



CENTRAL BANK OF TRINIDAD & TOBAGO

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FOOD PRICES PUSH HEADLINE INFLATION RATE TO 9.6 PER CENT: CENTRAL BANK MAINTAINS REPO RATE AT 5.0 PER CENT

The latest information released by the Central Statistical Office indicates that the upward trend in inflation continued for a fifth consecutive month. Headline inflation, measured by the twelve-month increase in the Index of Retail Prices, rose to **9.6 per cent** on a year-on-year basis to May 2010 from 7.3 per cent in April and 1.3 per cent in December 2009.

Food prices, the main driver of the headline inflation rate, accelerated on a year-on-year basis to **19.4 per cent** in May from 12.7 per cent in the previous month. On a monthly basis, food prices rose by 5.3 per cent in May following an increase of a similar magnitude in April. The combined effects of the severe drought in previous months and the recent floods have adversely affected domestic crop production and pushed up local food prices. In particular, the prices of **fruits and vegetables** rose, on a year-on-year basis to May, by **48.5 per cent** and **25.1 per cent**, respectively. The sub-index for fish also registered an increase of 8.7 per cent (year-on-year) in May after recording declines in the four previous months.

Core inflation, which filters out the impact of food prices, edged downwards to **4.3 per cent** in the twelve months to May from 4.4 per cent in April. The marginal decline in core inflation reflected a deceleration in price increases in the sub-indices for alcoholic beverages and tobacco as well as clothing and footwear. However, there was a slight increase in the cost of **health services** to **4.5 per cent** (year-on-year) in May from 4.4 per cent in April. The relative stability in core inflation suggests that underlying inflationary pressures have not accelerated over the past few months.

As a reflection of relatively sluggish domestic demand, credit growth has continued to decline. In the twelve months to April 2010, **private sector credit** by the consolidated financial system contracted by **3.0 per cent**. This follows declines of 2.6 per cent and 3.6 per cent in March and February, respectively. In April, **consumer and business credit** posted year-on-year declines of 1.3 per cent and 2.7 per cent, respectively. By contrast, **real estate mortgage lending** remains resilient, growing by **6.4 per cent** (year-on-year) in April.

High net fiscal injections and the tepid demand for credit have contributed to more buoyant liquidity conditions in the domestic banking system. The slow credit demand and increased competition for treasury bills have helped to depress short-term interest rates which have remained at record lows over the past few months. The three-month treasury bill rate drifted downwards to 1.0 per cent by June 21 from 1.34 per cent in January.

Headline inflation is now approaching a threshold which, in the past, has increased inflationary expectations and complicated wages policy. In these circumstances, the immediate challenge is to reverse the steady increase in food prices. Since the current availability of agricultural produce is still uncertain, nationwide measures to boost domestic food stocks could help to ease supply constraints.

While there is room to reduce core inflation, monetary policy is faced with the challenge of addressing a rapid increase in headline inflation and at the same time fostering conditions that are conducive to a sustained economic recovery.

In the meantime, the Bank is of the view that the current accommodative policy stance remains appropriate in order to create conditions for private sector growth. 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 July 23, 2010.

June 25, 2010

APPENDIX

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

| | Monthly | | Year-on-Year | |
|--|------------|----------|--------------|----------|
| | April 2010 | May 2010 | April 2010 | May 2010 |
| Headline Inflation | 3.2 | 2.0 | 7.3 | 9.6 |
| Food Prices | 6.2 | 5.3 | 12.7 | 19.4 |
| Bread and Cereals | 0.4 | 0.2 | (5.2) | (3.4) |
| Meat | 2.4 | (1.5) | (0.3) | (1.9) |
| Fish | (2.3) | (2.8) | (1.9) | 8.7 |
| Vegetables | 10.2 | 9.6 | 9.4 | 25.1 |
| Fruits | 6.6 | 10.7 | 60.2 | 48.5 |
| Milk, Cheese & Eggs | 0.8 | 2.6 | (6.3) | (3.2) |
| Oils and Fats | 0.6 | (0.3) | (2.3) | (2.4) |
| Sugar, Jam, Confectionery, etc. | (0.5) | 0.1 | 3.5 | 4.9 |
| Core Inflation | 1.6 | 0.0 | 4.4 | 4.3 |
| Alcoholic Beverages & Tobacco | 0.1 | 0.0 | 12.2 | 12.1 |
| Clothing and Footwear | (0.3) | (0.1) | 0.0 | (0.6) |
| Furnishings, Household Equipment and Routine Maintenance | (0.1) | 0.0 | (0.1) | (0.1) |
| Health | 2.2 | 0.1 | 4.4 | 4.5 |
| <i>Of which:</i> Medical Services | 5.0 | 0.0 | 9.6 | 9.6 |
| Housing, Water, Electricity, Gas & Other Fuels | (0.2) | 0.0 | (0.2) | (0.2) |
| <i>Of which:</i> Rent | 1.6 | 0.0 | 7.6 | 7.6 |
| Home Ownership | (0.6) | 0.0 | (2.3) | (2.3) |
| Water, Electricity, Gas & Other Fuels | 0.0 | 0.0 | 2.9 | 2.9 |
| Education | 1.2 | 0.0 | 2.9 | 2.9 |
| Recreation & Culture | 10.4 | 0.0 | 7.8 | 7.8 |
| Hotels, Cafes & Restaurants | 0.3 | 0.0 | 2.1 | 2.1 |
| Transport | 1.9 | 0.0 | 11.8 | 11.8 |

Source: Central Statistical Office.

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