

Day Break

Monday, 02 April 2018

Economy

Exhibit: Food, non-food and headline inflation

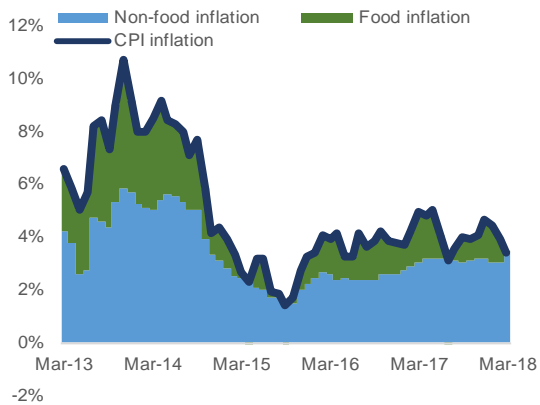


Exhibit: Average quarterly inflation

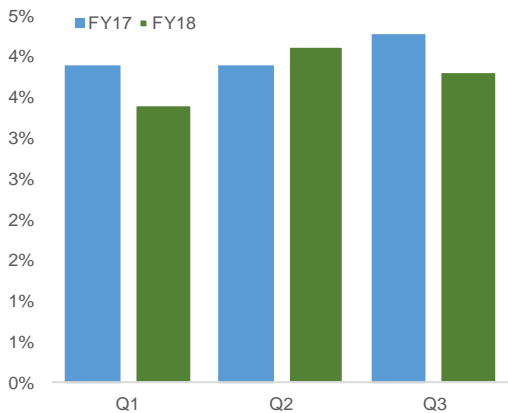
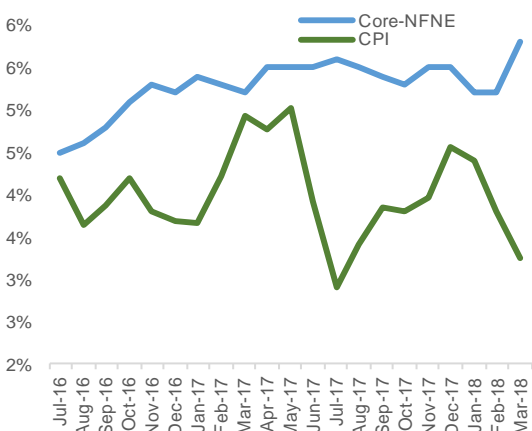


Exhibit: Headline and core inflation



Source: SBP, PBS & IGI Research

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Inflation

Sluggish food inflation subdues headline inflation

- For the month of Mar-18, headline inflation rose by +3.25%YoY against +4.94%YoY in the same period last year
- Prices of perishables declined by 7.17%YoY, bringing growth in prices of food basket down to +0.09%YoY in Mar-18
- Non-food inflation is up 5.44%YoY for the month of Mar-18, taking 9MFY18 average inflation to +5.03%YoY compared to +4.19%YoY in the same period last year
- Core inflation rose by +5.80%YoY, a +60bps increase MoM
- With the month of Ramadan visible in the horizon, expected increase in government spending as is the case pre-election as well as recent episode of PKR depreciation, we expect 4QFY18 to post higher inflation compared to the previous three quarters of FY18

Mar-18 inflation clocks in at +3.80%YoY

For the month of Mar-18, headline inflation rose by +3.25%YoY against +4.94%YoY in the same period last year. This brings 9MFY18 average inflation to +3.78%YoY. Barring the house rent index (HRI), the largest contributor to inflation was education index with a percentage point impact of +0.69 to total inflation.

Decline in prices of perishables pulls down food inflation

Food inflation had been posting moderate growth in the past few months with 8MFY18 average at +2.24%YoY on the back of rising prices of perishable food items (up ~21% on average). However, for the month of Mar-18, prices of perishables declined by 7.17%YoY, bringing growth in prices of food basket down to +0.09%YoY and dragging 9MFY18 average food inflation to +2.00%YoY compared to +3.80 in same period last year.

Education index continues to grow at a rapid pace

Non-food inflation is up +5.44%YoY for the month of Mar-18, taking 9MFY18 average inflation to +5.03%YoY compared to +4.19%YoY in the same period last year. Main contributors to non-food inflation in the 9MFY18 have been HRI (up +6.37%YoY), transport index (up +4.41%YoY) and education index (up +12.10%YoY). Furthermore, it must be highlighted that despite a meagre 3.94% weightage in CPI index, education index contributed 0.69 ppt to the total inflation in Mar-18 due to a +17.60%YoY rise in the index.

Exhibit:

Inflation Break-up; Non-food (utilities & HRI pulling up inflation)

(ppt)	Mar-18	Feb-18	Jan-18	Avg. 9MFY18	Mar-17	Feb-17	Jan-17	Avg. 9MFY17
Food	0.03	0.89	1.50	0.81	2.07	1.49	1.07	1.57
Non-Food	3.28	2.92	2.93	2.99	2.87	2.73	2.60	2.46
Energy	0.50	0.45	0.44	0.36	0.34	0.10	-0.09	0.00
Utilities	1.74	1.43	1.44	1.42	1.29	1.40	1.47	1.31
HRI	1.05	1.06	1.05	1.23	1.26	1.27	1.27	1.20
Total	3.3	3.8	4.4	3.8	4.9	4.2	3.7	4.0

Source: IGI Research, SBP, PBS

Core inflation up by +60bps MoM

During the month, core inflation rose by +5.80%YoY, a +60bps increase MoM. This underlying demand pull inflationary pressure reflects the impact that subdued food and energy prices has had on headline inflation and underlines the risk of faster inflation growth in case of changes in food and energy prices.

Multiple sources of inflation expected in 4QFY18

Food prices have been contained for most of FY18 and oil prices have also remained range bound with local motor fuel prices to fall by PKR 2.07 for the month of Mar-18 after successive price increases due to higher international oil prices in preceding months. However, with the month of Ramadan visible in the horizon, expected increase in government spending as is the case pre-election as well as recent episode of PKR depreciation, we expect 4QFY18 to post higher inflation compared to the previous three quarters of FY18.

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