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## Economy: Sep-24 NCPI drops to 6.91% YoY

The headline inflation for Sep-24 arrived as a positive surprise, dropping to 6.9% YoY and deflating by 0.5% MoM. This brings the average inflation for 1QFY25 to 9.2% compared to 29.0% YoY in 1QFY24. Despite recent cuts since Jun-24, the NCPI reading for Sep-24 widened the real interest rate to ~10.6%. Additionally, we note that the core inflation arrived at 10.4% YoY, with urban core recorded in single-digit at 9.3% YoY and rural core at 12.1% YoY. On a segmental basis, the food & non-alcoholic beverages and transport indexes contributed most to the decline in the NCPI reading for Sep-24. Their deflationary trends (on a monthly basis) can be attributed to easing commodity prices, declining global oil prices, and a stable USD/PKR exchange rate.

### NCPI decreases 0.5% MoM in Sep-24

- The NCPI for Sep-24 arrived at 6.9% (lowest since Jan-21) contracting by 0.5% MoM, making this the third month to experience deflation since Jan-24. Despite a cumulative 450bps rate cut, the real interest rate (RIR) widened to ~10.6%, presenting strong prospects for further monetary easing.
- Core inflation arrived at 10.4% YoY, recording a 29-month low. The gap between core and headline inflation increased to 3.5% in Sep-24 versus 2.2% in Aug-24. Urban core clocked in at 9.3% YoY, the first instance of a single digit in three years.
- Food & non-alcoholic beverages index emerged as the highest contributor to the headline reading, reducing by 1.4% MoM in Sep-24, deflating from an increase of 1.5% MoM in Aug-24. This decline arose from improved crop yields, particularly of wheat and rice, and falling prices.
- Transport index reduced by 1.9% MoM in Sep-24 from -0.8% MoM in Aug-24 on the back of declining international oil prices, translating to lower prices of local POL products.

### Outlook

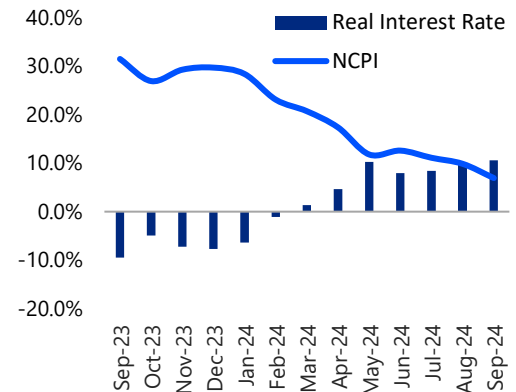
The latest headline inflation figures present an optimistic outlook for Pakistan's economy. With the eventual fading of the high base effect, we anticipate that inflation will remain below 5% YoY, supported by stable commodity prices and exchange rate. However, we flag a confluence of factors, including (i) a potential rise in international oil prices due to geopolitical tensions, particularly any retaliation by Israel against Iran, and (ii) inflationary pressures stemming from the fiscal measures in the federal budget for FY2024-2025, as risks to sustaining low inflation levels in the medium term.

### Sep-24 MoM National CPI Breakdown

Segments	Weight in CPI	MoM	Cont. to MoM CPI
Food & Non -Alcoholic Beverages	34.58%	-1.39%	-0.51%
Housing, Water, Electricity, Gas & Fuel	23.63%	-0.60%	-0.13%
Clothing & Footwear	8.60%	0.49%	0.04%
Restaurants & Hotels	6.92%	1.48%	0.11%
Transport	5.91%	-1.91%	-0.13%
Others	20.36%	0.39%	0.08%
<b>MoM Change in CPI</b>			<b>-0.54%</b>
<b>YoY Change in CPI</b>			<b>6.91%</b>

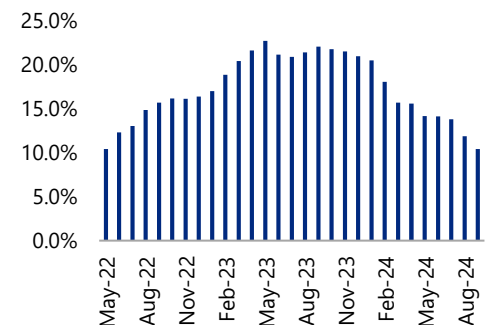
Source: PBS, Akseer Research

### NCPI & Policy rate



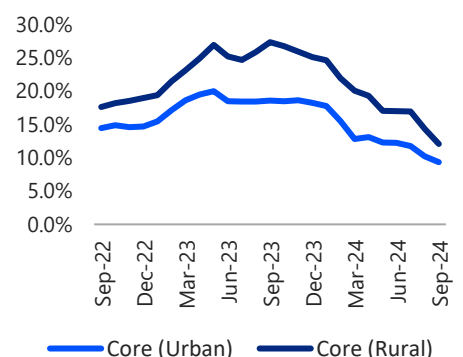
Source: PBS, SBP, Akseer Research

### Core inflation arrives at a 29-month low



Source: PBS, Akseer Research

### Urban and Rural Core (YoY)



Source: PBS, Akseer Research

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