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The Consumer Price Index (CPI) has increased by 55% over the last 3 years, whereas salaries have not risen accordingly. The urban population that relies on manufacturing growth and trading, or earns fixed salaries has generally experienced a deterioration in its standard of living, and is not happy about it. Large scale manufacturing growth has declined by about 1% over the last three years, whereas the wholesale trade has risen by a marginal 4% over the same period (see Table 1). The story is very different in Rural Pakistan where about 65% of the country's population lives. What the urban Pakistan calls inflation, the rural Pakistan calls income. Table 2 shows the tremendous rise in selected food items over the last 3 years. Cotton prices have risen by 173%, sugar by 133%, mong pulses by 167%, and wheat by 65% during this period. By some estimates this has resulted in an additional income of Rs 300 billion per annum for the rural population. Whereas a large chunk of this income has ended up with the agriculture elite, there are signs that some has trickled down to the small farmers as well. A survey of 300 farmers conducted by IBA – Sukkur for the State Bank of Pakistan shows that 65% of the farmers have holdings of under 12.5 acres of land, and all of them are using tractors for cultivation and transporting their output to the market. Tractor sales are up by about 30% in the last couple of years. Monthly car sales are up 177% from its bottom in Dec 2008 and Motorcycle sales are up 25% over the last couple of years. Almost half of these sales end up in rural Pakistan.

There is tremendous potential of investment in the food industry especially in grading, processing and packaging of fruits such as mangoes and citrus, organized livestock breeding and marketing, processing of meat, poultry, dairy projects, and building storage capacity. Domestic and foreign investors have already started exploring and investing in these projects. Despite the worst-ever floods, output of cotton, wheat, sugarcane and other crops are expected to be much higher than earlier projected. This rural-urban income divide has economic, social and political consequences. Good agriculture output and rising rural income will eventually help in the recovery of the industrial and service sector as well.

On the stock market front, recently announced corporate earnings have been extremely good, depicting around 40% YoY growth in the 60% of the KSE-100 companies that have announced their results so far. The stock market rose by about 26% in five months since August 2010 and has now already experienced a decline of around 9% during February 2011. The Margin Trading System is expected to be operational in the first week of March. The stock market seems to be bottoming out, and entering a consolidation phase. Urban Pakistan can also start growing well if we can (i) find ways to get rid of the circular debt by raising utility costs and improving efficiency; (ii) move swiftly to develop and import alternative sources of energy; and (iii) expand the tax base and control government expenses. Whereas the nation's mindset has started focusing on these issues, urban Pakistan may have to wait for another 2-3 years before their income start rising in real (inflation-adjusted) terms.

Table 1 – Trend of Selected Economic Indicators

Particulars	June 08 - Jan 11
Inflation (CPI)	55%
Inflation (WPI)	66%
Quantum Index on LSM	-1%
Wholesale Trade	4%

Table 2 – Rise in Major Commodities Prices

Particulars	June 08 - Jan 11
Wheat (40 Kg.)	56%
Cotton (40 Kg.)	173%
Sugar (40 Kg.)	133%
Rice (40 Kg.)	40%
Mutton (40 Kg.)	79%
Mong Pulse (40 Kg.)	167%