

ECONOMY

Inflation Preview

Pakistan Research

Economy: Jul-24 NCPI expected to further soften to 10.6% YoY

The headline CPI is expected to record its lowest reading since Nov-21 and decelerate to 10.6% YoY in Jul 24 versus 12.6% YoY in Jun-24. Despite a 3.4% MoM decrease expected in electricity charges due to a downward shift in quarterly tariff adjustment (QTA) from PKR 4.65 per kwh to PKR 0.93 per kwh, we anticipate an overall 1.7% MoM increase due to a jump in the heavyweight Food & Non-Alcoholic beverages segment (+3.6% MoM) and an increase in base tariff adjustment (PKR 7.1 per kwh) in Jul-24. On a YoY basis, the high base effect continues to contribute to disinflation.

Highest MoM Food & Beverages reading expected since Jul-23

We expect the heavyweight food constituent to experience an upward trend of +3.6% MoM in Jul-24 versus +0.2% MoM in Jun-24 due to (i) supply chain disruptions, (ii) rising transportation costs, and (iii) an increase in customs duty on the import of vegetables/fruits from Iran/Afghanistan. Within this segment, chicken, milk, fresh fruits and fresh vegetables are expected to lead the upward momentum in Jul-24.

Core inflation expected to arrive at 13.7% YoY

We expect core inflation to remain sticky at 13.7% YoY in Jul-24 versus 14.1% YoY in Jun-24. It will continue to stay higher than the headline reading for the third consecutive month. The gap between core and headline inflation is expected to widen to 3.1% in Jul-24 versus 1.6% in Jun-24 with rural core CPI still above the 15% mark, suggesting a real positive interest rate of 4.1% versus 9.9% against the headline NCPI.

Lower QTA to diminish impact of higher adjustment in base tariff

We anticipate a 3.4% MoM decrease in average electricity tariff on the back of a downward adjustment in QTA by PKR 3.72 per kwh. This is despite an increase of PKR 7.1 per kwh in base tariff which would on a weighted average basis contribute PKR 3.4 per kwh. Overall, Housing, Water, Electricity, Gas & Fuels segment is expected to record -0.1% MoM in Jul-24 versus 1.5% MoM uptick in Jun-24. On a YoY basis, the 15% uptick in electricity charges will elevate the headline reading by 0.6%.

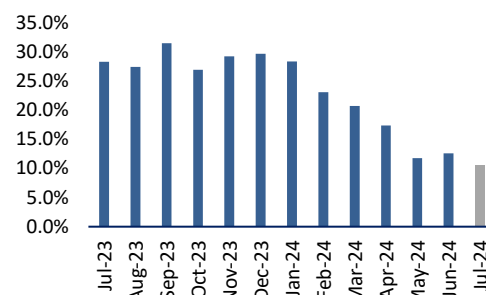
Outlook

Based on our NCPI forecast, we expect a U-shaped curve to kick in from July 2024 wherein the inflation trajectory will show a high-base-induced decline in headline readings (YoY) over the near term and then jump back up in May-June 2025. From an external viewpoint, we believe the upcoming dictate from the IMF, aiming to deeply entrench self-absorbing mechanisms to avoid the boom-bust cycle, should be contractionary in nature. The existing government setup has indicated a desire to improve the tax/GDP, which will be inflationary and anchors upside risks to our forecast. Based on our inflation forecast, real interest rate is expected to widen to 9.9% in Jul-24, providing room to SBP to persist with the monetary easing.

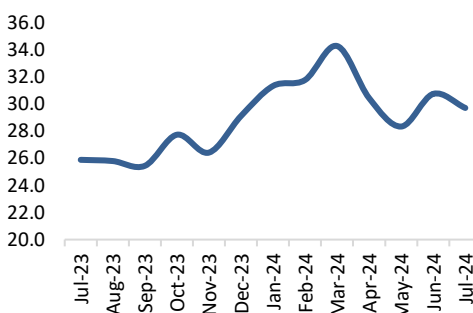
Jul-24 National CPI Breakdown

Segments	Weight in CPI	% MoM	Cont. to MoM CPI
Food & Non-alcoholic Bev.	34.6%	3.6%	1.3%
Housing, Water, Electricity, Gas & Fuels	23.6%	-0.1%	0.0%
Clothing & Footwear	8.6%	0.1%	0.0%
Restaurants & Hotels	6.9%	0.8%	0.1%
Transport	5.9%	1.8%	0.1%
Others	20.4%	0.8%	0.2%
MoM change in CPI			1.7%
YoY change in CPI			10.6%

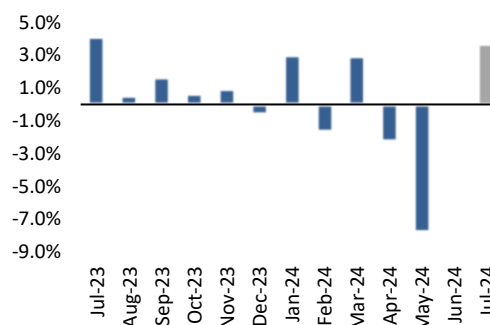
Source: PBS, Akseer Research

NCPI to arrive at 10.6% YoY in Jul-24 (%)

Source: PBS, Akseer Research

Average Electricity Tarriff (PKR/kwh)

Source: PBS, Akseer Research

MoM change in Food & Beverages segment (%)

Source: PBS, Akseer Research

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Hold	Between -5% and +15%
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