

## PAKISTAN



Sector of Large Scale Manufacturing	Weight	Jan-23	7MFY23
Textile	18.2%	-14.2%	-13.2%
Food	10.7%	0.0%	-1.9%
Coke & Petroleum Products	6.7%	-1.8%	-9.9%
Chemicals	6.5%	-17.4%	-3.6%
Fertilizers	3.9%	-23.6%	-5.3%
Chemicals Products	2.6%	-7.7%	-1.0%
Wearing Apparel	6.1%	32.3%	44.5%
Pharmaceuticals	5.2%	-23.9%	-21.9%
Non Metallic Mineral Products	5.0%	-0.2%	-10.2%
Beverages	3.8%	-0.2%	-7.4%
Iron & Steel Products	3.5%	-8.8%	-3.1%
Automobiles	3.1%	-60.5%	-34.9%
Tobacco	2.1%	-11.7%	-21.7%
Electrical Equipment	2.1%	-15.5%	-3.0%
Paper & Board	1.6%	-9.4%	-3.8%
Leather Products	1.2%	-1.5%	5.0%
Other transport Equipment	0.7%	-31.5%	-38.5%
Furniture	0.5%	-38.0%	73.8%
Fabricated Metal	0.4%	-8.4%	-13.9%
Machinery and Equipment	0.4%	-71.3%	-51.9%
Other Manufacturing (Football)	0.3%	27.9%	48.3%
Rubber Products	0.2%	-8.1%	-7.7%
Wood Products	0.2%	-75.3%	-67.8%
Computer, electronics, optical prods	0.0%	-38.5%	-22.8%
		<b>-7.9%</b>	<b>-4.4%</b>

Source: PBS, Foundation Research, March 2023

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# Large Scale Manufacturing

## Downward march continues amid slowing economy

### LSM decreased by 7.9%YoY in Jan'23

LSM declined by 7.9% YoY (up 1.5% MoM) during Jan'23 pushing 7MFY23 decline to 4.4% YoY amid slowdown in economic activity due to high interest rates, record inflation, sharp currency depreciation and import restrictions on raw materials. Growth in Jan'23 was witnessed in Wearing Apparel (↑32.3%) and Other Manufacturing - Football (↑27.9%). Whereas, Food was flat YoY and declines were observed in all the other sectors YoY. Notably, Textile (↓14.2%), Coke & Petroleum (↓1.8%), Iron & Steel (↓8.8%), Chemicals Products (↓7.7%), Fertilizers (↓23.6%), Beverages (↓0.2%), Pharma (↓23.9%), Autos (↓60.5%), Machinery & Equipment (↓71.3%), Electrical Equipment (↓15.5%) and Non-Metallic minerals (↓0.2%).

### Textile, Iron & Steel, Chemicals and Electrical Equipment declined

Textile sector declined by 14.2% YoY given decline of 30.0/17.7% 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 in export markets as well as domestic slowdown, resulting in tepid demand for textiles.

Chemicals was down by 17.4% YoY as Chemical products fell by 7.7% YoY given that toilet soaps/sulphuric acid/hydrochloric acid declined by 26.7/32.3/19.4% YoY. Whereas, Fertilizers fell by 23.6% YoY given Phos/Nit declined by 77.0/15.5%. Iron & Steel production was down by 8.8% YoY as billets/ingots declined by 23.6% YoY even though H/C.R.Sheets/Strips/Coils/Plates inclined by 4.6% YoY. Electrical equipment fell by 15.5% YoY given decline in batteries/motors/transformers/refrigerators of 19.1/14.8/40.2/10.9%. Whereas, deepfreezers inclined by 107.7% YoY.

### Pharmaceuticals, Autos, NMM and Coke/Petroleum also decreased

Pharmaceuticals decreased by 23.9% YoY on the back of 14.3/35.8% decline in tablets/syrups. Whereas, injections/capsules grew by 13.3/35.9%. Autos registered a decline of 60.5% YoY given 71.3/9.4/34.9/59.2/15.7% YoY fall in cars/jeeps/LCVs/trucks/buses. Likewise, Motor cycles sales declined 31.7% YoY. Going forward, we believe that in the medium-term, auto industry would decline given the import ban on CKD kits, rising car prices and high interest rates. Non Metallic Minerals decreased by 0.2% YoY due to decline in glass production by 10.4% YoY while cement inclined by 1.2% YoY. Coke and Petroleum declined by 1.8% YoY as MS/HSD decreased by 7.1/5.1% YoY despite increase of 1.4/43.2% YoY in FO/solvent naptha.

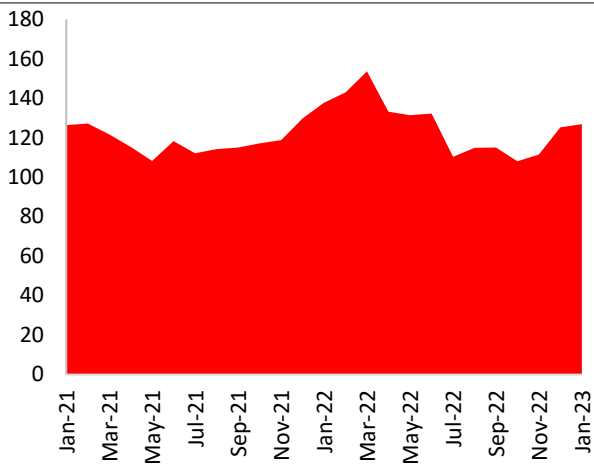
### Wearing Apparel showed growth and Food remained flat

Wearing Apparel witnessed growth of 32.3% YoY in Jan'23 given strong domestic demand for local products even as exports of garments/knitwear/bedwear declined by 11/13/20% YoY in Jan'23. Food segment remained flat YoY as sugar, bakery & chocolate products/cooking oil increased by 1.1/11.2% YoY amid decline of 8.1% YoY in wheat and rice milling amid floods.

### Outlook

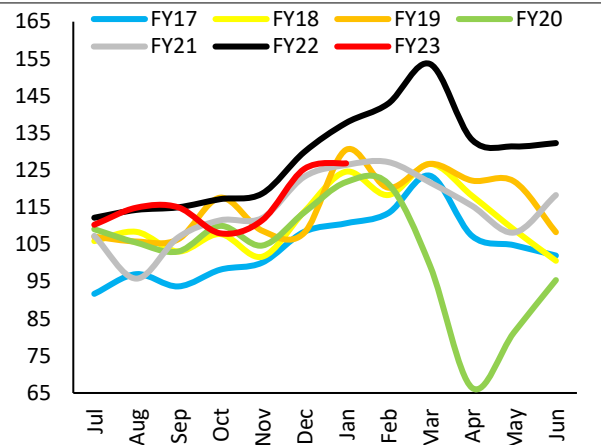
We expect LSM growth would be negative in FY23 given slowdown in domestic and external economic activity on account of (1) import restrictions, (2) high interest rates and record inflation amid floods, (3) sharp exchange rate depreciation, (4) elevated int'l commodity prices, (5) increase in fuel and energy prices, (6) withdrawal of concessionary electricity tariff for export industries and (7) shortage of gas.

**Fig 01: LSM index declined 7.9% YoY in Jan'23**



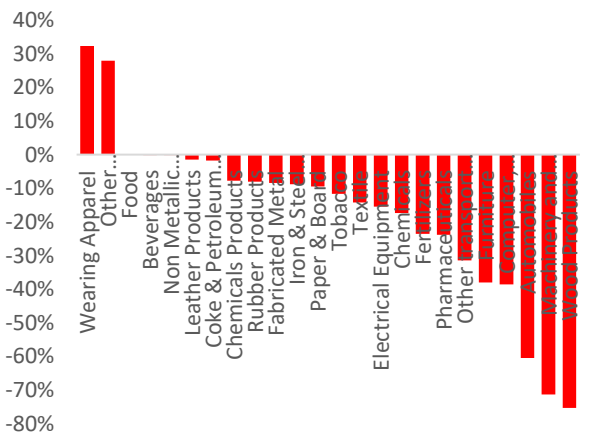
Source: PBS, Foundation Research, Mar 2023

**Fig 02: : LSM index displays marked seasonality**



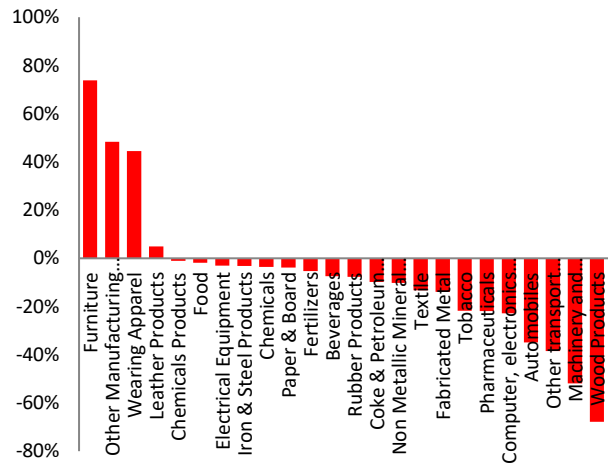
Source: PBS, Foundation Research, Mar 2023

**Fig 03: Growth of various sectors during Jan'23**



Source: PBS, Foundation Research, Mar 2023

**Fig 04: Growth of various sectors during 7MFY23**



Source: PBS, Foundation Research, Mar 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	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.