

Day Break

Monday, 05 June 2017

Economy

Exhibit: Headline inflation

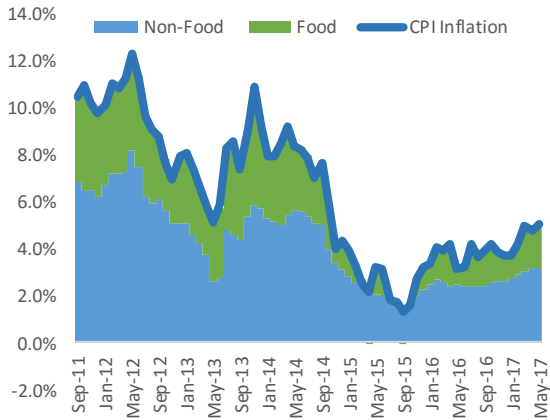


Exhibit: Yearly Percentage point contribution

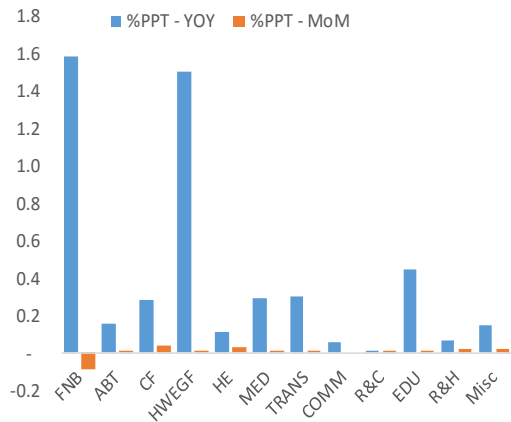
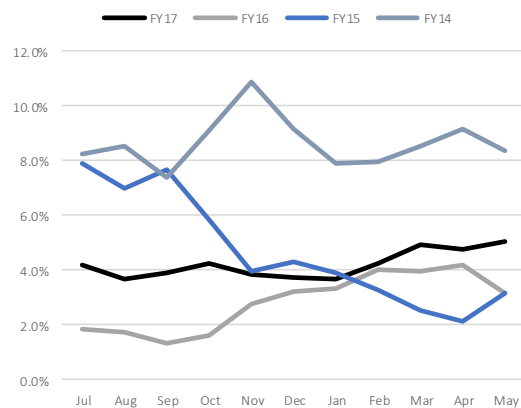


Exhibit: Yearly CPI Inflation %YoY



Source: Bloomberg, SBP & IGI Research

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Inflation

Deflating food prices soften May-17 Headline Inflation

- For the month of May-17, headline inflation printed a growth of +5.0%YoY (+0.01%MoM) compared to +4.8%YoY (+1.4%MoM) recorded in Apr-17.
- Food price index was down by 0.17%MoM while up +4.9%YoY compared to +1.7%MoM and +4.3%YoY in Apr-17.
- For FY17, we expect headline CPI inflation to remain tepid and average ~4.3%YoY.
- We see overall headline inflation low in 1HFY18 and expect easing monetary policy to continue.

May-17 inflation clocks in at +5.0%YoY

For the month of May-17, headline inflation printed a growth of +5.0%YoY (+0.01%MoM) compared to +4.8%YoY (+1.4%MoM) recorded in Apr-17. This brings 11MFY17 average headline inflation to +4.2%YoY compared to +2.8%YoY in corresponding period last year. Core inflation during the month increased by +0.2%MoM led by increase in Clothing and Footwear index, up by 0.5%MoM, whereas deflating food prices during the month kept overall growth in headline inflation rather muted.

Perishable food items led to deflated food basket

Food prices broke their monthly rising trend but maintained the trend on a yearly basis. Food price index was down by 0.17%MoM while up +4.9%YoY compared to +1.7%MoM and +4.3%YoY in Apr-17. Perishable food prices, constituting ~5.0% of the total price basket, registered a decrease of 1.21%MoM due to high base effect from last month, but a growth of +18.1%YoY due to low base effect from May-16.

FY17 CPI inflation to remain under 4.5%YoY

We highlight that the month of May last year experienced deflation, leading to low base effect which resulted in a higher yearly inflation figure. For the remaining month of FY17, that is Jun-17, we expect monthly inflation to grow steadily with food inflation picking up again due to seasonal factor (Ramadan). For FY17, we expect headline CPI inflation to remain tepid and average ~4.3%YoY.

Monetary policy to remain accommodative

Looking ahead, we forecast inflation to remain soft by the start of FY18 as the impact from recent decline in oil prices seeps in and food prices soften up. This is likely to keep overall headline inflation low in 1HFY18 and result in continuation of easing monetary policy.

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