

## VIII. QUARTERLY MANUFACTURING SECTOR DEVELOPMENTS

### 8.1 Basic Performance Indicators of the Manufacturing Sector

With the objective of expanding the coverage of sectors captured in the quarterly bulletins, the NBE has started compiling quarterly developments in the manufacturing sector based on the results of the CSA manufacturing industry business survey. The survey incorporates manufacturing sector activity such as number of establishments, number of persons engaged, revenue earned in the local and foreign market and the level of capacity utilization in the sector.

**Table 8.1: - Performance Indicators of the Manufacturing Sector**

Quarter	Number of Firms	Persons Engaged			Revenue from sales ('000 Birr)			Capacity Utilization (%)
		Permanent	Temporary	Total	Local	Export	Total	
2004/05 QI. (A) QII. (B) QIII. (C)	911	79,144	21,318	100,462	2,129,614	168,025	2,297,639	53.55
	910	74,937	17,749	92,686	2,047,030	218,862	2,265,892	53.86
	910	72,419	19,234	91,653	2,247,669	280,272	2,527,941	51.09
Percentage Change (C/B)	0	-3.36	8.36	-1.1	9.8	28	11.6	

Source CSA

As evidenced in Table 8.1, the number of manufacturing establishments remained at 910 a level similar to the previous quarter. On the other hand, the number of persons engaged in the sector declined by 1.1 percent as permanent workers employed went down by 3.36 percent while the number of temporary workers increased by 8.36 percent.

In the review period total revenue increased by 11.6 percent to Birr 2.53 billion from Birr 2.26 billion in the previous quarter. This was owing to the respective 9.8 and 28 percent increase in the sales revenue from both domestic and export trade. Contrary to positive developments in the total sales revenue, the manufacturing sector capacity utilization rate declined by 2.8 percentage points in the review period compared with the previous quarter.

### 8.1 Developments in Capacity Utilization and Usage of Imported Raw Material

One of the features of manufacturing sector in Ethiopia has been high dependency in imported raw material and low level of capacity utilization. The main reasons for high dependency on imported raw materials as reported by manufacturing establishments, were absence of raw materials in the local market, poor quality of locally available raw materials and lack of sufficient supply.

**Table 8.2: - Percentage of Establishments by Reasons for Using Imported Raw Materials**

Quarter/ Year	Types of reason					Total
	Lack of sufficient supply locally	Not available locally	Local supply is not reliable	Quality of locally available raw material is not reliable	Other reasons	
2004/05 QI.	10.03	53.76	0.13	34.46	1.63	100
QII.	3.04	59.39	0.18	35.24	2.15	100
QIII.	9.98	64.78	1.68	23.56	-	100

Source: CSA

The percentage of manufacturing establishments reporting lack of sufficient supply of raw materials, absence of raw materials and unreliability of supply of local raw material as the main reason for using imported raw materials has steadily increased over the preceding quarter.

On the other hand, those responding the unreliability of the quality of locally available raw materials as the main reason for using imported raw material went down from 35.24 percent in the preceding quarter to 23.56 percent in the review period.

**Table 8.3: - Percentage Distribution of Establishments by Reason for Not Working at Full Capacity**

Quarter/ Year	Type of reason											Total
	Shortage of raw material	Shortage of spare parts	Shortage of foreign exchange	Lack of demand / market	Shortage of working capital	Problem with electricity and water	Repeated breakage of machinery	Problem with workers	Lack of skilled manpower	Govt. rules and regulations	Others	
2004/05 QI.	11.53	0.45	0	50.96	19.89	0.79	3.05	0	2.6	3.39	7.3	100
QII.	12.35	0.24	0	58.84	0.73	5.57	1.57	0	0.12	0.61	19.9	100
QIII.	18.06	0.23	0	40.74	6.88	1.24	3.5	0.34	0	0	29.0	100

Source: CSA

As reported above, the level of capacity utilization decreased by 2.8 percentage points and the sector is not currently using around 49 percent of its capacity. The main reasons for observed under capacity utilization rate differs from time to time. Nevertheless, lack of demand /market and shortage of raw material seem the main and more persistent reasons for under capacity utilization.

Percentage of establishments reporting shortage of raw materials and shortage of working capital as the main reason for not being able to work at full capacity increased from 12.35 and 0.73 percent to 18.06 and 6.88 percent, respectively in the third quarter of 2004/05. On the other hand, percentage of establishments reporting lack of demand, government rules and regulations and problems with electricity and water as the main reason for under capacity utilization significantly declined from the respective 58.8, 0.61 and 5.57 percent to 40.7, 0 and 1.24 percent in the review quarter.

### **8.3. Developments in the Business Environment of the Manufacturing Sector**

Good business environment reflected by access to international market, ease of loans from banks, inland transport efficiency, availability of skilled labor and others are vital for a well functioning manufacturing sector. The assessment of the sector based on these and other business environment indicators is presented in Table 8.4 below.

Accordingly, Percentage of establishments reporting availability of raw material, competition with imports, inland transport efficiency, electric supply and water supply as having strong negative impact on the performance of the sector has increased while those establishments reporting positive impact on the sector declined.

At the same time, those industrial establishments responding access to international market, loans from banks and availability of skilled labor supply as having a strong negative impact trended to decline, showing the relative improvements in these aspects.

The percentage of establishments reporting inland transport efficiency, electricity supply, water supply and availability of skilled labor as having strong positive effect on the sector has also increased. Meanwhile, more than half of the establishments covered in the survey reported that competition with imports; access to international market and availability of skilled labor have no impact on the performance of the sector in the review period.

#### **Table8.4: - Percentage Distribution of Establishments by Type of Firms' Judgment on General Business and Policy Environment Affecting the Manufacturing Sector**

Business Environment	Strong Positive Effect		Limited Positive Effect		No Effect		Limited Negative Effect		Strong Negative Effect		Not Applicable		Total	
	QII	QIII	QII	QIII	QII	QIII	QII	QIII	QII	QIII	QII	QIII	QII	QIII
1.Availability of raw material	4.95	3.08	1.43	5.82	21.76	18.79	48.24	38.35	23.63	28.13	0	5.82	100	100
2. Competition with imports	2.75	0.77	0.33	0.11	51.27	63.7	24.42	13.20	6.6	11.22	14.63	11.00	100	100
3. Access to international market	4.95	2.2	0.77	1.21	53.91	53.52	11.33	8.13	3.63	3.08	25.41	31.87	100	100
4. Loans from banks	5.16	4.29	3.3	3.3	54.73	39.67	26.15	34.07	9.56	1.32	1.1	17.36	100	100
5. Inland transport efficiency	3.96	4.62	2.31	2.2	39.01	42.02	29.89	9.24	24.4	41.91	0.44	0	100	100
6. Electricity supply	4.07	8.25	3.85	3.19	35.71	48.73	33.96	16.39	22.42	23.43	0	0	100	100
7. Water supply	4.29	5.06	4.51	3.74	41.91	41.47	33.55	29.26	4.18	8.80	11.55	11.66	100	100
8. Availability of skilled labour	8.25	15.93	12.54	5.05	32.56	58.35	29.7	15.82	16.94	4.84	0	0	100	100