

23rd August, 2006

**LAST MONTH INFLATION WAS SIGNIFICANTLY
LOWER THAN IN JULY, 2005**

The current fiscal year commenced with almost the same headline inflation as witnessed during the last month of the previous fiscal year. The consumer price inflation remained at 7.6 percent year-on-year (YoY) in July 2006 – the same rate that was recorded in June 2006. However, it was significantly lower than inflation of 9 per cent during the corresponding month of the last fiscal year. Although non-food inflation witnessed slight increase during July, 2006, its impact on overall inflation was offset by decline in food inflation. Sensitive price indicator also maintained its last month's (June, 2006) rate of increase. Wholesale price index, however, declined noticeably which was supported mainly by decline in WPI food inflation, according to the State Bank's monthly publication titled 'Inflation Monitor' which has been released on its website today.

After being recorded at 7.8 percent in June 2006, food inflation declined to 7.4 percent YoY in July 2006. Price movements of individual items in the CPI food group show that prices of 26 food items including eggs, pulse masur, wheat, apple, etc. have shown YoY decline during July 2006. On the other hand, prices of 31 items exhibited double digit YoY inflation which include, among others, beef sugar, pulses gram, mash and moong, potato, tomato, etc. However, the rate of increase in prices of most of these items declined in July, 2006 as compared to June 2006. The rest of the items, having a weight of 47 percent in food group exhibited subdued or moderate inflation.

Non-food inflation increased slightly from 7.5 percent YoY in June 2006 to 7.8 percent in July, 2006 primarily due to rise in gas charges and train and air fares. However, the main component of non-food inflation, i.e. house rent index continued to decelerate. It declined from 30 per cent in July, 2005 to 24 per cent in July, 2006.

Core inflation measured by non-food non-energy, that had been declining for the last several months ceased to decline further in July 2006, while the core inflation measured by trimmed mean has shown reversal in its past trend of decline.

The wage inflation was 17.0 percent in July 2006 compared with 18.2 percent in the previous month. However, it was significantly higher than 11.6 percent in July last year. Wages of skilled workers increased by 16.8 percent and those of labourers increased by 18.5 percent during July, 2006. The average real wage inflation kept rising but with the slow rate of 9.4 percent in July 2006 as compared with 10.6 percent in the preceding month.

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