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NON-FOOD INFLATION DECLINES TO 7.4% IN AUGUST, 2006

Non-food inflation has declined to 7.4 percent in August 2006 from 8.8 percent in the corresponding month of the last fiscal year, according to the State Bank's monthly publication titled 'Inflation Monitor', which has been released on its website today.

However, the headline inflation increased in the second month of the current fiscal year primarily due to an upsurge in food inflation coming from supply disturbances on the back of recent rains and floods that not only affected production but also transportation of commodities from farm and mills to the markets. Consumer price inflation has been recorded at 8.9 percent YoY in August 2006 compared with 8.4 percent in the same month of the last fiscal year. Food inflation has been registered at 11.1 percent – the highest of the last 13 months.

After being recorded at less than 7 percent on average during FY06, food inflation increased significantly to 11 percent YoY in August 2006, driven mainly by increase in prices of wheat flour, bread, cooking oil and ghee, chicken, eggs and vegetables including onion, tomatoes, and green chillies along with persistent pressure on prices of some pulses. Contrary to food inflation, non-food inflation declined from 8.8 percent in August 2005 to 7.4 percent in the month under review primarily due to decline in inflation of transport & communication sub-index and continued deceleration in house rent index, says the Inflation Monitor.

Core inflation measured as *non-food non-energy* declined from 6.3 percent in July to 6.2 percent in August 2006, while *trimmed mean* core inflation showed an increase from 6 percent at the end of FY06 to 6.5 percent in August 2006. The rise in trimmed mean core inflation is due to some key food and energy items, having very high weight and high inflation, like fresh milk, beef, mutton, potatoes and petrol supper. Thus, the recent inflation has primary been coming from supply factors, while the demand factors still remained under control with the deceleration in money and credit growth during the initial months of FY07 and rise in interest rates.

Wages of construction workers showed a deceleration due to temporary slowdown in the construction work because of rains during the month under review. Wage inflation has been recorded at 15.9 percent in August 2006 compared with 17 percent in the preceding month. However, it was higher than that recorded in the corresponding month of the last fiscal year. On the disaggregated level, wages of skilled workers increased by 15.7 percent, and those of labourers by 16.9 percent, which were lower as compared with July. As the nominal wages decelerated and CPI inflation increased, real wage inflation went down significantly and recorded at 6.9 percent in August 2006 compared with a higher rate of 9.4 percent during a month earlier, according to the Inflation Monitor.

(For complete text of the 'Inflation Monitor', please visit our website: www.sbp.org.pk).