

PAKISTAN



Sector of Large Scale Manufacturing	Weight	Mar-23	9MFY23
Textile	18.2%	-30.7%	-16.0%
Food	10.7%	-42.5%	-8.7%
Coke & Petroleum Products	6.7%	-16.1%	-10.2%
Chemicals	6.5%	-16.8%	-6.3%
Fertilizers	3.9%	-22.1%	-9.5%
Chemicals Products	2.6%	-8.8%	-1.5%
Wearing Apparel	6.1%	11.0%	31.7%
Pharmaceuticals	5.2%	-28.1%	-23.2%
Non Metallic Mineral Products	5.0%	-22.2%	-10.8%
Beverages	3.8%	1.4%	-3.4%
Iron & Steel Products	3.5%	-5.1%	-4.0%
Automobiles	3.1%	-68.0%	-42.5%
Tobacco	2.1%	-49.7%	-23.8%
Electrical Equipment	2.1%	-24.5%	-11.2%
Paper & Board	1.6%	-19.9%	-5.4%
Leather Products	1.2%	-6.9%	2.5%
Other transport Equipment	0.7%	-48.4%	-38.9%
Furniture	0.5%	10.6%	48.3%
Fabricated Metal	0.4%	-21.8%	-13.8%
Machinery and Equipment	0.4%	-24.7%	-46.0%
Other Manufacturing (Football)	0.3%	29.0%	34.8%
Rubber Products	0.2%	-12.8%	-8.1%
Wood Products	0.2%	-6.0%	-66.2%
Computer, electronics, optical prods	0.0%	-37.8%	-26.5%
		-25.0%	-8.1%

Source: PBS, Foundation Research, May 2023

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Large Scale Manufacturing

Import controls dampen industrial growth

LSM decreased by 25.0%YoY in Mar'23

LSM declined by 25.0% YoY (down 9.1% MoM) during Mar'23 pushing 9MFY23 decline to 8.1% YoY amid slowdown in economic activity due to (1) import restrictions on raw materials, (2) high interest rates, (3) record inflation amid sharp currency depreciation. Growth in Mar'23 was witnessed in Wearing Apparel (↑11.0%), Furniture (↑10.6%), Beverages (↑1.4%) and Other Manufacturing - Football (↑29.0%). Whereas, all other sectors declined, noticeably, Textile (↓30.7%), Food (↓42.5%), Coke & Petroleum (↓16.1%), Non-Metallic minerals (↓22.2%), Iron & Steel (↓5.1%), Chemicals Products (↓8.8%), Fertilizers (↓22.1%), Pharma (↓28.1%), Autos (↓68.0%), Machinery & Equipment (↓24.7%) and Electrical Equipment (↓24.5%).

Textile, Food, Iron & Steel, Chemicals and Electrical Equip declined

Textile sector declined by 30.7% YoY given decline of 30.1/17.7% 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, resulting in tepid demand for textiles. Food segment declined 42.5% YoY as sugar, bakery & chocolate products/wheat and rice milling fell by 72.7/11.2% YoY. Whereas, cooking oil/vegetable ghee increased by 13.7/24.0% YoY.

Chemicals was down by 16.8% YoY as Chemical products fell by 8.8% YoY given that toilet soaps/sulphuric acid/synthetic fibres declined by 25.3/48.5/9.0% YoY. Whereas, Fertilizers fell by 22.1% YoY given Phos/Nit declined by 50.3/17.8%.

Iron & Steel production was down by 5.1% YoY as billets/ingots declined by 13.2% and H/C.R.Sheets/Strips/Coils/Plates inclined by 0.2% YoY. Electrical equipment fell by 24.5% YoY given decline in batteries/motors/transformers/refrigerators/deepfreezers of 10.3/19.5/43.6/22.4/47.7%.

Pharma, Autos, NMM and Coke/Petroleum also decreased

Pharmaceuticals decreased by 28.1% YoY on the back of 26.3/34.0% decline in tablets/syrups. Whereas, injections/capsules grew by 1.6/12.8%. Autos registered a decline of 68.0% YoY given 73.5/42.8/69.1/38.5/45.2% YoY fall in cars/jeeps/LCVs/trucks/buses. Likewise, Motor cycles sales declined 48.7% YoY. Going forward, we believe that in the medium-term, auto industry would decline given plant shutdowns due to import ban on CKD kits, rising car prices, and high interest rates. Non Metallic Minerals decreased by 22.2% YoY due to decline in glass/cement production by 19.7/22.5% YoY. Coke and Petroleum declined by 16.1% YoY as MS/HSD/FO/solvent naphtha decreased by 15.6/24.8/19.4/10.4% YoY.

Wearing Apparel and Beverages showed growth

Wearing Apparel witnessed growth of 11.3% YoY in Mar'23 given strong domestic demand for local products even as exports of garments/knitwear/bedwear declined by 19.8/26.7/24.6% YoY in Mar'23. Beverages production grew by 1.4% YoY given 8.8% YoY increase in soft drinks and mineral waters.

Outlook

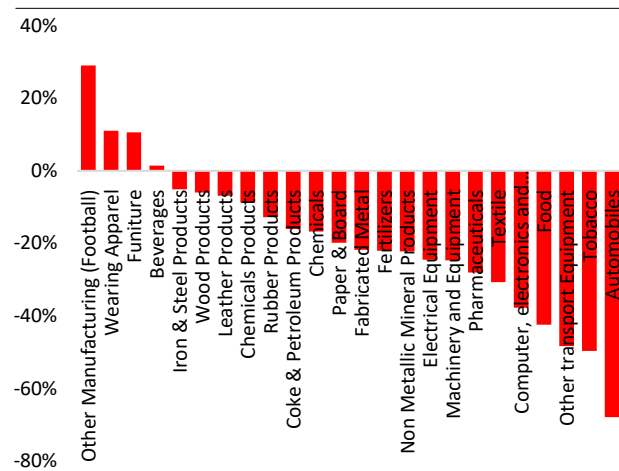
We expect LSM growth would be substantially negative in FY23 given slowdown in domestic and external economic activity on account of (1) import restrictions, (2) high interest rates and record inflation amid floods and sharp exchange rate depreciation, (3) increase in fuel and energy prices, (4) withdrawal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

Table 1: LSM sectoral growth rates

	Weights	FY20	FY21	FY22	9MFY22	9MFY23
Textile	18.2%	-14%	18%	3%	3%	-16%
Food	10.7%	13%	22%	8%	11%	-9%
Coke & Petroleum Products	6.7%	-20%	18%	1%	2%	-10%
Chemicals	6.5%	2%	12%	9%	8%	-6%
<i>Fertilizers</i>	3.9%	4%	7%	3%	3%	-10%
<i>Chemicals Products</i>	2.6%	-3%	21%	19%	16%	-1%
Wearing Apparel	6.1%	-13%	-23%	49%	34%	32%
Pharmaceuticals	5.2%	-2%	10%	14%	0%	-23%
Non Metallic Mineral Products	5.0%	-3%	22%	1%	1%	-11%
Beverages	3.8%	-8%	4%	1%	1%	-3%
Iron & Steel Products	3.5%	-17%	5%	16%	17%	-4%
Automobiles	3.1%	-51%	66%	47%	54%	-42%
Tobacco	2.1%	-24%	12%	16%	17%	-24%
Electrical Equipment	2.1%	-30%	-2%	0%	-1%	-11%
Paper & Board	1.6%	0%	3%	17%	17%	-5%
Leather Products	1.2%	-10%	-26%	1%	2%	2%
Other transport Equipment	0.7%	-26%	36%	-11%	-11%	-39%
Furniture	0.5%	-38%	171%	180%	282%	48%
Fabricated Metal	0.4%	-24%	9%	-4%	-7%	-14%
Machinery and Equipment	0.4%	-34%	50%	15%	14%	-46%
Other Manufacturing (Football)	0.3%	-9%	-17%	43%	38%	35%
Rubber Products	0.2%	3%	-15%	-16%	-21%	-8%
Wood Products	0.2%	-39%	-39%	115%	152%	-66%
Computer, elect & Opt prod	0.0%	-26%	-26%	4%	1%	-27%
Overall LSM		-11.0%	11.6%	11.9%	10.6%	-8.1%

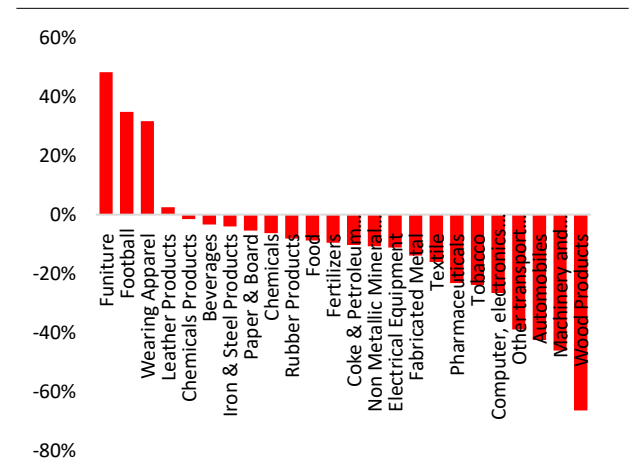
Source: PBS, Foundation Research, May 2023

Fig 1: Growth of various sectors during Mar'23



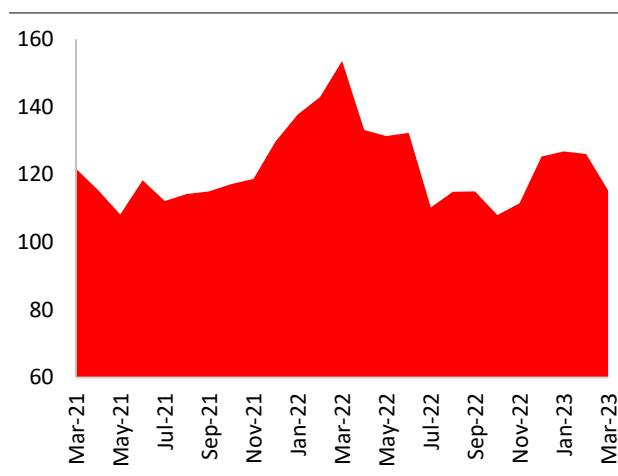
Source: PBS, Foundation Research, May 2023

Fig 2: Growth of various sectors during 9MFY23



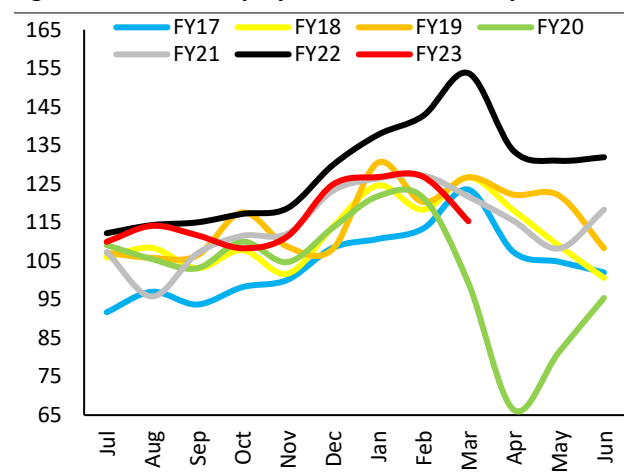
Source: PBS, Foundation Research, May 2023

Fig 3: LSM index declined 25.0% YoY in Mar'23



Source: PBS, Foundation Research, May 2023

Fig 4: : LSM index displays marked seasonality



Source: PBS, Foundation Research, May 2023

Acronyms

- FY Fiscal year
- HSD High Speed Diesel
- MoM Month on Month
- YoY Year on Year

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Expected return <-10%	Underperform.