

Inflation

July 2015

Release date: 21 September 2015

	Jul 15	Jun 15	May 15	Apr 15
Headline*	1.6	0.2	-0.6	-1.5
Domestic^	3.9	2.6	1.3	-0.2
Imported^	-2.3	-2.4	-1.9	-1.3
Underlying*	9.9	7.8	5.3	2.8

*Year-ended growth

^Percentage point contribution to year-ended growth

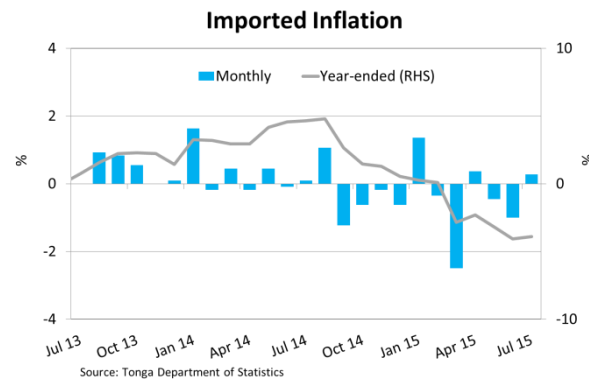
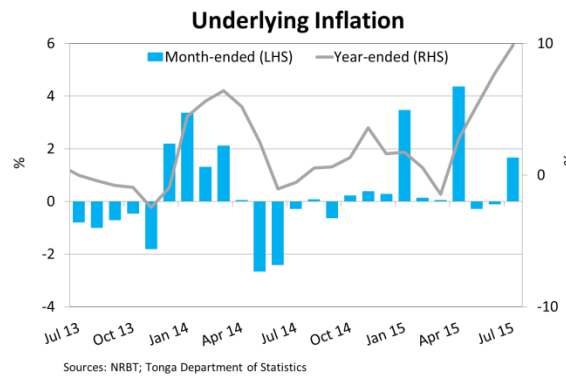
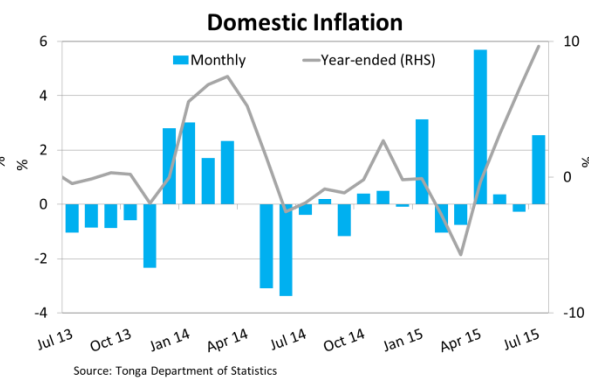
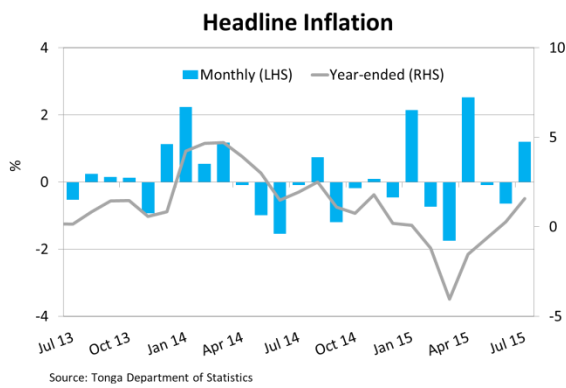
Domestic prices continue to drive a rise in inflation

The CPI increased by 1.3% over the month. This was driven mainly by a 2.6% rise in Domestic prices. Specifically, Domestic Food prices rose such as Fruit & Vegetables, and Meats, Fish & Poultry. This coincides with Quarantine and Rainfall data suggesting low agricultural yields which could explain the higher prices for Domestic Food items. Additionally, high demand for domestic foods for the FWC Conference, school anniversaries, and family reunions could have contributed to the increase in prices. Moreover, Imported prices rose by 0.3% as a result of recovering global oil prices coupled with the Tongan pa'anga depreciating against the U.S. Dollar, which affected the Transportations component. This rise had offset the fall in Imported Food prices, which was supported by the Tongan Pa'anga appreciating against the New Zealand Dollar.

In annual terms, the headline inflation rate increased by 1.6% due to Domestic prices, rising by 9.7%. This was caused largely by higher prices for local food items such as Fruit & Vegetables, and Meats, Fish & Poultry which had also offset declines in prices of other Domestic items. The rise in Domestic Food prices over the year to June could be driven by unfavourable weather conditions resulting in lower supply. In contrast, Imported prices dropped by 3.9% over the year as a result of lower Food prices for most food

items. Additionally, the decline in global oil prices greatly lowered the Transportation costs and the Household Operations component, specifically electricity prices. Furthermore, the annual core inflation rate (excluding energy and imported food) increased by 9.9% indicating the significant influence global prices has on inflation.

On the outlook, the NRBT continues to expect that headline inflation will remain low until the end of this calendar year. However, recent developments in world oil prices and food prices could alter the current forecast. The NRBT will continue to closely monitor the country’s economic conditions in order to maintain price stability and promote economic prosperity.



Inflation Breakdown*

	Weight	Month-ended		Year-ended	
	%	Change %	Contribution to total ppt	Change %	Contribution to total ppt
CPI	100	1.3	1.3	1.6	1.6
Domestic	42.2	2.6	1.1	9.7	3.9
Food	17.8	5.1	1.0	28.8	4.8
<i>Fruit & vegetables</i>	6.5	8.7	0.8	79.3	4.6
<i>Meats, fish & poultry</i>	3.7	5.7	0.2	11.8	0.4
<i>Dairy farm & vegetable products</i>	0.5	0.0	0.0	-3.7	0.0
<i>Cereals & 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	0.0	0.0
Transportation	0.5	0.0	0.0	0.0	0.0
Tobacco & Alcohol	1.5	0.0	0.0	0.0	0.0
Household Operation	17.3	0.5	0.1	-5.6	-0.9
<i>Domestic Power & Fuel</i>	6.0	3.6	0.2	-9.3	-0.6
<i>Household Appliances</i>	0.0	0.0	0.0	0.0	0.0
<i>Household furniture, furnishing & textiles</i>	1.4	0.0	0.0	2.0	0.0
<i>Household supplies & services</i>	4.7	-3.0	-0.1	-9.0	-0.4
<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
Imported	57.8	0.3	0.2	-3.9	-2.3
Food	27.9	-0.6	-0.2	-5.2	-1.5
<i>Fruit & vegetables</i>	0.9	-2.4	0.0	-3.5	0.0
<i>Meats, fish & poultry</i>	14.6	-0.7	-0.1	-9.9	-1.7
<i>Dairy farm & vegetable products</i>	3.2	-0.3	0.0	1.5	0.0
<i>Cereals & cereal products</i>	3.5	-0.9	0.0	-1.5	-0.1
<i>Other food</i>	5.7	-0.1	0.0	2.8	0.2
<i>Drinks, sweets and meal away from home</i>	0.0	0.0	0.0	0.0	0.0
Transportation	11.5	3.5	0.4	-9.6	-1.2
<i>Private</i>	8.6	4.8	0.4	-12.2	-1.1
<i>Public</i>	2.9	0.0	0.0	-0.5	0.0
Tobacco & Alcohol	4.5	0.7	0.0	7.9	0.3
<i>Tobacco</i>	2.9	1.1	0.0	11.6	0.3
<i>Alcohol</i>	1.6	0.0	0.0	0.7	0.0
<i>Kava</i>	0.0	0.0	0.0	0.0	0.0
Household Operation	3.5	-1.4	0.0	-6.0	-0.2
<i>Domestic Power & Fuel</i>	1.1	-1.9	0.0	-15.9	-0.2
<i>Household Appliances</i>	1.2	0.0	0.0	1.6	0.0
<i>Household furniture, furnishing & textiles</i>	0.0	0.0	0.0	0.0	0.0
<i>Household supplies & services</i>	1.2	-2.4	0.0	-3.4	0.0
<i>Communication services</i>	0.0	0.0	0.0	0.0	0.0
Clothing & Footwear	3.2	0.0	0.0	8.2	0.3
Housing	0.8	-1.2	0.0	-2.1	0.0
Miscellaneous goods & services	6.4	0.0	0.0	-0.2	0.0
Underlying CPI measures					
Ex. Energy**	81.4	0.9	0.7	4.3	3.5
Ex. imported food	72.1	2.0	1.5	4.5	3.1
Ex. energy and imported food	53.5	1.7	0.9	9.9	5.0

* 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