

Pakistan Economy

May'23 CPI likely to clock in at 38.17%

Headline inflation is estimated to reach record high in May'23 to clock in at ~38.2% vs. 36.4% in Apr'23 and 13.8% in SPLY. This will take 11MFY23 inflation reading to 29.0% vs. 11.3% in 11MFY22. The increase in May CPI is mainly led by food and alcoholic beverages (↑49.2% YoY), housing index (↑21% YoY) and transport index (↑55.4%). On MoM basis, inflation is expected to increase by ~1.7% vs. 2.4% in preceding month. The MoM increase is primarily driven by ~1.6% increase in food index. We expect average inflation for FY23 to clock in at ~29.2% vs. 12.1% in FY22.

Within the SPI basket, items that recorded significant increase in prices during the period under review are as follows, Footwear (31.8↑%), Potatoes (20.2↑%), Chicken (↑18.8%), and Tea (↑9.3%). On the flip side, prices of following items eased off during the month, Onions (↓35.4%), Tomatoes (↓26.4%), Fresh vegetables (↓9.8%), and Fresh fruits (↓3.6%).

We expect headline inflation to ease off from Jun'23, primarily due to high base effect. However, any abrupt movement in PKR/USD parity remains a key risk as the gap between official and unofficial rate has widened in last couple of weeks.

On the flip side, wheat price in domestic market has fallen from its peak of ~PKR5,500-6,000/maund to PKR4,500/maund. The increase in local market was primarily due to hoarding in anticipation of further increase in prices. To note, flour prices in local market have not witnessed any major decline. In current situation, administrative action from government can put pressure on prices in local market which can provide a much needed respite. To highlight, wheat flour has weight of 3.01%/3.43% in urban and rural baskets, respectively.

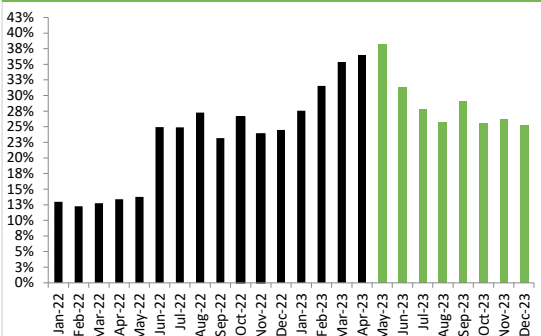
Real rates are in deep negative territory and is expected to clock at ~17.1% with May'23 expected CPI reading of ~38.2%. We forecast inflation print to start receding from next month on the back of high base effect and expected to fall below 20% mark in Feb'24.

Inflation May'23

Item and Specification	Weight	May-23	May-22	YoY Δ	Apr-23	MoM Δ
General	100.0%	228.30	165.24	38.2%	224.43	1.7%
Food	34.6%	265.4	177.9	49.2%	261.2	1.6%
Alcoholic Beverages	1.0%	352.0	159.1	121.2%	354.2	-0.6%
Clothing and footwear	8.6%	208.1	165.7	25.5%	200.2	3.9%
Housing and other	23.6%	178.8	147.6	21.1%	176.8	1.1%
Furnishing and household	4.1%	229.9	163.9	40.3%	226.2	1.6%
Health	2.8%	200.9	169.2	18.7%	200.1	0.4%
Transport	5.9%	290.0	186.6	55.4%	284.7	1.8%
Communication	2.2%	117.8	110.5	6.6%	117.8	0.0%
Recreation and culture	1.6%	233.3	141.1	65.4%	231.4	0.8%
Education	3.8%	171.0	158.3	8.1%	170.0	0.6%
Restaurants and hotels	6.9%	235.2	165.1	42.5%	225.5	4.3%
Misc. goods and services	4.9%	237.1	172.1	37.8%	236.1	0.4%

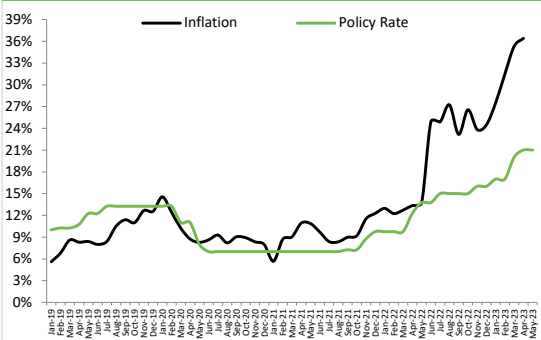
Source : PBS, Insight Research

Economy: Inflation Expectation (YoY)



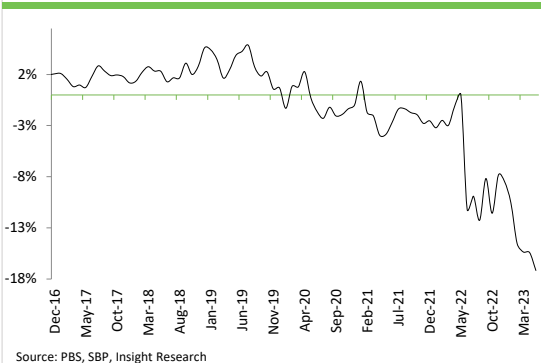
Source: SBP, PBS, Insight Research

Economy: Policy rate vs. Inflation



Source: SBP, PBS, Insight Research

Economy: Real Interest rate (%)



Source: PBS, SBP, Insight Research

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Frequently Used Acronyms

TP	Target Price	DCF	Discounted Cash Flows	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DDM	Dividend Discount Model
SOTP	Sum of the Parts	P/E	Price to Earnings ratio	P/Bv	Price to Book ratio
P/S	Price to Sales	EVA	Economic Valued Added	BVPS	Book Value per Share
EPS	Earnings per Share	DPS	Dividend per Share	DY	Dividend Yield
ROE	Return on Equity	ROA	Return on Assets	CAGR	Compounded Annual Growth Rate

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