

Inflation

October 2017

Release date: 11 January 2018

	Oct 17	Sep 17	Aug 17	Jul 17
Headline*	6.1	5.8	5.5	7.1
Domestic [^]	1.1	1.2	1.9	2.9
Imported [^]	5.0	4.6	3.6	4.2

*Year-ended growth

[^]Percentage point contribution to year-ended growth

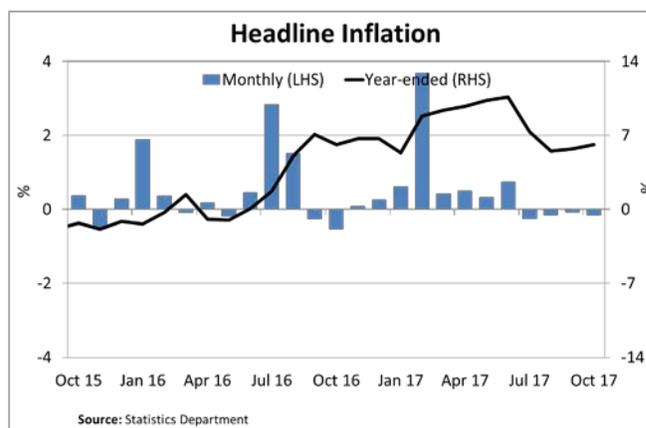
Higher imported food, tobacco, and fuel prices drove higher headline inflation

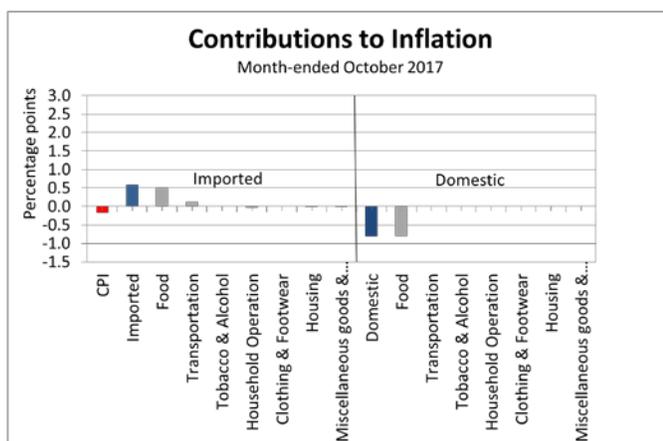
The annual headline inflation increased further by 6.1% in October 2017 as projected. This is higher than a 5.8% reported in September 2017 and similar to a 6.1% recorded in October 2016. The continuous rise in annual inflation rate was due to higher prices of imported goods over the month.

The Consumer Price Index (CPI) for imported goods rose over the month by 1.0% but was outweighed by a 1.9% fall in the prices of local goods. Hence, the monthly inflation continued to fall over the month by 0.2% mainly driven by the decrease in the prices of local fruits and vegetables which were sufficient to offset the constant rise in imported food, fuel, and tobacco.

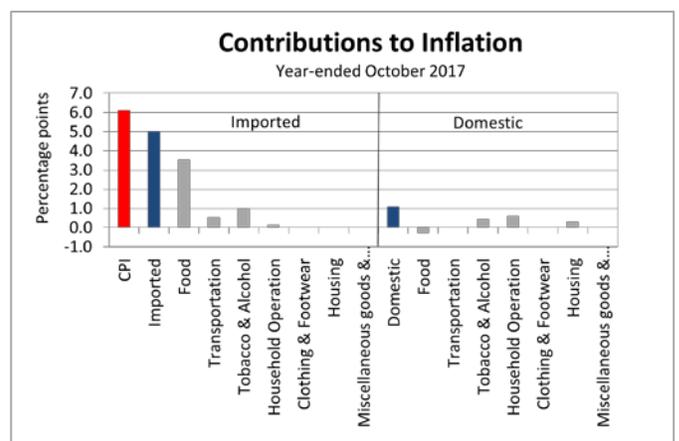
The imported component contributed 5.0 percentage points to the annual headline inflation.

Food prices was the leading contributor followed by the prices of tobacco, fuel, and alcohol. The prices of electricity and local kava-Tonga were the main contributors to the annual inflation from the domestic components of inflation.



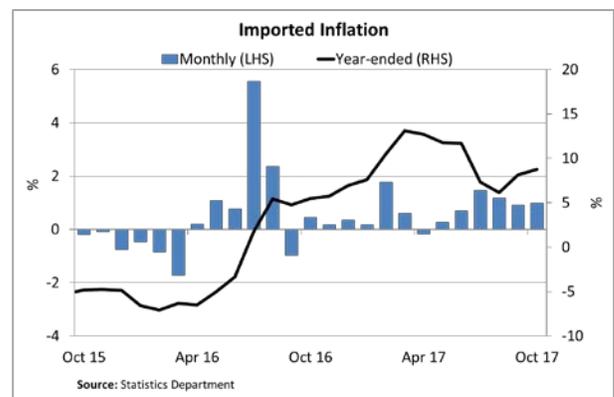


Source: Statistics Department



Source: Statistics Department

Over the month, imported prices rose by 1.0% due to the continuous rise in food, fuel, and tobacco prices. All imported food prices except for fruits & vegetables slightly rose during the month. Fuel and tobacco (other than Winfield) prices also increased by 1.8% and 0.1% respectively. These outweighed the decline in prices of house maintenance goods and household supplies & services.



Source: Statistics Department

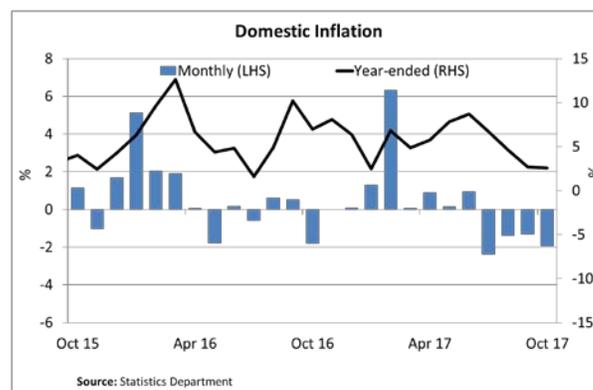
The higher monthly imported inflation drove the annual imported inflation to 8.8% compared to 8.1% last month. Higher annual imported prices continued to be driven by higher food, tobacco & alcohol, and oil prices. Imported food was the largest contributor which rose by 12.2% contributing 3.5 percentage points to the overall headline inflation. The prices of all imported food categories rose, the highest contributor were the prices of meat, fish & poultry which rose by 18.1%. This was mainly due to a 24.7% and 20.4% rise in the prices of chicken pieces and mutton flaps respectively. This was followed by a 8.7% rise in the prices of dairy products. Moreover, other food components also rose by 4.1% which included goods such as sugar and flour rising by 7.0% and 3.5% respectively. This also included food such as sweets and sugary drinks reflecting the further increase in excise tax in July 2017. The price of fruits and vegetables rose by 12.0% such as potatoes, onions, apples, and oranges; whilst cereal products rose by 1.3%.

The new excise and customs amendment order in July 2017 increased taxes on tobacco and alcohol further. Hence, this category rose by 20.3% reflected in a 23.2% rise in the price of Winfield blue

tobacco. Additionally, the movements in world oil prices drove the price of fuel higher by 7.6%. Diesel and petrol prices rose by 9.3% and 9.1% respectively followed by a 12.9% increase in the price of fuel and power under the household operations group (e.g. kerosene and liquid petroleum gas). On the other hand, the price for stationery supplies, cosmetics and toiletries lowered over the year.

Contrastingly, the local index has declined by 1.9% over the month due to a favourable season and excess supply of local food whose price declined by 4.4%. This was also reflected in the increased exports volume for produce such as taro and watermelon. The fall in food prices was led by an 8.3% fall in prices of meats, fish & poultry, followed by a 6.3% and 6.1% in prices of fruits & vegetables, and cereal products respectively. Local food prices which fell over the month included stringed fish, tuna, tomatoes, head cabbages, pineapple, watermelon, and eggs.

Annual domestic inflation increased by 2.5% in October 2017, relatively similar to the 2.6% recorded last month. This contributed 1.1 percentage points to the annual headline inflation. The prices of electricity and kava-Tonga were the major drivers of domestic inflation. The constant increase in oil prices coincided with the 9.7% rise in the electricity price which contributed 0.6 percentage points to the overall headline inflation. Kava-Tonga price increased over the year by 27.0% and contributed 0.5 percentage points to the overall headline inflation. According to the Reserve Bank’s liaison program, the prolonged dry weather in the past years continued to affect the supply of kava-Tonga and therefore drove the kava price high in the beginning of 2016. It has been maintained at that high level and it is unlikely for the kava price to decline again in the near term.



On the outlook, the Reserve Bank anticipates the annual headline inflation rate will continue to slow further in the remaining of 2017, and drop below the Reserve bank’s inflation reference rate of 5% per annum in January 2018. However, the movement in global oil and food prices pose a risk to this outlook. The continued shortage of supply in kava-Tonga compared to its high demand, is likely to impact the domestic inflation for some time and therefore contribute to the higher annual headline inflation. 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
CPI	100	-0.2	-0.2	6.1	6.1
Domestic	42.2	-1.9	-0.8	2.6	1.1
Food	17.8	-4.4	-0.8	-1.6	-0.3
<i>Fruit & vegetables</i>	6.5	-6.3	-0.5	-6.4	-0.5
<i>Meats, fish & poultry</i>	3.7	-8.3	-0.3	8.1	0.3
<i>Dairy farm & vegetable products</i>	0.5	-6.1	0.0	-8.2	0.0
<i>Cereals & cereal products</i>	3.4	0.0	0.0	-1.7	-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	18.2	0.5
<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	27.0	0.5
Household Operation	17.3	0.0	0.0	3.9	0.6
<i>Domestic Power & Fuel</i>	6.0	0.0	0.0	12.5	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	8.7	0.1
<i>Household supplies & services</i>	4.7	0.0	0.0	0.0	0.0
<i>Communication services</i>	5.2	0.0	0.0	-2.2	-0.1
Clothing & Footwear	0.0	0.0	0.0	0.0	0.0
Housing	1.7	0.0	0.0	19.8	0.3
Miscellaneous goods & services	3.5	0.0	0.0	0.0	0.0
Imported	57.8	1.0	0.6	8.7	5.0
Food	27.9	1.7	0.5	12.2	3.5
<i>Fruit & vegetables</i>	0.9	-0.3	0.0	11.9	0.1
<i>Meats, fish & poultry</i>	14.6	1.6	0.3	18.1	2.9
<i>Dairy farm & vegetable products</i>	3.2	1.4	0.0	8.7	0.3
<i>Cereals & cereal products</i>	3.5	0.3	0.0	1.4	0.0
<i>Other food</i>	5.7	3.4	0.2	4.1	0.2
<i>Drinks, sweets and meal away from home</i>	0.0	0.0	0.0	0.0	0.0
Transportation	11.5	1.3	0.1	5.5	0.5
<i>Private</i>	8.6	1.9	0.1	7.6	0.6
<i>Public</i>	2.9	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.5	0.0	0.0	20.3	1.0
<i>Tobacco</i>	2.9	0.1	0.0	23.8	0.8
<i>Alcohol</i>	1.6	0.0	0.0	11.2	0.2
<i>Kava</i>	0.0	0.0	0.0	0.0	0.0
Household Operation	3.5	-1.0	0.0	4.4	0.1
<i>Domestic Power & Fuel</i>	1.1	0.0	0.0	12.9	0.1
<i>Household Appliances</i>	1.2	0.0	0.0	1.1	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	-2.9	0.0	1.1	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	-1.2	0.0	0.4	0.0
Miscellaneous goods & services	6.4	-0.1	0.0	-3.1	0.0

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

Source: Statistics Department