

Day Break

Thursday, 03 August 2017

Economy

Exhibit: Headline inflation

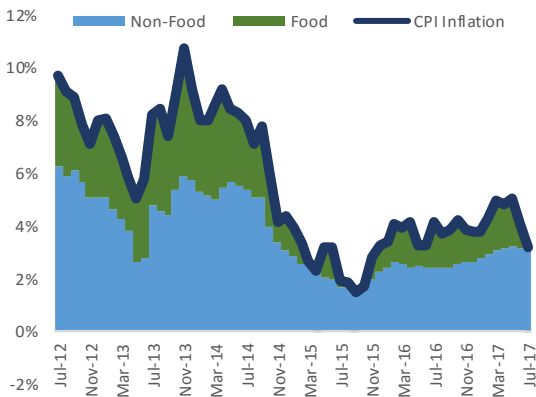


Exhibit: CPI inflation Percentage point impact

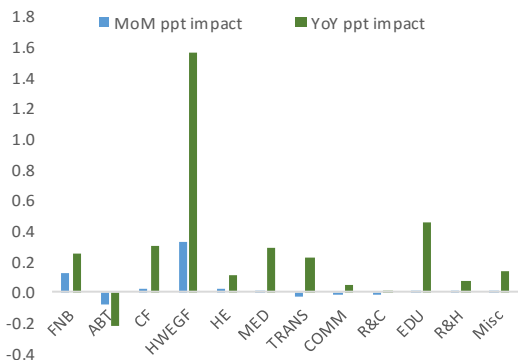
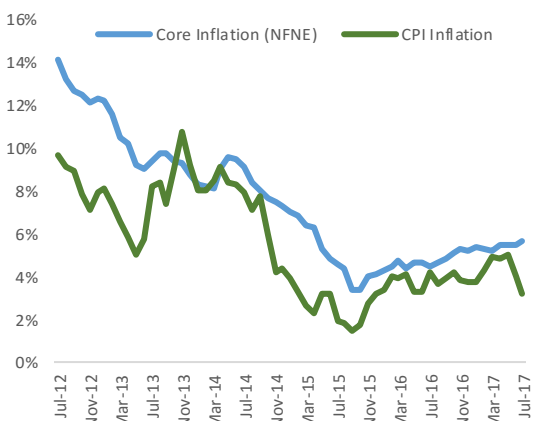


Exhibit: Core (NFNE) and CPI inflation



Source: PBS & IGI Research

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Inflation

Stagnant food prices dampen Jul-17 headline inflation

- As per the latest data published by Pakistan Bureau of Statistics (PBS), headline CPI inflation clocked in at +2.91%YoY (+0.35%MoM).
- In the non-food basket, House Rental Index (HRI) raced through to a +7.19%YoY growth (vs +5.79%YoY in Jul-16) with a 1.6 percentage point impact as quarterly revision of the index took its effect.
- The food basket, showing a stagnant trend in prices for the past couple of months, continued its muted trajectory, growing by 0.09%YoY.
- Core inflation edged up by +5.6%YoY compared to +4.5%YoY in Jul-16, indicating a brewing demand pull inflation in the economy.
- We foresee headline inflation sticking to a range of 4.5%-5.0% in FY17/18, consistent with target range of SBP (4.5%-5.5%).

CPI for the month of Jul-17 clocks in at +2.91%YoY

As per the latest data published by Pakistan Bureau of Statistics (PBS), headline CPI inflation clocked in at +2.91%YoY (+0.35%MoM) compared to +4.19%YoY (+1.34%MoM) in the same month last year, starting off FY17/18 on a subdued note. Key components include HRI and education prices, which rose by +7.19% and +11.36%, as well as food basket that counteracted the uptick by showing a meagre growth of +0.09%YoY.

Non-Food basket the primary cause of inflation...

In the non-food basket, House Rental Index (HRI) raced through to a +7.19%YoY growth (vs +5.79%YoY in Jul-16) with a 1.6 percentage point impact as quarterly revision of the index took its effect. We attribute this splurge to the heightened construction activities in the country. Similarly, the prices of education (up +11.36%YoY) also registered growth with a 0.45 percentage point impact as schooling year commences in the month of August and related expenses rise.

...As prices in food basket disappoint with their continued sluggish growth

The food basket, showing a stagnant trend in prices for the past couple of months, continued its muted trajectory. Within the food basket, alcoholic beverages and tobacco prices fell by 15.9%YoY due to a decline in cigarette prices (down by 16.14%YoY). On the other hand, prices of non-perishable food items rose +1.58%YoY but were counterbalanced by declining trend in prices of perishables (down by 3.77%YoY), which is expected as seasonal demand (month of Ramadan) led price surge loses steam. However, we also attribute the sluggish growth in the food basket to the high base effect of Jul-16 (food basket up by +4.70%YoY in Jul-16).

Simultaneously, range-bound oil prices keep inflation upward sticky...

Motor fuel price (~42% of the transport sector) declined over the month of Jul-17 by ~2%, yet the transport sector registered a growth of +3.18%YoY due to a low base effect, wherein, transport sector was down by ~5%YoY in Jul-16. The oil prices in the international market have remained range-bound, a fact well reflected in the tepid growth of prices in the transport sector.

...Yet, core inflation shows signs of uptick in demand pull inflationary pressure

Core inflation edged up by +5.6%YoY compared to +4.5%YoY in Jul-16, indicating a brewing demand pull inflation in the economy. The significant difference between core inflation and headline inflation can be attributed to the low prices in volatile sectors namely transport and food. However, in case of moderate spikes in any of the volatile commodities, the underlying inflationary pressures is bound to pull up the headline inflation.

Subdued inflation to be the norm in FY17/18 unless policy changes come to fore

On the outlook, given the range-bound international oil prices and steady international food prices (as indicated by FAO index) we foresee headline inflation sticking to a range of +4.5% - +5.0% in FY17/18, consistent with target range of SBP (+4.5% - +5.5%). However, risk to our call stems from the changing political scenario in the country that might pave way for PKR parity swing and interest rate hike, both of which can have a drastic impact on inflation.

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