

**ECONOMY**

## Inflation Update

## Pakistan Research

**Economy: May-24 NCPI arrives at a 30-month low**

As per the latest data released by PBS, headline inflation for May-24 arrived at a 30-month low at 11.8% YoY, against consensus estimate of 13.7% YoY, translating into 11MFY24 average of 24.5% YoY versus 29.2% YoY in 11MFY23. In retrospect, the latest reading bears significance due to four reasons (i) WPI entered into single digits for the first time since Feb-21, (ii) core inflation decelerated below the psychological level of 15.0% YoY, (iii) real interest rates reached double digits (May-24: 10.2%) just before the next MPC meeting on June 10, 2024 and (iv) food inflation declined by the highest % since the transition to the new base (2015/16).

**NCPI declines considerably by 3.2% MoM basis**

- The ease in inflationary pressures, as depicted by a -3.2% MoM reading versus -0.4% MoM last month, was mainly due to greater than anticipated deflation within perishable items and a decline in the Housing & Utilities category.
- A 7.8% MoM decline in the Food & Beverage index contributed with a negative impact of 2.9% on a MoM basis. Additionally, the Housing & Utility category exhibited a 1.3% MoM decrease with a negative impact of 0.3% MoM in May-24.
- We highlight that the Food & Beverages segment recorded a greater than expected reversal on the back of a hefty decline in the prices of wheat and chicken.
- The Housing & Utilities constituent decelerated in May-24 to 1.3% MoM versus 1.8% MoM last month primarily due to i) the absence of a quarterly rental adjustment and ii) 4.5% MoM decline in electricity charges.
- To note, the Transport segment decreased by 1.6% MoM, on the back of a PKR 5.4/8.4 per liter decrease in Petrol/HSD prices, emanating from softness in global oil prices and moderating import premiums.
- Core inflation continued to decelerate for the 8<sup>th</sup> consecutive month, exhibiting a lower reading in both urban and rural baskets. Core U/R eased to 12.3%/17.0% YoY in May-24 versus 13.1%/19.3% YoY in April-24. This led to NFNE inflation recording its lowest value since July-22, easing to 14.2% YoY in May-24 from 15.6% YoY last month.

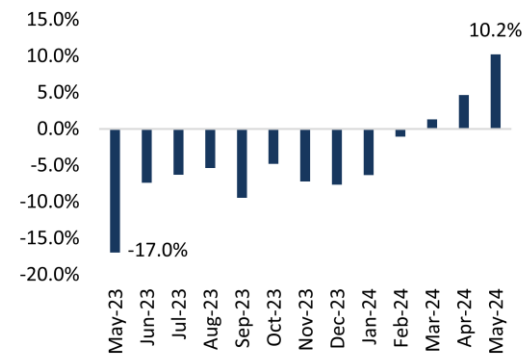
**May-24 MoM National CPI Inflation Breakdown**

	Weight in CPI	% MoM	Cont. to MoM CPI
Food & Non -Alcoholic Beverages	34.6%	-7.8%	-2.9%
-- Non - Perishable	29.6%	-5.5%	-1.8%
-- Perishable	5.0%	-20.1%	-1.2%
Housing & Utilities	23.6%	-1.3%	-0.3%
Clothing & Footwear	8.6%	0.5%	0.0%
Restaurants & Hotels	6.9%	-0.8%	-0.1%
Transport	5.9%	-1.6%	-0.1%
Others	20.4%	0.7%	0.3%
<b>MoM change in CPI</b>			<b>-3.2%</b>
<b>YoY Change in CPI</b>			<b>11.8%</b>

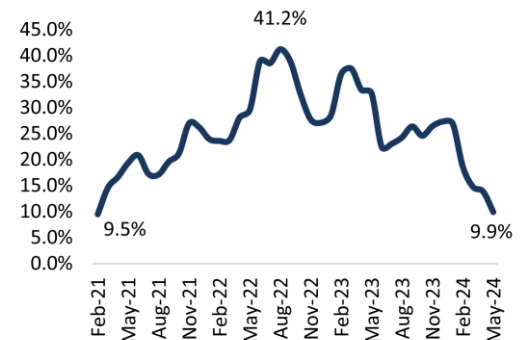
Source: PBS, Akseer Research

**Outlook | All eyes on budgetary measures and contours of the upcoming IMF program**

We expect that timely adjustments of energy prices to meet IMF requirements and their second-round impact, along with higher spending post interest rate cuts to partially dilute the gains from improved crop production and declining global commodity prices in 1HFY25. Additionally, we believe currency adjustments on account of i) an IMF warranted currency float and ii) debt repayments to keep the MoM reading in check. We project a high-base led gradual ease in headline inflation ahead with average inflation for FY24 expected to clock in at ~ 23.4% YoY and highlight that a tax-heavy budget in confluence with the exogenous shocks including higher global oil prices present key tail risks to inflation projections.

**Real interest rate recorded at 10.2% for May-24**

Source: PBS, Akseer Research

**WPI enters single digits for the first time since Feb -21**

Source: PBS, Akseer Research

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Sell	Less than or equal to -5%

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