

**ECONOMY**

## Inflation Update

## Pakistan Research

**Economy: Jun-24 NCPI clocked in at 12.6% YoY**

As per the latest data released by PBS, headline inflation for Jun-24 arrived in line with our projection of 12.6% YoY, compared to 11.8% YoY in May-24, translating to an average of 23.4% YoY in FY24 versus 29.2% YoY in FY23. The FY24 average is higher than the government's target of 21.0% YoY. In addition, we note that (i) the food segment remained muted contrary to our expectation of an uptick and (ii) higher contribution emerged from an increase in electricity charges.

**NCPI increases by 0.5% MoM in Jun-24**

- The Housing, Water, Electricity, Gas and Fuel segment emerged as the highest contributor to the headline reading, exhibiting an increase by 1.5% MoM in Jun-24 versus -1.4% MoM in the previous month due to an 8.1% MoM hike in electricity prices compared to -4.5% MoM in May-24.
- The decrease in Transport constituent continued for the second consecutive month as it declined from -1.6% MoM in May-24 to -2.2% MoM in Jun-24 due to falling motor fuel prices (-5.4% MoM).
- Core inflation arrived higher than our projection of 13.6% YoY in Jun-24 at 14.1% YoY. In comparison, core inflation for May-24 was 14.2% YoY, higher than headline inflation for the second consecutive month. We believe the prominence of core inflation would increase with each passing month as non-food, non-energy segments have depicted a stickier trend than the headline reading. The gap between core and headline inflation (with core>headline) decreased to 1.5% in Jun-24 versus 2.4% in May-24.
- We also note a disconnect between the sources of headline and core inflation. While the NCPI's headline reading is being driven by urban CPI (May-24: 14.9% YoY), core inflation is being influenced more by the rural index (May-24L 17.0% YoY) signaling that rural core inflation is the major index elevating overall inflation levels.

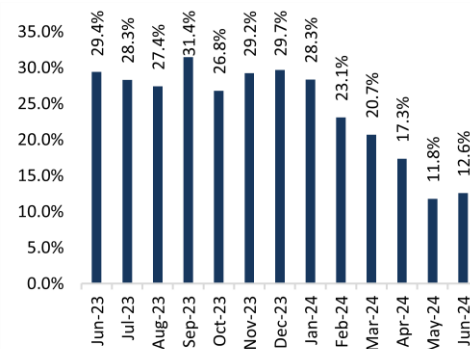
**Outlook**

The government is leaving no stone unturned in its attempt to secure the essential IMF program. For this, two notable developments have occurred over the past few days, marking the start of fiscal year 2024/25. The combination of a tax-heavy Finance Bill 2024/25 to the tune of PKR 1.76 trillion (direct tax) and a concurrent increase in petrol and HSD prices by PKR 7.5 and PKR 9.6 per liter, respectively. These developments are not only likely to further erode the purchasing power of consumers and contract demand, but are also inflationary in nature. We believe that a confluence of (i) demand-led upward pressure on general price levels post interest rate cuts, (ii) increase in energy charges, (iii) tax-led increase in milk prices (weight: 9.4% of NCPI) and (iv) mean-reversion of wheat prices (weight: 5.0% of NCPI) would be major factors that keep the headline reading elevated over the near-medium term.

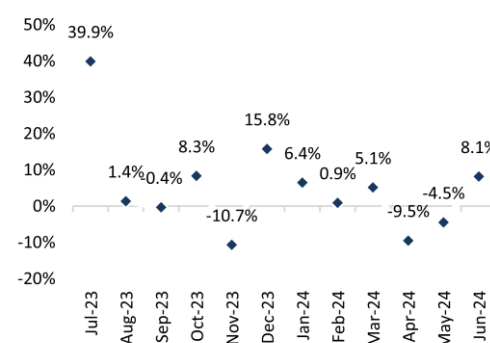
**Jun-24 National CPI Breakdown**

Segments	Weight in CPI	% MoM	Cont. to MoM CPI
Food & Non-alcoholic Bev.	34.6%	0.1%	0.0%
Non-perishable Food Items	29.6%	-0.9%	-0.3%
Perishable Food Items	5.0%	6.8%	0.3%
Housing, Water, Electricity, Gas & Fuels	23.6%	1.5%	0.3%
Clothing & Footwear	8.6%	0.9%	0.1%
Restaurants & Hotels	6.9%	-0.3%	0.0%
Transport	5.9%	-2.2%	-0.2%
Others	20.4%	1.0%	0.2%
<b>MoM change in CPI</b>			<b>0.5%</b>
<b>YoY change in CPI</b>			<b>12.6%</b>

Source: PBS, Akseer Research

**NCPI arrives at 12.6% YoY in Jun-24**

Source: PBS, Akseer Research

**Electricity prices increase by 8.1% YoY in Jun-24**

Source: PBS, Akseer Research

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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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