

ECONOMY

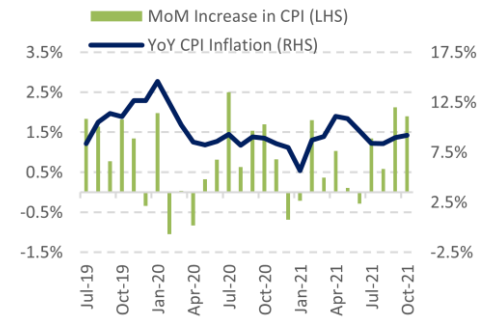
Inflation Forecast

Pakistan Research

Economy: Nov-21 CPI expected to clock in at 10.60%

- **Persistent increase in food basket’s prices along with a jump in the transportation index will likely take Nov-21 headline inflation into double digit at 10.60%. Upward revision in electricity tariff will also take a toll on inflation readings. CPI for 5MFY22 is likely to average 9.12% versus 8.76% witnessed in the CPLY.**
- **MoM CPI Index is likely to surge by 2.1% mainly due to higher contribution of 1.32% by the food basket index followed by 0.35% from Transportation Index.**
- **For the full year FY22, we expect the inflation expectation to remain in the high single digit on the back of unabated rise in the international commodity prices, likely hikes in the electricity/ gas tariffs, and PKR devaluation. The CPI is expected to conclude above the SBP’s target range of 7-9%, with our expectation of 9.3% for FY22.**

Chart–1: CPI Inflation trend



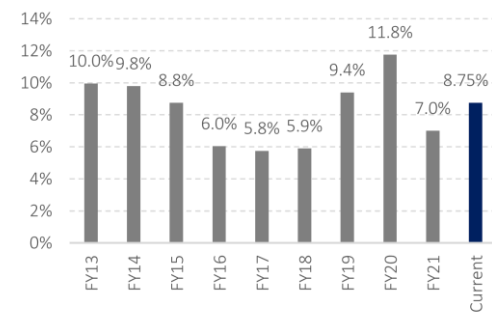
Source: PBS, Akseer Research

November-21 MoM National CPI Inflation forecast Breakdown (base year 2015-16)

	Weight in CPI	MoM Change (%)	Cont. to MoM CPI
Food & Non-Alcoholic Beverages	34.58%	3.81%	1.32%
Housing, Water, Gas & Fuel	19.07%	0.70%	0.13%
Electricity	4.56%	5.80%	0.26%
Clothing & Footwear	8.60%	-0.33%	-0.03%
Restaurants & Hotels	6.92%	0.50%	0.03%
Transportation	5.91%	5.91%	0.35%
Others	24.92%	0.20%	0.05%
MoM change in CPI			2.1%
YoY change in CPI			10.60%

Source: PBS, Akseer Research

Chart–2: Policy Rate



Source: SBP, Akseer Research

Food Index and fuel prices to contribute most in the MoM CPI

We expect CPI to grow 2.1% MoM during Nov-21, driven by the surge in the food basket prices (expected to rise 3.81% MoM led by seasonal increase in poultry, potatoes, tomatoes and ghee/cooking oil prices). 5.9% MoM hike in the petroleum prices will also keep the monthly CPI elevated, with Transportation Index contributing 35bps.

The resumption of the IMF program also led to upward adjustment in the electricity tariffs, up 5.8% MoM, which eventually will add another 26bps to the monthly CPI surge.

The CPI Inflation for Nov-21, resultantly to conclude in the double digit of 10.60% compared to 9.2%/8.3% during Oct-21/Nov-20. This will take cumulative 5MFY22 average CPI to 9.12% versus 8.76% in the same period last year.

Inflationary pressures to persist amidst rising prices and currency devaluation

The emergence of COVID-19 new variant Omicron exerted some downward pressure on the international commodity prices (especially energy); which if prolonged could result in easing off some inflationary pressures in coming months. However, the country’s ballooning trade and current account deficit has put pressure on the PKR, depreciating by ~12% FYTD, which will further add to the spiralling inflation going forward, due to higher food and oil imports. The CPI, hence, is expected to surpass SBP’s target range of 7-9% during FY22 with our full year expectation of 9.3%.

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