

# Day Break

Thursday, 01 February 2018

## Economy

Exhibit: Rising trend in food inflation

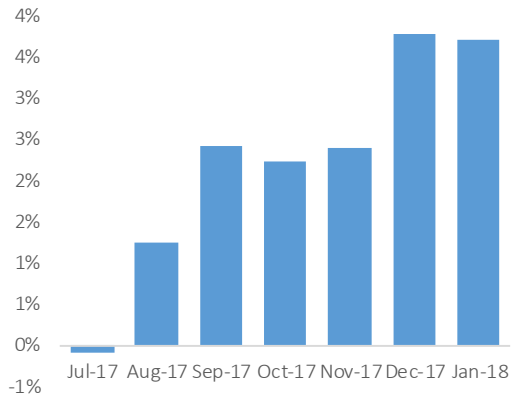


Exhibit: Percentage point impact in CPI

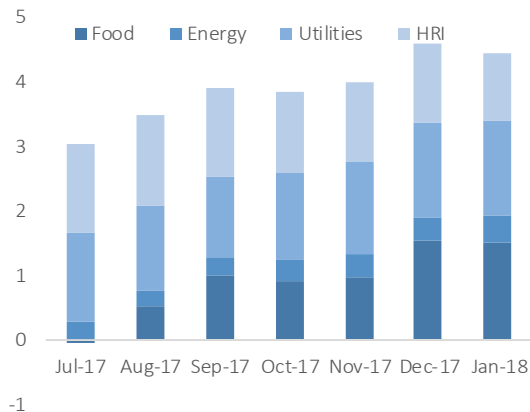
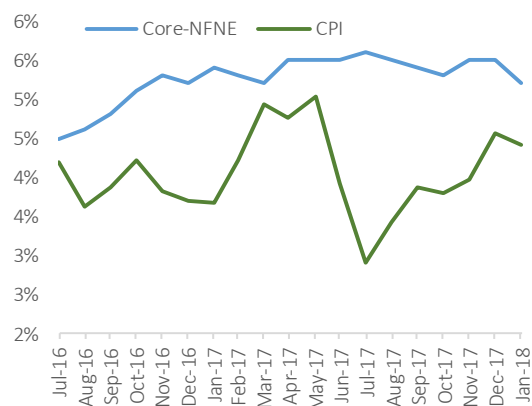


Exhibit: Trend in CPI and Core inflation



Source: SBP, PBS & IGI Research

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## Inflation

### CPI inflation clocks in at +4.42%YoY; Food prices gain steam

- As per the latest data published by Pakistan Bureau of Statistics (PBS), headline CPI inflation clocked in at +4.42%YoY (+0.03%MoM) for the month of Jan-18
- Food index rose by +3.71%YoY (down 1.05%MoM); a percentage point impact (ppt) of 1.50
- Non-food index is up by +4.91%YoY, taking 7MFY18 average to +4.99%YoY
- Core inflation eased by 30bpsMoM to +5.20%YoY in Jan-18 compared to +5.46%YoY, on average, in 1H FY18
- We expect inflation to pick up more pace in the remainder of FY18 and we continue to foresee a further 75bps rate hike by the end of CY18.

#### CPI for the month of Jan-18 clocks in at +4.42%YoY

As per the latest data published by Pakistan Bureau of Statistics (PBS), headline CPI inflation clocked in at +4.42%YoY (+0.03%MoM) for the month of Jan-18 compared to +3.66%YoY (+0.18%MoM) in the same period last year, bringing 7MFY18 average inflation to +3.85%YoY. Key drivers include House Rent Index (HRI) and Food Index, rising by +5.43%YoY and +3.71%YoY respectively.

#### Food Index gains momentum on the back of rising perishables' prices...

Food prices have rebounded from the initial subdued start to FY18. During the month, food index rose by +3.71%YoY (down 1.05%MoM); a percentage point impact (ppt) of 1.50. Within the food index, the food & non-alcoholic beverages group has grown by +5.10%YoY (Weightage: 34.83), primarily led by +20.40%YoY increase in prices of perishables. We also highlight that Jan-18 food inflation is considerably higher than the average of +2.00%YoY in 1H FY18, taking 7MFY18 average to +2.24%YoY and underlining the higher food price momentum.

#### ... while non-food basket continues its robust upward trajectory

Non-food index is up by +4.91%YoY, taking 7MFY18 average to +4.99%YoY. The largest contributor to Non-Food inflation continues to be HRI, wherein, the quarterly revised HRI figure (revised in Jan-18) contributed +1.05 ppt to the total headline inflation, growing by +5.43%YoY. However, it must be noted that growth in HRI has come down from +7.19/6.49%YoY recorded in 1Q/2Q FY18. At the same time, with PKR 4.06/litre monthly increase in motor fuel prices, the transport index also grew by +5.68%, contributing +0.41 ppt to CPI inflation for the month of Jan-18.

#### Core inflation down to +5.20%YoY in Jan-18

Concurrently, core inflation eased by 30bpsMoM to +5.20%YoY in Jan-18 compared to +5.46%YoY, on average, in 1H FY18. Despite descending, it still reflects a healthy demand pull inflation in the economy, indicating underlying build-up in inflationary pressure.

**Exhibit:** Arab light (USD/bbl)



**Headline inflation to pick up pace in 2HFY18**

Oil prices (Arab light) touched a 3 year high of USD 69.39/bbl during the month of Jan-18 as statements from Russia and Saudi Arabia during January point out to an output management well beyond Dec-18, albeit in through some alternative arrangement. Oil prices may remain elevated in 1HCY18 but are expected to ease in 2HCY18 as production from American shale producers comes online during CY18, in our view. Additionally, PKR depreciation in Dec-17 and continued pressure on PKR parity has opened way for further rise in inflationary pressure.

Taking the above into account, the State Bank of Pakistan, in its monetary policy statement published in Jan-18, has increased its policy rate by +25bps to 6.0% indicating the regulators anticipation of inflationary build-up in the economy. We expect inflation to pick up more pace in the remainder of FY18 and we continue to foresee a further 75bps rate hike by the end of CY18.

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