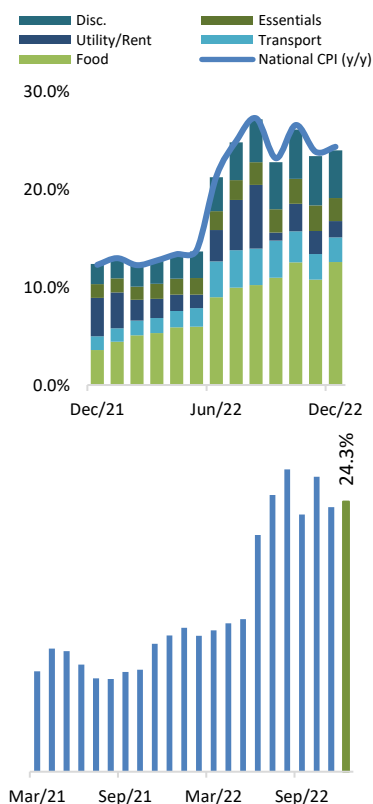


## Economy

Exhibit: Historical CPI



Source: PBS, IGI Research

## Inflation

### Dec-22: Monthly Inflation to Remain in Moderation; CPI Likely to Post +24.3%/y

- For the month of Dec-22, we expect national CPI inflation to post a +24.3%/y growth compared to previous month +23.8%/y. On a monthly scale, Dec-22 CPI is expected to print +0.4%/m growth compared to +0.8%/m in Nov-22 and +1.9%/m average monthly growth in FY23 so far.
- Monthly Sensitive Price Index (SPI), which is a proxy index for volatile food and energy prices, suggest prices likely to slightly rise by 0.5%/m basis.
- There has been no significant change in motor gasoline and transport prices during the month.
- Global commodity index showing downward sticky as of now; however recent rebound in rising covid cases globally is prompting travel restrictions that may aggravate recessionary concerns driven by central banks globally

We preview Dec-22 national CPI inflation estimates.

#### Monthly Inflation to post +24.3%/y slightly higher than previous month

For the month of Dec-22, we expect national CPI inflation to post a +24.3%/y growth compared to previous month +23.8%/y. On a monthly scale, Dec-22 CPI is expected to print +0.4%/m growth compared to +0.8%/m in Nov-22 and +1.9%/m average monthly growth in FY23 so far. Nevertheless, incorporating Dec-22 estimates take 6MFY23 average inflation to +25%/y compared to +9.8%/y in 6MFY22.

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

For the month of: December, 2022

	Wt.	y/y	m/m	6MFY23	6MFY22	6MFY21
National	100.0%	24.3%	0.4%	25.0%	9.8%	8.6%
Food	34.6%	36.4%	0.5%	32.4%	9.6%	15.0%
Transport	5.9%	42.3%	0.0%	54.8%	15.1%	-3.1%
Utility/Rent	23.6%	7.0%	0.1%	13.4%	11.7%	4.1%
Essentials	17.4%	13.6%	0.1%	13.7%	7.2%	6.2%
Disc.	18.5%	26.4%	0.9%	25.3%	8.7%	8.9%

Source: PBS, IGI Research

#### Food Inflation slightly edges up...no significant pressure on headline inflation

Monthly Sensitive Price Index (SPI), which is a proxy index for volatile food and energy prices, suggest prices likely to slightly rise by 0.5%/m basis. During the month of Dec-22, key food items including tea, bananas, salt, onions, chicken have jumped over the previous month.

#### Similarly transport and utility prices remain muted during the month...

There has been no significant change in motor gasoline and transport prices during the month. Recently, government slashed retail fuel prices that will be reflected in upcoming month and likely have gravity effect on overall CPI.

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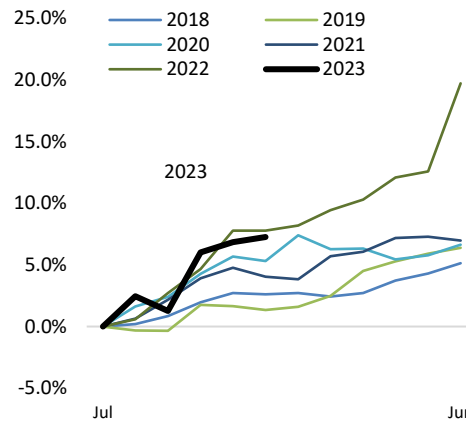
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**Exhibit: Yearly inflation (rebased July)**

We observe moderation in CPI. For period 1HFY23, CPI index has jumped up by +7.3% compared to last year, 7.8%.

**Exhibit: Commodity index elevated and downward sticky**

The Dow Jones Commodity Index (DICI) which tracks prices of three major sectors: Energy, Agriculture and Livestock, and Metals



Source: PBS, SBP, S&P, IGI Research

**Outlook**

SBP in the latest round of monetary tightening increased its average inflation projections from previous 18-20% to 20-23% for FY23, putting weight behind Oct-22 sharp month-on-month inflation growth of 4.7% and apparently pushing core NFNE inflation to +16.2%/y growth.

Our expectations are slightly above SBP's inflation range and monthly inflation to remain in 20-25% range going forward in the near term and gradually subsiding below 20%/y by the end of 2HFY23 as base and recessionary effects will have deflationary impact on the retail prices. We base our outlook on expected further hikes in interest rates to tame rising cost push inflation, declining oil prices that will reduce cost of input for businesses, taxes and tariffs in addition to gas price hikes as fiscal revenues are falling short of and to get IMF 9th review in check.

Global commodity index showing downward sticky as of now; however recent rebound in rising covid cases globally is prompting travel restrictions that may aggravate recessionary concerns driven by central banks globally.

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