

PRICES

The annual average of the Colombo Consumers' Price Index registered an increase of 26 per cent in 1980 compared with one percent increase each in 1976 and 1977, a 12 per cent increase in 1978 and a 11 per cent increase in 1979. On a point to point basis, the index showed an increase of 25 per cent in December, 1980 over the corresponding month of the previous year. The relative increases in 1979 over 1978 was 15 per cent and that of 1978 over 1977 was 17 per cent. The rate of increase in prices registered for 1980 was therefore the highest increase observed during the last few years.

The commoditywise classification of the index revealed that 46 per cent of the increase in the Colombo Consumers' Price Index in 1980 was due to higher prices of domestic commodities, while 52 per cent was attributed to an increase in the price of imports and 2 per cent as due to an increase in prices of export commodities. The upward revision of prices of rice, wheat flour, bread, sugar, milk powder, kerosene oil and bus fares contributed to 66 per cent of the increase in the overall index. The rest of the increase reflected the impact of price movements in non-administered items.

The Wholesale Price Index of the Central Bank too showed a higher increase in 1980 than in previous years. The annual average of the index increased by 34 per cent in 1980 compared to an increase of 9 per cent in 1979 and 16 per cent in 1978. Thirty eight per cent of the increase in the Wholesale Price Index is due to a price increase in the domestic group, while 25 per cent and 36 per cent were due to price increases in exports and imports group.

A classification by end use indicates that 72 per cent of the increase was due to higher prices of consumer goods, and 24 per cent and 4 per cent were due to price increases of intermediate and investment goods.

The Implicit Price Index (GNP deflator), which is the ratio of GNP at current prices to GNP at constant (1970) prices, too, showed a similar trend and increase of 18 per cent in 1980 compared with increases of 15 per cent each in the two previous years.

The sharp increase in prices in 1980 was the result of the combined effect of several factors. These include 'cost push' factors such as the price movement resulting from the depreciation of the Rupee, increase in some tax rates, upward adjustment of utility and service charges, the increase in prices of petroleum products, price hikes in overseas markets and the upward revision of prices of major consumer items. In addition demand pressures arose from the continuous expansion of government expenditures, increased inward remittances by migrant labour and continued domestic monetary expansion.

The rise in the price level at a rate around 30 per cent in a single year is a matter for grave concern as a price increase of this order could well make project costing an impossible task. Expectations of further price increases could feed themselves on a cumulative basis to bring about an extremely inappropriate environment for undertaking capital projects. Unless appropriate price stabilization policies are pursued to stem the rising trend in prices, a situation of high and self-sustaining price increases could be set in motion jeopardising the very efforts of development.

WAGE RATE INDEX NUMBERS

1952=100

