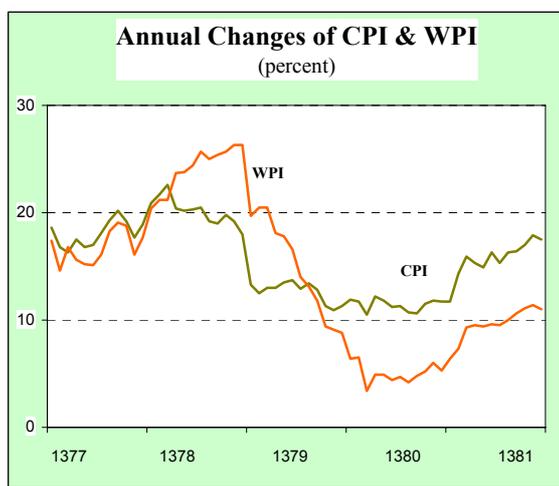


CHAPTER SIXTEEN

PRICE TRENDS

The downward trend of inflation rate, being started since 1378 was reversed and reached 15.8 percent in 1381. Review of inflation rate during the past three decades reveals that the main driving force for inflation in Iran is monetary factors. The moderate growth of aggregate supply and a sharp growth in the components of aggregate demand indicate an imbalance between aggregate supply and demand. The comparison between growths in long-term trends of liquidity, consumer price index (inflation rate) and GDP at constant prices, clearly indicates that the consumer price index and liquidity growth kept the same trend.

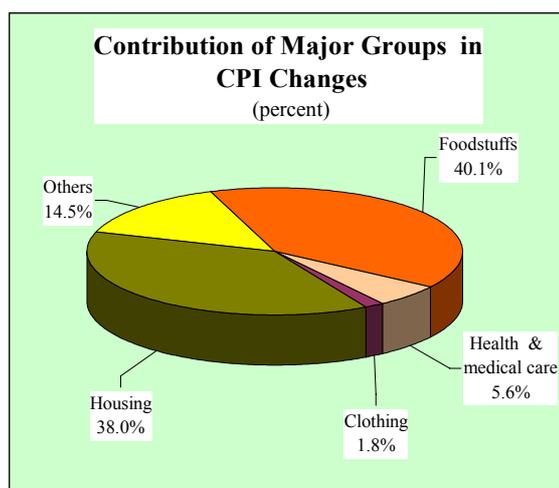
Factors affecting general price level in 1381 could be classified as: factors affecting aggregate demand, factors affecting aggregate supply, administrative price rise and psychological factors affecting formation of inflationary expectations. Moreover, due to the lagged effects of policies on the components of aggregate supply and demand and general price increase, the time series for studying the above-mentioned factors should be extended to a more wider time span.



Consumer Price Index

Urban Areas

In 1381, the CPI in urban areas grew by 15.8 percent on average, showing 4.4 percentage points rise as compared with 1380. Special groups indicate that price index of “goods”, and “housing, water, fuel and power” grew as compared to the previous year, and the growth rate of “services” index declined as compared with the previous year. Among special groups, price index of “goods”, registered the highest growth in raising the general index by 47.6 percent. “Housing, water, fuel and power” and “services” groups recorded 38 and 14.4 percent share in raising the general index.



Review of the CPI by main groups indicates that among the eight main groups, the growth rate of “food, beverages, and tobacco”, “housing, water, fuel and power”, “household furnishings and operations”, “transportation and communication” and “medical care” increased compared to 1380 and the growth rate of “clothing and footwear”, “recreation, reading and education”, and “miscellaneous goods and services” decreased.

In 1381, the main group of “food, beverages, and tobacco” had the highest share in raising the general index. This group, with the highest relative weight of 32.45 percent in the mentioned index and a growth rate of 19.4 percent compared to the previous year, raised the general index by 6.3 percentage points (40.1 percent).

The two main groups of “food, beverages, and tobacco”, and “housing, water, fuel and power”, with respect to their relative weights, made up 78.1 percent of inflation rate. Thus, 12.3 percentage points of 15.8 percent inflation rate was attributed to these two main groups.

Rural Areas⁽¹⁾

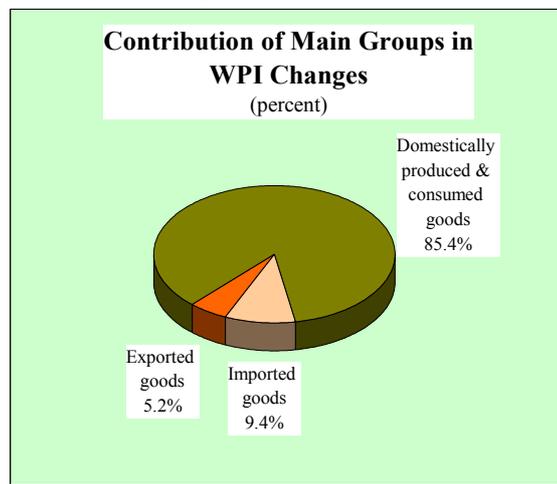
The CPI for rural areas grew by 19.8 percent in 1381 compared to the year before. The growth rate of this index was 14.8 percent in 1380. Data on CPI in rural areas by two special groups indicates that price index of “goods” with 18.5 percent growth (against 13.4 percent in 1380), and price index of “services”, with 24.6 percent (against 20.1 percent in 1380) went up. These two special groups, with relative weights of 83.4 and 16.6 percent, made up 73.3 and 26.7 percent of increase in the general index.

Wholesale Price Index (WPI)

Following two successive years of decline in the growth rate of the wholesale price index, the growth rate of this index edged up in 1381. The mentioned rate which had declined from 24.2 percent in 1378 to 14.8 percent in 1379 and 5.1 percent in 1380 increased to 9.6 percent in 1381. This was largely due to the rise in the price index of “domestically produced and consumed goods” group from 6.8 percent in 1380 to 11.1 percent in 1381. This surge was in turn attributable to increase in the price index of two major groups, namely “manufacturing” and “agriculture, animal husbandry and forestry” in the producer price index.

The price index of “imported goods” rose from 0.8 percent in 1380 to 4.1 percent in 1381, and that of “exported goods” from -0.5 percent to 10.3 percent⁽²⁾.

Factors affecting price index of imported goods are international prices, exchange rate applied in Customs, and entrance duties. Customs valuation method, international prices, cost price of exported goods and domestic inflation are also considered as factors affecting price index of exported goods.



(1) Data are derived from Statistical Center of Iran and the base year is 1374.

(2) In the 1379 revision in the wholesale price index, the number of “exported goods” items increased from 20 to 86, which are calculated separately.

Producer Price Index (PPI)

In 1381, the producer price index increased by 13.5 percent compared to the previous year. Among the constituents of PPI, the “services” price index had the highest growth rate despite its less growth when compared with the previous year. In the wake of its high relative weight in the general index it had the highest share in raising the PPI. The price index of two other special groups, namely “agriculture, animal husbandry, forestry and fishing” and “mining and quarrying, manufacturing and electricity, gas and water supply” increased from 8.4 to 12.4 percent and from 5.3 to 9.9 percent in 1381, respectively.

Among the major constituent groups of the producer price index “manufacturing”, “agriculture, animal husbandry and forestry”, “real estate, renting and business activities” and “transport, storage and communications” had the highest shares in raising the general index, respectively.

Exported Goods Price Index

The exported goods price index edged up by 5.7 percent in 1381 against 17.7 and 1.3 percent growth in 1379 and 1380, respectively. Among the constituents of this index, the price index of “animal and vegetable fats and oils” group had the highest growth rate of 17.2 percent, owing to price rise of hydrogenised oils. This group was followed by “animal products”, “products of the chemical or allied industries” and “wood and articles of woods” groups with 15.8, 14.5 and 14.4 percent growth rates, respectively. In this year, the price index of “vegetable products”, “skins, leather and articles thereof” and “machinery and mechanical appliances and electrical equipment” groups fell by 1.5, 0.9 and 0.4 percent, respectively compared to the previous year, however.