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## *PRICES, WAGES, EMPLOYMENT AND PRODUCTIVITY*

*Inflation and inflation expectations remained subdued during the first nine months of 2013. The rate of inflation, as measured by the Colombo Consumers' Price Index (CCPI) (2006/07=100), was contained at single digit levels, on a year-on-year and annual average basis, for over 50 consecutive months. Inflation during the initial months of the year, however, remained elevated albeit at single digit levels due to disruptions to domestic agricultural production caused by adverse weather conditions in major cultivation areas, upward revisions of key administratively determined prices and the low base in 2012. Inflation eased thereafter, with the improvement in domestic supply conditions of agricultural products and more favourable commodity prices in the international market. Inflation is expected to remain at benign single digit levels during the balance period of the year. Core inflation, which was maintained at desired levels, reached a record low of 3.0 per cent, on a year-on-year basis, in September 2013.*

*Nominal wages of employees of the public sector, formal private sector and informal private sector increased during the first eight months of 2013 compared to the corresponding period of the previous year. Real wages of informal private sector employees increased while those of public sector employees and formal private sector employees decreased marginally during the reference period. There were favourable developments in the areas of labour force participation and employment generation. The rate of unemployment increased to 4.5 per cent during the first half of 2013 from 3.9 per cent during the corresponding period of 2012. Foreign employment continued its steady increase during the first half of the year.*

## Developments in 2013

### Prices

- Annual average inflation continued to follow a declining trend since June 2013. It increased to 8.8 per cent in March 2013 from 7.6 per cent in December 2012 and stabilised at the same level for three months ending May 2013. Thereafter, it began to decline reaching 7.8 per cent in September 2013. Year-on-year inflation has remained within single digit levels over the past four and a half years, although it increased to 9.8 per cent in January 2013 from 9.2 per cent in December 2012. It remained unchanged at the same level in February as well. Relatively high inflation observed during the first two months of the year was due to an increase in the price of agricultural commodities as a result of the adverse weather conditions that had prevailed in major cultivation areas since mid December 2012, revisions to administratively determined prices and the base effect. Thereafter, it decelerated significantly to reach 6.4 per cent in April 2013, in line with the improvements in supply during the Maha harvest along with the moderation of some commodity prices in international markets. However, year-on-year inflation increased to 7.3 per cent in May 2013 mainly on account of the one-off impact of the upward revision to electricity tariffs, which were effective from 20 April 2013. Moreover, the upward duty revision imposed on several imported items, such as big onions, potatoes, dairy products, sugar and automobile spare parts had some bearing on the CCPI, although the impact was marginal. Subsequently, in line with the improvements in supply conditions, year-on-year inflation followed a declining trend to reach 6.2 per cent in September 2013.
- The average price of rice recorded a moderate increase during the first nine months of 2013 compared to the corresponding period of 2012. The increase in the price of rice was mainly

due to the comparatively low paddy harvest in the 2013 Maha season against the bumper paddy harvest in the Maha season of the previous year and an increase in the guaranteed price of paddy purchased by the government in accordance with the budget proposals for 2013. However, the price of all varieties of rice had decelerated from August 2013 with the arrival of the Yala harvest to the market and recorded the lowest level in September 2013. Overall, the availability of sufficient stocks in the market and the price ceiling on rice imposed by the government since end 2010 caused the average price of rice to record a moderate increase during the reference period.

- During the first nine months of 2013, the weighted average price of vegetables increased when compared to the corresponding period of the previous year. The price of almost all varieties of vegetables remained high during the period January to February 2013 due to weather related damage to crops and supply disturbances

**Table 4.1** Movements of the CCPI ( 2012 - 2013 )

		2006/07=100			
Period		Year-on-year Change %		Annual Average Change %	
		Headline	Core	Headline	Core
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
	October	8.9	6.8	6.8	5.4
	November	9.5	7.2	7.2	5.6
	December	9.2	7.6	7.6	5.8
2013	January	9.8	7.3	8.1	6.1
	February	9.8	7.4	8.6	6.3
	March	7.5	6.8	8.8	6.4
	April	6.4	6.1	8.8	6.5
	May	7.3	5.7	8.8	6.6
	June	6.8	4.3	8.6	6.4
	July	6.1	3.1	8.3	6.2
	August	6.3	3.1	8.0	5.9
	September	6.2	3.0	7.8	5.7

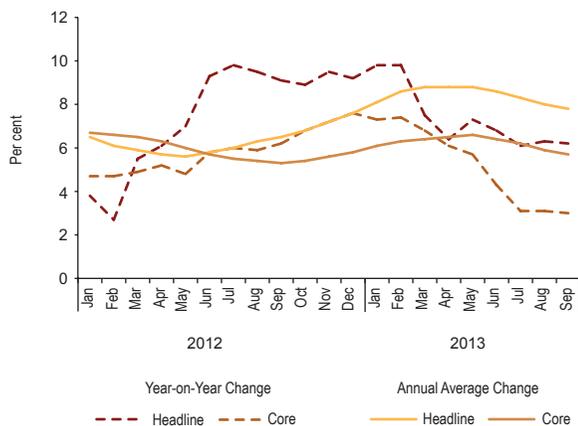
Source: Department of Census and Statistics

caused by heavy rains. However, with the improvements in supply, the price of vegetables have started to decline from March and reached the lowest level in April 2013. Prices surged from May onwards, due to unfavourable weather conditions, recording a sharp increase in June. This upward trend has reversed in August 2013 with the arrival of the Yala harvest to the market. Consequently, the weighted average price of the vegetable sub group had declined by 8.8 per cent by September compared to that in January 2013.

- **The average price of both coconuts and coconut oil increased during the first nine months of the year compared to the corresponding period of the previous year.** The price of coconuts was relatively low in January and February 2013. However, it increased thereafter, with some fluctuations and reached a peak level in June 2013, due to low production. Meanwhile, the price of coconut oil also followed almost a similar trend, but with lower intensity. The overall outcome of these price movements was an increase in the average price of both coconut and coconut oil by 20.4 per cent and 14.3 per cent, respectively, during the first nine months of 2013 compared to the corresponding period of the previous year.

- **The weighted average price of fresh fish and seafood increased marginally by 0.4 per cent during the first nine months of 2013 compared to the corresponding period of the last year.** The price of both large and small fish remained low during the period from February to April 2013, due to seasonal factors. The price of fish has increased thereafter, owing to bad weather conditions that prevailed in the coastal areas, especially in June 2013. The increase in the price of dried fish was significant from January to February 2013. However, the price has remained stable from March onwards. As a result, the weighted average price of dried fish increased substantially during the first nine months of 2013. A considerable rise in the price of dried sprats on account of low domestic supply, largely contributed to the overall increase in the price of dried fish. Similarly, the price of eggs increased significantly by 33.5 per cent during the first nine months of 2013 compared to the corresponding period of 2012, reflecting some substitution effect, low production and high cost of production of eggs.
- **The upward price revision of fuel, LP gas and electricity tariffs had a significant impact on the CCPI, both directly and indirectly.** The import price of crude oil was volatile and fluctuated between US dollars 103.69 and US dollars 113.48 during the first nine months of the year. The accumulated losses of the Ceylon Petroleum Corporation (CPC) necessitated an upward adjustment of the domestic retail price of diesel and petrol by Rs. 6 and Rs. 3, per litre, respectively, with effect from 23 February 2013. The price revision resulted in an increase in the average price of diesel and petrol by 5.2 per cent and 1.9 per cent, respectively. Meanwhile, the price of a 12.5 kg cylinder of LP gas of both Litro and Laugfs was increased by Rs. 150 with effect from 06 January 2013. Moreover, the tariff structure of electricity charges was revised upward from 20 April 2013. As a result, the expenditure on electricity in the CCPI increased

**Chart 4.1** Movements of the CCPI (2012-2013)



by 57.3 per cent. Reflecting the indirect impact of these price revisions, the price of prepared food also increased by 6.4 per cent during the first nine months of 2013 compared to the corresponding period of the previous year.

- **The movement of the domestic price of several food commodities, particularly of imported items, was mixed during the first nine months of 2013 in line with the price movements in international markets.** Consequently, the average price of wheat flour, milk powder, dhal and sugar increased, by 10.2 per cent, 11.7 per cent, 8.4 per cent and 2.5 per cent, respectively, during the first nine months of 2013 compared to the corresponding period of the previous year. Upward revision of the Special Commodity Levy (SCL) imposed on several imported items during the first nine months of the year also had an impact on the CCPI. The impact came from the revision of the SCL on potatoes, big onions, palm oil, vegetable oil, dairy products (including cheese, butter and yoghurt), sugar and motor vehicle spare parts and tyres (except of buses, three-wheelers and motor bicycles) during the period from January to September 2013.
- **During the period January to April 2013, food mainly contributed to increase in year-on-year inflation, while non-food items mainly contributed to the increase in year-on-year inflation during the period May to September 2013.** Conversely, during the first four months of the year, the contribution of the non-food category to annual average inflation was greater than the food category, while that of the food category was more than the non-food category from May to September 2013. Among all sub categories in the non-food category, Housing, Water, Electricity, Gas and other fuel; and Transport sub categories, bearing higher weights in the CCPI, contributed significantly to annual average inflation. However, the Communication sub category remained unchanged during the period under review.

- **Core inflation continued to move on a declining path, indicating well contained demand driven inflationary pressures.** Annual average core inflation, which increased gradually from 6.1 per cent in January to 6.6 per cent in May 2013 decelerated thereafter, to reach 5.7 per cent in September 2013. Although year-on-year core inflation increased marginally from 7.3 per cent in January 2013 to 7.4 per cent in February, it decelerated thereafter to a record low of 3.0 per cent in September 2013, reflecting the effectiveness of prudent monetary policy measures adopted by the Central Bank.

### Wages

- **The wage rate indices of public sector employees increased by 4.1 per cent in nominal terms during the first eight months of 2013 compared to the corresponding period of 2012.** This increase was mainly due to the upward revision of Rs. 750 in the monthly Cost of Living Allowance (COLA) payable to public sector employees with effect from January 2013 and the enhancement of the special non-pensionable allowance by 2.5 per cent of the monthly basic salary with effect from May 2013. As a result, the monthly COLA payable to Public Sector employees increased from Rs. 5,850 to Rs. 6,600 while the special non-pensionable allowance of those employees whose initial monthly salary was less than Rs. 22,935 was increased by 2.5 per cent to 17.5 per cent of the basic salary. Accordingly, the nominal wage rate indices of non-executive officers, minor employees and government school teachers rose by 3.9 per cent, 4.2 per cent and 4.0 per cent, respectively, during the first eight months of 2013 compared to that prevailed during the corresponding period of the previous year.
- **Overall real wages of public sector employees decreased by 3.4 per cent, during the first eight months of 2013, since the nominal**

wage increases were more than offset by the increase in the general price level. Real wages of non-executive officers, minor employees and government school teachers decreased by 3.5 per cent, 3.2 per cent and 3.4 per cent, respectively, during the first eight months of 2013 compared to the corresponding period 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 5.1 per cent during the first eight months of 2013 over the corresponding period of 2012.** This increase in the overall nominal wage rate index was mainly due to the significant increase in the minimum daily wages of workers in several sub-sectors in the Industry and Commerce, and Services sectors. As a result, the minimum wage rate indices of employees in the Industry and Commerce sector and the Services sector increased significantly by 29.5 per cent and 19.1 per cent, respectively, while the minimum wage rate indices of employees in the Agriculture sector increased marginally by 0.1 per cent during the first eight months of 2013 compared to the corresponding period of 2012.
- **The real wages of workers in formal private sector increased during the first eight months of 2013.** This was entirely due to the increase in wages of Industry and Commerce sector, and Services sector employees who enjoyed a real wage increase of 20.3 per cent and 10.7 per cent, respectively. However, real wages of employees in the Agriculture sector suffered a real wage decline of 7.0 per cent during the period under review.
- **Information on daily wages, relating to major economic activities revealed that wages in the informal private sector increased by 13.3 per cent in nominal terms during the first eight months of 2013 compared to the same period in 2012.** Nominal wages of both Agriculture

and Construction sectors increased by 13.5 per cent and 9.2 per cent, respectively, during the first eight months of 2013. Within the Agriculture sector, average daily wages in rubber, paddy, coconut and tea sub sectors increased by 15.3 per cent, 15.2 per cent, 15.1 per cent and 9.9 per cent, respectively. Meanwhile, average daily wages of masons and carpenters in the Construction sector also recorded increases of 9.4 per cent and 9.1 per cent, respectively, during the period under review.

- **Real wages of employees in all sub categories of the informal private sector also increased during the first eight months of 2013.** Daily real wages in the rubber, paddy, coconut and tea sub sectors in the Agriculture sector recorded increases of 7.3 per cent, 7.2 per cent, 7.1 per cent and 2.3 per cent, respectively. In addition, the masonry and carpentry sub sectors in the Construction sector also increased by 1.8 per cent and 1.5 per cent, respectively, in real terms, during the reference period.

## Employment

- **According to the Quarterly Labour Force Survey (QLFS) covering the entire island conducted by the Department of Census and Statistics (DCS), the total labour force increased significantly by 7.4 per cent to 8.864 million during the first half of 2013 compared to 8.254 million in the corresponding period of the previous year.<sup>1</sup>** The labour force, which consists of employed and unemployed persons, is defined as the economically active population aged 15 years and above.<sup>2</sup> The increase in the labour force during the reference period was a combined outcome of the increase in the number of

1 Since QLFS was not conducted for the first quarter 2012, the data referred to for the first half of 2012 is based on the QLFS conducted during second quarter 2012.

2 The working age population referred to in the report consists of the 'household population aged 15 years and above'. The labour force data for 2012 is produced on the same basis, for comparison purpose.

employed and unemployed persons. A shifting of population from the economically inactive category to the economically active category, due to the entrance of rural sector females and full time students to the labour force, contributed to this increase. This move could be considered a welcome development in the labour market, as it would help keep wage pressures contained while meeting the increasing demand for labour, in a growing economy.

- **The labour force participation rate (LFPR)<sup>3</sup> also increased to 54.2 per cent during the first half of 2013 compared to 51.5 per cent during the corresponding period of the previous year.** The increase was mainly due to the relatively high increase in the female LFPR, which increased to 35.9 per cent during the first half of 2013 from 31.4 per cent during the same period of 2012. An increase in female labour force participation from the rural sector mainly contributed to this increase. The male LFPR marginally increased to 75.3 per cent although it continued to be more than double the female rate.
- **According to DCS, the number of employed persons increased by 6.7 per cent to 8.46 million during the first half of 2013 compared to 7.93 million during the same period of the previous year.** All three major sectors, namely, Agriculture, Industry and Services contributed to this increase. The Services sector, which made the largest contribution to the overall growth of the economy during the last few years, was the main contributor to the total increase in employment during the first six months of 2013. Meanwhile, the composition of employed population among the major industry groups remained almost unchanged during the first half of 2013.<sup>4</sup> The number of employees in the Services sector

increased by 300,494 raising its share from 42.8 per cent during the first half of 2013 to 43.6 per cent during the same period of 2012. Despite the increase in the number of employees, the relative share of Agriculture and Industry in total employment declined marginally. Accordingly, the share of the Agriculture sector in total employment decreased from 30.3 per cent to 29.9 per cent and the share of the Industry sector from 26.9 per cent to 26.5 per cent, between the two corresponding periods.

- **In terms of employment status, the number of employees in all categories of employment, namely, public sector, private sector, employers, self-employed and unpaid family workers increased.** Both the number and the share of employers and unpaid family workers increased during the first half of 2013 compared to the same period of the previous year. Accordingly, their share in total employment increased to 3.2 per cent and 9.7 per cent, respectively, during the first six months of 2013 from 2.5 per cent and 8.1 per cent during the corresponding period of the previous year. The increase in employers, recorded the highest growth of 35 per cent among all employment categories, reflecting the expansion in economic activity. The highest increase in the number of employees was recorded in the category of unpaid family workers. Although the number of employees in the private sector and self-employed persons increased, their relative shares declined to 40.7 per cent and 32.1 per cent, respectively during the first half of 2013. However, these two categories continued to provide the highest number of employees to the labour market. The private sector contributed the most to the share of employed persons as a single category, reflecting its dominance in the labour market. Despite the increase in the number of employees in the public sector, its share in total employment remained at the same level of 14.3 per cent, as in the previous year.

3 The ratio of the labour force to total household population aged 15 years and above

4 Industry coding and occupational coding are based on the International Standard Industrial Classification (ISIC) Revision 4 and International Standard Classification of Occupations (ISCO) 2008, respectively.

Table 4.2

## Labour Force, Employment and Unemployment

Item	2012			2013 (b)	
	Year	H1(a)	H2	H1	Projections
Household Population ' 000 ( Age 15 years and above )	16,067	16,022	16,111	16,357	16,521
Labour Force, ' 000	8,404	8,254	8,554	8,864	8,941
Employed, ' 000	8,071	7,930	8,213	8,463	8,553
Unemployed, ' 000	333	324	342	401	388
Labour Force Participation Rate (% of Household Population)	52.3	51.5	53.1	54.2	54.1
Unemployment Rate (% of Labour Force)	4.0	3.9	4.0	4.5	4.3

(a) Represents the Q2 of QLFS, since the Q1 in 2012 was not conducted by the DCS  
(b) Provisional

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

- During the first half of 2013, the unemployment rate increased to 4.5 per cent, from 3.9 per cent during the corresponding period of the previous year. The total number unemployed was estimated at 401,000 for the first half of 2013, compared to 324,000 recorded during the corresponding period of the previous year. An increase in female unemployed persons mainly contributed to this increase. Female unemployment increased to 7.0 per cent during the first half of 2013 from 5.9 per cent during the same period of 2012. Meanwhile, the male unemployment rate also increased marginally to 3.2 per cent during the first half of 2013 from 3.0 per cent during the first half of 2012.
- There was an increase in the rate of unemployment in all age groups, except among persons between 25-29 years, which recorded a marginal decline during the first half of 2013. The rate of unemployment was more acute among persons in the age group of 20-24 years at 20.3 per cent during the first half of 2013. The second highest unemployment rate of 19.4 per cent was reported in the 15-19 age bracket. In terms of the level of education, the highest rate of unemployment was reported among persons with GCE Advanced Level and higher education qualifications (9.7 per cent) followed by those with GCE Ordinary Level (5.7 per cent) and those completing grades 6-10 (3.5 per cent). The high rate of unemployment among the more educated category was partly due to an increase in interest among students pursuing higher studies to engage in economic activity. In addition, the mismatch between the availability of jobs and aspirations also may have caused an increase in unemployment among the more educated.
- Foreign employment has continued to record a steady increase over the years contributing to foreign exchange earnings and reducing the pressure on labour market. Departures for foreign employment increased significantly by 7.7 per cent to 150,408 during the first half of 2013 compared to 139,685 during the same period of the last year. This is the highest number of departures recorded during the corresponding period in recent years. A shift of the migrant labour force from unskilled category to semi-skilled and skilled categories was evident in the composition of departures during the first half of 2013.
- An increase in departures for overseas employment was observed in the categories of clerical and related, skilled categories, middle level, unskilled labour and professionals. Clerical and related services, middle level and skilled labour categories reported remarkable

increases in departures while unskilled labour and professional categories reported moderate increases. However, a decrease in departures was observed in housemaids and semi-skilled labour categories during the first half of 2013 compared to the corresponding period of the previous year. The departures of housemaids decreased notably by 9.5 per cent to 54,754 during the first half of 2013 compared to 60,479 in the corresponding period of the previous year. This decline is mainly attributable to the increase in the minimum age limit and the imposition of new procedural requirements for female workers leaving for foreign employment as housemaids. As a result, the share of housemaids in total migrants decreased to 36 per cent during the first half of 2013 from 43 per cent in the corresponding period of the previous year. In terms of the gender composition of the migrant labour force, male departures increased significantly by 22.4 per cent recording a share of 56.8 per cent of total departures for foreign employment while female departures declined by 7 per cent during the period under review. The programmes conducted by the authorities to improve awareness and technical know-how of male-skilled labour categories led to more job opportunities being created for males.

- **The total number of strikes and workers involved in the strikes in private sector declined during the first half of 2013 due to improved labour relations.** Sectors, other than the plantation sector, recorded a decrease in the number of strikes and workers involved in these strikes to 12 and 3,808, respectively during the first half of 2013. In the plantation sector, the number of strikes remained unchanged at 10 as in the previous year, while the number of workers involved in strikes increased marginally. However, the total number of man days lost increased significantly due to the prolonged nature of some strikes that occurred during the

period under review. The occurrence of trade union action in the private sector was mainly due to disputes among employees over the non-adherence to service conditions imposed by employers and salary related matters. However, the resolution of labour issues at an early stage without allowing them to grow into trade union action has contributed positively towards industrial harmony.

## Prospects for 2014

### Prices

- **In line with the expected economic growth and favourable developments in the monetary sector, inflation is projected to remain contained at a benign single digit levels during the remainder of 2013 and in 2014.** The low level of inflation would be supported by supply side improvements, from both domestic and international fronts, subdued demand driven inflationary pressures and expected exchange rate stabilisation. At present, inflation expectations are well anchored and expected to contribute positively towards achieving low inflation in 2014 as well.
- **However, some upside risks to inflation also exist.** Increasing unrest and geopolitical tensions in the Middle East and North Africa raise concerns over risks of a spike in oil prices. Such price increases would adversely affect domestic prices, both directly and indirectly. The growth outlook for emerging and developing economies and expected increase in demand from advanced economies with their recovery could also exert some upward pressure on prices. Prudent management of aggregate demand and inflation expectations together with supply side improvements would be instrumental in containing domestic inflation.

## Wages

- **Any upward revision of wages, without a corresponding improvement in productivity could create additional price pressure, from both demand and supply sides.** Such an increase would have a greater impact on the cost of production leading to the erosion of the country's international competitiveness while threatening long term development prospects. Further, an increase in wages of public sector employees could have contagion effects on private sector wages. A more productivity-oriented wage determination process would help minimise possible wage-price spirals.

## Unemployment

- **Anticipated economic expansion is expected to create new job opportunities, helping to maintain the unemployment rate close to its recent average.** As the economy is expected to continue to expand as a result of improved investor confidence and an increase in investments, unemployment is expected to remain at low levels in the future as well. The continuation of reconstruction work in the Northern and Eastern provinces and infrastructure projects including mega projects throughout the country would result in continued employment generation, across all the sectors in the economy. With the government's focus on improving tourism and measures taken in this regard, the hospitality sector is expected to further generate a multiplier effects including creating further job opportunities in the economy. However, any weakening of the global economy could have an adverse impact on employment generation.
- **Youth unemployment in Sri Lanka continues to decline.** The highest unemployment rate is found among those with GCE Advanced Level and above education qualifications. As the rate

of unemployment among educated females is more acute, one of the biggest challenges facing Sri Lanka is to improve women's employment opportunities and their participation in the labour force.

- **As high youth unemployment may be largely due to skills mismatch, employable skills need to be improved to address the mismatch between job aspirations and job availability.** In this respect, skill development policies may be directed to improve vocational and innovation skills, technological know-how, investment in research and development, infrastructure facilities and institutional and financial support for young entrepreneurs. Creating an environment to transform youth into fully-fledged business professionals who are ready to take on a challenging business needs is also necessary. Proper mechanisms should also be in place to address employable issues pertaining to the large number of dropouts from the formal education system. On the other hand, labour laws which could be detrimental to create a flexible and conducive working environment need to be further reformed. Such reforms could also promote better labour relations.

## Productivity

- **The main determinants of productivity growth are investment, innovation, modern technology, skill development, entrepreneurship and competition.** The introduction of productivity enhancement measures for all sectors through training, awareness and consultancy is important. Productivity in the Agriculture sector could be enhanced through increased mechanisation, usage of improved seed varieties and proper usage of fertilizer. Proper distribution of these facilities including the upgrading of irrigation

networks and proper marketing channels would help further improve productivity in the sector. In addition, priority should be given to increasing value addition through agro-based processing industries, following the best practices of other countries.

- **A substantial part of the gain in output in the manufacturing sector comes from an increased productivity.** Expected further expansion in investments in 2013, with higher growth in construction buoyed by large infrastructure projects will be helpful in improving productivity in the Industry sector. Productivity-enhancing high-tech applications and investments in new technologies would provide further stimulus in this respect.
- **The country has further potential to expand the Services sector, especially through productivity improvements.** The efficiency of the Services sector depends largely on the availability of advanced technology and the ability of the workforce to handle related activities more effectively. As Sri Lanka is emerging as a sourcing destination for Information Communication Technology / Business Process Outsourcing (ICT/BPO), the availability of a talented, educated and highly skilled labour force is extremely important. Introducing required changes to the national school curriculum and modernising courses offered at universities to meet emerging global needs is a prerequisite to having a sustainable and competitive Services sector in the economy.