

# Inflation

## June 2017

Release date: 15 August 2017

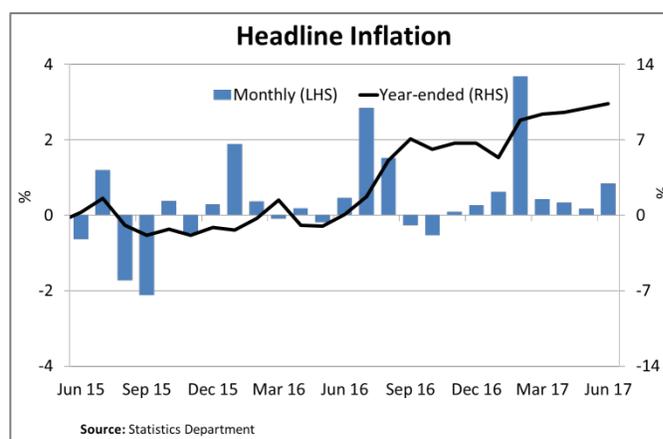
	Jun 17	May 17	Apr 17	Mar 17
<b>Headline*</b>	<b>10.3</b>	<b>10.0</b>	<b>9.5</b>	<b>9.4</b>
Domestic^	3.8	3.5	2.6	2.2
Imported^	6.5	6.5	6.9	7.2

\*Year-ended growth

^Percentage point contribution to year-ended growth

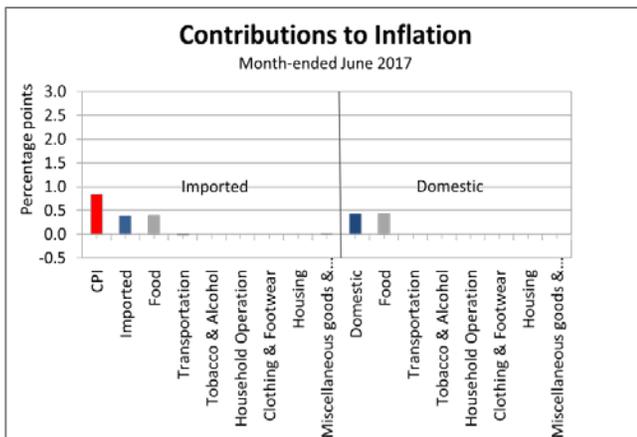
## Annual imported headline inflation remained constant from previous month whilst domestic inflation continues to push monthly headline inflation higher

The annual headline inflation edged higher in June 2017 rising by 10.3%. This is the highest level of annual headline inflation since the inflation rate picked up in July 2016. The same period in 2016 recorded a very low annual inflation of 0.1%, which also had lower level of imported and local prices. The impact of the custom duties and excise taxes imposed on various goods in July 2016 continue to be reflected in the annual headline inflation.

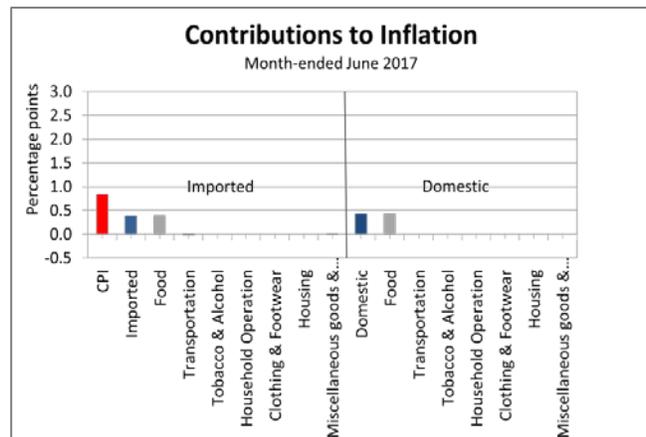


The contribution of imported prices to the overall annual headline inflation remained relatively constant from the previous month whilst the contribution of domestic inflation prices to annual headline inflation continued to rise, and in June 2017 it contributed an additional 0.3 percentage points to the annual headline inflation.

Inflation rose by 0.8% over the month mainly driven by the rise in the prices of local and imported food prices which increased by 2.1% and 1.4% respectively.

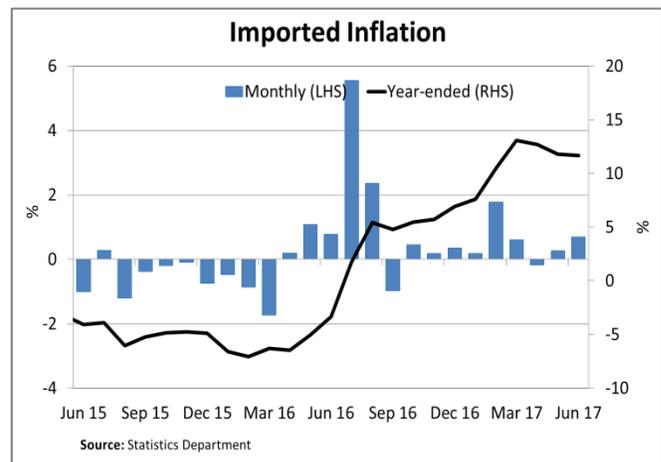


Source: Statistics Department



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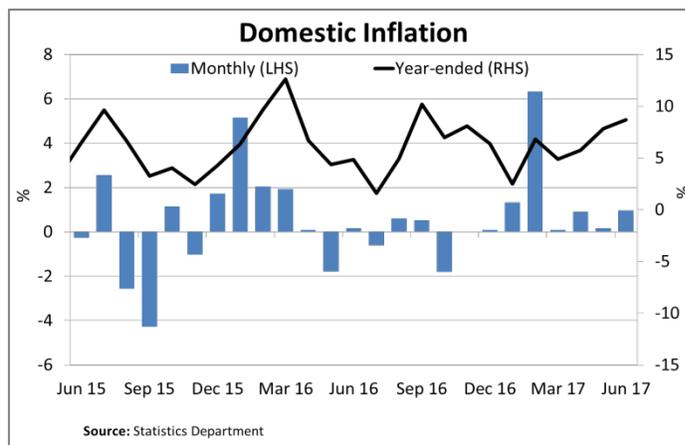
The annual imported inflation rose by 11.7% driven by higher food and oil prices. Imported food was the largest contributor which rose by 17.1% contributing 4.6 percentage points to the overall headline inflation. The prices of all imported food categories rose, except for fruits and vegetables, and this was led by a 26.6% increase in prices of meat, fish & poultry reflecting a rise of 41.5% and 33.5% in the price of mutton flap and chicken pieces respectively over the year. This was followed by a 10.8% rise in the prices of other food components which included goods such as sugar whose price rose by 21.6%. The price of dairy farm and vegetable products rose by 4.6% for goods such as cheese and butter. The rise in the prices of these imported food continued to reflect the excise taxes and custom duties imposed on various imported food in July 2016. Similarly, the price of Winfield blue tobacco rose by 29.2%. Additionally, the increase in world oil prices drove the price of fuel higher by 10.1%, diesel and petrol prices rose by 16.0% and 14.5% respectively. This was followed by a 10.8% increase in the price of fuel and power under the household operations group which comprised of kerosene and liquid petroleum gas. However, the price of house maintenance goods and miscellaneous goods and services declined by 0.1% and 1.5% respectively.



Source: Statistics Department

Over the month, imported prices rose by 0.7% due to further increases in food prices. The prices of meat, fish and poultry, rose by 2.5% followed by a 2.4% rise in fruits and vegetables. House maintenance goods' prices also increased by 0.8%, while the average price of fuel and miscellaneous goods and services declined over the month.

Domestic inflation rose by 8.7% over the year to June 2017 accounting for 3.8 percentage points of the headline inflation. This is the highest level of domestic inflation rate in 2017, largely driven by the seasonality of local food, rise in electricity price, and the continued short supply of kava-Tonga. The price of local food rose by 10.2% contributing 2.1 percentage points to the overall headline inflation. This was due to the prolonged dry weather in 2017



for growing vegetables compared to the same period in 2016. The prices of various local produce such as root crops, fruits, vegetables, and marine products rose over the year, attributed mainly to seasonality of these food and increased demand during the festive season and the higher number of air arrival visitors (6,545 passengers) during the month. The increase in oil prices drove the electricity price higher by 22.7% contributing 1.0 percentage point to the headline inflation. 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 rose by 1.0% in June due mainly to a 2.1% rise in food prices. This was led by a 4.3% increase in prices of fruit and vegetables, 1.5% rise in cereal and cereal products, and 0.7% increase in meats, fish & poultry.

On the outlook, the Reserve Bank expects the upward inflationary pressure to remain in the near term as world oil and food prices slowly rise, coupled with the impact of the excise tax which was introduced in July 2016. However, this tax effect is expected to disappear in the coming months, when it was effective the same time last year. 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. The Reserve Bank anticipates the annual headline inflation rate to the inflation reference rate of 5% per annum after August 2017. 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>0.8</b>	<b>0.8</b>	<b>10.3</b>	<b>10.3</b>
Domestic	42.2	1.0	0.4	8.7	3.8
Food	17.8	2.1	0.4	10.1	2.1
<i>Fruit &amp; vegetables</i>	6.5	4.3	0.4	18.5	1.7
<i>Meats, fish &amp; poultry</i>	3.7	0.7	0.0	-7.9	-0.3
<i>Dairy farm &amp; vegetable products</i>	0.5	1.5	0.0	6.3	0.0
<i>Cereals &amp; cereal products</i>	3.4	-0.6	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	0.0	0.0	6.9	1.1
<i>Domestic Power &amp; Fuel</i>	6.0	0.0	0.0	21.9	1.0
<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	1.6	0.1
<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	0.7	0.4	11.7	6.5
Food	27.9	1.4	0.4	17.1	4.6
<i>Fruit &amp; vegetables</i>	0.9	2.4	0.0	-0.7	0.0
<i>Meats, fish &amp; poultry</i>	14.6	2.5	0.4	26.6	3.6
<i>Dairy farm &amp; vegetable products</i>	3.2	1.3	0.0	4.6	0.1
<i>Cereals &amp; cereal products</i>	3.5	-0.1	0.0	5.8	0.2
<i>Other food</i>	5.7	-0.8	0.0	10.8	0.6
<i>Drinks, sweets and meal away from home</i>	0.0	0.0	0.0	0.0	0.0
Transportation	11.5	-0.2	0.0	10.0	1.0
<i>Private</i>	8.6	-0.1	0.0	14.0	1.0
<i>Public</i>	2.9	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.5	0.0	0.0	18.9	0.9
<i>Tobacco</i>	2.9	0.0	0.0	27.8	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	0.0	0.0	4.3	0.1
<i>Domestic Power &amp; Fuel</i>	1.1	0.1	0.0	10.8	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	-0.1	0.0	3.1	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	0.8	0.0	-0.1	0.0
Miscellaneous goods & services	6.4	-0.2	0.0	-1.4	0.0

\* Due to rounding errors some data may not aggregate precisely.  
Source: Statistics Department