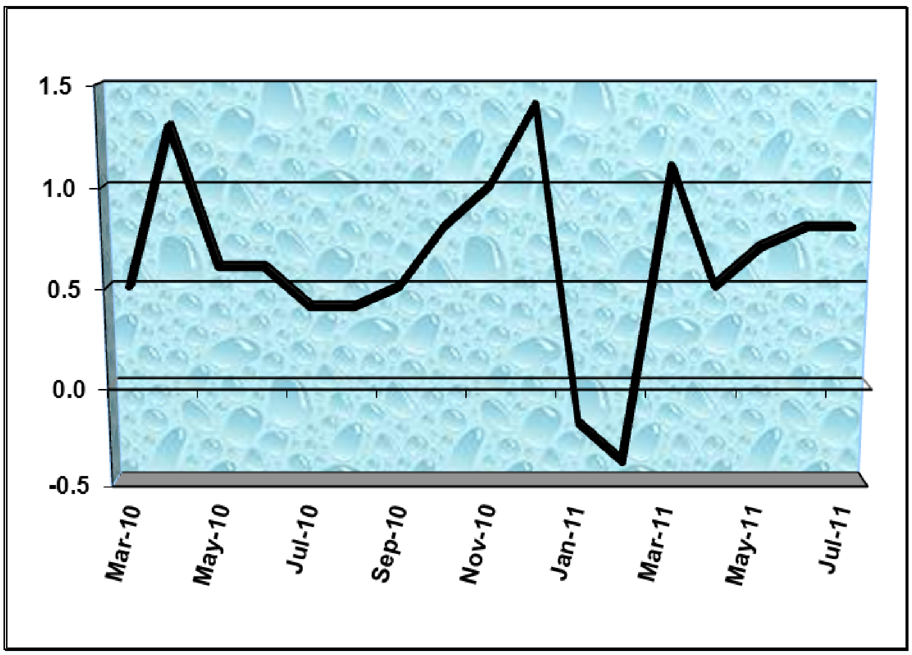
I N F L A T I O N

Monthly

Report

July 2011



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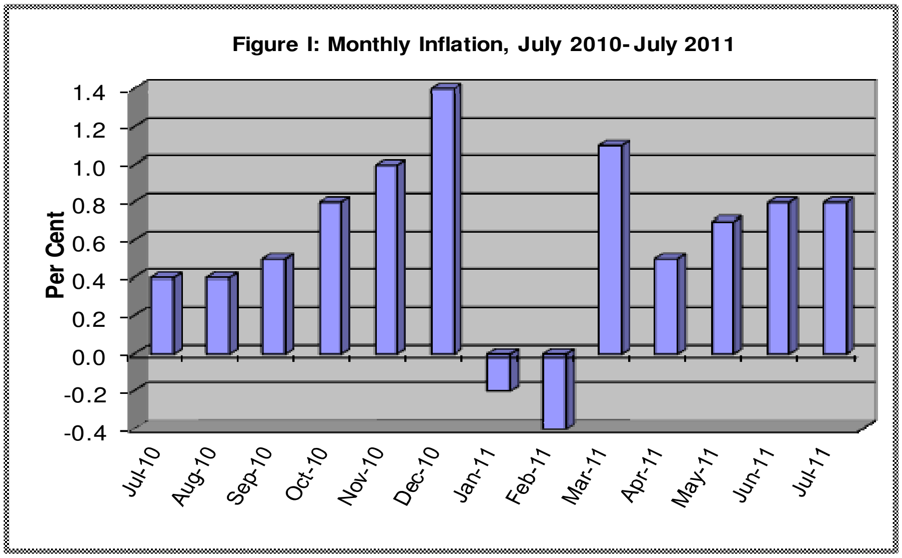
MONTHLY INFLATION REPORT

Introduction

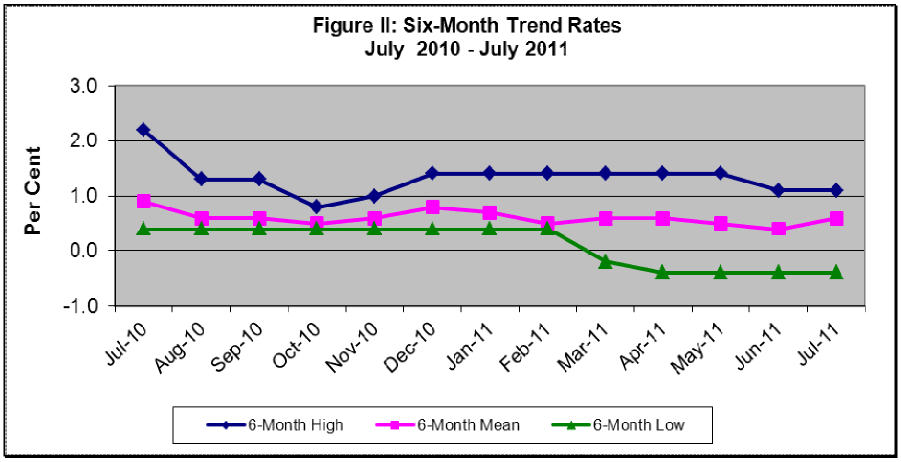


The All Jamaica 'All Divisions' Consumer Price Index (CPI), increased to reach 173.6 for July 2011. This reflected a monthly inflation of 0.8 per cent, similar to the rate recorded for the preceding month (Figure 1). Inflationary impulses emanated largely from seasonal shortages in domestic agricultural produce which facilitated increased prices of these items. This was reflected in the upward movement of the Food & Non-Alcoholic Beverages division which accounted for approximately 70.0 per cent of overall inflation.

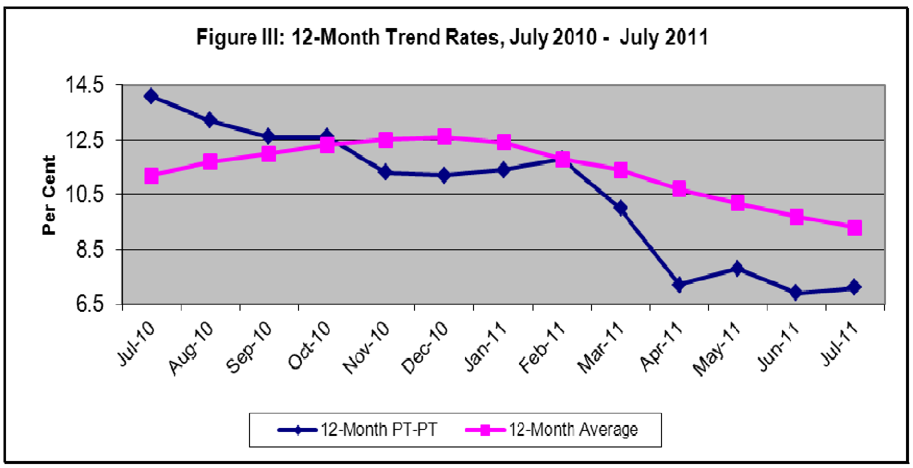
Recent Trends

The upward movement in the index during July resulted in the following trend rates:

- ✓ 6-month mean of 0.6 per cent (Figure II). For the six month period, February–July 2011, the highest monthly inflation was 0.8 per cent recorded in June and July, and the lowest was -0.4 per cent recorded in February

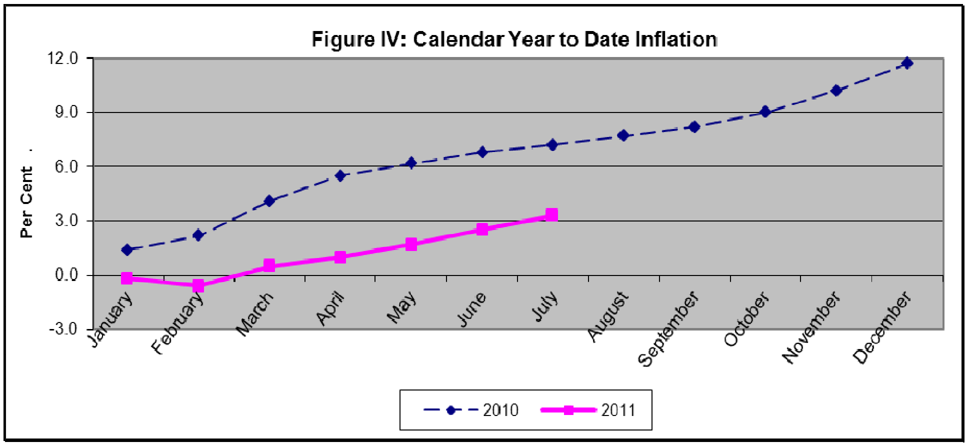


- ✓ the 12-month average[1] inflation was 9.3 per cent. The 12-month point-to-point inflation increased to 7.6 per cent, from 7.2 per cent recorded in June (Figure III)



- ✓ Calendar year-to-date inflation of 3.3 per cent (Figure IV and Table I). For the same period of 2010 the inflation rate stood at 7.2 per cent

[1] This is a moving average, taking the percentage change between the arithmetic mean of the monthly indices for a year and the arithmetic mean of the monthly indices for the previous year.



✓ Fiscal year-to-date inflation of 2.8 per cent, relative to the 3.0 per cent recorded for the same period of FY2010/11 (Figure V and Table I).

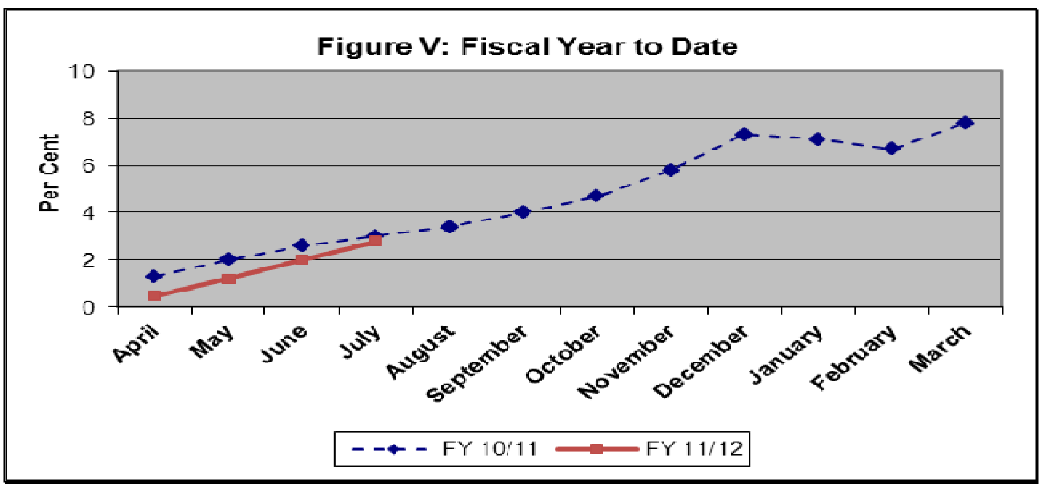


Table I: CALENDAR YEAR & FISCAL YEAR-TO-DATE INFLATION

Period	Calendar Year to Date	Period	Fiscal Year
2008	14.7	**2008/2009**	9.0
2009	5.0	**2009/2010**	3.7
2010	7.2	**2010/2011**	3.0
2011	3.3	**2011/2012**	2.8

ANALYSIS OF INFLATION FOR JULY

Composition of Price Changes

Ten divisions recorded increased indices, while the indices of the remaining two were unchanged. The highly weighted **Food & Non-Alcoholic Beverages** division[2] recorded the highest movement (up 1.4 per cent). This was the largest monthly increase for this division for the calendar year to date, and was due largely to increases in food prices.

Within the ***Food*** group, the index for *Vegetables & Starchy Foods* increased by 5.0 per cent, and accounted for approximately 65.0 per cent of the inflation experienced during July. This out-turn was due to average increases of 5.4 per cent and 4.4 per cent in the prices for *Vegetables* and *Starchy Foods*, respectively, reflecting a reduction in the supply of some agriculture items (Box 1). Among the items for which higher prices were recorded were lettuce, escallion, and yam. Also contributing to the increase in the food index were higher prices for *Meat* (up 0.5 per cent) and *Fish & Seafood* (up 0.6 per cent). Sugar prices also increased reflecting higher import prices associated with global shortages due to poor weather conditions.

The index for ***Non-Alcoholic Beverages*** rose by 1.4 per cent, reflecting increases of 2.0 per cent and 1.1 per cent in the indices for *Coffee, Tea & Cocoa* and *Mineral Waters, Soft Drinks, Fruit & Vegetable Juices*, respectively.

The second largest contributor to inflation was the division **Housing, Water, Electricity, Gas & Other Fuels,** up 0.6 per cent (Table II). This movement reflected, mainly, higher energy costs associated with increases in international crude oil prices. As a consequence there was a 0.7 per cent increase in the index for *Electricity, Gas & Other Fuels*. Additionally there were increases associated with the costs of the *Maintenance & Repair of Dwelling* (up 0.3

[2] Food & Non-Alcoholic Beverages accounts for 37.4 per cent of the expenditure of lower/middle income households.

per cent) and *Water Supply & Miscellaneous Services Related to the Dwelling* (up 1.9 per cent).

Relating to the rise in energy prices, the **Transport** index increased by 0.3 per cent. Contributing to this out-turn were higher prices for petroleum and petroleum-related products. Airfares increased due in part to the increased demand for air travel during the summer season.

There was a 0.4 per cent increase in the index for **Miscellaneous Goods & Services**. This was due largely to higher prices for personal care items[3] and personal effects[4]. The increase in personal effects may be partly attributed to continued increases in gold on the world market.

Table II –INFLATION AND CONTRIBUTION TO INFLATION BY CPI DIVISION

	July 2010	Jun 2011	July 2011	Percentage Contribution, July 2011*	Percentage Point Contribution, July 2011 *
ALL DIVISIONS	0.4	0.8	0.8	100	0.8
FOOD & NON-ALCOHOLIC BEVERAGES	1.1	0.9	1.4	69.7	0.5
ALCOHOLIC BEVERAGES & TOBACCO	0.1	0.4	0.4	0.7	0.0
CLOTHING & FOOTWEAR	0.7	0.7	0.7	3.3	0.0
HOUSING, WATER, ELECTRICITY, GAS & OTHER FUELS	-0.7	1.6	0.6	10.2	0.1
FURNISHINGS, HOUSEHOLD EQUIPMENT & ROUTINE HOUSEHOLD MAINTENANCE	0.3	0.6	0.3	2.2	0.0
HEALTH	0.2	0.2	0.3	1.3	0.0
TRANSPORT	-0.6	0.1	0.3	5.0	0.0
COMMUNICATION	0.0	0.0	0.0	0.0	0.0
RECREATION & CULTURE	0.8	0.2	0.2	0.8	0.0
EDUCATION	0.0	0.0	0.0	-0.0	-0.0
RESTAURANTS & ACCOMMODATION SERVICES	0.2	0.6	0.3	2.1	0.0
MISCELLANEOUS GOODS & SERVICES	0.4	0.3	0.4	4.6	0.0

* There may be errors due to rounding.

[3] Personal Care Items hairdressing and barber services, electrical appliances for personal care, and toiletries.
[4] Personal Effects include jewellery, clocks & watches, suitcases, handbags and lighters.

Similar to the preceding month there was a 0.7 per cent increase in the index for **Clothing & Footwear**. This resulted from increases of 0.8 per cent and 0.4 per cent for *Clothing* and *Footwear*, respectively. Higher clothing prices reflected increased costs for clothing materials and garments.

An increase of 0.3 per cent was recorded for the **Furnishings, Household Equipment & Routine Household Maintenance** division. All six groups within this division recorded increases, with the two largest contributors being, *Goods & Services for Routine Household Maintenance* (up 0.2 per cent) and *Furniture & Furnishings (including Floor Coverings)* (up 0.6 per cent), which combined accounted for approximately 73.0 per cent of the movement of the division.

Regional Composition of Price Changes

Table III: REGIONAL CPI AND INFLATION

	CPI	Inflation (%)	
	July '11	Jun '11	July '11
All Jamaica	173.6	0.8	0.8
Greater Kingston Metropolitan Area (GKMA)	179.2	0.8	0.7
Other Urban Centres (OUC)	174.7	0.8	0.8
Rural Areas	169.1	0.7	0.8

Across all three regions, inflation was relatively similar, with two regions — Other Urban Centres and Rural Areas — each recording an increase of 0.8 per cent; while the Greater Kingston Metropolitan Area reported a 0.7 per cent increase (Table III). In all three regions the upward movement in food prices was the most significant contributor to the inflation out-turn, with the shortage in the supply of some agriculture produce most pronounced in Rural Areas.

OUTLOOK

It is anticipated that in the short term, prices will be pushed upwards by: (i) restrictions in the availability of sugar amidst a global shortage; (ii) increased demand for education related items and services associated with the beginning of the 2011/12 school year. Prices are however expected to be tempered by weak domestic demand, stability in the foreign exchange market as well as a moderation in increase in international crude oil prices.

Box 1: **MID-YEAR DECLINE IN DOMESTIC AGRICULTURE OUTPUT**

Relative to the first quarter of the calendar year, total agriculture crop production declined by 4.4 per cent. This was due to a reduction in output of legumes, yams and some vegetables and condiments such as cabbage, tomato and scallion (Figure 1). Contributing to this out-turn were the following:

I. A waning in the excess supply of Agriculture produce

Farmers engaged in intense replanting subsequent to the passage of Tropical Storm Nicole which caused damage to the Agriculture industry valued at $531.6 million for crops and $32.0 million for livestock. As a consequence, total output during January-March 2011, exceeded average quarterly production level for 2010 by 12.3 per cent. The market has since began to normalize, evidenced by the decline in production levels.

II. Impact of June 2011 Flood Rains

The Agriculture, Forestry & Fishing industry was adversely impacted by heavy rainfall and flooding. Farmers reported losses valued at $128.0 million for crops and $7.5 million for livestock. Vegetables accounted for the largest share of crops lost or damaged.

Additionally, output of some crops in recent months was impacted by seasonal factors.