

# Day Break

Friday, 06 September 2019

## Economy

### Inflation

#### Aug-19, prints a +10.5% y/y growth based on new CPI methodology; rate cycle reversal likely to start from Jan-19 onwards

- Pakistan Bureau of Statistics (PBS) has finally revised the Price indices calculation methodology and rebased the index it 2015-16 year from previous 2008-09. Inflation print reflects recent budgetary measures
- Based on the new methodology the latest Aug-19 CPI has been established at +10.5% y/y
- Compared to previous single national CPI presentation, the new adopted methodology will now present additional data for Urban and Rural indices as well and also changes in product weightages.
- Going forward we expect CPI inflation to average close to +10% and see possible monetary rate cycle reversal starting Jan-19 onwards.

#### Aug-19, prints a +10.5% y/y growth based on new CPI methodology and re-based index

As per the guidance provided earlier by the incumbent government, Pakistan Bureau of Statistics (PBS) has finally revised the Price indices calculation methodology and rebased the index it 2015-16 year from previous 2008-09. Based on the new methodology the latest Aug-19 CPI has been established at +10.5% y/y. Had the old methodology been continued, the CPI for the said month would have been recorded at +11.63%, marking a 113bps difference.

##### Exhibit: CPI Inflation for the month of Aug-19

%YoY	MoM%	YoY%
<b>CPI</b>	<b>1.64%</b>	<b>10.49%</b>
Food	3.02%	12.18%
Non-Food	2.64%	11.07%

Some of the key changes in the new methodology include

- **Urban and Rural:** Compared to previous single national CPI presentation, the new adopted methodology will now present additional data for Urban and Rural indices as well, having a fixed proportion of 60% / 40% respectively. For this purpose PBS will be collecting data from 35 urban cities and 27 rural areas; with an aggregate basket containing 356 consumer goods for urban and 244 for rural.
- **Changes in weightages:** Key changes in national CPI include reduced weightage of Households' Rent and Utility (House, Water, Electricity, Gas and Fuel-HWEGF) to 23.6% from previous 29.4%. Notably change for HWEGF is the change in housing rental index (HRI) whose weight has now been reduced to 15% on national CPI calculation from previously 21.8%. The leading impact has resulted in nearly 12bps y/y reduction in new HRI index. Similarly, food prices have also been revised to reflect urban & rural consumption pattern. Rural price basket consists of ~41% of total food goods compared to 30.4% for urban.

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## Exhibit: Aug-19, CPI inflation basket break-up

	New Method					Old Method	
	Aug-19	Jul-19	m/m	Aug-18	y/y	m/m	y/y
<b>Consumer Price Index (CPI)</b>	<b>125.9</b>	<b>123.9</b>	<b>1.6%</b>	<b>113.9</b>	<b>10.5%</b>	<b>1.4%</b>	<b>11.6%</b>
Food	123.0	119.0	3.4%	109.2	12.6%	2.8%	10.7%
Alch. Beverages & Tobacco	133.9	133.6	0.2%	103.2	29.8%	0.7%	36.8%
Cloths/ Footwear	125.5	123.9	1.3%	115.3	8.9%	1.2%	8.5%
HWEGF	125.0	125.0	0.1%	116.8	7.1%	0.0%	12.7%
Household Equipment	122.1	121.0	0.9%	109.5	11.6%	0.9%	10.7%
Health	132.9	131.8	0.8%	118.7	11.9%	0.2%	8.9%
Transport	143.7	141.0	1.9%	121.2	18.5%	1.5%	15.3%
Comm.	106.7	106.6	0.1%	102.3	4.3%	0.3%	9.0%
Recreation & Culture	117.3	116.6	0.6%	109.0	7.7%	1.0%	8.2%
Education	141.1	140.9	0.2%	132.0	6.9%	0.1%	7.0%
Restaurants & Hotels	124.5	123.3	1.0%	117.3	6.2%	1.0%	8.3%
Misc.	128.6	126.2	1.9%	113.6	13.2%	2.2%	14.4%

## Exhibit: Changes in new and old CPI methodologies

%age Weights	Urban CPI (New)	Rural CPI (New)	National CPI (New)	National CPI (Old)	% Change	PPT impact
<b>Consumer Price Index (CPI)</b>						
Food	30.4	40.9	34.6	34.8	-0.25	-0.09
Alch. Beverages & Tobacco	0.9	1.3	1.0	1.4	-0.39	0.00
Cloths/ Footwear	8.0	9.5	8.6	7.6	1.03	0.09
HWEGF	27.0	18.5	23.6	29.4	-5.78	-1.37
Household Equipment	4.1	4.1	4.1	4.2	-0.11	0.00
Health	2.3	3.5	2.8	2.2	0.60	0.02
Transport	6.1	5.6	5.9	7.2	-1.29	-0.08
Comm.	2.4	2.0	2.2	3.2	-1.01	-0.02
Recreation & Culture	1.7	1.4	1.6	2.0	-0.43	-0.01
Education	4.9	2.1	3.8	3.9	-0.15	-0.01
Restaurants & Hotels	7.4	6.2	6.9	1.2	5.69	0.39
Misc.	4.8	5.0	4.9	2.8	2.11	0.10
*House Rent Index	19.3	8.6	15.0	21.8	-6.81	-1.02

## Exhibit: House rental Index reduced weight from Rural

House Rental Index	Aug-19	Aug-18	y/y
<b>Change from Old to New in Bps</b>			<b>-11.5</b>
HRI (Old)	218.8	206.0	6.20%
<b>HRI (New)</b>	<b>126.4</b>	<b>119.1</b>	<b>6.08%</b>
- - HRI Urban	126.7	119.0	6.46%
- - HRI Rural	126.0	119.4	5.51%
Urban	60%	60%	
Rural	40%	40%	

**FY20 Inflation to remain below SBP and IMF target at 10%; hinting to possible monetary rate cycle reversal starting Jan-19 onwards.**

Going forward we expect CPI inflation to average close to +10% against SBP old target of 11-12% and IMF 13%. The newer methodology will help reduce some volatile movement particularly in the heavy weight segments HRI, Food and Utility prices. In addition, we expect inflation to stay in double during Nov 2019 to Feb 2020 averaging +11%, keeping real interest rates in positive territory close to +2.8% (historical average of ~2%), while Feb-20 onwards, inflation is expected to drop down back to single digit, leaving ample of room for authorities to cut key policy rate. Henceforth we are of the view that SBP is likely to keep policy rate unchanged at 13.25% for remainder of 2019 (monetary policy statement announcement due months are September and November) and see monetary rate cycle reversal starting Jan-19 onwards. Recent yield patterns depicted a similar trend, with long-term bond yields dropping below shorter term maturity suggesting inflation softening.

Exhibit: New versus Old CPI trend

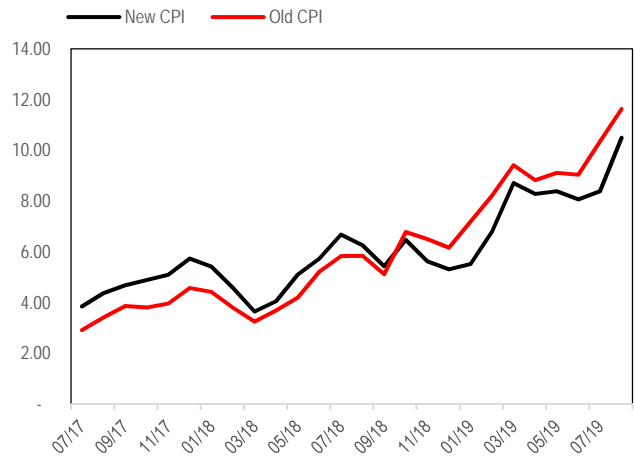


Exhibit: Changes in HRI has led to wider a difference between non-food inflation...

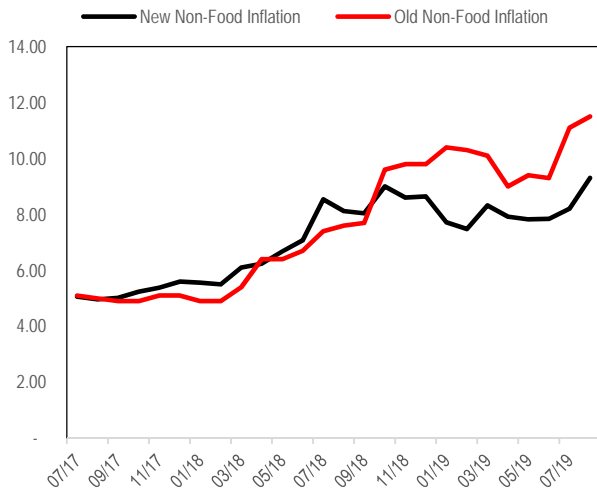
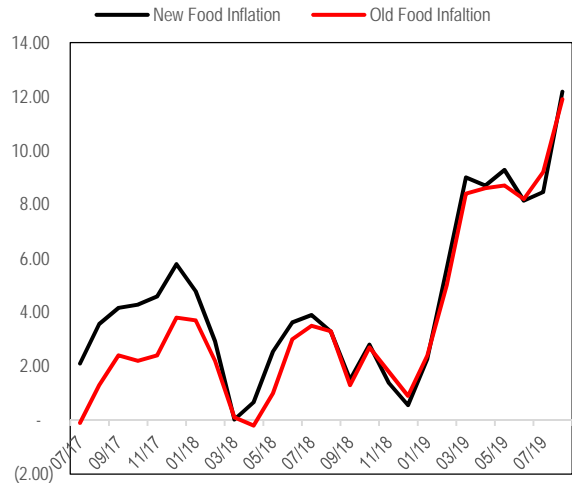
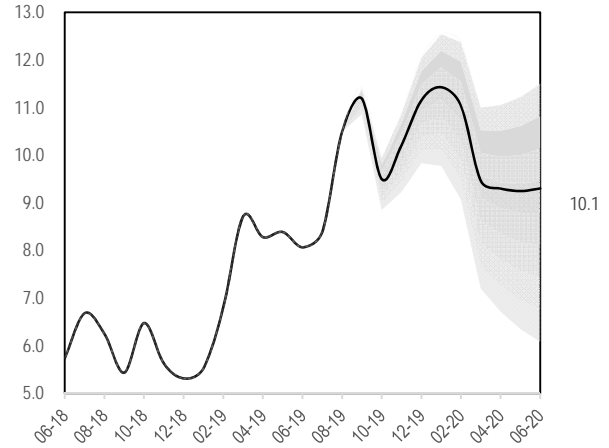
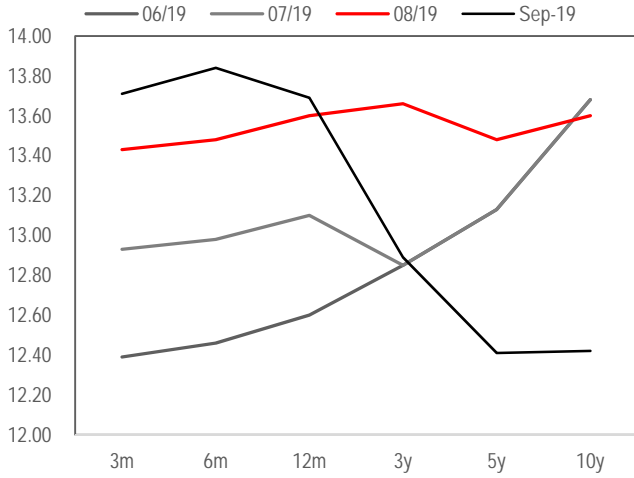


Exhibit: ...while food inflation is relatively similar



**Exhibit: Recent market yields dropped on longer-tenure indicating softening price pressure**

**Exhibit: Inflation projected to average 10.1% in 2019-20**



Source: PBS, SBP, IGI Research

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