

Day Break

Tuesday, 03 August 2021

Economy

Exhibit: CPI trend

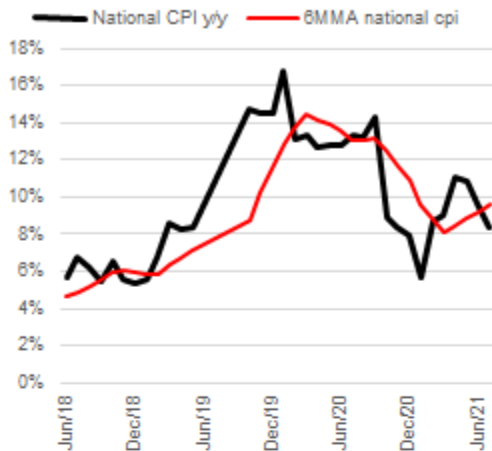
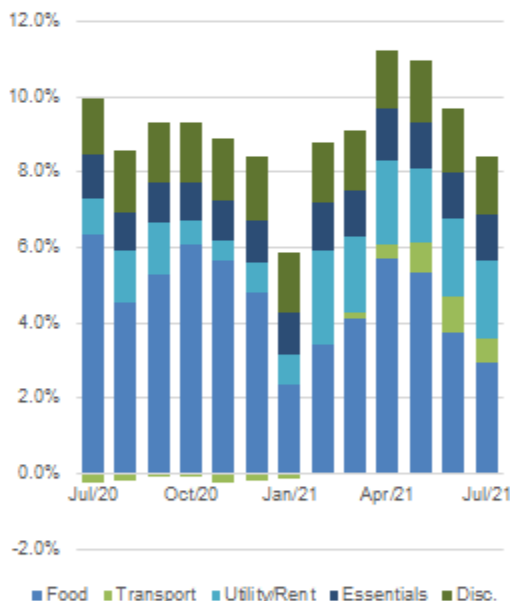


Exhibit: Monthly Contributors to headline CPI



Source: PBS, Bloomberg, SBP

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Inflation

Jul-21: CPI eases to 8.40% y/y amid softening food prices

- Headline inflation for the month of Jul-21 eased to 8.4%y/y as compared to 9.7% last month
- Urban indices posted a growth of -0.2% m/m. Meanwhile rural indices inched up by -0.06% m/m largely due to decline in rural food inflation (perishables).
- Transportation index jacked up by 4.0% m/m owing to upwards revision in POL prices.
- For FY22, SBP has maintained its target range at 7-9%, with medium term inflation ranging between 5-7%.
- Key risks to inflation remain from supply shocks owing to ongoing Covid-19 fourth wave b) upward revisions in domestic POL prices c) PKR Depreciation

Jul-21: Headline CPI clocks in at +8.40%y/y

Headline inflation for the month of Jul-21 eased to 8.4%y/y as compared to 9.7% last month. On a monthly basis inflation was up by +1.31% m/m as compared to a decline of -0.3% last month and +2.5% during same period last year.

Urban and rural indices were up by +1.3% m/m and 1.4% m/m each to arrive at 8.7% and 8.0% respectively largely due to increase in food inflation led by Perishable commodities and increase in transportation charges.

Food Inflation up by +1.8% m/m driven by a key few items

For the month, food inflation inched up by +1.8% m/m, key among which are prices of perishable food items which were up by +9.4% m/m (weight: 4.99%). Rise in food prices was largely driven by prices of vegetables (Onions & tomatoes) owing to high demand during Eid Season and are expected to gradually soften as demand subsides.

Non-food inflation props CPI growth

Growth in non-food index remained upbeat owing to upward revision in POL prices raising petrol and HSD by PKR5.4/ltr and PKR 2.54/ltr respectively. As a result utilities index expanded by +4% m/m, +10.5% y/y.

Outlook

Going forward we view food prices to remain stable with further import orders of wheat (2bn tones) and sugar (0.006bn tones). With OPEC deal signed, international Oil production is expected to remain upbeat prompting a reduction in Oil prices however in the short term, this isn't seen being translated into a reduction in domestic POL prices, which as per govt. stance remain below global average. SBP in its latest monetary policy statement issued in Jul-21 has targeted headline inflation for FY22 in the range of 7-9% with medium term

inflation ranging between 5-7%. Going forward, key risks to inflation remain from a) supply shocks owing to ongoing Covid-19 fourth wave b) PKR depreciation c) Subsequent upward revision in domestic POL prices

Exhibit: July-21 inflation snapshot							
Index	Wts.	Jul-21	m/m	Jun-21	y/y	Jul-20	11m/20
National	100	146.8	1.4%	144.8	8.4%	135.4	11.0%
Urban	60	144.7	0.0%	144.7	7.4%	134.7	10.4%
Rural	40	145.5	0.2%	145.2	7.5%	135.4	11.7%
Break-up for top 5 basket weights							
Food	34.6	151.7	1.8%	149.0	8.2%	140.1	16.3%
Utilities	23.6	142.1	1.4%	140.1	9.2%	130.1	7.1%
Cloths/ Footwear	8.6	149.6	0.3%	149.1	9.5%	136.7	9.7%
Rest. & Hotels	6.9	143.9	0.3%	143.4	8.5%	132.6	7.3%
Transport	5.9	148.9	4.0%	143.1	10.5%	134.8	12.7%

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