

Day Break

Thursday, 26 December 2019

Economy

Exhibit: Monthly and yearly headline CPI Growth

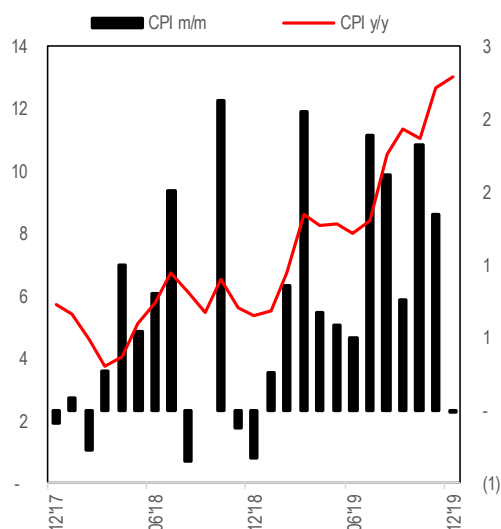
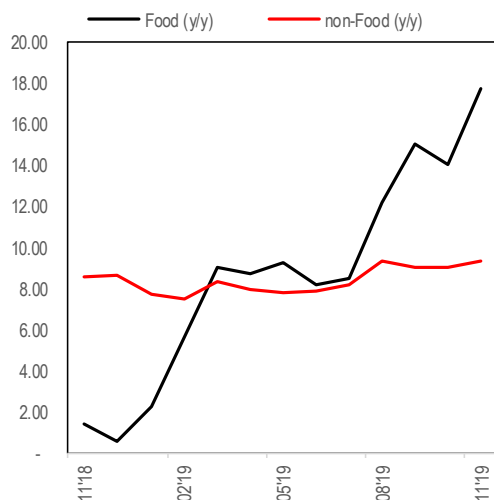


Exhibit: Food and non-food price growth (yy)



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Inflation

Decline In Perishable Food Prices Will Keep Dec-19 Inflation Growth Tepid

- For the month of Dec-19, we expect headline CPI to print +13%/y/y growth (or -0.01%/m/m decline). This brings 6m 2020 average inflation to +11.2%/y/y.
- Normalised perishable food prices and reduced petroleum prices would aid to a m/m decline in index albeit meagrely.
- We maintain our CPI inflation expectation for FY 20 to average +10% against SBP target of 11-12% and IMF 13%.
- Moreover, from 3q FY20 onwards, inflation is expected to drop down back to single digit, which should prompt authorities to cut key policy rate.

Monthly inflation expected to print +13%/y/y growth

For the month of Dec-19, we expect headline CPI to print +13.0%/y/y growth (or -0.01%/m/m decline). This brings 6m 2020 average inflation to +11.2%/y/y. Compared to previous month, CPI registered a growth of +12.7%/y/y (or +1.35%/m/m), largely fed by higher perishable food prices. However, this time around normalised perishable food prices and reduced petroleum prices would aid to an m/m decline in index albeit meagrely.

Exhibit: Headline CPI for the month of Dec-19

%age	Dec-19	Nov-19	m/m	Dec-18	6m FY20	6m FY19
CPI (national)	13.0%	12.7%	-0.01%	5.4%	11.7%	6.0%
CPI (Urban)*		12.1%		5.9%		6.3%
CPI (Rural)*		13.6%		4.6%		5.5%

Key changes during the month

- Food Inflation:** To recall, in the year starting FY20 monthly food inflation has remained downwards sticky, averaging +2.2%/m/m in 5mFY20 compared to 0.2%/m/m in 5mFY19. This was primarily due to volatile perishable food prices which on y/y basis have increased by nearly ~70% – tomatoes, onions, pulses, vegetables > +40%/y/y growth. Nevertheless, during the month of Dec-19 SPI lowest index has come down nearly ~2%/m/m which should help deflate food prices index by an estimated 0.1%.
- POL prices:** The government at the start of month Dec-19 have reduced petroleum prices by a mere 0.2%/m/m, which should keep national non-food inflation unchanged. Keeping in view, upcoming proposed gas price hike from Jan-20 will keep overall non-food inflation elevated in the coming months.
- House Rent Index:** During the month quarterly house rental index (HRI) will remain unchanged.

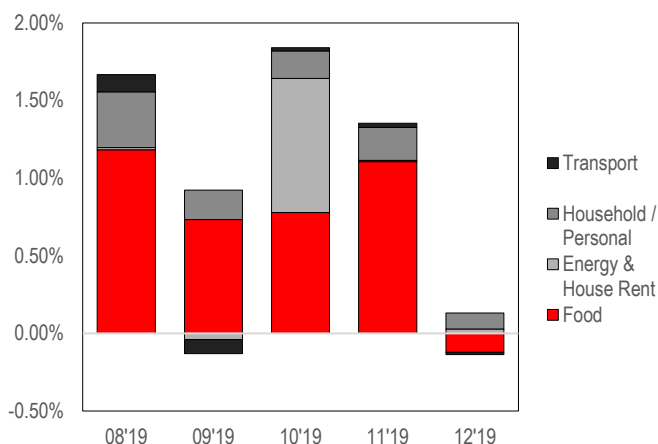
Exhibit: Headline CPI for the month of Dec-19 m/m impacts				
%age	Wt.%	Dec-19	Nov-19	6m Fy20
Food	35%	-0.1%	1.1%	0.7%
Energy & House Rent	9%	0.0%	0.0%	0.2%
Household / Personal	36%	0.1%	0.2%	0.2%
Transport	6%	0.0%	0.0%	0.0%
House Rent	15%	0.0%	0.0%	0.0%
CPI (National) m/m		0.0%	1.4%	1.1%
CPI (National) y/y		13.0%	12.7%	11.2%

Source: PBS, IGI Research

FY20 Inflation to remain close to SBP and IMF target at +10%; hinting to possible monetary rate cycle reversal starting Mar-20 onwards.

We maintain our CPI inflation expectation for Fy20 to average +10% against SBP target of 11-12% and IMF 13%. Moreover, from 3q Fy20 onwards, inflation is expected to drop down back to single digit, which should prompt authorities to cut key policy rate.

Exhibit: Decline in perishable food items should help deflate food inflation during the month



Source: PBS, SBP, IGI Research

Exhibit: Monthly SPI index for lowest group (proxy for food prices) have started to come off

	Lowest Group (index)	m/m	y/y
07'18	112.77	1%	4%
08'18	112.54	0%	3%
09'18	112.07	0%	0%
10'18	114.61	2%	2%
11'18	113.82	-1%	1%
12'18	113.53	0%	1%
01'19	113.94	0%	3%
02'19	116.73	2%	7%
03'19	119.22	2%	10%
04'19	119.79	0%	10%
05'19	120.48	1%	10%
06'19	121.56	1%	9%
07'19	122.81	1%	9%
08'19	126.15	3%	12%
09'19	128.51	2%	15%
10'19	131.93	3%	15%
11'19	136.83	4%	20%
12-Dec-19	133.99	-2%	18%

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