

PAKISTAN



Sector of Large Scale Manufacturing	Weight	Dec-22	1HFY23
Textile	18.2%	-21.2%	-13.1%
Food	10.7%	11.1%	-2.4%
Coke & Petroleum Products	6.7%	3.5%	-11.2%
Chemicals	6.5%	-3.8%	-1.1%
Wearing Apparel	6.1%	25.5%	46.6%
Pharmaceuticals	5.2%	-12.7%	-21.6%
Non Metallic Mineral Products	5.0%	-8.6%	-11.7%
Fertilizers	3.9%	-0.1%	-2.0%
Beverages	3.8%	-12.5%	-8.5%
Iron & Steel Products	3.5%	-8.1%	-2.1%
Automobiles	3.1%	-36.2%	-30.2%
Chemicals Products	2.6%	-9.2%	0.1%
Tobacco	2.1%	-28.8%	-23.5%
Electrical Equipment	2.1%	-4.4%	-0.2%
Paper & Board	1.6%	-1.5%	-2.8%
Leather Products	1.2%	-0.7%	5.7%
Other transport Equipment	0.7%	-27.5%	-39.5%
Furniture	0.5%	182.4%	105.5%
Fabricated Metal	0.4%	0.2%	-14.7%
Machinery and Equipment	0.4%	-77.9%	-47.9%
Other Manufacturing (Football)	0.3%	20.3%	52.0%
Rubber Products	0.2%	0.4%	-7.6%
Wood Products	0.2%	-74.2%	-66.0%
Computer, electronics, optical prods	0.0%	-33.8%	-20.0%
		-3.5%	-3.7%

Source: PBS, Foundation Research, February 2023

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Large Scale Manufacturing

Macroeconomic headwinds continue to bite

LSM decreased by 3.5%YoY in Dec'22

LSM declined by 3.5% YoY (up 12.4% MoM) during Dec'22 pushing 1HFY23 decline to 3.7% YoY amid slowdown in economic activity due to high interest rates, record inflation and sharp currency depreciation. Growth in Dec'22 was seen in Wearing Apparel (↑25.5%), Food (↑11.1%), Furniture (↑182.4%) and Coke & Petroleum (↑3.5%). Whereas, YoY decline was observed in Textile (↓21.2%), Iron & Steel (↓8.1%), Chemicals (↓3.8%), Fertilizers (↓0.1%), Beverages (↓12.5%), Pharmaceuticals (↓12.7%), Autos (↓36.2%), Machinery and Equipment (↓77.9%), Electrical Equipment (↓4.4%), Tobacco (↓28.8%), Leather (↓0.7%) and Non-Metallic minerals (↓8.6%).

Textile, Iron & Steel, Chemicals and Electrical Equipment declined

Textile sector declined by 21.2 % YoY given decline of 30.2/17.7% 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, both domestically and internationally, resulting in tepid demand for Pakistani textiles.

Chemicals was down by 3.8% YoY as Chemical products fell by 9.2% YoY given that toilet soaps/sulphuric acid/hydrochloric acid declined by 29.1/30.4/24.4% YoY. Whereas, Fertilizers fell by 0.1% YoY given Phos declined by 34.7% as Nit inclined by 4.9% YoY. Iron & Steel production was down by 8.1% YoY as billets/ingots declined by 22.1% YoY even though H/C.R.Sheets/Strips/Coils/Plates inclined by 1.6%. Electrical equipment fell by 4.4% YoY given decline in batteries/motors/meters of 17.3/12.3/6.0%. Whereas, refrigerators inclined by 19.0% YoY.

Pharmaceuticals, Autos and NMM also decreased

Pharmaceuticals decreased by 12.7% YoY on the back of 14.1/16.8/2.3% decline in tablets/syrups/injections. Whereas, capsules grew by 7.9%. Autos registered a decline of 36.2% YoY given 40.8/2.3/60.8/26.4/14.6% YoY fall in cars/jeeps/LCVs/trucks/buses. Likewise, Motor cycles sales declined 27.8% YoY. Going forward, we believe that in the medium-term, auto industry would decline given the import ban on CKD kits, rising car prices, high interest rates and overall slowdown in the economy. Non Metallic Minerals decreased by 8.6% YoY due to decline in cement/glass production by 8.4/10.4% YoY.

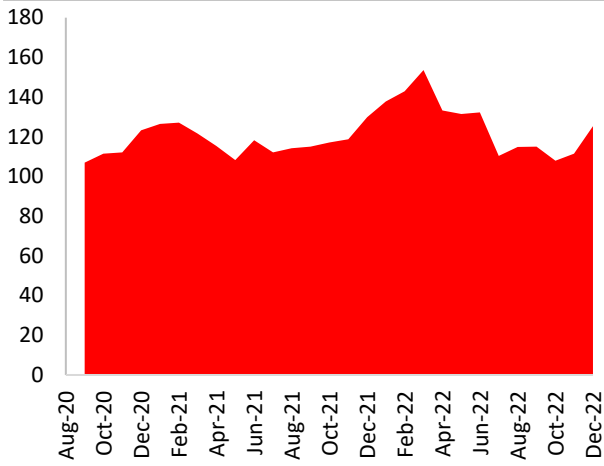
Wearing Apparel, Food and Coke/Petroleum showed growth

Wearing Apparel witnessed growth of 25.5% YoY in Dec'22 given strong domestic demand for local products even as exports of garments/knitwear/bedwear declined by 8/20/18% YoY in Dec'22. Food segment increased by 11.1% YoY as sugar, bakery & chocolate products/cooking oil increased by 27.9/15.0% YoY despite decline of 12.9% YoY in wheat and rice milling amid floods. Coke and Petroleum inclined by 3.5% YoY as MS/HSD/FO increased by 10.9/9.5/15.8% YoY.

Outlook

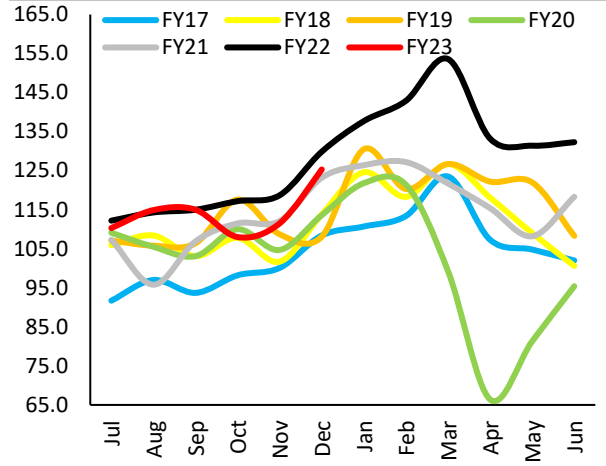
We expect LSM growth would be negative in FY23 given slowdown in domestic and external demand on account of (1) high interest rates and record inflation amid floods, (2) sharp exchange rate depreciation, (3) elevated int'l commodity prices, (4) increase in fuel and energy prices, (5) withdrawal of concessionary electricity tariff for export industries and (5) shortage of gas.

Fig 01: LSM index declined 3.5% YoY in Dec'22



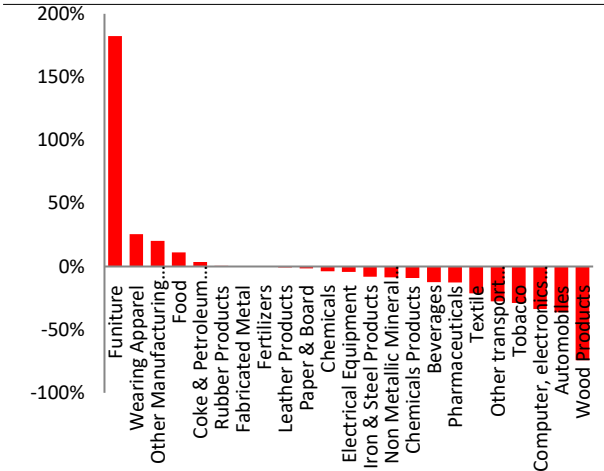
Source: PBS, Foundation Research, Feb 2023

Fig 02: : LSM index displays marked seasonality



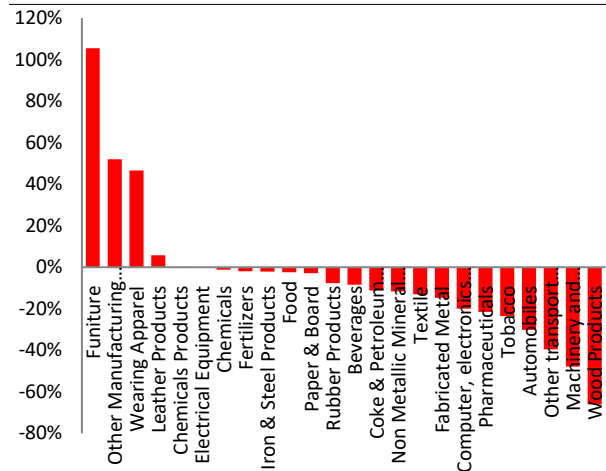
Source: PBS, Foundation Research, Feb 2023

Fig 03: Growth of various sectors during Dec'22



Source: PBS, Foundation Research, Feb 2023

Fig 04: Growth of various sectors during 1HFY23



Source: PBS, Foundation Research, Feb 2023

Acronyms

ECC	Economic Coordination Committee of the Cabinet
MoM	Month on Month
YoY	Year on Year
HSD	High Speed Diesel
LPG	Liquefied Petroleum Gas
Kton	Thousand Tones
ADD	Anti Dumping Duty
FY	Fiscal year
RLNG	Re-gasified Liquefied Natural Gas

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