



Market Brief
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AfDB

Chief Economist Complex

Africa Economic & Financial Brief

The findings of this brief reflect the opinions of the authors and not those of the African Development Bank, its Board of Directors or the countries they represent.

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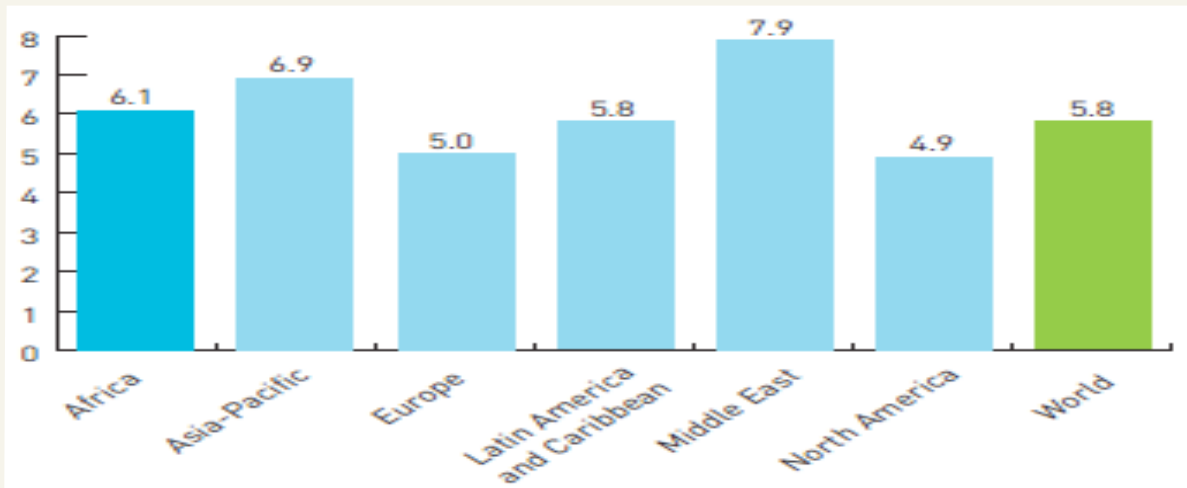
Key Points

- **Weekly theme: « Africa's Aviation Industry: Challenges and Opportunities »**
- **Strong U.S. jobs data and fall of unemployment rate boosted global stock markets.**
- **The euro strengthened as the ECB kept unchanged its benchmark interest rate.**

Africa's Aviation Industry: Challenges and Opportunities

The performance of the African aviation industry is still lagging behind those of the rest of the world. Nonetheless, demand for air transport has increased steadily over the past years with passenger numbers and freight traffic growing by 45% and 80%, respectively¹. Over the period 2010-2015, Africa will be the third fastest growing region in the world in terms of international traffic with an average growth rate of 6.1% compared to the global average of 5.8%, and 7.9% and 6.9% for the Middle East and Asia Pacific, respectively, while Europe, Latin America and North America are projected to record lower international passenger growth of 5.0%, 5.8% and 4.9%, respectively (See Figure 1).

Figure 1: Projected annual growth rate for international traffic by region (2010-2015)



Source: Air Transport Action Group (2012): Aviation: Benefits Beyond Borders

This trend is expected to continue in the coming years due to a number of factors, notably robust economic growth, demographic boom, increasing urbanization, and emergence of the middle class. Air transportation plays a vital role in the country's growth process by accelerating convergence of goods and persons. The contribution of air transport far exceeds that of road transportation sevenfold². Growth in air transportation has directly maps into economic growth due to spillover effects through creation of direct and indirect jobs in the industry and other auxiliary sectors such as tourism and other service sectors. Expansion in air transportation creates market opportunities for local entrepreneurs by creating regional and global economic centers. In 2010, the aviation industry in Africa supported about 7 million jobs (including 257,000 direct jobs) through the impact on travel and tourism which translated into USD67.8 billion of the continent's GDP. Forecasts indicate that the aviation industry's impact on African economies is set to grow. Over the next 20 years, implied job creation by the industry is projected at 879,000³.

Africa can maintain the growth of its aviation industry if more and more people can afford to pay for the cost of air travel. Currently, only 10% of Africans travel by air but given the current rate of economic growth and emergence of the middle class, there be high demand for services linked to air transportation. In recent years, growing alliances with counterparts in other regions of the world have played an important role in the development of the African aviation industry. These alliances have permitted African companies to gain access to new long haul routes resulting in higher economies of scale and skills exchange⁴.

1. African civil aviation commission (AFCAC): African ministerial conference on aviation safety 16-20 July 2012

2. idem

3. Air Transport Action Group (2012): Aviation: Benefits beyond Borders

4. Second Annual African Aviation Conference. South Africa (2012): Speech of Nick Fadugba, CEO of Africa Aviation Consulting Company and former secretary general of the African Airlines Association



Challenges to the African aviation industry

The rapid expansion in Africa's aviation industry is hampered by a number of factors. Poor record of safety and security, lack of adequate resources and infrastructure, distance and limited connectivity, lack of regulation and government actions are among the main constraints the industry is facing. These constraints add to competition and high operating costs resulting from surging oil prices. Addressing these challenges could significantly unlock the industry's potential for future growth.

Safety and security challenges: Safety is the most pressing challenge facing the aviation industry in Africa. In 2011, the average number of air traffic accidents was nine times higher than the global average⁵. The frequency of accidents stems largely from inconsistency in the implementation and enforcement of internationally accepted safety standards and practices. Increasing the level of safety should be a key priority for the development of the African aviation industry. The African authorities have endorsed an African Union backed plan aimed at addressing deficiencies related to aviation safety and security and strengthening the regulatory framework. Accordingly, the International Air Transport Association jointly with the International Civil Aviation Organization and other organizations have committed to supporting the Africa Strategic Improvement Action Plan of the African Union. The plan encourages African governments to foster regulatory oversight through the adoption of globally accepted safety and security standards.

Inadequate infrastructure: The air transport industry faces various challenges including poor airport infrastructures, lack of physical and human resources, limited connectivity, and lack of transit facilities. Although substantial progress has been made during the past decade, Africa still lags behind other regions in terms of "soft" and "hard" infrastructure. It is therefore critical that African countries invest in the soft as well as hard infrastructure to support the industry⁶.

Lack of regulation and government actions: Despite the growing awareness of the role that the aviation industry could play in the development of the continent, the industry is still not the top priority of African governments. More, despite increased liberalization of the African aviation industry and the growing presence of foreign companies, some African governments are still reluctant to open their skies fearing foreign competition could undercut national airlines, some of which are short of commercial viability besides being just symbols of sovereignty. These challenges require governments to enhance regulation of aerospace management, consumer protection and safety of airlines. Lack of aviation experts and skills, high airport taxes and fees, the weak connectivity and restrictions on transit visas and facilities add to the menu of impediments affecting Africa's aviation industry.

Opportunities to the African aviation industry

Air travel is essential to the prosperity of Africa as it opens up opportunities that did not exist before. Fostering the African aviation industry may be one of the driving forces of regional integration on the continent. Better connected African countries and regions through a viable air transport industry could be the catalyst that can boost intra-African business, trade, tourism as well as cultural exchange. Developing the aviation industry may also represent an opportunity to mitigate chronic transport problems faced by the 16 landlocked African countries.

5. International Air and Transportation Association (2012): Unlocking Africa's Aviation Potential

6. AfDB (2012): Developing Africa's air transportation. AfDB's workshop. September 2012

Stock Markets

Global Markets

Global equity markets ended the week significantly higher than previous week's close on strong U.S. jobs report for September. Data released by the U.S. Department of Labour showed that unemployment rate in the U.S. declined by three ticks to 7.8% in September, its lowest reading since January 2009. The market was expecting the unemployment rate to remain unchanged in September at 8.1%. Overall non-farm payrolls added by the U.S. jobs market were broadly in line with market expectations as it increased by 114,000 compared with 96,000 in the previous month. Despite the market rally caused by the monthly jobs report, some risks to the U.S. economic recovery remain as the most cyclical component of payrolls which is manufacturing fell by 16,000 in September following a 20,000 decline in August. Other market drivers of the week including the decision of the European Central Bank to hold its key interest rate unchanged at 0.75% and the weaknesses of non-manufacturing indices in China and the euro area. The DJIA gained by 1.3% and FTSE, CAC40 and DAX30 went up by 2.2%, 3.0% and 2.5%, respectively.

African Markets

Despite continued unrests in the country's strategic mining sector, the South African All Share index rose by 2.3% buoyed by better-than-expected U.S. labour data. The decrease of U.S. unemployment rate to its lowest level since the beginning of 2009, boosted investors' confidence that U.S. economy is not losing momentum thus leading emerging markets' equities to rally as global risk aversion subdued. In Nigeria, the NGSE All Share index gained by 1.7% as the Federal Government announced a new tax incentive allowing companies to seek up to 30% of tax credit on infrastructural development projects. In Egypt, the stock market finished the week 2.7% lower on news that talks with the IMF to secure USD4.8 billion have been delayed to give more time for the Egyptian government to draw up its economic reform program.

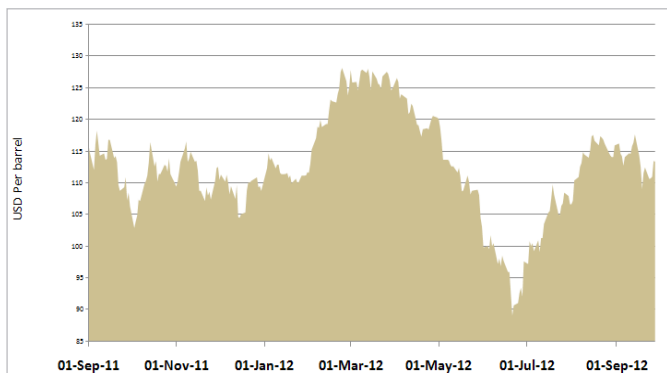


Commodity Markets

Crude (Brent): The price of Brent crude slightly fell by 0.2% as concerns that supply is exceeding demand outweighed signs of jobs recovery in the U.S. market. According to brokers, the oil market remains oversupplied in the short term mainly from the Saudi Arabia in a period of seasonally weak demand in the world.

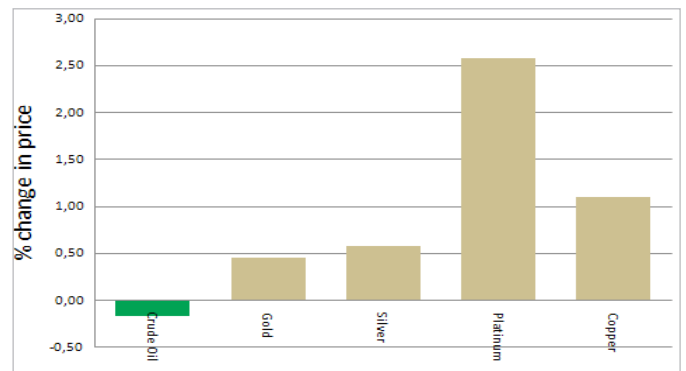
Gold & Silver: Gold and silver prices rose by 0.4% and 0.6%, respectively, in a week characterized by high volatility. Precious metals mainly benefitted from the depreciation of the U.S. dollar and the improvement of the global economy's outlook after the release of U.S. jobs data and U.S. manufacturing PMI index.

Figure 2: Price of Crude Oil



Source : Bloomberg (2012)

Figure 3: Oil & Metals – Weekly price changes (%)

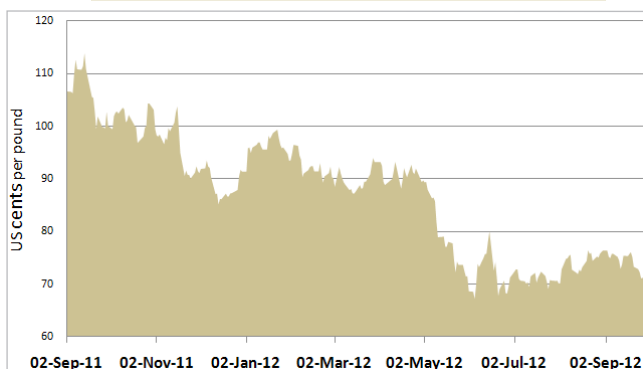


Cotton: Cotton price increased by 1.3% amid concerns that bad weather conditions may hurt the harvest in the U.S., the world's biggest exporter. According to Plexus Cotton, the production and quality of cotton produced in the U.S. may be affected by the heavy rain that fell during the past week. The timing of this rain was considered inopportune as most fields were ready for harvest. The rain is expected to slow the harvest and to reduce the quality of the crop.

Coffee: Arabica coffee price fell by 3.4% and Robusta price declined by 3.1% during the week. Arabica price dropped to its lowest level since July 2012 on prospects for increasing global supplies of the beans. According to the broker Flavour Coffee, trees in major Brazilian producing areas, started to flower before the next crop which may boost the harvest ahead of the rainfall expected later in October. Likewise, Robusta prices were sensitive to global supply as data released by NYSE Liffe, the global commodities exchange, indicated an increase of stockpiles in warehouses monitored by the exchange to 130,280 tons.

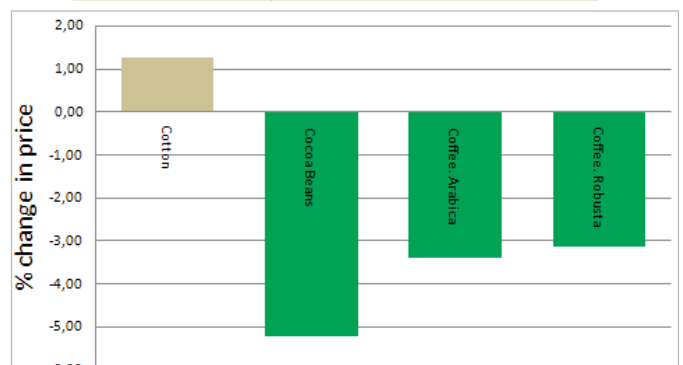
Cocoa: Cocoa prices slid by 5.2% on news that farmers in Côte d'Ivoire, the world's largest producer, will boost cocoa production in the current harvest which has begun this week. The increase by 8.7% of the minimum price that can be earned by local farmers compared with past year may induce them to invest and produce more after the cut of output in the past year due to poor weather conditions.

Figure 4: Price of Cotton



Source : Bloomberg (2012)

Figure 5: Agricultural commodities
Weekly price changes (%)



Currency Markets



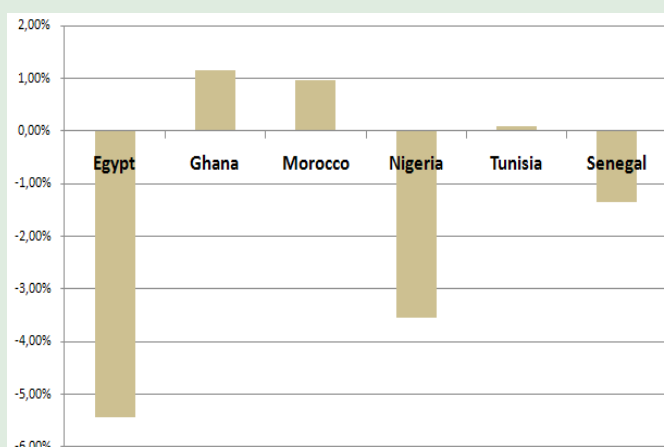
The euro strengthened during the week as the European Central Bank kept its benchmark interest rate unchanged at 0.75% signaling its support to the region's economy and confirming the irreversibility of the euro. In addition, the single currency was supported by rising speculation that Spain is planning to seek a sovereign bailout. The euro appreciated by 0.6% and 1.7% against the U.S. dollar and the Japanese yen, respectively.

The South African rand sharply depreciated by 3.1% against the greenback hitting three-year low and recording the lowest weekly performance in a basket of 20 emerging market currencies. The trigger of the fall was the firing of 12,000 workers by Anglo American Platinum, the world's biggest platinum producer, on the back of a wave of illegal strikes hitting South Africa's mining sector. In Nigeria, the naira firmed by 0.8% reaching a two-week high as dollar sales by the local unit of Chevron boosted the liquidity of the greenback in the market.

Sovereign Debt Issues in Africa

Nigerian yield spreads declined by 3.5% over the week as the inclusion of the country's debt in JP Morgan index on the 1st of October has continued to boost the demand of local debt by foreign portfolio's investors. However, Nigerian yield spreads rose by the end of the week on profit-taking by investors wishing to capitalize on gains realized over the past weeks. In Egypt, yield spreads on 10-year bonds fell by 5.4% on optimism the government will undertake the reform of the costly oil subsidies which is viewed as vital to stave off a balance of payments and budget crisis. Moreover, despite the decision to delay talks with the IMF in what regards the USD4.8 billion loan, it seems that the country's bond market is still pricing in this loan in the sovereign bonds.

Figure 6: Weekly % Changes of Selected African Yield Spreads



Source : Bloomberg (2012)

Updates on the Sahel Crisis

According to the UN Regional Humanitarian Coordinator for the Sahel, governments and donors responded early to the food and nutrition crisis that hit the region. The crisis is expected to be contained in 2012. According to the UN coordinator, building resiliency should be an important issue for 2013 as the region has experienced three droughts since 2005. Even in a good year, a quarter of million children die of malnutrition in the Sahel region every year. Thus, dealing with the chronic nature of the crisis in the region should be of primary importance to African governments as well as other humanitarian and developments partners.

Developments Partnerships

Africa: The African Development Bank jointly with Citigroup and International Finance Corp will provide a credit line of USD175 million for trade finance in Africa. The three-year program which started in 2009 aimed at supporting exporters and importers in Africa and thus will boost economic growth. The financing is part of the Global Trade Liquidity Program, a public-private partnership created to address the decline in trade finance in developing countries following the financial crisis.

Countries in Focus

Egypt: According to the Egyptian oil minister, the oil subsidy reform is still under review until the government completes more studies and holds a dialogue with social partners. Reducing the costly energy subsidies which represent about a quarter of the government's budget, is a vital step to secure a USD4.8 billion loan from the International Monetary Fund (IMF) and other international lenders. In order to tackle the country's wide budget and trade deficits, the Egyptian government needs the financial support of the IMF. Otherwise, the country may face serious fiscal and balance of payments crises.

Nigeria: The Nigerian government planned to expand its first sovereign wealth fund, which has officially been launched on the 2nd of October, by at least USD one billion a year. According to the Nigerian government, the fund is designed to safeguard oil revenues for future generations and to cushion the economy against external shocks. Three sub-funds will constitute the sovereign fund: a future generations fund, a stabilization fund, and an infrastructure fund. Each fund should constitute at least 20% of total allocated capital and will have its own investment strategy.

Tanzania: The IMF urged the Tanzanian government to adopt a viable plan for the electricity industry in order to maintain the country's buoyant growth this year and next. Tanzania has suffered from frequent power shortages and therefore should rapidly undertake actions to address the challenges faced by its power industry and to preserve reliable supply of electricity. According to the IMF, GDP growth is projected between 6.5% and 7% in 2012 and the government's 2012/2013 budget was considered as appropriately balancing the need for sustained fiscal consolidation, preserving social spending and creating an enabling environment for infrastructure investment.

Updates on African Economic Indicators

Mauritius: The unemployment rate rose to 8.2 in the second quarter from 8% registered the previous quarter. This is the highest level of unemployment reached since the beginning of 2011. This increase was mainly attributed to the weak global economy affecting the demand for tourism which is a key economic sector for the small Island. Few weeks ago, Mauritius cut its GDP forecast for 2012 to 3.2% from 3.5% on the back of global growth uncertainties.

South Africa: The seasonally adjusted PMI index fell by 4 index points in September to 46.2 below the threshold of 50 indicating a contractionary territory. This was the lowest reading of the index in 14 months. The business activity sub-component recorded the biggest decline to 43 index points in September down from 50.6 in August. The weaker manufacturing production was responsible for this substantial decline of the country's business activity. Other contributors to the fall of PMI include new sales orders, employment and level of inventories which lost 0.7, 5.6 and 4.5 index points, respectively.

Tunisia: According to the central bank's governor, budget deficit is projected to narrow to 6% of GDP in 2013 from 6.6% expected for 2012. The governor added that the country's economic recovery may be slower than previously expected due to global uncertainties and local developments. GDP growth is projected at 3.5% for both 2012 and 2013 which is less than the government's forecast of growth at 4.5%.

Uganda: The central bank's Monetary Policy Committee (MPC) cut the key interest rate for the fifth straight month to 13% in October from 15% the previous month. The MPC declared that future cuts are likely to be small. As inflation sharply declined in the few past months, it seems that the Bank of Uganda is likely nearing the end of the monetary policy easing. The inflation rate in September dropped to 5.4% from 11.9% one month earlier and from a peak of 30.5% reached in October 2011.

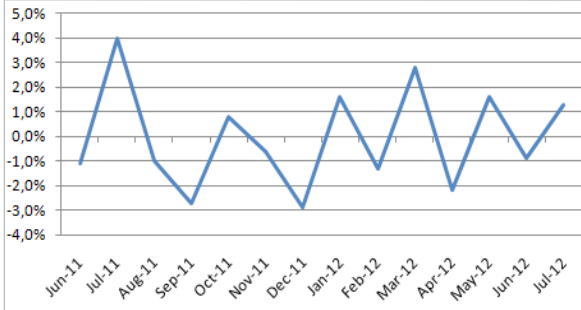
Zambia: According to the Bank of Zambia, GDP growth in the Africa's largest copper producer is projected at 7.7% in 2012 compared to 6.6% recorded in the last year. This economic performance will result mainly from the economic and regulatory reforms as well as the stability and the good governance of the country.



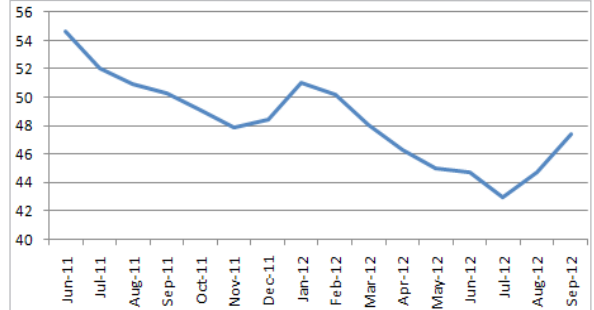
Global Economic Indicators

Updates of the Week: German PMI (September), US PMI (September), South Africa PMI (September)
Next week's updates: German Industrial Production (August)

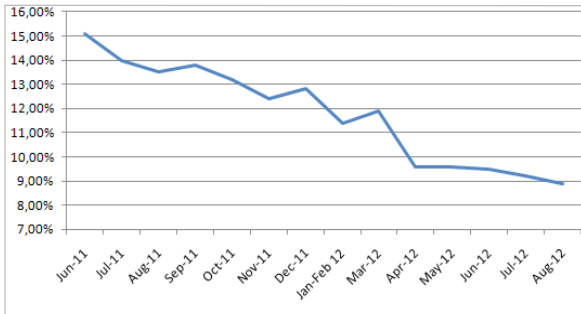
German Industrial Production Growth (MoM)



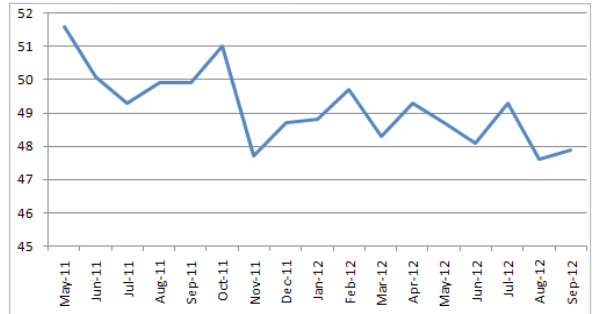
German Purchasing Manager Index



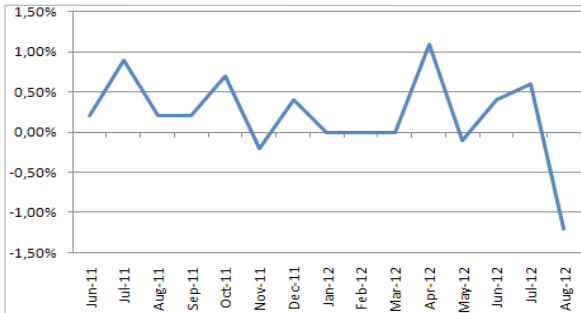
Chinese Industrial Production Growth (YoY)



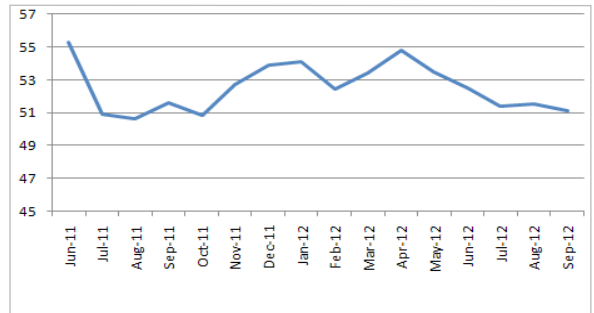
Chinese Purchasing Manager Index



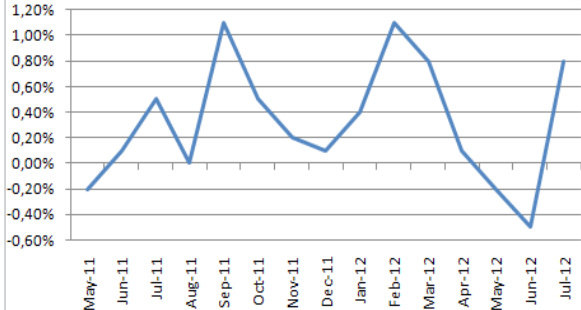
US Industrial Production Growth (MoM)



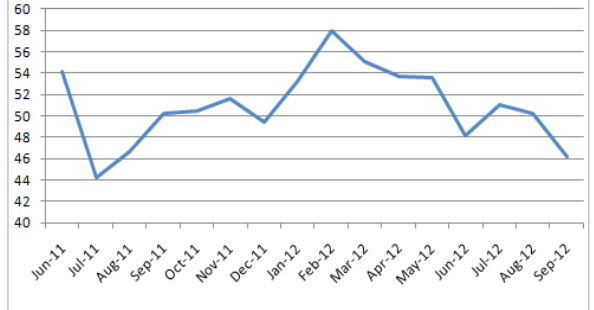
US Purchasing Manager Index



US Retail Sales Growth (MoM)



South Africa Purchasing Manager Index



Source: Econoday, Kagiso. 2012



Appendix Table 1: Stock Market Movements – Week ending 05 October 2012

Stock Markets						
Region/Country	Index Name	Index Code	Market Capitalization (USD, million) (10-05-2012)	Weekly % change (10-05-2012)		Year-to-date % Change
				Week under review	Previous week	Dec 31 2011 - October 05
Africa						
Côte d'Ivoire	BRVM Composite Index	BRVM CI	6 790	▲ 0,18	▲ 0,60	▲ 6,9
Egypt*	CASE 30 Index	CASE30	15 312	▼ -2,73	▲ 1,01	▲ 58,1
Ghana*	Ghana All Share	GSE	29 440	▼ -1,25	▲ 0,75	▲ 6,8
Kenya	Nairobi SE Index- NSE 20	NSE 20	13 410	▲ 0,09	▲ 1,14	▲ 24,0
Mauritius	Mauritius AllShares	SEMDEX	5 382	▼ -0,32	▼ -0,77	▼ -10,1
Morocco	Casa All Share Index	MASI	11 970	▼ -0,09	▼ -0,40	▼ -14,2
Nigeria	NGSE All Share Index	NGSE	49 430	▲ 1,66	▲ 0,53	▲ 27,6
South Africa	All Share Index	JALSH	823 755	▲ 2,32	▼ -1,24	▲ 14,4
Tunisia	Tunis se Tnse Index STK	TUNINDEX	2 773	▼ -1,80	▼ -0,99	▲ 3,2
Uganda	Uganda SE All Share index	USE	5 375,0	▲ 2,21	▼ -1,63	▲ 31,5
Others						
USA	Dow Jones Industrial	DJ Index	4125300	▲ 1,29	▼ -1,05	▲ 11,4
France	CAC 40 Index	CAC40	850 912	▲ 3,05	▼ -4,98	▲ 9,4
Japan	Nikkei 225 Index	N225	2 136 548	▼ -0,08	▼ -2,63	▲ 4,8

Source Bloomberg. *Value at end of 04/10/2012

Appendix Table 2: Exchange Rate Movements – Week ending 05 October 2012

Exchange Rates (currency per US\$)					
Region/Country	Currency Name	Value at end of current Week (10/05/2012)	Weekly % change (10-08-2012)		Year-to-date % Change
			Week under review	Previous week	Dec 31 2011- October 05
Africa					
Algeria	Algerian Dinar	80,15	▲ 0,29	▼ -0,74	▼ -5,1
Angola	New Kwanza	95,66	▼ -0,01	▼ -0,01	▼ -0,3
Egypt	Egyptian Pound	6,11	▲ 0,00	▼ -0,05	▼ -1,0
Ethiopia	Birr	18,25	▼ -0,10	▼ -0,19	▼ -4,3
Gambia. The	Gambian Dalasi	33,50	▼ -0,26	▼ -0,29	▼ -9,8
Ghana	New Cedi	1,91	▲ 0,36	▲ 0,41	▼ -13,0
Guinea	Guinea Franc	7 197,75	▼ -2,19	▲ 1,30	▲ 1,4
Kenya	Kenyan Shilling	86,36	▲ 0,40	▼ -0,53	▼ -0,7
Liberia	Liberian Dollar	74,50	▼ -1,34	▲ 0,68	▼ -2,7
Mauritius	Mauritius Rupee	31,79	▼ -0,42	▼ -0,48	▼ -3,3
Morocco	Dirham	8,60	▲ 0,48	▼ -0,64	▲ 0,2
Mozambique	New Metical	28,80	▲ 0,00	▲ 0,35	▼ -6,3
Nigeria	Naira	157,89	▲ 0,78	▼ -0,53	▲ 4,1
Rwanda	Rwandan Franc	631,38	▼ -1,92	▼ -0,10	▼ -3,3
South Africa	Rand	8,48	▼ -3,06	▲ 1,26	▼ -3,3
Sudan	Sudanese Pound	4,44	▲ 0,03	▼ -0,13	▼ -39,3
Tanzania	Tanzanian Shilling	1 597,83	▼ -0,11	▼ -0,26	▲ 0,5
Tunisia	Tunisian Dinar	1,57	▲ 0,33	▼ -0,65	▼ -4,6
Uganda	Uganda Shilling	2 592,90	▼ -0,81	▼ -1,15	▼ -2,9
Zambia	Zambian Kwacha	5 145,12	▲ 0,30	▼ -1,24	▲ 0,5
CFA zone Countries*	CFA Franc	507,29	▲ 2,46	▼ -1,05	▲ 1,5
Others					
Europe	Euro	0,77	▲ 0,58	▼ -0,80	▲ 0,3
Japan	Yen	78,53	▼ -1,08	▲ 0,76	▼ -0,9

Source : ADB Statistics Department 2012.

* in the interbank currency market.