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Economy: Aug-24 NCPI expected to arrive at 9.8% YoY, marking a 34-month low

The headline NCPI is expected to soften to 9.8% YoY in Aug-24, entering into single digit for the first time after Oct-21 (9.2% YoY), translating into a real interest rate of 970 bps and a MoM uptick of 0.6%. The high base effect from last year continues to contribute to disinflation despite the sequential uptick in the headline inflation. We anticipate the heavy weight Food & Non -Alcoholic Beverages (up by 1.5% MoM) to drive the headline reading for Aug-24 while Transport (down by 1% MoM) and Housing, Water, Electricity, Gas & Fuels (down by 0.4% MoM) segments are expected to exhibit a deflationary trend.

Core inflation expected to ease after a few months of sticky levels

We expect the core inflation to drop to 11.9% YoY in Aug-24 which has steadied around the 14% mark over the past two months. It will however continue to stay higher than the headline CPI reading for the fourth consecutive time in Aug-24. The gap between core and headline inflation is expected to shrink to 2.0% in Aug-24 versus 2.7% in Jul-24 with rural core CPI expected to reach a 26-month low of 14.3% YoY. This will translate in a real positive interest rate of 5.2% versus 9.7% against NCPI.

Food to drive the Aug-24 headline reading

The Food & Beverages segment is although expected to decelerate from Jul-24 (up 4.8% MoM) to Aug-24 (up 1.5% MoM), it is expected to drive the rise in headline inflation. Within this segment, chicken and fresh vegetables are expected to lead the upward trend. Additionally, we expect the increase in food prices (+1.5% MoM) to outweigh the decrease in electricity charges (-0.4% MoM) translating in a MoM increase in the headline reading.

Outlook

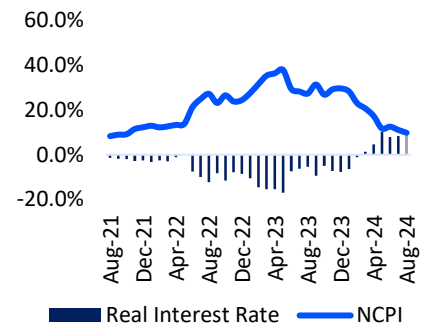
We expect the NCPI to depict a U-shaped curve wherein post Apr-25, the low base effect will push the trajectory upwards. The real interest rate (+9.7% in Aug-24) provides room for further monetary easing, however, the SBP stands at the cusp of providing a definitive stance wherein the sheer quantum of the upcoming rate cut will help provide clarity on whether growth will be pursued at the expense of risking price stability. We flag the confluence of (i) demand-led upward pressure on general price levels post interest rate cuts and (ii) higher than anticipated increase in international commodity prices as major risks to our forecasts.

Aug-24 MoM National CPI Breakdown

Segments	Weight in CPI	MoM	Cont. to MoM CPI
Food & Non -Alcoholic Beverages	34.6%	1.5%	0.6%
Housing, Water, Electricity, Gas & Fuel	23.6%	-0.4%	-0.1%
Clothing & Footwear	8.6%	1.0%	0.0%
Restaurants & Hotels	6.9%	0.3%	0.0%
Transport	5.9%	-1.0%	-0.1%
Others	20.4%	0.3%	0.2%
MoM change in CPI			0.6%
YoY Change in CPI			9.8%

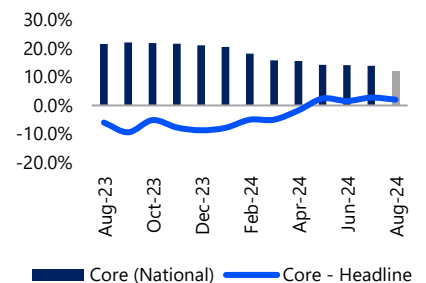
Source: PBS, Akseer Research

NCPI & Real interest rate



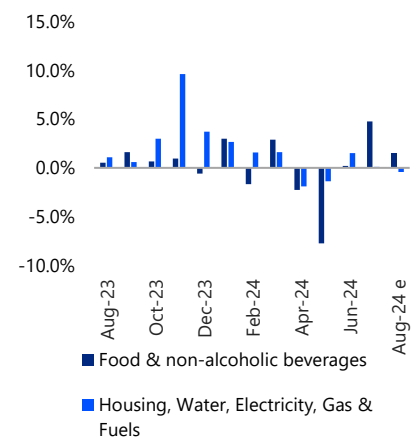
Source: PBS, SBP, Akseer Research

Core inflation expected to arrive at a 27-month low



Source: PBS, Akseer Research

Increase in food prices to outpace decrease in electricity charges



Source: PBS, Akseer Research

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