



PIDE Business Barometer

May 2009

No. 5

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 seeks to draw inferences about aggregate business activity and aggregate prices. This issue of the barometer is based on the expectations of the firms for the period January-June 2009. Actual results for July-December 2008, 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.

Two broad conclusions drawn from survey results are: One; economic activity, during January-June 2009, after registering a down turn in the past six months (July-December 2008), is likely to remain, more or less, at the level of the previous half of the year, and two; slight taming of the price spiral observed in recent months, will continue in the coming periods, at least to the extent that manufacturing sector contributes to aggregate prices.

1. Expected Business Volume

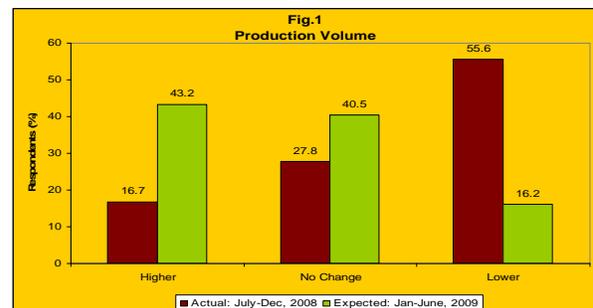
Firms' expectations for January-June 2009 regarding change in their capacity utilisation, production volume, sales volume, inventory levels and investment activity are mixed. These mixed expectations, when coupled with discouraging actual results for July-December 2008, force us to remain conservative in forecasting the change in level of business

activity for January-June 2009. Given mixed results we expect that the business activity is likely to remain more or less static at the levels achieved during July-December 2009. Comparison, of the responses regarding actual and expected change in prices of final products, prices of raw materials and wage levels, tells that the price spiral might stand slightly tamed during January-June 2009, at least to the extent the prices of manufactured goods contribute to aggregate prices.

Our view regarding no worthwhile change in business activity is based on the following:

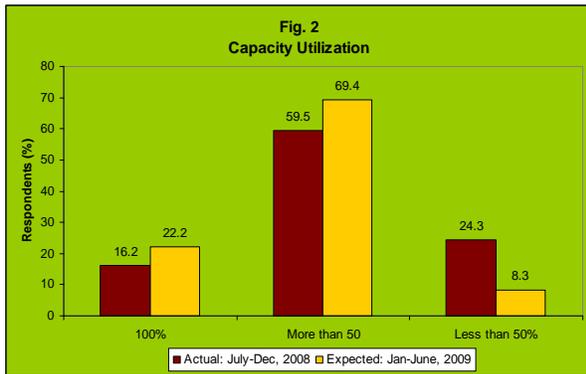
1.1. Production Volume

Production volume is likely to remain, more or less, at the level achieved during July-December 2008. Respondents' expectations regarding the production activity during January to June 2009 are mixed. Though 43 percent of the firms expect that their production volume would increase in the next six months, but almost the same percentage of respondents expect no change in their production volume, while another 16 percent fear a decline on this count (Fig.1). Given these mixed results, we expect that aggregate production volume will remain more or less unchanged during January-June 2009.



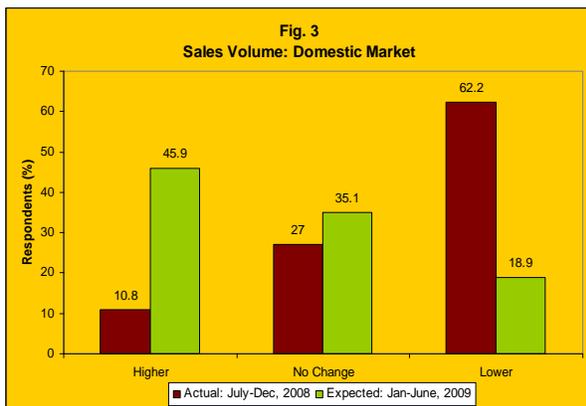
1.2. Capacity Utilisation

Aggregate capacity utilisation of the manufacturing firms is likely to remain at the levels achieved in the first half of the fiscal year 2008-09. There is only a marginal positive difference between the utilisation levels achieved by the respondents in the first of FY 2008-09 and the capacity utilisation expected during the second half of FY 2008-09 (Fig. 2).

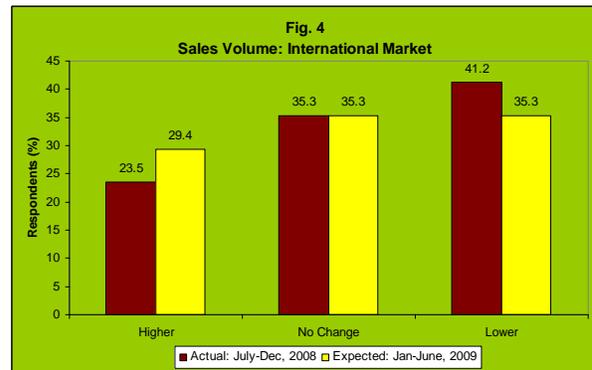


1.3. Sales

A large majority of the respondent firms experienced a decline in their domestic sales volume during July-December 2008 (62 percent). Now only 19 percent of the respondents expect that their sales will decrease during January-June 2009 (Fig. 3). However a significant percentage (35 percent) of respondents expects no change in their sales volume relative to the previous half of the year.

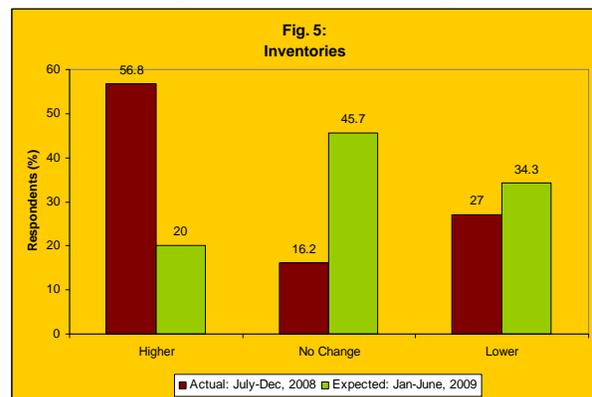


Moreover majority of the firms expect no change, or worse still fear a decline in their sales volume in the international market (Fig. 4). The respondents' expectations regarding domestic and international sales, put together, cast a more or less static sales volume forecast, in aggregate, for January to June 2009.



1.4. Inventories Held

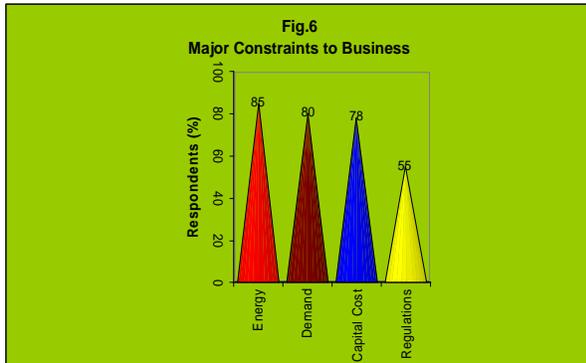
The results regarding expected change in inventory levels are again mixed with a percentage as large as 46 percent expecting no change in inventory levels with another 20 percent fearing an increase in inventories held during January-June 2009 (Fig.5). This too does not allow us to be optimistic about positive change in business activity.



1.5. Constraints to Business

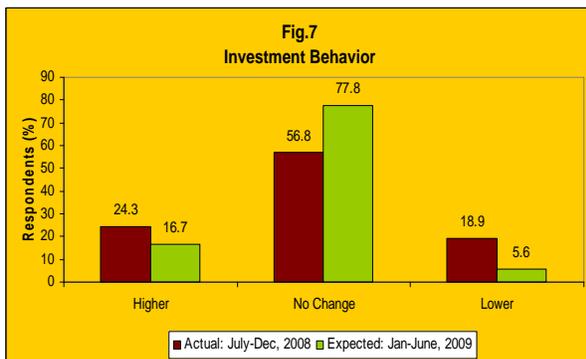
As expected, the firms surveyed have identified energy availability, low demand, high cost of capital, and inappropriate

regulatory environment as the major constraints to their business during July-December 2008 (Fig.6).



1.6. Investment Behaviour

Majority of the firms neither invested more in their business during July-December 2008, nor do they plan to increase their investment level in the current half of the year. This is in conformity with firms' response that only 24 percent of the firms expect to fully utilise their existing capacity (Fig. 7).

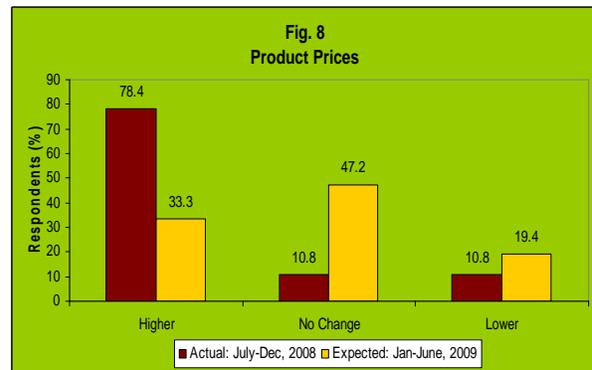


2. Prices (Manufacturing Sector)

Firms' responses regarding expected input prices tell that their cost of production during January-June 2009 should be somewhat lesser than what was observed in the previous six months. This should help tame the price spiral slightly, at least, to the extent that manufacturing sector contributes to inflation.

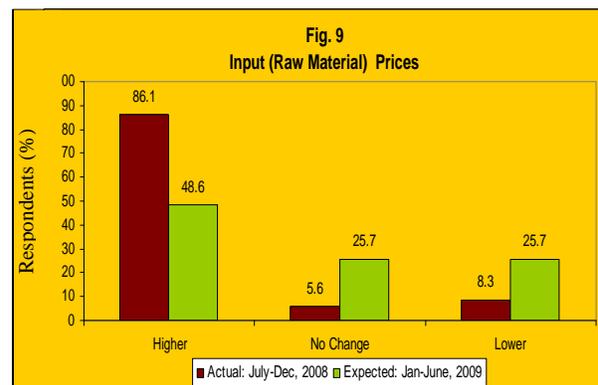
2.1. Product Prices

The rate of increase of the prices of final products is likely to fall during January-December 2009. Though, 78 percent of the respondent firms experienced an increase in prices of their products during July-December 2008, only 33 percent of such firms expect the prices will continue to rise in the next six months. In fact 47 percent of the respondents expect to see no change in prices of their final products during January-June 2009 (Fig. 8).



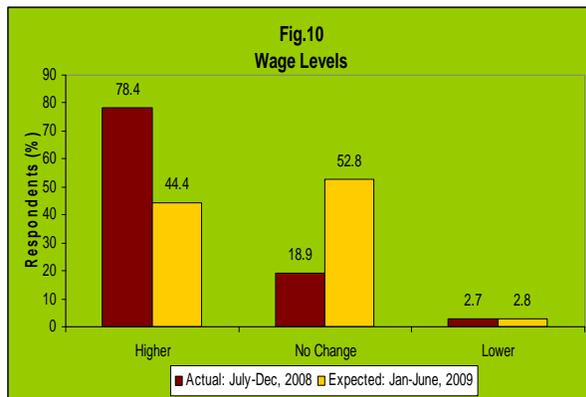
2.2. Input Prices

Lesser number of firms now expects an increase in input prices. In the previous half (July-December 2008), 86 percent of respondent firms saw their input prices rise. Though even now majority of the firms expect that the input prices will rise during January-June 2009, but the figure stands trimmed to 49 percent. (Fig.9)



2.3. Wage Pressure

The pace of wage increase is likely to slow down during January to June 2009. In the previous half of the year a large majority (78 percent) of the employers had to increase the wages of their employees. Though majority of the employer still expect that they will have to offer higher wages, but still they are not as many as actually experienced a wage-increase in previous half of the year. (Fig.10)



3. Financial Firms

A very large majority of the financial firms expect that the interest rate on deposits as well loans will decrease during January-June 2009. This implies that the financial sector was expecting the decrease in discount rate announced in April 2009. Given the monetary easing and the expectations of financial firms, the cost of capital is likely to decrease, however given the lag structure with which the monetary changes influence prices and the market imperfections that constrain the pass-through of monetary changes, the full impact of easing may not be felt during January to June 2009.

To conclude, the overall expectations for January-June 2009, based on responses received from the firms, are that business activity would, more or less, remain at the levels experienced in previous half of the year.

The rate of price increase will be slightly tamed, at least to the extent that manufacturing sector contributes to the price spiral.

Note: This document is based on views expressed by 55 firms listed on Karachi Stock Exchange.

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