

Economy

Sep-22 Inflation Preview

Inflation

Sep-22: CPI Likely to Print +27% Growth as Food Index Once Again Takes the Center Stage

- For the month of Sep-22, we estimate headline inflation to print a +27.2%y (2.13%m) growth compared to previous month, +27.3%y (2.45%m), taking 3mFY23 average growth to +26.5% compared to +8.6% last year same period.
- Food prices to lead the growth, as we see non-food items administrative relief should ease overall impact on headline inflation.
- On the outlook, newly appointed Finance Minister Government Ishaq Dar has in a recent interview mulled to bring down domestic prices.

We preview Consumer Price Index (CPI) growth numbers for the month of Sep-22.

Sep-22 Inflation to print a +27.4%y growth

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Exhibit: Monthly National Consumer Price Index (CPI) growth estimates.

	Weight	Sep/22e		Period	
		y/y	m/m	3M'FY23	3M'FY22
National	100%	27.2%	2.1%	26.5%	8.6%
Food	35%	30.8%	5.0%	27.0%	10.1%
Transport	6%	61.1%	0.1%	62.0%	8.6%
Utility/Rent	24%	25.4%	-0.1%	26.5%	8.9%
Essentials	17%	14.3%	1.0%	13.3%	6.9%
Other Misc.	18%	23.2%	1.0%	22.7%	7.3%

Source: PBS, IGI Research

For our estimates we have incorporated

- 1 #. Continued rise in perishable food prices:** Monthly Sensitive Price Index (SPI), which is a proxy index for food prices, suggest prices are likely to surge by +5%m/m basis. Key food items including tomatoes, chicken, onions, eggs, potatoes have recorded a significant increase over previous month. We highlight this owing to recent flood which have not only affected standing, warehouse produce but logistics have also been affected ([link](#)).
- 2 #. Non-FPA pass on to keep overall utilities index tepid:** Last month Prime Minister Shehbaz Sharif announced to defer fuel adjustment charges of general public with consumption less than 300 units per month, ([link](#)). The fuel prices charge for the month of Sep-22 came at PKR 4.34/kwh, which after adjusted of aforementioned deferment will bring a down national CPI 0.94% on monthly basis. Moreover, if base tariff is increased by PKR 3.5/unit for the month of Sep-22, headline CPI could potentially go up by 0.7% on monthly basis or 27.9% y/y.

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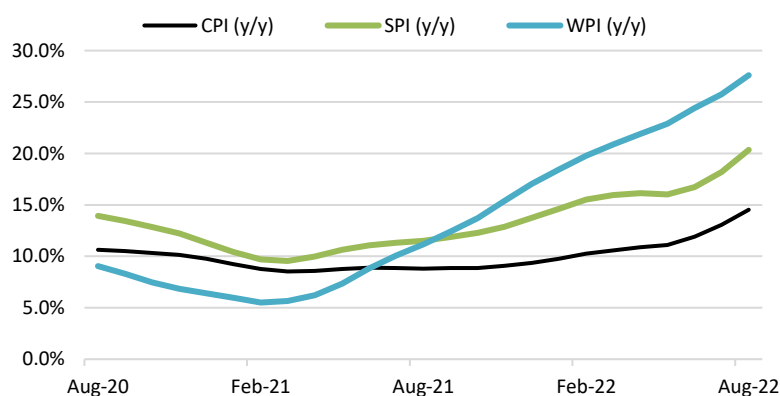
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- 3 #. **Rise in fuel prices to up transport index:** For the month of Sep-22, domestic motor gasoline (MoGAS) prices have risen by 4% compared to last month as prices escalated owing to fluctuations in petroleum prices in the international market and exchange rate variation. On the hand, prices of motor vehicles have dropped by an average 6% (selected car variants include, Honda Civic, Suzuki Mehran/Bolan/Ravi, 2-Wheeler) on average effective by the end of Aug-22, which should adjust in Sep-22 CPI. Hence, the overall impact on the transport sector is relatively unchanged, an increase of +0.1%_m.
- 4 #. **Depreciating PKR and rising commodity prices to keep discretionary and other essential non-food items prices upbeat:** Wholesale Price Index (WPI) for the month of Aug-22 reached 41.2%_{y/y} and this is likely to seep into headline inflation.

Exhibit: National CPI Heat Map													
	Sep-22	Aug-22	Jul-22	Jun-22	May-22	Apr-22	Mar-22	Feb-22	Jan-22	Dec-21	Nov-21	Oct-21	Sep-21
General	27.2	27.3	24.9	21.3	13.8	13.4	12.7	12.2	13.0	12.3	11.5	9.2	9.0
Food	30.8	29.5	28.8	25.9	17.3	17.0	15.3	14.7	12.8	10.3	10.5	8.3	10.2
Transport	61.1	63.1	64.7	62.2	31.8	28.3	26.2	25.0	23.0	24.1	24.4	14.4	9.1
Utility/Rent	25.4	27.6	21.8	13.5	5.8	7.1	8.3	9.0	15.5	16.6	14.8	12.0	9.7
Essentials	14.3	13.4	11.7	11.2	9.9	9.3	8.7	7.7	8.2	8.1	7.2	6.8	6.8
Disc.	23.2	23.6	20.8	18.7	14.7	13.2	12.7	11.8	11.2	11.0	9.8	8.2	7.6

Exhibit: Headline & Core inflation (12mma)



Source: SBP, IGI Research

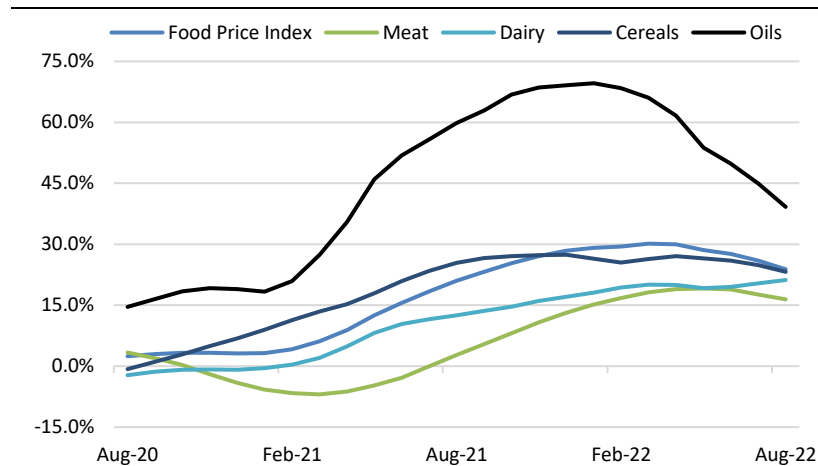
Outlook

Much of the inflation surge during the past few months has mainly been contributed by food index. The recent floods has amplified the impact. Government has mulled to fill the supply gap in domestic market through imports from Iran and Afghanistan, particularly tomatoes and onions. This could potentially ease-up supply concerns. Furthermore, global food prices have begun to correct down as global demand softens amid rise in central banks rates across.

Newly appointed Finance Minister Government Ishaq Dar has in a recent interview mulled to reduce PKR/USD parity ([link](#)) and subsequently adjusts in domestic fuel prices will follow soon. Passing on the impact of which will cause a broader scale reduction in headline inflation.

Exhibit: FAO International Food prices (12mma)

At its peak global food prices as monitored by FAO, posted a growth of 70%/y in Jan-22. Since then growth has finally softened up with Aug-22 index down to 39%/y.



Source: FAO, IGI Research

To recall, SBP latest monetary policy statement issued in Aug-22;

“Looking ahead, headline inflation is projected to peak in the first quarter before declining gradually through the rest of the fiscal year. Thereafter, it is expected to decline sharply and fall to the 5-7 percent target range by the end of FY24, supported by the lagged effects of tight monetary and fiscal policies, the normalization of global commodity prices, and beneficial base effects”

Note: For indexation purposes we use individual basket indices: Food (incl.): Food and Non-alcoholic Beverages, Transport (incl.): Transport, Utility/Rent (incl.): Housing, Water, Electricity, Gas & Fuels, Essentials (incl.): Cloths/ Footwear, Health, Communication, Education, Other Misc. (incl.): Alch. Beverages & Tobacco, Household Equipment, Recreation & Culture, Restaurants & Hotels, Misc.

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