

Day Break

Monday, 30 October 2017

Economy

Exhibit: YoY inflation (%)

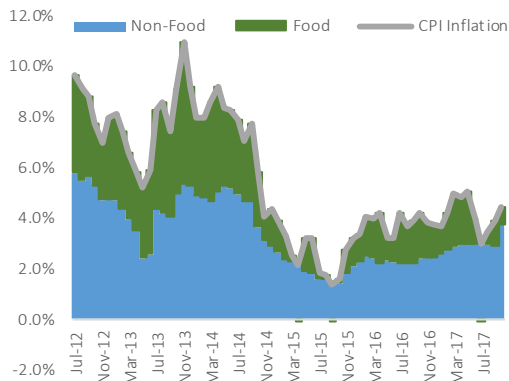
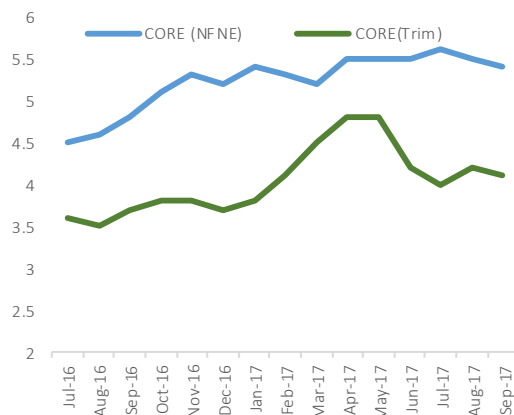


Exhibit: Core and headline inflation trend



Source: PBS & IGI Research

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Inflation

Oct-17 CPI inflation to post +3.6%YoY; Upward trend in core inflation to continue

- For the month of Oct-17, we estimate headline CPI inflation to post a growth of +3.6%YoY compared to +4.2%YoY same period last year.
- Key highlights of growth in non-food prices include +5.3%YoY growth in House Rent and Utilities index (weightage: 29.4%), Health index, up by +12.4% (weightage: 2.9%), and Education index, up by +10.2% (weightage: 3.94%).
- food basket is expected to continue its subdued growth as depicted by meagre growth of +0.04%MoM recorded by Sensitivity Price Index (SPI) for the month.
- We expect higher imported inflation to seep into domestic prices in the near future.
- For FY18, we estimate headline inflation to range-bound between 4.5%-5.0%.

Oct-17 headline inflation estimated to clock in at +3.6%YoY

For the month of Oct-17, we estimate headline CPI inflation to post a growth of +3.6%YoY compared to +4.2%YoY same period last year. Including Oct-17 estimate, 4MFY18 average inflation comes to +3.5%YoY, lower than same period last year average of +4.0%YoY. On a monthly basis, inflation is estimated to go up by +0.6%MoM compared to 1QFY18 average monthly inflation of +0.4%MoM. We base our monthly estimate on a) quarterly revision in House Rental index (HRI), b) modest rise in food price basket, and c) slight increase in energy prices.

Non-food basket key source of uptick in Oct-17 price level

In general, non-food prices have been a key driver in overall inflation in the 1QFY18, whereby registering an average growth of +5.0%YoY compared to last year average of +3.8%YoY. Key highlights of this growth in non-food prices include +5.3%YoY growth in House Rent and Utilities index (weightage: 29.4%), Health index, up by +12.4% (weightage: 2.9%), and Education index, up by +10.2% (weightage: 3.94%). For the month of Oct-17, quarterly adjustment is likely to further increase HRI which will have a significant impact on CPI given HRI's heavy weightage of 21.8%. Moreover, recent increase in POL prices, up by +2.8%, is likely to fuel overall transport and other related index. As a result, based on our estimates overall, non-food index is likely to print +5.0%YoY growth compared to +4.1%YoY growth same period last year.

Modest growth expected in food basket

On the other hand, food basket is expected to continue its subdued growth as depicted by meagre growth of +0.04%MoM recorded by Sensitivity Price Index (SPI) for the month. Resultantly, we estimate food basket to grow by +1.7%YoY leading to a ppt impact of +0.7ppt.

External shock potential risk to inflation going forward

Although headline inflation has remained subdued starting FY18, but we note rising core inflation level (+5.5%YoY in 1QFY18 compared to +5.2%YoY in FY17) indicating a brewing demand pull inflation. On the external side, the government has recently imposed higher regulatory duty (RD) on consumer goods (with focus on Luxury/high-end products) to curb overall quantum of imports. However, our preliminary assessment suggest that the imposed RD will have minimal effect on curtailing overall import bill. We hold this opinion primarily because rising import bill is a result of higher capex activity and greater POL imports, whereas, RD imposed is likely to slow down demand for consumption goods which form a rather smaller part of overall import bill. Hence, the risk of widening current account deficit and subsequent depreciation of PKR against USD seems eminent in near future. Henceforth, we expect higher imported inflation to seep into domestic prices in the near future. For FY18, we estimate headline inflation to range-bound between 4.5%-5.0%.

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