



CENTRAL BANK OF TRINIDAD & TOBAGO

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Media Release

HEADLINE INFLATION RATE FALLS TO 0.8 PER CENT: CENTRAL BANK LOWERS 'REPO' RATE BY 25 BASIS POINTS TO 3.00 PER CENT

The latest data released by the Central Statistical Office show a marked deceleration in the rate of inflation. **Headline Inflation**, measured by the 12-month increase in the Index of Retail Prices, slowed sharply in June 2011 to **0.8 per cent** from 3.9 per cent in May 2011. This rate is the lowest on record since October 1969 when headline inflation measured 0.6 per cent. **The drastic deceleration in the headline rate partly reflects the “base effect” associated with the sharp rise in the Index of Retail Prices during the month of June 2010.** On a monthly basis however, headline inflation rose by 0.6 per cent in June following a decline of 0.4 per cent in May 2011. **Core inflation**, which excludes the impact of food prices, inched up marginally to **1.4 per cent** (year-on-year) from 1.3 per cent in the previous month.

Food inflation, which has been the major driver of the headline inflation rate, decelerated to **0.1 per cent** (year-on-year) in June from 8.2 per cent in May. The decrease in food inflation was mainly led by the sharp decline in **vegetable prices (-12.1 per cent)** which have a large weight in the overall food basket. Within the vegetables sub-index, significant price reductions were recorded in June for tomatoes (-40.3 per cent), pumpkin (-10.0 per cent), cucumber (-11.4 per cent), christophene (-42.7 per cent) and patchoi (-10.5 per cent).

Slower price increases for **fruits (18.8 per cent** in June compared with 19.7 per cent in May), **meat (10.5 per cent** compared with 12.0 per cent) and **fish (5.4 per cent** compared with 7.6 per cent) also contributed to the lower food inflation rate. In contrast, prices gained momentum for **bread and cereals (2.3 per cent** compared with 1.7 per cent in May), **oils and fats (4.2 per cent** compared with 1.9 per cent in May) and **sugar and confectionery products (6.5 per cent** compared with 5.3 per cent in May).

Although favourable weather conditions and an increase in acreage under cultivation are contributing to higher domestic crop yields, there are signs that high international prices are starting to influence some local food prices. The increases in the global prices of some key staples such as grain and dairy products are now being reflected in higher local prices for bread, eggs and edible oils.

Private sector credit continues to improve although not at a robust enough pace to underpin a strong economic recovery. On a year-on-year basis, **private sector credit** extended by the consolidated financial system increased by **0.9 per cent** in May 2011 following a run of twenty consecutive months of decline. **Consumer credit** rose by **4.7 per cent** in May **while real estate mortgage lending** maintained a robust growth rate, expanding by **10.1 per cent**. **Credit to the business sector** however, declined for the nineteenth consecutive month in May by 2.2 per cent. Business firms still appear hesitant to borrow in the wake of sluggish economic activity.

During the first six months of 2011, lower net fiscal injections along with the liquidity absorption measures adopted by the Central Bank helped to keep the level of excess liquidity in the financial system in check. Commercial banks' excess reserve balances held at the Central Bank averaged \$1.3 billion in the period January – June 2011 compared with \$2.0 billion in the corresponding period a year earlier. The slight tightening in liquidity led

some banks to tap the inter-bank market and the 'repo' facility at the Central Bank to meet their short-term funding requirements.

The yield on **3-month treasury bills** held steady at **0.93 per cent** in July while the differential between US and TT short-term rates narrowed to **87 basis points** from 94 basis points in June as US short-term rates edged up by 3 basis points.

Short-term indicators suggest that business activity is still quite lethargic and that the pace of economic recovery continues to be weak. With underlying inflationary pressures well contained thus far, there is room for monetary policy to provide additional impetus to private sector economic activity. As a consequence, **the Bank has decided to lower the 'Repo' rate by 25 basis points to 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 August 26, 2011.

July 29, 2011.

APPENDIX

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

	Monthly		Year-on-Year	
	May 2011	June 2011	May 2011	June 2011
Headline Inflation	(0.4)	0.6	3.9	0.8
Food Prices	(1.0)	1.4	8.2	0.1
Bread and Cereals	0.6	0.4	1.7	2.3
Meat	0.4	1.2	12.0	10.5
Fish	(6.7)	(4.1)	7.6	5.4
Vegetables	(2.5)	1.3	5.4	(12.1)
Fruits	4.8	(0.7)	19.7	18.8
Milk, Cheese & Eggs	0.7	1.1	10.5	7.2
Oils and Fats	2.9	1.9	1.9	4.2
Sugar, Jam, Confectionery, etc.	(0.2)	0.2	5.3	6.5
Core Inflation	0.0	0.0	1.3	1.4
Alcoholic Beverages & Tobacco	(0.2)	(0.3)	5.8	5.4
Clothing and Footwear	0.4	(0.3)	(1.0)	(0.6)
Furnishings, Household Equipment and Routine Maintenance	0.0	0.0	1.0	1.0
Health	0.3	0.4	2.2	2.4
<i>Of which:</i> Medical Services	0.0	0.0	1.6	1.6
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	1.0	1.0
<i>Of which:</i> Rent	0.0	0.0	4.8	4.8
Home Ownership	0.0	0.0	0.7	0.7
Education	0.0	0.0	2.6	2.6
Recreation & Culture	0.0	0.0	3.4	3.4
Hotels, Cafes & Restaurants	0.0	0.0	1.9	1.9
Transport	0.0	0.0	0.0	0.0

Source: Central Statistical Office.