

# Inflation

## February 2015

Release date: 10 April 2015

|                    | Feb 15      | Jan 15     | Dec 14     | Nov 14     |
|--------------------|-------------|------------|------------|------------|
| <b>Headline*</b>   | <b>-1.1</b> | <b>0.1</b> | <b>0.2</b> | <b>1.8</b> |
| Domestic^          | -1.2        | 0.0        | -0.1       | 1.1        |
| Imported^          | 0.0         | 0.2        | 0.3        | 0.8        |
| <b>Underlying*</b> | <b>0.6</b>  | <b>1.7</b> | <b>1.6</b> | <b>3.6</b> |

\*Year-ended growth

^Percentage point contribution to year-ended growth

## Global oil prices cause deflation

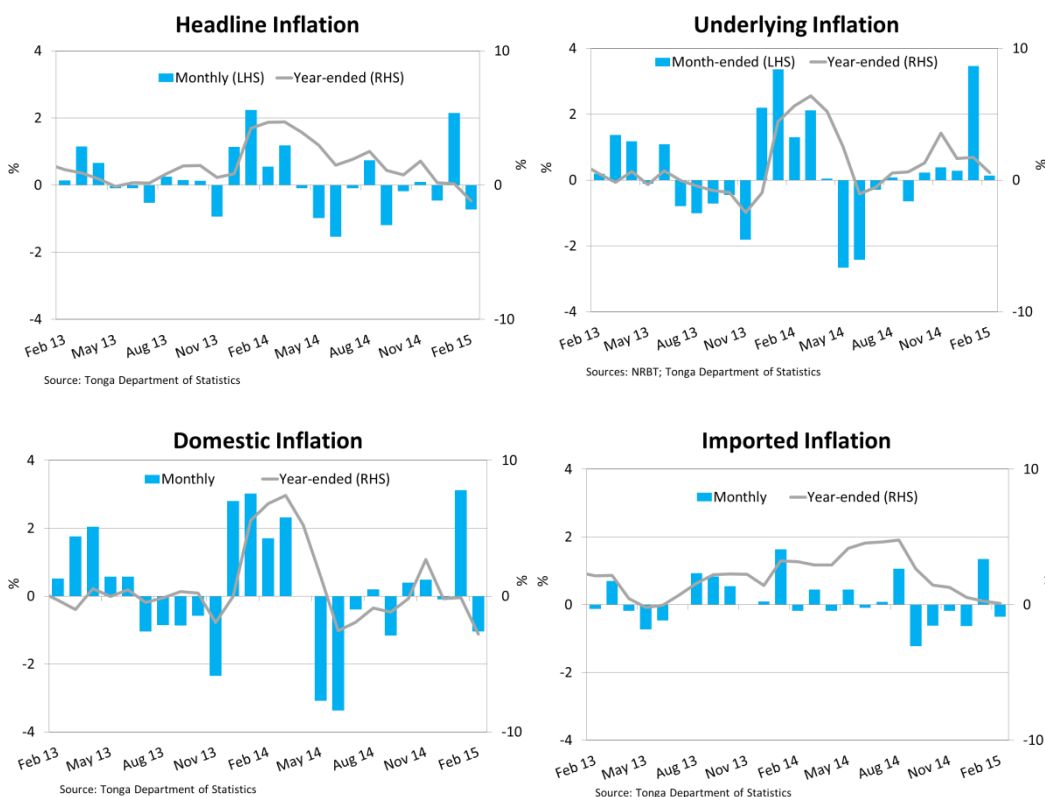
Over the month, headline inflation decreased by 0.7%. This was caused largely by the declining global oil prices affecting domestic prices, particularly prices in the Household Operation and Transportation components. Specifically, Domestic Power & Fuel prices dropped by 8.4% contributing the most to the monthly decline. In addition, Imported prices declined by 0.4%. This was due to Housing and Household Operation prices falling by 0.9% and 1.7% respectively. Transportation prices also fell by 7.1%, particularly Private Transportation prices (-9.7%) which contributed the most to the decrease. In contrast, Imported Food prices increased by 1.7% over the month, despite lower food prices in New Zealand and the Tongan Pa'anga appreciating against the New Zealand dollar. Therefore the rise could have been driven by high demand which led importers to raise Imported Food prices.

Annual inflation was -1.1% being the first deflation rate since May 2013. The yearly decline in prices is mainly owed to low domestic prices which fell by 2.9%. Domestic Food prices decreased by 2.1% and in particular, Fruit & vegetables, and Meats, fish & poultry prices declined by 0.9% and 5.0% respectively. Additionally, prices for Cereals & cereal products dropped by 4.1% further contributing to the annual fall in Domestic Food prices. Household Operation prices also dropped, particularly Domestic Power & Fuel prices which fell by 13.6%. The lower Domestic Power & Fuel prices over the year

were driven by the falling world oil prices. This decline had offset a 2.0% increase in Household furniture, furnishing & textiles prices.

Over the year, Imported prices increased by 0.1% largely driven by rises in food prices. Fruit & vegetables and Meats, fish & poultry prices rose by 11.0% and 10.2% respectively, causing the increase in Imported Food prices. These price changes had offset the decline in other Imported Food prices such as Cereals & cereal products. Furthermore, prices for Clothing & Footwear, and Miscellaneous goods & services increased by 8.4% and 2.6% respectively. Tobacco prices also rose over the year by 10.2%, whilst Alcohol prices declined by 2.6%. In contrast, Transportation and Household Operation prices decreased due to falling global oil prices.

The NRBT expects inflation to ease further in the near term due to the lag effects of falling world oil prices. Continued deflation is likely to have significant impacts within the economy. These impacts include the increase of purchasing power which is a benefit to households. However, businesses cutting back of wages and laying off workers are potential adverse impacts of lower prices. The NRBT is closely monitoring inflation changes and will adjust its monetary policy stance if needed to maintain price stability and stimulate economic growth.



### Inflation Breakdown\*

|   | Weight<br>% | Month-ended |                                 | Year-ended  |                                 |
|---|-------------|-------------|---------------------------------|-------------|---------------------------------|
|   |             | Change<br>% | Contribution<br>to total<br>ppt | Change<br>% | Contribution<br>to total<br>ppt |
| <b>CPI</b>  | <b>100</b>  | <b>-0.7</b> | <b>-0.7</b>                     | <b>-1.1</b> | <b>-1.1</b>                     |
| <b>Domestic</b>                                       | <b>42.2</b> | <b>-1.1</b> | <b>-0.4</b>                     | <b>-2.9</b> | <b>-1.2</b>                     |
| <b>Food</b>   | <b>17.8</b> | <b>0.2</b>  | <b>0.0</b>                      | <b>-2.1</b> | <b>-0.4</b>                     |
| <i>Fruit &amp; vegetables</i>                         | 6.5         | 3.5         | 0.3                             | -0.9        | -0.1                            |
| <i>Meats, fish &amp; poultry</i>                      | 3.7         | -5.7        | -0.2                            | -5.0        | -0.2                            |
| <i>Dairy farm &amp; vegetable products</i>            | 0.5         | 0.0         | 0.0                             | -3.6        | 0.0                             |
| <i>Cereals &amp; cereal products</i>                  | 3.4         | 0.0         | 0.0                             | -4.1        | -0.1                            |
| <i>Other food</i>                                     | 0.0         | 0.0         | 0.0                             | 0.0         | 0.0                             |
| <i>Drinks, sweets and meal away from home</i>         | 3.7         | 0.0         | 0.0                             | 0.6         | 0.0                             |
| Transportation  | 0.5         | -0.3        | 0.0                             | -0.3        | 0.0                             |
| <b>Tobacco &amp; Alcohol</b>                          | <b>1.5</b>  | <b>0.0</b>  | <b>0.0</b>                      | <b>0.0</b>  | <b>0.0</b>                      |
| <i>Tobacco</i>  | 0.0         | 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                             |
| <b>Household Operation</b>                            | <b>17.3</b> | <b>-3.0</b> | <b>-0.5</b>                     | <b>-4.9</b> | <b>-0.8</b>                     |
| <i>Domestic Power &amp; Fuel</i>                      | 6.0         | -8.4        | -0.5                            | -13.6       | -0.8                            |
| <i>Household Appliances</i>                           | 0.0         | 0.0         | 0.0                             | 0.0         | 0.0                             |
| <i>Household furniture, furnishing &amp; textiles</i> | 1.4         | 0.0         | 0.0                             | 2.0         | 0.0                             |
| <i>Household supplies &amp; services</i>              | 4.7         | 0.0         | 0.0                             | 0.0         | 0.0                             |
| <i>Communication services</i>                         | 5.2         | 0.0         | 0.0                             | 0.0         | 0.0                             |
| Clothing & Footwear                                   | 0.0         | 0.0         | 0.0                             | 0.0         | 0.0                             |
| Housing   | 1.7         | 0.0         | 0.0                             | 0.0         | 0.0                             |
| Miscellaneous goods & services                        | 3.5         | 0.0         | 0.0                             | 0.0         | 0.0                             |
| <b>Imported</b>                                       | <b>57.8</b> | <b>-0.4</b> | <b>-0.2</b>                     | <b>0.1</b>  | <b>0.0</b>                      |
| <b>Food</b>   | <b>27.9</b> | <b>1.7</b>  | <b>0.5</b>                      | <b>5.8</b>  | <b>1.7</b>                      |
| <i>Fruit &amp; vegetables</i>                         | 0.9         | 4.5         | 0.0                             | 11.0        | 0.1                             |
| <i>Meats, fish &amp; poultry</i>                      | 14.6        | 2.0         | 0.3                             | 10.2        | 1.7                             |
| <i>Dairy farm &amp; vegetable products</i>            | 3.2         | 1.1         | 0.0                             | 1.5         | 0.0                             |
| <i>Cereals &amp; cereal products</i>                  | 3.5         | 0.2         | 0.0                             | -2.1        | -0.1                            |
| <i>Other food</i>                                     | 5.7         | 2.0         | 0.1                             | -0.3        | 0.0                             |
| <i>Drinks, sweets and meal away from home</i>         | 0.0         | 0.0         | 0.0                             | 0.0         | 0.0                             |
| Transportation  | 11.5        | -7.1        | -0.8                            | -18.5       | -2.2                            |
| <i>Private</i>  | 8.6         | -9.7        | -0.8                            | -24.0       | -2.2                            |
| <i>Public</i>   | 2.9         | 0.0         | 0.0                             | -0.5        | 0.0                             |
| <b>Tobacco &amp; Alcohol</b>                          | <b>4.5</b>  | <b>0.9</b>  | <b>0.0</b>                      | <b>5.9</b>  | <b>0.2</b>                      |
| <i>Tobacco</i>  | 2.9         | 1.3         | 0.0                             | 10.2        | 0.3                             |
| <i>Alcohol</i>  | 1.6         | 0.0         | 0.0                             | -2.6        | 0.0                             |
| <i>Kava</i>   | 0.0         | 0.0         | 0.0                             | 0.0         | 0.0                             |
| <b>Household Operation</b>                            | <b>3.5</b>  | <b>-1.7</b> | <b>-0.1</b>                     | <b>-4.1</b> | <b>-0.1</b>                     |
| <i>Domestic Power &amp; Fuel</i>                      | 1.1         | -5.6        | -0.1                            | -10.8       | -0.1                            |
| <i>Household Appliances</i>                           | 1.2         | 0.0         | 0.0                             | 1.6         | 0.0                             |
| <i>Household furniture, furnishing &amp; textiles</i> | 0.0         | 0.0         | 0.0                             | 0.0         | 0.0                             |
| <i>Household supplies &amp; services</i>              | 1.2         | 0.2         | 0.0                             | -2.9        | 0.0                             |
| <i>Communication services</i>                         | 0.0         | 0.0         | 0.0                             | 0.0         | 0.0                             |
| Clothing & Footwear                                   | 3.2         | 0.0         | 0.0                             | 8.4         | 0.3                             |
| Housing   | 0.8         | -0.9        | 0.0                             | -2.3        | 0.0                             |
| Miscellaneous goods & services                        | 6.4         | 0.0         | 0.0                             | 2.6         | 0.2                             |
| <b>Underlying CPI measures</b>                        |             |             |                                 |             |                                 |
| Ex. Energy**  | 81.4        | 0.8         | 0.6                             | 2.5         | 2.0                             |
| Ex. imported food                                     | 72.1        | -1.7        | -1.2                            | -4.0        | -2.9                            |
| Ex. energy and imported food                          | 53.5        | 0.1         | 0.1                             | 0.6         | 0.3                             |

\* 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