



6th Issue

PIDE Business Barometer

September 2009

PIDE Business barometer reflects how well business owners expect their firms to perform. The barometer, based on survey of the firms listed on Karachi Stock Exchange (KSE), also attempts to forecast, aggregate business activity and aggregate prices. This issue of the barometer is based on the expectations of the firms for the period July-December 2009. Actual results for January-June 2009, reported by the firms, have also been used to portray the trend. Before we present the results a word of caution is essential. Our results are based on survey of firms listed at KSE which is dominated by manufacturing firms. The results, especially on aggregate prices should be viewed in that context.

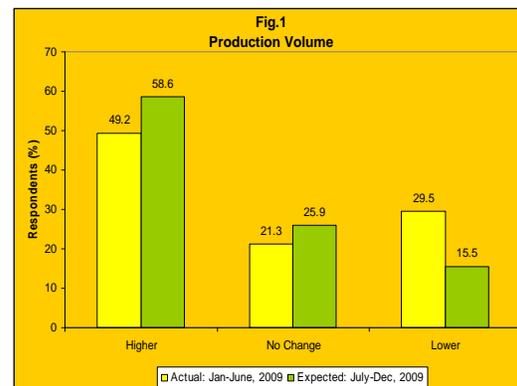
1. Broad Trends

The key message of this report is that the firms do not expect the economic downturn to continue during the second half of 2009, underpinning hopes of economic recovery in medium to short term. This assessment is based on firms' responses regarding expected change in production and sales volume, capacity utilization, employment level, inventory level and prices of inputs. Majority of the firms expect an increase in production and sales volume. Whereas capacity utilization of firms declined during January-June 2009, a marginal improvement is expected in the second half of the year. Some of firms did retrench their employment strength in

the first half of 2009, however major lay offs are not expected in future. Though firms expect that the growth rate of wages will recede, greater number of respondents expect to face rising input prices. However slight taming of the price spiral is expected due to slackness in demand though the increase in price of utilities seems to have dampened the efforts to contain the price spiral.

2. Production and Sales

Majority of the firms expect a small increase in their production and sales volume during July-December 2009. The expectations regarding production volumes (Fig.1), when viewed together with the actual volumes achieved in the previous half, and expected capacity utilization levels, yield a production level marginally above the level attained in the previous half of the year.



About 45 percent firms registered an increase in their production volume during January-June 2009, with majority

posting an increase of less than 10 percent. The worrying factor, however, is that 28 percent of the respondents have reported a decline in their production volume while another 25 percent have reported no growth. No wonder that growth of large scale manufacturing activity has remained negative in fiscal year 08-09. Expectations for the July-December 2009 show a marginal improvement over the actual results for January to June 2009 (Fig.1). Further analysis of the increase in production volume shows that out of the firms that foresee an increase, around 50 percent expect an increase of less than 10 percent, while another 30 percent foresee an increase in the range of 11-20 percent.

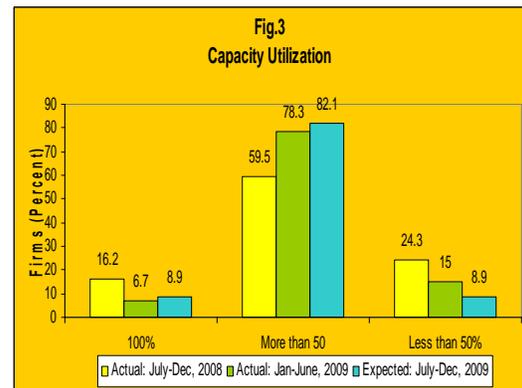
Sales

The trend of sales volume, actual as well expected, almost mirrors the trend for production volume discussed above. The responses of the firms selling in foreign market reveal that exports of the 44 percent of the respondents have declined during January-June 2009. Despite the poor performance in export market majority of the firms (58 percent) expect that their exports would increase in the second half of the year (Fig.2). The optimism could be rooted in some reports which suggest that economic recovery in United States might have begun.



2.2 Capacity Utilization

The percentage of respondent firms that had utilized hundred percent of their production capacity, during July-December 2008, stood at the low level of 17 percent. Respondent firms reporting full capacity utilization declined further to mere 7 percent for the period January-June 2009. Marginal improvement in capacity utilization is expected during the second half of 2009 (Fig.3).

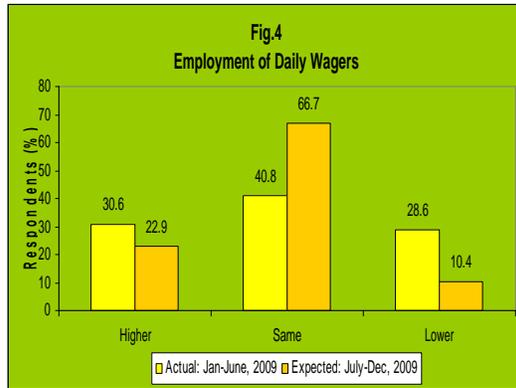


For some firms the utilization level has declined from 100 percent to the range of 50-99 percent during January-June 2009 (Fig.3). Possible reasons for lower levels of capacity utilization include, power outages that the firms have been faced with and slack demand. We opt for the slack demand as the reason because electricity supply, though not satisfactory, has improved during January-June 2009 over July-December 2008. This is reflected in change in ranking of the constraints identified by the firms (Fig. 5) Secondly the slackness in demand is also consistent with evidence on workers retrenchment in first half of 2009 (Fig. 4).

2.3 Employment

Firms have reported retrenchment of not only the daily wage workers but regular and contractual employees also seem to have been laid off during January-June

2009. However during the second half of the year relatively fewer firms expect to retrench workers (Fig.4).

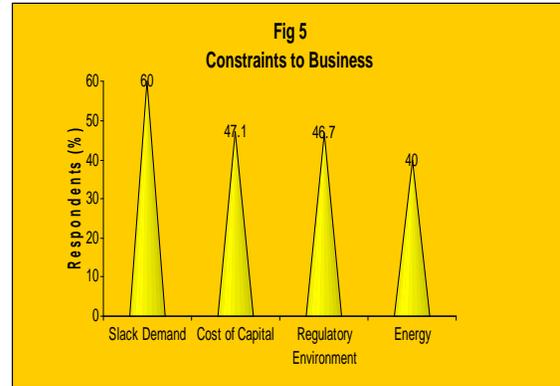


2.4 Investment in Business

Majority of the firms reported an unchanged level of investment in their business during the past six months (January-December 2009) and the firms do not foresee a significant change in the investment level in the second half of the year.

2.5 Constraints to Business

Short supply of energy was identified as the number one constraint to business during July-December 2008. Energy availability, though still short, seem to have improved during January-June 2009. This constraint dropped to second position during January-June 2009 and stands fourth on the list of expected constraints. The improvement in expectations could be due the pronouncements that load shedding would end by December 2009 (Fig 5).

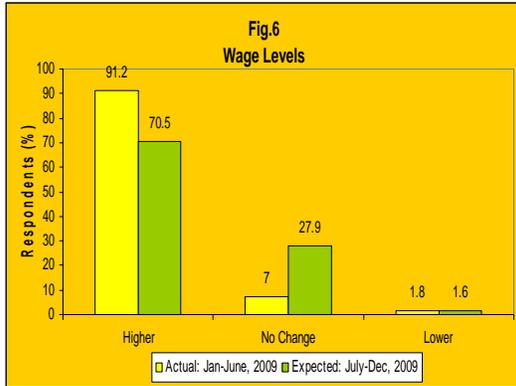


3. Prices

Slight taming of the price spiral is possible however major fall in aggregate prices cannot be expected. This view is based on the firm's responses regarding, product price, wages and prices of other inputs. Our sample being dominated by manufacturing firms, the expectations would come true only to the extent that manufacturing sector contributes to aggregate prices. The details are discussed below.

3.1 Wages

Almost all the firms (91 percent) registered an increase in wages with 50 percent of the firms registering an increase of 10 percent or more. For the next six months around 70 percent of the firms, yet again, expect an increase in wages, with majority expecting an increase in the lower range of 6-10 percent (Fig 6).



One reason for the rather large number of firms registering a wage increase in the previous half of the year could be that most of the firms offer annual increments in January of each year.

3.2 Input Prices

When compared with actual results of January-June 2009, larger percentage of respondent firms expect to face rising input prices during July-December 2009 (Fig. 7).

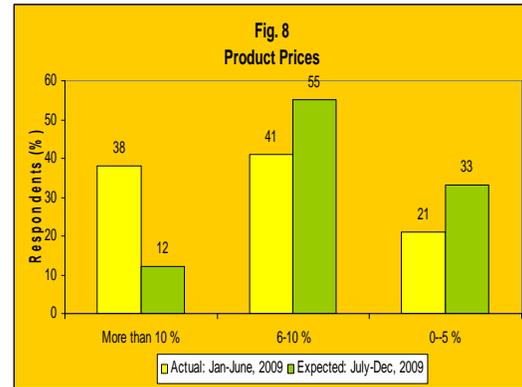


The rising trend of oil prices, depreciation of exchange rate and expected increase in prices of utilities at home seem to drive the expectations on input prices.

3.3 Product prices

Around 71 percent of the firms have registered an increase in sale price of their products in the first half of 2009. More or less, the same number expects that the increment in product prices will continue during the second half of 2009.

However percentage of respondents that expect the prices to register an increase of 10 percent or more has declined. (Fig.8). This suggests that a slight taming of the price spiral is possible.



4. Conclusion

Given the expectations of the firms regarding capacity utilization, employment levels, production and sales volume, it appears that economic downturn is not likely to continue and this underpins hopes of economic recovery in the short to medium term.

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This documents is available at:
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