

PAKISTAN



Sector of Large Scale Manufacturing	Weight	Oct-22	4MFY23
Textile	18.2%	-24.6%	4.7%
Food	10.7%	-4.9%	-5.8%
Coke & Petroleum Products	6.7%	-15.0%	15.0%
Chemicals	6.5%	-7.7%	-1.9%
Wearing Apparel	6.1%	34.1%	20.7%
Pharmaceuticals	5.2%	-18.6%	-9.2%
Non Metallic Mineral Products	5.0%	-10.1%	-12.2%
Fertilizers	3.9%	-9.8%	-6.6%
Beverages	3.8%	-1.2%	4.3%
Iron & Steel Products	3.4%	-8.5%	20.2%
Automobiles	3.1%	-30.6%	41.8%
Chemicals Products	2.5%	-4.4%	6.4%
Tobacco	2.1%	5.4%	3.8%
Electrical Equipment	2.0%	7.8%	-20.9%
Paper & Board	1.6%	-8.1%	9.9%
Leather Products	1.2%	2.8%	0.1%
Other transport Equipment	0.7%	-41.8%	-3.9%
Furniture	0.5%	105.0%	121.5%
Machinery and Equipment	0.4%	-38.0%	21.0%
Fabricated Metal	0.4%	34.9%	-0.7%
Other Manufacturing (Football)	0.3%	65.5%	60.7%
Wood Products	0.2%	-81.8%	566.2%
Rubber Products	0.2%	-14.8%	-34.4%
Computer and electronics products	0.0%	-25.7%	-13.7%
		-7.8%	-2.9%

Source: PBS, Foundation Research, December 2022

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Large Scale Manufacturing Sector declined amid macroeconomic headwinds

LSM decreased by 3.6%MoM in Oct'22

LSM declined 7.8% YoY (down 3.6% MoM) during Oct'22 taking 4MFY23 decline to 2.9% YoY amid slowdown in economic activity due to high interest rates, elevated inflation and commodity super cycle. Growth in Oct'22 was seen in Wearing Apparel (↑34.1%), Electrical Equipment (↑7.8%), Tobacco (↑5.4%), Furniture (↑105.4%) and Leather (↑2.8%). Whereas, YoY decline was observed in Food (↓4.9%), Textile (↓24.6%), Coke & Petroleum (↓15.0%), Iron & Steel (↓8.5%), Chemicals (↓7.7%), Fertilizers (↓9.8%), Beverages (↓1.2%), Pharmaceuticals (↓18.6%), Autos (↓30.6%), Machinery and Equipment (↓38.0%) and Non-Metallic minerals (↓10.1%).

Wearing Apparel and Electrical Equipment showed growth

- Wearing Apparel witnessed growth of 34.1% YoY in Oct'22 given strong global demand for Pakistani made products amid 22.0% YoY depreciation in Rs-US\$ parity.
- Manufacture of electrical equipment increased by 7.8% YoY given incline in electric transformers/storage batteries/deepfreezers by 71.2/17.2/46.2% whereas Refrigerators/Electric motors declined by 34.5/12.3% YoY.

Textile, Food, Coke/Petroleum, Iron & Steel and Chemicals declined

Textile sector declined by 24.6 % YoY given decline of 27.1/11.9% YoY in spinning/weaving due to fall in cotton production amid record floods. Looking ahead, we are cautious as exports would continue to be impacted by economic slowdown in developed markets resulting in tepid demand for Pakistani textiles. However, this would be somewhat offset by the (1) recent currency depreciation and (2) Gov't support in facilitating cotton imports and fixing of electricity tariff at concessional rates. Food segment also decreased by 4.9% YoY due to 12.2% YoY decline in wheat & rice milling. Iron & Steel production was down by 8.5% YoY as billots/ingots declined by 24.5% YoY even though H/C.R.Sheets/Strips/Coils/Plates inclined by 3.3%.

Coke and Petroleum declined by 15.0% YoY as HSD/MS/FO/solvent Naphtha declined 12.6/5.8/22.6/60.2% YoY. Chemicals was down by 7.7% YoY as Fertilizers decreased by 9.8% YoY given that Nit fertilizers declined by 11.6%. Whereas, Chemical products decreased 4.4% YoY as paints & varnishes (S)/sulphuric acid declined by 11.3/47.2% YoY.

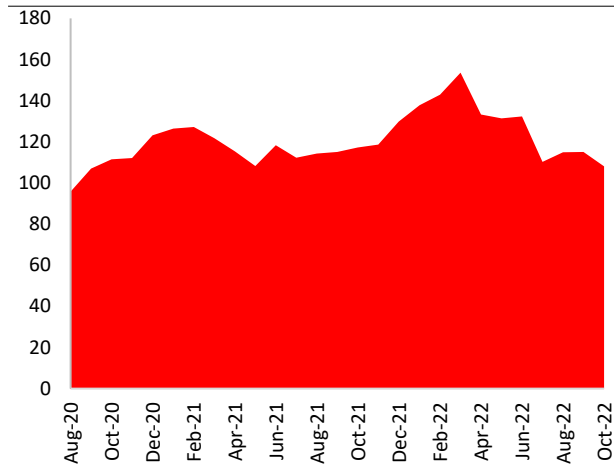
Pharmaceuticals, Autos and NMM also decreased

Pharmaceuticals decreased by 18.6% YoY on the back of 23.6/19.5/3.4% decline in tablets/syrups/injections. Additionally, a dip was also observed in capsules of 3.5%. Autos registered a decline of 30.6% YoY given 34.3/15.8/58.0/36.2 % YoY fall in cars/jeeps/LCVs/trucks. Likewise, Motor cycles sales declined 42.1% YoY. Going forward, we believe that the medium-term growth of the auto industry would be slowed by the overall slowdown in the economy due to ban on opening of LC's for import, high interest rates and rising car prices. Non Metallic Minerals decreased by 10.1% YoY due to decline in cement/glass production by 10.5/5.6% YoY.

Outlook

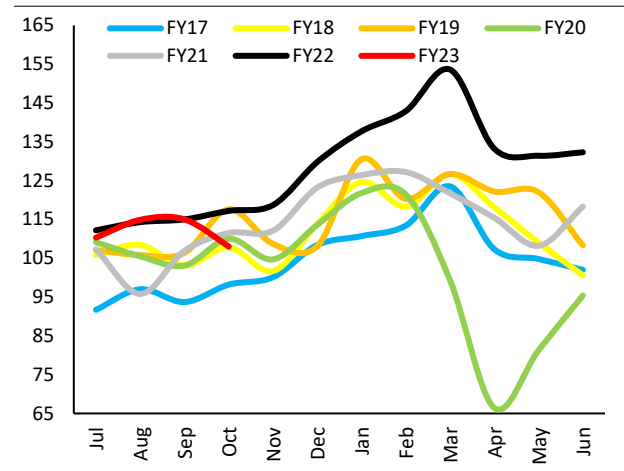
We expect LSM growth would be negative in FY23 given slowdown in domestic and external demand due to high interest rates and high inflation amid record floods, elevated int'l commodity prices, increase in fuel/energy prices and exchange rate depreciation. Moreover, shortage of gas would also affect industrial production.

Fig 01: LSM index declined 7.8% YoY in Oct'22



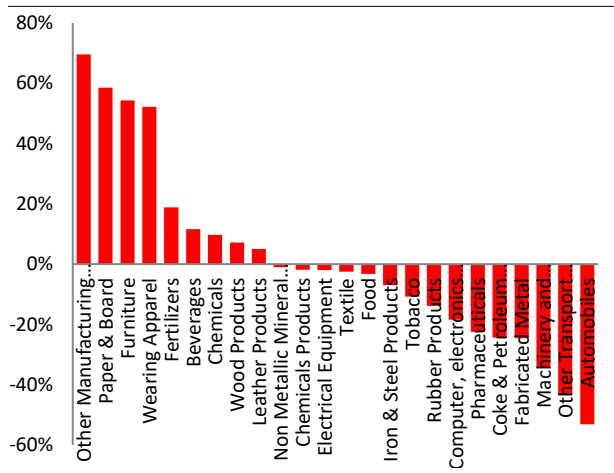
Source: PBS, Foundation Research, Dec 2022

Fig 02: : LSM index displays marked seasonality



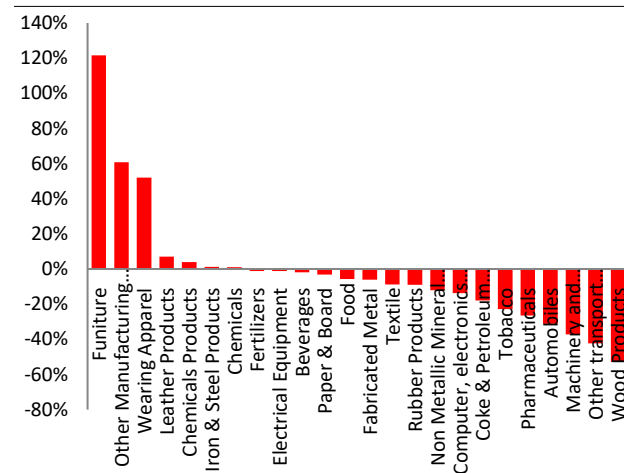
Source: PBS, Foundation Research, Dec 2022

Fig 03: Growth of various sectors during Oct'22



Source: PBS, Foundation Research, Dec 2022

Fig 04: Growth of various sectors during 4MFY23



Source: PBS, Foundation Research, Dec 2022

Acronyms

DLTL	Drawback on Local Taxes and Levies
ECC	Economic Coordination Committee of the Cabinet
MoM	Month on Month
YoY	Year on Year
OCAC	Oil companies advisory committee
MOI	Ministry of Industries
BOS	Bureaus of statistics
HSD	High Speed Diesel
LPG	Liquefied Petroleum Gas
OGDC	Oil and Gas Company limited
Kton	Thousand Tones
ADD	Anti Dumping Duty
FY	Fiscal year
RLNG	Re-gasified Liquefied Natural Gas
PMP	Pakistan Maroc Phosphore
TGL	Tariq Glass Limited
PSDP	public sector development program
MTL	Millat Tractors Limited

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.