Highlights

- General inflation, based on Consumer Price Index (CPI), increased from 9.7 percent in December to 10.10 in January 2012.

- Even though the global wheat price continued to decline, inflationary trends in domestic wheat and wheat flour prices continued in January 2012.

- Sugar prices in January 2012 fell to their lowest level in the past three years.

- The government announced second consecutive increase in the fuel prices in January 2012 alone.

- Fertilizer companies drastically increased the prices of agricultural inputs at the beginning of the year 2012.

- High demand has caused the price of the poultry products to reach a record high.
Inflation Watch

General inflation, based on Consumer Price Index (CPI), increased in January 2012 by 10.10 percent against the same period last year. Similarly, in January 2012, the CPI of Food and Non-alcoholic beverages increased by 9.30 percent against the same period last year.

Analyzing percentages of CPI numbers of some of the top daily use food commodities which changed in January 2012 compared to previous month (December 2011) revealed that several food items registered an increase while others decreased. Notably, chicken (24.12 %) and eggs (18.26 %) increased while tomatoes (18.53%) and potatoes (16.84%) decreased.

Similar analysis of CPI numbers in January 2012 compared to same period previous year (January 2011) revealed that chicken (27.90%), eggs (25.03%), and fresh fruits (25.23%) increased while tomatoes (35.70%), sugar (29.35%), main pulses (9.27% - 11.64%) decreased.

1Source: Federal Bureau of Statistics, Pakistan.

Global wheat price continued to decline in January 2012

In January 2012, the global estimated wheat production has increased by 2.8 million MT over the estimates of December 2011. The increase has mainly come from increased production of wheat in Kazakhstan, Brazil and Russia. Production is up by 1.5 million tons in Kazakhstan by 0.8 million tons in Brazil and 0.2 million tons in Russia. With the increase in production globally, price of wheat in some countries has further decreased.2

Price of Indian wheat decreased by 17 percent compared to December 2011. However, this decrease is because of the general depreciation of Indian Rupee against the US dollar in January 2012, and thus cannot be attributed to the increased wheat production. The in-country price of wheat in India is almost the same as in December 2011. Similarly, the wheat price in Afghanistan registered a decrease of 5 percent (in US Dollar terms) because of the Afghan currency’s depreciation against the Dollar.

2World agricultural supply and demand estimate, World Agricultural Outlook Board, January 12, 2012

Domestic wheat price compared to the global wheat price remained 26 percent high against USA (white soft), 4 percent up against India whereas remained 20 percent down against Afghanistan wheat prices. The domestic wheat price has been increasing since mid - 2011. In July 2011, the domestic wheat price was 1.3 percent below India, 8 percent above USA and 30 percent below Afghanistan. Pakistan being a wheat producing country, it can be expected that the price of wheat here should not be higher than other wheat producing countries of the world, especially the developed ones. However, this is not the case. The government has increased the wheat support price which will further inflate the wheat prices thereby increasing food insecurity in the country by making food access difficult for poor populations.

Inflationary trend in domestic wheat and wheat flour prices continued in January 2012

The prices of wheat and wheat flour have increased significantly with the announcement of new wheat support price of Rs.1050/40kg (from Rs.950) by the Government. A good wheat crop and a slump in international commodity prices have so far ensured a comfortable supply situation of wheat and wheat flour in the country. In view of the good harvest, there will be no shortage of wheat in 2012 as the crop size is expected to be the same as last year. However, the increase in wheat support price has pushed the price of wheat and wheat flour up significantly, and is likely to continue in the coming months.
Drastic increase in the prices of Agricultural Inputs

Agricultural input prices have increased significantly due to the increased cost of production and heavy taxes. With the imposition of Gas Infrastructure Development Cess (GIDC) the fertilizer manufacturers have increased the price of a 50-kg urea bag to Rs.1790 which was previously sold for Rs.1500 to 1550. The companies have justified the price increase citing the imposition of tax and with this GIDC. In December 2011, Fauji group (FFC and FFBL) has already increased Rs.50 per bag to pass on the incremental cost of gas tariff; and it is expected that they will increase urea prices further by Rs.160 per bag. Besides GIDC, Government has also increased the prices of fuel gas for fertilizer plants to Rs. 448 per mmbtu from Rs.433. This drastic increase in the cost of agricultural inputs is likely to lead to a hike in the prices of agricultural products in the coming days.

Second consecutive increase in the Fuel Prices in January 2012

The inflationary trend in the price of petroleum products observed from the beginning of the previous year (2011) continued in 2012 as well when the Pakistan Oil and Gas Regulatory Authority (OGRA) announced a 5 percent increase in their prices in (31st January 2012). This was the second consecutive increase in the month of January 2012 alone. With the recent increase, the prices of petrol and High Speed Diesel (HSD) are now Rs 94.91 and Rs.103.46 per liter respectively, the highest ever prices for these items.

In January 2012 the price of Petrol has been increased by 6 percent and that of HSD by 4.7 percent against December 2012. Similarly, the price of the Light Diesel has increased by 4 percent, kerosene oil by 3 percent and High Octane by 6 percent in the same period. This increase would obviously put a significant pressure on the already unstable commodity markets due to the increase in production and transportation costs. On average, the prices of all petroleum products have increased by 30-35 percent since January 2011.
High demand has caused poultry product prices to reach record high

Prices of poultry products have reached a record high in the country because of their growing demand. Normally the demand for poultry products, especially eggs, increases in the winter season resulting in increase in prices. At present, the average retail price for a dozen of eggs is Rs.116. Likewise per kilogram average price of chicken is Rs.162, an increase from 120 -125/kg a few months ago. In January 2012, the price of eggs was 45% higher and that of chicken was 23% higher than the same period last year. The price of chicken increased from Rs.137 per kg in September 2011 to Rs.162 in January 2012 registering an increase of 17%, while that of eggs increased from Rs.85 per dozen to Rs.116 (an increase of 36%) during the same period.

Fig. 4: Prices of poultry products in Pakistan (Jan 2011 – Jan 2012)

Inter-provincial differences in the prices of poultry products have also been observed. For instance, in January 2012, the price of a kilogram of chicken in Peshawar was recorded as Rs.170 whereas it was Rs. 144 in Lahore, Rs. 175 in Karachi, and Rs 156 in Multan.

Sugar prices at their lowest level in January 2012

The government has finally allowed export of 100,000 tons of sugar to improve sugar industry’s cash flows and ward-off a possible glut in the market that may further bring down the retail price. The estimated sugar yield for current year is around 4.5 to 5.0 million tons in addition to 900,000 tons of carry over from the previous year. The total estimated sugar supply thus becomes far beyond the estimated domestic consumption of 4.2 million tons, hence the government decided to lift the export ban on sugar imposed since 2009. Thanks to the abundant supply of sugar, its retail price has gone down reaching its lowest level since the past three years. The retail price was recorded at Rs.51.8 per kg, which is 4 percent lower than December 2011. The price of sugar in January 2012 has decreased by a whopping 28% compared to January 2011, and by 30% compared to January 2010.

Fig. 5: Retail sugar prices per kg( Jan 11- Jan 12)
## Market Bulletin Jan 2012: Retail Prices of Major Food Commodities

<table>
<thead>
<tr>
<th>City</th>
<th>Major Commodities</th>
<th>Current Prices</th>
<th>% Change</th>
<th>Trend of price Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Jan-12</td>
<td>Jan 12 over Dec 11</td>
<td>Jan 12 over Jan 11</td>
</tr>
<tr>
<td>Lahore</td>
<td>Wheat</td>
<td>27.66</td>
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<td>Lahore</td>
<td>Wheat flour av. Qtl</td>
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<td>Lahore</td>
<td>Rice irri-6</td>
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<tr>
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<td>Lahore</td>
<td>Sugar</td>
<td>51.93</td>
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<td>Lahore</td>
<td>Vegetable ghee</td>
<td>198.00</td>
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<td>Lahore</td>
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<td>Lahore</td>
<td>Chicken</td>
<td>143.86</td>
<td>29.88%</td>
<td>46.33%</td>
</tr>
</tbody>
</table>

▲ = Increase in price  
▼ = Decrease in price  
► = No change