

## March inflation 8.6%, reaches 26 month high on food price increases

The rate at which prices increase in Sri Lanka accelerated to 8.6 percent in March 2011, the highest since January 2009, as food prices increased 7 percent, the Department of Census and Statistics said yesterday (31) releasing the movement of the official inflation index, the Colombo Consumers' Price Index (CCPI).

It comes as no surprise that inflation accelerated to 8.6 percent in March, up from 7.8 percent in February, as food prices caused the main upward shift in the inflation index due to devastating floods earlier this year. This is the highest rate of inflation since it reached 10.7 percent in January 2009.

According to the Central Bank, inflation will pick up until April before subsiding later in the year as domestic crops recover. If, or rather when, the government increases fuel prices, the Central Bank believes inflation would spike, but only temporarily and issuing a statement earlier this week the bank says inflation would decelerate to 7 percent by this December.

"The rate of inflation as measured by the CCPI on a Year on Year basis increased to 8.6 percent in March 2011 from 7.8 percent recorded in February 2011. However, Sri Lanka's 12 month moving average inflation as measured by the CCPI settled in the month of March at a single digit figure of 6.2 percent for the twentieth consecutive time since August 2009," the government statistics office said.

"On a year to year basis, the highest contribution to the overall increase of around 80 percent came from food commodities which increase by 7 percent in March 2011. The combined effects of both domestically produced and imported food commodities contributed to the increase in the food sub Index. Among the food commodities, vegetables, coconut and coconut oil which have significant weights in the CCPI basket recorded price increases on a year to year basis. Under the non food category, the prices of gas and diesel rose by 11 percent and 3 percent respectively, while kerosene oil and petrol remained unchanged," the Department of Census and Statistics said.

With oil prices increasing and global food prices already above the 2008 crisis levels, many countries in the region have already begun to raise interest rates to con-

tain inflation. However, the Central Bank said that it would not have to do so. Strong economic growth driven by all major sectors and a strengthening rupee are expected to help Sri Lanka weather global pressures.

The Department of Census and Statistics noted however, that prices of certain items had eased from February to March.

"The general price level decreased in March 2011 compared to the prices in the previous month. The CCPI for all items for March 2011 was 233.2. A decrease of 0.7 index points, or 0.3 percent, was noted in March 2011 from the February 2011 index, which was 233.9. This decrease represents expenditure value of Rs. 125.30 in the 'Market Basket represented by the Index,' the government statistics office said.

"The food items that experienced decreases in prices were red onions, fish and sea food, coconut, green chillies due to more supply to the Colombo from main producing areas. However, most varieties of vegetables and rice prices have increased due to less supply from main producing areas during the month of March 2011. On an average, expenditure value on items in the Food group decreased by Rs. 268.56," it said.

"All items of food and non food groups represent in the CCPI decreased by 0.3 percent. It should be noted that in this basket, certain items play a more significant part than the others, depending on the weight of the items in the market basket of household consumption. Of the total decrease of 0.3 percent, food items account for a decrease of 0.64 percent mainly due to red onions (0.58 percent), fish and sea food (0.36 percent), coconut (0.15 percent), green chillies (0.14 percent), Bombay onions (0.04 percent), eggs (0.02 percent), lime (0.02 percent), coconut oil (0.01 percent) and potatoes (0.01 percent).

"Price increases were experienced in sub categories of clothing and footwear, housing, water, electricity, gas and other fuels, health, transport and recreation and culture. However furnishing, household equipment and routine household maintenance, communication and education categories represent in the CCPI remained unchanged," the Census and Statistics Department said.

