

Economy

Exhibit: Category wise monthly National CPI inflation

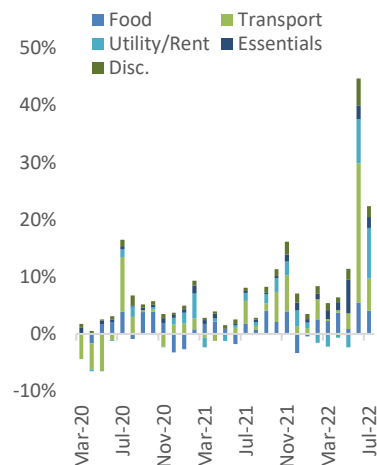
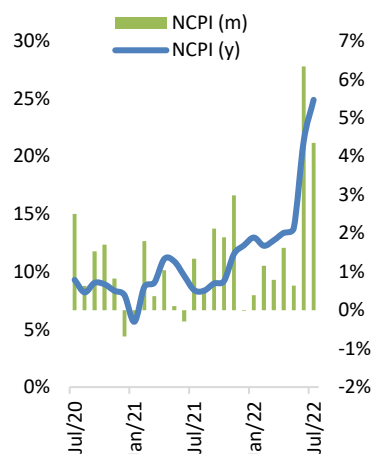


Exhibit: Annual and monthly CPI



Analyst

Abdullah Farhan

Abdullah.Farhan@igi.com.pk

Tel: +92 21 111 234 234 Ext: 912

Aariz Raza

Aariz.Raza@igi.com.pk

Tel: +92 21 111 234 234 Ext: 816

Monthly Inflation Review

July-22: Inflation Tops to a multi-year of +24.9%; More Pain on the Horizon

- For the month of Jul-22, monthly inflation tops a 14yr high to 24.9%y. On a monthly basis, index grew by +4.34%m. For urban and rural price indices posted a growth of +23.6%y and 26.9%y respectively.
- Major contribution during the month came from Food and Utility/rent carrying index weight of 34.6% and 23.6% respectively. Food price index posted a growth of +5%m/m (+30%y/y). Under non-food items electricity charges registered a massive +39%m/m increase, owing to recent increase in tariff by NEPRA. Seconded by, Motor fuel which is up by +7.35%m/m.
- The fact that we are still in the middle of adjusting to increasing electricity tariffs, imported inflation due to higher exchange rates, elevated global commodity prices, and fuel prices hike, and finally the second round effects of these adjustments. This will keep overall CPI elevated in the near term.

We review latest Consumer Price Index (CPI) growth numbers published by Pakistan Bureau of Statistics (PBS) for the month of Jul-22.

Inflation Tops to a multi-year of +24.9%

For the month of Jul-22, monthly inflation tops a 14yr high to 24.9%y. On a monthly basis, index grew by +4.34%m. For urban and rural price indices posted a growth of +23.6%y and 26.9%y respectively. On a monthly basis urban inflation jumped by +4.5% compared to slightly slower rural growth of +4.2%m.

Exhibit: Jul-22, Monthly inflation						
	Weight	Jul/22	Jul/21	y/y	Jun/22	m/m
National	100.0%	183.4	146.8	24.9%	175.7	4.3%
Food and Non-alcoholic Bev.	34.6%	195.3	151.7	28.8%	187.7	4.0%
Alch. Beverages & Tobacco	1.0%	177.3	144.7	22.5%	170.3	4.1%
Cloths/ Footwear	8.6%	171.4	149.6	14.6%	169.6	1.1%
HWEGF	23.6%	173.0	142.1	21.8%	159.0	8.8%
Household Equipment	4.1%	171.4	143.2	19.7%	168.6	1.7%
Health	2.8%	171.7	154.3	11.2%	171.3	0.2%
Transport	5.9%	245.3	148.9	64.7%	232.1	5.7%
Comm.	2.2%	111.2	109.9	1.2%	110.8	0.4%
Recreation & Culture	1.6%	147.9	128.2	15.4%	145.6	1.6%
Education	3.8%	159.5	145.3	9.8%	158.7	0.5%
Restaurants & Hotels	6.9%	179.8	143.9	25.0%	174.7	2.9%
Misc.	4.9%	180.7	154.3	17.1%	177.8	1.6%

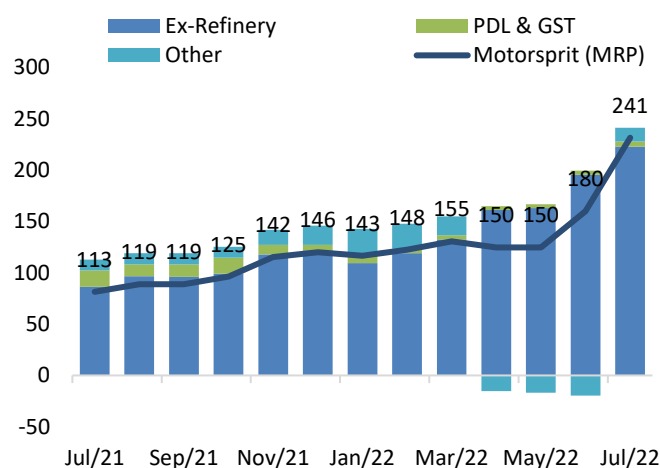
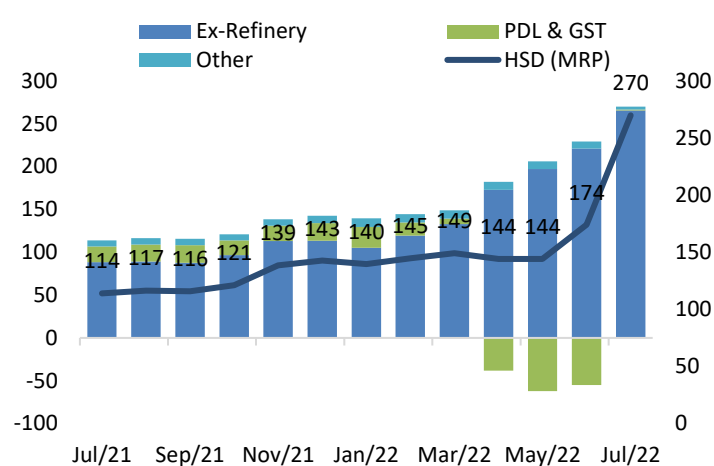
Source: PBS, IGI Research

Food, Utility and transport added the most to monthly inflation

Major contribution during the month came from Food and Utility/rent carrying index weight of 34.6% and 23.6% respectively. Food price index posted a growth of +5%m/m (+30%y/y). Perishable food items such as vegetables showed massive jump

of +25%/m, while, non-perishable Food Items including pulses increased by +10%/m on an average.

Under non-food items electricity charges registered a massive +39%/m increase, owing to recent increase in tariff by NEPRA. Seconded by, Motor fuel which is up by

Exhibit: MS historic Prices**Exhibit: HSD historic Prices**

+7.35%/m; reflecting the price increase to PKR 241/ltr for Motor Spirit Oil (MS) and PKR 270/ltr for High Speed Diesel (HSD) by Jul-22 end, from PKR 180/ltr and PKR 174/ltr for MS and HSD respectively recorded during Jun-22.

Outlook: More Pain on the Horizon?

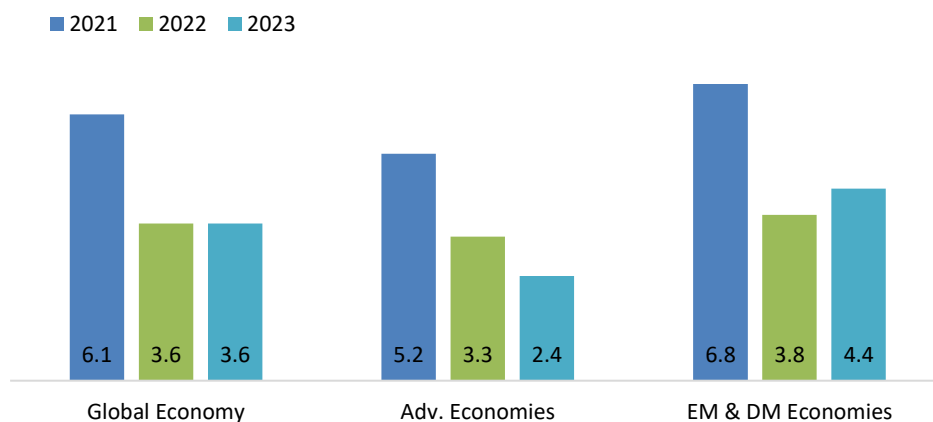
On the outlook, we think inflation pain is likely to persist in the near-term unless there are some positive surprises on energy prices (Electricity, Gas, POL etc.).

Having said recent report from IMF suggests global inflationary levels are all set to decline,

“Inflation is generally expected to return to near pre-pandemic levels by the end of 2024.”

Exhibit: IMF Inflation Expectations

Global inflation is expected to slowdown



...But risks plenty

“With increasing prices continuing to squeeze living standards worldwide, taming inflation should be the first priority for policymakers. Tighter monetary policy will inevitably have real economic costs, but delay will only exacerbate them.” -- IMF WEO July 2022 ([Link](#))

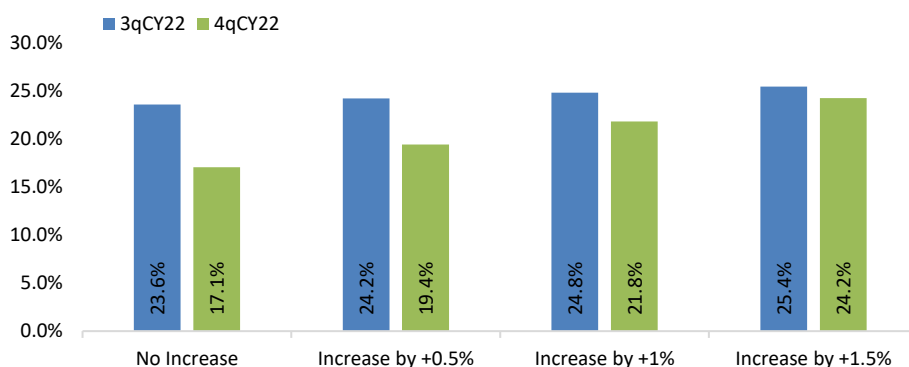
Adjusting to administrative energy price hike and PKR depreciation will elongate the inflationary pain

For Pakistan, the case of inflation is rather different, mainly as we adjust to administrative energy price hike and PKR depreciation.

By simply assuming a no monthly increase in inflation, low base effect from last year will keep CPI growth numbers in its early 20% at least till Oct-22. From there onwards, low base effect will ward off bringing inflation growth numbers back to teens.

Exhibit: Inflation Expectations

Based on monthly increase in CPI Inflation



However, we are certain this might be not be case and inflation is likely to print a monthly growth in the range of 0.5%-1.5% on average.

The fact that we are still in the middle of adjusting to increasing electricity tariffs, imported inflation due to higher exchange rates, elevated global commodity prices, and fuel prices hike, and finally the second round effects of these adjustments. This will keep overall CPI elevated in the near term.

Finding a trade-off between inflation and growth

Elevated inflation will and is complicating the trade-offs State Bank of Pakistan (SBP) is facing, choosing between containing price pressures and safeguarding growth. The monetary statement announced in Jul-22, SBP raised policy rate further by 125bps to 15% to prevent de-anchoring of inflation expectations of 18-20%. Hence for the time being we think, SBP is more likely to keep inflation anchoring as it main agenda.

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IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009
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Contact Details

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Syeda Mahrugh Hameed	Branch Manager (Lahore)	Tel: (+92-42) 38303564	mahrugh.hameed@igi.com.pk
Shakeel Ahmad	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	shakeel.ahmad1@igi.com.pk
Zaid Farook	Branch Manager (Stock Exchange) Karachi	Tel: (+92-21) 32462651-52	zaid.farook@igi.com.pk
Asif Saleem	Equity Sales (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Equity Sales (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Aariz Raza	Analyst	Tel: (+92-21) 111-234-234 Ext: 810	Aariz.raza@igi.com.pk
Ajay Kumar	Analyst	Tel: (+92-21) 111-234-234 Ext: 912	ajay.kumar@igi.com.pk
Huzaifa Yaseen	Analyst	Tel: (+92-21) 111-234-234 Ext: 912	huzaifa.yaseen@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of Pakistan Stock Exchange Limited |

Corporate member of Pakistan Mercantile Exchange Limited

Website: www.igisecurities.com.pk

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
 Khayaban-e-Jami Block-09, Clifton, Karachi-75600
 UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
 Fax: (+92-21) 35309169, 35301780

Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,
 Stock Exchange Road, Karachi.
 Tel: (+92-21) 32429613-4, 32462651-2
 Fax: (+92-21) 32429607

Lahore Office

Shop # G-009, Ground Floor,
 Packages Mall
 Tel: (+92-42) 38303560-69
 Fax: (+92-42) 38303559

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir
 Plaza,
 Block- B, Jinnah Avenue, Blue Area
 Tel: (+92-51) 2604861-2, 2604864, 2273439
 Fax: (+92-51) 2273861

Faisalabad Office

Office No. 2, 5 & 8, Ground Floor, The
 Regency International 949, The Mall
 Faisalabad
 Tel: (+92-41) 2540843-45

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
 Model Town, Town Hall Road
 Tel: (+92-68) 5871652-3
 Fax: (+92-68) 5871651

Multan Office

Mezzanine Floor, Abdali Tower,
 Abdali Road
 Tel: (+92-61) 4512003, 4571183

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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