

Inflation Monitor

October 2005



State Bank of Pakistan

Economic Policy and Research Departments

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1. Overview

Inflationary pressures weakened further in October 2005. The headline consumer price inflation (CPI), after witnessing a slight increase in September 2005, decelerated in October against the expectations of higher inflation due to the Ramadan effect. The wholesale price inflation (WPI), which had risen sharply in July 2005 and continued an increasing trend until September 2005, witnessed a slight deceleration in October, whereas the sensitive price indicator (SPI) maintained its decelerating trend (see **Table 1.1 & 1.2**). However, the underlying

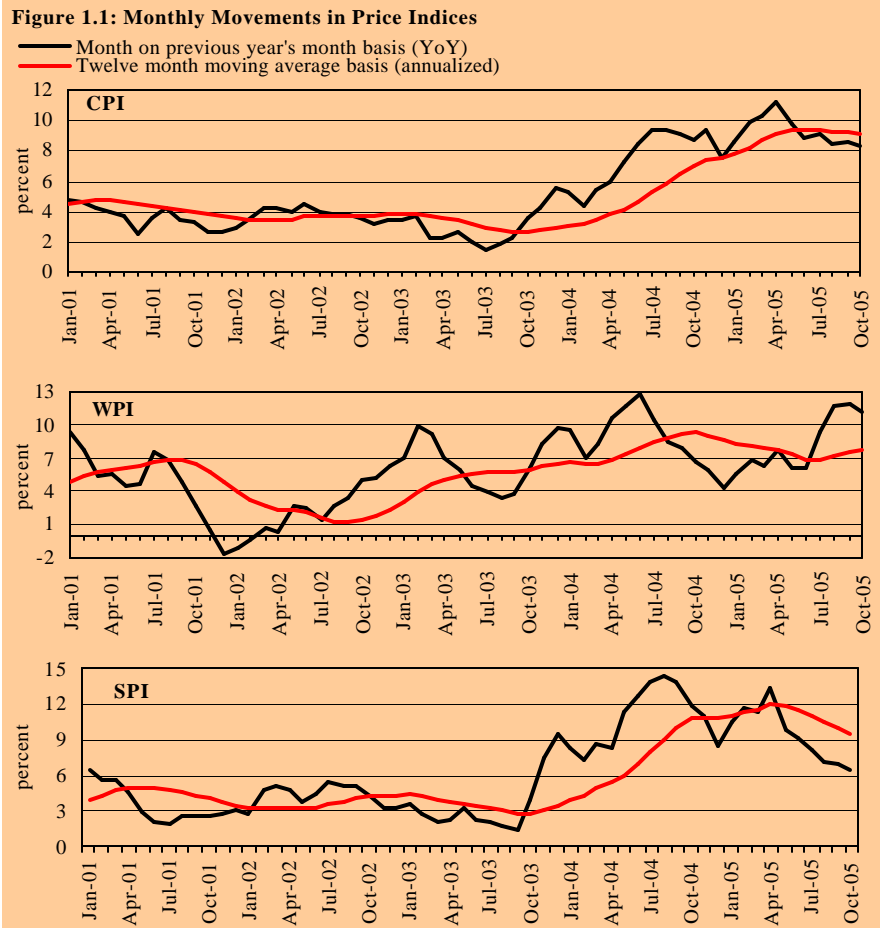
	CPI			WPI			SPI
	General	Food	Non-Food	General	Food	Non-Food	General
Nov-04	9.3	13.6	6.3	5.9	10.6	2.6	11.1
Dec-04	7.4	7.9	7.0	4.2	7.9	1.6	8.6
Jan-05	8.5	10.4	7.2	5.6	9.9	2.6	10.3
Feb-05	9.9	12.9	8.0	6.7	11.9	3.3	11.6
Mar-05	10.2	13.3	8.2	6.3	11.1	3.1	11.4
Apr-05	11.1	15.7	8.0	7.7	13.6	3.7	13.4
May-05	9.8	12.5	8.0	6	10.1	3.2	9.9
Jun-05	8.7	9.3	8.4	6.2	8.4	4.6	9.2
Jul-05	9	9.7	8.5	9.4	10.0	8.9	8.0
Aug-05	8.4	7.8	8.8	11.7	8.6	14.0	7.1
Sep-05	8.5	7.5	9.3	11.9	7.5	15.2	7.0
Oct-05	8.3	6.4	9.6	11.1	7.2	14.1	6.5
Average*	9.1	10.5	8.1	7.7	9.7	6.4	9.4

* 12-month moving average

Index	General	Food	Non-Food	Past Five Years Average		
				General	Food	Non-Food
Point to Point (Oct 05 Over Oct 04)						
CPI	8.3	6.4	9.6	5.5	5.8	5.3
WPI	11.1	7.2	14.1	6.3	5.8	6.8
SPI	6.5	-	-	5.8	-	-
Period to Period Average (Jul 05-Oct 05 Over Jul-Oct 04)						
CPI	8.5	7.9	9.0	5.4	5.9	5.2
WPI	11.0	8.3	13.0	6.4	5.8	7.0
SPI	7.1	-	-	6.0	-	-
12 Months Moving Average						
CPI	9.1	10.5	8.1	5.2	5.8	4.9
WPI	7.7	9.7	6.4	6.1	5.6	6.6
SPI	9.4	-	-	6.2	-	-
Monthly (Oct 05 Over Sep 05)						
CPI	0.9	1.2	0.8	0.8	1.5	0.4
WPI	0.8	1.1	0.5	0.9	0.8	0.8
SPI	0.1	-	-	0.7	-	-

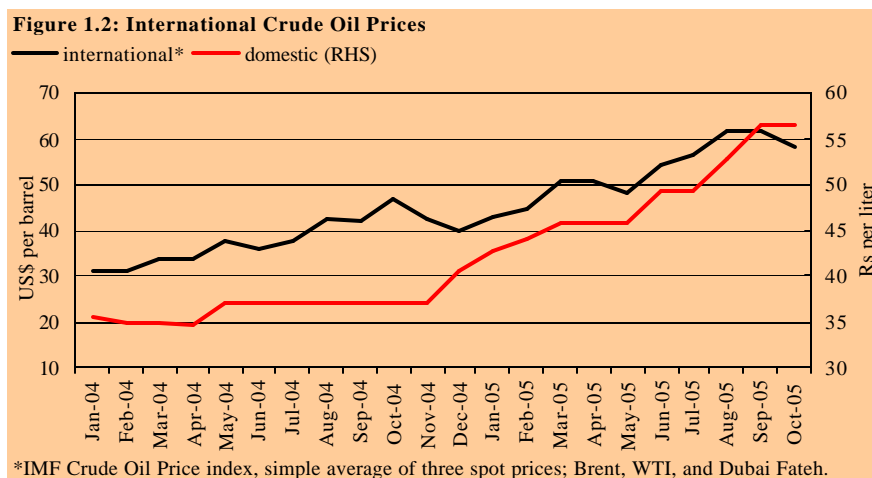
consumer price inflation, which had been decelerating since April 2005, and later stabilized around 7.6 percent during the last three months, edged up slightly in October.

The deceleration in price indices is largely due to a decline in the prices of essential food items, along with the stability recorded in the house rent index (HRI) over the last few months. It was earlier anticipated that food inflation would rise during the month of Ramadan. However, due to the various measures taken by the government, retail prices of essential food items not only remained under control, but also witnessed either a decline in some cases or a slowdown in the pace of increase in prices. Resultantly, despite rising fuel prices, headline



inflation decelerated during October 2005, and was 8.3 percent YoY against 8.7 percent during the same month last year (see **Figure 1.1**).

High oil prices, however, remained a major source of concern despite the fact that prices fell below the US\$ 60 per barrel mark in October 2005. This fall in oil prices also indicates a lower than expected demand. However, the domestic oil prices are yet to be adjusted for the recent change (see **Figure 1.2**).



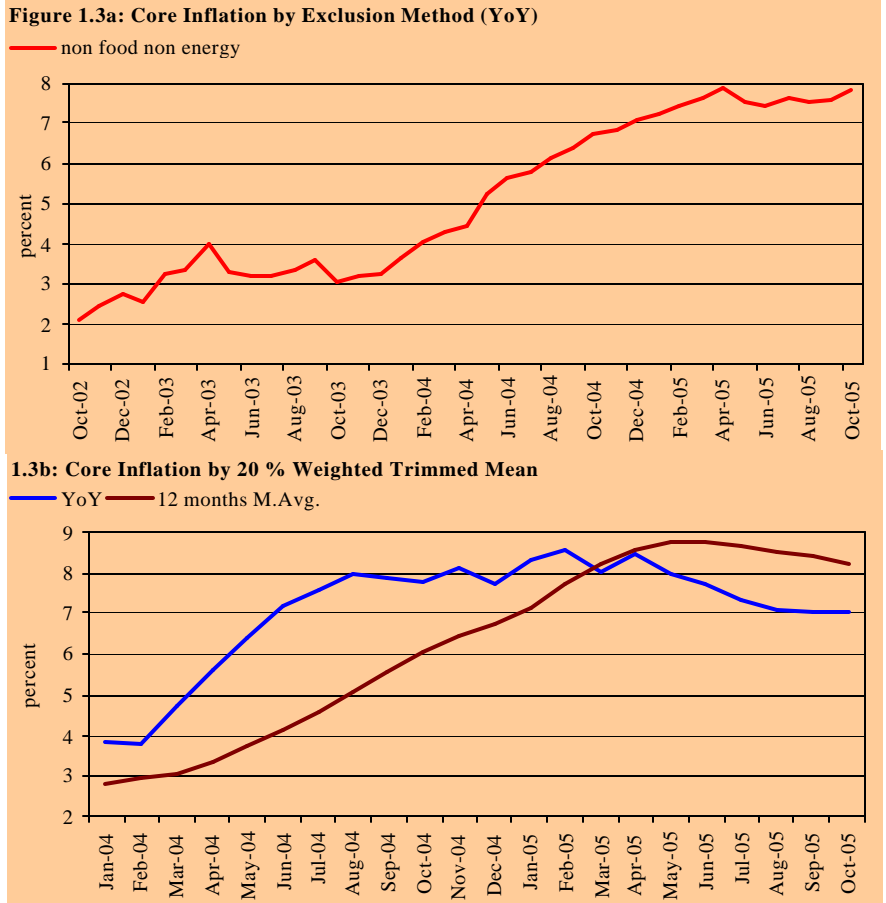
1.1 Core Inflation¹

Core inflation, also known as underlying inflation, edged up slightly in October 2005 after remaining stable for the last three months after registering a decelerating trend since April 2005 (see **Figure 1.3a**). The core inflation measured by exclusion method rose by 7.8 percent in October compared to 6.7 percent in the corresponding month of last year. Weighted trim (20 percent trimming) measure of core inflation, however, rose only by 0.01

	Non-Food, Non-Energy		Trimmed Mean
	YoY	YoY	Annualized
Jan-05	7.3	8.3	7.2
Feb-05	7.4	8.6	7.7
Mar-05	7.6	8.0	8.2
Apr-05	7.9	8.5	8.6
May-05	7.5	8.0	8.8
Jun-05	7.4	7.7	8.8
Jul-05	7.6	7.3	8.7
Aug-05	7.6	7.1	8.5
Sep-05	7.6	7.0	8.4
Oct-05	7.8	7.0	8.2

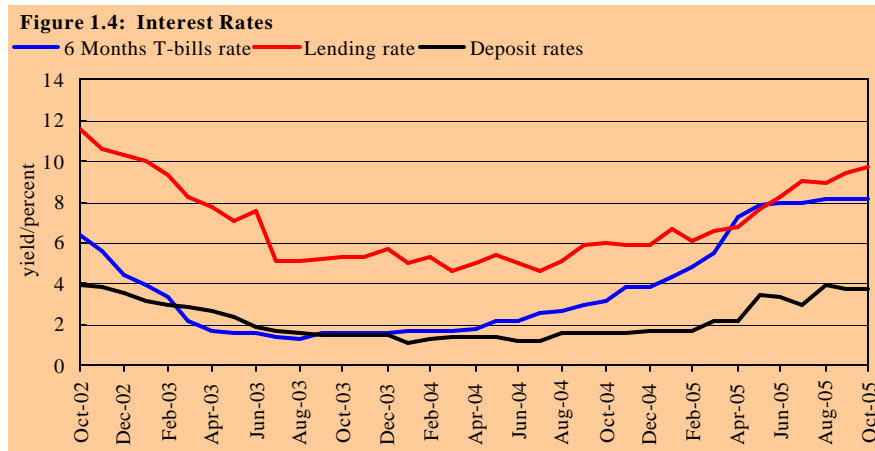
¹ For details, see **Section 1.1** of Inflation Monitor for September 2005.

percentage points compared to last month and remained lower when compared to 7.6 percent recorded in the corresponding month of last year (see **Table 1.3**). Despite these upward movements, core inflation in terms of the 12-month moving average prices, continues to show a declining trend as shown in **Figure 1.3b**.



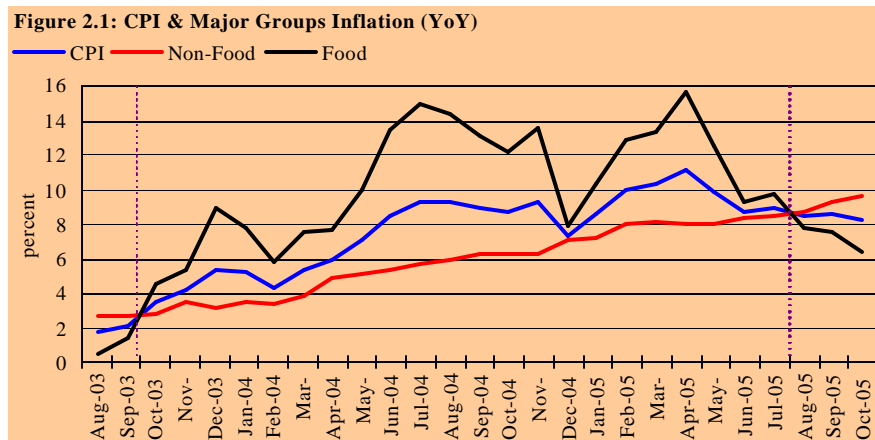
The deceleration in core inflation witnessed during the last few months was largely due to the slowdown in HRI growth since March 2005, which more than offset the impact of rising transport prices. During the last couple of months, however, transport prices rose sharply following an upward revision in domestic petrol and diesel prices. Moreover, inflation in *household furniture & equipments, apparel & textile* and *education* also went up. On an overall basis, State Bank of

Pakistan has continued to maintain its monetary tightening stance to reduce inflation, as also evidenced by **Figure 1.4**.

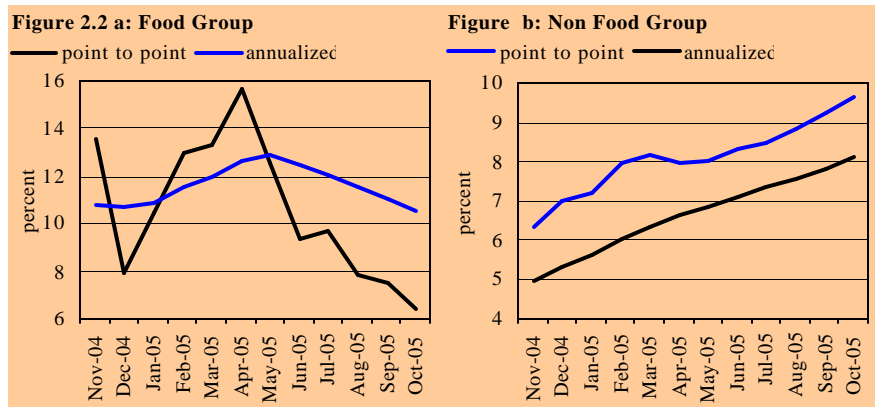


2. Consumer Price Inflation

After rising slightly in the last month, consumer price inflation (YoY) resumed the downward trend during October 2005 (see **Figure 2.1**). Both food and non food inflation maintained similar trends as observed during the last few months: the non-food inflation kept on rising while food inflation again started to fall sharply. Food inflation (YoY) that remained well above the headline inflation since October 2003, started to decelerate since May 2005; it continued with the



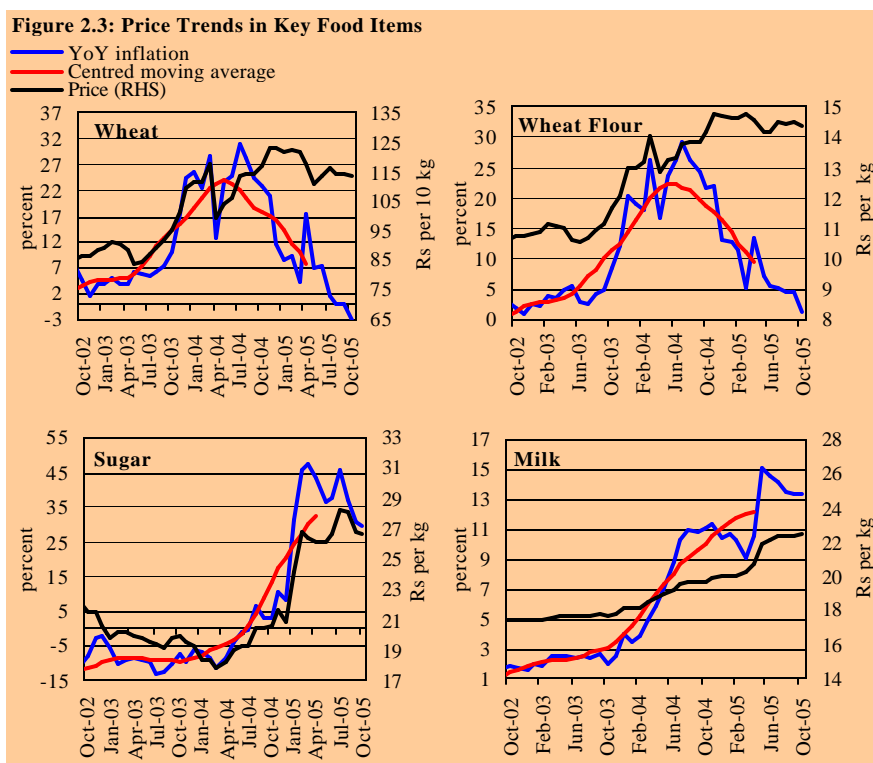
decelerating trend during October 2005. Similarly, non-food inflation also continued the rising trend during the month of October 2005. Interestingly, in contrast to the food inflation, non-food inflation consistently remained below the headline inflation from October 2003, and crossed the headline inflation level in August 2005. This, while on one hand reflects the presence of inflationary pressures in the CPI non-food group, on the other hand also indicates a shift in inflationary pressures from the food to the non-food group (see **Figure 2.2**).



2.1 Food Inflation

In October 2005, food inflation (YoY) maintained its decelerating trend which started in May 2005, on the back of the decline in the prices of wheat & wheat products and sugar. Rising wheat price remained one of the major sources of food inflation during FY05. However, it has started to decrease since May 2005, on the back of improved supplies from a good harvest and administrative measures of the government (allowing imports, supplies through utility stores at control prices etc) aimed at improving supply side factors. Prices of other food items including tomato and onion also declined sharply as new crops from Sindh and Baluchistan helped to improve the supply situation (see **Figure 2.3**).

Prices of sugar and milk, which increased in general throughout FY05, witnessed a deceleration during October 2005. Food inflation, which was earlier expected to rise due to the Ramadan effect, remained low, reflecting reduced demand.



Assessing prices at a more disaggregated level, 34 items from the food group recorded double digit inflation (YoY) while 21 items fell in the category of 5 to 10 percent inflation during October 2005. However, the low inflation recorded in important food staples resulted in 6.4 percent inflation in the overall food group during October 2005 (see **Table 2.1**).

On an annualized average basis (12 months moving average) 37 food items out of the total 124 recorded more than 10 percent inflation during October 2005 and 44 items recorded negative or no inflation during the same period (see **Table 2.2**).

2.2 Non-food Inflation

Non-food inflation (YoY) continued to rise steadily in October 2005, on the back of high house rent inflation and steeply rising fuel prices. HRI inflation, which is still higher than the overall CPI non food inflation despite its decelerating trend,

Table 2.1: Distribution of Price Changes of CPI Basket. October 2005 YoY.

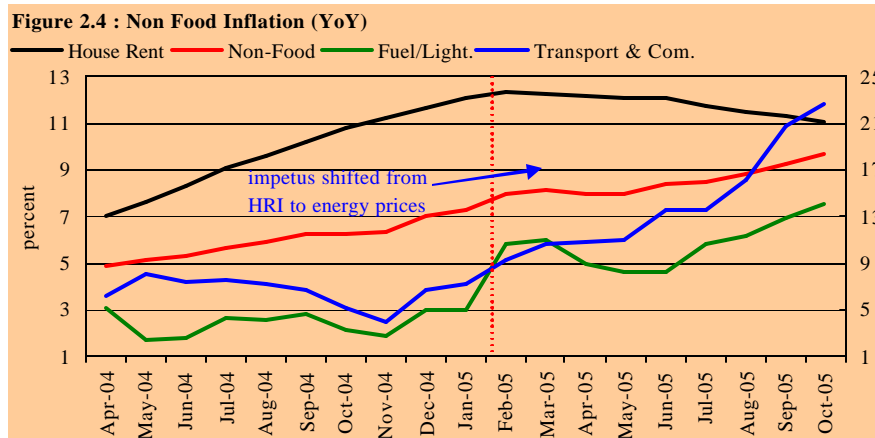
Groups	Weights	% Changes	Total Number of Items	No. of Items in Inflation Range			
				Decrease or no change	Subdued increase	Moderate increase	Double digit increase
				(0 % or less)	(0 to 5%)	(5 to 10%)	(Over 10%)
I. Food Group	40.34	6.4	115	35	25	21	34
Food, Bev.	40.34	6.4	115	35	25	21	34
II. Non-Food Group	59.66	9.6	250	86	78	58	28
Apparel, Text.	6.1	4.3	42	6	16	18	2
House Rent	23.43	11.1	1	0	0	0	1
Fuel & Lighting	7.29	7.6	15	9	0	0	6
H/h Furn. & Equip.	3.29	5.5	44	3	26	13	2
Transport & Com.	7.32	22.7	43	16	3	11	13
Recreation, Enter.	0.83	-0.4	16	11	3	2	0
Education	3.45	6.6	24	5	9	8	2
Cleaning & Laundry	5.88	2.8	36	14	14	6	2
Medicines	2.07	1.6	29	22	7	0	0
Overall	100	8.3	365	121	103	79	62

Note: Prices of 9 seasonal items were not reported during October 2005.

Table 2.2: Distribution of Price Changes of CPI Basket. October 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	9.1	124	44	24	19	37
Food, Bev.	40.34	9.1	124	44	24	19	37
II. Non-Food Group	59.66	8.1	250	71	94	58	27
Apparel, Text.	6.1	3.9	42	5	18	17	2
House Rent	23.43	11.8	1	0	0	0	1
Fuel & Lighting	7.29	5.0	15	8	1	1	5
H/h Furn. & Equip.	3.29	6.0	44	2	24	16	2
Transport & Com.	7.32	12.3	43	14	3	13	13
Recreation, Enter.	0.83	-0.1	16	11	5	0	0
Education	3.45	4.0	24	9	12	3	0
Cleaning & Laundry	5.88	3.6	36	6	20	7	3
Medicines	2.07	1.1	29	16	11	1	1
Overall	100	9.1	374	115	118	77	64

continued to move in the same direction during October 2005, as a consequence of the low inflation recorded in the WPI building material subgroup (see **Figure 2.4**).



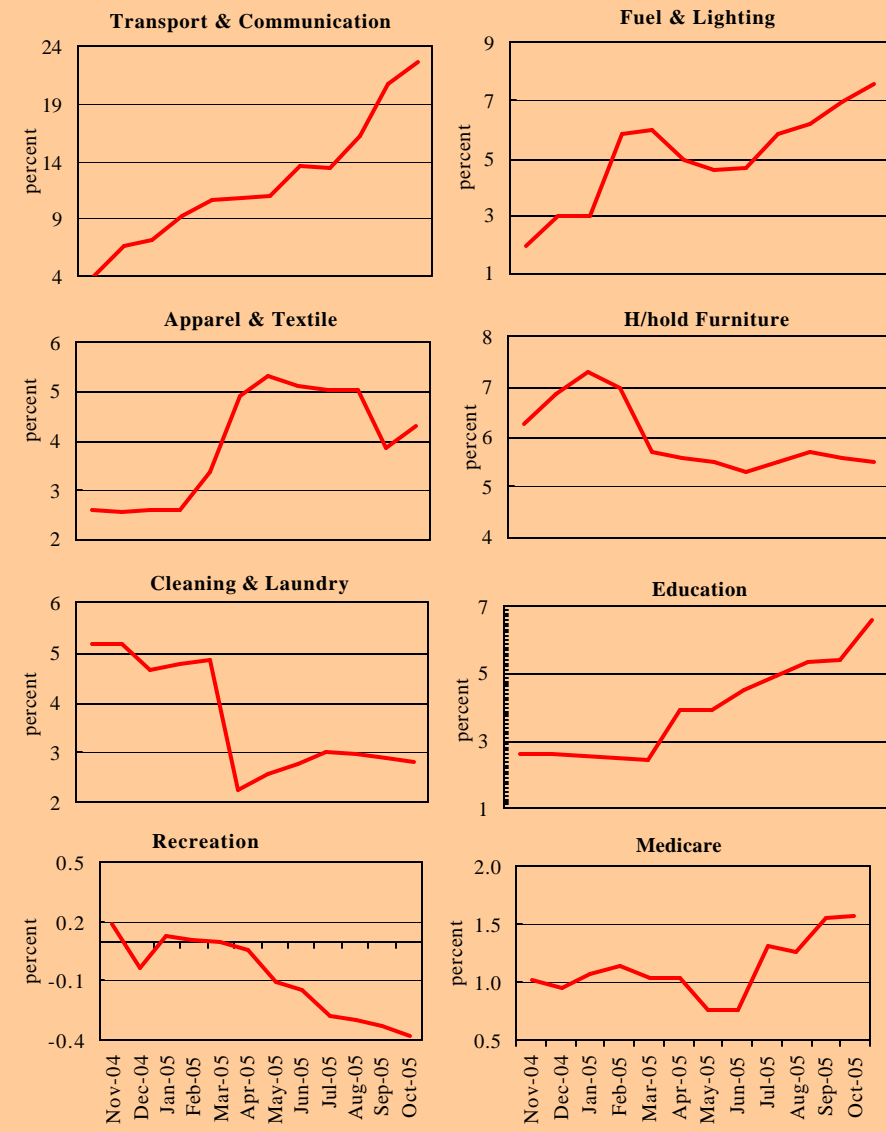
As shown in **Figure 2.5** non-food inflation during October 2005, was mainly driven by the rise in fuel, energy and transport prices. This is also reflected in the sharp increase of 22.7 and 7.6 percent in *Transport & Communication* and *Fuel & lighting* sub-groups. The rest of the CPI groups showed mixed trends.

2.3. Major Contributions

As discussed in the first issue of the *Inflation Monitor*, despite the decelerating trends in food and house rent inflation in October 2005, their contribution to overall CPI inflation remained high due to their considerable weights in the CPI basket. However, the share of food inflation in headline inflation is decreasing with the decline in prices of some essential food items whereas the share of *others*² and the *fuel and transport* group is increasing, but at a slow pace (see **Figure 2.6 and Table 2.3**).

² 'Others' include: Education, Cleaning & laundry, Recreation, Medicare, Household furniture & Personal appliances.

Figure 2.5: Inflation (YoY) in CPI Non-Food Sub-Indices



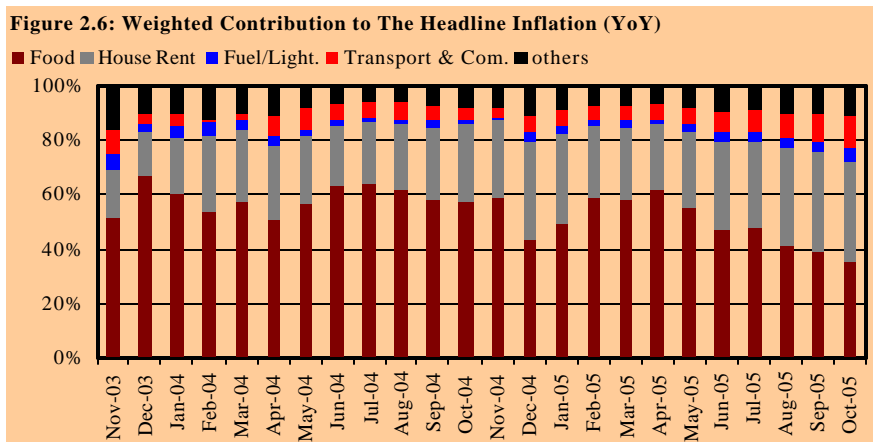


Table 2.3: Top Ten CPI Items (Ranked by Weighted Contribution)

percent				Price		Point to Point Change		
S.#	Items	Unit	weights	Oct-05	Oct-03	Oct-04	Oct-05	Wtd contr.
1	House rent index	Month	23.43	130.6	2.7	10.8	11.1	31.5
2	Petrol super	Ltr	1.73	56.5	-5.6	13.2	52.4	10.9
3	Milk fresh (unboiled)	Ltr	6.53	22.4	2.2	11.1	13.4	10.6
4	Sugar refined	Kg	1.95	26.7	-9.5	3.1	29.5	7.0
5	Beef with bone av.qlty.	Kg	1.61	98.4	19.9	29.3	12.8	2.5
6	Chicken farm broiler	Kg	0.92	72.0	36.6	-6.7	15.7	1.7
7	Gas chrg10.1157 - 13.4876mmbtu	Mmbtu	0.93	305.4	-68.0	6.7	14.5	1.6
8	Apple	Kg	0.40	41.3	0.0	6.1	32.6	1.6
9	Gas cylinder st and. Size	Each	0.68	498.3	11.4	14.3	17.9	1.5
10	High speed diesel HSD	Ltr	0.21	37.4	0.8	10.8	52.4	1.3
Total			38.4					70.2

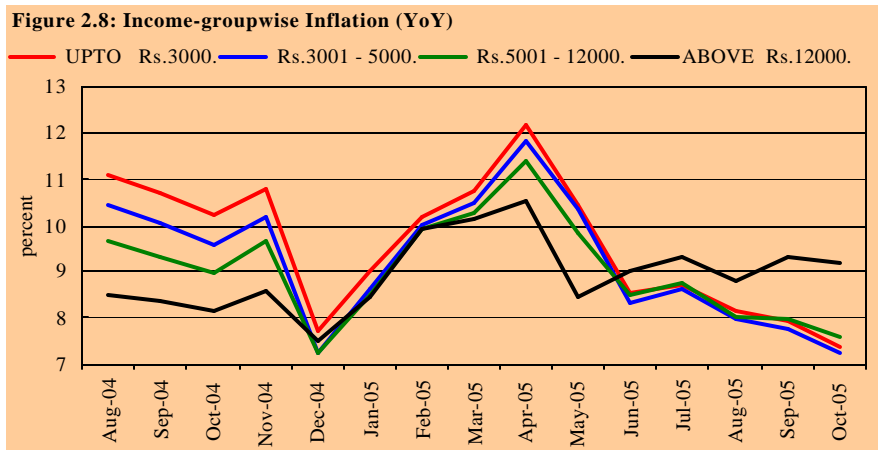
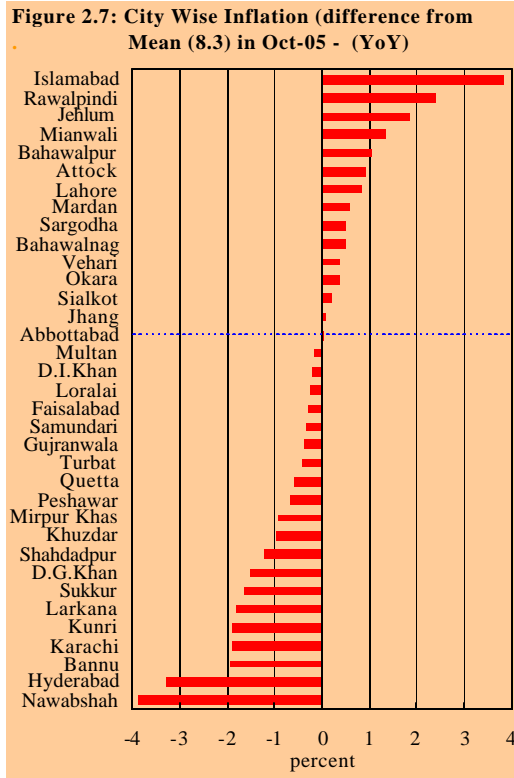
2.4. Regional Incidence of Inflation

During October 2005, the highest rate of CPI (YoY) inflation was recorded in Islamabad, while Nawabshah was on the other extreme. Out of the four provincial capitals, Lahore witnessed the highest inflation while Karachi remained on the other end. Abbottabad stood almost at the average inflation rate recorded for the

whole country during October 2005, whereas Peshawar and Quetta witnessed lower inflation than in Karachi, even lower than the average 8.3 percent inflation recorded for the economy on the whole (see **Figure 2.7**).

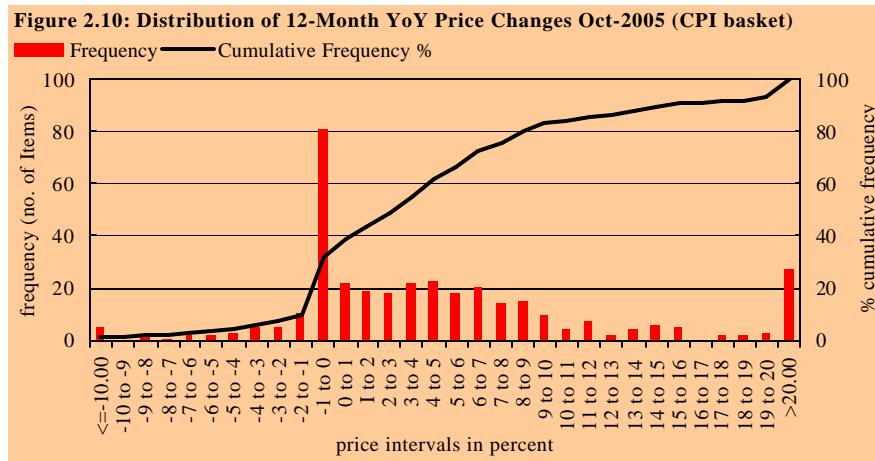
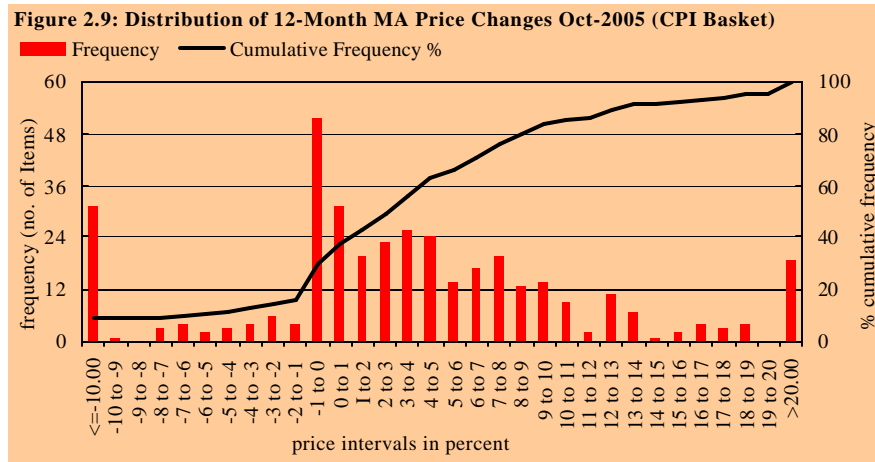
2.5. Socio-economic Incidence of Inflation

Among the four income groups, the higher income group recorded the highest year on year inflation during October 2005 while the rest varied slightly (see **Figure 2.8**). The high inflation for the high income earners confirms the fact that inflationary pressures are weakening in the food group, and the current inflation is getting strength from the non food group of CPI (see **Annexure Table 3**).



2.6. Item-wise Distribution of Price Changes

Distribution of CPI items on the basis of inflation range was skewed towards the range of 1 to 10 percent inflation on an annualized basis during October 2005 (see **Figure 2.9**). While prices of more than 100 items recorded annualized percentage change within the range of -10 percent to 0 percent, most of the items have still recorded positive upward movement during October 2005. 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 during October 2005 (see **Figure 2.10**). **Figures 2.11** and **2.12** depict the trend in the *food* and *non food* items of CPI, respectively



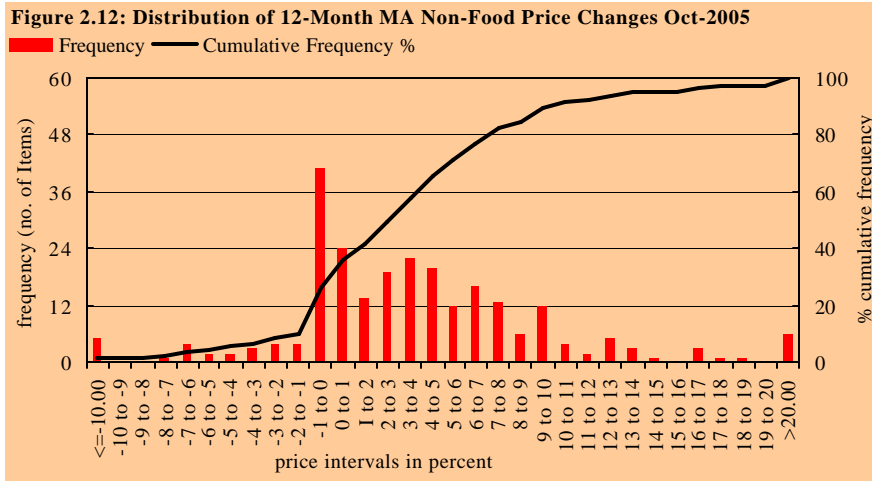
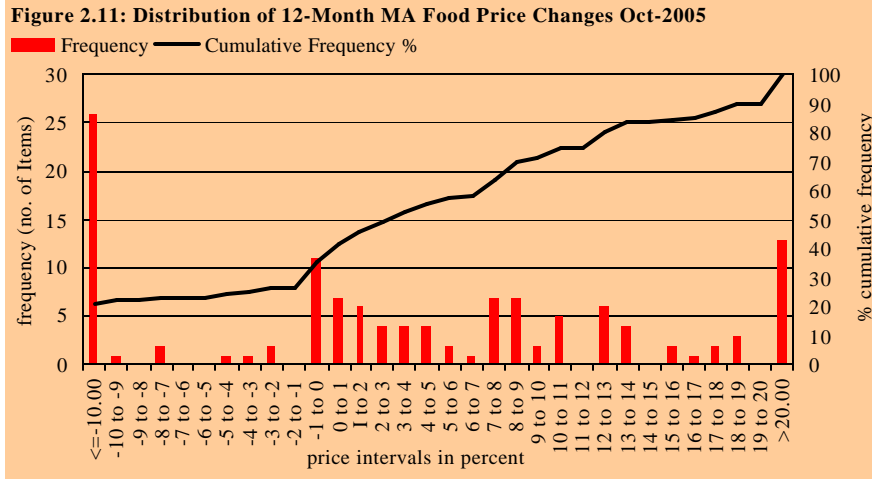
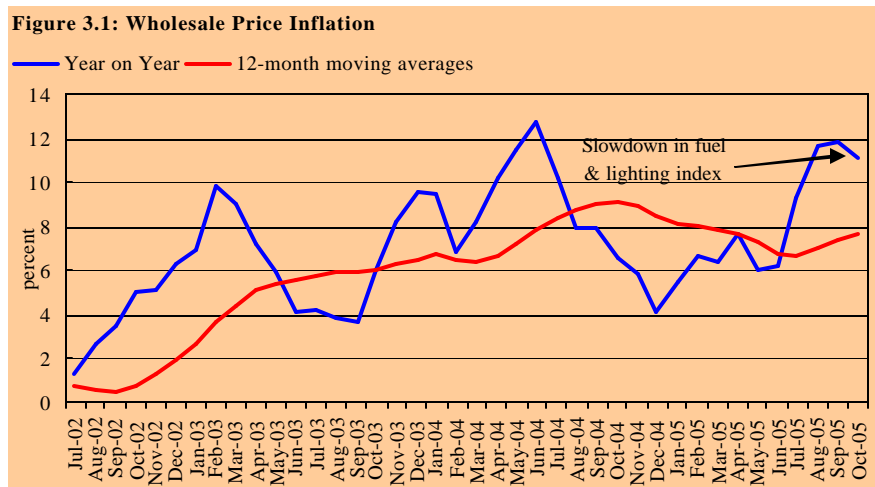


Table 2.4: Selected CPI Items Classified by Range of Price Changes (YoY) (October-05)

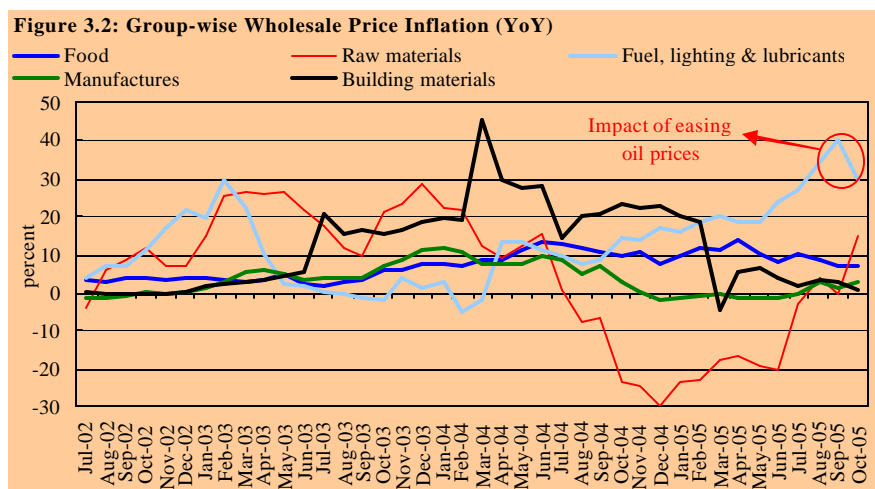
Groups	Decrease or no change	Subdued increase (Up to 5%)	Moderate increase (5 to 10%)	Increase of over 10%
Food Group	Tomatoes Vegetable Ghee (Ls) Vegetable Ghee Tin Wheat Onion	Cold drink Pulse Gram Rice Basmati 385/386 Rice Irri-6 (Sindh/Punjab) Wheat Flour Fine/Sup.	Milk Tetra Pack 1/2 Ltr. Mutton Av. Qlty. Cigarettes Morven Gold Cigarettes Capstan 10' Cooked Beef (Av. Hotel)	Eggs farm Milk Fresh (Un-boiled) Sugar refined Chicken Farm Broiler Pulse Mash (Washed)
Apparel & Textile	Gents Sandal Bata Ladies Chappal Bata	Tailoring Aw-Suit (M) School Uni. Girl Lawn Av. Qlty.	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 Charges Firewood whole Kerosene Oil
H/hold Furniture	Electric Juicer Tea-Set S. Steel Hand Stitching Needle	Air conditioner 1.5 Pel Sewing Machine Singer 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 1 st Slp. <100km Local Call charges	Car Suzuki(W/O. A/C) Train Ist Slp. > 500 Km Train 1 st 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.	Dry Cell 1.5 Volt(Local) Radio With C. Player Tape Recorder	Cinema High Class	
Education	Com. C.D. Govt. Coll. Fee Ist. Year Govt. Coll. Fee 4th.Year	Ball Pen (Local) Eng .Ist. Yr Complete Set	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	Blade 7 o'clock Disposable Razor Gillet Lipstick S. Miss/Medora Artificial jewellery	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		

3. Wholesale Price Inflation

The wholesale price inflation (YoY) maintained a double-digit rise in October for the third month in succession. The WPI rose by 11.1 percent in October 2005, compared to the 6.6 percent increase in the corresponding month of last year. This is also in sharp contrast to the decelerating trend during the same months of the previous year, indicating that the surge during the first four months of FY06 is not seasonal (see **Figure 3.1**).



The annual rate of change in food prices maintained the decelerating trend in October, while the annual rate of change in the *fuel, lighting & lubricants* sub-index decreased to 29.8 percent from the 40.0 percent increase registered in September 2005; almost twice the increase recorded in the corresponding month of last year. This also overshadowed the impact of deceleration in the *food* sub-index. The annual rate of change in the *raw material* sub-index also rose sharply by 15.2 percent in October 2005 compared to a much sharper decline of 23.7 percent in the corresponding month of last year. Inflation in the other two sub-indices i.e. *manufactures* and *building material*, however, remained subdued at 3.0 and 0.8 percent, respectively (see **Figure 3.2**).



Still, the double-digit increase in wholesale price inflation is largely owed to high energy prices, and partly to rising cotton prices. The impact of fuel prices on overall inflation is evident from the 5.6 percent increase which results from excluding the *fuel, lighting & lubricants* sub-index (with a weight of 19.3 percent in WPI). Excluding both volatile components i.e. *food* and *fuel and lighting & lubricants*, the WPI witnessed a mere 2.4 percent inflation in October 2005 (see **Table 3.1**).

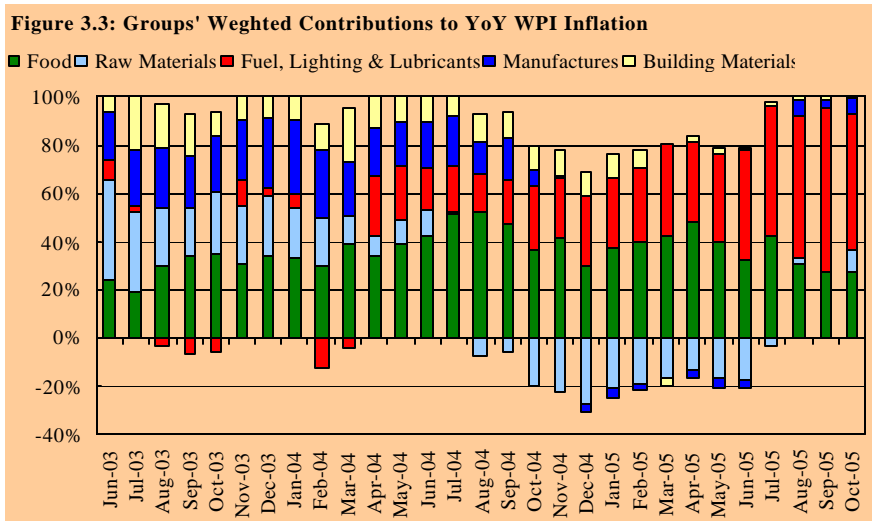
Table 3.1: Group-wise WPI Inflation

Annual percentage changes

WPI and its components	FY03	FY04	FY05	July-October		
				FY04	FY05	FY06
Food	3.5	7.0	10.7	3.5	11.2	8.3
Raw materials	14.4	17.0	-18.1	15.0	-9.5	3.6
Fuel, lighting & lubricants	12.5	2.8	15.8	-0.8	10.3	32.7
Manufactures	1.7	7.9	1.1	4.6	5.9	1.9
Building materials	1.7	22.9	13.7	17.2	19.5	2.2
Overall	5.6	7.9	6.8	4.4	8.2	11.0
<i>Overall excl. food</i>	7.3	8.7	3.6	5.2	5.7	13.4
<i>Overall excl. fuel</i>	3.9	9.2	4.5	5.8	7.7	5.6
<i>Overall excl. food and fuel</i>	4.3	11.7	-1.8	8.4	3.9	2.4

Source: Based on data from FBS

The groups' contribution to overall wholesale price inflation in October did not change much compared to last month except for the relatively higher share of the *raw material* group which reduced the contribution of *fuel, lighting and lubricants*. However, when compared to corresponding month of last year, there is a significant shift in contribution towards the *fuel, lighting and lubricants* group. Weighted contribution of the *food* group, on the other hand, fell from 61.8 percent last year to 27.6 percent in September 2005. Weighted contribution of the raw material group also rose sharply due to the reversing trends in prices. The relative weighted contributions by other two groups remained significantly lower compared to last year (see **Figure 3.3**).



A slight deceleration in the annual growth rate of the *fuel, lighting & lubricant* index in October was mainly due to the low increase in furnace oil prices. The annual increase in furnace oil price decelerated to 44.2 percent in October due to a decline in crude oil prices and partly due to the base effect.³ On the other hand, the prices of car/vehicle fuel (petrol and diesel) and household fuel (kerosene and firewood) continued to increase (see **Figure 3.4**).

³ Furnace oil prices started to rise sharply in October 2004 following the rising trend in the international market and increased demand for industrial and power consumption. Since then, growth in furnace oil prices maintained an accelerated pace until last month when prices rose by 103 percent over September 2004.

Figure 3.4: Increase in Wholesale Prices of Selected Energy Items

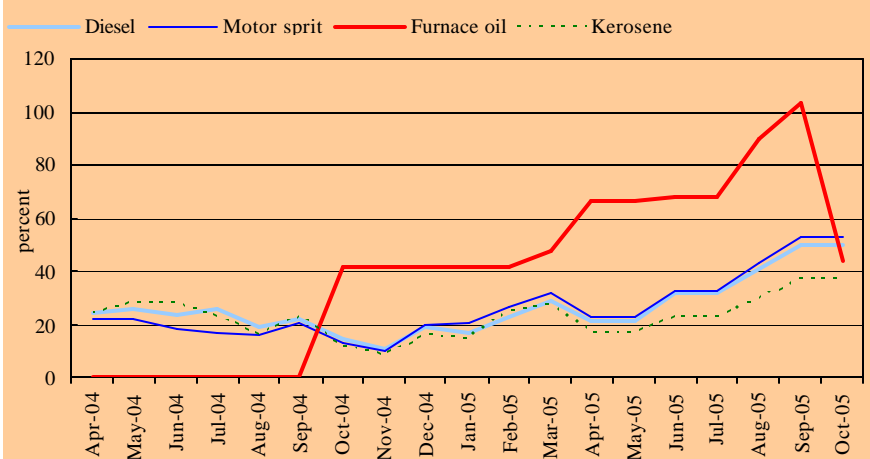
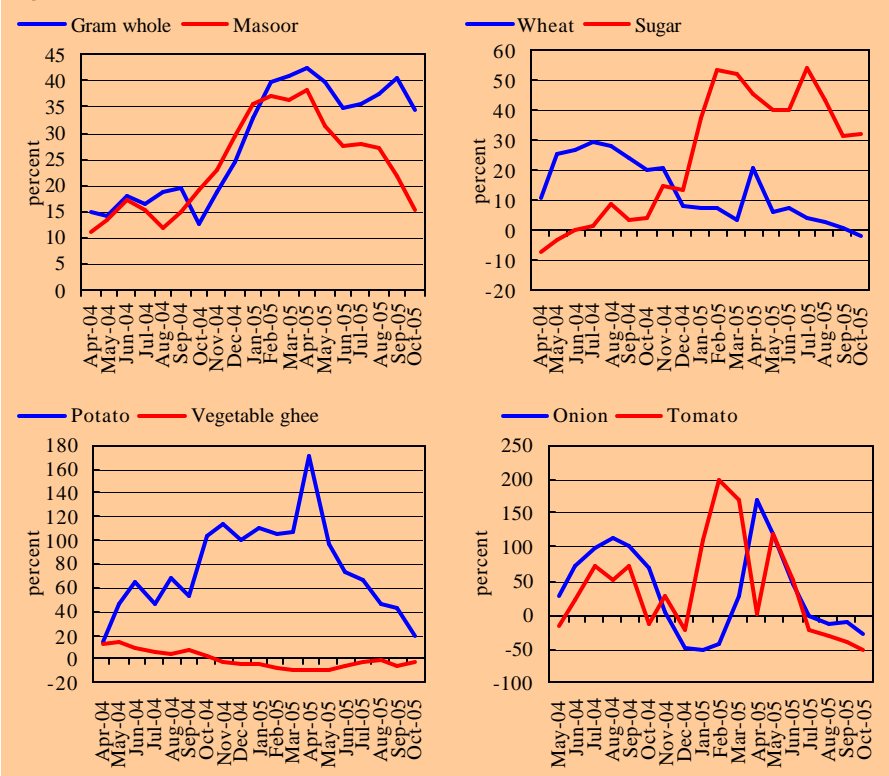
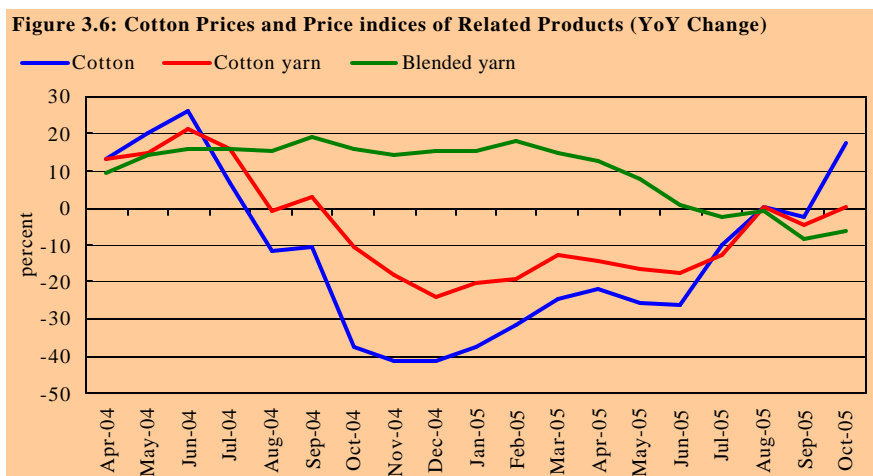


Figure 3.5: Wholesale Price Trends in Selected Food Items



The annual rate of change in the food price index maintained a decelerating trend, nullifying the upward pressure from the Ramadan effect. In October 2005, the *food* index decelerated to 7.2 percent from the peak of 13.6 percent registered in April this year. As discussed earlier, this deceleration reflects the impact of improved supplies of essential food items whose import was allowed by the government. In addition to the prices of wheat, onion, tomatoes, prices of vegetable ghee and cooking oil have been on the decline primarily due to a declining trend in palm oil prices during the last few months. However, the wholesale prices of eggs, pulses, milk etc. continued to exhibit mixed trends (see **Figure 3.5**).

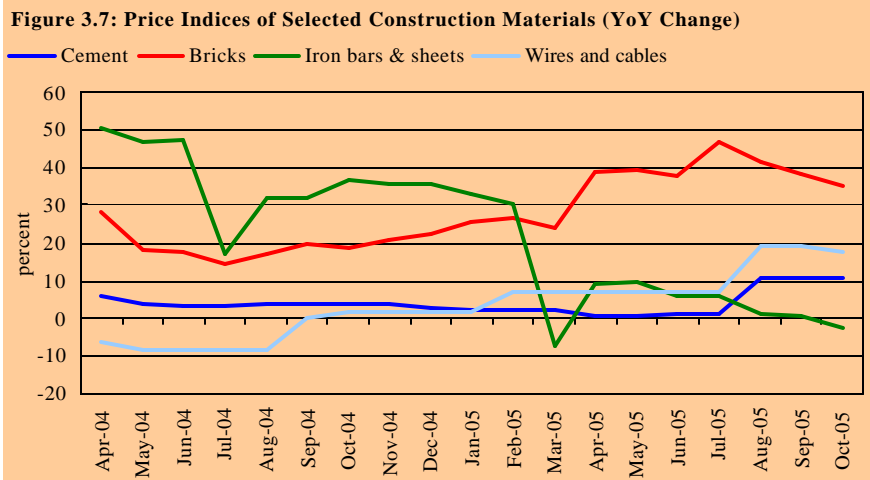
The *raw material* sub-index witnessed a sharp increase of 15.2 percent in October 2005 compare to a much sharper decline of 23.7 percent in the corresponding month of last year. The *raw material* index has been on a declining trend since August 2004, mainly due to the decline in cotton prices on the news of expected bumper cotton crop for FY05. This year, however, with the emergence of expectations regarding a lower than targeted cotton output, the trend in cotton



prices reversed. Higher cotton prices fed into higher yarn price which also explains the rise in the *manufactures* index (see **Figure 3.6**). Moreover, the prices of other important manufacturè goods especially fertilizer and tyres & tubes kept on rising on the back of rising demand and capacity pressures.

Annual increase in the *building material* index continued to moderate largely due to declining steel prices in the domestic market due to both the reduction in import duty and stable steel prices in the international market. The annual growth in the

cement sub-index also remained at 10.6 percent as in the previous month but significantly higher when compared to the increase recorded in the corresponding month of last year (see **Figure 3.7**). The prices of other important construction materials either declined or slowed down in October.



See **Figure 3.8** and **Table 3.2** for distribution of price changes in indices of 106 commodities/groups of commodities.

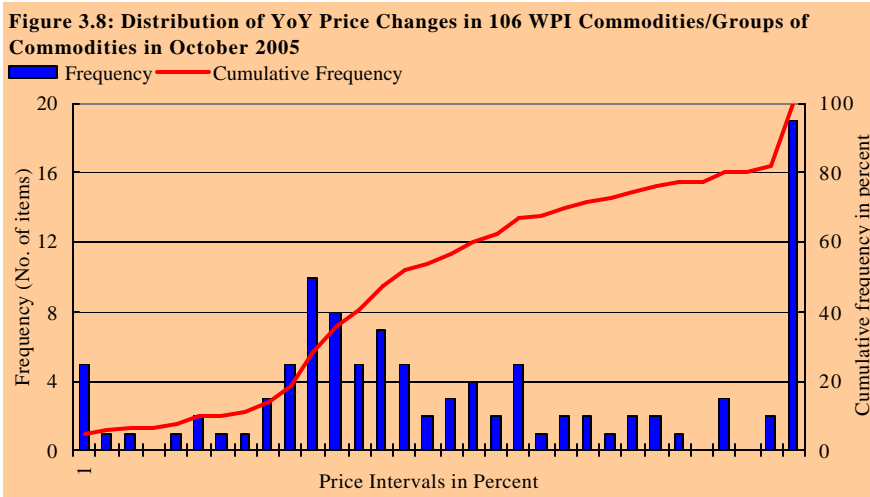
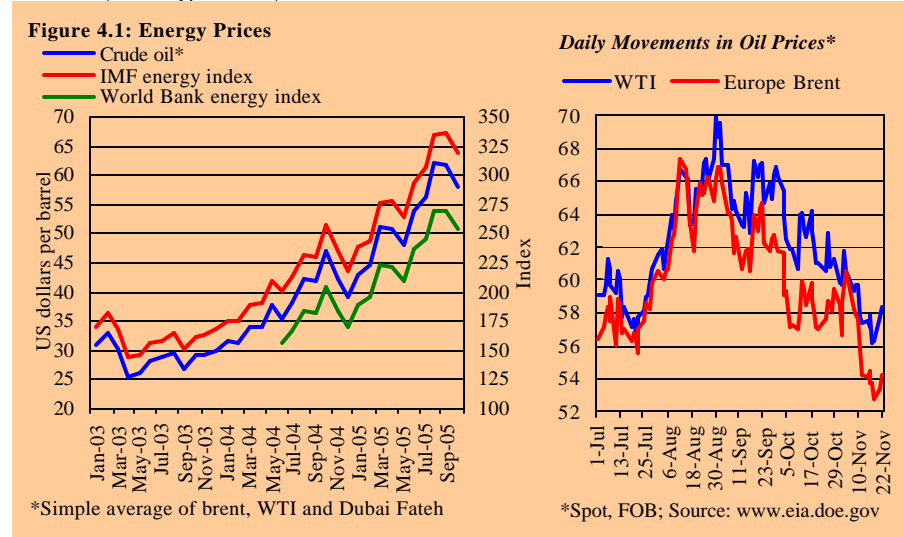


Table 3.2 : Group-wise WPI Commodities/Sub -groups of Commodities Classified by Range of Price Change (YoY) in October 2005

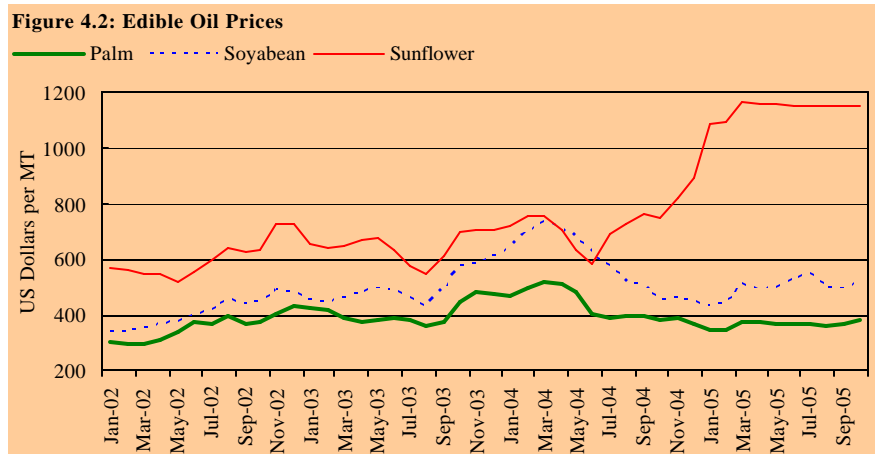
Groups	Decrease or no change	Subdued increase (upto 5%)	Moderate increase (5 to 10%)	More than 10% increase
Food	Wheat Flour Vegetables Prepared/Preserved Sugar Confectionary Tea Wheat Vegetable Ghee Cooking Oil Beverages Onions Tomatoes	Rice Mineral Water Mustard & Rapeseed Oil Milk Food Condiments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

4. Commodity Prices

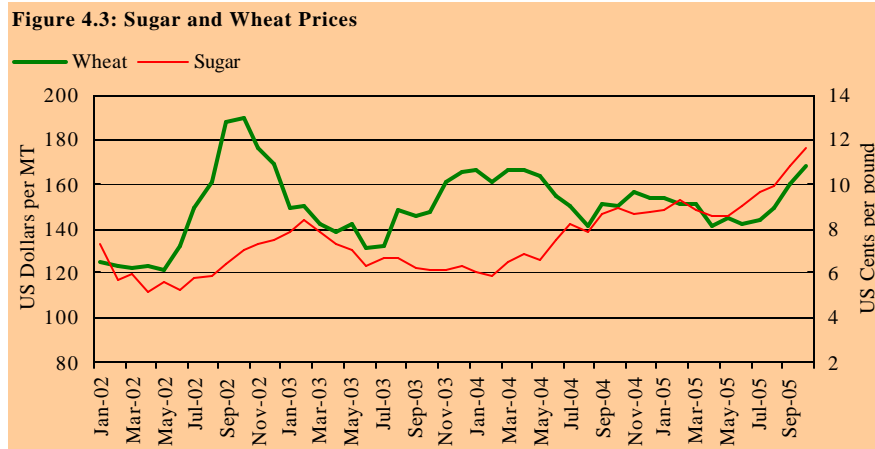
Pressure on oil prices seemed eased off a bit in October 2005 subsequent to the record high level of US\$ 61.9 per barrel of August 2005. This was largely due to the more than expected increase in US reserves and an indication of decreasing demand (see **Figure 4.1**).



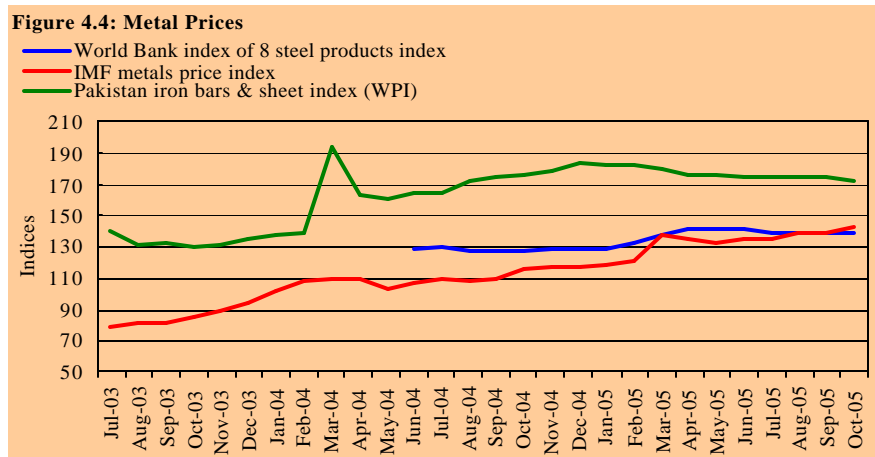
In the food group, prices of palm and soybean oil rose slightly in October 2005 while that of sunflower oil remained flat subsequent to rising sharply to US\$ 1152 per ton in June (see **Figure 4.2**). The wholesale prices of sugar and wheat have



continued to rise sharply since July and June, respectively (see **Figure 4.3**).

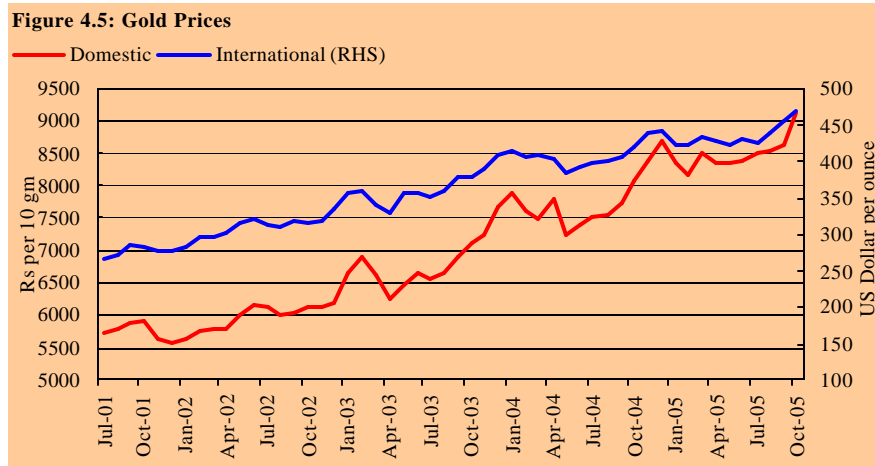


Prices of metals continued to remain more or less stable during the last few months. Stability in metals prices, as reflected in the World Bank steel price index and domestic wholesale iron bars & sheets price index, is owed largely to decreasing demand from automobile and construction industries on the back of rising oil prices and global interest rates. However, metals prices as measured by the IMF metals price index witnessed a rising trend.⁴ The falling trend in domestic steel price index is also the result of reduction in import duty (see **Figure**

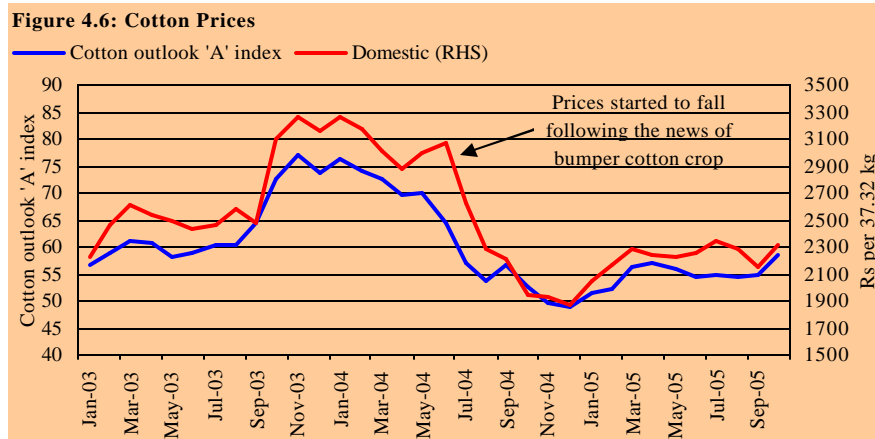


⁴This divergence reflects different coverage of the metals in indices.

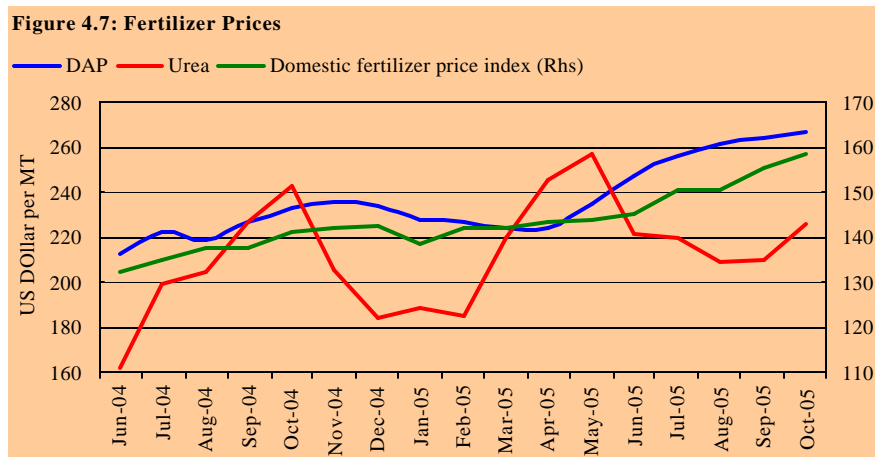
4.4). However, gold prices continued to witness a double-digit YoY increase on the back of rising investment demand. Moreover, consumption demand from Asian countries especially India also remained high (see **Figure 4.5**).



As mentioned earlier, cotton price witnessed slight uptrend in October 2005 after showing some degree of stability following a free fall recorded last year (see **Figure 4.6**). Early reports about lower global cotton production and an expected increase in demand for cotton and cotton based products are the major factors behind the reversal in trend in cotton prices.



The wholesale fertilizer prices continued to rise with the start of seasonal off take for Rabi crops (especially wheat) in the backdrop of shrinking domestic capacity against expanding demand. Another reason for the rising wholesale fertilizer price index is the increase in urea prices and stabilizing DAP at a higher level in the international market (see **Figure 4.7**).



5. Sensitive Price Indicator-SPI

Initially in October 2005, a slight upsurge was observed in the weekly point to point SPI inflation; however, this was subsequently followed by a slowdown. On the whole, weekly SPI inflation exhibited a mixed trend during October 2005. While the SPI YoY inflation based on weekly data has shown visible resurgence during the same month, it is still below the 52 weeks moving average inflation, therefore it is expected that the annualized SPI inflation will still continue to decelerate during the weeks ahead (see **Figure 5.1**).

SPI inflation based on monthly data that had earlier been decelerating sharply, since May 2005, continued the same trend during October 2005. Monthly SPI point to point inflation is still below the annualized SPI inflation, whereas both have a decelerating trend, thus it can be safely concluded that the SPI will not record any sharp upward surge in the month ahead.

Although fuel prices continued to follow a rising trend during October 2005, the deceleration in SPI point to point inflation was due to the decline in the price of wheat and wheat products, along with the prices of some vegetables, due to various factors including some effective administrative measures of the

government to stabilize the prices of necessary food staples, besides the slowdown recorded in demand.

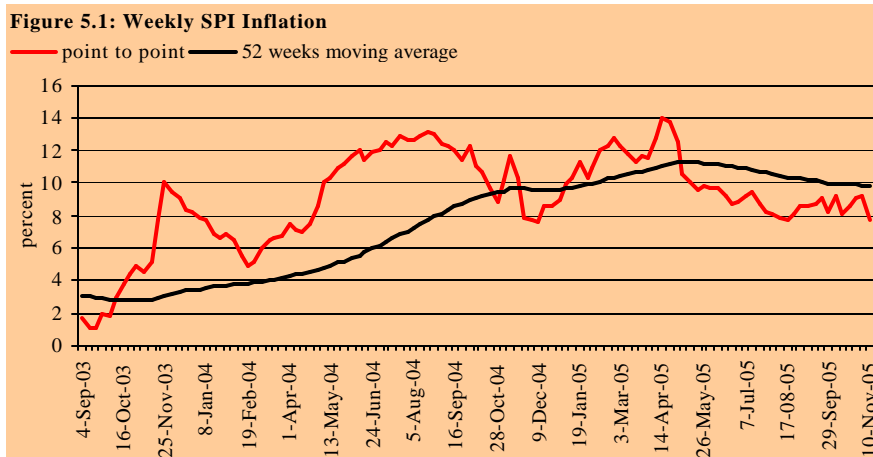


Table 5.1 reflects that during October, among all the sub-groups of SPI, the highest inflation was recorded in the *transport and communication* sub group. High inflation in this sub-group explains the impact of high prices of petrol and diesel during the period in question.

Table 5.1: SPI Inflation by Commodity and Income Group					
Percentage change in 10/11/2005 over 11/11/2004					
Groups	I	II	III	I V	V
Food	4.7	4.5	5.0	6.1	5.5
Non- Food	8.0	7.5	8.6	18.6	13.9
Utility	0.0	4.0	5.1	4.5	2.2
Trans. & Comm.	52.3	52.3	52.3	52.3	52.3
General	5.4	5.3	5.9	10.5	7.8
Percentage change in 10/11/2005 over 02/11/2005					
Groups	I	II	III	I V	V
Food	0.5	0.6	0.6	0.6	0.6
Non- Food	0.3	0.2	0.1	0.0	0.0
Utility	0.0	0.0	0.0	0.0	0.0
Trans. & Comm.	0.0	0.0	0.0	0.0	0.0
General	0.5	0.5	0.5	0.4	0.4

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 Inflation⁵

Following the trends in price indices, wage inflation decelerated slightly in comparison with the accelerating trend observed during the last few months. Nevertheless, it remained significantly higher than the corresponding figure in the previous year. The average wage of five construction workers (mason, carpenter, plumber, laborer, and electrician) rose by 16.5 percent in October 2005 compared to 9.7 percent increase in the same month last year (see **Figure 6.1** to **6.3** and **Table 6.1**).

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

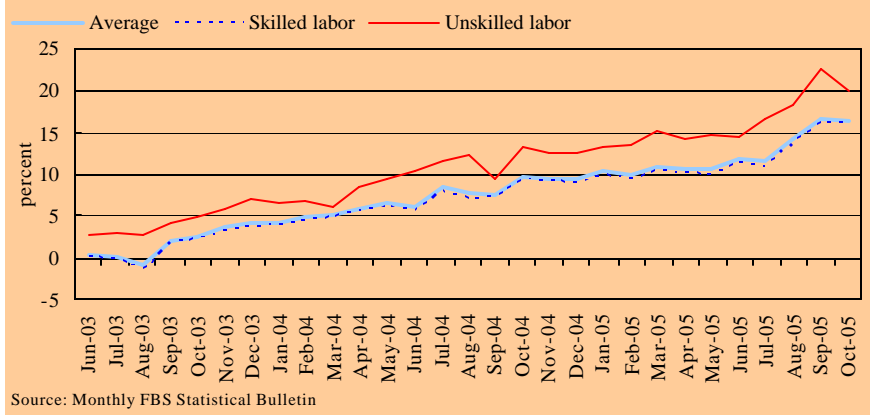
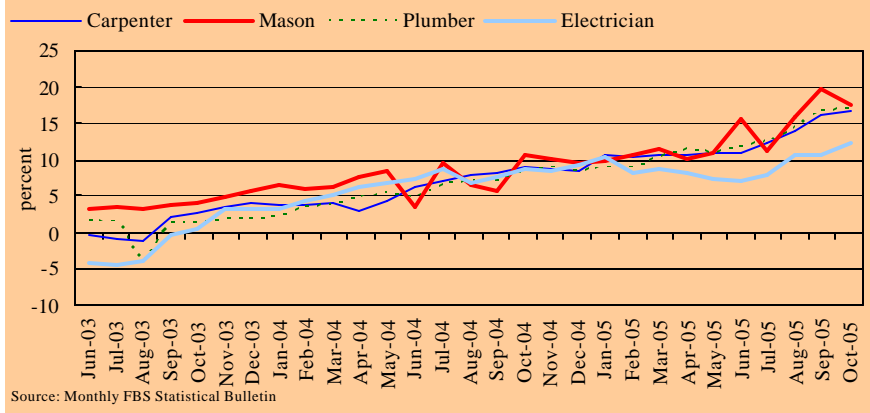


Figure 6.2: Increase in Skilled Labor Wages (YoY percent change in average wage in 35 cities)



⁵ This is based on the wages of 5 construction laborers.

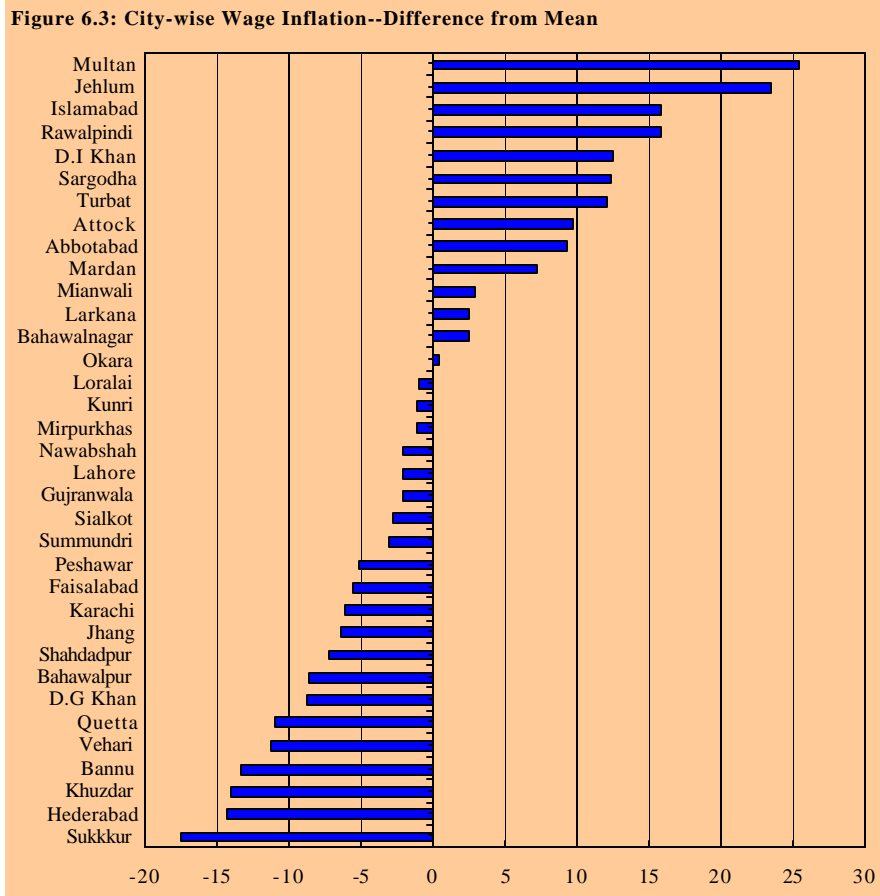


Table 6.1: Average of the Construction Labor Wages in 35 Cities (Rs. Per Day)

	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
Aug -05	269.9	284.1	145.8	270.2	256.0
Sep-05	275.8	293.6	149.3	276.6	257.7
Oct-05	280.8	302.1	152.2	280.4	263.8

Annexes

S.No	Items	Unit	Price in Oct-2005	percentage change in Oct-05 over		
				Jun-05	Oct-04	Sep-05
1	Wheat	Kg.	11.4	0.9	-1.4	0.1
2	Wheat flour a.qlt.	Kg.	13.0	-0.2	-1.1	-0.5
3	Rice basmti.broken	Kg.	19.8	-3.7	-1.2	-2.3
4	Rice irri -6	Kg.	16.0	-1.1	5.2	-1.4
5	Masur pulse washed	Kg.	44.7	-2.7	12.2	-2.5
6	Moong pulse washed	Kg.	40.3	3.6	41.4	-1.8
7	Mash pulse washed	Kg.	45.0	9.0	23.9	1.1
8	Gram pulse washed	Kg.	27.9	0.5	0.5	-2.2
9	Beef	Kg.	102.1	1.0	10.0	-0.2
10	Mutton	Kg.	194.6	1.2	7.1	0.3
11	Egg hen (farm)	Doz.	40.9	27.5	15.7	8.9
12	Bread plain m.s.	Each	14.2	2.6	12.8	1.1
13	Sugar	Kg.	26.7	0.9	28.5	0.2
14	Gur	Kg.	37.6	23.2	67.9	2.4
15	Milk fresh	Litr	23.4	1.5	13.5	0.2
16	Milk powdered nido	400g	107.4	1.5	4.5	-0.6
17	Curd	Kg.	27.9	1.1	10.2	0.5
18	Veg.ghee tin	2.5k	203.7	-0.2	-0.4	0.0
19	Veg.ghee loose	Kg.	59.0	0.3	-2.2	0.7
20	Mustard oil	Kg.	66.4	1.1	0.9	0.4
21	Cooking oil	2.5l	204.4	-0.2	-0.3	0.0
22	Potatoes	Kg.	18.8	5.3	14.9	1.9
23	Onions	Kg.	13.4	14.0	-9.0	-17.1
24	Tomatoes	Kg.	17.5	-6.5	-33.1	18.4
25	Bananas	Doz.	27.3	-15.9	20.8	5.8
26	Salt powdered	Kg.	3.8	4.1	10.1	1.1
27	Red chillies(powd)	Kg.	72.7	-2.2	-7.0	-1.6
28	Garlic	Kg.	56.0	4.8	29.5	4.0
29	Tea packet	250g	61.4	-0.8	-0.9	-0.6
30	Tea (prepared)	Cup	5.6	3.1	10.7	0.0
31	Cooked beef plate	Each	25.6	1.9	7.7	0.5
32	Cooked dal plate	Each	15.3	2.0	4.9	0.6

Table 1 continued . . .

S.No	Items	Unit	Price in Oct-2005	percentage change in Oct-05 over		
				Jun-05	Oct-04	Sep-05
33	Cigarettes k-2	10's	7.3	2.1	6.0	0.0
34	Coarse latha	Mtr.	34.2	2.4	9.5	2.1
35	Lawn (avg.+s.qlty)	Mtr.	75.6	-0.6	5.1	-0.1
36	Voil printed	Mtr.	36.6	-0.8	2.2	0.0
37	Shirting	Mtr.	62.2	1.7	4.7	1.2
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	34.4	6.2
42	Firewood	40kg	153.3	5.3	18.5	2.0
43	Elec. Bulb 60 -wats	Each	11.5	-1.0	-8.7	-0.7
44	Match box	Each	0.6	5.1	21.6	1.6
45	Washing soap	Cake	7.7	1.2	2.8	0.4
46	Bath soap lifebuoy	Cake	13.9	-0.4	-0.7	-0.2
47	Chicken (farm)	Kg.	71.0	-2.2	17.9	-1.4
48	Gas chrg. All clb. Comb	D.mmbt	193.0	5.1	12.7	0.0
49	L.p.g .(cylinder 11kg.)	Each	494.3	45.4	15.5	-1.1
50	Elec.chrg.all slabs com	Bd. Unit	4.7	0.0	0.0	0.0
51	Petrol	Litr	56.4	23.5	52.3	7.0
52	Diesel	Litr	37.3	27.8	52.3	7.5
53	Telephone local	Call	2.3	0.0	0.0	0.0
Max:				45.4	67.9	18.4
Median				1.2	7.1	0.0
Min:				-15.9	-33.1	-17.1

Table 2: Top Ten CPI Items (Ranked by Weighted Contribution (Wtd. Contr.))

percent				Price		Point to Point Change t		
S.#	Items	Unit	weights	Oct-05	Oct-03	Oct-04	Oct-05	Wtd contr.
1	House rent index	Month	23.4298	130.6	2.7	10.8	11.1	31.5
2	Petrol super	Ltr	1.7253	56.5	-5.6	13.2	52.4	10.9
3	Milk fresh (unboiled)	Ltr	6.5334	22.4	2.2	11.1	13.4	10.6
4	Sugar refined	Kg	1.9467	26.7	-9.5	3.1	29.5	7.0
5	Beef with bone av.qlty.	Kg	1.6098	98.4	19.9	29.3	12.8	2.5
6	Chicken farm broiler	Kg	0.9158	72.0	36.6	-6.7	15.7	1.7
7	Gas chrg10.1157 - 13.4876mmbtu	Mmbtu	0.9312	305.4	-68.0	6.7	14.5	1.6
8	Apple	Kg	0.4015	41.3	0.0	6.1	32.6	1.6
9	Gas cylind er stand. Size	Each	0.6817	498.3	11.4	14.3	17.9	1.5
10	High speed diesel hsd	Ltr	0.2070	37.4	0.8	10.8	52.4	1.3
Total			38.4					70.2

Top Ten CPI Items by Percentage Change

percent				Price		Point to Point Change		
S.#	Items	Unit	weights	Oct-05	Oct-03	Oct-04	Oct-05	Wtd contr.
1	Gur av.qlty	Kg	0.0735	36.11	-4.25	5.23	70.8	0.6
2	High speed diesel hsd	Ltr	0.2070	37.35	0.77	10.80	52.4	1.3
3	Petrol super	Ltr	1.7253	56.47	-5.55	13.19	52.4	10.9
4	Pistachio av.qlty.	50 gm	0.0301	32.98	-2.28	6.09	51.6	0.2
5	Guava	Kg	0.1081	33.51	-4.49	24.95	47.4	0.6
6	Pulse moong (washed)	Kg	0.2230	39.63	-6.53	-3.03	44.1	1.2
7	Kerosene oil	Ltr	0.1366	36.28	10.86	11.52	38.3	0.6
8	Bus fare min (within city)	Ticket	0.1411	5.11	7.54	5.04	36.3	0.6
9	Almonds whole av.qlty.	Kg	0.1004	190.91	48.66	21.15	36.0	0.4
10	Minibus fare min.with in city	Ticket	0.1411	5.83	14.29	8.25	34.6	0.6
Total			2.9					17.1

Table 3: Point to Point Inflation by Major Cities/Major Indices/Income Groups. (October 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	8.5	6.5	10.0	8.2	5.7	9.9	8.4	5.9	10.3	9.9	6.7	12.3	9.1	6.2	11.3
2	Faisalabad	6.8	4.3	8.6	6.7	4.2	8.5	7.2	4.7	9.0	8.8	5.2	11.6	8.0	4.9	10.3
3	Rawalpindi	10.2	9.7	10.5	9.5	8.0	10.5	9.9	8.2	11.1	11.6	8.5	13.8	10.7	8.3	12.4
4	Multan	7.2	6.0	8.1	7.2	6.4	7.7	7.6	6.5	8.4	9.1	7.5	10.4	8.1	6.8	9.0
5	Gujranwala	6.5	4.9	7.7	6.9	5.0	8.2	7.6	5.4	9.3	9.2	6.4	11.2	7.9	5.5	9.6
6	Islamabad	10.0	7.5	11.8	10.0	7.8	11.6	10.3	7.4	12.4	12.4	8.2	15.4	12.1	8.0	15.0
7	Sargodha	7.1	5.3	8.3	7.5	6.3	8.3	8.4	7.4	9.1	10.4	8.9	11.4	8.8	7.6	9.7
8	Sialkot	8.2	8.9	7.7	7.7	8.3	7.3	8.2	8.9	7.6	8.8	9.5	8.2	8.5	9.2	8.0
9	Bahawalpur	7.8	6.7	8.6	8.3	7.1	9.2	9.2	8.5	9.6	10.5	9.5	11.2	9.3	8.3	10.1
10	Karachi	5.2	2.9	6.8	4.8	1.2	7.3	5.1	1.5	7.6	7.6	2.9	11.0	6.3	2.1	9.4
11	Hyderabad	4.3	3.2	5.0	4.4	3.2	5.3	4.7	3.2	5.8	5.9	4.1	7.2	5.0	3.4	6.1
12	Sukkur	6.9	7.0	6.7	6.6	6.1	6.9	6.6	6.5	6.7	6.7	6.6	6.8	6.6	6.5	6.8
13	Larkana	6.0	5.1	6.7	5.6	4.6	6.3	6.5	5.8	7.0	6.7	5.8	7.4	6.4	5.6	7.0
14	Peshawar	6.5	4.0	8.2	6.0	3.1	8.0	6.7	3.5	9.0	8.7	4.6	11.7	7.6	3.9	10.2
15	Banru	7.7	7.7	7.6	6.4	5.3	7.1	6.2	4.1	7.7	6.2	3.4	8.2	6.3	4.4	7.7
16	Quetta	5.5	3.6	6.9	6.4	4.1	7.9	7.0	4.4	8.9	8.7	5.4	11.0	7.7	4.8	9.7
17	Khuzdar	7.5	5.0	9.4	7.2	5.6	8.3	7.3	5.4	8.7	8.0	5.3	10.0	7.3	5.4	8.7
	Average	7.2	5.8	8.2	7.0	5.4	8.1	7.5	5.7	8.7	8.8	6.4	10.5	8.0	5.9	9.5
	Minimum	4.3	2.9	5.0	4.4	1.2	5.3	4.7	1.5	5.8	5.9	2.9	6.8	5.0	2.1	6.1
	Median	7.1	5.3	8.1	6.9	5.6	8.0	7.3	5.8	8.9	8.8	6.4	11.0	7.9	5.6	9.6
	Maximum	10.2	9.7	11.8	10.0	8.3	11.6	10.3	8.9	12.4	12.4	9.5	15.4	12.1	9.2	15.0