

# State of Economy: Lower deficit, however exports remain stubborn

December 16, 2009

## Executive Summary

### **Trade Balance: Lower Deficit**

The deficit for the 5M-FY09 was recorded at US\$5.4bn as against US\$8.77bn corresponding period last year (drop of 37.81%). Deficit for the month of November was recorded at US\$0.986bn, as compared to US\$1.189bn in the corresponding month last year. The reduced deficit is a function of lower commodity prices along with curtailed imports.

### **Rice Exports: Export of basmati drops and IRR-6 rises**

Pakistan's Basmati rice exports have significantly declined since last year. In 10M-CY09, Pakistan exported 0.56mn MT of basmati rice as compared to an export quantum of 1mn MT in the corresponding period last year. However, the export of other rice varieties (mainly consisting of IRR-6) has witnessed an impressive surge in the recent months. The YoY growth in the month of September and October was recorded at 75% and 11%, respectively.

### **Fish and related product exports: Impressive rise, full exploitation is required to raise the value of fish and related products export**

Pakistan's fish and fish products exports fetched an average unit price per MT (AUP) of Rs. 1,509 for the 10M-CY09, as compared to Rs. 1,691. However worth noting, is the impressive rise in the quantity of exports (as measured in Metric Tons), especially in the month of October' 09.

### **Raw Cotton Exports: Exports rise on the back of global demand**

The country's raw cotton export has registered a healthy growth of about 26% percent to 85 Th. MT during the first ten months of current calendar year, mainly due to expected global production shortfall. Pakistani cotton has witnessed a consistent growth in exports orders mainly on the back of the expected better cotton crop as compared to last season and low prices of the commodity in the local market as compared to international prices.

### **Cotton Yarn: Export increases in search of higher prices**

Pakistani millers have experienced a surge in cotton yarn export orders, mainly due to higher global demand. The country's cotton yarn export has registered a healthy growth of about 21% percent to 525 Th. MT during the first ten months of current calendar.

### **Large Scale Manufacturing: down by 5%**

Petroleum products drop by 11%, other sector such as chemicals and metals also posted depressed numbers. Auto sector seems to perform well on account of low base effect.

### **Inflation: Short lived jubilance**

The inflation for the month of November was recorded at 10.5%, as the Index jumped by a massive 1.4% MoM.

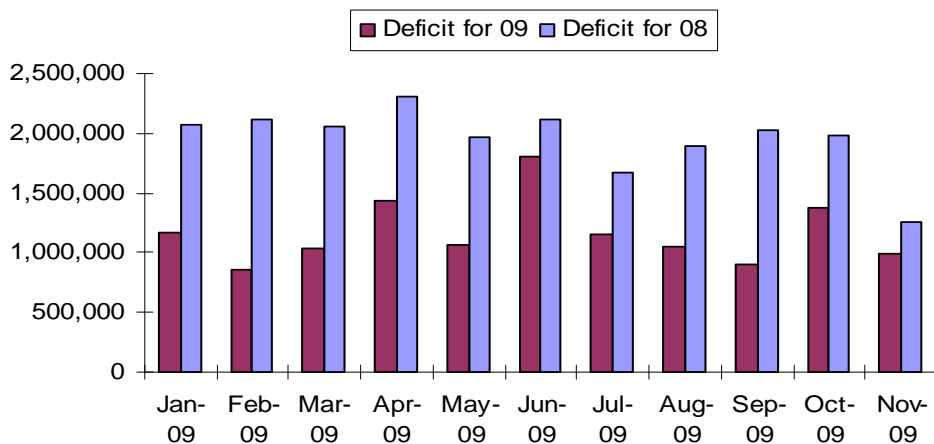
### **Broad Money growth: Picking up fast**

M2 growth was recorded at 4.20% as of 5<sup>th</sup> December 2009. The recent hike in the borrowing for budgetary support, which ballooned to Rs. 255bn, has pushed the M2 growth upwards.



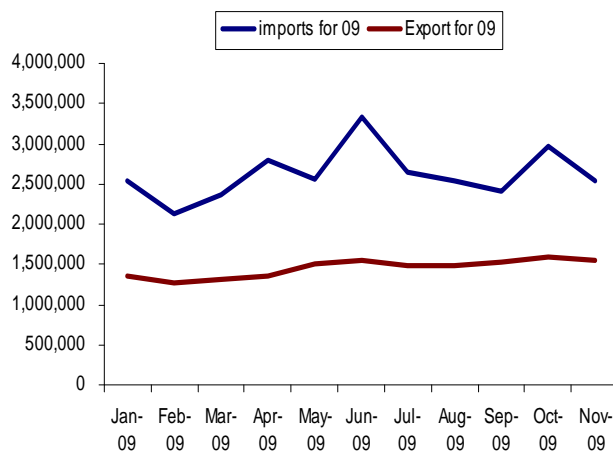
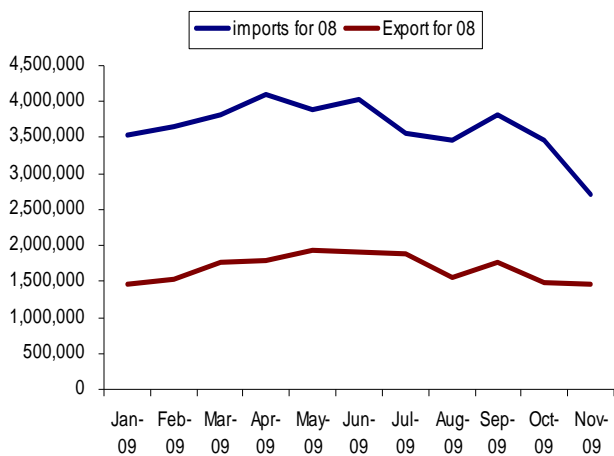
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## Trade Balance: Lower Deficit



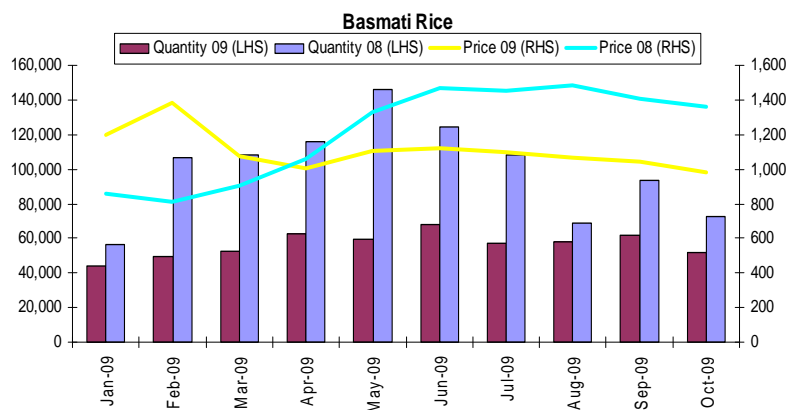
As visible in the pictorial depiction, the monthly trade deficit for 2009 has been lower than that of 2008, for 11M of CY09. The deficit for the 5M-FY09 was recorded at US\$5.4bn as against US\$8.77bn corresponding period last year (drop of 37.81%).

Deficit for the month of November was recorded at US\$0.986bn, as compared to US\$1.189bn in the corresponding month last year. The reduced deficit is a function of lower commodity prices along with curtailed imports. The deficit for November 2009 was 28% lower than October's deficit of US\$1.375bn.



## Export Analysis for 10M-CY09

### **Rice Exports:** Export of basmati drops and IRR-6 rises

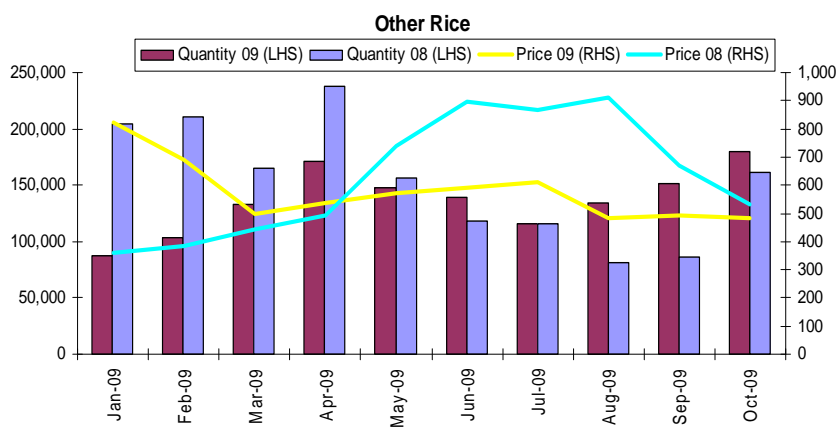


Asia is the largest producer of rice in the world, producing around 91% of the world consumption. This leaves the rest of the world, which only produces the remaining 9% left of the total enormous production of rice.

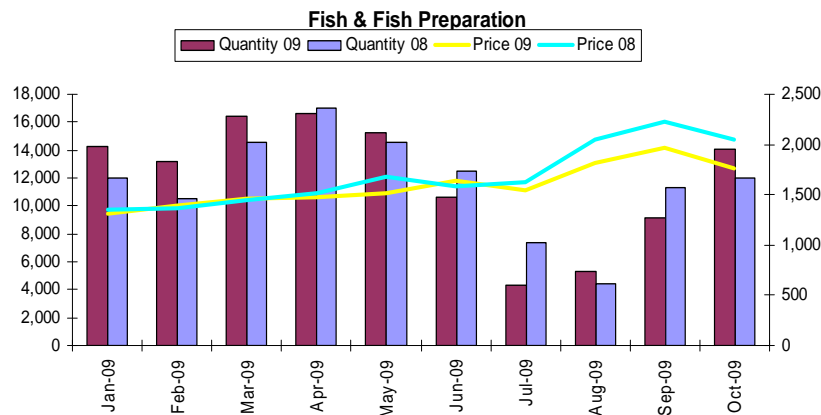
Basmati rice is an aromatic rice variety that is grown in Pakistan and India. It is famous for its long slender grain that upon cooking elongates to almost double of its length rather than its width. It is also called the '**Queen of Fragrance**'.

Pakistan's Basmati rice exports have significantly declined since last year. In 10M-CY09, Pakistan exported 0.56mn MT of basmati rice as compared to an export quantum of 1mn MT in the corresponding period last year.

However, the export of other rice varieties (mainly consisting of IRRI-6) has witnessed an impressive surge in the recent months. The YoY growth in the month of September and October was recorded at 75% and 11%, respectively.



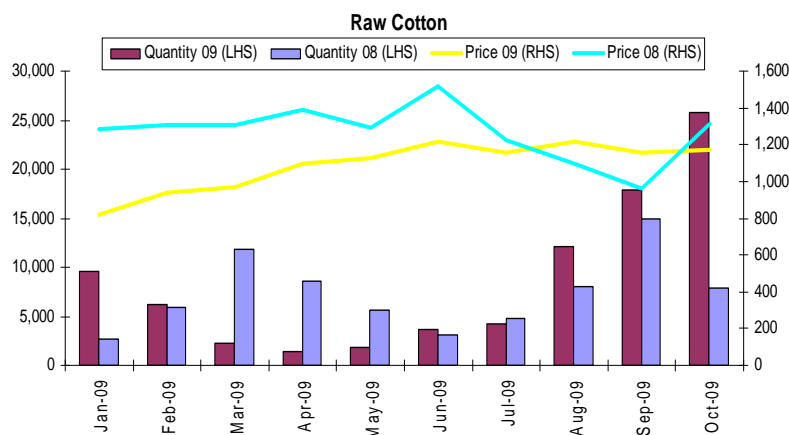
**Fish and related product exports:** Impressive rise, full exploitation is required to raise the value of fish and related products export



Pakistan's fish and fish products exports fetched an average unit price per MT (AUP) of Rs. 1,509 for the 10M-CY09, as compared to Rs. 1,691. However worth noting, is the impressive rise in the quantity of exports (as measured in Metric Tons), especially in the month of October' 09.

Pakistan exported a total of 119,225 metric tons in the 10M-CY09, as compared to 116,278 metric ton. However the YoY increase in the month of October'09 is 17.5%.

**Raw Cotton Exports:** Exports rise on the back of global demand

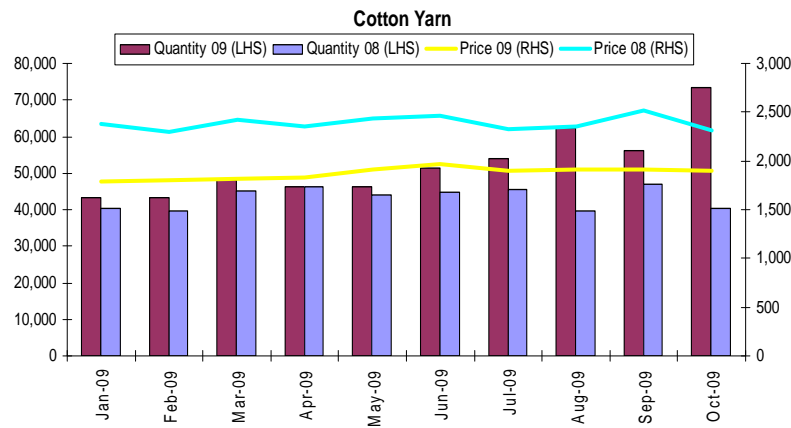


The country's raw cotton export has registered a healthy growth of about 26% percent to 85 Th. MT during the first ten months of current calendar year, mainly due to expected global production shortfall. Pakistani cotton has witnessed a consistent growth in exports orders mainly on the back of the expected better cotton crop as compared to last season and low prices of the commodity in the local market as compared to international prices.

As per the USDA report "Worldwide cotton production is expected to fall by 13 million bales and overall cotton production would be 107 million bales as against 120 million bales during the current season". Fortunately, the country is expected to get a cotton crop of over 12 million bales during current fiscal year as compared to 11.3 million bales in last fiscal year 2008, they added.



### **Cotton Yarn:** Export increases in search of higher prices



Pakistani millers have experienced a surge in cotton yarn export orders, mainly due to higher global demand. The country's cotton yarn export has registered a healthy growth of about 21% percent to 525 Th. MT during the first ten months of current calendar.

However robust exports have created an acute problem for the value-added textile industry in Pakistan. Increasing short-fall in the domestic market has led to a sudden price hike in our local market.



**Large Scale Manufacturing:** down by 5%

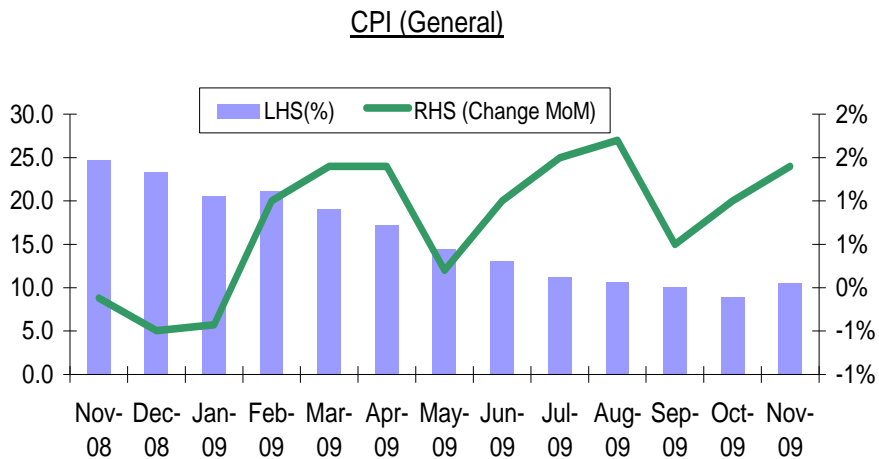
Computation of LSM (1999-2000=100)	Weightage	3M FY10
<b>Textile</b>	<b>24.492</b>	<b>-2.1</b>
Cotton yarn	13.066	-2
Cotton cloth	7.549	-0.2
Cotton ginned	3.368	13
<b>Food, beverage &amp; tobacco</b>	<b>14.352</b>	<b>-3.4</b>
Vegetable ghee	4.242	-0.7
Wheat milling	0.988	2
<b>Petroleum products</b>	<b>5.232</b>	<b>-11.1</b>
<b>Pharmaceuticals</b>	<b>5.03</b>	<b>-2.2</b>
<b>Chemicals</b>	<b>4.8</b>	<b>-2.9</b>
Soda ash	0.731	-20.2
<b>Non metallic minerals</b>	<b>4.192</b>	<b>9.9</b>
Cement	4.141	15.2
<b>Leather products</b>	<b>2.272</b>	<b>-1.3</b>
<b>Paper &amp; board</b>	<b>0.6</b>	<b>3.2</b>
<b>Tyre &amp; tubes</b>	<b>0.303</b>	<b>26.4</b>
<b>Wood products</b>	<b>0.03</b>	<b>-24.9</b>
<b>Automobile</b>	<b>3.955</b>	<b>32.8</b>
Cars & jeeps	3.955	6.6
Tractors	0.7	24.1

**Reasons for decline in Large Scale Manufacturing:**

- Declining production from refineries due to low refinery margins and circular debt issue has led to lower petroleum imports. This has in-turned caused the petroleum products in LSM to drop by
- Wheat milling was recorded on the up-tick, as Pakistan harvested a bumper wheat crop.
- Soda ash production dipped by 20%, as demand for the chemical lulls.
- Cement production was up 15%, amongst robust export demand.
- Tyre & tubes registered a robust growth, owing to higher tractor production.
- Automobile sector, posted a robust growth of 32.8%, mainly due to the low base effect.



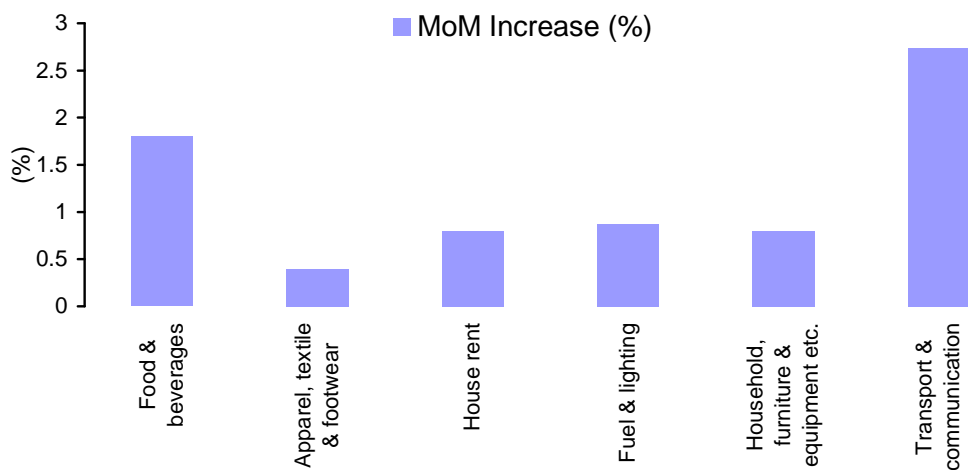
**Inflation:** Short lived jubulance



The inflation for the month of November was recorded at 10.5%, as the Index jumped by a massive 1.4% MoM. Last month the CPI index dropped to 8.9% (the lowest level in CY-09). However this was largely due to the high base effect as the MoM was still high in October (1%).

Non-perishable food items and transport and communication can be labeled as the main culprits for this massive rise, increasing by 1.85% and 2.74%, respectively.

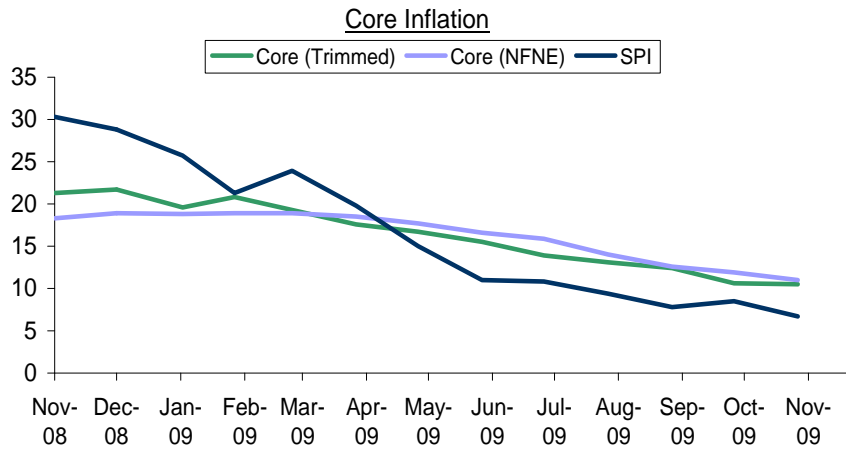
Amongst the Food & beverages: Sugar shot up by 21.33%, eggs by 17.60%, dry fruits by 1.63%, etc. The in Transport & communication sector can be attributed to the increase in the prices of diesel by 8.67%.



Courtesy: FBS



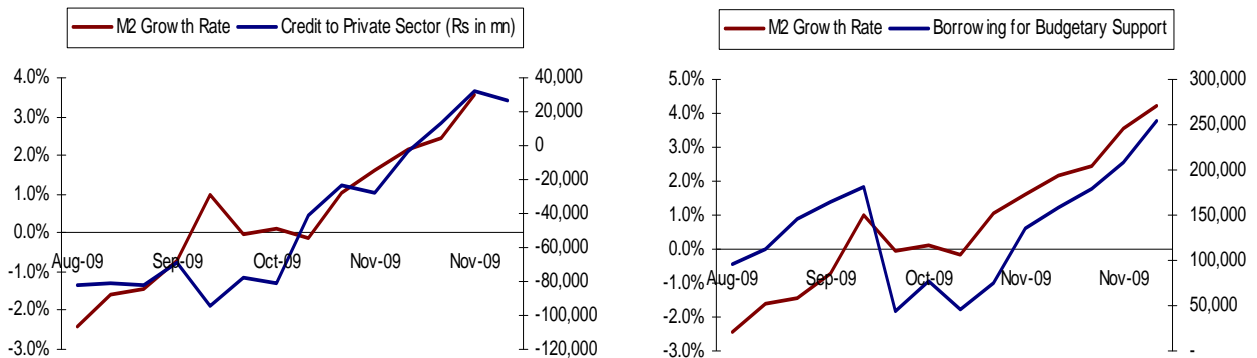
**Core Inflationary measures:** Remains under check



Core Inflation was recorded at 10.6% for NFNE and 10.5% for trimmed core. The core measures have significantly declined since its high of 23.9% for the year was recorded in the month of Feb'09. SPI (YoY) has risen sharply to 10.0% from 6.7% ( in Oct'09) in the month of Nov '09.

**Broad Money growth:** Picking up fast

M2 growth was recorded at 4.20% as of 5<sup>th</sup> December 2009. The recent hike in the borrowing for budgetary support, which ballooned to Rs. 255bn, has pushed the M2 growth upwards.



The credit to private sector has also turned positive after touching a low of Rs. -82.6bn (22<sup>nd</sup> August' 2009). Currently credit to private sector stands at Rs. 27bn