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CORE INFLATION DECLINES TO 5.7 PER CENT IN OCTOBER

Core inflation as well as headline inflation declined during October 2006. Core inflation measured as non-food non-energy (NFNE) was recorded at 5.7 percent and trimmed-mean core inflation was 6.4 per cent during the month under review compared with 7.8 and 7 percent respectively in the month of October last year, according to the State Bank's monthly publication titled 'Inflation Monitor' which has been released on its website today.

The SBP Inflation Monitor says the headline inflation exhibited a lesser growth of 8.1 per cent in October 2006 compared with the growth in preceding month (September). It was less than the same month of the last fiscal year.

Non-food inflation has declined significantly to 6.4 per cent in October, 2006 – the lowest level for the last two years. In August and September, 2006, the non-food inflation was recorded at 7.4 and 7 per cent respectively. Nonetheless, pressure on food inflation still exists which is also evident from a considerably high rate of growth in SPI. However, WPI continued its declining trend and came down to 6.7 percent during the month under review, says the Inflation Monitor.

A closer look at price movements of individual items included in the CPI food group reveals that prices of 49 commodities including fresh milk, beef, sugar, chicken, pulses gram, mash and moong, cooked mutton, honey, tomatoes, chilies green etc. exhibited double digit inflation with a combined weight 52.4 per cent in total food group. On the other hand, prices of 14 commodities like apple, ginger, pulse masoor declined during the month under review. The rest of items, having a weight of 35 per cent in food group, exhibited subdued or moderate inflation.

In the non-food group, House rent index (HRI) maintained its declining trend, which started after February 2005, and recorded a moderate increase of 6.9 per cent in October 2006 compared with about 11.1 per cent in the corresponding month of the last fiscal year. Inflation in Fuel and Lighting declined to 11.3 per cent in October 2006 compared to 12.1 per cent in the preceding month. Most notable decline was recorded in transport and communication that already had been showing a continuous decrease since November 2006: Year on Year (YoY) inflation of 3.8 per cent in October 2006 compared with 22.7 per cent in the same month of the last fiscal year. On the other hand, medicare registered a significant increase in prices with a rate of 9.9 per cent in the month under review compared with 1.6 per cent growth in the same month last year.

Wage inflation that started declining from the start of FY07 continued its decelerating trend in October 2006 resulting from lower wages of both skilled and unskilled workers on account of slow down in construction activities, the Inflation Monitor added.

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