

May inflation posts largest drop in 11 months amid coronavirus disruptions

KARACHI: Consumer inflation fell to 11-month low of 8.2 percent in May when oil prices tumbled and the coronavirus lockdown suppressed demand for some goods and services, offsetting seasonal food prices hike in Ramazan, official data showed on Monday.

Pakistan Bureau of Statistics (PBS) data showed that consumer inflation was recorded at 8.4 percent in May last year. On month-on-month basis, it increased 0.3 percent in May, compared to a decrease of 0.8 percent in the previous month and an increase of 0.6 percent in May last year.

In May, prices of onion declined 23.35 percent month-on-month, followed by vegetables (19.62pc), eggs (18.74pc), motor fuel (13.43pc), tomatoes (7.74pc), pulse gram (7.25pc), pulse masoor (4.43pc), Besan (4.38pc), liquefied hydrocarbons (4.12pc), and wheat (3.37pc).

However, prices of chicken increased 41.46 percent, followed by potatoes (31.19pc), fruits (9.72pc), milk (4.63pc), cotton cloth (4.04pc), condiments and spices (3.71pc) and butter (2.58pc), tailoring (2.53pc), motor vehicle accessories (1.51pc) and construction input items (0.38pc).

Consumer inflation was recorded at 8 percent in June last year before moving up to 8.4 percent in the following month, according to the PBS. The lower inflation was in contrast to the market expectation of the reading on the higher side due to seasonal effect.

Analyst Noman Ahmed at Insight Securities said major reasons for surge inflation could be higher food prices due to Ramzan and Eid factors. "We have noted that this time artificial rise in food prices was on the lower end, which is contrary to what was traditionally observed during the season," he said.

Consumption was adversely upset during more than two months of lockdown after the coronavirus outbreak. Average inflation for the July-May period came at 10.94 percent, much higher than 6.69 percent in the corresponding period a year earlier and 4.6 percent in July-May 2017/18.

"We expect average inflation for FY20 to reach 10.83 percent, while, average CPI (consumer price index) for the next 12 months is expected to remain at 7-6.5 percent (assuming crude oil at \$40/barrel)," said Ahmed. "We have deferred uptick in housing and education index till July-20. However, a further increase in taxes in the upcoming budget remains a key risk to our estimates. We expect CPI to remain lower in near-term

due to muted crude oil recovery, ample food supply along with subsidies announced by federal government to farmers on fertilisers/tractor during summer season.”

Considering downward inflation and lockdown-sparked slowdown, the central bank has already reduced the policy rate by 525 basis points to 8 percent, “which is roughly 150 basis points above from the expected fall in CPI on forward looking basis”.

“Therefore, we do not expect further emergency cut in near-term,” said Ahmed.

“However, SBP may provide relief if aggregate demand/growth fall below from expectation.”

PBS data further showed that CPI inflation urban increased 7.3 percent year-on-year basis in May, compared to an increase of 7.7 percent in the previous month and 8.5 percent in May 2019. On month-on-month basis, it increased 0.3 percent in May, compared to a decrease of 0.7 percent in the previous month and an increase of 0.7 percent in May last year.

CPI inflation rural increased 9.7 percent year-on-year in May, compared to an increase of 9.8 percent in the previous month and 8.3 percent in May last year. On month-on-month basis, it increased 0.3 percent in May, compared to a decrease of 1.1 percent in the previous month and an increase of 0.5 percent in May last year.

Wholesale price index (WPI) inflation increased 1.5 percent year-on-year in May, compared to an increase of 4.9 percent a month earlier and an increase of 16.5 percent in May last year. WPI inflation decreased 2.1 percent month-on-month in May, compared to a decrease of 2 percent a month earlier and an increase of 1.2 percent in corresponding month of last year.