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CONSUMER PRICE INDEX 1987

1. Introduction

As from July 1987 a new series for the Consumer Price Index has been established on the basis of the results of the 1986-87 Household Budget Survey. The base for this new series is July 1986 - June 1987 = 100. Since the monthly CPI figures for the first semester of 1987 have January 1982 - June 1982 = 100 as base it is difficult to analyse changes in the CPI over the twelve months of 1987. It may not be justified to link two series of CPI which have different base periods and which use different weights because they are not strictly comparable. However only to get a crude picture of changes during 1987 it has been found useful, where this is required, to make a rough estimate of the monthly CPI for the first six months of 1987 on the new base July 1986 - June 1987 = 100.

2. Movements in the Consumer Price Index in 1987

The year 1987, has witnessed many price fluctuations from one month to the other which have however led to a net increase of only 1.2 points or about 1% in the Consumer Price Index from January 1987 to December 1987 (Table 1).

Increases had occurred mostly during the first and fourth quarters, whereas during the second and third quarters, significant decreases have been observed.

In spite of the downwards revision of prices of some basic commodities such as rice, flour and edible oil in the first quarter, the CPI has shown a net increase of about 3% due to the adverse effect of high prices of fresh vegetables, fresh fruits and eggs.

The net fall in the index during the second quarter was mainly caused by the government decision of removing all import duties on textile goods.

A second downwards revision of prices of rice, flour and edible oil occurred at the beginning of the third quarter. This decrease together with low prices of fresh vegetables pushed the index downwards by about 1.2%. During the fourth quarter, the CPI has increased by about 1%. This was the net result of price increases of fresh vegetables, fresh fruits, frozen meat, eggs and some furniture items, damped to a little extent by low prices of some entertainment equipment caused by the removal and reduction of import duties.

The evolution of price indices of major commodity groups for the four quarters of 1987 are shown in Table 2. The group "Clothing and footwear" showed a marked decrease of about 16% which is due mainly to the government decision to remove all duties on textile goods as from March 87. The index for the group "Recreation, entertainment, education and cultural services" also showed a decrease which again is attributed to the government decision to remove or reduce duties on entertainment equipment such as videos and televisions sets. The reduction of the price of cooking gas in January 1987 is mainly responsible for the small fall in index of

the "Fuel and light" group.

The most important group of the index "Food and non-alcoholic beverages" has shown erratic changes all over the year. This is due on the one hand to the abnormally high prices of fresh vegetables noted at the beginning and at the end of the year together with an upward revision in the price of potatoes in October 1987. On the other hand, prices of some other basic commodities such as rice, flour and edible oil were reduced twice this year, in February and July. The group "Medical care and health expenses" has shown a continuous increase during the year resulting in a net increase of about 12%. The "Miscellaneous goods and services" group has shown a similar trend but of a smaller magnitude, while the remaining groups showed marginal increases.

Table 3 shows the percentage change in the index for some main commodities that have affected the Consumer Price Index during the year 1987.

The highest percentage change is found to be for fresh vegetables whose average level of prices are well above that of previous years. Prices of fresh vegetables were severely affected by adverse climatic conditions such as heavy rainfall in the first quarter and a drought in the fourth quarter. Other commodities which have shown significant increases are fresh fruits (+ 20.7), medicinal products (+ 19.2), frozen mutton (+ 14.8), eggs (+ 14.2) and dry tea (+ 12.8).

Prices of rice and flour fell from Rs 3.10 to Rs 2.50 a kilo resulting in decreases of 17.9% and 16.7% respectively. Frozen fish showed a decrease of 14.8%. Clothing materials and ready made clothings were available at lower prices since the removal of import duties in March 1987.

3. Rate of Inflation

The general downward trend of the annual rate of inflation has continued and reached 0.6% in 1987 which is the lowest recorded since 1971 when it was 0.3% (Table 4).

The rate of inflation for financial years has decreased considerably from 4.3% in 1985-86 to 0.7% in 1986-87. However on the present price trends, particularly of vegetables the rate of inflation for current financial year 1987-88 is estimated to be around 1%.

4. Purchasing power of the Rupee

Table 5 shows the incidence of inflation on the purchasing power of the Rupee. The low inflation rates obtained for the past two years have not eroded the purchasing power of the Rupee very much. In 1987 the purchasing power declined by less than 1% as compared to an annual average of about 5% for the period 1982 to 1986.

Central Statistical Office
Rose Hill

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Table I - Monthly Consumer Price Index (January 1985 - December 1987)

	Base: January - June 1982 = 100			Base: July 1986-June 1987=100
	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1987</u>
January	119.1	124.0	123.7	
February	120.7	124.2	125.0	
March	121.7	124.7	127.3	
April	121.0	124.6	124.7	
May	121.1	124.5	125.8	
June	121.2	124.6	126.1	
July	121.9	124.8		99.8
August	122.7	125.5		99.1
September	124.2	124.3		99.2
October	124.2	124.0		99.8
November	124.0	123.1		100.2
December	123.6	123.6		100.3
Yearly average	122.1	124.3		100.1
Annual change(%)	6.7	1.8		0.6

Table 2 - Sub-indices by major commodity group (Base: July 36 - June 87 = 100)

Commodity Group	1 9 8 7					Yearly Average
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter		
1. Food and non-alcoholic beverages	100.3	103.1	100.5	102.0	101.5	
2. Alcoholic beverages and tobacco	100.4	100.3	100.3	100.6	100.4	
3. Clothing and footwear	107.6	94.7	90.5	90.5	95.8	
4. Fuel and light	100.1	100.4	99.5	99.5	99.9	
5. Housing and household operations	99.4	99.4	99.8	100.8	99.8	
6. Medical care and health expenses	96.4	100.4	107.8	110.3	104.2	
7. Transport and communication	99.9	99.7	100.2	100.6	100.1	
8. Recreation, entertainment, education and cultural services	93.4	93.5	94.5	91.4	93.2	
9. Miscellaneous goods and services	97.5	98.1	101.1	101.7	99.6	
ALL GROUPS	100.4	100.6	99.4	100.1	100.1	

Table 3 - Percentage change in Consumer Price Index by commodity in 1987

Base July 1986 - June 1987 = 100

<u>Commodity</u>	<u>% Change</u>
Rice	- 17.9
Flour	- 16.7
Powdered milk	+ 2.7
Baby milk food	+ 9.6
Eggs	+ 14.2
Edible oil	- 20.0
Frozen beef	+ 8.2
Frozen mutton	+ 14.8
Frozen fish	- 14.8
Fresh fruits	+ 20.7
Fresh vegetables	+ 41.4
Dry tea	+ 12.8
Textile goods	- 16.8
Medicinal product	+ 19.2

Table 4 - Inflation rate (%), 1975 - 1987

<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
1987	0.6	1986 - 87	0.7

Table 5 - Internal purchasing power of the rupee (1962-1987)

EROSION OF PURCHASING POWER

	1962	1970	1980	1981	1982	1983	1984	1985	1986	1987
1962	100	83.8	21.6	18.9	17.0	16.1	15.0	14.1	13.9	13.8
1970	119.3	100	25.7	22.4	20.1	19.0	17.7	16.6	16.3	16.2
1980	463.2	388.3	100	87.3	78.4	74.2	69.2	64.9	63.8	63.4
1981	530.4	444.6	114.5	100	89.8	85.0	79.2	74.2	72.9	72.5
1982	590.9	495.3	127.6	111.4	100	94.7	88.3	82.8	81.3	80.8
1983	624.0	523.0	134.7	117.6	105.6	100	93.2	87.3	85.8	85.3
1984	669.6	561.2	144.5	126.2	113.3	107.3	100	93.7	92.0	91.4
1985	714.5	598.8	154.2	134.7	120.9	114.5	106.7	100	98.2	97.6
1986	727.4	609.6	157.0	137.1	123.1	116.6	108.6	101.8	100	99.4
1987	731.8	613.3	157.9	137.9	123.8	117.3	109.3	102.4	100.6	100

EQUIVALENT PURCHASING POWER