DAWN

11th June, 2019

ECONOMIC SURVEY 2018-19: Manufacturing contracts amid slowing economy

Growing deficits in a slowing economy present the government with its starkest challenge. Revenue growth is zero while expenditures shot up by 8.7 per cent, yielding a fiscal deficit of 5.0pc of GDP. Meanwhile, the economy ground to a virtual halt — actually contracting in dollar terms — with large-scale manufacturing showing negative growth. The current account deficit shrank by 27pc from last year, even though exports fell by 1.9pc from July to April. Clearly, a sharp adjustment looms for next fiscal year.

ISLAMABAD: The large-scale manufacturing (LSM) index in 2018-19 fell to its lowest in the decade as its contribution to the gross domestic product fell to 13 per cent mainly due to a rise in the cost of production amid persistent fall in rupee's value, according to the Economic Survey of Pakistan.

The government, in the survey document released on Monday, blamed poor agriculture performance, power slippages, global commodity price shocks, and contraction in demand of domestic consumer goods for the dismal outturn in the manufacturing sector.

Moreover, sharp cuts to the development spending coupled with the slowdown in the private sector construction and declining consumer spending on durable goods also took their toll on the sector's performance.

Manufacturing sector's contribution to the GDP hovers between 13.5-13.8pc of the GDP and plays a major part in the country's overall economic output.

However, during July 2018 to March, LSM recorded negative growth of 2.0pc compared to an increase of 6.33pc in the same period last year.

The survey highlighted that demand for housing moderated as price of building materials and cost of financing increased.

Similarly, automobile prices witnessed multiple upward revisions due to depreciation of the local currency, and policy issues such as restrictions on non-filers to purchase cars. In addition to that, the pharmaceutical sector suffered due to a considerable lag in regulatory adjustments in prices.

LSM basket

Within the LSM basket, textile has the highest weightage with 20.91 points, followed by food, beverages and tobacco with 12.37 points, coke and petroleum products 5.51, non-metallic mineral products at 5.36, iron and steel with 5.39 and automobiles 4.61.

The textile sector's performance during the period under review remained under stress after recording contraction of 0.3pc against 0.5pc growth in the same period last year due to dull performance of cotton yarn and cloth subsectors.

However, the sector's exports remained diverse as the exporters increased product range adding items like hosiery, knitwear, towels and readymade garments from the previously dominant cotton yarn and fabrics.

Food beverages and tobacco, on the other hand, recorded a decline of 4.7pc mainly due to a decline in sugar production which during the last few years has shown significant growth due to jump in sugarcane cultivation.

However, the sugar production could not carry forward the previous growth in the ongoing fiscal year due to lower production which stalled the growth of overall sugar industry. Lower sugarcane production and last year's inventories further dampened the prospects of sugar sector.

Performance of the tobacco sector also improved after the government initiated a clampdown against illegally imported and produced cigarettes.

The production of coke and petroleum products declined by 6pc during the period under review mainly due to policy shift in the country to reduce reliance on electricity generated through furnace oil based power plants.

Furnace oil production sharply decreased by 11.1pc; however production of other fuels recorded growth including LPG increasing by 27.7pc, diesel 32.7pc and petrol 7.7pc.

The negative growth of 4.7pc in the non-metallic minerals was due to a decline in cement production which dipped by 5.5pc amid a slump in private sector demand and public spending on development projects.

The production of iron and steel products shrank by 11pc due to dismal performance of billets/ingots whereas steel production contracted in the wake of less demand from the auto sector along with volatility in international price dynamics that was triggered by US-China trade tensions leading to adverse implications for domestic steel industry.

The auto production sector showed a decline of 7.58pc during July-March, compared to the same period last year amid currency depreciation, rate hikes and uncertainty regarding filer versus non-filer's ability to purchase vehicles.

Assemblers' decision to pass the impact of depreciation on to the customers in the form of increasing car prices also restricted the overall demand for automobiles.

Out of 15 sectors in the LSM basket, only six were in the positive during 2018-19 including fertilisers, electronics, leather products, engineering products, rubber products and wood products.

The survey noted that the fertiliser sector —with a weightage of 4.44 points in the LSM index — improved by 4.5pc in the nine months under review due to provision of subsidised RLNG to fertiliser plants.

Electronics — with a nominal weight of 1.86 points in the overall LSM sector — recorded a growth of 23.7pc, as the demand for electric motors jumped mainly for the production of washing machines, refrigerators, air conditioners etc as improvement in electricity supplies contributed to the performance of this subsector.

Kalbe Ali