

Day Break

Monday, 02 April 2018

Economy

Exhibit: Food, non-food and headline inflation

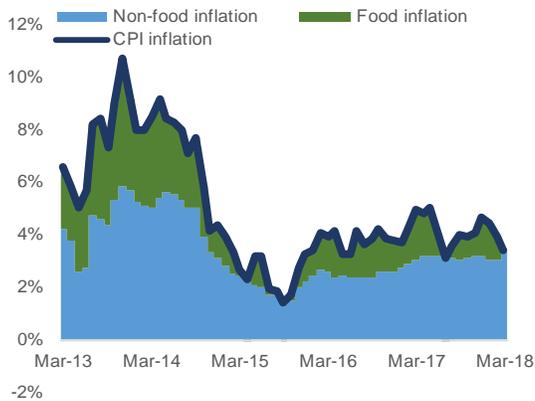
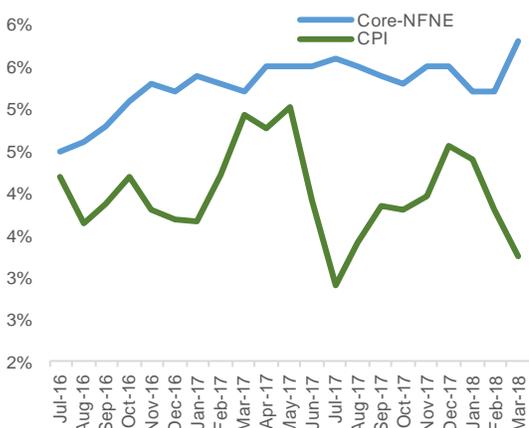


Exhibit: Average quarterly inflation



Exhibit: Headline and core inflation



Source: SBP, PBS & IGI Research

Syed Daniyal Adil

Research Analyst

daniyal.adil@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 973

Inflation

Sluggish food inflation subdues headline inflation

- For the month of Mar-18, headline inflation rose by +3.25%YoY against +4.94%YoY in the same period last year
- Prices of perishables declined by 7.17%YoY, bringing growth in prices of food basket down to +0.09%YoY in Mar-18
- Non-food inflation is up 5.44%YoY for the month of Mar-18, taking 9MFY18 average inflation to +5.03%YoY compared to +4.19%YoY in the same period last year
- Core inflation rose by +5.80%YoY, a +60bps increase MoM
- With the month of Ramadan visible in the horizon, expected increase in government spending as is the case pre-election as well as recent episode of PKR depreciation, we expect 4QFY18 to post higher inflation compared to the previous three quarters of FY18

Mar-18 inflation clocks in at +3.80%YoY

For the month of Mar-18, headline inflation rose by +3.25%YoY against +4.94%YoY in the same period last year. This brings 9MFY18 average inflation to +3.78%YoY. Barring the house rent index (HRI), the largest contributor to inflation was education index with a percentage point impact of +0.69 to total inflation.

Decline in prices of perishables pulls down food inflation

Food inflation had been posting moderate growth in the past few months with 8MFY18 average at +2.24%YoY on the back of rising prices of perishable food items (up ~21% on average). However, for the month of Mar-18, prices of perishables declined by 7.17%YoY, bringing growth in prices of food basket down to +0.09%YoY and dragging 9MFY18 average food inflation to +2.00%YoY compared to +3.80 in same period last year.

Education index continues to grow at a rapid pace

Non-food inflation is up +5.44%YoY for the month of Mar-18, taking 9MFY18 average inflation to +5.03%YoY compared to +4.19%YoY in the same period last year. Main contributors to non-food inflation in the 9MFY18 have been HRI (up +6.37%YoY), transport index (up +4.41%YoY) and education index (up +12.10%YoY). Furthermore, it must be highlighted that despite a meagre 3.94% weightage in CPI index, education index contributed 0.69 ppt to the total inflation in Mar-18 due to a +17.60%YoY rise in the index.

Exhibit:

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

(ppt)	Mar-18	Feb-18	Jan-18	Avg. 9MFY18	Mar-17	Feb-17	Jan-17	Avg. 9MFY17
Food	0.03	0.89	1.50	0.81	2.07	1.49	1.07	1.57
Non-Food	3.28	2.92	2.93	2.99	2.87	2.73	2.60	2.46
Energy	0.50	0.45	0.44	0.36	0.34	0.10	-0.09	0.00
Utilities	1.74	1.43	1.44	1.42	1.29	1.40	1.47	1.31
HRI	1.05	1.06	1.05	1.23	1.26	1.27	1.27	1.20
Total	3.3	3.8	4.4	3.8	4.9	4.2	3.7	4.0

Source: IGI Research, SBP, PBS

Core inflation up by +60bps MoM

During the month, core inflation rose by +5.80%YoY, a +60bps increase MoM. This underlying demand pull inflationary pressure reflects the impact that subdued food and energy prices has had on headline inflation and underlines the risk of faster inflation growth in case of changes in food and energy prices.

Multiple sources of inflation expected in 4QFY18

Food prices have been contained for most of FY18 and oil prices have also remained range bound with local motor fuel prices to fall by PKR 2.07 for the month of Mar-18 after successive price increases due to higher international oil prices in preceding months. However, with the month of Ramadan visible in the horizon, expected increase in government spending as is the case pre-election as well as recent episode of PKR depreciation, we expect 4QFY18 to post higher inflation compared to the previous three quarters of FY18.

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Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Syed Daniyal Adil	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	daniyal.adil@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Ejaz Rana	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	ejaz.rana@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Lahore Office

5-F.C.C. Ground Floor,
Syed Maratib Ali Road, Gulberg II
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-992) 408243 - 44

Abbottabad Office

Ground Floor, Al Fatah Shopping Center,
Opp. Radio Station, Mansehra Road
Tel: (+92-99) 2408243 - 44

Stock Exchange Office

Room # 719, 7th Floor, PSX Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Peshawar Cantt.
Tel: (92-91) 5253035, 5278448

Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,
Mubarik Pura
Tel: (+92-52) 3258437, 3258762