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Media Release

FOOD PRICES PUSH HEADLINE INFLATION TO 11.8 PER CENT: CENTRAL BANK MAINTAINS REPO RATE AT 3.00 PER CENT

The latest data released by the Central Statistical Office point to a marked acceleration in the rate of inflation. **Headline inflation**, measured by the twelve-month increase in the Index of Retail Prices, rose to **11.8 per cent** in April 2012 from 9.1 per cent in March 2012. The April outcome represents the highest recorded rate since January 2011 when it measured 12.5 per cent. On a monthly basis, headline inflation rose by 2.8 per cent in April after having declined by 0.7 per cent in March 2012.

The continuing rise in food price inflation was the major factor behind the sharp jump in the headline rate. On a year-on-year basis, **food price inflation** increased by **26.1 per cent** in April 2012 up from 20.3 per cent in the previous month. The surge was led by sharp increases in the prices of **fruit (48 per cent)** and **vegetables (34.3 per cent)**, which were associated with weather-induced supply shortages. Higher price increases were also recorded in April for **fish (14.1 per cent** compared with 12.6 per cent in March 2012) and for **sugar and confectionery products (7.2 per cent** compared with 6.7 per cent in March 2012). Prices also rose, albeit at a slower pace, for **oils and fats (16.8 per cent** compared with 19.1 per cent in March 2012), **bread and cereals (4.8 per cent** from 5.2 per cent), **milk, cheese, and eggs (6.9 per cent** from 7.5 per cent), and **meat (4.1 per cent** from 6.9 per cent).

Core inflation, which excludes food prices, edged upwards to **2.2 per cent** in the twelve months to April 2012, after holding steady at under 2.0 per cent since April 2011. The increase in core inflation mainly reflected slightly faster price increases in the sub-indices for health, transportation and recreation and culture.

Private sector credit continued to grow at a steady but slow pace as domestic demand remains relatively sluggish. On a year-on-year basis to March 2012, **private sector credit** from the consolidated financial system grew by **3.1 per cent**, up from 2.3 per cent in the previous month. In March, **consumer** and **business credit** posted small year-on-year increases of **2.2 per cent** (unchanged from the previous month) and **4.8 per cent** (up from 2.8 per cent in February 2012), respectively, while **real estate mortgage lending** grew by a robust **9.8 per cent**. A closer examination of the sectoral distribution of credit from commercial banks to businesses revealed that loans to the manufacturing and construction sectors increased by 17.6 and 3.7 per cent, respectively in March while there was a contraction in lending to several other sectors, including distribution (-9.9 per cent), finance insurance and real estate (-7.6 per cent) and agriculture (-2 per cent).

Excess Liquidity in the financial system receded sharply in May 2012 from the high levels of the previous months. In the first three and a half weeks of May, commercial banks' holdings of excess reserves at the Central Bank fell to a daily average of \$2.6 billion from \$3.4 billion in April. Smaller net domestic fiscal injections together with Central Bank actions in the government securities and foreign exchange markets, which removed approximately \$841 million, helped to contain excess liquid balances in the financial system.

As liquidity levels contracted, short term interest rates edged up slightly. After falling to 0.04 per cent in March, rates on government 3-month paper increased to 0.10 per cent in

April and 0.25 per cent by May 21, 2012. In the US government securities market, rates on US three-month treasury bills slid marginally from 0.10 per cent in April to 0.09 per cent in May. Consequently, the differential between TT and US three-month interest rates increased from zero to 16 basis points by May 21, 2012.

The acceleration in headline inflation continues to primarily reflect the influence of strong increases in food prices. Core inflation, which is a more useful indicator of underlying demand pressures, remains relatively stable although there are signs that it is beginning to inch up. Recent economic indicators suggest that while credit conditions have been improving, activity in the non-energy sector remains lethargic and the domestic economy is still struggling to get into full recovery mode.

Against this background, **the Central 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 June 29, 2012.

May 25, 2012

APPENDIX

MOVEMENT OF SELECTED CATEGORIES OF THE INDEX OF RETAIL PRICES

/Percentage Change/

	Monthly		Year-on-Year	
	March 2012	April 2012	March 2012	April 2012
Headline Inflation	(0.7)	2.8	9.1	11.8
Food Prices and Non-Alcoholic Beverages	(1.6)	5.6	20.3	26.1
Bread and Cereals	(0.2)	0.4	5.2	4.8
Meat	0.6	(0.9)	6.9	4.1
Fish	0.0	3.5	12.6	14.1
Vegetables	(9.7)	13.7	17.7	34.3
Fruits	12.8	(5.0)	59.9	48.0
Milk, Cheese & Eggs	0.2	0.2	7.5	6.9
Oils and Fats	1.6	(0.8)	19.1	16.8
Sugar, Jam, Confectionery, etc.	0.4	1.2	6.7	7.2
Core Inflation	0.0	0.7	1.8	2.2
Alcoholic Beverages & Tobacco	0.2	(0.2)	2.4	2.3
Clothing and Footwear	0.0	(0.5)	2.9	2.8
Furnishings, Household Equipment and Routine Maintenance	0.0	(0.2)	1.8	1.3
Health	0.1	2.0	0.9	2.4
<i>Of which: Medical Services</i>	0.0	3.7	1.2	3.9
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	2.7	2.6
<i>Of which: Rent</i>	0.0	0.0	6.7	6.1
Home Ownership	0.0	0.0	2.9	2.9
Education	0.0	1.8	1.7	1.7
Recreation & Culture	0.0	2.0	0.6	2.6
Hotels, Cafes & Restaurants	0.0	0.3	3.4	1.9
Transport	0.0	1.5	0.6	2.1

Source: Central Statistical Office.

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