

ECONOMY

Inflation Update

Pakistan Research

Economy: Mar-24 NCPI clocked in at 20.7% YoY

As per the latest data released by PBS, headline inflation for Mar-24 registered a slightly higher reading than our projection, hitting a 22-month low of 20.7% YoY, as compared to 23.1% YoY in Feb-24. Subsequently, the Real Interest Rate turned positive for the first time since Jan-21. The 9MFY24 average is 27.1% YoY as opposed to a 27.3% YoY reading during 9MFY23.

NCPI increases on a MoM basis due to Ramadan

- The increase in inflationary pressures, as depicted by a 1.71% MoM reading versus 0.03% MoM last month), was mainly due to greater than anticipated inflation within perishable items.
- A 2.9% MoM increase in the Food & Beverage index contributed with a positive impact of 1.1% on a MoM basis. Additionally, Housing & Utility category exhibited a 1.5% MoM increase with an impact of 0.3% MoM in Mar-24 as opposed to a 0.4% MoM impact last month.
- We highlight that the Food & Beverages segment witnessed an expected increase due to Ramadan, leading to a hefty increase in prices of perishable food items including Tomatoes (52.1% MoM), Onions (28.0% MoM), Potatoes (23.7% MoM), Fresh Fruits (21.9% MoM) and Fresh Vegetables (12.8% MoM).
- The Housing & Utilities constituent decelerated in Mar-24 to 1.5% MoM, a low of 6-Months, versus 1.8% MoM last month primarily due to i) the absence of increase in gas prices and ii) lower increase in construction input items and wages despite FCA increase leading to an uptick of 5.1% MoM in electricity charges.
- The Transport segment decreased by 0.2% MoM, on the back of a decline in Transport services by 6.0% MoM despite an increase in Motor Fuel prices. Motor Fuel prices witnessed a PKR 5.8/4.3 per liter increase in Petrol/HSD prices, emanating from an increase in global oil prices and higher import premiums in the wake of red sea attacks.
- Underlying (Core) inflation decelerated for a 5th consecutive month, exhibiting a lower reading on a MoM basis in Urban basket. Core U/R increased 0.1%/0.8% MoM in Mar-24 versus 0.3%/0.4% MoM in Feb-24. This led to NFNE inflation recording a reading of 15.7% YoY, lowest since Sep-22, versus 18.1% YoY last month.

Mar-24 MoM National CPI Inflation Breakdown

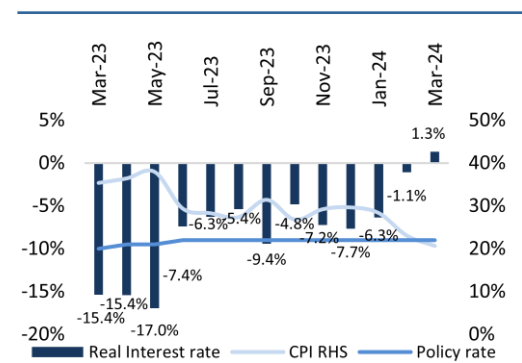
| | Weight in CPI | % MoM | Cont. to MoM CPI |
|---|---------------|--------------|------------------|
| Food & Non-Alcoholic Beverages | 34.6% | 2.91% | 1.1% |
| -- Non-Perishable | 29.6% | -0.3% | -0.1% |
| -- Perishable | 5.0% | 22.7% | 1.2% |
| Housing & Utilities | 23.6% | 1.5% | 0.3% |
| Clothing & Footwear | 8.6% | 1.7% | 0.1% |
| Restaurants & Hotels | 6.9% | 0.8% | 0.1% |
| Transport | 5.9% | -0.2% | -0.0% |
| Others | 20.4% | 0.5% | 0.1% |
| MoM change in CPI | | | 1.7% |
| YoY Change in CPI | | | 20.7% |

Source: PBS, Akseer Research

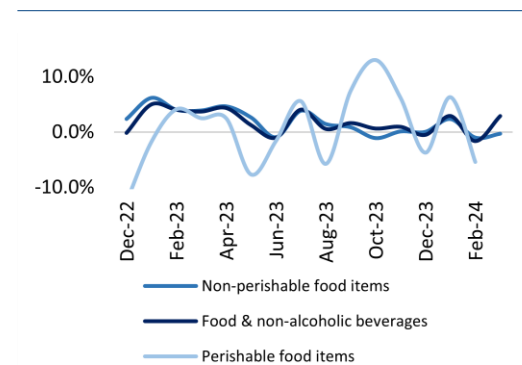
Outlook | Energy prices and external imbalances to drive inflationary pressure

We expect the CPI trajectory to transition towards a lower plane in the upcoming months on high base impact with inflation expected to average 21.2% YoY in 2HFY24 and then 15.9% YoY in 1HFY25.

However, we emphasize that (i) new taxation measures to bridge the fiscal gap in-line with the IMF targets and (ii) unfunded debt repayments of USD 3.5bn (till Jun-24) exerting pressure on PKR/USD parity will likely keep the MoM readings elevated. We highlight that greater than expected PKR depreciation and higher oil prices are key upside risks to our projections.

Real Interest Rate turned positive

Source: PBS, Akseer Research

Food prices increase in Mar-24 due to Ramadan factor (% MoM)

Source: PBS, Akseer Research

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|--------|-------------------------------|
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