

ECONOMY

Inflation Preview

Pakistan Research

Economy: CPI to remain sticky at 29.4% YoY

Inflation is expected to accelerate marginally to 29.4% YoY in Dec-23 from 29.2% YoY in Nov-23. This is partially due to a higher fuel cost adjustment (FCA) in Dec-23 which is estimated to manifest in a 1.8% MoM increase in housing & utilities. Some cooling is expected on a MoM basis (0.6% in Dec-23 versus 2.7% last month) mainly due to (i) the absence of 280% hike in gas prices and (ii) a further decline in domestic fuel prices.

Higher FCA and cement prices to push housing & utilities index up

Housing segment is set to drive MoM inflation with a contribution of 0.4% (up by 1.8% MoM). This is due to higher electricity charges and rising construction costs. In Dec-23, it is anticipated that FCA will be PKR 3.1/kWh, in comparison to FCA of PKR 0.4/kWh in Nov-23. Moreover, average cement price increased by 4.0% MoM to PKR 1,240 per bag.

Lower oil prices to warrant a decline in transport

The category is projected to soften for a 3rd consecutive month (-1.5% MoM) in Dec-23 on the back of downward adjustments in fuel prices wherein POL prices have been reduced by PKR 2.0 (petrol) and PKR 13.4 (diesel) respectively. The decline has been driven by lower international oil prices (8.6% MoM). Oil prices continued to react inversely against rising US oil stockpiles.

SPI depicts broad based decline in heavyweight Food segment

Food & beverages segment is expected to decelerate from 1.0% MoM in Nov-23 to 0.1% MoM in Dec-23 primarily due to broad based decline recorded as a result of improving agricultural output, lower motor fuel prices and easing import restrictions. Going forward, we believe that favorable weather conditions and improved water availability would continue to keep inflationary pressures from the segment in check. To highlight, wheat & rice are projected to increase by 16.2% YoY to 32.1mn tons and 17.5% YoY to 86mn tons respectively during the current year as per MoF.

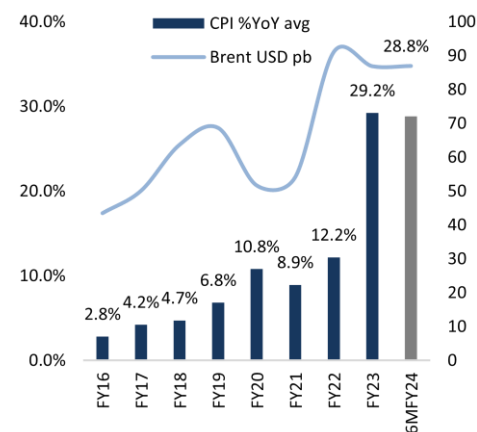
Outlook - Disinflationary trends on the horizon

Looking ahead, we expect the CPI trajectory to transition towards a lower plane in upcoming months with inflation expected to average 22.8% YoY in 2HFY24e and then 18.3% YoY in 1HFY25e. On the domestic front, food prices are expected to take cue from improving crop output in FY24. However, we highlight greater than expected PKR depreciation and higher oil prices as major risk factors to the outlook. Specifically, an escalation in middle east tensions presents a key tail risk to our CPI projections, potentially impacting oil supplies and driving prices higher.

Dec-23 MoM National CPI Inflation Breakdown			
	Weight in CPI	MoM Change (%)	Cont. to MoM CPI
Food & Non -Alcoholic Beverages	34.58%	0.1%	0.0%
-- Non - Perishable	29.60%		
-- Perishable	4.99%		
Housing, Water, Electricity, Gas & Fuel	23.63%	1.8%	0.4%
Clothing & Footwear	8.60%	0.7%	0.1%
Restaurants & Hotels	6.92%	2.4%	0.2%
Transport	5.91%	-1.5%	-0.1%
Others	20.36%	0.1%	0.0%
MoM change in CPI			0.6%
YoY Change in CPI			29.4%

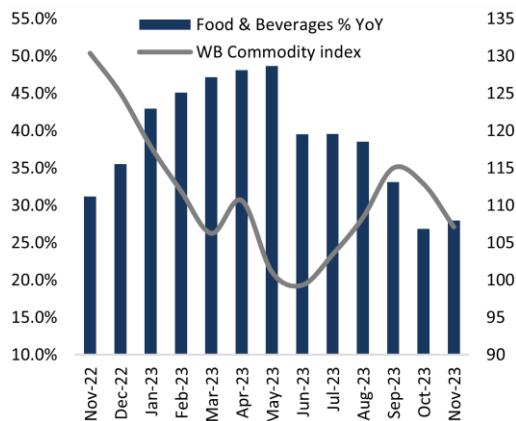
Source: PBS, Akseer Research

Higher oil prices pose risk to CPI projections



Source: World Bank, PBS, Akseer Research

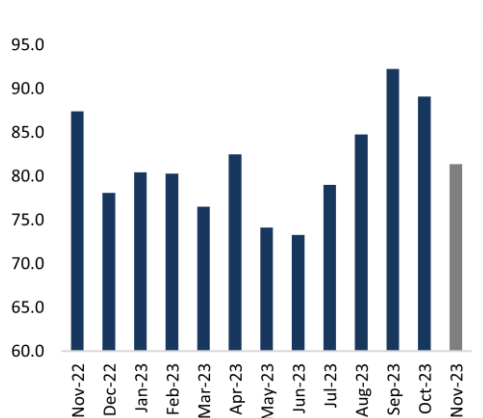
Recent data suggests commodity prices are easing



Source: World Bank, PBS, Akseer Research

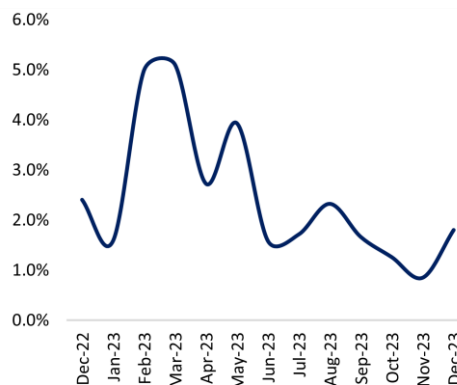
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Oil prices have declined (Crude average USD pb)



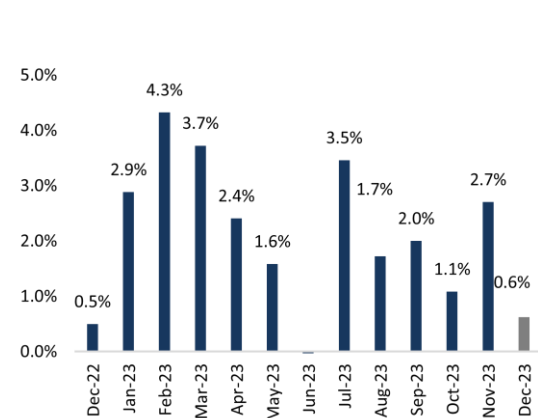
Source: World Bank, Akseer Research

Housing & Utilities expected to increase following a higher FCA in Dec-23 (%MoM)



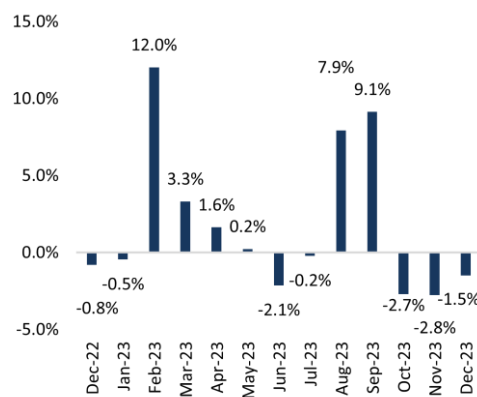
Source: PBS, Akseer Research

Inflation %MoM may hit 6-month low



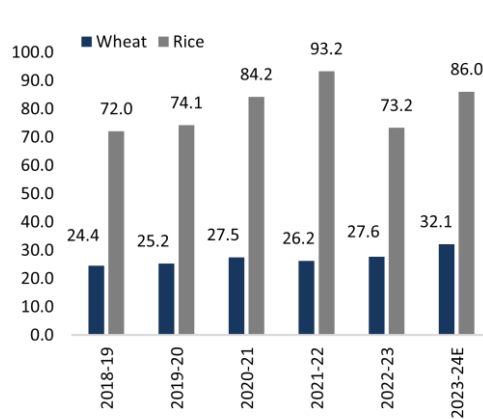
Source: SBP, Akseer Research

Transport index expected to deflate for a 3rd consecutive month (%MoM)



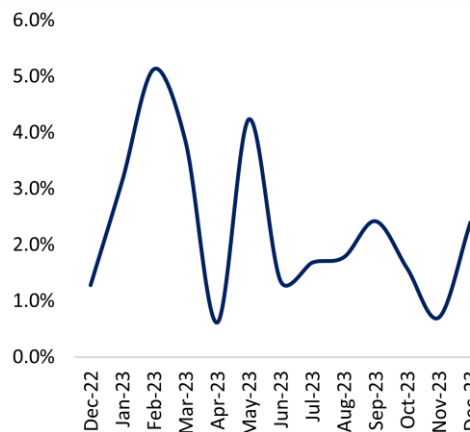
Source: PBS, Akseer Research

Higher Agricultural output to assist in alleviating inflationary pressures (Mn bales)



Source: MoF, Akseer Research

Uptick in Restaurants & hotels despite easing food & fuel prices (%MoM)



Source: PBS, Akseer Research

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