

**ECONOMY**

## Inflation Preview

Pakistan Research

**Economy: Slight uptick expected in NCPI at 12.6% YoY**

The headline CPI is expected to slightly edge higher than last month's reading at 12.6% YoY in Jun 24, translating to an uptick of 0.4% MoM and a positive real interest rate of 790bps. To highlight, May-24 NCPI arrived at 11.8% YoY, marking a 30-month low. The high base effect continues to remain a primary contributing factor for the sub-13% expectation. On a MoM basis, the increase is mainly expected from the 1.5% uptick in Food and Non-Alcoholic Beverages segment versus -7.8% in May-24. While all other segments exhibited an inflationary trend, Transport is expected to decrease by 3.1% MoM in Jun-24 compared to a decline of 1.6% MoM in May-24 primarily due to lower motor fuel prices.

**Core inflation to remain sticky at 13.6% YoY**

We expect the policymakers to keep a close eye on the core inflation trajectory which has been stickier than the headline readings. Core inflation is expected to remain above the headline reading at 13.6% YoY for the second consecutive month in Jun-24 versus 14.2% YoY in May-24. However, we expect the gap between headline and core inflation to reduce from 2.4% in May-24 to 1.0% in Jun-24.

**Heavyweight Food constituent to drive the Jun-24 headline reading**

The Food & Beverages segment is expected to drive the rise in headline inflation in Jun-24 as it returns to positive territory with an increase of 1.5% MoM versus -7.8% MoM last month. Within this segment, chicken, milk, fresh fruits and fresh vegetables are expected to lead the upward trend in Jun-24.

**Lower fuel prices to keep the Transport segment in check**

The Transport segment exhibited a deflationary trend from -1.6% MoM in May-24 to -3.1% in Jun-24, mainly due to a decline in motor fuel prices by 5.7% MoM in Jun-24. The drop in petrol and HSD prices by PKR 20.2 and PKR 11.8 per liter is expected to translate to a negative reading for this segment.

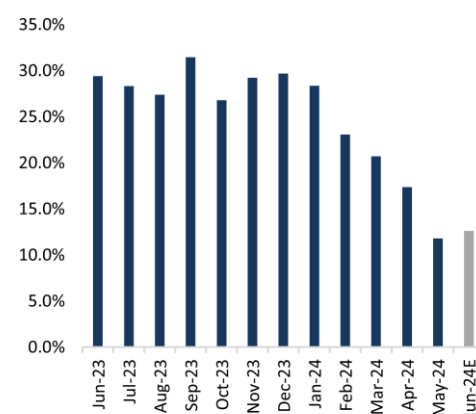
**Outlook**

Looking ahead, recent budgetary measures aiming to reprimand non tax filers through higher taxation is expected to manifest inflationary expectations. Despite high-base led ease in headline inflation ahead, we see more upside risks than downside risks to the inflation trajectory. This includes, (i) a demand driven push on general price levels post interest rate cuts, (ii) adjustments to energy prices and their seep-through second-round impact, and (iii) mean reversion in wheat prices. To highlight, wheat has a weightage of 5.0% in the NCPI basket.

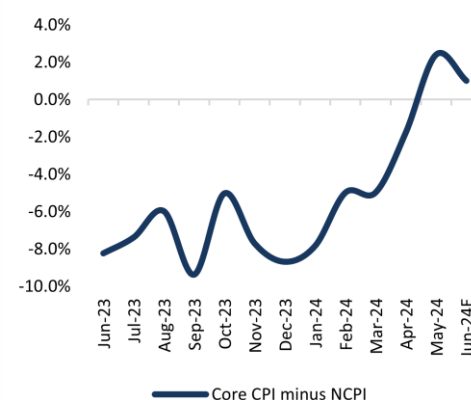
**Jun-24 MoM National CPI Inflation Breakdown**

Segments	Weight in CPI	MoM Change (%)	Cont. to MoM CPI
Food & Non -Alcoholic Beverages	34.6%	1.5%	0.5%
-- Non - Perishable	29.6%	-	-
-- Perishable	5.0%	-	-
Housing, Water, Electricity, Gas & Fuel	23.6%	0.0%	0.0%
Clothing & Footwear	8.6%	0.9%	0.1%
Restaurants & Hotels	6.9%	0.3%	0.0%
Transport	5.9%	-3.1%	-0.2%
Others	20.4%	0.1%	0.0%
<b>MoM change in CPI</b>			<b>0.4%</b>
<b>YoY Change in CPI</b>			<b>12.6%</b>

Source: PBS, Akseer Research

**NCPI to slightly increase versus May-24**

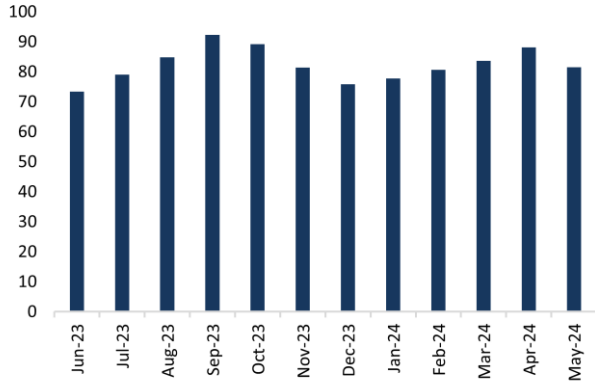
Source: PBS, Akseer Research

**Core CPI to exceed headline NCPI in Jun-24**

Source: PBS, Akseer Research

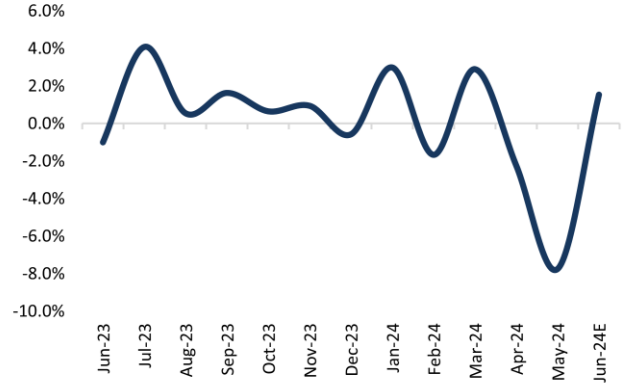
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Trend - oil prices (Crude average USD pb)



Source: World Bank, Akseer Research

Food segment expected to mean revert in Jun-24 (%MoM)



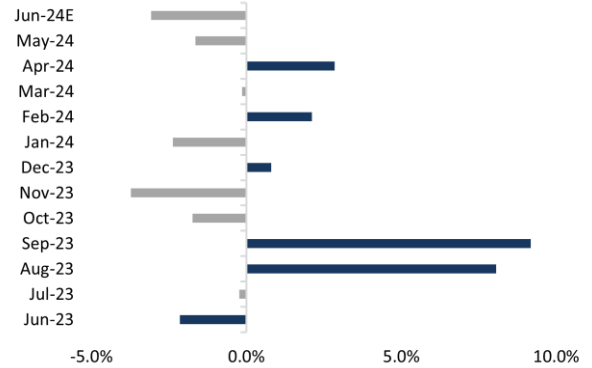
Source: PBS, Akseer Research

PKR movement against USD in Jun-24



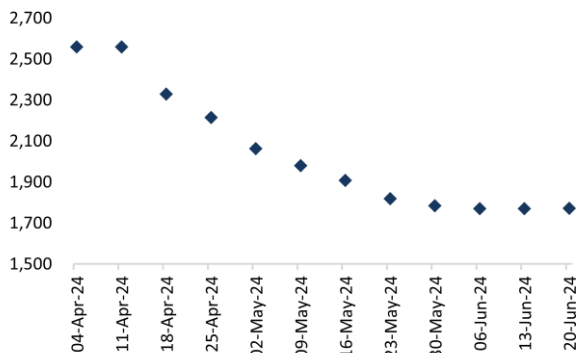
Source: PBS, Akseer Research

Transport index expected to deflate for a 2<sup>nd</sup> consecutive month (%MoM)



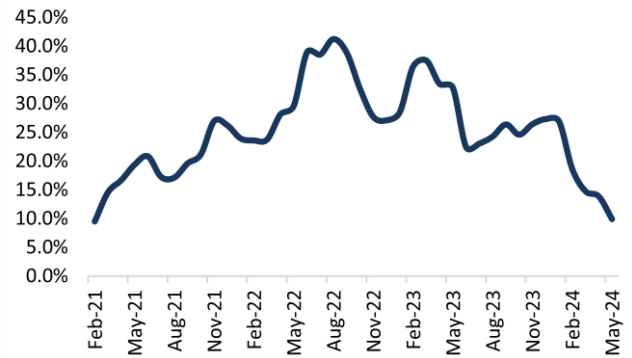
Source: PBS, Akseer Research

Wheat prices have considerably declined since Apr-24 (PKR per 20kg)



Source: PBS, Akseer Research

WPI entered single digits for the first time since Feb-21 in May-24



Source: PBS, Akseer Research

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