

# 4

## *PRICES, WAGES, EMPLOYMENT AND PRODUCTIVITY*

*The rate of inflation, as measured by the Colombo Consumers' Price Index (CCPI) (2006/07=100), continued to remain at single digit levels during the first nine months of 2012. Annual average inflation decelerated steadily from January to May 2012, to the level of 5.6 per cent, but reversed this trend thereafter reaching 6.5 per cent by September 2012. The year-on-year inflation declined to the lowest level of 2.7 per cent in February but increased subsequently to reach 9.1 per cent in September 2012. Improved domestic supply conditions of agricultural commodities coupled with relatively low international prices of imported items helped maintain inflation at lower levels during the first few months of the year. However, towards mid 2012, the general price level showed an increase due to the effects of the supply disruptions caused by adverse weather conditions that prevailed in major cultivation areas. Furthermore, the upward adjustment of key administratively determined prices, depreciation of the rupee against major foreign currencies and upward revisions of duty on several imported food items also contributed to the increase. Moreover, the low base that prevailed in 2011 caused inflation to rise on a year-on-year basis. Meanwhile, year-on-year core inflation followed an increasing trend, while annual average core inflation decelerated steadily during the first nine months of 2012.*

*Both the nominal and real wages of employees in the public sector, formal private sector and informal private sector increased in the first eight months of 2012 when compared to the corresponding period of the previous year. A special non-pensionable allowance equivalent to 10 per cent of the basic salary granted to public sector employees from January 2012 mainly contributed to the increase in public sector wages. There were favourable developments in the area of employment generation during the first half of the year with the rate of unemployment declining further to 3.9 per cent in the first six months of 2012 from 4.3 per cent in the first half of the previous year. Foreign employment, which continued to be a major source of foreign exchange earnings for the country, also increased significantly during the period under review.*

## Developments in 2012

### Prices

- The rate of annual average inflation, which declined to 6.5 per cent in January 2012 from 6.7 per cent in December 2011, decreased continuously thereafter reaching 5.6 per cent in May 2012. However, this trend reversed subsequently with annual average inflation increasing to 6.5 per cent in September 2012. The rate of inflation, on a year-on-year basis, declined to 2.7 per cent in February 2012, the lowest level recorded since November 2009 from 4.9 per cent in December 2011. The low inflation observed during the first few months of the year was mainly due to the decline in commodity and food prices in domestic and international markets. However, inflation increased continuously thereafter and reached a peak of 9.8 per cent in July, before declining to 9.1 per cent in September 2012. Falling food prices, mainly vegetables, turnaround sharply in May and June 2012 as a result of the damage to crops from the adverse weather conditions that prevailed in major producing areas. This had a substantial direct impact on the food sub index, which dominates in terms of its significant weight in the CCPI. Further, the upward price revision of diesel, petrol, kerosene, LP gas, wheat flour, bread and milk powder in line with price movements in international markets, also exerted upward pressure on the general price level. Subsequent revisions to bus fares and electricity charges in-line with fuel price increases contributed to the rise in inflation, with its primary and secondary impacts. Moreover, the upward duty revisions of several imported items, such as sugar, dhal, big onion, Maldive fish and garlic, as well as the depreciation of the rupee against major currencies also exerted upward pressure on inflation. However, the reduction of the price of LP gas, improved supply of vegetables and the downward adjustment of import duties pertaining to certain essential food commodities

**Table 4.1** Movements of the CCPI (2011 - 2012)

2006 / 07=100

Period	Year-on-year Change %		Annual Average Change %		
	Headline	Core	Headline	Core	
2011	January	6.2	6.5	6.1	6.8
	February	7.2	5.7	6.1	6.6
	March	7.7	6.6	6.2	6.6
	April	8.9	7.6	6.4	6.6
	May	8.2	8.4	6.6	6.9
	June	7.1	8.7	6.7	7.1
	July	7.5	8.9	7.0	7.4
	August	7.0	7.8	7.1	7.5
	September	6.4	6.9	7.2	7.6
	October	5.1	5.6	7.1	7.5
	November	4.7	4.9	6.9	7.2
	December	4.9	4.7	6.7	6.9
2012	January	3.8	4.7	6.5	6.7
	February	2.7	4.7	6.1	6.6
	March	5.5	4.9	5.9	6.5
	April	6.1	5.2	5.7	6.3
	May	7.0	4.8	5.6	6.0
	June	9.3	5.8	5.8	5.7
	July	9.8	6.0	6.0	5.5
	August	9.5	5.9	6.3	5.4
	September	9.1	6.2	6.5	5.3

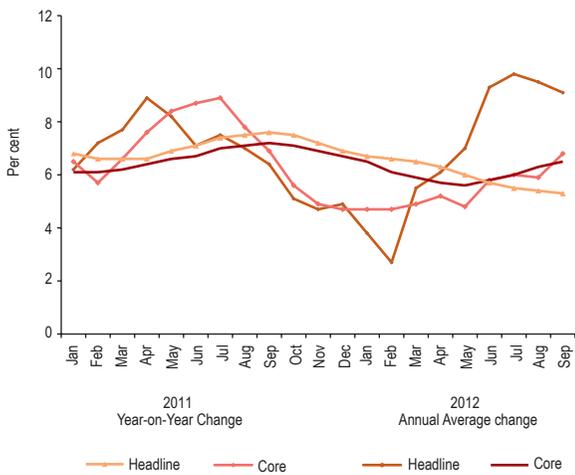
Source: Department of Census and Statistics

effective from July 2012 had a favourable impact on the general price level.

- The average price of rice remained low during the first nine months of 2012 compared to the corresponding period of 2011. This was mainly due to improved supply conditions resulting from the bumper paddy harvest of the Maha season, which recorded more than 36 per cent growth over the Maha harvest of the previous year. The availability of sufficient stocks in the market helped keep the price of rice at low levels, even prior to the commencement of the reaping the Maha harvest. Although the price of almost all varieties of rice recorded a continuous decline from January to May 2012, prices began to increase marginally from June 2012 onwards. However, the price ceiling on rice imposed by the Government since end 2010 helped contain the rise in the price of rice.
- The weighted average price of vegetables recorded a decline of about 8 per cent during the first nine months of 2012 compared to the previous year. The price of most varieties

Chart 4.1

Movements of the CCPI (2011 - 2012)



of vegetables declined substantially in February and recorded the lowest level during the period March to April due to improvements in supply conditions. However, prices surged in May and June due to adverse weather conditions that prevailed in major cultivation areas. As vegetable prices declined thereafter, the weighted average price of the vegetable sub group recorded a decline during January to September 2012.

- **The price of both coconut and coconut oil declined in the first nine months of the year compared to the same period of the previous year.** The price of coconut, which remained high in the first five months of 2012, declined significantly thereafter. Meanwhile, the price of coconut oil remained at a low level during the first four months before increasing significantly in May 2012, although dropping sharply from July 2012. The net impact of these price movements was a decline in the price of both coconut and coconut oil, on average, by 24.5 per cent and 28.1 per cent, respectively, in the first nine months of 2012 compared to the corresponding period of the previous year.
- **Although the production of fish and seafood recorded a growth of over 10 per cent during the first nine months of the year, the weighted average price increased by 13.5 per cent in the**

**first nine months of 2012 compared to the corresponding period of 2011.** However, the weighted average price of both large and small fish was low during the period from February to April due to seasonal factors. Meanwhile, the price of all varieties of dried fish increased during the reference period in line with the increase in fish prices. In contrast, the price of eggs dropped significantly, by 14.2 per cent, in the first nine months of 2012 compared to the same period of 2011 mainly due to the improvement in local production.

- **The upward price revision to fuel, LP gas and electricity charges during the first half of 2012 also had a significant impact on the CCPI, both directly and indirectly.** The price of diesel, petrol and kerosene were revised upward by Rs. 31, Rs. 12 and Rs. 35 per litre, respectively, with effect from 12 February 2012. These price revisions raised the price of diesel, petrol and kerosene significantly by 36.9 per cent, 8.8 per cent and 49.3 per cent, respectively. Consequently, the Lanka Indian Oil Company (LIOC) increased the price of diesel by Rs. 2 per litre with effect from 01 June 2012. Bus fares were also increased by 20 per cent with effect from 14 February 2012 in accordance with fuel price revisions. Meanwhile, the price of a 12.5 kg cylinder of LP gas of both Litro and Laugfs was increased by Rs. 350 (17.1 per cent) with effect from 05 May 2012. However, the price of both Litro and Laugfs gas was reduced by Rs. 150 (6.3 per cent) with effect from 14 July 2012 in line with the decline in international gas prices. The overall impact of the above price revisions was an increase in the average price of LP gas by 9.8 per cent from January to July 2012. Further, the fuel adjustment charge, within the range of 25-40 per cent, imposed on electricity bills with effect from 16 February 2012 also drove headline inflation upward. Accordingly, in addition to the direct impact, the aforesaid price revisions also had an indirect impact on retail prices of commodities and thereby on the CCPI through

an increase in input costs and transportation costs.

- **Domestic prices of several food commodities, particularly of imported items, were revised upward by the Government during the first six months of 2012, mostly in line with their price increases in the international market.** The increase in the price of wheat flour by Rs. 8.50 per kg with effect from 26 April 2012 led to an increase in the price of a 450g loaf of bread by Rs. 3 with effect from 30 April 2012. Prior to the aforesaid price revision, the price of a loaf of bread was increased by Rs. 5 with effect from 25 February 2012. Meanwhile, the maximum selling price of a 400g packet of milk powder was increased by Rs. 61 with effect from 05 May 2012, which resulted in the weighted average price of milk powder increasing by 18.6 per cent during the first nine months of 2012 compared to the corresponding period of the previous year. Further, the depreciation of the rupee by around 12 per cent against the US dollar during the period ending September 2012 also exerted considerable pressure on the CCPI.
- **Revisions to the Special Commodity Levy (SCL) pertaining to several imported food items during the first nine months of the year also had an impact on the CCPI.** The SCL on dhal, garlic, sugar and big onion was increased on several occasions from January to June 2012, while that on big onion, potato, canned fish, dried fish and sprats was reduced from July 2012. However, the SCL on potato and canned fish was increased again in September 2012.
- **The contribution of the non-food category to inflation during January to September 2012 was greater than that of the food category.** The contribution of the non-food category to annual average inflation continued on an increasing path from January to August but decreased in September 2012. Of the non-food category,

Transport; and Housing, Water, Electricity, Gas and other fuel sub-categories contributed substantially to annual average inflation.

- **Core inflation declined continuously on an annual average basis from 6.9 per cent in December 2011 to 5.3 per cent in September 2012, while, it increased year-on-year basis from 4.7 per cent in December 2011 to 6.2 per cent in September 2012, albeit with some volatility.**

### **Wages**

- **The wages of public sector employees increased by 6.9 per cent in nominal terms in the first eight months of 2012 compared to that of the first eight months of 2011.** This increase was mainly attributed to the special non-pensionable allowance equivalent to 10 per cent of the basic salary granted to the public sector employees, whose initial salary scale was below Rs. 22,935, with effect from January 2012. There was no change in the monthly Cost of Living Allowance (COLA) payable to the public sector employees during the reference period. Accordingly, the nominal wage rate indices of non-executive officers, minor employees and government school teachers rose on average, by 7 per cent, 6.7 per cent and 6.9 per cent, respectively, during the first eight months of 2012 compared to the levels that prevailed in the comparable period of the previous year.
- **Meanwhile, the overall real wages of public sector employees increased marginally by 0.2 per cent during the first eight months of 2012.** Real wages of non-executive officers, minor employees and government school teachers increased by 0.3 per cent, 0.1 per cent and 0.2 per cent, respectively, during the first eight months of 2012.
- **Nominal wages of the formal private sector, as measured by the minimum wage rate indices of employees, whose wages are administered**

by regulations under the Wages Boards, increased by 24.7 per cent in the first eight months of 2012, in nominal terms, over the corresponding period of 2011. This higher increase in the overall nominal wage rate index was solely due to the revision in the minimum wages of workers in the Agriculture sector, with effect from December 2011. Accordingly, the minimum wage rate index of the employees in the Agriculture sector increased in nominal terms by 32.8 per cent in the first eight months of 2012 compared to the corresponding period of the previous year, while that of the employees in the Industry and Commerce sector and the Services sector recorded no change during this period.

- When the increase in minimum wage rates are adjusted for inflation, on the basis of the CCPI, employees in the formal private sector enjoyed an overall increase of 16.9 per cent in their real wages during the first eight months of 2012, compared to the corresponding period of 2011. This was purely due to the increase in wages of Agriculture sector employees who enjoyed a real wage increase of 24.6 per cent. Real wages of employees of the Industry and Commerce sector, and Services sector declined by 6.2 per cent each, during the period under review.
- The information on the daily wages collected on major economic activities revealed that the informal private sector wages in the Agriculture and Construction sectors increased by 17.3 per cent and 10 per cent, respectively, in nominal terms, during the first eight months of 2012 compared with the same period of 2011. Nominal wages in the informal private sector are determined in a more market oriented environment than the formal private sector. The increase in wages in the formal private sector, particularly the plantation sector, tend to push up wages for similar activities in the informal private sector as well. Average daily wages in the Paddy,

Coconut, Rubber and Tea sub sectors increased by 12.6 per cent, 13.4 per cent, 14.3 per cent and 13.9 per cent, respectively, in the first eight months of 2012 compared to the corresponding period of the previous year. Meanwhile, average daily wages of carpenters and masons in the Construction sector also recorded increases of 10.1 per cent and 9.9 per cent, respectively, compared to the corresponding period of the previous year.

- An increase in real wages of employees in all sub-categories of the informal Agriculture and Construction sectors was also observed during the first eight months of 2012 compared to the corresponding period of the previous year. Accordingly, daily real wages of sub categories of Paddy, Coconut, Rubber and Tea in the Agriculture sector, on average, increased by 5.6 per cent, 6.3 per cent, 7 per cent and 6.7 per cent, respectively, in the first eight months of 2012 compared to the corresponding period of the previous year. Meanwhile, wages of carpenters and masons in the Construction sector recorded increases of 3.2 per cent and 2.9 per cent, respectively, in real terms during the period under review.

## Employment

- According to the Quarterly Labour Force Survey (QLFS) conducted by the DCS, the total labour force (excluding the Northern Province) declined by 3.7 per cent to 7.92 million in the first half of 2012 compared to 8.22 million in the corresponding period of the last year.<sup>1</sup> The labour force participation rate declined to 46.8 per cent in the first half of 2012 compared to 48.2 per cent in the corresponding period, last year. The male labour force participation recorded a marginal increase while female labour force participation dropped.

<sup>1</sup> Since QLFS was not conducted for the first quarter 2012, the data for the first half of 2012 is based on the QLFS conducted in the second quarter 2012.

**Table 4.2**

**Labour Force, Employment and Unemployment (a)**

Item	2010	2011			2012 (b)	
		Year	H1	H2	H1	Projections <sup>(b)</sup>
Household Population ' 000 ( Age 10 years and above )	16,862	17,088	17,070	17,126	16,905	17,096
Labour Force, ' 000	8,108	8,236	8,221	8,266	7,917	8,238
Employed, ' 000	7,707	7,894	7,871	7,943	7,610	7,911
Unemployed, ' 000	401	342	351	323	307	327
Labour Force Participation Rate (% of Household Population)	48.1	48.2	48.2	48.3	46.8	48.2
Unemployment Rate (% of Labour Force)	4.9	4.2	4.3	3.9	3.9	4.0

Sources : Department of Census and Statistics  
Central Bank of Sri Lanka

(a) Excluding Northern Province  
(b) Provisional

- According to the DCS, the number of employed persons declined by 3.3 per cent to 7.61 million in the first half of 2012 compared to 7.87 million during the same period of the previous year. The composition of employed population, among the major industry groups recorded a noticeable change in the first half of 2012, with a significant increase in the share of the Industry sector from 24.3 per cent to 26.9 per cent. Improving its dominance further in creating employment opportunities in the domestic labour market, employment in the Services sector increased marginally from 42.7 per cent to 43 per cent, compared to same period of 2011. Meanwhile, a noticeable decline in the employment share of the Agriculture sector from 33 per cent to 30.1 per cent was observed between the two corresponding periods.
- In terms of employment status, the share of the private sector and self employed persons recorded an increase whereas the share of employers and unpaid family workers declined.<sup>2</sup> Meanwhile, the share in the public sector remained at the same level as the previous

year. However, the private sector contributed the most to the share of employed persons accounting for 42 per cent of the labour force reflecting its dominance in the labour market as public sector employees accounted for only 14 per cent of the labour force.

- During the first half of 2012, the unemployment rate declined significantly to 3.9 per cent, which is the lowest rate recorded since the inception of the QLFS, from 4.3 per cent in the corresponding period of the last year. The total number unemployed was estimated at 307,000 for the first half of 2012, compared to 351,000 recorded in the corresponding period of last year. However, male unemployment increased marginally to 3 per cent from 2.9 per cent in the corresponding period of 2011 while female unemployment declined appreciably to 5.7 per cent from 6.9 per cent in the first half of 2011.
- There was a significant increase in unemployment among persons in age group between 15-19 years from 15.5 per cent in the first half of 2011 to 18.7 per cent in the first half of 2012, which is relatively high when compared to the overall level of unemployment in the first half of 2012. Unemployment among

<sup>2</sup> Private sector includes both the formal and informal private sector employees

the other age groups recorded declines in the first half of 2012 compared to the same period of the last year. In terms of level of education, unemployment among more educated categories (GCE A/L and above) recorded a decline to 8.4 per cent in the reference period from 8.9 per cent in the same period of 2011.

- **Overseas job opportunities for Sri Lankans continued to be a vital source of employment.**

The total number of departures for foreign employment in the first half of 2012 increased by 7.7 per cent to 136,245 from 126,520 during the corresponding period of 2011. The increase in departures for overseas employment was observed in housemaids, clerical & related employees, middle level and professional categories. However, a decline in departures was observed in skilled labour, unskilled labour and semi-skilled labour categories in the first half of 2012 compared to the corresponding period in the previous year. Meanwhile, foreign employment continued to be an important and stable source of foreign exchange inflows to the country. Total foreign remittances received from migrant workers from January to August 2012, increased by 15.6 per cent to US dollars 3,907 million.

- **There was a remarkable decline in the number of man days lost on account of private sector strikes during the first half of 2012 compared to the corresponding period of the previous year, which is a welcome development.** Accordingly, total man-days lost declined substantially to 7,290 in the first half of 2012 compared to 16,187 in the same period of last year. The number of workers involved in strikes too declined to 3,145 in the first half of 2012 from 3,311 reported in the same period in 2011. It should be noted that these improvements in private sector strikes took place in spite of the number of strikes increasing marginally to 10 from 9 during the period under review. This improvement was mainly due to

the better performance of labour relations in the rest of the private sector, which represents industries other than those in the plantation sector. Accordingly, the rest of the private sector reported a significant decrease of man-days lost to 1,933 in the first half of 2012 compared to 13,053 reported in the corresponding period of the previous year. The number of workers involved in strikes in this sector too declined appreciably to 1,211 from 2,772 during the period under review. The number of strikes in the plantation sector increased to 7 compared to 5 in the corresponding period of the previous year, mainly due to the engagement of plantation workers in an industrial action during the reference period. Accordingly, in the plantation sector, workers involved in strikes increased from 539 to 1,934 and the man-days lost increased from 3,134 to 5,357 between the two periods under review. Continuation of collective agreements between employers and trade unions, strengthened industrial harmony through better relationships among tri-partite bodies led to the dramatic reduction in the total man-days lost in the private sector during the reference period.

## **Prospects for 2013**

### **Prices**

- **Inflation is likely to moderate in the balance period of 2012 and is forecast to stabilise at single digit levels during 2013.** Monetary policy actions to maintain monetary growth at sustainable levels supplemented by fiscal policies and continuing actions to strengthen domestic supply conditions would be instrumental in lowering inflation. However, the likely threat of a rise in international commodity prices including crude oil prices, which however is expected to be less volatile, are some areas of concern. On the other hand, any crop failure due to adverse weather conditions both locally and abroad could have an adverse impact on food prices.

## **Wages**

- **Any upward adjustment to wages without a corresponding increase in productivity could lead to an upside risk to inflation.** If wage increases outstrip productivity improvements this could lead to cost push inflation. Therefore, any wage adjustment should be in-line with productivity increases, to prevent the emergence of wage induced inflationary pressures.

## **Unemployment**

- **The unemployment rate is expected to increase slightly during the balance period of the year due to the setback in agricultural activities resulting from adverse weather conditions.** With the ongoing infrastructure development and agriculture projects, increased level of livelihood activity, particularly in the North and East a notable increase in self employment opportunities is expected in 2013. Further expansion of tourism is likely to generate both direct and indirect employment opportunities in the Services sector. The projected expansion in the economy and the full implementation of new infrastructure development projects proposed by the government are expected to further enhance employment opportunities in the domestic economy.
- **National action plans are needed to create a pathway for youths to become growth drivers and value creators.** A main focus on improving tertiary education, vocational training and

technical skills earmarking the country specific requirements within the educational curriculum will be crucial to support growth prospects. In this respect, it is important to make education more job oriented, particularly secondary education, with a view to creating a smart and flexible workforce in the future. This would enable students completing secondary school and those graduating from universities to be swiftly absorbed into suitable employment opportunities by reducing their waiting time for jobs. This will help increase labour force participation as well.

## **Productivity**

- **Improvements in labour productivity have contributed to the broad based growth in the economy.** Increasing labour productivity is of paramount importance to sustaining a high economic growth over the medium and long term. The rapid expansion in economic activity and employment opportunities has resulted in a gradual tightening of the labour market. To sustain a high growth momentum it would be necessary to improve the productivity of labour in all sectors of the economy by increasing the application of modern technologies, particularly in the area of information technology (IT), and by modernising production processes. In addition, skills development through training and on-the-job experience would also be needed to enhance the productivity of the labour force and to ensure that skills are matched with available job opportunities.