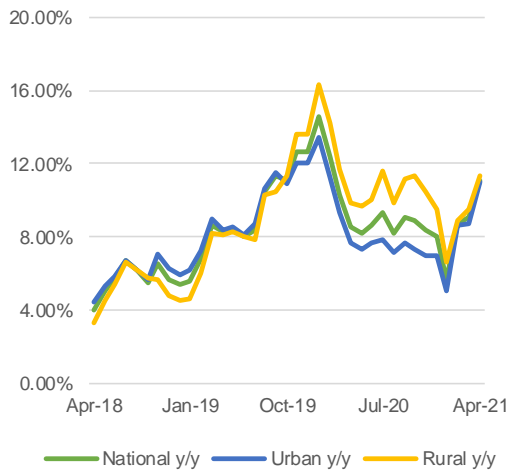
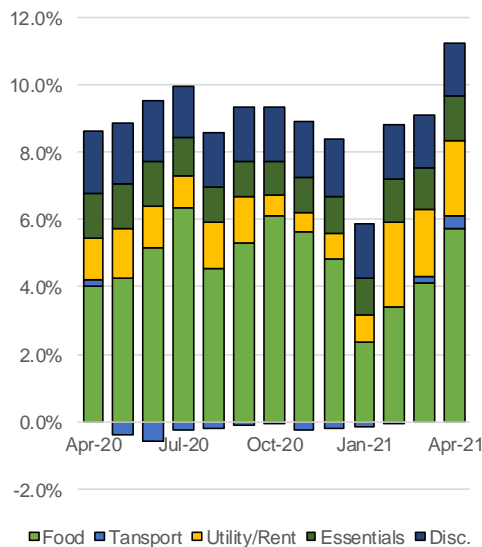


Economy

Monthly Inflation trend (y/y)



Monthly Inflation contributors



Source: SBP, PBS, IGI Research

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Inflation

Apr-21: Inflation Hits a Snag at the Advent of Ramadan; Rose to +11.1%/y

- Monthly inflation rose to +11.1% y/y (+1.03% m/m) one of the fastest since Mar-20 (+10.25%), taking average inflation for 10m'21 to +8.63% compared to +11.23% last year.
- Key reason for monthly uptick in inflation is due to higher Food prices +15.9% y/y (+2.2% m/m) largely driven by perishable commodities.
- Growth in non-food prices remained rather contained at +0.4% m/m, notably due to a downtick in electricity prices as well as transportation charges owing to downward revision in POL prices during the month.
- Non-food, non-energy inflation displayed a rise of +7.7% y/y (+0.7% m/m) on account of upwards revision in quarterly house rent index adjustments and rise in prices of clothing and footwear.
- Inflation is expected to remain upbeat towards the end of FY 21. However, in light of Covid-19 third wave, we expect May-2021 SBP policy to remain accommodative henceforth maintaining policy rate at 7%.

Monthly inflation hits a snag; headline index up +11.1%/y fastest since Mar-20

Headline CPI for the month of Apr-21, printed a growth of +11.1% y/y (+1.03% m/m) one of the fastest since Mar-20 (+10.25%), taking average inflation for 10m'21 to +8.63% compared to +11.23% last year.

This increase was mainly driven by a spike in food (perishable) items and a quarterly revision in house rent index. Break-up wise, urban CPI exhibited a growth of 11% y/y (+1.3% m/m) while rural CPI posted an increase of 11.3% y/y (+0.6% m/m).

Exhibit: Apr-21 inflation snapshot

Index	Wts.	Apr-21	m/m	y/y	10m/21	10m/20
National	100	145.1	1.0%	11.1%	8.6%	11.2%
Urban	60	144.9	1.3%	11.0%	7.7%	10.8%
Rural	40	145.4	0.6%	11.3%	10.0%	11.9%
Break-up for top 5 basket weights						
Food	34.6	150.7	2.2%	15.9%	13.4%	16.8%
Utilities*	23.6	141.2	0.5%	9.7%	5.7%	7.2%
Cloths/ Footwear	8.6	148.5	1.0%	11.9%	10.0%	9.7%
Rest.& Hotels	6.9	141.6	0.2%	8.2%	8.5%	7.1%
Transport	5.9	141.5	-1.2%	6.5%	-1.3%	14.9%

Source: PBS, *Housing, Water, Electricity, Gas & Fuels

- **Food prices at the advent of 'Ramadan' shows a strong rebound:** During the month of Apr-21, overall food prices recorded an increase of +15.9% y/y (+2.2% m/m). This was largely driven by perishable food items (weight: 5) key among which are fresh fruits and vegetables making it the second consecutive month to record a rise in perishables after experiencing a declining trend since Dec-20. Food inflation for urban sector remained more

pronounced with a growth of +15.7%y/y (+2.7% m/m) compared to an increase of +14.1%y/y (+0.9m/m) for the rural sector.

- **Effects of seasonal demand also reflected on non-food prices:** Under non-food prices, growth remained rather contained, +0.4% m/m, notably due to a downtick in electricity prices (-1.9% m/m) as well as transportation charges (1.2% m/m) owing to a downward revision (-1.52%) in POL prices during the month. Elevated price levels are visible across all divisions including core Inflation as measured by non-food, non-energy (NFNE) whereby Urban NFNE inflation inched up by +7% y/y (0.9% m/m) and rural NFNE inflation displayed a rise of +7.7% y/y (+0.7% m/m) which is mainly on account of a) upwards revision in quarterly house rent index adjustments by urban (+6.2%y/y) and rural (+6.6%y/y), b) rise in prices of clothing and footwear keeping non-food price index overall in the red.

Exhibit: Perishable food prices

Perishable food prices showing an upward trend

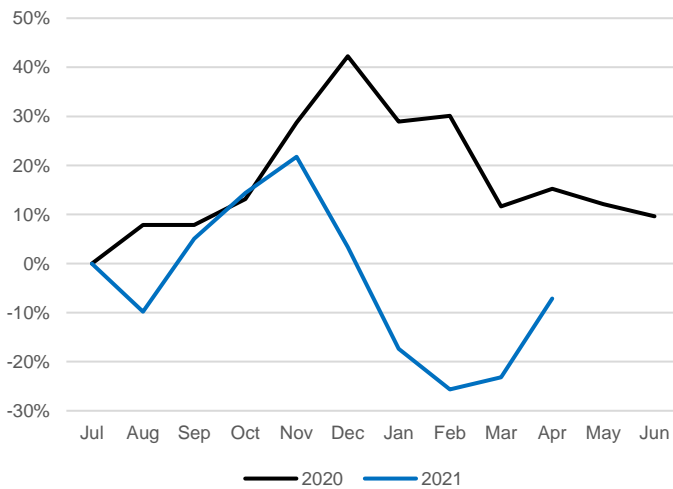
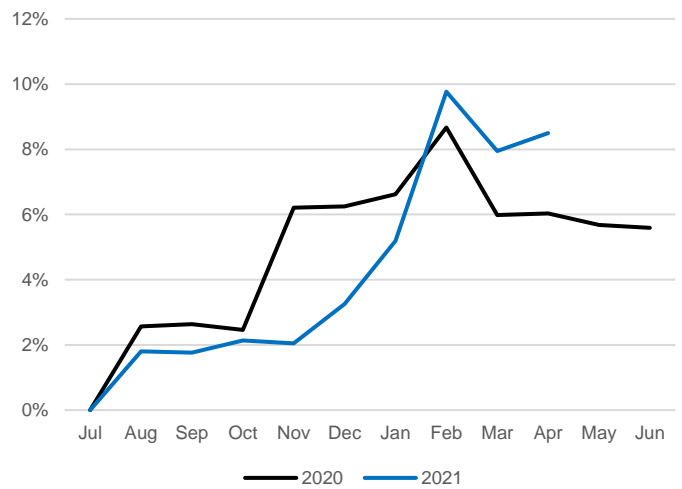


Exhibit: Utility prices

...while utility prices started to show an upward trajectory



Source: SBP, IGI Research

Outlook

With Ramadan led demand pressures to subside by early May and a potential lockdown owing to rise in Covid Cases, we expect inflation to return back to single digit towards the end of fiscal year 2021. On the other hand, tax measures in upcoming budget may trigger further inflationary pressure. However in light of third Covid-19 wave we expect May-2021 SBP policy to remain accommodative henceforth maintaining policy rate at 7%.

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