

Economy: May-26 Inflation Expected at 11.9% YoY

The National Consumer Price Index (NCPI) is projected to increase by 11.9% YoY in May-26. On a monthly basis, inflation is estimated to rise by 0.75% MoM, primarily driven by a strong uptick in the food segment. The higher YoY reading is also attributable to the base effect, as inflation in May-25 had eased to 3.5%.

On a cumulative basis, average inflation during 11MFY26 is expected to settle at 6.7%, compared to 4.7% recorded during the SPLY.

Food Inflation to stay elevated

Food inflation is projected to increase by 1.68% MoM in May-26, primarily driven by higher wheat prices. Wheat prices are expected to rise by 13.3% MoM mainly due to elevated transportation costs reflecting the pass through impact of increased fuel prices. Other key food items witnessing an increase include milk (up 2.5% MoM) and potatoes (up 5.8% MoM), alongside gains in several other essential commodities.

Relief in Housing Segment; Mild Uptick in Transport Segment

The housing segment is expected to decline by 0.57% MoM, mainly due to a 4% MoM decline in LPG prices. Additionally, electricity charges also decreased owing to a negative Fuel Cost Adjustment (FCA) of PKR 0.0102/kWh and Quarterly Tariff Adjustment (QTA) of PKR 0.3504/kWh. Moreover, the transport segment is expected to increase by 0.5% MoM. Within the segment, High speed diesel (HSD) prices declined by 3% MoM, while petrol prices are expected to increase by 4% MoM.

Future Outlook

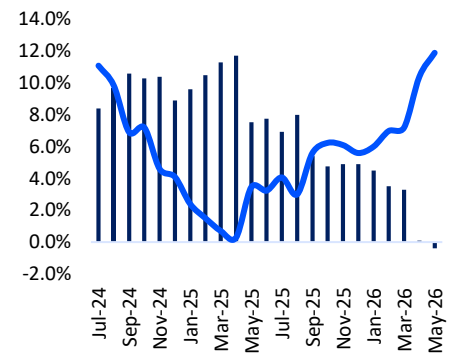
In its latest MPC meeting, the State Bank of Pakistan raised the policy rate by 100bps, reflecting a pre-emptive stance amid rising inflationary risks. With average inflation expected at 6.7% during 11MFY26, the real interest rate currently stands at 4.8%. However, as headline inflation moves above the SBP's 5-7% target range, the central bank is expected to remain cautious in the upcoming MPC meeting. Given pressures surrounding the external account outlook, ongoing IMF program and upcoming budget, the possibility of another 50bps rate hike cannot be ruled out. Recent auction yields also suggest that markets are increasingly pricing in further monetary tightening amid expectations of sustained inflationary pressures.

May-26 MoM National CPI Breakdown

Segments	Weight in CPI	MoM	Cont. to MoM CPI
Food & Non-Alcoholic Beverages	34.58%	1.68%	0.58%
Housing, Water, Electricity, Gas & Fuel	23.63%	-0.57%	-0.13%
Clothing & Footwear	8.60%	0.75%	0.06%
Restaurants & Hotels	6.92%	0.75%	0.05%
Transport	5.91%	0.45%	0.04%
Others	20.36%	4.78%	0.15%
MoM Change in CPI			0.75%
YoY Change in CPI			11.9%

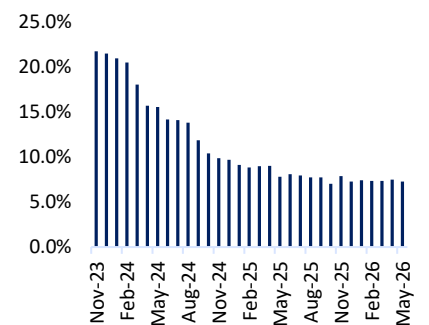
Source: PBS, Akseer Research

NCPI & Real Interest Rate



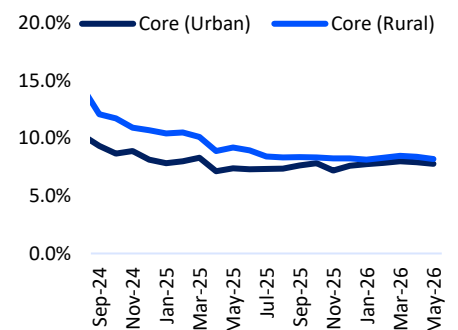
Source: PBS, Akseer Research

NFNE (YoY)



Source: PBS, Akseer Research

Urban and Rural Core (YoY)



Source: PBS, Akseer Research

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