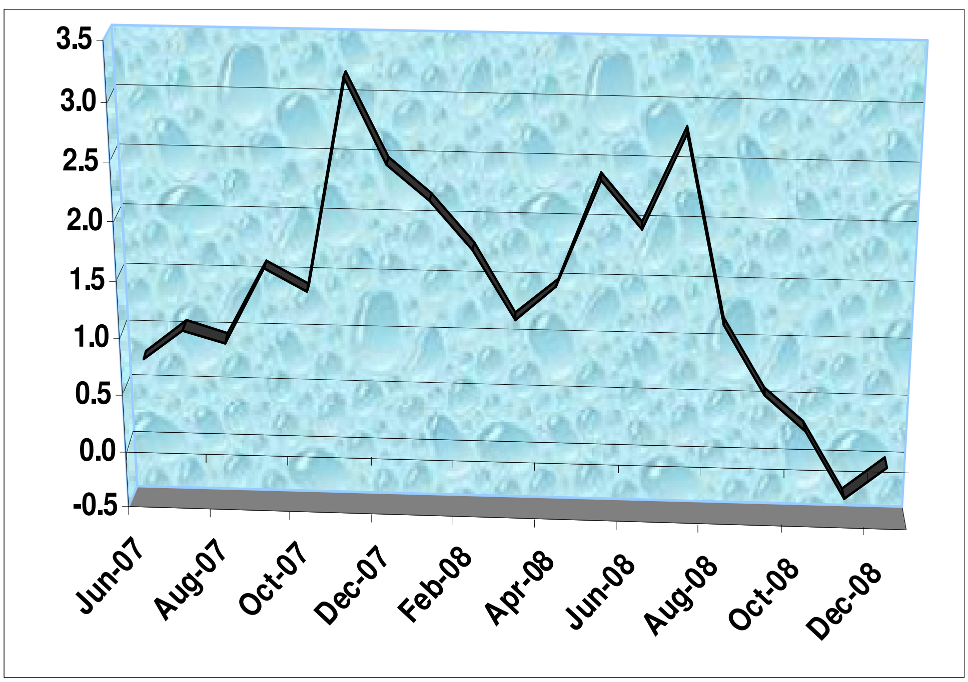
I N F L A T I O N

Monthly Report

December 2008



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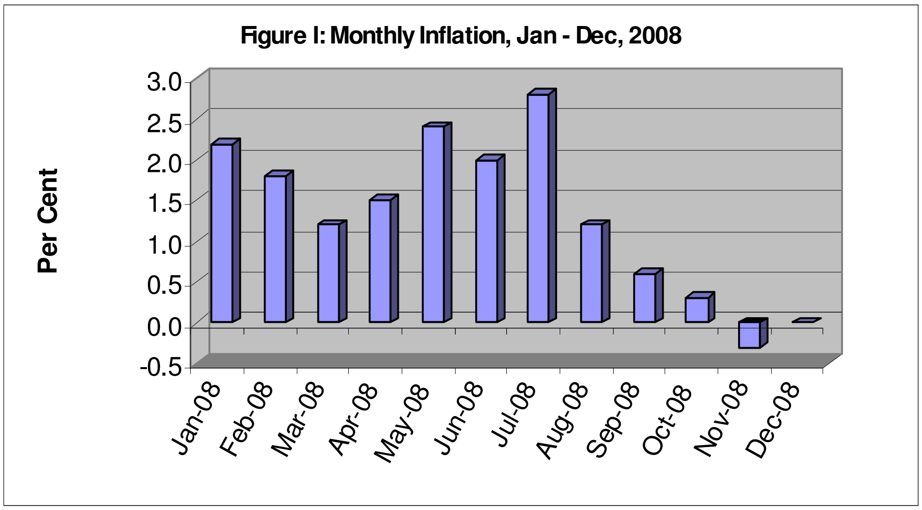
MONTHLY INFLATION REPORT

Introduction

For the month of December 2008, there was no change to the All Jamaica 'All Divisions' Consumer Price Index. This represented an inflation rate of 0.0 per cent, relative to a 0.3 per cent decline in November 2008 and an increase of 2.5 per cent in December 2007. December's inflation out-turn resulted in an inflation of 16.8 per cent for calendar year 2008 and 11.0 per cent for the first nine months of fiscal year 2008/09. Conditions primarily contributing to December's inflation included: (i) the impact of declining global energy prices on the domestic market; and (ii) seasonal shortages of some food items during the Christmas holidays.



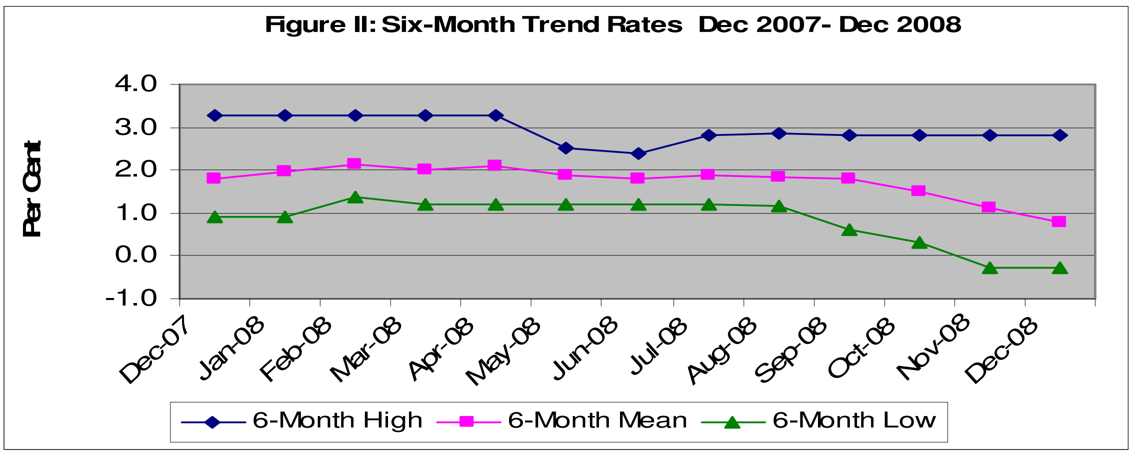
Recent Trends

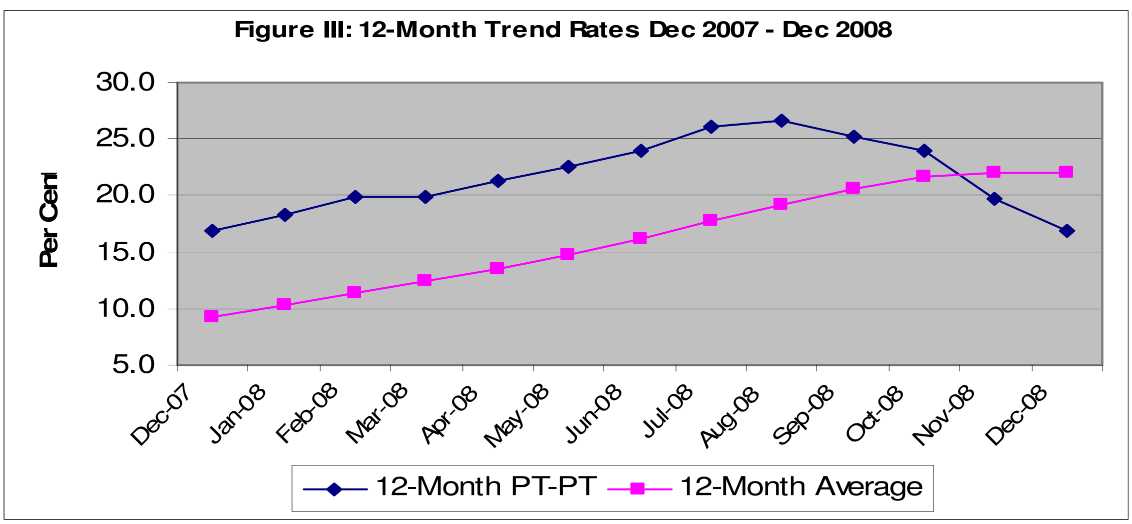
Inflation for December resulted in the following trend rates:

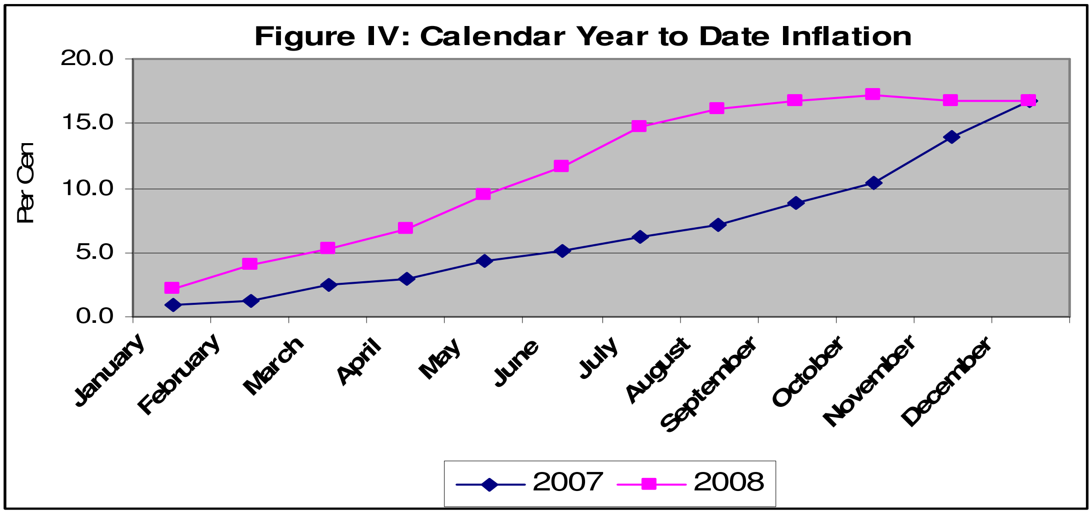
- ✓ 6-month mean of 0.8 per cent, 0.3 percentage points below the rate recorded in the previous month. During the past 6 months, the highest monthly inflation was 2.8 per cent recorded in July, while the lowest for the same period was -0.3 per cent, recorded in November (Figure II).
- ✓ 12-month average[1] inflation of 22.0 per cent (Figure III).

[1] This is a moving average taking the change in the average CPI for the 12 months to date over the average CPI for the previous 12 months.

- ✓ 12-month point-to-point inflation (December 2007 to December 2008) of 16.8 per cent.
- ✓ Calendar year-to-date inflation of 16.8 per cent. This is similar to the rate recorded for calendar year 2007 (Figure IV).
- ✓ Fiscal year-to-date inflation of 11.0 per cent, relative to the 14.0 per cent recorded for the same period of fiscal year 2007/08 (Figure V).







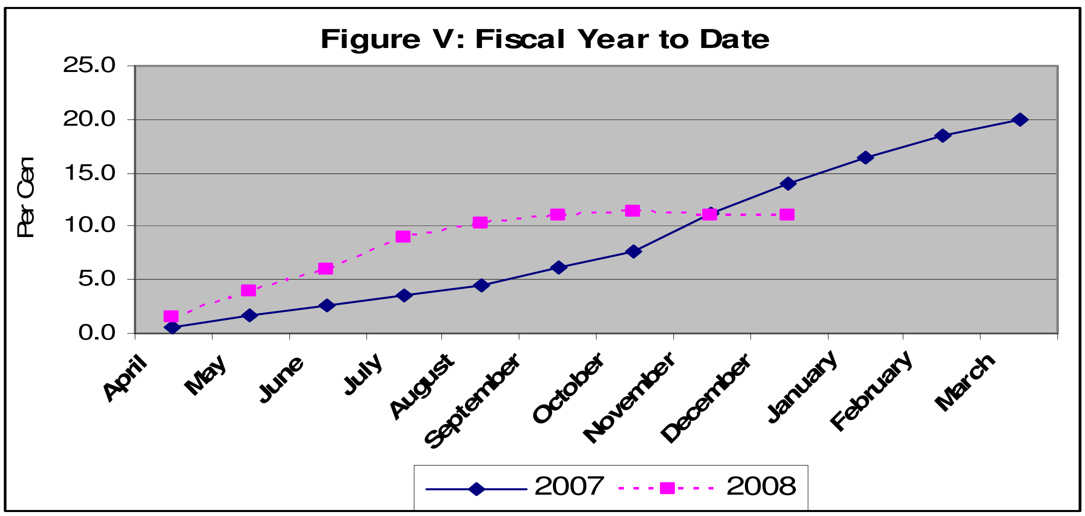


Table I: CALENDAR YEAR & FISCAL YEAR-TO-DATE INFLATION

Period	Calendar Year to Date	Period	Fiscal Year to Date
2005	12.6	**2005/2006**	10.9
2006	5.6	**2006/2007**	5.4
2007	16.8	**2007/2008**	14.0
2008	16.8	**2008/2009**	11.0

ANALYSIS OF INFLATION FOR DECEMBER

Commodity Composition of Price Changes

During the review period, there were increases in the indices of eight divisions, and two registered declines. The highest increases were recorded for Furnishings, Household Equipment, and Routine Household Maintenance; Food & Non-Alcoholic Beverages; Alcoholic Beverages & Tobacco; and Miscellaneous Goods & Services. The indices for the divisions Housing, Water, Electricity, Gas & Other Fuels and Transport fell. There was no change in the indices for Communication and Education (Table II).

The 0.9 per cent increase in the index for **Food & Non-Alcoholic Beverages** was due to increases in its two groups. Higher food prices were the result of the customary increase in seasonal demand that traditionally accompanies the Christmas season. The Food index increased by 1.0 per cent as a result of increased indices in eight of the nine food classes. The largest increases were for *Meat*, *Fish & Sea Food* and *Oils & Fats*, which each increased by 1.8 per cent. Also significant in the out-turn of the division was the 0.8 per cent increase in the index for *Bread & Cereals.* Items which record increased prices included flour and crackers. The index for *Vegetables & Starchy Foods* increased by 0.3 per cent owing to the 1.4 per cent increase in Vegetables, as the index for Starchy Foods declined by 2.2 per cent. Some of the items contributing to the lower index for Starchy Foods included potatoes and green bananas.

The 0.9 per cent increase in the index for **Miscellaneous Goods & Services** was the highest monthly movement in this index since June, when it increased by 1.3 per cent. December's increase was driven mainly by higher prices for jewellery, salon services and toiletries. For **Alcoholic Beverages & Tobacco** the expansion in the index (0.9 per cent) was the result of higher prices for 'Spirits'.

The index for the division **Furnishings, Household Equipment & Routine Household Maintenance** rose by 1.1 per cent. Although this upward movement was supported by increases in the indices of all six groups in the division, it was largely the result of movements in *Goods & Services for Routine Household Maintenance* and *Household Textiles* which increased by 1.4 per cent and 1.1 per cent, respectively. There was a 0.5 per cent increase in the index for **Restaurants & Hotels**. This reflected higher prices for meals consumed outside of the home. **Clothing & Footwear** increased by an average of 0.6 per cent. This was primarily the result of increases in both groups in the division—*Clothing* by 0.6 per cent and *Footwear* by 0.5 per cent.

During the review month the indices for **Recreation & Culture** and **Health** increased by 0.5 per cent and 0.4 per cent, respectively. The increase in index for Recreation & Culture was primarily the result of the upward movement in prices for animal care and animal food as well as increases in cinema fares. Increases in health related expenses were mainly due to higher prices for medical products.

For the fourth consecutive month, there was a decline in the index for **Housing, Water, Electricity, Gas & Other Fuels**. The 2.7 per cent fall in the index reflected the conditions in the international crude oil market, in particular the reduction in demand in a weak global economy. The average monthly price of crude oil has fallen by approximately 69.0 per cent since July 2008, and averaged US$41.34 per barrel in December. The impact of lower international energy prices on domestic prices was largely evident in the 4.0 per cent decline in the index for *Electricity, Gas & Other Fuels*. Also contributing to the outcome of the division was the 4.6 per cent reduction in the index for the group *Water Supply & Miscellaneous Services Related to the Dwelling*.

Lower crude oil prices was also evident in the movement of the **Transport** index. The index fell by 2.0 per cent, representing the fourth consecutive monthly decline. This was reflected in lower domestic petroleum prices.

Table II –INFLATION AND CONTRIBUTION TO INFLATION BY CPI DIVISION			
	December 2007	**November 2008**	**December 2008**
ALL DIVISIONS	**2.5**	**-0.3**	**0.0**
FOOD & NON-ALCOHOLIC BEVERAGES	**3.5**	**2.3**	**0.9**
ALCOHOLIC BEVERAGES & TOBACCO	**1.5**	**0.3**	**0.9**
CLOTHING & FOOTWEAR	**4.2**	**0.7**	**0.6**
HOUSING, WATER, ELECTRICITY, GAS & OTHER FUELS	**3.3**	**-8.1**	**-2.7**
FURNISHINGS, HOUSEHOLD EQUIPMENT & ROUTINE HOUSEHOLD MAINTENANCE	**2.1**	**0.6**	**1.1**
HEALTH	**0.5**	**0.3**	**0.4**
TRANSPORT	**1.7**	**-2.8**	**-2.0**
COMMUNICATION	**0.0**	**0.0**	**0.0**
RECREATION & CULTURE	**0.5**	**1.6**	**0.5**
EDUCATION	**0.2**	**0.1**	**0.0**
RESTAURANTS & ACCOMMODATION SERVICES	**1.9**	**0.3**	**0.5**
MISCELLANEOUS GOODS & SERVICES	**0.9**	**0.7**	**0.9**
* There may be errors due to rounding			

Regional Composition of Price Changes

Table III: REGIONAL CPI AND INFLATION			
	CPI	**Inflation (%)**	
	December '07	**November '08**	**December '08**
All Jamaica	2.5	-0.3	0.0
Greater Kingston Metropolitan Area	2.6	-0.8	0.2
Other Urban Centres	2.1	-0.9	-0.1
Rural Areas	2.5	0.3	0.0

During December there were contrasting inflation outcomes for all three regions, reflecting the impact of: (i) increases in food prices; and (ii) declines in energy prices. The index for the Greater Kingston Metropolitan Area (GKMA) increased by 0.2 per cent, for Other Urban Centres (OUC) there was a 0.1 per cent decline, whilst there was no change in the Rural Areas index (Table III).

Price increases in the GKMA were mainly driven by higher food prices as reflected in the 1.2 per cent rise in the index for Food & Non-Alcoholic Beverages. These increases were enough to outweigh declines in the indices of Housing, Water, Electricity, Gas & Other Fuels and Transport down 2.1 per cent and 2.3 per cent, respectively. In Rural Areas the contrasting movements in food and energy prices resulted in the index remaining the same. Although increasing by 0.8 per cent, the heaviest weighted Food & Non-Alcoholic Beverages balanced the effects of declines of 3.7 per cent and 1.6 per cent, in the indices of Housing, Water, Electricity, Gas & Other Fuels, respectively. The lower index for the OUC reflected the greater impact of decreasing energy prices.

OUTLOOK

Inflation for the next few months is expected to move upwards amidst the effect of the depreciation of the Jamaican dollar. In the first week of February, a major chicken producer announced a 3.0 per cent increase in chicken prices, citing the increased cost of inputs amidst the current depreciation. Similarly a major rum manufacturer announced higher prices for its products. Other manufacturers have also announced impending increases. These increases are however expected to be tempered by continued reductions in international commodity prices, as global demand weakens.