Country exposure to covid related commodity price shocks: Southern Africa

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The consequences of the COVID-19 pandemic have gone far beyond the spread of the disease as measures taken by governments to protect the health of the population have caused serious disruption to national and global economies.

The pandemic is affecting national economies through several channels, including through global commodity trade and markets. This bulletin provides an overview of the impact of the pandemic on global prices of primary commodities internationally traded by Southern African countries. It covers 9 countries for which recent and detailed trade statistics are accessible. The countries are Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Zambia, Zimbabwe.

The effect of the pandemic on the prices of 46 primary commodities is presented in Figure 1 which is based on price forecasts for the year 2020 released by the World Bank in October 2019 and April 2020.1 The price predictions reveal that the pandemic has driven most commodity prices down in 2020. Prices are projected to decline for energy products and base metal products by as much as -37.5 percentage points (pp) for petroleum products, and -21.7 pp for zinc products. The prices of the majority of oil and energy commodities related to transportation have decreased under COVID scenario compared to compared to the baseline. On the other hand, prices for precious metal products are forecast to rise, by close to 6.0 pp for platinum and 10.0 pp for gold. In contrast, prices for agricultural and food products show a rather mixed picture, with, for example, increases for commodities like palm oil by 12.7 pp or sugar by 11.5 pp and a decrease of similar magnitude (-12.5 pp) for barley.

Global commodity market disruptions and african economies

The pandemic has not left a single region of the world untouched. Its disruptive effects have equally reached into every corner of the global economy. Global primary commodity markets in particular are affected by many of the measures taken to adapt to and control the spread of the pandemic. Measures to minimize the risk of cross-border infections interfere with the normal operations of commerce, slowing down or impeding the movement of goods around the globe. The changes affecting global supply chains have significant repercussions on national economies. Changes in prices received for exports or paid for imports translate into gains or losses of foreign exchange earnings. The same applies to changes in availability of cargo or the operation of airports and ports, as they affect the cost and volume of goods shipped. Changes in consumer behavior, including under confinement conditions or otherwise, have similar consequences.

The forces of supply and demand ultimately dictate which prices move in which direction. Individual economies are affected based on the exposure to shocks in different markets, which in turn depends on the bundle of goods they sell to or buy from foreign markets. The more their exports or imports are skewed towards goods for which global prices move favorably, the more they tend to benefit and vice versa.

Changes in exported and imported quantities as well as related prices are transmitted to domestic firms and consumers, resulting in changes in production activities and demand for goods, which in turn affect the pace of growth, available incomes and thus livelihoods. The final impact depends on the ability of the economy to adjust to the changing market conditions. The more an economy finds ways to compensate for changes in prices or traded quantities, the more it is likely to minimize the negative impact from global market disruptions.

Ousmane Badiane, Executive Chairperson
The impact of changes in global prices for primary commodities on individual economies across Southern Africa depends on the magnitude of price changes for individual commodities and on the composition of the basket of primary commodities exported and imported by each country.

As shown in Figures 2 and 3, for instance, primary commodities accounted for 81 and 32 percent of Malawi’s total exports and imports in 2017, respectively. The global prices for most primary commodities exported by Malawi have fallen in the wake of the COVID-19 pandemic (Figure 3). The hardest hit product is tea, contributing to 8.1% of the country’s total exports with a price decline of -11.8 pp. It is followed by natural rubber (-9.6 pp), cotton (-8.2), and maize (-7.8 pp). Only one commodity experienced a price increase—cane or beet sugar (11.5 pp). A comparable trend is observed for changes in import prices (Figure 5). Petroleum products are leading the changes in import prices with a price decline close to 37.5 pp, followed by structures (-14.5 pp) and fertilizers (-12.9 to 13.2 pp). Modest increases in the prices of flat-rolled products of iron (3.9 pp) and soybean oil (2.3 pp) are observed.

Similarly, primary commodities accounted for 94 and 49 percent of Mozambique’s total exports and imports in 2018 (Figures 6 and 8). Petroleum gases is the hardest hit commodity with a contribution of 5.3% in total exports and a price decline of -37.5 pp (Figure 7). The decline in export commodity prices is partially compensated by a rise in prices for two products: cane or beet sugar (11.5 pp) and precious stones (7.7 pp). Likewise, most of the commodity imports saw a decline in prices (Figure 9), with the largest decreases recorded for petroleum oils (-37.5 pp), electrical energy (-35.0 pp), and structures (-14.5 pp). The prices of rice and palm oil imports experienced the highest increases by 7.2 pp and 12.5 pp respectively, and each commodity accounts for only 3.3% and 1.3% of primary commodity imports.

These trends, which focus on two sample countries in Southern Africa—Malawi and Mozambique, demonstrate diversity in the composition of primary commodity export and import baskets across countries. The decline in export commodity prices is partially compensated by a rise in prices for two products: cane or beet sugar (11.5 pp) and precious stones (7.7 pp). Likewise, most of the commodity imports saw a decline in prices (Figure 9), with the largest decreases recorded for petroleum oils (-37.5 pp), electrical energy (-35.0 pp), and structures (-14.5 pp). The prices of rice and palm oil imports experienced the highest increases by 7.2 pp and 12.5 pp respectively, and each commodity accounts for only 3.3% and 1.3% of primary commodity imports.

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ultimately determine the magnitude of global price shocks that individual Southern African countries are exposed to due to the COVID pandemic.

The impact of global market disruption on export and import prices among Southern African countries is summarized in Figures 10 and 11. The data presented in these figures represent weighted averages of the changes in prices of individual primary commodities exported (Figure 10) and imported (Figure 11) by each country. As is evident in Figure 10, the average export prices for primary commodities declined for all countries with the exception of Botswana which increased by 7.5 pp in the wake of the COVID pandemic. This different outcome is driven by the differences in the composition of the export baskets of Botswana, dominated primarily by diamonds for which prices increased by 7.7 pp during the pandemic compared to pre-pandemic price predictions. In addition to diamonds, the rise in gold export prices by 9.3 pp also contributed significantly to the increase in average export commodity price for Botswana.

The lowest declines in average export prices of primary commodities are recorded for Angola (-35.7 pp), Zambia (-13.7 pp), and Mozambique (-10.4 pp). In the case of Angola, for instance, large declines in prices of crude oils, petroleum gases, and petroleum oils, which account for a substantial part of primary commodity exports, are only slightly compensated for by the rise in prices of diamonds, fish, crustaceans. For Zambia, the decline in the average export price is driven by the fall in prices of electrical energy and copper products which make up majority of primary commodity exports. Similar to Angola, the decline in prices are only moderately compensated for

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2 The composition of export and import baskets of primary commodities and the predicted price changes for relevant individual commodities are available for 9 Southern African countries at [https://akademiya2063.org/macro-effects-of-trade-disruption.php#data-charts-maps](https://akademiya2063.org/macro-effects-of-trade-disruption.php#data-charts-maps)
by increases in the prices of precious stones, cane or beet sugar, and gold. Malawi records the highest average export price decline at -2.2 pp under the COVID pandemic compared to the pre-pandemic price predictions. As indicated previously, decreases in the prices of tea, natural rubber, cotton, and maize contribute significantly to the fall in average export price for Malawi. The average export price decline for Lesotho, Namibia, and Mozambique Ethiopia are mid-range, amounting to -6.7 pp, -8.0, and -10.4 pp respectively.

In terms of imports, the decrease in average import prices range from -5.7 pp for Botswana to -25.7 pp for Zimbabwe. The majority of countries experienced a fairly substantial decline in average import prices with the exception of Botswana. Price decreases for a mix of primary commodities drove down average import prices. In contrast, none of the Southern African countries faced increases in prices of commodity imports.

Ultimately, the impact of global price changes of primary commodities on individual economies will depend not only on the magnitude of the global price shock of primary commodities as discussed previously, but also on the contribution of primary commodities to the country’s total imports and total exports. In conclusion, only Botswana is likely to benefit from the price changes in primary commodities resulting from the disruption of global markets. To a lesser extent, Malawi, Zimbabwe, South Africa, and Lesotho may also stand to gain due to a smaller or moderate decline in prices of exported commodities as compared to the decline in import prices. In other countries, the contribution of primary commodities in total exports and imports, in addition to the price changes, is a key element to anticipate the direction of the impact of COVID-related commodity price shocks.

Beyond the price effects, Southern African economies are also affected by changes in global demand and market access resulting from
measures enacted in response to the pandemic, including reduced availability of air cargo and shipping container, changes in port and airport operations from closures to changes in protocols, quarantine, additional documentation requirements, and reduced manpower. These effects need to be included in an assessment of the impact of the disruption of global trade in primary commodities caused by the pandemic. This will be discussed in the coming series.

Figure 10: Changes in Export Price Indices Between October 2019 and April 2020 Price Forecasts, Southern Africa (Percentage Point)

Figure 11: Change in Import Price Indices Between October 2019 and April 2020 Price Forecasts, Southern Africa (Percentage Point)