

Higher food and energy prices to take Jun'22 inflation to 18.4%YoY

- We estimate Jun'22 NCPI inflation to clock-in at 18.4%YoY/3.8%MoM (highest YoY inflation since Apr'09), compared to 13.8%YoY/0.4%MoM of May'22 and 9.6%YoY/-0.3%MoM of Jun'21.
- This would take FY22 average inflation to 11.9% compared to 8.9% of FY21.
- We estimate Urban/Rural inflation for Jun'22 at 17.1%/20.4% on YoY basis and 3.7%/3.8% on MoM basis.
- The Urban/Rural NFNE inflation for Jun'22 is estimate to crawl further up to 10.1%/11.9% compared to 9.7%/11.5% last month.
- Food inflation is expected to further climb 2.7%MoM primarily led by increase in prices of rice, meat, fresh milk and products, eggs, oil and ghee, pulses vegetables including potatoes, onions and tomatoes, and sugar.
- On the other hand, prices of wheat and wheat flour, chicken, and condiments and spices came slightly down during the month.
- As result of upward adjustment in electricity tariff for fuel cost, we estimate electricity tariff to increase by ~11%MoM.
- Since May 27, 2022, the government decided to gradually reduce subsidies on petrol and diesel and therefore increased their prices by PKR30/liter each followed by further increases of PKR30/liter each and another PKR24/liter and PKR59/liter, respectively on June 16th, 2022. This increase is initially expected to inflate motor fuels component of the Transport segment, and later on it would impact other components of the segment also.
- Going forward in addition to continued pressure in food prices, further increase in POL products prices (increase in PL to PKR50/liter, and resumption of GST), increase in electricity tariffs, and upward movement in NFNE inflation, barring any spill-over effects our FY23 average inflation estimate is in excess of 17% and we do not see inflation coming off to single-digit no earlier than Jul'23 and that too would be due to high base effect.
- As far as the decision of the MPC in its meeting scheduled on July 7th, 2022 is concerned, we expect the policy rate to be kept unchanged for now to gauge the impacts of the contractionary fiscal policy. However, keeping inflation estimates in mind that may cross 21% in the coming few months, and to curtail any second round impacts, we do not rule out another 100-150bps increase in policy rate during the latter part of CY22.

Break-up of Jun'22E inflation numbers

	National CPI			Urban CPI			Rural CPI		
	W	MoM	YoY	W	MoM	YoY	W	MoM	YoY
General	100.0%	3.8%	18.4%	100.0%	3.7%	17.1%	100.0%	3.8%	20.4%
Food & Non-alcoholic Bev.	34.6%	2.7%	22.6%	30.4%	2.4%	21.6%	40.9%	3.1%	23.8%
Alcoholic Bev.& Tobacco	1.0%	3.1%	13.3%	0.9%	2.9%	12.4%	1.3%	3.4%	14.4%
Clothing & Footwear	8.6%	2.0%	13.3%	8.0%	2.0%	13.1%	9.5%	1.9%	13.6%
Housing, Water & Energy	23.6%	1.6%	7.1%	27.0%	1.5%	5.6%	18.5%	1.7%	10.3%
Furnishing & Household	4.1%	0.8%	16.3%	4.1%	0.8%	15.4%	4.1%	0.8%	17.6%
Health	2.8%	0.8%	10.8%	2.3%	0.8%	10.2%	3.5%	0.7%	11.4%
Transport	5.9%	30.5%	70.1%	6.1%	31.0%	71.2%	5.6%	29.8%	68.4%
Communication	2.2%	0.7%	2.5%	2.4%	0.7%	3.0%	2.0%	0.7%	1.5%
Recreation & Culture	1.6%	0.8%	11.6%	1.7%	0.8%	10.7%	1.4%	0.8%	13.3%
Education	3.8%	0.8%	10.0%	4.9%	0.8%	11.1%	2.1%	0.8%	6.1%
Restaurants & Hotels	6.9%	0.7%	16.0%	7.4%	0.7%	14.5%	6.2%	0.7%	18.8%
Miscellaneous	4.9%	0.7%	13.0%	4.8%	0.7%	11.9%	5.0%	0.8%	14.5%

Source: PBS, Next Research

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Annexure

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