

Private Sector Commission

Technical Information Bulletin
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Measuring Inflation in Guyana

*The Private Sector Commission of Guyana Ltd
157 Waterloo Street
North Cummingsburg
Georgetown
Tele: 225-0977, Fax: 225-0978
Email: pscentre2@yahoo.com*

Preface

We are pleased to send you our *Technical Information Bulletin No. 6 on Measuring Inflation in Guyana*.

The recent spike in the cost of living, primarily driven by the introduction of VAT, has brought into focus how the Consumer Price Index is constituted and calculated. We are aware of plans to review and rebase the CPI.

The statistics used in this Bulletin are wholly drawn from reports by the Bureau of Statistics.

Our Bulletins are aimed at providing our membership and the wider business community with baseline data for general awareness and decision making. We do not attempt to do any detailed analysis of the data provided but would be happy to further research any aspects which may be of interest to our members.

We would be happy to receive your feedback, comments, suggestions, etc in this regard.

Bal Parsaud
Executive Director, PSC

Previous Bulletins

Bulletin 1 (Dec 2006) - The Guyana Economy June 2006

Bulletin 2 (Mar 2007) - Highlights of the Guyana National Budget 2007

Bulletin 3 (Mar 2007) - Recent Growth Trends in the Guyana Economy

Bulletin 4 (Apr 2007) - Labour Force and Employment in the Guyana Economy

Bulletin 5 (May 2007) - Employment Structure in Guyana

E-copies available on request.

The Consumer Price Index in Guyana

Recently consumers have experienced significant generalized increases in prices. This inflation has been attributed to several factors, primarily the introduction of a Value-Added Tax. This brief bulletin seeks to explain how inflation is measured in Guyana and to show how prices have moved in Guyana over the past decade.

Measuring Inflation

Inflation is an increase in the price level that is sustained over a period of time. In Guyana, inflation is measured through the use of the Consumer Price Index.

A Consumer Price Index allows for comparison of average price levels of a hypothetical fixed basket of goods between different time periods. The index is an estimate of the ratio of the current price of a fixed basket of goods and services to the cost of that basket in a particular base period. It therefore indicates the relative purchasing power of money.

In Guyana, the fixed basket of goods and services that is currently used was compiled based upon a survey of household income and expenditure that was conducted over the period 1992 to 1993.

January 1994 is used as the base period and average prices for that period are rated as 100. All subsequent prices are therefore measured as incremental changes to the base price. For instance, food prices computed for December 2000 stood at 163.0 or 63% higher than they were in January 1994.

The Bureau of Statistics is the agency in Guyana that is charged with responsibility for monitoring changes in prices. The agency produces both the Georgetown Consumer Price Index (CPI) that is used to measure inflation as well as an All-Urban Price Index which tracks prices in all six urban areas of the country. Data for the Georgetown Consumer Price Index is monitored weekly and computed and published monthly.

The Bureau of Statistics does not provide information on causal factors for movements in prices and this bulletin likewise does not attempt to do so. However, the price hikes in all sectors shown in 2007 does indicate the influence of the imposition of a 16% VAT.

The Basket of Goods

The CPI, as its name implies, measures changes in prices of consumer goods and services and does not reflect changes in the prices of capital goods. The fixed market basket of the CPI in Guyana currently consists of the following commodities and services:

1. Food
2. Clothing
3. Footwear and Repairs
4. Housing (includes fuel, light and water)
5. Furniture
6. Transport and Communication

7. Medical and Personal Care
8. Education, Recreation and Culture Services
9. Miscellaneous Goods and Services

Relative Weights

The share of expenditure on each item is referred to as its relative weight in the fixed market basket. The relative weight of the item is determined by the proportion of expenditure on it as compared to the total expenditure on all items in the basket. This reflects the importance of the item as determined by the household income and expenditure survey. Just as the basket of goods is fixed, so too the relative weights of the items are fixed over the comparison periods.

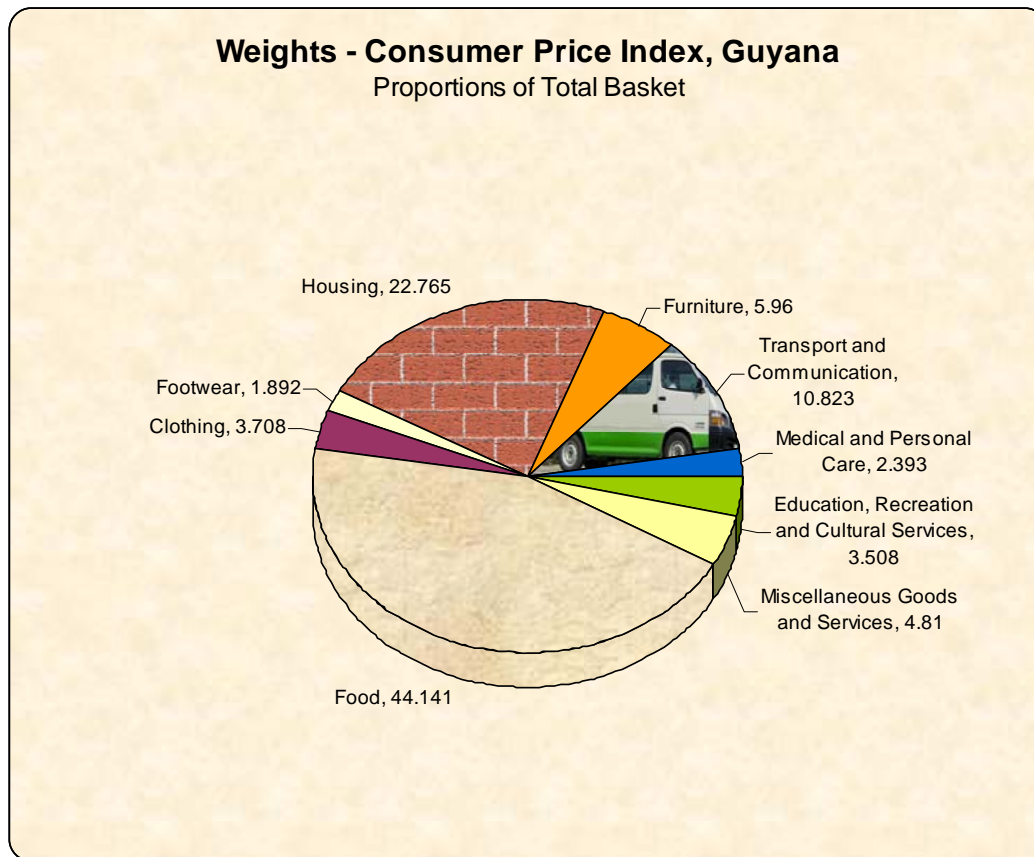
The Bureau of Statistics is currently in the process of rebasing the Consumer Price Index to reflect changes in the basket of goods and in relative weights of the items. This will be done based on the results of a Household Income and Expenditure Survey conducted over 2005 to 2006.

The current weights of the basket of commodities used to measure inflation in Guyana are listed in Table 1 and portrayed graphically in Fig.1. As shown, food still accounts for the largest share of expenditure. The share of expenditure which goes to housing, however, does not adequately reflect the increases in fuel costs since 1991. The transport and communication expenditure likewise does not reflect the significant shares now allocated to telecommunication.

Table 1

Food	44.141
Clothing	3.708
Footwear and Repairs	1.892
Housing (including fuel, light, water)	22.765
Furniture	5.960
Transport and Communication	10.823
Medical and Personal Care	2.393
Education, Recreation and Culture Services	3.508
Miscellaneous Goods and Services	4.810
Total	100

Figure 1



Inflation Rates 1995 to 2007

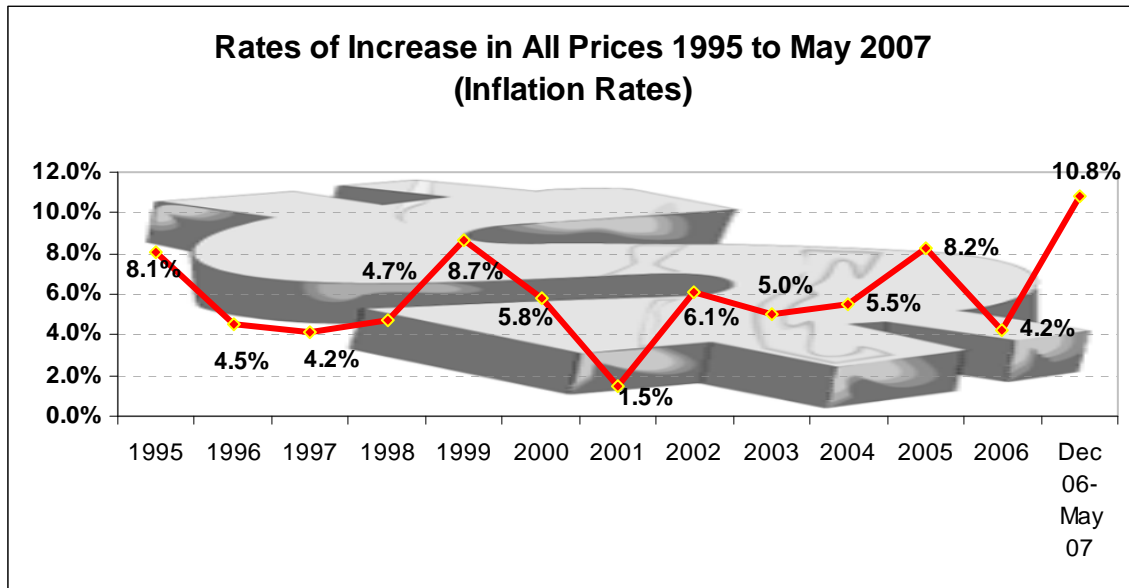
Consumer prices shot up in the first half of 2007 after a decade of relatively moderate growth. Figure 2 shows the rate of increase in prices from 1995 to 2007. Prices had increased by 8.1% in 1995 but slowed to less than 5% over the following three years. The index shot up by 8.7% in 1999 and dramatically declined to a minimal 1.5% by 2001.

The inflation rate climbed to 6.1% in 2002 and slowed to just over 5% over the next two years before rising to 8.2% for 2005. In December 2006, the rate was 4.1% but, with the introduction of VAT in January 2007, prices began climbing and by May 2007 were 10.8% higher than they were in December 2006.

The main contributors to the overall increase in 2007 were Food and Clothing which increased by 11.4% and 14.5% respectively, Medical and Personal Care which was up 12.2%, Education, Recreation and Culture Services up 16% and Miscellaneous Goods and Services which increased by 22% from December 2006 to May 2007.

On a point-to-point comparison between May 2007 and the corresponding period in 2006, prices increased by 12.7% as shown in Table 2. The dramatic increase in overall prices over the one-year period was influenced primarily by Food which was up 15% over the period, Medical and Personal Care up 27%, Education, Recreation and Culture up 14.9% and Miscellaneous Goods and Services which rose by 25.2%. (*see Table 2*)

Figure 2



Conclusion

While prices have increased dramatically in 2007 over price levels in 2006, a review of prices over the past decade indicates that a high rate of increase is usually temporary. Over the period examined, a spike in prices is usually followed by a moderate rate of increase as prices stabilize. While it is expected that world market prices for food and fuel may continue to rise, the price hike caused by the Value-Added Tax is expected to be a one-off increase.

Figure 3

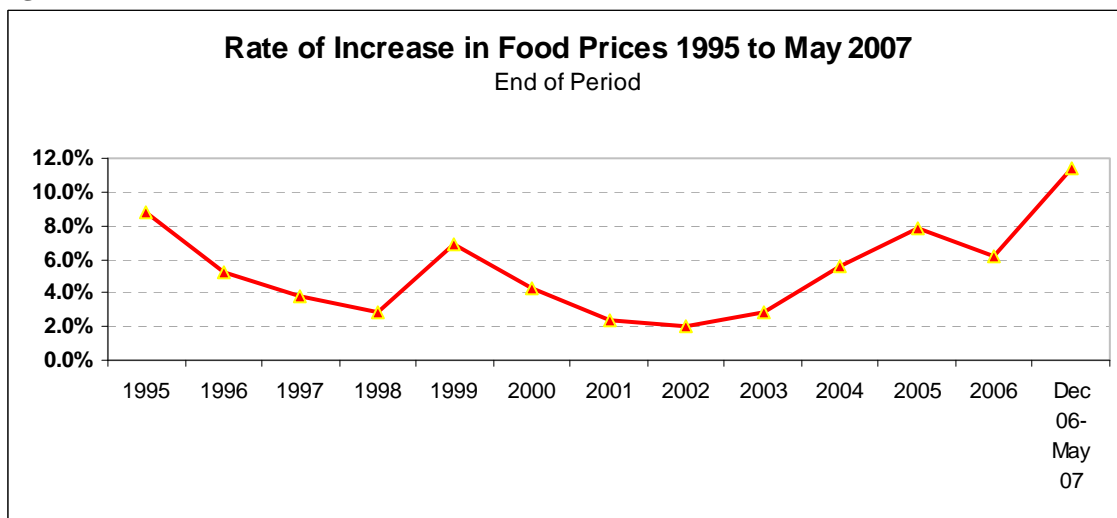


Figure 4



Figure 5

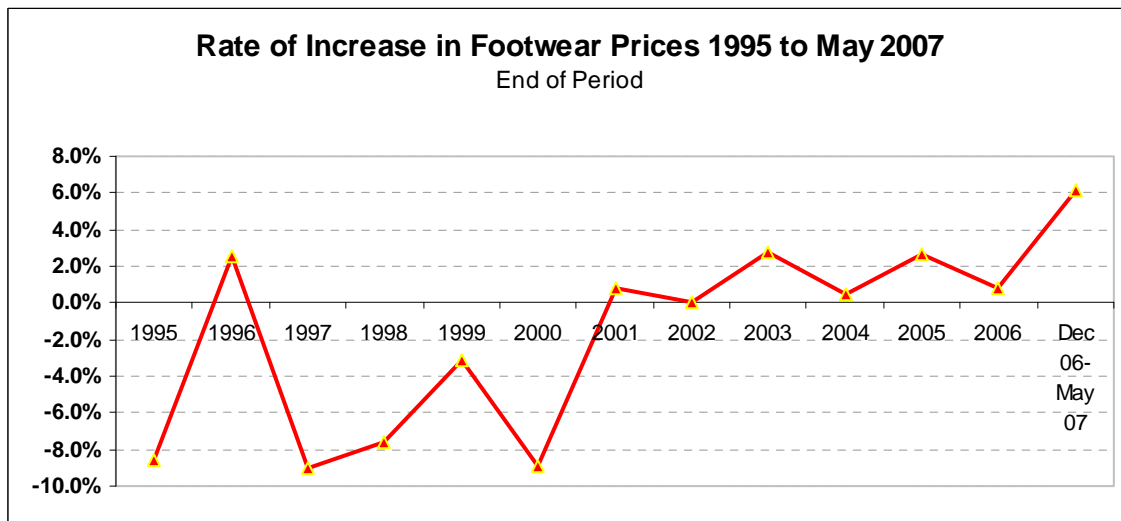


Figure 6

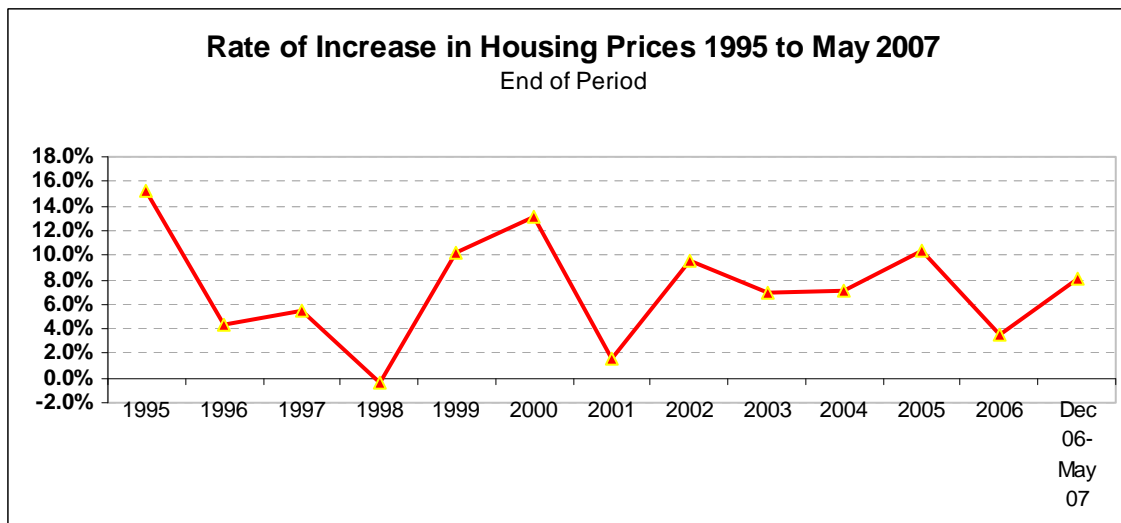


Figure 7

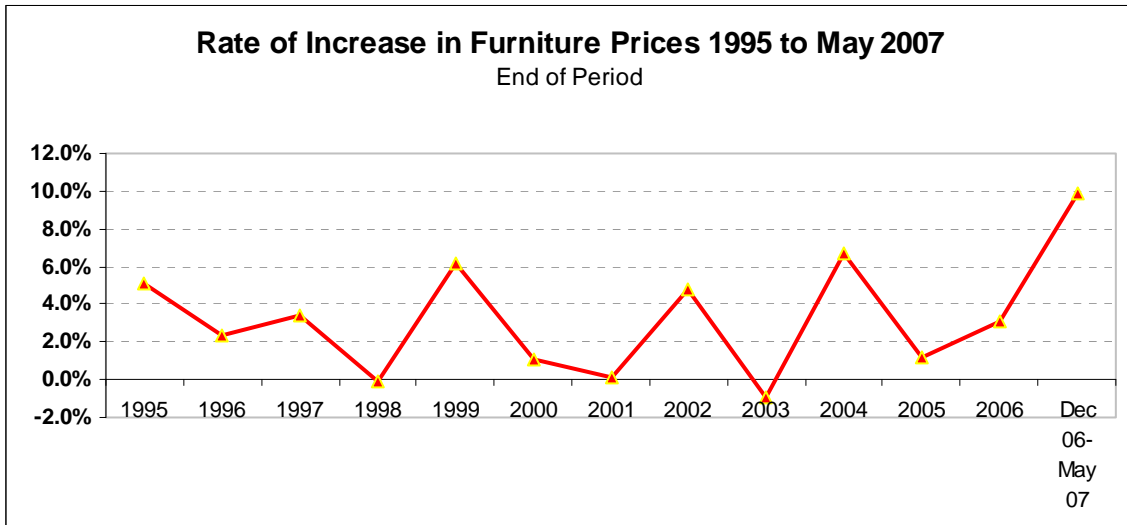


Figure 8

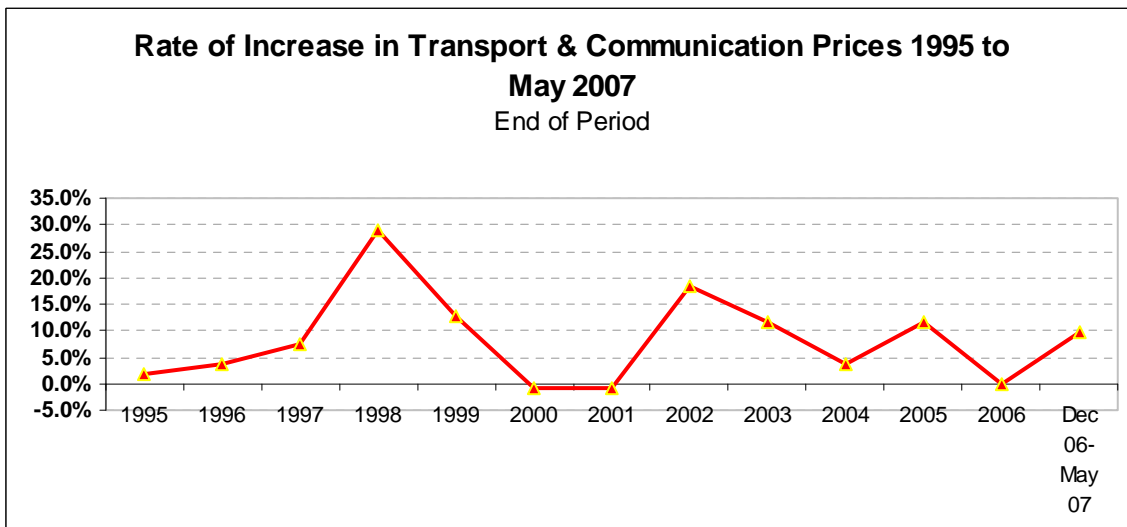


Figure 9

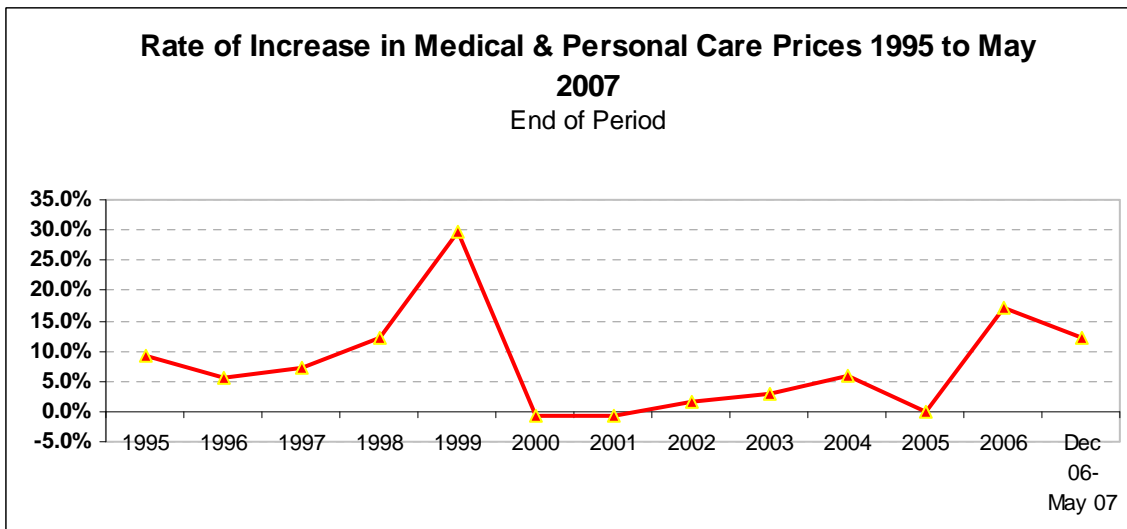


Figure 10

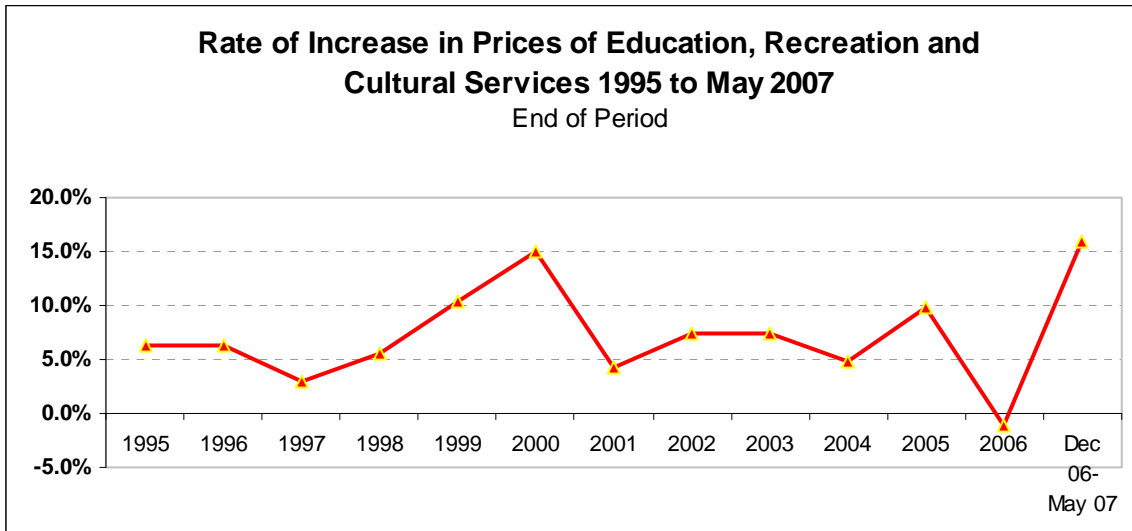


Figure 11

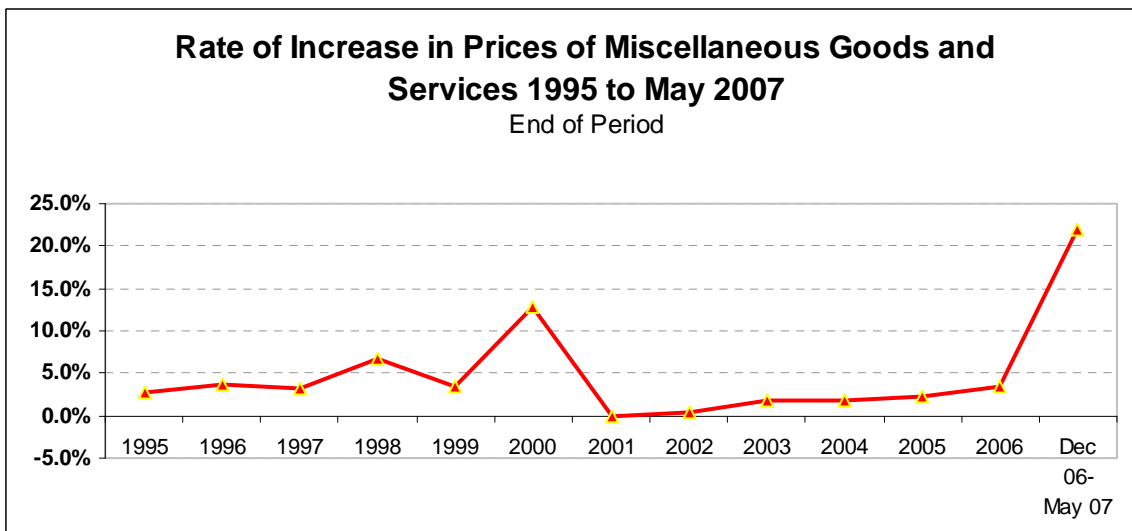


Table 2

Annual Percentage Increases

	End of Period												Dec 06-May 07	May 06-May 07
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006		
All Items (Rate of Inflation)	8.1%	4.5%	4.2%	4.7%	8.7%	5.8%	1.5%	6.1%	5.0%	5.5%	8.2%	4.2%	10.8%	12.7%
Food	8.8%	5.3%	3.9%	2.8%	6.9%	4.3%	2.4%	2.0%	2.9%	5.6%	7.8%	6.1%	11.4%	15.0%
Clothing	-11.6%	0.3%	-8.0%	-7.1%	-3.0%	-1.5%	0.7%	1.9%	0.8%	0.0%	0.3%	0.0%	14.5%	14.6%
Footwear and Repairs	-8.5%	2.6%	-9.0%	-7.6%	-3.1%	-9.0%	0.8%	0.0%	2.7%	0.5%	2.6%	0.8%	6.1%	6.2%
Housing	15.3%	4.3%	5.5%	-0.3%	10.2%	13.0%	1.6%	9.5%	6.9%	7.1%	10.4%	3.6%	8.1%	9.5%
Furniture	5.1%	2.4%	3.5%	-0.1%	6.2%	1.0%	0.2%	4.8%	-1.0%	6.7%	1.2%	3.1%	9.9%	8.6%
Transport and Communication	1.9%	3.7%	7.3%	29.1%	12.8%	-0.8%	-0.9%	18.5%	11.5%	3.6%	11.6%	-0.1%	9.9%	7.4%
Medical and Personal Care	9.3%	5.6%	7.3%	12.2%	29.6%	-0.7%	-0.6%	1.6%	2.8%	6.1%	0.0%	17.2%	12.2%	27.0%
Education, Recreation and Cultural Serv	6.2%	6.3%	3.0%	5.5%	10.3%	15.1%	4.3%	7.4%	7.4%	4.7%	9.8%	-1.2%	16.0%	14.9%
Miscellaneous Goods and Services	2.8%	3.7%	3.3%	6.7%	3.5%	12.7%	-0.2%	0.4%	1.7%	1.8%	2.3%	3.4%	22.0%	25.2%