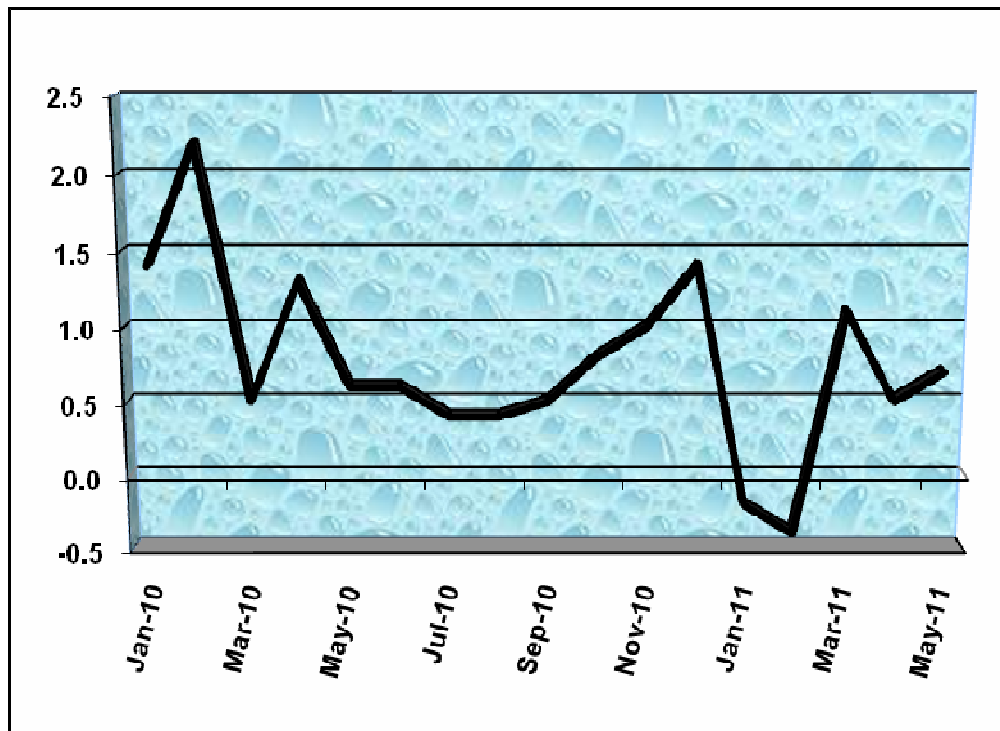
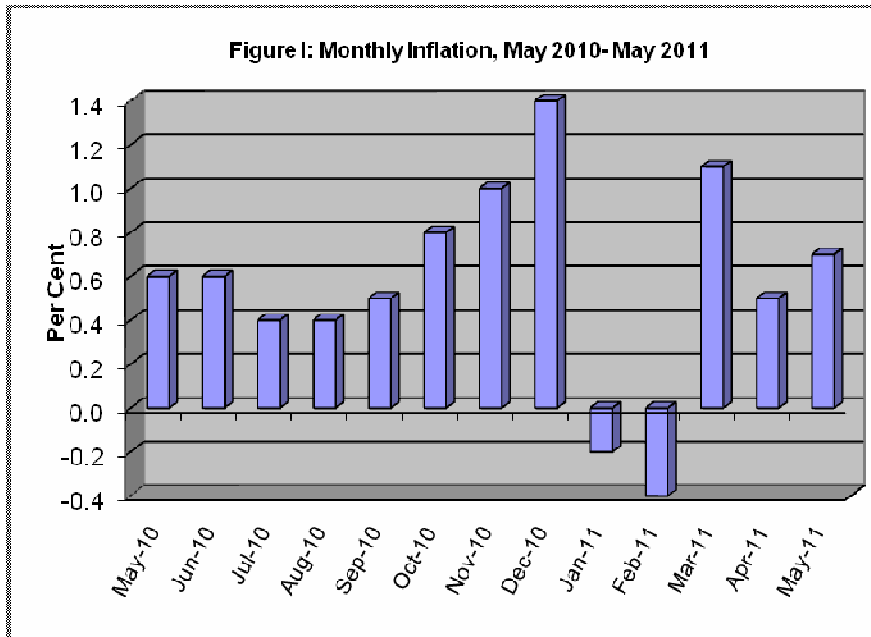


May 2011



MONTHLY INFLATION REPORT

Introduction



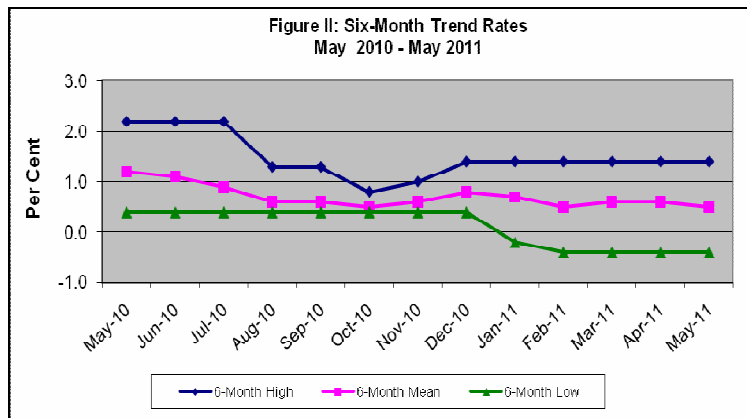
For May 2011 the All Jamaica 'All Divisions' Consumer Price Index (CPI) increased for the third consecutive month to reach 171.0. This resulted in a monthly inflation of 0.7 per cent. This rate was 0.2 percentage point above the rate

recorded for April 2011, and 0.1 percentage point above the rate recorded for the same period of 2010 (Figure 1). The inflation out-turn for the month was driven by higher prices for cereals, baked products and electricity. This was reflected in movements in the Food & Non-Alcoholic Beverages and Housing, Water, Electricity, Gas & Other Fuels divisions which combined accounted for approximately 86.0 per cent of total inflation. These prices were largely the result of higher input costs of some items, associated with increases in international commodity prices, in particular crude oil. The inflation out-turn for the month was however constrained by a reduction in airfares and the price of motor vehicles.

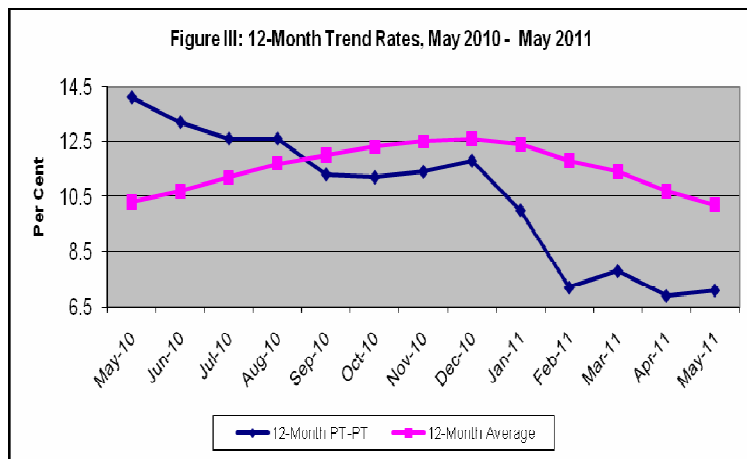
Recent Trends

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

- ✓ 6-month mean of 0.5 per cent (Figure II). The highest monthly inflation over the past six months (December 2010 – May 2011) was 1.4 per cent, recorded in December 2010 and the lowest was -0.4 per cent, recorded in February 2011

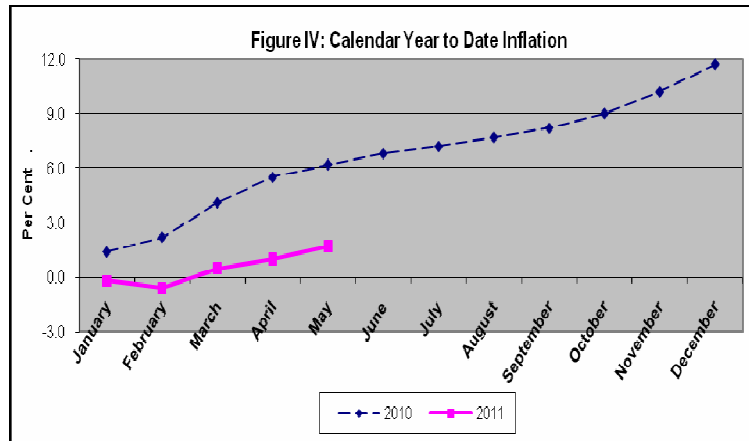


- ✓ the 12-month average¹ inflation was 10.2 per cent. The 12-month point-to-point inflation was 7.1 per cent (Figure III)



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.

- ✓ Calendar year-to-date inflation of 1.7 per cent (Figure IV and Table I). For the same period of 2010 the inflation rate stood at 6.2 per cent



- ✓ Fiscal year-to-date inflation of 1.2 per cent, relative to the 2.0 per cent recorded for the same period of FY2010/11 (Figure V and Table I).

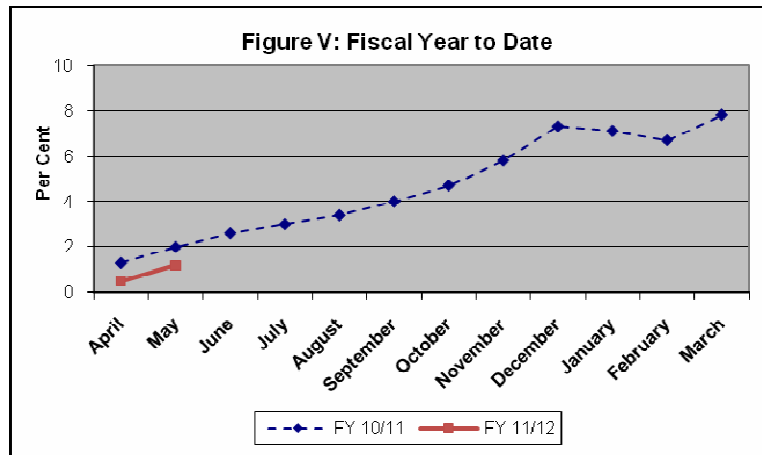


Table I: CALENDAR YEAR & FISCAL YEAR-TO-DATE INFLATION			
Period	Calendar Year to Date	Period	Fiscal Year
2008	9.4	2007/2008	4.0
2009	2.6	2008/2009	1.3
2010	6.2	2009/2010	2.0
2011	1.7	2010/2011	1.2

ANALYSIS OF INFLATION FOR MAY

Composition of Price Changes

During May, the index of nine divisions increased, one declined and two were unchanged (Table II). Inflation was pushed mainly by increased food prices for **Food & Non-Alcoholic Beverages**. This division increased by 0.8 per cent, its largest monthly increase for the calendar year to date. Within the **Food** group eight of nine food classes² recorded an increase in index. *Bread & Cereals*, up 1.6 per cent, was the main contributor to higher food prices. Higher prices for items in this food class were due to increased input costs associated with the upward movement in international grain prices (Box 1). As a consequence, there were higher prices for some baked products, flour and rice, among other cereals. Higher grain prices were also associated with the 0.8 per cent increase in the index for *Meat*. Also significant to the out-turn in food prices was the 1.3 per cent increase in the index for *Fish & Seafood*. This was attributed to a seasonal increase in the demand for these items during the Lenten season.

Higher food prices were however tempered by the 0.3 per cent decline in the index for *Vegetables & Starchy Foods*. This decline continued the trend started in January, and was due to the 1.2 per cent reduction in the average price of Vegetables, as there was an increase (2.1 per cent) in the index for Starchy Foods.

Subsequent to a decline in the previous month, the index for the division **Housing, Water, Electricity, Gas & Other Fuels** increased by 2.2 per cent (see Table II). This increase emanated from the increase (4.0 per cent) in the fuel component of electricity rates associated with higher international crude oil prices. This increase was tempered by the 0.5 per cent reduction in *Water Supply & Miscellaneous Services Related to the Dwelling*.

² The nine food classes are: *Bread & Cereals*; *Meat*; *Fish & Seafood*; *Milk, Cheese & Eggs*; *Oils & Fats*; *Fruit*; *Vegetables & Starchy Food*; *Sugar, Jam, Honey Chocolate & Confectionery*; and *Food Products*.

There was a 0.6 per cent increase in the index for **Miscellaneous Goods & Services**. Contributing to this increase were higher prices for personal care items³ and personal effects⁴.

Table II –INFLATION AND CONTRIBUTION TO INFLATION BY CPI DIVISION					
	May 2010	Apr 2011	May 2011	Percentage Contribution, May 2011 *	Percentage Point Contribution, May 2011 *
ALL DIVISIONS	0.6	0.5	0.7	100	0.7
FOOD & NON-ALCOHOLIC BEVERAGES	0.8	0.7	0.8	44.8	0.3
ALCOHOLIC BEVERAGES & TOBACCO	0.6	0.3	0.4	0.8	0.0
CLOTHING & FOOTWEAR	0.5	0.5	0.4	1.8	0.0
HOUSING, WATER, ELECTRICITY, GAS & OTHER FUELS	1.3	-0.2	2.2	41.4	0.3
FURNISHINGS, HOUSEHOLD EQUIPMENT & ROUTINE HOUSEHOLD MAINTENANCE	0.4	0.1	0.4	3.1	0.0
HEALTH	0.2	0.1	0.2	1.2	0.0
TRANSPORT	0.3	1.3	-0.2	-3.5	-0.0
COMMUNICATION	0.0	0.0	0.0	0.0	0.0
RECREATION & CULTURE	0.1	0.3	0.2	1.0	0.0
EDUCATION	0.0	0.0	0.0	0.0	0.0
RESTAURANTS & ACCOMMODATION SERVICES	0.1	0.1	0.2	2.5	0.0
MISCELLANEOUS GOODS & SERVICES	0.4	0.5	0.6	6.9	0.0
* There may be errors due to rounding.					

For the first time since September 2010, there was a decline in the index for **Transport**, down 0.2 per cent. The reduction in the price of motor vehicles was associated with an adjustment in the import duty structure on motor vehicles. Effective May 2, the Common External Tariff (CET) applicable was lowered⁵. Also contributing, was the reduction in air fares, partly associated with seasonally lower demand for air travel just before the summer holidays.

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.

⁵ The CET applicable to motor cars (including SUVs) was reduced from 40.0 per cent to 20.0 per cent, and the CET on bikes with engine sizes below 300 cc and 600 cc was reduced to 10.0 per cent and 20.0 per cent, respectively.

Regional Composition of Price Changes

	CPI	Inflation (%)	
	May '11	Apr '11	May '11
All Jamaica	171.0	0.5	0.7
Greater Kingston Metropolitan Area (GKMA)	176.6	0.5	0.5
Other Urban Centres (OUC)	171.9	0.7	0.9
Rural Areas	166.6	0.4	0.9

An assessment of distribution of inflation across the three regions revealed that price increases were greater outside of the Kingston Metropolitan Area. For the GKMA, there was a 0.5 per cent increase in index, whilst the index for the remaining regions each increased by 0.9 per cent. The lower out-turn for the GKMA relative to the other regions was due to a greater decline in the prices of agricultural produce in this region.

OUTLOOK

Recent developments have resulted in a decline in crude oil prices. Demand for oil has weakened, due in part to the ongoing Greek sovereign debt crisis and its impact on the Euro zone economy as well as lower than anticipated macroeconomic performance of the US and Japanese economies. Announcements that some OPEC members intend to increase their output levels have also dampened prices. Within the domestic sphere, prices of agricultural items are expected to increase as the glut which existed since the end of 2011 dissipates.

Box 1: RECENT MOVEMENTS IN INTERNATIONAL COMMODITY PRICES

For the period January to May 2011, although fluctuating international commodity prices have increased significantly relative to marginal increases or declines for the similar period of 2010. These increased have fuelled inflation internationally. The average spot price of crude oil was US\$108.07, an increase of 20.0 per cent, relative to a 1.0 per cent rise for the same period last year. The trend was similar for agriculture related commodity prices, for example, in the case of corn and hard red winter wheat, increases of 23.0 per cent and 15.91 per cent were recorded compared with declines of 0.7 per cent and 11.9 per cent for the first five months of 2010.

For 2011, prices were influenced by a combination of factors which in turn influenced the demand and supply of these commodities. Factors affecting demand included:

- increased optimism concerning global macroeconomic conditions amidst increased consumer demand and output
- a depreciation of the US dollar vis-à-vis the Euro
- a decline in inventory levels

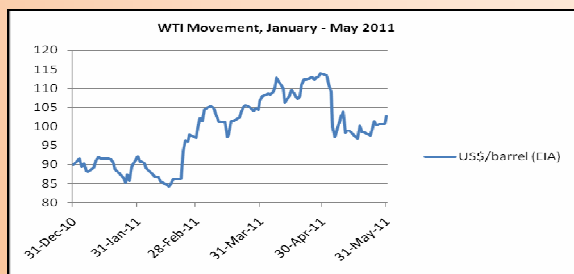
Influencing supply were:

- weakening supply prospects given poor weather conditions
- political unrests in Northern Africa and some Middle Eastern oil-producing countries

Crude Oil

Post the 2009/10 global economic recession, oil prices steadily increased, peaked at US\$113.93/barrel on April 29, subsequently retreating to US\$102.7/barrel on May 31. Early in the year prices were fuelled by declining inventories and strong demand in the face of extreme winter temperatures. The continued upward movement was due in part to supply disruptions associated with political unrests which started in Tunisia, later spreading to other countries such as Oman, Yemen and Libya. In the case of Libya, unrests resulted in the removal of approximately 1.3 million barrels per day from global supply. OPEC's ability to respond to the Libyan crisis has been limited by its inability to produce sweet light crude.

In early May, prices retreated amidst investor concerns about varying aspects of the global economy. The US economy performed less than anticipated, signalling that the recovery of the US economy remained fragile. In Japan, the earthquake and tsunami hampered production resulting in a downward revision of growth forecasts. Additionally market jitters was underpinned by the sovereign debt crisis in the Euro zone and slowing demand due in part to monetary policy tightening in some countries such as China.



Grains

For the first five months of the year grain prices were influenced by declining inventories, competition among crops for limited acreage and prospects of weak output. Global demand has also increased, with many developing economies demanding more as they emerged from the global recession. Wheat and corn prices were impacted partly by weather conditions, which already led Russia in 2010, a major grain exporter, to ban the export of grains until July 2011. Drought conditions in the USA, Europe and China fuelled wheat prices while corn prices were the result of wet weather in the US Midwest.