

# Inflation

## July 2017

Release date: 19 October 2017

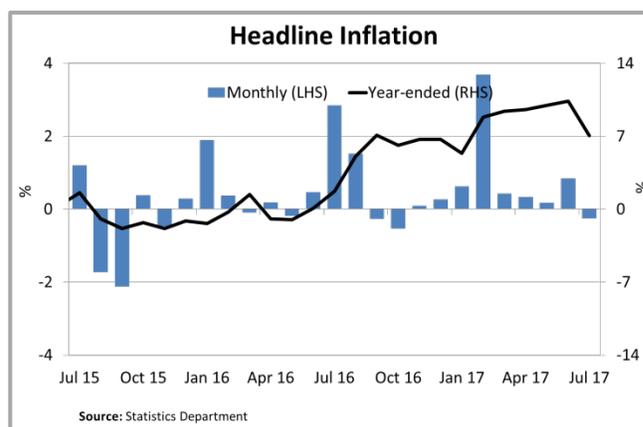
	Jul 17	Jun 17	May 17	Apr 17
<b>Headline*</b>	<b>7.1</b>	<b>10.3</b>	<b>10.0</b>	<b>9.5</b>
Domestic <sup>^</sup>	2.9	3.8	3.5	2.6
Imported <sup>^</sup>	4.2	6.5	6.5	6.9

\*Year-ended growth

<sup>^</sup>Percentage point contribution to year-ended growth

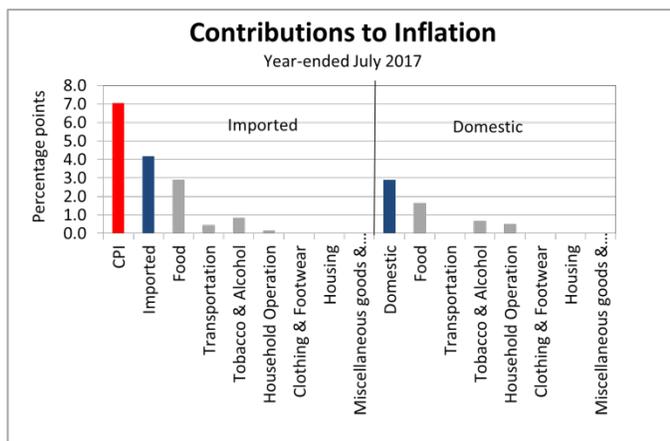
## Temporary effects of taxes in July 2016 ceases, slowing the annual inflation rate

The annual headline inflation slowed to 7.1% in July 2017, following a peak of 10.3% annually in June 2017. The decline over the month largely reflected the wind down of the hike in prices last year when the new excise tax became effective in July 2016. Goods that contribute a significant portion to the Consumer Price Index (CPI) index such as imported goods like lamb flaps, chicken and tobacco. In addition, there were amendments to the Excise Tax and Customs Duty Order that became effective in July 2017 which

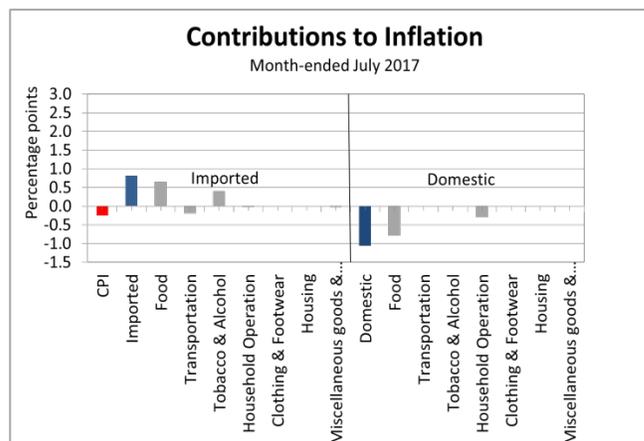


saw an increase in tax on sugary and/or flavoured drinks, alcohol, and tobacco. Although the increase in tax contributes to a rise in prices on these particular goods, it has not significantly influence the headline inflation rate due to its respective weights on the CPI basket. Also helping to bring down the headline inflation was the domestic inflation. The prices of local fruits and vegetables had declined during July which drove the aggregate food prices lower reflecting an excess supply and better harvests over the month.

Inflation declined by 0.2% during the month mainly driven by the decrease in local food prices and electricity which were sufficient to offset the increase in imported food prices and tobacco.

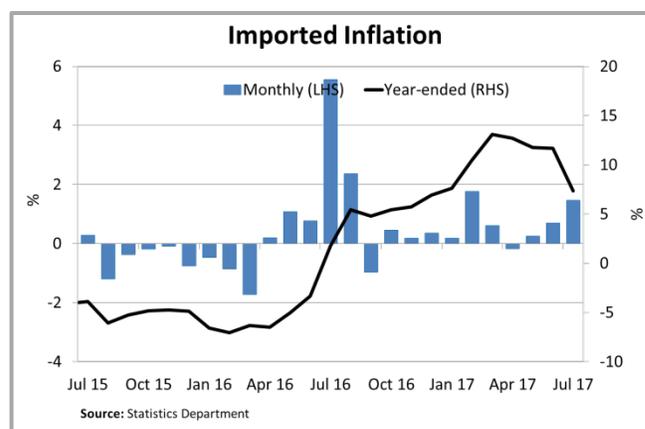


Source: Statistics Department



Source: Statistics Department

Over the year, imported inflation rose by 7.4% driven by higher food and tobacco prices. Imported food was the largest contributor which rose by 10.2% contributing 2.9 percentage points to the overall headline inflation. The price of all imported food categories rose, led by a 12.5% increase in prices of meat, fish & poultry due to an 18.7% and 1.8% increase in the price of mutton flap and chicken pieces correspondingly over the year. This was followed by a 10.5% rise in the prices of other food & components like sugar (12.4% price increase). It also includes food like sweets and sugary drinks which had its taxes increased further in the beginning of the month. The price of dairy farm and vegetable products rose by 6.0% for goods such as cheese and butter. The new excise and customs amendment order increased taxes on tobacco and alcohol further. Hence, this category rose by 17.6% largely influenced by a 24.2% rise in the price of Winfield blue tobacco. Additionally, the movements in world oil prices drove the price of fuel higher by 6.0%, petrol and diesel prices rose by 6.5% and 5.7% respectively. This was followed by a 14.4% increase in the price of fuel and power under the household operations group including kerosene and liquid petroleum gas. However, the price of cosmetics and toiletries declined over the year by 3.1%.

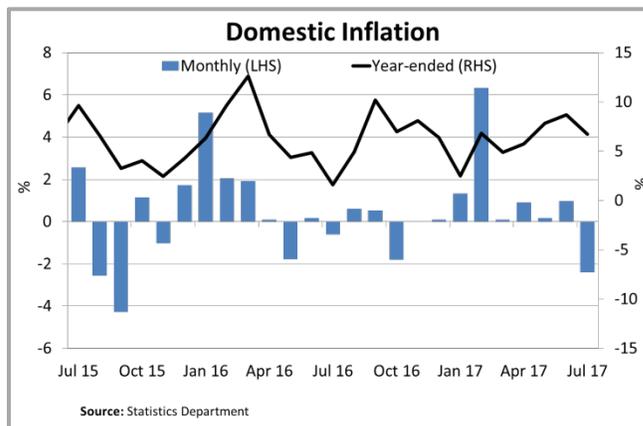


Source: Statistics Department

Over the month, imported prices rose by 1.5% due to further increases in food and tobacco prices. The prices of meat, fish and poultry, rose by 3.8% followed by all the other imported food

categories. Imported tobacco also increased by 11.2% due to new taxes introduced in July 2017. Because of the substantial weights these goods have in the CPI basket it outweighed the decline in prices of fuel, household supplies & services, and cosmetics & toiletries.

Domestic inflation rose by 6.7% over the year to July 2017 accounting for 2.9 percentage points of the headline inflation. This was driven by the seasonality of local food, rise in electricity price and kava-Tonga prices remained at high levels. The price of local food rose by 8.4% contributing 1.7 percentage points to the overall headline inflation. It reflects a favourable weather in 2016 compared to 2017 for growing vegetables, hence the prices were lower in the previous year. These were



reflected in higher prices for majority of local vegetables, fruits such as watermelon, pineapple and banana, and other local produce such as eggs, and tuna fish all attributed to seasonality. Electricity price rose by 16.0% contributing 0.6 percentage point to the headline inflation, and corresponding to higher imported oil prices over the year. Moreover, the price of kava-Tonga increased over the year by 43.0%, followed a 5.4% increase in the price of domestic alcohol.

Monthly domestic inflation declined by 2.4% due to a 3.8% and 5.4% decline in food and electricity price. The supply of domestic vegetables has increased which allows customers to get more for the fixed value of \$3.00 per bunch. The fall in vegetable prices was sufficient to offset the increase in prices of local fish. Another contributor to lower domestic prices during the month was the decline in electricity prices which stemmed from favourable movement in oil prices.

On the outlook, the Reserve Bank anticipates the annual headline inflation rate to fall around the inflation reference rate of 5% per annum in the upcoming months and hitting 5% in December 2017. However, the upward inflationary pressure is expected to remain in the near term as world oil and food prices slowly rise. The continued shortage of supply in kava-Tonga compared to its high demand is likely to impact the domestic inflation for some time, therefore contribute to the annual headline inflation. However, movements in commodity and oil prices, and other temporary factors such as taxes on goods may pose a risk to this forecast. Additionally, the vulnerability of Tonga to natural disasters also poses a risk to the local food prices and consequently the inflation outlook.

Inflation Breakdown*					
	Weight	Month-ended		Year-ended	
	%	Change	Contribution	Change	Contribution
		%	to total	%	to total
			ppt		ppt
<b>CPI</b>	<b>100</b>	<b>-0.2</b>	<b>-0.2</b>	<b>7.1</b>	<b>7.1</b>
Domestic	42.2	-2.4	-1.1	6.7	2.9
Food	17.8	-3.8	-0.8	8.4	1.7
<i>Fruit &amp; vegetables</i>	6.5	-9.4	-0.9	8.2	0.7
<i>Meats, fish &amp; poultry</i>	3.7	4.2	0.1	6.6	0.2
<i>Dairy farm &amp; vegetable products</i>	0.5	0.0	0.0	3.1	0.0
<i>Cereals &amp; cereal products</i>	3.4	0.0	0.0	17.9	0.6
<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	2.8	0.1
Transportation	0.5	0.0	0.0	0.0	0.0
Tobacco & Alcohol	1.5	0.0	0.0	29.8	0.7
Household Operation	17.3	-2.0	-0.3	3.4	0.5
<i>Domestic Power &amp; Fuel</i>	6.0	-5.4	-0.3	12.0	0.6
<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	0.0	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
Imported	57.8	1.5	0.8	7.4	4.2
Food	27.9	2.3	0.7	10.3	2.9
<i>Fruit &amp; vegetables</i>	0.9	0.2	0.0	0.7	0.0
<i>Meats, fish &amp; poultry</i>	14.6	3.8	0.6	12.5	1.9
<i>Dairy farm &amp; vegetable products</i>	3.2	0.4	0.0	6.0	0.2
<i>Cereals &amp; cereal products</i>	3.5	0.5	0.0	5.5	0.2
<i>Other food</i>	5.7	0.5	0.0	10.5	0.6
<i>Drinks, sweets and meal away from home</i>	0.0	0.0	0.0	0.0	0.0
Transportation	11.5	-1.9	-0.2	4.4	0.4
<i>Private</i>	8.6	-2.7	-0.2	5.9	0.4
<i>Public</i>	2.9	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.5	8.1	0.4	17.6	0.9
<i>Tobacco</i>	2.9	11.2	0.4	25.2	0.9
<i>Alcohol</i>	1.6	0.0	0.0	0.0	0.0
<i>Kava</i>	0.0	0.0	0.0	0.0	0.0
Household Operation	3.5	-0.5	0.0	4.8	0.1
<i>Domestic Power &amp; Fuel</i>	1.1	0.2	0.0	14.4	0.1
<i>Household Appliances</i>	1.2	0.0	0.0	0.0	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	-1.5	0.0	1.9	0.0
<i>Communication services</i>	0.0	0.0	0.0	0.0	0.0
Clothing & Footwear	3.2	0.0	0.0	0.3	0.0
Housing	0.8	0.0	0.0	0.6	0.0
Miscellaneous goods & services	6.4	-0.5	0.0	-2.4	0.0

\* Due to rounding errors some data may not aggregate precisely.

Source: Statistics Department