

# 3 Price Trends

## 3.1 Overview

Inflationary pressures dampened considerably during FY02 despite the aftermath of events of September 11 and continuation of a drought-like situation in the country. Better availability of essential commodities, due to improved production of both food and non-food items as well as the food stocks for prior periods, had a moderating influence on inflation. A noteworthy aspect of domestic goods market was the absence of hoarding and speculation that could otherwise have easily flared up the tempo of prices during US-led war against terrorism in Afghanistan and border tensions with India. Another important feature underlying the inflation that could also have reversed its deceleration was a relatively higher increase in money supply in FY02 compared with the previous year. However, a noticeable deceleration in the net domestic assets of SBP helped absorbing a significant increase in its net foreign assets that enabled the reserve money to expand at a much lower pace than that of money supply, thereby supporting the deceleration in inflation. Appreciation of Pak Rupee by 6.7 percent during FY02 also helped control the imported component of inflation.

Annual average rates of inflation in terms of all three price indices as well as the GDP deflator went down during FY02 from their levels last year.<sup>1</sup> The rate of inflation in terms of the Consumer Price Index (CPI) came down to 3.5 percent in FY02 from 4.4 percent last year. The deceleration was markedly visible in the Wholesale Price Index (WPI); from 6.2 percent in FY01 to 2.1 percent in FY02 (see **Table 3.1**). Deceleration in the Sensitive Price Indicator (SPI) was less pronounced than WPI but more than the CPI. In terms of the annual marginal rates of inflation, deceleration was amply visible in the WPI (down to 2.4 percent in FY02 from 4.5 percent in FY01).<sup>2</sup> However, the CPI and SPI registered acceleration. Nevertheless, the inflation outlook for the future remains subdued as visible in **Figure 3.1**, which indicates a continuing downward trend for the WPI that is likely to contain the pressure on retail prices. In fact, the annual marginal rates of inflation were negative for the WPI during November 2001 to February 2002.

Despite visible deceleration in inflation recorded by various indices, general perceptions about inflation remained skeptical and dismissive of the official figures that are compiled by the Federal Bureau of Statistics (FBS). **Box 3.1** provides important insights about the origin of these negative perceptions. The fact remains that the official inflation numbers are based on a systematic method of survey sampling, which minimizes a lot of biases that creep in selective efforts of individuals to compile prices and compute inflation. Price data compiled by the FBS is one of the most reliable among various data sets in Pakistan. The negative perceptions can be addressed by dissemination of compilation methods and full disclosure of price data along with the results of the Family Budget Survey.<sup>3</sup>

**Table 3.1: Inflation Trends**  
percent

	GDP deflator	Annual average			Annual marginal		
		July to June basis			June to June basis		
		CPI	WPI	SPI	CPI	WPI	SPI
FY98	7.7	7.8	6.6	7.4	6.5	5.3	5.7
FY99	5.9	5.7	6.4	6.4	3.7	4.6	4.1
FY00	2.8	3.6	1.8	1.8	5.1	3.4	3.3
FY01	5.6	4.4	6.2	4.8	2.5	4.5	2.0
FY02 <sup>p</sup>	4.6	3.5	2.1	3.4	4.4	2.4	4.4

<sup>p</sup>: Provisional

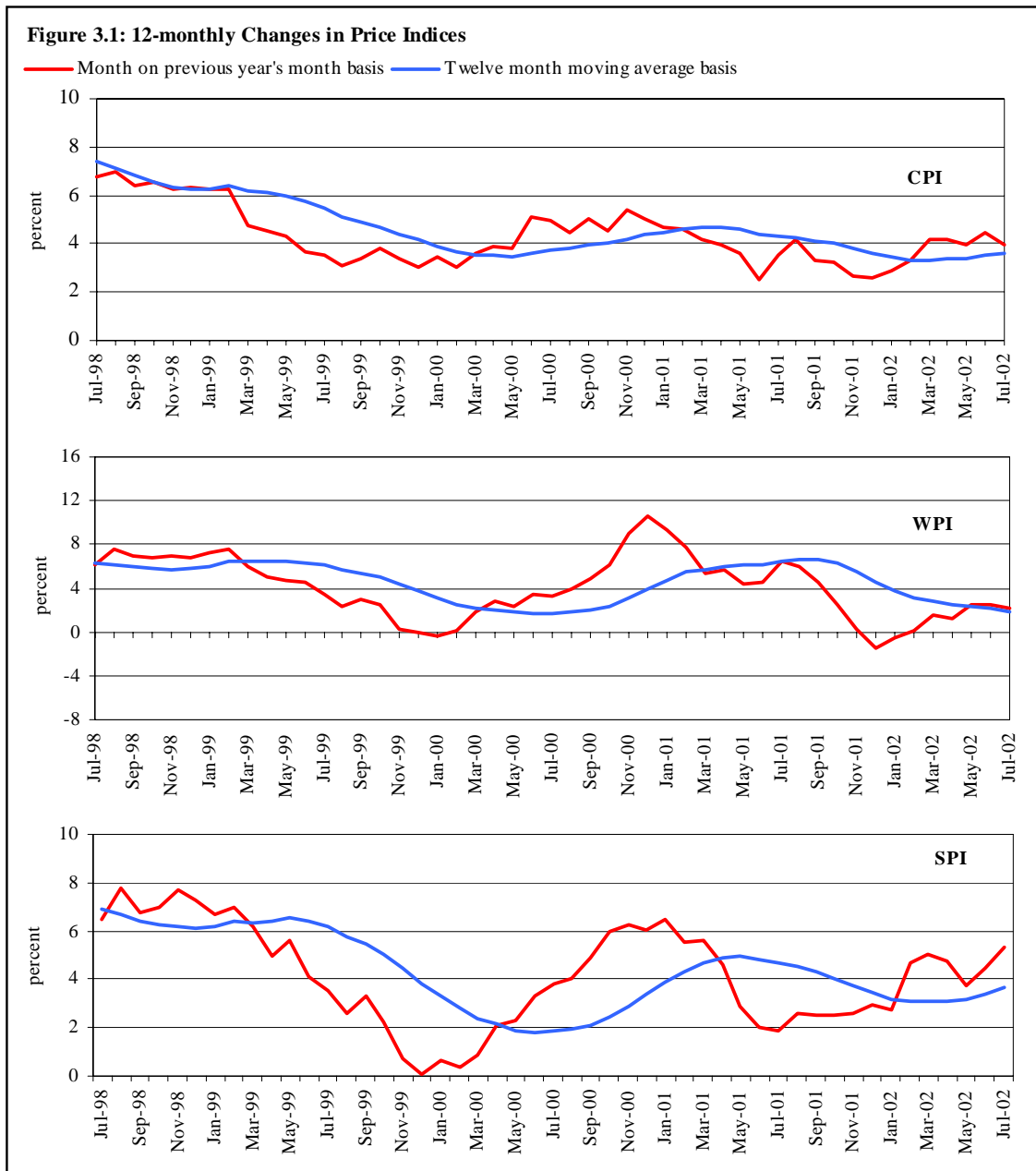
<sup>1</sup> Annual average rate is percent change of average 12-monthly indices for FY02, over the corresponding average for FY01.

<sup>2</sup> Annual marginal (point-to-point) inflation rate is defined as percent change of June index level over previous June index.

<sup>3</sup> FBS has never published the results of the Family Budget Survey which is undertaken to recompose the consumer basket. Although the pamphlets explaining the compilation methods are available, importance of *all* consumer items in terms of their weights had never been disclosed.

### 3.2 Supply Side Factors

A slowdown in the rate of inflation during FY02 has been made possible mainly on account of the considerable improvement in domestic availability and the utilization of piled up stocks of essential items like wheat, sugar, cotton etc. The overall food situation recorded a significant improvement during FY02. The realization of sizeable cotton, wheat and sugarcane crops along with better livestock production largely contributed in improving the supply side. A significant improvement was also recorded in the quantum index of gram, rapeseed & mustard and other minor crops during the period under review. The continued import of raw and refined sugar in early months of the year and accumulating stocks combined with better production during the season were the other factors for keeping commodity prices in lower band. Moreover, the utilization of idle capacity in some of the sectors like cement etc. further eased the supply scenario.



### 3.3 Imported Commodities

The decline in some of the oil and non-oil commodity prices was another contributory factor in moderating domestic inflation during recent years. Given the fact that the economy has a considerable degree of openness to foreign trade, changes in world prices especially of strategic import items, can have significant pass through effects on domestic inflation. **Table 3.2** shows selected commodities of importance in Pakistan's trade basket along with the changes in their international prices during FY02. This importance becomes clear from the fact that during the FY02, Pakistan imported edible oil of US\$ 393.0 million, tea of US\$ 156.6 million and crude oil of US\$ 1, 230.8 million.

The second half of FY02, especially near the end months recorded a sharp increase in the prices of palm oil in international market. Consequent to the increase in international palm oil prices, domestic prices of ghee and cooking oil witnessed an increase in the second half of the FY02. The average price of palm oil in the international market was higher by 59.9 percent in June 2002 over the corresponding period last year. The surge was due to the low stocks, falling production and higher demand (see **Figure 3.2**). Malaysian market remained higher mainly on account of the poor stock, low production and heavy purchases by India, China and certain other countries. However, the surge in demand begin to die down as the stock in Malaysian market is likely to increase as a result of rising output which would have a depressing effect on future prices.

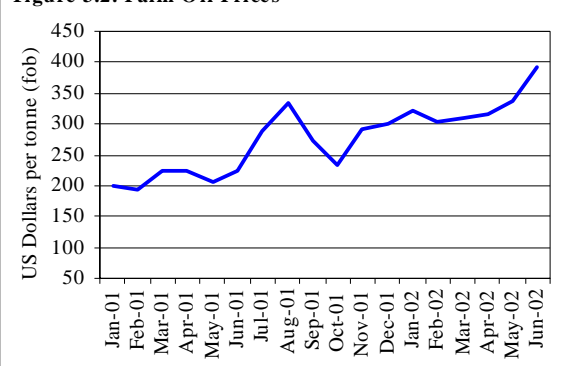
**Table 3.2: Selected Global Commodity Prices**

	Unit	Absolute prices/Index June 02	% Change in FY02 over FY01
Sugar (world)	cent/Kg	12.68	-36.4
Crude oil-Brent	\$/bbl	24.49	-11.65
Cotton, " A" index	cent/Kg	95.40	-8.9
Aluminum	\$/mt	1354.00	-7.6
Tea (avg. 3 auctions)	cent/Kg	154.50	-4.7
Iron ore	cent/dmtu	29.31	-3.3
Steel products index	---	66.50	0.8
Copper	\$/mt	1648.00	2.5
Fertilizer-index	---	99.00	3.1
Wheat US	\$/mt	132.00	4.5
Tin	cent/Kg	428.60	12.6
Rice Thai 5 %	\$/mt	202.70	20.8
Rubber (Malaysia)	cent/Kg	84.50	31.8
Soya bean oil	\$/mt	438.00	38.6
Palm oil	\$/mt	411.00	59.9
DAP	\$/mt	163.60	300

Note: June over June basis

Source: Commodity Price Data, World Bank

**Figure 3.2: Palm Oil Prices**



World petroleum prices recorded a considerable decline in early FY02. There was a considerable fall in world oil demand since September 11, mainly due to low demand and reduced economic growth coupled with excess oil supply that surpassed the last five-year average. However, petroleum prices rebounded in January 2002, largely in reaction of the OPEC's<sup>4</sup> decision to cut crude oil production by 1.5 million barrels on daily basis, conflicting statements from producers on supply increase in future, increasing world economic demand for oil, concerns related to potential oil supply disruptions in the Middle East and labor unrest in Venezuela along with weak inventories of crude petroleum products (see **Figure 3.3**).<sup>5</sup> The recent evidence suggests that international demand for oil has increased over supply, which might escalate energy prices in future (see **Figure 3.4**).

<sup>4</sup> OPEC has traditionally produced almost 40 percent of World oil and hold more than 77 percent of proven oil reserves. Its member includes 11 of the top 20 world oil producers. OPEC also holds most of the world excess oil capacity.

<sup>5</sup> OPEC announced in its November 14, 2001 meeting held in Vienna that it would cut crude oil production by 1.5 million barrels a day, effective from January 1, 2002.

### 3.4 Exchange Rate and Import Prices

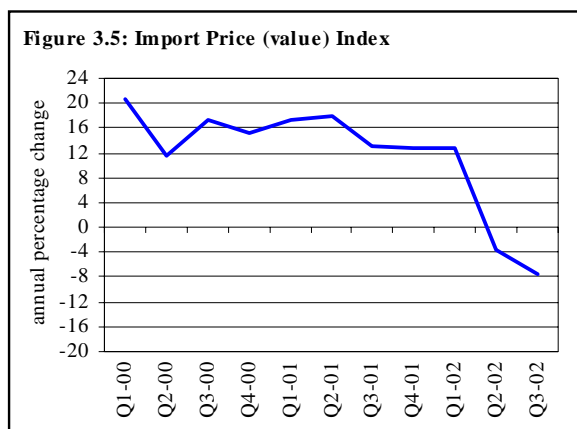
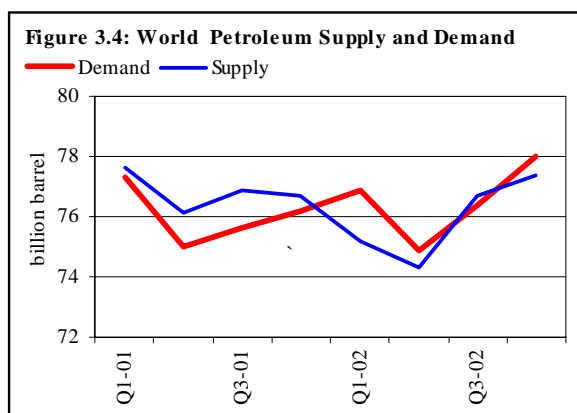
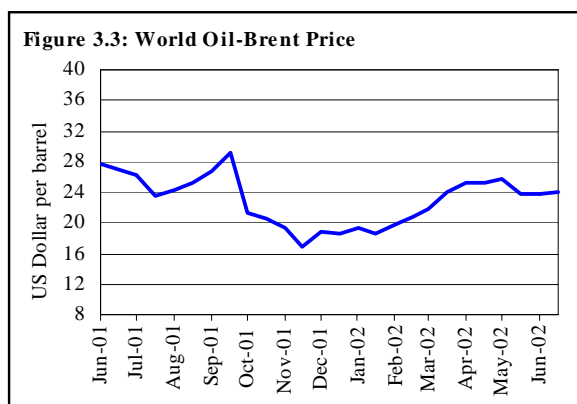
Appreciation of Pak Rupee vis-à-vis US Dollar, both in the kerb and official markets during FY02, has widely eased price pressures as each revaluation/appreciation was translated into a lower prices of imports and thereby, lower inflation. Stronger Rupee against the Dollar in the H2-FY02 also generated a speculative cycle in commodity markets with negative sentiments regarding future prices that further helped in softening inflationary expectations.

The moderation of prices was also attributable to the diminishing impact of imported inflation. The Import Unit Value Index in July-March FY02 was lower than the level in the corresponding period last year. It is also showing a continuous and sharp declining trend during the first three quarters of current fiscal year (see **Figure 3.5**). Producer prices were also affected by the import price of the key energy and raw materials items, whose growth, despite some fluctuations, continued lower during the year compared with the corresponding period.

Among the imported goods, pronounced declines were recorded by the unit values of pulses, petroleum products, petroleum crude, synthetic & artificial silk yarn, plastic materials, insecticides, iron & steel, paper & board, and rubber tyres etc. The decline in the cost of imported items like petroleum and petroleum products, chemicals and machinery may not only have reduced the cost structure of domestic industries but also significantly helped in lowering administered prices, i.e. of petroleum products for most of FY02.

### 3.5 Consumer Price Index (CPI)

As discussed earlier, during FY02, the annualized average rate of increase in terms of CPI has been 3.5 percent compared with 4.4 percent last year. Further disaggregated analysis of the CPI basket reveals that the deceleration was the combined result of slower growth rates both of food and non-food prices. However, the deceleration in the prices of food group was much sharper compared with non-food group. *Food & beverages*, with a weight of 44.13 percent in CPI, increased by 2.5 percent compared with 3.6 percent last year. Similarly, non-food group posted a rise of 4.2 percent during FY02 as against 5.0 percent in the preceding year. This lower increase in the non-food groups during FY02 resulted mainly from reduced rate of increases in case of *fuel & lightening, transport & communication, house rent, and medicines/medicare*. The trend was in opposite direction in remaining other sub indices but their combined weight was too small to reverse the deceleration in



CPI. The contribution of each group towards overall increase of CPI by 3.5 percent during FY02 is given in **Figure 3.6**. Since the weights vary across the commodity groups, the highest contribution to overall CPI increase has been made by *nonfood*. Within the non-food, higher increases were seen in the *fuel & lightening*, followed by *house rent*, *transport & communication*, *textile*, *education*, *cleaning & laundry*, *household furniture* and *medicare*.

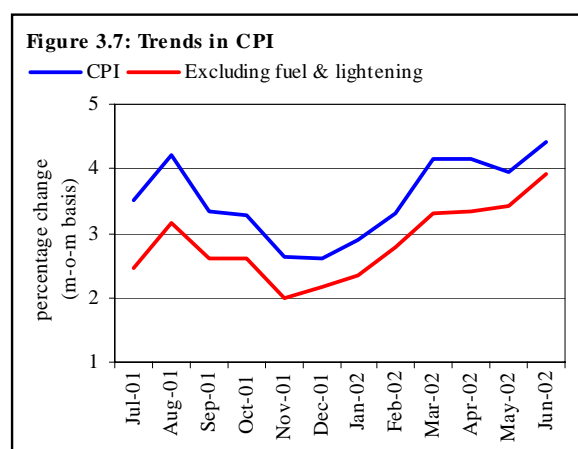
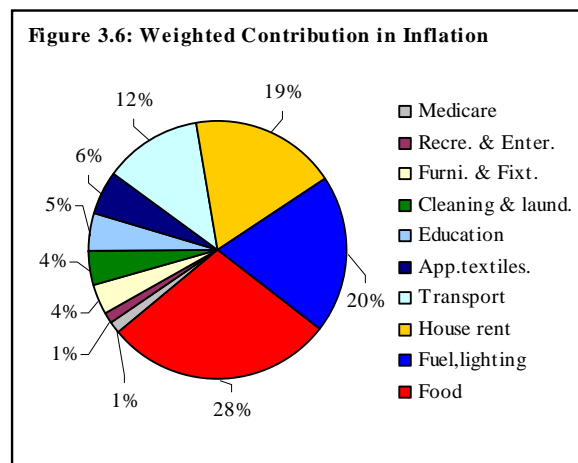
The considerable deceleration in prices of food & beverages occurred because prices of certain important food items of mass consumption either declined or remained stable during FY02. Food price component of the index declined primarily due to weaker prices of wheat, sugar, certain pulses, onion, tomatoes and other vegetables. The price of wheat during FY02 generally remained lower than in previous year because supply was higher than the domestic demand. Similarly, prices of refined sugar and gur also remained on lower side. This decline in prices was mainly due to the higher domestic production combined with large inventory from the FY01 production. Black tea is the major item of consumption in the country. Its prices remained stable with slight variation. The domestic prices of tea should have been much lower keeping in view the lower import prices (unit value of tea declined by 14.6 percent) as well as the pressure of large scale smuggling across the boarder (as suggested by the anecdotal evidence).

However, certain other items including vegetable ghee and cooking oil, and rice recorded an increase in their prices. Since the domestic ghee industries mostly process imported palm oil, the prices of vegetable ghee and cooking oil prices rose in the second half of the FY02, following the increase in international prices of palm oil. The subsequent increase in the import unit value by 17.2 percent of palm oil and fall in the domestic production of vegetable ghee by 5.7 percent further put pressure on the prices of vegetable ghee and cooking oil in the latter half of the year.

Month on month analysis of CPI trend revealed that during H2-FY02, there began an upward pressure on the prices, pushing up the overall index. This implies the impact of various developments such as rising international oil prices, increase in the rate of surcharges on gas & petroleum, electricity, steady rise in indirect taxes, and increase in prices of vegetable ghee and cooking oil, etc. (see **Figure 3.7**).

A detailed investigation reveals that sub indices of *fuel*, *lightening* and *transport & communication* contributed one-third of the overall increase in CPI. In the new basket of CPI the weights of *fuel and lightening* have not only increased but there is a structural change with substantial increase in the weight of *gas and electricity*.

Since increase in the prices of petroleum, gas and electricity had both a direct effect on consumer prices and an indirect in the form of increase in the prices of those consumer goods that make



extensive use of these items as input. Any increase in the prices of these items pushes the rate of inflation with a magnitude determined by the extent with which these are used in the production of final goods. In recent years, there was a steady rise of government levy on petroleum and gas in addition to the rise of 3.5 percent in the distribution margin of oil marketing companies during the third quarter of FY02 (see **Figure 3.8**). This is likely to push the prices of POL products up in future.

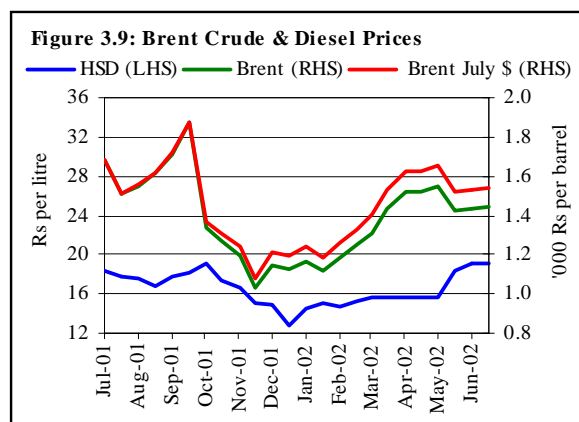
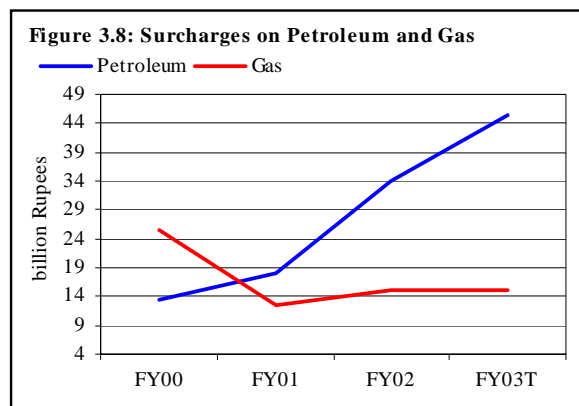
The deceleration in prices of *transport & communication* was on account of the downward adjustment in the larger part of the year in the prices of certain important items covered under this group. According to the present practice, the Oil Companies Advisory Committee (OCAC) reviews the prices of petroleum products on a fortnightly basis, however, on average basis during FY02 petrol prices declined by 0.81 percent (see **Figure 3.9**).<sup>6</sup>

### 3.6 Income distribution and incidence of inflation

The CPI is also constructed for separate four household monthly income groups: (a) Up to Rs 3,000; (b) Rs 3,001 to Rs 5,000; (c) Rs 5,001 to Rs 12,000 and; (d) Above Rs 12,000. An analysis of inflation across the different income groups reveals divergent but normal pattern of inflation from low to high. **Table 3.3** depicts that the inflation was higher for upper income group compared to the lower income group. In other words, the lowest income group recorded the lowest inflation of 3.0 percent.

The subdued growth of inflation in lower income group is mainly on account of the lower food prices that capture larger share of income of this group. A similar trend was observed in the inflation of middle-income group, though it is higher than that of lower income group but still lower than the overall inflation rate of 3.5 percent.

The lower *food* inflation reflects overall macroeconomic policy to protect the lower earning groups compare with the well-to- do from inflation through ensuring the availability of essential food items



**Table 3.3: Inflation by Income Groups**  
percent

Income groups	Inflation	Deviation from mean
Income up to Rs 3000	3.0	-14.3
Income up to Rs 3001-5000	3.4	-2.9
Income up to Rs 5001-12000	3.4	-2.9
Income above Rs 12000	3.6	2.9
<b>All income groups combined (mean)</b>	<b>3.5</b>	<b>0.0</b>

<sup>6</sup> OCAC was established in early FY02 to introduce a market based pricing system on fortnightly basis for POL products with oil prices linked to international crude oil prices.

during FY02.<sup>7</sup> However, inflation was high in the upper income, indicating comparatively higher price increase in non-food items, on which larger portion of income of this class is spent. The escalating energy prices, increasing house rent and costlier education seemed to be the major reasons for high inflation in this group.

### 3.7 Wholesale Price Index (WPI)

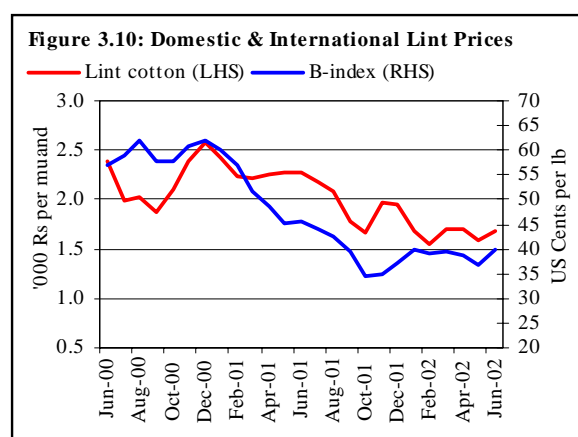
WPI is comprised of prices of 96 items at wholesale level. The WPI, which had risen by 6.2 percent last year, recorded an increase of 2.1 percent. WPI trend in the last five years is given in Table 3.1. The food and non-food components of WPI also declined sharply during FY02 compared with last year. Sub-groups of WPI reveal that *fuel, lightening & lubricants* group recorded higher increases compared to overall increase in the WPI. However, the larger deceleration in the indices of *food, raw materials* and *building materials* largely pulled down the growth of wholesale price index. The decline in *raw materials* prices is attributed mainly to the decline in price of cotton, which carries a higher weight in this group. Price increases in terms of WPI items are given in **Table 3.4**.

During the FY02, cotton prices declined from Rs 2,186 per 40 Kg as on July 2001 to Rs 1,656 in October and to Rs 1,555 on February 2002 then showed a rise to Rs 1,706 in June 2002 (see **Figure 3.10**). Moreover, the export of cotton yarn has declined during FY02 both in value terms as well as in quantity.

Realization of a good cotton crop last year, subsequent stockpiling by textile producers, the slight loss of momentum of textiles in terms of lower production in early parts of the FY02, slowdown in global economy and subsequent depressed demand for Pakistani

textile products as well as the decline in the export of raw cotton largely influenced the behavior of domestic cotton prices. World cotton consumption is projected to increase by 1.2 percent, reaching a level of 20.7 million tons in 2003-04. Consumption is expected to increase by 1.5 percent in China, by 1.8 percent in India and by 4.0 percent in Turkey.<sup>8</sup> Assuming that during the FY03, world production of cotton will be stable, consumption will rise on account of the higher demand of the industrial economies. Also, China's cotton crop may have suffered a setback, which would necessitate its imports to feed its domestic industry. The emerging favorable external scenario for cotton exports and international prices are likely to offset the downward pressure on domestic cotton prices due to the glut of cotton production in 2001-02 and large carry over stocks to next crop season 2002-03.

Considerable deceleration was also observed in the prices of *raw materials*. The weak *raw materials* prices (cotton, pig iron and wool in particular) was on account of the slowdown in manufactured exports and lower domestic demand. Manufactures price index increased by 2.1 percent during the FY02 compared with 1.3 percent last year. However, on month-on-month basis, the prices of manufactures have shown a downward trend in the recent months (see **Figure 3.11**).



<sup>7</sup> For shielding the poor and vulnerable from adjustment costs, government has launched food support program. At around 1.2 million poor households with monthly income of Rs 2,000 are the beneficiaries of this program. Cash support of Rs 2,000 was provided to them through biannual installments. Rs 2.9 billion were spent on this program from the federal budget during FY02. In addition, with the recent revamping of Zakat and Ushar system, annual Zakat collection is around Rs 4 billion. About 2 million beneficiaries received assistance from the Zakat fund during the period under review.

<sup>8</sup> Monthly Review of World Cotton Situation, ICAC, May-June 2002.

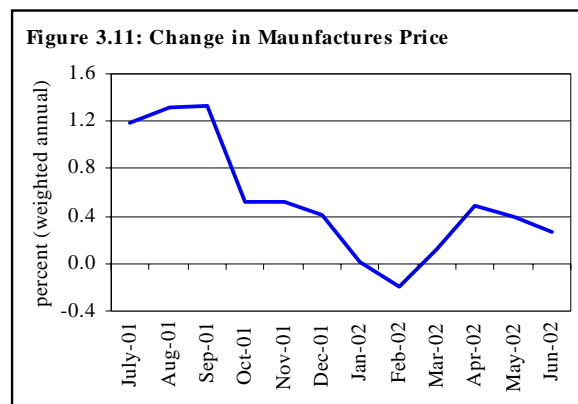
Table 3.4: WPI Items Classified by Range of Price Changes - FY02

Groups	Decrease or no change (0 % or less)		Subdued increase (up to 5%)		Moderate increase (5 to 10%)		Double digit increase over 10%	
	Weight	Items	Weight	Items	Weight	Items	Weight	Items
Food	5.4956	Meat	10.739	Fresh milk	3.2207	Cooking oil	2.6167	Cottonseed oil
	3.3547	Sugar refined	3.0645	Wheat flour	1.2659	Powdered milk	1.3234	Oil cakes
	2.2729	Fresh fruits	2.0262	Rice	0.6594	Wheat	0.4578	Spices
	1.1418	Chicken	0.3247	Beverages	0.106	Vegetables	0.1724	Gram split
	0.0508	Condiments	0.3929	Maida	0.0518	Vegetable ghee	0.2274	Gram whole
	0.0945	Suji	0.5111	Eggs	0.8633	Tea	0.0639	Moong
	0.0885	Salt					0.8933	Mustard & rap. oil
	0.0538	Mash					0.3132	Maize
	0.1818	Tomatoes					0.2762	Potatoes
	0.0733	Jowar					1.826	Fish
	0.0249	Barley						
	0.0734	Bajra						
	0.0534	Milk food						
	0.5469	Gur						
	0.4652	Dry fruits						
	0.3676	Onion						
0.0586	Masoor							
Raw materials	3.8575	Cotton	0.161	Tobacco			1.5519	Cotton seed
	0.7515	Pig Iron	0.1157	Groundnuts seed			1.0766	Sugarcane
	0.2282	Wool					0.4976	Skins
							0.3805	Hides
						0.1409	Mustard & rapeseed	
Fuel, Lighting & Lubricants	2.6561	Natural gas	0.8553	Lubricants	2.6878	Other oils	4.3021	Motor Fuels
	1.9134	Coal			0.0433	Fire wood	2.3364	Electricity
	0.4838	Coke						
Manufactures				Other electric goods	0.0292	Tubes	2.0334	Transport
	5.8661	Cotton yarn	0.4191		0.3705	Soaps	2.0309	Fertilizer
	1.5974	Cigarettes	0.1401	Cosmetics				
		Ready made						
	1.329	Garments	2.3691	Cotton textiles	0.123	Glass products	0.3448	Jute manufactures
				Drugs & Medicines	0.8622	Matches	0.4539	Hosiery
	0.1792	Papers	1.8356	Machinery	0.0492	Woolen textiles	0.7338	Leather
	0.6109	Chemicals	0.7485					
	0.3331	Plastic products			0.3437	Tyres	1.5274	Footwear
	0.2619	Nylon yarn					0.2011	Utensils
0.2303	Silk & rayon textiles							
0.2256	Blended yarn							
0.211	Audio-visual instruments							
0.0696	Dyeing materials							
Building Materials	0.0363	Pipe fitting	0.0079	Tiles	1.7568	Cement	0.1534	Paints & varnishes
	0.0523	Bricks/Blocks	0.047	Glass sheets	0.0225	Timber		
	2.5407	Iron bars and sheets	0.0187	Wires and cables				
	0.0012	Sanitary wares						

This trend in prices of manufactures may partly be attributed to the global decline in prices of raw materials and manufactures on account of the slower growth in world economy and recession in industrial countries. During FY02, exports of certain manufactured goods also declined. Among these, significant decline was recorded in cotton yarn, hosiery, synthetic textiles, tarpaulin & canvas goods, carpets and rugs. Being one of the major markets for Pakistani carpets, the recession in US



economy had an adverse impact on the performance of carpet and other manufactures. The growing market competition among producers for increasing their outlets, adopting economies of scale through minimizing losses may also have an impact on falling prices of manufactures. Further, the decline in the cost of imported items like petroleum and petroleum products, chemicals and machinery may also reduce the cost structure of domestic industries. The prices of building materials recorded an increase of 0.5 percent compared with 2.9 percent last year. The decline in investment demand combined with lower prices of iron bar, sheets, bricks/blocks and sanitary-ware might have played their part in lowering prices of building materials. The higher import of iron and steel by 38.4 percent along with the decline in their unit value by 13.2 percent seems to be the other reason for lower prices.



### 3.8 Sensitive Price Indicator (SPI)

Sensitive Price Indicator (SPI) evaluates and assesses the impact of price changes of mostly kitchen items which have a direct bearing on the cost of living of the lower income groups. The sensitive price indicator comprises retail prices of 51 items including four items of utilities prevailing in 17 major cities. The SPI showed an increase of 3.4 percent compared to 4.8 percent last year. Movements in SPI were in line with CPI as marginal inflation rate showed a similar trend. SPI recorded an increase of 4.4 percent in June 2002 over June 2001 compared with 2.0 percent during the corresponding period last year. The lower increase is primarily on account of the lower prices of wheat, vegetables, sugar and other essentials.

**Box 3.1: Why are Consumers Skeptical of Official Inflation Figure?**

General notions about the rate of inflation depend mostly on judgment of persons in making a selection of prices of few items at two points in time and taking a simple average of these price changes. Two major biases creep into this approach, the first is due to the selection of items, which may not be a good representation of the consumption basket. Second is due to lack of accounting for the relative importance of items in the consumption basket. **Table 3.1.1** shows a simple example that illustrates the significance of using weighted average to calculate the rate of inflation. This example emphasizes that it is the change in the cost of living that is important rather than the changes in prices per se. If a family consumes a hefty amount of milk and a puny amount of spices, it will be reflected in its expenditure pattern that should be taken into account while estimating the impact of cost of living. Moreover, taking a large number of items, rather than just four in above example, will also reduce the bias in estimated rate of inflation.

**Table 3.1.1: Example of Simple vs Weighted Average**

Basket of four items	Price changes in a year	Relative importance (expenditure shares)
Milk	4.0%	63.0
Rice	2.0%	17.0
Spice	35.0%	2.0
Cooking oil	8.0%	18.0
Simple average of price changes	12.25%	100.0
Weighted average of price changes	5.00%	

As it is not practicable to obtain a census of prices for all consumer transactions in the country, the Consumer Price Index is calculated on the basis of well-designed sample surveys of prices of representative items that are conducted throughout the year. In addition, a Family Budget Survey is conducted every five or ten year to estimate the changing profile of consumption basket. Relative importance of consumer items is also established in this survey by estimating the expenditure shares of each item in the expenditure budget of families. These shares are then used to weight the price changes in an appropriate statistical formula (usually, the Laspeyre's formula) for estimating the price index. Items with higher weights have greater impact on CPI than those with lower weights. The lay person approach of calculating inflation rate is generally based on simple averages rather than the weighted average. These two methods of computing inflation provide significantly different results as illustrated above.

**Table 3.1.2: Commodity Group Weights**

Groups	Previous basket 1990-91=100		New basket 2000-01=100	
	No of items	Weight	No of items	Weight
1.Food group	163	49.35	124	40.34
2.Non-food group	297	50.65	251	59.66
Apparel, textile & footwear	65	7.56	42	6.10
House rent	1	18.98	1	23.43
Fuel & lightening	17	6.1	16	7.29
Household, furniture & equip.	53	2.0	44	3.29
Transport & communication	43	5.08	42	7.32
Recreation & entertainment	15	1.12	16	0.83
Education	26	2.0	24	3.45
Cleaning, laundry & personal appear.	45	5.4	36	5.88
Medicines/Medicare	24	2.38	25	2.07
<b>Total</b>	<b>460</b>	<b>100.0</b>	<b>375</b>	<b>100.0</b>

Source: Federal Bureau of Statistics

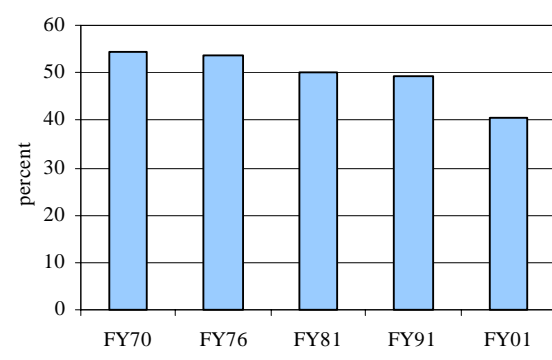
The CPI is a measure of the average change in prices paid by urban consumers for a fixed market basket of goods and services. It is a statistical average, and may not reflect the experience of particular individuals or that of specific families, in particular those whose expenditure pattern differ substantially from the "average" urban consumer.

In Pakistan, CPI is usually re-based and its weights revised once in every ten years to ensure that the consumer basket continues to reflect accurately the current expenditure pattern of all households in the country, and during the process, remains a reliable indicator for consumer inflation. Till now, Federal Bureau of Statistics has re-based the index six times including the latest revision of the base in 2000-01.

The coverage of CPI in terms of items has increased from 202 items in 1969-70 to 460 items in 1990-91. During 2000-01, the CPI basket was further refined to 375 items in the latest revision by introducing various new items and deleting irrelevant items to improve its representativeness. Commodity groups and their weights are given in **Table 3.1.2** for the new and previous basket.

**Box 3.2: Per Capita Income and Food Consumption**

If an economy's per capita income grows, its consumers normally spend a greater share of their income on non-essential items other than food. This expected behavior is usually reflected in the changing weights of food group within a country over a period of time as well as across the countries at a point of time. **Figure 3.2.1** illustrates a downward trend for food weights in CPI basket in Pakistan. The argument owes its support from economic theory and is verifiable from a comparison of CPI weights amongst the countries operating at different levels of development. In Pakistan, the share of food in CPI basket has declined from 54 percent in 1969-70 to 40 percent in 2000-01; backed by the fact that real per capita GNP in terms of Rupee has increased from Rs 3,589 in 1980-81 to Rs 5,294 in 2001-02. Similarly, cross-country analysis reveals that the weights of food group in CPI are lower (weights of non-food group are higher) in countries with higher per capita income and vice versa (see **Figure 3.2.2**).

**Figure 3.2.1: Historical CPI Weights-Food Group****Figure 3.2.2: Inter-Country Food Weights in Relation to per Capita GDP**