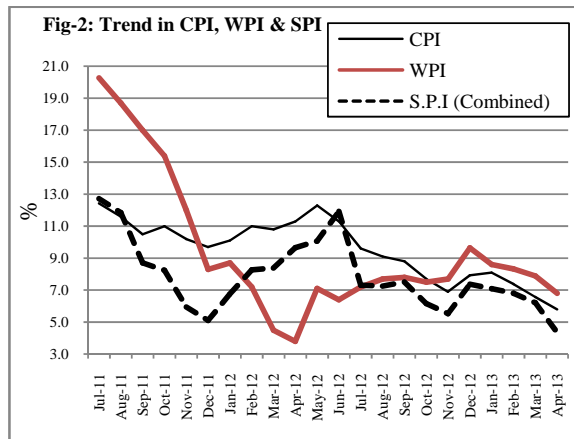
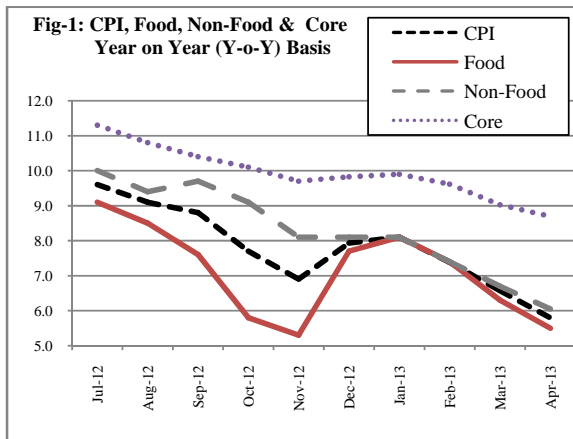


# Inflation

Inflation rate as measured by Consumer Price Index (CPI) represent the trend of prices of goods and services in the economy. The other key factors influencing is the growth in money supply, the supply side bottlenecks, adjustment in government-administered prices, the imported inflation (exchange rate adjustment) and escalations in global fuel and food prices. The CPI which is the headline inflation capture the price movement extensively and is therefore taken as an indicator of inflation. The CPI is broadly divided into two major groups: (i) Food group (ii) Non-food group. The Food Group is further broken into two sub groups as:- (a) perishable food items and (b) non-perishable food items while non-food group of CPI split into eleven (11) sub groups which are transport & communication, food and house rent etc. being the most volatile components of CPI.

The current fiscal year 2012-13 started with single digit inflation and continued to persist till April and is likely to remain single digit. Inflation continued to persist on downward side over the last ten months (Jul-Apr) due to better supply position of food and nonfood items resulting in an easing of domestic prices as well as global commodity prices. The period (Jul-Apr) 2012-13 averaged at 7.8 percent against 10.8 percent in the same period of last year. It also remained low in term of other price indices i.e. Wholesale Price Index (WPI) and Sensitive Price Index (SPI) as shown in Fig.2. This broad deceleration in inflation now likely to keep the average inflation rate below the target of 9.5 percent for the year 2012-13.



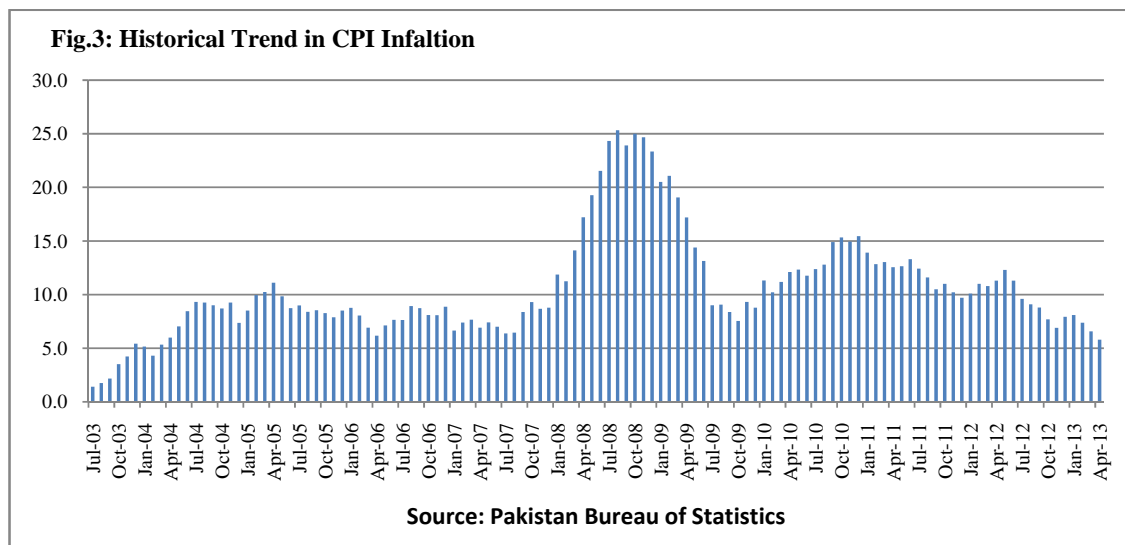
**Table-7.1 : Inflation Rate (CPI) Year-On-Year basis**

Period	CPI	Food	Non- Food	Core	WPI	SPI
July 12	9.6	8.7	10.2	14.6	7.2	7.3
Aug 12	9.1	8.1	9.7	10.8	7.7	7.3
Sep-12	8.8	7.1	9.9	10.4	7.8	7.5
Oct 12	7.7	5.2	9.3	10.2	7.5	6.2
Nov 12	6.9	4.7	8.1	9.7	7.7	5.5
Dec 12	7.9	7.7	8.1	9.8	9.6	7.4
Jan 13	8.1	8.1	8.1	9.9	8.6	7.1
Feb 13	7.4	7.4	7.4	9.6	8.3	6.8
Mar 13	6.6	6.3	6.7	9.0	7.9	6.2
Apr 13	5.8	5.5	6.1	8.7	6.8	4.3

Source: Pakistan Bureau of Statistics (PBS)

Inflation rate from 1957 until 2013, averaged at 8.0 percent with all time high 38 percent in December 1973 and lowest -10.3 percent in February 1959. However, after falling from 20.8 percent in 2008-09, inflation continued to decelerate from 13.7 percent in 2010-11 to 11 percent in 2011-12 and further to 7.8 percent on period average basis during July-

April 2012-13 owing to improved supply of consumable items and declining trend in world commodities prices. Consequently, prices of various domestic commodities particularly edible stuff witnessed a significant stability during the course of year. The fig.3 below reflects the historical trend of inflation rate in Pakistan.



### Inflation 2012-13

Consumer price inflation maintained a downward trend during most of the first ten months (July-Apr) of current fiscal year 2012-13. It averaged 7.8 percent against corresponding increase of 10.8 percent. The food with weight of 34.8 percent and non-food having weight 65.2 declined and stood at

6.6 percent and 8.5 percent respectively, due to better supply position whereas core inflation which is nonfood-non energy is estimated at 9.9 percent. With slow growth in food and energy prices, inflation is expected to average 8.0 percent by end of 2012-13. CPI movements by major groups are given as below:-

**Table 7.2: Composition of CPI Inflation (July- April)**

Commodity	Weights	% Change Inflation		Point Contribution		% Contribution
		2011-12	2012-13	2011-12	2012-13	
General (CPI)	100.0	10.8	7.8	10.8	7.8	100.0
Food, & Non Alcoholic Beverages	34.83	11.1	6.6	3.9	2.3	29.8
Non-Food	65.17	10.7	8.5	6.9	5.5	71.3
Alcoholic Beverages & Tobacco	1.41	7.5	17.5	0.1	0.2	3.2
Clothing & Foot wear	7.57	14.9	14.7	1.1	1.1	14.4
Housing, Water, Elec. Gas & other Fuel	29.41	7.5	4.1	2.2	1.2	15.6
Furnishing & Household Equipments	4.21	17.4	13.3	0.7	0.6	7.2
Health	2.19	11.1	14.2	0.2	0.3	4.0
Transport	7.20	15.5	10.5	1.1	0.8	9.7
Communications	3.22	0.6	2.2	0.0	0.1	0.9
Recreation & Culture	2.03	5.7	18.3	0.1	0.4	4.8
Education	3.94	12.3	9.3	0.5	0.4	4.7
Restaurant & Hotels	1.23	12.8	9.9	0.2	0.1	1.6
Miscellaneous	2.07	19.9	10.6	0.4	0.2	2.8

Source: Pakistan Bureau of Statistics

Food inflation stood low because of improved supply of food related items like potatoes tomatoes onion and vegetables. Major heavy weight items in this category are milk fresh with weight 6.7 percent, followed by wheat flour 4.2 percent, meat 2.4 percent, cooking oil 1.7 percent and rice 1.0 percent. They together with 21.6 percent weight in CPI

basket explain a significant part (2.7 percent) of inflation during the current year. Milk in term of its contribution added 0.6 percent point, wheat flour 0.6 percent point, meat added 0.1 percent point and cooking oil 0.1 percent point. The high prices of fertilizers and pesticides also affected the volume of production and as such price escalation.

**Table 7.3: % Change in Major Food Items Prices**

Food Items	Weight	% Change Apr 13/ Apr 12	Impact
Milk fresh	6.68	9.7	0.6
Wheat flour	4.16	15.3	0.6
Meat	2.43	4.4	0.1
Cooking oil	1.75	5.4	0.1
Fresh vegetable	1.66	2.2	0.04
Rice	1.58	15.2	0.2
Beverages	1.20	8.7	0.1
Tea	0.84	15.7	0.1
Onion	0.54	116.5	0.6
Egg	0.46	10.1	0.05
Pulse Masoor	0.27	1.1	0.0
<b>Total</b>	<b>21.57</b>		<b>2.68</b>

Source: Pakistan Bureau of Statistics (PBS)

The increase in non-food inflation largely stemmed from increase in the sub indices of house rent, electricity tariff rates, education expenses, communication cost, fuel prices, clothing, foot ware and cigarette prices. Among the non-food items,

petroleum products prices moved in line with international fuel prices and induced a hike in prices of diesel, petrol, gas, CNG and transportation which ultimately got reflected into a higher living cost and acceleration in inflation. Detail in table below:

**Table 7.4: %Change in prices of major non-food Items**

Non- Food Items	Weight	%Change Apr 13/ Apr 12	Impact
House rent	21.81	7.1	1.5
Electricity	4.40	16.4	0.7
Education	3.94	6.8	0.3
Communication	3.15	5.2	0.2
Transport services	2.70	7.1	0.2
Cotton cloth	1.73	14.3	0.2
Foot ware	1.55	5.6	0.1
Personal care	1.49	7.4	0.1
Cigarette	1.39	13.4	0.2
Drug medicine	1.27	11.0	0.1
<b>Total</b>	<b>43.44</b>		<b>3.66</b>

Source: Pakistan Bureau of Statistics (PBS)

Recent price trend could also be seen from external source concentrated in food products. The global prices of major food items followed a mixed trend with sugar, edible oil and wheat prices declining and those of tea and rice increasing. Graphic presentation of FAO index at Fig:4 Global food price index (FAO) registered a increase of 1.1 percent over April 2012 owing to increase in dairy products prices. The rise in dairy products prices

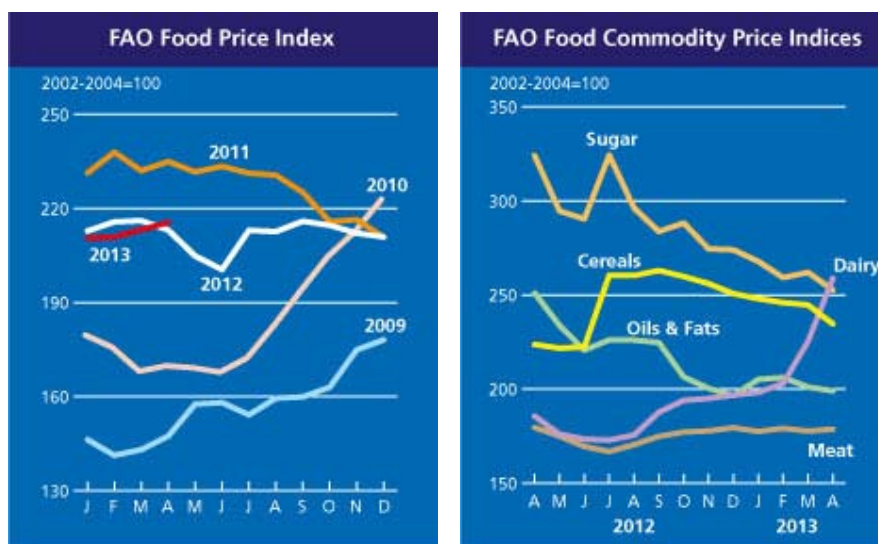
was mainly due to prolonged hot, dry weather in Oceania. The Oceania effect caused export prices elsewhere to rise. Tea prices have gone up largely because of global fall in output. The global tea industry is forecasted to face short supply in 2013. Climatic change impacting tea crops. In South Africa tea production is threatened by drought while tea plantation in China is encountering problem of flood. The poor rain fall in the Indian region of

Assam prospect for drop in tea crops. In Pakistan, the increase in tea prices is owing to declining value of rupee against dollar and upward revision in sales tax rate from 5.0 percent to 16 percent which dictated a steep rise in domestic prices of tea.

Oil price index registered a decline 1.0 percent in April 2013 over April 2012 following the impact of

several factors like favorable weather condition for Soya in South America, the cancellation of large soya bean orders by China and slowdown in US demand. Meanwhile palm oil prices dropped aimed at weakening export demand and ample stocks. FAO maintained its forecast for world wheat production in 2013 to be up 4.4 percent from last year.

Fig-4:



Core inflation is a component of overall inflation and is relevant to the State Bank of Pakistan for its monetary policy targets. Its index is estimated from the indices of 43 non-food-non-energy (NFNE) commodities. It helps the policy makers in determining whether current movement in prices is short lived or is a permanent trend. It outstrips food and energy as prices of these two most volatile components (energy & food) are more sensitive to price change. Their prices frequently increase or decrease and the said price disturbance may not be related to a trend in the economy's overall price level. The idea to strip away the short run movement/shocks, gives a better picture of long run inflation rate. Therefore core inflation is used to forecast future inflation. Core inflation maintained at double digit since July 2012 till October 2012. However, from November 2012 onward it continued to remain at single digit with varying magnitude. The significant variation in the first four months versus to last six months is relevant to the variation in money supply impact.

**Year-on-Year (Y-o-Y) Inflation**

Inflation rate year on year basis continued its downward trend for the last 10 consecutive months i.e. July 2012 to April 2013. The food inflation and non-food inflation also witnessed a similar trend of single digit inflation during the period under review. The headline inflation decelerated from 9.6 percent in July 2012 to 5.8 percent in April 2013 and that of food and non-food from 9.1 percent and 10.0 percent in July 2012 decelerated to 5.5 percent and 6.1 percent respectively in April 2013. The current CPI inflation at 5.8 percent is the 110 months lowest when it was at 5.3 percent in March 2004 and food inflation of 5.5 percent (barring April 2006 3.6 percent) is 85 months lowest and that of non-food inflation currently at 6.1 percent is 66 months lowest from November 2007 when inflation was 5.9 percent. The declining trend in global commodity prices and improved supply of local consumable items contributed in its decline.

Table 7.5: Inflation on year on year (Y-o-Y) Basis %Change

Month	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13
CPI	9.6	9.1	8.8	7.7	6.9	7.9	8.1	7.4	6.6	5.8
Food	9.1	8.5	7.6	5.8	5.3	7.7	8.1	7.4	6.3	5.5
Non-Food	10.0	9.4	9.7	9.1	8.1	8.1	8.1	7.4	6.7	6.1

Source: Pakistan Bureau of Statistics (PBS)

### Inflation by Income Groups

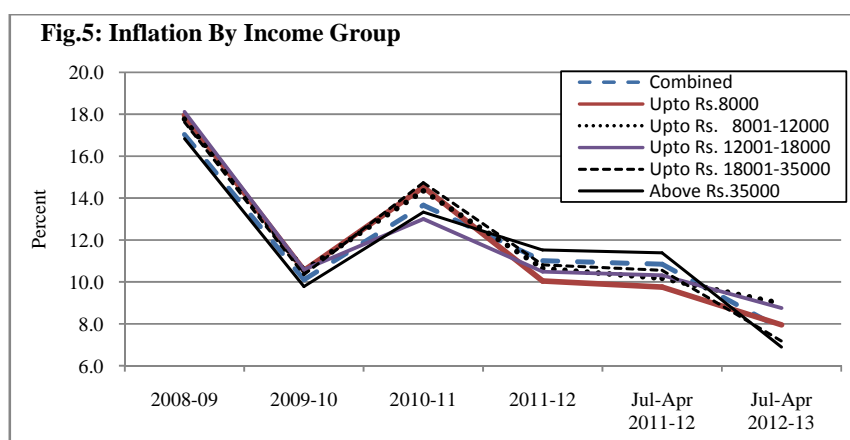
Inflation across different income groups witnessed a mixed trend. CPI inflation 6.9 percent for high earning groups is the lowest while the middle and upper middle income households experienced the highest incidence of inflation. These two sets of income groups experienced differences in overall price increases because they have different spending pattern. In other words when a particular item price

increases, its impact is different for different distinct groups, if they consume it in different amounts relative to their overall spending. Lower income groups spend a much larger share of their expenditures on food while higher earning household on transport and recreation. Since the prices of these items do not increase at the same rate, differences in inflation appear between relatively lower- and higher-income households.

**Table:7.6 Inflation by Consumer Income Groups**

Fiscal Year	Combined	Upto Rs.8000	Upto Rs. 8001-12000	Upto Rs. 12001-18000	Upto Rs. 18001-35000	Above Rs.35000
<b>Spliced with Base Year 2007-08 = 100</b>						
2008-09	17.0	18.0	17.8	18.1	17.6	16.8
2009-10	10.1	10.5	10.5	10.6	10.3	9.8
2010-11	13.7	14.5	14.3	13.0	14.7	13.3
2011-12	11.0	10.0	10.6	10.5	10.8	11.5
<b>Jul-Apr</b>						
2011-12	10.8	9.8	10.2	10.3	10.6	11.4
2012-13	7.8	7.9	9.0	8.8	7.2	6.9

Source: Pakistan Bureau of Statistics (PBS)



Inflation across the world is building up due to increase in global fuel prices which quickly feed into overall prices. Hence the inflationary pressure in the recent past and currently is not specific to Pakistan but in fact is a world wide phenomenon. Rising commodity prices are also stoking inflation in

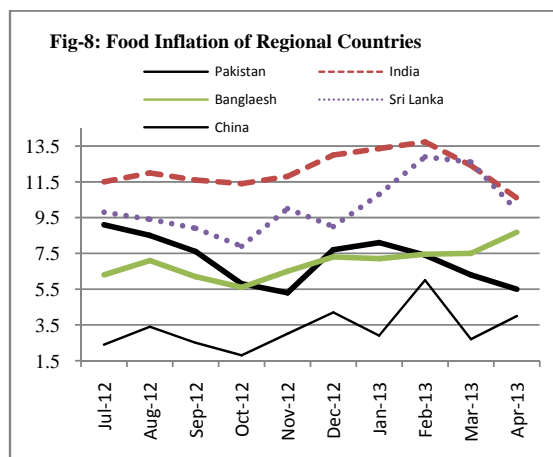
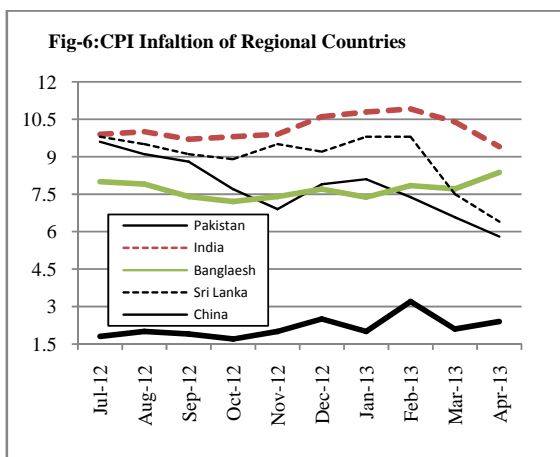
neighboring India and Bangladesh as indicated below. The international commodity prices are outside the control of the government. Pakistan being a member of global community has also been affected of this development on price front.

**Table: 7.7 Regional Inflation.**

Period	Pakistan			India			Bangladesh			Sri-Lanka			China		
	CPI	Food	Non-Food	CPI	Food	Non-Food	CPI	Food	Non-Food	CPI	Food	Non-Food	CPI	Food	Non-Food
Jul-12	9.6	9.1	10.0	9.9	11.5	7.4	8.0	6.3	11.5	9.8	9.8	9.9	1.8	2.4	1.5
Aug-12	9.1	8.5	9.4	10.0	12.0	7.6	7.9	7.1	9.6	9.5	9.4	9.5	2.0	3.4	1.4
Sep-12	8.8	7.6	9.7	9.7	11.6	7.3	7.4	6.2	10.0	9.1	8.9	9.3	1.9	2.5	1.7
Oct-12	7.7	5.8	9.1	9.8	11.4	7.6	7.2	5.6	10.5	8.9	7.9	9.8	1.7	1.8	1.7
Nov-12	6.9	5.3	8.1	9.9	11.8	7.4	7.4	6.5	9.3	9.5	10.0	9.2	2.0	3.0	1.6
Dec-12	7.9	7.7	8.1	10.6	13.0	8.2	7.7	7.3	8.4	9.2	9.0	9.4	2.5	4.2	1.7

**Table: 7.7 Regional Inflation.**

Period	Pakistan			India			Bangladesh			Sri-Lanka			China		
	CPI	Food	Non-Food	CPI	Food	Non-Food	CPI	Food	Non-Food	CPI	Food	Non-Food	CPI	Food	Non-Food
Jan-13	8.1	8.1	8.1	10.8	13.4	8.5	7.4	7.2	7.8	9.8	10.8	9.0	2.0	2.9	1.6
Feb-13	7.4	7.4	7.4	10.9	13.7	8.7	7.8	7.5	8.4	9.8	12.9	7.2	3.2	6.0	1.9
Mar 13	6.6	6.3	6.7	10.4	12.4	8.3	7.7	7.5	8.0	7.5	12.6	3.5	2.1	2.7	1.8
Apr 13	5.8	5.5	6.1	9.4	10.6	8.1	8.4	8.7	7.9	6.4	9.9	3.6	2.4	4.0	1.6



The situation in global economy presents an environment where the rising commodity prices reinforces a steadily depreciation of rupee and revisions in energy tariffs. These factors influence the inflation and balance of payment position of the country and thereby escalation in price.

The need is to concentrate on monetary and fiscal policies to curtail overall demand in the economy. Fiscal policies needed to be accommodative and the monetary authorities of the country continue to follow a stringent monetary policy to ease inflationary pressures but such a policy strategy has its own implications. A higher growth rate in the domestic economy or decline in international commodity prices can soften inflationary pressures. In fact, higher inflation is not only unfair for the people with fixed income, but also has negative repercussions for investment, growth and the external sector.

As a part of macro economic stabilization programme, one of the key policy objectives of the government in the near past has been containing

inflation to bring it down to the affordable level, a phenomenon having economic as well as social implication.

#### Whole Sale Price Index (WPI)

A remarkable stability in whole sale price index (WPI) has been witnessed during the current year 2012-13. The index on period average basis during (July-April) 2012-13 has been estimated at 7.9 percent which is the lowest since the last 7 months.

Further categorization of the index into 5 constituent groups reveals the highest inflationary pressure in Ore & mineral group. Other component groups recorded a moderate rise around of 6 percent. The prices of most of the items in the category of agriculture and food products either remained stable or recorded decline. While those of iron, steel, electricity, coal and cotton related items were mainly responsible for the rise in Whole Sale Price Index. Higher price were also reported for leather product prices like footwear, Chemicals and medicines prices.

**Table 7.8: Wholesale Price Index**

Commodity	Weights	(%) Change July -Apr 2012-13	Impact
General(WPI)	100.0	7.92	7.9
Agriculture Forestry & Fishery	42.1	6.47	2.7
Non-Food	57.9	8.30	4.8

**Table 7.8: Wholesale Price Index**

Commodity	Weights	(%) Change July -Apr 2012-13	Impact
Ores & Minerals	12.0	19.45	2.3
Food Products, Beverages	31.1	7.04	2.2
Other Transportable Goods	22.4	5.92	1.3
Metal Products Machinery	8.7	4.71	0.4

Source: Pakistan Bureau of Statistics (PBS)

**Table 7.9: (%) Change in prices of major items of WPI**

	Weight	% Change Apr-13/ Apr-12	Impact
Pulses	0.49	-15.8	-0.1
Sugar	1.8	-3.0	-0.1
Vegetable ghee	1.56	-2.2	0.0
Poultry	0.56	-18.9	-0.1
Fresh fruits	1.51	-1.6	0.0
Coal	0.75	23.9	0.2
Electrical energy	5.49	36.1	2.0
Cotton yarn	5.25	12.2	0.6
Blended yarn	0.17	8.6	0.0
Woven fabrics	0.01	21.8	0.0
Cotton fabrics	0.63	1.5	0.0
Other fabrics	1.1	5.0	0.1
Chemicals	1.77	9.7	0.2
Medicines	1.14	16.0	0.2
Soaps & detergent	0.82	9.7	0.1

Source: Pakistan Bureau of Statistics (PBS)

**Sensitive Price indicator**

Sensitive Price Indicator (SPI) is the most closely watched index registered an increase of 4.3 percent on combined basis and 6.6 percent on lowest income basis in April 2013 which by historical trend is 70 months lowest. The moderate rise in the index mainly came from stable trend in 33 food items constituting the food groups of SPI. Major contributors to this effect are milk fresh 1.6 percent followed by wheat flour and onion each 1.5 percent, tea pack 0.3 percent, rice basmati broken 0.2 percent and beef 0.2 percent. Other items in the category of

food items either remained stable or registered a decline in their prices.

In the category of utility items and transport groups, prices of LPG, gas, petrol and diesel recorded a decline in their prices. However, all the 14 items constituting the non-food groups of SPI registered a significant rise in their prices and contributed 1.5% to the overall pickup in SPI. A significant rise has been recorded in prices of footwear, long cloth and washing soap etc. Following table represent the price movement.

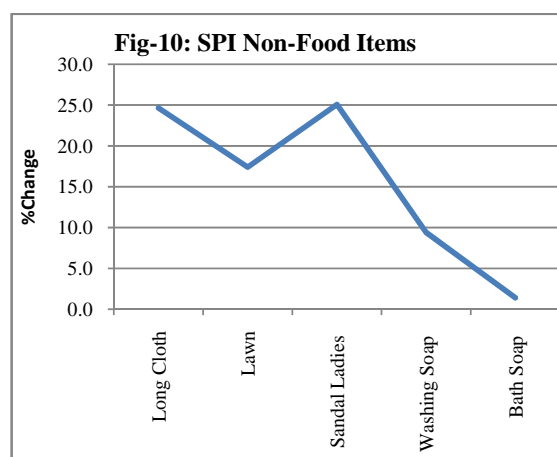
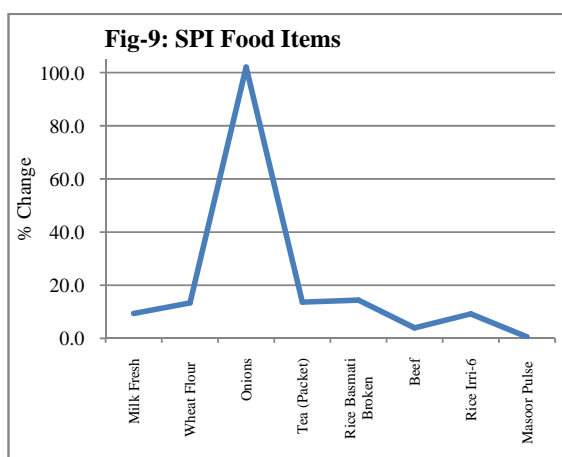
**Table 7.10: (%) Change in prices of major items of SPI**

Items	Weight SPI	(% CHANGE) Apr-13/ Apr-12	Impact
<b>Food Items</b>			
Milk Fresh	16.84	9.38	1.58
Wheat Flour	10.90	13.32	1.45
Onions	1.42	102.07	1.45
Tea (Packet)	2.15	13.64	0.29
Rice Basmati Broken	1.90	14.33	0.27
Beef	4.27	3.90	0.17
Rice Irri-6	0.19	9.17	0.02

**Table 7.10: (%) Change in prices of major items of SPI**

Items	Weight SPI	(% CHANGE) Apr-13/ Apr-12	Impact
Masoor Pulse	0.49	0.51	0.00
Moong Pulse	0.61	-6.30	-0.04
Veg.Ghee (Tin)	2.71	-1.44	-0.04
Mash Pulse	0.55	-8.88	-0.05
Tomatoes	1.18	-4.93	-0.06
Gram Pulse	0.62	-10.84	-0.07
Sugar	2.73	-4.40	-0.12
Red Chilies Powdered	0.44	-27.85	-0.12
<b>Non-Food Items</b>			
Long Cloth	1.85	24.63	0.46
Lawn	1.47	17.39	0.26
Sandal Ladies (Bata)	0.81	25.06	0.20
Washing Soap (Nylon)	0.77	9.40	0.07
Bath Soap (Lifebuoy)	0.35	1.40	0.00
L.P.G	0.27	-4.38	-0.01
Gas Charges	4.12	-13.67	-0.56
Petrol	5.12	-0.89	-0.05

Source: Pakistan Bureau of Statistics (PBS)

**Price Stabilization measures:**

In order to closely monitor the inflation trend the following measures have been taken:-

- The Cabinet and ECC reviews inflationary trend and prices of essential commodities in its meeting on regular basis.
- Policy of prudent macro economic management is pursued to consolidate macro economic stability.
- Provincial governments are also working to make the price control mechanism more effective.
- National Price Monitoring Committee (NPMC) is also monitoring prices of essential commodities in consultation with provincial governments and

concerned Federal Ministries/ Divisions and Organization.

- A Private Member Bill on control of price of essential commodities and price hike has also been introduced in the Senate. After discussion of the said bill in Senate Standing Committee on Finance and Revenue, a sub committee was constituted to consider the control of price of essential commodities and price hike.

The sub committee constituted on this also submitted its recommendations to the Senate which primarily concerns ensuring food security, revival of executive magistracy system and monitoring and enforcement framework for price and smoothing supply of essential commodities.



The newly created Ministry of Food Security has been actively pursuing to ensure food security and drafting its Food Security Policy in the light of recommendations of Task Force on food security which finalized its recommendations in 2008.

### **Conclusion**

Given the persistent downward trend in inflation over the last ten months, CPI inflation for the year 2012-13 is forecasted to hover around 8.0%. The availability of food items and any adverse external hike in prices. Seems unlikely, therefore, the upside

risk to inflation for one remainder of FY13 is minimal. However the revision of any energy tariffs and imposition of taxes may pose risk to inflation beyond FY13. Food supply at affordable price is the focal point of food security policy of Pakistan and the four dimensions of food security also include food availability, food accessibility, food utilization and food stability which have always been on the high agenda of food policy. It is hoped that implementations of the policy in letter and spirit will to further contain the inflation and ensure secure food environment for the growing population.

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