Monthly Inflation Report

March 2013

Prepared By: The Economic Planning & Research Division
PLANNING INSTITUTE OF JAMAICA
MONTHLY INFLATION REPORT

Introduction

The All Jamaica ‘All Divisions’ Consumer Price Index (CPI) recorded inflation of **1.4 per cent** for March 2013 (Figure I and Table I). Inflation out-turns of 0.6 per cent and 0.5 per cent were registered during February 2013 and March 2012, respectively. Inflation for the review month was impacted mainly by: (i) the increased cost of electricity associated with higher international crude oil prices; (ii) unfavourable weather conditions, which impacted agricultural production; and (iii) the implementation of government’s revenue enhancement measures which became effective March 1, 2013. Another factor which had a widespread impact on prices was the increased pace of depreciation of the Jamaica Dollar against the United States (US) Dollar during January–March 2013 relative to October–December 2012.\(^1\)

\(^1\) The rate of depreciation for January–March 2013 was 5.98 per cent while for October–December 2012 the rate was 3.27 per cent.
Recent Trends

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

✓ **6-month mean of 0.9 per cent** (Figure II). This was 0.1 percentage point lower than the rate recorded in February 2013

![Figure II](image)

**Six-Month Trend Rates, Mar 2012 - Mar 2013**

✓ The **12-month average**\(^2\) inflation was **7.2 per cent** compared with 7.1 per cent in the previous month. The **12-month point-to-point inflation** was **9.1 per cent** relative to 8.2 per cent in February 2013 (Figure III)

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\(^2\) 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 2.7 per cent relative to 1.7 per cent during 2012 (Figure IV and see Table I)

Fiscal year (FY) 2012/13 inflation of 9.1 per cent relative to 7.3 per cent for FY 2011/12 (Figure V).
ANALYSIS OF INFLATION FOR MARCH 2013

Composition of Price Changes

The upturn in the All Jamaica CPI was due to increases in eleven of the twelve divisions (Table II). Price movements in the Housing, Water, Electricity, Gas & Other Fuels and Food & Non-Alcoholic Beverages divisions accounted for approximately 77.0 per cent of the inflation out-turn for the month.

Food & Non-Alcoholic Beverages registered a 0.9 per cent increase in its index. This out-turn resulted from respective increases of 0.9 per cent and 1.0 per cent in the indices for Food and Non-Alcoholic Beverages. The upturn in the Food index was due largely to the increased prices for Vegetables & Starchy Foods (up 1.6 per cent); Milk, Cheese & Eggs (up 1.4 per
cent); and Meat (up 0.5 per cent). The higher cost for Vegetables & Starchy Foods stemmed from the shortage of some domestic crops due to drought conditions\(^3\) affecting major food-producing parishes and the lagged impact of Hurricane Sandy. Among the food items that recorded higher prices were green bananas, ripe plantains, cabbage and lettuce. Increased prices for powdered milk products contributed to the higher out-turn in Milk, Cheese & Eggs. The higher price for Meat reflected the increased cost of corn on the international market (used in animal feed), which trended upwards since the beginning of 2013.

The division for Alcoholic Beverages & Tobacco recorded an increase of 2.0 per cent in March 2013. This upturn reflected the increased cost for Wines, Spirits and Tobacco.

The Clothing & Footwear division recorded an increase of 1.0 per cent in its index. The increase during the review month was impacted mainly by the higher cost of garments and footwear, which reflected largely the depreciation of the Jamaica Dollar.

The index for Housing, Water, Electricity, Gas & Other Fuels registered an increase of 5.0 per cent. This was the second highest increase recorded since December 2009, when the out-turn was 5.1 per cent. The highest increase of 6.3 per cent was registered during September 2012. The upturn during the review month was due to an increase in the sole electricity distributor’s fuel charges. This was associated with higher crude oil prices during January–February 2013.

The Furnishings, Household Equipment & Routine Household Maintenance division recorded an increase of 0.7 per cent in its index. The higher cost of items in Goods & Services for Routine Household Maintenance was the largest contributor to the division’s out-turn, associated primarily with the depreciation of the local currency and the implementation of a revenue measure by the government\(^4\).

\(^3\) Rainfall for January, February and March 2013 was on average 60.0 per cent of the 30-year normal.

\(^4\) The inclusion of all fees and taxes paid at the ports as part of the GCT base became effective March 1, 2013.
The **Health** division registered an increase of 0.4 per cent during the review month. This increase was influenced by the higher cost of health services and medical equipment.

**Transport** recorded an increase of 0.4 per cent in its index. This upturn reflected the increased cost for new motor cars; refined petroleum products; and motor vehicle tyres and batteries. A reduction in the cost of airfares tempered the increase in the division’s index during the review month.

The index for **Communication** recorded an increase of 0.1 per cent in its index, the first since August 2012 when the out-turn was 3.8 per cent. The increase during the review month was due to the imposition of a General Consumption Tax (GCT) on the Special Telephone Call Tax by the government on March 1.

The **Recreation & Culture** division registered an increase of 0.5 per cent. Higher prices for newspapers; stationery; sporting equipment; and computer accessories contributed to the increased out-turn in this division.

The index for **Restaurants & Accommodation Services** increased by 0.5 per cent during the review month. The main factor contributing to this upturn was the higher price for food and beverages consumed at places of accommodation, which was associated with increased production costs.

The **Miscellaneous Goods & Services** division recorded an increase of 1.0 per cent in its index. This increase reflected the higher cost of personal care goods and services and funeral expenses.

The index for **Education** remained unchanged.
Regional Composition of Price Changes

All three regions recorded increases in their indices during the review month (Table III). The index for the Greater Kingston Metropolitan Area (GKMA) increased by 1.5 per cent compared with 0.2 per cent for February 2013. The indices for Other Urban Centres (OUC) and Rural Areas (RA) both registered an increase of 1.3 per cent during March 2013 compared with 0.8 per cent and 0.9 per cent during the previous month, respectively. Increases in the indices for Food & Non-Alcoholic Beverages and Housing, Water, Electricity, Gas & Other Fuels were the primary contributors to inflation for all three regions. For GKMA, OUC and RA; these two divisions combined, accounted for approximately 80.0 per cent, 72.0 per cent and 77.0 per cent of inflation, respectively.
Table III: REGIONAL CPI AND INFLATION

<table>
<thead>
<tr>
<th></th>
<th>CPI</th>
<th>Inflation (%)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>March '13</td>
<td>March '13</td>
</tr>
<tr>
<td>All Jamaica</td>
<td>197.7</td>
<td>1.4</td>
</tr>
<tr>
<td>GKMA</td>
<td>208.1</td>
<td>1.5</td>
</tr>
<tr>
<td>OUC</td>
<td>198.0</td>
<td>1.3</td>
</tr>
<tr>
<td>RA</td>
<td>190.2</td>
<td>1.3</td>
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</tbody>
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Source: Calculated from data supplied by the Statistical Institute of Jamaica

OUTLOOK

The All Jamaica CPI during April–June 2013 is expected to be impacted primarily by:

- Government of Jamaica’s (GOJ’s) revenue enhancement measures for FY 2013/14\(^5\)
- the lagged impact of the depreciation of the domestic currency against the US Dollar.

It is expected that these inflationary impulses will be tempered by an increase in rainfall for most areas of the island during the second quarter of 2013 and a downward movement in international commodity prices.

With respect to international commodity prices:

- Crude oil – global demand is forecast\(^6\) to decline more than world supply due mainly to a contraction in demand from Europe. The decline in the projection for global oil supply stemmed from lower output from the Organization of the Petroleum Exporting Countries due to disruptions in Nigeria, Libya and Iraq.
- Corn – the price is anticipated to decrease as a result of higher ending stocks; particularly from the USA, Brazil, the European Union and Russia.
- Wheat – the price is expected to fall given higher production for the European Union, Mexico and Morocco and the decrease in demand associated with lower feed use.

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\(^5\) A Customs Administration Fee on all imports except for charitable organizations and the bauxite sector was implemented on April 1, 2013. This measure is expected to impact all divisions within the CPI.

The global rice market is expected to remain stable as production and consumption are both projected lower. World production is forecast lower for Thailand, Pakistan and Colombia while global consumption is projected lower for Thailand, Pakistan, the USA, Brazil and South Africa.