

Inflation Monitor

December 2005



State Bank of Pakistan
Economic Policy and Research Departments

Contents

1.	Overview	1
	1.1 Core Inflation	3
2.	Consumer Price Inflation	4
	2.1 Food Inflation	5
	2.2 Non-food Inflation	6
	2.3 Major Contributions	9
	2.4 Regional Incidence of Inflation	10
	2.2 Socio-economic Incidence of Inflation	11
	2.3 Item-wise Distribution of Price Changes	11
3.	Wholesale Price Inflation	16
4.	Commodity Prices	23
5.	Sensitive Price Indicator	27
6.	Wage Inflation	28

Annexes:

- 1. SPI Item-wise Price Movements**
- 2. Top Ten Items by Contribution to CPI Inflation**
- 3. City-wise Inflation by Income Group**

Researchers

Fida Hussain
Economic Policy Department

fida.hussain@sbp.org.pk

Syed Sarfaraz Ali Shah
Research Department

syed.sarfaraz@sbp.org.pk

Editorial Assistance

Uzma Shakir
Research Department

uzma.shakir@sbp.org.pk

1. Overview

Rising food prices, accompanied with the weak base of December 2004, resulted into a resurgence in the year on year (YoY) inflation recorded by all the three price indices in December 2005. Headline inflation, after decelerating to 7.9 percent in November 2005, surged up to 8.5 percent in the very next month. Wholesale price inflation that had started to decelerate steadily since October 2005, rose to 11.0 percent. This impact was captured more significantly by the Sensitive Price Indicator (SPI), which after falling to 5.4 percent in November 2005, rose back to 6.8 percent YoY in December 2005 (see **Table 1.1**).

Index	Annual Point to Point % Change					
	General	Food	Non-Food	Past Five Years Average		
				General	Food	Non-Food
CPI	8.5	8.1	8.8	5.5	5.8	5.3
WPI	11.0	7.8	13.7	5.9	5.7	6.1
SPI	6.8	-	-	6.2	-	-
<i>Period to Period Average % Change (Jul 05 - Dec 05 Over Jul 04 - Dec 04)</i>						
CPI	8.4	7.5	9.1	5.4	5.8	5.2
WPI	11.0	7.9	13.4	6.3	5.7	6.7
SPI	6.8	-	-	6.0	-	-
<i>12 Months Moving Average % Changes (Jan 05 - Dec 05 Over Jan 04 - Dec 04)</i>						
CPI	9.1	9.8	8.5	5.3	5.8	5.0
WPI	8.7	9.3	8.3	6.2	5.7	6.6
SPI	8.8	-	-	6.2	-	-
<i>Monthly % Changes (Dec 05 Over Nov 05)</i>						
CPI	-0.3	-1.3	0.4	-0.2	-1.2	0.5
WPI	-0.1	-0.6	0.5	0.0	-0.9	0.8
SPI	0.3	-	-	-0.2	-	-

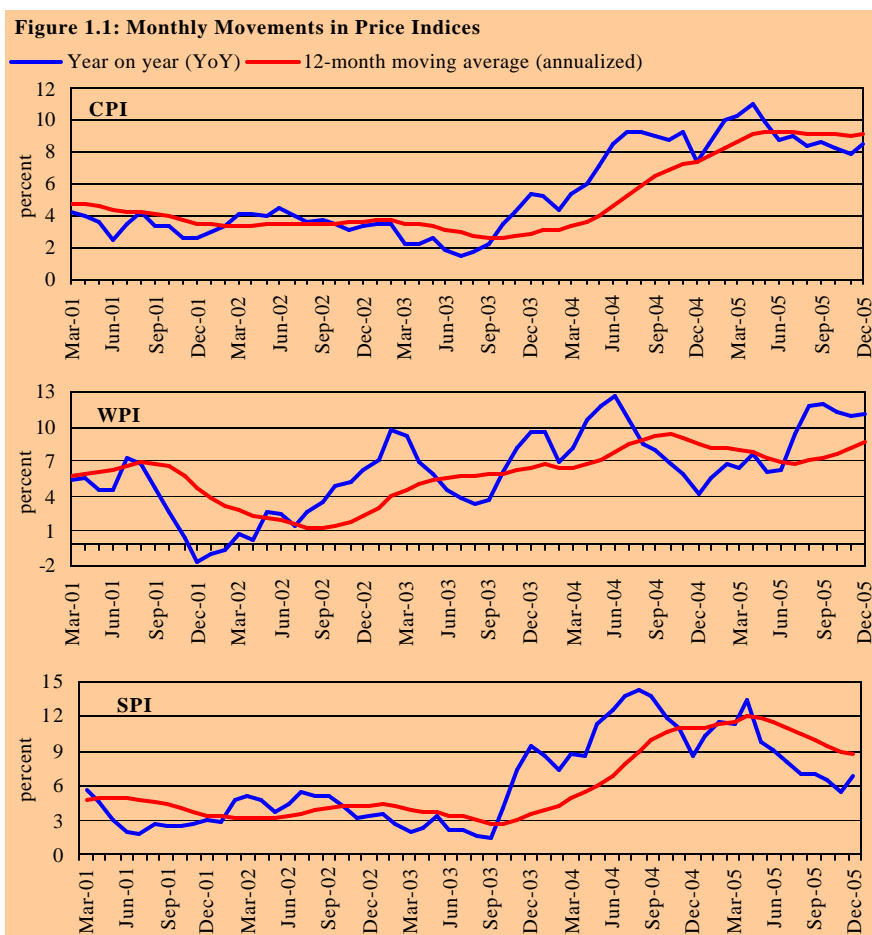
percent									
	CPI			WPI			SPI	Core Inflation	
	General	Food	Non-Food	General	Food	Non-Food	General	By Exclusion	By Trimming
Jan-05	8.5	10.4	7.2	5.6	9.9	2.6	10.3	7.3	8.3
Feb-05	9.9	12.9	8.0	6.7	11.9	3.3	11.6	7.4	8.6
Mar-05	10.2	13.3	8.2	6.3	11.1	3.1	11.4	7.6	8.0
Apr-05	11.1	15.7	8.0	7.7	13.6	3.7	13.4	7.9	8.5
May-05	9.8	12.5	8.0	6	10.1	3.2	9.9	7.5	8.0
Jun-05	8.7	9.3	8.4	6.2	8.4	4.6	9.2	7.4	7.7
Jul-05	9	9.7	8.5	9.4	10.0	8.9	8.0	7.6	7.3
Aug-05	8.4	7.8	8.8	11.7	8.6	14.0	7.1	7.6	7.1
Sep-05	8.5	7.5	9.3	11.9	7.5	15.2	7.0	7.6	7.0
Oct-05	8.3	6.4	9.6	11.1	7.2	14.1	6.5	7.8	7.0
Nov-05	7.9	5.8	9.4	10.9	6.4	14.3	5.4	7.6	6.8
Dec-05	8.5	8.1	8.8	11.0	7.8	13.7	6.8	7.4	6.5
Avg.	9.1	9.8	8.5	8.7	9.4	8.3	8.8	7.6	7.8

The sharp rise in SPI inflation reveals the fact that the impetus to the increase in inflation mainly stemmed from the *food* and *fuel*¹ prices. This fact was further established by the decelerating trend of core inflation during December 2005. Specifically, core inflation (Non-food, Non-energy: NFNE), as it reflects the price trend in the residual part of the CPI basket after eliminating the impact of any change in prices of selected fuel items and the whole food group (see **Table 1.2**).

Both the tables (**Table 1.1 & 1.2**) clearly point out that it was the sharp rise in *food* inflation that led to a rise in all three price indices, notably during December 2005. The recent move is signalling that inflationary pressures in food prices are still present and, thereby, asks for some administrative measures from the government to contain inflation from any further rise in the months ahead.

Although the recent rise in price indices is not necessarily an indication of trend reversal, it does call for caution in assuming success in containing inflation. Trend of inflation is still declining, albeit with a very modest pace, especially in terms of CPI and SPI 12-months moving average inflation. The weak base of index levels of CPI and SPI in December 2004 has played the major role in the current upsurge (see **Figure 1.1**).

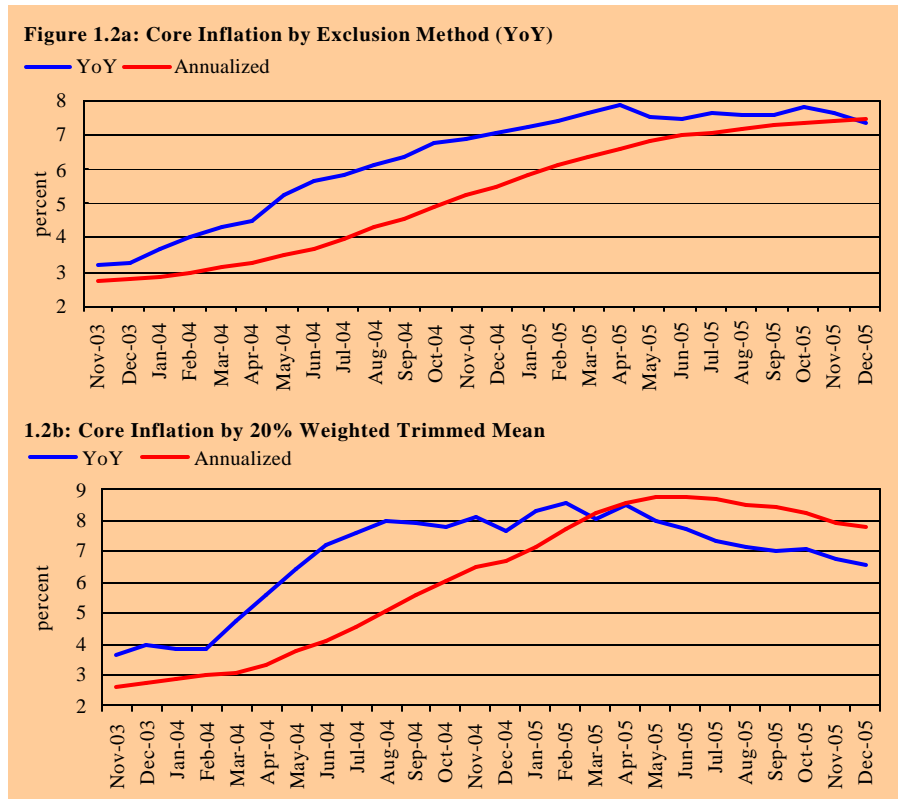
¹ For details, see **Section 4**.



1.1 Core Inflation²

Despite a surge in headline inflation, core inflation continued to decelerate during December 2005. Core inflation – by trimmed mean – was recorded at 6.5 percent YoY during December against 7.7 percent recorded in the same month last year. The other measure of core inflation, i.e. NFNE, also decelerated from 7.6 percent in November 2005 to 7.4 in December 2005 (see **Figure 1.2a & b**).

² State Bank of Pakistan computes core inflation by method of exclusion and weighted trimmed mean. In the former, the Bank excludes the impacts of price changes of food, kerosene, electricity, gas, petrol, diesel, and CNG from the overall basket of CPI. While in the latter case, 10 percent of the volatility is removed from both ends, each, of ranked weighted percentage price changes.



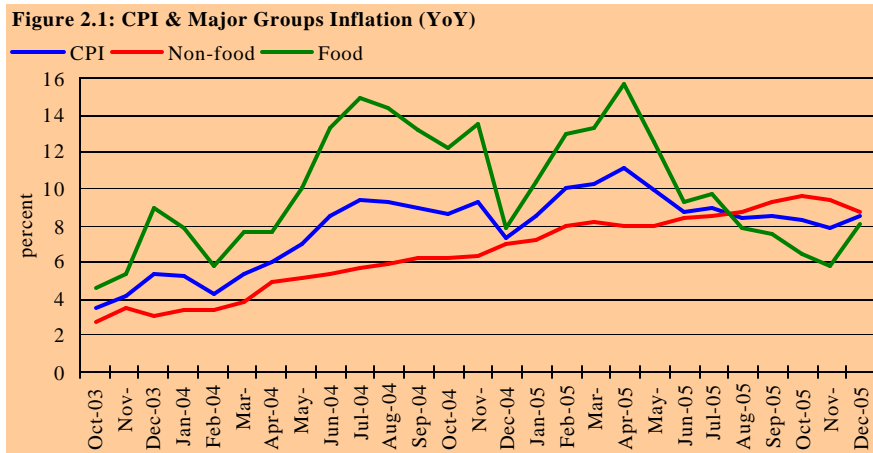
The divergence between the trends of headline and core inflation indicates that inflationary pressures are still strong in food prices, while they are getting weaker in the non-food group.

Core inflation decelerated partly due to the slowdown in HRI inflation during December 2005, whereby, the rise in food inflation squeezed the share of HRI in the overall inflation. Besides HRI, during the same month, most of the sub-indices of CPI non-food group witnessed deceleration and contributed towards the weakening of core inflation, both on year on year and annualized basis.

2. Consumer Price Inflation

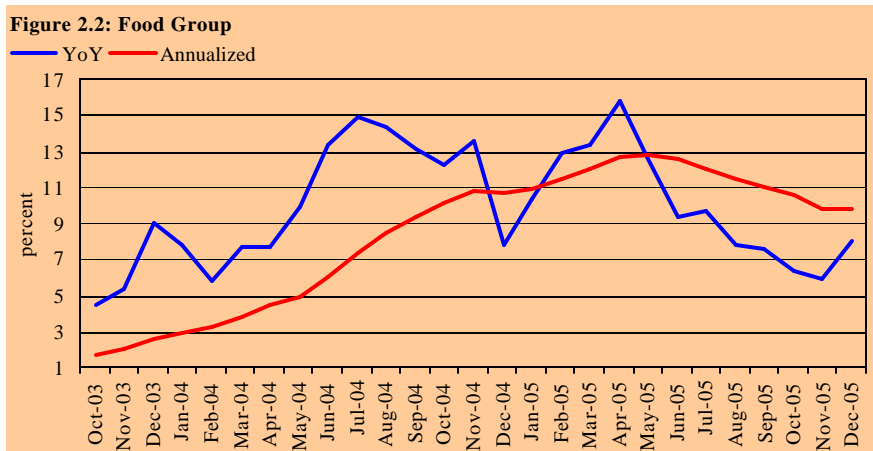
Consumer price inflation recorded a surge in YoY inflation during December 2005. Whereas the CPI non-food group inflation decelerated during the same month, the surge in CPI inflation is due to rise recorded by CPI food group during

December 2005. It was due to this increase that CPI inflation breached the 8.4 percent YoY average of the first half of FY06, and was recorded at 8.5 percent in December 2005 (see **Figure 2.1**).

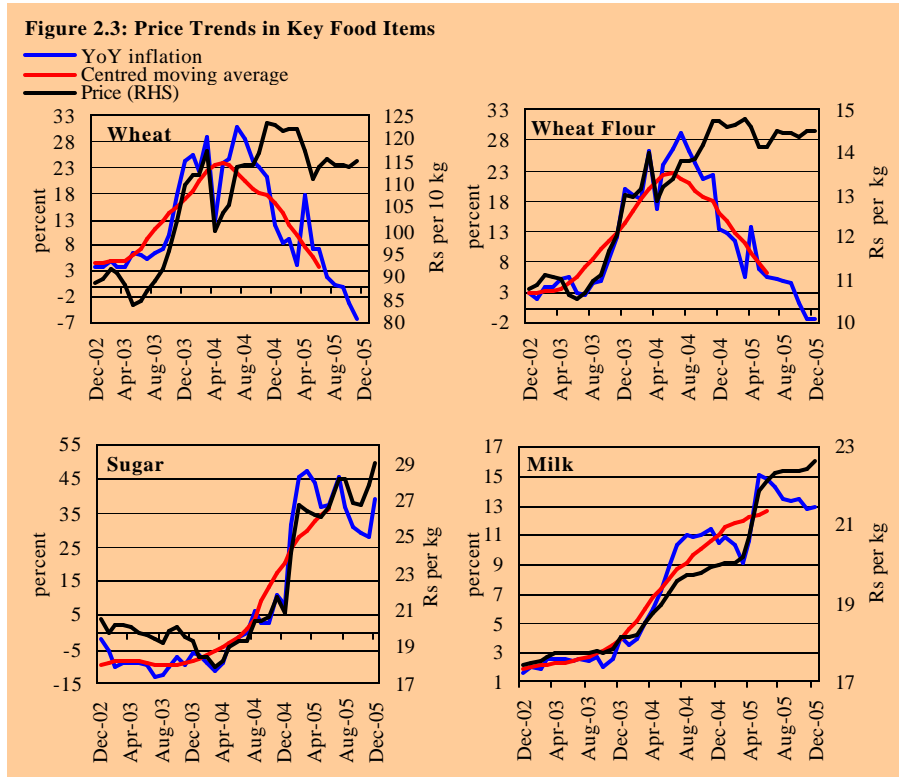


2.1 Food Inflation

CPI food group inflation surged sharply in December 2005. Apparently, it was the weak base of December 2004, which pushed up the YoY food inflation in December 2005 (see **Figure 2.2**). However, a detailed look at the price changes of all the items in CPI food basket reveals some notable facts as well: (a) prices of wheat and its products decelerated on year on year basis, while the same rose over

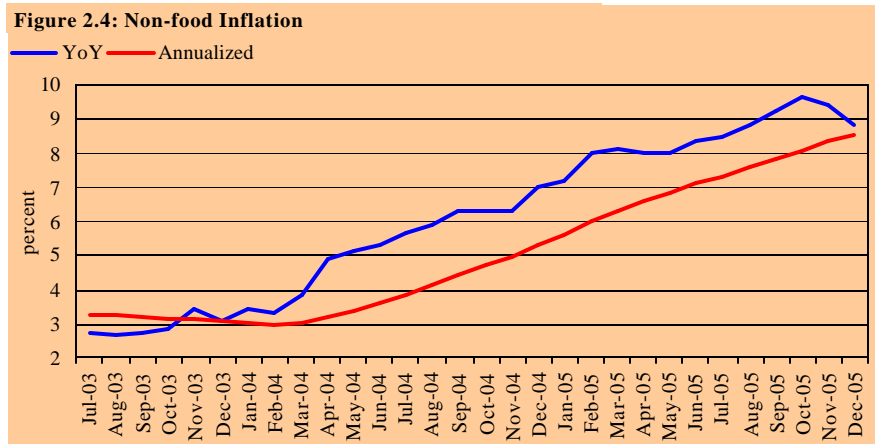


November 2005; (b) price of sugar rose significantly both on YoY and over the preceding month as well; (c) price of milk and its products rose marginally. This indicates that strong inflationary pressures are still present in food prices (see **Figure 2.3**).

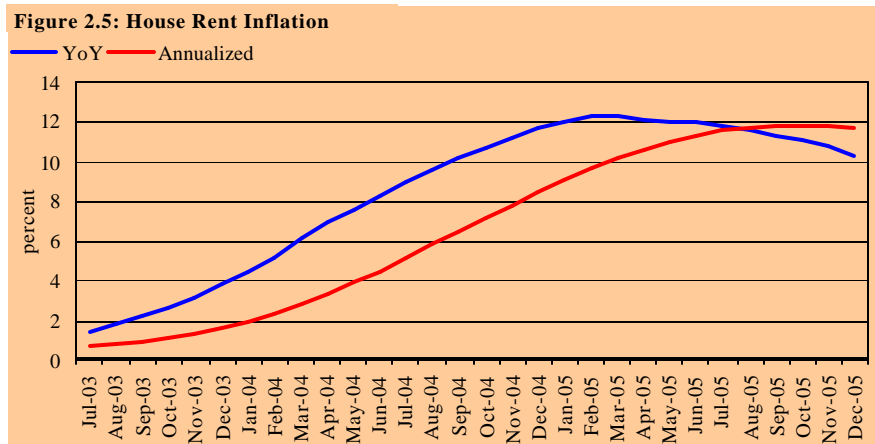


2.2 Non-Food Inflation

Stagnant fuel prices, decelerating inflation in the house rent index (HRI), and slowdown in some of the other sub-groups of CPI non-food group has made the CPI non-food group inflation to show signs of deceleration. Non-food inflation was recorded at 8.8 percent in December 2005, which is still above 7.0 percent recorded during December 2004, yet its trend is decelerating now (see **Figure 2.4**).

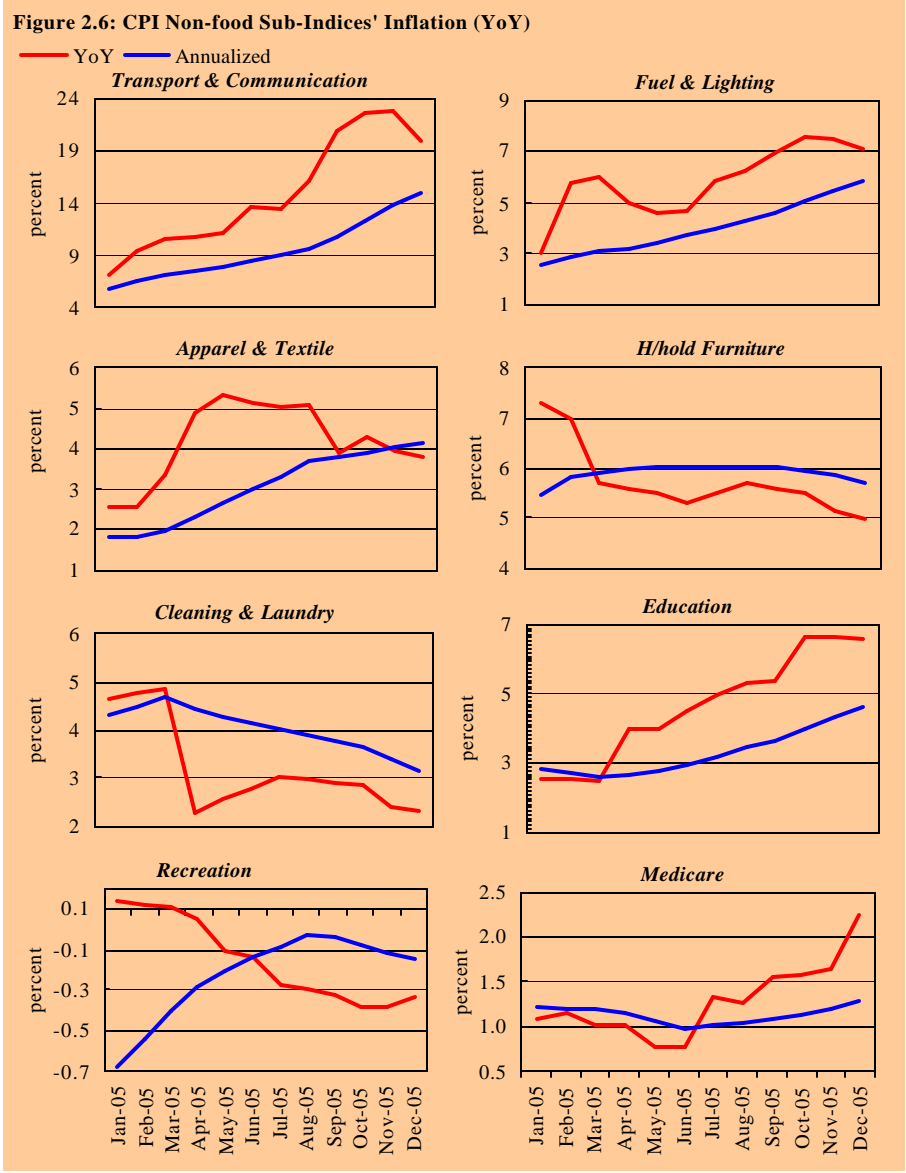


Within the non-food group, HRI is the most heavily weighted group with a weight of 23.4 percent in the overall CPI basket. Although HRI has been exhibiting decelerating inflation since H2-FY05, the magnitude of HRI inflation still has an upward impact on the CPI non-food inflation; nevertheless the decelerating trend of HRI inflation has placed a moderating impact on headline inflation in the period of high food inflation (see **Figure 2.5**).



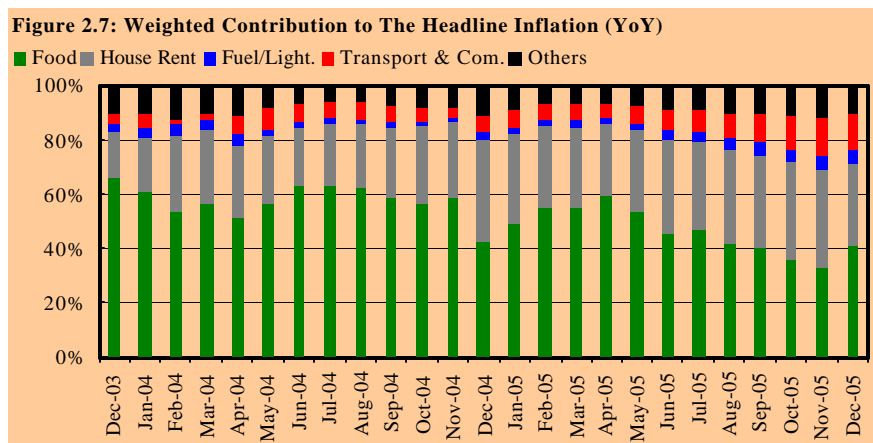
Besides HRI, rest of the sub-indices in the CPI non-food group also showed deceleration during December 2005, with the exception of sub-group of *medicare*

which rose slightly, but due to its smaller weight it placed no significant impact on CPI non-food group inflation (see **Figure 2.6**)



2.3. Major Contributions

With rise in food inflation, its contribution has also witnessed a rise in the overall CPI inflation during December 2005. HRI inflation, although decelerating persistently, has still contributed about 28 percent³ to headline inflation – the second highest contribution after that of the food group. Contributions of remaining sub-groups are, however, somewhat similar as observed during November 2005 (see **Figure 2.7**).



During December 2005, the ten items contributing to almost 70 percent of the overall inflation, recorded for the economy as a whole, consist of five each from the CPI *food* and *non-food* group (see **Table 2.3**).

Table 2.1: Top Ten CPI Items (Ranked by Weighted Contribution)

percent				Price*		Point to Point Change		
S.#	Items	Unit	weights	Dec-05	Dec-03	Dec-04	Dec-05	wtd contr.
1	House Rent Index	Index	23.43	132.2	3.8	11.7	10.3	28.3
2	Milk Fresh (Unboiled)	Litre	6.53	22.6	4.0	10.4	13.0	10.0
3	Sugar Refined	Kg	1.95	29.0	-6.0	7.9	39.1	8.9
4	Petrol Super	Litre	1.73	56.5	3.9	19.5	39.2	8.0
5	Peas	kg	0.15	39.4	-	-30.0	174.6	3.0
6	Beef With Bone Avg.Qlty.	kg	1.61	101.1	21.9	26.1	14.0	2.7
7	Gas Chrg10.12 - 13.49	MMBTU	0.93	305.4	-69.7	6.7	14.5	1.6
8	Firewood Whole	40 kg	0.48	140.1	14.1	15.9	27.0	1.5
9	Potatoes	kg	0.53	15.7	-14.2	58.6	24.0	1.5
10	Bus Fare Outside City	Per km	0.48	0.5	0.0	8.8	21.6	1.2
Total			37.8					66.7

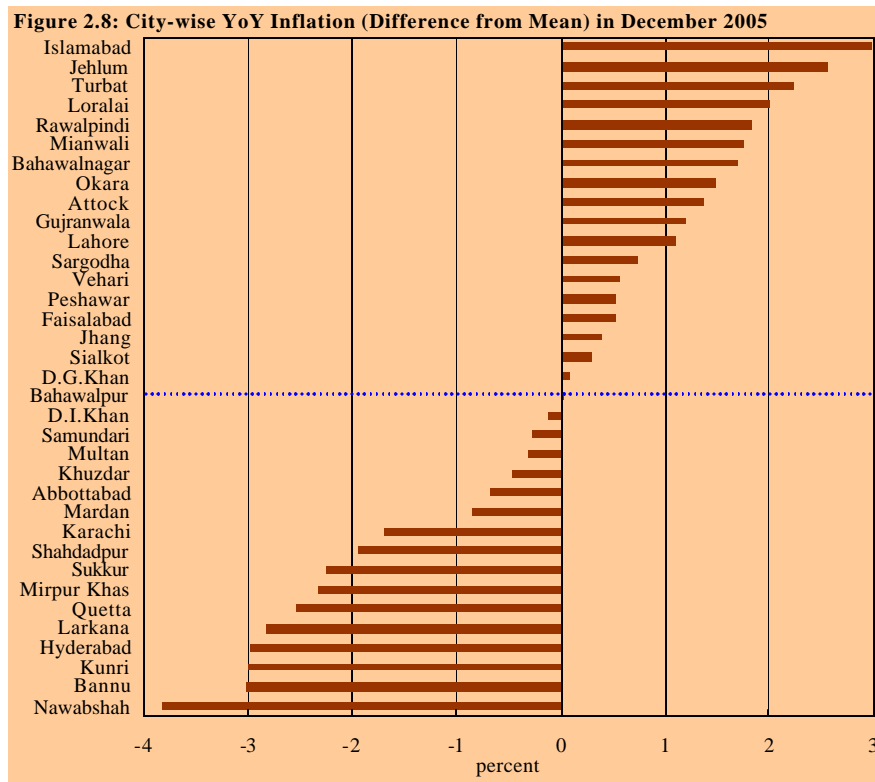
*Prices are in Pak.Rupees, except for HRI which is an index level.

³ The share of HRI inflation in the overall inflation also shrunk during December 2005, and became 28 percent as compared to its share of 35 percent during the preceding month.

2.4 Regional Incidence of Inflation

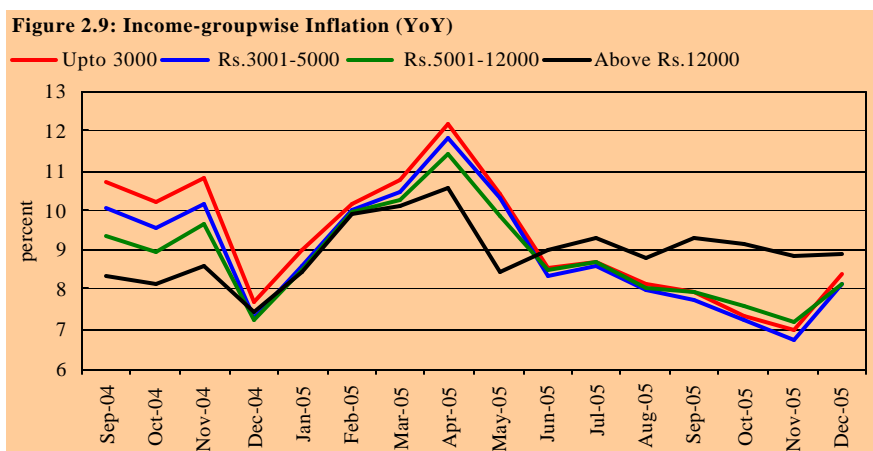
While the distribution of inflation across cities remained more or less the same as that recorded during November 2005, however, it was almost normal during December 2005. Out of 35 cities in the sample, 17 cities recorded an inflation rate of above the average rate prevailing for the whole economy. As it did in November 2005, Islamabad once again recorded the highest inflation, while Nawabshah fell to lowest extreme among the sample of 35 cities, during December 2005.

In the remaining 18 cities, Karachi once again recorded lower inflation than the overall inflation rate. It is due to the high base price in Karachi that the impact of any further increase appears mitigated, while the same is reflected sharply in the inflation recorded by the rest of the cities in the sample (see **Figure 2.8**).



2.5 Socio-economic Incidence of Inflation

Inflation in the three income groups, having an average income level of below or up to Rs 12000 per month, witnessed a sharp rise during December 2005 (see **Figure 2.9**). Before December 2005, these income groups recorded obvious deceleration in YoY inflation on the back of falling share of food inflation in the overall inflation. But during December 2005, due to rise in the prices of some of the important food items a reversal was witnessed in the inflation trend of these income groups. Inflation in the highest income group of above Rs 12000 however, did not show any significant change. Despite that inflation was mainly backed by food inflation during December 2005, the slight surge in inflation recorded by the highest income group indicates that inflationary pressures are also present in non-food prices.



2.6 Item-wise Distribution of Price Changes

Item-wise distribution of price changes remained somewhat similar to that recorded during the month of November 2005. However, the details of the same are tabulated in **Table 2.2** and **2.3**:

Table 2.2: Distribution of Price Changes of CPI Basket, December 2005 YoY.

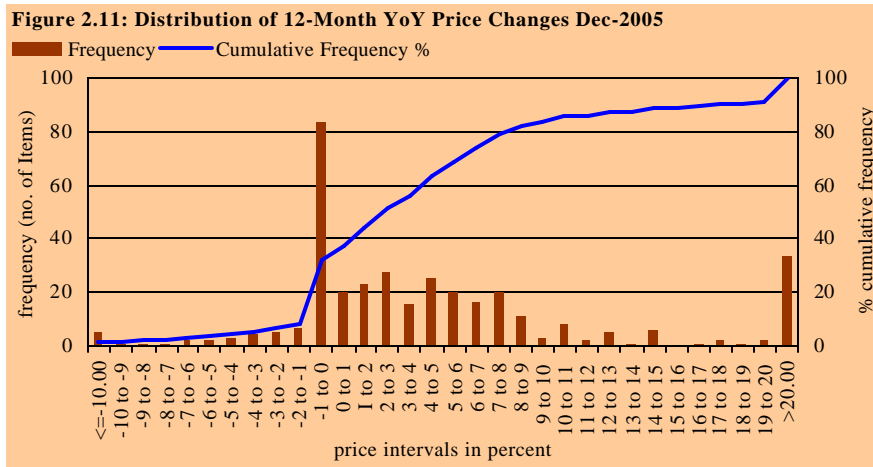
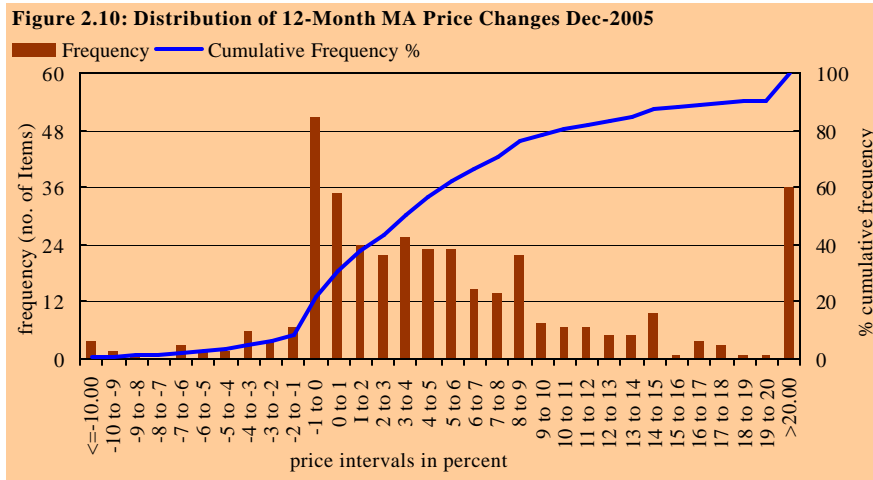
Groups	Weights	% Changes	Total Number of Items	No. of Items in Each Inflation Range			
				Decrease or no change	Subdued increase	Moderate increase	Double digit increase
				(0 % or less)	(0 to 5%)	(5 to 10%)	(over 10%)
I. Food Group	40.34	8.1	110	28	28	20	34
Food, Bev.	40.34	8.1	110	28	28	20	34
II. Non-Food Group	59.66	8.8	250	87	84	52	27
Apparel, Text.	6.1	3.8	42	6	24	11	1
House Rent	23.43	10.3	1	0	0	0	1
Fuel & Lighting	7.29	7.1	15	9	1	0	5
H/h Furn. & Equip.	3.29	5.0	44	3	23	17	1
Transport & Com.	7.32	19.9	43	16	4	9	14
Recreation, Enter.	0.83	-0.3	16	12	2	2	0
Education	3.45	6.6	24	5	9	7	3
Cleaning & Laundry	5.88	2.3	36	14	14	6	2
Medicines	2.07	2.3	29	22	7	0	0
Overall	100	8.5	360	115	112	72	61

Note: Prices of 14 seasonal items were not reported during December 2005.

Table 2.3: Distribution of Price Changes of CPI Basket, December 2005 Annualized.

Groups	Weights	% Changes	Total Number of Items	No. of Items in Each Inflation Range			
				Decrease or no change	Subdued increase	Moderate increase	Double digit increase
				(0 % or less)	(0 to 5%)	(5 to 10%)	(over 10%)
I. Food Group	40.34	9.9	124	20	28	21	55
Food, Bev.	40.34	9.9	124	20	28	21	55
II. Non-Food Group	59.66	8.5	250	68	95	61	26
Apparel, Text.	6.1	4.2	42	5	17	19	1
House Rent	23.43	11.6	1	0	0	0	1
Fuel & Lighting	7.29	5.8	15	8	1	1	5
H/h Furn. & Equip.	3.29	5.7	44	2	23	18	1
Transport & Com.	7.32	14.9	43	14	4	12	13
Recreation, Enter.	0.83	-0.2	16	11	5	0	0
Education	3.45	4.6	24	6	12	6	0
Cleaning & Laundry	5.88	3.2	36	6	21	5	4
Medicines	2.07	1.3	29	16	12	0	1
Overall	100	9.1	374	88	123	82	81

The following graphs present the distribution of price changes in all the items of CPI basket on both YoY and annualized basis.



Out of the whole basket, the following graphs reflect the price changes in the CPI food group items.

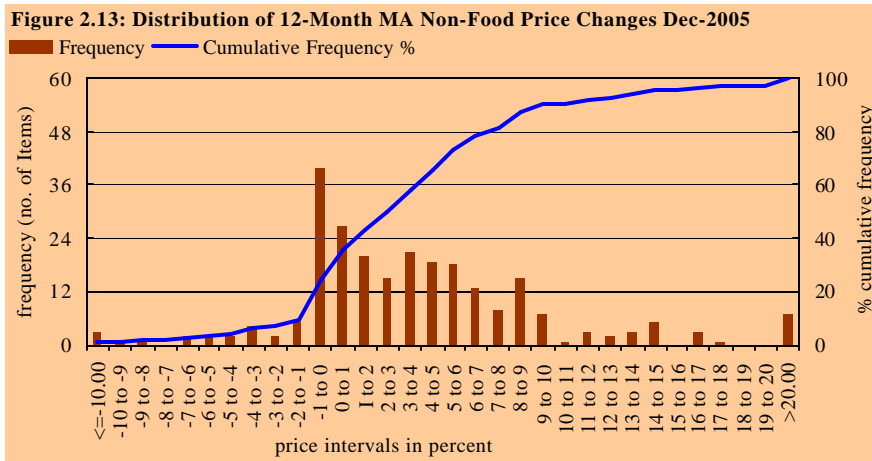
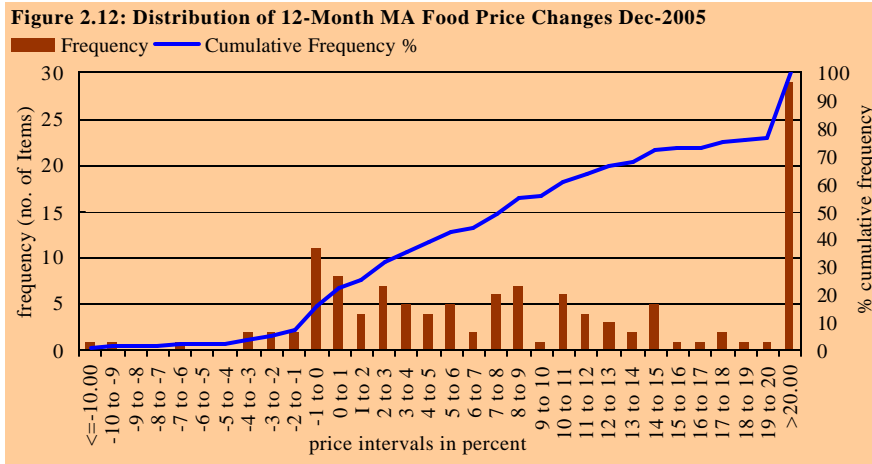


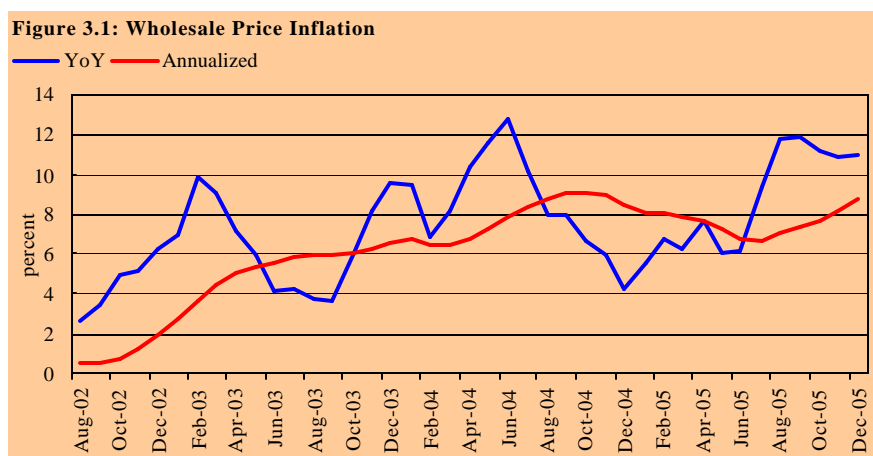
Table 2.4: Selected CPI Items Classified by Range of Price Changes (YoY) (December-05)*

Groups	Decrease or no change	Subdued increase (upto 5%)	Moderate increase (5 to 10%)	Increase of over 10%
Food Group	Tomatoes Vegetable Ghee (Ls) Wheat Flour Fine/Sup. Wheat Pulse Gram	Cold drink Maida Rice Basmati 385/386 Rice Irri-6 (Sindh/Punjab) Milo 200 gm.	Milk Tetra Pack 1/2 Litre. Mutton Av.Qlty. Bananas Cigarettes K2 10's Cooked Beef	Potatoes Milk Fresh (Unboiled) Sugar refined Eggs (Farm) Pulse Mash (Washed)
Apparel & Textile	Gents Sandal Bata Ladies Chappal Bata	Tailoring Aw-Suit (M) School Uni. Girl Lawn Av.Qlty.	Tailoring coat -pant suit Linen Av.Qlty Second-Hand Coat (M)	Ladies Sandal Bata
House Rent Index				HRI
Fuel & Lighting	Bulb Philips 100-Wat Elect.Charges	Gas Cylinder Stand. Size		Gas Charges Firewood whole Kerosene Oil
H/hold Furniture	Electric Juicer Tea-Set S.Steel	Sewing Machine(Singer) Hand Stitching Needle M.Size Water-Set S.Steel	Marriage Hall Household Servant Female Air conditioner 1.5 Ton	Mattress Single(4"Thick)
Transport & Comm.	Internet Charges Air Fare Econ. Class. Train Ist Slp <100km Local Call charges	Car Suzuki(W/O. A/C) Train Ist Slp. > 500 Km Train Ist Slp.101-500	Train A/C Slp.101 - 500km Train Eco. > 500 Km Cng Filling Charges	Auto Rickshaw Fares Bus Fare Min(Within City) Petrol Super High Speed Diesel
Recreation	Video Game Sega V.C.P. Daily "Dawn"	Dry Cell 1.5 Volt(Local) Tape Recorder	Cinema High Class	
Education	Com. C.D. Govt.Coll.Fee Ist.Year Govt.Coll.Fee 4th.Year	Ball Pen (Local) Maths Book Calss V	English Book IX Or X School Fee 2nd-Ry Eng.Md. School Fee Primary Eng.Md.	English Book Class VI Urdu Book Class IX/X
Cleaning & Laundry	Toilet Paper Roll Toothpaste 70 gm	Blade 7 o'clock Disposable Razor Gillet Lipstick S.Miss/Medora Artificial jewellery	Washing (Kamiz-Shalwar) Haircut Charges Silver Tezabi 24 Ct	Washing Ch. Shirt Gold Tezabi 24 Ct
Medicare	Galxos-D (450 gm) Entox Tab. Brufen Tabs 200-Mg.	Jouhar Joshanda Septran Tablets Doctor Clinic Fee		

* The items with relatively higher weighted contribution in inflation are selected.

3. Wholesale Price Inflation

Wholesale price inflation, which decelerated slightly during the last couple of months due to decelerating food and oil price inflation, edged up in December 2005 on the back of rising cotton prices and reversing trends in the prices of a few food items. Wholesale price index (WPI) rose by 11.0 percent in December 2005 compared to 10.9 percent in the previous month and a mere 4.2 percent increase in the corresponding month of last year, the lowest increase in WPI recorded during the last year. The annualized wholesale price inflation (on 12-month moving average basis) also continued to show strong rising tendency (see **Figure 3.1**).



Period to period inflation, i.e. average wholesale price inflation, during H1-FY06, remained significantly higher, compared to last year. During this period, the wholesale price inflation continued to be driven by higher energy prices (see **Table 3.1**).

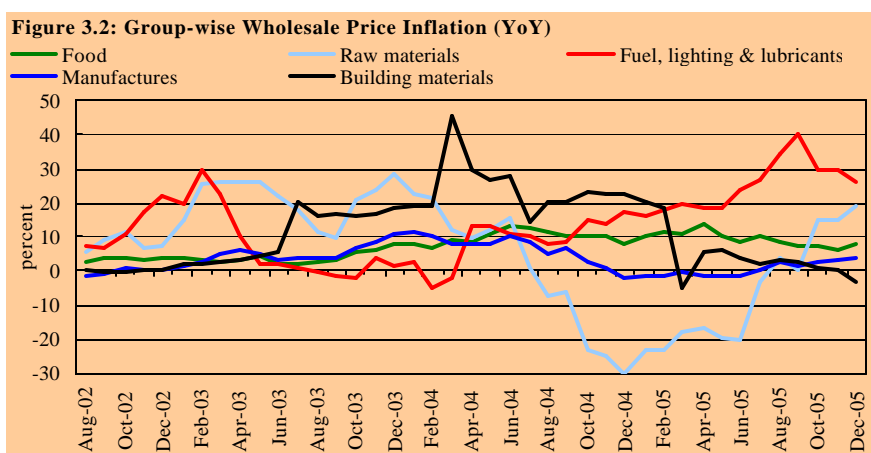
Table 3.1: Group-wise WPI Inflation

Annual percentage changes

WPI and its components	FY03	FY04	FY05	July-December		
				FY04	FY05	FY06
Food	3.5	7.0	10.7	4.7	10.5	7.9
Raw materials	14.4	17.0	-18.1	18.7	-15.9	7.8
Fuel, lighting & lubricants	12.5	2.8	15.8	0.3	12.0	31.0
Manufactures	1.7	7.9	1.1	6.4	3.6	2.6
Building materials	1.7	22.9	13.7	17.3	20.6	1.0
Overall index	5.6	7.9	6.8	5.9	7.1	11.0
<i>Overall excl. food</i>	<i>7.3</i>	<i>8.7</i>	<i>3.6</i>	<i>7.0</i>	<i>4.3</i>	<i>13.7</i>
<i>Overall excl. fuel</i>	<i>3.9</i>	<i>9.2</i>	<i>4.5</i>	<i>7.4</i>	<i>5.9</i>	<i>5.8</i>
<i>Overall excl. food and fuel</i>	<i>4.3</i>	<i>11.7</i>	<i>-1.8</i>	<i>10.4</i>	<i>1.0</i>	<i>3.4</i>

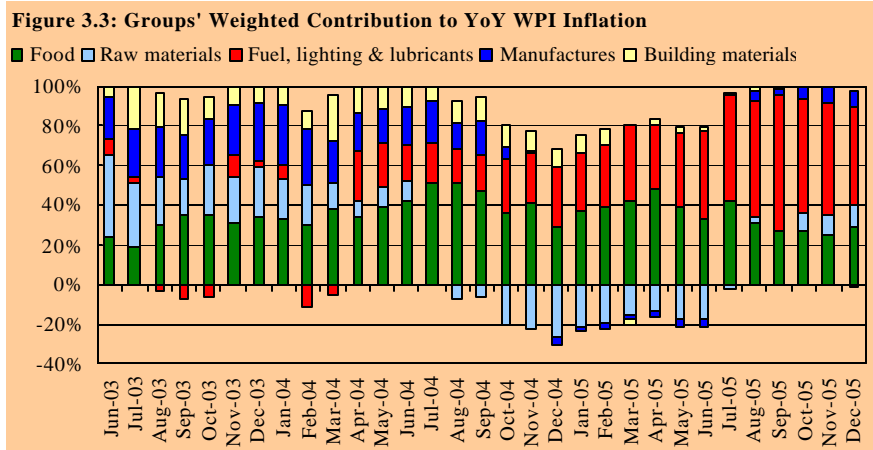
Source: Based on data from FBS

Food inflation that has been showing decelerating trend since August 2005 rose by 7.8 percent in December, mainly due to the sharply rising prices of onion, vegetables and sugar. The inflation in *raw material* index also accelerated on account of rising cotton and sugarcane prices. Higher cotton prices also pushed up the prices of cotton yarn that, in turn, resulted in 4.1 percent increase in *manufactures* index compared to a decline recorded in the corresponding month of last year. The *fuel, lighting & lubricants* group continued to witness slight deceleration reflecting decline in crude oil prices during October and November. As expected, *building material* index witnessed decline in December on account of anticipated decline in iron & steel prices (see **Figure 3.2**).

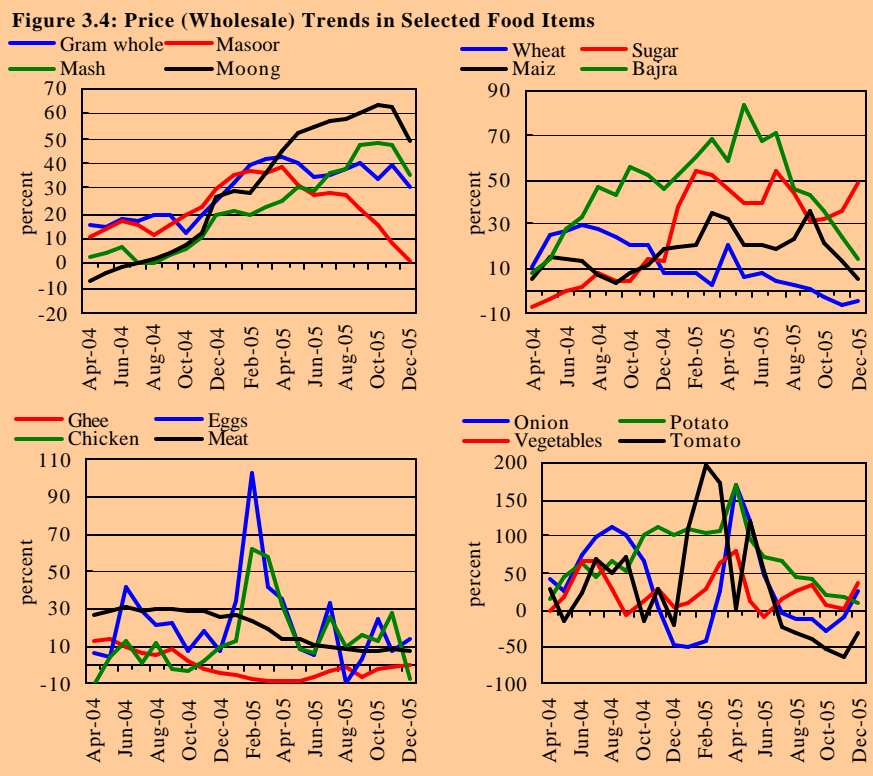


Similar to the slightly changing inflation trends in the preceding months, the groups' contributions to overall wholesale price inflation also changed. The relative weighted contribution by *fuel, lighting & lubricants* came down with a slight deceleration in energy prices. Nevertheless, it continued to be a major source of wholesale price inflation with more than 50 percent contribution. The relative weighted shares of *food*, *raw material* and *manufactures* groups went up with acceleration in their respective indices. The deflation in *building material* group resulted in negative contribution of 3.1 percent to overall wholesale price inflation in December 2005 (see **Figure 3.3**).

Rise in WPI *food* inflation during December 2005 was largely driven by sharp reversal in the price trends of onion and vegetables and, increasing prices of some of the food items including cereals, pulses and sugar. Encouragingly, however, the rate of increase in the wholesale price of most of the food items slowed down



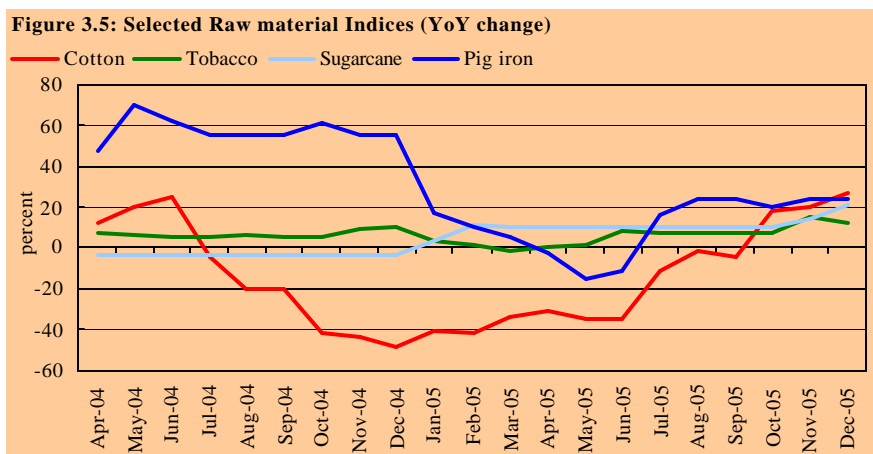
in December. The slowdown was more visible in the case of a few items including pulses masoor, potato, maize, etc. and modest in case of gram (whole),



mash & moong, gur & refined sugar, jowar, bajra, etc. While prices of wheat & wheat products have already been declining since October, the price of some of the other key food items including gram (split), chicken and fresh fruits recorded decline in December (see **Figure 3.4**).

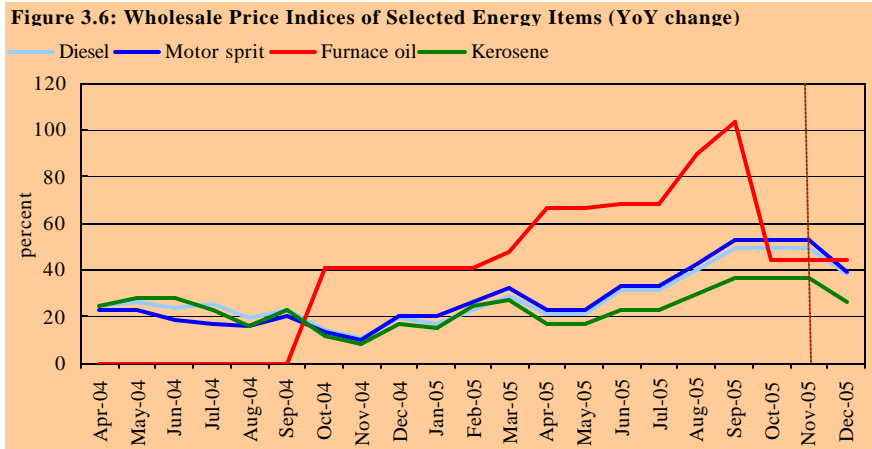
However, domestic sugar prices shot up in December due to expected lower sugar production on account of decline in sugarcane output coupled with closure of mills as the issue of sugarcane prices could not be resolved. Moreover, sugar prices in international market also witnessed sharp increase due to an expected decline in world sugar production.

Driven largely by higher cotton and sugarcane price, the inflation by *raw material* group rose sharply by 19.1 percent in December 2005 against a much sharper decline of 29.7 percent in the same month last year. Prices of cotton and sugarcane started to rise sharply since October and November, respectively, due to lower than expected production estimates for FY06. Moreover, the rate of increase in the prices of pig iron and tobacco has also maintained an accelerating trend (see **Figure 3.5**).



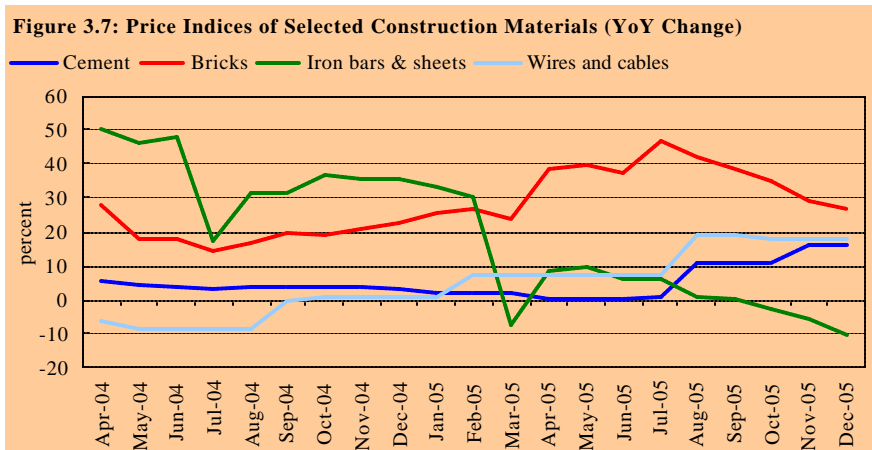
Following the decline in crude oil prices in October and November, the annual rate of increase in *fuel, lighting & lubricants* index has decelerated from a very high of 40.1 percent in September 2005, it still remained high at 26.1 percent in December. Consequent to decline in crude oil prices, the oil marketing companies kept the domestic oil prices unchanged during this period up till now which resulted in a deceleration of year-on-year rate of increase in prices of most of the oil products (see **Figure 3.6**). Moreover, the rate of increase in other fuel items

including coal, electricity, natural gas etc. continued to grow at the same rate as during the preceding months.



A moderate increase of 4.21 percent in the *manufactures* group in December was largely due to rising prices of cotton-based products as the rate of increase in sub-indices of other *manufactures* hovered around last month's level. Moreover, rate of increase in fertilizer prices also dropped following the declining trend in urea and DAP fertilizer prices in international market.

The *building material* index witnessed a decline of 3.1 percent in December 2005 compared to 22.8 percent in December 2004. Deflation recorded by *building*



material index is attributable to visible decline in steel price. Domestic iron & steel prices continued to witness decline for the last three months following reduction in prices by Pakistan Steel, lower import duty and declining steel prices in international market. However, despite action taken by the Monopoly Control Authority (MCA) against manufacturer’s cartel, cement prices are still on the rise though at a slower pace (see **Figure 3.7**).

Commodity group or item-wise distribution of YoY change in WPI items is shown in **Figure 3.8** and **Table 3.2**.

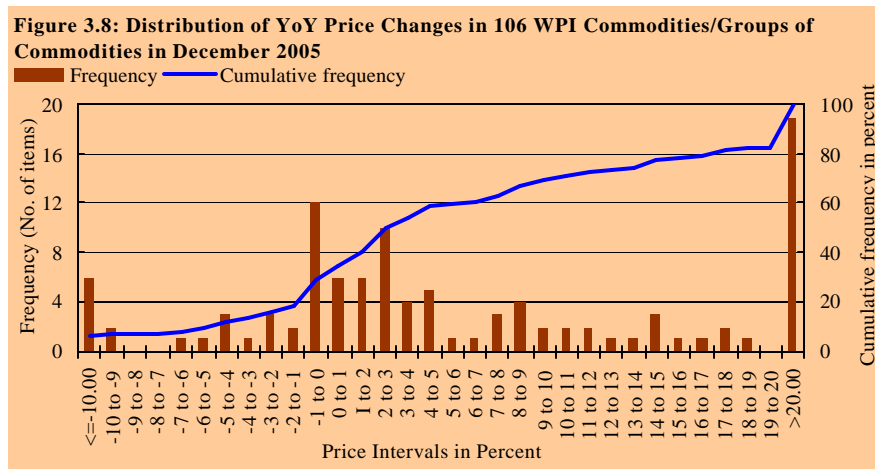
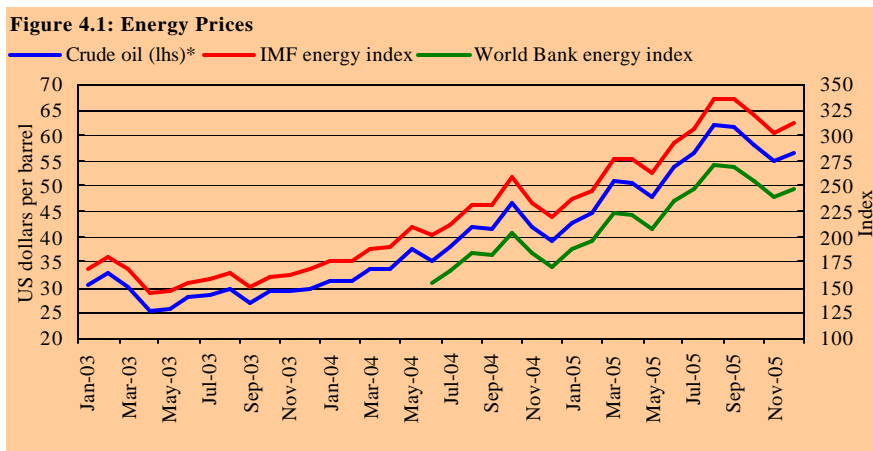


Table 32: Group-wise Commodities/Groups of Commodities Classified by Range of Price Change (YoY) during December 2005

Groups	Decrease or no change	Subdued increase (up to 5%)	Moderate increase (5 to 10%)	More than 10% increase
Food	Tomatoes Chicken Fresh Fruits Wheat Cooking Oil Gram Split Maida Sugar Confectionary Wheat Flour Tea	Vegetables Prepared/Preserved Vegetable Ghee Masoor Mustard & Rapeseed Oil Spices Fruit Prepared/Preserved Cotton Seed Oil Besan Condiments Beverages Milk Food Rice	Maize Mineral Water Fish Fresh Milk Meat Potatoes Oil Cakes Dry Fruits	Powdered Milk Salt Bajra Eggs Beans Onions Gram Whole Mash Vegetables Jowar Sugar Refined Moong Gur
Raw material	Skins Wool	Hides Mustard/Rapeseeds	-	Tobacco Cotton Seeds Sugar Cane Pig Iron Cotton
Fuel & lighting	Coke Electricity Ind. Supply Tariff-B Elec. Agriculture Tariff-D	Mobil Oil	-	Natural Gas Coal Fire Wood Kerosene Oil Diesel Oil Motor Sprit Furnace Oil
Manufactures	Nylon Yam Chemicals Blended Yam Dying Materials Other Electrical Goods Soaps Utensils Glass Products Silk & Reyon Textiles Plastic Products Drugs & Medicines Matches	Hosiery Woollen Textiles Ready Made Garments Transports Cotton Textiles Mattresses Pesticides & Insecticides Foot Wear Machinery Sole Leather Paper Audio-Visual Instruments	Cotton Yam Cosmetics Jute Manufactures Cigarettes	Fertilizers Tubes Tyres Chrome Leather
Building material	Iron Bars & Sheets Paints & Varnishes Tiles Cement Blocks	Timber Pipe Fittings Sanitary Wares Glass Sheets	-	Cement Wires and Cables Bricks

4. Commodity Prices

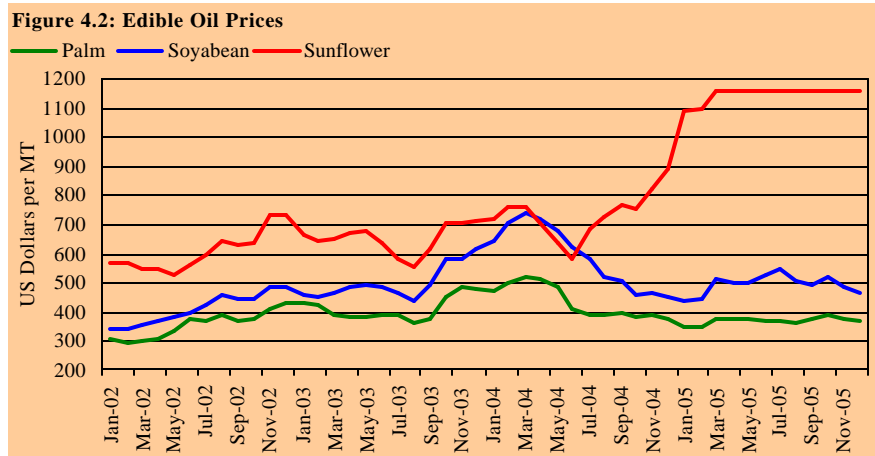
Oil prices rebounded in December and continued to rise during January. The average (of dated Brent, WTI and Dubai Fateh) crude oil prices rose to US\$ 56.5 per barrel in December 2005 from previous US\$ 55.0 per barrel in November (see **Figure 4.1**). The price of Brent (Europe Brent spot) crude reached US\$ 63.6 per barrel on January 18. The rise in oil prices during December was mainly led by higher gasoline prices in Europe due to disruption in supplies from Russia. Later in early January onwards, renewed supply fears as tension between Iran and Western World deepened with the Iran resuming uranium enrichment and Nigerian militants threatening to strike on oil reserves in the country, drove the oil prices up. Keeping in view the erosion of spare production capacity, oil prices are likely to remain sensitive to any such development discussed above. Moreover, the International Oil Agency (IEA) also expects oil demand to rebound in 2006.⁴



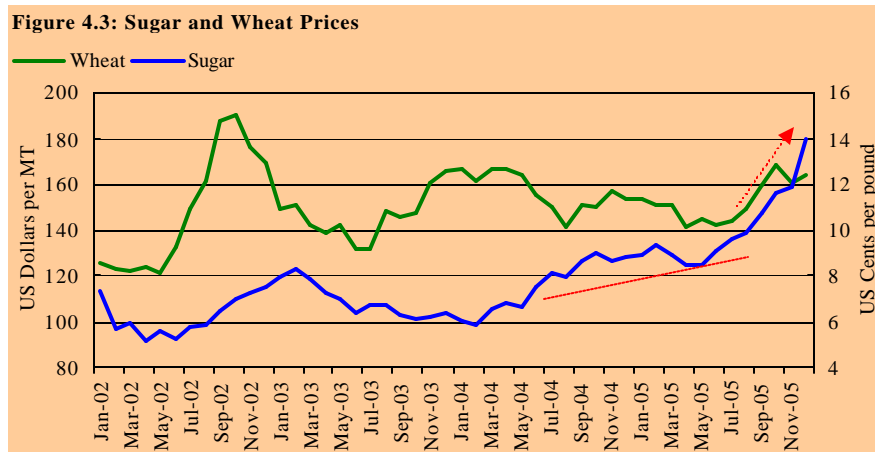
In December, edible oil prices (palm and soybean) maintained the declining trend for the second month in a row after rising modestly in October while sunflower price remained constant at US\$ 1152 per ton since June 2005. The declining trend in domestic wholesale and retail ghee & cooking oil prices also reflects the impact of falling international prices (see **Figure 4.2**). However, imposition of regulatory duty (@ Rs 1 per kg) at import stage is likely to push the domestic prices equivalently up.

Sugar prices rose sharply in December on account of expected lower production. Due to a strong demand for sugar based ethanol—the new gasoline of the future—

⁴ Oil Market Report for December 2005, International Energy Agency: www.oilmarketreport.org

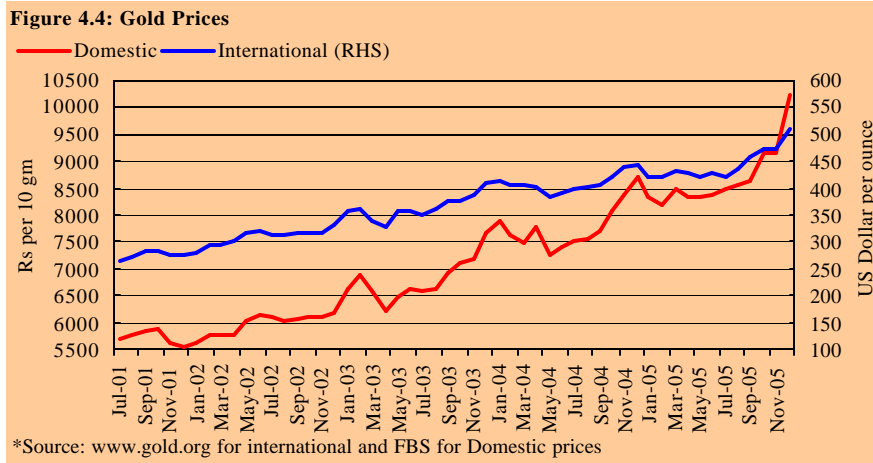


the market looks set for some hectic activity. Realizing the potential of the market, the hedge funds are also supposed to have invested heavily. Some investment houses are predicting sugar prices to rise somewhere between 20 to 40 cents per pound over the next four to five years.⁵ Wheat prices also rose by 6.9 percent (YoY) in December (see **Figure 4.3**). However, the domestic prices are expected to remain under pressure on account of higher stocks, imports and expected bumper wheat crop.

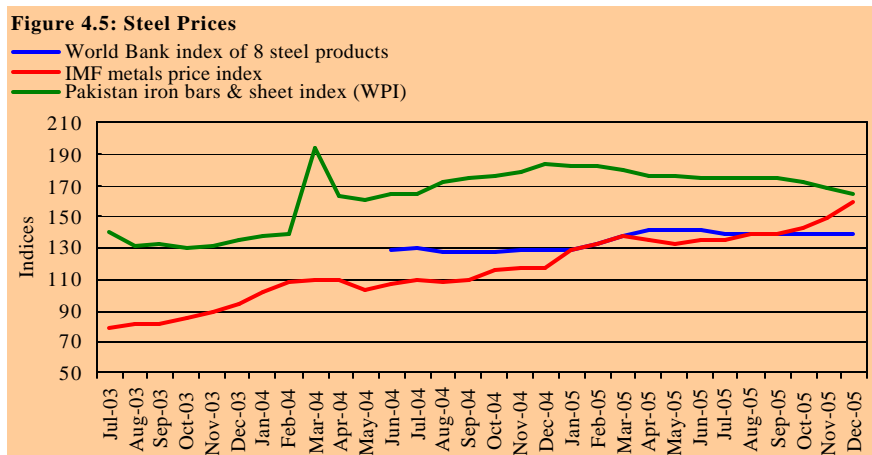


⁵ Source: www.sugaronline.com

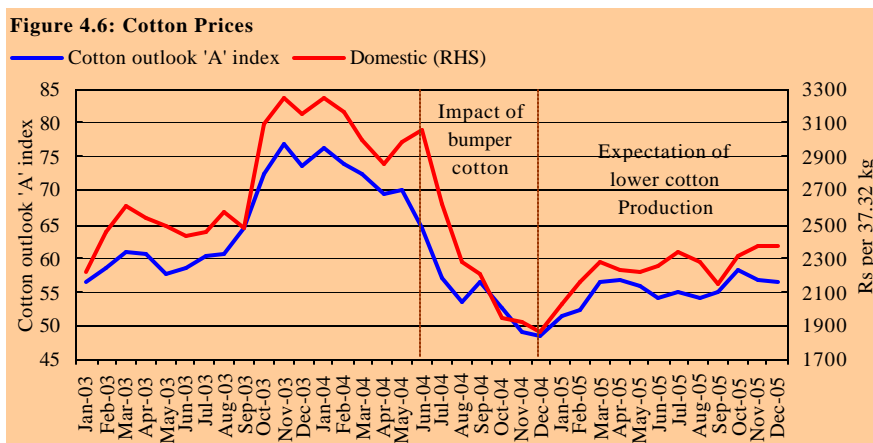
The gold prices continued to rise sharply during December 2005. The recent persistent increase in gold prices is attributable to higher investment demand as investors took their positions in the booming market. Moreover, some reports on commodity markets also point out gold buying by the central banks for reserve diversification (see **Figure 4.4**).



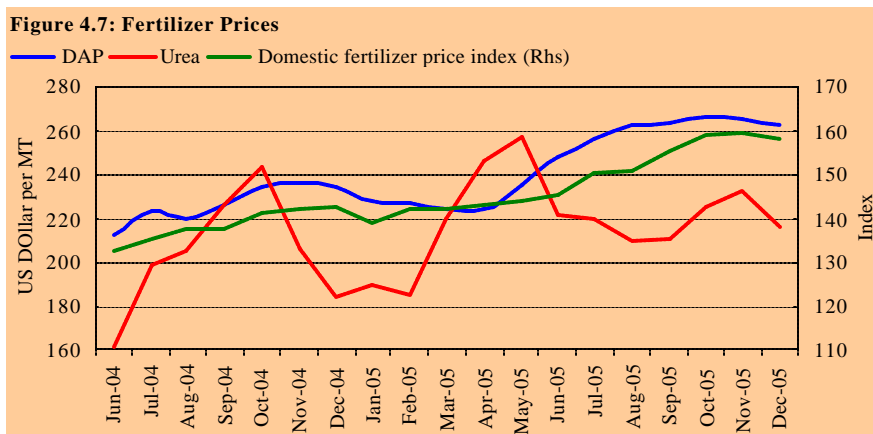
The domestic steel prices continued to maintain the declining trend, mainly due to falling prices in international market, lower import duty and reduction in prices by Pakistan Steel. Prices of precious metals (excluding gold) as measured by IMF metals price index, continued to show rising trend (see **Figure 4.5**).



The domestic cotton prices continued to rise amid the reports of below target cotton production for FY06. The domestic production of cotton is expected to remain 15 percent below target (of 15 million bales for FY06) and 12 percent lower than last year's production of 14.6 million bales. Cotton 'A' Index⁶ showed a slight decline in cotton prices in international market while world cotton forecast of cotton outlook shows 12 percent shortfall in global production for 2005-06 (see **Figure 4.6**).



The pace of increase in domestic fertilizer prices continued to witness slowdown amid falling urea and DAP prices in international market (see **Figure 4.7**).



⁶The *Cotlook. A* index is an average of the five cheapest quotations from selected 19 of the principle upland cotton traded internationally. For more details, see www.cotlook.com.

5. Sensitive Price Indicator (SPI)

In comparison to CPI, SPI is more sensitive towards any change in retail prices of food items and some of the non-food items as well, including fuels. Data on SPI is available on both monthly as well as on weekly basis. This small frequency helps in the formation of a rough estimate of the CPI inflation, particularly CPI food group. SPI inflation (weekly, point to point) surged during the month of December 2005, due to inflation in prices of food and energy (see **Figure 5.1**).

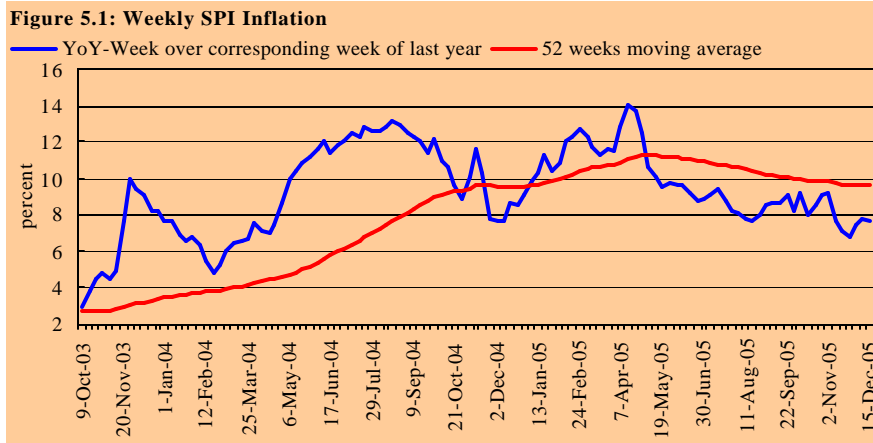
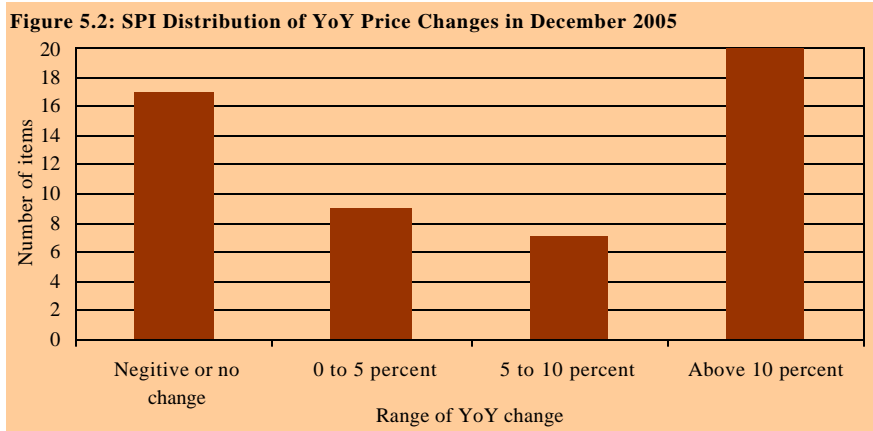
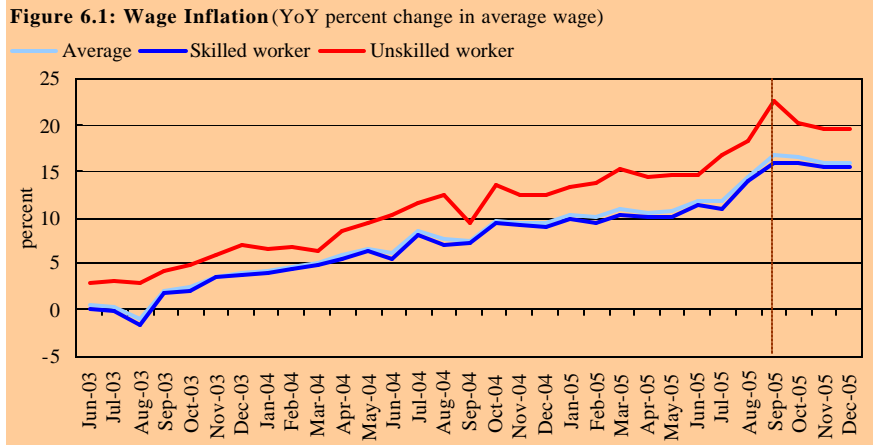


Figure 5.2 explains the distribution of items in the SPI basket falling under different ranges of price changes during December 2005. Items in the range of double digit inflation mostly include food items along with fuels (petrol, diesel and kerosene oil, gas and firewood).

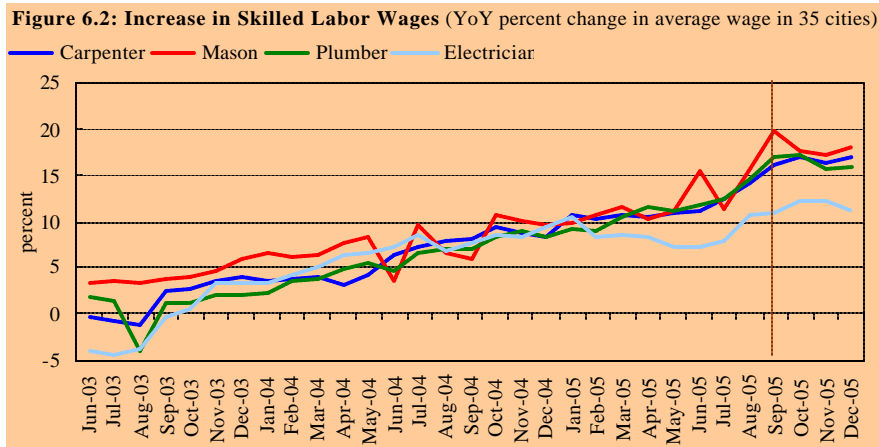


6. Wage Inflation⁷

Wage inflation, during December 2005, remained almost same at last month's level. The average daily wages of five construction workers rose by 16.0 percent in December compared to 15.9 percent increase in November and 9.3 percent in December last year (see **Figure 6.1**). This slight increase in wage inflation was largely due to acceleration in the growth of average daily wages of the laborers (Unskilled) while the annual rate of increase in skilled labor wages remained same



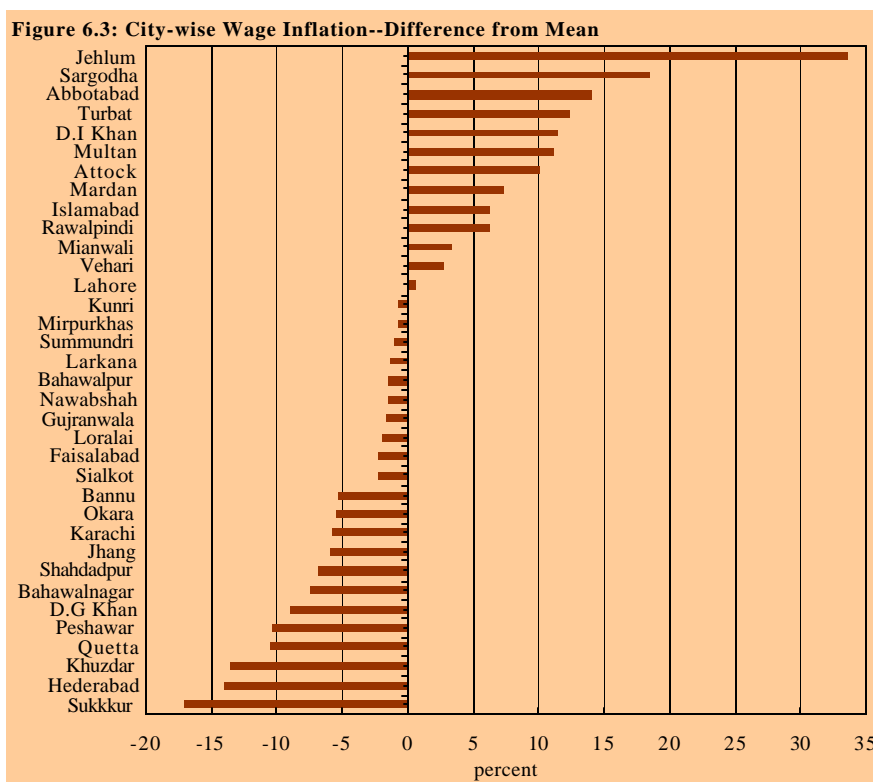
as the previous month (see **Figure 6.2**). Wage pressures are also reflected in accelerating inflation for low income groups in December (see **Table 6.1**).



⁷ Based on wages of five construction workers: carpenter, mason, electrician, plumber and laborer.

Table 6.2: Wage Inflation and Income Group-wise Inflation							
percent							
	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05
Wage Inflation	11.7	11.6	14.4	16.7	16.5	15.9	16.0
Carpenter	11.0	12.3	14.1	16.1	16.9	16.3	16.9
Mason	15.5	11.3	15.8	19.7	17.6	17.2	18.0
Laborer	14.6	16.7	18.3	22.6	20.1	19.5	19.5
Plumber	11.6	12.6	14.6	16.9	17.2	15.8	16.0
Electrician	7.2	7.8	10.8	10.8	12.1	12.0	11.0
All income groups	8.7	9.0	8.4	8.5	8.3	7.9	8.5
Up to Rs. 3000	8.5	8.7	8.2	7.9	7.4	7.0	8.4
Rs. 3001 -5000	8.3	8.6	8.0	7.8	7.2	6.8	8.2
Rs. 5000 -12000	8.5	8.7	8.0	7.9	7.6	7.2	8.2
Above Rs. 12000	9.0	9.3	8.8	9.3	9.2	8.9	8.9

City-wise variations in average daily wages from country average are shown in **Figure 6.3**.



Average daily wages by type of construction workers are given in **Table 6.2**.

Table 6.2: Daily Labor Wages (Rupees per day—Average in 35 Cities)						
	Carpenter	Mason	Labourer	Plumber	Electrician	Average
Jul-03	219.4	230.2	109.5	220.4	215.4	199.0
Aug-03	219.4	230.2	109.8	220.2	216.1	199.2
Sep-03	219.7	231.5	111.1	220.7	216.0	199.8
Oct-03	219.9	232.2	111.7	220.9	216.8	200.3
Nov-03	222.8	235.5	113.9	223.2	218.7	202.8
Dec-03	224.2	238.6	115.2	224.9	219.6	204.5
Jan-04	224.6	239.8	115.1	225.4	219.6	204.9
Feb-04	225.0	240.1	115.2	225.4	224.3	206.0
Mar-04	226.2	241.3	115.0	226.3	225.1	206.8
Apr-04	229.0	244.7	117.6	229.1	228.9	209.9
May-04	230.8	246.0	119.1	231.3	230.7	211.6
Jun-04	232.5	238.3	120.9	231.6	232.0	211.1
Jul-04	235.2	252.5	122.1	235.1	233.8	215.7
Aug-04	236.6	245.3	123.3	235.8	231.1	214.4
Sep-04	237.6	245.2	121.7	236.6	232.6	214.7
Oct-04	240.3	256.9	126.7	239.3	235.3	219.7
Nov-04	242.1	259.5	128.0	242.9	237.0	221.9
Dec-04	242.9	261.6	129.4	243.6	240.3	223.6
Jan-05	248.5	263.3	130.4	245.8	242.8	226.1
Feb-05	248.2	265.6	130.9	245.7	242.8	226.6
Mar-05	250.5	269.2	132.5	250.0	244.3	229.3
Apr-05	253.3	269.8	134.4	255.4	247.7	232.1
May-05	256.0	273.1	136.5	256.8	247.7	234.0
Jun-05	258.1	275.2	138.5	258.6	248.8	235.8
Jul-05	264.2	280.9	142.5	264.6	252.1	240.8
Aug-05	269.9	284.1	145.8	270.2	256.0	245.2
Sep-05	275.8	293.6	149.3	276.6	257.7	250.6
Oct-05	280.8	302.1	152.2	280.4	263.8	255.9
Nov-05	281.5	304.2	152.9	281.3	265.5	257.1
Dec-05	283.8	308.6	154.7	282.5	266.8	259.3

Source: Federal Bureau of Statistics

Annexes:

S.No	Items	Unit	Price in	percentage change in Dec-05 over		
			Rupees-Dec-2005	Jun-05	Dec-04	Nov-05
1	Wheat	Kg.	11.7	3.4	-4.8	0.9
2	Wheat flour a.qlt.	Kg.	13.1	1.0	-4.2	0.4
3	Rice basmti.broken	Kg.	20.1	-2.3	0.5	-0.1
4	Rice irri -6	Kg.	15.9	-1.2	5.8	0.0
5	Masur pulse washed	Kg.	45.4	-1.2	3.1	-0.2
6	Moong pulse washed	Kg.	42.0	8.1	36.1	1.7
7	Mash pulse washed	Kg.	47.0	13.8	20.7	2.4
8	Gram pulse washed	Kg.	28.7	3.3	-3.9	1.1
9	Beef	Kg.	105.0	3.8	11.4	1.1
10	Mutton	Kg.	198.1	3.0	7.6	0.7
11	Egg hen (farm)	Doz.	51.5	60.5	18.7	17.9
12	Bread plain m.s.	Each	14.3	3.4	5.5	0.8
13	Sugar	Kg.	28.5	7.6	32.3	3.5
14	Gur	Kg.	32.3	6.0	51.6	-6.9
15	Milk fresh	Litr	23.6	2.3	12.5	0.3
16	Milk powdered nido	400g	107.5	1.6	4.3	0.2
17	Curd	Kg.	28.0	1.5	10.4	0.3
18	Veg.ghee tin	2.5k	203.7	-0.1	-0.3	0.0
19	Veg.ghee loose	Kg.	58.8	0.1	-1.5	0.0
20	Mustard oil	Kg.	66.8	1.8	1.8	0.2
21	Cooking oil	2.5l	204.5	-0.2	-0.2	0.0
22	Potatoes	Kg.	16.0	-10.0	17.3	-18.3
23	Onions	Kg.	10.9	-6.8	22.4	-11.5
24	Tomatoes	Kg.	17.1	-8.7	-29.1	-21.4
25	Bananas	Doz.	23.9	-26.2	9.8	-11.1
26	Salt powdered	Kg.	3.8	4.1	10.1	0.0
27	Red chillies(powd)	Kg.	69.9	-5.9	-9.7	-1.7
28	Garlic	Kg.	56.5	5.7	25.7	2.1
29	Tea packet	250g	61.9	-0.1	-0.2	0.2
30	Tea (prepared)	Cup	5.7	4.2	11.9	0.5
31	Cooked beef plate	Each	25.7	2.2	6.2	0.3
32	Cooked dal plate	Each	15.3	2.0	4.0	0.0

Inflation Monitor for December 2005

Continued ---

S.No	Items	Unit	Price as in Dec-2005	percentage change in Dec-05 over		
				Jun-05	Dec-04	Nov-05
33	Cigarettes k-2	10's	7.2	0.3	4.1	-1.8
34	Coarse latha	Mtr.	34.5	3.3	7.2	0.2
35	Lawn (avg.+s.qlty)	Mtr.	75.6	-0.6	5.5	0.0
36	Voil printed	Mtr.	36.5	-1.0	2.0	-0.2
37	Shirting	Mtr.	62.2	1.7	3.7	0.0
38	Sandel gents bata	Pair	399.0	-4.8	-20.0	0.0
39	Sandel ladies bata	Pair	299.0	3.5	20.1	0.0
40	Chappal spng. Bata	Pair	89.0	0.0	0.0	0.0
41	Kerosene	Litr	36.5	16.5	30.2	0.0
42	Firewood	40kg	166.7	14.5	23.3	5.9
43	Elec. Bulb 60-wats	Each	11.4	-1.6	-5.8	-0.5
44	Match box	Each	0.6	5.1	21.6	0.0
45	Washing soap	Cake	7.7	1.6	3.2	0.0
46	Bath soap lifebuoy	Cake	13.9	-0.1	-0.4	0.1
47	Chicken (farm)	Kg	70.5	-2.9	-3.8	-9.9
48	Gas chrg. All clb. Comb	D.mmbt	193.0	5.1	12.7	0.0
49	L.p.g.(cylinder 11kg.)	Each	478.3	40.7	-0.1	-1.6
50	Elec.chrg.all slabs com	Bd. Unit	4.7	0.0	0.0	0.0
51	Petrol	Litr	56.4	23.5	46.1	0.0
52	Diesel	Litr	37.3	27.8	46.5	0.0
53	Telephone local	Call	2.3	0.0	0.0	0.0
Max:				60.5	51.6	17.9
Median				1.7	5.5	0.0
Min:				-26.2	-29.1	-21.4

Source: Based on data from Federal Bureau of Statistics

Table 2: Top Ten CPI Items Ranked by Weighted Contribution								
S.#	Items	Unit	Weights	Price in		Point to point change in		Weighted contribution.
				Dec-05	Dec-03	Dec-04	Dec-05	
1	House Rent Index	Index	23.43	132.2	3.8	11.7	10.3	28.3
2	Milk Fresh (Unboiled)	LTR	6.53	22.6	4.0	10.4	13.0	10.0
3	Sugar Refined	KG	1.95	29.0	-6.0	7.9	39.1	8.9
4	Petrol Super	LTR	1.73	56.5	3.9	19.5	39.2	8.0
5	Peas	KG	0.15	39.4	-	-30.0	174.6	3.0
6	Beef With Bone Avg.Qlty.	KG	1.61	101.1	21.9	26.1	14.0	2.7
7	Gas Chrg10.12 - 13.49	MMBTU	0.93	305.4	-69.7	6.7	14.5	1.6
8	Firewood Whole	40 KG	0.48	140.1	14.1	15.9	27.0	1.5
9	Potatoes	KG	0.53	15.7	-14.2	58.6	24.0	1.5
10	Bus Fare Outside City	P/KM	0.48	0.5	0.0	8.8	21.6	1.2
Total			37.8					66.7
Top Ten CPI Items by Percentage Change								
1	Peas	KG	0.1467	39.4	-	-30.0	174.6	3.0
2	Cauliflower	KG	0.1515	16.6	14.5	1.8	61.3	1.1
3	Gur Av.Qlty	KG	0.0735	31.1	-3.2	8.1	50.8	0.4
4	Cabbage	KG	0.0686	17.1	73.4	-38.3	48.8	0.4
5	Turnip	KG	0.0726	10.3	18.8	-3.5	47.4	0.4
6	High Speed Diesel Hsd	LTR	0.2070	37.4	7.8	15.1	41.5	1.0
7	Carrot	KG	0.0802	12.1	-8.9	9.0	40.8	0.4
8	Petrol Super	LTR	1.7253	56.5	3.9	19.5	39.2	8.0
9	Sugar Refined	KG	1.9467	29.0	-6.0	7.9	39.1	8.9
10	Pulse Moong (Washed)	KG	0.2230	41.4	-6.3	9.7	37.6	1.0
Total			4.7					24.6

Cities	Income Up to Rs:3000			3001-5000			5001-12000			Above 12000			Combined		
	General	Food	Non-food	General	Food	Non-food	General	Food	Non-food	General	Food	Non-food	General	Food	Non-food
Lahore	10.0	10.0	10.0	9.7	9.5	9.8	9.4	9.0	9.8	9.7	8.8	10.4	9.6	8.9	10.1
Faisalabad	8.5	8.8	8.2	8.4	8.3	8.6	8.5	8.4	8.6	9.5	9.0	9.9	9.0	8.7	9.3
Rawalpindi	10.2	10.2	10.2	9.7	9.1	10.2	9.8	8.8	10.6	10.8	8.4	12.5	10.3	8.7	11.5
Multan	7.7	7.7	7.7	7.7	7.9	7.6	7.9	7.5	8.2	8.7	7.7	9.5	8.2	7.7	8.5
Gujranwala	9.7	11.0	8.8	9.3	9.7	9.0	9.6	9.7	9.5	10.3	10.1	10.4	9.7	9.8	9.6
Islamabad	11.1	9.4	12.2	11.0	10.1	11.7	10.8	9.1	11.9	11.6	8.4	13.8	11.5	8.5	13.5
Sargodha	9.5	8.9	9.9	9.3	9.3	9.3	9.3	9.3	9.2	9.2	7.9	10.0	9.2	9.0	9.4
Sialkot	8.8	10.4	7.8	9.0	11.5	7.3	9.0	11.3	7.4	8.7	10.6	7.4	8.8	10.9	7.3
Bahawalpur	8.2	7.2	8.8	8.4	7.5	9.1	8.5	8.0	8.8	8.8	7.5	9.7	8.5	7.7	9.1
Karachi	6.2	5.2	6.9	6.0	3.9	7.5	6.0	3.7	7.6	7.6	4.0	10.1	6.8	3.8	8.9
Hyderabad	5.2	5.3	5.2	5.1	5.2	5.1	5.3	5.2	5.4	6.2	6.1	6.3	5.5	5.4	5.6
Sukkur	6.5	6.8	6.4	6.4	5.9	6.7	6.2	6.0	6.4	6.2	5.9	6.4	6.3	6.0	6.4
Larkana	5.7	5.1	6.1	5.5	5.0	5.8	5.8	5.3	6.2	5.5	4.4	6.3	5.7	5.0	6.1
Peshawar	8.4	9.0	7.9	8.7	9.2	8.4	8.7	8.7	8.7	9.5	8.3	10.3	9.0	8.6	9.4
Bannu	6.5	6.4	6.6	5.5	4.4	6.3	5.2	3.8	6.3	5.7	3.7	7.1	5.5	4.0	6.5
Quetta	5.5	4.3	6.4	5.0	2.5	6.8	5.5	2.6	7.5	6.7	2.9	9.4	6.0	2.7	8.3
Khuzdar	12.3	13.7	11.3	11.9	14.1	10.4	11.3	14.9	8.8	11.0	14.3	8.7	11.5	14.5	9.5
Average	8.2	8.2	8.3	8.0	7.8	8.2	8.0	7.7	8.3	8.6	7.5	9.3	8.3	7.7	8.8
Minimum	5.2	4.3	5.2	5.0	2.5	5.1	5.2	2.6	5.4	5.5	2.9	6.3	5.5	2.7	5.6
Median	8.4	8.8	7.9	8.4	8.3	8.4	8.5	8.4	8.6	8.8	7.9	9.7	8.8	8.5	9.1
Maximum	12.3	13.7	12.2	11.9	14.1	11.7	11.3	14.9	11.9	11.6	14.3	13.8	11.5	14.5	13.5