

Inflation Monitor

January 2006



State Bank of Pakistan

Economic Policy and Research Departments

Contents

1.	Overview	1
	1.1 Core Inflation	3
2.	Consumer Price Inflation	5
	2.1 Food Inflation	5
	2.2 Non-food Inflation	7
	2.3 Major Contributions	9
	2.4 Regional Incidence of Inflation	10
	2.2 Socio-economic Incidence of Inflation	10
	2.3 Item-wise Distribution of Price Changes	11
3.	Wholesale Price Inflation	15
4.	Key Commodity Prices	22
5.	Sensitive Price Indicator	26
6.	Wage Inflation	27

Annexes:

1. SPI Item-wise Price Movements
2. Top Ten Items by Contribution to CPI Inflation
3. City-wise Inflation by Income Group

Researchers

Fida Hussain
Economic Policy Department

fida.hussain@sbp.org.pk

Syed Sarfaraz Ali Shah
Research Department

syed.sarfaraz@sbp.org.pk

Muhammad Farooq Arby
Research Department

farooq.arby@sbp.org.pk

Editorial Assistance

Uzma Shakir
Research Department

uzma.shakir@sbp.org.pk

1. Overview

Inflationary pressures gained strength in January 2006 despite a high base of the corresponding period last year. Headline consumer price inflation rose to 8.8 percent year on year (YoY) in January 2006, the highest rise during the last six months. Wholesale price inflation, with a slight deceleration, remained in double digits. Sensitive price indicator (SPI) inflation decelerated in January 2006 after showing an increase in the last month. Despite this deceleration, it still remained higher compared to the level in November when it fell to the lowest during the last two years.

Higher SPI inflation during the last two months reveals the fact that the inflationary pressures remained strong in *food* and *fuel* prices.¹ The core inflation, on the other hand, maintained its decelerating trend in the month under review (see **Table 1.1**).

Table 1.1: Inflation (YoY)
percent

	CPI			WPI			SPI	Core Inflation	
	General	Food	Non-Food	General	Food	Non-Food	General	Exclusion	By Trimming
Jan-05	8.5	10.4	7.2	5.6	9.9	2.6	10.3	7.3	8.3
Feb-05	9.9	12.9	8.0	6.7	11.9	3.3	11.6	7.4	8.6
Mar-05	10.2	13.3	8.2	6.3	11.1	3.1	11.4	7.6	8.0
Apr-05	11.1	15.7	8.0	7.7	13.6	3.7	13.4	7.9	8.5
May-05	9.8	12.5	8.0	6.0	10.1	3.2	9.9	7.5	8.0
Jun-05	8.7	9.3	8.4	6.2	8.4	4.6	9.2	7.4	7.7
Jul-05	9.0	9.7	8.5	9.4	10.0	8.9	8.0	7.6	7.3
Aug-05	8.4	7.8	8.8	11.7	8.6	14.0	7.1	7.6	7.1
Sep-05	8.5	7.5	9.3	11.9	7.5	15.2	7.0	7.6	7.0
Oct-05	8.3	6.4	9.6	11.1	7.2	14.1	6.5	7.8	7.0
Nov-05	7.9	5.8	9.4	10.9	6.4	14.3	5.4	7.6	6.8
Dec-05	8.5	8.1	8.8	11.0	7.8	13.7	6.2	7.4	6.5
Jan-06	8.8	8.2	9.2	10.8	7.2	13.8	6.0	7.3	6.5

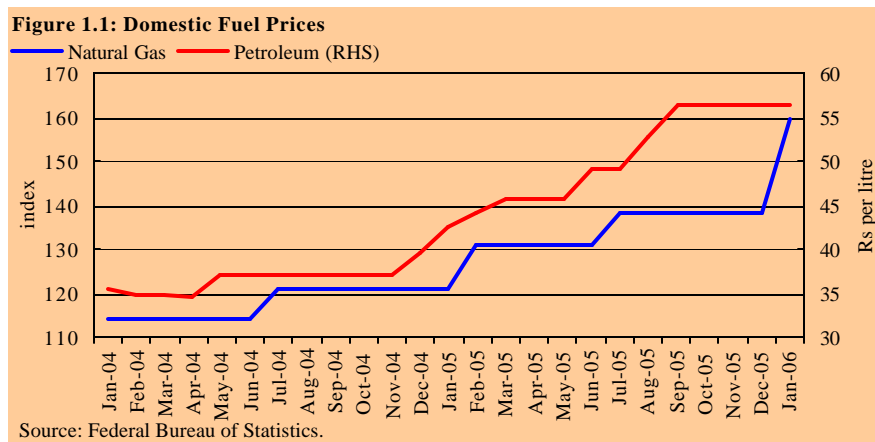
Source: Federal Bureau of Statistics

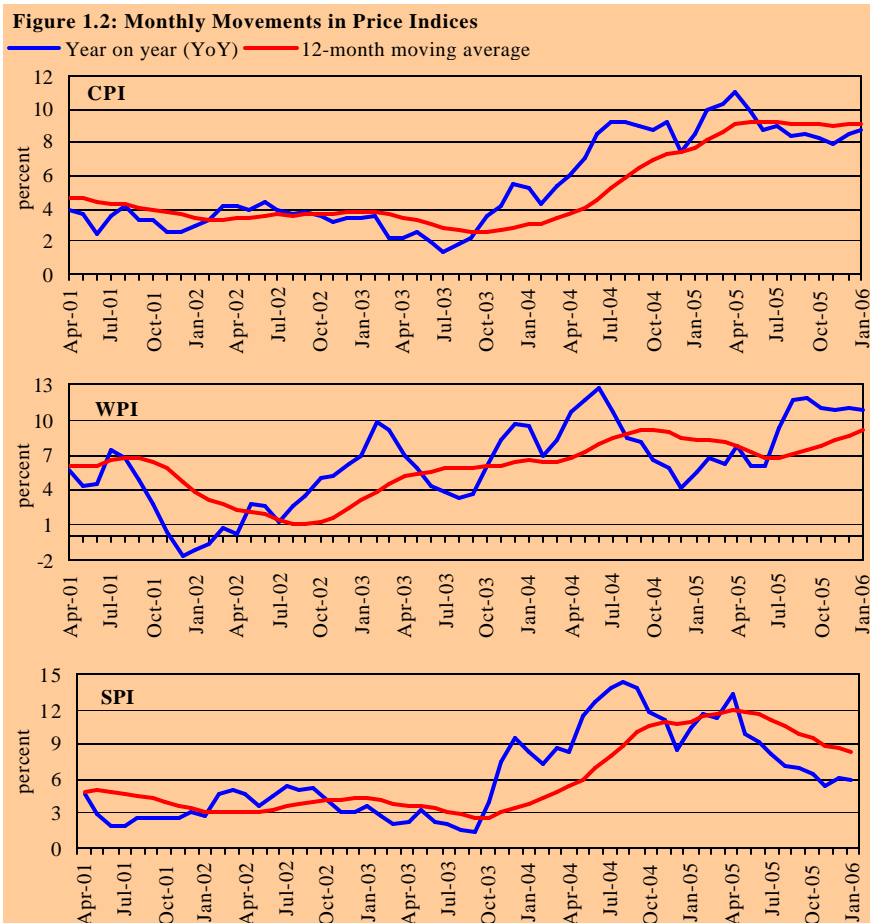
A detailed look at the period-wise inflation indicates that although the pressures are present in the *food* group, the current rise in inflation was largely a result of rising *non-food* inflation (see **Table 1.2**).

¹ SPI is a sub-basket of CPI. It consists mostly of food items along with some non-food items including prices of fuels, etc.

Table 1.2: Period-wise Inflation						
Index	Annual Point to Point % Change					
	General	Food	Non-Food	Past Five Years Average		
				General	Food	Non-Food
CPI	8.8	8.2	9.2	5.6	5.9	5.4
WPI	10.8	7.2	13.8	5.9	5.7	6.1
SPI	6.0	-	-	6.2	-	-
Period to Period Average % Change (Jul 05 - Jan 06 Over Jul 04 -Jan 05)						
CPI	8.5	7.6	9.1	5.4	5.8	5.2
WPI	11.0	7.8	13.4	6.3	5.7	6.7
SPI	6.6	-	-	6.0	-	-
12 Months Moving Average % Changes (Feb 05 - Jan 06 Over Feb 04 - Jan 05)						
CPI	9.1	9.6	8.7	5.3	5.8	5.0
WPI	9.2	9.1	9.3	6.2	5.7	6.6
SPI	8.4	-	-	6.2	-	-
Monthly % Changes (Jan 06 Over Dec 05)						
CPI	1.2	1.4	1.1	-0.2	-1.2	0.5
WPI	1.3	0.8	1.6	0.0	-0.9	0.8
SPI	0.8	-	-	-0.2	-	-

Despite the decline in crude oil prices in the international market during Sep–Nov 2005 and later renewed increase in January, the government kept the domestic oil prices unchanged on the September 2005 level. This move of the government resulted in a moderating impact on the *non-food* inflation of both CPI and WPI during the said period. However, during the month of January 2006, the prices of natural gas rose, which not only raised *non-food* inflation, but also pushed headline inflation above the level than the preceding month and the corresponding month of last year (see **Figure 1.1 & 1.2**).



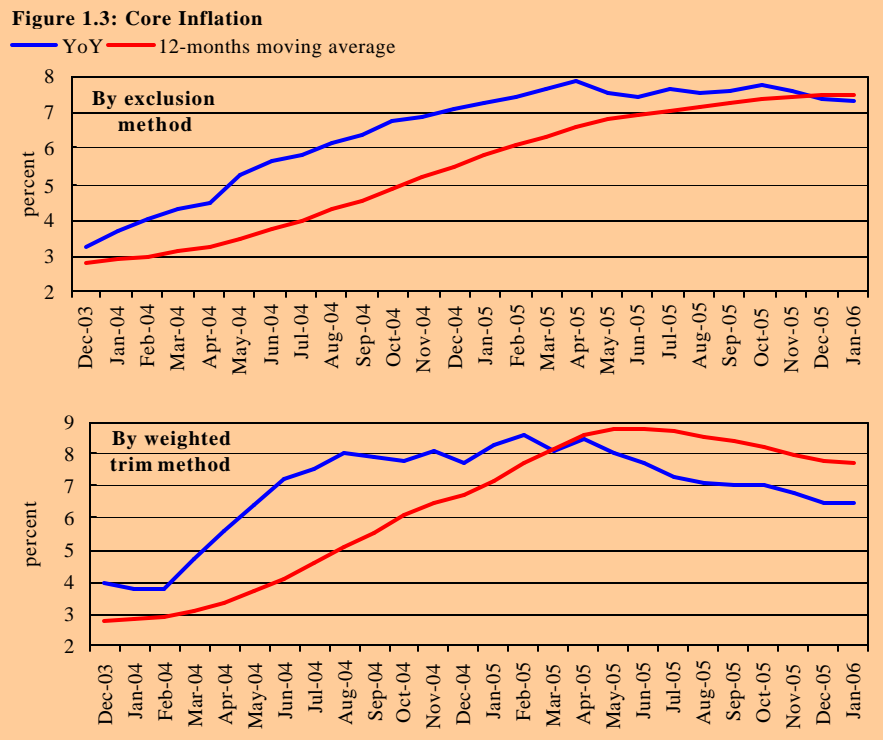


Within the *food* group, the key factors behind current high inflation are the rising prices of a few pulses, vegetables and fruits, and more importantly a sharp rise in prices of sugar and milk. Sugar price has been on the rise in recent days due to an expected decline in domestic production and high price in the international market. Although milk witnessed lower inflation than sugar, though still in double-digit, it contributed more to the overall CPI inflation than any other item of the CPI food group, due to its higher weight.

1.1 Core Inflation

The core inflation, measured both by exclusion and trim methods, continued to decelerate in January 2006. The deceleration in core inflation has been contributed mainly by *house rent index* (HRI) that witnessed an increase of 9.9

percent in January 2006 as against an average of more than 11.0 percent during the past six months. Deceleration was more pronounced in core inflation by trimmed mean that fell to 6.5 percent YoY during January 2006 against 8.3 percent recorded in the same month last year. The other measure of core inflation, i.e. NFNE, also decelerated slightly from 7.4 percent in December 2005 to 7.3 in January 2006 (see **Figure 1.3**).

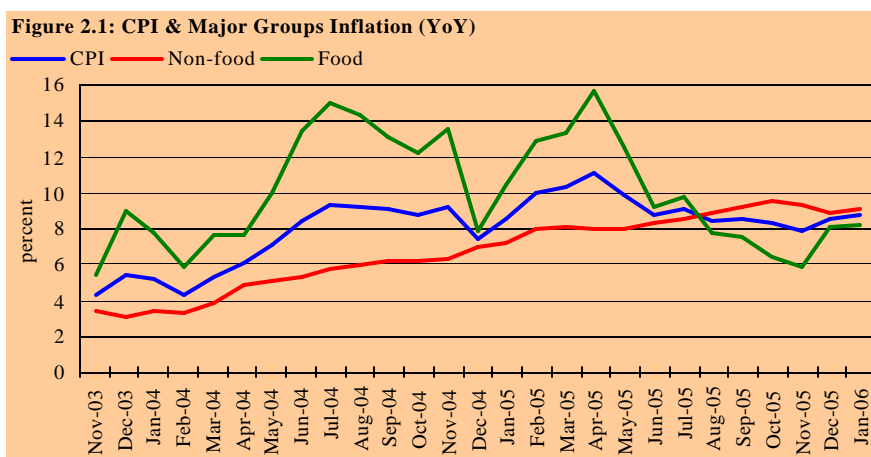


When headline inflation is rising, the decelerating trend of core inflation, by definition, indicates that inflationary pressures are either strengthening in food and fuel prices or the current rise in headline inflation might be temporary and could be due to a price hike in some seasonal items, which will automatically re-adjust with improved supplies. However, in the current scenario the former seems more valid and calls for some administrative measures to curb inflation in food prices.

2. Consumer Price Inflation

Consumer price inflation continued to rise during January 2006 and was recorded at 8.8 percent (YoY) as compared to 8.5 percent in January 2005. In fact,

consumer price inflation, on average, remained above 8 percent, throughout the first half of FY06. Initially, the trend was decelerating which resulted in forming expectations of a relatively low inflation for FY06. Later in December 2005, the rise in both *food* and *non-food* inflation pushed up the overall inflation and the same trend continued in January 2006; yet at present the contribution of *non-food* inflation is much greater to headline inflation (see **Figure 2.1**).



2.1 Food Inflation

CPI *food* inflation maintained the rising trend in January 2006, though with a lower pace, as compared to the sharp rise of December 2005. The rise in *food* inflation was primarily due to the rise in prices of sugar, milk, potato and onion (see **Figure 2.2**). However, the rise in sugar price broke all previous records and is still rising mainly due to an expected decline in sugar production and higher prices in the international market. So far, the government has taken some administrative measures to check the rise in sugar price by improving the supply situation.² However, the crisis still persists and is yet to find an end. Interestingly, the contribution of the rise in milk price is twice to that of sugar to headline inflation. The rising price of milk as a consequence of high fuel and food prices has, so far, played the role of a silent contributor to overall inflation. However, the rate of change in milk price is not that high as it is in sugar, yet due to its high weight in CPI basket, the impact of the rise is significant (see **Figure 2.3**).

² The Government has made sugar available at utility stores at a controlled price of Rs 27 per kg, which is much lower than the market price. The Government has also allowed the import of 50,000 tons of sugar, first time via land route from India, to meet the domestic demand.

Figure 2.2: Price Trends in Key Food Items

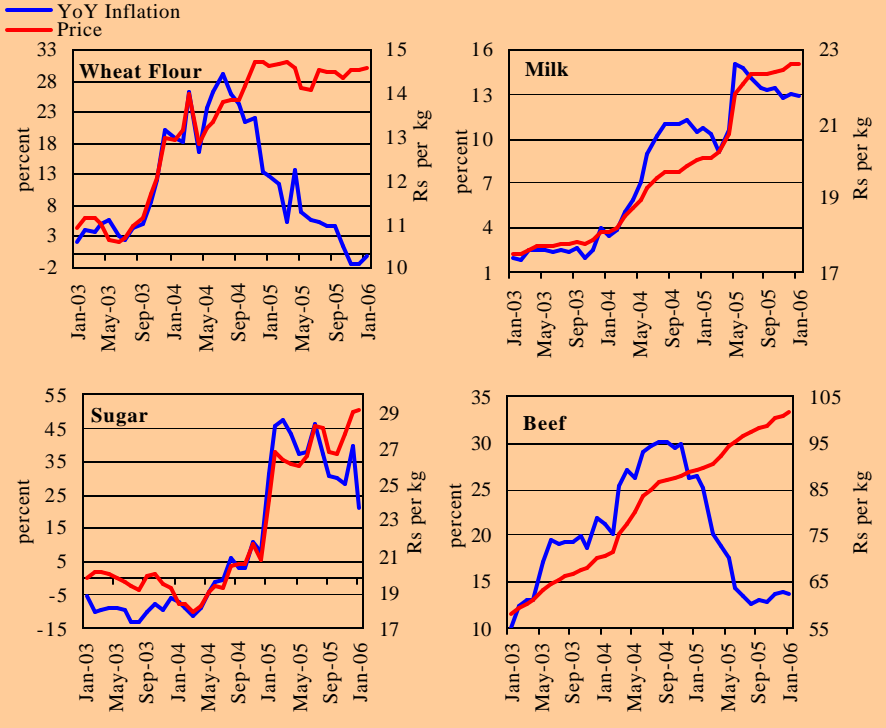
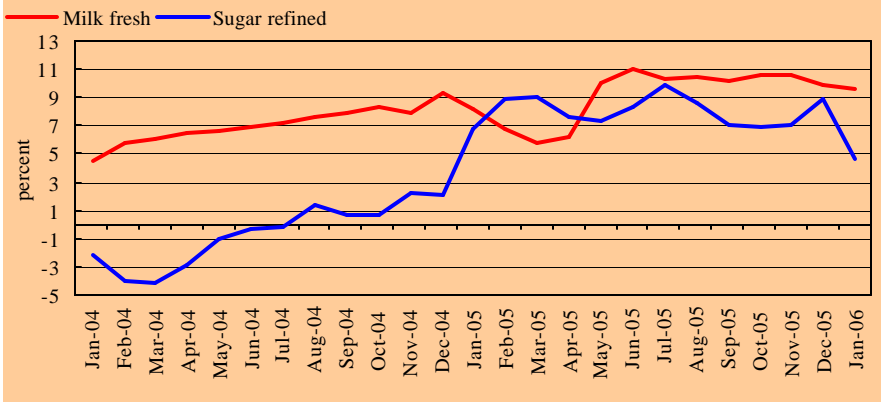
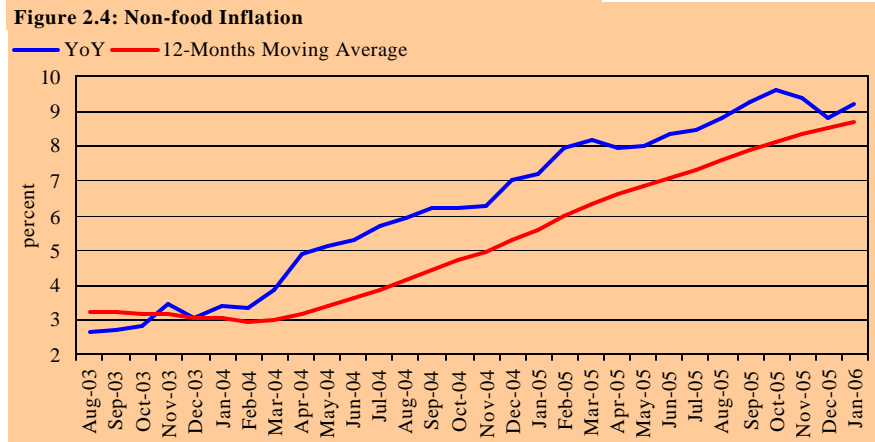


Figure 2.3: Weighted Contribution to Headline Inflation YoY

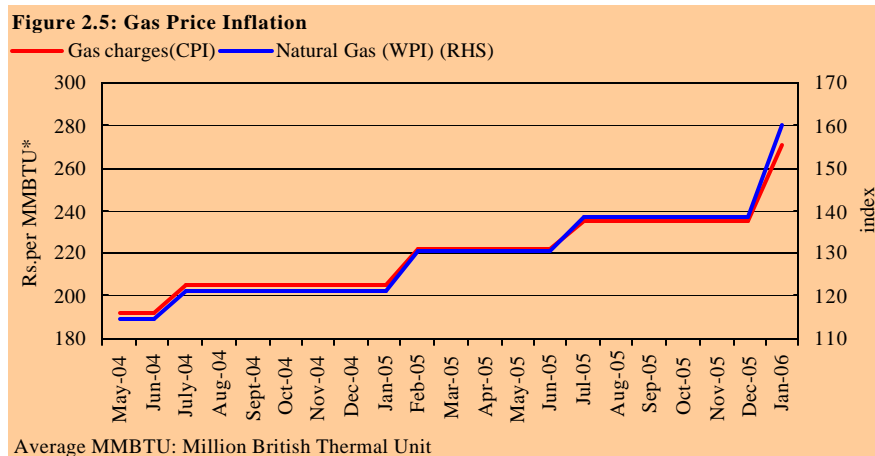


2.2 Non-Food Inflation

After falling to 8.8 percent YoY in December, CPI *non-food* inflation rose significantly in January 2006 and was recorded at 9.2 percent year-on-year (see **Figure 2.4**).



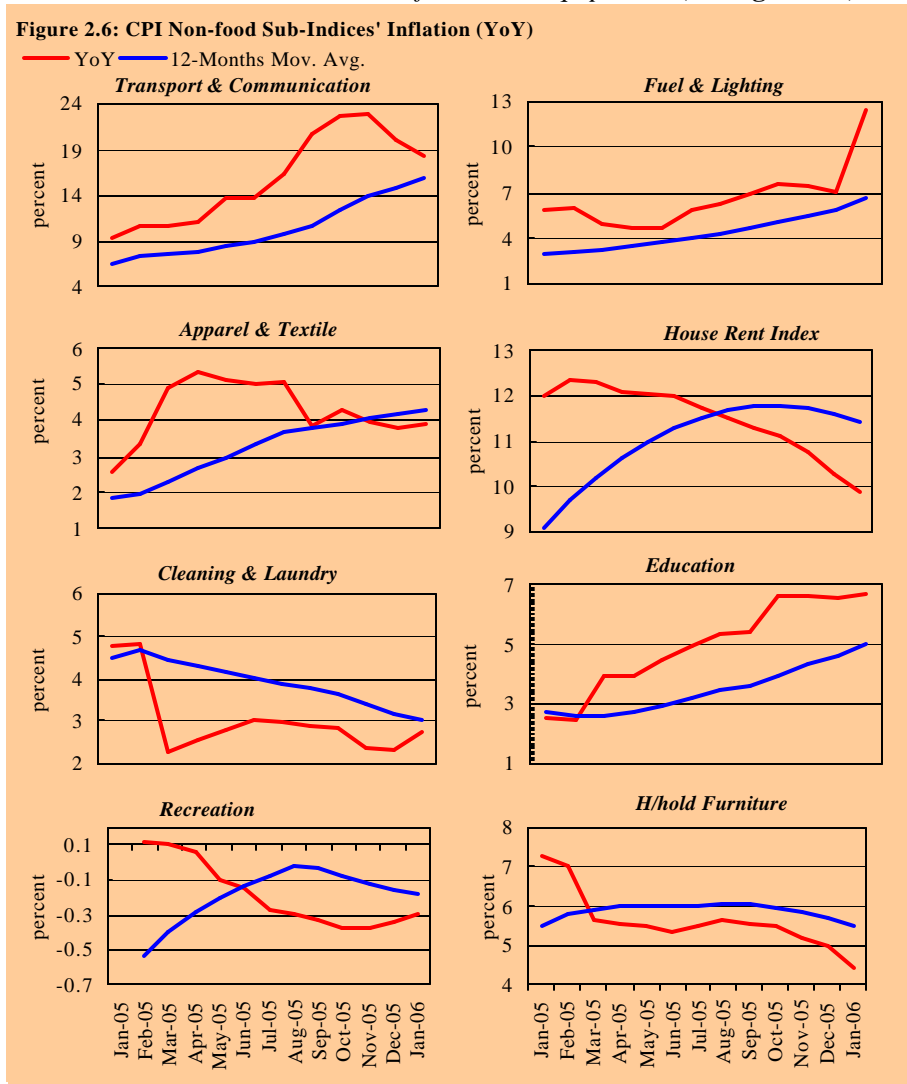
In the backdrop of stagnant liquid fuel prices and persistently decelerating inflation in HRI, the rise in *non-food* inflation was largely attributable to the sizeable rise in the prices of natural gas during January 2006 (see **Figure 2.5**).³



³ Gas prices have been raised by 15.5 percent under Section 8(2) of the Oil and Gas Regulatory Authority Ordinance, 2002, and Natural gas tariff rules, 2002 (Decision 31 December 2006).

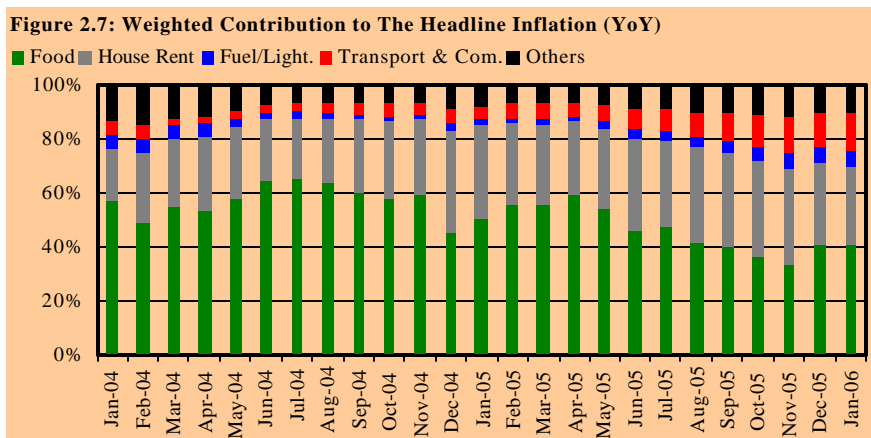
Huge increase in gas prices pushed up the price of CNG, while increase in train fares during January 2006, kept the year on year inflation in the CPI sub-group of *transport & communication* high at 18.4 percent.

Another fact that also resulted in high *non-food* inflation during January 2006 was acceleration recorded in YoY inflation in all the sub-groups except *transport & communication*, *HRI* and *household, furniture & equipments* (see **Figure 2.6**).



2.3 Major Contributions

Due to rise in *food* and *fuel* inflation, their contribution also increased in the overall CPI inflation during January 2006. The rising share of these sub-groups has thus squeezed the share of HRI inflation which is decelerating persistently; however due to its heavy weight of 23.4 percent in the CPI basket, it still has the second highest contribution after that of the food group (see **Figure 2.7**).



The top ten items contributing to almost 59 percent of the overall inflation, recorded for the economy as a whole, during January 2006, consist of five each from the CPI *food* and *non-food* group. Within *food* group, milk and sugar combined contributed 14.1 percent of the overall CPI inflation (see **Table 2.1**).

Table 2.1: Top Ten CPI Items (Ranked by Weighted Contribution-Percent)

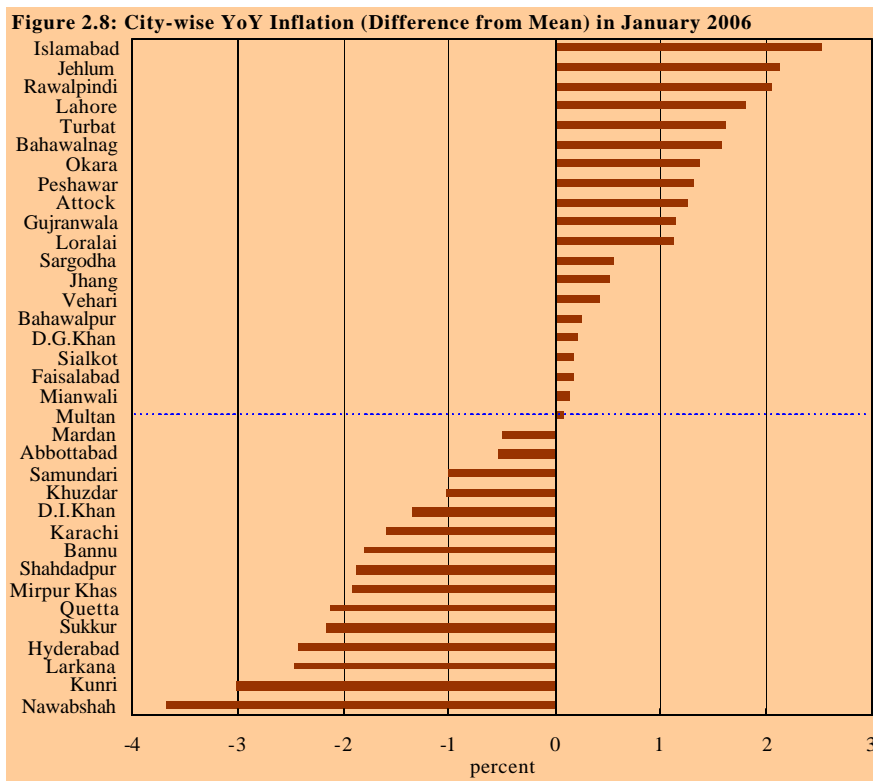
S.#	Items	Unit	Weights	Price*			Weighted contribution	
				Jan-06	Jan-04	Jan-05		
1	House Rent Index	Index	23.43	133.0	4.5	12.0	9.9	26.3
2	Milk Fresh	LTR	6.53	22.6	3.5	10.8	12.8	9.5
3	Petrol Super	LTR	1.73	56.5	7.1	20.0	32.7	6.4
4	Sugar Refined	KG	1.95	29.2	-5.6	29.4	20.7	4.6
5	Gas Chrg10.12 - 13.5 mmbtu	MMBTU	0.93	352.8	-69.7	6.7	32.3	3.4
6	Peas	KG	0.15	40.2	-	-6.2	167.0	2.8
7	Beef With Bone Av.Qlty.	KG	1.61	101.8	21.3	26.3	13.9	2.5
8	Firewood Whole	40 KG	0.48	143.2	15.5	15.5	27.0	1.5
9	Bus Fare Outside City	P/KM	0.48	0.5	0.0	8.8	21.6	1.2
10	Chillies Green	KG	0.14	33.3	105.8	-47.9	71.1	1.2
Total			37.4					59.3

*Prices are in Pak. Rupees, except for HRI which is an index.

2.4 Regional Incidence of Inflation

Out of 35 cities in the sample, 20 cities recorded an inflation rate of above the average rate prevailing for the whole economy. Islamabad again recorded the highest inflation as it did in the two months preceding January 2006, while Nawabshah fell to the lowest extreme among the sample of 35 cities.

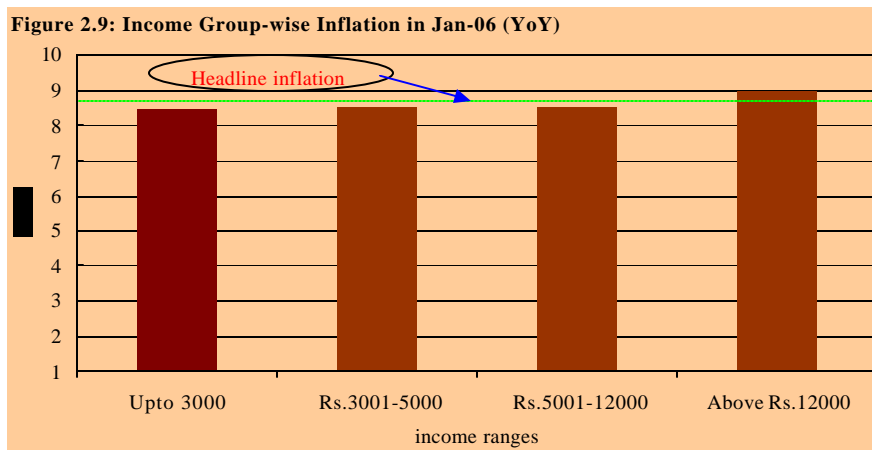
Karachi and Quetta were the two provincial capitals among the remaining 15 cities for which the year on year inflation was recorded lower than the overall inflation rate (see **Figure 2.8**).



2.5 Socio-economic Incidence of Inflation

All the income groups recorded a rise in YoY inflation during January 2006. The highest income group witnessed an inflation rate of above the average inflation recorded for the economy as a whole during January 2006. As generally, the share of food in total expenditure declines with the rise of income, the relatively high

inflation in the highest income group indicates that the inflationary pressures, though strong in the *food* group, are more pronounced in the *non-food* group of CPI (see **Figure 2.9**).



2.6 Item -wise Distribution of Price Changes

Group-wise distribution of price changes are tabulated in **Table 2.2** and **2.3**, while **Table 2.4** gives item-wise distribution of changes in prices.

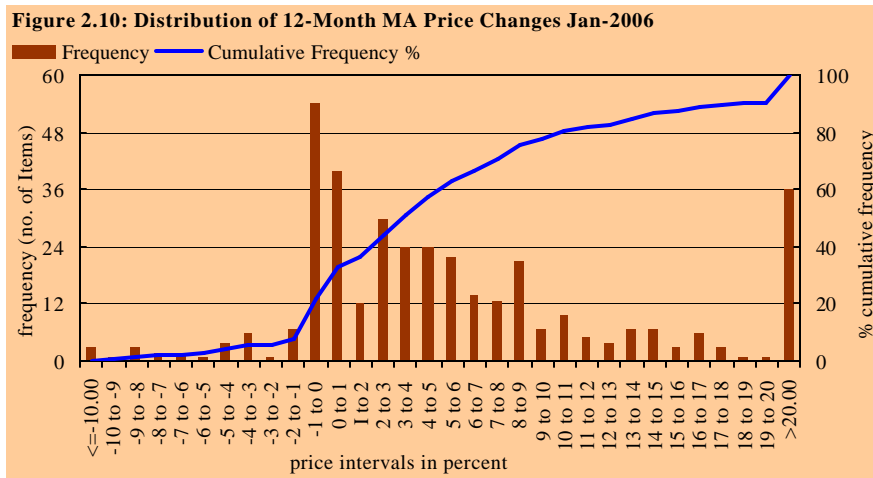
Table 2.2: Distribution of Price Changes of CPI Basket. January 2006 YoY.

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	8.2	109	30	29	22	28
Food, Bev.	40.34	8.2	109	30	29	22	28
II. Non-Food Group	59.66	9.2	250	84	84	48	34
Apparel, Text.	6.1	3.9	42	5	25	10	2
House Rent	23.43	9.9	1	0	0	1	0
Fuel & Lighting	7.29	12.3	15	8	1	1	5
H/h Furn. & Equip.	3.29	4.4	44	3	25	15	1
Transport & Com.	7.32	18.4	43	13	3	7	20
Recreation, Enter.	0.83	-0.3	16	12	2	2	0
Education	3.45	6.7	24	6	8	7	3
Cleaning & Laundry	5.88	2.8	36	15	13	5	3
Medicines	2.07	2.4	29	22	7	0	0
Overall	100	8.8	359	114	113	70	62

Note: Prices of 15 seasonal items were not reported during January.

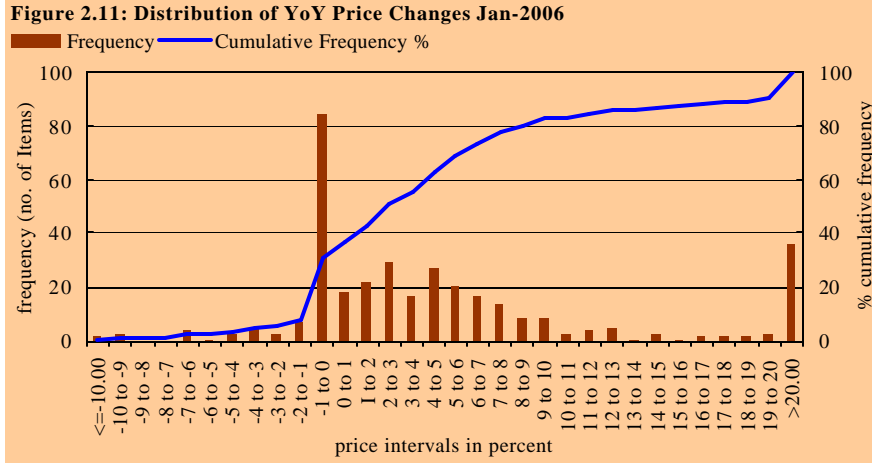
Table 2.3: Distribution of Price Changes of CPI Basket, January 2006 12-month moving average.

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	9.7	124	23	24	22	55
Food, Bev.	40.34	9.7	124	23	24	22	55
II. Non-Food Group	59.66	8.7	250	67	98	57	28
Apparel, Text.	6.1	4.3	42	3	19	19	1
House Rent	23.43	11.4	1	0	0	0	1
Fuel & Lighting	7.29	6.6	15	8	1	1	5
H/h Furn. & Equip.	3.29	5.5	44	3	24	15	2
Transport & Com.	7.32	15.8	43	12	6	10	15
Recreation, Enter.	0.83	-0.2	16	11	5	0	0
Education	3.45	5.0	24	6	12	6	0
Cleaning & Laundry	5.88	3.0	36	6	21	6	3
Medicines	2.07	1.4	29	18	10	0	1
Overall	100	9.1	374	90	122	79	83

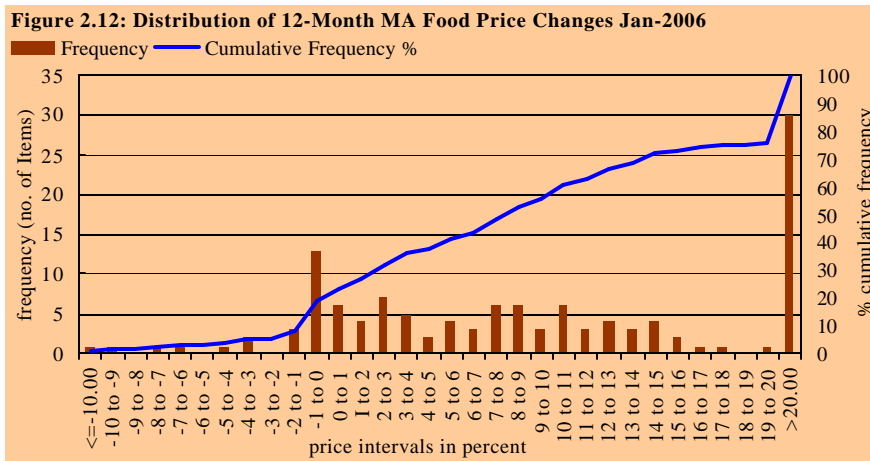


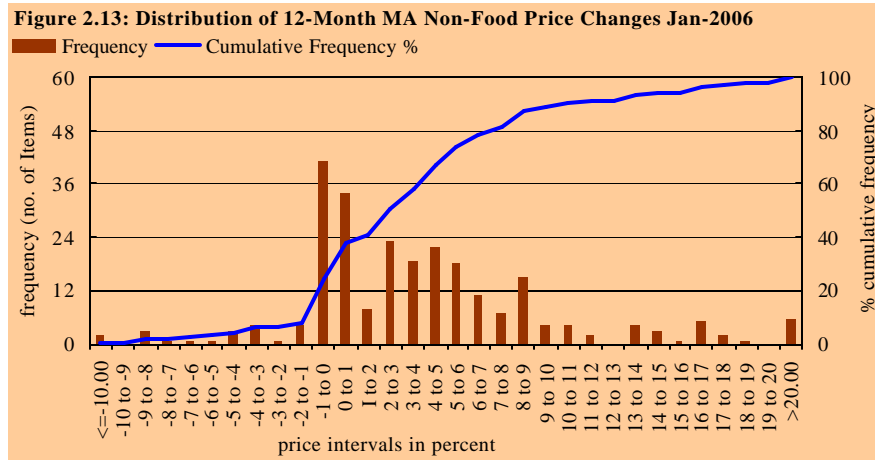
The following graphs present the distribution of price changes in all CPI basket items on both YoY and annualized basis.

Table 2.4: Selected CPI Items Classified by Range of Price Changes (YoY) (January 2006)				
Groups	Decrease or no change	Subdued increase (up to 5%)	Moderate increase (5 to 10%)	Increase of over 10%
Food Group	Vegetable Ghee (Ls) Wheat Flour Fine/Sup. Wheat Flour Bag Pulse Gram	Tea Loose Kenya Av.Qlty Tomatoes Rice Basmati 385/386 Rice Irri-6 (Sindh/Punjab) Kinnu	Curd Mutton Av.Qlty. Bread Tandoori Cigarettes K2 10's Cooked Beef (Av. Hotel)	Potatoes Milk Fresh (Unboiled) Sugar refined Onion Pulse Mash (Washed)
Apparel & Textile	Ladies Sponge Chappal Bata Child Shoe Power Lite Bata Nylon Jogger 27 Size 2-5	Tailoring Aw-Suit (M) Long Cloth Av.Qlty. Lawn Av.Qlty.	Tailoring coat -pant suit Linen Av.Qlty Tailoring Suit Female	Gents Shoe, Service
House Rent Index			HRI	
Fuel & Lighting	Bulb Philips 100-Wat Elect.Charges	Gas Cylinder Stand. Size		Gas Charges Firewood whole Kerosene Oil
H/hold Furniture	Electric Juicer Tea -Set S.Steel	Sewing Machine(Singer) Hand Stitching Needle M.Size Water -Set S.Steel Sup.Qlty	Marriage Hall Household Servant Female Airconditioner Pel	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) Bicycle With Tyres & Tubes Train Fare A/C Slp. 1-100km.	Train A/C Slp.101 - 500km Train Fare A/C Slp > 500km. Cng Filling Charges	Auto Rickshaw Fares Bus Fare Min(Within City) Petrol Super High Speed Diesel
Recreation	Video Game Sega V.C.P. Daily "Dawn"	Dry Cell 1.5 Volt(Local) Tape Recorder	Cinema High Class	
Education	Com. C.D. Govt. Coll .Fee Ist. Year Govt. Coll. Fee 4th. Year	Ball Pen (Local) Maths Book Class V	English Book IX Or X School Fee Secondary Eng.Md. School Fee Primary Eng.Md.	English Book Class V1 Urdu Book Class IX/X
Cleaning & Laundry	Toilet Paper Roll Toothpaste 70 Grm	Blade 7 o'clock Disposable Razor Gillet Lipstick S.Miss/Medora Artificial jewelry	Washing (Kamiz-Shalwar) Haircut Charges For Men Silver Tezabi 24 Ct	Washing Ch. Shirt Gold Tezabi 24 Ct
Medicare	Glaxos-D (450 Grms) Entox Tab. Brufen Tabs 200Mg.	Jouhar Joshanda Septran Tablets Doctor (Mbbs) Clinic Fee		



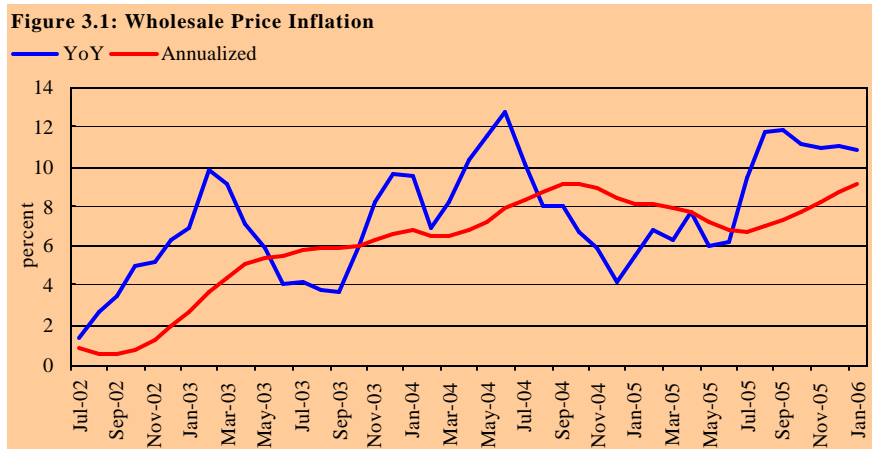
Out of the whole basket, the following graphs reflect the price changes in the CPI food group items.





3. Wholesale Price Inflation

Wholesale price inflation fell slightly in January 2006 from its previous level in December, although still in double-digits and significantly higher compared to last year. After a slight increase in December, the YoY increase in wholesale price index (WPI) fell to 10.8 percent in January 2006; however, despite this deceleration, it is still about twice the increase of 5.6 percent in the corresponding month of last year, and it could also not suppress the 12-month moving average inflation, which has been increasing since July 2005 (see **Figure 3.1**).

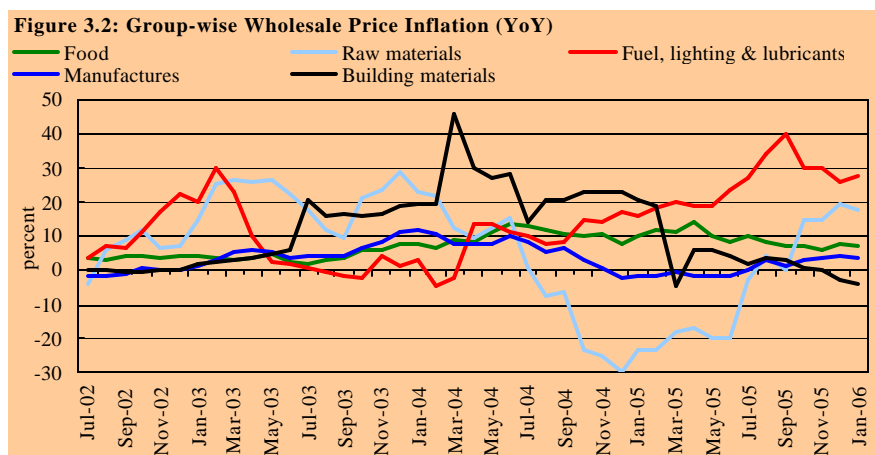


The period to period wholesale price inflation also remained significantly higher compared to last year. WPI grew by 11.0 percent during Jul-Jan FY06 compared to 6.9 percent increase recorded during the corresponding period of last year. During FY06, wholesale price inflation continued to be driven by higher energy prices and was lately joined by a few raw materials as well (see **Table 3.1**).

WPI and its components	July-June			July-January		
	FY03	FY04	FY05	FY04	FY05	FY06
Food	3.5	7.0	10.7	5.1	10.4	7.8
Raw materials	14.4	17.0	-18.1	19.3	-17.0	9.1
Fuel, lighting & lubricants	12.5	2.8	15.8	0.7	12.6	30.5
Manufactures	1.7	7.9	1.1	7.2	2.8	2.7
Building materials	1.7	22.9	13.7	17.6	20.5	0.2
Overall index	5.6	7.9	6.8	6.4	6.9	11.0
<i>Overall excl. food</i>	<i>7.3</i>	<i>8.7</i>	<i>3.6</i>	<i>7.6</i>	<i>4.0</i>	<i>13.7</i>
<i>Overall excl. fuel</i>	<i>3.9</i>	<i>9.2</i>	<i>4.5</i>	<i>7.9</i>	<i>5.5</i>	<i>5.9</i>
<i>Overall excl. food and fuel</i>	<i>4.3</i>	<i>11.7</i>	<i>-1.8</i>	<i>11.1</i>	<i>0.3</i>	<i>3.7</i>

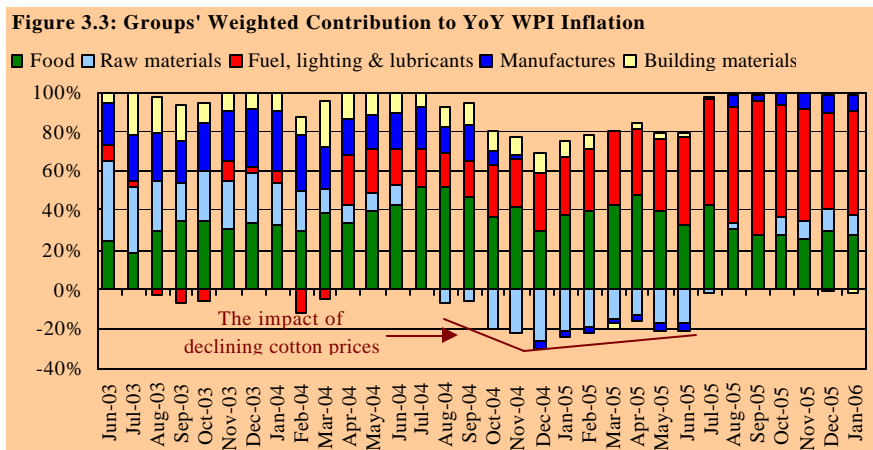
Source: Based on data from FBS

The annual rate of increase in *fuel, lighting and lubricants* index accelerated in January 2006, mainly due to upward revision in gas charges as prices of POL products remained unchanged despite renewed increase in crude oil prices. *Food* inflation resumed the decelerating trend after a slight increase in the last month. The rate of increase in *raw material* index, though, decelerated slightly compared

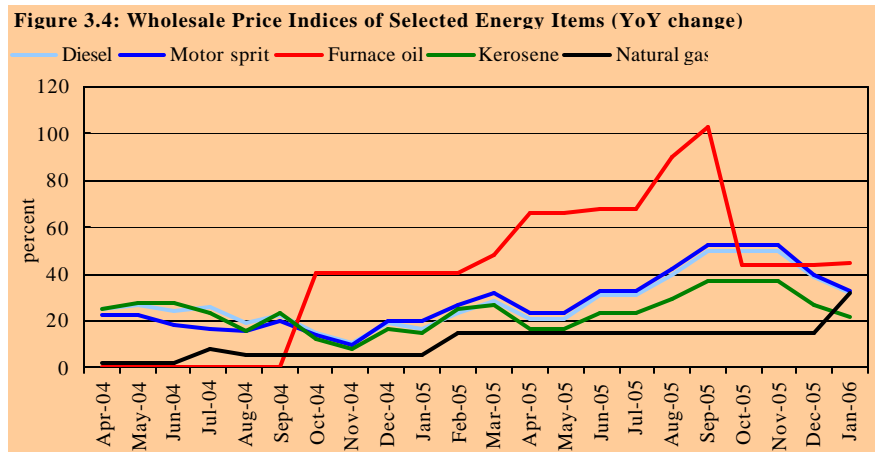


to last month, but still remained significantly higher compared to the corresponding month of last year. The inflation by *manufactures* group also decelerated in January 2006. The *building material* index witnessed deflation for the second month in row (see **Figure 3.2**).

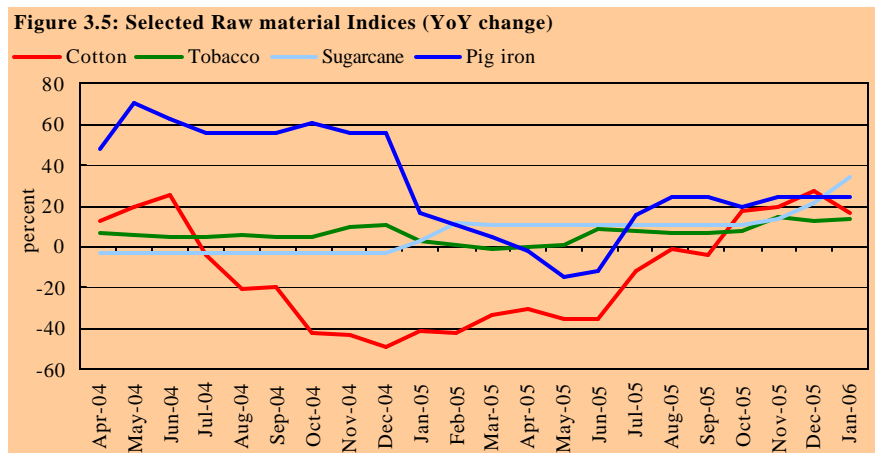
More than half of the YoY wholesale price inflation in January was contributed by higher energy prices: the relative weighted share of *fuel, lighting and lubricants* rose to 55.3 percent showing an increase of approximately 4 percentage points compared to last month. The relative weighted shares of the remaining four groups declined from their previous levels in December 2005. Compared to last year, however, the contribution of *fuel, lighting and lubricants* fell by approximately 2 percentage points as the relative weighted shares of *raw material* and *manufactures* groups increased from last year's negative contributions due to rising prices of some of the important raw materials like cotton, sugarcane, tobacco, pig iron, etc. (see **Figure 3.3**).



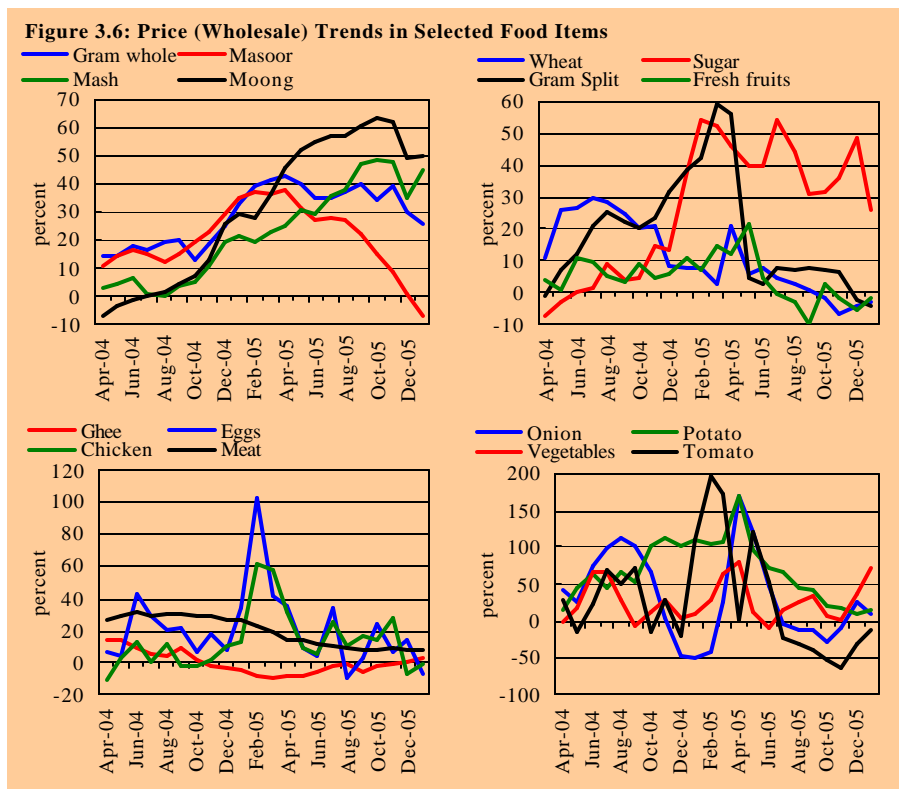
The annual rate of change in *fuel, lighting and lubricants* index increased slightly to 27.4 percent in January 2006 from 26.1 percent in December 2005. This increase is attributable to upward revision in gas prices by 15.5 percent (with effect from January 2006). In addition, there was 20.8 percent month-on-month increase in coke prices as production by Pakistan Steel faltered due to technical faults in its two out of four furnaces. The rate of increase in the prices of POL products further decreased as the government kept domestic prices unchanged in January as well, despite increase in crude oil prices (see **Figure 3.4**).



Inflation in *raw material* index decelerated in January to 17.4 percent from 19.1 percent in December 2005, however, it is still very high in a sharp contrast to a decline of 23.5 percent in the corresponding month of last year. Rising prices of cotton (& cotton seed) and sugarcane, on account of decline in the production of both of these crops, continued to push the *raw material* index up. Although the rate of increase in cotton prices has slowed down in January, the sugarcane prices showed a 37.4 percent YoY increase. Moreover, the annual rate of increase in tobacco and pig iron prices showed accelerating trend for the last few months (see **Figure 3.5**).

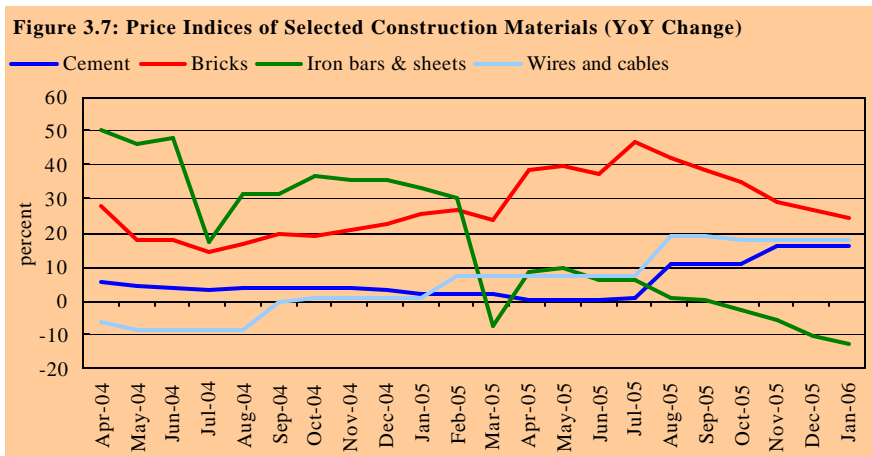


The annual increase in WPI *food* index decelerated to 7.2 percent in January 2006 after rising to 7.8 percent in December as decline in wholesale prices of wheat, gram (split), masoor, tomato, chicken and eggs, etc., more than offset the impact of strong increase in the prices of sugar & gur, vegetables, mash, moong and potato (see **Figure 3.6**). However, sugar price is expected to remain strong and a major upward risk to food inflation during the coming months due to: (1) increase in the cost of production on account of higher sugarcane prices that more than doubled compared to last year and; (2) rising prices in international market.



The inflation in *manufactures* index also decelerated to 3.4 percent in January 2006 from 4.1 percent increase in last month, though it still remained significantly higher compared to a decline of 1.5 percent in the same month of last year. This slight deceleration was mainly due to a decrease in the annual rate of change in the prices of cotton & cotton products, leather, and tyres & tubes. The annual rate of increase in fertilizer prices, however, continued to show accelerating trend.

With consistently falling iron bars & sheets sub-index, *building material* index witnessed a deflation of 4.2 percent in January 2006 compared to a 20.1 percent increase in the corresponding month of last year. Iron bars & sheets sub-index declined by 12.7 percent in January 2006 compared to an increase of 33.1 percent in the last year. Moreover, annual rate of increase in the prices of bricks also continued to show decelerating trend. However, cement prices remained high despite the action taken by the monopoly control authority against manufacturers' cartel (see **Figure 3.7**).



Commodity group or item-wise distribution of YoY change in WPI items is shown in **Figure 3.8** and **Table 3.2**.

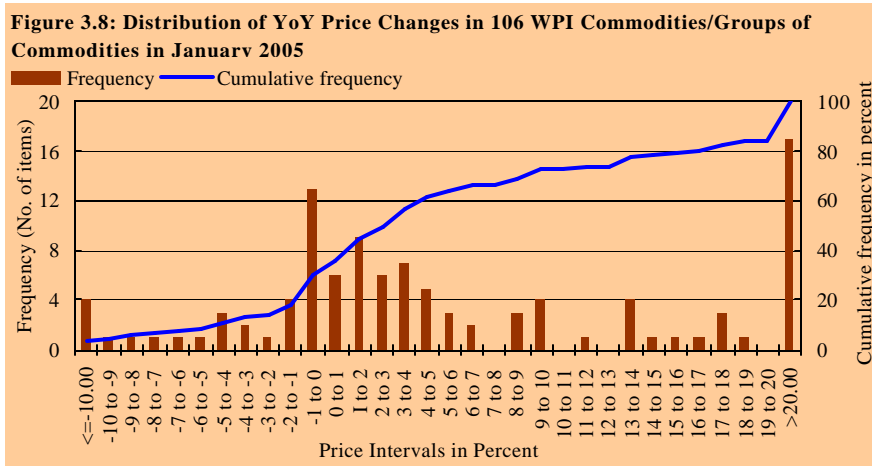
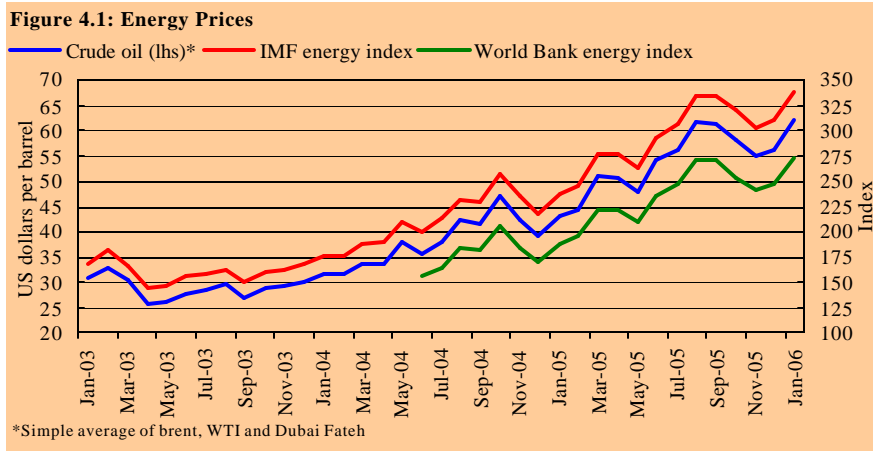


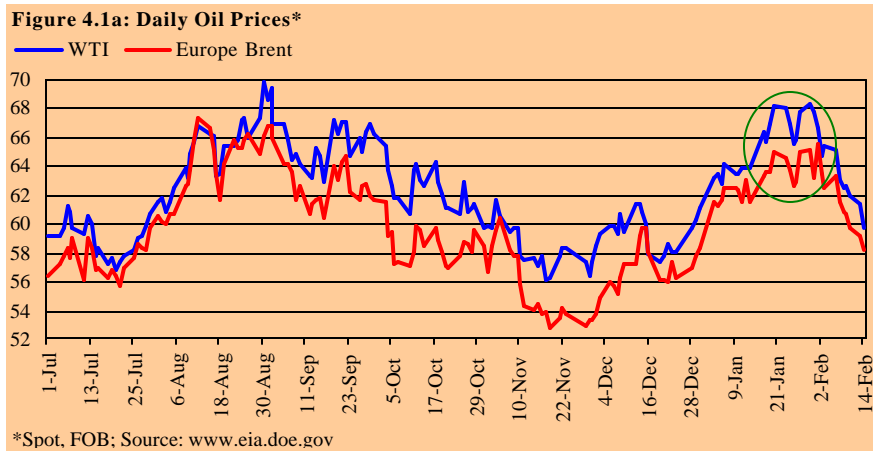
Table 3.2: Distribution of Commodity-wise WPI Inflation (YoY) during January 2006				
Groups	Decrease or no change	Subdued increase (upto 5%)	Moderate increase (5 to 10%)	More than 10% increase
Food	Tomatoes Masoor Eggs Gram Split Cooking Oil Wheat Fresh Fruits Sugar Confectionary Chicken Tea Besan	Vegetables Prepared/Preserved Mustard & Rapeseed Oil Rice Wheat Flour Maida Cotton Seed Oil Fruit Prepared/Preserved Spices Condiments Beverages Milk Food Vegetable Ghee Fish Maize Mineral Water	Bajra Dry Fruits Fresh Milk Meat Onions Powdered Milk Oil Cakes	Salt Potatoes Beans Gram Whole Sugar Refined Gur Jowar Mash Moong Vegetables
Raw material	Skins Wool	Hides Mustard/Rapeseeds	-	Tobacco Cotton Seeds Cotton Pig Iron Sugar Cane
Fuel & lighting	Coke Electricity Ind. Supply Tariff-B Elec. Agriculture Tariff-D	Mobil Oil		Coal Kerosine Oil Fire Wood Diesel Oil Natural Gas Motor Spirit Furnace Oil
Manufactures	Nylon Yarn Chemicals Blended Yarn Dying Materials Other Electrical Goods Soaps Utensils Glass Products Plastic Products Silk & Rayon Textiles Matches	Drugs & Medicines Hosiery Woollen Textiles Transports Cotton Textiles Ready Made Garments Mattresses Pesticides & Insecticides Foot Wear Cotton Yarn Machinery Sole Leather Paper Audio-Visual Instruments	Cosmetics Jute Manufactures Cigarettes	Fertilizers Chrome Leather Tubes Tyres
Building material	Iron Bars & Sheets Paints & Varnishes Tiles Cement Blocks Sanitary Wares	Pipe Fittings Timber	Glass Sheets	Cement Wires and Cables Bricks

4. Key Commodity Prices

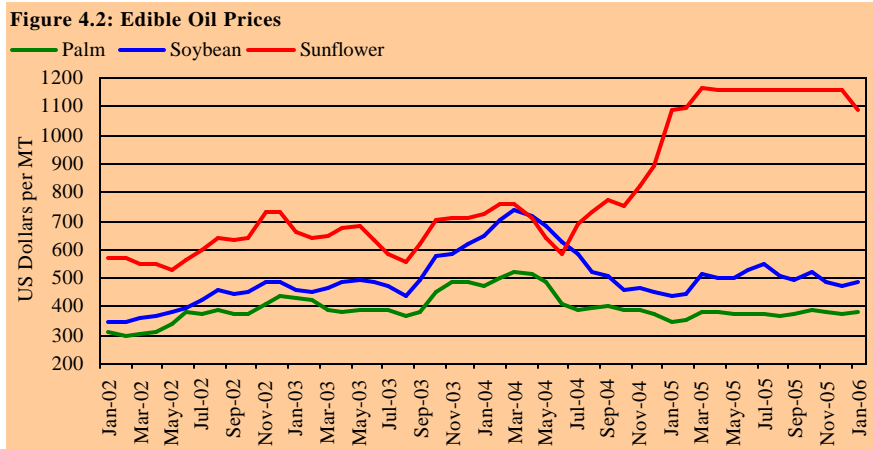
Oil prices hardened further with a sharp increase in January 2006 compared to a moderate increase in December 2005. The average (of WTI, Brent and Dubai Fateh) crude oil price rose by 10.4 percent to US\$ 62.4 per barrel in January this year (see **Figure 4.1**). The Brent (Europe) crude oil price hit the peak of US\$65.6



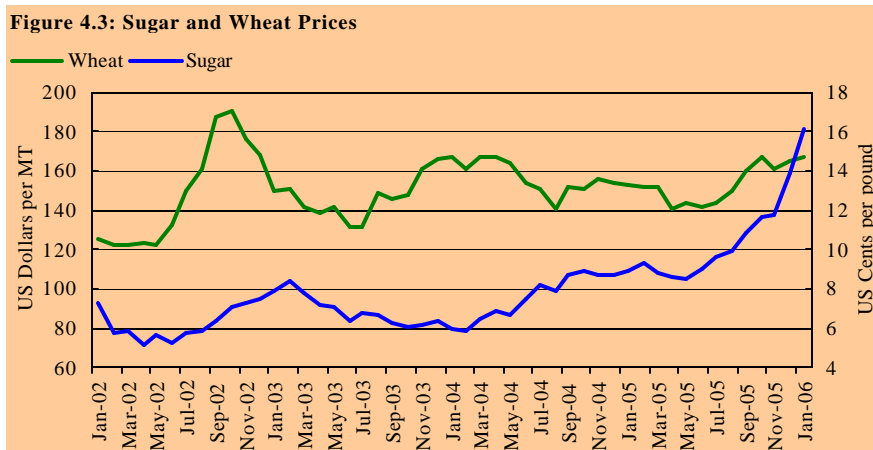
per barrel on 30 January (see **Figure 4.1a**). The recent surge in crude oil prices during January and early February is attributable largely to supply fears due to a possibility of imposing economic sanctions over Iran after referral to the UN Security Council and militant groups in Nigeria threatened to strike oil production facilities. Although prices fell back below US\$ 60 per barrel, they are likely to remain volatile and uncertain due to increased sensitivity to such developments.



The edible oil prices showed a mixed trend. While prices of palm and soybean were slightly up, sunflower prices declined in January 2006 after staying at a very high level of US\$ 1,152 per metric ton since March 2005 (see **Figure 4.2**).

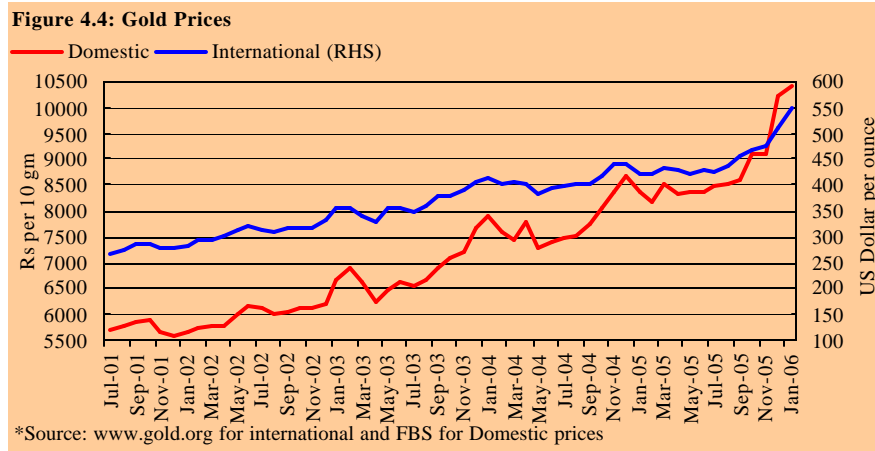


The prices of both wheat and sugar maintained the rising trend with sugar prices rising much sharply in the last two months (see **Figure 4.3**). Sugar prices have been on the rising trend since July 2005, mainly due to expected lower production in Brazil, the major sugar producer in the world. The Brazilian industry, in fact, started to increase the production of ethanol—bio fuel increasingly being used as an alternative to fossil fuel—as crude oil prices remained very high. Moreover, hedge funds are also reported to have invested heavily in sugar. Later, producers

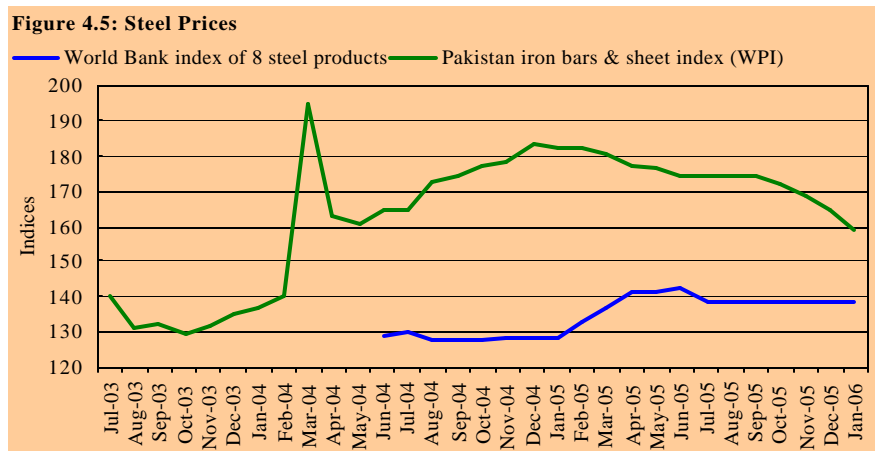


in other countries restricted releasing the stocks to maximize the benefit.

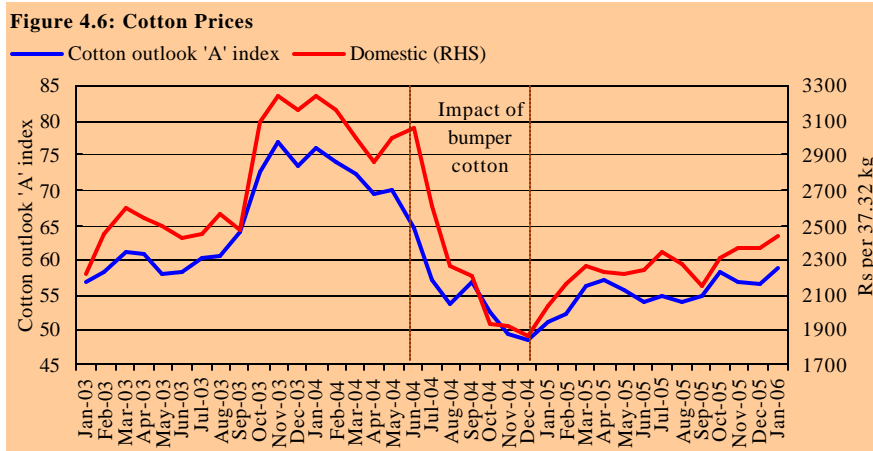
Gold prices continued to rise and touched US\$ 550 per ounce in January 2006— all time high—as demand from investors remained strong to hedge against expected acceleration in inflation due to rising oil prices (see **Figure 4.4**).



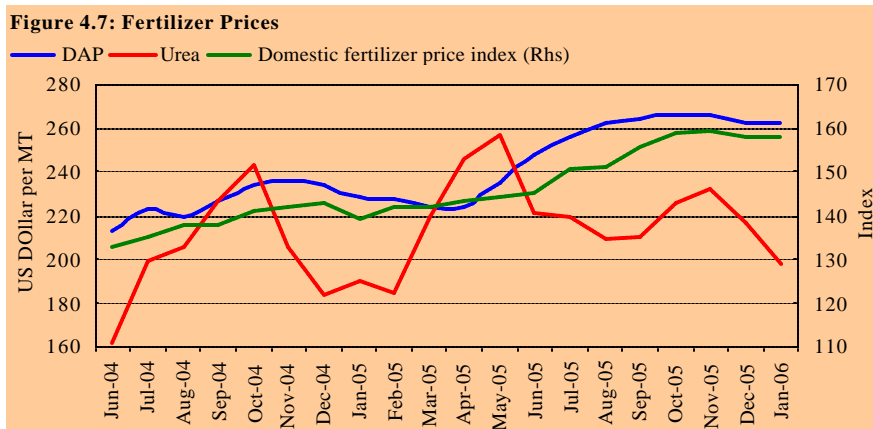
Steel prices continued to show great deal of stability in the international market. The World Bank Index of 8 steel products remained at 138.6 level since July 2005 (see **Figure 4.5**)



As expected, cotton prices also continued to rise. Domestic prices gained further as the latest crop estimates confirmed 13.0 percent decline in cotton production for FY06. Cotton prices in the international market also rose as demand, especially from China, increased (see **Figure 4.6**). Moreover, the rising prices of man-made fibre on account of higher oil prices also resulted in a higher demand for cotton.



The domestic fertilizer prices are yet to respond to the falling trend in the international market. While urea prices have come down significantly during the last few months, DAP prices also showed the declining trend but at a slower rate (see **Figure 4.7**).



5. Sensitive Price Indicator (SPI)

Although weekly SPI exhibited a rise in YoY inflation, with slight fluctuations, it continued the decelerating trend on average, which started from the last quarter of FY05. SPI inflation (weekly YoY) surged during the month of January 2006, due to inflation in prices of food and energy items (see **Figure 5.1**).

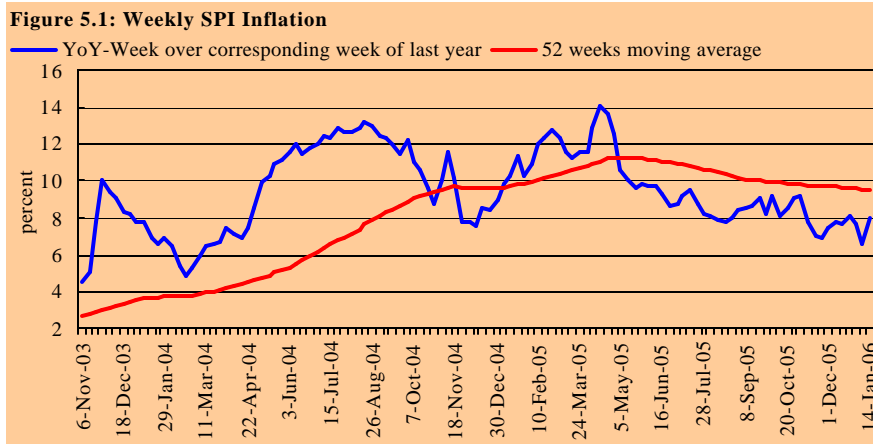
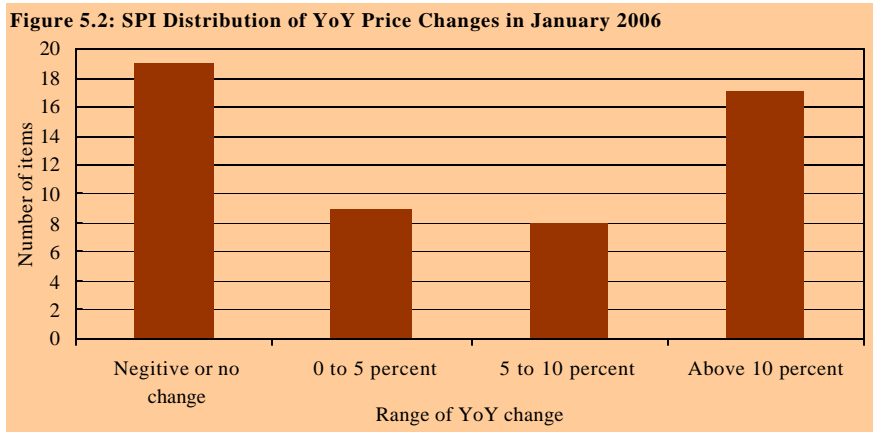


Figure 5.2 explains the distribution of items in the SPI basket falling under different ranges of price changes during January 2006. Items in the range of double-digit inflation mostly include food items alongwith fuels (petrol, diesel and kerosene oil, gas and firewood).



6. Wage Inflation

Wage inflation decelerated slightly during January 2006 reflecting the impact of high base as wages started to rise sharply following acceleration in food inflation from the start of FY05. The average wage of the five construction workers (mason, carpenter, plumber, electrician and laborer) grew at a lower rate of 15.5 percent in January 2006 from 16 percent in last month and 10.4 percent increase recorded during the corresponding month of last year (see **Figure 6.1**). This slight deceleration was largely due to decrease in the wages of skilled workers as the wages of unskilled workers edged up (see **Figure 6.2**).

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

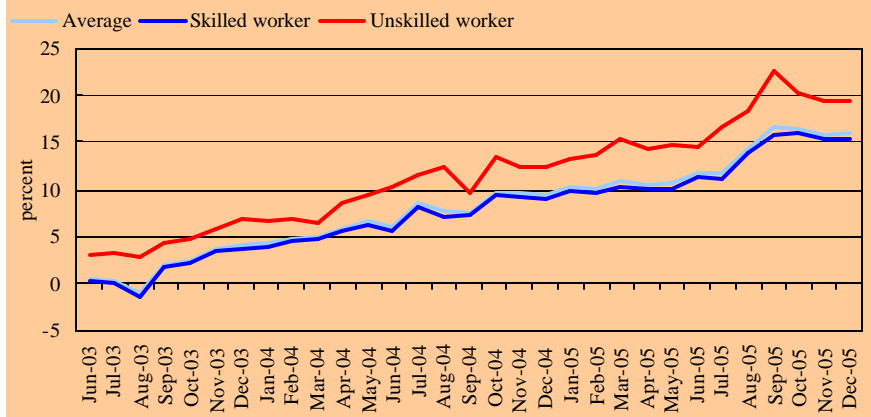


Figure 6.2: Increase in Skilled Labor Wages (YoY percent change in average wage in 35 cities)

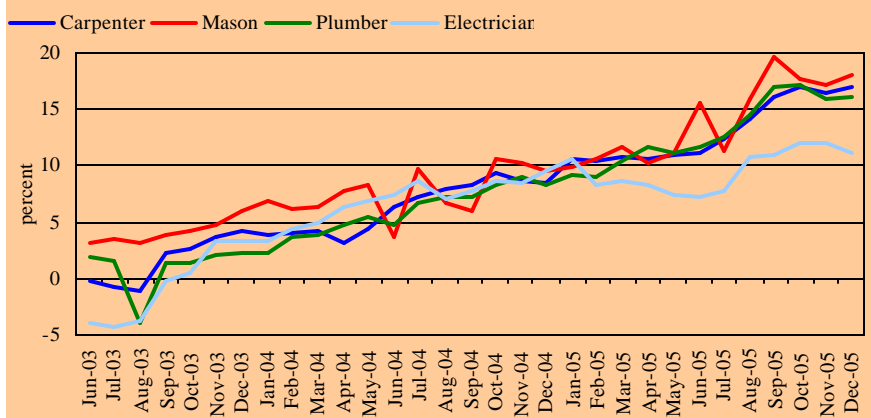


Table 6.1 compares wage inflation and food inflation by income group-wise.

Table 6.2: Wage Inflation and Income Group-wise Inflation								
	Jul-05	Aug -05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	
Wage Inflation	11.6	14.4	16.7	16.5	15.9	16.0	15.5	
Carpenter	12.3	14.1	16.1	16.9	16.3	16.9	14.7	
Mason	11.3	15.8	19.7	17.6	17.2	18.0	18.2	
Laborer	16.7	18.3	22.6	20.1	19.5	19.5	19.6	
Plumber	12.6	14.6	16.9	17.2	15.8	16.0	16.4	
Electrician	7.8	10.8	10.8	12.1	12.0	11.0	10.4	
Income Group-wise Inflation								
Up to Rs. 3000	General	8.7	8.2	7.9	7.4	7.0	8.4	8.4
	Food	9.5	8.4	7.8	6.3	5.6	8.5	8.5
	Non-food	8.1	8.0	8.0	8.2	8.0	8.3	8.4
Rs. 3001 - 5000	General	8.6	8.0	7.8	7.2	6.8	8.2	8.5
	Food	9.3	8.0	7.4	5.9	5.2	8.2	8.3
	Non-food	8.1	8.0	8.0	8.2	7.9	8.2	8.6
Rs. 5000 - 12000	General	8.7	8.0	7.9	7.6	7.2	8.2	8.5
	Food	9.5	7.8	7.5	6.2	5.6	8.1	8.2
	Non-food	8.2	8.1	8.3	8.6	8.3	8.2	8.8
Above Rs. 12000	General	9.3	8.8	9.3	9.2	8.9	8.9	9.0
	Food	10.2	7.8	7.6	6.9	6.5	8.1	8.1
	Non-food	8.7	9.6	10.4	10.8	10.6	9.5	9.6
All income groups	General	9.0	8.4	8.5	8.3	7.9	8.5	8.8
	Food	9.7	7.8	7.5	6.4	5.8	8.1	8.2
	Non-food	8.5	8.8	9.3	9.6	9.4	8.8	9.2

Source: Federal Bureau of Statistics

City-wise variations in average daily wages from country average are shown in **Figure 6.3**. Average daily wages by type of construction worker are given in **Table 6.2**

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

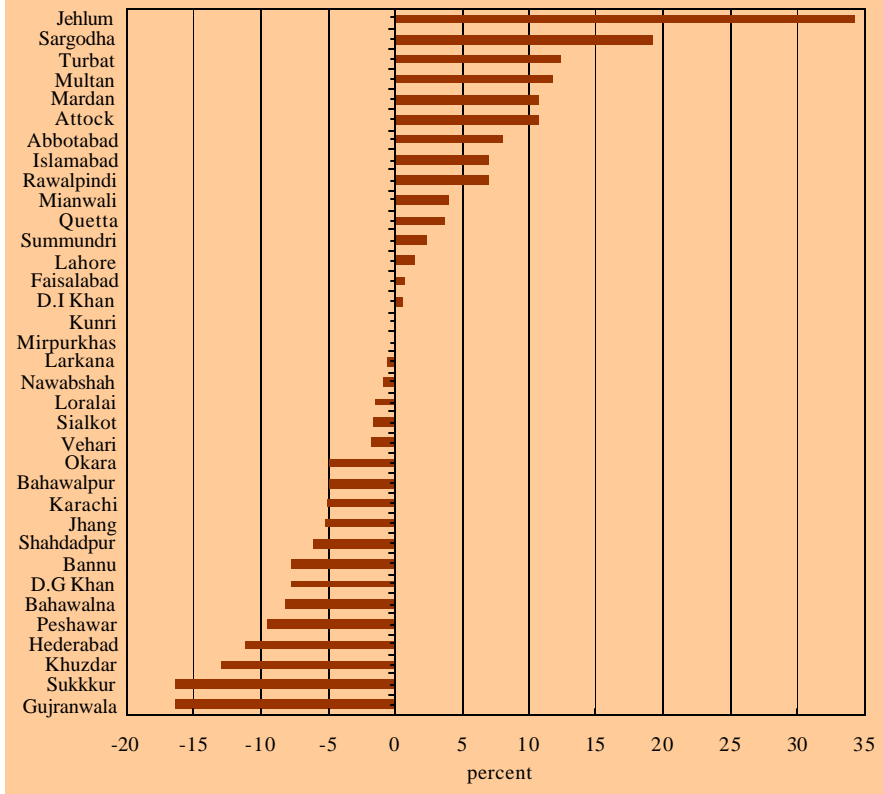


Table 6.2: Daily Labor Wages (Rs. per day)--Average in 35 Cities						
	Carpenter	Mason	Laborer	Plumber	Electrician	Average
Annual Averages						
FY03	218.0	225.4	107.7	219.8	216.4	197.4
FY04	224.5	237.4	114.5	225.0	221.9	204.6
FY06	245.8	261.4	129.5	245.5	240.3	224.5
Monthly averages						
Jan-05	248.5	263.3	130.4	245.8	242.8	226.1
Feb-05	248.2	265.6	130.9	245.7	242.8	226.6
Mar-05	250.5	269.2	132.5	250.0	244.3	229.3
Apr-05	253.3	269.8	134.4	255.4	247.7	232.1
May-05	256.0	273.1	136.5	256.8	247.7	234.0
Jun-05	258.1	275.2	138.5	258.6	248.8	235.8
Jul-05	264.2	280.9	142.5	264.6	252.1	240.8
Aug-05	269.9	284.1	145.8	270.2	256.0	245.2
Sep-05	275.8	293.6	149.3	276.6	257.7	250.6
Oct-05	280.8	302.1	152.2	280.4	263.8	255.9
Nov-05	281.5	304.2	152.9	281.3	265.5	257.1
Dec-05	283.8	308.6	154.7	282.5	266.8	259.3
Jan-06	284.9	311.2	156.0	286.1	267.9	261.2

Source: Federal Bureau of Statistics

Annexes:

S.No	Items	Unit	Price in	percentage change in Jan -06 over		
			Rupees-Jan-2006	Jun-05	Jan-05	Dec-05
1	Wheat	Kg.	11.9	4.8	-1.7	1.3
2	Wheat flour a.qlt.	Kg.	13.2	1.3	-1.8	0.3
3	Rice basmati.broken	Kg.	20.2	-1.8	0.0	0.5
4	Rice irri -6	Kg.	16.0	-1.1	4.4	0.1
5	Masoor pulse washed	Kg.	44.6	-3.1	-1.5	-1.9
6	Moong pulse washed	Kg.	43.3	11.5	37.8	3.2
7	Mash pulse washed	Kg.	48.3	16.8	22.3	2.7
8	Gram pulse washed	Kg.	28.4	2.2	-5.8	-1.1
9	Beef	Kg.	106.3	5.1	12.1	1.2
10	Mutton	Kg.	199.3	3.6	7.1	0.6
11	Egg hen (farm)	Doz.	44.1	37.3	-10.4	-14.4
12	Bread plain m.s.	Each	14.3	3.4	4.5	0.0
13	Sugar	Kg.	29.5	11.5	21.1	3.6
14	Gur	Kg.	32.7	7.3	40.5	1.3
15	Milk fresh	Litr	23.6	2.3	12.2	0.0
16	Milk powder nido	400g	107.5	1.7	4.3	0.0
17	Curd	Kg.	28.1	1.6	10.3	0.1
18	Veg.ghee tin	2.5k	203.6	-0.2	-0.4	0.0
19	Veg.ghee loose	Kg.	59.0	0.3	-0.2	0.3
20	Mustard oil	Kg.	66.8	1.8	1.2	0.0
21	Cooking oil	2.5l	204.3	-0.3	-0.3	-0.1
22	Potatoes	Kg.	13.4	-24.9	5.0	-16.5
23	Onions	Kg.	11.3	-3.8	17.1	3.3
24	Tomatoes	Kg.	26.2	40.2	-24.5	53.6
25	Bananas	Doz.	24.8	-23.6	7.9	3.5
26	Salt powdered	Kg.	3.8	4.1	7.9	0.0
27	Red chillies(powd)	Kg.	69.0	-7.1	-9.4	-1.3
28	Garlic	Kg.	61.5	15.1	34.7	8.9
29	Tea packet	250g	61.9	-0.1	-0.2	0.0
30	Tea (prepared)	Cup	5.7	5.7	13.2	1.4
31	Cooked beef plate	Each	25.8	2.4	5.5	0.2
32	Cooked dal plate	Each	15.3	2.0	3.7	0.0

Continued ---

S.No	Items	Unit	Price as in Jan-2006	percentage change in Jan-06 over		
				Jun-05	Jan-05	Dec-05
33	Cigarettes k-2	10's	7.1	-0.7	3.1	-1.0
34	Coarse latha	Mtr.	34.5	3.3	5.3	0.0
35	Lawn (avg.+s.qlty)	Mtr.	75.2	-1.0	5.0	-0.4
36	Voil printed	Mtr.	36.3	-1.5	1.5	-0.5
37	Shirting	Mtr.	62.2	1.7	3.0	0.0
38	Sandal gents bata	Pair	399.0	-4.8	-20.0	0.0
39	Sandal 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	24.1	0.0
42	Firewood	40kg	172.5	18.5	25.0	3.5
43	Elec. Bulb 60 -wats	Each	11.4	-1.6	-2.1	0.0
44	Match box	Each	0.6	5.1	21.6	0.0
45	Washing soap	Cake	7.8	3.0	4.7	1.4
46	Bath soap lifebuoy	Cake	13.9	-0.1	-0.4	0.0
47	Chicken (farm)	Kg.	63.3	-12.8	-6.3	-10.2
48	Gas chrg. All clb. Comb	D.mmbt	214.5	16.8	25.3	11.1
49	L.p.g ,(cylinder 11kg.)	Each	546.7	60.8	8.8	14.3
50	Elec.chrg.all slabs com	Bd. Unit	4.7	0.0	0.0	0.0
51	Petrol	Litr	56.4	23.5	39.2	0.0
52	Diesel	Litr	37.3	27.8	41.6	0.0
53	Telephone local	Call	2.3	0.0	0.0	0.0
Max:				60.8	41.6	53.6
Median				2.0	4.5	0.0
Min:				-24.9	-24.5	-16.5

Source: Based on data from Federal Bureau of Statistics

Table A2: Top Ten CPI Items (Ranked by Weighted Contribution)								
percent								
S.#	Items	Unit	weights	Price		Point to Point Change		wtd contr.
				Jan-06	Jan-04	Jan-05	Jan-06	
1	House Rent Index	Index	23.43	133.0	4.5	12.0	9.9	26.3
2	Milk Fresh (Unboiled)	LTR	6.53	22.6	3.5	10.8	12.8	9.5
3	Petrol Super	LTR	1.73	56.5	7.1	20.0	32.7	6.4
4	Sugar Refined	KG	1.95	29.2	-5.6	29.4	20.7	4.6
5	Gas Chrg10.1157 - 13.4876mmbtu	MMBTU	0.93	352.8	-69.7	6.7	32.3	3.4
6	Peas	KG	0.15	40.2	-	-6.2	167.0	2.8
7	Beef With Bone Av.Qlty.	KG	1.61	101.8	21.3	26.3	13.9	2.5
8	Firewood Whole	40 KG	0.48	143.2	15.5	15.5	27.0	1.5
9	Bus Fare Outside City	P/KM	0.48	0.5	0.0	8.8	21.6	1.2
10	Chillies Green	KG	0.14	33.3	105.8	-47.9	71.1	1.2
Total			37.4					59.3
Top Ten CPI Items by Percentage Change								
percent								
S.#	Items	Unit	weights	Price		Point to Point Change		wtd contr.
				Jan-06	Jan-04	Jan-05	Jan-06	
1	Peas	KG	0.1467	40.2	-	-6.2	167.0	2.8
2	Cabbage	KG	0.0686	19.0	21.8	-17.2	83.0	0.6
3	Chillies Green	KG	0.1443	33.3	105.8	-47.9	71.1	1.2
4	Cauliflower	KG	0.1515	19.1	2.4	3.5	63.8	1.1
5	Turnip	KG	0.0726	10.9	29.3	-3.4	59.3	0.5
6	Radish	KG	0.0675	9.5	17.2	8.8	44.7	0.3
7	Pulse Moong (Washed)	KG	0.223	42.5	-6.0	11.9	38.6	1.0
8	Bus Fare Min (Within City)	TICKET	0.1411	5.2	4.1	5.0	38.1	0.6
9	Gur Av.Qlty	KG	0.0735	31.7	-4.3	24.6	38.0	0.3
10	Minibus Fare Min.With In City	TICKET	0.1411	5.9	2.8	8.3	37.2	0.6
Total			1.2					9.0

Inflation Monitor for December 2005

Table A3: Point to Point Inflation by Major Cities/Major Indices/Income Groups. (January 2006)																
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	10.6	11.0	10.3	10.7	10.8	10.7	10.6	10.4	10.7	10.5	10.3	10.7	10.6	10.4	10.7
2	Faisalabad	8.4	9.0	8.0	8.8	8.7	8.8	8.8	8.5	8.9	9.1	8.2	9.8	8.9	8.4	9.3
3	Rawalpindi	11.2	11.9	10.7	10.8	10.5	11.1	10.7	9.9	11.2	11.0	9.1	12.2	10.8	9.6	11.7
4	Multan	8.5	8.4	8.6	8.7	8.5	8.9	8.8	8.1	9.3	9.0	7.9	9.8	8.9	8.1	9.4
5	Gujranwala	9.7	10.8	9.0	9.7	9.7	9.7	9.8	9.5	10.0	10.2	9.5	10.7	9.9	9.6	10.1
6	Islamabad	11.3	9.9	12.2	11.6	10.8	12.1	11.3	10.1	12.1	11.3	9.3	12.7	11.3	9.5	12.5
7	Sargodha	9.3	9.0	9.5	9.2	9.0	9.3	9.3	9.3	9.3	9.3	8.5	9.8	9.3	9.1	9.4
8	Sialkot	8.8	10.6	7.6	9.1	11.1	7.7	9.1	10.8	7.8	8.9	10.4	7.7	9.0	10.6	7.8
9	Bahawalpur	8.6	8.0	9.0	9.1	8.3	9.6	9.1	8.7	9.5	8.9	7.9	9.7	9.0	8.3	9.5
10	Karachi	6.4	5.1	7.3	6.7	4.4	8.3	6.6	4.1	8.3	7.7	4.0	10.4	7.2	4.1	9.3
11	Hyderabad	6.0	6.4	5.7	6.2	6.4	6.1	6.2	6.1	6.2	6.7	6.5	6.9	6.3	6.2	6.4
12	Sukkur	6.2	5.7	6.5	6.6	5.5	7.4	6.6	5.7	7.2	6.5	5.3	7.4	6.6	5.6	7.3
13	Larkana	6.3	6.0	6.5	6.2	5.8	6.5	6.4	5.8	6.8	5.9	4.8	6.8	6.3	5.6	6.8
14	Peshawar	9.0	10.2	8.2	9.9	10.6	9.5	9.9	10.2	9.7	10.3	9.8	10.6	10.1	10.1	10.1
15	Bannu	8.1	9.1	7.5	7.2	7.5	7.1	6.9	6.8	6.9	6.8	5.8	7.5	7.0	6.7	7.1
16	Quetta	5.5	4.2	6.5	5.9	3.4	7.6	6.2	3.3	8.3	7.2	3.9	9.5	6.6	3.6	8.8
17	Khuzdar	10.9	12.7	9.6	10.8	13.7	8.8	10.3	14.5	7.3	10.6	15.2	7.5	10.5	14.1	8.0
Average		8.5	8.7	8.4	8.7	8.5	8.8	8.6	8.4	8.8	8.8	8.0	9.4	8.7	8.2	9.1
Minimum		5.5	4.2	5.7	5.9	3.4	6.1	6.2	3.3	6.2	5.9	3.9	6.8	6.3	3.6	6.4
Median		8.6	9.0	8.2	9.1	8.7	8.8	9.1	8.7	8.9	9.0	8.2	9.8	9.0	8.4	9.3
Maximum		11.3	12.7	12.2	11.6	13.7	12.1	11.3	14.5	12.1	11.3	15.2	12.7	11.3	14.1	12.5