Day Break

Wednesday, 06 September 2017

IGI Securities
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Economy

Exhibit: Headline inflation

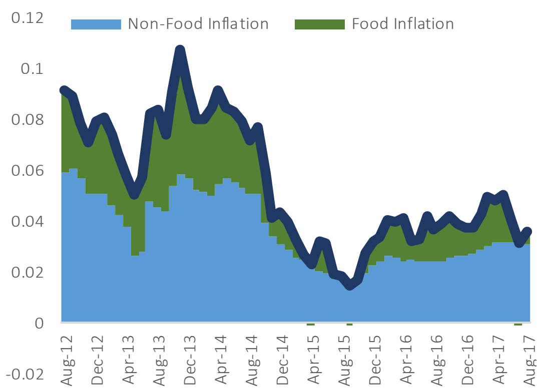


Exhibit:CPI inflation Percentage point impact

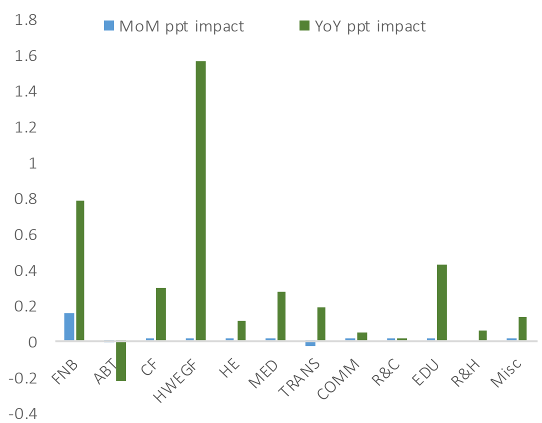
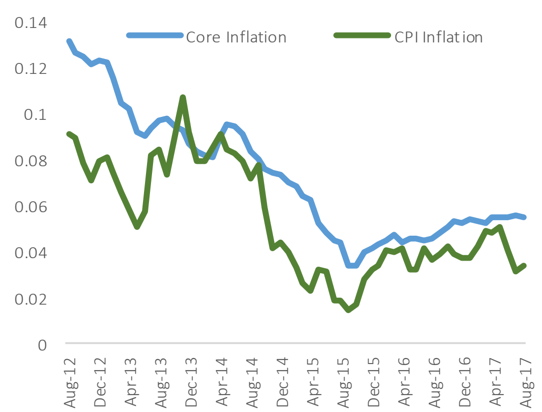


Exhibit: Core (NFNE) and CPI inflation



Source: PBS & IGI Research

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Inflation

House Rent Index moderates Aug-17 headline inflation

- As per the latest data published by Pakistan Bureau of Statistics (PBS), headline CPI inflation clocked in at +3.42%YoY (+0.19%MoM).
- The house rent index, within the non-food basket, continues to be the primary reason for the relatively moderate inflation figure.
- Despite 16.40%YoY decline in cigarette prices, the food basket grew by +1.25%YoY as a result of uptick in prices of perishables (up by +5.25%YoY).
- Concurrently, core inflation eased by 10bps to +5.5%YoY compared to +5.6%YoY in Jul-17.
- Oil prices have remained range-bound while growth in international food prices has been sluggish. Cumulatively, this points to a soft inflation outlook (4.5%-5.0% YoY) for FY17/18.

CPI for the month of Aug-17 clocks in at +3.42%YoY

As per the latest data published by Pakistan Bureau of Statistics (PBS), headline CPI inflation clocked in at +3.42%YoY (+0.19%MoM) compared to +3.63%YoY (-0.29%MoM) in the same month last year, bringing 2MFY17 average inflation to +3.16%YoY. Key drivers include House Rent Index (HRI) and food prices, which rose by +7.19%YoY and +2.25%YoY respectively.

Non-Food basket continues to be the primary source of YoY inflation…

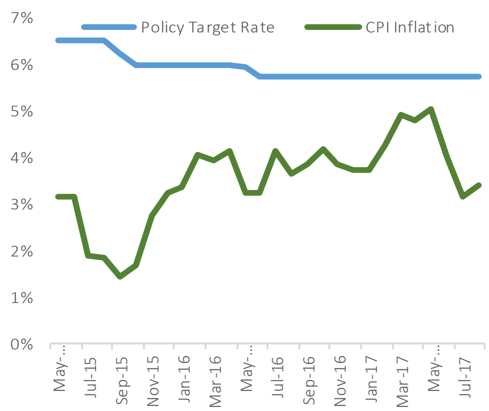
The house rent index, within the non-food basket, continues to be the primary reason for the relatively moderate inflation figure. With the quarterly revision last month, HRI is up by +7.19%YoY translating into a +1.6 percentage point impact. The uptick in HRI is a result of heightened construction activities in the country which is also reflected in +6.56%YoY rise in construction wage rates. Additionally, education index grew by +10.85%YoY with a percentage point impact of +0.4, reflecting the rise in schooling related expenses in the month of August.

…While prices in food basket have started to gain momentum

Despite 16.40%YoY decline in cigarette prices, the food basket grew by +1.25%YoY as a result of uptick in prices of perishables (up by +5.25%YoY). Simultaneously, prices of non-perishable food items increased (up by +1.71%YoY) resulting in total percentage point impact of +0.85. yet, the food basket has continued its subdued trend, with average inflation of +1.18%YoY in the last 3 months.

Core inflation down by 10bps MoM

Concurrently, core inflation eased by 10bps to +5.5%YoY compared to +5.6%YoY in Jul-17. Although the figure declined, yet it reflects growing demand pull inflation and highlights the rising trend in non-food and non-energy prices. Even though rising core inflation has a tendency to pull-up CPI inflation, yet we do not see steep rise in headline inflation owing to counterbalancing impact from subdued food and energy prices.



Prices to post moderate growth over FY17/18

Oil prices have remained range-bound while growth in international food prices has been sluggish. Cumulatively, this points to a moderate inflation outlook (4.5%-5.0% YoY) for FY17/18. However, PKR depreciation and/or interest rate hike are factors that pose a risk to the aforementioned outlook. Monetary policy has remained accommodative for the past several months and given subdued inflation, we expect the accommodative monetary policy to continue in 1HFY18 despite its adverse impact on the external front.

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