CENTRAL BANK OF TRINIDAD & TOBAGO

Food Price Inflation in Trinidad and Tobago

By

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Governor

at

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Introduction

- The Central Bank's presentation seeks to set the stage for the two-day conference by defining the size and scope of the food price inflation problem.
- The intention is not to propose possible solutions but rather to point to some linkages and hope that these would suggest areas for policy action.
- Given time constraints, I will need to present the tables in groups and at a somewhat faster pace than I would like.

Figure I

- Shows the evolution of inflation since the mid-1990's and **underscores the fact that the increase in food prices has been the main driver of inflation**.

- Even in the 1990's, the increase in food prices averaged over 10 percent a year … this increased to 22 percent in 2005/2006.

Figure 1

Trinidad and Tobago: Inflation and Food Prices

- Inflation is a sustained increase in the general level of prices.
- ‘Headline’ inflation measures the change in the overall Index of Retail Prices (RPI).
- ‘Core’ inflation excludes the volatile changes in the prices of items such as food.

/End of Period/

	1993-1999	2000	2001	2002	2003	2004	2005	2006	Jun-07
Headline Inflation (%)	5.88	5.63	3.22	4.28	2.93	5.63	7.16	9.08	7.31
Food Prices	13.86	13.39	7.51	11.04	12.28	20.57	22.57	22.02	14.69
Core Inflation	4.88	4.24	2.39	2.90	0.91	1.96	2.69	4.61	4.51

Source: Central Statistical Office

Figure 2

- Shows the composition of our Index of Retail Prices – with food items accounting for 18 percent of the basket.
- The interpretation is that food accounts for about 20 percent in the typical consumer basket

Figure 2

Weights by Division of the Index of Retail Prices

Division	Weight
Food & Non-Alcoholic Beverages	**180**
Of Which:	
Food	**156.2**
Alcoholic Beverages	23.8
Alcoholic Beverages and Tobacco	25
Clothing and Footwear	53
Housing, Water, Electricity, Gas and Other Fuels	262
Of Which:	
Home Ownership	180
Rent	24
Water, Electricity, Gas and Other Fuels	58
Furnishings, Household Equipment and Routine	
Maintenance of the House	54
Health	51
Transport	167
Communication	41
Recreation and Culture	85
Education	16
Hotels, Cafes and Restaurants	30
Miscellaneous Goods and Services	36
All Items	**1000**

Source: Central Statistical Office

Figure 3

- While international comparisons of inflation rates could be mis-leading and consequently should be made with caution, Figure 2 shows that our inflation rate is not too far out of line with our main CARICOM partners.

- Barbados which traditionally had among the lowest inflation rates in the region, now has a rate of 7 percent. Jamaica has brought down its inflation rate from 15 percent to around 6 percent.

Figure 3

Regional Inflation Rates

/Percent/

Country	**1994-2003**	**2004**	**2005**	**2006**	**2007***
Bahamas	1.7	1.2	2.0	1.8	1.9
Barbados	2.0	1.4	6.1	7.3	7.0
Belize	2.0	3.1	3.7	4.3	2.7
EC Currency Union	2.4	2.4	4.3	1.4	n.a
Guyana	6.5	5.5	8.2	4.2	8.5
Jamaica	13.8	13.6	15.3	5.8	5.6
Suriname	87.0	9.0	15.8	4.7	9.3
Trinidad & Tobago	4.7	3.7	6.9	8.3	7.3

Source: Caribbean Centre for Monetary Studies

** - Year-on-year rates for various months during the first six months of 2007*

Figure 4

- Shows that increase in food prices have been much lower in other CARICOM countries than in Trinidad and Tobago. **The reasons for this are not totally clear but may have to do with better performance of the agricultural sector**.

Figure 4

CARICOM Food Prices

/Percent/

Country	1995-2000	2001-2006
Barbados	3.52	4.46
Guyana	5.31	4.13
Jamaica	10.72	9.57
OECS*	n/a	2.15
Trinidad and Tobago	8.3	16.15

* - Average for the period 2002-2006

Figure 5

- Show that in Trinidad and Tobago, **fruits and vegetables, meats and fish, and dairy products** show sizable increases (perhaps suggesting that greater domestic agricultural production would facilitate lower increases in the price of the food basket).

Figure 5
Disaggregating Movements in Food Prices

/End of Period/

	1999-2002	2003	2004	2005	2006	Jun-07
Food Prices (%)	**10.27**	**12.28**	**20.57**	**22.57**	**22.02**	**14.69**
Bread & Cereals	0.01	6.02	10.02	(0.04)	1.46	4.88
Meat	(0.19)	14.86	6.53	7.11	15.40	13.17
of which: Poultry	*(0.30)*	*20.50*	*5.86*	*6.53*	*17.31*	*15.32*
Fish	(0.70)	10.45	8.49	21.80	32.59	12.42
Fruit	(0.94)	8.70	32.77	26.97	19.89	24.36
Vegetables	0.20	46.35	65.35	72.88	39.21	19.35
Oils & Fats	(0.02)	15.10	3.82	4.10	5.78	4.11
Milk, Cheese and Eggs*	0.01	5.40	7.21	9.82	5.07	13.62
Sugar, Jam, Honey, Syrups, Chocolate and Confectionery	0.02	2.20	(0.49)	4.23	10.02	5.42

Source: Central Statistical Office

* - Excludes eggs for the period 1999-2002

Figure 6

- Shows the evolution of prices of a wide range of food items. Note the recent increase of 31.6 percent in the price of powdered milk (Jan-Aug 2007).

Figure 6

Retail Prices of Selected Food Commodities

/Dollars/

ITEM	BRAND	Unit	Dec-04	Dec-05	Dec-06	Aug-07
RICE	Lotus	2 kg	13.79	13.79	13.79	13.79
FLOUR	Lotus All Purpose	2 kg	9.19	6.99	6.99	6.99
OIL	Lotus Soybean Oil	1 Ltr	12.49	14.49	12.99	12.79
PASTA	Cuisine Macaroni	400 gr	2.79	2.79	2.79	3.29
COFFEE	Nescafe	100 gr	14.39	16.99	16.99	19.99
TEA	Lipton (50's)	50 Ct	11.49	13.49	15.29	15.29
MILK	Nestle Full Cream	1 Ltr	6.69	7.19	8.25	8.25
	Green Butterfly Evaporated Milk	250 Ml	3.39	3.79	3.79	4.59
	Cuisine Powdered Milk	350 gr	n.a	12.49	13.29	17.49
EGGS	Clear Box - large	Dozen	8.69	8.69	9.49	9.99
CHEESE	Anchor Cheddar Cheese	250 gr	10.49	12.89	13.99	13.99
BUTTER/ MARGARINE	Blue Band Creamy Tub	220 gr	4.89	5.29	5.29	5.99
	Blue Band Margarine	240 gr	3.39	3.59	3.75	3.75
SUGAR	Caroni Granulated	1.8 kg	10.69	10.69	11.69	11.69
	Wash Grey	kg	3.69	4.19	4.19	4.49

Source: Hi Lo Food Stores

Figure 6 (Cont'd)

Retail Prices of Selected Food Commodities

/Dollars/

ITEM	BRAND	Unit	Dec-04	Dec-05	Dec-06	Aug-07
BEEF	Clod Cubed Boneless	kg	24.29	32.99	32.99	46.99
CHICKEN	Arawak Family Pack	kg	n.a	20.25	22.99	22.99
FISH	Carite	kg	32.99	32.99	32.99	32.99
JUICES	Orchard Orange Drink	1 Ltr	6.99	7.99	8.29	8.99
SOFT DRINKS	Coca Cola Contour	2 Ltr	6.49	6.99	6.99	6.69
BABY FOODS	Gerber Baby Food: Vegetable & Chicken	6 oz	6.49	6.49	7.79	7.79
PEAS	Cuisine Green Pigeon Peas	425 gr	4.99	5.09	5.49	5.49
	Cuisine Red Beans	425 gr	4.49	4.19	4.99	4.99
	Cuisine Peas & Carrots	426 gr	3.99	4.19	4.99	4.99
VEGETABLES	Onions	kg	4.39	4.99	6.99	8.99
	Potatoes (White)	lb	n.a	5.49	5.49	5.49
	Carrots (Pre-pack)	lb	5.29	5.29	5.99	6.99
	Garlic (Pre-pack)	200 gr	2.79	3.49	3.99	3.99
FRUIT	Bananas	kg	n.a	9.99	9.99	9.99

Source: Hi Lo Food Stores

Figure 7

- Figure 7 tries to illustrate (albeit with a few items) that there are sizable and fluctuating differences between wholesale and retail prices.

- Also, that since the opening up of farmers' markets (and with more comparison shopping) there are indications that some distribution margins have declined.

Figure 7

Wholesale & Retail Prices for Selected Agricultural Commodities

		2005			2006 (end of period)			Mar-2007 (end of period)		
COMMODITY	UNIT	Wholesale Price	Retail Price	Mark-up (%)	Wholesale Price	Retail Price	Mark-up (%)	Wholesale Price	Retail Price	Mark-up (%)
Tomato (L)	kg	10.51	14.28	35.87	14.98	18.82	25.65	9.34	10.26	9.85
Pumpkin	kg	2.55	4.77	87.06	2.18	4.40	101.83	1.90	3.31	74.21
Cabbage	kg	4.40	8.80	100.00	7.20	8.50	18.06	6.58	9.26	40.73
Sweet Potato	kg	7.14	11.12	55.74	5.42	5.90	8.78	7.87	10.14	28.84
Bananas (Ripe)	kg	4.40	6.05	37.50	5.51	9.16	66.24	5.55	9.04	62.88

Source: NAMDEVCO

Figure 8

- Figure 8 shows broadly similar information i.e. the wide range of prices for basic agricultural commodities, depending on whether you purchase wholesale, in the farmers’ markets, in municipal markets or in the supermarket.

Figure 8
Price Comparison at Various Markets ($/Kg)

December 2006

Commodity	Wholesale	Farmers Market	Municipal	Supermarket
Tomato	13.23	13.20	19.25	29.84
Cabbage	5.51	4.40	8.80	14.29
Pumpkin	2.20	4.40	4.40	6.20
Melongene	2.20	4.40	4.68	14.66
Cucumber	2.20	2.75	4.95	10.13
Papaya	3.31	6.60	7.70	11.10
Sweet Pepper	7.72	9.90	14.30	21.93
Chive (Bdl.)	0.98	1.04	2.88	2.38

Source: NAMDEVCO Market Watch

July 2007

Commodity	Wholesale	Farmers' Market	Municipal	Supermarket
Tomato	15.43	13.20	12.83	20.44
Cabbage	9.92	11.73	11.00	13.06
Pumpkin	3.31	4.22	4.40	5.03
Melongene	1.65	6.60	7.15	11.97
Cucumber	1.39	6.97	4.95	10.78
Papaya	5.51	7.33	8.07	7.43
Sweet Pepper	11.02	12.10	13.93	19.27
Chive	0.83	1.64	2.33	2.52

Figure 9

- One obvious reason for the increase in food prices is the declining or sluggish agricultural production. According to CSO data, most agricultural commodities are showing production declines from levels obtaining at the beginning of the decade.

Figure 9

Production of Selected Food Crops

/000 kgs/

Type of Crop	2000	2001	2002	2003	2004	2005	2006	Jan-Mar 2006	Jan-Mar 2007
Tomato	2,737	2,411	1,811	1,235	1,748	1,645	1,358	172	262
Cabbage	1,412	2,251	2,225	1,780	1,575	991	1,063	134	120
Cucumber	3,503	4,708	1,889	3,607	1,889	4,590	2,297	670	335
Melongene	947	1,856	2,976	1,933	2,976	2,232	1,949	20	57
Pumpkin	11,449	5,795	5,795	5,799	4,862	2,172	2,047	189	1,317
Dasheen	923	2,286	3,931	6,858	4,814	4,239	3,165	n.a	n.a

Source: Central Statistical Office

Figures 10 & 11

- The increase in import prices has also been impacting on the domestic prices of basic commodities, and **very much so**, recently. Notice the increase in the price of rice, corn and wheat. Fortunately, NFM has been absorbing much of the increase in the prices of imported grain.

Figure 10

Prices of Imported Grains (US$/Mt)

/End of Period/

Commodity	2004	2005		2006		2007	
	Price	Price	Percentage Change	Price	Percentage Change	Price[1]	Percentage Change
Rice	300.00	343.75	14.58	420.50	22.33	432.20	2.78
Corn	99.03	107.85	8.90	167.03	54.88	154.41	(7.55)
Wheat (DNS)[2]	183.70	183.40	(0.16)	200.94	9.56	238.15	18.52

Source: National Flour Mills

1. Prices as at June 2007 for wheat and as at July 2007 for rice and corn.
2. Prices are annual averages.

Figure 11

International Commodity Prices

/Percentage Change/

Commodity	1995-2000	2002	2003	2004	2005	2006
Rice	3.25	11.08	3.93	23.29	17.07	4.74
Wheat	3.05	17.18	(1.61)	7.33	(2.83)	25.80
Corn	(2.69)	10.83	5.86	7.05	(12.62)	23.59
Soy bean	(2.12)	11.82	23.67	18.67	(19.43)	(2.54)
Poultry	(2.97)	(0.84)	5.00	14.36	(2.43)	(6.36)
Sugar	(7.45)	(24.24)	19.43	(2.28)	29.97	49.70
Beef	0.47	n.a	(5.97)	26.98	4.21	(2.61)

Source: International Financial Statistics

Figure 12

- Figure 12 shows that the rise in the import food price index (about 10 percent a year in the past two years) has outpaced that of the composite import price index.

Figure 12

Import Price Index

Year	Food & Live Animals		Beverages & Tobacco		All Items	
	Index	Percentage Change	Index	Percentage Change	Index	Percentage Change
2000	108.38	2.81	98.47	(5.22)	109.75	(3.98)
2001	103.97	(4.07)	94.24	(4.30)	105.62	(3.76)
2002	111.62	7.36	101.13	7.30	106.02	0.37
2003	118.47	6.13	105.17	4.00	110.42	4.15
2004	122.15	3.11	104.78	(0.37)	118.47	7.28
2005	133.27	9.10	105.42	0.61	126.57	6.84
2006	145.90	9.48	107.19	1.68	136.62	7.95

Source: Central Statistical Office

Figure 13

- This table is presented to underscore the fact that most food items are zero-rated for VAT purposes i.e. there is no VAT. Thus there is little scope for reducing food prices by eliminating VAT.

Figure 13

Zero-Rated Food Items

VAT has been removed from a wide variety of commodities.

Unprocessed food of a kind for human consumption	toilet paper	chicken sausages, canned
rice	yeast	salami sausages
flour	baking powder	icing sugar
milk in any form	pasta	preparations of malt extract
margarine	cane sugar	corn flakes
bread	cocoa powder	biscuits, unsweetened
baby formulas and milk substitutes	coffee	grapefruit juice
cheese and curd	mauby	vanilla essence
corned beef	orange juice	soy sauce
curry	herring	tomato ketchup
fresh butter	tunas	prepared mustard
peanut butter	mackerel	mineral water
table salt	ghee	ordinary natural water
salted butter	soya-bean oil	aerated beverages
tinned sardines	maize (corn) oil	orange drink
smoked herring	sesame oil	grapefruit drink
vinegar		

Source: Value Added Tax Act

Figure 14

- This figure shows that import duties have been reduced on a whole range of food items.

Figure 14: Import Duties on Selected Food Items

Item	Percent	
	Duty Before Reduction	Duty After Reduction
Frozen Cuts (Poultry)	40	0
Frozen meat of bovine	15	10
Frozen meat of swine	40	30
Frozen Lamb	15	10
Goat meat	15	10
Milk and Cream	25	15
Cod	30	0
Condensed Milk	25	15
Grape Juice	20	15
Pickled pig tails	20	0
Sago	20	5
Dried grapes	40	20
Prunes	15	0
Refined maize oil	40	30
Raisin bran	20	10
Mixtures of frozen vegetables	20	10
Active yeasts	10	0
Baby foods	10	0

Source: Customs and Excise Division

Figure 15

- At a global level, only about **11 percent of food imports is subject to VAT and/or import duties.**

Figure 15

VAT and Import Duties on Food Imports

/Dollars/

	Value of Total Food Imports	VAT	Import Duty	Indirect Taxes/ Total Food Imports (%)
2003	1,919,240,184	128,309,606	140,380,428	14.00
2004	2,215,643,952	136,056,284	158,268,986	13.28
2005	2,724,414,891	143,461,136	171,488,730	11.56
2006	2,765,492,161	145,833,903	173,200,733	11.54

Source: Central Statistical Office

Some Final Comments

- Developed and developing countries alike are reeling from the recent rise in food prices. For example:
  - ► The food component of the CPI in OECD countries has accelerated to 12-year highs.
  - ► In Britain, food inflation at 6 percent is more than double the rate of the official CPI and the highest rate of increase in six years.
  - ► In June 2007, poultry and dairy prices recorded their largest increases since 2004 in the United States.
  - ► The rising cost of food – a global trend – has pushed inflation past South Africa’s inflation target of 3-6 percent, forcing the Reserve Bank to hike interest rates.
  - ► Standards & Poors’ global index – covering eight agricultural commodities – including wheat, sugar, corn – is 10 percent up from last year.

Factors Affecting World Food Prices

- Rising global demand, led by China and India
- Climate change
- Rising demand for bio fuels resulting in the divergence of corn, soybean and sugar supplies

Prospects ?

- International forecasts are for global food price increases of 20-50 percent over the next few years.
- It’s clear that we need to act to improve our level of food self-sufficiency.

- Mr. Chairman, the Bank would like to thank you and the Conference Organisers for your invitation and hopes that the participants find this brief presentation helpful.

Thank You!