

Inflation rebasing

THE inflation data just released may evoke a sense of comfort at first glance — but, when examined more carefully, one realises that what is actually being shown is a sharp jump in prices in the month of August. According to the Pakistan Bureau of Statistics, inflation as measured by the Consumer Price Index came in at 10.5pc in the last month. In the month of July, the same figure was reported as 10.3pc, which means the increase in prices is high, but appears to be stabilising. But a closer look reveals that the method by which the PBS calculates the data has been changed between July and August, and what appears to be a plateauing in the rate of inflation from one month to the next is, in fact, a sharp increase. As per the new methodology, July's CPI inflation ought to have been 8.4pc, which means a sharp increase in prices between the two months.

The new method for calculating the CPI is a few years in the making. The CPI will now be based on price statistics from FY2016, instead of the base year that was currently being used, which was FY2008. It will now also reflect prices from rural areas, whereas up until now it was largely reflecting prices in urban areas, albeit a large number of towns and cities were part of its coverage area. Very importantly, the weightage assigned to certain price categories has been changed, and some of these changes make little sense. For example, the largest increase in weightage is in prices of hotels and restaurants, while the largest decrease is in housing, electricity, gas and other fuels. It is difficult to imagine how the former is more important to people than the latter, so perhaps the PBS or whoever is involved with devising these changes ought to provide an explanation of how they are justified. This is especially important given that the changes have played some role in mitigating the inflation number. The impression is being created that grounds for a cut in the discount rate now exist. But even the new methodology shows rising underlying demand pressures in the economy, and unless the next data release in October shows these to be plateauing, it will be interesting to see if the State Bank will attempt to justify a rate cut given its pronouncements on the subject thus far.