

Inflation

November 2014

Release date: 7 January 2015

	Nov 14	Oct 14	Sep 14	Aug 14
Headline*	1.8	0.7	1.1	2.5
Domestic^	1.1	-0.1	-0.5	-0.4
Imported^	0.8	0.9	1.6	2.8
Underlying*	3.6	1.3	0.6	0.5

*Year-ended growth

^Percentage point contribution to year-ended growth

Food and Clothing & Footwear driving increase

The consumer price index increased over the month of November. The rise was due to increases in Food prices, particularly for Fruits & vegetables and imported Meats, fish & poultry. The major contributors to higher prices were higher domestic food prices due to limited supply and the strengthening New Zealand dollar over the month.

Annual headline inflation was 1.8% in November, up from 0.7% in October and also compared to 0.6% in November 2013. However, inflation is still well-below the NRBT's 6-8% reference range. The increase in headline inflation was due to rises in prices for Food, Clothing & footwear and Miscellaneous goods & services. It is also in line with price increases in both the domestic and imported components.

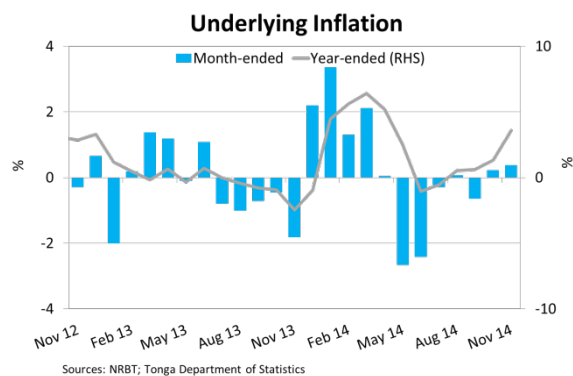
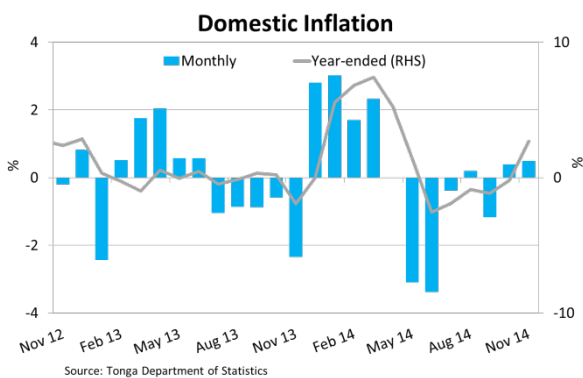
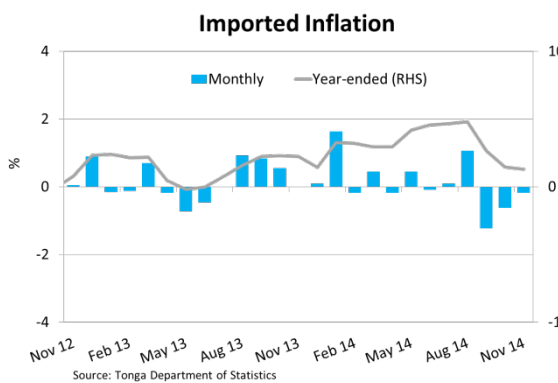
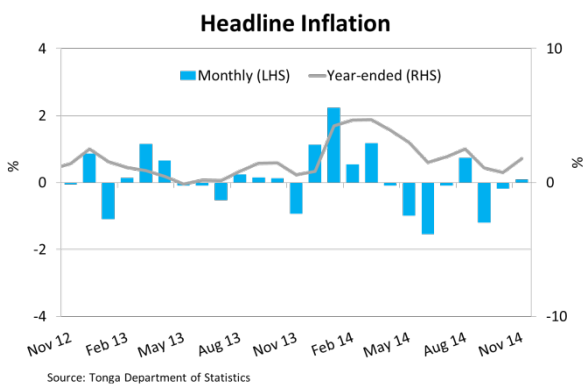
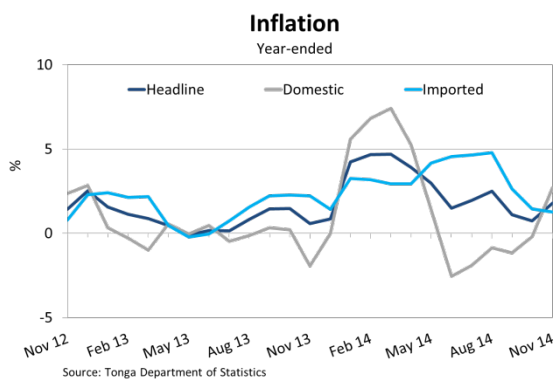
Prices of the domestic component increased over the year due to increases in Miscellaneous goods & services and Food prices, particularly for Fruits & vegetables. High prices for items such as leaf vegetables (lu, pele, cabbage, etc), kumara, early yams and watermelon saw the price index for Fruit & vegetables increase by 21.4%. The higher prices reflect the low supply of local Fruit & vegetables due to recent severe weather conditions. Prices for Meats, fish & poultry and Dairy farm & vegetable products were lower over the year but were insufficient to offset the higher prices for Fruits & vegetables.

Prices for Food, Clothing & footwear and Goods & services were the drivers for the increase in the imported component. Prices for Clothing & footwear rose strongly after having remained unchanged for 3 years to December 2013. The increase in Food prices was mainly due to price increases for frozen meats, particularly mutton and lamb, and Dairy farm & vegetable products. The Tongan pa'anga depreciating against the New Zealand dollar, with which we import most of these items, by 1.3%

over the year to November would have further exacerbated prices. Underlying inflation, which excludes imported foods and imported energy, increased by 3.6% over the year reflecting the recent decline in global oil prices. This is also reflected in the decline in prices for transportation and household operations (domestic fuel & power).

Looking forward, the NRBT expects headline inflation to ease in the near term supported by continued lower world oil prices. However, domestic food prices is expected to slightly offset the decline due to effects from recent drought and a renewed El Niño warning for Tonga. Uncertainties affecting world food and oil prices, and local weather patterns, pose the largest risk to the inflation outlook.

Headline inflation has been below the NRBT's reference range of 6-8% since September 2011. The NRBT is monitoring the inflation developments and would amend its monetary policy stance if needed to support economic growth and maintain price stability.



Inflation Breakdown*

	Weight	Month-ended		Year-ended	
	%	Change %	Contribution to total ppt	Change %	Contribution to total ppt
CPI	100	0.1	0.1	1.8	1.8
Imported	57.8	-0.2	-0.1	1.3	0.8
Food	27.9	2.5	0.0	1.4	0.4
<i>Fruit & vegetables</i>	0.9	0.2	0.0	3.4	0.0
<i>Meats, fish & poultry</i>	14.6	0.3	0.1	3.9	0.6
<i>Dairy farm & vegetable products</i>	3.2	-0.3	0.0	2.7	0.1
<i>Cereals & cereal products</i>	3.5	-0.8	0.0	-3.8	-0.1
<i>Other food</i>	5.7	0.1	0.0	-3.8	-0.2
Transportation	11.5	-1.3	-0.1	-3.0	-0.4
<i>Private</i>	2.9	0.0	0.0	0.0	0.0
<i>Public</i>	8.6	-1.6	-0.1	-3.9	-0.4
Tobacco & Alcohol	4.5	0.0	0.0	-0.9	0.0
<i>Tobacco</i>	2.9	0.0	0.0	-0.1	0.0
<i>Alcohol</i>	1.6	0.0	0.0	-2.6	0.0
Household Operation	3.5	-0.1	0.0	-0.8	0.0
<i>Domestic Power & Fuel</i>	1.1	-0.1	0.0	-0.2	0.0
<i>Household Appliances</i>	1.2	0.0	0.0	0.1	0.0
<i>Household supplies & services</i>	1.2	1.6	0.0	-2.3	0.0
Clothing & Footwear	3.2	0.0	0.0	16.2	0.5
Housing	0.8	-0.7	0.0	-0.4	0.0
Miscellaneous	6.4	0.5	0.0	3.7	0.2
Domestic	42.2	0.5	0.2	2.7	1.1
Food	17.8	1.2	0.2	6.6	1.1
<i>Fruit & vegetables</i>	6.5	5.7	0.3	21.4	1.1
<i>Meats, fish & poultry</i>	3.7	-3.1	-0.1	-0.8	0.0
<i>Dairy farm & vegetable products</i>	0.5	0.0	0.0	-3.6	0.0
<i>Cereals & cereal products</i>	3.4	0.0	0.0	0.9	0.0
<i>Other food</i>	3.7	0.0	0.0	0.6	0.0
Transportation	17.3	0.0	0.0	0.0	0.0
<i>Private</i>	6.0	0.0	0.0	0.0	0.0
<i>Public</i>	1.4	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.7	0.0	0.0	0.0	0.0
<i>Tobacco</i>	5.2	0.0	0.0	0.0	0.0
<i>Alcohol</i>	1.7	0.0	0.0	0.0	0.0
Household Operation	0.1	0.0	0.0	-0.4	-0.1
<i>Domestic Power & Fuel</i>	1.6	0.0	0.0	-1.1	-0.1
<i>Household Appliances</i>	1.5	0.0	0.0	0.0	0.0
<i>Household supplies & services</i>	0.8	0.0	0.0	0.0	0.0
Clothing & Footwear	0.7	0.0	0.0	0.0	0.0
Housing	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	0.3	0.2	2.7	2.2
Ex. imported food	72.1	0.1	0.0	2.0	1.4
Ex. energy and imported food	53.5	0.4	0.2	3.6	1.8

* 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