BANK OF JAMAICA

Press Statement

Brian Wynter

Governor

Bank of Jamaica

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Good Morning Ladies and Gentlemen:

You will recall that in June the Bank changed its inflation outlook for fiscal year 2012/13 in the aftermath of the Government's announcement of new revenue measures in the June Budget debate.

At that time, the changes to the tax regime on previously exempt goods and services pointed to an increase in inflation for the fiscal year from the earlier expectation of a range of 6 per cent to 8 per cent to a new range of 10 per cent to 12 per cent. The exact outturn, we indicated, would depend upon the extent to which some of these increases were offset by the overall decline in GCT on other goods and services and on the ability of retailers to pass on these increases. By early September we were able to indicate that the June, July and August inflation outcomes were reflecting a far more moderate pass through. With September's inflation recently announced by STATIN, we can now confirm that very little of the tax increase has been reflected in consumer prices.

Jamaica's headline inflation for the September 2012 quarter was 2.1 per cent. Inflation in the quarter mainly reflected the impact of seasonally lower supplies of domestic agricultural commodities, higher demand associated with the back-to-school preparations and the lagged impact of increases in the prices of international grains as well as some impact from the tax measures. In addition, there was an increase in the national minimum wage in the quarter. The impact of these factors on inflation was partly offset by the effect of competitive behavior in the context of continued low demand. There was also a sharp decline in mobile telephone rates in the quarter.

Ladies and gentleman, the inflation outturn for the September quarter compares to our estimate of 2.5 per cent to 3.5 per cent for the quarter. Recall also that inflation for the June 2012 quarter came in at 1.5 per cent, compared with our earlier projection of 3.0 per cent to 5.0 per cent. Therefore, with the half-year inflation rate at 3.6 per cent and based on our outlook for the key drivers of inflation for the remainder of the fiscal year, the Bank now expects that consumer prices will rise by between 7.5 percent and 9.5 percent for FY2012/13. This expectation incorporates our preliminary assessment of the impact on prices of Hurricane Sandy. A fuller assessment will be included in our regular quarterly press briefing later this month.

The more favourable outlook relative to the previous forecast also reflects lower than originally anticipated international commodity prices, continued excess capacity and a marginal increase in real wages.

Thank you.