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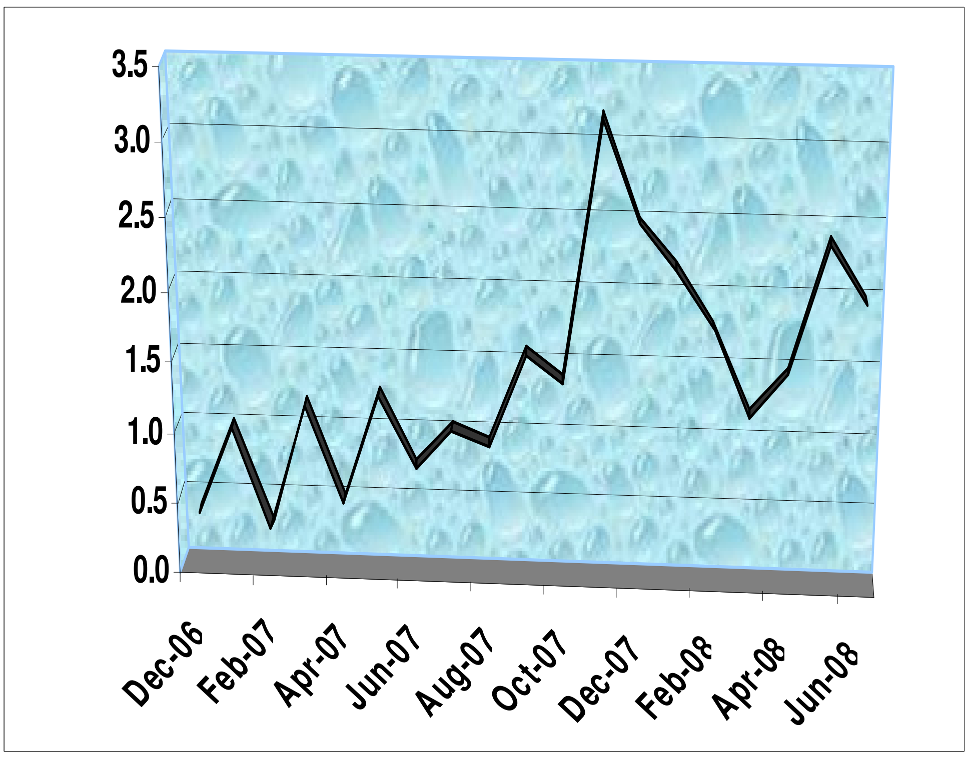
Monthly

Report

June 2008



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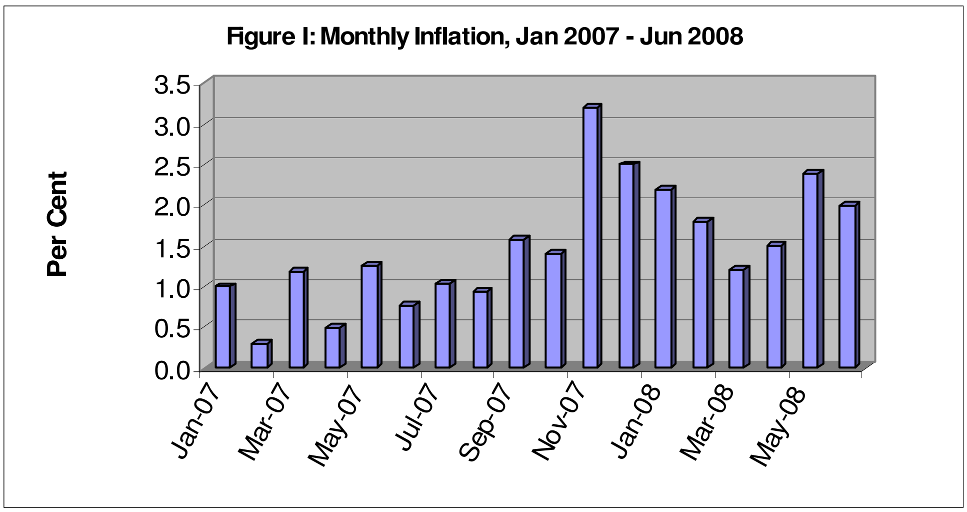
MONTHLY INFLATION REPORT

Introduction

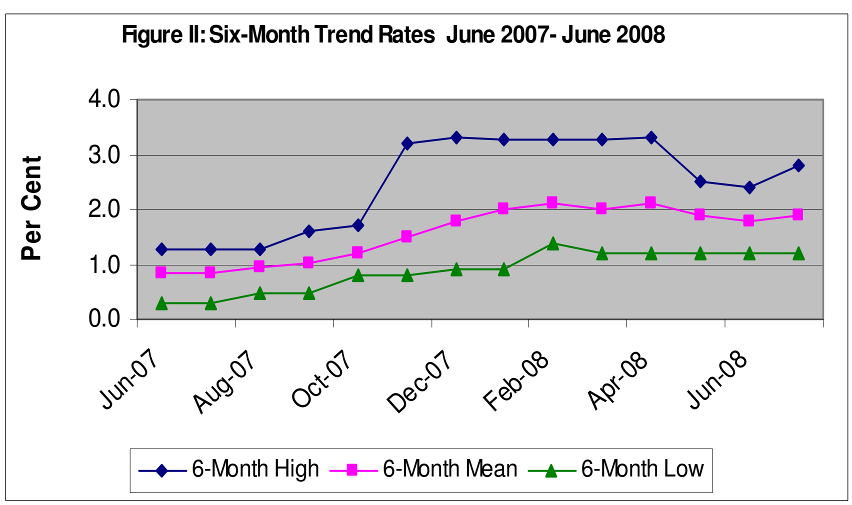
During May 2008 the 'All Divisions' Consumer Price Index increased to 127.8, resulting in an inflation rate of 2.4 per cent compared with May 2007. This was the highest monthly inflation since the start of the calendar year (Figure 1). Inflation for the first five months of the calendar year was 9.4 per cent, while inflation for the first two months of fiscal year 2008/09 was 3.9 per cent. The inflation out-turn for the month largely emanated from: (i) movements in international commodity prices and the resultant impact of the pass-through to domestic prices; and (ii) administrative price adjustments, in particular taxi fares, motor vehicle licences and related fees.



Recent Trends

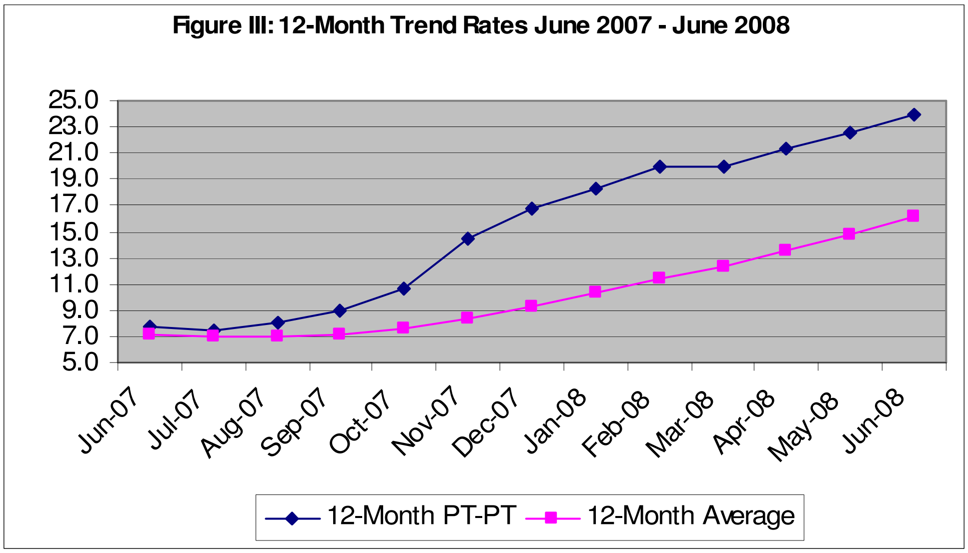
Inflation for May resulted in the following trend rates:

- ✓ 6-month mean of 1.9 per cent down from 2.1 per cent in the



previous month (Figure II). The highest inflation for the past 6 months was the 2.5 per cent recorded for December 2007, while the lowest for the same period was 1.2 per cent, recorded in March.

- ✓ the 12-month average[1] inflation continued to increase and stood at 14.7 per cent (Figure III).
- ✓ the 12-month point-to-point inflation (May 2007 to May 2008) was 22.5 per cent.



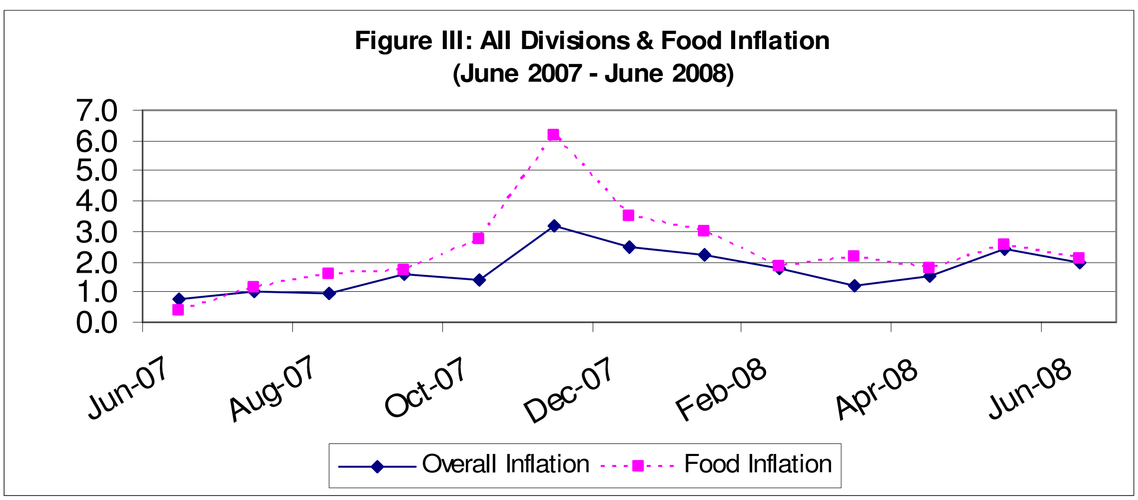
[1] This is a moving average taking the change in the average CPI for the 12 months to date over the average CPI for the previous 12 months.

Table I: CALENDAR YEAR & FISCAL YEAR-TO-DATE INFLATION			
Period	**Calendar Year to Date**	**Period**	**Fiscal Year to Date**
2005	7.0	**2005/2006**	5.5
2006	3.1	**2006/2007**	2.9
2007	5.1	**2007/2008**	2.5
2008	11.6	**2008/2009**	6.0

ANALYSIS OF INFLATION FOR JUNE

Commodity Composition of Price Changes

For the review period, ten of the twelve divisions recorded increased indices as the indices for Communication and Education remained the same. Price movements were largely evident in the divisions Food & Non-Alcoholic Beverages and Housing, Water, Electricity, Gas & Other Fuels, which together accounted for approximately two-thirds of overall inflation.



The index for **Food & Non-Alcoholic Beverages** increased by 2.6 per cent. This division continued to be the driving force behind overall inflation, accounting for approximately 41.0 per cent for the review period (Figure IV). The respective index for each of the three groups within this division increased: ***Food*** (2.7 per cent); ***Vegetables & Starchy Foods*** (1.6 per cent); and ***Non-Alcoholic Beverages*** (1.1 per cent).

Food prices were largely due to the upward movement in the international price of some food products. Amidst an environment of low stocks; limited export supplies; and rising bio-fuels production, grain prices continued to increase[2]. These movements were evident in the domestic price movement of Bread & Cereals (8.0 per cent). Movements in international grain prices also influenced price movements in the classes: Meat (0.9 per cent) and Milk, Cheese & Eggs (1.7 per cent). The 4.2 per cent increase in the index for Oils & Fats, partly reflected international conditions of increased demand for vegetable oils and bio-fuels.

The higher index for *Vegetables & Fruits* was primarily the result of the 2.6 per cent increase in the index for *Starchy Foods*. Items with higher prices included yellow yam and ripe plantains. There was a 1.1 per cent increase in the index for Fruits. Agricultural prices have also been affected by the upward movement in international fertiliser prices[3].

The second largest contributor to overall inflation was the division **Housing, Water, Electricity, Gas & Other Fuels**, which increased by 4.6 per cent. All groups in this division, with the exception of *Water Supply and Miscellaneous Services Related to the Dwelling*, recorded increased indices. Price movements in this division were primarily the result of the 6.7 per cent increase in the index for *Electricity, Gas & Other Fuels*. This group reflects higher energy prices, derived from:

1. Record high oil prices, driven by low crude oil inventories and geopolitical issues which raise concerns about supplies[4]; and
2. Upward adjustment to the fuel based portion of electricity bills.

[2] For the first three months of the calendar year, international grain prices increased by an average of approximately 33.0 per cent.
[3] International Fertilizer prices increased by approximately 65.0 per cent for January–March, 2008.
[4] For the January–March 2008 quarter, the average spot peak price for crude oil on the international market averaged US$95.31 relative to US$83.47 for the preceding quarter.

The index for **Alcoholic Beverages & Tobacco** increased by 13.1 per cent. This out-turn was primarily the result of the increase in the Special Consumption Tax, charged on tobacco products, which came into effect May 1, 2008.

The **Transportation** index increased by 1.4 per cent. Price movements in this division were also partly derived from higher energy prices. Additionally, effective May 1, there was a 50.0 per cent increase in motor vehicle licence fees, as well as higher fees for motor vehicle examination and driver's licence.

The indices for **Restaurants & Hotels** and **Miscellaneous Goods & Services** increased by 2.8 per cent and 1.5 per cent, respectively. Higher prices within the division Restaurants & Hotels were largely derived from higher food prices and the resultant increase in the cost of consuming food outside of the home. For the division **Miscellaneous Goods & Services** the higher index reflected higher prices for some salon services, toiletries and visa fees.

Higher **Health** related expenses resulted in a 1.5 per cent increase in its index. This increase was highly influenced by the 2.2 per cent increase in the group *Health Services*. **Clothing & Footwear** prices increased by approximately 0.9 per cent. *Clothing* prices increased by approximately 0.8 per cent, and *Footwear* by 1.1 per cent.

Table II –INFLATION AND CONTRIBUTION TO INFLATION BY CPI DIVISION					
	June 2007	May 2008	June 2008	Percentage Contribution, June 2008 *	Percentage Point Contribution, June 2008 *
ALL DIVISIONS	0.8	2.4	2.0	100.0	2.0
FOOD & NON-ALCOHOLIC BEVERAGES	0.4	2.6	2.1	41.4	0.8
ALCOHOLIC BEVERAGES & TOBACCO	1.6	13.1	2.6	1.9	0.0
CLOTHING & FOOTWEAR	0.1	0.9	1.0	1.6	0.0
HOUSING, WATER, ELECTRICITY, GAS & OTHER FUELS	2.7	4.6	2.8	18.0	0.4
FURNISHINGS, HOUSEHOLD EQUIPMENT & ROUTINE HOUSEHOLD MAINTENANCE	0.4	0.5	1.2	3.2	0.1
HEALTH	0.0	1.5	0.6	0.9	0.0
TRANSPORT	0.1	1.4	2.9	19.0	0.4
COMMUNICATION	0.0	0.0	0.0	0.0	0.0
RECREATION & CULTURE	0.3	0.9	2.6	4.5	0.1
EDUCATION	0.0	0.0	0.0	0.0	0.0
RESTAURANTS & ACCOMMODATION SERVICES	2.8	2.8	1.2	3.8	0.1
MISCELLANEOUS GOODS & SERVICES	0.4	1.5	1.4	5.7	0.1
* There may be errors due to rounding					

The indices for **Recreation & Culture** and **Furnishings, Household Equipment & Routine Household Maintenance** increased by 0.9 per cent and 0.5 per cent, respectively. For the former, the increased index was attributed to higher entertainment equipment and information processing prices. While for the latter, there were higher prices in the groups *Household Textiles* and *Tools & Equipment for House & Garden*.

Regional Composition of Price Changes

Table III: REGIONAL CPI AND INFLATION				
	CPI	**Inflation**		
	June '08	**June '07**	**May '08**	**June '08**
All Jamaica			2.4	2.0
GKMA			2.3	2.3
Other Urban Centres			2.3	2.3
Rural Areas			2.5	2.5

For the review period all three regions recorded increased indices, within a range of 2.3 per cent to 2.5 per cent (Table III). In all three regions, the division Food & Non-Alcoholic Beverages was the largest contributor to inflation. The largest movement in the index for Food & Non-Alcoholic Beverages was recorded in Other Urban Centres (3.1 per cent), while for the Greater Kingston Metropolitan Area (GKMA) and Rural Areas, this index moved by 1.9 per cent and 2.8 per cent, respectively.

As was the case with overall inflation, significant movements were also recorded for the divisions Housing, Water, Electricity, Gas & Other Fuels and Alcoholic Beverages & Tobacco.

OUTLOOK

For the next few months movements in the CPI are expected to be influenced by:

- increased international commodity prices;
- higher water rate; and
- seasonal increases in the prices of some agricultural products.