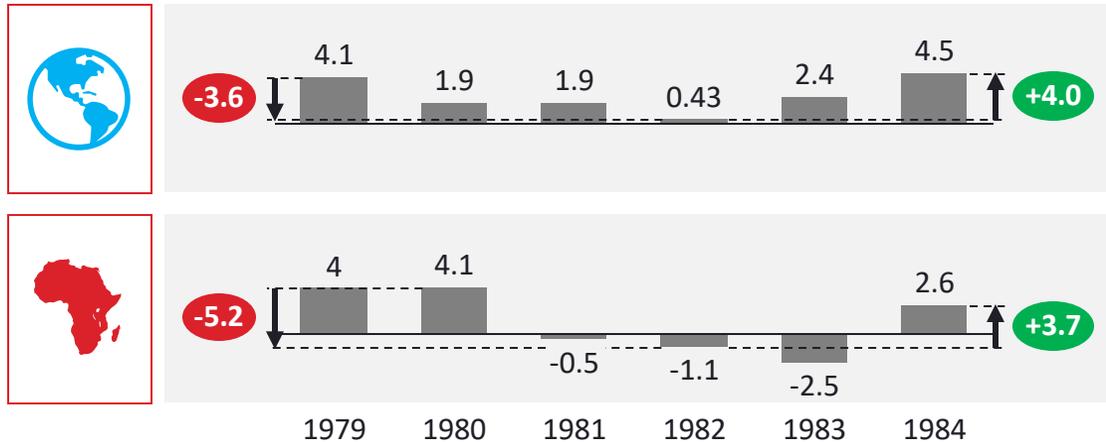
- Non-energy commodities prices fell by 38% while oil **fell by over 60%**, leading to reduced revenues

After these recessions, African nations started instituting policies and frameworks that would strengthen their economies and reduce vulnerability to these external shocks. E.g. Nigeria’s economy declined significantly after **1970s oil shock** led to the country **formulating the Structural Adjustment Program in 1986**, to diversify its exports.

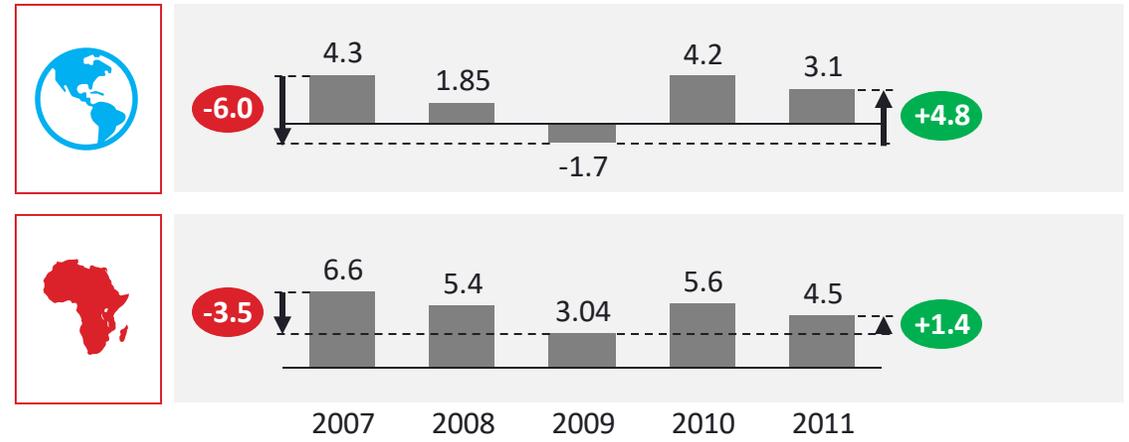
# Not every global recession has the same level of impact on the African market

## GDP Growth rates (%) compared in past recessions

### 1980s Global Recession



### 2007-2009 Global Financial crisis



- Africa's debt rose from **\$11bn in 1970** to over **\$120bn by early 1980s**
- The US Federal Reserve raised interest rates to a **high of 21.5% (1982)**, causing global interest rates to rise.
- Africa's debt service cost increased from **\$2bn in 1975** to **\$8bn in 1982**, while non-payment penalties also soared
- 11 African countries defaulted while **14 others** had to **restructure their external debts**
- The World Bank, **Structural Adjustment Programs (SAPs)** lead to a further 3% decline in growth between 1985 and 1990

- As the US Federal Reserve lowered interest rates to near zero (**0.25% in 2008**), the US housing market, dominated by mortgages, collapsed, leading to strains in the financial markets
- This triggered a global financial markets and banking sector crisis
- Africa was however **lowly integrated into the global financial markets**, therefore the shockwaves of the financial crisis did not impact Africa greatly, **except for South Africa**, which has a more developed and globally-integrated financial market

# In response to previous “Triple Shock”, Africa’s economic landscape has undergone crucial changes that could impact its resilience to a recession in 2020

	Demand shock	Global crisis spillover	Commodity price shock
Change	<p><b>Rising Household Income</b> </p> <ul style="list-style-type: none"> <li>According to World Bank data Africa’s GNI per capita has grown steadily since the 1990s - from <b>\$1500 in 1990 to over \$3600 in 2018.</b></li> </ul>	<p><b>Formation of Trading Blocs</b> </p> <ul style="list-style-type: none"> <li>Africa has <b>formed 16 regional trade zones</b>, thereby increasing intra-Africa exports <b>from 6% in 1980s to over 17% of total exports</b> in 2019, while FDIs have <b>grown to over \$10bn in 2019</b> and <b>M&amp;As have grown from \$600mn to over \$16bn in 2018</b></li> </ul>	<p><b>Economic Diversification</b> </p> <ul style="list-style-type: none"> <li>Agriculture now accounts for only 15% of GDP as opposed to <b>21% of GDP in 1994</b> while <b>Manufacturing accounts for 10%, industry 24%</b> and <b>services contributes over 50%</b> to Africa’s GDP</li> </ul>
Outcome	<ul style="list-style-type: none"> <li>With increased income levels, spending is less affected during a recession and therefore commodity demand does not decline significantly</li> </ul>	<ul style="list-style-type: none"> <li>Trade with the rest of the world remains vital for Africa as the continent has a high export dependency. Thus, it is crucial to continue deepening intra African trade linkages to fully realise the extent of this change</li> </ul>	<ul style="list-style-type: none"> <li>Africa’s economic diversification over the past years would provide some insulation from the devastating effects of tumbling commodity prices</li> </ul>

# What will resilience mean in the African context?

## Think ahead in this recession

“Teeth do not see poverty”

– ***African proverb, means even in the toughest times we must still find a reason to smile!***

“Someone is sitting in the shade today because someone planted a tree a long time ago”

– ***Warren Buffet***

“Rain does not fall on one roof alone”

– ***African Proverb, means trouble does not discriminate, so we better build a bigger umbrella to stay dry together***

“Never miss out on an opportunity like a good recession”

– ***Jack Welch, Former CEO of General Electric***

“A roaring lion kills no game”

– ***African proverb, means you should not sit around but rather get moving to come out of the crisis as a winner***

# Example of resilience: How Darko Farms turned a crisis into an opportunity



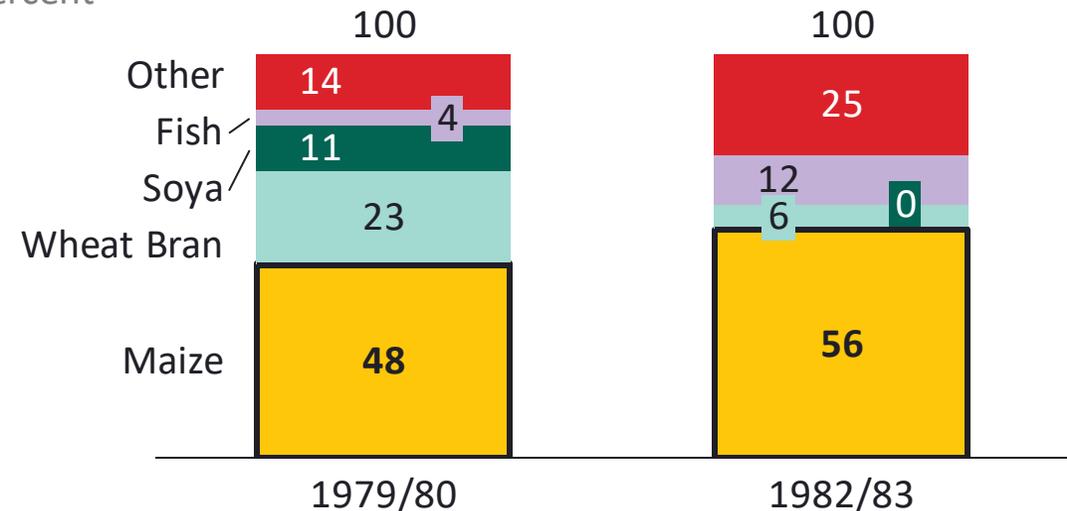
Founded in 1967, Darko Farms is one of the oldest family businesses in Ghana and was the largest supplier of day-old-chicks in West Africa. In the 1970s, when Ghana faced significant economic and political challenges, a **devaluation of the cedi resulted in big losses from importing feed inputs**. The company thus resorted to local production, a positive shift which significantly altered the cost structure of the business and its operating model.

## Darko Farms' response to the economic decline

- The economic crisis of the 1970s precipitated a sharp decline in economic activity, similar to what is currently being experienced with the outbreak of Covid 19
- In response to the challenges of the time, Darko Farms made a significant strategic decision to grow its own grains, especially maize, to **cut reliance on imported feed inputs** such as soya, and **increased its maize share in the feeds from 48% to 56%**
- The company **started producing feed**, which accounts for **60% of cost in poultry businesses typically**, and sold it to other producers to **create a new line of revenue**

## Raw material utilization of Darko Farms' feedmill

Percent



# What are foresights?

Foresights are monthly publications of AFG bringing you research insights on a current business topic related to Africa – brief and “on point”.

**Think ahead.**

