

Inflation

May 2014

Release date: 1 July 2014

	May 14	Apr 14	Mar 14	Feb 14
Headline*	3.0	3.9	4.7	4.7
Domestic^	0.6	2.2	3.0	2.8
Imported^	2.4	1.7	1.7	1.9
Underlying*	2.5	5.2	6.4	5.6

*Year-ended growth

^Percentage point contribution to year-ended growth

Domestic prices growth weakens in May

The consumer price index fell over May 2014, following a sharp decline in the price of domestic fruit and vegetables (-18.7 per cent) coinciding with the onset of the harvesting season. This was partially offset by a rise in imported foods, particularly of meats, fish and poultry. In year-ended terms, prices rose 3.0 per cent, owing mainly to imported inflation, which rose 4.2 per cent.

Imported inflation was driven by foods, clothing & footwear and public transportation. While all imported components rose, most of the increase reflected price rises for food (5.3 per cent), driven by meat prices (see *Box A*). We estimate that had exchange rates been constant over the past 12 months, imported inflation in May would have been around 3.3 percentage points lower in year-ended terms.

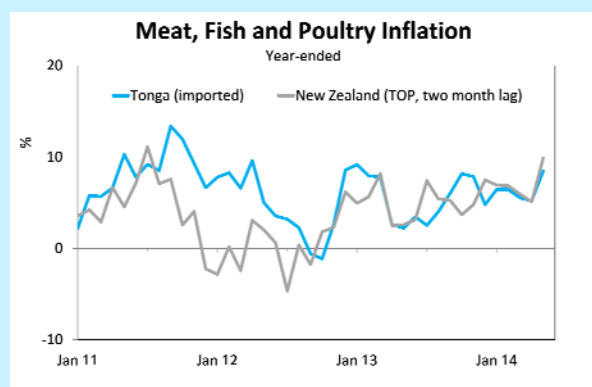
The domestic component rose by 1.4 per cent in year-ended terms. The increase was due by higher prices for meat, fish & poultry and fruit & vegetables, while dairy prices also contributed. This growth was only slightly offset by a dip in domestic fuel and power prices, consistent with the decline in electricity prices over that time.

The headline inflation figure for May (year-ended) was about 1.4 percentage points lower than the April forecast. The main factor causing the difference was the rapid decline in the price of domestic fruits and vegetables, which we had underestimated.

Box A: Growth of Tonga's meat prices

Contributing almost one third to the consumer price basket, imported foods have long been a key driver of Tonga's inflation. Since 2011, meats, fish & poultry prices grew by over 27 per cent, against a backdrop of markedly lower growth in total imported (10.9 per cent) and domestic (4.9 per cent) prices.

A majority of Tonga's meat, fish & poultry is sourced from New Zealand, where by comparison, prices have risen by less than 1 per cent over the same time.



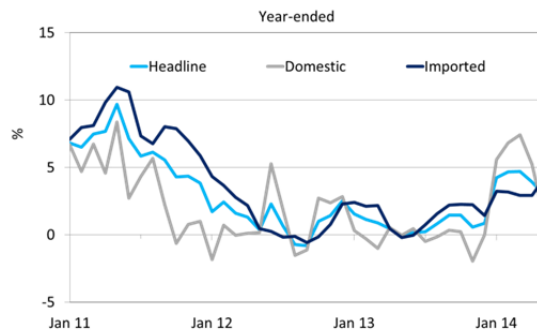
This reflects a depreciation of the pa'anga relative to the New Zealand dollar by the order of 9 per cent.

This chart illustrates the relationship between Tonga's meat prices and those from New Zealand converted into pa'anga.

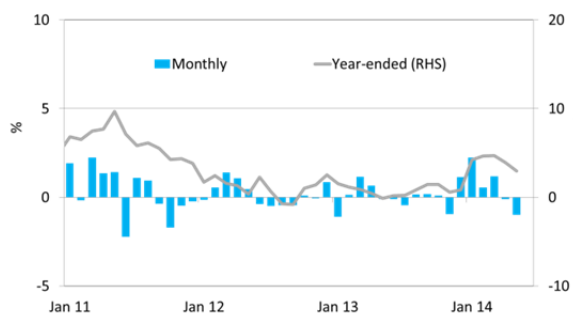
Looking forward, we project headline year-ended inflation to be around 3.7 per cent in June, before falling to around 1.6 per cent by the end of 2014. These forecasts are based on assumptions of constant exchange rates and declining world food and oil prices, consistent with Consensus and IMF. Uncertainties affecting world food and oil prices, and local weather patterns, pose the largest risk to the inflation outlook. Other factors, such as the speed of local economic activity, are far less relevant for inflation in Tonga.

With headline inflation projected to be well below our reference range, the information contained in this update does not suggest a need to change monetary policy settings in the near term.

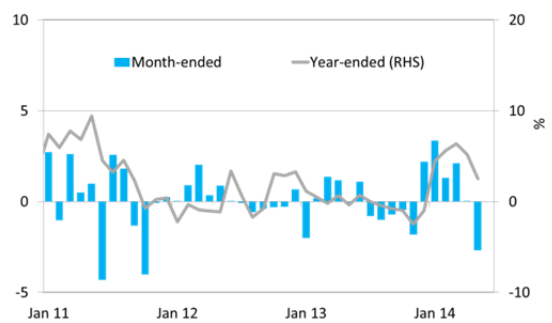
Inflation



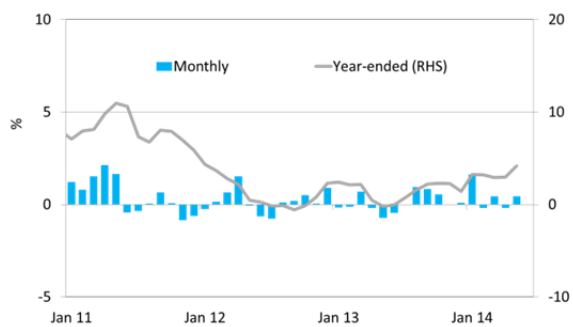
Headline Inflation



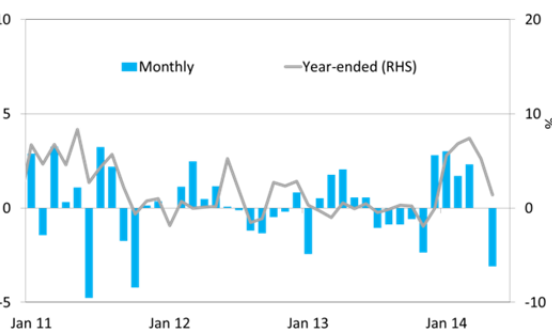
Underlying Inflation



Imported Inflation



Domestic Inflation



Inflation Breakdown*

	Weight	Month-ended		Year-ended	
	%	Change	Contribution to total	Change	Contribution to total
		%	ppt	%	ppt
CPI	100	-1.0	-1.0	3.0	3.0
Imported total	57.8	0.4	0.3	4.2	2.4
Food	27.9	1.6	0.5	5.3	1.5
<i>Fruit and vegetables</i>	0.9	7.6	0.1	7.9	0.1
<i>Meats, fish and poultry</i>	14.6	2.1	0.3	8.5	1.3
<i>Dairy farm and vegetable products</i>	3.2	0.1	0.0	2.0	0.1
<i>Cereals and cereal products</i>	3.5	0.2	0.0	-0.4	0.0
<i>Other food</i>	0.8	1.6	0.0	0.5	0.0
Transportation	11.5	-0.2	0.0	2.1	0.3
<i>Private</i>	2.9	0.0	0.0	0.0	0.0
<i>Public</i>	8.6	-0.2	0.0	2.7	0.2
Tobacco and alcohol	4.5	-2.9	-0.1	1.3	0.1
<i>Tobacco</i>	2.9	-0.2	0.0	-0.2	0.0
<i>Alcohol</i>	1.6	-7.6	-0.1	4.4	0.1
Household operation	3.5	-1.1	0.0	2.3	0.1
<i>Domestic Power & Fuel</i>	1.1	0.0	0.0	8.4	0.1
<i>Household Appliances</i>	1.2	0.0	0.0	0.1	0.0
<i>Household supplies & services</i>	1.2	-3.3	0.0	-1.9	0.0
Clothing and footwear	3.2	0.0	0.0	12.6	0.4
Housing	0.8	0.0	0.0	2.3	0.0
Miscellaneous	6.4	0.5	0.0	2.1	0.1
Domestic total	42.2	-3.1	-1.3	1.4	0.6
Food	17.8	-6.8	-1.3	3.7	0.7
<i>Fruit and vegetables</i>	6.5	-18.7	-1.6	2.3	0.2
<i>Meats, fish and poultry</i>	3.7	8.7	0.3	9.3	0.3
<i>Dairy farm and vegetable products</i>	0.5	0.8	0.0	5.4	0.0
<i>Cereals and cereal products</i>	3.4	0.0	0.0	3.6	0.1
<i>Drinks, sweets and meals away from home</i>	3.7	0.0	0.0	0.7	0.0
Household operation	17.3	0.0	0.0	-0.9	-0.1
<i>Domestic fuel and power</i>	6.0	0.0	0.0	-2.4	-0.2
<i>Household furniture, furnishings and textiles</i>	1.4	0.0	0.0	0.1	0.0
<i>Household supplies and services</i>	4.7	0.0	0.0	0.0	0.0
<i>Communications services</i>	5.2	0.0	0.0	0.0	0.0
Housing	1.7	0.0	0.0	0.0	0.0
<i>House maintenance goods</i>	0.1	0.0	0.0	0.0	0.0
<i>House maintenance services</i>	1.6	0.0	0.0	0.0	0.0
Tobacco and Alcohol	1.5	0.0	0.0	0.0	0.0
<i>Alcohol</i>	0.8	0.0	0.0	0.0	0.0
<i>Kava</i>	0.7	0.0	0.0	0.0	0.0
Transportation (Public)	0.5	0.0	0.0	0.0	0.0
Miscellaneous	3.5	0.0	0.0	2.1	0.1
Underlying CPI measures					
Ex. Energy**	81.4	-0.2	-0.2	4.5	3.6
Ex. imported food	72.1	-2.0	-1.5	2.1	1.5
Ex. energy and imported food	53.5	-2.7	-1.4	2.5	1.3

* Due to rounding and Tonga Department of Statistics errors some data may not aggregate precisely.

**Excluded from the 'Ex energy' index is imported transportation and 'domestic fuel and power' component of 'Household operation'.

Source: Tonga Department of Statistics