HIGH FREQUENCY INDICATOR REPORT

№ 1

Mired in Uncertainty

The trend of high frequency indicators in Myanmar (February-October 2021)

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Executive summary

In the wake of the double crises of the COVID-19 pandemic and the military takeover, the economic situation in Myanmar continues to be on a downward spiral. The civil disobedience movement and widespread strikes have halted production in many sectors, particularly manufacturing, which until the military takeover was a significant contributor to the overall Myanmar GDP. Foreign direct investment that had accelerated the country's growth in the past decade has diminished. Moreover, initial evidence pointed to cash shortages, logjammed transport and logistics networks, rising fuel prices and inputs shortages—all of which exacerbated an already grim macroeconomic situation.

Despite signs of slowing macroeconomic contraction, recovery is slow and uneven, hampered by political instability, banking limitations, liquidity, and credit crunch across sectors. While all the sectors are far from a rebound, there are varying signs of stabilisation, particularly in the manufacturing and transport sectors. In garment manufacturing, production has been stabilising slower than the demand for products, mostly driven by weak kyat and an increase in the price of inputs. That said, while the weaker kyat has helped in propping up some of the garment exports, any signs of recovery have been almost completely offset by the increase in the price of fuel and inputs. Moreover, political uncertainty in the country has discouraged some buyers from doing business with Myanmar manufacturers.

The overall impact of the political uncertainty has been somewhat limited on the agriculture sector, which suffers more from reduced domestic demand and the closure of the China-Myanmar border. As China is one of the major buyers of Myanmar's agriculture products, the closure of the China-Myanmar border and policy change from the Chinese government have had a negative impact on Myanmar's agricultural exports. The ongoing pandemic, the political crisis and the disruption in the overall international trade flows have also contributed to significant reduction in the inflow of FDI in the agriculture sector, both on national and sub-national levels.

Firms in the mining and construction sectors continue to undergo contraction with significant drop in production, demand, and employment. Within the construction sector, all operations had stopped from February to end of July due to the political situation, as well as the escalating COVID-19 outbreak. Any improvement since then has been timid. Most of the licenced mining operations have halted since February 2021, following an order from the military government to stop operations with the purpose of saving natural resources for future generations.

Similarly, activities in the transport sector nosedived amid the double crises, worsened by weak kyat and an overall slowdown in the manufacturing sector. Following the coup d'etat, business operations in the transport sector ceased for about 1.5 months for security reasons, forcing many transport companies to rely on an inconsistent schedule, and increasing costs, of ocean shipping. While the currency depreciation has, in principle, positively affected exporters, they also had to incur higher shipping charges.

Both the COVID-19 pandemic and the political instability continue to have a significant impact on the tourism/hospitality sector in Myanmar. Even in top destinations like Ngwe Saung and Bagan, about 90 percent of employees can be assumed to have lost their jobs since many of the hotels are still closed. Similar findings emerge from a report by ILO released in July 2021, which states that there has been an overall reduction in employment in the tourism and hospitality sector by 25 percent between Q4 2020 and Q2 2021.

Introduction

On 1st of February 2021, the Myanmar military staged a coup d'état, declaring a state of emergency with the commander-in-chief purporting to take all executive, legislative and judicial powers. The events that ensued in the wake of the military takeover aggravated an already challenging economic situation, driven by the COVID-19 pandemic. The civil disobedience movement and widespread strikes meant that many workers could not, or refused to, attend to their jobs, effectively bringing to a halt production in many sectors, particularly manufacturing, which until the military takeover was a significant contributor to the overall Myanmar GDP. This was coupled with gradual withdrawal of foreign investors, depleting foreign direct investment that had accelerated Myanmar's growth in the past decade. Moreover, initial evidence pointed to cash shortages, logjammed transport and logistics networks, rising fuel prices and inputs shortages—all of which exacerbated the grim macroeconomic situation in the country. As a result, international financial institutions forecasted up to 18 percent contraction of the economy for 2021. Nevertheless, an overview of the economic performance of Myanmar on a more frequent and sectoral-differentiated basis is lacking, not least due to lack of data on high frequency indicators. To meet this need, UNDP has established a mechanism to collect such data through an innovative approach. This report presents findings from the first round of this initiative covering the period between February and October 2021.

Methodology

To date, various methodologies have been applied around the world to gauge economic activity, both on sectoral as well as on macro levels, at higher frequency. One of the most commonly applied methodological approaches is the so-called composite indicator of economic activity[1]. The idea behind this concept is to measure macroeconomic activity by relying on a group of high frequency indicators to closely track value-added creation. However, this approach would require data reliability for various macroeconomic series (e.g., employment and production) and availability at higher frequency (e.g., weekly or monthly)—neither of which is sufficiently available in Myanmar. This is one of the reasons why the so-called composite indicator of economic activity has not been widely applied in the context of low- and middle-income countries which often have limited data availability and lower data frequency, such as Myanmar.

In view of this situation, and necessitated by the ongoing crises, this report utilises a new approach that builds on a set of high frequency indicators, introducing innovations to a methodology that is anchored in the literature on composite indicators of economic activity. This was mostly driven by the unavailability of reliable and relevant data series due to their discontinued publication. Therefore, for the process of data collection, we recruited a panel of 100 experts (e.g., business owners and leaders of business associations) to solicit information about the rate of change of economic activities (e.g., production, demand, and employment) in relevant sectors. In selecting the panel, we paid particular attention to its representativeness, by including respondents from all of Myanmar's Regions and States (see Appendix for further details of the panel composition). Furthermore, we ensured that the sectors which are the biggest contributors to Myanmar's value added (e.g., manufacturing, especially garment; agriculture; and construction) are well represented (see Appendix for further details). Finally, we followed a mixed-method approach, consisting of both quantitative and qualitative questions. The data collection occurred between the end of October and early November 2021.

The robustness of our approach lies in the similarities between our methodology and the ones previously used elsewhere[2] including: (i) standard pre-specified and tested questionnaire (the panel of experts were asked questions on output, demand, and employment in their main sectors of expertise); (ii) the questions simply asked whether levels are higher, the same or lower than the previous month. Inter alia, this allowed for rapid data collection; and (iii) the data points were collected from a structured panel, recruited and managed to ensure accurate representation of underlying economic structure[3]. Our methodology, however, goes beyond simple collection of quantitative indicators. By following a mixed-method approach, we were also able to tap into some of the underlying causes that explained the quantitative indicators.

Based on all the information collected, in this report we present an overview of the cumulative change in economic activity (on a sector-by-sector basis) since 1st of February 2021 and separately during October-November 2021[4]. The sector-wise findings are presented below.

1 Ndirangu et al (2014) "Composite indicators for forecasting economic activity in Kenya", WP/2014/002
2 IHS Markit has been collecting high frequency indicators (albeit limited to the real sector) using similar methodological approach. In addition, and in the context of Myanmar, Inya Economics has been also assessing the business environment by relying on a panel of experts.
3 The methodological approach and indicators have been adopted while taking into consideration the country context of Myanmar.
4 Which, inter alia, allows for reporting of signs of stabilisation of otherwise.

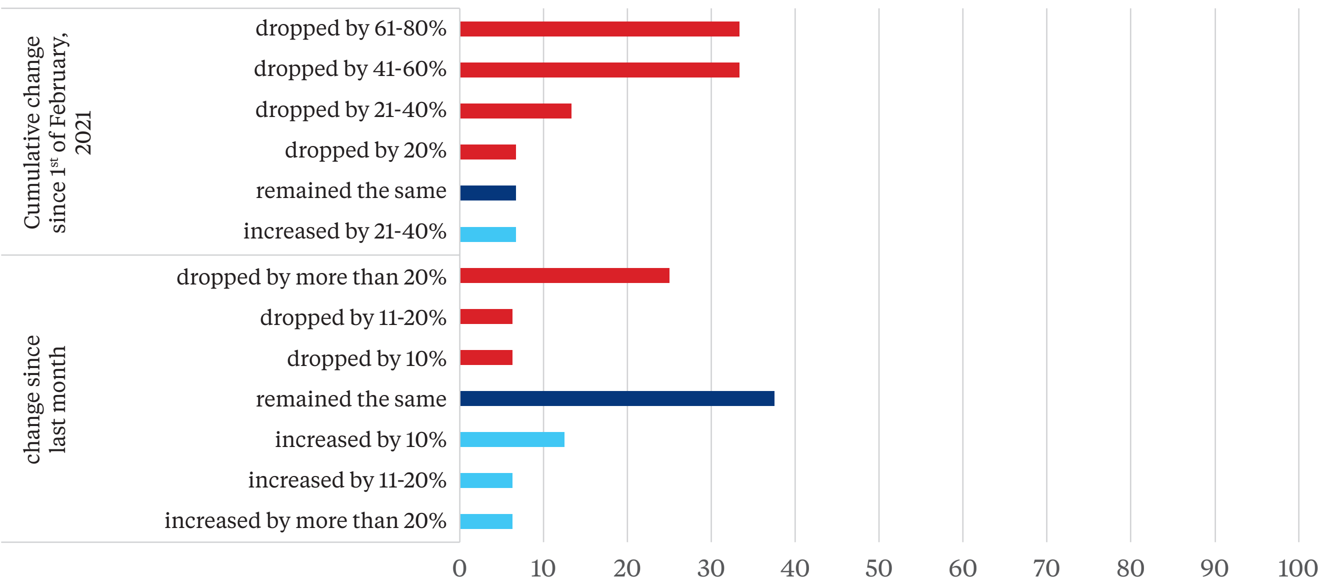
Manufacturing

Garment manufacturing

Garment manufacturing remains one of the most important sectors in Myanmar, employing a significant share of the workforce and contributing to the overall value-added in the country. The events since the outbreak of the COVID-19 pandemic as well as the political instability resulting from the coup d'etat have negatively impacted the garment sector in Myanmar. As evidenced by Chart 1 and Chart 2, over four fifths of the HFI panel experts stated a drop in both production[5] and demand[6] for garment since the military takeover. Yangon has been particularly hit by the double shock as about 70 percent of garment factories are located there. The events in the wake of the military takeover further reduced production in the garment sector. Several garment factories were set on fire in March 2021, forcing some companies to completely shut down operations in the March/April period. Furthermore, as Chart 3 shows, there has been a sharp reduction in garment sector employment since 1st of February. A survey by ILO found that employment in the garment sector in the first six months of 2021 decreased by 31 percent. According to the ILO study, women were particularly affected by employment losses in the garment sector. This is understandable as 86 percent of garment sector employees are women[7].

As the charts below further show, while production, demand, and employment in the garment industry show some signs of recovery by early November, they are still not up to the pre-pandemic levels. For instance, almost 40 percent of respondents claimed their production is the same as the previous month, while 25 percent and 69 percent stated that the demand for their products and the overall employment, respectively, are the same as in the previous month (Chart 1, Chart 2 and Chart 3).

Chart 1 Myanmar High Frequency Indicators - firms in the garment sector reporting changes in production, in %



Source: Myanmar HFI Survey

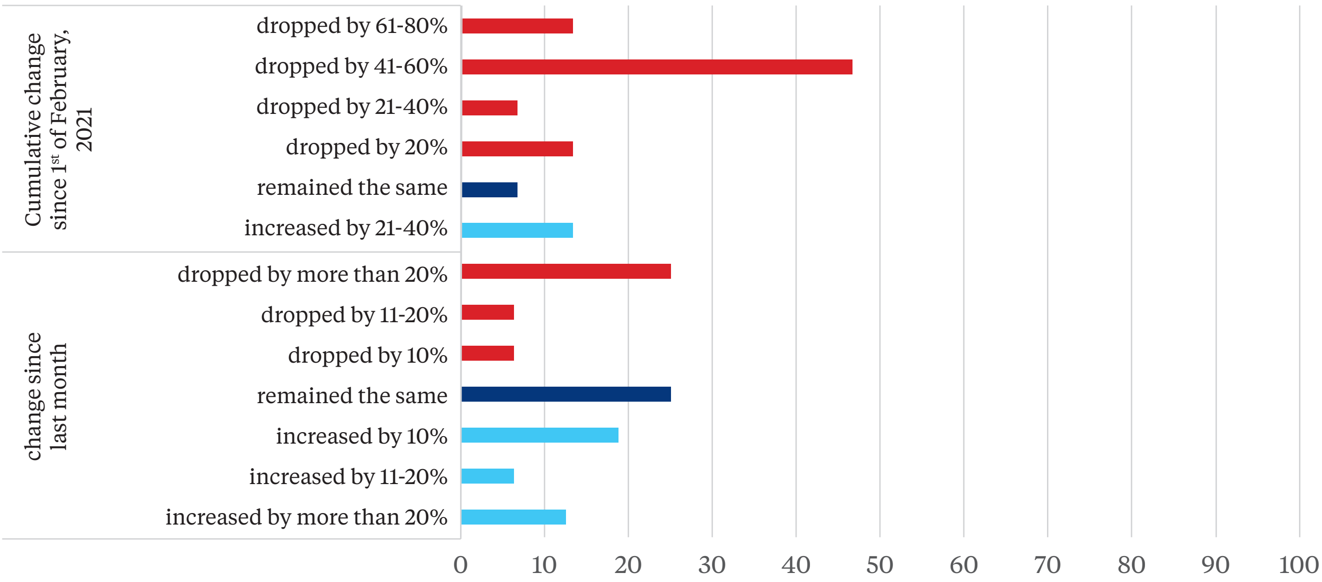
5 In the context of garment manufacturing and manufacturing, production is used as a proxy for output. We have opted for production to capture the full continuity of the manufacturing process.

6 We have also included a question on changes in demand to capture changes in output driven by external forces (e.g., reduced purchasing power). This question is asked across all sectors.

7 https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-yangon/documents/publication/wcms_814681.pdf

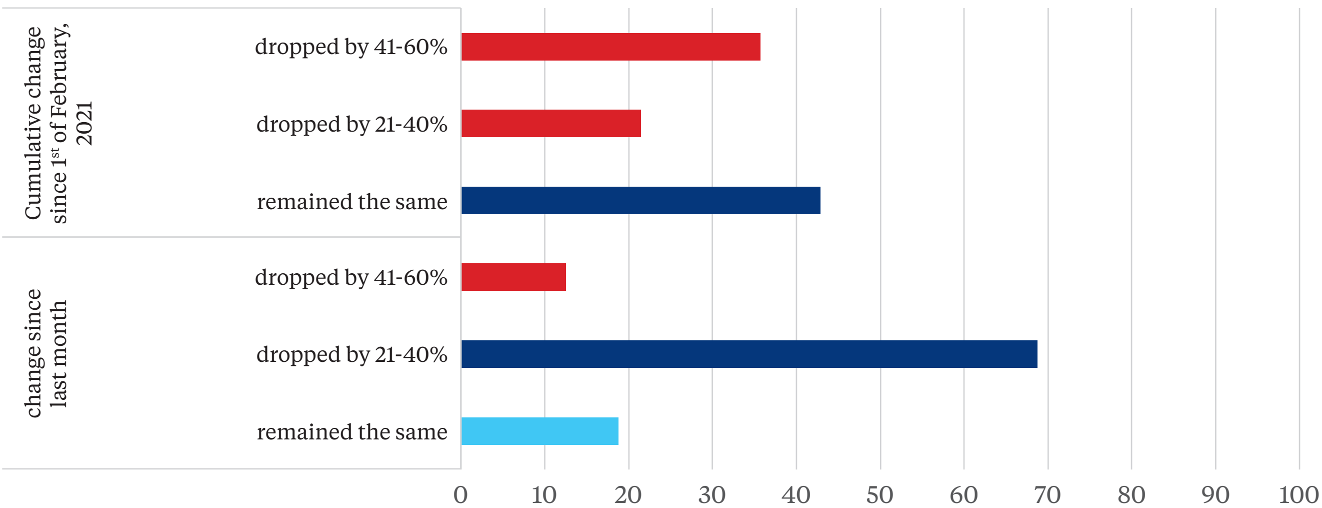
The respondents provide similar, albeit slightly bleaker picture on national and sub-national levels. In this instance, respondents were first asked for their views regarding the changes in demand, production, and employment in the garment sector on the national level, and then in their respective state/region. When asked about production on national and sub-national levels, over half of respondents stated that the sector is still in a contraction mode, albeit at a slower pace (Chart 4). Interestingly, about a third of respondents claim no changes in employment since the previous month, which could be a sign of stabilisation in the sector (Chart 4)[8].

Chart 2 Myanmar High Frequency Indicators - firms in the garments sector reporting changes in demand, in %



Source: Myanmar HFI Survey

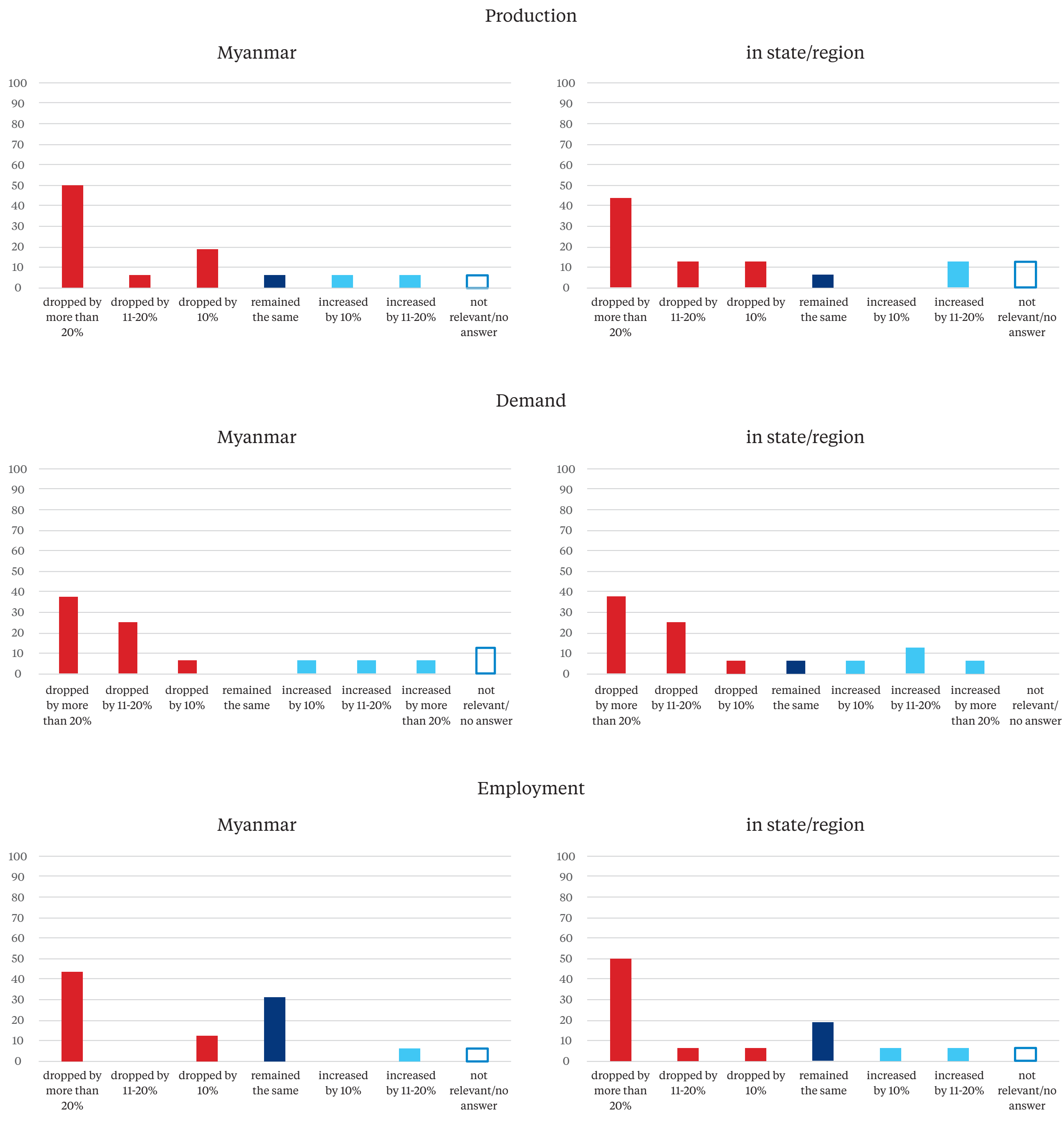
Chart 3 Myanmar High Frequency Indicators - firms in the garments sector reporting changes in employment, in %



Source: Myanmar HFI Survey

8 Please note that as some regions were over-represented in the sample (e.g., Yangon), there is discrepancy between the findings on national and sub-national levels.

Chart 4 Myanmar garments sector: Production, demand and employment changes (in state/region and national) since previous month, % of respondents

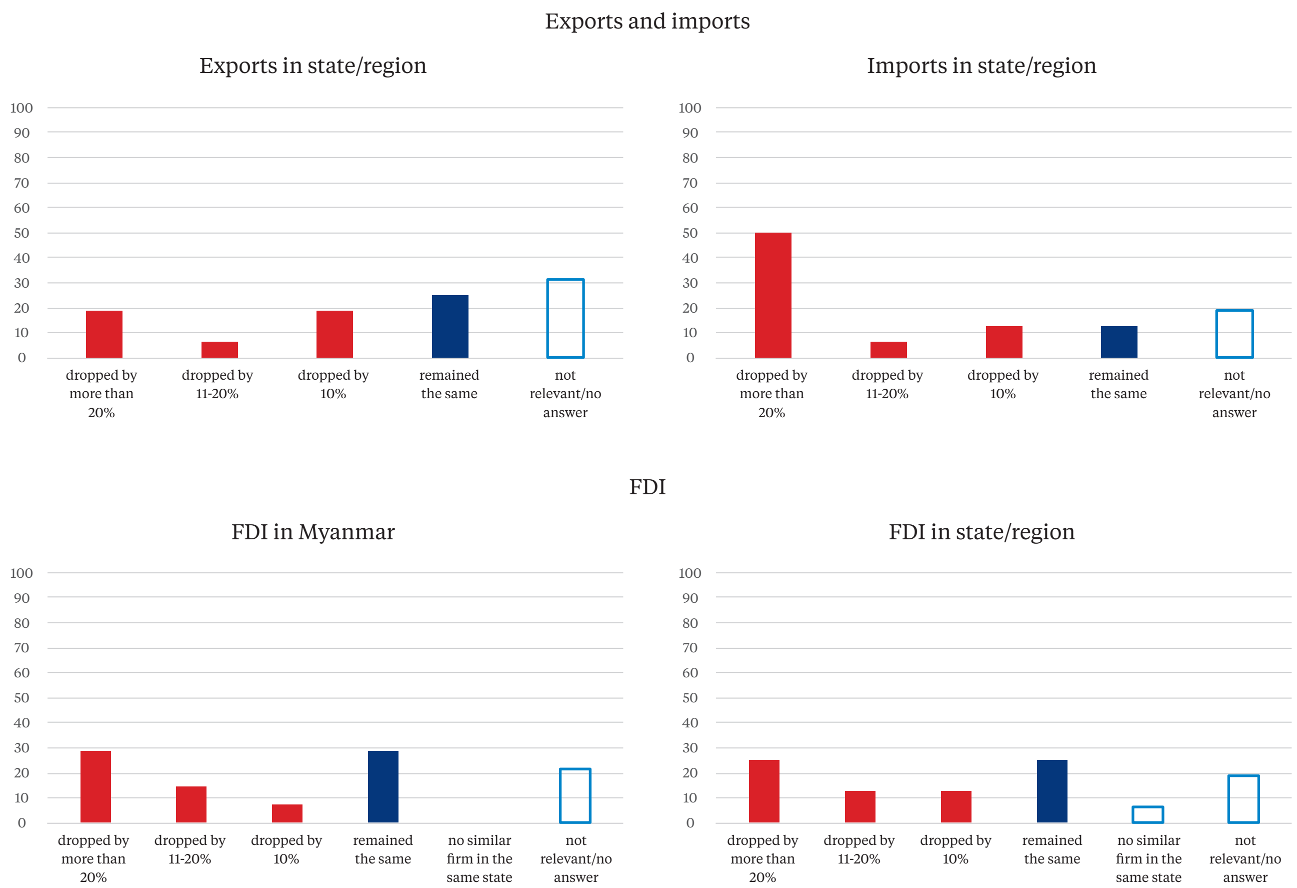


Source: Myanmar HFI Survey

The COVID-19 pandemic and the political turmoil in the wake of the military takeover are the main reasons for this bleak picture in the garment manufacturing sector. In Myanmar, the industry operates under the so-called Cut-Make-Pack (CMP) system, consisting of three parties: contractor country (mostly China, which supplies garment inputs to the manufacturing country); (ii) manufacturing country (Myanmar); and (iii) buyer country (where products are exported to). Despite a certain level of post-pandemic recovery, the ongoing political situation in Myanmar is preventing the sector to reach the pre-coup/pre-pandemic levels.

As Chart 4 shows, the recovery of both production and demand in the garment sector has been slow. The slower recovery of production is partly explained by the increase in prices of inputs, weaker kyat and increased fuel prices. This, in turn, has prevented firms from significantly upscaling production. Furthermore, as the purchasing power of Myanmar residents has been significantly affected by recent events, the increase in demand from domestic market-oriented firms has been modest. Similarly modest has been the recovery of export-oriented firms. While export-oriented firms have benefited from somewhat weaker kyat, the margin has been offset by rising prices of inputs and fuel (Chart 5). As the qualitative questions further attest, orders from European firms have decreased. This has been coupled with decreasing or stagnant FDI in the garment manufacturing sector, which still does not show signs of recovery (Chart 5).

Chart 5 Myanmar garment manufacturing sector: Imports/exports and FDI changes (in state/region and national) since previous month, % of respondents



Source: Myanmar HFI Survey

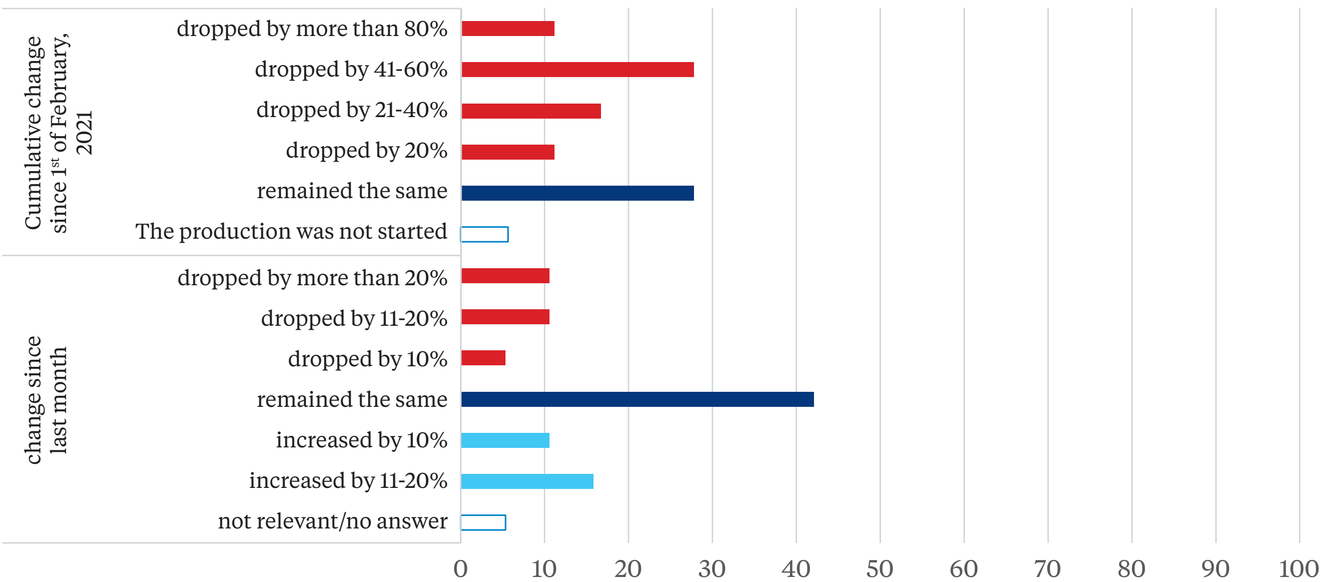
There are additional issues related to the outlook in the garment sector: logistics challenges in the import of raw materials, higher shipping and container charges, delays resulting from shipping shortages, China-Myanmar border closure, delays in air freight due to limited flights, and banking inefficiencies inclusive of cash shortages. Challenges associated with labour disputes have also been reported. One of the panel respondents, for example, mentioned that some factories have received fewer orders because labour unions have been calling for sanctions on Myanmar's garment sector. In the meanwhile, reduced orders meant fewer working hours for garment factory workers, thus significantly affecting their incomes.

Although most respondents maintain a positive outlook for the future, uncertainties remain, particularly related to the political situation, with many surmising that further international sanctions could easily set back the current levels of development by about 10 years. Amid the struggle to keep up with existing challenges, some panel respondents note that while assistance has been provided by EU-funded organisations, none had come from the de facto authorities. The EU-funded Myan Ku program, run by SMART Myanmar, has been praised for its key role in providing cash assistance to garment factory workers during their unemployment and under-employment periods. That said, the need remains for direct support to the garment sector for easing various constraints.

Other manufacturing

The COVID-19 pandemic as well as the events around the political crisis have had a significant impact on the wider manufacturing sector[9] (Chart 6, Chart 7 and Chart 8). Since 1st of February, there has been significant contraction in both production and demand for manufacturing products, causing serious negative effects on employment. There are some signs of bottoming out in the manufacturing sector, similarly to garment manufacturing. When asked about the production, demand, and employment in their firms relative to the previous month, most of the respondents notice no significant change (see the charts below). This could also imply that the sector is headed towards stabilisation.

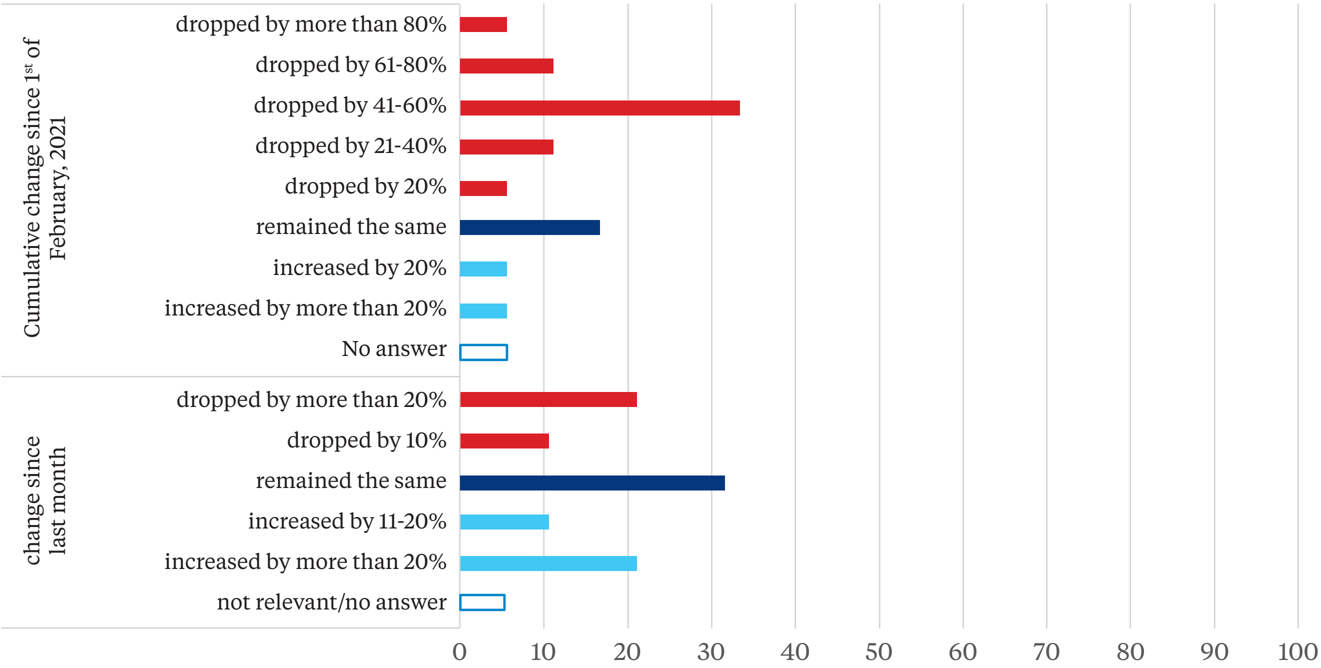
Chart 6 Myanmar High Frequency Indicators - firms in the manufacturing sector reporting changes in production, in %



Source: Myanmar HFI Survey

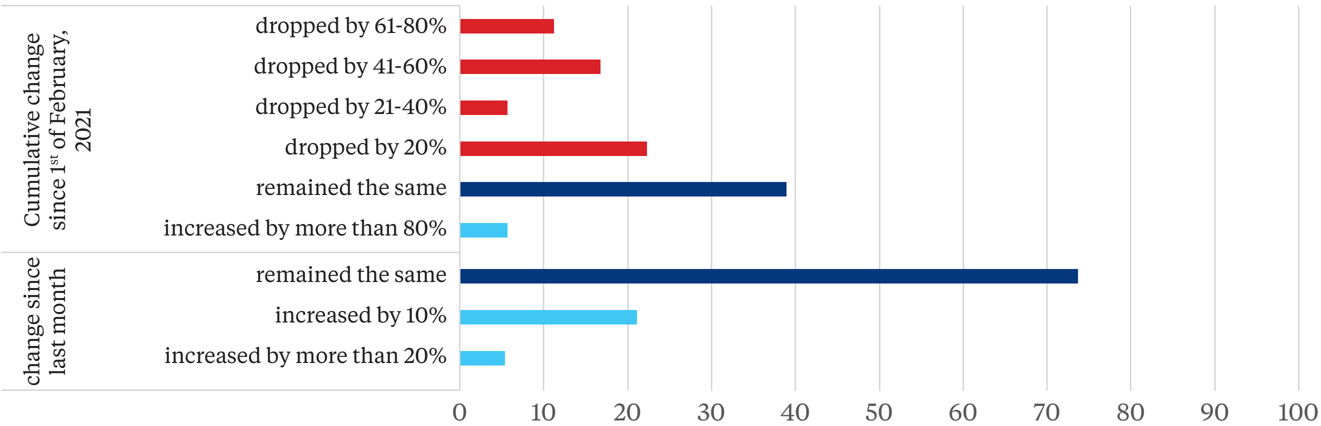
9 The other manufacturing included food production, beverages bottling and production, automotive distribution, and rubber production.

Chart 7	Myanmar High Frequency Indicators - firms in the manufacturing sector reporting changes in demand, in %



Source: Myanmar HFI Survey

Chart 8	Myanmar High Frequency Indicators - firms in the manufacturing sector reporting changes in employment, in %

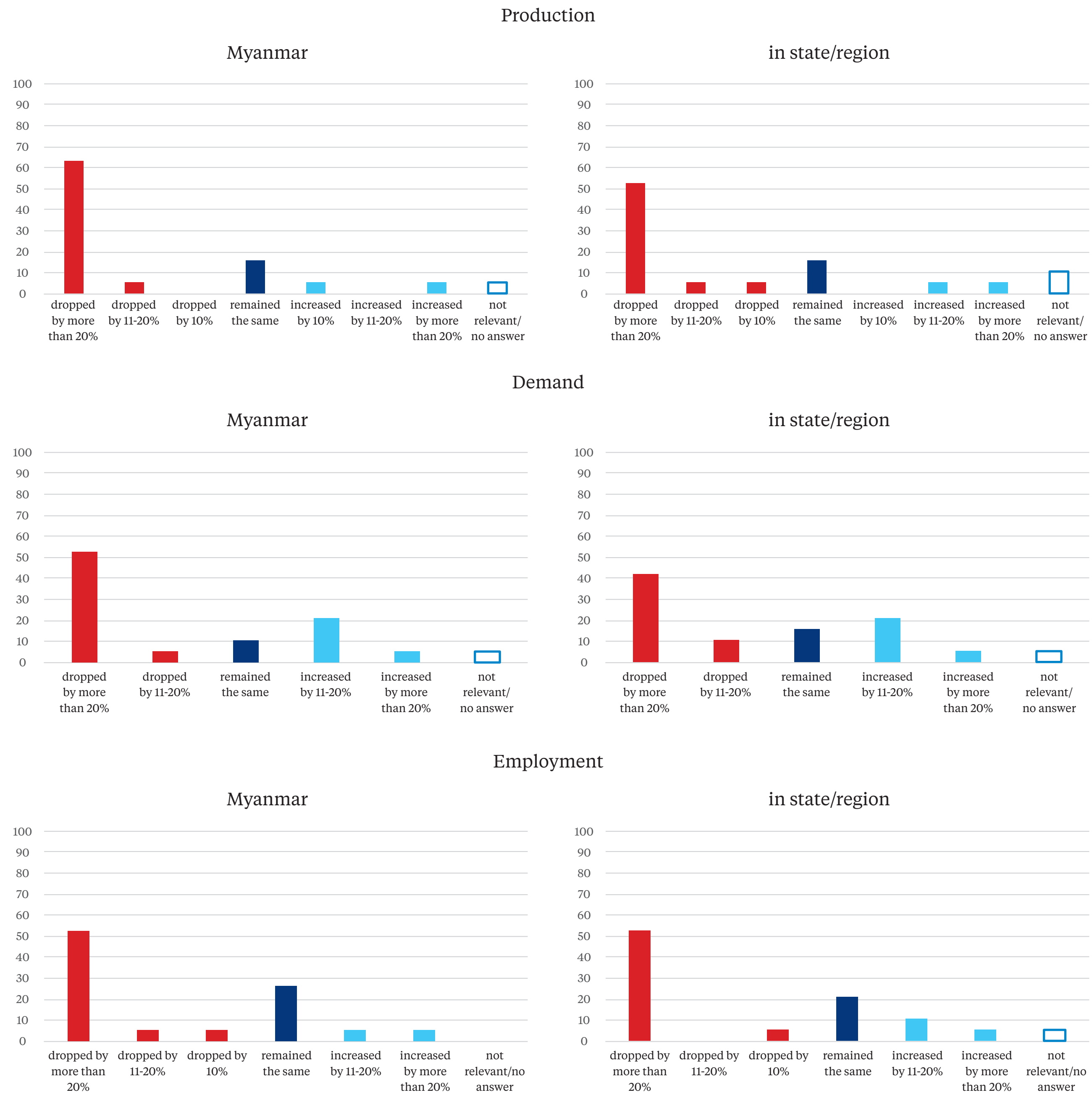


Source: Myanmar HFI Survey

Similar pictures emerge when respondents are asked about the overall situation in the manufacturing sector in their state/region or, more broadly, on the national level[10]. As evidenced by Chart 9, about 15 percent of panel respondents (both on national and sub-national levels) state that there has not been a change since the previous month – another sign that the contraction is slowing down, and that the sector is headed towards stabilisation. This is even more evident when considering the overall employment in the sector (Chart 9).

10 Please note that some states/regions are more represented than others, leading to some differences of the findings on national and sub-national levels.

Chart 9 Myanmar manufacturing sector: Production, demand and employment changes (in state/region and national) since previous month, % of respondents



Source: Myanmar HFI Survey

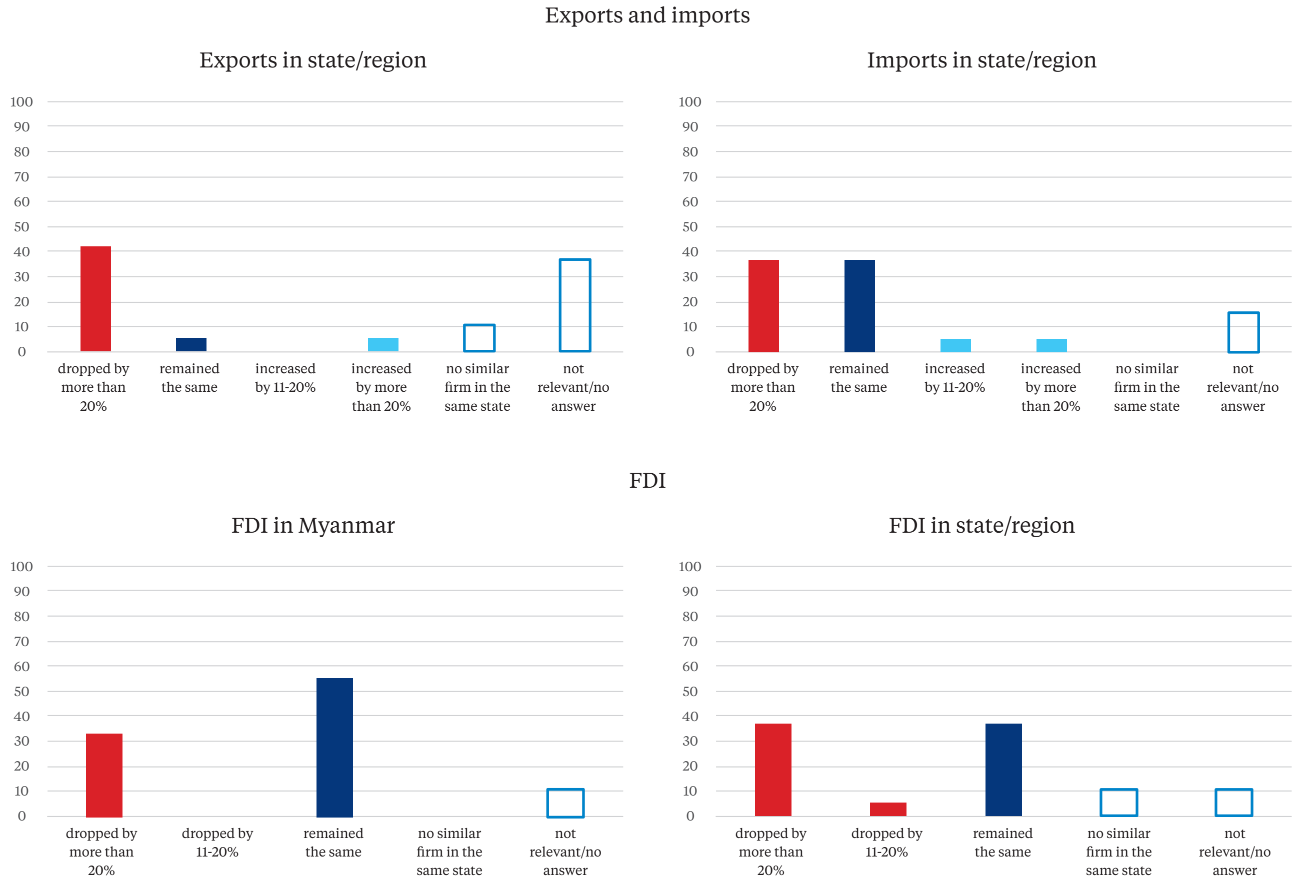
These findings are almost identical with an assessment by his Markit, which in their September assessment concluded that Myanmar's manufacturing sector continues to contract, though at a slower pace. Despite ongoing economic challenges, there are some signs of recovery (e.g., declines in output and new orders easing notably from those in the previous two months)[11].

The macroeconomic fluctuations associated with exchange rate movements and prices of inputs have impacted upon the overall import/export exchange in the manufacturing sector. However, while the import/export contraction has slowed, the overall volume of imports and exports has not reached pre-pandemic levels (Chart 10). As evidenced by the qualitative interviews, the

11 USAID, Burma Weekly Economic Update, 8th of October 2021.

importing and exporting of manufacturing products have been overburdened by additional challenges, such as logistics fees, which have skyrocketed by about three to four-fold. As the number of ships going to and from Myanmar declines, additional export delays have mounted. These challenges have already discouraged foreign firms from doing business with Myanmar. For example, some buyers of manufacturing products (e.g., rubber) have now shifted to other countries (e.g., Ivory Coast), given convenience and favourable prices. Moreover, the trading process with other countries is further facilitated by supportive regulatory framework, which is currently missing in Myanmar due to the political and security crises. All of this would most certainly negatively impact upon the sector in medium to long term.

Chart 10 Myanmar manufacturing sector: Imports/exports and FDI changes (in state/region and national) since previous month, % of respondents

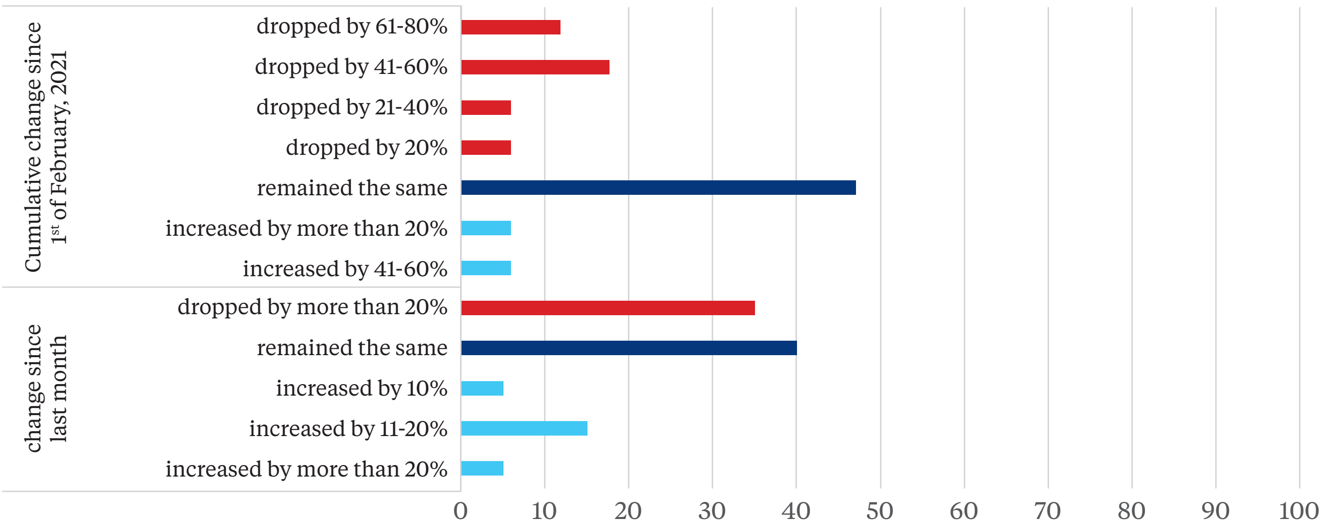


Source: Myanmar HFI Survey

Agriculture

Unlike the manufacturing sector, the overall impact of the political uncertainty on agriculture has been more limited, particularly with regard to overall cultivation and harvesting[12]. About half of the respondents in the HFI panel[13] stated that there has not been any change related to cultivation and harvesting in their agricultural firm since 1st of February 2021, while 40 percent stated that no change had been observed since the previous month (Chart 11). Relatedly, similar to production levels, no significant changes to overall employment were recorded. Over two-thirds of the respondents stated that employment has remained the same in their firm, relative to both 1st of February 2021 and to the previous month. However, the overall economic crisis has had an impact on demand for agricultural products, with about 60 percent of respondents reporting a decrease over the previous month (Chart 12)[14].

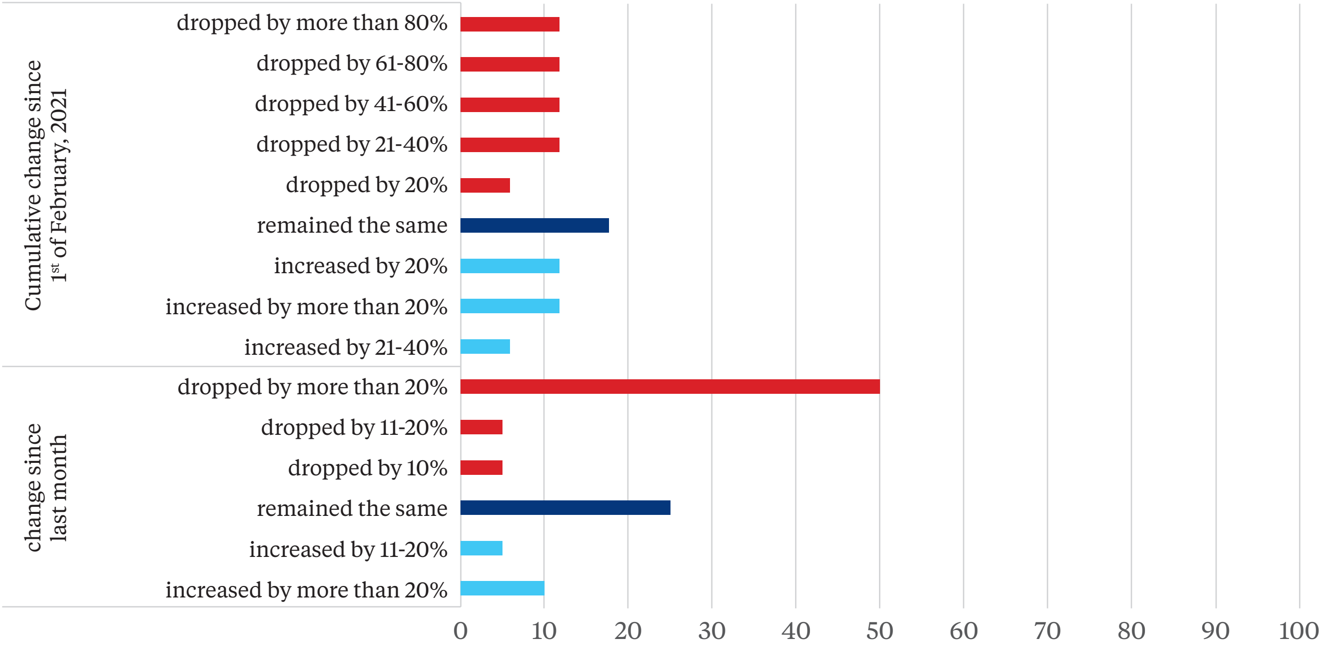
Chart 11 Myanmar High Frequency Indicators - firms in agricultural sector reporting changes in cultivation/harvesting, in %



Source: Myanmar HFI Survey

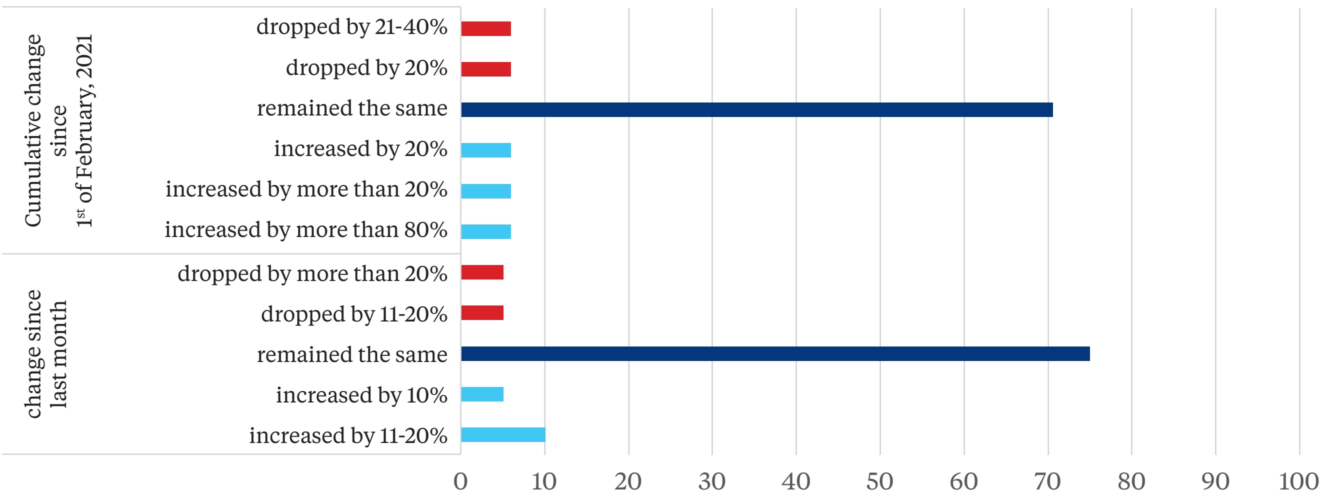
12 In the context of agriculture, cultivation and harvesting were used as proxies for the production process.
13 This includes only respondents with relevant background/knowledge in agriculture.
14 Inter alia, this may explain the rise of exports, which have recently been reported by United Nations Country Team (UNCT).

Chart 12 Myanmar High Frequency Indicators - firms in agricultural sector reporting changes in demand, in %



Source: Myanmar HFI Survey

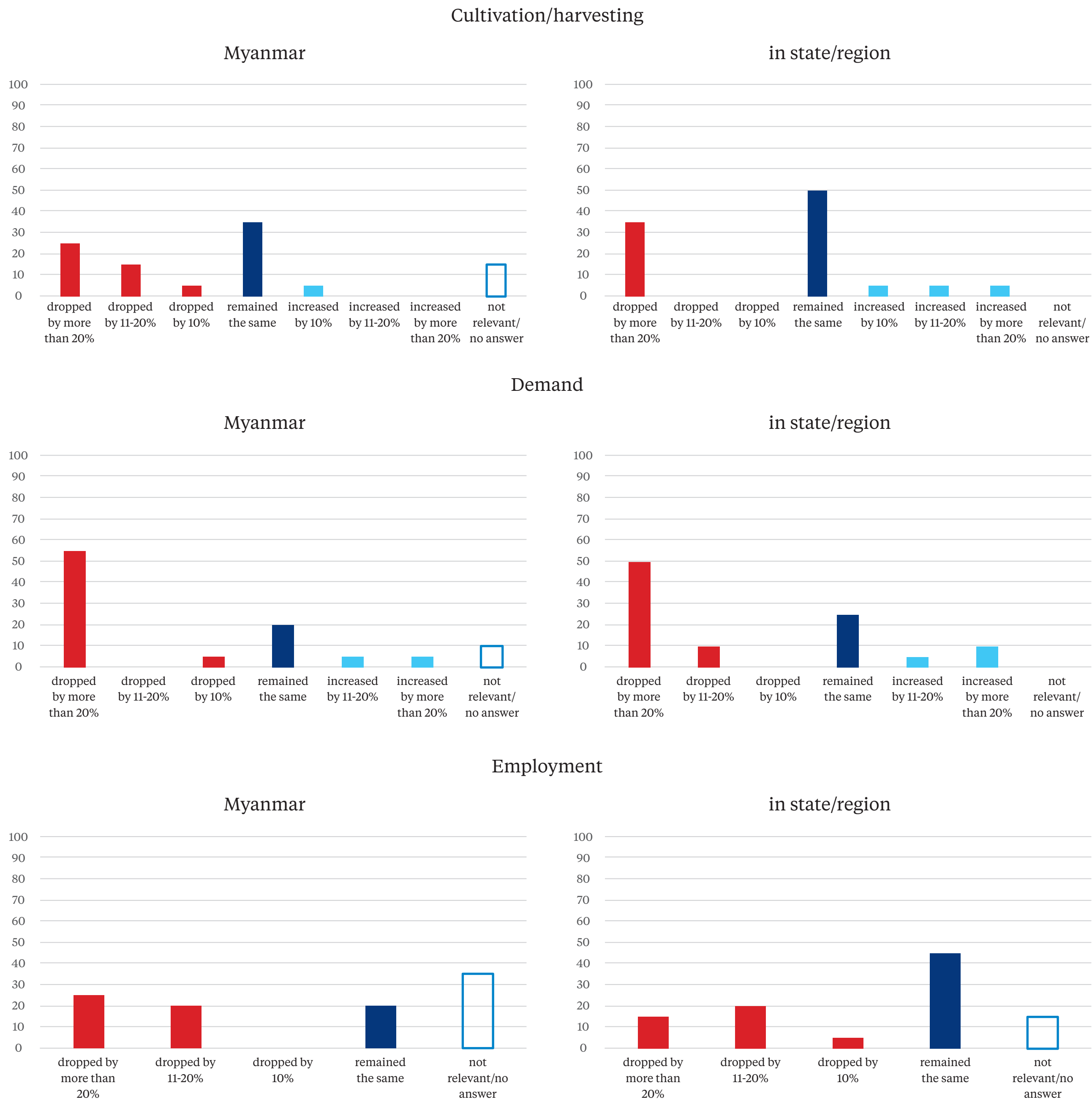
Chart 13 Myanmar High Frequency Indicators - firms in agricultural sector reporting changes in employment, in %



Source: Myanmar HFI Survey

The respondents share a similar outlook when asked about changes in cultivation or harvesting, employment, and demand in their state/region or on the national level. As evidenced by Chart 14, 35 percent claimed that the overall cultivation or harvesting in their state/region has dropped by 20 percent, while one quarter of respondents have done so when considering Myanmar as a whole. While over half of respondents note reduction in demand for agricultural products in their state/region or nationally (Chart 14), only about a quarter of respondents consider that employment has reduced by over 20 percent in their state/region and in the entire country.

Chart 14 Myanmar agricultural sector: Cultivation/harvesting, demand and employment changes (in state/region and national) since previous month, % of respondents

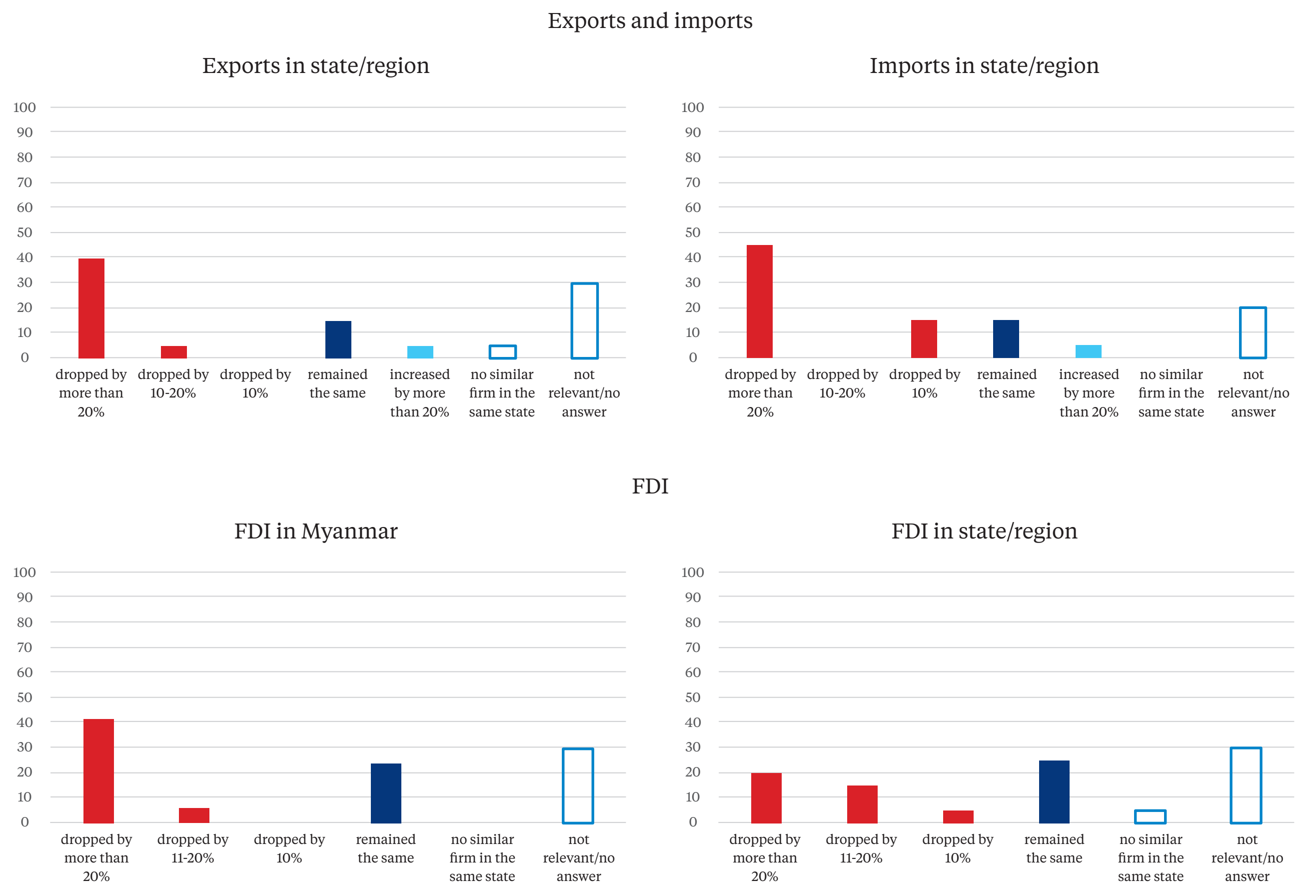


Source: Myanmar HFI Survey

A few factors are responsible for the overall situation in the agricultural sector. Inevitably, changes in employment are tied to the ongoing COVID-19 pandemic as well as political instability. Some farmers have left their farms due to the armed conflict in their region, especially Magway and Sagaing. Furthermore, COVID-19 and the military takeover have been suggested as potential reasons behind the significant fluctuations in the demand for agricultural products. For example, the period between March and May 2021 has been marked by excess purchases of products, especially essential food items such as rice or oil. However, as the year progressed with the double shock taking a toll on households' budgets, there has been noticeable reduction in the demand for agricultural products.

Second, the drop in demand goes beyond the domestic Myanmar market. As China is one of the major buyers of Myanmar's agriculture products, the closure of the China-Myanmar border and policy change from the Chinese government have had a negative impact on Myanmar's agricultural exports (Chart 15). Over half of the HFI panel respondents stated that both exports and imports in the sector have decreased. Similarly, the ongoing pandemic, the political crisis and the disruption in the overall international trade flows have also contributed to significant reduction in the inflow of FDI in the agriculture sector, both on national and sub-national levels.

Chart 15 Myanmar agricultural sector: Imports/exports and FDI changes (in state/region and national) since previous month, % of respondents

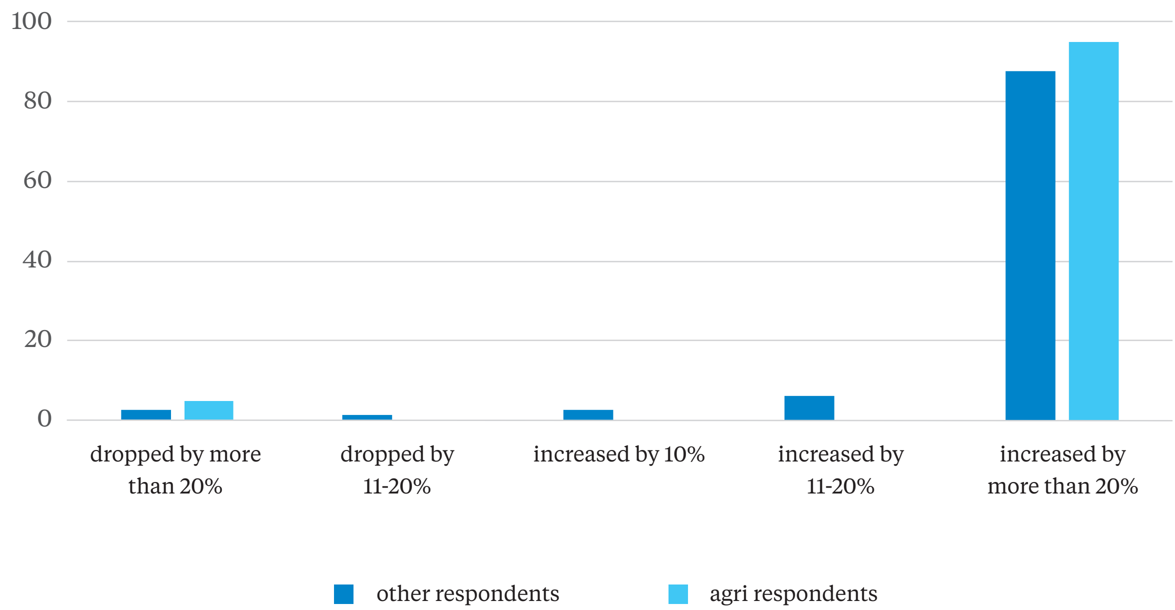


Source: Myanmar HFI Survey

Third, rising prices of both agricultural inputs and transportation costs have worsened the overall outlook in the sector. For example, the increased price of petroleum has been linked to a spike in the price of petroleum-based fertilisers. As evidenced by the HFI panel, a bag of fertiliser that cost 30,000 kyats last year has risen to 55,000 kyat this year. This has been further exacerbated by the depreciation of the Myanmar kyat, leading to, by some estimates, a three-fold increase in the prices of agricultural inputs. As evidenced by Chart 16, a higher share of agriculture respondents evidenced significant increases in fuel prices, compared to other respondents in the HFI panel.

Problems with freight are further heightening challenges in the sector. Although agricultural exporters have forward contracts with buyers, freight forward arrangements are often disrupted by the limited operations of shipping lines. For example, there have been cases where cargo shipped to Myanmar had been stranded at the port of loading for over two months due to the lack of cargo ships heading to the country. Furthermore, many cargo ships have been avoiding routes to Myanmar due to lack of cargo insurance.

Chart 16 Myanmar: changes in prices of fuel, % of respondents

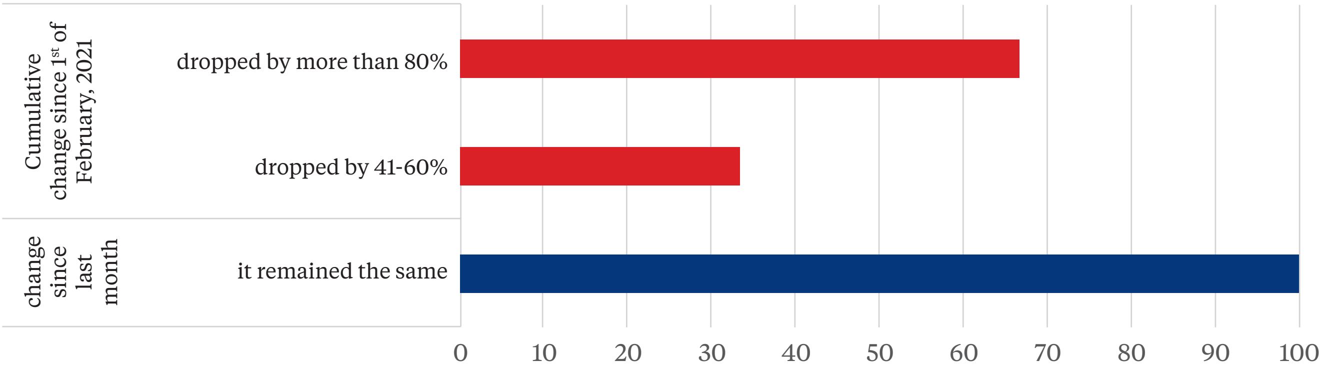


Additionally, and as in the rest of the sectors, farmers are being affected by the cash and credit crunch. In Taungtha Township, Mandalay Region, most onion farms reduced cultivation this year due to financial problems and the increasing price of agricultural inputs. Moreover, unlike the previous years, the government and the banks have not been offering loans to farmers. Thus, the outlook in the agricultural sector, as in the rest of the economy, remains uncertain.

Mining

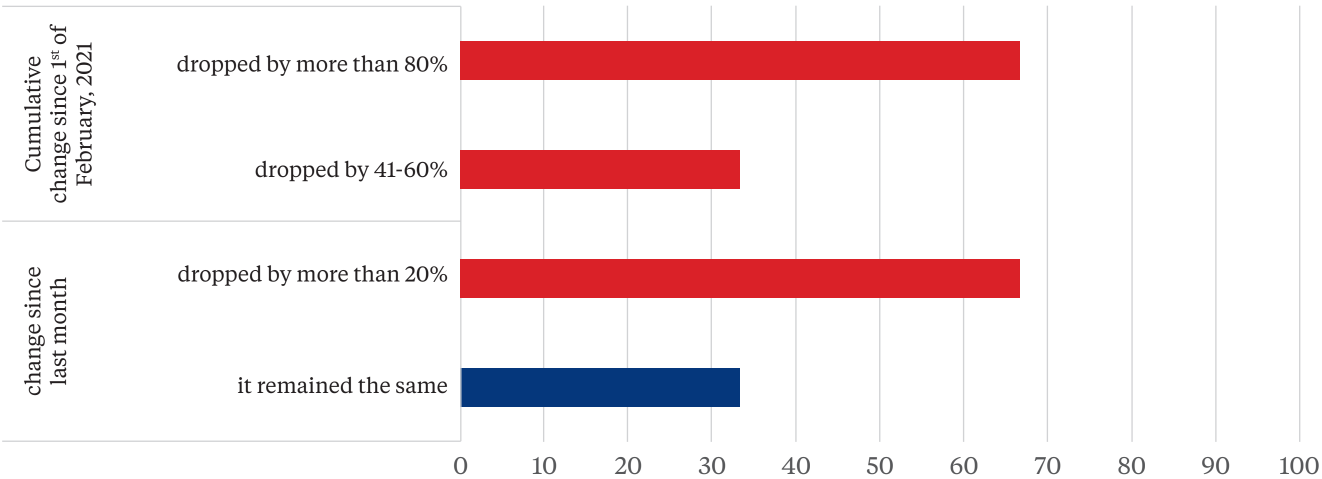
In February 2021, the military government ordered all mining businesses to stop operations, declaring the purpose to "save natural resources for future generations". Since then, all licenced businesses have effectively ceased their operations. This explains the significant drop in the mining sector production, demand, and employment since 1st of February and a relative slowdown over the last month (Chart 17, Chart 18, Chart 19). As evidenced by the charts below, while almost all firms registered reduction in the relevant parameters, the change has been negligible over the last month.

Chart 17 Myanmar mining sector: changes in production in surveyed firms, relative to 1st of February 2021 and to last month, % of respondents



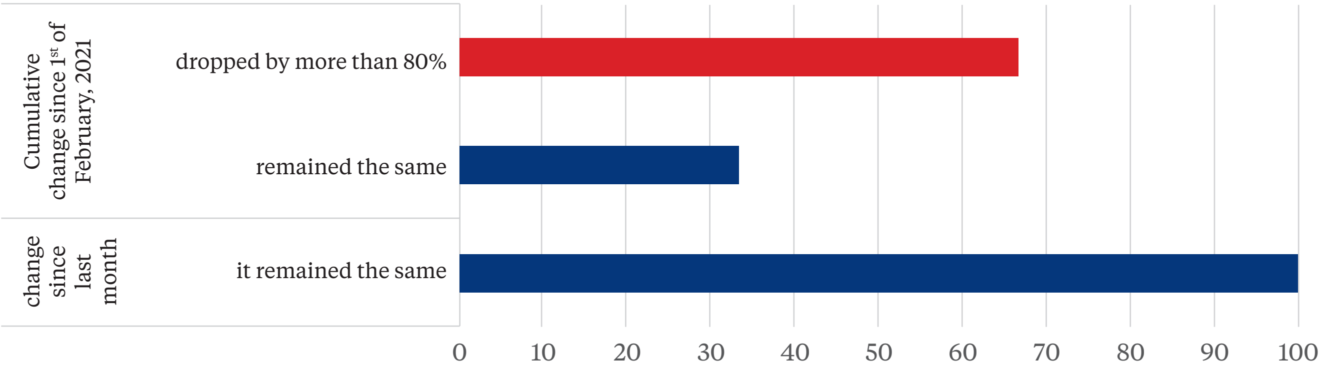
Source: Myanmar HFI Survey

Chart 18 Myanmar mining sector: changes in demand in surveyed firms, relative to 1st of February 2021 and to last month, % of respondents



Source: Myanmar HFI Survey

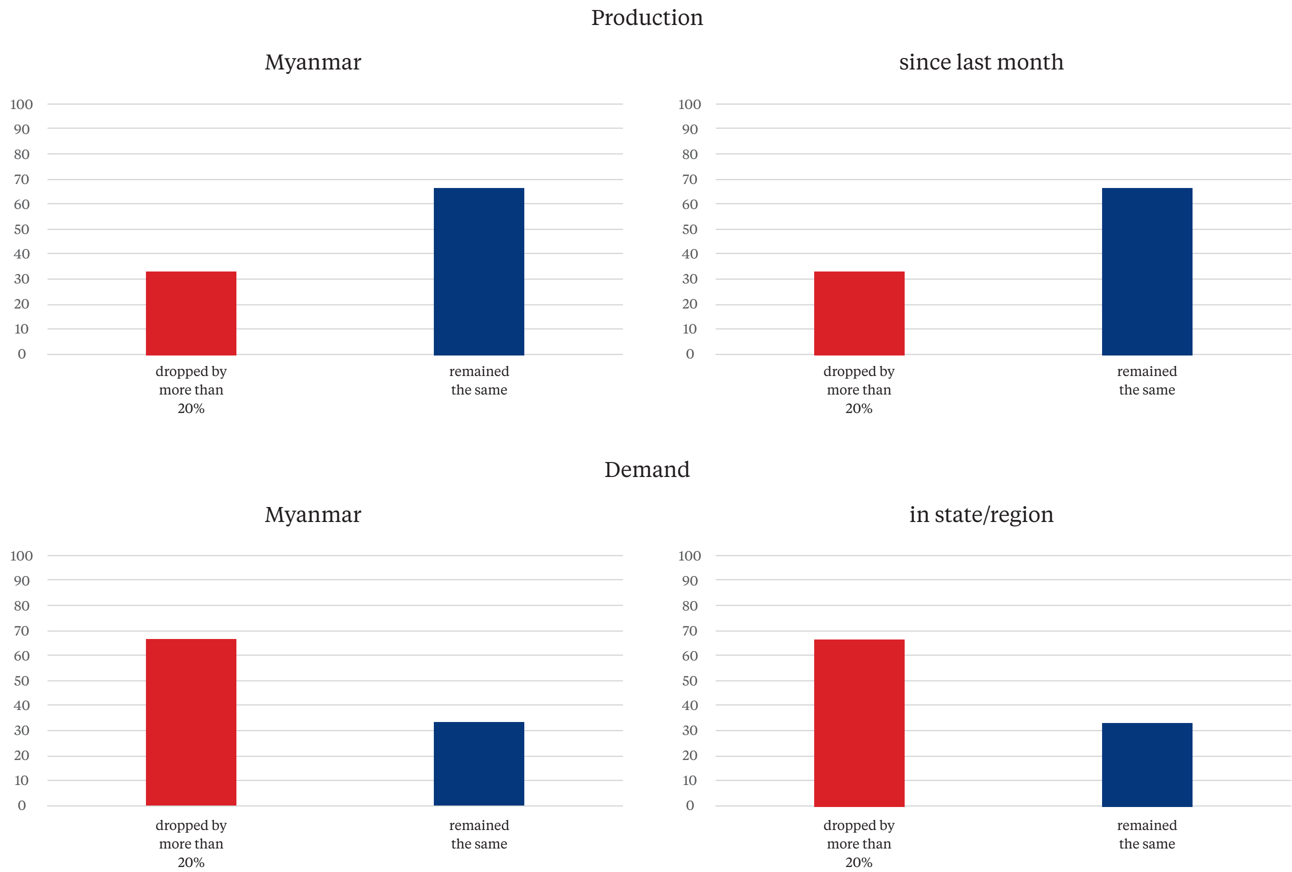
Chart 19 Myanmar mining sector: changes in employment in surveyed firms, relative to 1st of February 2021 and to last month, % of respondents



Source: Myanmar HFI Survey

Similar findings emerge when respondents are asked about changes in production and demand in their state/region and in Myanmar over the last month (Chart 20). Employment and exports/imports have not registered any changes (not shown).

Chart 20 Myanmar mining sector: change in production and demand (in state/region and national) since last month, % of respondents



Source: Myanmar HFI Survey

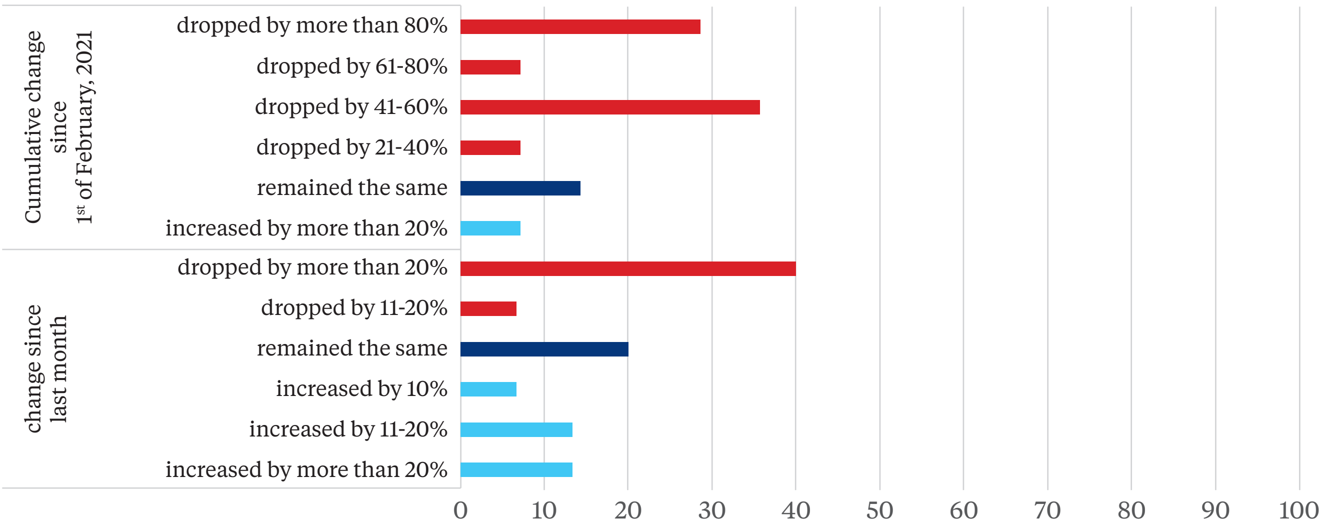
The findings above, however, pertain only to official/licenced businesses. As the HFI panel further attests, there are numerous unlicenced mining businesses across Myanmar that are still operating and producing as before. Those businesses make illicit payment to relevant parties to continue their operations. Since their operations are taking place unofficially, it is hard to estimate their production volume and demand.

This halt of licenced mining operations has also had an impact of the overall FDI in the sector, although, as evidenced by the panel, the picture is somewhat mixed. For example, in July the Australian mining company Myanmar Metals announced its intention to sell off activities in Myanmar. Meanwhile, some Myanmar companies are in discussions with Russian investors, which may lead to an increase in FDI inflows in the sector. Overall, however, the outlook of the sector remains uncertain.

Construction

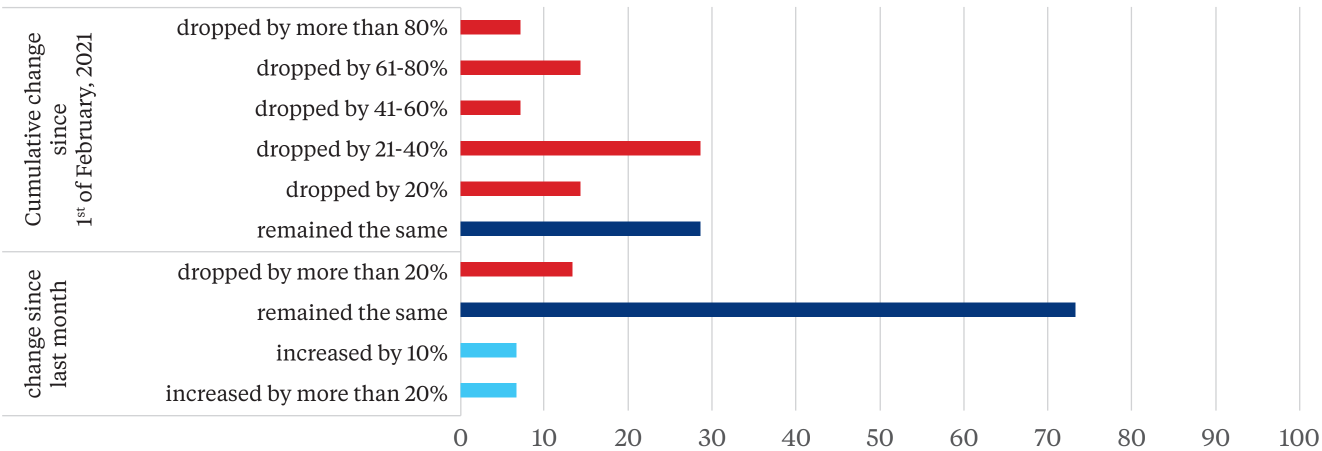
The HFI panel also evidenced contraction in the construction sector (Chart 21 and Chart 22). Most of the respondents stated significant drops in both demand and employment since 1st of February[15]. While demand reduction has slowed down over the last month, over 40 percent of firms reported a drop by over 20 percent, followed by 7 percent reporting demand reduction that range from 11 to 20 percent. Reduction in employment has also slowed down, with about a quarter of respondents stating that employment in their firms had remained the same since the previous month.

Chart 21 Myanmar construction sector: changes in demand in surveyed firms, relative to 1st of February 2021 and to last month, % of respondents



Source: Myanmar HFI Survey

Chart 22 Myanmar construction sector: changes in employment in surveyed firms, relative to 1st of February 2021 and to last month, % of respondents



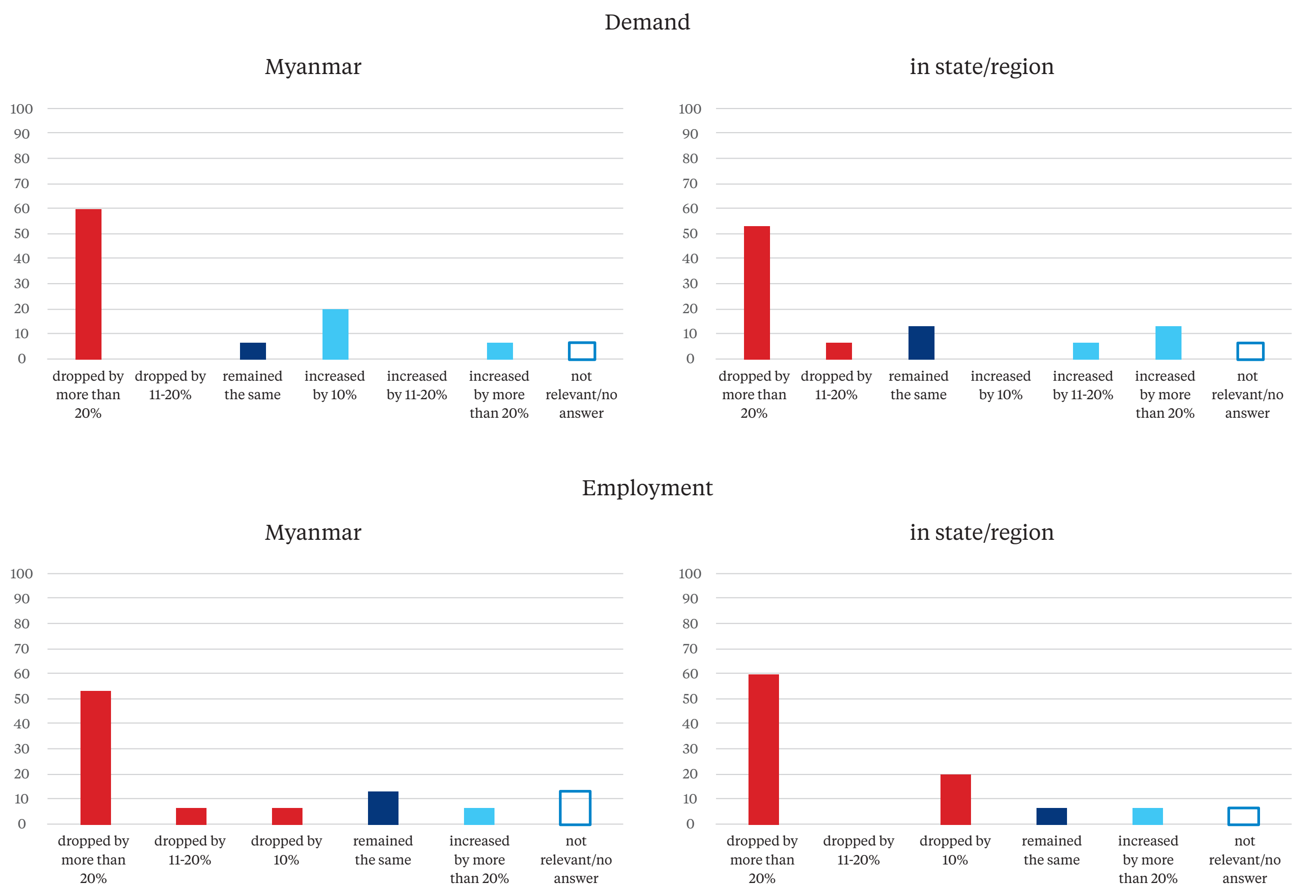
Source: Myanmar HFI Survey

15 As it is difficult and elusive to measure output or production in the construction sector, we have limited ourselves to demand and employment.

Going beyond specific firms, the respondents consider a similar outlook vis-à-vis demand and employment in the construction sector on regional and national levels. About half of respondents stated that demand for construction projects in the state/region has dropped by over 20 percent, while only about one in 10 considered that the demand in the construction sector in the state/region has remained the same (Chart 23). Similar patterns emerge when considering the employment in the construction sector in the wider state/region as well as in the entire country.

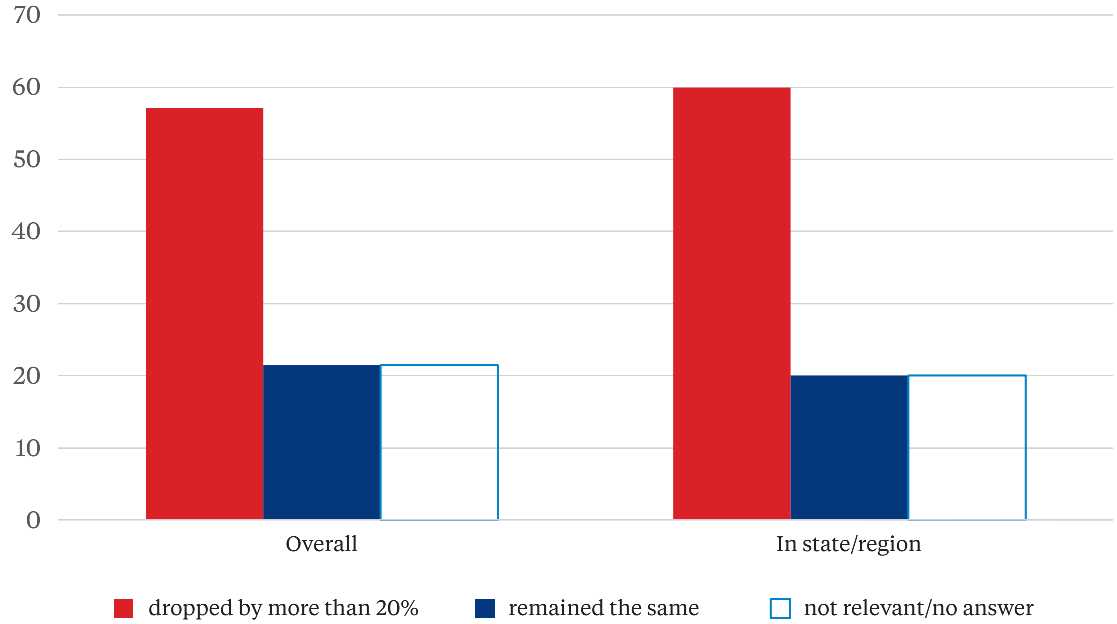
There are a few reasons for the reduction in both demand and employment in the construction sector. All operations stopped from February to end of July due to the political situation, as well as the escalating COVID-19 outbreak. There has been some improvement since then, albeit timid. One of the surveyed experts mentioned that in one of their construction projects (where they work as a sub-contractor), the project owner and the main contractor have been conducting surveys on the possibility of resuming work. However, recovery has occurred at a slower pace than envisaged. Amid the challenges with COVID-19 and political turmoil, activities in the construction sector have been limited to small, self-financed residential projects. Generally, all developers and contractors have been working on finishing their projects that started before February 1st, 2021. An additional layer of challenges has emerged due to lack of capital, particularly lack of foreign direct investment in the sector. As evidenced by Chart 24, over two-thirds of panel respondents stated that FDI has dropped by 20 percent in their state/region and on the national level, over the past month.

Chart 23 Myanmar construction sector: change in demand and employment for construction projects (in state/region and national) since last month, % of respondents



Source: Myanmar HFI Survey

Chart 24 Myanmar construction sector: change in FDI in the construction sector since last month, % of respondents

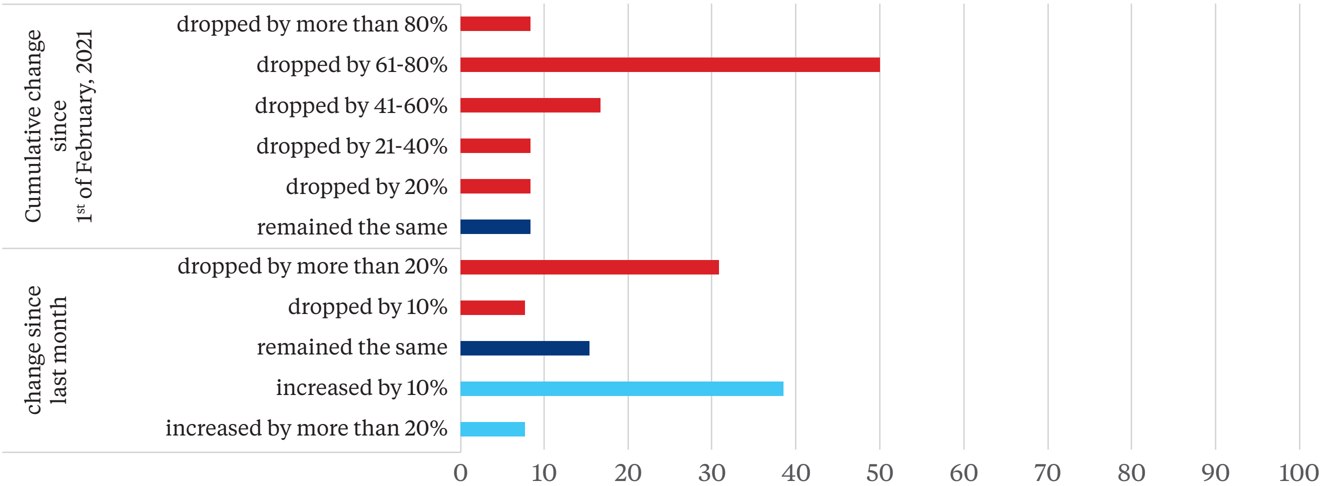


Furthermore, even after activities resumed, most of the firms found it difficult to operate because of the challenges related to imports of raw materials as well as cash. The closure of the China-Myanmar border has diverted the imports of raw materials through Singapore, resulting in higher transportation costs. Eight out of 10 HFI panel experts stated that the imports of raw materials have dropped by over 20 percent. Moreover, cash availability is one of the biggest operational challenges. As most of the operational costs of firms (e.g., wages) are handled in cash, bank-imposed limits on cash withdrawal have exacerbated the overall situation in the sector. Due to banking limitations, traders no longer sell raw materials on credit and are not willing to accept bank transfer payments. Furthermore, buyers must pay an extra charge (5 to 8 percent) if payments were made through bank transfer.

Transport[16]

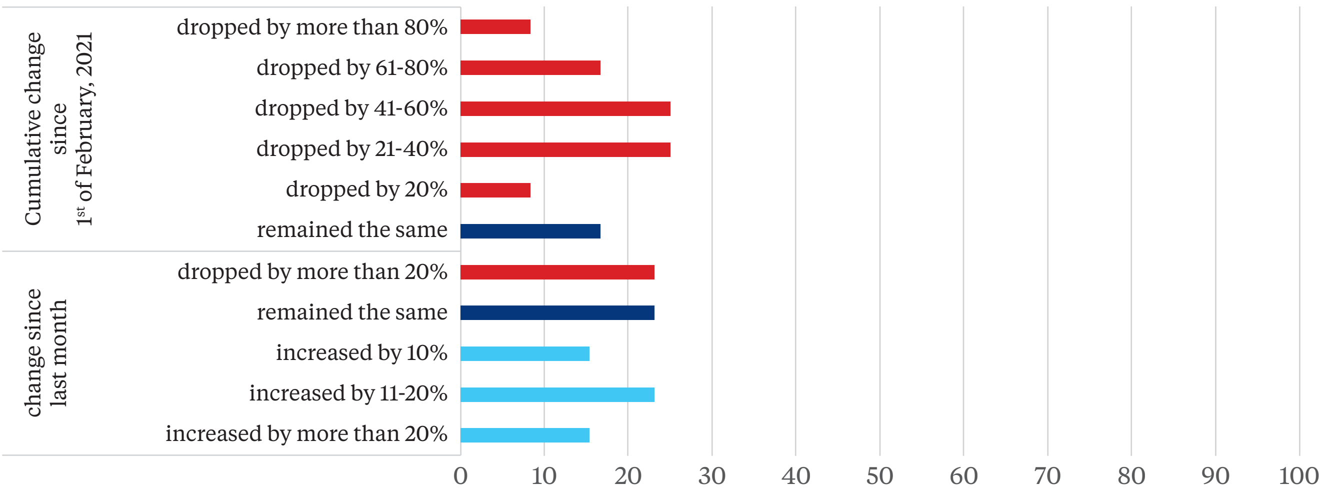
The overall contraction in economic activity has also been reflected in significant changes to output/sales[17], demand, and employment in the transport sector. Over 90 percent of transport firms in the sample have witnessed a drop in output/sales since February 1st, although with varying intensity (Chart 25, Chart 26 and Chart 27). Furthermore, over four fifths of firms stated reductions in demand for transport-related services since February 1st, coupled with reduction in employment since the beginning of the political changes (Chart 25, Chart 26 and Chart 27). The reduction in output/sales has slowed down in the last month (both on national and sub-national levels), with only about a third of respondents stating reduction in output/sales by more than 20 percent. A similar picture emerges vis-à-vis changes in demand and employment (Chart 28).

Chart 25 Myanmar High Frequency Indicators – transport sector firms reporting changes in output/sales, in %



Source: Myanmar HFI Survey

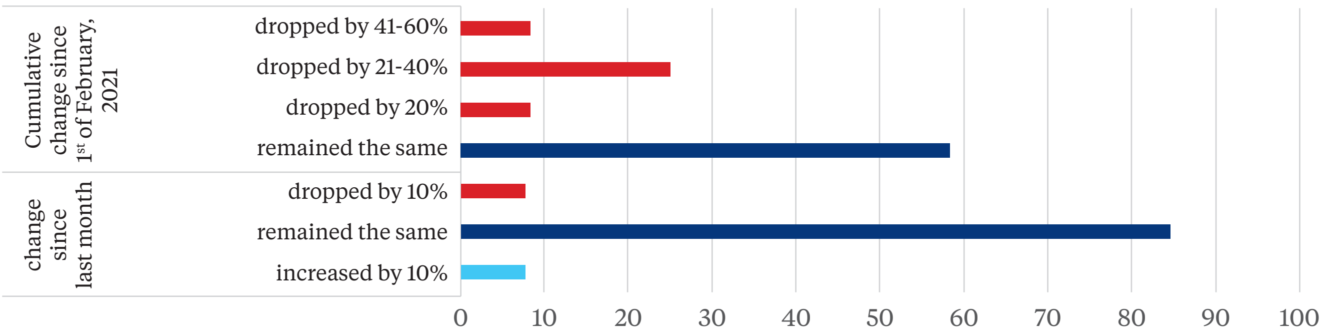
Chart 26 Myanmar High Frequency Indicators – transport sector firms reporting changes in demand, in %



Source: Myanmar HFI Survey

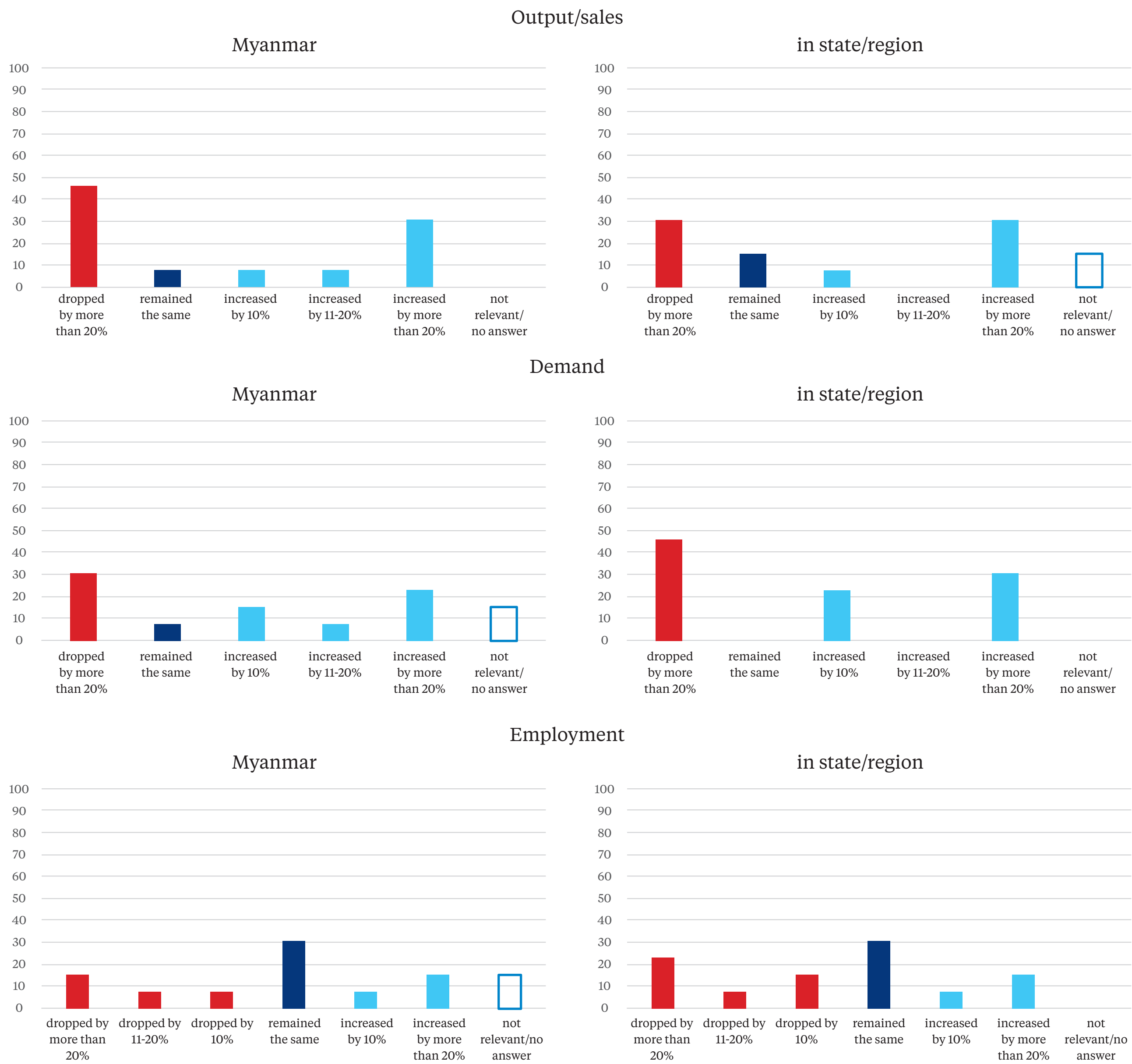
16 This refers to both domestic and international transport.
17 As the sector covers both passenger and freight transport, output/sales are used to capture the effect of the crisis on both, passengers and freight firms.

Chart 27 Myanmar High Frequency Indicators – transport sector firms reporting changes in employment, in %



Source: Myanmar HFI Survey

Chart 28 Myanmar transport sector: Output/sales, demand and employment changes (in state/region and national) since previous month, % of respondents



Source: Myanmar HFI Survey

The drops in output/sales have been due to both the political turmoil as well as the COVID-19 pandemic. After February, business operations in the transport sector ceased for about 1.5 months for security reasons, forcing many transport companies to rely solely on freight. However, even freight transport has been running below par. For example, as the panel asserted, before February 1st, there were around 170-190 ships per month that docked at Yangon. After February, the number has dropped to around 39-43 ships, further increasing the operational costs. Various curfews also meant night shifts were longer allowed in ports. As ports reduced their operating hours, container truck expenses have increased accordingly, adding to the total freight charges.

Second, the depreciation of the kyat has further deepened the woes of the transport sector. While the currency depreciation has, in principle, positively affected exporters, they also had to incur increasing shipping charges (even though, as stated by the panel, exporters are still less affected relative to importers). For example, the shipping charge of a 20-feet container to the United States rose from USD 3,000 before February to USD 15,000 currently. Likewise, the shipping charge for a container to Singapore rose exponentially from USD 80 to USD 1,500. This increase in prices has forced some businesses to close.

Third, the overall slowdown in the manufacturing sector mentioned in the previous section has had further impact on the overall slowdown of the transport sector. This has been compounded by rising fuel prices and border closures. The Irrawaddy reported on October 12 that (as per the chair of the Myanmar Highway Freight Transportation Service Association) half of Myanmar's freight providers have had to close their operations, citing reasons that include diminished trade due to the Chinese border closure, increased prices for fuel and spare parts, long lines and sales quotas at filling stations, and increased harassment by military roadblocks. For now, basic food and consumer goods continue to be transported around the country, but members of the association fear that worsening trading conditions in the sector may force many firms to go bankrupt.

As in the rest of the sectors, political instability, banking limitations, liquidity and credit crunch, extra costs to withdraw cash and the decreasing number of ships at ports continue to act as obstacles to service providers. And while there are some glimmers of hope (some companies have started receiving passengers), the volume of passenger transport accounts for only about 25 percent of the pre-pandemic volume.

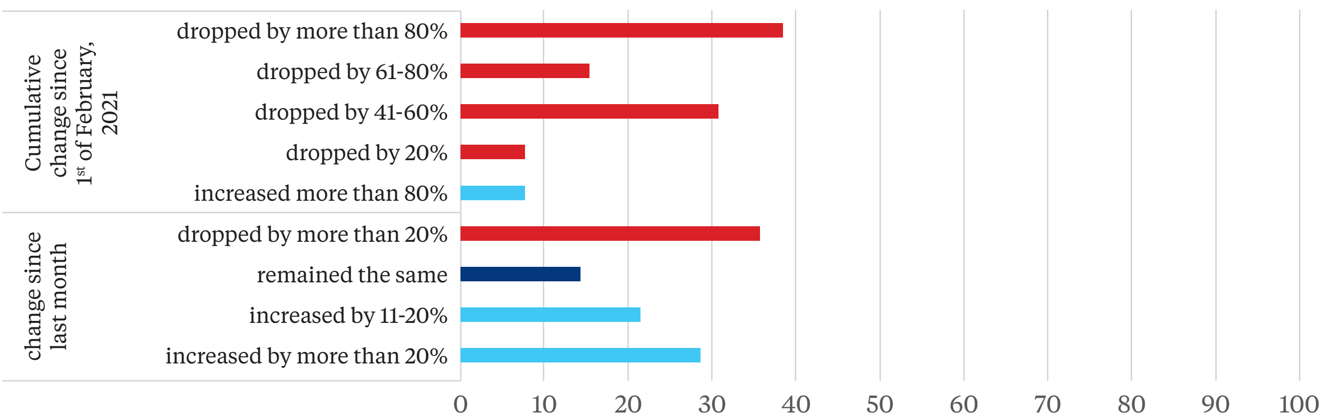
Tourism[18]

The results from the rest of the real sector are echoed in tourism/hospitality. Chart 29 and Chart 30 capture the results of changes in bed occupancy and employment in the surveyed tourism/hospitality firms, relative to February as well as to the previous month. Over 90 percent of respondents reported losses in bed occupancy since 1st of February 2021, with varying intensity. The reduction in bed occupancy has bottomed out last month, with only a third of respondents stating a decrease in bed occupancy.

This significant drop in occupancy rate has been matched with a reduction in employment (Chart 30). Over half of the respondents have witnessed employment losses in their firms relative to 1st of February 2021. As per the panel, of about 20,000 employees in the hospitality sector, about 16,000 can be estimated to be out of jobs now. Even in top destinations like Ngwe Saung and Bagan, about 90 percent of employees can be assumed to have lost their jobs since many of the hotels are still closed. Similar findings emerge from a report by ILO released in July 2021, which states that there has been an overall reduction in employment in the tourism and hospitality sector by 25 percent between Q4 2020 and Q2 2021. More importantly, and as evidenced by Chart 30, the number of companies experiencing reduction in employment has declined.

Both COVID-19 and the political instability have had a significant impact on the tourism/hospitality sector. Many hotel owners had to close their hotels out of safety concerns owing to the twin crises. Other reasons have also included rigid travel requirements for foreigners to visit parts of the country. For example, the security situation in Kayin—originally a vulnerable region due to the conflicts between Ethnic Armed Organizations (EAO) and the military—has recently worsened due to frequent frictions between the army and EAO. Other parts of the country, traditionally open to tourists, have also been hit by the double shock of COVID-19 and political instability. Bagan is the most affected region due to the closure of the temples. Other regions (e.g., Yangon or Naypyidaw) have also been hit hard.

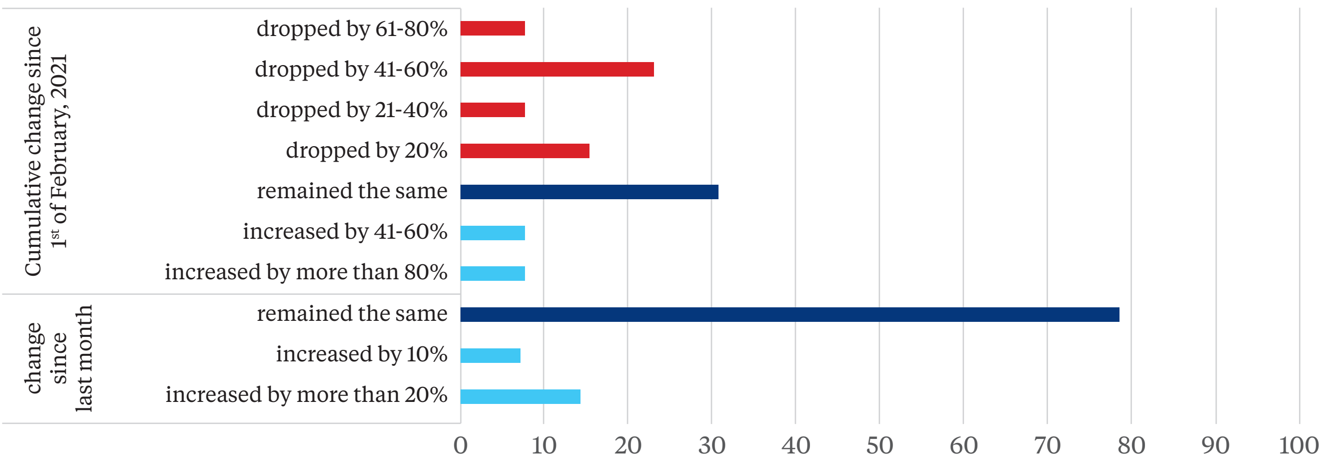
Chart 29 Myanmar High Frequency Indicators - firms in tourism sector reporting changes in bed occupancy in %



Source: Myanmar HFI Survey

18 Tourism includes both domestic and foreign tourists. Operations of international commercial passenger flights have been suspended since March 2020 and there remains no clear path towards reopening. Domestic market has been struggling with ups and downs.

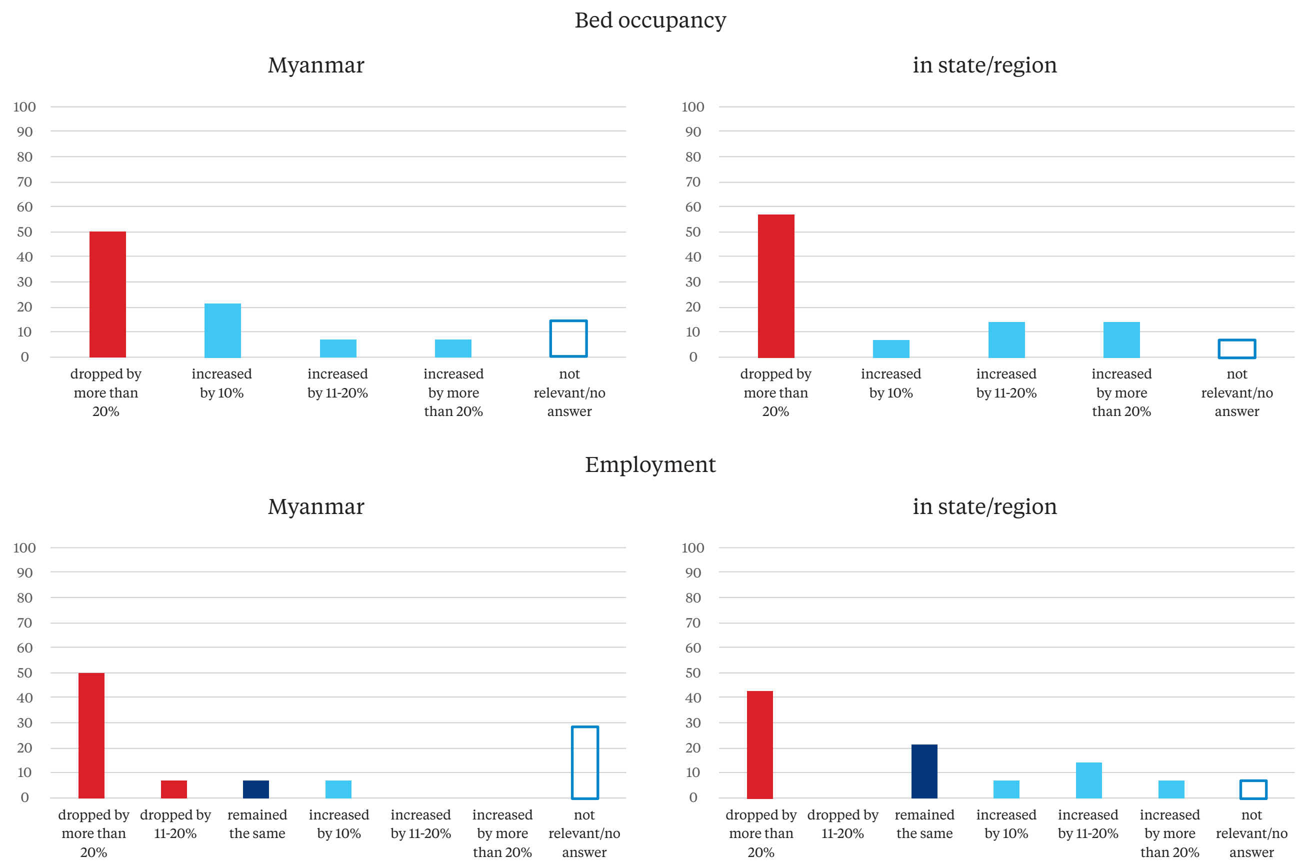
Chart 30 Myanmar High Frequency Indicators - firms in tourism sector reporting changes in employment, in %



Source: Myanmar HFI Survey

Going beyond individual firm experiences, respondents also consider similar changes in the tourism/hospitality sector on state/region level as well as nationally (Chart 31). About half of the respondents report a decline, although at a slower pace, in occupancy and employment, while the rest state no change since the last month.

Chart 31 Myanmar tourism sector: Bed occupancy and employment changes (in state/region and national) since previous month, % of respondents



Source: Myanmar HFI Survey

Conclusion

This special report has provided a broad overview of the performance of Myanmar's main economic sectors. The study also accounted for the main reasons behind the macroeconomic developments since 1st of February and over the previous month. The main finding from the analysis is that while the double crises—the COVID-19 pandemic and the military takeover—have significantly impacted upon the macroeconomic performance in the wake of the coup d'état, most recent data shows a slowdown of the overall macroeconomic contraction. More specifically, while all the sectors are far from a rebound, the quantitative analysis presented in this report suggests that there are some signs of stabilisation, particularly in the manufacturing and transport sectors.

However, the findings of this report also indicate that there is significant heterogeneity across the sectors. In garment manufacturing, production has been stabilising slower than the demand for products, mostly driven by weak kyat and an increase in the price of inputs. In addition, while the weaker kyat has helped in propping up some of the garment exports, any signs of recovery have been almost completely offset by the increase in the price of fuel and inputs. The rest of the manufacturing sector shared these challenges. Moreover, the political uncertainty in Myanmar has prompted some buyers of manufacturing products to turn to other emerging markets. Unlike the manufacturing sector, the overall impact of the political uncertainty on agriculture has been more limited, particularly vis-à-vis the overall cultivation and harvesting. In the agriculture sector, the closure of the China-Myanmar border as well as higher fuel prices have tremendously impacted upon the sector and continue to do so. Most of the licenced mining operations have halted since February 2021, as the military government ordered all mining businesses to stop operations with the purpose of saving natural resources for future generations. This, inter alia, explains the sharp reduction in output and employment in the sector, as well as the relative status quo since then. Similarly, most operations in the construction sector have been on stand-by, with developers and contractors working to finish projects that had started before February 1st. Furthermore, the overall slowdown in the manufacturing sector has had an impact on the transport sector, in particular freight transport, despite some early indications of stabilisation[19]. Finally, the challenges around COVID-19, compounded by the political uncertainty around the military takeover, have negatively affected the tourism sector, which is still not showing signs of recovery.

The qualitative section of this report allowed the unpacking of reasons behind this sectoral outlook. There are some common messages that emerged. A combination of weak kyat and rising fuel prices contributed to a hike in the price of inputs, reduced outputs, and offset any export gains. Moreover, as the panel evidences, cash shortages have impacted upon the liquidity of many firms, particularly those in the construction sector[20]. And while these problems persist, the support from the de facto authorities has been minimal. It is also important to note that freight and transport of goods in and out of Myanmar continue to pose significant challenges to various sectors. This report points to disruptions linked to to limited operations of shipping lines, as well as cargo ships avoiding routes to Myanmar due to lack of cargo insurance and significant increase in shipping charges. All of these require further study which shall be the focus of the next update of the HFI series.

19 The slowdown in the manufacturing sector has meant that there are fewer products to be shipped out, while the slow recovery has meant fewer inputs needed for the production process.

20 One of the limitations of this research is that the findings, to some extent, are driven by the size of the panel.

Appendix

The Appendix Table A 1 provides a snapshot of the experts/firms represented in the HFI survey. About half of the respondents (as evidenced by the table) are based in Yangon, with another 20 percent in Mandalay. The rest of the respondents are scattered throughout the remaining states/regions.

Table A 1 Distribution of respondents, by state/region

	Number	%
Ayawaddy	6	6
Bago	4	4
Kachin	2	2
Kayah	1	1
Kayin	2	2
Mandalay	19	19
Mon	1	1
Naypyitaw	4	4
Rakhine	1	1
Shan	5	5
Tanintharyi	4	4
Yangon	51	51

Table A 2 captures the distribution of respondents by sector. About one-fifth of the respondents are in agriculture and non-garment manufacturing, respectively. Garment manufacturing and construction are represented by a smaller share (about 15 percent), followed by tourism and transport respondents. Finally, there are only three respondents in the mining sector.

Table A 2 Distribution of respondents, by sector

	Number	%
Agricultural production	20	20
Garment manufacturing	16	16
Infrastructure	15	15
Manufacturing: Non-garment	19	19
Mining	3	3
Tourism	14	14
Transport	13	13

Finally, Table A 3 captures the respondents by export status. As evidenced by the table, most firms are non-exporting, followed by about a third that are export-oriented.

Table A 3 Distribution of respondents, by export status

	Number	%
No	72	72
Yes	28	28

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