

Day Break

Friday, 30 March 2018

Economy

Exhibit: Growth in indices with Jun-17 as base

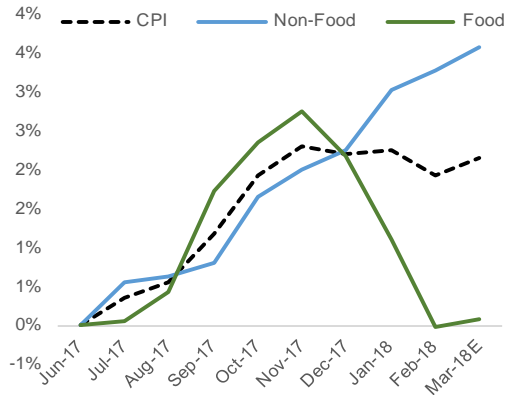


Exhibit: Breakdown of inflation

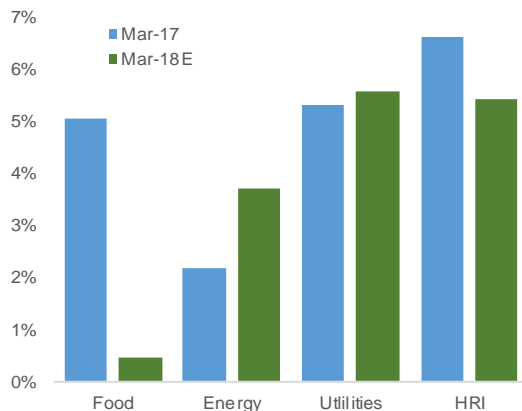
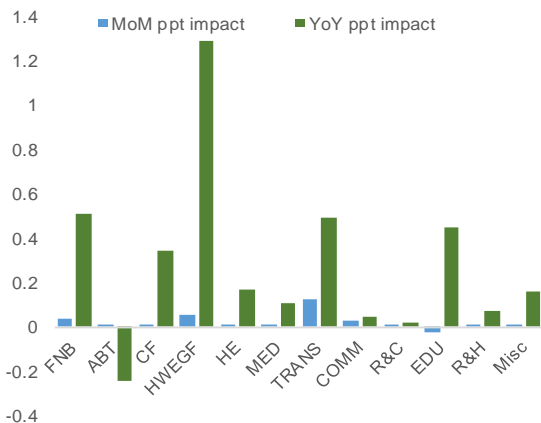


Exhibit: Mar-18E CPI Percentage point impact



Source: SBP, PBS & IGI Research

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Inflation

Mar-18 headline inflation to post subdued growth

- For the month of Mar-18, we expect headline inflation to come in at +3.16%YoY compared to +4.94%YoY in the same period last year
- We anticipate prices in food basket to grow by +0.47%YoY for Mar-18
- Non-food prices are expected to go up by +5.03%YoY
- Recent PKR depreciation will breathe some life into the lackluster inflation growth in coming months
- Inflation outlook also depends upon the monetary policy change, if any, that will take place in the next monetary policy committee meeting to be held today (Mar-30, 2018), wherein, we expect the policy rate to go up by +25bps

Inflation expected to fall to +3.16%YoY

For the month of Mar-18, we expect headline inflation to come in at +3.16%YoY compared to +4.94%YoY in the same period last year. Resultantly, 9MFY18 inflation is expected to average +3.77%YoY, lower than +4.03%YoY in same period last year. On a monthly basis, inflation is estimated to go up by +0.22%MoM compared to +0.84%MoM rise in Mar-17. Key contributors to expected inflation include a) house rental index (HRI) (revised in Jan-18), b) transport index and c) education index.

Growth in food prices to drop significantly

Food inflation has averaged +1.19%YoY and +2.80%YoY in Q1 and Q2 respectively while we expect Q3 to average +2.14%YoY. Prices are expected to be subdued even more this month as depicted by falling weekly SPI numbers – a proxy for food index. We anticipate prices in food basket to grow by +0.47%YoY for Mar-18 wherein we expect growth in perishable food prices to slow down and non-perishable food prices to remain muted. To put things in perspective, we expect this month to show lowest YoY food inflation since Jul-17.

Rise in non-food prices to stay robust

Within the non-food basket, price growth has been led by HRI, transport index and education index, growing by +6.49%YoY, +4.15% and +11.41% on average in 8MFY18. We expect this month to be no different, with non-food prices to go up by +5.03%YoY on the back of +5.43%YoY, +6.86%YoY and +11.41%YoY rise in HRI, transport index and education index respectively.

Exhibit:

Average quarterly inflation breakdown

	Avg.1QFY18	Avg.2QFY18	Avg.3QFY18E
Food	1.2%	2.8%	2.1%
Non-Food	5.0%	5.0%	4.9%
Energy	1.8%	2.3%	3.1%
Utilities	5.4%	5.7%	5.7%
HRI	7.2%	6.5%	5.4%

Source: IGI Research, PBS

Outlook: Multiple factors could push up inflation in coming months

Recent PKR depreciation will breathe some life into the lackluster inflation growth. However, it might take time for the imported inflation to seep in to the economy and create significant inflationary pressures. Moreover, given the depleting reserves, further depreciation cannot be ruled out, while expected government spending in view of upcoming elections could add further pressure on inflation. Furthermore, the upcoming month of Ramadan will also cause prices to increase during 4QFY18. Inflation outlook also depends upon the monetary policy change, if any, that will take place in the next monetary policy committee meeting to be held today (Mar-30, 2018), wherein, we expect the policy rate to go up by +25bps.

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