2 Real Sector

A conducive policy environment, smart lockdowns, and the government's vaccination drive enabled broad-based growth across all sectors of the economy during Q1-FY22. In agriculture, favorable weather conditions and higher output prices contributed to higher crop sector output during the kharif season as compared to last year. Large scale manufacturing also grew at a faster pace during the first quarter on a YoY basis, supported by tax relief measures, accommodative monetary policy, the construction package, and higher PSDP spending. The services sector benefitted from notable growth in the commodity-producing sector, as gauged from proxy indicators such as import growth and FMCG sales. Labor market indicators remained largely stable as the industrial sector added more jobs while the business community's sentiments about employment remained broadly positive.

2.1 Economic Growth

The economic recovery that began in FY21 continued to strengthen during the first quarter of FY22. With the Covid threat still present, the government ramped up its country-wide vaccination drive, which – coupled with the strategy of smart lockdowns in affected areas – facilitated growth during the review period. Estimates suggest that important *kharif* crops, such as sugarcane and rice, remained on track to achieve record output, whereas cotton production also rebounded strongly compared to last year. The industrial sector continued to gain traction during Q1-FY22, spurred by a supportive policy environment. Meanwhile, expansion in the commodity-producing sector and significant imports aided growth in the services sector, as visible from proxy indicators. The labor market also improved during the review period.

In the agriculture sector, the three important *kharif* crops – namely cotton, rice and sugarcane – are estimated to surpass last year's production levels. The increase in rice and sugarcane harvests is largely driven by increase in area under cultivation and their production is estimated to reach record levels this year. Meanwhile, cotton production increased on the back of significant increase in yields, which more than offset the decrease in area under the crop. Better crop sector performance was mainly attributed to higher market prices of the commodities and favorable weather conditions, especially for cotton.

Industrial sector activities as gauged by large-scale manufacturing (LSM) showed broad-based growth during Q1-FY22. Specifically, 12 out of 15 sectors registered growth during the quarter, compared to just eight in the same period last year. The automobile and pharmaceutical sectors were major contributors to this performance. Continued fiscal support in the form of construction and energy packages and higher PSDP spending and accommodative monetary policy facilitated this growth. While LSM growth moderated to 1.6 percent in September 2021, this was mainly due to a high base effect and some supply chain disruptions.

Indicators of wholesale and retail trade, transport, communication, and financial sector showed expansion in these industries. The pickup in services sector activities was further substantiated by Google mobility data.

There was an improvement in the labor market during Q1-FY22. The industrial sector in Punjab and Sindh, especially the export-oriented industries, added more jobs. Wages and incomes in the construction and services industries continued to grow. The SBP's August 2021 Business Confidence Survey (BCS) and September 2021 Consumer Confidence Survey (CCS) highlighted improvements in business and consumer expectations about the job market. However, the positivity in sentiment moderated slightly in the latest BCS and CCS waves as compared to preceding surveys.

2.2 Agriculture

Preliminary estimates for the major *kharif* crops – cotton, sugarcane and rice - depicted broad-based improvement in output over last year. Higher market prices, favorable weather conditions and better crop management practices had a positive impact on agricultural output.[1] Area under cultivation for rice and sugarcane expanded, while cotton gained in yields.

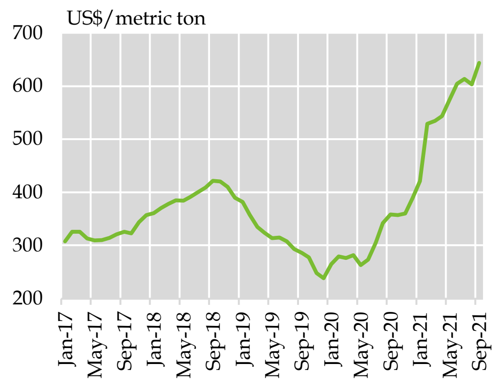
Inputs

Fertilizer offtake showed a mixed trend during current *kharif* season. Urea offtake increased by 2.2 percent compared to an increase of 5.5 percent last season. In contrast, offtake of Diammonium Phosphate (DAP) dipped by 24.0 percent during current season compared to an increase of 19.0 percent last year.

The significant decline in DAP offtake was mainly due to a notable rise in its local prices, in line with surging global prices (**Figure 2.1**).[2] Unlike FY21, absence of government support package for agriculture during Q1-FY22 also contributed to the increase in price of domestic DAP.

The deviation in urea and DAP offtake reflects the farmers' inclination for lower priced urea compared to the costlier DAP.[3]

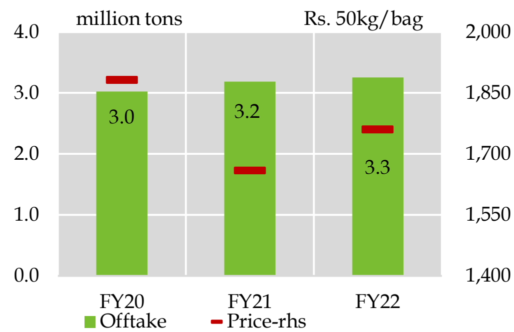
Global DAP Prices **Figure 2.1**



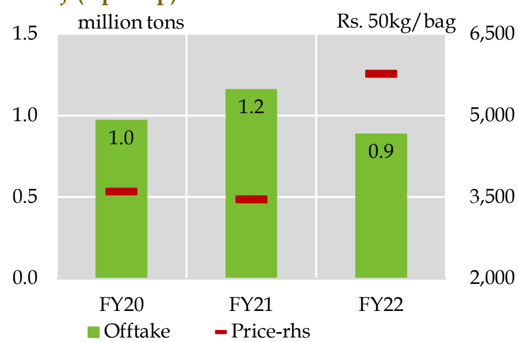
Source: World Bank

[1] Better crop management broadly refers to a set of agricultural practices that improve productivity, such as soil testing, cover crops, proper water, irrigation and pesticide management and protection from weeds.
[2] On the supply side, global DAP prices were higher, owing to rising cost of raw materials including ammonia and sulfur. Meanwhile, on the demand side, fiscal support packages for agriculture and healthy farm incomes in the key crop-growing regions, such as Brazil and the US, spurred use of DAP and hence drove up its price. Moreover, there was strong demand from China, as it was rebuilding its hog herd following an outbreak of African swine fever.
[3] DAP is a price-sensitive product compared to urea. While urea is sufficiently produced locally relative to its demand, DAP is predominantly imported to meet domestic requirement. The global DAP prices directly impact the domestic prices (source: Fertilizer Sector - An Overview, January 2021, Pakistan Credit Rating Agency Limited). Increase in international prices contributed to domestic prices rising from

Urea Offtake and Price during *Kharif* (Apr-Sep) **Figure 2.2a**



DAP Offtake and Price during *Kharif* (Apr-Sep) **Figure 2.2b**



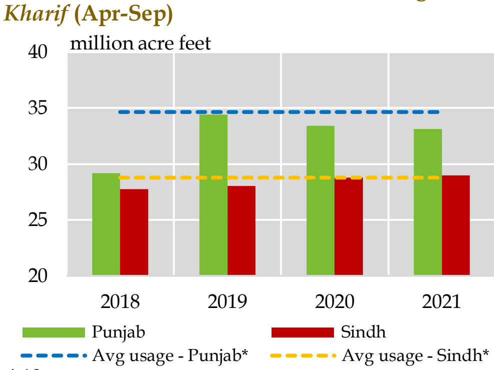
Source: National Fertilizer Development Centre

Although, urea prices rose by 6.1 percent during *kharif* FY22 as compared to decline of 12.0 percent last year, they remained three times cheaper than DAP prices (**Figure 2.2a and Figure 2.2b**).

The canal water availability during *kharif* FY22 remained almost similar to last year (**Figure 2.3**). Moreover, the irrigation water releases in Punjab and Sindh were also close to the long-term average. At the start of the season, canal water supply was relatively lower compared to last year; however, the situation gradually improved in the later months.

On the credit side, disbursements to agriculture sector grew by 14.7 percent during Q1-FY22 compared to a decline of

Irrigation Water Releases during *Kharif* (Apr-Sep) **Figure 2.3**



* 10-year average system usage

Source: Indus River System Authority

Agriculture Credit Disbursements in Q1 **Table 2.1**

billion Rupees

	FY21	FY22
Farm sector		
A. Production	113.8	136.3
B. Development	5.6	8.1
Tractor	0.6	1.7
C. Total farm sector (A+B)	119.4	144.4
Non-farm sector		
Livestock/dairy	71.2	81.7
Poultry	49.5	55.3
Other	14.4	10.5
D. Total non-farm sector	135.1	147.5
Total agri credit (C+D)	254.6	291.9

Source: State Bank of Pakistan

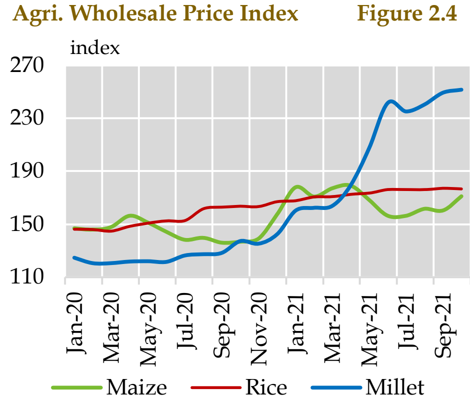
around Rs 3,500 in FY21 to Rs 5,800 per 50kg bag in FY22 in the domestic market (source: National Fertilizer Development Center).

3.3 percent in the corresponding period of last year (**Table 2.1**).

Within farm sector, disbursements for production-related activities registered growth of 19.8 percent in Q1-FY22, compared to growth of 9.6 percent last year. Besides higher crop outcomes, the credit growth could be attributed to the higher input prices of fertilizer, farm machinery and diesel. The loans for the purchase of tractors also picked up, as farmers utilized financing under *Kamyab Jawan Kamyab Kisan Tractor Loan Scheme* launched by the government in January 2021.[4] As per Pakistan Automotive Manufacturers Association (PAMA), tractor sales grew by 12.1 percent during Q1-FY22 compared to a growth of 14.2 percent same period last year.

Similarly, credit to the non-farm sector rose by 9.2 percent during Q1-FY22 compared to a decline of 10 percent last year. Particularly, disbursements to the livestock, dairy and poultry segments registered a double digit growth in Q1, in tandem with an increase in input prices especially of millet, maize and broken rice (**Figure 2.4**). Also, the average price of day old chicks rose by more than 50 percent to Rs 42.5 per chick during Q1-FY22, from Rs 26.8 last year.[5]

Agri. Wholesale Price Index **Figure 2.4**



Source: Pakistan Bureau of Statistics

Output

Cotton

According to provisional estimates, cotton crop production in FY22 is projected at 9.4 million bales; showing a significant increase of 33.1 percent over last year (**Table 2.2**).

It is pertinent to mention that the overall area under cotton cultivation continues to decline. Average cotton cultivation area dropped to 2.6 million hectare during FY13 to FY22, from an average of 3.0 million hectares between FY03 to FY12.

During FY22, area under cotton crop cultivation declined to 1.9 million hectares from 2.1 million hectares last year. The reduction in area was mainly in Punjab, which declined by 17.3 percent to 1.3 million hectares. On the other hand, area in Sindh recorded an increase of 21.1 percent to 0.6 million hectares.

In Punjab, a shift to competing cash crops, such as rice, maize and sugarcane contributed to a decline in cotton cultivation (**Box 2.1**). The switch towards the water-intensive sugarcane crop appears

[4] Under this scheme, tractor loans were provided for 8-year period at 3 percent mark-up rate without any condition of mortgage. Farmers cultivating land on contract basis were also eligible for the scheme.
[5] Source: Agrarian Brothers Group (Agbro) – Broiler Market Prices (www.agbro.com).

Second Estimates of Cotton Crop **Table 2.2**

		FY22		Growth (percent)	
	FY21	Target	FY22[P]	FY21	FY22
Area (million hectares)					
Punjab	1.5	1.6	1.3	-17.8	-17.3
Sindh	0.5	0.6	0.6	-20.7	21.1
Pakistan	2.1	2.3	1.9	-17.5	-7.7
Production (million bales)					
Punjab	5.0	6.1	5.4	-20.0	7.9
Sindh	1.9	4.0	3.5	-32.2	88.0
Pakistan	7.1	10.5	9.4	-22.8	32.7
Yield (Kg/hectares)					
Punjab	555	641	723	-2.7	30.3
Sindh	666	1,062	1,035	-14.6	55.4
Pakistan	578	769	831	-6.5	43.9

p: provisional
Sources: Ministry of National Food Security and Research and Pakistan Central Cotton Committee (PCCC)

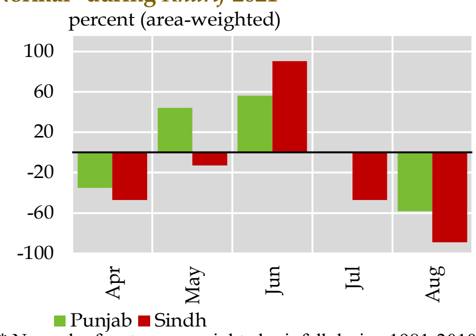
to be more prominent in Punjab, where groundwater of adequate quality is more widely available, in addition to canal water. Moreover, the average maize yield in Punjab is almost 6 times that in Sindh.[6]

Meanwhile, province-wise breakdown shows that cotton yield in Sindh grew by 55.4 percent compared to 14.6 percent decline recorded last year. In Punjab, the yield increased by 30.3 percent, against a decrease of 2.7 percent last year.

The significant improvement in yields was attributed to conducive weather conditions, better crop management practices and favorable cotton prices in the market.[7] In addition, pest attacks were reported in only a few areas in Punjab; last year, heavy rainfalls and high humidity had caused widespread pest infestations.[8]

The weather conditions during *kharif* FY22 generally remained favorable for the cotton crop especially due to timely rainfalls. Sindh received 89 percent below normal average rainfall in August 2021, making the environment conducive for cotton (**Figure 2.5**). Picking of cotton in parts of Sindh usually starts in August and rainfall is not conducive around this time, as it can damage the standing cotton crop at this stage. Also, the mean daily Relative Humidity (R.H) remained in the *normal to below* range.[9]

Departure of Rainfall from Normal* during *Kharif* 2021 **Figure 2.5**



* Normal refers to area-weighted rainfall during 1981-2010
Source: Pakistan Meteorological Department

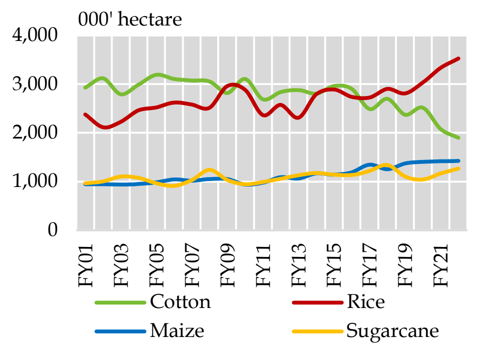
[6] Source: Pakistan Economic Survey 2020-21, Ministry of Finance
[7] Cotton and Products update report, November 08, 2021, Foreign Agriculture Services, USDA
[8] Pak-SCMS bulletin, Volume XI, Issue 09, Serial no. 129, September 01, 2021. SUPARCO
[9] Monthly Agromet Bulletin, National Agromet Centre, Pakistan Meteorological Department. August 2021.

Box 2.1: Area under Cultivation of Cotton Crop in Pakistan

The area under cotton cultivation in Pakistan has recorded secular decline over the past decade. This decrease is partially owed to increase in area under cultivation of competing *khairf* crops, such as rice, sugarcane and maize (**Figure 2.1.1**). The declining trend in cotton crop is a cause for concern, as cotton is a critical input for the textile industry, which contributes around 60 percent to total exports.

There could be multiple factors at play due to which farmers are substituting cotton with other *kharif* crops.

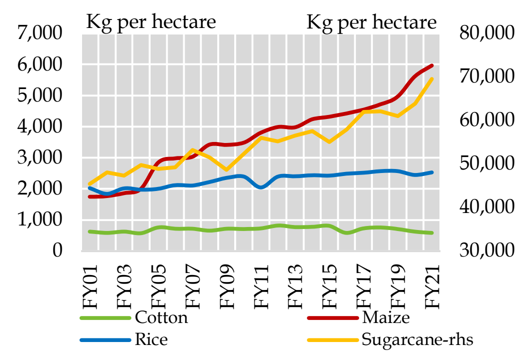
Area under Major *Kharif* Crops in Pakistan **Figure: 2.1.1**



Source: Pakistan Bureau of Statistics

1. **Low productivity:** The long-term analysis indicates that cotton productivity in the country has remained stagnant. In contrast, the output per hectare for competing crops, such as maize, sugarcane and rice, has risen over the years (**Figure 2.1.2**). In fact, the yield of maize has improved by more than threefold from FY01 levels. Similarly, sugarcane and rice yields have increased significantly over the past two decades. The stagnancy in cotton yield is mainly due to unavailability of quality and certified seeds. The reliance on the old generation BT cotton poses challenges for farmers due to its ineffectiveness against bollworms and other pests.[10] Moreover, according to market experts, around 45 percent of seeds are provided by the registered seed corporations, while remaining 55 percent seeds are sourced from unauthenticated vendors. In contrast, the increased use of hybrid rice and maize seeds has led to improvement in per hectare yields.

Long-term Yield Pattern of Major *Kharif* Crops **Figure 2.1.2**



Source: Pakistan Bureau of Statistics

2. **Low Profitability:** Decline in area under cotton can also be attributed to lower profitability compared to other cash crops such as sugarcane, maize and rice. For instance, overall returns to investment in Punjab were Rs 237 and Rs 225 per day for sugarcane and rice, against Rs 209 for cotton. In Sindh,

[10] Pink bollworm and cotton leaf curl virus (CLCV) attacks have been growing in recent years. CLCV, pink bollworm, and other diseases/insects cause huge losses every year in hot spot areas like Multan, Vehari and other nearby regions in South Punjab. (Source: *Causes Of Low Cotton Yield During Cotton Crop Season 2015*, Report Of Committee Constituted By Agriculture Department, University of Agriculture, Faisalabad)

sugarcane farmers received Rs 237 per day of crop duration, compared to Rs 205 for cotton.[11] Furthermore, as per Crop Reporting Service (CRS), the Punjab government, during *kharif* FY21 the estimated per acre profit at farm gate was around Rs 63,000, 30,500, 40,000 and 29,000 for sugarcane, maize, rice and cotton respectively.

3. **Changing climatic conditions:** Another important factor that has resulted in reduced cotton area is changing climatic conditions. Pakistan is among the countries that are most vulnerable to the effects of climate change. Fluctuating weather conditions, such as unexpected rainfalls (especially in the monsoon season) and temperature variations at critical stages of crop growth, can lead to pest attacks that adversely affect cotton crop productivity.[12] On the other hand, sugarcane is not only more resilient against extreme weather conditions, but it also has the least probability of a pest attack amongst competing crops.[13]

In order to attract growers towards the cotton crop again, the government has offered various incentives. The announcement of an indicative price for cotton is expected to provide some relief to the cotton growers.[14] In another step, the government is gearing up its drive to ensure timely availability of certified seeds at the time of sowing. Moreover, the government is providing technical knowledge about best crop management practices to achieve higher yields through its cotton research center.[15] These efforts may have played a role in increasing the yields during FY22, and may also help arrest the decline in area under cotton.

The higher returns helped farmers in better pest management.[16] Furthermore, the government's announcement of an intervention price enhanced the growers' confidence.[17] To improve cotton production and bring price stability in the domestic market, the Economic Coordination Committee (ECC) approved Rs 5,000/40kg intervention price for the cotton crop for FY22. Under the mechanism, if prices fall below this level, the state-run Trading Corporation of Pakistan (TCP) would buy the crop from farmers at the support price. Nonetheless, the domestic price of cotton remained significantly above the intervention price during this *kharif* season.

Anecdotal evidence also suggest that provincial governments campaigned aggressively to guide farmers to avoid non-optimal application of fertilizers and pesticides, which may have also resulted in better crop output.

[11] Rana, A. W., Ejaz, A., & Shikoh, S. H. (2020). Cotton crop: A situational analysis of Pakistan. Pakistan Agricultural capacity Enhancement Program (PACE) and International Food Policy Research Institute – Pakistan (IFPRI), working paper, April 2020.

[12] Cotton and Products Annual Report, Report Number: PK2021-0004, April 02, 2021 , Foreign Agriculture Services, USDA

[13] The Sugar Industry of Pakistan—Understanding Structural and Regulatory Underpinnings of the Current Sugar Crisis. PIDE Knowledge Brief no. 2020:12, July 14 2020.

[14] Source: Ministry of Finance, Press Release 593 dated August 27, 2021

[15] Source: Central Cotton Research Institute, Multan (http://www.ccri.gov.pk/news.html).

[16] The average cotton price in the domestic market during this *kharif* season was Rs 12,490/maund, up a sizable 46.6 percent over last year.

[17] Source: Ministry of Finance, press release no. 569, dated July 28, 2021.

Estimates of Sugarcane Crop **Table 2.3**

		FY22		Growth (percent)	
	FY21	Target	FY22P	FY21	FY22
Area ('000 hectares)					
Punjab	777	761	869	21	11.8
Sindh	279.7	310	289.5	-2.2	3.5
Pakistan	1,165.0	1,182.1	1,266.0	12.0	8.7
Production ('000 tons)					
Punjab	57,000.0	50,000.0	63,000.0	31.5	10.5
Sindh	18,335.5	19,000.0	18,974.0	6.4	3.5
Pakistan	81,009.3	74,847.0	87,672.0	22.0	8.2
Yield (kg/hectare)					
Punjab	73,359.1	65,703.0	72,497.1	8.8	-1.2
Sindh	65,556.6	61,290.0	65,532.7	8.8	-0.04
Pakistan	69,533.0	63,315.7	69,247.8	8.9	-0.4

P: provisional

Source: Ministry of National Food Security and Research

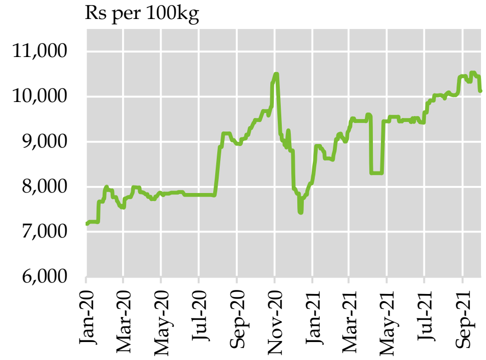
Sugarcane

As per latest estimates, a bumper sugarcane crop is expected during FY22. The output stood at 87.7 million tons, up 8.2 percent over last year, while exceeding the target by 17.1 percent. The increase in cultivated area largely explains the gain in production, as yields remained largely unchanged (**Table 2.3**).

The higher domestic sugar price and better sugarcane procurement price incentivized growers to dedicate more area to sugarcane (**Figure 2.6**).[18] Moreover, the government also supported farmers by directing sugar mills to clear their outstanding dues to farmers.[19]

Beside these factors, anecdotal evidence suggests that on the back of rise in sugar prices, sugar mill owners provided credit support to farmers to get more sugar volumes with better sucrose content.[20]

Average Domestic Sugar Price **Figure 2.6**



Source: Akbari Mandi, Lahore (Whole Sale Market)

[18] Pak-SCMS bulletin, Volume XI, Issue 09, Serial no. 129, September 01, 2021. SUPARCO

[19] In 2020, Punjab government replaced the Sugar Factories Control Act 1950 and promulgated the Sugar Factories Amendment Ordinance of 2020, to allow for mill forfeiture, imprisonment and fines for sugar mill owners for delaying payment to sugarcane producers as well as for delaying the start of the crushing season.

[20] Source: Pakistan: Sugar Annual Report, April 27, 2021, Foreign Agriculture Service, US Department of Agriculture USDA.

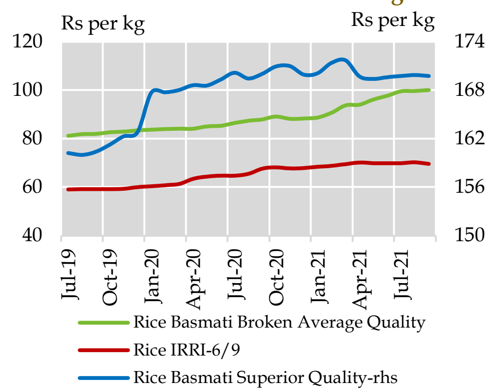
Rice

Rice production stood at 8.8 million tons during FY22 *kharif* season, higher than the target of 8.2 million tons and 5.0 percent more than last years's production. Similar to sugarcane, the increase in cultivation area explains the growth in rice production, as yield remained similar to the previous season (**Table 2.4**).

For the last couple of years, area under rice cultivation is witnessing rising trend, especially in Punjab. Rice has become a promising crop for the farming community due to higher domestic prices (F**igure 2.7**) and strong external demand.

The higher demand for Pakistan's rice in export markets amid competitive unit prices made the rice crop a profitable investment for growers (**Chapter 5**).[21] As domestic rice production exceeds the annual requirement of 3.7 million tons, the country often has exportable surplus. [22] [23] Therefore, global rice demand and prices play important part in determining the rice production.

Domestic Price of Rice **Figure 2.7**



Source: Pakistan Bureau of Statistics

Rice Crop Performance **Table 2.4**

		FY22		Growth (percent)	
	FY21	**Target**	**FY22ᴾ**	**FY21**	**FY22**
Area ('000 hectares)					
Punjab	2,395	2,023.00	2,555	18.0	6.7
Sindh	709	800	750	-8.6	5.8
Pakistan	3,336.1	3,069.5	3,529.4	9.9	5.8
Production ('000 tons)					
Punjab	5,301.0	4,480.0	5,645.0	28	6.5
Sindh	2,416.1	3,000.0	2,509.0	-6.2	3.9
Pakistan	8,419.3	8,200.9	8,836.8	13.6	5.0
Yield (kg/hectare)					
Punjab	2,213.4	2,214.5	2,209.4	8.4	-0.2
Sindh	3,407.8	3,750	3,346.4	2.6	-1.8
Pakistan	2,523.7	2,671.7	2,503.7	3.3	-0.8

p:provisional

Source: Ministry of National Food Security and Research

[21] Rice exports rose by 17.5 percent to US$ 423 million in Q1-FY22.

[22] Pakistan's per capita rice consumption of 18 kilograms per annum is among the lowest in the region (source: USDA).

[23] Grain and Feed Annual Report dated June 24, 2021, Foreign Agriculture Service, USDA.

2.3 Large-Scale Manufacturing

Large-scale manufacturing (LSM) output grew by 5.3 percent during Q1-FY22, compared to 4.5 percent in the same period last year (**Table 2.5).** The expansion was broad-based, with 12 out of 15 sectors registering positive growth during the review period, compared to eight sectors in Q1-FY21.

The *automobiles*, *pharmaceuticals*, *food, beverages and tobacco*, and construction-allied sectors made notable contributions to LSM growth during Q1-FY22. Policy support in the form of tax relief, accommodative monetary policy, construction package, and higher PSDP spending had a significant bearing on LSM performance, particularly for automobile, cement and steel sectors.

On monthly basis, LSM witnessed some moderation towards the close of the first quarter. Specifically, YoY growth subsided to 1.6 percent during September 2021, compared to 7.7 percent in September 2020 (**Figure 2.8**). [24] This was mainly attributed to a high base effect and some global supply chain issues.

Growth in LSM in Q1 **Table 2.5**

growth in percent, contribution in percentage points

		YoY Growth		Cont. in Growth	
	wt.	**FY21**	**FY22**	**FY21**	**FY22**
LSM	**70.3**	**4.5**	**5.3**		
of which					
Textile	**20.9**	**2.2**	**1.1**	**0.6**	**0.3**
Cotton yarn	13.0	0.1	0.8	0.0	0.2
Cotton cloth	7.2	-0.1	0.4	0.0	0.0
Jute goods	0.3	10.7	-29.0	0.0	-0.1
Food, beverages & tobacco	**12.4**	**13.7**	**5.8**	**2.0**	**0.9**
Cigarettes	2.1	31.3	16.6	0.5	0.3
Vegetable ghee	1.1	-3.5	-5.3	-0.1	-0.1
Cooking oil	2.2	3.4	7.4	0.1	0.3
Soft drinks	0.9	-8.6	3.0	0.3	0.1
Coke & petroleum products	**5.5**	**2.4**	**4.7**	**0.1**	**0.3**
Iron and steel products	**5.4**	**-8.1**	**13.8**	**-0.4**	**0.5**
Non-metallic mineral products	**5.4**	**22.2**	**1.7**	**2.6**	**0.2**
Cement	5.3	22.8	1.7	2.7	0.2
Automobiles	**4.6**	**-5.9**	**44.0**	**-0.3**	**2.3**
Jeeps and cars	2.8	-21.1	89.4	-0.6	1.9
Fertilizer	**4.4**	**2.0**	**-7.4**	**0.1**	**-0.5**
Pharmaceuticals	**3.6**	**14.4**	**11.4**	**1.1**	**0.9**
Paper and board	**2.3**	**-2.2**	**11.4**	**-0.1**	**0.4**
Electronics	**2.0**	**-20.4**	**-4.5**	**-0.9**	**-0.1**
Chemicals	**1.7**	**10.8**	**4.6**	**0.3**	**0.1**
Caustic soda	0.4	2.4	-7.0	0.0	-0.1
Leather products	**0.9**	**-44.5**	**14.3**	**-0.7**	**0.1**

Source: Pakistan Bureau of Statistics

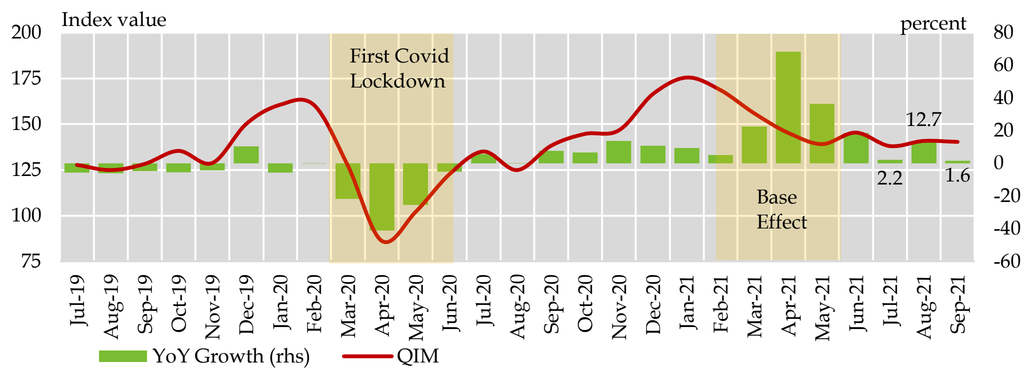
Automobile

The output of the automobile sector expanded by 44.0 percent during Q1-FY22, compared to a 5.9 percent contraction in the same period last year. The pickup in economic activities, tax incentives in the FY22 budget, accommodative monetary policy, improved farm incomes, and introduction of new models contributed to the higher output.

The government introduced tax relief measures in the FY22 budget with the aim of reviving demand and production of automobiles through a reduction in prices. Specifically, it reduced the federal excise duty (FED) on vehicles upto 3,000cc by 2.5 percent, cut the general sales tax for vehicles up to 1,000cc to 12.5 percent from 17 percent, and also allowed locally

[24] It is worth mentioning that 10 out of 15 sectors posted a decline in the month of September 2021, compared to only three in the preceding month. Industries that posted decline during the month included textile, food-beverages-&-tobacco and cement.

Monthly Quantum Index of Manufacturing (QIM) **Figure 2.8**



Source: Pakistan Bureau of Statistics

manufactured cars of 850cc or less to be exempted from value-added tax (VAT).

The *car and jeep s*egment responded accordingly and made the most noticeable contribution to automobile sector growth. In particular, cars up to 1,000cc showed an impressive recovery during Q1-FY22 compared to the contraction seen in the same period last year, facilitated in part by the tax relief (**Table 2.6**).

Automobile Production in Q1 **Table 2.6**

			Growth (percent)	
	FY21	**FY22**	**FY21**	**FY22**
All Cars	27,574	51,750	-23.8	87.7
<800 cc	5,789	15,792	-61.1	172.8
800-1,000 cc	5,335	13,698	-44.0	156.8
>1,000cc	16,450	22,260	39.6	35.3
Jeeps/SUVs	1,655	3,619	90.9	118.7
LCVs	3,708	6,790	-32.5	83.1
Trucks	769	1516	-5.9	97.1
Buses	125	116	-20.4	-7.2
Tractors	11,258	12,533	17.4	11.3
2/3 wheelers	449,306	452,648	21.2	0.7

Source: Pakistan Automotive Manufacturers Association

The impact of accommodative monetary policy was also evident from the increase in bank loans for purchase of vehicles. Specifically, auto financing rose by Rs 30.1 billion during Q1-FY22 and touched a record high of Rs 338.2 billion by end-September 2021.

At the same time, it is worth noting that a few domestic auto firms were affected by the global shortage of semi-conductor chips. This contributed to delayed vehicle deliveries and suspension of bookings for some models during Q1-FY22.

Construction-allied Industry

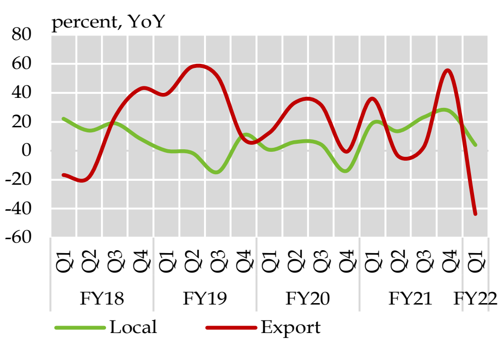
Sectors associated with the construction industry performed reasonably during Q1-FY22, enabled primarily by the government's incentive package for construction initiatives, efforts to enhance the outreach of the *Mera Pakistan Mera Ghar* scheme, and the SBP's directive for banks to increase their housing and finance construction portfolio to at least 5 percent of their private sector advances by December 2021. The elevated level of private sector construction activity was reflected in the Rs 14.9 billion flow of housebuilding finance during Q1-FY22, compared to Rs 0.9 billion in the same period last year; it may also have contributed to an uptick in residential property prices.[25] Moreover, a 74 percent YoY increase in federal PSDP spending during Q1-FY22 also shored up the construction activities.

Cement

Overall cement production grew by 1.7 percent during Q1-FY22, compared to 22.8 percent in the same period last year. The demand for cement stemmed largely from ongoing domestic construction activities, whereas foreign demand for the commodity declined sharply during the review period.

Local cement dispatches grew by 3.9 percent during Q1-FY22 on YoY basis, against a 19.0 percent expansion in the same period last year (**Figure 2.9**). Cement producers faced headwinds in the form of rising global prices of inputs such as coal, which experienced a two- to three-fold YoY increase.[26] According to some listed firms' financial reports, the moderation in growth partly stemmed from the emergence of macroeconomic pressures during the quarter, such as exchange rate depreciation.[27]

Growth in Cement Dispatches-Local vs Exports **Figure 2.9**



Source: All Pakistan Cement Manufacturers Association

On the other hand, cement exports declined by 43.6 percent YoY during the first quarter, mainly due to a 54.3 percent drop in clinker exports, amidst a spike in international shipping freight costs.[28] Also, exports to Afghanistan declined by 36.0 percent during Q1-FY21, mainly owing to the disruption in the country's construction sector.

Steel

The steel sector's output grew by 13.8 percent during Q1-FY22, compared to a decline of 8.1 percent during Q1-FY21.

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[25] According to Zameen.com's *Pakistan Residential Property Price Index*, property prices in the country grew by 22.8 percent, on average, during Q1-FY22, compared to 5.2 percent in the same period last year.

[26] Specifically, the price of South African coal rose from US$ 57.2 per MT during Q1-FY21 to US$ 135.4 MT in Q1-FY22, while the price of Australian coal increased from US$ 52.1 per MT to US$ 169.1 per MT (source: World Bank). Domestic firms, which primarily rely on imported coal as an energy source, were exposed to global price fluctuations and PKR depreciation.

[27] Sources: Cherat Cement Company Limited - Un-audited Accounts for first quarter ended September 30, 2021; D.G. Khan Cement Company Limited – First Quarter Report, September 30, 2021.

[28] For instance, the Federal Reserve Economic Data (FRED's) Producer Price Index for deep-sea freight transportation services rose by 13.8 percent on YoY basis during Q1-FY22, compared to decline of 6.2 percent in the same period last year.

Both long steel and flat steel contributed significantly to the higher output this year. Within long steel, billet production grew by 14.9 percent, adding on to 26.0 percent growth last year (**Figure 2.10a)**. Long steel is primarily used in construction, and its sustained demand reflects the continuing momentum of the construction sector.

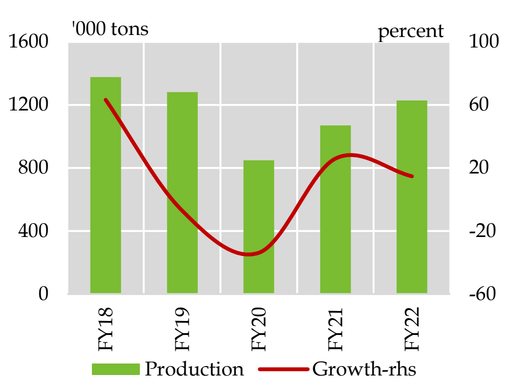
In flat steel, the production of hot-rolled steel expanded by 12.5 percent during Q1-FY22, which represented a rebound from a contraction of 30.1 percent in Q1-FY21 (**Figure 2.10b)**. This was mainly attributed to strong demand for products such as automobiles and domestic appliances.

Textile

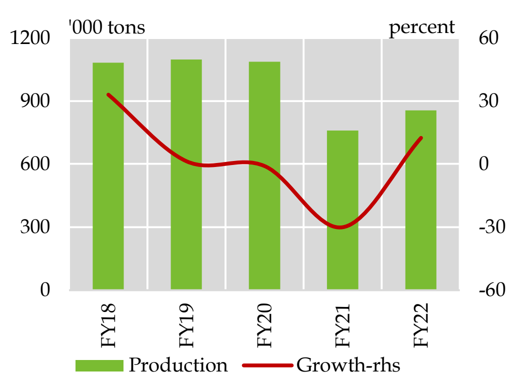
Textile output- as captured in LSM- rose by 1.1 percent during Q1-FY22, compared to 2.2 percent growth in the same period last year. However, since the LSM coverage of the textile sector is mainly limited to primary goods, it did not fully capture the impact of sizable fixed investment and capacity expansion in the sector, and the growth in textile exports.[29]

Specifically, the imports of textile machinery have grown by 146.6 percent and 144.5 percent during Q4-FY21 and Q1-FY22 respectively – the highest quarterly YoY growth in nearly 11 years (**Figure 2.11**). [30] Textile firms have also actively availed the SBP's concessionary financing, for fixed investment under the Temporary Economic Refinance Facility (TERF), as reported previously in the SBP's FY21 Annual Report. Specifically, out of the total financing of Rs 434.7 billion approved under TERF as of 1st April, 2021, approximately Rs 179.9 billion (i.e. 41 percent) was approved for the textile sector.

Long Steel Production, Q1 **Figure 2.10a**



Flat Steel Production, Q1 **Figure 2.10b**

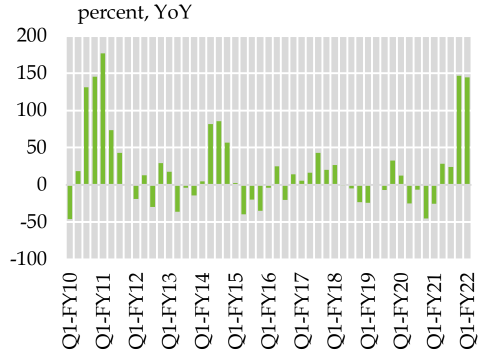


Source: Pakistan Bureau of Statistics

[29] Textile exports rose by 27.4 percent in Q1-FY22, indicating the level of activity in the sector. High value-added items contributed heavily to the growth in textile exports.

[30] According to APTMA, the textile industry has recently invested to set up 100 new units in the value-added sector as it gears up to achieve a target of US$ 20 billion in textile exports during FY22. Source: www.aptma.org.pk/critical-importance-of-competitive-energy-rates-across-textile-value-chain/

Growth in Textile Machinery Imports **Figure 2.11**



Source: Pakistan Bureau of Statistics

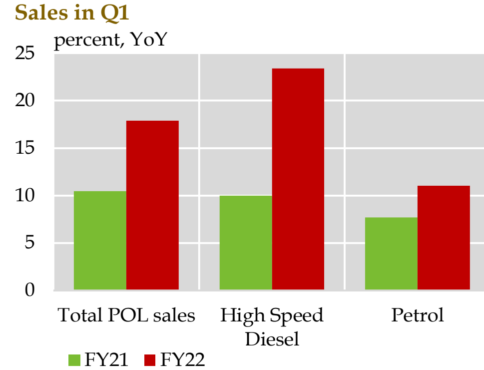
Petroleum

Growth in the POL sector accelerated to 4.7 percent during Q1-FY22, compared to 2.4 percent in the same period last year. This was mainly attributed to pick-up in economic activities, growth in automobile sales, and increase in furnace-oil based electricity generation.

POL sales rose by 17.9 percent during Q1-FY22, compared to 10.5 percent growth in the same period last year (**Figure 2.12**). The sales of high speed diesel and petrol rose by 23.4 percent and 11.0 percent, compared to 10.0 percent and 7.7 percent last year respectively.

From the demand perspective, POL sales to the transport sector increased by 17.0 percent to 4.4 million metric tons (MT) from 3.7 million MT last year (**Figure 2.13**). This was consistent with the increase in transport-related activity, as captured by Google Covid-19 Community Mobility Reports. Moreover, sales to the power sector grew by 33.4 percent to 1.1 million MT during the first quarter, compared to

Growth in HSD and Petrol Sales in Q1 **Figure 2.12**



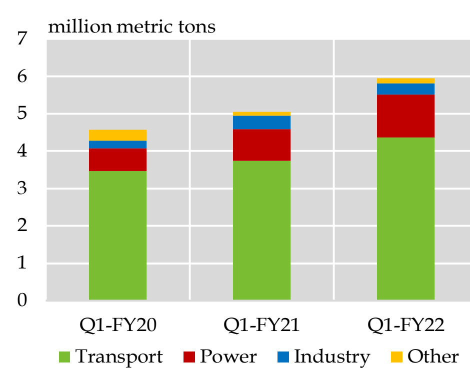
Source: Oil Companies Advisory Council

0.9 million MT last year. In particular, electricity generation through furnace oil grew by 75.5 percent, at a time when FO was a relatively cheaper alternative than LNG, whose price was escalating globally during the review period.

Pharmaceutical

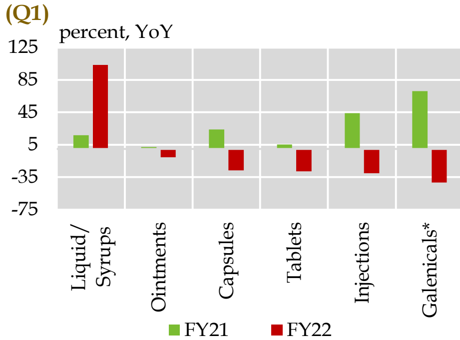
The pharmaceutical sector grew by 11.4 percent during Q1-FY22, compared to 14.4 percent in the same period last year.

Sector-wise POL Sales **Figure 2.13**



Source: Oil Companies Advisory Council

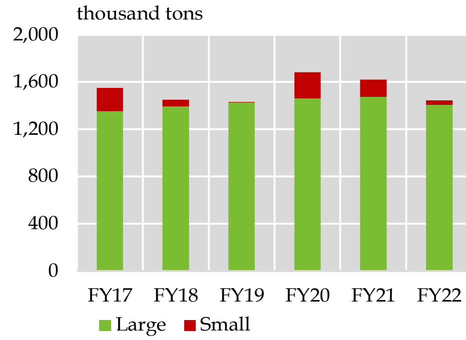
Growth in Pharma Sub-sectors (Q1) **Figure 2.14**



* medicines made of natural components, eg. herbs

Source: Pakistan Bureau of Statistics

Urea Production by Large and Small Units (Q1) **Figure 2.15**



Source: National Fertilizer Development Center

In particular, the production of liquids and syrups expanded by 103.7 percent during Q1-FY22, compared to 16.9 percent in the same period last year (**Figure 2.14**). This may partly be attributed to the increased demand for nutritional supplements and pain management medicines.[31] Anecdotal evidence suggests that consumer efforts to boost immunity and mitigate the adverse impact of Covid on health contributed to the notable pick-up in demand.

Fertilizer

Fertilizer output dropped 7.4 percent during Q1-FY22, compared to a 2.0 percent increase in the comparable period last year. Among urea producers, the production of large-scale units declined by 4.4 percent, compared to 0.8 percent growth in the same period last year (**Figure 2.15**).[32] This primarily owed to suspended production at a major fertilizer plant during the period.[33]

Moreover, the curtailment of gas supply to two small-scale fertilizer plants halted their production during July-August 2021. As a result, overall production of small urea firms declined from 147,629 MT during Q1-FY21 to 35,135 MT in Q1-FY22.

Food, beverages, and tobacco

The food, beverages, and tobacco sector grew by 5.8 percent during Q1-FY22, compared to 13.7 percent last year. The slowdown mainly stemmed from apparent moderation in growth of wheat and grain-milling, as reported in LSM. During the first quarter last year, this sector had reported sharp growth due to a one-off increase in the number of reporting units in the LSM survey.[34]

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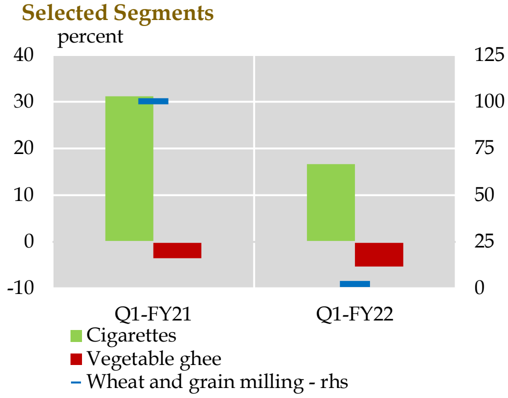
31 Source: Abbott Pakistan's Unaudited Financial Statements for the Quarter and Nine Months Ended September 30, 2021; Glaxosmithkline Consumer Healthcare Pakistan Limited's 3rd Quarterly Report 2021.

32 Specifically, the production of large urea units was 1.409 million tons during Q1-FY22, compared to 1.474 million tons during Q1-FY21.

33 Source: Engro Fertilizers Third Quarter Report 2021.

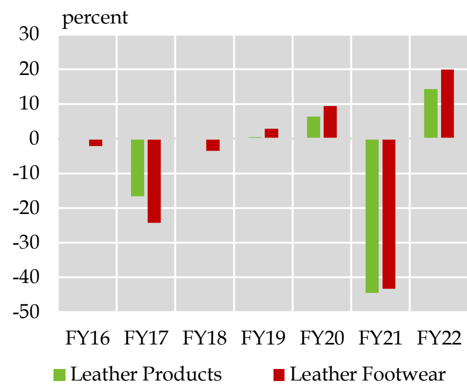
34 Specifically, the wheat and grain milling segment of LSM grew by 2.6 percent during Q1-FY22, compared to 100.3 percent in Q1-FY21.

Food Sector - Growth in Selected Segments **Figure 2.16**



Source: Pakistan Bureau of Statistics

Growth in Leather Sector (Q1) **Figure 2.17**



Source: Pakistan Bureau of Statistics

Vegetable ghee production declined by 5.3 percent during the first quarter, compared to a reduction of 3.5 percent last year (**Figure 2.16**). This occurred in tandem with a steep rise in global palm oil prices and a 14.8 percent quantum decline in imports during Q1-FY22. Moreover, cigarette production moderated to 16.6 percent during Q1-FY22, compared to 31.3 percent growth last year. Tobacco firms reported rising inflation as a challenge during the review period, given its impact on consumers' purchasing power and their tendency to opt for lower priced, illicit cigarette brands.[35]

Leather

The leather sector posted 14.3 percent growth during Q1-FY22, compared to a 44.5 percent decline in the same period last year. This was a promising development, given that the sector had posted a first quarter decline of 9.1 percent (on average) between FY16-FY21 (**Figure 2.17**).

Leather footwear has the greatest weight within the sector.[36] Thus, a rebound in production of leather footwear explained the overall improvement. Specifically, the 19.9 percent growth in leather footwear was the fastest Q1 growth since FY11.

In addition to the broader increase in domestic economic activity, the impact of recovering foreign demand was also evident from the growth in Pakistan's leather exports during the review period. The country's exports of leather manufactures (including garments and gloves) increased by 6.0 percent during Q1-FY22, while leather footwear exports

[35] Source: Philip Morris Pakistan Limited – Quarterly Report for the third quarter ended September 30, 2021; Pakistan Tobacco Company – Condensed Interim Financial Statements for the nine months period ended September 30, 2021.

[36] Leather products have a weight of 0.86 in LSM. They comprise leather footwear (0.47), upper leather (0.39), and sole leather (0.00004).

recorded 9.8 percent growth during the same period. [37]

2.3 Services

Proxy indicators for the services sector indicated continuation of the growth momentum during Q1-FY22, on the back of growth in the commodity producing sectors and goods imports (**Table 2.7**).

In terms of impetus to the services sector, output of important *kharif* crops is expected to be better than last year, and LSM continued to grow as well. Meanwhile, merchandize imports rose by 66.1 percent during Q1-FY22 compared to 0.8 percent last year. The expansion in activities in these sectors had a positive impact on wholesale & retail trade and transport sectors during the review period.

Services Sector Indicators during Q1 — **Table 2.7**

	FY21	FY22
Wholesale and Retail Trade (18.8%)		
Sectoral credit offtake*- flow (billion Rs)	17.7	21.5
Wholesale - food, beverages and tobacco	0.2	1.8
Wholesale - petroleum products[1]	17.6	7.3
Retail - non specialized stores [2]	0.0	2.3
Others	-0.1	10.0
Imports (billion US$, PBS)	11.3	18.7
LSM (YoY growth)	4.5	5.1
Agriculture credit (disbursements – billion Rs)	254.6	291.9
Transport, Storage and Communication (12.2%)		
POL sales to transport sector (million MT)	3.8	4.3
Commercial vehicle sales (units)	6,618	12,330
Cellular teledensity (%, end period)	79.6	86.2
Broadband users (million, end period)	87.0	107.6
Finance and Insurance (3.7%)		
Assets (billion Rs)*	23,808	28,790
Deposits (billion Rs)*	17,543	20,516
ROA (percent)	1.1	0.9
ROE (percent)	14.8	13.7
Profit after tax (billion Rs)	68.7	68.7
Infection ratio	9.9	8.8
General Government Services (8.2%)		
Expenses on general government & defense** (billion Rs)	313.4	351.2

Note: Values in brackets are sectoral shares in GDP, as of FY21.
[1] Solid, liquid, gaseous fuels and related products [2] Construction materials, hardware, plumbing and heating equipment and supplies
* Stocks, as of end-September 2021 **Only federal government (running of civil government and defense)
Sources: State Bank of Pakistan, Pakistan Bureau of Statistics, Oil Companies Advisory Council , Pakistan Automotive Manufacturers Association , Pakistan Telecommunication Authority and Ministry of Finance

[37] Pakistan's exports of leather manufactures (including garments and gloves) and leather footwear increased to US$ 154.5 million and US$ 32.2 million in Q1-FY22, from US$ 145.7 million and US$ 29.3 million respectively.

Analysis of financial accounts of various fast moving consumer goods (FMCG) firms also indicates expansion in revenues. Sales of FMCG firms rose by 21.0 percent during Q1-FY22 compared to 23.7 percent growth last year.[38]

Another gauge of services activity level is the demand for credit by services firms. Private sector credit data shows net disbursements to firms in the wholesale and retail trade sector increased from Rs 17.7 billion in Q1-FY21 to Rs 21.5 billion in Q1-FY22. Whereas last year's credit offtake was solely driven by petroleum group, credit disbursement during Q1-FY22 pattern was broad-based. The increase in credit to *wholesale and retail* vendors of food and general store sector was impressive, and can largely be attributed to pickup in activity in the crop sector and the food processing industry.

The transport sector indicators also pointed towards growth during Q1-FY22. Consumption of petrol and diesel for transportation rose during the period, while quantum of imported petroleum products also witnessed double digit growth. Meanwhile, there was considerable increase in sales of commercial vehicles, indicative of uptick in transport sector. Additionally, the revival of the tourism industry continued, which may also have aided recovery in the transport sector. The aviation sub-sector received a boost from increase in flight to scenic destinations, such as Gilgit and Skardu. Additionally, resumption of international flights operations by both national and foreign airlines had a positive impact on the aviation industry.

Telecommunication indicators point to improvement in activity in the industry. Teledensity and number of broadband users rose sharply during Q1-FY22. Cellular subscribers rose from 184.3 million to 186.4 million during the period. Additionally, analysis of financial statements of the big 3 telecom firms reveals that cumulative revenue increased by 12.2 percent during the period, driven largely by the increase in the customer base.[39]

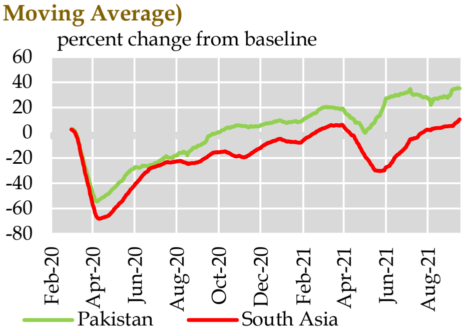
Additionally, exports of IT and IT-enabled services grew substantially to US$ 498.0 million in Q1-FY22 from US$ 307.1 million a year ago (**Chapter 5**). The acceleration in export growth in the sector can be traced to computer (software consultancy in particular) and telecom services.

Indicators of the banking industry also point to sustained activity during Q1-FY22. Bank assets surged during the review period. Meanwhile, the continued drop in infection ratio pointed towards further improvement in asset quality.

Google's Covid-19 Community Mobility Reports also serve as valuable measure for activity level in the services sector. Data on visits to grocery & pharmacy stores, retail and recreation outlets, workplaces, and transit stations are loosely associated with the services industry. For Pakistan, the aggregate data shows that visits to these places have increased considerably during the period under review (**Figure 2.18**).

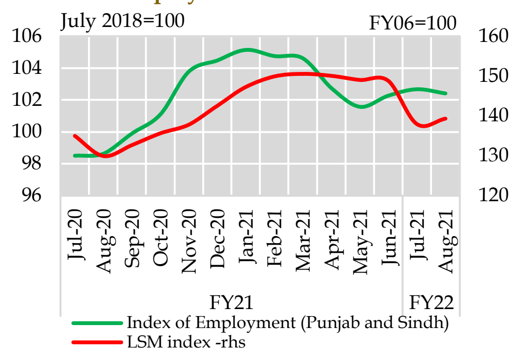
[38] Based on a sample of 26 FMCG firms in the country.
[39] Source: Pakistan Telecommunication Authority

Mobility Trends in Pakistan vis-a-vis South Asia (30-days Moving Average) **Figure 2.18**



Source: Google Covid-19 Community Mobility Report

Combined Punjab and Sindh Industrial Employment and LSM **Figure 2.19**



Source: Bureau of Statistics, Punjab; Bureau of Statistics Sindh and Pakistan Bureau of Statistics

Moreover, in comparison to other South Asian countries (Bangladesh, India, Nepal and Sri Lanka), mobility in Pakistan had recovered more strongly from the baseline level.[40]

2.4 Labor Market

Labor market activity, as gauged by various economic indicators, showed relatively persistent trend during Q1-FY22. Industrial employment in Sindh and Punjab rose during Jul-Aug FY22 compared to last year.[41] Sentiments about employment in both industrial and services sector remained largely positive in the latest waves of the SBP Business Confidence Survey (BCS) and Consumer Confidence Survey (CCS). However, slight weakening in positivity was observed in the future employment expectations. Wages in the construction sector and fees/income in the various other segments of the services sector also increased in Q1-FY22.

Employment

The employment index for the industrial sectors in Sindh and Punjab rose by 4.0 percent during Jul-Aug FY22 compared to a contraction of 0.8 percent last year (**Figure 2.19**).[42] Increase in employment was more pronounced in Sindh compared to Punjab. Overall, the pharmaceutical sector hired the most workers during Q1-FY22, followed by the textile industry.

[40] While this is a favorable observation, it must be pointed that Pakistan's economic growth was relatively lower during the baseline period of Google mobility data.
[41] The analysis of industrial employment in Sindh excludes the steel industry due to reporting issues. For details, see Chapter 2 in the SBP Second Quarterly Report of FY21.
[42] In every Monthly Survey of Industrial Production and Employment (MIPE), there are a few non-reporting firms, for which the data is estimated based on past trends. Due to disruptions caused by the Covid pandemic during FY20 and FY21, increased usage of estimates for gauging employment numbers and non-reporting of data by firms may lead to abrupt growth/contraction in the industrial labor market indicators during FY22.

Punjab

Industrial employment, as measured by *Monthly Survey of Industrial Production & Employment in Punjab* for August 2021, showed an increase of 1.3 percent in new jobs compared to end June 2021. Additionally, in comparison to Jul-Aug FY21 last year, there was a growth of 2 percent in industrial employment. This increase was mainly driven by export-oriented sectors of cotton textiles and leather footwear (**Table 2.8**).

The increase in employment in the textile sector reflects the developments in the industry. Significant increase in textile exports helps explain the growth in employment in this sector. Textile exports rose sharply by 27.4 percent during Q1-FY22 against 2.9 percent last year. This was largely driven by hosiery and ready-to-wear apparel. The increase in foreign demand for textile goods led to increase in production activities, which in turn led to job creation in the textile industry. Significant increase in uptake of fixed investment loans (under TERF and LTFF schemes) in the preceding quarters by the textile sector and subsequent increase in import of textile machinery point to expansions in the sector, which is also creating new job opportunities.

Similarly, increase in demand for leather footwear led to increase in employment level in this sector. Output of the leather processing industry expanded by 13.9 percent during Q1-FY22 compared to 44.5 percent contraction last year (**Table 2.5**). The rebound is partly attributed to revival in footwear exports, which increased by 9.1 percent in quantum terms during Q1-FY22. Resultantly, there was an increase of 24.9 percent in jobs on average during Jul-Aug FY22 in this sector, compared to a drop of 11.5 percent last year.

Wheat milling was another industry that witnessed employment creation during Q1-FY22 which is in line with increase in output levels. Production of wheat products rose by 23.5 percent during Jul-Aug FY22, on the back of inclusion of new firms in the sample dataset of LSM. The increase in activity level created 17.5 percent more jobs in Punjab during Jul-Aug FY22 compared to 14.2 percent last year.

Average Number of Industrial Workers Hired /Fired during Jul-Aug — **Table 2.8**

	FY21	FY22
Punjab	**-833**	**5,534**
Cotton textiles	241	1,555
Wheat milling	1,061	1,493
Sugar	2,060	-1,236
Leather footwear	-1,200	2,294
Cement	-886	382
Pharmaceutical	494	138
Sindh*	**-2,274**	**10,355**
Cotton textiles	-1,422	2,095
Sugar	-2,778	3,413
Leather tanning	1,107	-161
Cement	130	-2,842
Pharmaceutical	19	8,986

*Excluding the steel industry

Sources: Bureau of Statistics, Punjab and Bureau of Statistics, Sindh

Sindh

The August 2021 *Monthly Survey of Industrial Production & Employment in Sindh* shows a growth of 8.8 percent in average industrial employment for the Jul-Aug FY22 period, compared to a decline of 1.9 percent last year.

The increase in employees during Jul-Aug FY22 can largely be attributed to pickup in activity in the pharmaceutical sector (**Table 2.8**). The industry contributed 86.8 percent to the total workers added during the period. This is in line with double-digit growth in production of pharmaceutical industry during Q1-FY22 (**Table 2.5**). Moreover, increase in foreign demand for pharmaceutical products also helps explain growth in production and consequently increased hiring by the firms. Pharma exports rose by 7.4 percent in Q1-FY22 in value terms, on top of 23.0 percent growth seen last year.

The sugar industry in Sindh also hired more workers during Q1-FY22. This may be explained by the early start of the sugarcane crushing season compared to Punjab, which laid off workers. Meanwhile, the estimated production of sugarcane is expected to increase by a further 3.5 percent in the province, which may also have led to higher demand for workers in the industry.

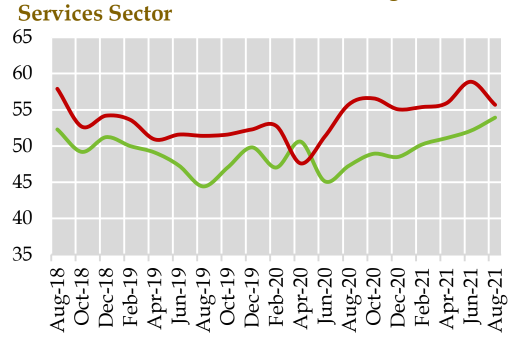
In contrast to Punjab, workers in the cement industry in Sindh lost jobs during Q1-FY22. Significant drop in overseas shipments, in particular to Bangladesh, affected production activities in Sindh, which may have hampered job market in this industry.[43]

Confidence Surveys

The SBP Business Confidence Index shows slight dip in the current and future employment index (past six months) between June 2021 and August 2021, which suggests weakening optimism in the industrial sector. The employment index for the industrial sector fell by 1.5 points - the biggest fall since the June 2020 wave (**Figure 2.20a**). The next-6-month index of industrial employment also went down by 2.6 points in August 2021 against increase of 2.1 points in the previous survey. Increase in inflationary pressures and PKR depreciation may have played a role in

BCS Unemployment Index for Industrial Sector **Figure 2.20a**

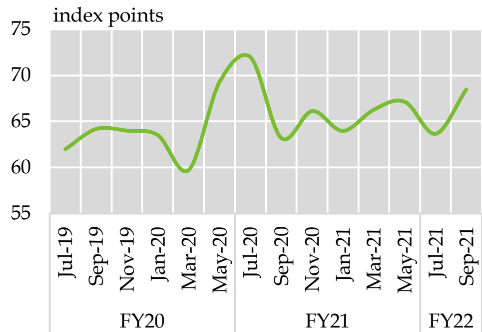
BCS Unemployment Index for Services Sector **Figure 2.20b**



Source: State Bank of Pakistan

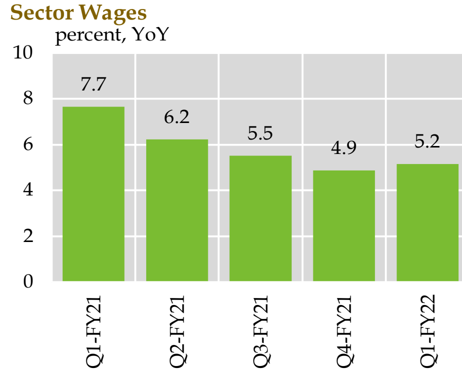
[43] Due to lower transportation costs, cement exporters in the country's south are better placed to ship to foreign destinations.

CCS Future Unemployment Index (Next Six Months) **Figure 2.21**



Source: State Bank of Pakistan

Growth in Construction Sector Wages **Figure 2.22**



Source: Pakistan Bureau of Statistics

weakening some of the earlier optimism in the industrial sector.

On the other hand, respondents from the services industry remained upbeat about employment creation in the past six months (**Figure 2.20b**). The index showed an increase of 1.8 points in August 2021 over the preceding wave (June 2021).[44] However, similar to prospects of industrial employment, the next-6-month index of employment for the services sector fell by 3.2 points, which reflects some weakening expectations about job creation. That said, despite the dip in all the indices, the levels remained above the threshold of 50, which indicates that majority of the respondents from both the industrial and services sectors remained hopeful about job growth in the economy.

The CCS also highlights the decreasing optimism within the labor market, as the unemployment index rose by 4.8 points, its biggest jump since May 2020 (**Figure 2.21**). The change in unemployment index in the CCS from the preceding July 2021 wave highlights concern about rising energy prices and their subsequent second-round impacts.

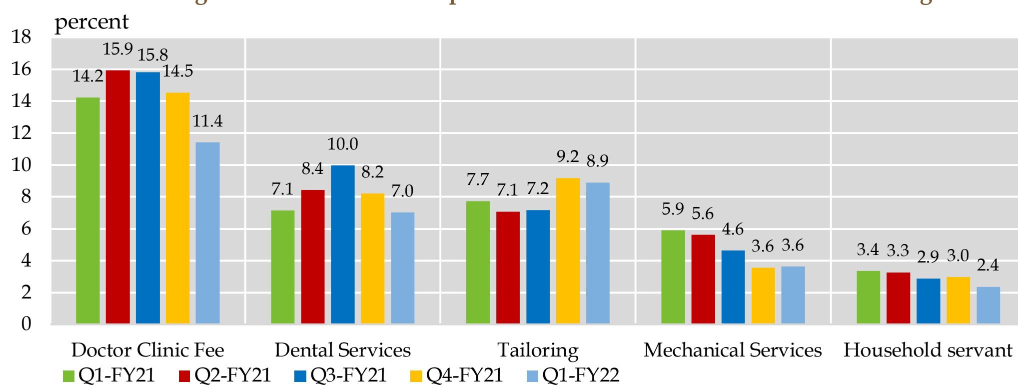
Wages

The wages in the construction industry and incomes/fees in the services sector decelerated during Q1-FY22 as compared to last year. The wage rate index for the construction sector in the CPI dataset showed 5.2 percent growth in Q1-FY22 compared to 7.7 percent growth last year (**Figure 2.22**). Likewise, incomes of various segments of services sector also grew at a lower rate during the period on YoY basis (**Figure 2.23**).

The deceleration in construction wages contrasted with the increase in overall inflation during the review period (**Figure 2.24**). This shows that purchasing power of

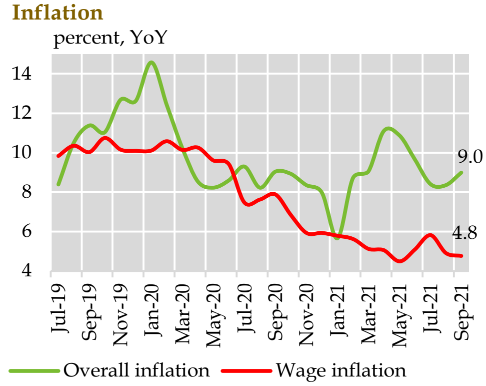
[44] The survey results of BCS and CCS are presented in Diffusion Index (DI) format, which varies between 0 and 100. The DI can be interpreted as follows: DI < 50 indicates that positive views regarding credit/ availability of funds/ borrowing cost are less than the negative views; DI = 50 shows that positive views are equal to negative views; and DI > 50 indicates that positive views are more than negative views.

Growth in Earnings - Services Sector Occupations **Figure 2.23**



Source: Pakistan Bureau of Statistics

Trend in Overall and Wage Inflation **Figure 2.24**



Source: Pakistan Bureau of Statistics

the construction laborers deteriorated in real terms. Ever since the onset of the Covid pandemic, wage growth has predominantly remained below the inflation rate. The impact on construction sector laborers was not commensurate with the increase in output of the construction sector and its allied industries, despite the incentives given to the industry. This may point to excess supply of labor in the construction sector. This can be partially attributed to slowdown in global demand for migrant workers during the ongoing pandemic amid mobility restrictions.[45] Moreover, increased mechanization in the construction industry may also have contributed to slow growth in wages for the construction sector labor. For instance, increased use of ready-mix concrete, tower cranes and excavation equipment may have adversely affected the demand for low-skilled laborers in the construction industry.

Within the services sector, growth in incomes of mechanical and household servants remained rather lackluster in Q1-FY22, while tailoring and dental services remained broadly at par with inflation rate. On the other hand, doctor consultation fees continued to increase in real terms, albeit some deceleration was observed during Q1-FY22.

The low rise in incomes of household servants and mechanical services may

[45] According to data from the Bureau of Emigration and Overseas Employment, 81.6 percent fewer people left Pakistan for job opportunities abroad in Q1-FY22 as compared to Q1-FY20. The comparison is made with Q1-FY20 instead of Q1-FY21, because of strict air travel restrictions last year amidst the pandemic.

indicate influx of more workers in the job market for these segments, as they require little prior skills or education. The low-income growth trajectory may be attributed to easy entry and exit, coupled with low demand in the aftermath of the Covid pandemic. For skilled professionals like doctors, persistent increase in real wage rate suggests demand in the medical services is outstripping supply, partly in response to Covid pandemic.

In addition to the aforementioned indicators of the labor market in Q1-FY22, the Pakistan Bureau of Statistics published results of the Labor Force Survey FY19. Increase in unemployment during FY19 had coincided with the slowdown in economic activity during the period. More importantly, the impact of the slowdown on the workforce was asymmetric across various segments of the society (**Box 2.2**).

Box 2.2: Key Insights from the Labor Force Survey 2018-19

The Labor Force Survey (LFS) is an important periodic document, published by Pakistan Bureau of Statistics (PBS). It provides key insights into socio-demographics, employment status, provincial and sector-wise distribution of the labor market. The PBS recently published its 35th Pakistan Labor Force

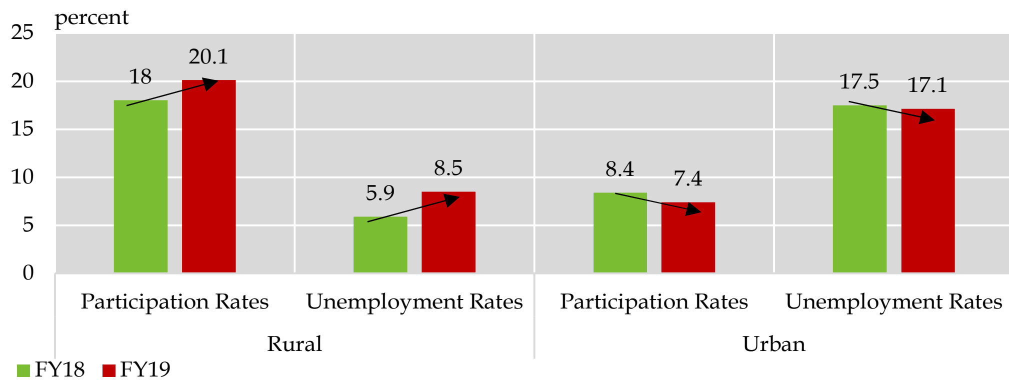
Labor Force Indicators FY11-19 — **Table 2.2.1**

	FY11	FY13	FY14	FY15	FY18	FY19
Unemployment Rates (percent)						
Total	6.0	6.2	6.0	5.9	5.8	6.9
Male	5.1	5.4	5.1	5.0	5.1	5.9
Female	8.9	9.0	8.7	9.0	8.3	10.0
Employment by Sector (percent of labor force)						
Agriculture	45.1	43.7	43.5	42.3	38.5	39.2
Industry	20.7	23.4	21.5	22.6	23.7	23.0
Manufacturing	13.7	14.5	14.2	15.3	16.1	15.0
Construction	7.0	8.9	7.3	7.3	7.6	8.0
Services*	34.2	34.8	35.0	35.1	37.8	37.8
Wholesale and retail	16.2	14.4	14.6	14.6	14.9	14.5
Transport, storage and communication	5.1	5.5	5.5	5.4	6.2	6.2
Community/social & personal services	10.8	13.3	13.1	13.2	14.7	14.9
Others	2.1	1.6	1.8	1.9	2.0	2.2
Activity status (percent of labor force)						
Formal	26.2	26.4	26.4	27.4	28.0	27.6
Informal	73.8	73.6	73.6	72.6	72.0	72.4
Employment status (percent of labor force)						
Employers	1.4	1.3	1.1	1.4	1.4	1.5
Own account workers	34.9	33.6	35.4	36.1	34.8	35.8
Contributing family workers	27.7	26.3	24.4	23.8	21.4	22.9
Employees	36.0	38.8	39.1	38.7	42.4	39.8

*For LFS FY11-14, 'Others' category has been included in services sector for consistency with later publications

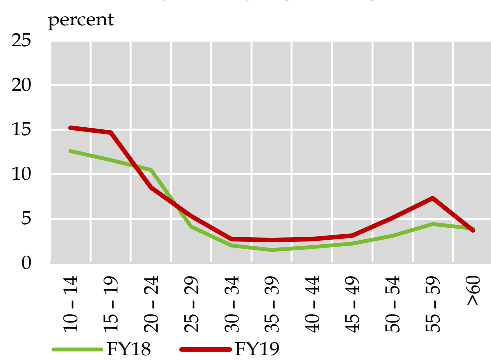
Source: Pakistan Labour Force Survey 2018-19, Pakistan Bureau of Statistics

Women Labor Force Participation and Unemployment: Urban vs Rural **Figure 2.2.1**

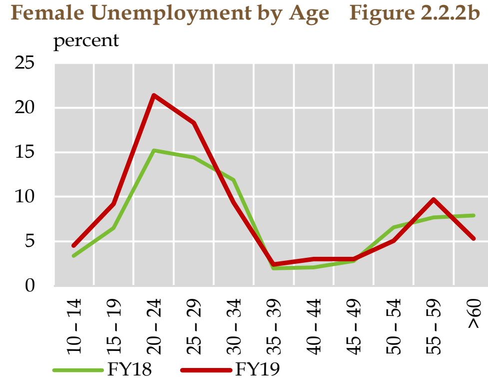


Source: Pakistan Labour Force Survey 2018-19, Pakistan Bureau of Statistics

Male Unemployment by Age **Figure 2.2.2a**



Female Unemployment by Age **Figure 2.2.2b**



Source: Pakistan Labour Force Survey 2018-19, Pakistan Bureau of Statistics

Survey (LFS) 2018-19 with a lag of two years. Some of the important findings of the report are presented below:

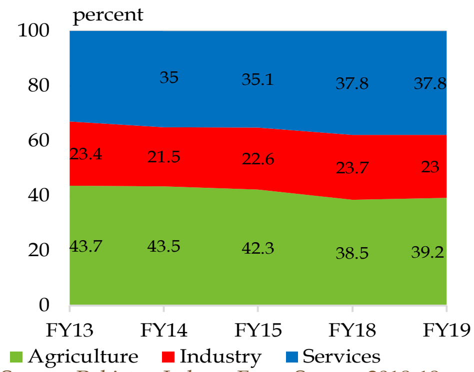
1. Unemployment rose by 1.1 percentage point to 6.9 percent in FY19 over the previous year (**Table 2.2.1**). The impact was more pronounced on women. Female unemployment increased from 8.3 percent in FY18 to 10.0 percent in FY19, whereas male joblessness rose from 5.1 percent to 5.9 percent.

2. Analysis of the unemployment data by geography indicates increase in unemployed rural workers was more pronounced in females (8.5 percent in FY19 compared to 5.9 percent in FY18) compared to males (5.5 percent in FY19 compared to 5.1 percent in FY18). At the same time, the share of women in rural labor force rose by 2.1 percentage points to 20.1 percent in FY19 (**Figure 2.2.1**). It is worth noting that while more women in rural areas were looking for jobs, it was relatively harder for them to get jobs. This contrasts with female workers in urban areas, which saw a decline in the

participation rate (7.4 percent from 8.4 percent) and a decrease in unemployment rate (17.1 percent from 17.5 percent).

3. Joblessness among youth showed a sizeable increase in FY19. Overall unemployment in the 25-29 age group increased by 2.1 percentage points to 8.6 percent. Unemployment in young women -which was already high - increased further. Unemployment among young men also rose in FY19 compared to preceding year, though the increase was not as large as for women (**Figures 2.2.2a and 2.2.2b**). Meanwhile, the unemployment rate for 30+ age group remained almost static in FY19.

Labor Force: Sectoral Share **Figure 2.2.3**



Source: Pakistan Labour Force Survey 2018-19, Pakistan Bureau of Statistics

4. Sectoral analysis shows that the share of employment in the agriculture sector rose for the first time in a decade (**Figure 2.2.3**). On the other hand, share of labor force in the industrial sector declined.

Summing up, the results of the report put into perspective the need for some reforms in the domestic labor market. First, focus on women economic empowerment is crucial for achieving higher economic growth. More female participation in the labor force boosts productivity, increases economic diversification, and leads to income equality.[46] Second, special emphasis must be placed on creating job opportunities for the youth, since unemployment in this group has long-term impact on their economic well-being.[47] In particular, conducive policies may be designed for unemployed female workforce in rural areas. Third, the reversal in movement of labor force from the industrial sector to agriculture sector ought to be a cause for concern for policymakers. From an economic standpoint, value added per worker is predominantly higher in the non-agricultural sector than in agriculture in developing countries.[48]. Considering the results of the report, labor market reforms should focus on increasing women participation, enhancing job opportunities for the youth, and incentivizing non-agricultural workers.

[46] *Pursuing Women's Economic Empowerment* (2018). International Monetary Fund. Washington DC, United States.
[47] T.A. Mroz and T.H. Savage (2006). *The Long-Term Effects of Youth Unemployment*. The Journal of Human Resources Spring, 2006, Vol. 41, No. 2, pp. 259-293, University of Wisconsin Press. Wisconsin, United States.
[48] D. Gollin, D. Lagakos and M.E. Waugh (2013). *The Agricultural Productivity Gap.* National Bureau of Economic Research, Working Paper 19628. Massachusetts, United States.