

# Day Break

Friday, 02 March 2018

## Economy

Exhibit: Food and non-food inflation

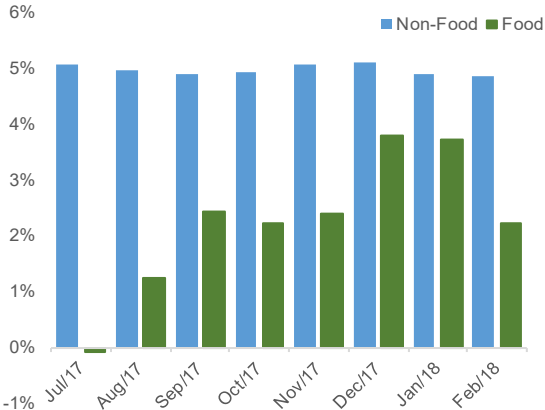


Exhibit: Percentage point impact

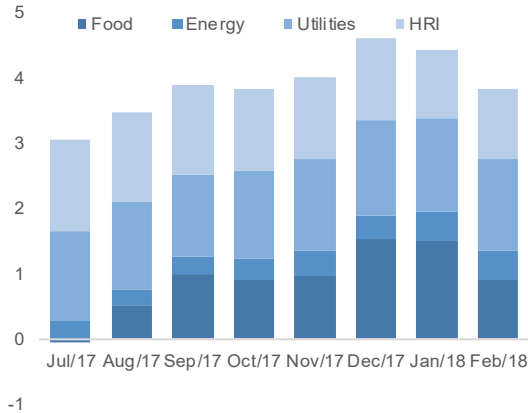
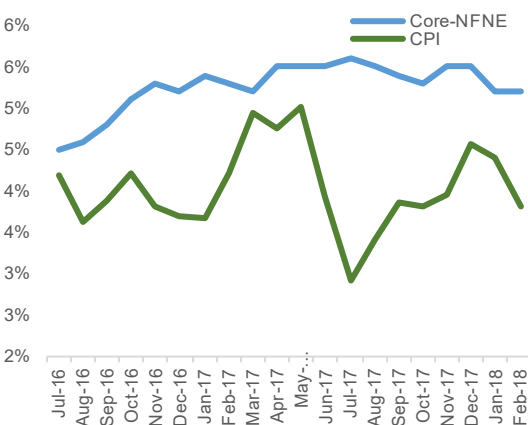


Exhibit: Headline and core inflation



Source: SBP, PBS & IGI Research

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## Inflation

### CPI for the month of Feb-18 remains relatively subdued

- For the month of Feb-18, headline inflation rose by +3.80%YoY against +4.22%YoY in the same period last year
- Food basket as a whole registered a meagre +2.24%YoY inflation due to slowdown in growth of perishables' prices
- Non-food inflation continued its robust upward trend, up 4.87%YoY, on the back of HRI index, education index and motor fuel prices
- During the month, core inflation remained at +5.20%YoY
- Inflation figures of remaining months in FY18 could go up in case of any further PKR depreciation due to existing external account pressures.

#### Feb-18 inflation clocks in at +3.80%YoY

For the month of Feb-18, headline inflation rose by +3.80%YoY against +4.22%YoY in the same period last year. This brings 8MFY18 average inflation to +3.84%YoY. Key contributors to this uptick in prices continue to be house rent index (HRI) (up +5.43%YoY), transport index (up +5.56%YoY), education index (up +12.13%YoY) and food index (up +3.42%YoY).

#### Food inflation reduces due to relatively contained growth in Perishables' prices

Food and non-alcoholic beverages index (FNB; Weight 34.83) had recorded some gains in the past two months, growing by +5.13%YoY on average due to rise in prices of perishables (up 21.67 on average). However, in the month of Feb-18, growth of inflation in perishables was contained at +8.56%YoY which reduced the upward pressure on FNB index, up by +3.42%YoY. Simultaneously, the decline in cigarette prices during CY17 continues to impact the inflation figure, wherein, Alcoholic beverages and tobacco index (ABT) fell by 17.43%YoY. Resultantly, Food basket as a whole registered a meagre +2.24%YoY inflation.

#### Non-food inflation clocks in at +4.87%YoY

Non-food inflation continued its robust upward trend, up 4.87%YoY, on the back of HRI index (up +5.43%YoY; revised in Jan-18), education index (up +12.13%YoY), and motor fuel prices (up +12.22%YoY). To note, although education index has little weightage in CPI (3.94), yet it has been rising by +11.41YoY on average in 8MFY18 resulting in a percentage point contribution of 45bps to headline inflation in the aforesaid period.

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

(ppt)	Feb-18	Jan-18	Avg. 8MFY18	Feb-17	Jan-17	Avg. 8MFY17
Food	0.89	1.50	0.9	1.49	1.07	1.5
Non-Food	2.92	2.93	3.0	2.73	2.60	2.4
Energy	0.45	0.44	0.3	0.10-	0.09-	0.0
Utilities	1.43	1.44	1.4	1.40	1.47	1.3
HRI	1.06	1.05	1.3	1.27	1.27	1.2
<b>Total</b>	<b>3.8</b>	<b>4.4</b>	<b>3.8</b>	<b>4.2</b>	<b>3.7</b>	<b>3.9</b>

Source: IGI Research, SBP, PBS

**Core inflation remains the same**

During the month, core inflation remained at +5.20%YoY, same as last month. Although core inflation is 20bps lower than the 8MFY18 average of +5.4%YoY, yet the elevated level represents existence of demand pull inflationary pressure in the economy which could undo the subdued headline inflation if food prices were to recover and energy prices were to sustain at higher levels.

**Possibility of PKR depreciation key potential source of inflation**

With contained food prices and elevated but range bound oil prices, we do not expect average inflation figure to shoot up significantly. However, inflation figures of remaining months in FY18 could go up in case of any further PKR depreciation due to existing external account pressures.

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