

Pakistan Economy

FY17 Kicks Off With A Headline Inflation of 4.12% Y/Y

The official inflation statistics released by Pakistan Bureau of Statistics (PBS) for the month of Jul'16 reflect an overall CPI reading of 4.12% Y/Y. The month of Jul'16 witnessed a sizeable uptick of 1.64% M/M driven mainly by seasonal factors. During Jul'16 the NFNE measure of inflation clocked in at 4.50% Y/Y, while the Trimmed Core metric stood at 3.60% Y/Y, being trimmed by 10bps M/M. Inflation for the month of Jul'16 was pushed by substantive uptick in prices of Tomatoes (↑92.22% M/M), Fresh Vegetables (↑28.59% M/M), and Potatoes (↑17.45% M/M). The prices of Chicken and Fresh Fruits registered a downtick of 4.51% M/M and 2.51% M/M respectively.

Eid Season Buying Pushed CPI in Jul'16

- Food and Non-Alcoholic Beverages, registered an increase of 3.91% Y/Y, whereby Perishable Food items showed an increase of 14.07% Y/Y, followed by a steady increase of 2.15% Y/Y in prices of Non Perishable Food items. When compared on an annual basis Tomatoes led the rise registering a strong increase of 58.41%, followed by Gram Whole (↑49.77%) and, Pulses (↑47.13%). On a Y/Y basis declining trend was seen in Onions (↓23.35%), Chicken (↓18.91%) and Rice (↓9.22%)
- On a Y/Y basis Alcoholic Beverages and Tobacco posted an increase of 17.74% increase which was largely on the back of a spike in prices of cigarettes that registered an increase of 17.75% Y/Y
- The housing & utilities segment climbed by 5.07% Y/Y, mainly pushed by higher House Rents (↑5.79% Y/Y), expensive Electricity (↑1.45% Y/Y), rising Gas prices (↑9.92%), higher costs for Construction Input Items (↑3.04%) and Construction Wage Rates (↑6.88%)
- The Education segment saw an increase of 7.13% Y/Y, on the back of increases in tuition fees and textbooks

Inflation Outlook: A Higher Plateau Likely In FY17

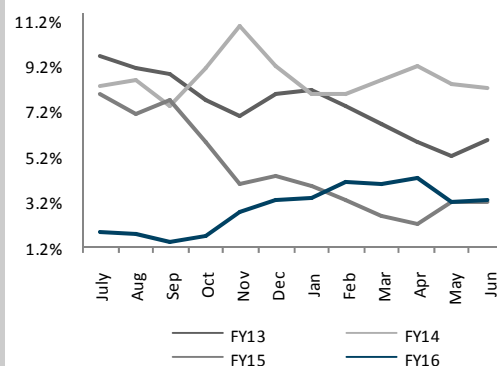
We expect inflation to pick pace primarily due to a surge in prices of food items on account of the upcoming Eid season while the recent drop in international crude may keep any large spikes in CPI under check. The country's departure from the IMF program as a result of its conclusion in combination with dwindling exports is likely to be a drain on the currency which can re-ignite inflationary pressures in the medium term. Despite of headwinds on the macro-economic canvas in the medium-term, the immediate outlook for inflation is expected to be soft, with a likely ascent from the 2QFY17, which will push overall CPI for FY17 in the range of 4.50%-5.00%.



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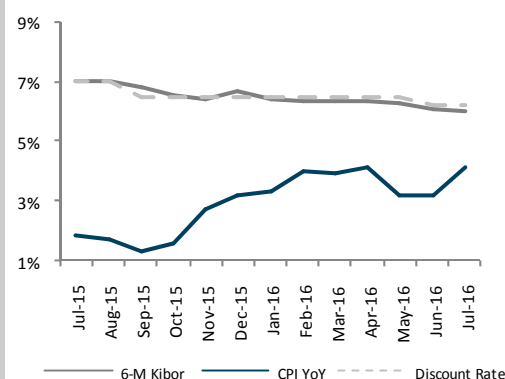
Y/Y Inflation Comparison



Source: SBP & PBS

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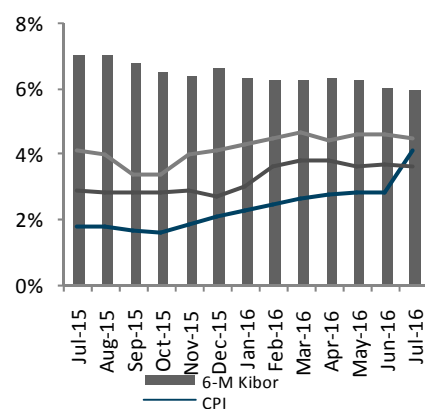
Inflation Vs Interest rate



Source: SBP & PBS



Economic Growth



Source: SBP & PBS

Inflation Index	Index Weights	CPI Y/Y	CPI MoM	Index July'16	Index July'15
Non-Perishable Food Items	4.99%	14.07%	7.87%	259.85	227.80
Perishable Food Items	29.84%	2.15%	0.19%	223.10	218.41
Food and Non Alcoholic Beverages	34.83%	3.92%	1.25%	228.37	219.76
Alcoholic Beverages & Tobacco	1.41%	17.74%	4.24%	364.79	309.83
Clothing & Footware	7.57%	4.58%	0.45%	229.72	219.65
Housing water & Gas	29.41%	5.07%	0.03%	188.88	179.77
Furnishing & household	4.21%	3.83%	0.35%	221.70	213.53
Health	2.19%	4.99%	0.13%	187.84	178.91
Transport	7.20%	-4.95%	0.02%	169.78	178.62
Communication	3.22%	0.41%	0.06%	130.89	130.35
Recreation & culture	2.03%	1.38%	-0.05%	195.67	193.01
Education	3.94%	7.13%	0.18%	224.09	209.17
Restaurant & hotels	1.23%	5.88%	0.09%	264.37	249.70
Miscellaneous	2.76%	5.69%	-0.04%	235.82	223.13
Total	100%	4.12%	1.34%	210.07	201.76

Source: PBS

Rating Definition

Recommendation	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Expected Return	> 15.0%	> 5.0% to <15.0%	> -5.0% to <5.0%	> -15.0% to <-5.0%	>-15.0%

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