

CPI falls to 5.65% YoY during January

Food inflation: previously a source of concern now becomes the savior

- Headline inflation declined to 5.65% YoY (down 0.21% MoM) in January, compared to 7.97% YoY in December, beating market expectations of around 6.0% YoY.
- Most of the sequential decline in inflation was on the back of a 2.65% MoM drop in food inflation, which had until recently been in the spotlight given its impact on the lower-income segments. Key items in the food basket that recorded declines during January were chicken, eggs, various vegetables and spices.
- On the other hand, house rent recorded its highest MoM increase in recent years, which was possibly on account of continued normalization of activity after the pandemic.
- Refreshingly, the decline in January was more pronounced in Rural CPI (-0.29% MoM) compared to Urban CPI (-0.16% MoM), where the former had continuously been trending higher in the previous months (7MFY21 R-CPI: 10.02% YoY vs. U-CPI: 6.98% YoY).
- Cumulatively, headline inflation stands at 8.19% for 7MFY21. Considering the high base effect lasts till Mar-2021, it seems likely that headline inflation will comfortably average within the SBP's estimate of 7-9% during FY21.

Jan-21: National Consumer Price Index

	Weights	Jan-21	MoMΔ	YoYΔ	7MFY21 YoYΔ
Headline inflation	100.00	140.56	-0.21%	5.65%	8.19%
Food & Non-Alcoholic Beverages	34.58	143.79	-2.65%	6.66%	13.79%
Alcoholic Beverages & Tobacco	1.02	143.77	0.09%	5.78%	5.77%
Clothing & Footwear	8.60	142.14	0.83%	9.52%	9.46%
Housing, Water, Electricity, Gas & Fuels	23.63	136.89	1.87%	3.41%	4.04%
Furnishing & Household Equipment Maintenance	4.10	135.91	0.42%	7.63%	7.73%
Health	2.79	149.03	0.94%	8.47%	7.97%
Transport	5.91	141.48	1.85%	-2.58%	-3.01%
Communication	2.21	107.51	0.04%	0.53%	0.41%
Recreation & Culture	1.59	124.41	0.30%	4.63%	4.06%
Education	3.79	143.81	0.07%	1.29%	1.17%
Restaurants & Hotels	6.92	139.66	0.65%	8.92%	8.68%
Miscellaneous	4.87	148.93	1.01%	11.53%	12.07%

Source: PBS, JS Research

Ahmed Lakhani ahmed.lakhani@js.com +92-21-111-574-111 Ext: 3035

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