

Economy

Inflation

Jan-22 Headline Inflation to Print +13.1%Y, Highest Since Jan-20

- For the month of Jan-22, we expect headline inflation to print +13.1% y/y (+0.52%m/m) growth compared to 12.3% y/y in Dec-21.
- We base our premise on a) rise in non-food price items particular transport and house rent index, b) slowdown in monthly food prices is dictated by leading SPI m/m growth.
- Going forward monthly price trend suggest some moderation, especially in FY23 where SBP's price target range is between 5-7%. Average monthly increase during Jul-Nov 2021, registered a +1.8% while Dec-21 saw a monthly drop and in Jan-22 average market consensus is less than 0.75%

Inflation to print +13.1%y, highest since Jan-20

For the month of Jan-22, we expect headline inflation to print +13.1% y/y (+0.52%m/m) growth compared to 12.3% y/y in Dec-21. This will be the highest yearly growth since Jan-20. Nevertheless, the cumulative increase over 7mFy22 comes to +10.3% y/y compared to last year same period +8.2%y.

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Food prices to show some respite...

Sensitive Price Index (SPI) a proxy index for food prices suggests headline food prices are likely to show a slowdown -0.27% m/m basis. During the month of Jan-22, key food items including chicken, onions, eggs, and potatoes registered an average decline of ~4%/m.

However non-food prices will keep overall headline inflation growth positive

However, non-food prices particularly periodic adjustments in house rent index is due for Jan-22, inflation. In past 4 quarters we have seen roughly ~1.2% (ex-Mar2021 quarter) growth in house rent index. This positive trend is likely to continue given rise in domestic cement and construction material prices in the past 3 months. Moreover, international oil prices have gone up by ~13%m, leading to domestic POL price adjustments by ~5.0% since Dec-21. As a result, of which transport index which carries 5.9% weight is expected to further add price burden during the month. However, monthly fuel price adjustments (FPA) Nov-21 of PKR 4.3329/kwh will be charged in Jan-22, lower than Dec-21 FPA of PKR 4.7446/kwh, which will to an extent keep overall Utility/Rent index (House rent, Water, Electricity, Gas & Fuel) price basket tamed.

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Outlook: Expecting some moderation in coming months

As per monetary policy statement, several price indicators have started to show moderate improvement. Although current inflation remains in double digit and will likely remain so, given low base effect and upcoming increase in energy prices. Nevertheless, going forward monthly price trend suggest some moderation, especially in FY23 where SBP’s price target range is between 5-7%. Average monthly increase during Jul-Nov 2021, registered a +1.8% while Dec-21 saw a monthly drop and in Jan-22 average market consensus is less than 0.75%.

Exhibit: Decline in Fuel Price Adjustment (FPA) to keep electricity charges head abated

Monthly fuel price adjustments (FPA) Nov-21 of PKR 4.3329/kwh will be charged in Jan-22, lower than Dec-21 FPA of PKR 4.7446/kwh

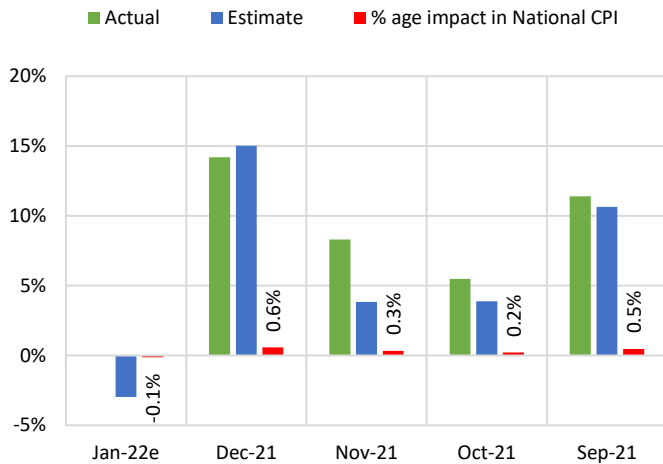
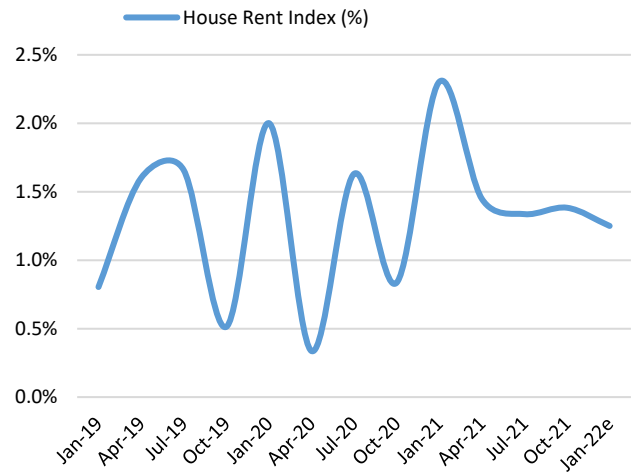


Exhibit: House Rent Index

The figure shows average trend of housing price index since January 2019. During this time, average price increase hovered between 0.4-2.4%.



Source: SBP, IGI Research

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