



## CENTRAL BANK OF TRINIDAD & TOBAGO

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### FOOD PRICES PUSH HEADLINE INFLATION RATE TO 13.7 PER CENT: CENTRAL BANK MAINTAINS REPO RATE AT 5.0 PER CENT

According to data from the Central Statistical Office, inflation has accelerated further in mid-2010, driven by an unexpectedly large rise in domestic food prices. **Headline inflation**, measured by the twelve-month increase in the Index of Retail Prices, rose to **13.7 per cent** in June from 9.6 per cent in the previous month. The June outcome represents the highest year-on-year increase since October 2008 when the rate peaked at 15.4 per cent. On a monthly basis, headline inflation rose by 3.7 per cent compared to an average of 1.7 per cent over the past five months.

**Food prices** jumped sharply in June to 31.1 per cent (year-on-year), up from 19.4 per cent in May and 7.0 per cent in March. On a monthly basis, food prices rose by 9.6 per cent in June – the highest monthly rate of increase in well over a decade. The recent floods in some key agricultural districts, in conjunction with the severe drought which led to the widespread rationing of water earlier in the year, have severely hampered domestic crop production. In the twelve months to June, **fruit and vegetables**, which account for 20 per cent of the food prices

sub-index, posted price increases of **48.0 per cent** and **51.9 per cent**, respectively. The prices of **fish, sugar and confectionery products** and **meat products** also registered year-on-year increases of **13.5 per cent**, **6.5 per cent**, and **2.4 per cent**, respectively.

**Core inflation**, which excludes food prices, remained virtually unchanged from the previous month at 4.3 per cent. The steadiness of the core inflation rate over the past six months, along with the slow movement in producer prices and the prices of building materials, suggest that underlying inflationary pressures have not accelerated.

Private sector credit has continued to contract against the background of weak domestic demand. On a year-on-year basis, **private sector credit** by the consolidated financial system declined for the ninth consecutive month, falling by **5.0 per cent** in May 2010. **Business credit** also continued to fall at a rapid rate (**-11.2 per cent**) outstripping the rate of contraction of **consumer lending** (**-1.2 per cent**). Conversely, **real estate mortgage lending** remains resilient growing by **6.1 per cent** in the twelve months to May. Associated with the sluggish private sector credit demand, liquidity in the banking system has persisted at relatively high levels, with commercial banks' balances at the Central Bank in excess of the reserve requirement recorded at just over \$2.0 billion in mid-July.

Over the course of the past six months, short-term interest rates have plummeted to record lows in the face of slow credit demand and buoyant liquidity conditions. The **three-month treasury bill rate** has declined to 0.97 per cent in July from 1.3 per cent in January 2010 and from 2.5 per cent a year ago. As a consequence, the **differential** between the US

and TT short-term interest rates narrowed further to **81 basis points** in July from 130 basis points in January 2010.

The surge in the headline inflation rate since the start of the year highlights the inordinate impact that food prices are having on domestic inflation. Measures to augment the amount of produce available at markets and to streamline distribution channels could help to bring food supplies back to more normal levels. This may entail an increase in imports of certain fruits and vegetables in the short run, depending on how long it takes for local crops to recuperate from the impact of the drought and subsequent floods in the first half of the year.

There is no doubt that weather-related factors have put pressure on domestic agricultural supplies resulting in significant volatility in some basic food prices and consequently in headline inflation. Thus for example, the 12-month change in the food price index has moved from 25 per cent in January 2009 to minus 1.0 per cent in December 2009 and to 31 per cent in June 2010. The Central Statistical Office will soon begin an exercise, with technical support from the International Monetary Fund, to examine more closely the reasons behind this excessive volatility.

Meanwhile, monetary policy is faced with the difficult challenge of containing rising inflation while, at the same time, fostering appropriate conditions to kick-start and sustain an economic recovery. While driven largely by an unusually large jump in food prices since the start of the year, the high rate of headline inflation could spill over into wage and general price-setting behaviour.

For the time being, the Bank is of the view that reversing the current accommodative policy stance too quickly could stifle emerging growth prospects. In these circumstances, **the Bank has decided to maintain the 'Repo' rate at 5.0 per cent.**

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

**The next 'Repo' rate announcement is scheduled for August 27, 2010.**

**July 23, 2010.**

## APPENDIX

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

	Monthly		Year-on-Year	
	May 2010	June 2010	May 2010	June 2010
Headline Inflation	2.0	3.7	9.6	13.7
Food Prices	5.3	9.6	19.4	31.1
Bread and Cereals	0.2	(0.1)	(3.4)	(3.8)
Meat	(1.5)	2.6	(1.9)	2.4
Fish	(2.8)	(2.2)	8.7	13.5
Vegetables	9.6	21.4	25.1	51.9
Fruits	10.7	0.1	48.5	48.0
Milk, Cheese & Eggs	2.6	4.2	(3.2)	1.2
Oils and Fats	(0.3)	(0.4)	(2.4)	(2.8)
Sugar, Jam, Confectionery, etc.	0.1	(0.9)	4.9	6.5
Core Inflation	0.0	0.0	4.3	4.3
Alcoholic Beverages & Tobacco	0.0	0.0	12.1	12.1
Clothing and Footwear	(0.1)	(0.6)	(0.6)	0.2
Furnishings, Household Equipment and Routine Maintenance	0.0	0.0	(0.1)	(0.1)
Health	0.1	0.2	4.5	4.7
<i>Of which:</i> Medical Services	0.0	0.0	9.6	9.6
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	(0.2)	(0.2)
<i>Of which::</i> Rent	0.0	0.0	7.6	7.6
Home Ownership	0.0	0.0	(2.3)	(2.3)
Water, Electricity, Gas & Other Fuels	0.0	0.0	2.9	2.9
Education	0.0	0.0	2.9	2.9
Recreation & Culture	0.0	0.0	7.8	7.8
Hotels, Cafes & Restaurants	0.0	0.0	2.1	2.1
Transport	0.0	0.0	11.8	11.8

*Source: Central Statistical Office.*

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