

CBSL: Inflation continued to remain at single digit level in 2011

As projected in the beginning of the year the rate of year-on-year inflation, as measured by the Colombo Consumers' Price Index (CCPI) (2006/07=100), computed by the Department of Census and Statistics, decreased to 4.9 per cent in December 2011 from 6.2 per cent in January 2011 and the annual average rate of inflation recorded as 6.7 per cent in December 2011 thus stabilising the inflation at the mid single digit level, the Central Bank announced releasing a statement earlier this week.

"The year-on-year core inflation, which is computed by excluding the items of fresh food, energy, transport, rice and coconut from the CCPI basket, also declined reaching 4.7 per cent in December 2011. The annual average core inflation reached 6.9 per cent by the year end.

Price Movements in 2011

The contribution to the annual average increase of 6.7 per cent in the Index came mainly from price increases in the sub category of Food and non alcoholic beverages (8.8 per cent). Meanwhile, average prices in the sub categories of Housing, water, electricity, gas and other fuels (4.3 per cent); Transport (7.1 per cent); Clothing and footwear (13.4 per cent); Furnishing, household equipment and routine household maintenance (4.6 per cent); Health (2.7 per cent); Education (3.5 per cent); Miscellaneous goods and services (3.9 per cent); and Recreation and culture (5.5 per cent) increased compared to the previous year. However, the prices in the sub category of Communication remained unchanged during the year.

Increases in prices of locally produced agricultural and other food commodities, especially of vegetables were significant in the first three months of the year, due to both crop destructions and transport disruptions that occurred owing to the flood situation prevailed in major producing



areas. Although this situation was temporary, inflation on a year-on-year basis continued to increase until it peaked in April and then decreased with the improved supply conditions. The increase in prices of imported food commodities such as wheat flour and milk powder in the international market led to the increase in the food sub index and thereby the CCPI. Further, the upward price revisions of diesel, petrol, kerosene, LP gas and bus fares effected during the reference period also contributed both directly and indirectly to inflation.

The average price of rice was lower in 2011 when compared to 2010, despite a sharp drop in production in the Maha season. Although the prices of almost all

varieties of rice recorded marginal increases during February and March 2011, prices began to decline subsequently due to availability of sufficient stocks in the market with a bumper Yala harvest. However, a gradual increase in the price of rice was observed since October 2011.

The weighted average prices of vegetables increased by 7.4 per cent in 2011, when compared to that of 2010. The prices of most varieties of both low-country and upcountry vegetables and leafy vegetables recorded significant increases during January to March 2011 on account of supply shortages that resulted from heavy rains and floods experienced in major producing areas. However, improvements in supply conditions of vegetables from

April onwards helped bring down the prices of vegetables substantially although it showed an increasing trend during November and December due to seasonal factors.

Although the prices of coconut and coconut oil remained high in the first four months of the year, a clear declining trend was observed from May onwards, recording the lowest level in November. On average, the prices of both coconut and coconut oil declined by 29.2 per cent and 28.7 per cent respectively, in December from those in January 2011.

Among the other domestically produced food commodities, average prices of red onion and potatoes were higher by 61.9 per cent and 10.5 per cent respectively,

while that of big onion lower by 5.9 per cent, during the year when compared to the previous year. The significant increase in the average price of red onion during the year was mainly due to the higher price prevailed during the first two months of 2011 resulted from lower supply caused by adverse weather conditions. The prices of onion, however, declined from March onwards when compared to prices that prevailed in January 2011. In the case of potatoes, an increasing trend in prices was observed from April onwards due to reduction in supply. Subsequent downward revision by the government in Special Commodity Levy (SCL) in December 2011 helped to stabilise the prices of potatoes.

Despite the growth in fish and

sea food production by 15.5 per cent during the first ten months of the year, the weighted average price of fresh fish increased by 6.0 per cent in the first ten months of 2011 when compared to the corresponding period of 2010. The average price increase was 5.1 per cent in 2011 as compared to 2010. In general, the price increase was lower in the case of small fish. The prices of all varieties of dried fish showed increases in 2011, in line with the increased fish prices. Meanwhile, price of eggs remained at a lower level in 2011 when compared with that of 2010.

The upward price revisions of fuel and LP gas on several occasions during the year also had an impact on the CCPI both directly and indirectly. Consequently the increase in the import price of crude oil, the prices of diesel, petrol and kerosene were revised on several occasions during 2011.

Accordingly, the prices of these items increased by 15.1 per cent, 19.1 per cent and 39.2 per cent, respectively during the year. The bus fares were also increased by 7.6 per cent w.e.f. 01 July 2011. Meanwhile, the price of a 12.5 kg cylinder of LP gas increased on average by 29.0 per cent from January to December 2011. In addition to the direct impact, those price revisions also had an indirect impact on the CCPI through the cost of production.

In line with the price increases in the international market, domestic prices of several food commodities increased in 2011. Accordingly, the increase in the price of wheat flour by Rs. 3 per kg w.e.f. 19 April 2011 caused the price of a loaf of 450g bread to increase by Rs. 2 w.e.f. 22 April 2011. Meanwhile, the maximum selling price of a 400g packet of milk powder was increased by Rs. 20 w.e.f. 03 May 2011. This too contributed to an increase in CCPI for the period under reference," the Central Bank said.