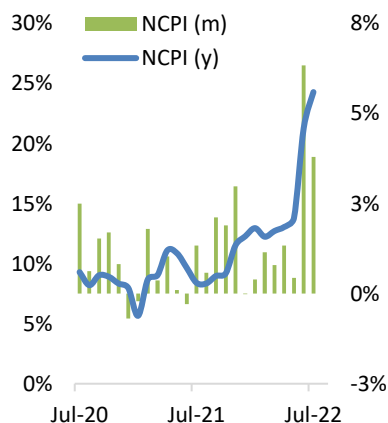


Economy

Monthly and Yearly CPI



Inflation

Jul-22: Sharp Start for the Year, CPI Likely To hit +24.3%y

- For the month of Jul-22, we estimate headline inflation to print a +24.3%y growth compared to previous month, +21.3%y.
- Monthly, Sensitive Price Index (SPI) a proxy index for volatile food prices that suggest headline food prices are likely to surge by +5%m basis.
- For the month of Jul-22, domestic motor gasoline (MOGAS) prices have escalated by 19% compared to last month where prices sharply escalated due to withdrawal of PM relief package and normalization of the PDL and GST.
- Fuel Price Adjustment (FPA) for the month of Jul-22 came at PKR 7.96/kwh compared to last month where FPA was 3.99/kwh after subsidy withdrawal last month.
- As per the monetary statement announced first week of July, SBP raised policy rate further by 125bps to 15% to prevent de-anchoring of inflation expectations of 18-20% throughout FY23 before declining sharply in FY24 owing to base effects.

Jul-22 inflation to print a +24.3%y growth

For the month of Jul-22, we estimate headline inflation to print a +24.3%y growth compared to previous month, +21.3%y.

We base our premise on;

- Mounting pressure in perishable food prices items as dictated by leading SPI monthly growth of +5%,
- 19% POL prices hike to accelerate transport index,
- Surge in fuel price adjustments (FPA) for the month bolting overall electricity charges,
- Upward quarterly adjustment in house rent index, and
- Increasing trend to continue in under discretionary and other essential non-food items due to cost-push impact.

Higher food prices for the month of July continues mounting

Monthly, Sensitive Price Index (SPI) a proxy index for volatile food prices that suggest headline food prices are likely to surge by +5%m basis. During the month of Jul-22, key food items including Chicken, Potatoes, Wheat Flour, Cooked Daal and Rice have recorded a significant growth over previous month.

19% increase POL prices to lift overall transport index movement

For the month of Jul-22, domestic motor gasoline (MOGAS) prices have escalated by 19% compared to last month where prices sharply escalated due to withdrawal of PM relief package and normalization of the PDL and GST. Other than that, prices of motor vehicles and accessories also contributed in the overall transport index.

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Higher global energy prices pressing down on electricity prices

Fuel Price Adjustment (FPA) for the month of Jul-22 came at PKR 7.96/kwh compared to last month where FPA was 3.99/kwh after subsidy withdrawal last month. This surge in FPA reflects higher energy costs emanating from international commodity markets. As a result, adjusted tariff's impact for this month on NCPI will be 3.31% compared to last month of 2.13%.

Outlook: No sign of CPI peaking; elevated commodity prices and surging exchange rate to charge CPI further

As per the monetary statement announced first week of July, SBP raised policy rate further by 125bps to 15% to prevent de-anchoring of inflation expectations of 18-20% throughout FY23 before declining sharply in FY24 owing to base effects.

Going forward, gradual increase in electricity tariffs, imported inflation due to higher exchange rates and elevated global commodity prices, and normalization of the PDL and GST on fuel will charge overall CPI, along with continuing second round effects. Moreover, this phenomenon is being observed globally and both central banks and the governments have come together to contain the flare ups in commodity prices by dampening demand.

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