

Press Release

Releasing of a New Consumer Price Index for Sri Lanka

The Colombo Consumers' Price Index (CCPI), compiled monthly by the Department of Census and Statistics (DCS) and released on the last working day of each month, has been the official measure of inflation in Sri Lanka since 1953. The CCPI is used for deflation of current value aggregates in national accounts, formulation of policy for the determination and evaluation of wages and other monetary incomes, indexation of wages, salaries and social security benefits and economic and social analysis. An inappropriate index could give misleading signals for determining several policies, particularly monetary policy, and providing misleading assessments of economic performance and the social and economic impact of policies.

The CCPI having a base year as far back as 1952 was computed in accordance with the household consumption of the working class households within the Colombo Municipal area, as per the family budget survey of 1949/1950. Further, the weight structure in the CCPI was based on the average household expenditure of a sample of 455 working class households in the Colombo City limits, enumerated in that survey. On that basis, it was clear that such CCPI did not reflect the current consumption behavior of the households, since it was based on an expenditure pattern that was five and a half decades old. It may also be noted that although interim revisions and improvements had been made to the index from time to time over the years, such revisions had been somewhat limited and were on an ad-hoc basis, and did not address the inherent and obvious defects of the index.

Consequently, the CCPI could not be considered as a true measure of inflation in Sri Lanka, particularly in view of the following deficiencies:

- (i) Inadequate representation of the true price changes in line with the changing consumption patterns, as the index was based on an outdated basket of goods and services. The significant changes in consumer habits and income levels since 1949/50 have substantially altered the size, content and composition of the market basket of goods and services consumed.

- (ii) Although the range and availability of goods and services had enhanced over the years, these new items were not included in the index.
- (iii) The index was highly sensitive to the prices of a few items, due to the outdated consumption pattern and unrealistic weights attached to such items based on the outdated consumption pattern. Hence, even a marginal price change of some of those items led to a disproportionate change in the overall index.
- (iv) It was limited in scope, both in terms of geographical and income group coverage.

Due to the above limitations, the need for a more representative consumer price index has been voiced by many parties for decades. The Central Bank of Sri Lanka, in particular, has repeatedly highlighted the need for an accurate measure of inflation, which is crucial for the conduct of monetary policy. Recognising this need, the DCS had attempted on several occasions to construct a new Consumer Price Index.

In view of this pressing need, an index based on the Household Income and Expenditure Survey of 2002 has now been constructed by the DCS, addressing the main deficiencies of the CCPI. The new index, known as the New Colombo Consumers' Price Index (termed CCPI(N)) is based on a more recent household expenditure survey, representing contemporaneous purchasing habits. The weighting pattern of this index is based on the expenditure of all urban households in the Colombo district. The coverage of price collection has been widened to 12 centres in Pettah, Maradana, Wellawatte, Dematagoda, Grandpass, Borella, Kirulapone, Dehiwala, Kotte, Nugegoda, Kolonnawa and Ratmalana compared to 7 centres used before.

The new index compiled by the DCS with a base year of 2002 is released to the public today and is to be done on a monthly basis in the future (Table 1). The CCPI(N) will therefore be used as the official index for measuring inflation in Sri Lanka. The base weights of this index will be revised at five yearly intervals.

A separate index called “Core Inflation Index” based on the CCPI(N) is also compiled by the DCS to be used for monetary policy purposes. The core inflation index will exclude those items covered under Consumer Protection Act (wheat, milk powder and gas), National Transport Commission Act, Telecommunication Regulatory Commission Act and the Post Office Act and the items with some Government intervention in pricing, to obtain a measure of underlying trend in inflation.

The movements of year on year inflation and the inflation based on the twelve month moving averages of the CCPI and CCPI(N) are shown in Chart 1 and Chart 2 respectively. The relevant figures are given in Table 2.

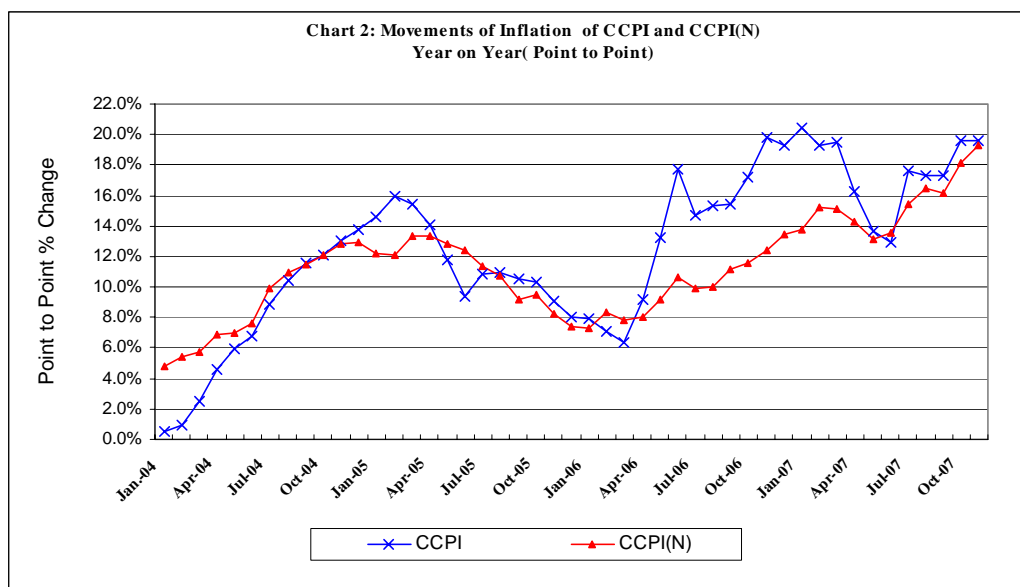
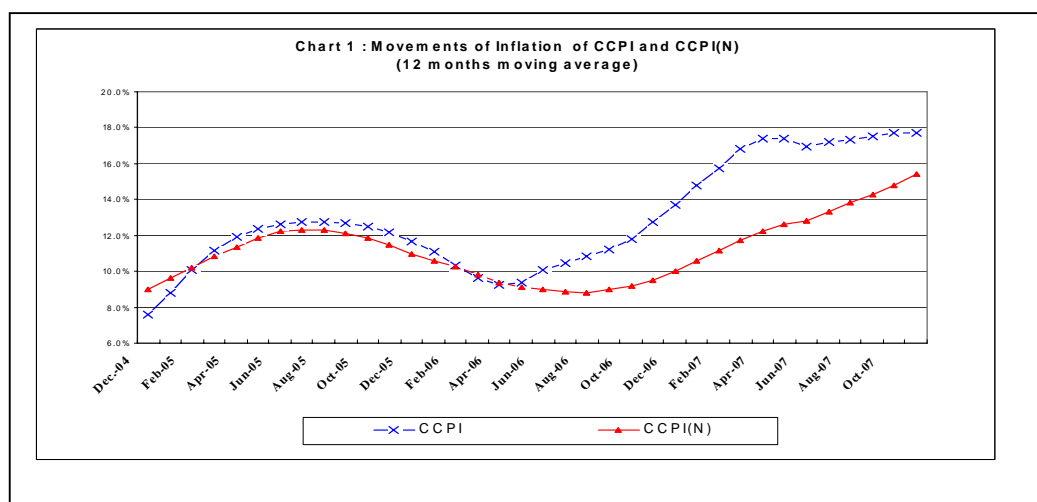


Table 1 : INDEX NUMBERS OF CCPI, CCPI(N) and CCPI(N) Core Ind.

| Year | Month | Index Number (Base : 2002 = 100) | | |
|-------------|-----------|---------------------------------------|---------|-----------------------|
| | | CCPI | CCPI(N) | CCPI(N) (Core.Ind) |
| 2003 | January | 109.0 | 105.8 | 106.2 |
| | February | 107.8 | 105.2 | 105.4 |
| | March | 105.3 | 104.2 | 103.8 |
| | April | 104.4 | 104.4 | 104.0 |
| | May | 106.9 | 105.4 | 105.4 |
| | June | 108.3 | 105.7 | 106.0 |
| | July | 106.3 | 105.1 | 105.1 |
| | August | 103.6 | 104.9 | 104.9 |
| | September | 104.0 | 106.1 | 104.9 |
| | October | 103.9 | 106.2 | 105.1 |
| | November | 106.5 | 107.6 | 106.9 |
| | December | 109.8 | 108.9 | 108.3 |
| 2004 | January | 109.5 | 110.9 | 109.5 |
| | February | 108.7 | 111.0 | 109.2 |
| | March | 107.9 | 110.2 | 108.3 |
| | April | 109.3 | 111.6 | 110.1 |
| | May | 113.3 | 112.8 | 111.5 |
| | June | 115.6 | 113.8 | 112.8 |
| | July | 115.7 | 115.4 | 114.5 |
| | August | 114.5 | 116.4 | 115.1 |
| | September | 116.0 | 118.3 | 116.4 |
| | October | 116.5 | 119.0 | 117.3 |
| | November | 120.5 | 121.5 | 120.3 |
| | December | 125.0 | 123.0 | 122.2 |
| 2005 | January | 125.5 | 124.4 | 123.9 |
| | February | 126.1 | 124.4 | 123.9 |
| | March | 124.6 | 124.9 | 123.3 |
| | April | 124.6 | 126.5 | 125.3 |
| | May | 126.6 | 127.2 | 125.9 |
| | June | 126.5 | 127.9 | 126.0 |
| | July | 128.2 | 128.5 | 126.3 |
| | August | 126.9 | 128.9 | 126.3 |
| | September | 128.2 | 129.2 | 126.7 |
| | October | 128.5 | 130.3 | 128.3 |
| | November | 131.4 | 131.5 | 129.7 |
| | December | 135.0 | 132.2 | 130.4 |
| 2006 | January | 135.5 | 133.5 | 131.9 |
| | February | 135.1 | 134.7 | 131.9 |
| | March | 132.5 | 134.7 | 131.7 |
| | April | 136.1 | 136.7 | 133.6 |
| | May | 143.3 | 139.0 | 135.8 |
| | June | 148.9 | 141.4 | 138.5 |
| | July | 147.1 | 141.3 | 138.1 |
| | August | 146.4 | 141.8 | 138.3 |
| | September | 148.0 | 143.5 | 139.3 |
| | October | 150.7 | 145.4 | 142.0 |
| | November | 157.4 | 147.8 | 145.3 |
| | December | 161.0 | 150.0 | 147.9 |
| 2007 | January | 163.2 | 151.8 | 150.1 |
| | February | 161.1 | 155.2 | 151.1 |
| | March | 158.3 | 155.0 | 150.9 |
| | April | 158.2 | 156.3 | 152.1 |
| | May | 163.0 | 157.3 | 152.9 |
| | June | 168.3 | 160.6 | 156.8 |
| | July | 173.0 | 163.1 | 158.2 |
| | August | 171.7 | 165.2 | 159.4 |
| | September | 173.6 | 166.7 | 161.1 |
| | October | 180.2 | 171.8 | 166.2 |
| | November | 188.1 | 176.4 | 170.2 |

| Year | Month | Table 2 : Movements of CCPI,CCPI(N) and CCPI(N) Core. Ind. | | | | |
|------|-----------|--|---------|-------------------------|---------|--------------------|
| | | Point to Point % Change | | 12 Month Moving Average | | |
| | | | | % Change | | |
| | | CCPI | CCPI(N) | CCPI | CCPI(N) | CCPI(N) Core. Ind. |
| 2004 | January | 0.5% | 4.8% | | | |
| | February | 0.9% | 5.5% | | | |
| | March | 2.5% | 5.7% | | | |
| | April | 4.6% | 6.9% | | | |
| | May | 5.9% | 7.0% | | | |
| | June | 6.8% | 7.7% | | | |
| | July | 8.9% | 9.9% | | | |
| | August | 10.5% | 10.9% | | | |
| | September | 11.6% | 11.4% | | | |
| | October | 12.1% | 12.1% | | | |
| | November | 13.1% | 12.9% | | | |
| | December | 13.8% | 13.0% | 7.6% | 9.0% | 8.0% |
| 2005 | January | 14.6% | 12.2% | 8.8% | 9.6% | 8.9% |
| | February | 15.9% | 12.1% | 10.1% | 10.2% | 9.7% |
| | March | 15.5% | 13.3% | 11.1% | 10.8% | 10.5% |
| | April | 14.0% | 13.3% | 11.9% | 11.3% | 11.2% |
| | May | 11.8% | 12.8% | 12.4% | 11.8% | 11.7% |
| | June | 9.4% | 12.4% | 12.6% | 12.2% | 12.2% |
| | July | 10.8% | 11.3% | 12.7% | 12.3% | 12.3% |
| | August | 10.9% | 10.7% | 12.8% | 12.3% | 12.2% |
| | September | 10.5% | 9.2% | 12.7% | 12.1% | 12.0% |
| | October | 10.4% | 9.5% | 12.5% | 11.9% | 11.8% |
| | November | 9.1% | 8.2% | 12.1% | 11.5% | 11.4% |
| | December | 8.0% | 7.4% | 11.6% | 11.0% | 10.9% |
| 2006 | January | 8.0% | 7.3% | 11.1% | 10.6% | 10.3% |
| | February | 7.1% | 8.3% | 10.3% | 10.3% | 9.7% |
| | March | 6.4% | 7.9% | 9.6% | 9.8% | 9.1% |
| | April | 9.2% | 8.1% | 9.2% | 9.4% | 8.6% |
| | May | 13.2% | 9.2% | 9.4% | 9.1% | 8.2% |
| | June | 17.7% | 10.6% | 10.1% | 9.0% | 8.0% |
| | July | 14.7% | 9.9% | 10.4% | 8.9% | 8.0% |
| | August | 15.3% | 10.0% | 10.8% | 8.8% | 8.0% |
| | September | 15.4% | 11.1% | 11.2% | 9.0% | 8.1% |
| | October | 17.2% | 11.5% | 11.8% | 9.2% | 8.2% |
| | November | 19.8% | 12.4% | 12.7% | 9.5% | 8.5% |
| | December | 19.3% | 13.5% | 13.7% | 10.0% | 9.1% |
| 2007 | January | 20.5% | 13.7% | 14.8% | 10.6% | 9.7% |
| | February | 19.2% | 15.2% | 15.8% | 11.1% | 10.4% |
| | March | 19.5% | 15.1% | 16.8% | 11.7% | 11.1% |
| | April | 16.3% | 14.3% | 17.4% | 12.3% | 11.7% |
| | May | 13.7% | 13.2% | 17.4% | 12.6% | 12.1% |
| | June | 13.0% | 13.5% | 17.0% | 12.8% | 12.3% |
| | July | 17.6% | 15.4% | 17.2% | 13.3% | 12.8% |
| | August | 17.3% | 16.5% | 17.3% | 13.8% | 13.2% |
| | September | 17.3% | 16.1% | 17.5% | 14.2% | 13.7% |
| | October | 19.6% | 18.2% | 17.7% | 14.8% | 14.2% |
| | November | 19.6% | 19.3% | 17.7% | 15.4% | 14.7% |

Source: Prices and Wages Division

Dept.of Census and Statistics