

## Sector Update

## Pakistan Economy

## CPI Clocks In At 3.94% Y/Y - Mar'16

The Pakistan Bureau of Statistics (PBS) has released the official inflation statistics for the month of Mar'16 which reflect a CPI reading of 3.94% Y/Y. On a M/M basis a marginal uptick of 0.15% was recorded. Inflation reading on a YTD basis continued its slow upward march settling in at 2.64% Y/Y. During the month of Mar'16, NFNE as a part of core inflation posted an increase of 4.70% Y/Y, while Trimmed Core witnessed a jump of 3.80% Y/Y. Inflation for the month of Mar'16 was driven by steep increase in prices of Chicken ( $\uparrow$ 13.92% M/M), Fresh Fruits ( $\uparrow$ 8.31% M/M) and Fresh Vegetables ( $\uparrow$ 6.73% M/M), while Transportation recorded a decline of 7.30% M/M.

## Food Prices Continue To Inflate CPI

- Food and Non-Alcoholic Beverage segment witnessed an uptick of 2.45% Y/Y contributing a hefty 84bps to the headline inflation. Non Perishable food items recorded an increase of 2.59% Y/Y, while Perishable food items witnessed a jump of 1.51% Y/Y. The largest contributor towards CPI (Y/Y basis) amongst food items came from Pulses ( $\uparrow$ 53.99%) and Onions ( $\uparrow$ 43.44%)
- On a Y/Y basis Alcoholic Beverages and Tobacco posted an increase of 27.05% largely driven by a surge in prices for cigarettes that marked a jump of 27.72% Y/Y
- The housing & utilities witnessed an increment of 5.08% Y/Y, fueled by steep Gas prices ( $\uparrow$ 9.92% Y/Y), Construction Wages ( $\uparrow$ 7.87% Y/Y) and House Rents ( $\uparrow$ 5.46% Y/Y)
- Education underwent a sizeable increase of 9.61% Y/Y, contributing an increase of 38bps to the overall CPI

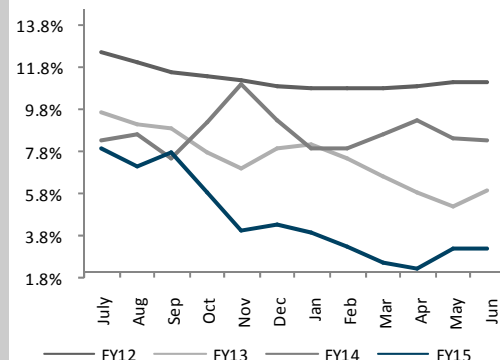
## Inflation Outlook: FY16 Likely To Close Around 4%

A combination of low international crude and slow economic activity will keep inflationary pressures under check. We expect food prices to keep inflation bloated in the short term (especially in the wake of recent heavy rains in the northern regions), while other propellers can be House Rents and Domestic Gas prices. GoP's participation under the IMF's EFF can potentially unleash another wave of price increases in the last leg of FY16 as remaining subsidies on energy are gradually removed. Challenges on the macro-economic front and slow buildup in M2 lend further support to our view of inflation reading staying along the 4% Y/Y level for the remainder FY16.



Apr 04, 2016

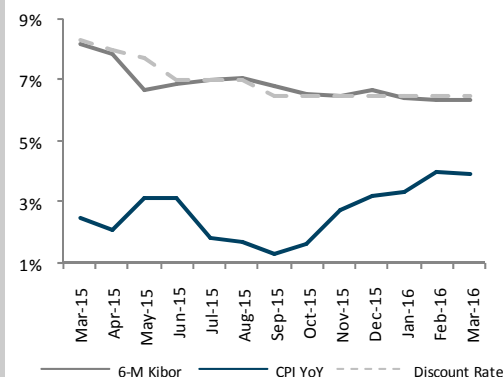
## Y/Y Inflation Comparison



Source: SBP &amp; PBS

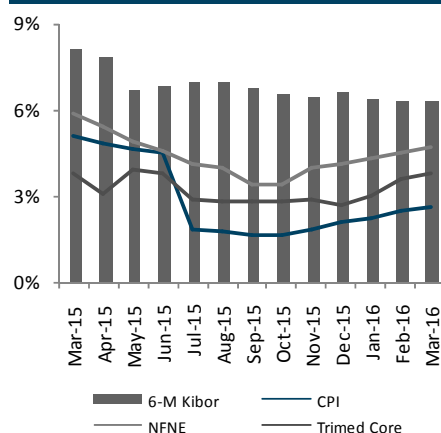
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## Inflation Vs Interest rate



Source: SBP &amp; PBS

## Economic Growth



Source: SBP &amp; PBS

Inflation Index	Index Weights	CPI Y/Y	CPI MoM	Index Mar'16	Index Mar'15
Non-Perishable Food Items	4.99%	1.51%	4.55%	197.35	194.42
Perishable Food Items	29.84%	2.59%	-0.05%	219.27	213.73
<b>Food and Non Alcoholic Beverages</b>	<b>34.83%</b>	<b>2.45%</b>	<b>0.53%</b>	<b>216.13</b>	<b>210.96</b>
Alcoholic Beverages & Tobacco	1.41%	27.06%	0.36%	338.77	266.63
Clothing & Footware	7.57%	5.27%	0.64%	226.40	215.06
Housing water & Gas	29.41%	5.08%	-0.01%	185.48	176.51
Furnishing & household	4.21%	4.58%	0.31%	219.50	209.89
Health	2.19%	4.75%	0.81%	185.68	177.26
Transport	7.20%	-3.93%	-3.33%	168.25	175.14
Communication	3.22%	0.36%	0.13%	130.74	130.27
Recreation & culture	2.03%	2.59%	0.17%	194.71	189.80
Education	3.94%	9.61%	0.40%	210.99	192.50
Restaurant & hotels	1.23%	5.90%	0.93%	261.80	247.22
Miscellaneous	2.76%	4.48%	1.04%	232.55	222.57
<b>Total</b>	<b>100%</b>	<b>3.94%</b>	<b>0.15%</b>	<b>203.28</b>	<b>195.57</b>

Source: PBS

## Rating Definition

Recommendation	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Expected Return	> 15.0%	> 5.0% to <15.0%	> -5.0% to <5.0%	> -15.0% to <-5.0%	>-15.0%

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