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PRICES, WAGES, EMPLOYMENT AND PRODUCTIVITY

Inflation, as measured by the change in the Colombo Consumers' Price Index (CCPI) (2006/07=100) which is compiled by the Department of Census and Statistics (DCS), remained at low single digit levels on both annual average and year-on-year basis during the first nine months of 2015. The downward adjustment of administered prices of several key items with effect from January 2015 and the effect of high base that prevailed in the corresponding months of 2014 helped maintain year-on-year inflation below the mid single digit level. The benign general price level was further supported by prudent monetary management, well contained inflation expectations and favourable supply side developments in domestic and international markets. Meanwhile, core inflation, on an year-on-year basis increased gradually from January to September 2015, but remained at low single digit levels. Inflation is expected to remain at low single digit levels during the remainder of 2015, albeit with an increasing trend due to the dissipation of high base effect of downward administrative price revisions effected during several occasions in the fourth quarter of 2014.

Supported by the increase in nominal wages and low inflation that prevailed, employees in all sectors enjoyed increases in their real wages. The Labour Force Participation Rate (LFPR) in the first half of 2015 increased with the expanding labour force. Increase in the LFPR was driven mainly by the increase in the female LFPR, while the male LFPR declined during the period. Increasing trend in the LFPR among elderly and youth is a salient feature observed in the recent past. Meanwhile, employment opportunities in the economy increased marginally during the period. Consequent to these labour market developments, the unemployment rate increased. High unemployment rates among females, youth and persons with GCE (A/L) or higher education levels is a persistent trend observed over the years. Foreign employment, which is a major channel of foreign exchange and a way of easing unemployment pressure, declined as reflected by a decline in departures for foreign employment. Meanwhile, labour productivity in the economy increased, amid a negative contribution from the Agriculture sector.

Developments in 2015

Prices

- The general price level, as measured by the movement in CCPI, decreased significantly from January to March, increased moderately from April to July and again declined thereafter. The upward price pressure caused by supply shortages of fresh agricultural items which was observed during the fourth quarter of 2014, continued until January 2015. However, significant downward price adjustments of fuel and LP gas in January 2015 and improved local supply of fresh agricultural commodities in February contributed largely to bring down the general price level from February onwards.
- Price movements of the food category were inflationary, while that of the non-food category were non-inflationary as reflected in the year-on-year inflation during the period concerned. As the combined effect was marginal, year-on-year inflation remained at low levels

during the period. Since the negative effect from the non-food category surpassed the positive effect from the food category during the period from July to September 2015, the year-on-year change of CCPI was negative during these three months. In the food category, the prices of agricultural commodities, especially that of rice and vegetables, remained high at the beginning of the year as a result of supply shortages continuing from the latter part of 2014 due to adverse weather conditions. Within the non-food category, Housing, water, electricity, gas and other fuels; and Transport sub-indices contributed negatively to the increase in year-on-year inflation during this period. The impact of downward revision of administered prices effected at several occasions since September 2014 led these two sub-indices to move on a declining path and thereby contribute negatively towards the year-on-year change in CCPI during the period.

Table 4.1 Movements of the CCPI (2014 - 2015)

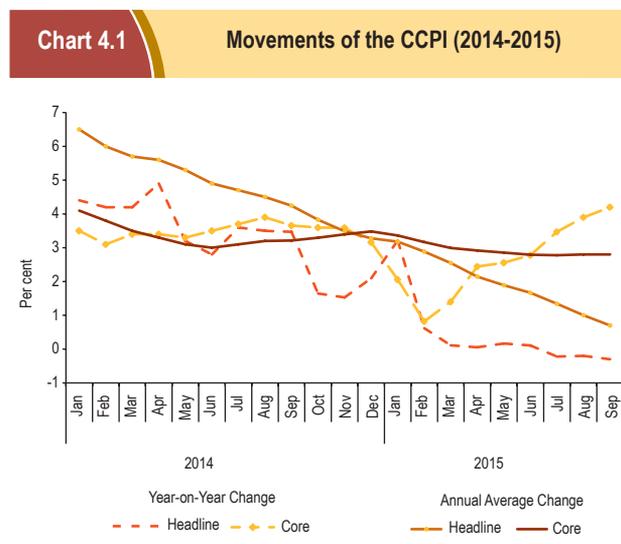
2006/07=100

Period	Year-on-Year Change (%)		Annual Average Change (%)	
	Headline	Core	Headline	Core
2014				
January	4.4	3.5	6.5	4.1
February	4.2	3.1	6.0	3.8
March	4.2	3.4	5.7	3.5
April	4.9	3.4	5.6	3.3
May	3.2	3.3	5.3	3.1
June	2.8	3.5	4.9	3.0
July	3.6	3.7	4.7	3.1
August	3.5	3.9	4.5	3.2
September	3.5	3.7	4.2	3.2
October	1.6	3.6	3.8	3.3
November	1.5	3.6	3.5	3.4
December	2.1	3.2	3.3	3.5
2015				
January	3.2	2.1	3.2	3.4
February	0.6	0.8	2.9	3.2
March	0.1	1.4	2.5	3.0
April	0.1	2.4	2.1	2.9
May	0.2	2.6	1.9	2.9
June	0.1	2.8	1.7	2.8
July	-0.2	3.5	1.3	2.8
August	-0.2	3.9	1.0	2.8
September	-0.3	4.2	0.7	2.8

Source: Department of Census and Statistics

Price Movements in the Food Category

- On average, food prices increased, exhibiting mixed movements in line with the supply conditions of fresh food items during the first nine months of 2015. Within the food category, the weighted average price of rice



increased by 10.5 per cent during the first nine months of 2015 compared to the corresponding period of the previous year. The decline in paddy production of previous Yala season due to adverse weather conditions as well as the insufficient rice stocks due to low harvests during several preceding seasons, resulted in high average prices of rice at the beginning of the year. With the arrival of Maha harvest to the market from February 2015, recording a 28.7 per cent growth over the previous Maha season, the price of rice started to decline causing the weighted average price of rice to decline by 13.3 per cent from January to September 2015. Further, to discourage rice imports and protect local farmers, the Special Commodity Levy (SCL) on rice was increased to Rs. 20 per kg from January 20, 2015 and further to Rs. 40 per kg from March 26, 2015. In addition, Customs duty of Rs. 35 per kg, Value Added Tax (VAT) of 11 per cent, Ports and Airports Development Levy (PAL) of 5 per cent and Nation Building Tax (NBT) of 2 per cent were imposed on rice in place of SCL with effect from May 06, 2015.

- **The weighted average price of vegetables increased by 19.1 per cent during the first nine months of 2015 compared to the same period of the previous year.** The prices of almost all the vegetable varieties were peaked in January and remained relatively high in February due to the continuation of supply shortages caused by crop damages and transport disturbances consequent to adverse weather conditions that prevailed towards the latter part of 2014. However, favourable weather conditions that prevailed during the early months of 2015 led to a decrease in the weighted average price of the vegetable sub group by 25.8 per cent in September compared to January 2015. Meanwhile, to safeguard the farmers cultivating potatoes and big onions, Special Commodity Levy (SCL) on imports was increased during the harvesting periods

of respective crops. During the period under consideration, the average price of coconut increased while that of coconut oil decreased compared to the same period of 2014. The price of coconut remained at relatively high levels from January to March 2015 and exhibited a moderate decline due to seasonal factors thereafter. The decline in the coconut price during the season was relatively low due to the reduction in supply as a result of the lagged effect of drought conditions that prevailed in the previous years and the increased demand for coconut from coconut processing industries. These price developments resulted in a 13.8 per cent increase in coconut prices during the first nine months of 2015 compared to the corresponding period of 2014. Meanwhile, the price of coconut oil declined moderately by 2.7 per cent during the first nine months of the period under review, along with the decline in prices of palm oil, which is a close substitute. The weighted average price of fresh fish and seafood recorded an increase of 6.9 per cent during the first nine months of 2015. A decrease of 1.8 per cent was observed in marine fish production during the first seven months of the year compared to the same period of 2014. The weighted average price of fresh fish increased by 9.2 per cent from January to September 2015. The price of chicken increased by 9.9 per cent from January to September 2015, while the price of eggs also increased by 12.8 per cent during this period. These price increases were led by the increased cost of production, including prices of chicken feed. However, since the weights assigned for chicken and eggs in the CCPI basket are relatively low, the impact of these price developments on CCPI was marginal during the period. Prices of some imported food items decreased during the first nine months of 2015 due to the imposition of a maximum retail price and also in line with price movements in the international market. Accordingly, the price of milk powder, sugar, green gram and wheat

flour declined by 8.4 per cent, 15.2 per cent, 14.4 per cent and 10.0 per cent, respectively, during the first nine months of 2015 compared to the same period of 2014. The price of a loaf of bread also decreased by 7.6 per cent during the period under review, subsequent to the price reduction in wheat flour. However, the price of dhal increased by 14.0 per cent in the first nine months of 2015, compared to the same period of the previous year. Meanwhile, the impact of rupee depreciation is expected to exert some pressure on the prices of imported commodities.

Price Movements in the Non-food Category

- The significant downward revisions of administrative prices of liquid fuel, LP gas and bus fares contributed heavily towards moderating the general price level during the period under consideration. The prices of diesel, petrol and kerosene were reduced by Rs.16, Rs. 33 and Rs. 16 per litre, respectively, with effect from January 22, 2015. The price of kerosene was reduced further by Rs. 6 per litre with effect from January 30, 2015. Meanwhile, the price of 12.5 kg cylinder of LP gas was revised downward by Rs. 300 and Rs. 100, respectively, with effect from January 30, 2015 and July 15, 2015. In line with downward adjustments in fuel prices, bus fares were also reduced by 8.2 per cent with effect from February 01, 2015.

Core Inflation

- Core inflation decelerated from 3.4 per cent in January to 2.8 per cent in June 2015 on an annual average basis extending the declining trend observed since June 2013 and stabilised at the same level of 2.8 per cent during the period from June to September 2015. Meanwhile, the year-on-year core inflation decreased from January to February and increased gradually thereafter to reach 4.2 per cent in September 2015.

Wages

Public Sector Wages

- The nominal wage rate index (2012=100) of public sector employees increased significantly by 31.8 per cent during the first eight months of 2015, compared to the increase of 9.8 per cent recorded during the corresponding period of 2014. This increase was due to the total Interim Allowance of Rs. 10,000 paid to all public sector employees, out of which Rs. 3,000 was initially granted from the 2015 Budget with effect from November 2014, while increases of Rs. 5,000 and Rs. 2,000 were granted by the Interim Budget, with effect from February 2015 and June 2015, respectively. As a result, employees in the Senior Level, Tertiary Level, Secondary Level and Primary Level received significant nominal wage increases of 21.4 per cent, 28.1 per cent, 32.3 per cent and 36.9 per cent, respectively, during the first eight months of 2015, compared to increases of 6.6 per cent, 9.4 per cent, 10.0 per cent and 10.5 per cent, respectively, during the same period in 2014.
- Overall, the real wages of public sector employees also increased significantly by 31.2 per cent during the first eight months of 2015. The significant increase in nominal wages and the low inflation that prevailed during this period resulted in this substantial increase in real wages, compared to a real wage increase of 5.8 per cent recorded in the corresponding period of 2014. Accordingly, Senior Level, Tertiary Level, Secondary Level and Primary Level employees received real wage increases of 20.8 per cent, 27.5 per cent, 31.7 per cent and 36.3 per cent, respectively, during the first eight months of 2015, compared to increases of 2.7 per cent, 5.4 per cent, 5.9 per cent and 6.4 per cent, respectively, during the same period of 2014. There was a significant increase in public sector real wages in 2014 and 2015 compared to some erosion in real wages during 2010 to 2013 period.

Formal Private Sector Wages

- Nominal wage rate index of the formal private sector increased by 4.3 per cent in the first eight months of 2015, compared to 2.9 per cent during the corresponding period of 2014. These wage movements are measured by the minimum wage rate indices (1978=100) of employees whose wages are administered by regulations under the Wages Boards Trades. Nominal wages of the employees in Industry and Commerce; and Services sectors remained unchanged during the first eight months of 2015 subsequent to the 11.2 per cent and 4.9 per cent increases during the same period in 2014. Hence, the overall increase in the formal private sector nominal wages was solely due to the increase of 5.7 per cent in the minimum wages of workers in the Agriculture sector during this period compared to the increase of 1.0 per cent during the corresponding period of 2014. Considerable increases in minimum wages of employees in rubber growing and manufacturing sectors were recorded in October 2014.
- Overall, formal private sector employees experienced a real wage increase of 3.8 per cent during the period under review, compared to a real wage erosion of 0.9 per cent recorded during the corresponding period of 2014. Real wages of workers in the Agriculture sector also increased by 5.2 per cent during the first eight months of 2015, subsequent to a real wage erosion of 2.7 per cent in the corresponding period of 2014. Real wages of workers in both Industry and Commerce; and Services sectors declined marginally by 0.5 per cent in the first eight months of 2015, as their nominal wages remained unchanged during the period.

Informal Private Sector Wages

- Workers in the informal private sector received a nominal wage increase of 8.0 per cent during the first eight months of the year, compared

to 5.8 per cent during the corresponding period of 2014, as measured by the average daily wages collected under the Country-Wide Data Collection System (CWDCS) of the Central Bank. Within the informal private sector, employees engaged in agricultural activities enjoyed an increase of 8.1 per cent in their daily wage during the first eight months of 2015, compared to a 5.9 per cent increase during the same period of 2014. Average daily wages of employees in Tea, Rubber, Coconut and Paddy sub sectors in the Agriculture sector increased by 9.5 per cent, 6.0 per cent, 5.5 per cent and 12.3 per cent, respectively, during the period. Masons and carpenters in the Construction sector enjoyed wage increases of 6.6 per cent and 7.2 per cent, respectively, in nominal terms, leading to a 6.9 per cent overall daily wage increase in the Construction sector.

- In real terms, wages of employees in the informal private sector increased by 7.5 per cent during the first eight months of 2015 compared to the increase of 1.9 per cent recorded in the corresponding period of 2014. When sub categories in the informal private sector are considered, employees in Tea, Rubber, Coconut, Masonry and Carpentry sub sectors enjoyed increases in their real wages by 9.0 per cent, 5.5 per cent, 5.1 per cent, 6.1 per cent and 6.7 per cent, respectively. Employees in the Paddy sector experienced a sizable increase of 11.8 per cent in their real wages, subsequent to a real wage erosion of 0.7 per cent during the corresponding period of 2014.

Labour Force

- According to the Quarterly Labour Force Survey (QLFS) conducted by the Department of Census and Statistics (DCS), covering the entire island, the labour force, which consists of the economically active population aged 15 years and above, increased by 2.0 per cent

Table 4.2

Labour Force, Employment and Unemployment (a)

Item	2014		2015 (b)	
	H1	Year	H1	Projections
Household Population, '000 (Age 15 years and above)	16,437	16,532	16,623	16,664
Labour Force, '000	8,791	8,805	8,968	8,999
Employed, '000	8,410	8,424	8,552	8,594
Unemployed, '000	381	381	416	405
Labour Force Participation Rate (% of Household Population)	53.5	53.3	54.0	54.0
Unemployment Rate (% of Labour Force)	4.3	4.3	4.6	4.5

(a) Data covers the entire island
(b) Provisional

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

to 8.968 million persons in the first half of 2015, from 8.791 million in the corresponding period of 2014. The increase in the labour force was mainly due to the higher number of entries of females in to the labour force. This increase in the economically active female population was observed in all sectors, namely; urban, rural and estate. Meanwhile, the economically active male population declined on an overall basis, as a result of a significant decline recorded in the urban sector and a marginal decline in the rural sector.

- The labour force participation rate (LFPR), which is the ratio of the labour force to the household population aged 15 years and above, increased marginally to 54.0 per cent in the first half of 2015 compared to 53.5 per cent in the corresponding period of the last year. The increase is mainly due to the increase in female LFPR from 35.1 per cent in the first half of 2014 to 36.6 per cent in the first half of 2015. This increase emanated from the increased participation of females in the age groups of 15-29 years, 35-39 years and 50 years and above. Male LFPR declined from 74.8 per cent in the first half of 2014 to 74.4 per cent in the corresponding period of 2015, owing to the decline in male LFPR in the age group of 30-44 years. Nevertheless, notable increases in both

Male and Female LFPRs are observed in the age category of 60 years and above, indicating that an increasing proportion of elderly are employed or willing to be employed. LFPR among youth (age between 15-24 years) also shows an increasing trend over the time.

Employment

- The number of employed persons increased marginally by 1.7 per cent to 8.552 million in the first half of 2015 compared to 8.410 million in the corresponding period of 2014. The increase in the number employed was mainly due to the 7.7 per cent increase in the number of employees engaged in the Agriculture sector, with the recovery of economic activities during the period under review compared to that in the first half of 2014. Meanwhile, the number employed in the Services sector increased marginally by 0.7 per cent while that of the Industry sector declined by 2.7 per cent. Economic activities in the Industry sector recovered from a negative growth observed in the corresponding period of the previous year, limiting employment opportunities in the sector. However, activities in the Services sector increased amid a marginal increase in the number employed, signaling an improvement in labour productivity in the sector.

- **In terms of employment status, the number of employees in the private sector, employer and self-employed categories increased, while that of the public sector and unpaid family worker categories declined.** Public sector employment declined by 1.3 per cent, accounting for 15.2 per cent of the share in total employment in the country. The number of employers increased by 3.8 per cent, with a decline in the agriculture category. The employer category accounted for 2.9 per cent of the total employment. The number employed in the private sector, which holds the largest share of 41.1 per cent in total employment, increased by 2.0 per cent, mainly due to the increase in employment in agriculture related private sector activities. The number of self employed persons increased in both agriculture and non-agriculture categories, resulting in a total increase of 4.4 per cent and consisted of a share of 32.5 per cent in total employment. The number of unpaid family workers declined by 5.1 per cent, with the decrease in activities in both agriculture and non-agriculture categories.

Unemployment

- **The unemployment rate increased to 4.6 per cent in the first half of 2015 compared to 4.3 per cent in the corresponding period of the previous year.** The total number of unemployed persons during the period under review was estimated at 0.416 million compared to 0.381 million recorded during the same period in the last year, which is an increase of 9.2 per cent. This increase was mainly due to the increase in the number of unemployed females by 25.3 per cent in the first half of 2015. This led to an increase in the female unemployment rate to 7.6 per cent in the first half of 2015 from 6.4 per cent recorded in the corresponding period of the previous year. The number of unemployed males declined by 8.0 per cent, resulting in a decline in the male unemployment rate from 3.2 per cent to 3.0 per cent, from the first half of 2014 to the first half of 2015, respectively.
- **Increases in unemployment rates were observed across all age categories, except for persons between 25-29 years of age.** Youth (age between 15-24 years) unemployment continued to remain at an extremely high level reaching 21.6 per cent during the period. Labour force participation from this age group was more than one million persons. Age groups between 30-39 years and 40 years and above recorded 2.9 per cent and 1.0 per cent unemployment rates, respectively, during the period. Labour force participation of the age group of 40 years and above was the highest at around 4.8 million persons.
- **In terms of education level, the highest unemployment rate of 9.3 per cent was reported among persons with GCE (A/L) and higher level of educational attainment, which is a significant increase from 7.8 per cent recorded in the corresponding period of the previous year.** It is pertinent to note that this age group usually records highest unemployment rates, partly reflecting the prevailing skills mismatch in the labour market. Meanwhile, the unemployment rate among persons with 6-10 years of schooling remained unchanged at 3.4 per cent, while it increased to 6.5 per cent from 6.2 per cent among those who have passed GCE (O/L).

Foreign Employment

- **Foreign employment continued to be one of the main foreign exchange earners for the country amid a considerable decline in departures for foreign employment during the first half of the year.** Departures for foreign

employment declined by 14.8 per cent in the first half of 2015 compared to the corresponding period of the previous year. This decline is observable in both male and female worker departures, which declined by 13.9 per cent and 16.3 per cent, respectively, during the period under review. The overall decline in departures observed during the period was driven partly by the economic slowdown in the Middle East with the decline in oil prices in the international markets and the social and security concerns resulting from spillover effects of regional conflicts in the region, which is the largest Sri Lankan migrant worker destination.

- **Worker departures under all categories, except for Skilled and Semi-skilled categories declined during the first half of 2015.** Worker departures under Middle Level and Clerical and Related categories declined significantly, which is a matter that needs attention as workers in higher skill categories earn more foreign exchange. Nevertheless, exhibiting the success of measures taken by authorities to streamline worker departures under the housemaid category, housemaid departures declined by 17.2 per cent during this period.

Labour Relations

- **The total number of strikes and the number of workers involved in strikes in the private sector declined during the first half of 2015.** The number of strikes in the private sector declined from 25 to 9 while the number of workers involved in strikes declined from 4,063 to 2,939 in the first half of 2015 compared to the corresponding period of the previous year. These declines were observed in both Plantation and Other sectors. Nevertheless, on an overall basis, labour relations deteriorated in terms of the number of man-days lost due to strikes, which increased by 20.8 per cent to 19,110 during the

first half of 2015 from 15,818 in the first half of 2014 . This increase was mainly due to the elongation of strikes in the plantation sector.

Labour Productivity

- **Labour productivity, as measured by value added (in 2010 prices) per hour worked, increased by 2.1 per cent to Rs. 417.52 in the first half of 2015 compared to Rs. 409.00 in the corresponding period of 2014.** The Services sector exhibited the most efficient use of the labour resource with a 6.0 per cent growth in labour productivity. Although, the value added growth was marginal and the number of hours worked declined in the Industry sector, it registered a productivity growth of 3.5 per cent. While the number employed and consequently the number of hours worked in the Agriculture sector increased, growth in value added was not sufficient to register a growth in productivity. Hence, labour productivity in the Agriculture sector declined by 8.9 per cent during the first half of 2015.

Prospects for 2016

Prices

- **Inflation is expected to remain below mid single digit levels during the remainder of the year based on the likely movement of CCPI (2006/07=100) which is the official measure of inflation.** Well contained inflation expectations, prudent monetary management, moderation of international commodity prices, especially crude oil prices as well as favourable domestic supply conditions will help in maintaining the general price level at benign levels. Meanwhile, a certain level of price pressure is anticipated on imported items with the recent depreciation of the rupee and if a reversal of the downward trend

of prices occur in international markets. Any unpredictable supply shortages of agricultural commodities could be managed through timely fiscal policy measures that encourage imports in the short term. Furthermore, along with these developments and the dissipation of high base effect of downward administrative price revisions that effected during several occasions in the fourth quarter of 2014, inflation is expected to move upward from the fourth quarter of 2015 and in to the year 2016.

Wages and Productivity

- **Real wages in the economy are expected to grow during the coming months.** Growth in real wages should be matched with the growth in productivity over the long run to ensure cost competitiveness for producers as it could cause inflationary pressure in the domestic market, and ultimately leading to wage price spirals in the long run. Real wage increases without productivity growth is particularly hindering competitiveness in the Agriculture sector. Hence, wage rate determination needs to be associated with productivity linked incentives in the future. Public sector wages also gradually need to be linked with productivity as a productive public sector facilitates the momentum of the private sector.

Labour Force and Employment

- **The increased labour force participation by females and elderly could possibly exert some upward pressure on the unemployment rate.** This situation could be further worsened by any skills mismatch in the labour market, as reflected by the high unemployment rates among more educationally qualified persons. As revealed by the Business Outlook Survey

conducted by the Central Bank, employers at times find it difficult to match suitable employees to fill existing job opportunities in their firms. Their intention to hire labour has been mostly positive in the recent past since there has been a shortage of employees in their firms over the period. This clearly indicates that there is a supply and demand mismatch in the labour market, which needs to be corrected through proper skill alignment programmes to avoid potential economic and social issues.

- **Along with the anticipated increase in the elderly population, the increase in LFPR among the elderly (age 60 and above) also points out an increase in the economic and social vulnerabilities of elderly people who do not have any or sufficient means of income to live.** This situation could be further aggravated with the imminent aging population, lack of proper superannuation benefits, social security nets, health insurance schemes and the existing mismatch in the labour market. Income earning methods for elderly such as community gardening, handicrafts and consultancy services programmes that have already been initiated by the Elders' Secretariat should be promoted further with state level attention to ensure social security and decent living for elderly people.
- **High level of unemployment among youth and those who are with higher levels of educational attainment is also an issue that had been raised continuously, which could lead to social unrest, underutilisation of the human resource and the creation of an incapable and inexperienced workforce in the country in the near future.** The expected continuous growth drive in the Services sector can be bolstered by carefully channeling this idle educated and young labour force, if proper

steps are taken to correct the existing skill mismatch. The mismatch in the labour market points out that their skills need to be realigned with the skills desired by the employers. The education system in the country, including

higher education, needs to be realigned so that it would not simply produce an output, but a quality workforce with proper skills, competencies and self confidence, employable by the private sector.