

3 Price Trends

3.1 Overview

Inflation edged up slightly in FY01 after recording a three-decade low last year. The average rate of inflation in terms of Consumer Price Index (CPI), rose to 4.4 percent in FY01 from 3.6 percent in the previous year.¹ Despite this increase, future outlook for inflation remains subdued as the marginal rate of inflation edged down to 2.5 percent from 5.1 percent last year.² In fact, the current year witnessed a historic low for marginal rate of CPI inflation.

In terms of Wholesale Price Index (WPI), the average rate of inflation has gone up, much more sharply than CPI, from 1.8 percent in FY00 to 6.2 percent this year. In contrast with CPI, marginal rate for WPI has gone up from 3.4 percent in FY00, to 4.5 percent in FY01. Thus the future trend for WPI is not as optimistic as that of CPI.

As for the Sensitive Price Indicator (SPI), inflation has gone up from 1.8 percent in FY00 to 4.8 percent, but marginal rate has gone down from 3.3 percent in FY00 to 2.0 percent in FY01. Future inflation outlook, therefore, both in terms of CPI and SPI remains subdued. The rate of inflation as measured by the GDP deflator (conceptually a broader measure of inflation), has also increased to 5.4 percent in FY01 from 3.1 percent last year. **Table 3.1** depicts the average and marginal rates of inflation for the three price indices, while **Figure 3.1** shows monthly inflationary trends.

Table 3.1: Inflation Trends
percent

	GDP deflator	Annual average rates July to June basis			Annual marginal rates June to June basis		
		CPI	WPI	SPI	CPI	WPI	SPI
		FY97	13.3	11.8	13.0	12.5	12.5
FY98	7.7	7.8	6.6	7.4	6.5	5.3	5.7
FY99	6.0	5.7	6.4	6.4	3.7	4.6	4.1
FY00	3.1	3.6	1.8	1.8	5.1	3.4	3.3
FY01	5.4	4.4	6.2	4.8	2.5	4.5	2.0

GDP deflator for FY01 is provisional

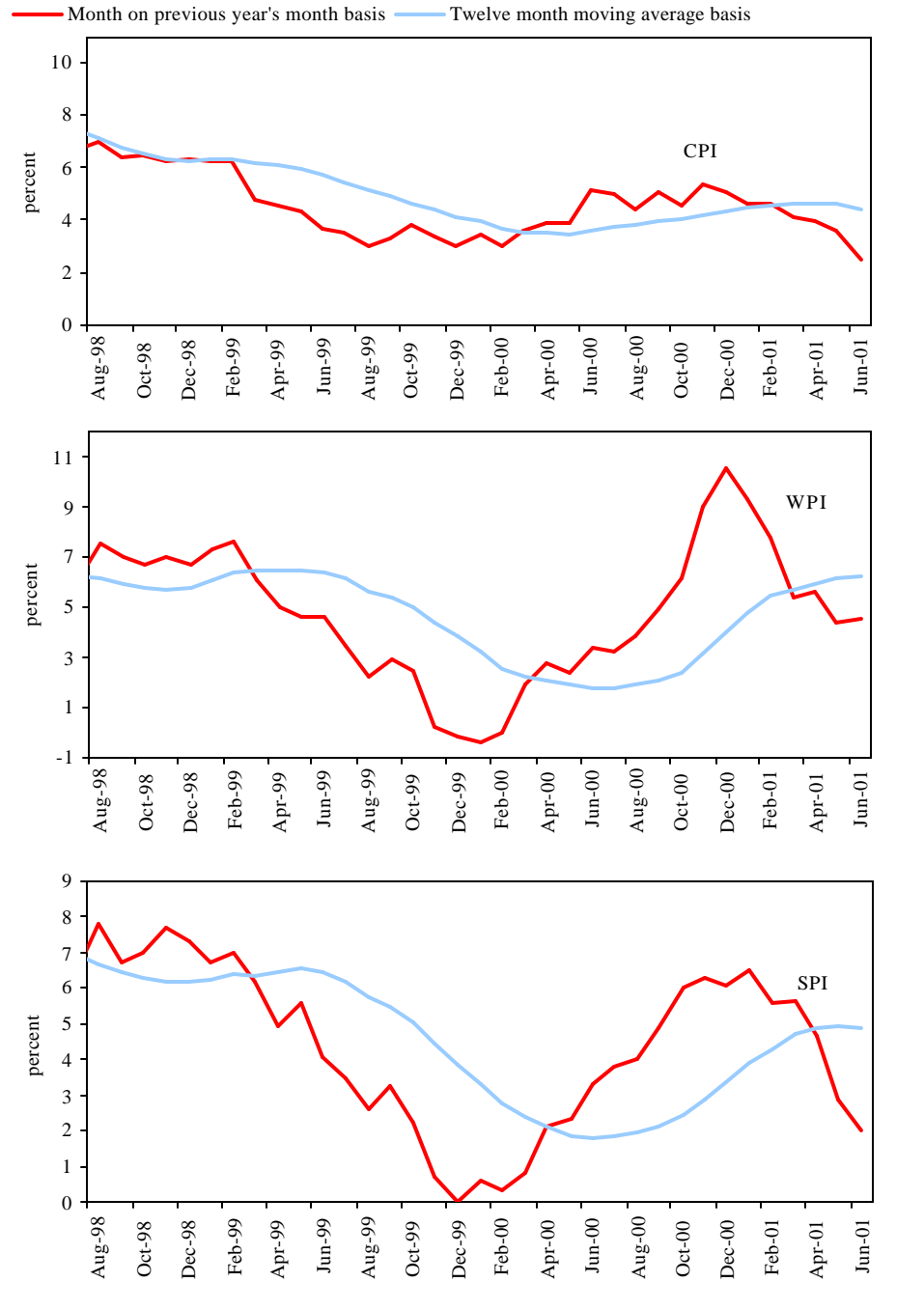
A variety of factors contributed towards the observed price increase during FY01:

- ?? In the international market, prices of some essential commodities like POL increased. As a key input in various economic activities, some impact on domestic prices was inevitable. The surge in international oil prices was translated through upward adjustment in retail oil prices, electricity tariff and gas charges, which adversely affected the domestic cost of transportation, production and distribution of goods and services.
- ?? The Rupee depreciated by 18.6 percent against the US Dollar during FY01, thus making imports more expensive. The import unit value index of many groups recorded substantial

¹ Annual average rate of inflation, or the year on year rate, is defined as percent change of average twelve monthly indices for the current fiscal year, over the corresponding average for the previous year.

² Annual marginal rate of inflation, or point-to-point rate, is defined as percent change of June Index level over previous June index.

Figure 3.1: Twelve-monthly Changes in Price Indices



increases, e.g., 16.5 percent in petroleum products, 9.8 percent in crude petroleum and 21.7 percent in sugar.

- ?? Temporary shortage in pulses and gram due to dry weather, and in the case of sugar due to low production as well as speculative hoarding, had an adverse impact on prices of these items.
- ?? Increase in issue prices of wheat by provincial governments, and increase in prices of certain fruits and vegetables due to seasonal factors, put upward pressure on food prices.

Despite these adverse effects, prudent implementation of monetary and fiscal policies helped in containing inflation. Effective policy measures, both on demand management and monitoring supply, were vigorously pursued. Monetary expansion was kept under control as money supply growth during FY01 was contained to 8.9 percent compared with 9.4 percent last year. On fiscal side, there was a net retirement of Rs 32.9 billion against borrowing of Rs 39.9 billion for budgetary purposes by the government. Moreover, credit was diverted to productive and priority sectors of the economy.

Domestic availability of essential commodities was adequately strengthened through: (1) imports, (2) encouraging domestic production, and (3) streamlining & improving the market intervention system. Import duty on sugar was reduced from 15 to 10 percent to bring back stability in prices by encouraging larger supply. Moreover, the liberal release of wheat from provincial godowns, lifting of the inter-provincial ban on wheat movement, and growth in certain items like cotton cloth (11.5 percent), cooking oil (16.1 percent), electronics (6.4 percent) and metal industries (6.0 percent) also helped in containing inflationary pressure.

3.2 Consumer Price Index (CPI)

During FY01, CPI recorded an average inflation of 4.4 percent, compared with 3.6 percent observed last year. Both food and non-food group recorded higher increases compared with the preceding year. However, the extent of rise was greater for food group. **Table 3.2** shows price changes of 460 items in the CPI basket for FY01 as well for last year. The demand/supply imbalances caused a rise in the prices of certain food items. The rise was most pronounced in case of sugar, pulses and other vegetables. The pressure in non-food group mainly stemmed from the increase witnessed in kerosene, gas, electricity charges, diesel prices and transportation cost.

Some intriguing differences can be observed by analyzing the distribution of consumer price changes (460 items - see **Table 3.2**). A large number of items show a decline or no change in prices this year: 102 compared with 77 during FY00. This might prompt us to conclude that inflation should have been lower this year. The higher weight of these items (19.9 percent this year compared with 13.5 last year) seems to add credence to this argument. However, this is not the case as double-digit increases were weightier this year: 16.9 percent compared with 14.1 during FY00. Furthermore, items with subdued increases were less important this year. These points explain the slightly higher CPI inflation recorded in FY01.

Food Group recorded a 3.6 percent increase as against 2.2 percent during last year (see **Table 3.2**). Within food group, it is observed that tea, onion and tomatoes have posted double-digit increases (see **Table 3.3**). During the year, items that remained in this category included sugar and pulses. Soaring prices of pulses may be seen in the context of the decline observed in domestic production of gram and masoor by 12.6 and 5.9 percent, respectively, due to drought conditions.

Double digit rise in tea prices mainly related to developments in the world tea market. Strong international prices mainly on account of the setback to production in Kenya and the 16 percent decline in domestic output caused a rise in local prices. Sugar is another important item of daily use;

its prices had begun to spiral up in the first half of the year due to short inventory and the 5.9 percent decline in sugarcane crop this year. However, with the improvement in stock through gradual import and falling international prices, domestic prices in later half of FY01 gained stability in the range of Rs 25.7 and Rs.26.8 per kgs.

	% Change	Total number of items	No. of Items in each inflation range			
			Decrease or no change (0% or less)	Subdued increase (5% or less)	Moderate increase (5 to 10%)	Double digit increase (over 10%)
During FY01						
1. Food group	3.6	163	61	54	20	28
Food, beverages & tobacco	3.6	163	61	54	20	28
2. Non-food group	5.3	297	41	162	55	39
Apparel, textile & footwear	2.8	69	8	50	9	2
House rent	2.9	1	0	1	0	0
Fuel & lighting	12.8	17	3	3	3	8
Household furniture & equipment	2.8	53	6	42	5	0
Transport & communication	12.3	43	3	12	8	20
Recreation, entertainment & education	3.7	45	17	19	3	6
Cleaning, laundry & personal appearance	2.3	45	4	29	12	0
Medicines	7.4	24	0	6	15	3
Overall	4.4	460	102	216	75	67
Weights		100	19.90	50.70	12.45	16.95
During FY00						
1. Food group	2.2	163	40	60	30	33
Food, beverages & tobacco	2.2	163	40	60	30	33
2. Non-food group	5.0	297	37	151	68	41
Apparel, textile & footwear	5.5	69	4	39	18	8
House rent	4.2	1	0	1	0	0
Fuel & lighting	6.0	17	2	5	1	9
Household furniture & equipment	2.9	53	4	43	6	0
Transport & communication	8.6	43	4	17	14	8
Recreation, entertainment & education	4.6	45	13	17	10	5
Cleaning, laundry & personal appearance	5.4	45	1	16	17	11
Medicines	1.2	24	9	13	2	0
Overall	3.6	460	77	211	98	74
Weights		100	13.50	55.75	16.60	14.15

Wheat retained its last year category of moderate increase in the range of 5-10 percent. However, due to rise in issue price, wheat flour of average quality recorded double-digit inflation. To bring back stability, government lifted the inter-provincial ban on wheat movement and allowed adequate supply to flour mills from its own reserves. This upward pressure also eased as fresh supply of wheat arrived in the market.

Vegetable oil prices declined and therefore remained in column one (see **Table 3.3**). The main reasons are the declining trend in international prices, 16 percent improvement in domestic production and decrease in import unit value; the latter decreased by 27.1 percent during FY01. The improvement in cooking oil production was also partly due to better availability of canola and the sales tax exemption provided to oil extracting units in November 2000.

Fresh milk is another important item of daily use and has the largest weight in CPI basket (8.15 percent). Fresh milk recorded a subdued increase in its prices. Also, livestock products as a whole

Table 3.3: Selected Items of CPI Classified by Range of Price Changes (FY01)

Groups		Decrease or no change	Subdued increase (up to 5%)	Moderate increase (5 to 10%)	Increase of over 10%	
Food, Beverages & Tobacco		Beef	Milk powder	Wheat flour bag	Sugar refined	
		Rice basmati Av. Qlty	Mutton	Wheat flour Sup. Qlty	Pulse gram	
		Cigarettes K-2	Potatoes	Wheat	Pulse mash (washed)	
		Chicken farm	Cold drink	Eggs farm	Onion	
		Vegetable ghee	Milk fresh	Rooh Afza	Tomatoes	
		Rice (tota)	Chillies green Shimla	Tea loose Av. Qlty	Tea prepared	
		Lady finger	Pulse masoor (washed)	Tea loose Sup. Qlty	Wheat flour Av. Qlty	
Apparel, Textile & Footwear		Gents shoes Bata	K-T			
		Boot polish Cherry/Kiwi	Lawn Av. Qlty	Child shoe North Star	Long cloth Av. Qlty	
		Ladies sandal Bata	Shoe repair half sole	Second-hand pant	Second-hand coat	
		Child sandal Peshawri	Voil Av. Qlty	Lawn super Qlty		
House Rent		Linen Av. Qlty	Tailoring awami suit	Shoe repair full sole		
			House rent			
Fuel & Lighting		Matchbox	Firewood split	Elect. charges 1001-4000 units	Kerosene	
		Tube Phillips	Firewood whole	Gas cylinder STND. Size	Gas charges >300 cum	
		Bulb 100-watts	Charcoal	Elect. charges up to 50 units	Elect. charges 1-100 units	
					Elect. charges 101-300 units	
Household Furniture & Equipment					Elect. charges 301-1000 units	
		Fan 48" Sup. Qlty	Air conditioner 1.5 ton	Aluminum utensils		
		Fan 48" Av. Qlty	Bed sheet single	Tea spoon s.steel		
		Refr. Dawlance 10 Cft	Quilt	Cooking pan (6-deghchies)		
		Hotpot set plastic	Blanket			
Transport & Communications			Suitcase rexin (24", 16", 6")			
			Washing machine (National)			
		Yearly motorcycle tax	Motorcycle service	Petrol	Bus fare outside city	
		Tyre car with tube General	Bicycle	Train fare 1st SLP. >500KM	Diesel (HSD)	
		Train fare 1st-ST.101-500KM	Air fare	Telephone charges local	Taxi charges	
			Car Suzuki 800 CC	Auto rickshaw charges	Train fare economy > 500 Km	
			Motorcycle Honda 70 CC		Minibus fare minimum	
			Motorcycle Yamaha 100 CC		Envelope	
	Recreation, Entert. & Education		Daily "Jang"	School fee primary Urdu Med.	School fee secondary Eng. Med.	College fee 4 th year
			TV license fee	Monthly "Jasoosi Digest"		Cinema non-A/C highest class
		TV 17" black & white	Daily "Nawa-E-Waqt"	Urdu book class I	Cinema A/C. highest class	
		Math book 1st year/inter	Dry cell 1.5 volts		Cinema non-A/C lowest class	
		English book class IX-X	Transistors 1 band Pak		English book class I	
Cleaning, Laundry & P. Appearance			T.V.20" color Lum/SAM			
			Surf			
			Washing soap nylon	Talcum powder Ponds		
		Robin Blue (35 Gram)	Washing soda	Shaving cream Nivea		
		Toilet soap Lifebuoy	Toothpowder Dentonic (Large)	Disposable razor Gillet-II		
Medicines			Comb	Finis		
			Safety razor -Gillet	Toothpaste Colgate		
			Blade Treet ordinary			
			Doctor clinic fee	Surbex-T tablets	Streptomycin injection.	
			Sepran tablets	Galxos-D (large)	Dettol (medium)	
		Sualin loose	Brufen Tablets 200mg	Digex syrup		
		Paracetmol tablets	Lederplex syrup			

having a 15.04 weight in the basket, recorded less than two percent inflation (see **Table 3.4**). This reflects an improvement in the livestock production. The provisional estimates indicated that during the year, production of milk increased by 2.8 percent, meat by 2.6 percent and chicken by 3.1 percent.

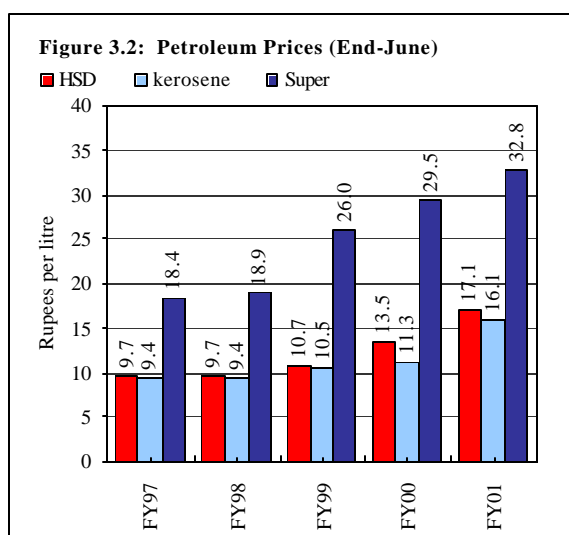
Table 3.4: Livestock Products

	Weight	FY00	FY01	Percentage change	Weighted change %
Eggs farm	0.46	26.20	24.40	7.39	0.23
Fish-rahul	0.24	89.65	86.53	3.60	0.06
Curd	0.59	21.05	20.55	2.45	0.10
Butter	0.09	9.97	9.75	2.28	0.01
Mutton	1.75	103.73	101.49	2.20	0.26
Milk fresh	8.16	17.14	16.78	2.16	1.17
Beef	2.87	53.39	53.44	-0.10	-0.02
Milk tetra pack 1/2 Ltr.	0.08	16.01	16.02	-0.08	0.00
Chicken farm	0.44	51.30	52.06	-1.46	-0.04
Fish singara/other fish	0.16	94.33	90.33	4.43	0.05
Lassi	0.20	8.65	8.40	3.01	0.04
Weight	15.04				1.8

Non-food Group recorded an increase of 5.3 percent compared with 5.0 percent last year (see **Table 3.2**). The highest increase of 12.8 percent was recorded in *fuel and lighting* compared with 6.0 percent in FY00, followed by *transport & communication* (12.3 percent against 8.6 percent last year), and *medicines* (7.4 percent vis-à-vis 1.2 percent in FY00). On the other hand, *cleaning, laundry and personal appearance* recorded the lowest increase of 2.3 percent.

During FY01, more items joined column three and four, i.e., recorded a moderate or double digit increase. The increase in *fuel and lighting* and *transport and communication* was due to the upward adjustment in petroleum, electricity and gas charges (see **Figure 3.2**). Needless to mention, any increase in POL prices has a spillover effect particularly on *transport and communication*.

The increase in the prices of medicines by 7.4 percent during FY01 is linked mainly to the decline in the growth of pharmaceuticals. Depreciation of the Rupee and imposition of additional sales tax on locally produced packing materials since June 2000, have exerted upward pressure on medicine prices.



The price index of *textile and apparel* decelerated from 5.5 percent in FY00, to 2.8 percent this year. Further disaggregation suggests that within textiles, about 80 percent items recorded a subdued growth in prices. Textile sector has shown good performance in terms of production during the last two years. More specifically, government efforts toward value addition translated into a strong growth in the weaving sector in the past three years. The easing of restrictions on import of old machinery and allowing duty free import of spinning ring-frames, exemption to the leather and

footwear industry on imports of machinery (plant and equipment), have contributed towards easing of prices of apparel, textile and footwear.

The prices of *recreation, entertainment and education* have decelerated to 3.7 percent as against 4.6 percent in FY00. This reduced cost may be the result of higher domestic production of paper and board products that increased by 22.5 and 21.9 percent, respectively during last two years. Also, duty on newsprint was reduced by half to 5 percent, and custom duty & sales tax on the goods required by educational and research institution were brought down from 25 to zero percent. The improved availability of paper and board products, cheaper availability of internet facilities and competition within the private sector schools/recreation centers, may have largely contributed to the declining trend in this group.

3.2.1 Income Distribution and Regional Incidence of Inflation

Consumer Price Index (CPI) is also prepared separately for five different income groups, as shown in **Table 3.5**. The increase in the indices of these different groups in terms of impact on their living standard is of vital significance in assessing the effect of inflation on various segments of society. As shown in **Table 3.5**, the incidence of inflation is higher for upper income groups but lower for middle-income group.

Compared to FY00, the incidence of inflation is higher for the lowest income group. The inflationary pressure on this segment of society is due to the increase in the prices of certain essential items like food. With slight variation, this pattern has been constant for the last two years, reflecting that the incidence is more in the higher and lower income groups. The inflationary impact on upper income groups reveals inflation in non-food group, which reflects the greater weight attached to such items. Needless to say, the high incidence of inflation on lower income groups tends to further worsen the incidence of poverty.

Regional incidence of inflation suggests that during FY01, highest inflation was observed in Peshawar and lowest in Khuzdar (see **Table 3.6**). Inter-city range of inflation was quite high at 4.0 percent, which shows the differences in availability of consumer goods in various cities. This also reflects uneven level of economic development across these cities. Interestingly, Hyderabad, with inflation at 4.7 percent, retained its median position among 25 cities during last two years.

In terms of food prices, the highest inflation was recorded in Mianwali and the lowest in Quetta, whereas Hyderabad had median inflation this year, replacing Karachi for FY00

(see **Table 3.7**). Another interesting feature was the inflation in Peshawar and Khuzdar. The *deflation* of 1.1 percent in Peshawar during FY00 was the result of a high-base effect. More

Table 3.5: Inflation by Income Groups
percent

Income groups per month income	FY95	FY98	FY99	FY00	FY01
Up to Rs 1,500	13.9	7.8	5.6	3.2	4.5
Rs 1,501 to Rs 4,000	13.3	7.8	5.6	3.4	4.3
Rs 4,001 to Rs 7,000	12.4	7.9	5.9	3.8	4.4
Rs 7,001 to Rs 10,000	11.4	8.0	6.2	4.5	4.7
Above Rs 10,000	10.8	7.9	6.6	5.1	4.9
Combined	13.0	7.8	5.7	3.6	4.3

Table 3.6: Regional Incidence of Inflation
percent

Incidence	FY01		FY00	
	Rate ¹	City	Rate ¹	City
Highest	6.4	Peshawar	5.2	Lahore
Median	4.7	Hyderabad	3.5	Hyderabad
Lowest	2.4	Khuzdar	2.2	Okara
National	4.4	--	3.6	--

¹ Annual average rates of inflation in terms of CPI

Table 3.7: Regional Incidence of Food Price Inflation
percent

Incidence	FY01		FY00	
	Rate ¹	City	Rate ¹	City
Highest	7.6	Mianwali	5.3	Khuzdar
Median	3.7	Hyderabad	2.0	Karachi
Lowest	-0.2	Quetta	-1.1	Peshawar
National	3.6	--	2.2	--

¹ Annual average rate of inflation in terms of food group of CPI

specifically, the fall in wheat & flour prices, subsequent to their sharp increase in October & November 1999, led to decline in overall food prices in FY00. This is, perhaps, also one of the reasons that Peshawar has recorded the highest overall inflation in FY01. Exactly the opposite behavior was observed in Khuzdar, which recorded the lowest overall inflation during FY01, despite recording the highest food price inflation in FY00.

3.3 Wholesale Price Index (WPI)

The Wholesale Price Index (WPI) recorded a 6.2 percent average inflation in FY01 compared with 1.8 percent last year. In terms of categories, both food and non-food group increased very sharply (see **Table 3.8**).

Table 3.8: Distribution of Price Changes of 96 Commodities of WPI Basket

Groups	% Change	Total number of items	No. of items in each inflation range			
			Decrease or no change (0% or less)	Subdued increase (5% or less)	Moderate increase (5 to 10%)	Double digit increase (over 10%)
During FY01						
1. Food Group	3.0	39	13	7	5	14
Food	3.0	39	13	7	5	14
2. Non-Food Group	5.5	57	25	10	4	18
Raw materials	8.2	10	3	1	2	4
Fuel, lighting & lubricants	20.3	8	2	0	1	5
Manufactures	1.6	29	16	5	1	7
Building materials	2.9	10	4	4	0	2
Overall	6.2	96	38	17	9	32
Weight		100	41.45	17.79	3.22	37.54
During FY00						
1. Food Group	0.6	39	16	12	4	7
Food	0.6	39	16	12	4	7
2. Non-Food Group	2.9	57	17	19	11	10
Raw materials	-10.5	10	6	3	0	1
Fuel, lighting & lubricants	9.7	8	2	1	1	4
Manufactures	4.6	29	5	10	9	5
Building materials	-2.5	10	4	5	1	0
Overall	1.8	96	33	31	15	17
Weight		100	32.95	31.13	14.97	20.95

This year, the wholesale prices of 32 commodities (37.54 percent weight) recorded double-digit inflation, compared with 17 commodities (20.95 percent weight) in FY00. In terms of items whose prices have declined or remained unchanged, there were 38 such commodities (41.45 percent weight) during FY01, against 33 items (32.95 weight) last year.

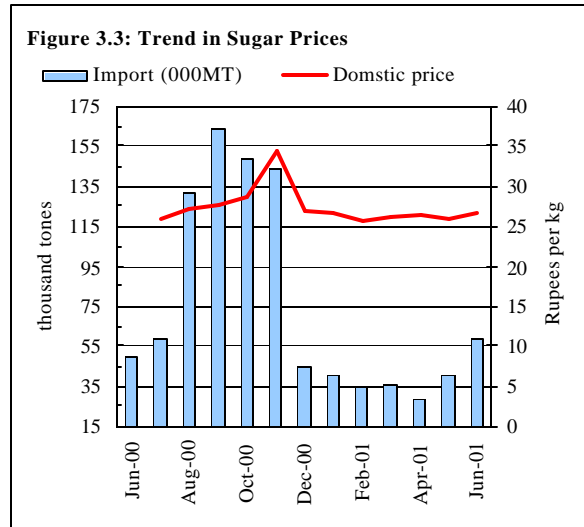
Some of the commodities that influenced the price behavior of wholesale market are given in **Table 3.9**. Increase in the prices of food group has mainly been due to pressures from fresh vegetables, fruits, sugar, pulses and rice. Prices of sugar increased steadily in early months of FY01 due to low inventory and decline in production following a 5.9 percent fall in sugarcane crop. In September 2000, government allowed duty-free import of 500,000 tones of raw sugar (see **Figure 3.3**) as a substitute for sugarcane, which not only helped in stabilizing the prices of refined sugar, but also had a salutary effect in dampening the prices of sugarcane.

Rice also recorded double-digit inflation during FY01. This was on account of higher procurement prices and lower domestic supply following higher exports during the year. In terms of volume of

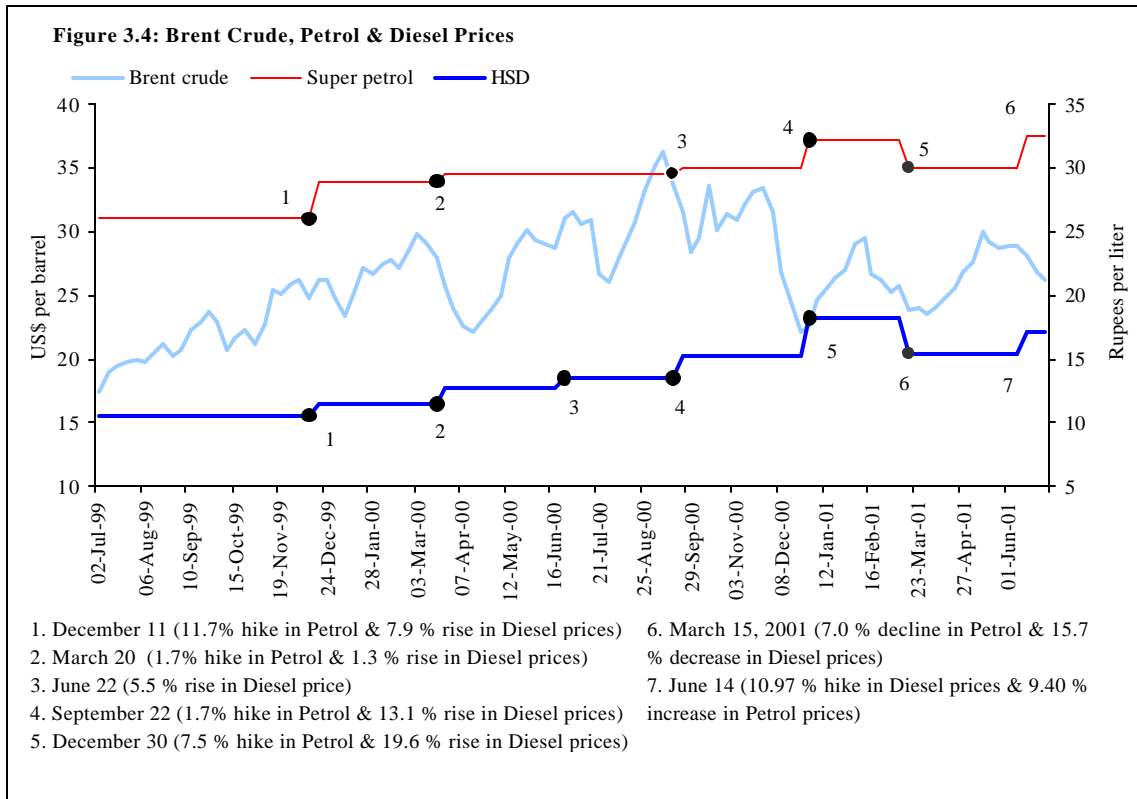
Table 3.9: WPI Items Classified by Range of Price Changes (FY01)								
Groups	Decrease or no change (0 % or less)		Subdued increase (up to 5%)		Moderate increase (5 to 10%)		Double digit increase over 10%	
	Weight	Items	Weight	Items	Weight	Items	Weight	Items
<i>Food</i>	10.7390	Fresh milk					5.4956	Meat
	3.2207	Cooking oil					3.3547	Sugar refined
	2.6167	Cottonseed oil	3.0645	Wheat flour			2.2729	Fresh fruits
	1.2659	Powdered milk	1.8260	Fish	1.3234	Oil cakes	2.0262	Rice
	1.1418	Chicken	0.8633	Tea	0.2762	Potatoes	0.5469	Gur
	0.8933	Mustard & rapeseed oil	0.3247	Beverages	0.2274	Gram (whole)	0.5111	Eggs
	0.6594	Wheat	0.1724	Gram (split)	0.0733	Jowar	0.4652	Dry fruits
	0.4578	Spices	0.0885	Salt	0.0508	Condiments	0.3676	Onion
	0.3929	Maida	0.0639	Moong			0.1818	Tomatos
	0.3132	Maize					0.0734	Bajra
	0.1060	Vegetables					0.0586	Masoor
	0.0945	Suji					0.0538	Mash
	0.0518	Vegetable ghee					0.0534	Milk food
							0.0249	Barley
<i>Raw Materials</i>	1.5519	Cotton seed			0.2282	Wool	3.8575	Cotton
	1.0766	Sugarcane	0.1157	Groundnut seed	0.1610	Tobacco	0.7515	Pig iron
	0.1409	Mustard & rapeseed					0.4976	Skins
						0.3805	Hides	
<i>Fuel, Lighting & Lubricants</i>	2.3364	Electricity					4.3021	Motor fuels
	0.0433	Fire Wood			0.8553	Lubricants	2.6878	Other oils
							2.6561	Natural gas
							1.9134	Coal
						0.4838	Coke	
<i>Manufactures</i>	2.0334	Transport						
	2.0309	Fertilizer						
	1.5974	Cigarettes						
	1.5274	Footwear					0.6109	Chemicals
	1.329	Readymade garments					0.3331	Plastic products
	0.8622	Matches					0.2619	Nylon yarn
	0.7338	Leather	5.8661	Cotton yarn			0.2303	Silk & rayon textiles
	0.4539	Hosiery	2.3691	Cotton textiles			0.2256	Blended yarn
	0.4191	Other electric goods	1.8356	Drugs & medicines	0.0292	Tubes	0.2110	Audio-Visual instruments
	0.3705	Soaps	0.7485	Machinery			0.0696	Dyeing materials
	0.3448	Jute manufactures	0.3437	Tyres				
	0.2011	Utensils						
	0.1792	Papers						
	0.1401	Cosmetics						
0.123	Glass products							
0.0492	Woolen textiles							
<i>Building Materials</i>	1.7568	Cement	0.0523	Bricks/blocks				
	0.1534	Paints & varnishes	0.0363	Pipe fitting			2.5407	Iron bars and sheets
	0.0470	Glass sheets	0.0225	Timber			0.0012	Sanitary wares
	0.0079	Tiles	0.0187	Wires and cables				

rice exports, this was 20 percent more than last year. However, prices of edible oils decreased in the wholesale market on account of the growing world stocks and subsequent jump (7.2 percent) in the imports during FY01.

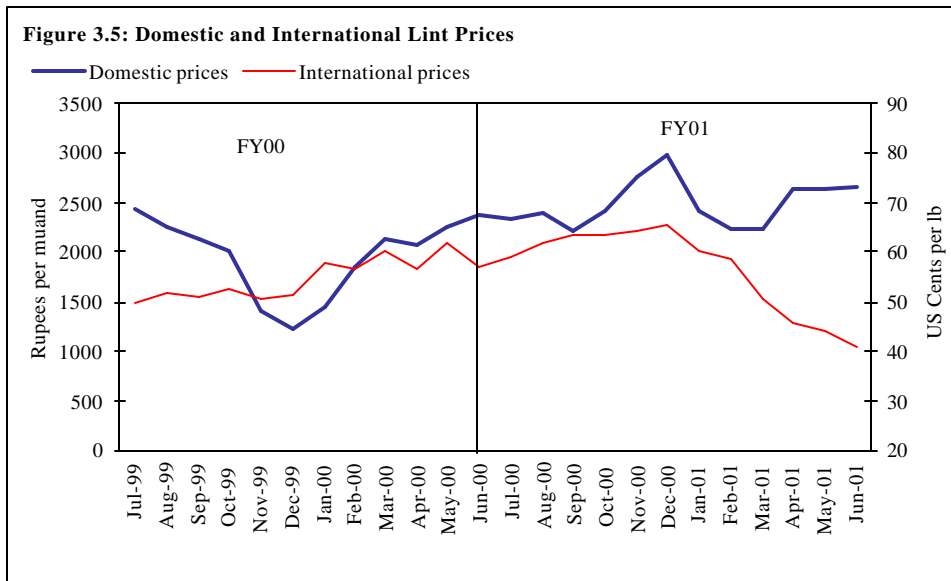
Within non-food group, *fuel, lighting and lubricants* and *raw material* were the main contributors to the overall increase of 6.2 percent. The exceptionally high growth of 20.3 percent in *fuel, lighting and lubricants* (weight: 15.28 percent) was on account of the rise in average prices of coal, motor fuels, other oils, lubricants, coke and natural gas. Consequent upon the fluctuations in the international prices of crude oil, domestic POL prices were adjusted four times, during FY01, thereby affecting transportation cost (see **Figure 3.4**).³



In contrast to last year, the average price index of *raw materials* (weight: 8.76 percent), recorded an increase of 8.2 percent during FY01, stemming mainly from the double-digit rise in prices of cotton,



³ Since January 2001, domestic POL prices had been adjusted on quarterly basis by taking into account recent international trends. However, with further deregulation announced in the in federal budget FY02, the prices are being adjusted on fortnightly basis.



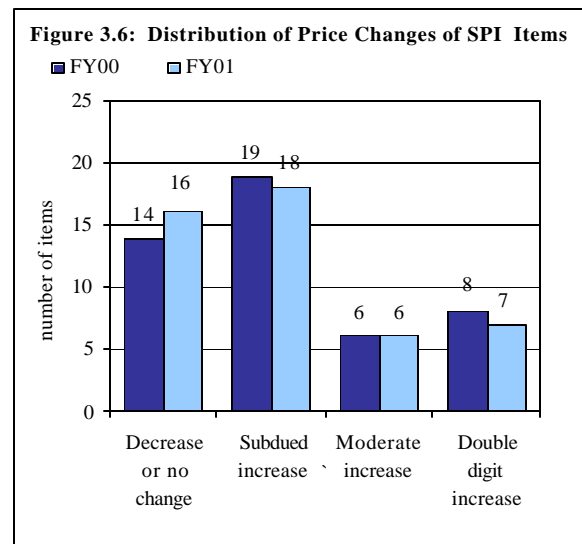
pig iron, hides and skins. The gradual increase in international prices of cotton during the first half of this year, coupled with the perceived shortage on account of lower size of the cotton crop, pushed up domestic prices (see **Figure 3.5**). However, since January 2001, international cotton prices are continuing to spiral down amid expectations of increased production. According to the most recent forecast by International Cotton Advisory Committee (ICAC), world production is expected to increase by 6 percent to 20.3 million tons in FY02 – the highest since FY96. The anticipated excess supply following a strong cotton crop this year has also placed downward pressure on cotton prices.

The higher price of pig iron was the result of a 3.2 percent decline in domestic production and upward revision in the prices of pig iron residue and dust by Pakistan Steel Mills in September 2000. Prices of skins and hides increased following the demand induced by the *foot & mouth* disease in UK, thereby leading to a sharp 34 percent increase in exports. The prices of building raw materials recorded an increase of 2.9 percent against a fall of 2.5 percent last year. In addition to the increase in price of pig iron, this reflects rising prices of iron bars and sheets following a fall in their domestic production by 3.1 percent and 9.8 percent, respectively.

There was a deceleration in *manufactures*, which has the highest weight of 25.5 in overall WPI. The improved performance of the textile sector in terms of better production had a salutary effect. Similarly, higher fertilizer production during last two fiscal years, also brought some stability.

3.4 Sensitive Price Indicator (SPI)

Average inflation, in terms of the Sensitive Price Indicator (SPI), rose by 4.8 percent in FY01 from 1.8 percent recorded last year. However, the marginal rate of SPI inflation decelerated from 3.3 percent in FY00 to 2.0 percent this year. This indicates that prices of sensitive items will remain subdued in near future. The overall increase in SPI was due to



higher prices of wheat flour, onion, tomatoes, gram (washed), gur, sugar and kerosene oil.

Sensitive Prices Indicator (SPI) covers 47 essential items (see **Table 3.10**) of daily use concerning the low-income group of consumer (getting below Rs 1500 per month). Information on SPI items is collected on weekly basis from 12 big cities. The highest increases were recorded in the prices of onion (56.6 percent), gur (32.8 percent), kerosene oil (29.6 percent), sugar (28.4 percent) and pulses (26.1 percent). However, declines were observed in the price of rice, beef, bread plain and vegetable ghee (loose). As shown in **Figure 3.6**, during FY01, out of the 47 essentials items, 16 recorded a decline or no change in prices compared with 14 last year. Prices of 18 items registered an increase up to 5 percent as against 19 items in FY00.

Table 3.10: Price Changes in 47 Items of Sensitive Price Indicator

percent					
Group/Item	FY00	FY01	Group/Item	FY00	FY01
<i>Food, beverages & tobacco</i>					
			Salt powdered	4.1	2.6
Wheat	6.1	5.8	Red chillies	-7.0	-19.4
Wheat flour (Av. Qlty)	6.8	9.8	Garlic	-22.0	-6.9
Rice basmati (broken)	8.4	-2.3	Tea packet	-5.7	9.8
Rice irri-6	4.1	-7.7	Tea prepared	3.6	7.9
Masoor pulse (washed)	0.5	2.6	Cooked beef plate	2.6	1.3
Moong pulse (washed)	-8.8	1.2	Cooked dal plate	2.0	4.6
Mash pulse (washed)	26.3	26.1	Chicken (farm)	-6.3	-1.1
Gram pulse (washed)	13.5	17.7	Cigarettes K2	20.4	-0.5
Beef	0.8	-0.5	<i>Apparel, textile & footwear</i>		
Mutton	2.1	0.7	Shirting Hussain	2.5	1.4
Eggs (Farm)	-6.6	8.6	Voil printed	1.8	2.6
Bread plain (Medium size)	5.5	1.9	Caorse latha	2.4	1.5
Sugar	10.7	28.4	Lawn Hussian	5.6	2.1
Gur	15.2	32.8	Shoe gents Bata	13.9	4.6
Milk fresh	1.1	1.8	Shoe ladies Bata	18.4	0.0
Milk powdered (Nido)	3.2	4.5	Chappal sponge. Bata	0.0	0.0
Curd	0.5	2.6	<i>Fuel & lighting</i>		
Vegetable ghee (tin)	4.4	-7.0	Kerosene oil	10.9	29.6
Vegetable ghee (loose)	-9.0	-8.8	Firewood	2.3	4.1
Mustard oil	-3.6	-6.9	Electric bulbs 60 watts	3.8	-11.9
Cooking oil (Dalda)	-0.8	-6.8	Match box	-3.7	0.0
Potatoes	7.3	3.8	<i>Cleaning, laundry & personal appearance</i>		
Onions	-55.3	56.6	Washing soap nylon	3.6	1.4
Tomatoes	-22.2	13.0	Bath soap Life Buoy	3.2	0.0
Bananas	-1.7	5.9			