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CONSUMER PRICE INDEX - 2nd QUARTER 1989

1. Movements in Consumer Price Index - 2nd Quarter, 1989

The average level of prices showed a sharper upward movement during the second quarter of 1989 than that during the first quarter as revealed by the Consumer Price Index (C.P.I.) which advanced by 4.1 points or 3.5% and 2.4 points or 2.1% respectively for the two periods (Table 1). However it might be noted that the increase in the C.P.I. during the second quarter of 1989 is less pronounced than that of the same period of 1988 when a substantial increase of 5.8 points or 5.7% was registered.

The rise in the index for the first half of 1989 which is 6.5 points or 5.6% is less than that for the corresponding period in 1988 when the C.P.I. increased by 6.9 points or 6.9%.

Increases in the price of a wide range of goods and services, meat, powdered milk, textile goods and taxi fares in particular, were largely responsible for the rise in the C.P.I. during the second quarter of 1989.

Table 1 - Monthly Consumer Price Index (July 1987 - June 1989)

Base : July 1986 - June 1987 = 100

	<u>1987-88</u>	<u>1988-89</u>
July	99.8	110.7
August	99.1	113.8
September	99.2	116.3
October	99.8	117.5
November	100.2	117.4
December	100.3	116.1
January	102.4	116.8
February	101.7	118.6
March	101.4	118.5
April	103.1	121.7
May	103.8	122.3
June	107.2	122.6
12 month average	<u>101.5</u>	<u>117.7</u>
Annual rate of inflation (%)	1.5	16.0

2. Changes by group and commodity

The evolution of the quarterly indices by major commodity group is shown in Table 2. While all the quarterly indices have increased between the first and second quarter of 1989, the highest increase (6%) is observed in the "Clothing and Footwear" group. "Food and non alcoholic beverages" which has the greatest share in the market basket of goods and services in the C.P.I. has increased significantly by more than 4% during the two quarters.

Moderate increases have also been noted in "Alcoholic beverages and tobacco", "Transport and Communication" and "Miscellaneous goods and services".

The remaining groups show slight or marginal increases.

The net contributions of the main commodities that have influenced the movement of the index from the beginning of April to the end of June 1989 are shown in Table 3.

Increases in the price of textile goods have alone caused the index to rise by 0.6 point. Prices of this commodity have reverted back to the level they were before the abolition of duties. Thus the favourable impact of 1.2 points in the index following the abolition of duties on this commodity in April 1987 has been more than offset by accumulated increases (+ 1.3 points) over the period January 1988 to June 1989.

Higher prices of powdered milk and alcoholic beverages have both contributed 0.3 point to the rise in the index.

Revised tariffs for taxi fares which became operational in May this year have affected the index adversely by 0.4 point.

Price fluctuations of fresh vegetables play a prominent role in the movement of the index. However, during the second quarter of 1989, the negative effect of a substantial increase in prices of this commodity in April has been completely nullified by successive price decreases in May and June.

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

Major Commodity Group	% Weight	1988					1989	
		1st Qr.	2nd Qr.	3rd Qr.	4th Qr.	Yearly Average	1st Qr.	2nd Qr.
1. Food and non-alcoholic beverages	41.9	104.9	107.5	118.5	122.7	113.4	122.2	127.8
2. Alcoholic beverages and tobacco	7.2	100.7	112.7	136.9	137.2	121.9	137.5	142.2
3. Clothing and footwear	8.4	92.0	92.9	97.3	99.8	95.5	101.1	107.2
4. Fuel and light	5.7	99.5	99.5	99.9	100.1	99.8	100.1	100.3
5. Housing and household operations	13.5	101.9	105.1	108.9	114.6	107.6	118.1	120.2
6. Medical care and health expenses	3.0	115.0	116.3	118.2	120.4	117.5	122.4	123.7
7. Transport and communication	9.3	100.6	101.7	113.2	118.5	108.5	119.4	123.2
8. Recreation, entertainment, education and cultural services	6.0	90.6	90.9	92.0	90.7	91.0	96.9	99.4
9. Miscellaneous goods and services	5.0	104.6	109.0	118.8	121.2	113.4	122.3	126.2
All Groups	100.0	101.8	104.7	113.6	117.0	109.3	118.0	122.2

Table 3 - Net contributions of the main commodities affecting the index during the 2nd quarter of 1989

<u>Commodity</u>	<u>Change in index points</u>
Cakes, snacks, pastries etc.	+ 0.1
Fresh beef	+ 0.2
Frozen beef	+ 0.2
Fresh goat	+ 0.1
Fresh fish	+ 0.2
Frozen fish	+ 0.1
Powdered milk	+ 0.3
Cheese	+ 0.1
Eggs	+ 0.1
Fresh fruits	+ 0.2
Dried vegetables	+ 0.1
Other food products	+ 0.4
Alcoholic beverages	+ 0.3
Textile goods	+ 0.6
Taxi fares	+ 0.4
Recreational durable goods	+ 0.2
Other goods and services	+ 0.5
<u>T O T A L</u>	<u>+ 4.1</u>

3. Rate of Inflation

The C.P.I. for the month of June 1989 being now available, the rate of inflation for financial year 1988-89 can be determined exactly. This rate works out to 16% compared to 1.5% for that of the previous financial year 1987-88. It might be recalled that the rate of inflation for the last two calendar years 1987 and 1988 were 0.6 and 9.2% respectively.

Present price trends indicate that the rate of inflation for calendar year 1989 will be around 13%.

Table 4 - Inflation rate (%), 1975 - 1989

<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
1988	9.2	1987 - 88	1.5
1989	13.0 ^{1/}	1988 - 89	16.0

1/ Forecast

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