

Inflation Monitor

September 2005



State Bank of Pakistan

Economic Policy and Research Departments

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Foreword

Maintaining price stability is the primary objective of all central banks around the world. Hence, the importance of continuous monitoring of inflation can hardly be overemphasized. While the State Bank of Pakistan always monitors the price trends very closely, public at large remains unaware of underlying detailed statistical analysis of price trends.

In order to make the public more informed about the process of inflation, we have decided to bring out a brief monthly pamphlet with a self explanatory title “Inflation Monitor”. This is based on the price data meticulously compiled by the Federal Bureau of Statistics and shared with us in detail.

Although we have kept the scope of this publication only to statistical analysis of price trends from various angles, it is hoped that readers will find it useful. Objective of this pamphlet is to provide as much detail as possible about the price situation so that our fellow citizens are able to form an independent outlook for the emerging price situation. Of course, readers will also come to know about SBP views on inflation that help set our monetary stance shared with the public twice a year with our “Monetary Policy Statement”.

I am thankful to Riaz Riazuddin who has taken the lead in organizing the work on this monthly pamphlet and to Fida Hussain and Syed Sarfaraz Ali Shah who have researched and analyzed a vast dataset compiled by the FBS. Data support by FBS is also deeply acknowledged.

Dr. Ishrat Husain
Governor

1. Overview

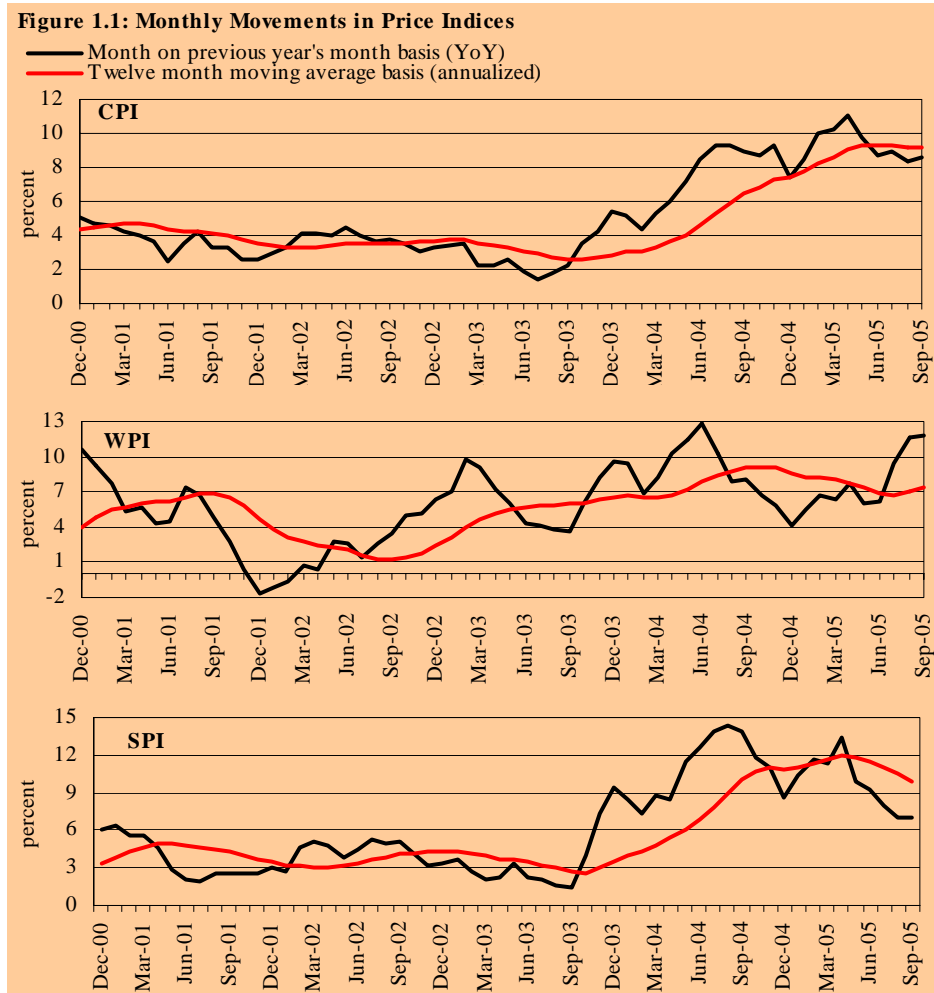
Inflationary pressures that had been showing visible signs of weakening since the eve of FY06 till the initial two months of FY06, have revealed a slight upsurge during September FY06, particularly in the headline inflation. Similarly WPI inflation, which has been rising sharply since the start of FY06, continued the uptrend during September 2005. Sensitive price indicator (SPI), however, continued the deceleration, which is visible since July FY06 (see **Table 1.1**). More importantly, the underlying inflationary trend in CPI is still declining in terms of various measures of core inflation. Similarly the 12 months moving average of CPI inflation has also witnessed a mild decelerating trend

The earlier deceleration in the price indices, particularly in CPI and SPI, was due to marginal decline in prices of some important food items including wheat & wheat products, along with the stability recorded in the HRI inflation during the same period. The September surge in CPI inflation could partly be attributed to the onslaught of Ramadan whose fuller effects are likely to be revealed in the data for October 2005 (see **Figure 1.1**). Even if this effect is found to be significant, it will be temporary and subside in November 2005. At the same time, the devastating earth quake that struck a major part of the Northern Pakistan and caused huge damage to life and property, will also probably affect the domestic prices as well. Its impact on prices will largely depend on the nature of temporary shifts in demand in both affected and the unaffected areas.

Besides Ramadan and in the aftermath of the earthquake, continuous rise in oil prices has also become a source of major concern in recent times. Although international market witnessed some decline in the oil prices during September 2005, it is still above the US\$60 per barrel mark – the highest ever in nominal terms (see **Figure 1.2**). High priced oil has placed a serious question mark on the

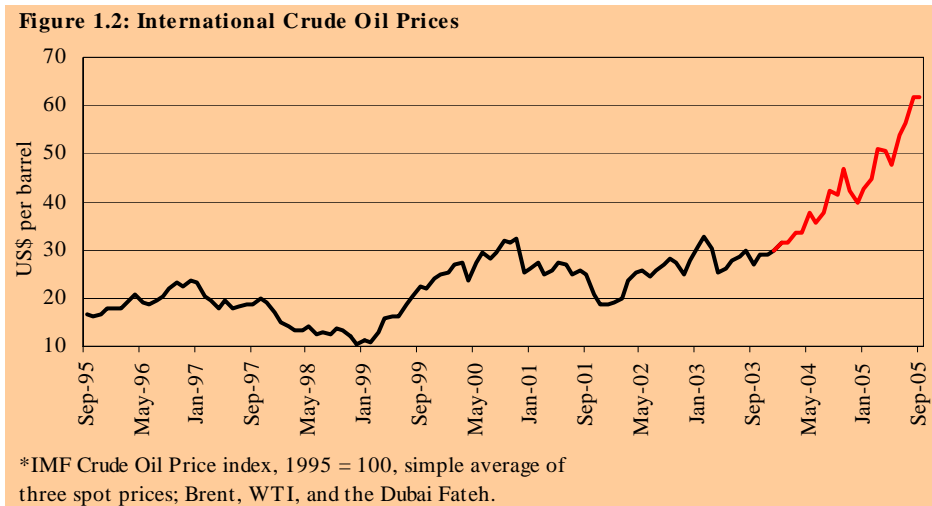
Table 1: Inflation (YoY)

	percent					
	CPI		WPI		SPI	
	FY04	FY05	FY04	FY05	FY04	FY05
Oct	3.5	8.7	6.1	6.6	4.0	11.8
Nov	4.2	9.3	8.2	5.9	7.3	11.1
Dec	5.4	7.4	9.6	4.2	9.5	8.6
Jan	5.2	8.5	9.5	5.6	8.4	10.3
Feb	4.3	9.9	6.9	6.7	7.3	11.6
Mar	5.3	10.2	8.2	6.3	8.7	11.4
Apr	6.0	11.1	10.3	7.7	8.4	13.4
May	7.0	9.8	11.5	6.0	11.4	9.9
Jun	8.5	8.7	12.8	6.2	12.6	9.2
Jul	9.3	9.0	10.2	9.4	13.8	8.0
Aug	9.3	8.4	8.0	11.7	14.4	7.6
Sep	9.0	8.5	8.0	11.9	13.8	7.0
Avg.	6.4	9.1	9.1	7.4	10.0	10.0



sustainability of the current level of GDP growth in the advanced countries where per capita consumption of oil is very high. Expensive oil is obviously also a source of major concern for oil importing developing countries like Pakistan. The domestic economy is currently importing more than 70 percent of its liquid fuel requirements from abroad. Therefore, the current high oil prices have posed considerable threats to the economy, in the shape of rising external account deficits, increasing cost of the domestic production, increased transportation costs and consequent building of inflationary expectations. Earlier the impact of rising oil prices on CPI inflation was muted due to high food and HRI inflation,

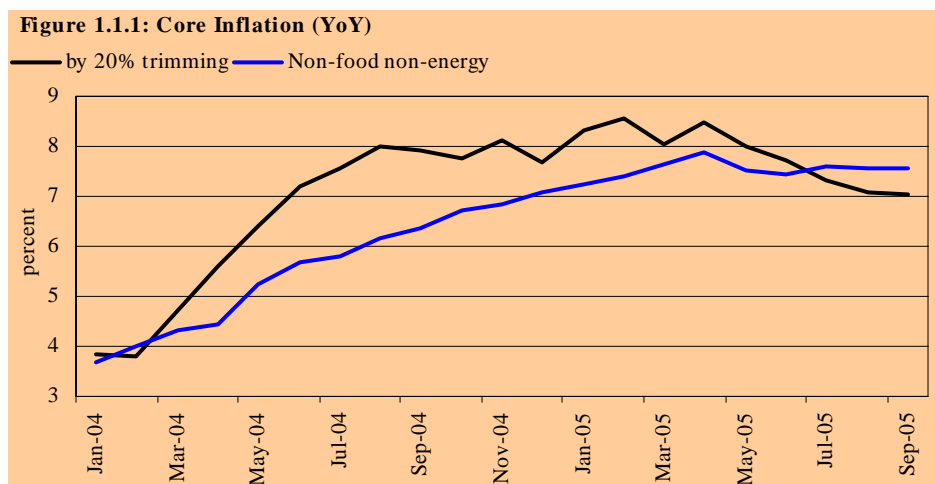
however, currently all the price indices are reflecting oil price hike as one of the

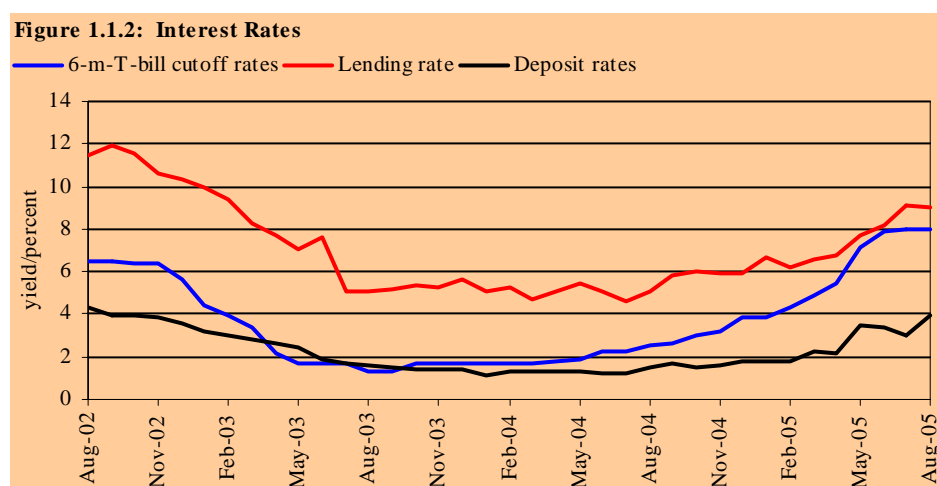


major sources of the current high inflation (see **Figure 1.2**).

1.1 Core Inflation

Core inflation reflects permanent or the persistent part of the overall inflation. For this reason, it is also called underlying inflation. It roughly suggests the future course of overall inflation in an economy; that is why it is important from the point of view of policy making.





State Bank of Pakistan computes core inflation both by the method of exclusion and that of the weighted trimmed mean as well¹.

Both the estimates of core inflation have been exhibiting visible deceleration since the start of FY06, however, the deceleration was more pronounced in the core inflation by 20% trimming.

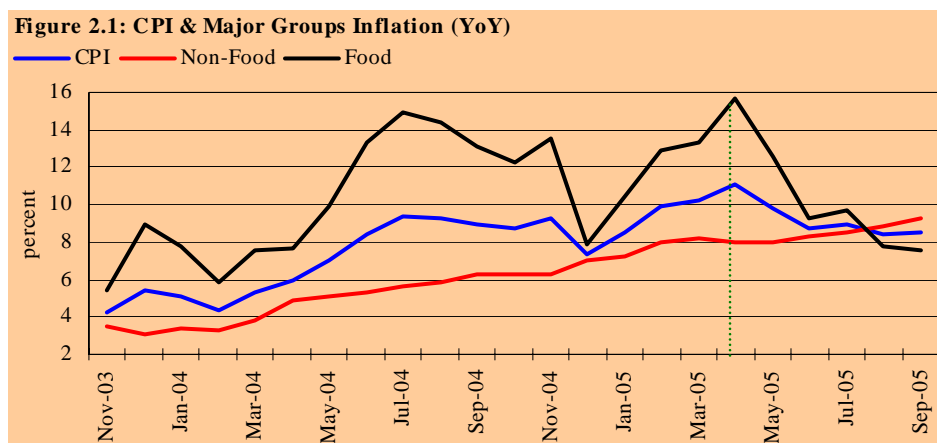
While the current high headline inflation is mainly backed by high food and fuel prices accompanied by high, yet decelerating, HRI (house rent index) inflation; the recent trend of core inflation could mainly be due to the last one (see **Figure 1.1.1**).

HRI inflation, which had been rising steeply during most part of FY05, became somewhat stable by the close of FY05, while during the first quarter of FY06, HRI has witnessed obvious deceleration. HRI was earlier rising on the back of increased construction activity during FY04 and FY05, due to the accommodative monetary policy of the bank, however, the bank has gradually changed the stance from accommodative to relatively tight monetary policy to check the pace of inflation (see **Figure 1.1.2**). The tight monetary policy of the bank has been successful in checking the core inflation.

¹ In the exclusion method, SBP excludes the impact of change in prices of *food, petrol, diesel, kerosene, CNG, electricity* and *Gas* from the overall CPI. In the 20% trimming, CPI items are first ordered in terms of prices changes from the highest to lowest and then the items corresponding to cumulative weight of 10% from each side are excluded.

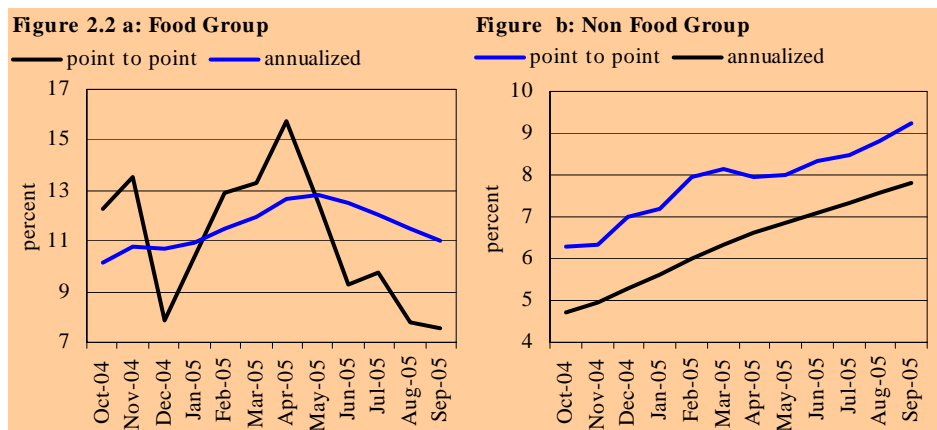
Table xx: Selected CPI Items Classified by Range of Price Changes (YoY) (September-05)

Groups	Decrease or no change	Subdued increase (upto 5%)	Moderate increase (5 to 10%)	Increase of over 10%
Food Group	Tomatoes Vegetable Ghee (Ls) Vegetable Ghee Tin Wheat Tea Brookbond Sup.	Onion Wheat Flour Bag Rice Basmati 385/386 Eggs Farm Wheat Flour Fine/Sup.	Pulse Gram Mutton Av.Qlty. Cigarettes Morven Gold Cigarettes Capstan 10' Cooked Beef (Av. Hotel)	Karaila Milk Fresh (Unboiled) Apple Chicken Farm Broiler Pulse Mash (Washed)
Apparel & Textile	Gents Sandal Bata Ladies Chappal Bata	Tailoring Aw-Suit (M) School Uni. Girl Tailoring Coat-Pant	Tailoring Suit Female Linen Av.Qlty Shirting 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 Chrg 3.4 - 6.7 Gas Chrg 6.7 - 10.1 Kerosene Oil
H/hold Furniture	Electric Juicer Tea-Set S.Steel Hand Stitching Needle	Airconditioner 1.5 Pel Blanket (90" X 54") Washing Machine Singer	Marriage Hall Household Servant Female Single Bed W/O Foam.	Bucket Plastic Med.Siz 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 Eco.101-500 Km.	Train A/C Slp.101-500km Train Eco. > 500 Km. Cng Filling Charges Full Tonga Charges	Auto Rickshaw Fares Bus Fare Min(Within City) Petrol Super High Speed Diesel
Recreation	Video Game Sega V.C.P.	Dry Cell 1.5 Volt(Local) Radio With C.Player Tape Recorder	Cinema High Class	
Education	Com. C.D. Maths Book Calss V Govt.Coll.Fee 4th.Year	Ball Pen (Local) Eng.Ist.Yr Complete Set Urdu Book Class V	English Book Ix Or X School Fee 2nd-Ry Eng.Md. School Fee Primary Eng.Md.	Maths Book Ist.Year English Book Class V1
Cleaning & Laundry	Toilet Paper Roll Toothpaste 70 Grm Surf 160 Grm	Finis 500 Ml Disposable Razor Gillet Lipstick S.Miss/Medora Dry Cleaning Suit	Washing (Kamiz-Shalwar) Haircut Charges For Men Washing Ch. Shirt	Gold Tezabi 24 Ct Silver Tezabi 24 Ct
Medicare	Entox Tab. Disprin Tab. Hydryllin Syrup	Cotton Bandage 2" - 4" O.R.S. (Nimcol) Doctor Clinic Fee		



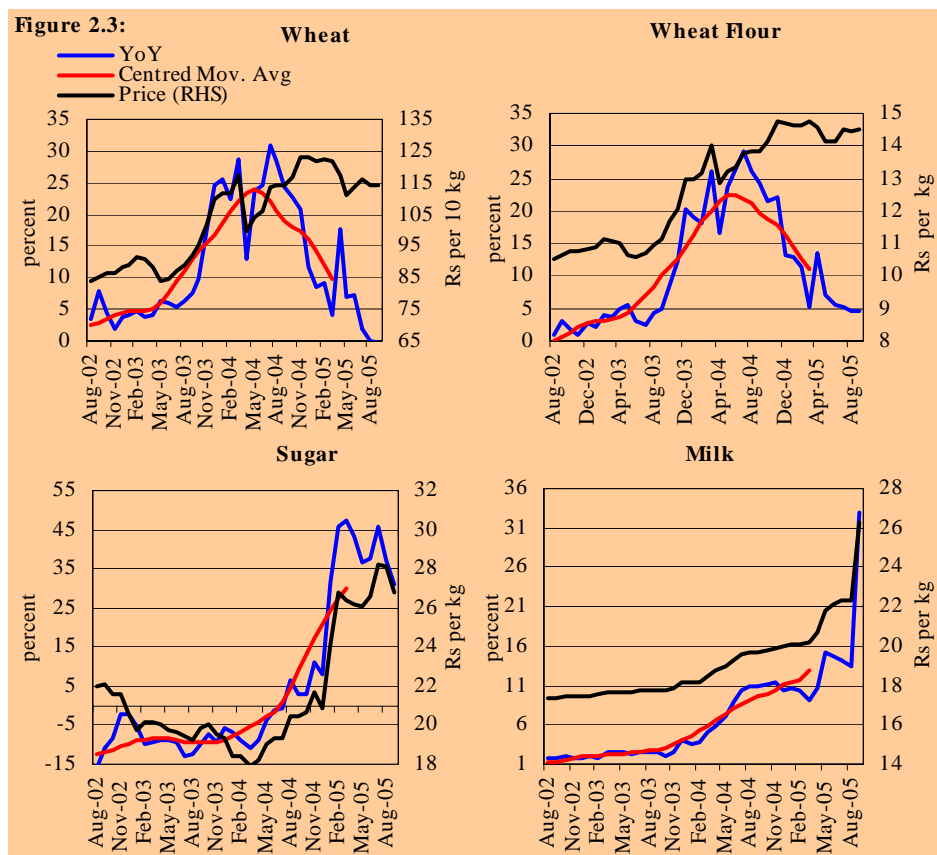
2. Consumer Price Index (CPI)

Consumer price inflation (YoY) has shown slight resurgence during the month of September 2005, mainly due to the low base and due to the persistently rising non-food inflation (see **Figure 2.1**). During September 2005, non-food inflation has been recorded higher, in magnitude, than the food group inflation, which reflects that the era of high food inflation, where it reached to about 16 percent YoY, during April, has been over, and the present high inflation is more non food driven. **Figure 2.2** reveals that the steep deceleration in YoY food inflation has pressured the annualized food inflation and it can be claimed safely that the annualized food inflation will still decelerate further in the coming months. However, the CPI non-food inflation has been rising both on YoY as well as annualized basis due to the rising fuel prices (see **Figure 2.2a, b**).



2.1 CPI Food Group

Food group inflation YoY, that has been decelerating steeply, continued the downtrend during September 2005. The deceleration in the food group was witnessed since May 2005, on the back of some declines recorded in the price of wheat. Similarly prices of minor crops including tomatoes and onion were also recorded low as compared to the high prices recorded during the earlier part of H2-FY05. Still the rise in prices of some important food staples including milk, meat and sugar has kept the food inflation quite high (see **Figure 2.3**).



Price of wheat that has shown sharp rise during major part of FY05, came down during the last two months of the same year. September 2005 also witnessed decline in the price of wheat and subsequently in the price of flour as compared to their prices during the same month last year. The corrections were the result of

good harvest and the administrative measures of the government to restrict inflation from rising any further (see **Figure 2.3**).

In the same way, prices of sugar and milk, which were earlier rising throughout FY05, have shown signs of deceleration during September 2005, yet as compared to their prices during September 2005, while on YoY basis the prices of these items are still quite high. CPI food inflation is expected to witness slight rise in the next month, which may continue till November 2005, on the back of seasonal demand of Ramadan along with the unusual pressure on the markets for relief to the earthquake affectees.

During September 2005, more than one fourth of items from food group recorded double digit YoY inflation, while 26 items fall in the category of subdued inflation of 5 to 10 percent YoY; this resulted in a 7.8 percent YoY inflation in overall food group during September 2005 (see **Table 2.1**).

Table 2.1: Distribution of Price Changes of CPI Basket. Sept 2005 YoY.						
Groups	Weights	% Changes	Total Number of Items	No. of Items in each Inflation Range		
				Decrease or no change (0 % or less)	Subdued increase (0 to 5%)	Moderate increase (5 to 10%)
I. Food Group	40.34	7.5	112	27	25	26
Food, Bev.	40.34	7.5	112	27	25	26
II. Non-Food Group	59.66	9.3	250	82	88	54
Apparel, Text.	6.1	3.9	42	6	20	14
House Rent	23.43	11.3	1	0	0	0
Fuel & Lighting	7.29	6.9	15	9	0	1
H/h Furn. & Equip.	3.29	5.6	44	3	27	12
Transport & Com.	7.32	20.7	43	16	3	12
Recreation, Enter.	0.83	-0.3	16	11	4	1
Education	3.45	5.4	24	7	8	7
Clean, Lau. & Per.	5.88	2.9	36	11	16	7
Medicines	2.07	1.6	29	19	10	0
Overall	100	8.5	362@	109	113	80
@: 12 items from the CPI food group were not reported during September 2005; therefore total number of items shown in this table is 362 in stead of 374.						

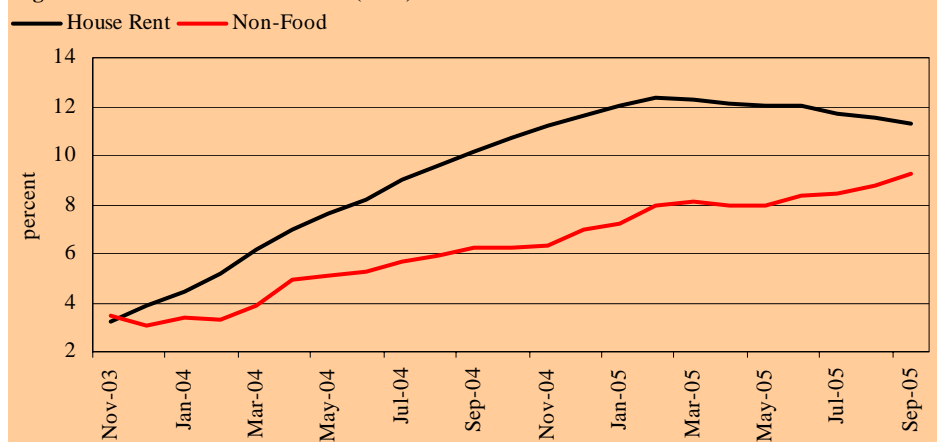
On annualized average (12 months moving average) basis 35 items of CPI food group, out of total 124, recorded more than 10 percent inflation during September 2005, while 43 items recorded negative or no inflation during the same month (see **Table 2.2**).

Table 2.2: Distribution of Price Changes of CPI Basket. Sept. 2005 Annualized.

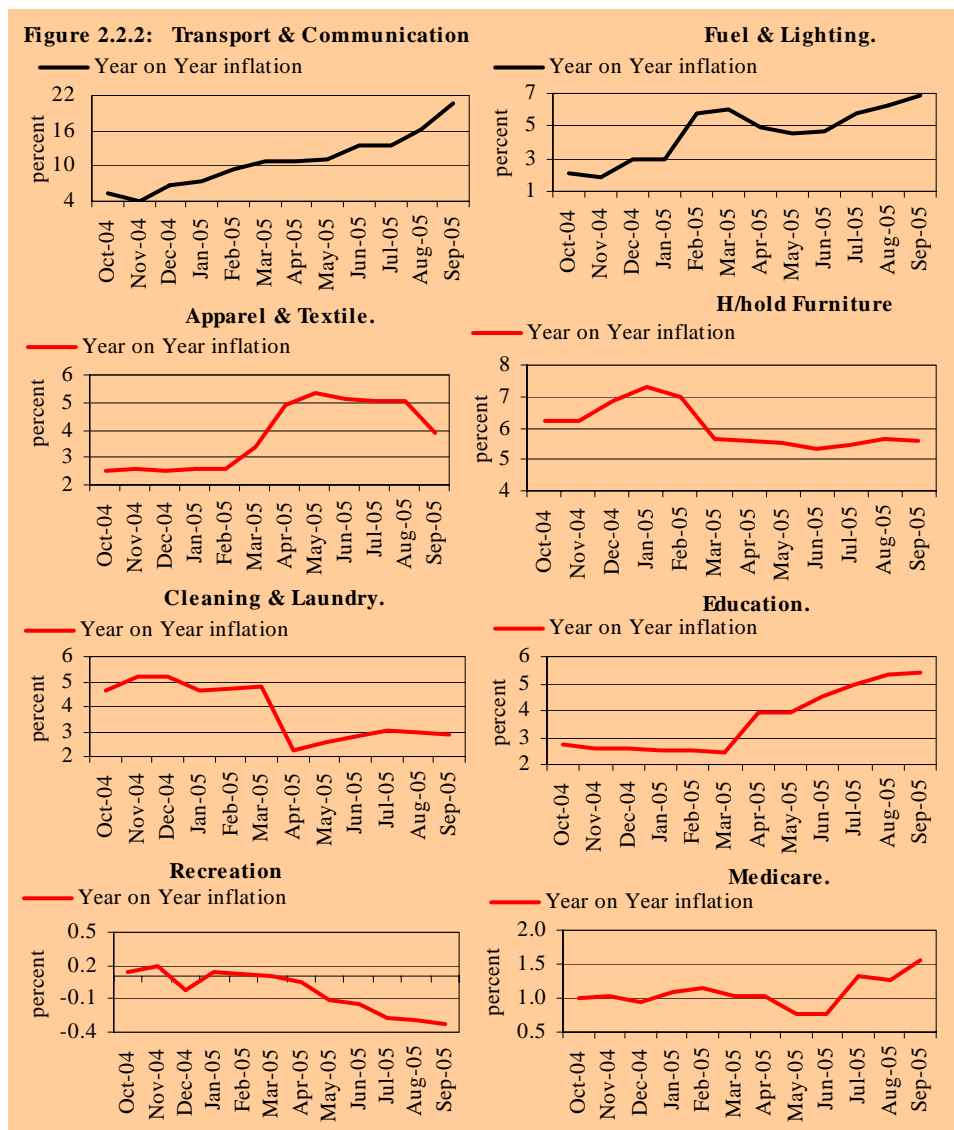
Groups	Weights	% Changes	Total Number of Items	No. of Items in each Inflation Range		
				Decrease or no change	Subdued increase	Moderate increase
				(0 % or less)	(0 to 5%)	(5 to 10%)
I. Food Group	40.34	9.1	124	43	23	23
Food, Bev.	40.34	9.1	124	43	23	23
II. Non-Food Group	59.66	7.8	250	76	90	57
Apparel, Text.	6.1	3.8	42	5	19	16
House Rent	23.43	11.8	1	0	0	0
Fuel & Lighting	7.29	4.6	15	8	1	1
H/h Furn. & Equip.	3.29	6.0	44	3	22	17
Transport & Com.	7.32	10.8	43	13	4	13
Recreation, Enter.	0.83	0.0	16	11	5	0
Education	3.45	3.6	24	14	8	2
Clean, Lau. & Per.	5.88	3.8	36	6	20	7
Medicines	2.07	1.1	29	16	11	1
Overall	100	9.1	374	119	113	80

2.2 CPI Non Food Group

Non food group inflation continued with the steadily rising trend during September 2005, on the back of high HRI inflation and the steeply rising fuel prices. During September 2005, HRI inflation YoY, which is still higher than the

Figure 2.2.1 : Non Food Inflation (YoY)

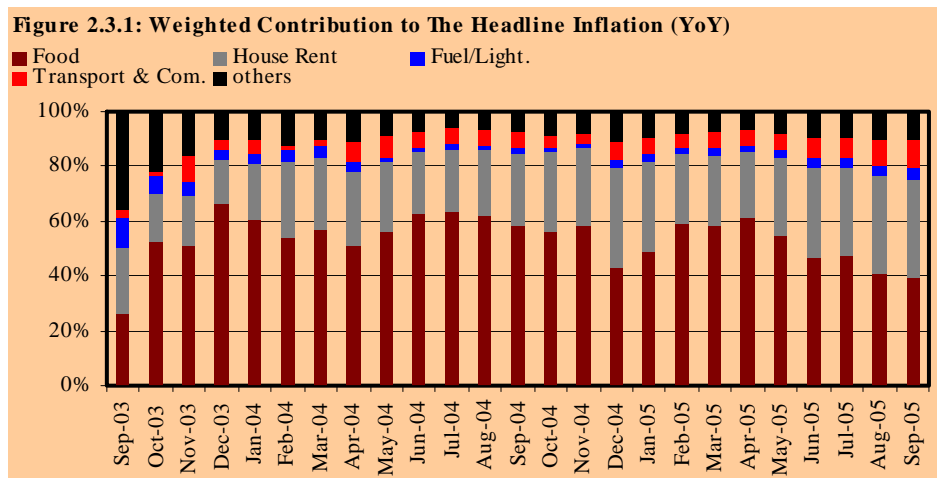
overall CPI non food inflation, has continued with the deceleration, which is visible since Q1-FY05, due to the low inflation recorded in the WPI building material subgroup (see **Figure 2.2.1**). However, the current overall CPI non food inflation is mainly driven by the fuel, energy and transport prices.



Both the tables 2.1 and 2.2 reflect that during September 2005, HRI has recorded double digit inflation both on marginal as well as annualized basis. Rest of the sub-groups of CPI non food group except *transport & communication, fuel & lighting* and *education* have shown subdued inflation. *Transport & communication* and *fuel & lighting* have started rising with the rise in the prices of PoL, while the rise in fees of English medium schools and those of prices of some of the books in the sub group of education has made this sub-group show above 5 percent inflation during September 2005 (see **Figure 2.2.2**).

2.3. Major Contributions

CPI food group and the HRI inflation remained the major contributing factors behind the 8.5 percent YoY CPI inflation recorded during September 2005, due to their heavy weights (food and HRI constitutes about 64 percent weight in the CPI basket). However, the share of food inflation in the headline inflation is decreasing gradually with the correction in prices of necessary food items. The share of others² and the fuel and transport group is increasing, yet with a low pace (see **Figure 2.3.1**). Still it can be claimed that the YoY inflation recorded during the



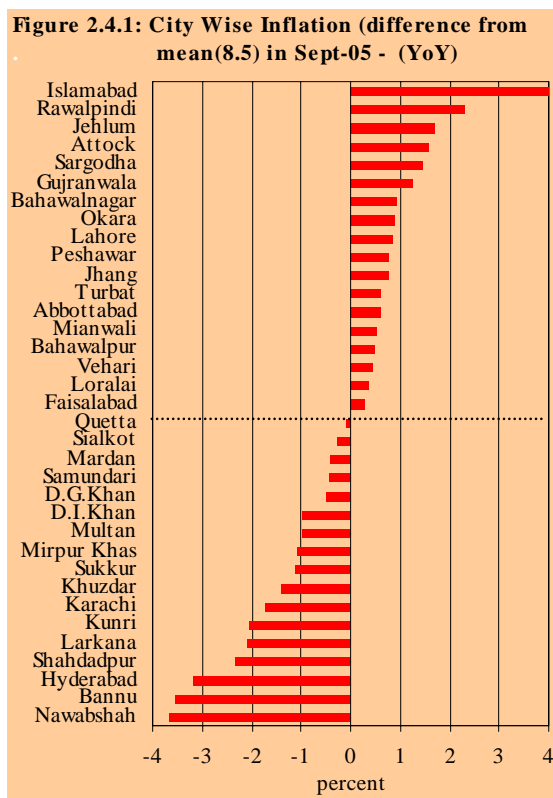
month of September 2005 was narrow based as the major impetus was coming from *food* group, *HRI*, and fuel (see **Table 2.3.1**). Interestingly, during September 2005, only ten items explained almost 70 percent of the YoY inflation recorded during the same month, where six of these items belong to the food group while the rest are those from the non food group of CPI basket.

² Others include: education, cleaning & laundry, recreation, medicare, household furniture & personal appliances.

Table 2: Top Ten CPI Items (Ranked by Weighted Contribution)								
percent								
S.#	Items	Unit	weights	Point to point changes in				
				Price	percent			
				Sep-05	Sep-03	Sep -04	Sep -05	wtd contr.
1	House Rent Index		23.4	129.5	2.3	10.2	11.3	31.0
2	Petrol Super	LTR	1.7	56.5	-11.3	20.0	52.4	10.6
3	Milk Fresh (Unboiled)	LTR	6.5	22.4	2.6	10.9	13.3	10.2
4	Sugar Refined	KG	1.9	26.8	-10.1	3.1	30.8	7.0
5	Beef With Bone Av.Qlty.	KG	1.6	98.0	19.3	30.1	13.0	2.5
6	Chicken Farm Broiler	KG	0.9	72.2	21.2	-4.8	21.8	2.3
7	Potatoes	KG	0.5	18.6	-21.9	55.6	27.9	1.7
8	Gas Chrg10.1157 - 13.4876mmbtu	MMBTU	0.9	305.4	-68.0	6.7	14.5	1.6
9	High Speed Diesel	LTR	0.2	37.4	6.3	15.9	52.4	1.3
10	Pulse Moong (Washed)	KG	0.2	40.3	-7.2	-3.2	46.6	1.2
Total			38.1					69.5

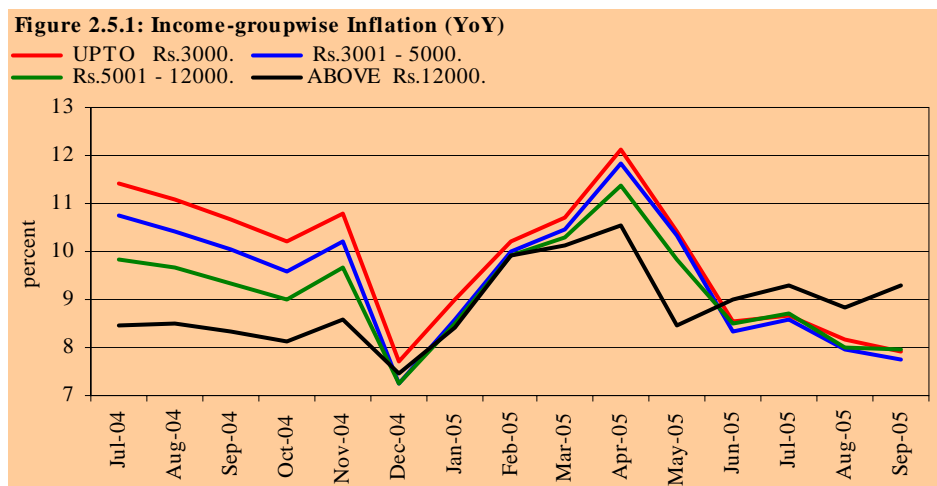
2.4. Regional Incidence of Inflation

Inflation remained widespread among big and small cities. While Islamabad recorded the highest rate of YoY inflation during September 2005, Nawabshah witnessed the other extreme. Similarly out of the four provincial capitals, Lahore recorded the highest inflation while Karachi was at the lowest extreme. Quetta was almost at the average inflation rate recorded for the whole country; whereas Peshawar recorded a rate lower than that recorded by Lahore yet higher than the average 8.5 percent YoY inflation recorded for the economy on the whole (see **Figure 2.4.1**).



2.5. Socio-economic Incidence of Inflation

Year on year inflation was recorded the highest for the higher income group, while the rest recorded almost same rate during September 2005 (see **Figure 2.5.1**). The high inflation for the high income earners confirms the probability that inflationary pressures are weakening in the food group, and the current inflation is getting strength from the non food group of CPI. However, as the difference in the incidence of inflation among the different income groups is still not very huge,



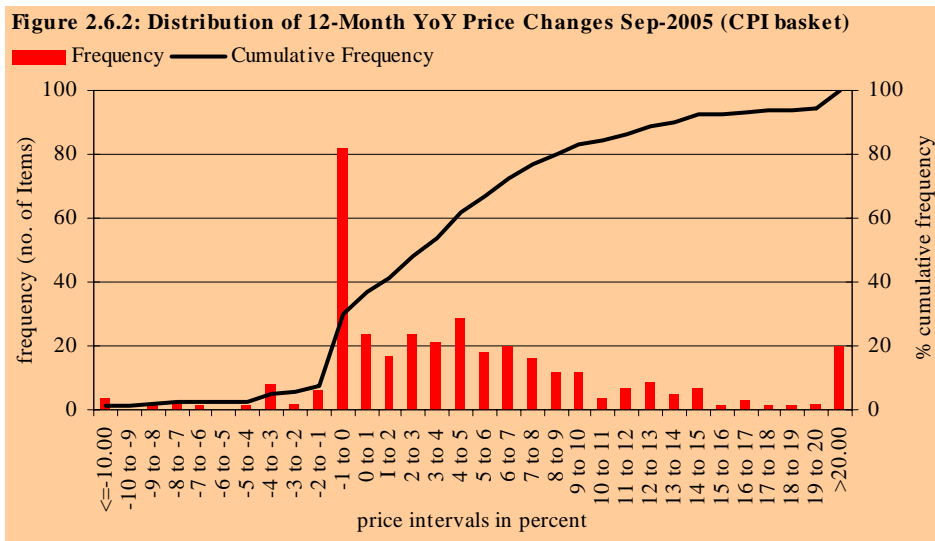
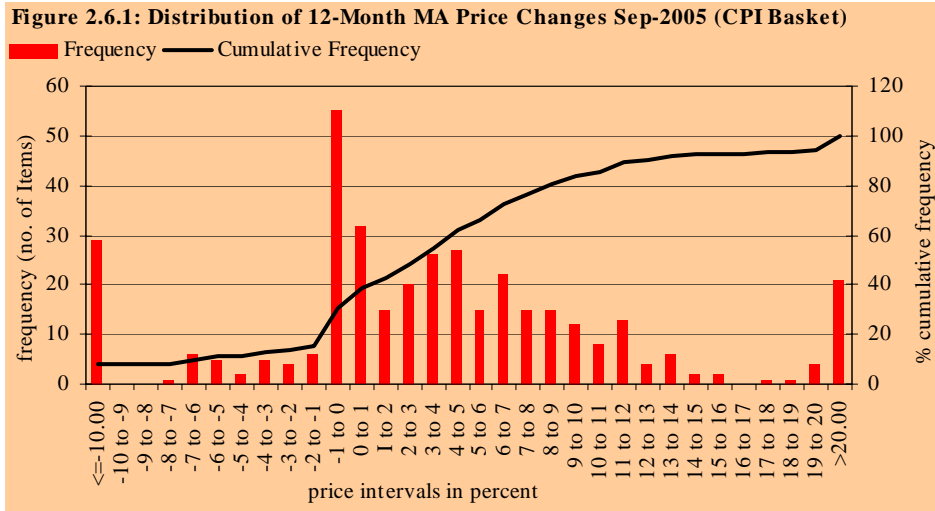
yet considerable, therefore the importance of food group inflation can yet not be ignored.

2.6. Item-wise Distribution of Price Changes

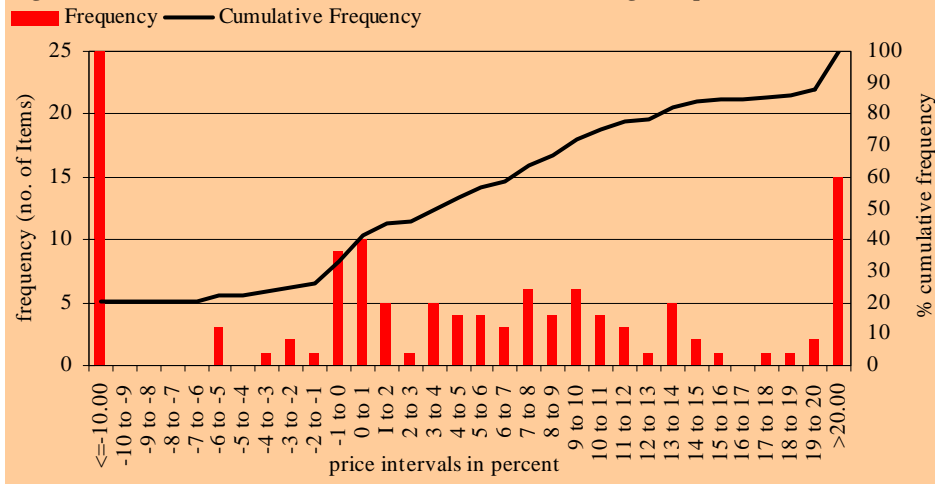
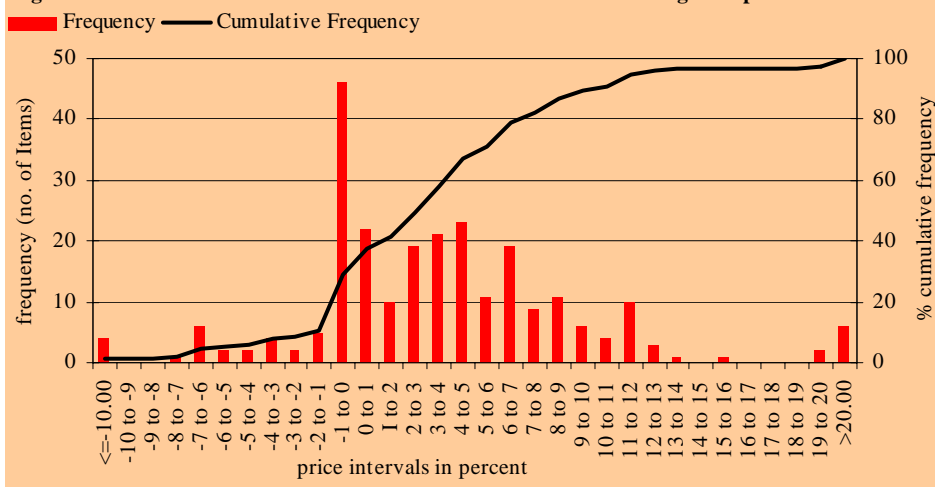
Distribution of CPI items on the basis of inflation range was recorded skewed towards the range of 1 to 15 percent inflation on annualized basis, during September 2005 (see **Figure 2.6.1**).

In case of point to point inflation most of the items in the overall CPI basket recorded inflation in the range of -1 to 10 percent (see **Figure 2.6.2**).

Annualized inflation in *food* group of CPI was recorded in a way that the distribution is not a normal one (see **Figure 2.6.3**).



Distribution of *non food* items of CPI seems normal, yet not completely (see **Figure 2.6.4**). Departure from the normal distribution gives a strong indication that 20 % trimmed measure of core inflation is preferable to the headline inflation rate.

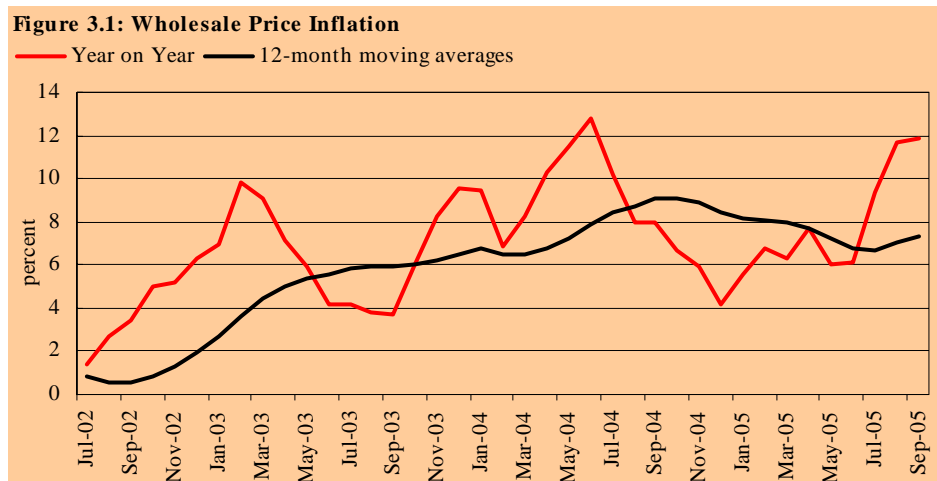
Figure 2.6.3: Distribution of 12-Month MA Food Price Changes Sep-2005**Figure 2.6.4: Distribution of 12-Month MA Non-Food Price Changes Sep-2005**

3. Wholesale Price Inflation³

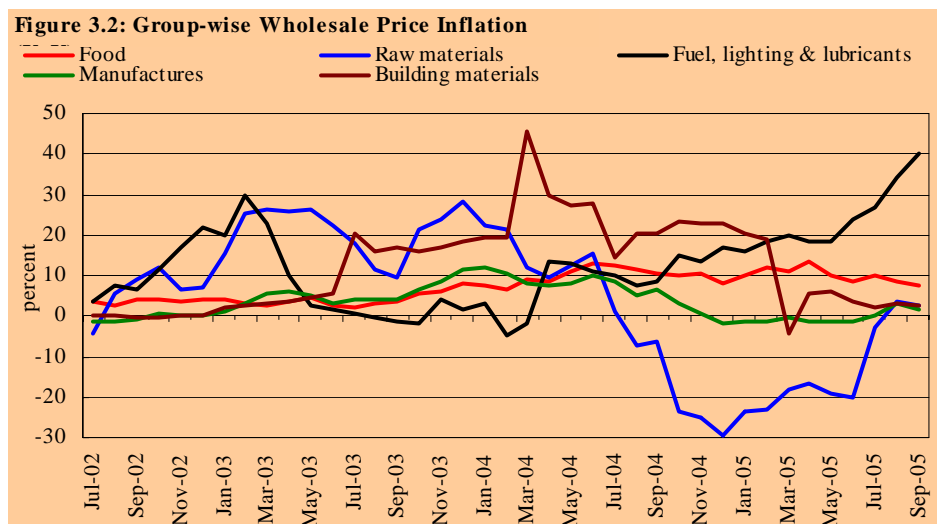
The inflationary pressures emanating from wholesale prices continued to strengthen during the first three months of FY06. In sharp contrast to decelerating trends observed during corresponding period of FY05, the wholesale price inflation witnessed acceleration during the first three months of FY06 (see **Figure**

³ Wholesale price inflation is measured as percent change in Wholesale Price Index.

3.1). The wholesale price index (WPI) witnessed double-digit YoY increase for the second consecutive month. In September 2005, the WPI rose by 11.9 percent compared to 8.0 percent increase in the corresponding month of last year and 11.7 percent increase in last month.



Rising oil price was the major factor pushing the WPI up. *Fuel, lighting & lubricants* sub-index witnessed 40.0 percent year-on-year increase in September 2005 that was more than sufficient to offset the decelerating impact from other WPI sub-indices. More importantly, lower *food* inflation was overshadowed by



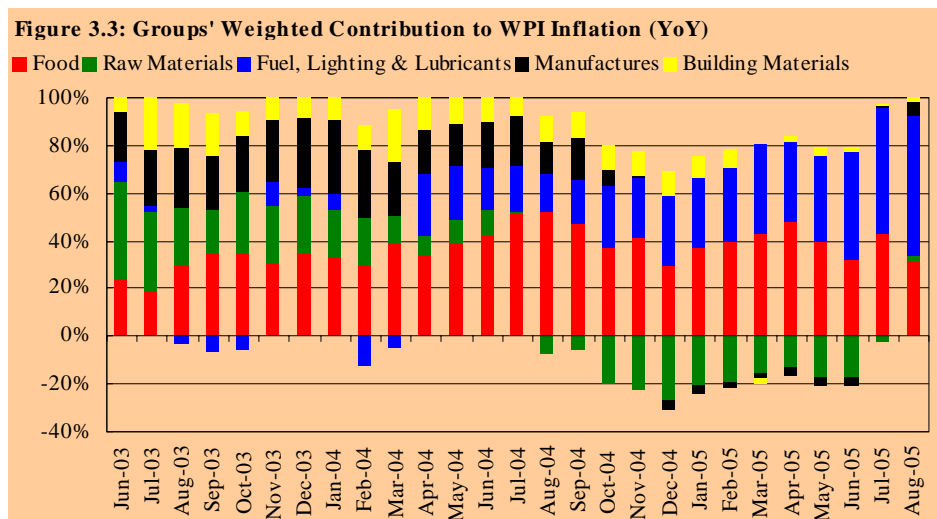
oil price inflation. *Raw material* sub-index also witnessed downtrend after showing an increase in last month from persistent deflation observed since August 2004 (see **Figure 3.2**).

The impact of fuel prices on overall inflation is clearly evident from a moderate inflation of 4.9 percent excluding *fuel, lighting & lubricants* sub-index. Excluding both volatile components i.e. *food* and *fuel, lighting & lubricants*, the WPI witnesses a mere 1.9 percent inflation in September 2005 (see **Table 3.1**).

Table 3.1: Group-wise WPI Inflation					
Annual percentage changes					
WPI and its components	FY04	FY05	FY06		
			Jul-05	Aug-05	Sep-05
Food	7.0	10.7	10.0	8.6	7.5
Raw materials	17.0	-18.1	-3.1	3.8	2.8
Fuel, lighting & lubricants	2.8	15.8	26.7	34.4	40.1
Manufactures	7.9	1.1	0.1	3.1	1.5
Building materials	22.9	13.7	2.0	3.2	2.7
Overall index	7.9	6.8	9.4	11.7	11.9
Overall excl. food	8.7	3.6	8.8	14.4	15.7
Overall excl. fuel	9.2	4.5	5.1	6.1	4.9
Overall excl. food and fuel	11.7	-1.8	-0.3	3.2	1.9

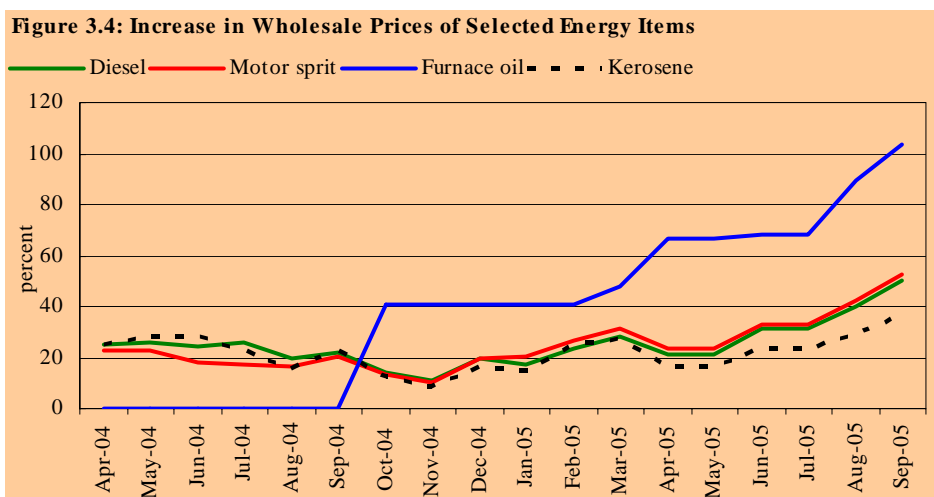
Source: Based on data from FBS

The groups' contribution to overall wholesale price inflation, accordingly, went under significant change. With the rising oil prices, contribution by *fuel, lighting*



& *lubricants* sub-group rose by more than three times of its share in the corresponding month of last year. Weighted contribution by *food* group, on the other hand, fell from 54.9 percent last year to 27.0 percent in September 2005. Similarly, the relative weighted contributions by other three groups remained significantly lower compared to last year (see **Figure 3.3**).

The *fuel, lighting & lubricant* sub-index continued to maintain accelerating trend during the first three months of FY06. Compared to 8.6 percent increase in September 2004, the *fuel, lighting & lubricant* sub-index witnessed a massive increase of 40.1 percent in September this year. This sharp increase reflects the impact of recent surge in oil prices that exerted pressure for upward revision in domestic POL prices. Among different POL products, furnace oil prices increased



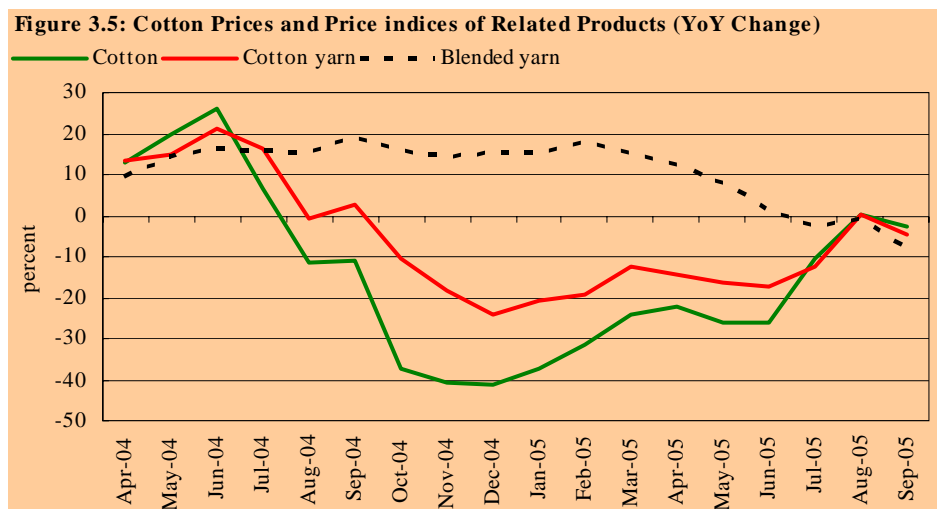
by a mammoth 103.0 percent in September 2005 compared to no change recorded in last year (see **Figure 3.4**).

Food prices, at last, dropped to single-digit during the recent couple of months. The *food* sub-index witnessed an increase of 7.5 percent in September 2005 compared to 10.5 percent in the corresponding month of last year. The *food* sub-index witnessed month-on-month declines for the last two months. This was largely due to decline in wholesale prices of onion, eggs and tomato and deceleration in the prices of wheat & wheat based products. Moreover, prices of vegetable ghee and cooking oil have been on declining trend since November 2004 and March 2005 respectively following declining trend in palm and soybean

oil prices in international market.⁴ However, wholesale prices of pulses are still rising and remained strong amid imports from regional countries including India. Yet, prices of a number of other food items including potato, sugar, chicken, etc. hardened.

The *raw material* sub-index witnessed a subdued increase of 0.1 percent in September 2005 compare to a decline of 6.3 percent recorded in the corresponding month of last year. Before August 2005 and since August 2004, *raw material* sub-index has been showing declining trend mainly due to decline in cotton prices (by 34.1 percent during FY05) on the back of record high cotton production. with the news in market regarding lower than targeted cotton crop during FY06, cotton prices started to rise during the last few months that resulted in reversing trend of *raw material* sub-index. However, cotton prices again started to fall due steady phutti arrival in ginneries during the last couple months.

Deceleration in *manufactures* prices also reflects the impact of lower cotton prices. Following trends in cotton price, yarn and ready made garments prices also declined (see **Figure 3.5**). Nevertheless, the prices of other important

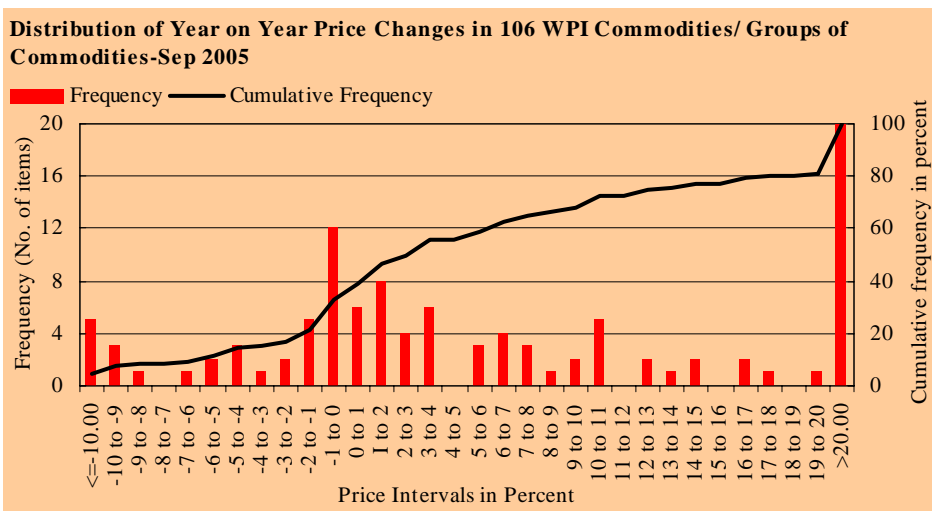
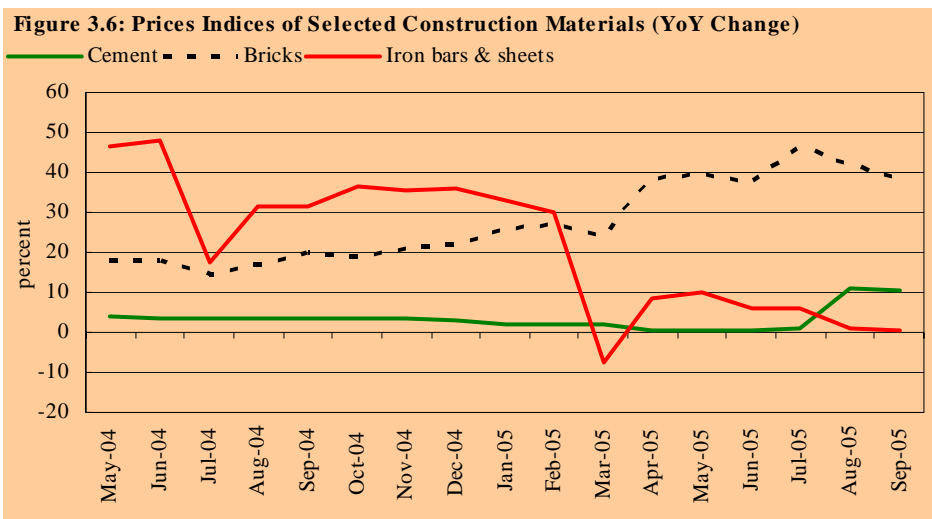


manufactured goods especially fertilizer and tyres & tubes kept on rising on the back of rising demand and capacity pressures.

The *building material* sub-index witnessed a moderate inflation of 2.7 percent in September 2005 compared to a sharp increase of 20.4 percent in the corresponding

⁴ Palm oil and soybean oil are the major components of the domestic oil and ghee production.

month of last year. This increase is largely attributable to sharp increase in the prices of cement and bricks. However, persistent deceleration in iron bars &



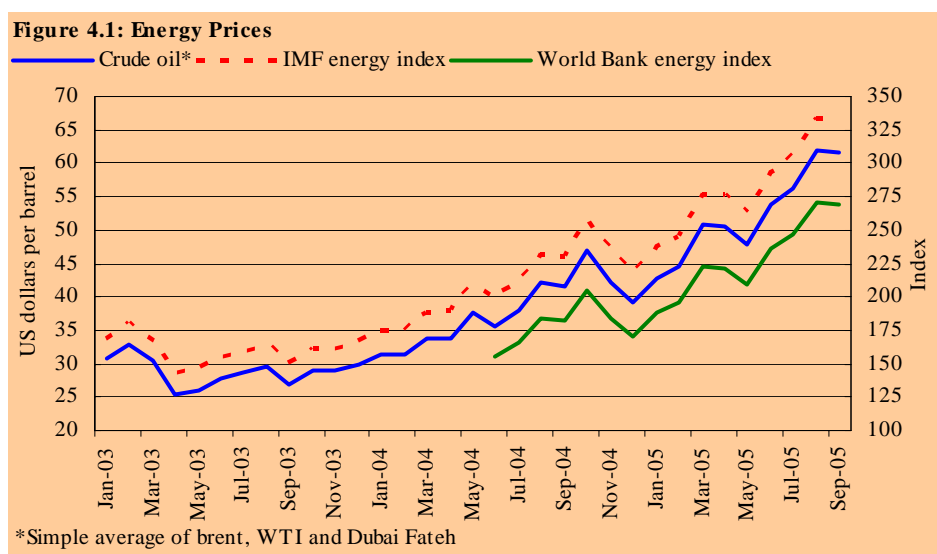
sheets sub-index since March 2005, reflecting the impact of reduced import duty on iron & steel and fall in prices in international market caused by reduced demand from slowing down global economy, some how offset the impact of rising prices of cement and bricks (see **Figure 3.6**).

Table 3.2: Group-wise Commodities/Groups of Commodities Classified by Range of Price Change (YoY) during September 2005

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

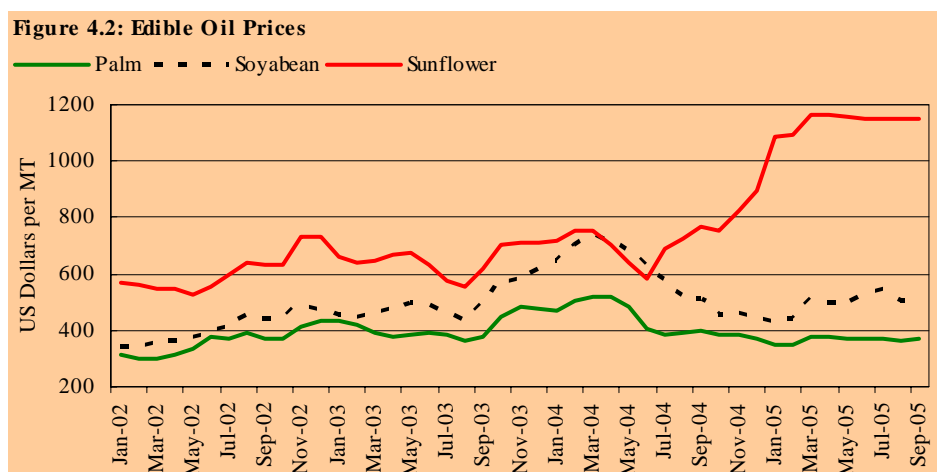
4. Commodity Prices

Oil prices have risen to new all-time highs in recent months, amid considerable volatility, as oil market fundamentals have tightened. In September 2005, the price of Brent crude oil stood at US\$ 61.7 per barrel, 48 percent higher than corresponding month of last year (see **Figure 4.1**). Falling global spare refining

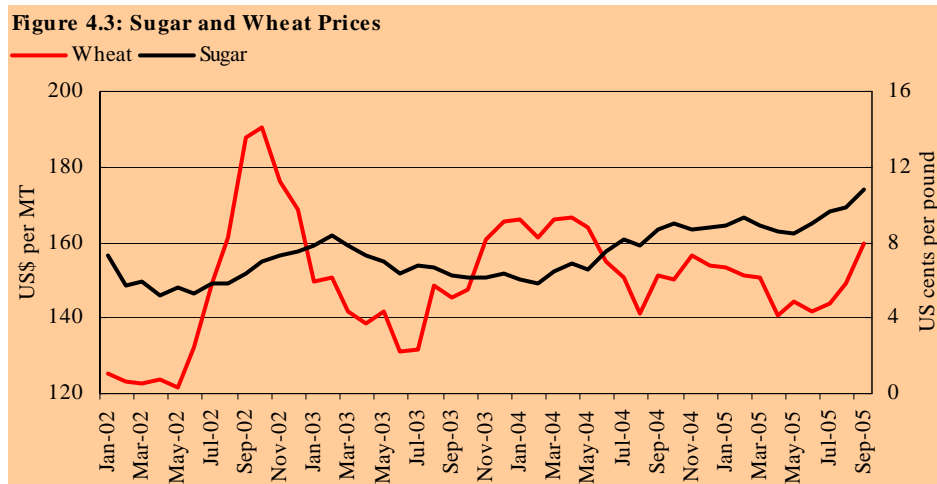


capacity reduced supply relative to expanding demand, has made oil prices both high and volatile. Although oil demand growth has compared to last year, it has remained relatively robust in historical terms in spite of record high prices.

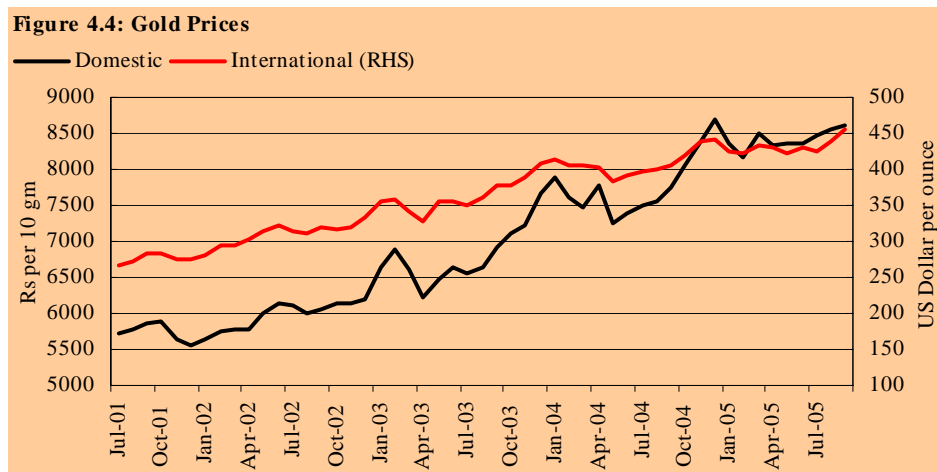
In the food group, edible oil prices (palm, soybean and sunflower) declined on month-on-month basis. However, sunflower price rose sharply in 2005 and



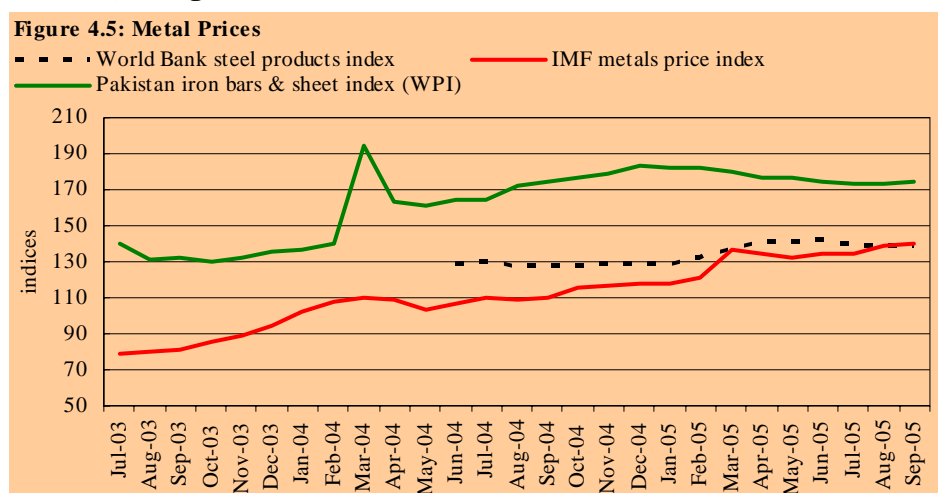
remained significantly higher compared to last year's levels (see **Figure 4.2**). Sugar and wheat prices, however, rose sharply during the last couple of months (see **Figure 4.3**).



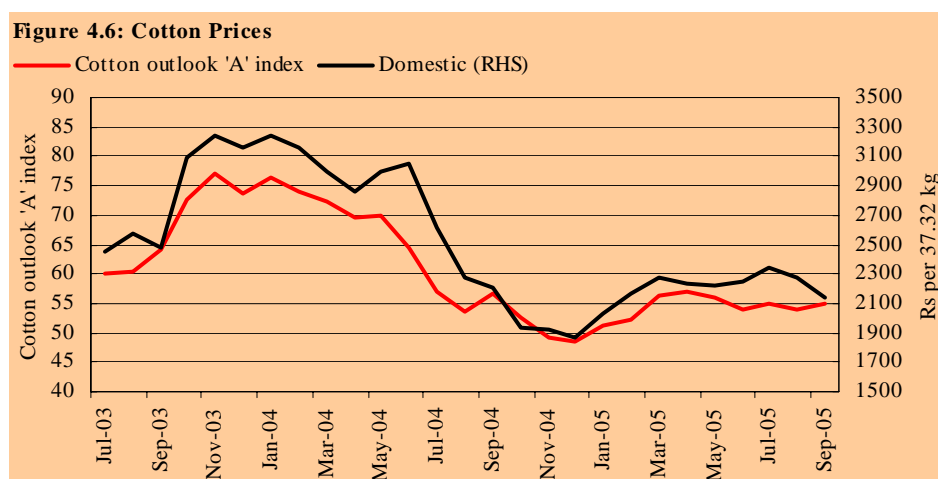
In September 2005, the gold prices rose sharply by 12.5 percent compared to 6.9 percent in the corresponding month of last year, mainly due to weakening of Dollar against major currencies and higher demand from Asian countries especially from India (see **Figure 4.4**).



In raw material, the metals prices have started to show some stability following reduced demand on the back of rising oil prices and interest rates in a number of countries (see **Figure 4.5**).⁵

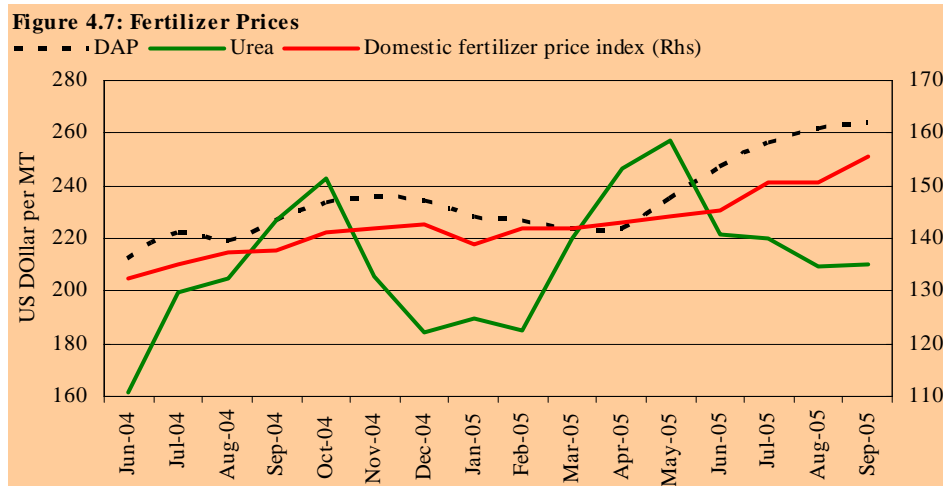


Cotton price in international market showed some degree of stability after a free fall observed in last year and reversal in prices since start of 2005. However, the domestic price declined by 2.7 percent (YoY) in September on the news of steady arrival of phutti from the crop in Punjab during last two months (see **Figure 4.6**).



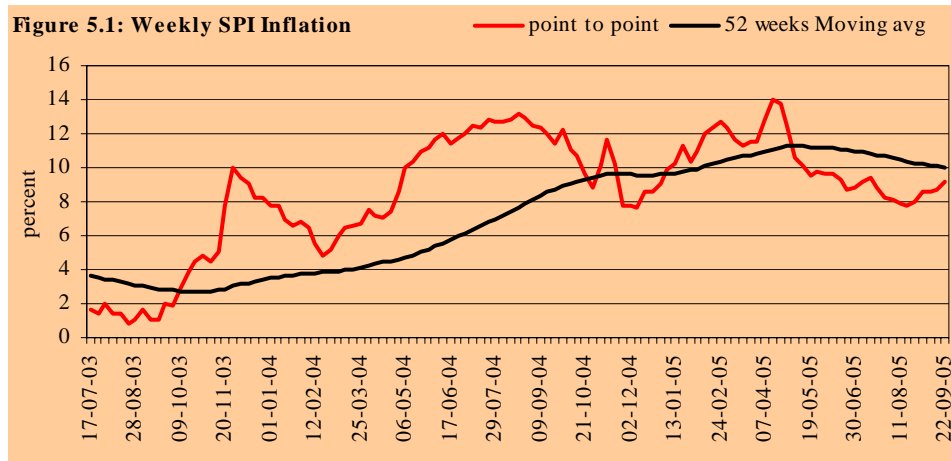
⁵Higher oil prices and tight monetary stance in a number of countries have resulted in lower demand for vehicles and houses.

The domestic fertilizer prices witnessed sharp increase in September following start of seasonal off take for Rabi crops amid stabilizing DAP prices though at a higher level and falling urea prices in international market (see **Figure 4.7**).



5. Sensitive Price Indicator-SPI

SPI is mainly an indicator of inflation in kitchen items along with the price change of petrol and diesel. It is a subset of CPI and consists of 53 items, where most of these items belong to the food group.



During September 2005, a slowdown was observed in the sharp deceleration of monthly SPI inflation. SPI YoY inflation, based on monthly data, has earlier been decelerating sharply since May 2005, however, during September 2005, it became somewhat stable, while SPI YoY inflation based on weekly data, has shown visible resurgence during the same month. However the YoY inflation is still below the 52 weeks moving average inflation, therefore it is expected that the annualized SPI inflation will still remain decelerating during the weeks ahead (see **Figure 5.1**).

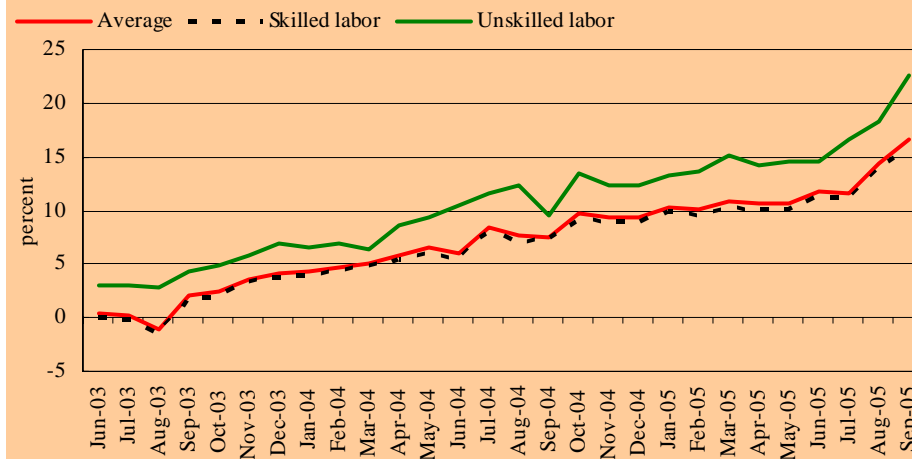
The earlier deceleration in the SPI point to point inflation was due to decline in price of wheat and wheat products on the back of some administrative measures taken up by the government to stabilize the prices of necessary food staples, however later on, the high priced oil pushed the SPI inflation up. The surge in SPI inflation during September 2005 was greatly influenced by the fuel price inflation. **Table 5.1** reflects that during the mid-September highest SPI inflation was recorded in the transport and communication sub group of SPI. High inflation in this sub-group explains the impact of high prices of petrol and diesel during the period in question.

Table 5.1: SPI Inflation by Commodity and Income Group					
Percentage change in 15.09.2005 over 16.09.2004					
Groups	I	II	III	I V	V
Food	7.06	6.97	7.27	7.89	7.52
Non- Food	7.08	6.87	7.92	15.71	11.72
Utility	0	3.99	5.14	4.53	2.21
Trans. & Comm.	42.35	42.34	42.32	42.25	42.27
General	7.06	6.94	7.44	10.71	8.69
Percentage change in 15.09.2005 over 08.09.2005					
Groups	I	II	III	I V	V
Food	-0.17	-0.18	-0.16	-0.1	-0.13
Non- Food	0.08	0.03	0	-0.01	0.01
Utility	0	0	0	0	0
Trans. & Comm.	0	0	0	0	0
General	-0.12	-0.13	-0.11	-0.07	-0.09
I = Income group I: income upto Rs 3000;					
II = Income group II: income Rs 3001- 5000;					
III = Income group III: income Rs 5001- 12000;					
IV = Income group IV: income above Rs 12000;					
V = Combined for all incomes.					

6. Wage Inflation⁶

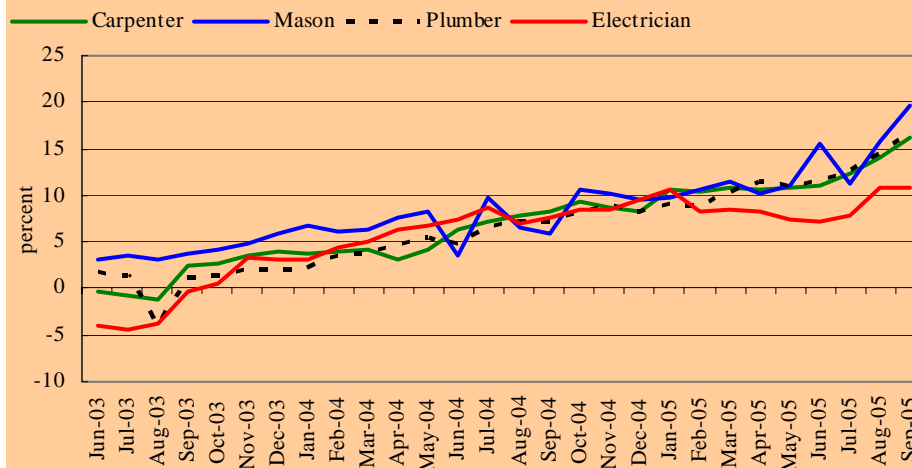
The wages of five construction workers (mason, carpenter, plumber, laborer, electrician) increased sharply by 11.6 percent in July 2005 compared to 8.4 percent increase in the same month last year (see **Figure 6.1**). Looking at

Figure 6.1: Wage Inflation (YoY percent change in average wage)



Source: Monthly FBS Statistical Bulletin

Figure 6.2: Increase in Skilled Labor Wages (YoY percent change in average wage in 35 cities)



Source: Monthly FBS Statistical Bulletin

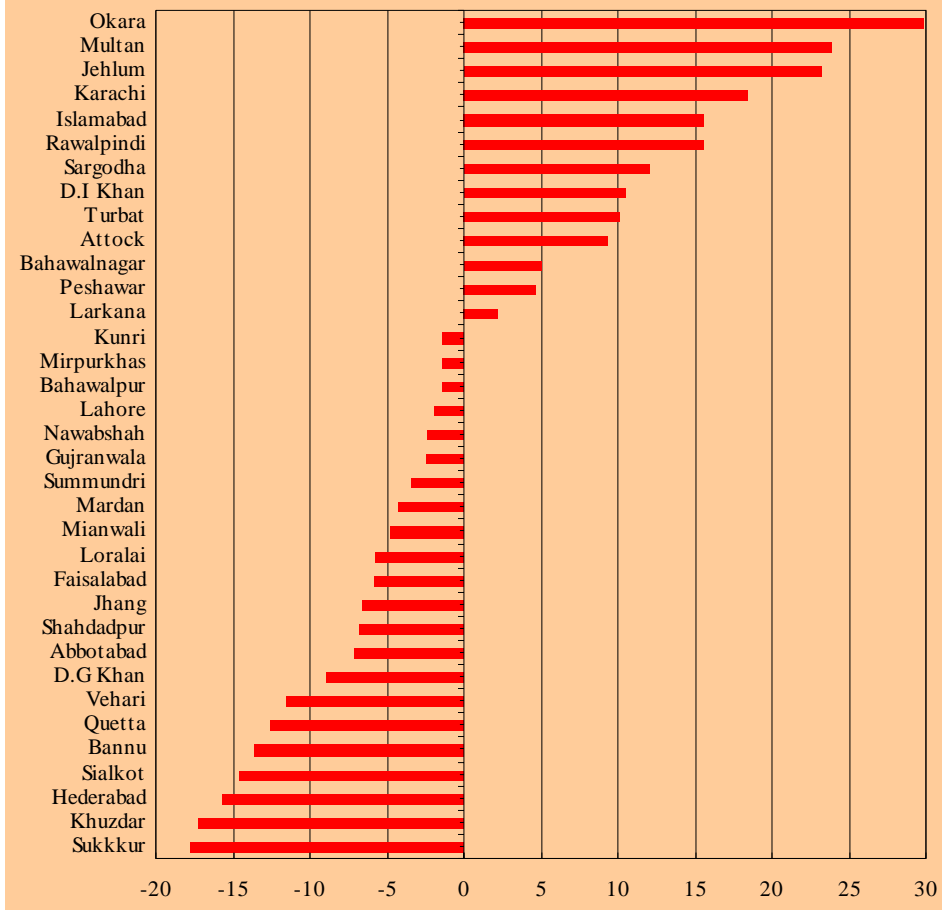
⁶ This is based on the wages of 5 construction laborers i.e. carpenter, mason, electrician, plumber

disaggregated level, the wage of the unskilled labor (laborer) increased much sharply by 16.7 percent compared to 11.0 percent increase in the wages of skilled labor i.e. mason, electrician, carpenter and plumber (see **Figure 6.2**).

Table 6.1: Construction Labor Wages(Rs per day)						
		Carpenter	Mason	Laborer	Plumber	Electrician
Jul-03		219.4	230.2	109.5	220.4	215.4
Aug-03		219.4	230.2	109.8	220.2	216.1
Sep-03		219.7	231.5	111.1	220.7	216.0
Oct-03		219.9	232.2	111.7	220.9	216.8
Nov-03		222.8	235.5	113.9	223.2	218.7
Dec-03		224.2	238.6	115.2	224.9	219.6
Jan-04		224.6	239.8	115.1	225.4	219.6
Feb-04		225.0	240.1	115.2	225.4	224.3
Mar-04		226.2	241.3	115.0	226.3	225.1
Apr-04		229.0	244.7	117.6	229.1	228.9
May-04		230.8	246.0	119.1	231.3	230.7
Jun-04		232.5	238.3	120.9	231.6	232.0
Jul-04		235.2	252.5	122.1	235.1	233.8
Aug-04		236.6	245.3	123.3	235.8	231.1
Sep-04		237.6	245.2	121.7	236.6	232.6
Oct-04		240.3	256.9	126.7	239.3	235.3
Nov-04		242.1	259.5	128.0	242.9	237.0
Dec-04		242.9	261.6	129.4	243.6	240.3
Jan-05		248.5	263.3	130.4	245.8	242.8
Feb-05		248.2	265.6	130.9	245.7	242.8
Mar-05		250.5	269.2	132.5	250.0	244.3
Apr-05		253.3	269.8	134.4	255.4	247.7
May-05		256.0	273.1	136.5	256.8	247.7
Jun-05		258.1	275.2	138.5	258.6	248.8
Jul-05		264.2	280.9	142.5	264.6	252.1
Note: These are averages of wages in 35 cities						

and laborer.

Figure 6.3: City-wise Wage Inflation--Difference from Mean



Annexes:-

Table 1: SPI Combined						
S.No	Items	Unit	Price as on Sep-2005	percentage change in Sep-05 over		
				Jun-05	Sep-04	Aug-05
1	Wheat	Kg.	11.4	0.8	1.1	-0.3
2	Wheat flour a.qlt.	Kg.	13.03	0.4	0.3	-0.2
3	Rice basmti.broken	Kg.	20.23	-1.5	2.0	-0.2
4	Rice irri-6	Kg.	16.19	0.4	7.1	0.1
5	Masur pulse washed	Kg.	45.87	-0.2	19.1	-0.3
6	Moong pulse washed	Kg.	41	5.6	43.7	0.1
7	Mash pulse washed	Kg.	44.54	7.8	22.9	3.6
8	Gram pulse washed	Kg.	28.57	2.8	2.9	0.3
9	Beef	Kg.	102.36	1.2	11.4	0.4
10	Mutton	Kg.	193.97	0.9	7.5	0.5
11	Egg hen (farm)	Doz.	37.59	17.1	6.2	9.0
12	Bread plain m.s.	Each	14.02	1.4	12.0	1.4
13	Sugar	Kg.	26.65	0.7	28.4	-4.3
14	Gur	Kg.	36.69	20.4	67.0	2.2
15	Milk fresh	Litr	23.4	1.3	13.2	0.1
16	Milk powdered nido	400g	108.03	2.1	7.8	0.0
17	Curd	Kg.	27.76	0.6	9.6	-0.2
18	Veg.ghee tin	2.5k	203.72	-0.2	-0.3	0.0
19	Veg.ghee loose	Kg.	58.56	-0.4	-3.3	-0.1
20	Mustard oil	Kg.	66.08	0.7	0.7	0.4
21	Cooking oil	2.5l	204.48	-0.2	-0.3	0.0
22	Potatoes	Kg.	18.42	3.3	21.7	-4.0
23	Onions	Kg.	16.13	37.5	2.8	16.0
24	Tomatoes	Kg.	14.77	-21.1	-37.1	-11.5
25	Bananas	Doz.	25.78	-20.5	11.8	-7.8
26	Salt powdered	Kg.	3.78	3.0	9.9	0.8
27	Red chillies(powd)	Kg.	73.82	-0.6	-5.5	-0.6
28	Garlic	Kg.	53.9	0.8	35.6	-1.3
29	Tea packet	250g	61.8	-0.2	-0.3	-0.1
30	Tea (prepared)	Cup	5.6	3.1	11.6	1.6
31	Cooked beef plate	Each	25.5	1.4	8.0	0.1
32	Cooked dal plate	Each	15.24	1.4	5.0	0.5

Table 1 continued . . .

S.No	Items	Unit	Price as in Sep-2005	percentage change in Sep-05 over		
				Jun-05	Sep-04	Aug-05
33	Cigarettes k-2	10's	7.29	2.1	6.1	0.0
34	Coarse latha	Mtr.	33.46	0.3	7.8	0.0
35	Lawn (avg.+s.qlty)	Mtr.	75.62	-0.5	5.3	-0.4
36	Voil printed	Mtr.	36.57	-0.8	1.4	-0.2
37	Shirting	Mtr.	61.46	0.4	4.6	0.3
38	Sandel gents bata	Pair	399	-4.8	-20.0	0.0
39	Sandel ladies bata	Pair	299	3.5	20.1	0.0
40	Chappal spng. Bata	Pair	89	0.0	12.2	0.0
41	Kerosene	Litr	34.4	9.7	26.6	4.2
42	Firewood	40kg	150.37	3.3	17.8	1.0
43	Elec. Bulb 60-wats	Each	11.55	-0.3	-8.0	-0.3
44	Match box	Each	0.61	3.4	19.6	1.7
45	Washing soap	Cake	7.62	0.8	1.9	0.0
46	Bath soap lifebuoy	Cake	13.93	-0.2	-0.5	0.0
47	Chicken (farm)	Kg.	71.98	-0.8	20.0	3.1
48	Gas chrg. All clb. Comb	D.mmbt	193.01	5.1	12.7	0.0
49	L.p.g .(cylender 11kg.)	Each	499.95	47.0	9.0	11.9
50	Elec.chrg.all slabs com	Bd. Unit	4.66	0.0	0.0	0.0
51	Petrol	Litr	52.74	15.5	42.3	7.5
52	Diesel	Litr	34.72	18.9	41.7	8.9
53	Telephone local	Call	2.31	0.0	0.0	0.0
Max:			499.95	47.0	67.0	16.0
Median			34.7	0.8	7.8	0.0
Min:			0.6	-21.1	-37.1	-11.5

Table 2: Top Ten CPI Items (Ranked by Weighted Contribution)								
percent				Price	Point to point changes in percent			
S.#	Items	Unit	weights	Sep-05	Sep-03	Sep-04	Sep-05	wtd contr.
1	House Rent Index	MONTH	23.4298	129.5	2.3	10.2	11.3	31.02
2	Petrol Super	LTR	1.7253	56.5	-11.3	20.0	52.4	10.59
3	Milk Fresh (Unboiled)	LTR	6.5334	22.4	2.6	10.9	13.3	10.21
4	Sugar Refined	KG	1.9467	26.8	-10.1	3.1	30.8	7.04
5	Beef With Bone Av.Qlty.	KG	1.6098	98.0	19.3	30.1	13.0	2.45
6	Chicken Farm Broiler	KG	0.9158	72.2	21.2	-4.8	21.8	2.34
7	Potatoes	KG	0.5345	18.6	-21.9	55.6	27.9	1.75
8	Gas Chrg10.1157 - 13.4876mmbtu	MMBTU	0.9312	305.4	-68.0	6.7	14.5	1.59
9	High Speed Diesel	LTR	0.2070	37.4	6.3	15.9	52.4	1.27
10	Pulse Moong (Washed)	KG	0.2230	40.3	-7.2	-3.2	46.6	1.22
Total			38.1					69.5
Top Ten CPI Items by Percentage Change								
percent				Price	Point to point changes in percent			
S.#	Items	Unit	weights	Sep-05	Sep-03	Sep-04	Sep-05	wtd contr.
1	Gur Av.Qlty	KG	0.0735	35.4	-5.7	5.0	71.3	0.6
2	Pistachio Av.Qlty.	50 GM	0.0301	33.7	-3.0	2.2	60.1	0.2
3	High Speed Diesel Hsd	LTR	0.2070	37.4	6.3	15.9	52.4	1.3
4	Petrol Super	LTR	1.7253	56.5	-11.3	20.0	52.4	10.6
5	Pulse Moong (Washed)	KG	0.2230	40.3	-7.2	-3.2	46.6	1.2
6	Kerosene Oil	LTR	0.1366	36.3	5.8	20.4	38.3	0.6
7	Garlic	KG	0.1363	52.8	-23.9	34.3	38.3	0.6
8	Gram Whole Yellow Av.Qlty	KG	0.1491	47.4	-4.8	6.0	36.0	0.6
9	Sugar Refined	KG	1.9467	26.8	-10.1	3.1	30.8	7.0
10	Tinda	KG	0.1203	19.7	6.1	11.4	30.6	0.4
Total			4.7					23.2

Table 3: Point to Point Inflation by Major Cities/Major Indices/Icome Groups. (September 2005)																
Income		Upto Rs:3000			3001-5000			5001-12000			above 12000			combined		
#	Cities	General	Food	Non-Food	General	Food	Non-Food	General	Food	Non-Food	General	Food	Non-Food	General	Food	Non-Food
1	Lahore	8.6	8.0	9.0	8.5	7.7	9.1	8.7	7.8	9.4	10.1	8.2	11.6	9.4	8.0	10.4
2	Faisalabad	8.1	7.6	8.4	7.9	7.4	8.3	8.2	7.6	8.7	9.4	7.2	11.0	8.8	7.4	9.8
3	Rawalpindi	10.1	10.7	9.8	9.7	9.4	9.9	10.0	9.4	10.4	11.7	9.3	13.3	10.8	9.4	11.8
4	Multan	6.6	5.3	7.6	6.6	5.9	7.2	7.1	6.2	7.8	8.5	6.9	9.7	7.5	6.3	8.4
5	Gujranwala	9.0	9.7	8.5	9.3	9.6	9.1	9.6	9.3	9.8	10.6	9.3	11.5	9.8	9.4	10.1
6	Islamabad	10.3	9.6	10.8	10.7	10.0	11.3	10.9	9.9	11.6	12.8	10.1	14.7	12.5	10.1	14.3
7	Sargodha	8.2	7.5	8.7	8.7	8.6	8.8	9.6	9.8	9.5	11.4	11.1	11.6	10.0	9.9	10.0
8	Sialkot	7.8	8.7	7.1	7.6	8.4	7.0	8.0	8.8	7.4	8.5	9.0	8.1	8.2	8.9	7.8
9	Bahawalpur	8.1	6.4	9.3	8.5	6.9	9.7	8.8	7.9	9.5	9.8	8.2	10.8	9.0	7.6	10.0
10	Karachi	6.0	4.6	7.0	5.7	3.2	7.4	5.8	3.3	7.6	7.8	4.2	10.3	6.8	3.7	9.0
11	Hyderabad	4.8	4.5	5.1	4.9	4.3	5.4	5.1	4.1	5.8	6.0	4.3	7.2	5.3	4.2	6.1
12	Sukkur	7.9	9.3	6.9	7.6	8.1	7.3	7.4	8.0	7.0	7.2	7.6	7.0	7.4	8.0	7.0
13	Larkana	6.4	5.7	6.9	6.0	5.2	6.6	6.5	5.7	7.0	6.6	5.5	7.4	6.4	5.6	7.0
14	Peshawar	9.6	10.9	8.8	8.6	8.5	8.7	8.7	8.2	9.0	10.0	8.4	11.1	9.3	8.4	9.9
15	Bannu	6.3	6.5	6.2	5.1	4.3	5.6	4.8	3.2	6.0	4.9	2.5	6.5	5.0	3.4	6.1
16	Quetta	6.9	5.9	7.6	7.1	5.6	8.2	7.7	5.8	9.1	9.4	7.2	11.0	8.4	6.4	9.9
17	Khuzdar	9.3	8.0	10.2	8.8	8.3	9.1	8.9	8.2	9.3	9.2	7.8	10.2	8.9	8.2	9.4
Average		7.9	7.6	8.1	7.7	7.1	8.1	8.0	7.3	8.5	9.1	7.5	10.2	8.4	7.3	9.2
Minimum		4.8	4.5	5.1	4.9	3.2	5.4	4.8	3.2	5.8	4.9	2.5	6.5	5.0	3.4	6.1
Median		8.1	7.6	8.4	7.9	7.7	8.3	8.2	7.9	9.0	9.4	7.8	10.8	8.8	8.0	9.8
Maximum		10.3	10.9	10.8	10.7	10.0	11.3	10.9	9.9	11.6	12.8	11.1	14.7	12.5	10.1	14.3

