

# REPUBLIC OF RWANDA



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## PRODUCER PRICE INDEX FOR MANUFACTURING SECTOR (PPI-M) 2<sup>nd</sup> QUARTER 2006

### Background

This is the sixth issue of monthly Producer Price Index for the Manufacturing sector (PPI-M). Work on the development of the methodology for the construction of the PPI-M started in March 2003 with technical assistance from the IMF East AFRITAC and financial assistance from the UK DFID. The PPI project is a joint project between the National Statistics Institute of Rwanda (NSIR) and the National Bank of Rwanda (NBR).

Table 1a: Monthly Producer Price Indices by activity group: **Second Quarter 2006**  
**Goods Produced mainly for local sales**  
*(Base Period: Fourth Quarter 2003 = 100)*

ISIC(Rev 3)	Activity group	Weight	Jun.05	Apr.06	May.06	Jun.06	% change over	
							Previous month	12 months
<b>1511 - 3610</b>	<b>PPI for Mainly Local Sold products</b>	<b>1000</b>	<b>117.7</b>	<b>121.0</b>	<b>121.0</b>	<b>122.7</b>	<b>1.4</b>	<b>4.2</b>
1511-1600	Food Products, Beverages and Tobacco	456	113.1	116.6	115.7	116.4	0.6	2.9
1511-1542	Food Products	129	132.9	148.1	145.1	147.4	1.6	10.9
1511	Production, processing and preserving of meat and meat products	3	113.9	137.0	137.0	137.0	0.0	20.3
1513	Processing and preserving of fruits and vegetables	8	120.9	136.8	136.8	136.8	0.0	13.2
1520	Manufacture of dairy products	32	115.8	138.9	138.9	138.9	0.0	20.0
1531-1533	Manufacture of grain mill and animal feeds products	27	114.0	117.7	117.9	120.0	1.8	5.2
1541	Manufacture of bakery products, pastry, biscuits	13	128.3	128.7	128.5	128.0	-0.4	-0.2
1542	Manufacture of sugar	45	161.3	181.3	172.7	178.3	3.3	10.5
1552-1600	Beverages and Tobacco	327	105.3	104.1	104.1	104.1	0.0	-1.1
1552-1600	Manufacture of beer, soft drinks and tobacco	327	105.3	104.1	104.1	104.1	0.0	-1.1
<b>1711-3610</b>	<b>Other than Food, Beverages and Tobacco</b>	<b>544</b>	<b>121.5</b>	<b>124.7</b>	<b>125.4</b>	<b>127.9</b>	<b>2.0</b>	<b>5.3</b>
1711-1920	Manufacture of textiles, wearing apparel, tanning and dressing of leather	47	122.5	123.2	123.2	123.2	0.0	0.6
2029-2221	Manufacture of paper and paper products, publishing of books, newspapers	40	120.7	120.6	120.5	120.4	-0.1	-0.2
2422-2429	Manufacture of chemical products	172	118.6	116.8	116.5	121.6	4.3	2.6
2511-2520	Manufacture of plastic products, tubes, retreading and rebuilding of rubber tyres	45	123.8	125.8	128.1	127.6	-0.3	3.1
2693-2695	Manufacture of ceramic products, cement, lime and articles of concrete	126	118.5	129.0	129.0	129.0	0.0	8.8
2811-2899	Manufacture of fabricated metal products	70	136.9	144.1	148.8	155,8	4.7	13.8
3610	Manufacture of furniture	43	114.1	117.2	117.2	117,2	0.0	2.8

Source: Quarterly Producer Price Index Survey

Table 1b: Monthly Producer Price Indices by activity group: Second Quarter 2006  
Goods produced mainly for export

(Base Period : Fourth Quarter 2003 = 100)

ISIC(Rev 3)	Activity group	Weight	Jun.05	Apr.06	May.06	Jun.06	% change over	
							Previous month	12 months
1549 and 2421	PPI for Mainly Export Products	1000	147.3	150.4	151.4	156.1	3.1	6.0
1549	Manufacture of other food products n.e.c	978	148.4	151.6	152.7	157.4	3.1	6.1
	1549 Production of tea	585	100.0	126.3	129.0	132.2	2.5	32.3
	1549 Production of coffee	392	220.6	189.3	188.0	195.0	3.7	-11.6
2421	Manufacture of pesticides and other agro-chemical products	22	99.1	97.0	97.0	97.0	0.0	-2.1
	2421 Production of pyrethrum	22	99.1	97.0	97.0	97.0	0.0	-2.1

Source: Quarterly Producer Price Index Survey

Graph1: PPI for local sales and export products

(Fourth quarter 2003=100)



## I. PPI-M (Base year: 4<sup>th</sup> Quarter 2003 =100)

### 1.1 PPI-M: Local sales (table 1a)

At the end of June 2006 the index for products manufactured for sale on the local market stood at 122.7, following an increase of 1.2% in April and also an increase of 1.4% in June while in May the index remained unchanged.

However, Compared to June 2005 (117.7), the index for June 2006 was 4.2% higher.

During the period of last twelve months, that is between June 2005 and June 2006, the index for manufacturing products registered an increase mainly due to price increases in the subgroups: « Food products, Beverage and Tobacco» which increased by 2.9%, that is from 113.1 to 116.4 and subgroup « Other than Food, Beverage and Tobacco» which raised from 121.5 to 127.9, that is an increase of 5.3% from June 2005 to June 2006.

The index of subgroup « Food products, Beverage and Tobacco» experienced an increase during the last twelve months following the increase in the subgroup « Food products» which increased by 10.9% of which: Production, processing and preserving of meat and meat products (+20.3%), Manufacture of dairy products (+20.0%), Processing and preserving of fruits and vegetables (+13.2%), Sugar (+10.5%).

Although the index for subgroup « Food products, Beverage and Tobacco» generally experienced an increase, the price index for «Beverages and Tobacco», registered a decrease of 1.1%. *Generally the main reasons for the price changes as reported by the producers are: Power shortage and increase in the cost of energy, as well as increase of purchase price of imported raw materials where prices increased, while where the prices decreased was due to Competitiveness and Sales promotion.*

The index for the sub group « Other than Food, Beverages and Tobacco » increased by 5.3% from 121.5 in June 2005 to 124.3 in June 2006. This rise was mostly due to the overall effect of price changes in the following groups: “Manufacture of fabricated metal products” (+13.8%), and “Manufacture of ceramic products, cement, lime and articles of concrete” (+8.8%), as a result of ongoing private construction and public works programs which led to high demand that exceeds supply. Higher selling prices therefore reflected the increase in the production cost, namely the higher prices paid for raw materials and energy.

### *1.2 PPI-M Exports (table 1b)*

As shown in the table 1b, the PPI-M for goods mainly produced for exports stood at 150.4 in April, 151.5 in May and 156.1 in June 2006. The Price index fetched for coffee exports registered a decrease of 1.1% in April, and 0.7% in May, whereas in June it registered an increase of 3.7%. On the other hand, export price index of tea registered an increase of 5.9% in April, 2.1% in May and 2.5% in June. However, the price fluctuations for both coffee and tea are caused by price changes on the international market. Compared to June 2005 (147.3), the index for June 2006 (156.1) was 6.0% higher. This increase was mainly attributable to higher prices fetched for tea (+32.3%).

**II. Analysis of trends- Quarterly Change**

**2.1 PPI-M Local sales**

The quarterly PPI-M is obtained as an arithmetic average of the monthly PPI. Comparing to the index of the previous quarter, the index of the second quarter moved upward by 2.0 %. The annual quarterly change of the index registered is 3.6% as it raised from 117.3 in the second quarter of year 2005 to reach at 121.6 in the second quarter of year 2006.

**2.2 PPI-M Exports**

The quarterly index for manufacturing exports registered an increase of 6.1% in the second quarter of 2006 compared to the previous quarter. During the second quarter the annual quarterly change was 6.9%, it raised from 142.8 in the second quarter of 2005 to reach at 152.6 in the second quarter of 2006. This increase is due to price rise for tea by 32.5%, while coffee had a decrease of 10.4%

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## Technical Note on PPI-M

- 1. Scope and composition:** For the purpose of these indices, manufacturing encompass all products produced for sale on the domestic market as well as for the exports that is divisions 15 to 36. The PPI-M will initially cover manufacturing establishments that operate with 10 or more workers.
- 2. Items and weights:** These indices are fixed weight indices. The weights were obtained from the gross output value reported by manufacturers at the 2000 Census of Industrial Production conducted in 2001. Gross output is valued at basic prices, and thus excludes all taxes on products, namely excise duties and Value added tax. Each selected product is assigned a weight representing its share in the total turnover for the fourth quarter of 2003 as reported by the establishments.
- 3. Price information:** The point of pricing is the establishment. The price is the selling price received by the producer for the selected product as it leaves the factory gate. In general prices are collected at *mid - point of each month*.
- 4. Reference base period for PPI\_M:** The reference period for the calculation of PPI-M is the fourth quarter 2003. The base price for a particular product is an arithmetic mean of the fourth quarter monthly prices in 2003.
- 5. Index formula:** The PPI is calculated according to the Laspeyres formula, which is the weighted average of price relatives.

$$I_c = \sum \frac{W_i * (P_{ci} / P_{oi})}{\sum W_i} * 100$$

Where  $I_c$  = Index for current month

$W_i$  = Weight associated with product  $i$

$P_{ci}$  = Price of product  $i$  for the current month

$P_{oi}$  = Price for product  $i$  for the reference period

### 6. Uses of the PPI

The main uses of the PPI are:

- As a leading indicator of inflationary trends.
- As deflators for national accounting at constant prices.
- As “escalators’ to adjust prices of inputs in long term sales contracts.

**7. Dissemination of PPI-M:** The monthly PPI-M will be published in each quarter, about 8 weeks following the quarter under review.