

### **CPI & gas tariff: improved yet overstated**

It will be a while before the new realities of inflation computation are absorbed by the analyst community, the market, and the policymakers. That is largely because the whole exercise is quite a big deviation from previous practices, and is not merely an event of change in base year and tweaking of the basket of items. The Pakistan Bureau of Statistics (PBS) does deserve some accolade for the Herculean effort to have come up with much improved, and well-explained inflation computation mythology.

Not only has the PBS modified basket of items, it has also moved beyond using simple averages for most calculations. The PBS showed heart in openly admitting the criticism it earlier faced on using simple averages and non-usage of consumption weights, especially for energy pricing. The calculation of the highest weighted category, house-rent, will also be based on the basis of population, a much-needed deviation from the earlier practice of assigning equal weights to all cities, big or small.

Gas price revision in October 2018 became quite an event, as the PBS first wrongly computed the impact at 104 percent, later revising it down to 85 percent. Criticism followed, as the number simply ignored consumption weights across categories, leading to abnormally high price change, caused by massive increase in one of the least consumed category. To its defense, the PBS could not have altered its methodology midway. And the abnormally high gas price impact continued for almost a year – where at most times gas prices with a minuscule weight of 1.5 percent had the biggest impact on headline inflation.

Then came the rebased numbers. And it shows that, had the newly adopted mechanism been in place back then, the gas price hike would have been around 39 percent, instead of 85 percent. That could have kept the yearly average inflation down by around 100 bps. Bygones are bygones. Glad that the new system is in place, and in terms of using consumption weights, the current year-on-year change depreciated at 114.6 percent, is calculated perfectly to the fourth decimal. Kudos for that!

But the PBS seems to have missed a simple trick. Back in July 2019, before the release of rebased CPI, gas prices were once again revised, allowing consumers benefit of the previous slab. That the inflation numbers for July 2019 did not incorporate the same is understandable. But the fact that even the rebased CPI has not taken account of a very important development is disappointing, as once again it puts the whole number into question. That is because the CPI should be measuring the price the consumer is paying at the end – and surely the slab benefit will reflect in the bills.

This inflates the gas price change, even in the rebased CPI, anywhere from 21 to 66 percent – across slabs – and the weighted average impact could well be close to 50 percent.