

ECONOMY

Inflation Update

Pakistan Research

Economy: FY21 CPI up 8.9%, contained in the SBP's targeted range

- **June-21 National CPI grew 9.7% YoY, taking full year FY21 CPI growth to 8.9% YoY vs 10.7% YoY increase in FY20.**
- **MoM NCPI index declined 0.24% mainly due to food basket's prices coming down by 1.77% MoM. Highest surge in MoM CPI was witnessed in the transport segment, surging by 1.92% due to increase in fuel prices.**
- **Both Urban and Rural CPIs also witnessed the downward trend during June-21, as Ramadan effect subsided. UCPI and RCPI declined 0.37% and 0.06% MoM while both were up 9.7% YoY.**
- **For FY22, we expect the NCPI to remain elevated in the high single digit range of (7-8%) given the global commodities' prices are continuously on the rise amidst supply disruptions due to pandemic. Convincing IMF to not increase the power tariff is yet to be seen. Hence, the inflation will remain a downside risk to the economic growth prospects.**

June-21 MoM National CPI Inflation Breakdown (base year 2015-16)

	Weight in CPI	MoM Change (%)	Cont. to MoM CPI
Food & Non-Alcoholic Beverages	34.58%	-1.77%	-0.61%
-- Non - Perishable	29.60%	-1.69%	-0.50%
-- Perishable	4.99%	-2.31%	-0.12%
Housing, Water, Electricity, Gas & Fuel	23.63%	0.45%	0.11%
Clothing & Footwear	8.60%	0.16%	0.01%
Restaurants & Hotels	6.92%	0.69%	0.05%
Transport	5.91%	1.92%	0.11%
Others	20.35%	0.46%	0.09%
MoM change in CPI			-0.24%
YoY Change in CPI			9.70%

Source: PBS, Akseer Research

Food prices pressure recedes, MoM NCPI down 0.24%

On monthly basis, the NCPI inflation decelerated 0.24% during June-21, main contribution coming from the food basket which was down 1.77% MoM due to cool off in perishable and non-perishable food items post Ramadan (especially chicken and fresh fruits). 'Housing, Water, Electricity, Gas and Fuel' group was up 0.45% MoM, as liquified hydrocarbons' prices rose 26.2% MoM. Hike in motor fuel prices (+3.8% MoM) led to Transport Index jump 1.92% MoM, however, its contribution to the overall NCPI remained limited to +0.11%.

FY21 NCPI concluded in the SBP's targeted range

NCPI surged 9.7% YoY, lower versus 10.9% YoY jump in May-21 on the back of decline in food prices. However, it was higher versus 8.6% YoY increase in the CPI in June-20, on the back upward revision in power tariffs and its second-round impact on cost of living. For full year FY21, the NCPI concluded up 8.9% YoY compared to 10.7% YoY increase in FY20 and was in line with the central bank's targeted range of 7-9%.

Inflationary pressures to persist in FY22

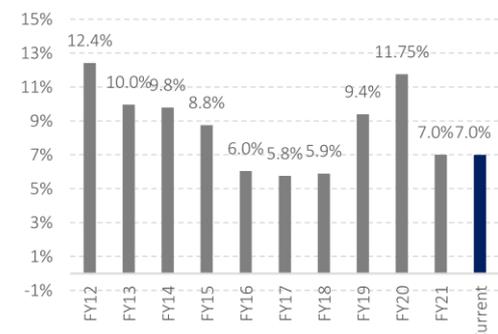
We anticipate inflation to remain elevated in high single digit during FY22 with an average NCPI inflation expected to settle in the range of 7-8%, given the global commodities prices are continuously rising. Bloomberg Commodity Index has surged 21% CYTD, one of the highest jumps since 2002, and will also be reflected in the local commodities prices. Moreover, the government is trying to convince the IMF to defer the power tariff hike (earlier scheduled for June-21) which was presumption of resuming the EFF facility. Unsuccessful negotiations will lead to further inflationary pressures during FY22, dampening economic growth prospects.

Chart-1: YoY CPI inflation



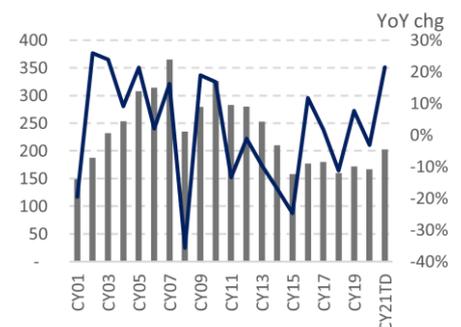
Source: PBS, Akseer Research

Chart-2: Policy Rate



Source: SBP, Akseer Research

Chart-3: Bloomberg Commodity Index



Source: Bloomberg, Akseer Research

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