

Pakistan Economy

February Inflation expected to moderate to 23.5% Y/Y from 28.4% in January 2024

Thursday, February 29, 2024

We expect Headline Inflation to moderate to 23.5% in February 2024 from 28.4% in January 2024 through a combination of the base effect and lower food prices.

On a mid of the month SPI basis, prices for tomatoes and onions have declined 14% and 24% respectively while prices for eggs declined 41%. We expect Urban Food CPI to decline 0.8% M/M compared to a 3.3% increase in January. Similarly, we expect Rural Food CPI to decline 1.2% M/M compared to a 2.5% increase in January. On a Y/Y basis, this translates into 19.1% Food Inflation in February compared to 25.2% in January 2024.

The decline in food prices is being somewhat offset by a rise in energy prices. Petrol and HSD prices are up 6% and 4% respectively based on mid-month SPI data. This is contributing to 1.8%/1.9% Urban/Rural Transport Inflation in February 2024.

Had transport inflation been flat M/M, our February headline inflation estimate would have been 13 bps lower. Similarly, had food inflation been in-line with the 3-month average of 1.0 – 1.2% M/M, our Headline Inflation estimate would have been 100bps higher.

Going forward, we expect the current trend in food inflation to somewhat reverse due to Ramadan. However, largely due to the base effect, Headline Inflation should continue to trend downwards.

As highlighted in our February 15th note on “Higher For Longer interest rates”, we continue to remain cautious given potential risks to inflation emanating from further adjustment in administered energy & electricity prices and second-order inflation impacts.

Given 6-month forward inflation of 18%, and a 3% interest rate differential, we see the current monetary policy stance as appropriate, with a cut potentially deferred into the second half of the calendar year.

CPI Y/Y	Weight	Jan'24	Feb'24E
General (M/M)	100.0%	28.4%	23.5%
Food and non-alcoholic Beverages	30.4%	25.2%	19.1%
Alcoholic Beverages, Tobacco	0.9%	82.4%	66.0%
Clothing and footwear	8.0%	20.7%	20.3%
Housing, water, Elec., Gas and Utilities	27.0%	37.1%	33.1%
Furnishing and household equipment	4.1%	31.1%	26.6%
Health	2.3%	21.9%	20.7%
Transport	6.1%	26.3%	14.8%
Communication	2.4%	20.2%	19.4%
Recreation and culture	1.7%	32.8%	30.4%
Education	4.9%	14.2%	14.9%
Restaurants and hotels	7.4%	28.6%	23.8%
Misc. goods and services	4.8%	28.8%	24.8%

SPI Items			
Top 5 Increase	Jan'24	Feb'24	MoM
Bananas	122	136	12%
Petrol Super	260	277	6%
HSD	277	288	4%
Pulse Moong	304	311	2%
Cooked Daal	141	144	2%
Top 5 Decrease			
Eggs	425	249	-41%
Onions	229	173	-24%
Tomatoes	154	133	-14%
LPG Cylinder	3,384	3,187	-6%
Potatoes	58	56	-4%

Source: PBS, BMA Research

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Old rating system

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)