



PIDE Business Barometer

9th Issue

October 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 July-December 2011. Actual results for January-June 2011, 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 responses of the firms suggest that the rate of increase in prices is likely to subside, albeit only slightly, during July-December 2011. The magnitude of increase in prices expected by the firms during July-December 2011 is less than what the firms experienced during the previous half of the year. Similarly the number of firms that expect an increase, during July-December 2011 is also lesser. These responses allow us to predict that the rate, at which prices have been increasing, is likely to decline slightly. The latest figures, on overall inflation and its components, published by the Federal Bureau of Statistics supports our view that the growth rate of prices will be contained somewhat, at-least with respect to

manufacturing goods, during July-December 2011.

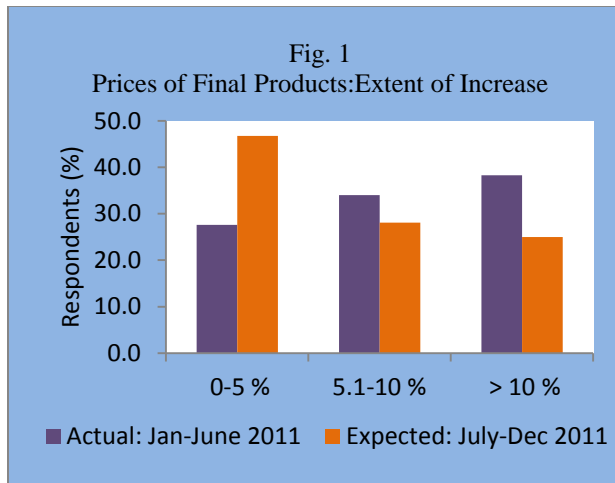
The production and sales volume of the firms maintained the pattern of sluggish growth during January-June 2011 and the firms expect that the trend would continue during July-December 2011. The extent of capacity utilization of the firms, actual as well as expected, also suggests that production and sales trend are not likely to change much during July-December 2011. Slack demand and non-availability of energy continue to be cited as the major constraints to doing business. The improvement in the availability of energy, if sustained, provides hope that the production and sales volume may get a boost, to the extent that the two are constrained by the availability of electricity. However the possibility of shortage of natural gas in winter tends to dampen such expectations. Wages during the period under review have increased but only as a matter of annual routine and the increase is not directly tied to the high inflation observed in the preceding periods.

Prices

The extent of price increase expected by the firms during July-December 2011 when compared with the increase observed during the previous half of the year suggests that the increasing trend of prices is likely to decline slightly during July-December 2011. The lesser number of firms expecting an increase in prices also suggests the containment has begun.

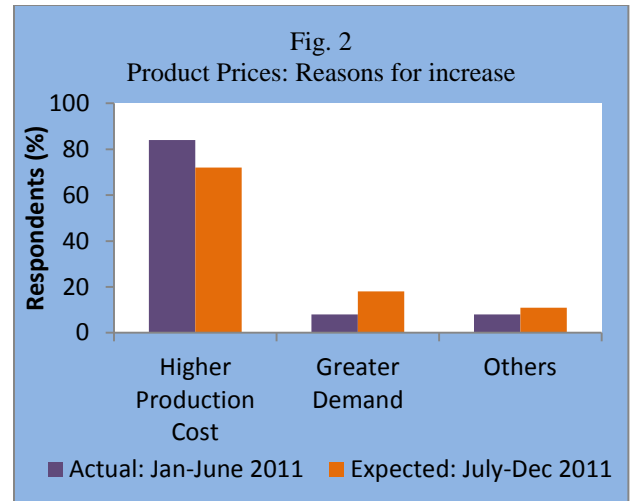
Product Prices

As hinted above the number of firms that expect an increase of 10 percent or more in product prices is less than the number of firms that went through similar increase during the previous half of the year. [Actual: January-June, 2011 (38%), Expected: July-December (25%)].



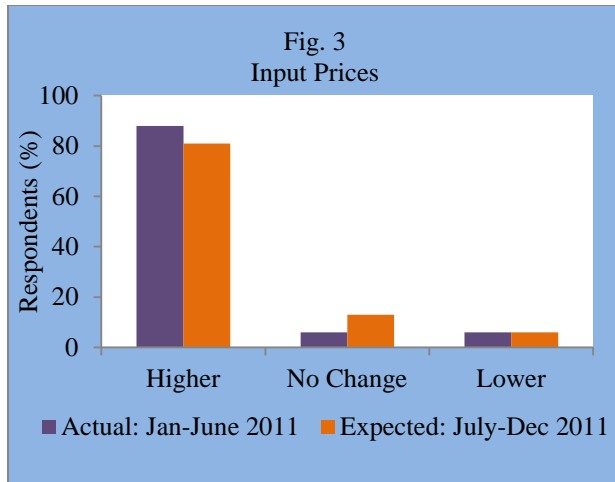
Given the trend shown in Figure 1 we feel that the rate of inflation will stand somewhat tamed during July-December 2011.

The firms put the onus of increase in product prices on increase in the input prices. This is evident from the reasons indicated by the firms for the increase in product prices (Fig. 2).



Input prices

Eighty eight percent of the firms registered an increase in input prices during January-June 2011 with 51 percent of such firms posting an increase of more than 10 percent. This confirms that increase in input prices is the primary reason for the increase in prices of the final products. The number of firms that expect an increase in the prices of inputs during July-December 2011 is more or less the same that experienced an increase during the previous half of the year, however what is important is that only 29 percent of the firms expect an increase of 10 percent or more in input prices as against 51 percent that actually experienced an increase during the previous half of the year (Fig.3). This again suggests a slow-down in the increasing trend of prices.

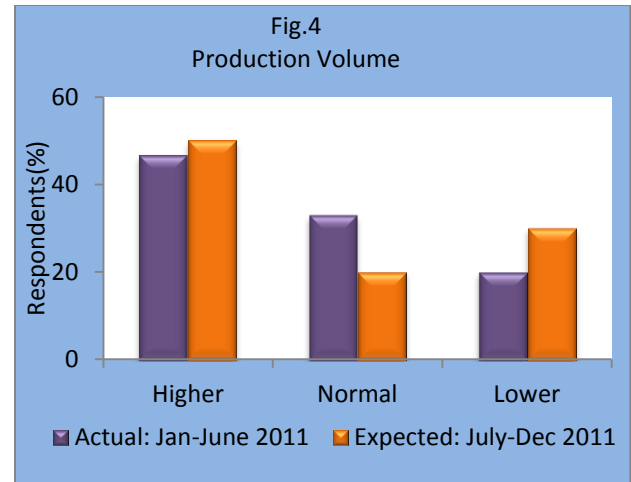


Wages

Around half of the firms experienced an increase in wages and a similar number expects an increase during July-December 2011. Out of the firms that registered an increase in wages, two third of these firms have indicated the award of routine annual increments to the employees as the reason for increase in wages. This shows that one of the characteristic of the labour market is that wages do not respond very quickly to inflation.

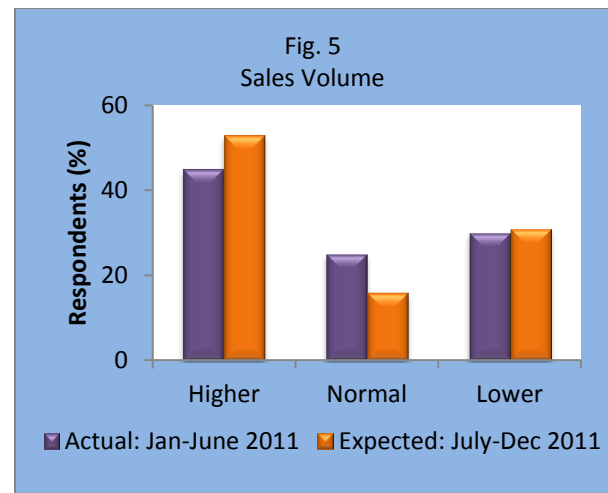
Production

During January-June 2011, 47 percent of the firms posted growth in their production volume with majority of these firms expecting a modest growth of 10 percent or less (Fig.4). Seventeen percent of the firms also registered a growth of more than 30 percent. This performance is by and large a continuation of the previous trend. The number of firms that expect to register growth in business volume during July-December 2011 is slightly greater, with growth rates similar to the previous half of the year (Fig. 4).



Sales

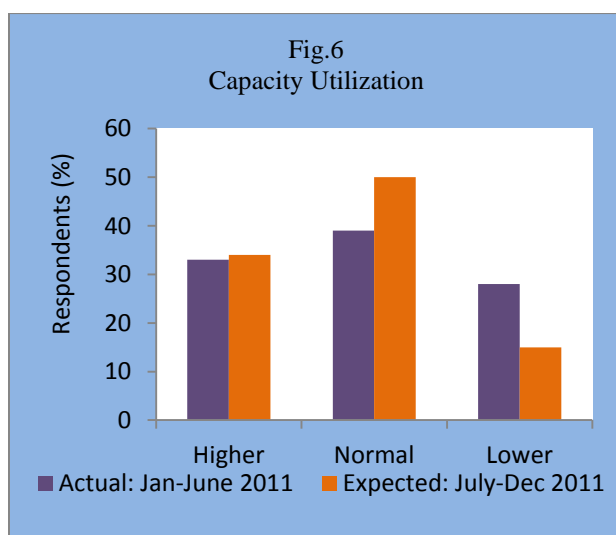
The trend of sales, actual as well as projected, mirrors the production trend described above. During the previous half of the year 44 percent of the firms registered an increase in sales volume while 53 percent expect their business volume to grow during July-December 2011 (Fig.5). The extent of growth in sales volume in both the cases is close to 10 percent.



Capacity utilization

During January-June 2011, the capacity utilization of thirty three percent of the firms was more than their utilization in previous

half of the year. A similar number expects to use greater capacity during July-December 2011 (Fig. 6). Majority of the firms that managed to increase their capacity utilization, relative to previous half of the year, posted a mere increase of 10 percent or even lesser. Similar pattern is expected during July-December 2011. The number of firms utilizing hundred percent capacity remains at the rather low level of 10 percent of the total firms and no major change is expected on this count during July-December 2011.



Constraints

The firms considered slack market demand and non-availability of energy as the major constraints to doing business during January-June 2011 and they do not expect major changes on these counts during July-December 2011. However the improvement in the availability of electricity in recent days is not factored into the responses of the firms.

Conclusion

The trend of increasing prices exhibits some signs of a slight tapering off. Given continued lackluster demand no major change is expected in business volume during the next couple of months. The recent easing of the electricity constraint, if sustained, might help in increasing the production and sales volume, but the shortage of natural gas expected in winter restrains us from sounding a too optimistic note.

Prepared by

M. Idrees Khawaja and Faiz Rasool

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

Email: idreeskhawaja@pide.org.pk

Web: www.pide.org.pk
