

ECONOMY

Inflation Preview

Pakistan Research

Economy: CPI to hit 17-month low in Feb-24

Headline Inflation is expected to ease to 23.4% YoY in Feb-24 from 28.3% YoY last month mainly driven by the high base effect and a softening in the Food & Beverages segment. The high reading in February last year emerged on the back of a devaluation bout (2MCY23: +15.2%) and an increase in gas (62.8% MoM) & POL prices (16.5% MoM). We expect NCPI to moderate on a MoM basis (0.3% in Feb-24 versus 1.8% last month) primarily due to (i) deflating Food segment and (ii) a deceleration in the Housing & Utilities category.

Respite from Food & Beverages segment expected

The segment is expected to exhibit a deflationary reading of 0.5% MoM in Feb-24 from an increase of 2.9% MoM last month, primarily due to a reversal of transitory price distortions in specific items including eggs (-32.8% MoM), tomatoes (-24.8% MoM), potatoes (-7.3% MoM) and onions (-4.0% MoM). Egg prices declined due to a weather-related contraction in demand whereas onion prices fell following the government’s decision to restrict exports which improved supply conditions. Looking ahead, we believe that the upward revision in fuel prices on 16th Feb 2024 (not incorporated in this reading) and Ramadan effect would manifest a surge in food prices in the upcoming month.

Direct impact of gas price hike to be negligible

The gas tariff hike (11.0% MoM) is expected to have a muted impact in Feb-24, as opposed to the previous profound increase of 280.6% MoM in Nov-23 primarily due to (i) the low weight of gas charges in the CPI basket (0.6%) and (ii) higher base after the inclusion of fixed charges in the base period. Our base case assumes the current methodology which excludes the protected consumers category. However, PBS is reviewing its methodology to include the protected consumers in their calculations for gas charges.

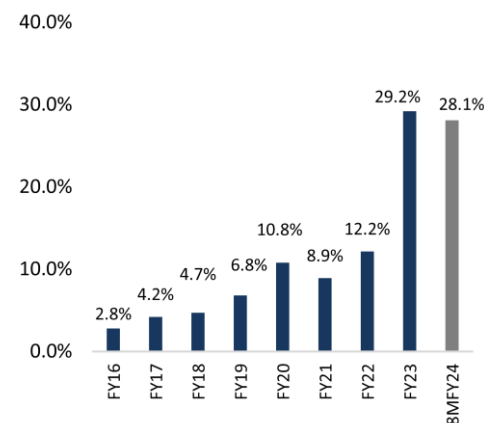
Projected easing in Housing & Utilities

Housing segment is set to decelerate with MoM inflation estimated at 0.6% MoM in Feb-24 versus 2.5% MoM last month. The easing is attributable to a modest FCA increase in Feb-24 to 4.6/kWh from 4.1/kWh last month as well as a decline in construction costs. To note, average cement price declined by 1.4% MoM to PKR 1,209 per bag.

Outlook – Base effect to drive disinflationary trend in 2HFY24

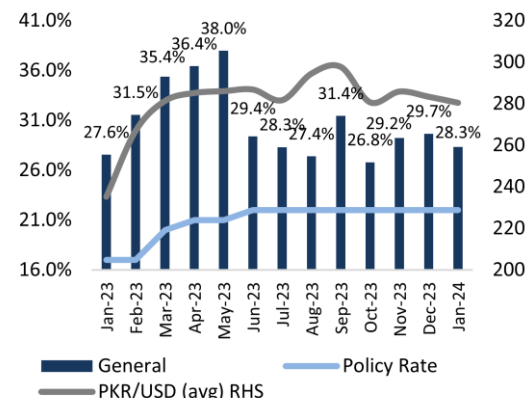
Going forward, we expect the CPI trajectory to transition towards a lower plane in upcoming months with inflation expected to average 22.1% YoY in 2HFY24 and then 17.5% YoY in 1HFY25. However, we emphasize that timely adjustments of energy prices along with PKR depreciation (due to a stricter IMF conditionality for a market-based exchange rate and upcoming debt repayments) will likely keep MoM readings elevated. However, this will be mitigated by the high base effect in 2HFY24. We highlight that greater than expected PKR depreciation and higher oil prices are key upside risks to our projections.

Inflation expected to average 28.1% during 8MFY24



Source: PBS, Akseer Research

Strong exchange rate passthrough to CPI



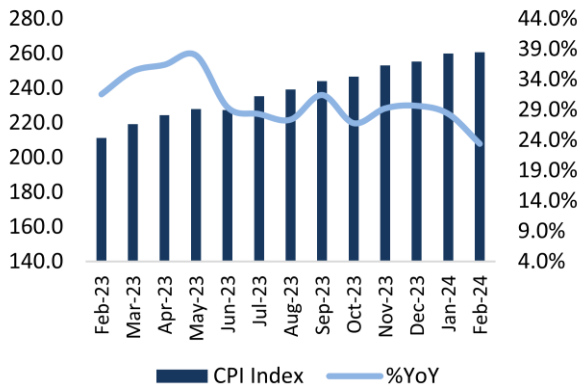
Source: SBP, PBS, Akseer Research

Feb-24 MoM National CPI Inflation Breakdown			
Segment	Weight in CPI	% MoM	Cont. to MoM CPI
Food & Non -Alcoholic Beverages	34.6%	-0.5%	-0.2%
-- Non - Perishable	29.6%		
-- Perishable	5.0%		
Housing, Water, Electricity, Gas & Fuel	23.6%	0.6%	0.1%
Clothing & Footwear	8.6%	0.3%	0.0%
Restaurants & Hotels	5.9%	0.9%	0.1%
Transport	6.9%	2.4%	0.2%
Others	20.4%	0.3%	0.1%
MoM change in CPI			0.3%
YoY Change in CPI			23.4%

Source: PBS, Akseer Research

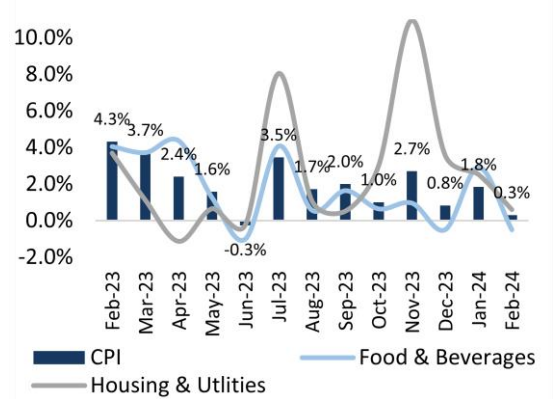
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High base effect till May-24 to keep CPI in check



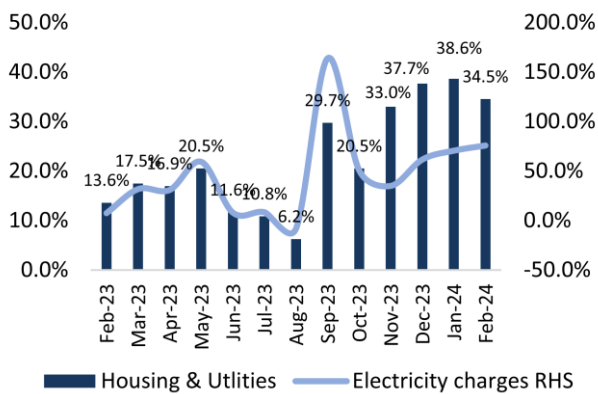
Source: PBS, Akseer Research

%MoM likely to hit 6-month low in Feb-24



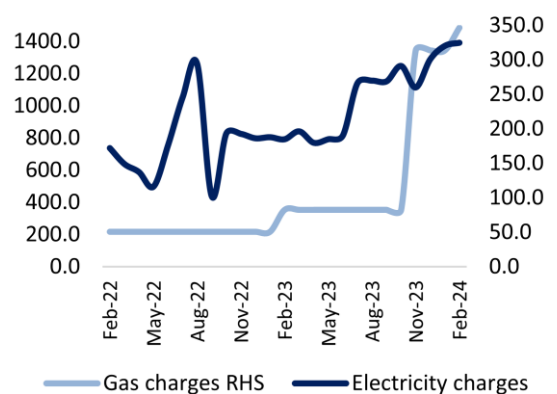
Source: PBS, Akseer Research

Electricity charges keep Housing segment elevated (%YoY)



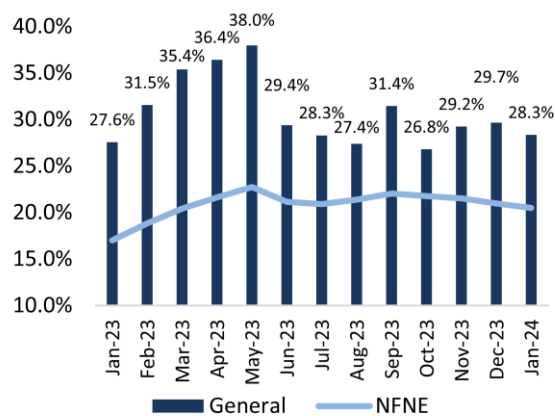
Source: PBS, Akseer Research

IMF warranted energy price adjustments to pressurise CPI



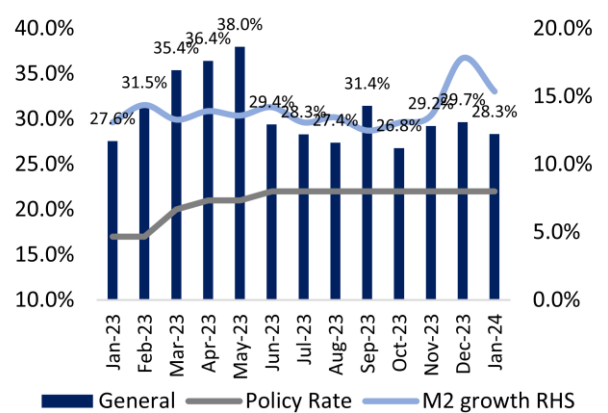
Source: PBS, Akseer Research

Core inflation represented 74.7% of headline inflation in 7MFY24



Source: PBS, Akseer Research

Persistent growth in M2 is fostering inflationary pressures



Source: SBP, PBS, Akseer Research

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