

# Day Break

Wednesday, 06 December 2017

## Economy

Exhibit: Percentage point impact

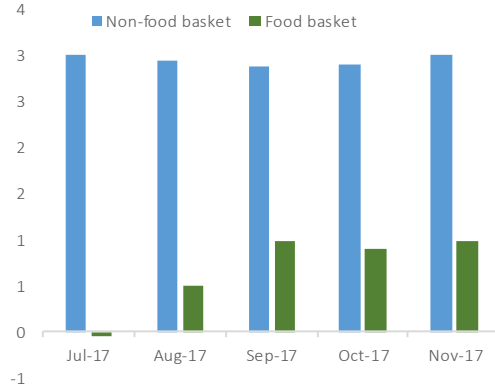


Exhibit: YoY growth in major indices

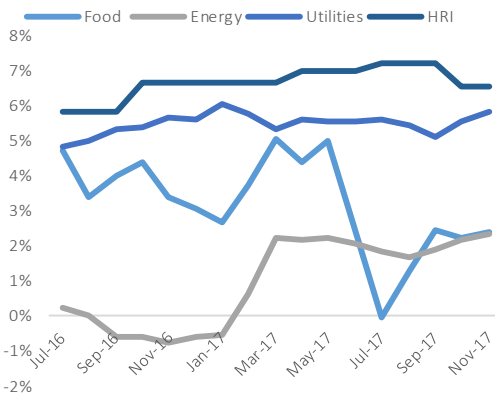
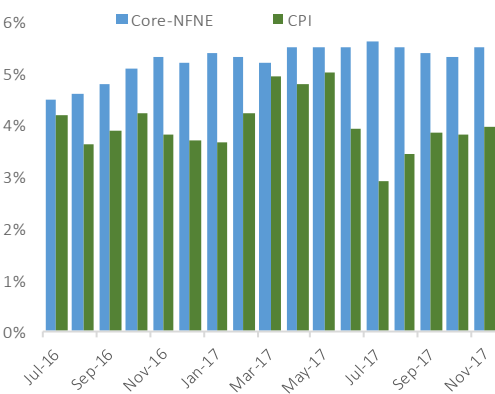


Exhibit: Core and CPI inflation



Source: SBP, PBS & IGI Research

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## Inflation

### Non-food prices continue to lead inflation; Food index posts modest gains

- For the month of Nov-17, headline inflation rose by +3.96%YoY against +3.81%YoY in the same period last year
- The food basket continues to post modest growth, rising by +2.39%YoY in Nov-17 compared to +3.35%YoY in Nov-16
- Non-food basket has depicted much faster growth in prices, recording +5.08%YoY increase in Nov-17 compared to +4.15%YoY in the same period last year
- Following a 10bps decline in each of the last 3 months, core inflation rose by 20bps to post +5.5%YoY
- we continue to foresee modest CPI inflation of 4.5%-5.0% for FY18. However, unexpected movement in food or energy prices or a potential PKR devaluation against USD pose a risk to out aforementioned call

#### Nov-17 inflation clocks in at +3.96%YoY

For the month of Nov-17, headline inflation rose by +3.96%YoY against +3.81%YoY in the same period last year. This brings 5MFY18 average inflation to +3.59%YoY compared to 5MFY17 average inflation of +3.94%YoY. Key contributors to this uptick in prices continue to be house rent index (HRI) (up +6.49%YoY), transport index (up +4.61%YoY), education index (up +12.40%YoY) and food index (up +3.44%YoY).

#### Non-food inflation trumps food inflation yet again

The food basket continues to post modest growth, rising by +2.39%YoY in Nov-17 compared to +3.35%YoY in Nov-16. Resultantly, 5MFY18 average food inflation climbed to +1.64%YoY. The major reason for increase in prices of food basket continues to be perishables, advancing by +17.91%YoY. On the other hand, prices of cigarettes continue to be the biggest drag (down 16.67%YoY). Simultaneously, non-food basket has depicted much faster growth in prices, recording +5.08%YoY increase in Nov-17 compared to +4.15%YoY in the same period last year, bringing 5MFY18 average to +4.99%YoY. The inflation in the non-food basket is led by HRI (up +6.49%YoY) while upward revision in domestic oil price (+8.6%YoY for Nov-17) and continued upward movement in prices of medicines (up 15.00%YoY) also aided the growth in inflation.

Exhibit:

#### Inflation Break-up; Non-food (utilities & HRI pulling up inflation)

(ppt)	Nov-17	Oct-17	Sep-17	Avg. 5M'FY18E	Nov-16	Oct-16	Sep-16	Avg. 5M'FY17
Food	1.0	0.9	1.0	0.7	1.4	1.8	1.7	1.6
Non-Food	3.0	2.9	2.9	2.9	2.4	2.4	2.2	2.3
Energy	0.4	0.3	0.3	0.3	-0.1	-0.1	-0.1	-0.1
Utilities	1.4	1.3	1.2	1.3	1.4	1.3	1.3	1.3
HRI	1.2	1.3	1.4	1.3	1.2	1.3	1.1	1.1
Total	4.0	3.8	3.9	3.6	3.8	4.2	3.9	3.9

Source: IGI Research, SBP, PBS

**Exhibit: Oil price in \$/bbl (WTI)****Core inflation rebounds by 20bps**

Following a 10bps decline in each of the last 3 months, core inflation rose by +20bps to post +5.5%YoY, underlining the existence of demand pull inflationary pressure in the economy which could undo the subdued headline inflation if food and energy prices were to recover in the near future.

**External sector the key risk to modest inflation**

In a meeting held on 30<sup>th</sup> Nov-17, OPEC has decided to keep oil production at the same level with Nigeria and Libya voluntarily agreeing to cap their production at current levels. The decision had already been incorporated in the international oil prices and thus we do not expect them to surge. Rather, we anticipate oil prices to remain range-bound between USD 55-62/bbl in FY18 and combined with low expected food prices, we continue to foresee modest CPI inflation of 4.5%-5.0% for FY18. However, unexpected movement in food or energy prices or a potential PKR devaluation against USD pose a risk to our aforementioned call.

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