



PIDE Business Barometer

November 2010

No. 7

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 2010. Actual results for January-June 2010, 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 growth in business activity July-December 2010 will remain somewhat subdued or at best at the level attained in the previous six months. Moreover a slight taming of the price spiral, as far as the manufactured goods are concerned, might also be witnessed during July-December 2010. The assessment is based on the responses of the firms regarding their production volume, sales volume employment levels, inventory levels, investment in business, wages, prices of raw materials and the prices of the finished products.

If the manufacturing activity registers a marginal decline, as cautiously predicted here, then given weak demand, slowdown in the

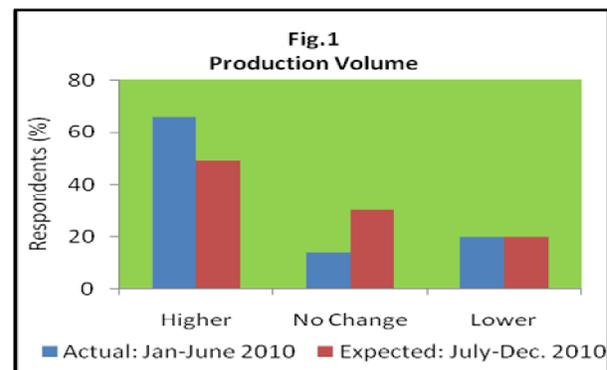
price spiral, would be a logical outcome, to the extent that manufacturing activity contributes to aggregate prices. One can rightly expect that the slower growth in manufacturing activity and perhaps consequent taming of the related price trend, is at least partially attributable to the unprecedented floods that the country recently witnessed.

2. Business Activity

The individual elements of the business activity that may contribute to the slowdown of the aggregate activity during July-December 2010 are discussed below.

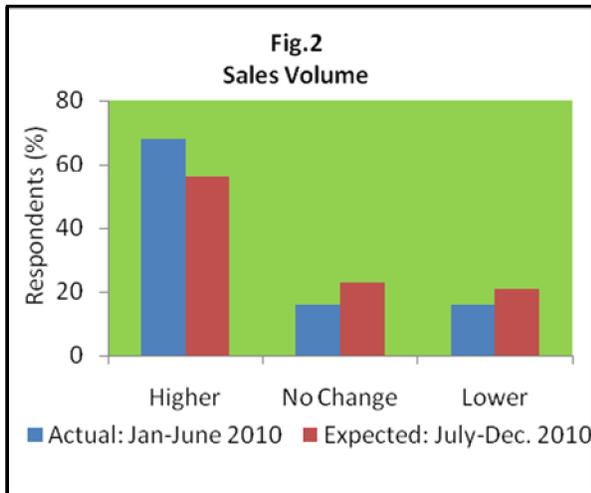
2.1. Production Volume

Around 60 percent of the firms experienced an increase in their sales volume during January-June 2010. Though a sizable percentage of the firms expect that their production volume would increase during July-December 2010 as well, but the percentage of firms that seem optimistic is lesser relative to the number that experienced an actual increase in the previous half. (Fig.1)



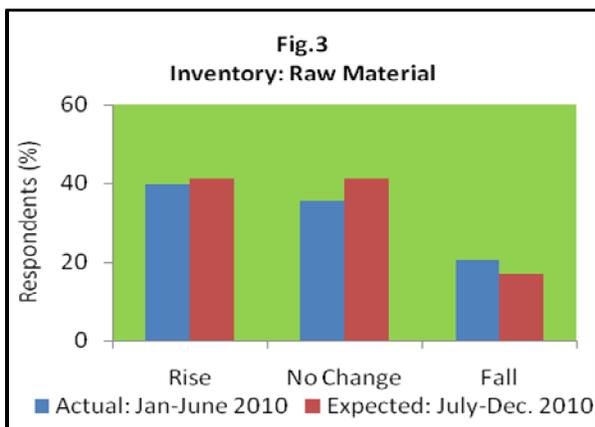
2.2. Sales Volume

The number of firms that expect an increase in the sales volume during July-December 2010 is also lower, relative to the number that actually experienced an increase in sales during January-June 2010. This is especially true of the firms that experienced an increase of 20 percent or more during January-June 2010. (Fig.2)



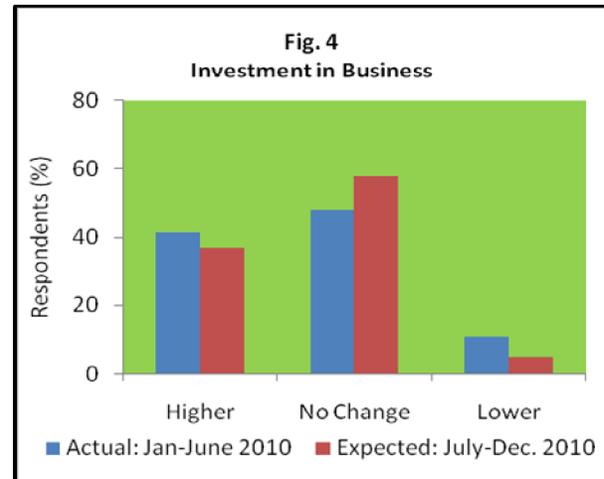
2.4. Inventories of Raw Material

Piling up of inventories is sign of slowdown in business activity and vice versa. There is a marginal increase in percentage of firms that either expect a rise or no change in the inventory of raw material held (Fig. 3). This again points towards the possibility of lower business activity relatively to January-June 2010.



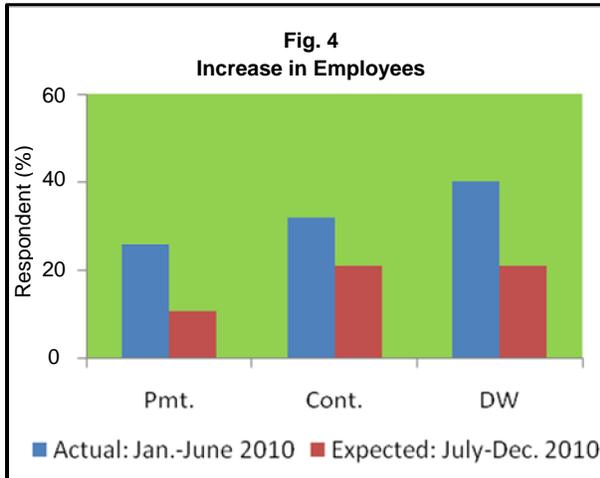
2.3. Investment in Business

Around half of the firms did not make any further investment towards increasing their production and this percentage is likely to increase during July-December 2010 (Fig.4). This is the logical outcome in a scenario where only 10 percent of the firms are utilising their capacity to the extent of 100 percent.



2.5. Employment Level

The percentage of firms that expect to hire more workers during July-December 2010 is less than the number of firms which actually increased their employees during January-June 2010. This is true for all categories of workers, that is, Permanent, Contract and Daily Wagers. It is noteworthy here that the changes in employment levels of daily wage workers and to an extent contract workers as well, is very much linked to the business volume expected in the near term. Forecast of changes on this count serves as a good predictor of expected business volume. The predicted decrease in fresh recruitment, during July-December 2010 is yet again, a sign of dampened optimism about business activity, this especially reflects the possibility that the growth rate of manufacturing activity may come under stress during July-December 2010.



Pmt, Cont and DW respectively stand for permanent employees, contract employees and daily wagers.

Put together the responses of the firms regarding production and sales volume, changes in employment levels, inventory of raw materials and such changes in investment levels which are meant to increase production, all collectively point towards the possibility of a marginal decline in the business activity.

3. Prices

A slight let up in the price spiral seems in offing, as far as the goods produced by the manufacturing sector are concerned. This assessment is based on the firms' responses regarding wages, prices of raw material and the prices of their final products. The reason for qualifying the predictions with the outcomes in the manufacturing sector is that our sample is dominated by the manufacturing firms. The factors that may contribute to relatively slower hike in prices of manufactured goods are discussed below.

3.1. Wages

Majority of the firms (55 percent) saw their wage bill rise by 10 percent or more during January-June 2010. However the percentage of firms which expects a similar

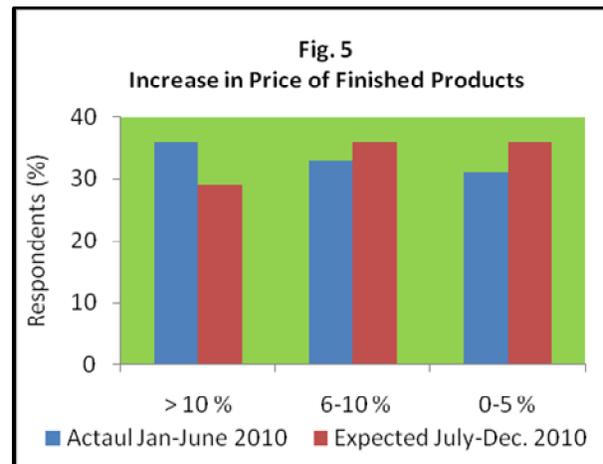
hike in wages during July-December 2010 is slightly lesser (47 percent). If these expectations come true, then the lower growth in wages would contribute to checking the price hike.

3.2. Input Prices

Almost all the firms (97 percent) faced an increase in the prices of their inputs (mainly raw material) during January-June 2010. The number that expects an increase in the current half of the year is no different from the figure observed in the previous half of the year, however what is more important is the degree of increase. When compared with the previous half of the year, lesser number of firms expect to witness an increase of more than 10 percent in input prices during July-December 2010.

3.3. Product Prices

Prices of manufactured products may rise less steeply during June-December 2010 relatively to the rise during the previous half of the year—relatively lesser number of firms expect an increment in price of 10 percent or more (Fig 5).



The responses of the firms regarding wages, raw material prices and the prices of final products, discussed above, when viewed

together paint a picture of marginal relief in price pressure, with respect to manufactured goods.

4. Constraints to Business

Weak demand, domestic as well as international, has been cited as the chief constraint to Business. Following improvement in the availability of gas and electricity, the availability of energy that used

to be cited as a major constraint to business has slid down to a lower position among the list of constraints to business.

5. Conclusion

Growth in business activity, especially manufacturing activity, may slowdown or at best remain at the level attained in the previous six months.

Idrees Khawaja

Acknowledgements: Excellent research assistance extended by Faiz Rasool and Nazish Zahoor is gratefully acknowledged.

This documents is available at: <www.pide.org.pk>

PIDE Business Barometer

Pakistan Institute of Development Economics
Quaid-i-Azam University Campus
P.O. Box 1091
Islamabad 44000, Pakistan

Tel. +92-51-9248037

Fax. +92-51-9248065

E-mail: idreeskhawaja@pide.org.pk

Web: www.pide.org.pk