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Media Release

HEADLINE INFLATION EASES TO 10.8 PER CENT IN JULY: CENTRAL BANK MAINTAINS REPO RATE AT 3.00 PER CENT

The latest information released by the Central Statistical Office indicates that inflation decelerated for the second consecutive month in July. **Headline inflation**, measured by the twelve-month change in the Index of Retail Prices, slowed to **10.8 per cent** (year-on-year) in July 2012 from 11.0 per cent in June. However, on a monthly basis, headline inflation rose by 0.8 per cent in July after having declined by a similar rate in the previous month.

Food inflation, the main driver of the headline inflation rate, measured **22.6 per cent** (year-on-year) in July 2012, compared with 24.1 per cent in June 2012. The slower rate of increase in food prices came mainly from the prices of **vegetables (35.5 per cent** in July 2012 compared with 42.1 per cent in June), **fish (8.2 per cent** compared with 11.3 per cent in June), **bread and cereals (3.1 per cent** compared with 4.5 per cent in June), **milk, cheese and eggs (4.6 per cent** compared with 4.7 per cent in June 2012) and **sugar and confectionery products (5.3 per cent** compared with 5.5 per cent in June 2012). By contrast, slightly faster year-on-year price increases were recorded for **meat (5.9 per cent** compared with 5.0 per cent in June) and **oil and fats (13.2 per cent** compared with 13.0 per cent), respectively.

Core inflation, which excludes food prices, rose to **2.8 per cent** in July 2012 from 2.3 per cent in June 2012. This uptick in the core inflation rate resulted from price increases in a broad set of categories including alcoholic beverages and tobacco (4.8 per cent), clothing and footwear (3.4 per cent), recreation and culture (6.0 per cent) and health services (2.6 per cent). Nevertheless, underlying inflationary pressures are relatively subdued.

At the international level, a severe drought in the mid-west USA has affected crop development and has pushed up maize prices by almost 23 per cent in July relative to June. Untimely rains in Brazil, the world's largest exporter of sugar, have also contributed to an increase in sugar prices. While the effects of these increases have not yet fully impacted domestic food inflation, some local retailers have already signalled their intention to pass on these global price increases to consumers. Egg producers, for instance, have announced an 8.8 per cent increase in the wholesale price of eggs due to the higher cost of imported poultry feed.

Private sector credit continued to expand at a relatively slow pace in the face of sluggish domestic demand. On a year-on-year basis, **overall credit** granted by the consolidated system to the private sector grew by **3.1 per cent** in June 2012, slightly up from the increase of 2.8 per cent recorded in May. Among the major loan categories, lending for **real estate mortgages** rose at a robust rate of **10.4 per cent** in June compared with 9.8 per cent in May while **business loans** grew at a more moderate pace of **5.7 per cent**, up from 4.6 per cent in May. The growth in **consumer loans** on the other hand slipped to **0.6 per cent** in June from 1.1 per cent in May.

Net domestic fiscal injections amounting to \$2,907 million contributed to a surge in excess liquidity during August. Commercial banks' holdings of excess reserves averaged \$3,647 million for the first three weeks in August 2012 compared with \$2,268 million in July 2012 and \$2,176 million in June 2012. Nonetheless, Central Bank's operations in the domestic

money and foreign exchange markets helped to contain excess liquidity within manageable levels.

In the more liquid financial environment, there was no activity on the inter-bank market and commercial banks had no need to access the repo facility at the Central Bank. In addition, while short-term interest rates have begun to inch up, yields on one-month and three-month treasury bills are still low at 0.40 per cent and 0.63 per cent, respectively as at August 21, 2012.

Whereas underlying inflationary pressures remain in check, the severe drought in the mid-west USA is likely to raise the prospects for higher domestic food prices in the coming months. Even so, with private demand and economic activity still quite subdued, the Bank continues to view its accommodative monetary stance as appropriate to foster a sustained recovery in non-energy sector activity. Against this background, **the Bank has decided to maintain the 'Repo' rate at 3.00 per cent.**

The Bank will continue to keep economic and monetary conditions under close review in the coming months.

The next 'Repo' rate announcement is scheduled for September 21, 2012.

August 24, 2012

APPENDIX

MOVEMENT OF SELECTED CATEGORIES OF THE INDEX OF RETAIL PRICES /Percentage Change/

	Monthly		Year-on-Year	
	June 2012	July 2012	June 2012	July 2012
Headline Inflation	(0.8)	0.8	11.0	10.8
Food Prices and Non-Alcoholic Beverages	(2.0)	0.8	24.1	22.6
Bread and Cereals	0.7	0.0	4.5	3.1
Meat	0.3	1.4	5.0	5.9
Fish	1.3	(0.2)	11.3	8.2
Vegetables	(0.8)	0.5	42.1	35.5
Fruits	(7.7)	1.6	31.4	41.0
Milk, Cheese & Eggs	0.2	0.0	4.7	4.6
Oils and Fats	0.9	0.3	13.0	13.2
Sugar, Jam, Confectionery, etc.	(0.2)	0.0	5.5	5.3
Core Inflation	0.1	0.8	2.3	2.8
Alcoholic Beverages & Tobacco	1.8	0.5	4.7	4.8
Clothing and Footwear	(0.2)	2.3	2.6	3.4
Furnishings, Household Equipment and Routine Maintenance	0.0	1.3	1.3	2.2
Health	(0.1)	1.3	1.2	2.6
<i>Of which:</i> Medical Services	0.0	3.0	3.9	7.0
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.3	2.6	2.7
<i>Of which:</i> Rent	0.0	2.2	6.1	6.5
Home Ownership	0.0	0.1	2.9	2.9
Education	0.0	0.0	1.7	1.7
Recreation & Culture	0.0	3.0	2.6	6.0
Hotels, Cafes & Restaurants	0.0	2.4	1.9	3.5
Transport	0.0	0.0	2.1	1.5

Source: Central Statistical Office.