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HEADLINE INFLATION FALLS TO 7.6% IN JUNE, 2006

The headline inflation fell to 7.6 percent year-on-year in June 2006 that was one percentage point less than the inflation recorded in the corresponding month of last year, although inflationary pressures persisted in the economy for the second year in a row. The inflation containment was more visible in the last six months of FY06 as compared to first six months (Jul 05 to Dec 05): the average CPI inflation during the first half of the year was 8.4 percent which declined to 7.4 percent in the second half primarily due to fall in food inflation. The wholesale price inflation was 9 percent in June 2006 which was lower than average inflation of more than 11 percent during the first six months of FY06, according to the State Bank's monthly publication titled 'Inflation Monitor'.

The Inflation Monitor for the month of June, 2006 which was released on SBP website today says that the CPI food inflation was recorded at 7.8 percent in June 2006 that was significantly lower than 9.3 percent in the corresponding month last year. The Inflation Monitor finds that prices of some key food items like pulses and sugar started declining though they are still very high as compared to the same period last year. The non-food inflation was recorded at 7.5 percent during June 2006 against 8.4 percent in June 2005.

Core inflation was recorded at 6.3 percent in June 2006 compared with 7.4 percent in June 2005. Although core inflation declined steadily during FY06, it seems the rate of decline fell by the end of the year. Despite a declining trend in different measures of inflation, the inflation is still very high in comparison with the average of past five years, according to the Inflation Monitor which gives an objective analysis of inflationary trends and reviews different aspects of price movements in the country.

Wage inflation increased significantly during June, 2006 with average wages of construction workers (carpenter, mason, labourer, plumber, and electrician) rising by 18.2 per cent in June 2006. The real wage inflation also remained on a rising path and was recorded at 10.6 percent in June 2006 compared with three percent in the corresponding month of last year, the Inflation Monitor added. (For complete text of the 'Inflation Monitor', please visit our website: www.sbp.org.pk).