



MAURITIUS

Economic Indicators

An Occasional Paper

Issue No. 70

22nd July, 1988

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MINISTRY OF ECONOMIC PLANNING & DEVELOPMENT
PORT LOUIS
MAURITIUS

Consumer Price Index - 2nd Quarter 1988

1. Movements in Consumer Price Index - 2nd Quarter 1988

After a fairly long period of relative stability extending as far back as 1985, the Consumer Price Index (C.P.I.) has shown a steep upward movement during the second quarter of 1988. The three successive increases noted in the index in April, May and June 1988 have produced a substantial rise of 5.8 points or 5.7% pushing the index from 101.4 in March to 107.2 in June 1988 (Table 1). During the corresponding quarter of 1987, the C.P.I. (base : Jan. - June 1982 = 100) had in fact decreased by 1.2 points or 0.9% from 127.3 in March to 126.1 in June. The main cause of the significant rise in the index during the second quarter of this year is the increase in the price of rice, flour and flour products in April, and that of alcoholic beverages and tobacco in June following the upward revision of excise duties on these products. The rise in the index during the second quarter of 1988 would have been more important, were it not for the dampening effect of continuing fall in prices of fresh vegetables during that period.

Table 1 - Monthly Consumer Price Index (January 1986 - June 1988)

	<u>Base: January - June 1982 = 100</u>		<u>Base: July 1986 - June 1987 = 100</u>	
	<u>1 9 8 6</u>	<u>1 9 8 7</u>	<u>1 9 8 7</u>	<u>1 9 8 8</u>
January	124.0	123.7		102.4
February	124.2	125.0		101.7
March	124.7	127.3		101.4
April	124.6	124.7		103.1
May	124.5	125.8		103.8
June	124.6	126.1		107.2
July	124.8		99.8	
August	125.5		99.1	
September	124.3		99.2	
October	124.0		99.8	
November	123.1		100.2	
December	123.6		100.3	

Table 2 shows the evolution of the quarterly indices by major commodity group. The "Alcoholic beverages and tobacco" group has increased sharply by 11.9% between the first and second quarter of 1988 from 100.7 to 112.7. The "Miscellaneous goods and services" group, which includes consumption in bars and restaurants, has also increased significantly by more than 4% from 104.6 to 109.0 between the first two quarters. The "Food and non-alcoholic beverages" group, the most important group in the index and the "Housing and household operations" group have shown moderate increases of 2.5 and 3.1% respectively. All the remaining groups have shown slight increases except the "Fuel and light" group which has not moved at all.

Table 2 - Sub-indices by major commodity group (Base: July 1986 - June 1987 = 100)

Commodity group	Weight	1987		1988	
		3rd Quarter	4th Quarter	1st Quarter	2nd Quarter
1. Food and non-alcoholic beverages	419	100.5	102.0	104.9	107.5
2. Alcoholic beverages and tobacco	72	100.3	100.6	100.7	112.7
3. Clothing and footwear	84	90.5	90.5	92.0	92.9
4. Fuel and light	57	99.5	99.5	99.5	99.5
5. Housing and household operations	135	99.8	100.8	101.9	105.1
6. Medical care and health expenses	30	107.8	110.3	115.0	116.3
7. Transport and communication	93	100.2	100.6	100.6	101.7
8. Recreation, entertainment, education and cultural services	60	94.5	91.4	90.6	90.9
9. Miscellaneous goods and services	50	101.1	101.7	104.6	109.0
ALL GROUPS	1,000	99.4	100.1	101.8	104.7

3. The net contribution of the main commodities that have influenced the movement of the index from the beginning of April to the end of June 1988 is shown in Table 3 below. The upward revision in the price of rice and flour from Rs 2.50 to Rs 3.50 per kilo as from 13th April 1988 has affected the index adversely by 1 and 0.3 point respectively. Increases in the price of bread and other flour products have also caused the index to rise by 0.5 and 0.2 point respectively. Higher prices of alcoholic drinks and tobacco resulting from the upward revision of excise duties on these commodities have caused the index to rise by 3 points, price increases of cigarettes alone accounting for 1.5 points, while price increases of alcoholic beverages consumed at home and in bars and restaurants have raised the index by 1 and 0.5 point respectively. Revised tariffs for water charges effective as from 16th May 1988 produced a rise of 0.4 point. On the other hand, lower prices of fresh vegetables noted during the second quarter of 1988 have checked the rise of the index by 1 point.

Table 3 - Net contributions of main commodities affecting the Consumer Price Index during the second quarter of 1988

<u>Commodity</u>	<u>Change</u>
Bread	+ 0.5
Rice	+ 1.0
Flour	+ 0.3
Biscuits, pastries, noodles, etc.	+ 0.2
Frozen mutton	+ 0.1
Fresh fish	+ 0.1
Powdered milk	+ 0.2
Fresh fruits	- 0.1
Fresh vegetables	- 1.0
Dried vegetables	+ 0.1
Other food products	+ 0.3
Alcoholic beverages (home consumption)	+ 1.0
Expenditure in bars and restaurants	+ 0.5
Cigarettes	+ 1.5
Ready made clothing	+ 0.1
Rent of dwellings	+ 0.1
Water charges	+ 0.4
Motor vehicle spare parts and repairs	+ 0.1
Taxi fares	+ 0.1
Other goods and services	+ 0.3
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TOTAL	+ 5.8
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4. Rate of Inflation

The annual rate of inflation for financial year 1987-88 is 1.5% compared to 0.7% for financial year 1986-87. This rate was 1.8 and 0.6% respectively for calendar years 1986 and 1987.

Recent trends and likely increases in the price of certain commodities indicate that the rate of inflation for calendar year 1988 will be around 7% while that for financial year 1988-89 may exceed 10%.

Table 4 - Inflation rate(%), 1975 - 1988

<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
		1987 - 88	1.5