

# Day Break

Wednesday, 03 May 2017

## Economy

Exhibit: Headline inflation

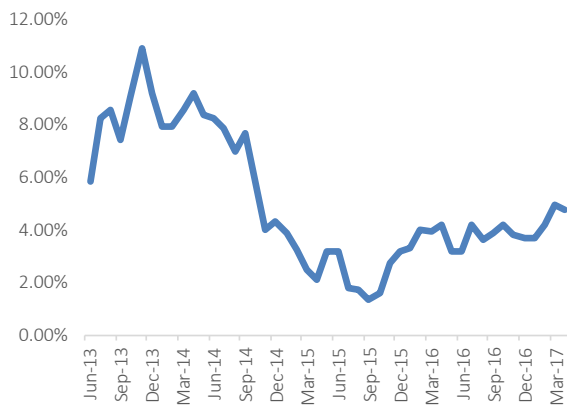


Exhibit: Monthly Percentage point contribution to CPI

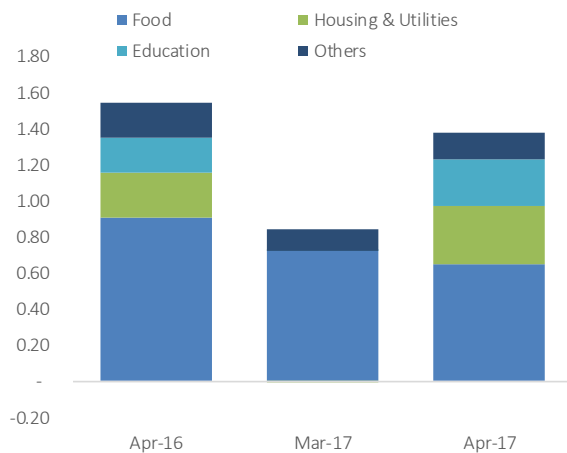
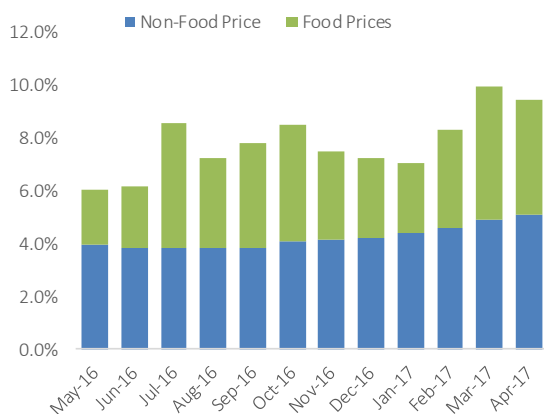


Exhibit: Food and non-food prices (%YoY)



Source: Bloomberg, SBP & IGI Research

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## Inflation

### Inflation gains momentum in Apr-17; printing a 4.8%YoY growth

- For the month of Apr-17 headline inflation printed a growth of +4.8%YoY (+1.4%MoM) compared to +4.9%YoY (+0.8%MoM) recorded in Mar-17. Key price drivers during the month were Food, Quarterly adjustment of House Rent Index (HRI) and Education index. For 10MFY17, headline CPI inflation now averages +4.1%YoY compared to +2.6%YoY in corresponding period last year.
- We highlight April has been historically a month of higher inflation, primarily due to quarterly revision of HRI and yearly price revision of education index. For remaining two months of FY17 we expect monthly inflation to grow steadily.
- For FY17, we expect headline CPI inflation to average ~4.2%YoY.

#### Apr-17 inflation clocks in at +4.8%YoY

For the month of Apr-17 headline inflation printed a growth of +4.8%YoY (+1.4%MoM) compared to +4.9%YoY (+0.8%MoM) recorded in Mar-17. Key price drivers during the month were Food, Quarterly adjustment of House Rent Index (HRI) and Education index. For 10MFY17, headline CPI inflation now averages +4.1%YoY compared to +2.6%YoY in corresponding period last year.

#### Perishable food inflates overall food basket...

Food prices continued their rising trend with monthly food price index up by +4.3%YoY (+1.7%MoM) compared to +5.0%YoY (+1.9%MoM) in Mar-17. Perishable food prices, constituting ~5.0% of the total price basket, registered a growth of +13.4%YoY (+6.5%MoM) led by price increase of vegetables and fresh fruits. We relate this growth in perishable food prices to upcoming seasonal demand from Ramadan and hot weather experienced in major cities.

#### ...combined with quarterly HRI adjustments

Based on quarterly revisions, House Rent Index (HRI) which constitutes ~22% of the total price basket, recorded a growth of +6.9%YoY (+1.5%MoM) for the month. As a result, Housing & Utilities which represent ~29% of total price basket registered a growth of +5.1%YoY (+1.1%MoM), thereby contributing +1.6%YoY percentage points towards total price index growth.

#### ...and, annual increment in education index

Historically, in month of April annual increment in education index reflects fee revision for upcoming term and advance collection of summer fee. Accordingly, for the month of Apr-17, education index increased by +12.5%YoY (+6.5%MoM) contributing nearly +0.5%YoY percentage points to total headline inflation.

#### FY17 CPI inflation to average ~4.2%YoY

We highlight that April has been historically a month of higher inflation, primarily due to quarterly revision of HRI and yearly price revision of

education index. For remaining two months of FY17 we expect monthly inflation to grow steadily, in absence of aforementioned factors – HRI and education index. Having said that, seasonal demand emanating from Ramadan will likely keep food index downward sticky, whereas recent decision by government to keep POL prices unchanged will keep monthly inflation growth rather tepid in our view. For FY17, we expect headline CPI inflation to average ~4.2%YoY.

Source: Bloomberg, SBP & IGI Research

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