



PIDE Business Barometer

8th Issue

April 2011

PIDE Business barometer reflects how well business owners expect their firms to perform. The barometer, based on survey of the firms listed on the Karachi Stock Exchange (KSE), 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 January-June 2011. Actual results for July-December 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.

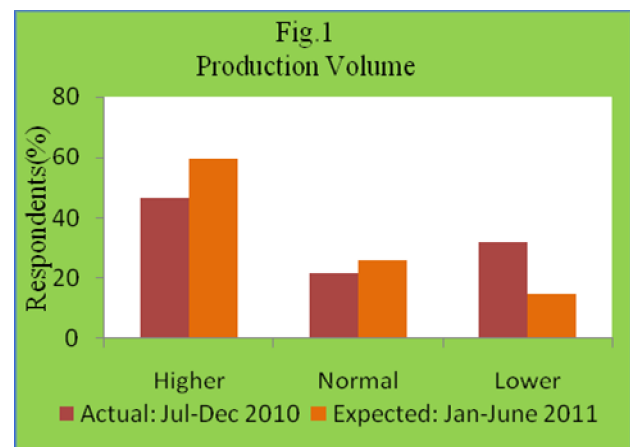
Broad Trends

The constrained availability of energy notwithstanding, a sense of moderate optimism seems to have re-emerged in the business firms, after the unprecedented floods of August 2010 dealt a devastating blow to the economy. Responses to our questionnaire suggest that almost half of the responding firms posted a modest increase in their business volume during July-December 2010 and the respondent firms also remain moderately optimistic about the growth in business volume during January-June 2011. Responses regarding actual and expected capacity utilization also mirror the responses regarding changes in business volumes. Prices of the final products of a large majority of the firms posted an increase of more than 10 percent primarily

due to increase in cost of production. The respondents expect that the trend of increase in prices will continue in the first half of this year. Though some firms have indicated the availability of energy as a constraint to doing business this does not appear to have significantly impacted the production volume at the aggregate level. One reason could be that the energy constraint having become persistent, the firms have made some alternate arrangements like the use of generators and adjustment in working hours. The alternate arrangements, of course, add to the cost of production.

Production volume

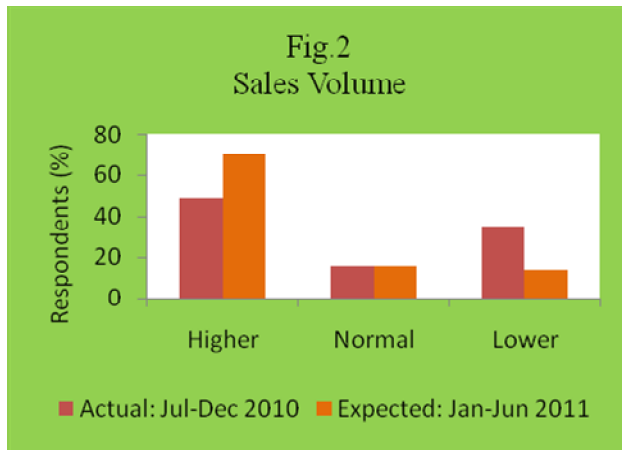
During July-December 2010, 46 percent of the respondent firms registered a growth in their production volume with 50 percent of these firms posting a modest growth of 10 percent or lesser and 19 percent of the firms registering a growth exceeding 30 percent, over January-June 2010.



During January-June 2011, greater number of respondent firms expects to register a positive growth in production volume with growth rates similar to the previous half of the year.

Sales

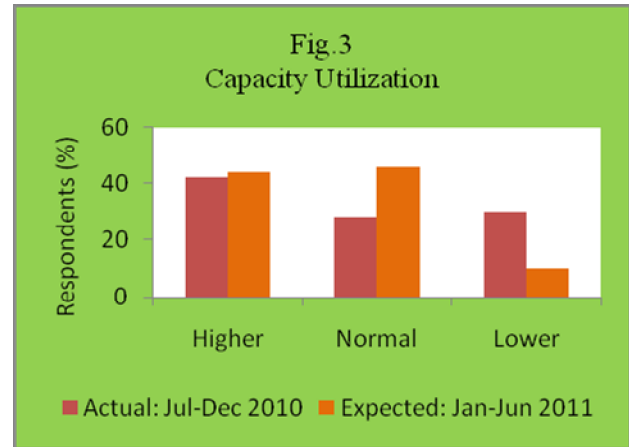
During July-December 2010, 58 percent of the respondent firms experienced an increase in sales volume with 40 percent of these firms registering a growth of 11-30 percent over January-June 2010. The firms (34 percent) that saw their sales volume decline primarily indicated two reasons for the decline: decrease in demand for their product and constrained availability of energy. However the percentage of firms expecting a decline in sales volume, during January-June 2011 is much lesser (14 percent).



Capacity Utilization

During July-December 2010, 42 percent of the firms utilized more capacity than they did during the previous six months (Fig.3). The responses also suggest that the firms expect further growth in capacity utilization during January-June 2011. The responses of the firms, regarding actual and expected

capacity utilization support their statements on growth in production and sales volumes.

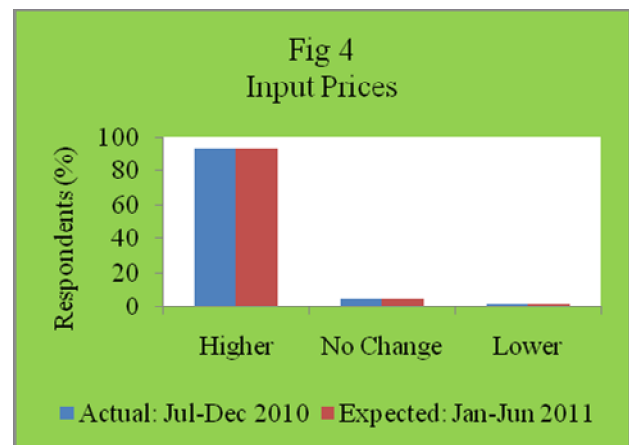


Prices

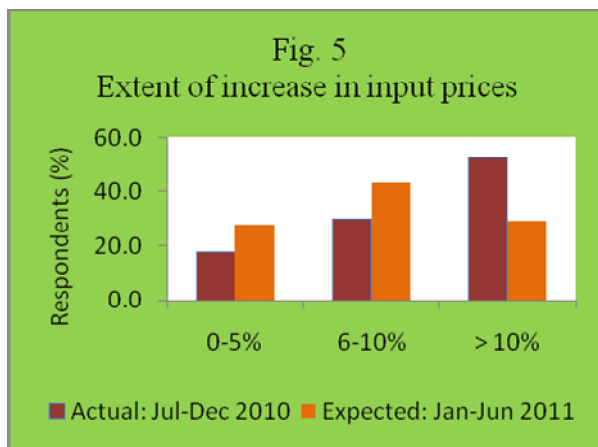
Prices exhibited a strong upward trend during July-December 2010 and no significant let up seems in offing during January-June 2011. With majority of the firms referring to the increase in cost of production as the reason for increase in output prices, a major part of the price spiral seems to be supply driven.

Input prices

Almost all the respondent firms (93 percent) registered an increase in input prices and they expect to face similar trend during January-June 2011 (Fig.4).



Majority of the firms (53 percent) registered an increase of 10 percent or more in input prices. However relatively lesser number of firms (27 percent) expect an increase of more than 10 percent in input prices during January-June 2011 (Fig. 5). This gives hope that price the spiral may recede somewhat in the coming months, however the survey was undertaken in the first week of March 2011 and it is unclear whether the firms have factored in the recent rather large increase in fuel prices, while responding to the questionnaire.



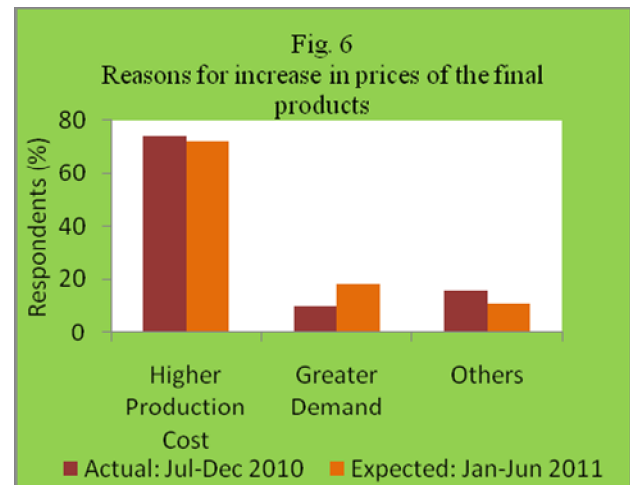
Wages

A large majority of the firms (76 percent) registered an increase in wages during July-December 2010 with 56 percent of these firms posting an increase of more than 10 percent. The respondent firms expect more or less a similar trend of wage-increase during January-June 2011. Despite the wage increase for majority of the firms the primary reason for the increase indicated by the firms is 'normal annual increment' and not the inflation.

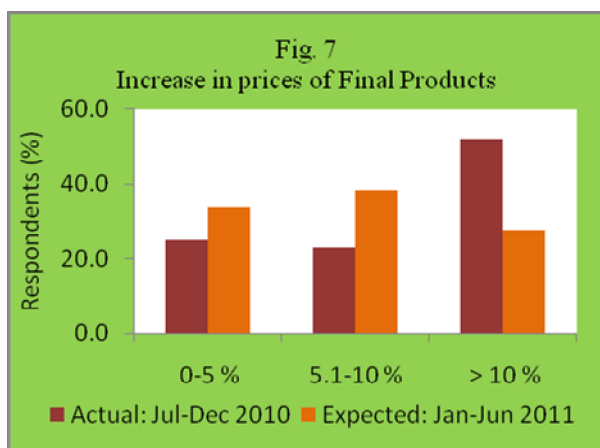
Product prices

Two third of the respondent firms have indicated that the prices of their final products increased during July-December 2010. Almost all the firms have cited the increase in cost of production as the reason

for the increase in prices of the final product (Fig. 6)



The firms expect that the trend of product prices during January-June 2011 will be similar to July-December 2010 i.e. the cost of production and therefore the prices of final products will continue to rise. However one noteworthy difference is that while 52 percent of the respondent firms indicated having registered an increase of 10 percent or more during July-December 2010, only 27 percent expect an increase in prices beyond 10 percent during the half year under way (Fig.7). It is worth re-emphasizing here that this expectation, if proven true, is good news. However it remains to be seen whether the firms have accounted for the recent hike in energy prices while making projections.



Constraints to doing business

Slack market demand, energy availability and high cost of capital were considered the major constraints, by the respondents, to doing business during July-December 2010. The expectations for this half of the year are no different, except that the cost of capital has come down, slightly, in the list of constraints. Perhaps the unchanged SBP's discount rate for the last couple of months and the slow-down in the monetization of fiscal deficit by the government have led to expectations about the lowering of the interest rates in the market. Such expectations, if proven true, will contribute somewhat to relieving the pressure on the cost of production.

Conclusion

The variety of impediments to doing business notwithstanding the business environment seems to have braved the adverse impact of floods to register a moderate increase during July-December 2010 in production and sales volume. What is more important is that a sense of optimism is also visible in the expectations of the respondent firms regarding production and sales volume during January-June 2011. However the consistent increase in cost of production fueled by frequent upward revisions in energy prices threatens to cast

an adverse impact on the expected growth in production and sales volumes..

Prepared by

M. Idrees Khawaja and Faiz Rasul

PIDE Business Barometer

Pakistan Institute of Development Economics

Quaid -e-Azam University Campus

P.O.Box 1091

Islamabad 44000, Pakistan

Tel. +92-51-9248037

Fax +92-51-9248065

Email: idreeskhawaja@pide.org.pk

Web: www.pide.org.pk
