



CENTRAL BANK OF TRINIDAD & TOBAGO

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Media Release

RISING FOOD PRICES DRIVE YEAR-END HEADLINE INFLATION RATE TO 13.4 PER CENT

The final inflation figures released by the Central Statistical Office for 2010 indicate that **headline inflation** surged in the last two months of 2010 to reach **13.4 per cent** in December compared with 12.5 per cent in October. **Core inflation**, however, remained virtually unchanged from October 2010 at **4.7 per cent** (year-on-year).

Food price inflation, which had reached a high of 39.1 per cent in August before easing to 26.7 per cent in October, rose again to **29.5 per cent** as at **December 2010**. The unprecedented level of food price inflation is mainly due to domestic supply shocks resulting from unusually heavy floods. In December 2010, the prices of **vegetables, fruits** and **milk, cheese and eggs** were **42.5 per cent, 32.4 per cent** and **11.3 per cent** higher than a year earlier.

As regards core inflation, the sub-indices for **Health** and **Alcoholic Beverages and Tobacco** posted slower year-on-year increases of **3.8 per cent** and **6.0 per cent**, respectively while there was a **1.5 per cent** decline in the sub-index for **clothing and footwear**.

On the macroeconomic front, while recent economic indicators point to improved energy sector activity, the pace of revival in the non-energy sector remains tardy. Business firms seem to be still reticent about engaging in new investment activity while consumer sentiment, though improving, remains cautious about the economy's growth prospects.

Private sector credit by the consolidated financial system, an important gauge of demand conditions, declined for the fifteenth consecutive month by **2.5 per cent** (year-on-year) led by the **5.9 per cent fall in business credit**. **Consumer credit**, on the other hand, staged a tentative recovery in the months of October and November, growing by **1.1 per cent** and **1.5 per cent**, respectively. **Real estate mortgage lending** remains the only category of private sector credit that continues to display robust growth, rising by **7.6 per cent** and **7.0 per cent** in October and November, respectively.

With credit on a declining trend, liquidity levels in the financial system remained buoyant (**around a daily average of \$3.3 billion**) for most of October 2010, driven in part by increased net fiscal injections. By mid-November, however, on the heels of the liquidity measures introduced by the Central Bank, commercial banks' **excess reserves** fell to a daily average of **\$1.4 billion** and further to **\$960 million** in January 2011. As liquidity tightened, commercial banks needed to have greater recourse to the inter-bank market and to repurchases to meet their financing needs.

In the somewhat tighter liquidity environment, **short-term interest rates** edged up slightly from their historic lows. The **three-month treasury bill** rate rose to **0.41 per cent** in January 2011 from 0.28 per cent in October 2010 while the rate on six-month treasury bills inched up to 0.52 per cent in January from 0.48 per cent in November 2010. **Commercial banks' weighted average lending rates** fell to **10.28 per cent** in September 2010 from 10.58 per cent in June 2010.

With core inflation well anchored for the time being and with a recovery of activity in the non-energy sector continuing to be an urgent priority, the Bank has decided to **reduce the 'Repo' rate by 25 basis points to 3.50 per cent.**

The Bank will continue to keep economic and monetary conditions under close review.

The next 'Repo' rate announcement is scheduled for February 25, 2011.

January 28, 2011

APPENDIX 1

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

	Monthly			Year-on-Year		
	October 2010	November 2010	December 2010	October 2010	November 2010	December 2010
Headline Inflation	(1.3)	(0.7)	0.5	12.5	12.8	13.4
Food Prices	(3.5)	(1.9)	1.3	26.7	27.4	29.5
Bread and Cereals	0.2	(0.4)	0.5	(3.1)	(2.1)	(0.7)
Meat	2.3	(1.9)	4.5	5.2	4.4	9.4
Fish	0.9	0.8	2.1	9.0	10.1	7.9
Vegetables	(7.9)	0.7	0.3	37.9	42.0	42.5
Fruits	(4.9)	(7.5)	1.6	33.4	30.9	32.4
Milk, Cheese & Eggs	0.3	0.2	1.5	9.6	9.2	11.3
Oils and Fats	0.0	0.0	(1.1)	(2.6)	(2.6)	(2.8)
Sugar, Jam, Confectionery, etc.	0.3	0.0	0.2	6.7	4.2	4.1
Core Inflation	0.3	0.1	(0.1)	4.7	4.8	4.7
Alcoholic Beverages & Tobacco	1.8	3.4	0.1	3.4	6.5	6.0
Clothing and Footwear	0.2	(0.2)	(0.8)	(0.6)	(0.6)	(1.5)
Furnishings, Household Equipment and Routine Maintenance	0.4	0.0	0.0	1.0	1.0	1.0
Health	0.4	0.0	0.0	3.9	4.0	3.8
<i>Of which:</i> Medical Services	0.2	0.0	0.0	6.0	6.0	6.0
Housing, Water, Electricity, Gas & Other Fuels	0.4	0.0	0.0	0.2	0.2	0.2
<i>Of which:</i> Rent	0.4	0.0	0.0	7.0	7.0	7.0
Home Ownership	0.6	0.0	0.0	(0.8)	(0.8)	(0.8)
Education	0.7	0.0	0.0	1.9	1.9	1.9
Recreation & Culture	0.1	0.0	0.0	13.7	13.7	13.7
Hotels, Cafes & Restaurants	(0.2)	0.0	0.0	0.8	0.8	0.8
Transport	0.0	0.0	0.0	12.1	12.1	12.1

Source: Central Statistical Office.