

Inflation

July 2016

Release date: 1 September 2016

| | July 16 | June 16 | May 16 | Apr 16 |
|-----------------------|------------|------------|-------------|-------------|
| Headline* | 1.6 | 0.1 | -1.0 | -0.9 |
| Domestic [^] | 0.7 | 2.1 | 1.9 | 2.8 |
| Imported [^] | 1.0 | -1.9 | -2.9 | -3.7 |
| Underlying* | 3.9 | 5.6 | 5.1 | 6.2 |

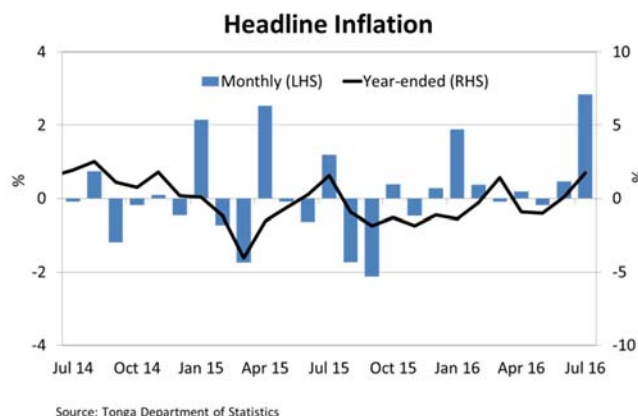
*Year-ended growth

[^]Percentage point contribution to year-ended growth

New excise tax driving inflation

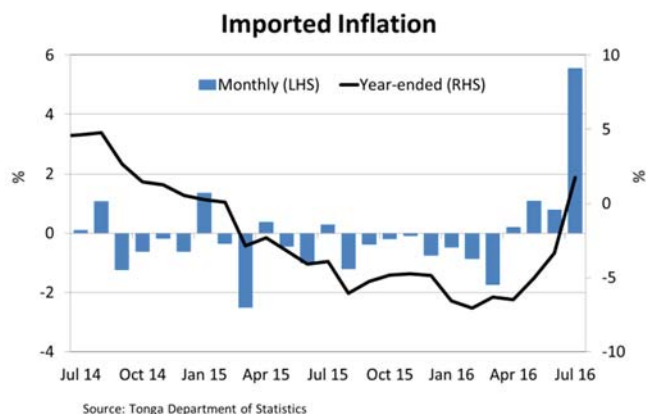
Headline inflation over the month of July was 2.8%. This was driven by a rise in prices of imported food; tobacco and alcohol, with the introduction of a new excise tax. Prices of imported transportation (fuel) contributed as well. In year ended terms, headline inflation was at its highest for this year at 1.6%, surpassing a peak of 1.4% back in March 2016. The rise in prices of key items from both imported and domestic components were able to drive inflation upwards.

According to Reuters world oil prices has slowed, from averaging at a peak last month of US\$49.77 to US\$47.08 per barrel. The flow on effects of changes in world oil prices is felt in Tonga with a lag of between 1-2 months. Local fuel prices recorded its highest for 2016 in July, with both petrol and diesel selling at \$2.35 senti per litre. An import duty on fuel imports contributed to the rise.



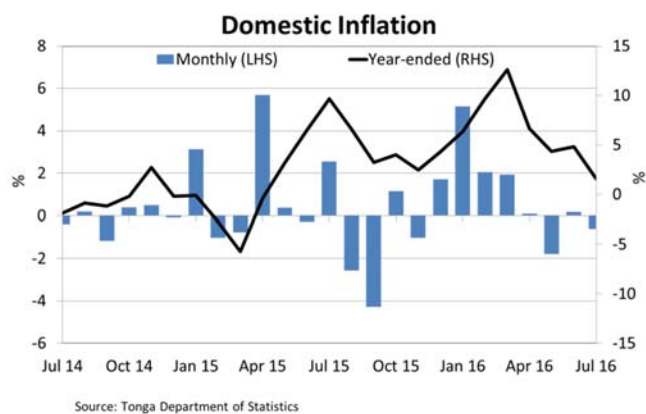
The prices of imported components rose by 5.6% over the month of July. The significant rise was mainly due to an excise tax passed by parliament on the 1st of July to combat the rise in non-communicable diseases. This tax of 40 seniti a kilogram was imposed on fatty foods including chicken, mutton and turkey tails. An excise tax was also imposed on tobacco with prices now rising by a third.

In year ended terms, the prices of imported goods rose by 1.7%. The pick-up in prices came from the components of food and tobacco, alcohol and kava.



The prices of domestic components fell by 0.6% over the month. The fall was attributed to the component of domestic food, particularly that of seafood.

In year ended terms, the prices of domestic components rose by 1.6%, a continued shortage of kava and prices of other miscellaneous goods and services are responsible for the rise.



The NRBT’s project inflation to remain at low levels for the next few months and to peak at 4.3% in November and then fall to 2.5% in the beginning of 2017. Developments in world oil and food prices pose a risk to this inflation forecast.

Inflation Breakdown*

| | Weight % | Month-ended | | Year-ended | |
|---|-------------|-------------|---------------------------------|-------------|---------------------------------|
| | | Change % | Contribution to total ppt | Change % | Contribution to total ppt |
| CPI | 100 | 2.8 | 2.8 | 1.7 | 1.7 |
| Domestic | 42.2 | -0.6 | -0.3 | 6.6 | 0.7 |
| Food | 17.8 | -2.3 | -0.5 | -5.8 | -1.2 |
| <i>Fruit & vegetables</i> | 6.5 | -2.6 | -0.1 | 10.1 | -1.1 |
| <i>Meats, fish & poultry</i> | 3.7 | -10.0 | -0.4 | -5.2 | -0.2 |
| <i>Dairy farm & vegetable products</i> | 0.5 | 3.2 | 0.0 | -2.3 | 0.0 |
| <i>Cereals & cereal products</i> | 3.4 | 0.0 | 0.0 | 0.1 | 0.0 |
| <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 | 1.0 | 0.0 |
| Transportation | 0.5 | 0.0 | 0.0 | 0.2 | 0.0 |
| Tobacco & Alcohol | 1.5 | 0.0 | 0.0 | 68.9 | 0.9 |
| Household Operation | 17.3 | 1.3 | 0.2 | 0.8 | 0.1 |
| <i>Domestic Power & Fuel</i> | 6.0 | 3.0 | 0.1 | -13.1 | -0.7 |
| <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 | 19.7 | 0.3 |
| <i>Household supplies & services</i> | 4.7 | 1.6 | 0.1 | 3.3 | 0.1 |
| <i>Communication services</i> | 5.2 | 0.0 | 0.0 | 9.3 | 0.4 |
| Clothing & Footwear | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Housing | 1.7 | 0.0 | 0.0 | 2.4 | 0.0 |
| Miscellaneous goods & services | 3.5 | 0.0 | 0.0 | 24.9 | 0.8 |
| Imported | 57.8 | 5.6 | 3.1 | 1.8 | 1.0 |
| Food | 27.9 | 0.2 | 2.3 | 3.1 | 0.9 |
| <i>Fruit & vegetables</i> | 0.9 | -1.2 | 0.0 | -6.9 | -0.1 |
| <i>Meats, fish & poultry</i> | 14.6 | 0.2 | 2.3 | 6.6 | 1.0 |
| <i>Dairy farm & vegetable products</i> | 3.2 | 0.2 | 0.0 | -2.4 | -0.1 |
| <i>Cereals & cereal products</i> | 3.5 | 0.8 | 0.0 | 0.2 | 0.0 |
| <i>Other food</i> | 5.7 | 0.8 | 0.0 | 0.9 | 0.1 |
| <i>Drinks, sweets and meal away from home</i> | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Transportation | 11.5 | 0.5 | 0.3 | -7.0 | -0.6 |
| <i>Private</i> | 8.6 | 4.7 | 0.3 | -7.6 | -0.6 |
| <i>Public</i> | 2.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tobacco & Alcohol | 4.5 | 0.2 | 0.4 | 2.2 | 0.5 |
| <i>Tobacco</i> | 2.9 | 13.5 | 0.4 | 15.0 | 0.5 |
| <i>Alcohol</i> | 1.6 | 0.0 | 0.0 | 7.7 | 0.1 |
| <i>Kava</i> | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Household Operation | 3.5 | -0.9 | 0.0 | -1.8 | -0.1 |
| <i>Domestic Power & Fuel</i> | 1.1 | 0.4 | 0.0 | -6.2 | -0.1 |
| <i>Household Appliances</i> | 1.2 | 0.0 | 0.0 | 0.8 | 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 | -0.4 | 0.0 | -4.6 | 0.0 |
| <i>Communication services</i> | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Clothing & Footwear | 3.2 | 0.0 | 0.0 | 8.6 | 0.3 |
| Housing | 0.8 | -0.7 | 0.0 | 3.4 | 0.0 |
| Miscellaneous goods & services | 6.4 | 0.6 | 0.0 | -1.5 | -0.1 |
| Underlying CPI measures | | | | | |
| Ex. Energy** | 81.4 | 2.8 | 2.3 | 3.6 | 3.0 |
| Ex. imported food | 72.1 | 0.6 | 0.5 | 1.1 | 0.8 |
| Ex. energy and imported food | 53.5 | 0.0 | 0.0 | 3.9 | 2.2 |

* Due to rounding 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