

Day Break

Thursday, 02 November 2017

Economy

Exhibit: Headline inflation

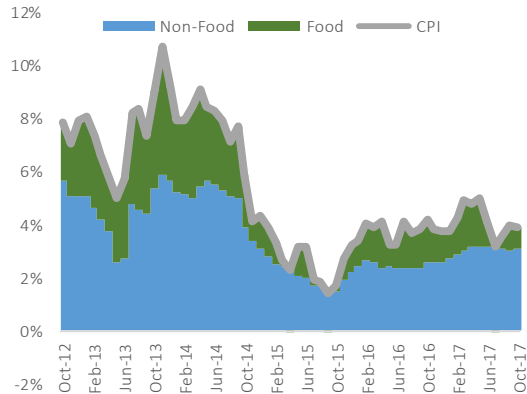


Exhibit: Percentage point impact on inflation

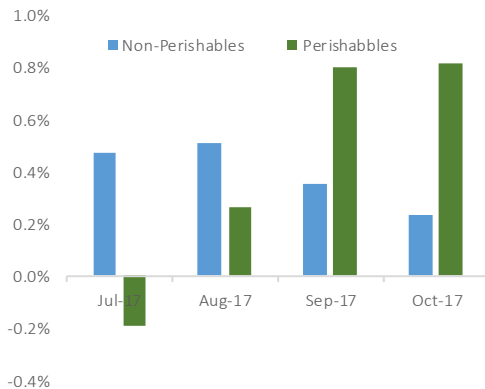
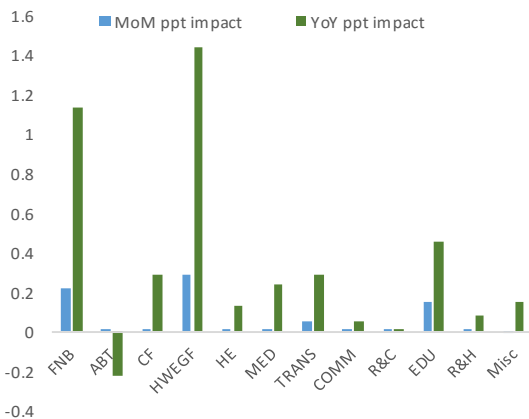


Exhibit: CPI inflation Percentage point impact



Source: Bloomberg, PBS & IGI Research

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Inflation

Oct-17 CPI inflation clocks in at +3.8%YoY; Food prices sustain momentum

- As per the latest data published by Pakistan Bureau of Statistics (PBS), headline CPI inflation clocked in at +3.8%YoY (+0.7%MoM) for the month of Oct-17.
- Following a growth of +2.4%YoY in Sep-17, Food Index is up +2.2%YoY in Oct-17, pulling up 4MFY18 average food inflation to +1.45%YoY.
- With quarterly revision of HRI (up +6.5%YoY), non-food index is up by +4.9%YoY, bringing 4MFY18 average non-food inflation to +5.0%YoY compared to +3.9%YoY in 4MFY17.
- Since Jul-17, core inflation has dropped by 30bps indicating reduction in underlying inflationary pressures in the economy.
- We continue to expect modest CPI inflation of 4.5%-5.0% for FY18 despite recent surge in oil prices. Yet, imported inflation due to sharp PKR depreciation and/or continued upward trend in world oil price pose risks to our aforementioned call.

CPI for the month of Oct-17 clocks in at +3.8%YoY

As per the latest data published by Pakistan Bureau of Statistics (PBS), headline CPI inflation clocked in at +3.8%YoY (+0.7%MoM) for the month of Oct-17 compared to +4.2%YoY (+0.8%MoM) in the same period last year, bringing 4MFY18 average inflation to +3.5%YoY. Key drivers included House Rent Index (HRI), transport index, education index and food index, rising by +6.5%YoY, +3.9%YoY, +11.5%YoY and +3.2%YoY respectively.

Perishables continue to push food index up...

Following a growth of +2.4%YoY in Sep-17, Food Index is up +2.2%YoY in Oct-17, pulling up 4MFY18 average food inflation to +1.5%YoY. The uptick in food basket is primarily due to rise in prices of perishables (up 16.4%YoY) with 1 percentage point (ppt) contribution, while cigarette prices (down 16.4%YoY) continue to be the drag having a -0.2 ppt impact. Non-perishables were up by a meagre +0.8%YoY, subduing food inflation. The rising trend in food prices could subside in coming months once supply of perishable food items moderate, keeping inflation soft.

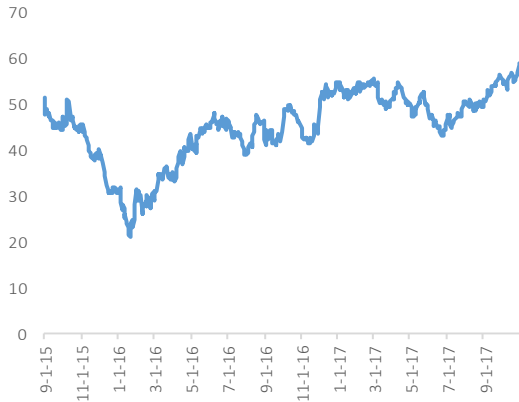
Exhibit:

Inflation Break-up; Non-food (utilities & HRI pulling up infaltion)

(ppt)	Oct-17	Sep-17	Aug-17	Avg. 4M'FY18E	Oct-16	Sep-16	Aug-16	Avg. 4M'FY17
Food	0.9	1.0	0.5	0.6	1.8	1.7	1.4	1.7
Non-Food	2.9	2.9	2.9	2.9	2.4	2.2	2.2	2.3
Energy	0.3	0.3	0.3	0.3	(0.1)	(0.1)	(0.0)	(0.0)
Utilities	1.3	1.2	1.3	1.3	1.3	1.3	1.2	1.2
HRI	1.3	1.4	1.4	1.4	1.3	1.1	1.1	1.1
Total	3.8	3.9	3.4	3.5	4.2	3.9	3.6	4.0

Source: IGI Research, SBP, PBS

Exhibit: Oil prices in \$/bbl (Arab light)



... While non-food basket continues robust upward trajectory

With quarterly revision of HRI (up +6.5%YoY), Non-Food Index is up by +4.9%YoY, bringing 4MFY18 average non-food inflation to +5.0%YoY compared to +3.9%YoY in 4MFY17. The largest contributor to non-food inflation continues to be HRI, with 1.4ppt footprint. Simultaneously, with monthly increase in fuel prices, the transport index also grew by +3.9%YoY, contributing 0.3ppt to CPI while education index, which has been rising rapidly in the past several months, continued its growth trajectory to register +11.5%YoY growth with a 0.5ppt impact.

Core inflation down by 10bpsMoM for third consecutive month

Core inflation eased by 10bpsMoM to +5.3%YoY compared to +5.4%YoY in Sep-17. Since Jul-17, core inflation has dropped by 30bps indicating reduction in underlying inflationary pressures on the economy.

FY18 inflation to remain modest unless faced with headwinds from the external sector

We continue to expect modest CPI inflation of 4.5%-5.0% for FY18 despite recent surge in oil prices, wherein, Arab light touched a 2 year high of USD 59.1/bbl during the month of Oct-17 due to a) expected continuation of current quotas by OPEC in its November meeting, b) drawdown in US inventory levels and c) continued geopolitical tensions in the middle east. However, we believe that oil prices will remain range-bound. On the other hand, outlook on global food prices remains bleak leading to moderate food price growth forecast in Pakistan. Yet, imported inflation due to sharp PKR depreciation and/or continued upward trend in world oil price pose risks to our aforementioned call.

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