

ECONOMY

Inflation Update

Pakistan Research

Economy: Nov-21 CPI recorded at 11.53%; +2.98% MoM

- **Notably above the market expectations, Pakistan headline inflation for the month of Nov-21 came in at 11.53%, highest in the last 21 months. This takes the average CPI for 5MFY22 to 9.29% versus 8.76% witnessed in the CPLY.**
- **Higher than expected inflation came from unabated rise in the Food basket prices and Transportation Index. Upward adjustment of electricity tariffs also added to the monthly inflation reading.**
- **On MoM, CPI Index grew by 2.98%, on the back of hike in the fuel prices as the Transportation Index surged 6.31% MoM, followed by continuous rise in food prices (+3.96%). Surge in Restaurants & Hotels index (+3.53%) and quarterly rebalancing of House Rent Index (+2.41% MoM) also jacked up the CPI. The largest contribution of 137bps came from the food basket.**
- **NFNE inflation for Rural reported an increase of 8.2% while Urban NFNE inflation increased by 7.6%.**
- **We have already highlighted that food and energy prices will keep the CPI high and will likely lead to another 75-100bps hike in the policy rate in Dec-21 MPS.**

November-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%	3.96%	1.37%
-- Non - Perishable	29.60%	2.14%	0.63%
-- Perishable	4.99%	14.99%	0.75%
Housing, Water, Electricity, Gas & Fuel	23.63%	2.41%	0.57%
Clothing & Footwear	8.60%	1.90%	0.16%
Restaurants & Hotels	6.92%	3.53%	0.24%
Transport	5.91%	6.31%	0.37%
Others	20.36%	1.29%	0.26%
MoM change in CPI			2.98%
YoY Change in CPI			11.53%

Source: PBS, Akseer Research

Food inflation has no respite

On monthly basis, the CPI inflation witnessed a sharp spike of 2.98% during Nov-21, main contribution once again coming from the food basket which added whopping 137bps led by contribution from both perishable (+75bps) and non-perishable food items (+63bps). Along with this, 'Housing, Water, Electricity, Gas and Fuel' group also added 57bps, as the govt revised upward electricity prices by 5.8%. The Transportation Index rose the most on MoM, +6.31% (added 37bps to the monthly CPI) due to rise in the fuel prices by ~8.4%.

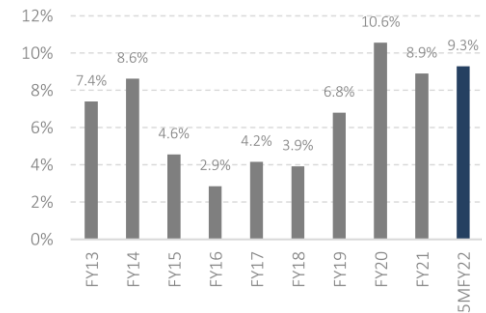
The yearly CPI made a 21-month high of 11.53%, on the back of higher transport cost and non-perishable food items prices. Only perishable food inflation was down 3.63% YoY during Nov-21. The CPI averaged 9.29% during 5MFY22 versus 8.76% witnessed in CPLY.

Non-Food Non-Energy (NFNE) inflation, after remaining below 7% during last half year, now crossed 7% mark and stood at 7.6% (Urban NFNE) and 8.2% (Rural).

Policy Rate to be jacked up by another 75-100bps

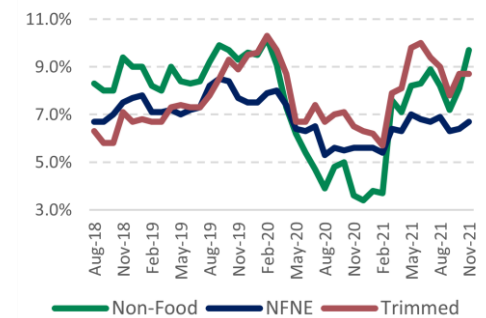
Given Pakistan's CPI is highly correlated with international commodities and strict IMF's conditions of raising the electricity and gas tariffs coupled with PKR devaluation, we expect inflation to remain downward sticky in the coming months. We believe, the CPI is expected to conclude above the SBP's target range of 7-9%, with our expectation of 9.3% for FY22. Taking cues from Nov-21 inflation reading, we are of the view that SBP may raise the policy rate by another 75-100bps in December MPS to keep the real interest rates positive.

Chart-1: CPI inflation Trend



Source: PBS, Akseer Research

Chart-2: Core Inflation Trend



Source: PBS, Akseer Research

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