

## Consumer Price Index - 1986

### 1. Movements in Consumer Price Index in 1986

The year 1986 has been marked by a remarkable stability of prices as reflected in the small range of fluctuation of the monthly Consumer Price Index (CPI). This stability of prices which has not been observed for the past 15 years was mainly the result of the combined effect of firstly, the continuing fall in the exchange rate of the dollar and its effect on prices of many imported commodities such as edible oil and petroleum products, and secondly, the reduction of fiscal duties on certain commodities such as medicinal products and cooking gas.

When the average level of prices for 1986 is compared with that of 1985, an increase of only 1.8% is noted, from 122.1 in 1985 to 124.3 in 1986.

Table 1 - Monthly Consumer Price Index (Jan. 1983 - December 1986)

Base : Jan. - June 1982 = 100

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
January	104.6	109.9	119.1	124.0
February	106.1	110.6	120.7	124.2
March	106.4	112.4	121.7	124.7
April	106.7	113.2	121.0	124.6
May	106.2	113.5	121.1	124.5
June	105.8	113.2	121.2	124.6
July	106.4	114.0	121.9	124.8
August	106.5	115.6	122.7	125.5
September	107.0	117.4	124.2	124.3
October	108.1	118.0	124.2	124.0
November	107.6	117.4	124.0	123.1
December	107.5	118.2	123.6	123.6
Yearly average	<u>106.6</u>	<u>114.4</u>	<u>122.1</u>	<u>124.3</u>
Annual Change (%)	5.6	7.3	6.7	1.8

Table 2 shows the evolution of the yearly average indices by major commodity group. "Fuel and light" is the only group that has shown a downward movement, the decrease being around 5%. The "Medical care" and "Miscellaneous" groups which have a relatively small weight in the overall index have increased by 7% and 5% respectively in 1986. The most important group "Food and non-alcoholic beverages" has increased by about 2% only whilst the other groups have shown only marginal increases.

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

Commodity Group	% Weight	Yearly Average			
		1 9 8 3	1 9 8 4	1 9 8 5	1 9 8 6
1. Food and non-alcoholic beverages	43.9	108.5	118.3	126.8	129.6
2. Alcoholic beverages and tobacco	6.5	106.5	109.1	111.5	112.3
3. Fuel and light	6.4	96.4	106.0	113.9	108.3
4. Housing	10.4	109.8	116.7	123.9	124.8
5. Clothing, footwear and bedding etc.	10.5	108.0	113.0	120.3	123.3
6. Transport and communication	10.0	100.9	105.5	112.0	112.5
7. Medical care	3.0	105.6	116.9	128.0	137.7
8. Education	2.9	103.1	108.1	114.5	119.3
9. Miscellaneous	6.4	107.1	116.2	125.5	132.2
ALL GROUPS	100.0	106.6	114.4	122.1	124.3

Table 3 shows the contribution of the main commodities that have affected the index from the beginning of January to the end of December 1986.

Fresh vegetables have played a prominent role in the movement of the index in 1986, and higher prices of this commodity alone accounts for a rise of 1.5 points in the index. Increases in the price of black lentils have also affected the index adversely by 0.3 point. On the other hand contrary price movements of petroleum products have affected the index favourably by 0.6 point, and those of medicinal products and other pulses and dried vegetables have each checked the rise in the index by 0.3 point.

Table 3 - Change in Consumer Price Index by Commodity, January 1986-December 1986

(Base January - June 1982 = 100)

<u>Commodity</u>	<u>Change</u>
Black lentils	+ 0.3
Other pulses and dried vegetables	- 0.3
Edible oil	- 1.0
Powdered milk	- 0.2
Fresh beef	+ 0.1
Frozen beef	+ 0.1
Frozen mutton	- 0.2
Fresh fish	+ 0.1
Eggs	- 0.2
Fresh vegetables	+ 1.5
Soft drinks	+ 0.1
Other food products	- 0.1
Petroleum products	- 0.6
Construction materials	- 0.1
Ready made clothing	+ 0.1
Medicinal products	- 0.3
Football admission ticket	+ 0.1
Cinema admission ticket	+ 0.1
Other goods and services	+ 0.5
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Total	0.0
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## 2. Rate of Inflation

The actual annual rate of inflation for calendar year 1986 can now be calculated and works out to 1.8% compared to 6.7% for the preceding year. It is the lowest recorded since 1971 when it was 0.3%. It might be recalled that this rate for the last two financial years 1984-85 and 1985-86 was respectively 8.3 and 4.3%. On this trend it is expected that the rate of inflation for the current financial year may be as low as or even lower than that for calendar year 1986.

Table 4 - Inflation Rate (%), 1975-1986

<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
1986	1.8	1985 - 86	4.3

## 3. Purchasing power of the Rupee

Table 5 shows the incidence of inflation on the purchasing power of the Rupee. In 1986 the purchasing power declined by less than 2% as compared to an annual average of about 8% for the period 1981 to 1985.

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Table 5 - Internal purchasing power of the rupee (1962-1986)

	EROSION OF PURCHASING POWER										
	1962	1970	1975	1980	1981	1982	1983	1984	1985	1986	
1962	100	83.8	47.1	21.6	18.9	17.0	16.1	15.0	14.1	13.9	
1970	119.3	100	56.2	25.7	22.4	20.1	19.0	17.7	16.6	16.3	
1975	212.1	177.8	100	45.8	40.0	35.9	34.0	31.7	29.7	29.2	
1980	463.2	388.3	218.4	100	87.3	78.4	74.2	69.2	64.9	63.8	
1981	530.4	444.6	250.1	114.5	100	89.8	85.0	79.2	74.2	72.9	
1982	590.9	495.3	278.6	127.6	111.4	100	94.7	88.3	82.8	81.3	
1983	624.0	523.0	294.2	134.7	117.6	105.6	100	93.2	87.3	85.8	
1984	669.6	561.2	315.7	144.5	126.2	113.3	107.3	100	93.7	92.0	
1985	714.5	598.8	336.9	154.2	134.7	120.9	114.5	106.7	100	98.2	
1986	727.4	609.6	343.0	157.0	137.1	123.1	116.6	108.6	101.8	100	