



CENTRAL BANK OF TRINIDAD & TOBAGO

POST OFFICE BOX 1250 PORT-OF-SPAIN, TRINIDAD, WEST INDIES
TELE: 625-4835, FAX: (868) 623-1955
E-Mail Address: info@central-bank.org.tt

THE CONTINUED SURGE IN FOOD PRICES PUSHES INFLATION TO 16.2 PER CENT

According to the latest data released by the Central Statistical Office, **headline inflation**, continued its upward trend, rising to **16.2 per cent** in the twelve months to August from 14.1 per cent in July. The August outcome represents the highest year-on-year increase since November 1983 when the rate also measured 16.2 per cent. On a monthly basis, headline inflation rose by 2.2 per cent following an increase of 0.5 per cent in July.

On a year-on-year basis, **food prices increased** by **39.1 per cent in August**, up from 33.3 per cent in July. The main contributors to food inflation were increases in the prices of **vegetables (63.4 per cent)**, **fruits (37.8 per cent)**, **fish (12.2 per cent)**, **milk, cheese and eggs (5.7 per cent)** and **meat (5.1 per cent)**. Over the past few months, the persistent rains and accompanying floods have seriously affected domestic food production in several of the main agricultural areas. By contrast, there were declines in the sub-indices for **bread and cereals (-3.4 per cent)** and **oils and fats (-3.3 per cent)**, notwithstanding the recent rise in global prices of wheat and dairy products.

Core inflation, which excludes food prices, measured **4.1 per cent** (year-on-year) unchanged from the previous month. The data show that core inflation has remained sticky at around 4.0 per cent since the beginning of the year, perhaps reflecting weak demand and the existence of much spare productive capacity.

Reflecting the continued sluggish demand conditions, in July 2010, **private sector credit** granted by the consolidated financial system declined for the eleventh consecutive month by **6.2 per cent** (year-on-year) led by the **11.2 per cent** fall in **business credit**. **Consumer credit**, staged a small recovery growing by **0.4 per cent** and aided by reductions in mortgage interest rates, **real estate**

mortgage lending has remained relatively robust, increasing by **6.7 per cent** on a year-on-year basis.

The overall depressed credit conditions have contributed to a build-up in commercial banks' excess reserves over the past few months. In the first three weeks of September 2010, commercial bank reserves held at the Central Bank, in excess of the statutory limit, climbed to a daily average of TT\$3.2 billion compared to TT\$2.6 billion in August. The deposit-to-loan ratio in the commercial banking industry also rose sharply to 161 per cent in July 2010 from 139 per cent, a year earlier.

Short-term interest rates have continued to slide in the face of buoyant liquidity conditions. The increased demand for short-term government securities has pushed the **three-month treasury bill** rate to an historic low of **0.34 per cent** in September, down from 0.85 per cent at the end of July.

Recent economic indicators show **no signs of a resurgence** in activity in the non-energy sector. While the presentation of the national budget in September should help in removing some of the uncertainty in the business environment, it may take some time before business confidence solidifies to provide a platform for increased private sector investment.

Against this background of **muted activity in the non-energy sector, rising unemployment, still declining credit demand** and **relatively stable core inflation**, the Bank has decided to **reduce the repo rate by 25 basis points to 4.25 per cent** to help stimulate domestic demand and private investment.

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

The next 'Repo' rate announcement is scheduled for October 29, 2010.

September 23, 2010

APPENDIX

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

	Monthly		Year-on-Year	
	July 2010	August 2010	July 2010	August 2010
Headline Inflation	0.5	2.2	14.1	16.2
Food Prices	0.6	5.4	33.3	39.1
Bread and Cereals	(0.1)	(0.6)	(4.0)	(3.4)
Meat	2.4	0.2	4.1	5.1
Fish	(1.8)	6.2	7.6	12.2
Vegetables	2.5	4.2	63.1	63.4
Fruits	(9.7)	4.0	38.0	37.8
Milk, Cheese & Eggs	0.1	0.6	2.3	5.7
Oils and Fats	(1.3)	(0.1)	(4.0)	(3.3)
Sugar, Jam, Confectionery, etc.	0.6	(0.4)	8.3	8.5
Core Inflation	0.4	0.1	4.1	4.1
Alcoholic Beverages & Tobacco	(0.2)	0.2	11.3	11.7
Clothing and Footwear	(0.9)	(0.2)	(1.3)	(2.3)
Furnishings, Household Equipment and Routine Maintenance	0.4	0.0	1.1	1.1
Health	0.3	0.0	5.0	5.0
<i>Of which: Medical Services</i>	0.5	0.0	10.1	10.1
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	0.3	0.3
<i>Of which:: Rent</i>	0.6	0.0	6.6	6.6
Home Ownership	(0.1)	0.0	(1.4)	(1.4)
Education	0.0	0.0	2.9	2.9
Recreation & Culture	3.3	0.0	4.6	4.6
Hotels, Cafes & Restaurants	0.2	0.0	1.4	1.4
Transport	0.0	0.0	11.8	11.8

Source: Central Statistical Office.