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1. CONSUMER PRICE INDEX - 1985

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1. Movements in Consumer Price Index in 1985

Generally speaking, in 1985 prices have increased somewhat less than in 1984. The monthly Consumer Price Index (CPI) increased by only 4.5 points, or about 4%, from 119.1 in January to 123.6 in December 1985. The corresponding increase for 1984 was 8.3 points or over 7%. Although these figures represent only the net increase over the whole year irrespective of month to month fluctuations, they do still give an indication of the evolution of prices during the year.

As in the past, the increase in 1985 occurred mostly during the first and third quarters, the index remaining more or less stable during the second quarter, and actually showing a small decline in the fourth (Table 1). Usually, the high level of the CPI in the first quarter is due to the high prices of vegetables resulting from adverse climatic conditions such as droughts or cyclones, whilst the increase during the third quarter is usually attributable to fiscal measures contained in the Budget.

If we compare the average level of prices in 1985 with that of 1984 we note a 6.7% increase as indicated by the yearly average of index rising from 114.4 in 1984 to 122.1 in 1985.

Table 1 - Monthly Consumer Price Index (Jan. 1983 - December 1985)

Base : Jan - June 1982 = 100

	<u>1983</u>	<u>1984</u>	<u>1985</u>
January	104.6	109.9	119.1
February	106.1	110.6	120.7
March	106.4	112.4	121.7
April	106.7	113.2	121.0
May	106.2	113.5	121.1
June	105.8	113.2	121.2
July	106.4	114.0	121.9
August	106.5	115.6	122.7
September	107.0	117.4	124.2
October	108.1	118.0	124.2
November	107.6	117.4	124.0
December	107.5	118.2	123.6
Yearly Average	<u>106.6</u>	<u>114.4</u>	<u>122.1</u>
Annual Change (%)	5.6	7.3	6.7

The evolution of the price index by major commodity group is shown in Table 2 on a quarterly basis. The yearly index for all the groups has increased in 1985 when compared to 1984. The highest increase was registered in the 'Medical care' group, for which the index rose by over 9%. The smallest rise, of the order of 2%, was noted in 'Alcoholic beverages and tobacco.' The prices of 'Food and non-alcoholic beverages,' and 'Fuel and light' went up by about 7%, whilst each of the following four groups, namely 'Housing,' 'Clothing, footwear and bedding,' 'Transport and communications' and 'Education' were affected by increases of around 6%.

Food and non-alcoholic beverages have almost half the share of the CPI market basket of goods and services and the group is therefore the single most important contributor to the 6.7% increase in the overall index.

Table 2 - Sub-indices by major commodity group (Base: Jan-June 1982 = 100)

Commodity Group	% Weight	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Yearly Average	% change 1984-85
1. Food and non-alcoholic beverages	43.9	125.5	125.4	127.6	128.7	126.8	7.2
2. Alcoholic beverages and tobacco	6.5	111.3	111.2	111.2	112.3	111.5	2.2
3. Fuel and light	6.4	113.5	113.5	114.2	114.5	113.9	7.5
4. Housing	10.4	122.6	123.1	124.7	125.0	123.9	6.2
5. Clothing, footwear and bedding etc.	10.5	117.8	119.5	121.9	121.9	120.3	6.5
6. Transport and Communication	10.0	110.3	111.6	112.8	113.3	112.0	6.2
7. Medical care	3.0	121.9	124.4	129.1	136.4	128.0	9.5
8. Education	2.9	113.0	113.9	115.5	115.6	114.5	5.9
9. Miscellaneous	6.4	122.7	124.7	126.6	128.0	125.5	8.0
ALL GROUPS	100.0	120.5	121.1	122.9	123.9	122.1	6.7

Table 3 shows the net contribution of the main commodities to the change in the index between January and December 1985. The price of black lentils rose continuously from Rs 2.80 per half kg in January to reach Rs 7.00 at the end of the year, whilst that of eggs rose gradually from Rs 1.40 to Rs 1.80 per unit. Similar continuous price increases were noted for clothing materials and medicinal products.

The upward revision of the controlled price of edible oil from Rs 12.25 to Rs 13.50 per litre in September was alone responsible for a 0.4 point rise in the monthly index. Although the contribution of fresh vegetables is negligible, this is the net result of high prices in the first quarter being gradually offset by continuous decreases in subsequent months right up to the end of the year.

Table 3 - Change in Consumer Price Index by commodity, January 1985
to December 1985

Base : January - June 1982 = 100

<u>Commodity</u>	<u>Change</u>
Baby milk foods	+ 0.2
Black lentils	+ 0.5
Dried vegetables	+ 0.1
Fresh milk	+ 0.1
Powdered milk	+ 0.3
Butter	- 0.1
Edible oil	+ 0.4
Frozen beef	+ 0.1
Frozen mutton	- 0.2
Fresh fish	+ 0.2
Frozen fish	+ 0.1
Salted fish	+ 0.1
Canned fish	+ 0.2
Eggs	+ 0.4
Fresh fruits	+ 0.1
Soft drinks	+ 0.1
Other food products	+ 0.5
Alcoholic beverages	+ 0.1
Durable household goods	+ 0.1
Clothing materials	+ 0.4
Soap	+ 0.2
Medicinal products	+ 0.4
Educational expenses	+ 0.1
Other goods and services	+ 1.0
Total	<u>+ 5.4</u>

2. Rate of inflation

As mentioned earlier, although the average annual index has increased by 6.7% in 1985, in general prices have increased at a lower rate than in 1984. Thus the rate of inflation declined from 7.3% in 1984 to 6.7% in 1985 (Table 4).

The rate of inflation for financial year 1984-85 has increased to 8.3% from a level of 5.6% in 1983-84. However, given that recent price increases have occurred at a much lower rate than in 1984, it is expected that the inflation rate for 1985-86 will not exceed 6%.

Table 4 - Inflation Rate (%), 1975 - 1985

<u>Calendar Year</u>	<u>Inflation Rate</u>	<u>Financial Year</u>	<u>Inflation Rate</u>
1975	14.7	1974 - 75	20.6
1976	13.4	1975 - 76	14.7
1977	9.2	1976 - 77	9.6
1978	8.5	1977 - 78	10.1
1979	14.5	1978 - 79	8.0
1980	42.0	1979 - 80	33.0
1981	14.5	1980 - 81	26.5
1982	11.4	1981 - 82	13.4
1983	5.6	1982 - 83	7.5
1984	7.3	1983 - 84	5.6
1985	6.7	1984 - 85	8.3

3. Purchasing power of the Rupee

In the past the purchasing power of the Rupee has been affected by two devaluations : one of 30% in October 1979 and another of 20% in September 1981. The implication of inflation on the purchasing power of the Rupee is shown in Table 5. It is observed that since 1981 the purchasing power has eroded by about 25%, which means that in 1985 one Rupee buys only 75% of goods and services that it would have fetched in 1981.

Table 5 - Internal purchasing power of the rupee (1962 - 1985)

	EROSION OF PURCHASING POWER									
	1962	1970	1975	1980	1981	1982	1983	1984	1985	
1962	100	83.8	47.1	21.6	18.9	17.0	16.1	15.0	14.1	
1970	119.3	100	56.2	25.7	22.4	20.1	19.0	17.7	16.6	
1975	212.1	177.8	100	45.8	40.0	35.9	34.0	31.7	29.7	
1980	463.2	388.3	218.4	100	87.3	78.4	74.2	69.2	64.9	
1981	530.4	444.6	250.1	114.5	100	89.8	85.0	79.2	74.2	
1982	590.9	495.3	278.6	127.6	111.4	100	94.7	88.3	82.8	
1983	624.0	523.0	294.2	134.7	117.6	105.6	100	93.2	87.3	
1984	669.6	561.2	315.7	144.5	126.2	113.3	107.3	100	93.7	
1985	714.5	598.8	336.9	154.2	134.7	120.9	114.5	106.7	100	

EQUIVALENT PURCHASING POWER