

Inflation Monitor

June 2006



State Bank of Pakistan

Economic Policy and Research Departments

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Team

Muhammad Farooq Arby
Research Department

farooq.arby@sbp.org.pk

Fida Hussain
Economic Policy Department

fida.hussain@sbp.org.pk

Safdar Ullah Khan
Research Department

safdar.khan@sbp.org.pk

Editorial Assistance
Uzma Shakir
Research Department

uzma.shakir@sbp.org.pk

1. Overview*

Although inflationary pressures persisted in the economy for the second year in a row, the headline inflation fell to 7.6 percent year-on-year in June 2006 that was 1 percentage point less than inflation in corresponding month last year.¹ 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. Inflation measured by sensitive price indicator also followed the trend of CPI and was recorded at 8.9 percent in June 2006 compared with 9.2 percent in the corresponding month last year. 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; however, contrary to CPI and SPI, it was considerably higher than inflation of 6.2 percent in June 2005 (see **Table 1.1**).

	CPI			WPI			SPI	Core Inflation	
	General	Food	Non-Food	General	Food	Non-Food		NFNE *	Trimmed mean
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
Feb-06	8.0	7.5	8.4	9.9	6.9	12.2	7.0	7.0	6.4
Mar-06	6.9	5.4	8.0	8.5	5.9	10.4	6.8	6.7	6.1
Apr-06	6.2	3.6	8.0	8.1	4.5	10.8	6.8	6.4	6.0
May-06	7.1	5.6	8.2	9.1	5.7	11.6	8.6	6.6	6.0
Jun-06	7.6	7.8	7.5	9.0	6.7	10.7	8.9	6.3	6.0

*: NFNE is Non-food non-energy inflation; see Annexure B for more on measures of core inflation.

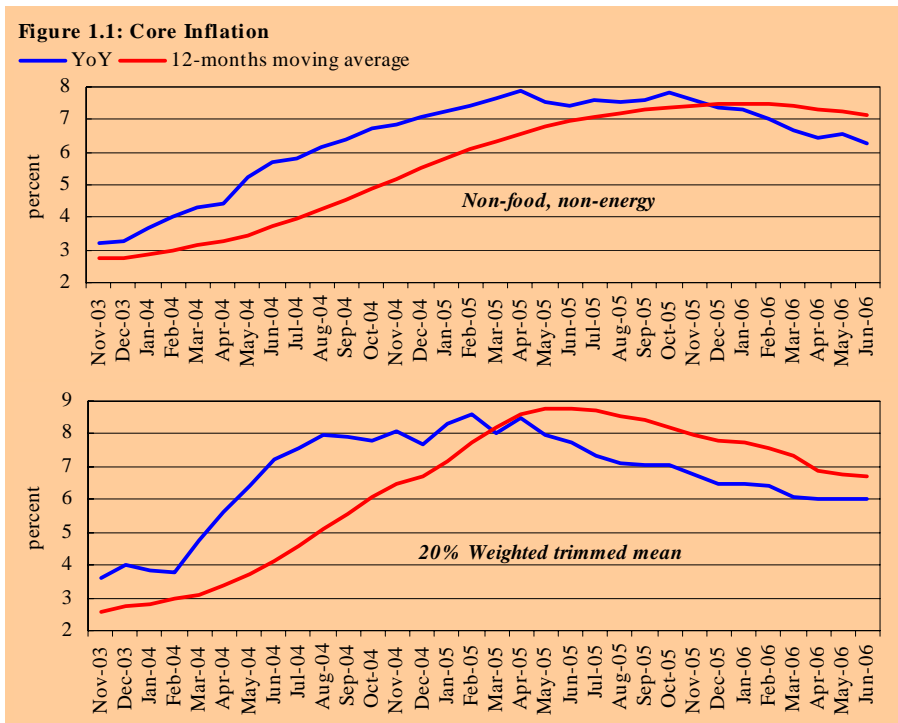
The increase in inflation during June 2006 was primarily caused by sharp rise in the prices of essential food items that pushed the CPI food inflation by more than 2 percentage points up from its level in May 2006. On the other hand, non-food

* The analysis of price trends in Inflation Monitor is based on data compiled and provided by Federal Bureau of Statistics.

¹ The average inflation during the year FY06 was 7.9 percent, 1.4 percentage points less than that in FY05.

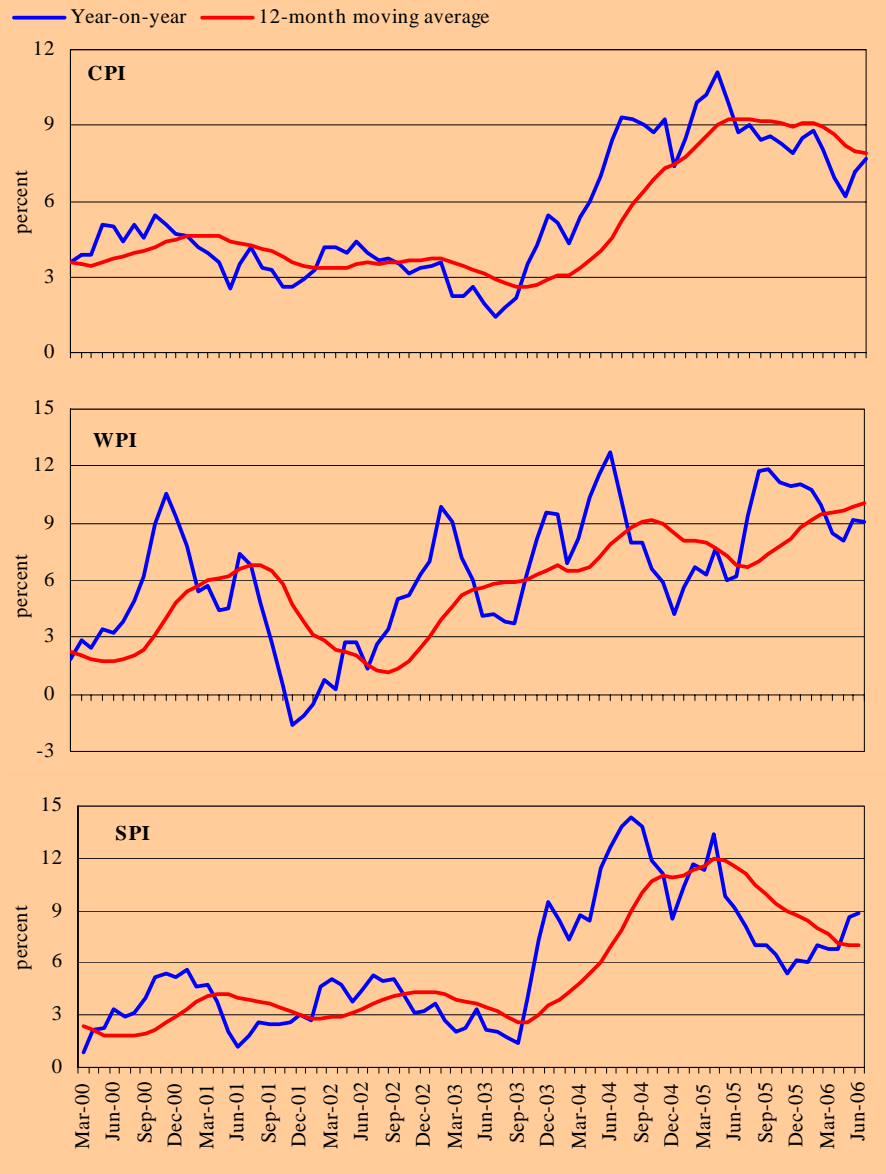
inflation witnessed a decline in June due to continuous slowdown in house rent index and fall in the rate of increase in fuel & lighting and transport & communication price indices. The movements in food and non-food components of WPI were also in line with those of CPI basket.

Core inflation, on the other hand, maintained its declining trend throughout the last fiscal year except towards the end which seems to indicate sluggishness in further deceleration (see **Figure 1.1**). As the core inflation excludes administered and volatile prices and generally represents demand pull inflation, its decline can be attributed to demand management policies adopted during FY06.



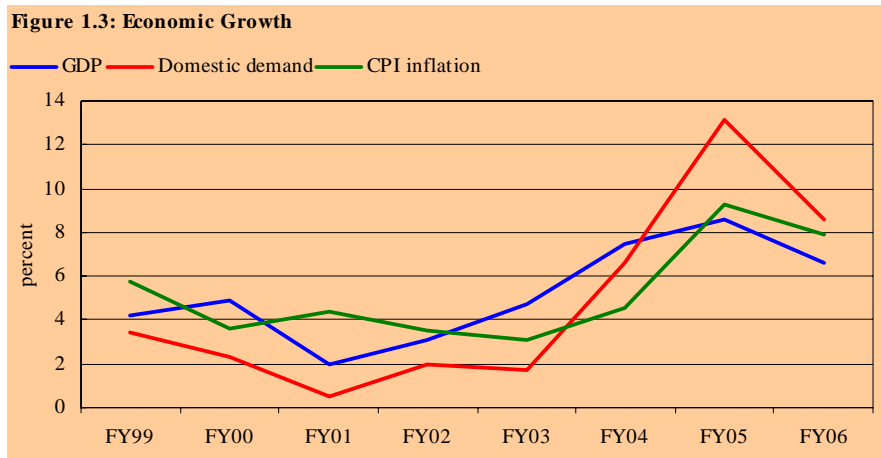
The long run trend in inflation measured as 12-month moving average shows that consumer price inflation is on the declining path since May 2005; however, it is still significantly higher than average inflation of 3.8 percent during the five years prior to FY05. The long run inflation in WPI, on the other hand, maintained a rising trend despite YoY decline witnessed since August 2005 (see **Figure 1.2**). The long run movements in SPI inflation are similar to those in CPI except that recent decline is steeper in the case of SPI than CPI.

Figure 1.2: Movements in Price Indices



The decline in overall inflation during FY06 was due to prudent demand management policies as well as administrative measures taken by the government to check the rise in prices of essential food items. The exchange rate also remained stable during the year despite mounting pressures from widening trade deficit that insulated the economy from imported inflation. The government also allowed duty free import of key food items including wheat, sugar, pulses etc. that helped in improving domestic supplies.

The gap between aggregate demand and supply of goods and services, which was the highest of last ten years in FY05, dwindled in FY06 helping inflation to come down from its previous level (see **Figure 1.3**). Growth in private consumption expenditure (in real terms) declined from 13 percent in FY05 to 8 percent in FY06 and growth in money supply and private sector credit also declined during the year which contributed to decline in aggregate domestic demand. However, despite decline, the gap between domestic demand and supply still exists on the back of robust economic growth during the last three years and increased inflow of remittances (that also enhanced the availability of loanable funds with the banks).



On the supply side, factors like increase in support prices² decline in the output of major crops, rising trend in the prices of essential food items in international market (particularly those items whose domestic production fell short of demand like sugar and pulses) and higher oil prices contributed to the increase in domestic prices. Persistent rise in oil prices and frequent adjustment in domestic electricity

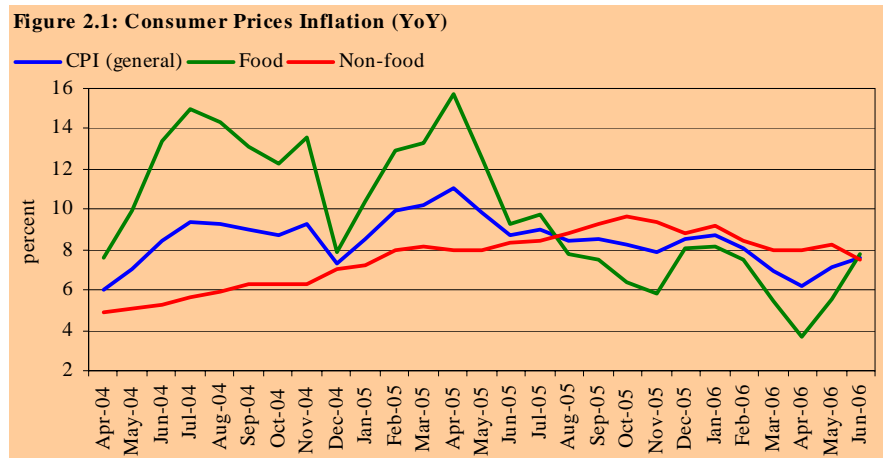
² Support prices of wheat, rice, sugarcane, and cotton were increased by 3.8 percent, 30.4 percent, 33 percent and 5.4 percent respectively for last seasons of these crops.

and gas prices not only directly contributed to high inflation as reflected in considerable increase in fuel & lighting and transport & communication groups' inflation, but also pushed up the production and transportation cost – second round inflation caused by higher energy prices.

The production of key food item including pulses, sugarcane, potato, etc. declined considerably during the last couple of years (see **Table A9** in the Annexure A) which adversely affected the supply position of these commodities. The production of livestock products like milk and meat, on the other hand, witnessed high growth during FY06, however, their prices remained under pressure mainly reflecting the impact of high oil prices that has pushed up the transportation cost and increase in fodder prices. In international market, the prices of wheat, sugar, steel, precious metals etc. also kept rising either due to supply shortages or rising demand.³

2. Consumer Price Inflation

The consumer price inflation increased to 7.6 percent YoY in June 2006 up from 7.1 percent in May and 6.2 percent in April 2006. The primary source of the upsurge in the overall inflation during the last two months of FY06 was food inflation, while non-food inflation declined from its previous several months' level of 8 percent. The food inflation that remained lower than non-food inflation during almost all the earlier months of the fiscal year outstripped it during June (see **Figure 2.1**).



³ Sugar prices rose sharply in international market due to diversion of sugarcane into ethanol production in Brazil, major sugar producer, due to increase in world demand for bio-fuel.

Average inflation during Jul-Jun FY06 was recorded at 7.9 percent that was 1.4 percentage points less than that in FY05, however, it was significantly higher than the average of past five years (see **Table 2.1**).

Table 2.1: Different Dimensions of Inflation (percent)				
	Jun-05	May-06	Jun-06	5-year average
<i>Year-on-year (Jun 06 over Jun 05)</i>				
Overall CPI	8.7	7.1	7.6	6.2
Food group	9.3	5.6	7.8	7.2
Non-food group	8.4	8.2	7.5	5.6
<i>Average (Jul 05-Jun 06 over Jul 04-Jun 05)</i>				
Overall CPI	9.3	8.0	7.9	5.7
Food group	12.5	7.0	6.9	6.2
Non-food group	7.1	8.7	8.6	5.4
<i>Monthly (Jun 06 over May 06)</i>				
Overall CPI	0.1	0.5	0.6	0.4
Food group	-0.9	0.04	1.2	0.4
Non-food group	0.8	0.7	0.2	0.4

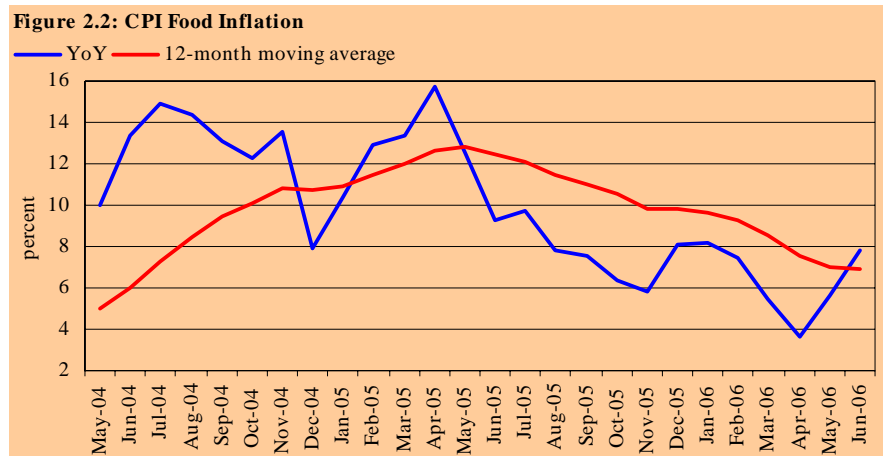
2.1 Food Inflation

After being recorded at 3.6 percent YoY during April 2006 – lowest of the last 30 months – CPI food inflation rose to 5.6 percent in May and further to 7.8 percent in June 2006. Increase in the prices of a number of food items including milk, meat, sugar, and vegetables along with the impact of weak base of the corresponding month last year pushed the CPI food inflation up to the current level (see **Figure 2.2**).⁴

A detailed look at price movements of individual items in the CPI food group shows that prices of some key food items declined or showed subdued inflation like wheat flour, bread, cooking oil, eggs, onion, etc. which were, however, offset by double digit increase in prices of pulses, besan, milk, meat, sugar and vegetables including potatoes, tomatoes, green chilies etc. There are number of other commodities that despite showing moderate inflation contributed significantly to food inflation due to their high weights in CPI basket like tea, milk tetra pack, sweets and bakery products and poultry.⁵

⁴ The base for YoY inflation in June 2006 is June 2005: the level of CPI fell to 129 in June 2005 from a high of 132.4 in April 2005.

⁵ The chicken prices increased by 5 percent YoY in June 2006 after showing decline during the preceding five months.

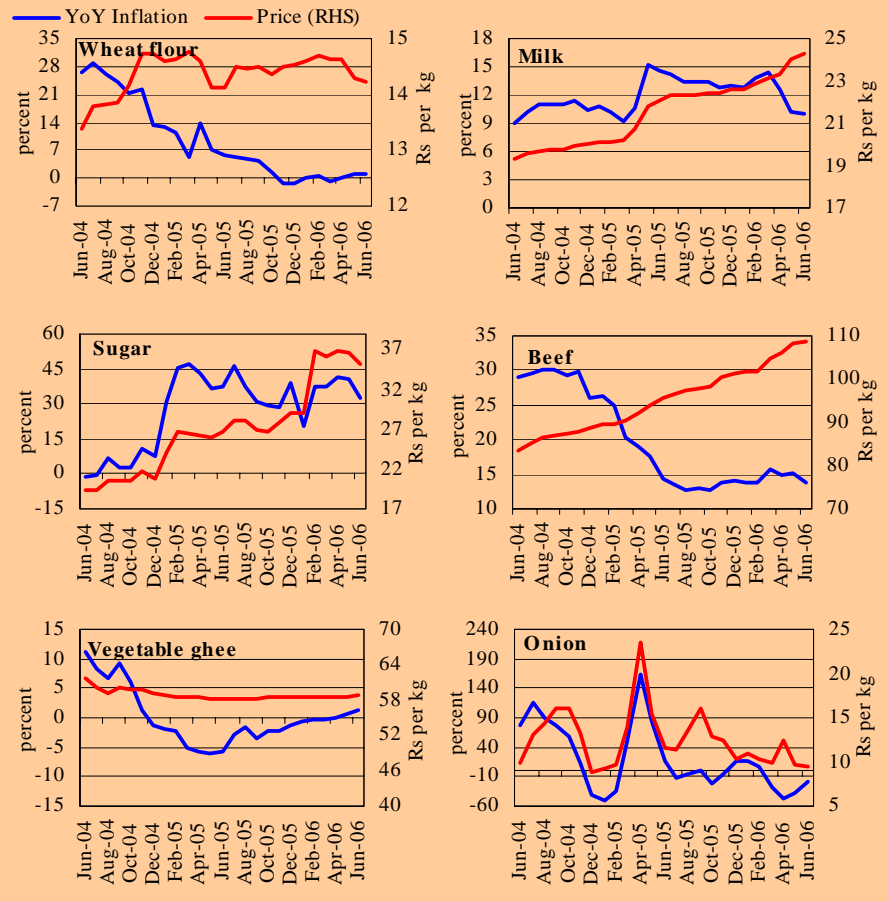


Although prices of pulses were still more than 50 percent higher in June 2006 than those in June 2005, they declined by about 5 percent from their previous month's level primarily due to supply side measures by the government. A similar is the case with sugar prices that declined by about 4 percent from its previous month's level though still higher by more than 30 percent than its price in corresponding month last year. YoY inflation in milk and meat prices was also higher than 10 percent though some deceleration was witnessed as compared with the earlier months (see **Figure 2.3**).

Of the 124 items of food group included in the CPI basket, prices of 34 items witnessed YoY increase of more than 10 percent and 27 items showed a moderate inflation of 5 to 10 percent. Prices of 25 commodities declined in June 2006 over the corresponding month last year; the rest of the commodities either showed YoY inflation of 0 to 5 percent or their prices were not quoted (see **Table A2** in Annexure A).

In terms of percent contribution to food inflation, fresh milk was the highest contributor during June 2006, followed by sugar, beef and pulse gram (see **Table A4** in the Annexure).

Figure 2.3: Price Trends in Key Food Items

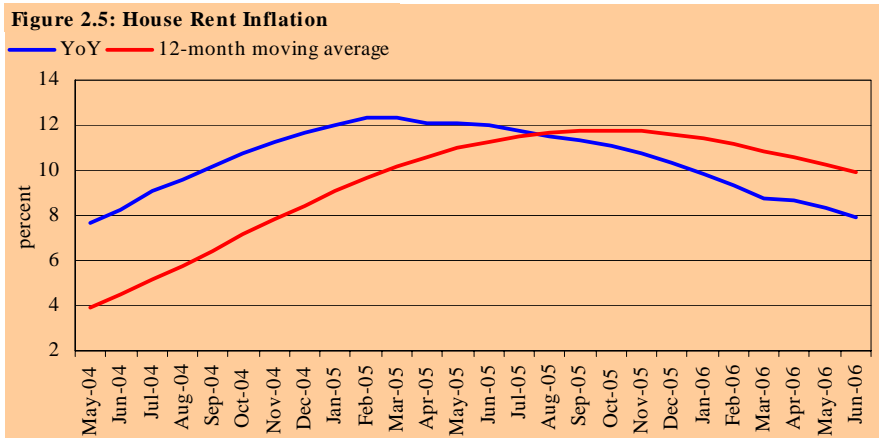
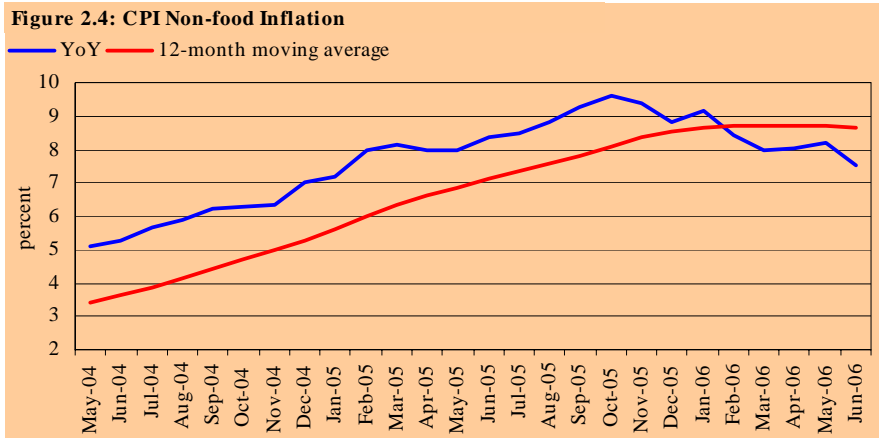


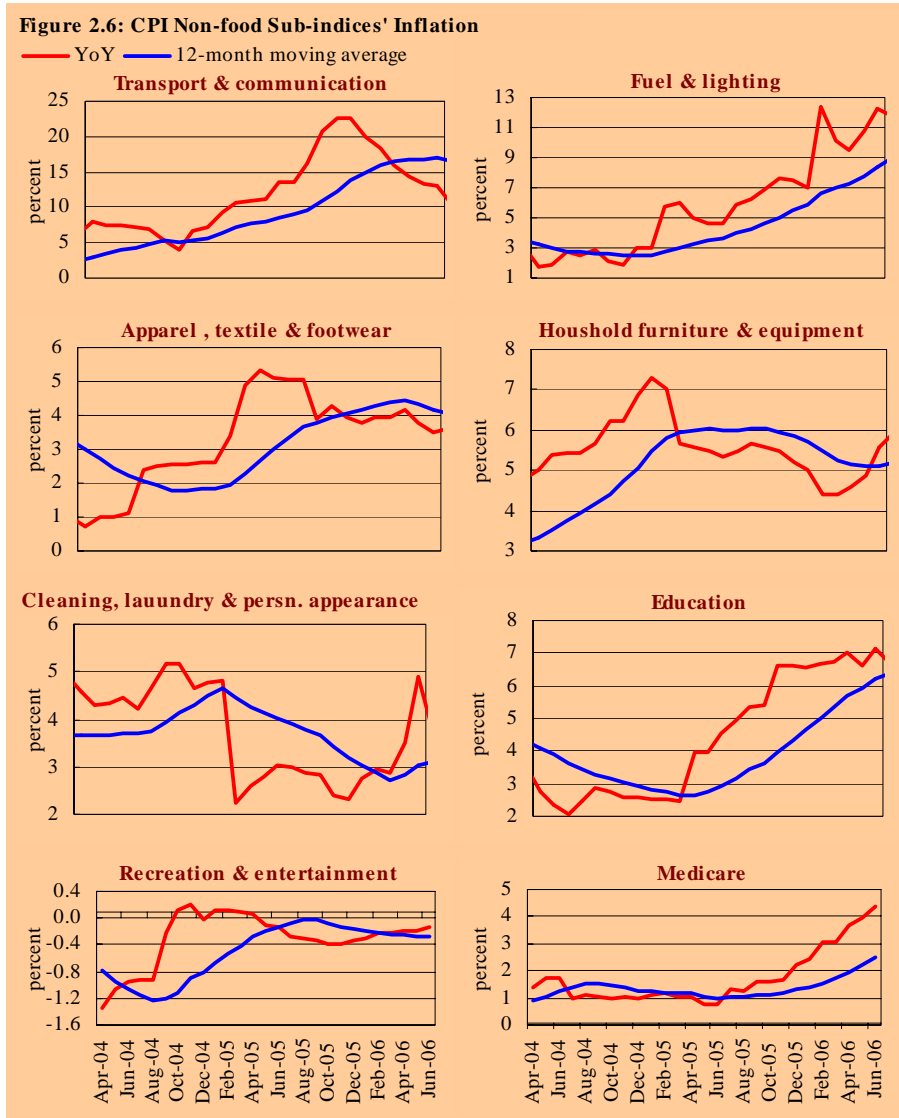
2.2 Non-food Inflation

Contrary to food inflation, non-food inflation declined during June 2006 to 7.5 percent YoY from more than 8 percent during the month earlier. Non-food group inflation at its present level is the lowest in the preceding 16 months (see **Figure 2.4**). Persistent decline in house rent index (HRI) accompanied with deceleration in fuel & lighting and transport & communication groups was the major factor behind fall in non-food inflation (see **Figure 2.5 and 2.6**).

A frequency distribution of price changes shows that of the 250 non-food commodities included in the CPI basket, only 32 commodities witnessed double

digit inflation which include shoes, firewood, gas, petrol, raksha and taxi fares, train and air fares, laundry services, primary school fees, some books, etc. There were 50 commodities that showed moderate inflation in the range of 5 to 10 percent; all other commodities witnessed either YoY deflation or inflation of less than 5 percent (see **Table A2** in the Annexure).

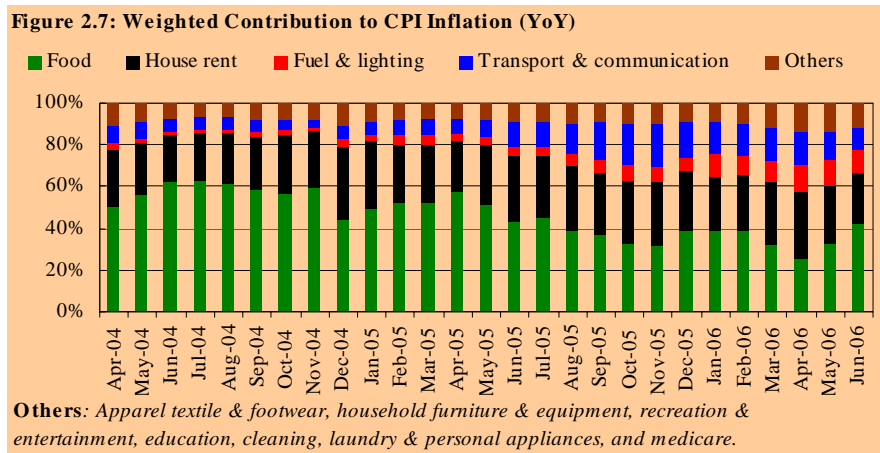




2.3 Major Contributions

The contribution of food group to overall inflation rose to 42 percent in June 2006 which was considerably higher than its average contribution of 35 percent during the earlier months of FY06. However, it compares favorably with the FY05 when food group contributed more than 50 percent to overall inflation (see **Figure 2.7**).

The contribution of HRI to overall inflation declined to 24.2 percent in June 2006 from an average of 30 percent during the earlier months. Two-third of the overall inflation has been instigated by food and HRI inflation, all other commodity groups, including fuel and transport, shared only one-third of the headline inflation.



During June 2006, inflation in the prices of ten out of the 374 items in the CPI basket contributed about 62 percent of the overall inflation. Similar to the previous months, except HRI and train fare, all these items belonged to either food or energy groups of CPI.

2.4 City-wise Inflation

During June 2006, it was Kunri – big chillies market of Sind – which recorded the highest YoY inflation of 10.6 percent, whereas Sukkur witnessed the lowest inflation of 4.7 percent during the month. The highest food inflation was witnessed in Kunri also against the highest non-food inflation in Okara. Of the 35 cities covered in the consumer price index, 20 cities had more than average inflation which include Islamabad, Lahore, Multan, D.G. Khan, Peshawar, etc. The cities witnessing below the average inflation included Karachi, Quetta, Faisalabad, Larkana, etc. (see **Table 2.2**).

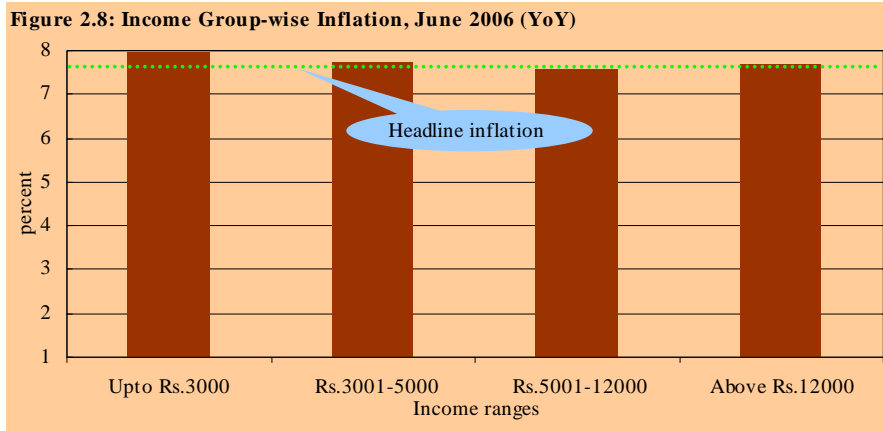
Table 2.2: City wise Inflation in CPI (YoY), June 2006

	High inflation cities				Low inflation cities		
	General	Food	Non-food		General	Food	Non-food
Kunri	10.6	12.8	9.1	Jhang	7.6	7.8	7.5
Islamabad	10.5	11.2	10.1	Mardan	7.5	7.5	7.6
Attock	10.5	11.1	10.2	Abbotabad	7.4	8.5	6.6
Rawalpindi	10.3	11.5	9.5	Loralai	7.3	8.7	6.3
Vehari	9.7	9.3	9.9	Faisalabad	7.3	8.6	6.3
Lahore	9.4	9.9	9.2	Khuzdar	7.1	6.7	7.3
Bannu	9.2	8.9	9.4	Sialkot	7.0	5.9	7.8
Bahawalnagar	9.2	9.0	9.3	Quetta	6.9	6.3	7.4
Okara	9.1	6.3	11.2	Samundari	6.8	6.7	6.8
D.I.Khan	8.9	8.9	8.9	Mianwali	6.8	3.5	9.1
D.G. Khan	8.9	10.1	7.9	Karachi	6.3	4.6	7.4
Bahawalpur	8.7	9.5	8.1	Nawabshah	6.2	5.9	6.4
Sargodha	8.6	9.8	7.8	Hyderabad	5.6	5.6	5.6
Multan	8.5	8.4	8.6	Larkana	5.1	5.3	5.0
Gujranwala	8.5	11.3	6.6	Sukkur	4.7	3.8	5.3
Mirpur Khas	8.3	8.9	8.0				
Shahdadpur	7.9	9.0	7.1				
Jehlum	7.8	6.7	8.5				
Turbat	7.7	6.5	8.6				
Peshawar	7.7	8.4	7.2				

2.5 Income group-wise Inflation

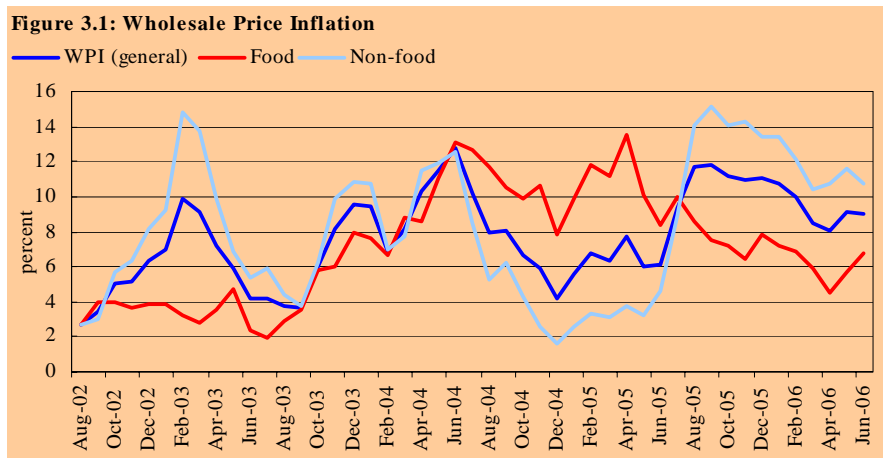
The lowest income group having income up to Rs 3000⁶ experienced the highest inflation during June 2006 reflecting the impact of higher food inflation. Except the middle income group with income range of Rs 5001-12000, all other groups witnessed above the average inflation during the month (see **Figure 2.8**).

⁶ Income per month per household.



3. Wholesale Price Inflation

The annual rate of change in wholesale price index (WPI) was 9.0 percent in June 2006, up from 6.2 percent in corresponding month last year. However, there was almost no incremental change in wholesale price inflation during the month as compared with the preceding month of May 2006. This stability in wholesale price inflation was largely due to offsetting movements in food and non-food inflation: WPI food inflation increased by 1 percentage point in June from 5.7 percent in May and WPI non-food inflation declined by 1 percentage point during the same period (see **Figure 3.1**).



The average inflation in wholesale prices index during FY06 was recorded in double digit at 10.1 percent that was considerably higher than average inflation of 6.8 percent in FY05. It has largely been contributed by higher prices of energy and certain raw materials including cotton, sugarcane and tobacco. Food inflation, on the other hand, remained moderate around 7 percent during FY06 compared with more than 10 percent during the earlier year (see **Table 3.1**).

Table 3.1: Group-wise WPI Inflation

Annual percentage changes

WPI and its components	FY03	FY04	FY05	FY06
Food	3.5	7.0	10.7	7.0
Raw materials	14.4	17.0	-18.1	10.2
Fuel, lighting & lubricants	12.5	2.8	15.8	26.5
Manufactures	1.7	7.9	1.1	2.9
Building materials	1.7	22.9	13.7	0.3
Overall index	5.6	7.9	6.8	10.1
<i>Overall excl. food</i>	<i>7.3</i>	<i>8.7</i>	<i>3.6</i>	<i>12.4</i>
<i>Overall excl. fuel</i>	<i>3.9</i>	<i>9.2</i>	<i>4.5</i>	<i>5.6</i>
<i>Overall excl. food and fuel</i>	<i>4.3</i>	<i>11.7</i>	<i>-1.8</i>	<i>4.0</i>

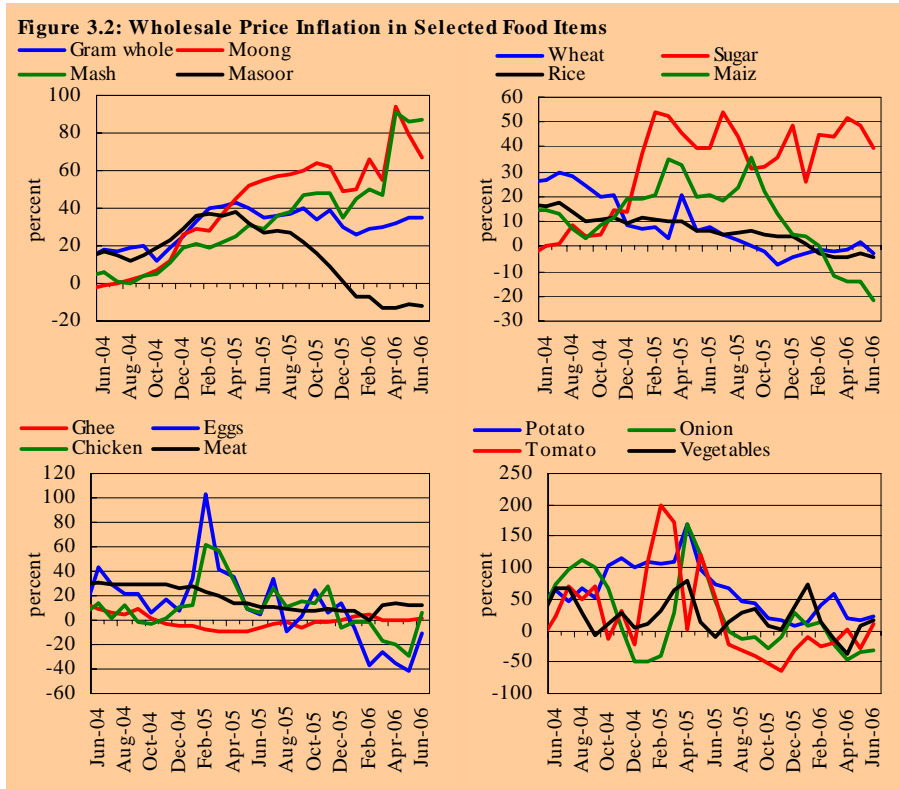
Source: Based on data from FBS

The WPI food inflation has been declining since April 2005 with some fluctuations nonetheless. The annual rate of growth in food sub-index was 13.6 percent in April 2005 which declined to 10 percent in July 2005 and further to 5.7 percent in May 2006. There was a slight upsurge in June this year attributable mainly to increase in the wholesale prices of chicken, ghee and some vegetables like potato and tomato (see **Figure 3.2**).

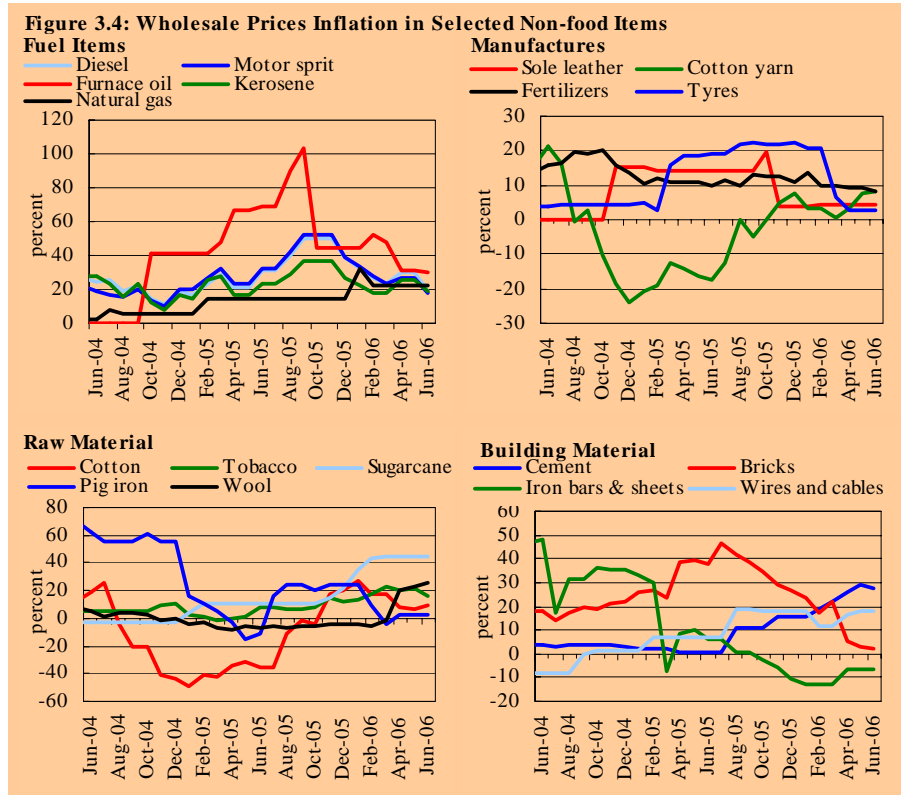
A frequency distribution of price changes in 43 food items included in the WPI basket shows that 23 items witnessed YoY decline in wholesale prices and 10 items witnessed subdued inflation of 0 to 5 percent in June 2006. The items showing double digit inflation were 13 while the rest of the items showed moderate inflation (see **Figure A2** in the Annexure A). The commodities showing double digit increase in wholesale prices were pulses moong, mash, gram, and sugar, meat, beverages, etc.

Non-food inflation, on the other hand, has been recorded at 10.7 percent in June 2006, slightly lower than May 2006 due mainly to decline in YoY inflation of fuel, lighting & lubricants (see **Figure 3.3**). The sub-index of manufactures (with highest weight in WPI non-food group) remained stable around inflation rate of 3 percent throughout FY06, however some acceleration was witnessed in the last

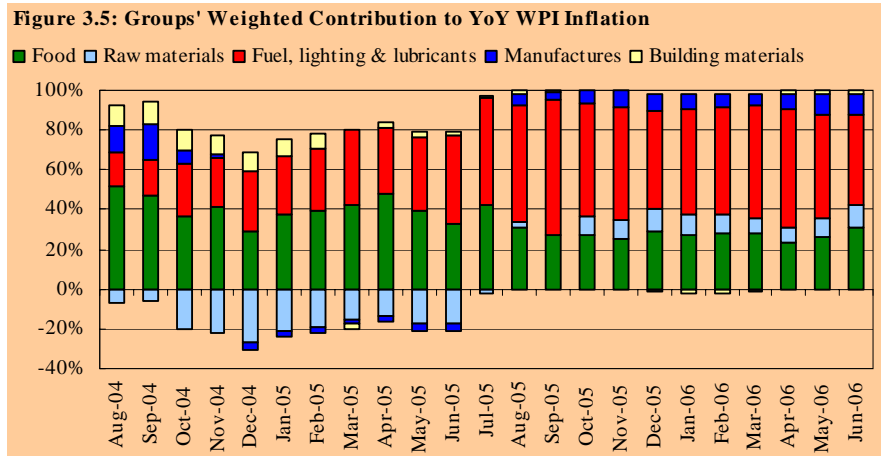
two months of the year. The other two indices of building materials and raw materials witnessed increase in inflation by 3.3 percent and 14.6 percent respectively in June 2006. The rise in the rate of change in raw material sub-index was mainly contributed by higher cotton, cotton seeds and wool prices in the month, while increase in prices of cement, wire and cables, etc. were the underlying factors in the increase of building material index.



Inflation in *building materials* sub-index rose modestly by 3.3 percent in June 2006 compared to 2.9 percent increase in the previous month reflecting rise in the prices of pipe fittings, timber and glass sheets. The prices of other major building materials including wires & cables and iron bars & sheets etc. recorded the same increase in June 2006 as in previous month of the year, while prices of cement showed marginal deceleration at the rate of 27.9 percent relative to somewhat higher growth of 29 percent during the last month of May 2006 (see **Figure 3.4**).

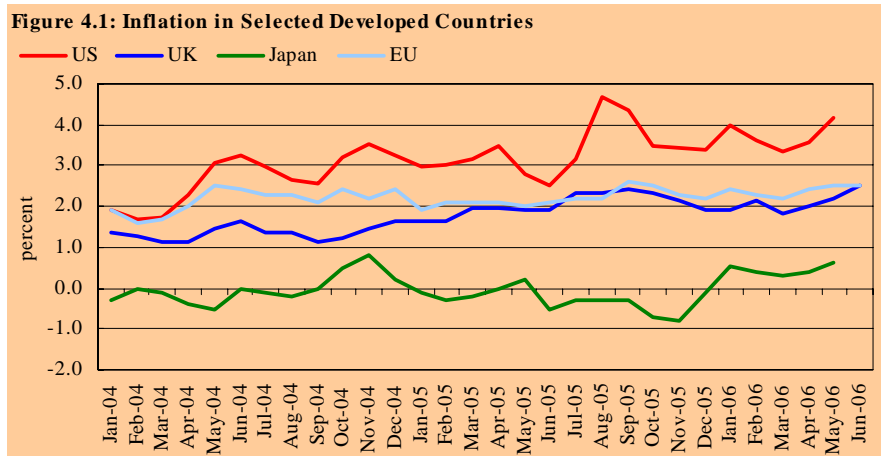


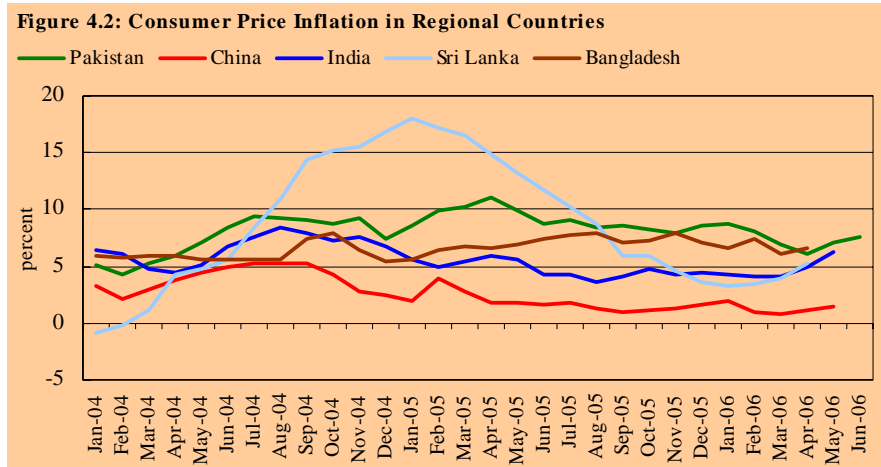
High inflation in the food and raw materials sub-indices of wholesale price index resulted into higher contribution to WPI by 31.3 percent and 11.2 percent in June 2006 as compared with the preceding month figures of 26.6 percent and 8.6 percent respectively (see **Figure 3.5**). On the other hand, the contribution of fuel, lighting and lubricants declined to 45.1 percent in June as compared with 52.9 percent in May 2006. The raw material and lubricants maintained their contributions in the WPI inflation.



4. World Inflationary Trends

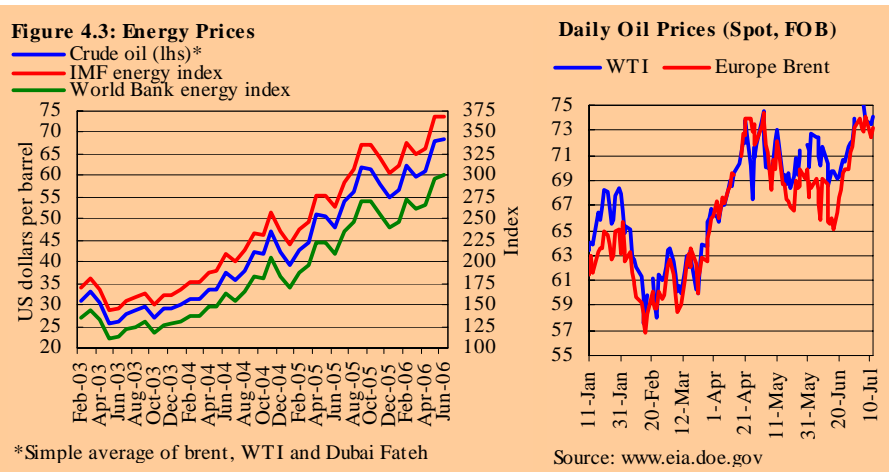
Mainly driven by high energy prices, inflation edged up in most of the countries around the globe during the recent months (see **Figure 4.1**). In US and UK, house prices also remained strong and contributed to overall inflationary trends. A rising trend in inflation was also observed in countries of the region during the last couple of months (see **Figure 4.2**). While the main reason for the increase in inflation remained high oil prices, rise in food and raw material prices also contributed to inflation in India and China.



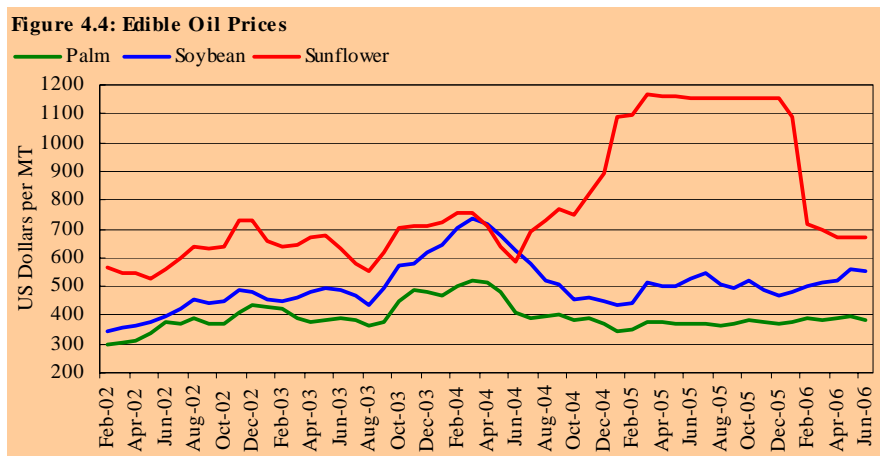


4.1 Global Commodity Prices

Prices of Europe Brent Crude oil varied in the range of US\$ 52.8 per barrel to US\$ 74.5 per barrel during FY06 with prices more than US\$ 70 during the last couple of months of the year. Sharp increase in crude oil prices can be attributed to supply concerns resulting from aggravation of geopolitical climate, speculations in relation to sanctions against Iran and problems in Nigeria. Following the increase in crude oil prices in world markets, IMF energy index and World Bank energy index also witnessed similar movements as depicted in **Figure 4.3**.



Coming towards food items, the prices of palm and soybean oil declined by 2.1 percent and 1.3 percent in June 2006 over those in May 2006 respectively; however, these prices were still higher than those in the corresponding month last year. On the other hand, sunflower prices remained unchanged at US\$ 673 per mt during the last three months of FY06 which was considerably lower than its prices during the corresponding period last year (see **Figure 4.4**).



Wheat prices observed increase to US \$195.2 per MT in Jun 2006 showing an increase of 1 percent over the preceding month. The higher prices of wheat can be related to relatively lower production in major wheat producing countries and increased demand from importing countries. Sugar price depreciated at the rate of 1.2 percent in Jun 2006 from that in the last month mainly due to continued release of stocks by hedge funds (see **Figure 4.5**).

After rising by 11 percent in May 2006 due to increased demand for investment and hedging against high oil prices, the gold prices declined sharply by 12 percent in June 2006 (see **Figure 4.6**). The current decline in gold prices reflects the piercing of speculative bubble connected with the investment portfolio. However, daily movements in gold prices show that there is again a tendency of increase in gold prices during July 2006.

The IMF metal price index witnessed negative growth of 8.1 percent in June 2006 after showing robust growth of 13.8 percent in the preceding month. While steel prices – as measured by World Bank index of 8 steel products – depicted upward movement towards its earlier sustained growth pattern visible since July 2005 (see **Figure 4.7**).

Figure 4.5: Sugar and Wheat Prices

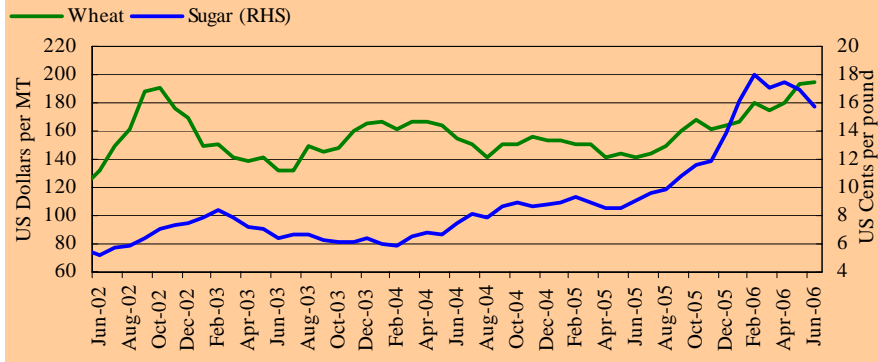
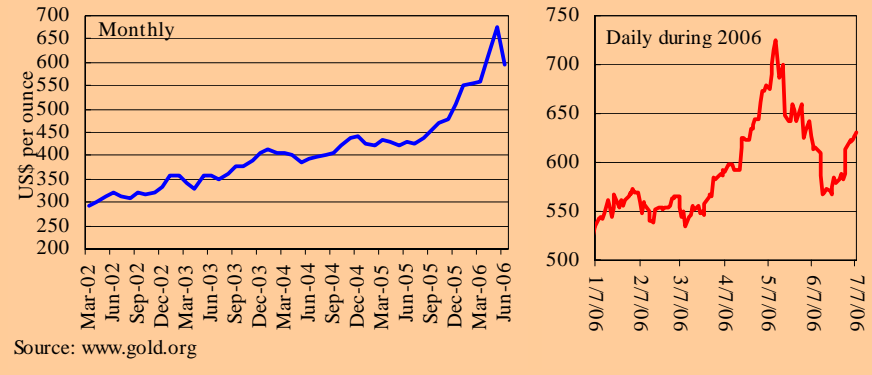
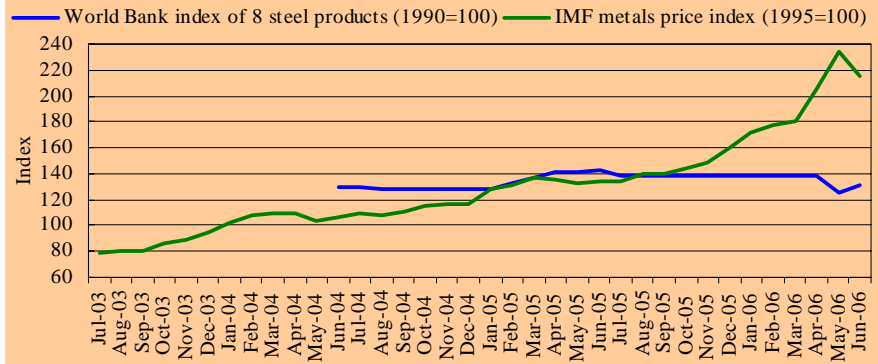


Figure 4.6: Gold Prices

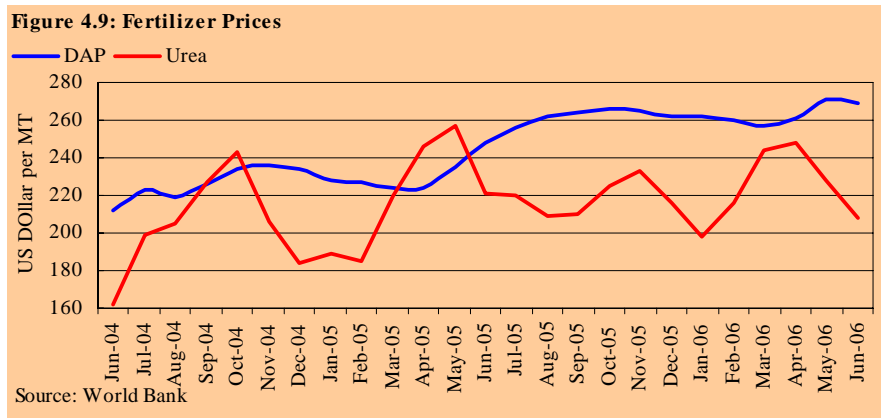
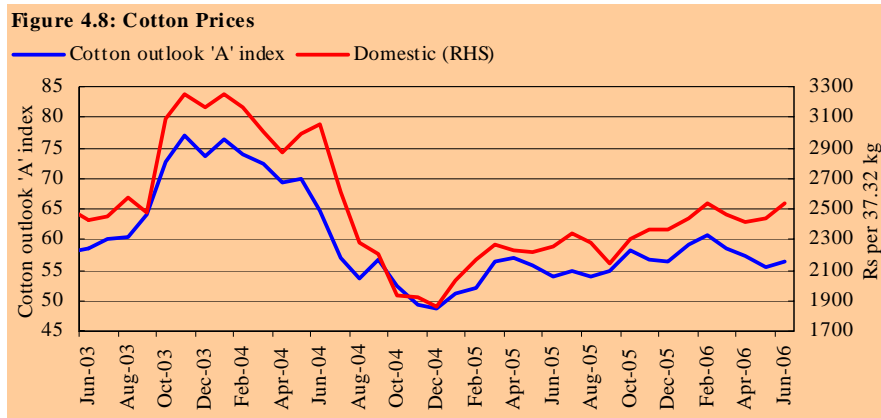


Source: www.gold.org

Figure 4.7: Steel Prices

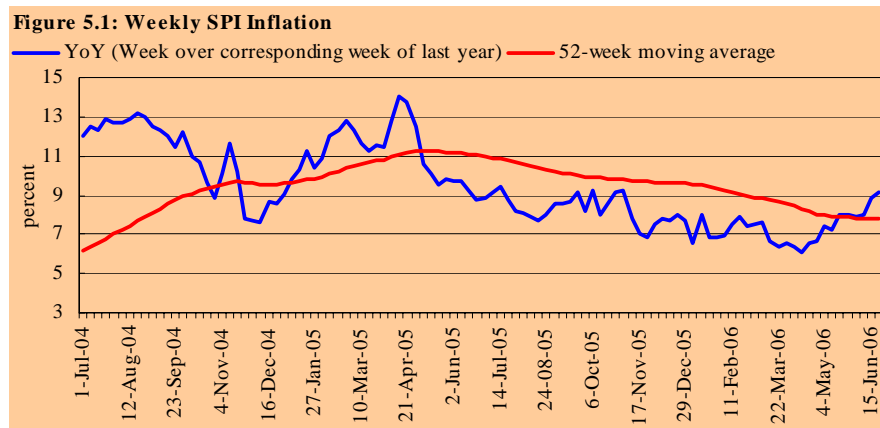


Cotton prices gained momentum in the international market and increased to a growth rate of 1.8 percent in Jun 2006 as compared with negative growth of 3.1 percent in the preceding month. YoY growth in Cotton 'A' Index recorded a growth rate of 4.5 percent during the year vividly much higher than a decline of 16.5 percent in June 2005. This represents 1.8 percent increase in the month over the rate of negative 1.3 percent in May 2006. Similarly, cotton prices in Pakistan witnessed upward movement and showed a growth of 4 percent in Jun 2006 as compared with relatively much smaller growth of 1 percent during May 2006 (see **Figure 4.8**). In fertilizers, urea prices declined by 5.9 percent YoY in Jun 2006, while DAP prices showed a growth of 8.7 percent YoY as compared to much higher growth of 15.1 percent in May 2006 (see **Figure 4.9**).



5. Sensitive Price Indicator

Average weekly inflation in SPI rose to 8.5 percent in June 2006 from 7.7 percent in May 2006 (see **Figure 5.1**). The major items pushing the SPI inflation up were sugar, pulses, milk, vegetables, gas and other liquid fuel prices. More than one-third of the total items in the SPI basket recorded double-digit YoY inflation during June 2006 with some of the items like pulses moong, gram and mash, L.P.G. cylinders, etc. witnessing inflation of more than 50 percent (see **Table A8** in the Annexure A).



6. Wage Inflation

Wage inflation in the face of increased activity in the construction sector witnessed higher growth of 18.2 percent in June 2006 as compared to 16.9 percent in May and 14.2 percent in April 2006. Wage inflation in the sub-set of skilled workers also increased showing a rate of 18.1 percent in the June 2006 compared 16.5 percent in May 2006. Wages of unskilled workers witnessed a growth of 19.5 percent in June 2006 which was considerably higher than 14.6 percent in June 2005 (see **Figure 6.1**). Within the skilled workers, all the four categories showed increase in wages during June 2006 (see **Table 6.1**).

The real wage inflation also remained on a rising path and observed a rate of 10.6 percent in June 2006 compared with 3 percent in the corresponding month last year. Real wages of skilled workers depicted acceleration in growth by 10.4 percent in Jun 2006, as compared with the relatively lower growth of 9.3 percent in the preceding month. While the real wages of unskilled workers increased by the rate of 11.9 percent in Jun 2006, comparatively lower than the growth rate 12.7 percent in May 2006.

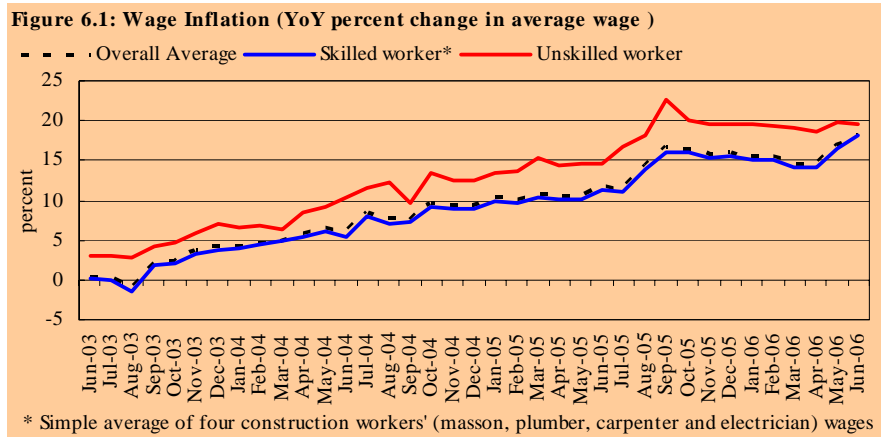


Table 6.1: Wage Inflation

	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06
Overall	11.6	14.4	16.7	16.5	15.9	16.0	15.5	15.6	14.6	14.6	16.9	18.2
Skilled:												
Carpenter	12.3	14.1	16.1	16.9	16.3	16.9	14.7	15.8	14.4	14.9	14.6	15.9
Mason	11.3	15.8	19.7	17.6	17.2	18.0	18.2	17.2	16.0	16.4	17.2	19.7
Plumber	12.6	14.6	16.9	17.2	15.8	16.0	16.4	17.0	15.1	13.9	14.0	15.2
Electrician	7.8	10.8	10.8	12.1	12.0	11.0	10.4	10.4	10.3	10.8	20.2	21.4
Unskilled:												
Laborer	16.7	18.3	22.6	20.1	19.5	19.5	19.6	19.3	19.0	18.6	19.9	19.5

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

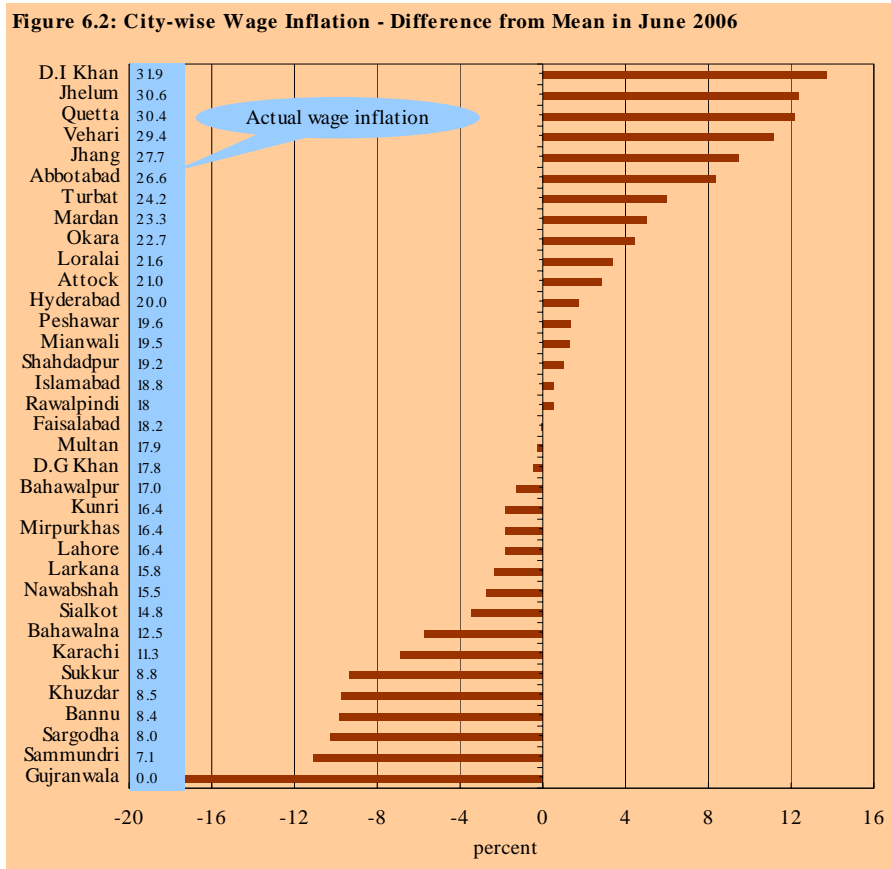


Table 6.2: Daily Labor Wages (Rs. per day)--Average in 35 Cities						
	Carpenter	Mason	Laborer	Plumber	Electrician	Average
Annual Averages						
FY03	218	225.4	107.7	219.8	216.4	197.4
FY04	224.5	237.4	114.5	225	221.9	204.6
FY05	245.8	261.4	129.5	245.5	240.3	224.5
FY06	283.2	306.0	154.7	283.2	270.1	259.4
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
Feb-06	287.4	311.4	156.2	287.4	267.9	262.1
Mar-06	286.5	312.1	157.7	287.8	269.6	262.8
Apr-06	290.9	313.9	159.4	291.0	274.3	265.9
May-06	293.4	319.9	163.6	292.7	297.7	273.5
Jun-06	299.2	329.4	165.6	297.8	302.0	278.8

ANNEXURES

Annexure A

	Weights	Jun-02	Jun-03	Jun-04	Jun-05	Jun-06
I. Food Group	40.3	4.8	0.9	13.4	9.3	7.8
II. Non-Food Group	59.7	4.2	2.6	5.3	8.4	7.5
Apparel, textile, etc.	6.1	3.5	4.3	1.0	5.1	3.6
House rent	23.4	2.0	1.2	8.2	12.0	7.9
Fuel & lighting	7.3	7.0	4.7	1.8	4.6	11.7
Household furniture & equip	3.3	3.6	3.1	5.4	5.3	6.0
Transport & com.	7.3	2.4	2.0	7.4	13.6	10.4
Recreation & entert.	0.8	4.5	0.4	-1.0	-0.1	-0.1
Education	3.5		4.9	2.4	4.5	6.6
Cleaning, laundry, etc.	5.9	4.0	4.3	4.3	2.8	3.7
Medicines	2.1	6.0	-0.8	1.8	0.8	4.4
Headline	100	4.4	1.9	8.5	8.7	7.6

Groups	% 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	5.6	110	25	24	27	34
II. Non-Food Group	7.5	250	78	90	50	32
Apparel, textile, etc.	3.6	42	7	21	12	2
House rent	7.9	1	0	0	1	0
Fuel & lighting	11.7	15	7	1	1	6
Household furniture & equip	6.0	44	2	27	15	0
Transport & com.	10.4	43	12	5	10	16
Recreation & entert.	-0.1	16	12	2	2	0
Education	6.6	24	6	10	4	4
Cleaning, laundry, etc.	3.7	36	12	18	2	4
Medicines	4.4	29	20	6	3	0
Overall	7.6	360	103	114	77	66

Note: Prices of 14 seasonal items were not reported during the month.

Table A3: Distribution of Price Changes - Selected CPI Items, June 2006				
Groups	Decrease or no change	Subdued increase (up to 5%)	Moderate increase (5 to 10%)	Double digits increase (over 10%)
Food	Ginger; Onion; Apple; Coconut dry; Pistachio	Bread tandoori st. size; Powder milk Nido 400gm; Groundnuts; Bread plain medium; Chicken farm broiler	Cigarettes Capstan 10's; Biscuit-bakery (loose); Cooked beef; Karaila	Gram whole yellow; Chillies green; Moong; Mash; Sugar; Milk fresh
Apparel & Textile	Boot polish Cherry / Kiwi 50ml; Gents shoes Paul Bata; Gents sandal Bata	Dopatta georgette Heavy wt. suiting Law. Pur; Tailoring coat-pant suit	Lungi/dhoti(cotton); Tailoring shirt; Second-hand coat for men	Gents shoe, art 1109 Service; Nylon jogger 27 size 2-5
House Rent Index			House rent index	
Fuel & Lighting	Bulb Philips 100-watt; Match box small; Elect. charges up to 50 units	Tube light Philips 40 watts	Gas charges up to 3.3719 mmbtu	Gas charges 6.7438 - 10.1157 mmb; Firewood whole; Gas cylinder stand. size
Household Furniture and Equipment	Sewing machine (singer); Dawlence refrig. 10 cft. d. door; Electric juicer for apple	Towel (3'x2'); Blanket (90" X 54"); Wall clock quartz	Household servant female p/t; Sofa set wooden with foam; Pedestal fan 22"	-
Transport & Comm.	Internet charges; Car Suzuki 800 cc (w/o. a/c); Motorcycle Honda cd-70; Platform ticket	Car service charges; Train fare a/c slp. 1-100km.; Bus fare outside city; Motor cycle service charges	Full tonga charges; Suzuki fare min. with in city; CNG filling charges; Tyre motor cycle without tube	Taxi 4 seater fare; Train fare eco. 1-100 km.; Train fare eco. > 500 km.; Train fare eco. 101-500 km.
Recreation	Video game Sega 16 byte; V.C.P. LG / Nat / Panasonic; Vid. cassette Tdk / Sony	Tape recorder cassette blank; Dry cell 1.5 volt(local)	Cinema non-A/C high class; Cinema A/C. highest class	-
Education	English book class V1; Computer; Pen ink Dollor 57 ml bottle	Exercise book lined 80/100 P; Paper foolscap (27"X17"); Urdu book class IX/X(T.B.B)	Maths book class V; Urdu book 1st.year/inter School fee 2nd-ry eng. med.	English book class ix or x; Govt. university fee misc.; Maths book 1st.year (T.B.B)
Cleaning & Laundry	Toilet soap Lux 95 grams; Toilet paper roll (rose petal); Robin blue (35 grams); Shaving cream touch-me/adm.	Blade Treet ordinary 10's; Washing powder 1000 grm; Artificial jewellery set; Beauty porl hair styl charge	Haircut charges for Men Dry cleaning suit coat pant	Washing ch. (kamiz-shalwar); Washing ch. Shirt; Gold tezabi 24 Ct; Silver tezabi 24 Ct
Medicare	Thermometer China Panadol tab extra / plain; Entox tab.	Flagyl tab. 200 mg; Ventolin tab. 2mg; Cotton bandage 2- 4"	Galxos-D (450 grms); Jouhar Joshanda; Doctor (Mbbs) fee	

Table A4: Top Ten CPI Items (Ranked by Inflation Contribution)							
Items	Unit	Weights	Price Jun-06	YoY Change		Weighted Contribution	
				Jun-05	Jun-06		
A. Ranked by Weighted Contribution							
1	House rent index	Index	23.43	136.6	12.0	7.9	24.2
2	Milk fresh (un-boiled)	Ltr	6.53	24.3	14.7	10.0	8.6
3	Sugar refined	Kg	1.95	35.2	37.6	32.4	8.2
4	Gas cylinder stand. Size	Each	0.68	541.5	-7.7	60.9	5.4
5	Petrol super	Ltr	1.73	57.9	32.5	17.9	4.0
6	Beef with bone average quality	Kg	1.61	108.8	14.3	13.9	2.9
7	Gas charges 10.1157 - 13.4876 mmbtu	mmbtu	0.93	352.8	15.5	22.2	2.7
8	Train fare eco. > 500 km	P/km	0.48	0.5	5.6	34.2	2.2
9	Pulse gram	Kg	0.43	36.7	10.0	34.0	1.9
10	Pulse mash (washed)	Kg	0.20	69.4	18.3	71.9	1.9
Total			38.0				62.1
B. Ranked by Percentage Change							
1	Pulse mash (washed)	Kg	0.20	69.4	18.3	71.9	1.9
2	Gas cylinder stand. Size	Each	0.68	541.5	-7.7	60.9	5.4
3	Silver tezabi 24 CT	10 gm	0.03	227.1	16.5	54.5	0.2
4	Pulse moong (wahed)	Kg	0.22	58.9	41.3	53.8	1.6
5	Tinda	Kg	0.12	19.3	-33.3	48.2	0.8
6	Chillies green	Kg	0.14	28.3	-30.5	42.0	0.8
7	Gold tezabi 24 CT	10 gm	0.20	11833.2	13.1	41.4	1.1
8	Gram whole yellow average quality	Kg	0.15	62.4	28.8	41.1	0.8
9	Lady finger	Kg	0.19	19.6	-12.8	40.4	1.0
10	Train fare eco. 101-500 km	P/km	0.01	0.6	5.0	35.7	0.1
Total			2.0				13.6

Table A5: City-wise Inflation (YoY) by Income Groups, June 2006							
		Upto Rs:3000			Rs 3001 to 5000		
		General	Food	Non-Food	General	Food	Non-Food
1	Lahore	9.7	10.5	9.1	9.6	10.1	9.3
2	Faisalabad	6.6	8.1	5.6	6.8	8.0	6.0
3	Rawalpindi	10.0	11.9	8.7	9.6	10.7	8.9
4	Multan	9.4	9.1	9.6	8.8	8.6	8.9
5	Gujranwala	8.9	11.9	6.8	8.5	10.8	6.9
6	Islamabad	9.6	9.0	10.0	9.8	9.7	9.8
7	Sargodha	9.1	9.5	8.9	8.9	9.7	8.2
8	Sialkot	6.8	5.9	7.5	7.2	6.6	7.7
9	Bahawalpur	9.3	9.9	8.9	9.2	9.4	9.0
10	Karachi	5.3	5.2	5.3	5.3	4.5	5.8
11	Hyderabad	5.9	6.0	5.9	5.8	6.0	5.7
12	Sukkur	5.3	5.0	5.4	4.6	3.8	5.2
13	Larkana	5.3	5.2	5.3	5.5	5.9	5.1
14	Peshawar	7.0	8.0	6.3	7.7	8.8	7.0
15	Bannu	9.7	9.9	9.5	9.7	9.5	9.8
16	Quetta	6.8	6.6	6.9	6.9	7.2	6.8
17	Khuzdar	7.7	9.6	6.4	8.2	9.7	7.2
		Rs 5001 to12000			above Rs 12000		
		General	Food	Non-Food	General	Food	Non-Food
1	Lahore	9.4	9.8	9.1	9.5	9.8	9.2
2	Faisalabad	7.1	8.5	6.1	7.5	8.9	6.5
3	Rawalpindi	10.0	11.2	9.1	10.7	12.0	9.8
4	Multan	8.4	8.1	8.6	8.5	8.7	8.4
5	Gujranwala	8.5	11.2	6.7	8.5	12.0	6.1
6	Islamabad	9.8	10.2	9.5	10.7	11.4	10.1
7	Sargodha	8.6	9.7	7.9	8.5	10.3	7.2
8	Sialkot	7.0	6.1	7.6	7.0	5.7	8.0
9	Bahawalpur	8.8	9.7	8.2	8.1	9.1	7.3
10	Karachi	5.5	4.5	6.2	7.1	4.8	8.7
11	Hyderabad	5.5	5.5	5.5	5.8	5.6	6.0
12	Sukkur	4.7	3.9	5.2	4.6	3.4	5.5
13	Larkana	5.1	5.4	5.0	4.6	4.4	4.8
14	Peshawar	7.7	8.6	7.1	7.6	8.0	7.4
15	Bannu	9.2	8.8	9.4	9.0	8.5	9.3
16	Quetta	6.7	6.3	6.9	7.2	6.0	8.0
17	Khuzdar	8.0	10.5	6.3	8.2	11.1	6.2

Table A6 : Income group-wise Inflation (YoY)								
	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06
Up to Rs. 3000								
General	10.7	7.7	10.7	8.5	7.9	8.4	6.9	8.0
Food	14.6	8.0	13.4	9.5	7.8	8.5	6.2	8.4
Non-food	8.1	7.5	8.9	7.9	8.0	8.3	7.4	7.6
Rs. 3001-5000								
General	10.1	7.3	10.5	8.3	7.8	8.2	6.7	7.7
Food	14.2	7.7	13.3	9.2	7.4	8.2	5.7	8.0
Non-food	7.3	6.9	8.6	7.7	8.0	8.2	7.4	7.5
Rs. 5000-12000								
General	9.4	7.2	10.3	8.5	7.9	8.2	6.7	7.6
Food	13.4	7.8	13.3	9.2	7.5	8.1	5.5	7.9
Non-food	6.6	6.8	8.2	8.0	8.3	8.2	7.6	7.3
Above Rs. 12000								
General	8.4	7.5	10.1	9.0	9.3	8.9	7.1	7.7
Food	12.3	8.1	13.3	9.4	7.6	8.1	5.1	7.6
Non-food	5.7	7.1	7.9	8.7	10.4	9.5	8.5	7.8
All income groups								
General	9.0	7.4	10.2	8.7	8.5	8.5	6.9	7.6
Food	13.1	7.9	13.3	9.3	7.5	8.1	5.4	7.8
Non-food	6.3	7.0	8.2	8.4	9.3	8.8	8.0	7.5

Table A7: Distribution of Wholesale Price Changes (YoY), June 2006				
	Decrease or no change	Subdued increase (up to 5%)	Moderate increase (5 to 10%)	More than 10% increase
Food	Bajra; Onions; Maize; Jowar; Masoor; Eggs; Fresh Fruits; Rice; Wheat; Wheat Flour; Dry Fruits; Maida; Cooking Oil	Cotton Seed Oil; Fish; Spices; Vegetable Ghee; Sugar Confectionary; Mustard & Rapeseed Oil; Condiments; Milk Food	Powdered Milk; Tea; Mineral Water; Chicken; Vegetables; Prepared/Preserved Salt; Fresh Milk; Fruit Prepared/Preserved; Tomatoes	Beverages; Meat; Beans; Vegetables; Oil Cakes; Potatoes; Besan; Gram Whole; Sugar Refined; Gram Split; Moong; Mash
Raw material	Skins; Hides	Mustard/Rapeseeds; Pig Iron	Cotton Seeds	Cotton; Tobacco; Wool; Sugar Cane
Fuel & lighting	Coke; Mobil Oil; Elec. Agriculture Tariff-D; Electricity Ind. Supply Tariff-B			Coal; Motor Sprit; Diesel Oil; Kerosine Oil; Fire Wood; Natural Gas; Furnace Oil
Manufactures	Blended Yarn; Other Electrical Goods; Nylon Yarn; Chemicals; Paper; Glass Products; Soaps; Chrome Leather; Matches	Drugs & Medicines; Utensils; Plastic Products; Foot Wear; Hosiery; Cotton Textiles; Silk & Rayon; Textiles Dying Materials; Woolen Textiles; Ready Made Garments; Tyres; Machinery; Mattresses; Tubes; Transports	Audio-Visual Instruments; Cigarettes; Pesticides & Insecticides; Fertilizers Cosmetics; Cotton Yarn	Jute Manufactures
Building material	Iron Bars & Sheets; Paints & Varnishes	Tiles; Bricks; Timber; Sanitary Wares; Glass Sheets; Cement Blocks; Pipe Fittings		Wires and Cables; Cement

Table A8: SPI Item-wise Price Movements, June 2006					
	Items	Unit	Price Jun-06	Percentage change over	
				Jun-05	May-06
1	Wheat	Kg.	11.1	-1.7	-0.1
2	Wheat flour average quality	Kg.	12.8	-1.3	-0.9
3	Rice basmati. broken	Kg.	20.2	-1.6	-0.1
4	Rice irri-6	Kg.	16.1	-0.3	-0.1
5	Masoor pulse washed	Kg.	42.5	-7.6	-6.8
6	Moong pulse washed	Kg.	59.2	52.3	-5.8
7	Mash pulse washed	Kg.	70.8	71.3	-3.7
8	Gram pulse washed	Kg.	37.0	33.2	-8.4
9	Beef	Kg.	114.4	13.1	0.3
10	Mutton	Kg.	217.9	13.3	0.6
11	Egg hen (farm)	Doz.	27.8	-13.5	26.5
12	Bread plain m.s.	Each	14.5	4.7	0.0
13	Sugar	Kg.	34.9	31.9	-3.9
14	Gur	Kg.	41.1	34.8	3.4
15	Milk fresh	Litr	25.5	10.4	1.9
16	Milk powdered Nido	400g	111.0	4.9	0.0
17	Curd	Kg.	30.2	9.4	1.9
18	Vegetable ghee tin	2.5k	203.7	-0.2	0.1
19	Vegetable ghee loose	Kg.	59.2	0.7	-0.1
20	Mustard oil	Kg.	67.6	3.0	0.7
21	Cooking oil	2.5l	204.4	-0.2	0.0
22	Potatoes	Kg.	21.3	19.7	9.8
23	Onions	Kg.	10.2	-13.3	-3.0
24	Tomatoes	Kg.	21.9	16.8	66.5
25	Bananas	Doz.	34.4	5.9	3.1
26	Salt powdered	Kg.	4.4	19.1	0.9
27	Red chilies (powder)	Kg.	70.4	-5.3	2.0
28	Garlic	Kg.	58.4	9.2	-7.4
29	Tea packet	250g	65.3	5.4	0.0
30	Tea (prepared)	Cup	6.1	11.8	0.2
31	Cooked beef plate	Each	27.9	10.9	1.9
32	Cooked dal plate	Each	16.8	11.6	0.4

Continued ...

Inflation Monitor, June 2006

	Items	Unit	Price Jun-06	Percentage change over	
				Jun-05	May-06
33	Cigarettes k-2	10's	8	7.7	8.5
34	Coarse latha	Mtr.	35	4.9	0.5
35	Lawn (avg.+s.qlty)	Mtr.	80	5.7	0.3
36	Voil printed	Mtr.	38	3.7	1.1
37	Shirting	Mtr.	64	4.0	0.3
38	Sandal gents Bata	Pair	399	-4.8	0.0
39	Sandal ladies Bata	Pair	299	3.5	0.0
40	Chappal spng. Bata	Pair	89	0.0	0.0
41	Kerosene	Litr	39	24.6	0.0
42	Firewood	40kg	182	24.8	0.1
43	Elec. Bulb 60-wats	Each	11	-2.3	0.0
44	Match box	Each	1	8.5	1.6
45	Washing soap	Cake	8	4.0	0.1
46	Bath soap lifebuoy	Cake	14	-0.1	0.0
47	Chicken (farm)	Kg.	74	2.3	38.4
48	Gas chrg. All clb. Comb	D.mmbt	222	20.7	0.0
49	L.p.g .(cylinder 11kg.)	Each	574	68.8	4.7
50	Elec. chrg. all slabs com	Bd. Unit	5	0.0	0.0
51	Petrol	Litr	58	26.7	0.0
52	Diesel	Litr	39	33.1	0.0
53	Telephone local	Call	2	0.0	0.0
Max:				71.3	66.5
Median				5.4	0.0
Min:				-13.5	-8.4

Table A9: Growth in the Production of Selected Crops						
percent						
	FY02	FY03	FY04	FY05	FY06	
Cotton	-1.1	-3.8	-1.6	42.0	-13.0	
Sugarcane	10.2	8.4	2.6	-11.6	-6.2	
Rice	-19.2	15.4	8.3	3.7	10.4	
Wheat	-4.2	5.3	1.7	10.8	0.4	
Gram	-8.8	86.5	-9.5	42.1	-39.3	
Maize	1.3	4.4	9.2	47.4	27.3	
Masoor	-3.0	11.5	6.5	-16.7	-13.5	
Moong	10.4	19.9	1.7	-7.7	-12.6	
Mash	8.2	4.7	-15.5	-25.6	-9.8	
Potato	3.3	13.0	-0.4	4.5	-17.9	
Onion	-11.4	3.1	1.5	21.8	29.0	
Chillies	-46.6	6.0	-2.5	-6.2	34.8	

Source: Economic Survey 2005-06

Figure A1: Frequency Distribution of Price Changes of CPI Items, June 2006

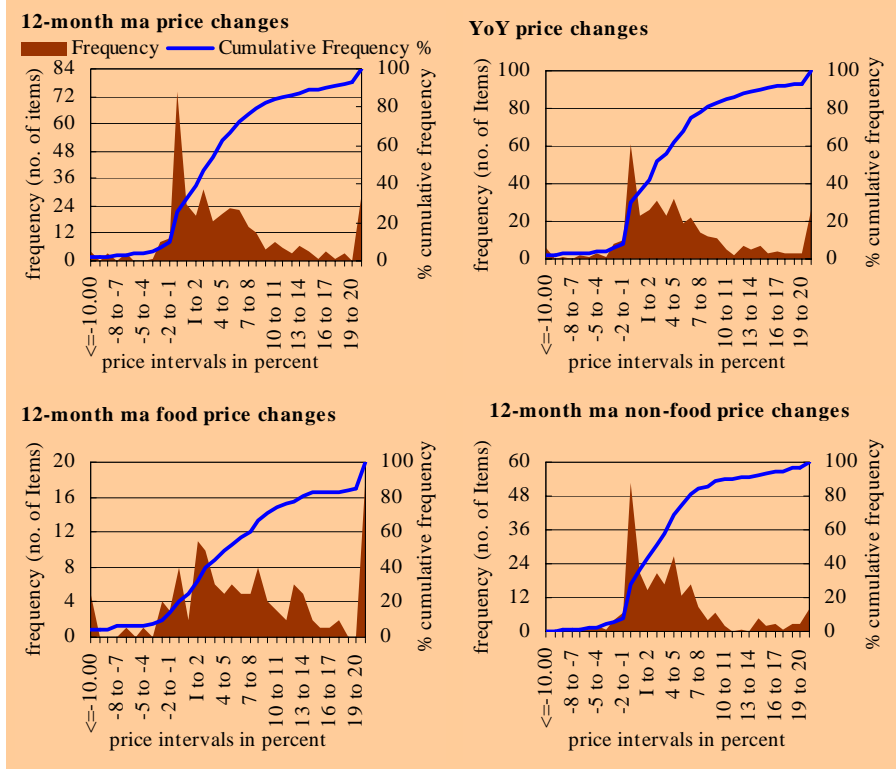
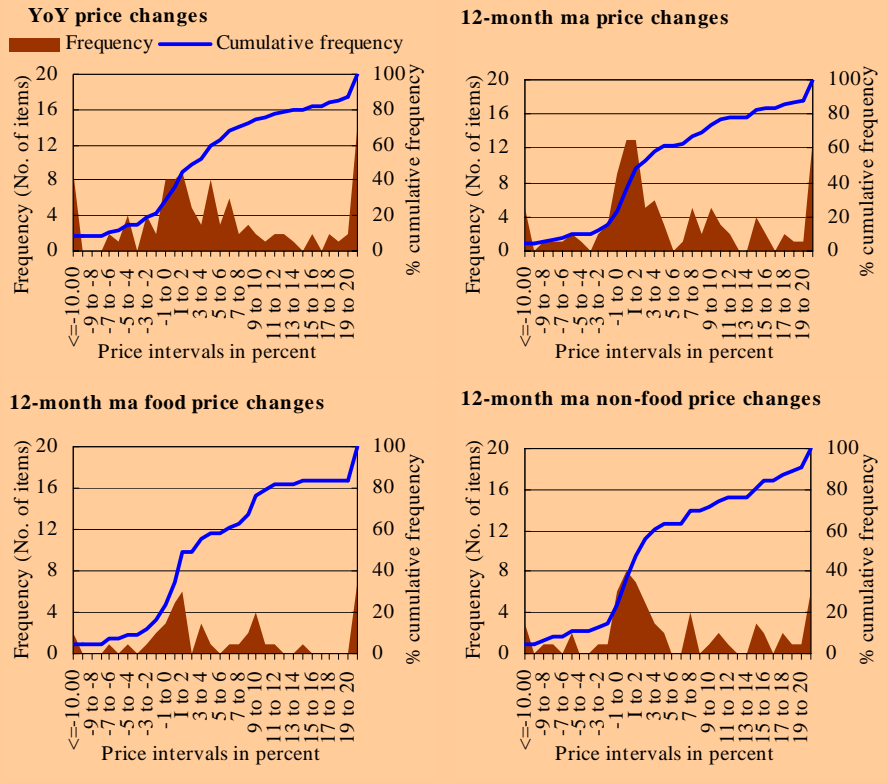


Figure A2: Frequency Distribution of Price Changes of WPI Items, June 2006



Annexure B

Technical Notes

1. All the three measures of inflation, viz. CPI, WPI and SPI are computed by the following Laspeyres Index formula:

$$I_t = \sum_j w_0^j \left(\frac{P_t^j}{P_0^j} \right)$$

where I_t is price index, w_0^j is weight of commodity j in the overall basket, P_t^j is price of commodity j in period t and P_0^j is its price in the base year.

2. Base year for all the indices is the year 2000-01.
3. CPI basket contains 374 consumers' goods; WPI basket contains 425 commodities; SPI contains 53 commodities, list of which is given in Table A3.

4. YoY inflation is the percent change of an index in a given month over the index in the same month of the last year. It is computed as follows:

$$\pi_t = \left(\frac{I_t}{I_{t-12}} - 1 \right) \times 100$$

5. Period average inflation is the percent change of the average index during the period from July to the given month of a fiscal year over the average index during the corresponding period of the last year. It is computed as follows:

$$\bar{\pi}_t = \left(\frac{\sum_{i=0}^{t-v} I_{t-i}}{\sum_{i=0}^{t-12-v} I_{t-12-i}} - 1 \right) \times 100$$

where v is the serial number of the month of July of current fiscal year in a given time series.

6. 12-month moving average inflation (Long-run trend inflation) is the percent change of 12-month moving average of a price index; it is computed as follows:

$$\tilde{\pi}_t = \left(\frac{\sum_{i=0}^{11} I_{t-i}}{\sum_{i=0}^{11} I_{t-12-i}} - 1 \right) \times 100$$

7. Core Inflation is defined as the persistent component of measured inflation that excludes volatile and controlled prices. It reflects the normal supply and demand conditions in the economy. Core inflation is computed by the following two methods:
- a) Non-food, Non-energy inflation (**NFNE** inflation); it is computed by excluding food and energy items from the CPI basket.
 - b) 20% trimmed-mean inflation; it is computed through the following steps:
 - i. All CPI items are arranged in ascending order according to YoY changes in their prices in a given month.
 - ii. 20 percent of the items showing extreme changes are excluded with 10 percent of the items at the top of the list (corresponding to cumulative weight of 90% or more) and 10 percent of the items at the bottom of the list (corresponding to cumulative weight of 10 percent or less).
 - iii. The weighted mean of the price changes of the rest of the items is core inflation.