

PRICES, WAGES AND EMPLOYMENT

Overall Price Changes

In 1986, retail prices increased at a somewhat faster rate than in the previous year. The Colombo Consumers' Price Index (CCPI) recorded an increase of 8 per cent in 1986, as compared to 1.5 per cent rise in the previous year. In contrast, the producer prices, as measured by the Wholesale Price Index (WPI), fell by 2.9 per cent. This, compared with the decline of 15.2 per cent recorded in 1985.

Several factors contributed towards the steeper rise in consumer prices in 1986. Unfavourable weather conditions that adversely affected food production, disruption of transport facilities in the upcountry areas, and the reversal of the declining trend in the prices of coconut and coconut products were some of the important factors. In addition, the full impact of the budgetary measures introduced in November, 1985 such as the higher guaranteed price for paddy, the levy of duty on imported textiles, the increase in excise duty on tobacco and alcohol and higher postal rates, was also felt in 1986. However, stability in fuel and energy prices during the year helped to contain inflation to some extent. Also, the restrictive credit policies which were operative in 1985 and continued in 1986, and open market operations for mopping-up excess liquidity would have contributed towards controlling aggregate demand, thereby easing greater pressure on prices.

Consumer Prices

The CCPI rose by 8 per cent in 1986, as compared to a very modest increase of 1.5 per cent in the previous year. However, the price increase in 1986 was considerably less than the rates that prevailed in the period 1978-1984 when two-digit rates were recorded. On a point to point basis, *i.e.* December, 1985 over December, 1986 the rate of increase was 9 per cent. The corresponding increase in the previous year was 1.5 per cent.

Unlike in the previous year, when the index actually declined during several months, prices climbed steadily throughout 1986 with the sole exception of July, when the index declined by 1.2 per cent over June. During the first quarter of the year, prices increased by 4.8 per cent over the level at the end of the fourth quarter of 1985. The corresponding increases in the second, third and fourth quarters (compared to the previous quarter) were 1.8 per cent, 1.2 per cent and 2.1 per cent, respectively.

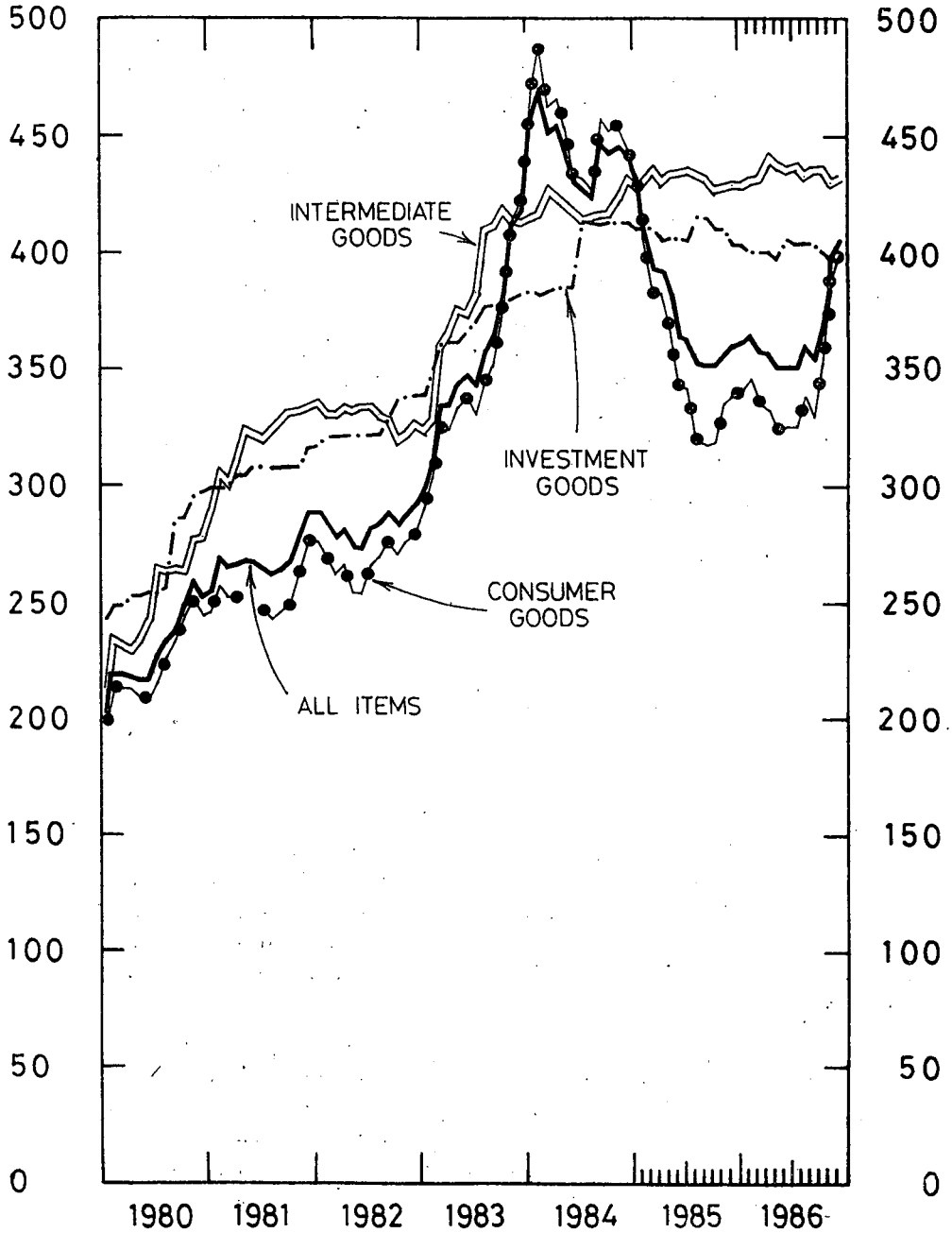
Rising food prices were a major contributory factor for the rise in the CCPI. The sub-index for food (weight 61.9%) increased by 7.2 per cent, as compared to less than 0.1 per cent expansion in the previous year. The shortfall in production due to drought conditions in several major producing areas and the increase of the guaranteed price of paddy in November, 1985 resulted in higher rice prices over most part of 1986. As a result of greater demand in the world market, coconut prices rose in the last few months of the year. Higher fish and vegetable prices also contributed to the rise in the sub-index for food. The supply of fish, in particular had been adversely affected by disturbances in the Northern and Eastern regions.

WHOLESALE PRICE INDEX

1974 = 100
MONTHLY

POINTS IN INDEX

POINTS IN INDEX



Higher clothing prices also had a notable impact on the CCPI. The sub-index for clothing (weight 9.4%) increased by 15.5 per cent in 1986, as compared to a 5.4 per cent rise in the previous year. The imposition of a 100 per cent duty on imported textiles in November, 1985 was a major contributory factor.

Following the upward revision in the prices of alcohol and cigarettes in November 1986, the sub-index for miscellaneous items also rose by 14.4 per cent in 1986, as compared to 5.5 per cent increase in the previous year.

Sector-wise, domestic prices rose by 12.2 per cent, as compared to 6.8 per cent in the previous year. The import sub-index increased by 6.8 per cent in comparison to a rise of 3.2 per cent in the previous year. Export prices which had declined by 31.8 per cent in 1985, declined by 24.1 per cent in 1986. Prices of the export group declined in the first three quarters of the year, but increased sharply in the fourth quarter.

Wholesale Prices

The Wholesale Price Index (WPI) measures prices at the primary marketing level. However, due to the higher weight of major export commodities in the WPI, the movement of prices of these commodities tend to dominate the behaviour of the Index. In 1986, the WPI declined by 2.9 per cent, as compared to a much sharper decline of 15.2 per cent recorded in 1985. On a point to point basis, (December, 1985 over December 1986), however, the index increased by 12.7 per cent reflecting the rise in export category items in late 1986. The corresponding change in the previous year was a decline of 18.2 per cent. A steadily declining trend in the Index was observed from February to May, 1986. This trend was reversed during June to August. In September, the Index dropped once more, but a steeply rising trend was observed in the last three months of the year.

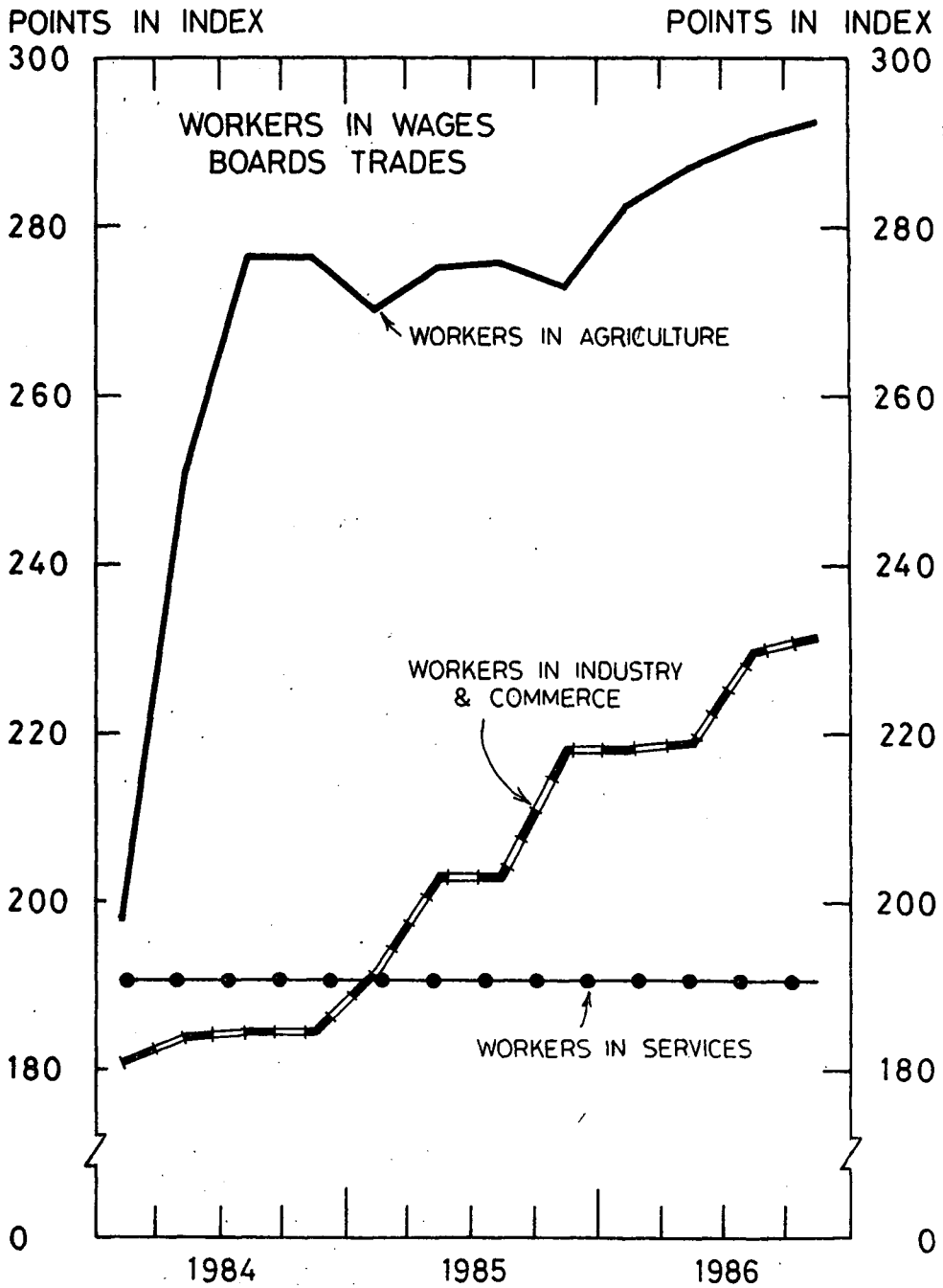
Commodity-wise, the sub-index for food dropped by 6.6 per cent. Prices of paper products, chemical and chemical products and metal products, all of which had increased in the previous year, declined in 1986. Prices of alcoholic drinks, textiles and footwear, machinery, fuel and light and miscellaneous items rose, while increases in the prices of transport equipment and electrical appliances were marginal. The sub-index for petroleum products has remained unchanged since 1984.

Sector-wise, prices of domestic items rose at a comparable rate with that of the previous year. Import prices, however, declined in 1986. Export prices dropped by 17.8 per cent which was less drastic than the 38.7 per cent decrease recorded in the previous year. A notable feature of the behaviour of the export sub-index was the steep rise displayed in the fourth quarter of the year. This was the outcome of a sharp increase in the export prices of coconut and coconut products and a notable improvement in tea prices.

WAGE RATE INDEX NUMBERS

1978 DECEMBER = 100

QUARTERLY



WAGES

In 1986, a major development in the sphere of wages in the organised sector was the restructuring of salaries of all government servants (excluding school teachers)¹. The objective of this restructuring was to eliminate stagnation of employees at the maxima of salary scales which was perceived as an anomaly that needed rectifying. A significant feature of the new structure was the reduction of the number of salary scales that existed. Corresponding to each salary scale, there now exists eighteen incremental steps operating in three segments. With the new scales coming into effect, an additional increment was granted to all officers whose initial salary corresponded to the initial salary of the new salary scales. In addition, one increment was granted for each two year period of stagnation for those at the maximum of their salary scales. The cost of living allowance paid to government servants remained frozen at the January, 1985 level of Rs. 504. In the case of government school teachers, wage levels have remained unchanged since 1985.

In the organised private sector, nominal wages of all employees in trades covered by Wages Boards, as measured by their Minimum Wage Rate Indices, increased by 5.4 per cent in 1986 as compared to a rise of 8.3 per cent in the previous year. Real wages, however, deteriorated by 2.4 per cent in 1986. Workers in agriculture received a nominal wage increase of 5.3 per cent, while their real wages declined by 2.4 per cent. Wages of workers in industry and commerce moved up by 10.0 per cent, as compared to 11.2 per cent growth in the previous year. Real wages of this category of workers improved by 1.8 per cent. There were no changes in the nominal wages of workers in services, which had remained unchanged since 1984. Real wages of these workers deteriorated by 7.4 per cent in 1986.

TABLE 1.27

Wage Rate Index Numbers* of Workers in Wages Boards Trades

Category	Nominal Wages			Real Wages		
	1985	1986	Percentage Change	1985	1986	Percentage Change
Overall Index ...	247.9	261.3	5.4	105.7	103.2	- 2.4
Sub-sectors:						
i. Workers in Agriculture ...	273.5	288.1	5.3	116.6	113.8	- 2.4
ii. Workers in Industry and Commerce ...	203.9	224.3	10.0	87.0	88.6	1.8
iii. Workers in Services ...	190.7	190.7	—	81.3	75.3	- 7.4

Sources: Department of Labour;
Central Bank of Sri Lanka.

* Since Wages Boards in most trades now fix only the monthly wage, indices since 1984 have been revised based on monthly wages.

¹ The Minimum Wage Rate Index Numbers for Government employees have been revised due to restructuring with January 1986 as the base. The revised data are available in Appendix Table 17. A detailed technical note in this regard has been published in the Central Bank Bulletin of February, 1987.

EMPLOYMENT

According to preliminary data, employment increased in the government sector but declined in the semi-government sector in 1986. This was similar to the experience in 1985. There were also indications that employment increased in the private sector.

Provisional estimates indicate that employment in the government sector increased by 2 per cent in 1986, compared with an estimated growth of 1.5 per cent in 1985. Employment has expanded in the areas of education, health and indigenous medicine, defence services, public administration and social services. A drop in employment was observed in the Departments of Rural Development and Buildings.

The declining trend in employment in the semi-government sector continued in 1986 as well. Employment in this sector fell by around 7 per cent in 1986 compared to a drop of 2.4 per cent in 1985. Decreases in employment were observed in the semi-government institutions involved in engineering, passenger transport, textile weaving and production of steel, mineral sands and cement. Apart from this, employment in the state plantations appears to have declined by around 9 per cent. In contrast, employment increased in institutions engaged in river valley development, port services, television and supply of common amenities.

The lack of an annual series of data on employment in the private sector and the absence of the final estimates of employment in the organised private sector for 1986 based on Employees' Provident Fund records, necessitate the use of other indicators to assess the general trends in employment in the private sector. On the basis of the Surveys of Business Activities and Planned Investment conducted by the Central Bank, employment in the private sector companies have risen by 15 per cent in 1985/86 financial year over the 1984/85 financial year. According to the same source, employment in private sector companies was estimated to have increased by 14 per cent in the 1986/87 financial year.

Enterprises coming under Greater Colombo Economic Commission (GCEC) had provided employment to 45047 persons as at the end of 1986, compared to 35,786 persons as at end of 1985. This was an increase of 9,261 persons or 26 per cent. The main reason for this was the expansion of the number of industrial units in commercial or trial production by 14 units. Out of the 95 industrial units in operation as at end of 1986, around 40 per cent come under the category of textile, wearing apparel and leather products.

The potential labour absorption in projects approved by the Foreign Investment Advisory Committee (FIAC) rose from 4,339 in 1985 to 6,854 in 1986. In addition the number of units approved by the FIAC also increased by 48 per cent in 1986. The potential employment in projects approved by the Local Investment Advisory Committee (LIAC) was also estimated to have increased by 9,659 in 1986. According to National Income Estimates, the increases in value added in secondary and tertiary sectors in 1986 compared with the previous year indicate that employment opportunities in those sectors too would have increased.