

Inflation

September 2017

Release date: 28 December 2017

	Sept 17	Aug 17	Jul 17	Jun 17
Headline*	5.8	5.5¹	7.1	10.3
Domestic [^]	1.2	1.9	2.9	3.8
Imported [^]	4.6	3.6	4.2	6.5

*Year-ended growth

[^]Percentage point contribution to year-ended growth

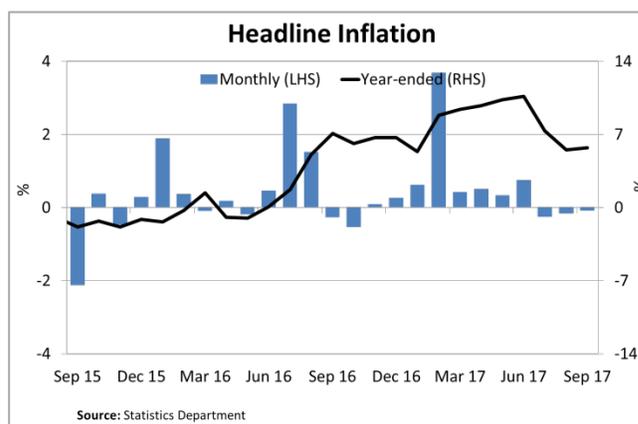
Further rise in imported commodities prices drive headline inflation higher

The annual headline inflation increased by 5.8% in September 2017 as projected. This is higher than a 5.5% reported in August 2017 however lower than 7.0% in September 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 by 0.9% but was partially offset by a 1.3% fall in the prices of local commodities.

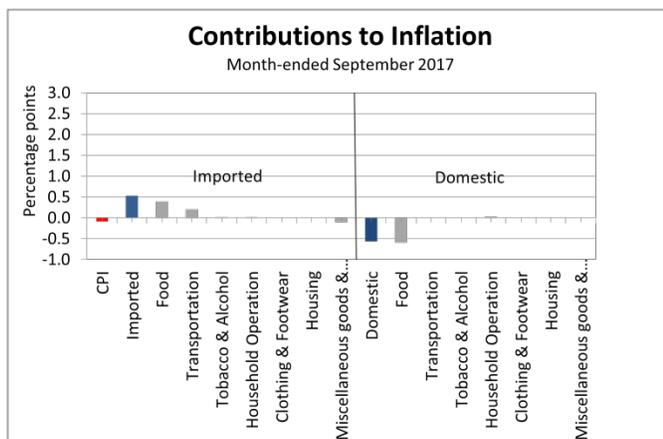
The monthly inflation continued to decline over the month by 0.1% mainly driven by the decrease in the prices of local fruits and vegetables which were sufficient to offset the constant rise in imported commodities such as food, fuel, alcohol, and tobacco.

The imported component contributed 4.6 percentage points to the annual headline inflation.

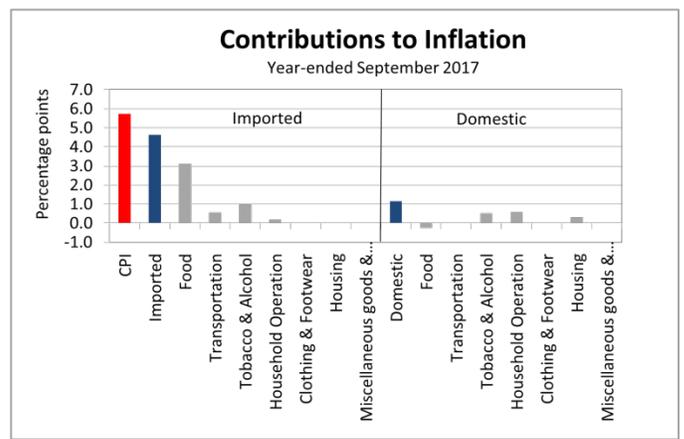
Food prices was the leading contributor followed by the prices of tobacco, fuel, and alcohol. The prices of local kava-Tonga and electricity were the main contributors to the annual inflation from the domestic components of inflation.



¹ Annual headline inflation was revised upward from 5.2% by the Statistics Department



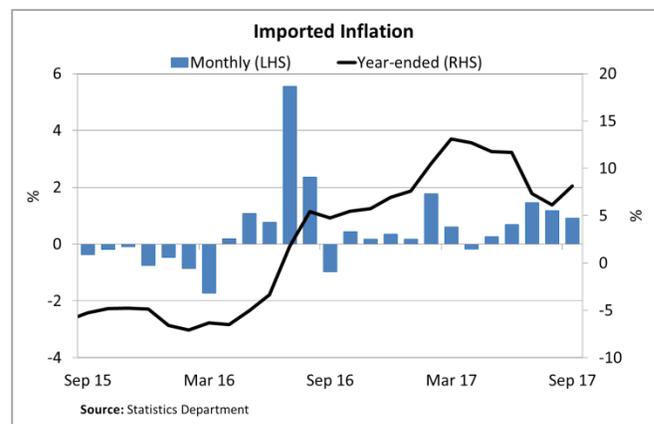
Source: Statistics Department



Source: Statistics Department

Over the month, imported prices rose by 0.9% due to the continuous rise in food, tobacco, fuel, and housing/household goods prices. The prices of fruits & vegetables, and meat, fish & poultry slightly rose during the month. Imported tobacco (other than Winfield) and fuel prices also increased by 0.3% and 2.8% respectively. These outweighed the decline in prices of liquid petroleum gas, stationery supplies, and food such as cereal and dairy products.

The annual imported inflation was 8.1% after recording slowed annual imported inflation rates over the past two months. Higher annual imported prices continued to be driven by higher food, tobacco, and oil prices. Imported food was the



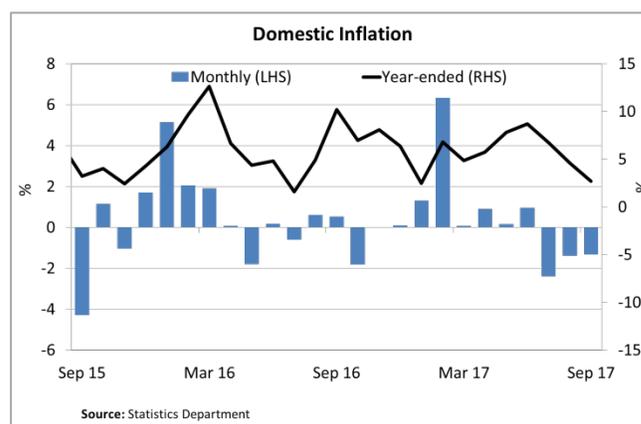
Source: Statistics Department

largest contributor which rose by 10.8% contributing 3.1 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 15.7%. This was mainly due to a 19.0% and 17.6% rise in the prices of chicken pieces and mutton flaps respectively. This was followed by a 5.3% rise in the prices of other food components which included goods such as sugar and flour rising by 4.5% and 4.1% respectively. This also included food such as sweets and sugary drinks which had its taxes increased further in July 2017. The price of dairy and cereal products rose by 7.0% and 2.2% respectively.

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 7.9%. Petrol and diesel prices rose by 9.3% and 5.7% respectively followed by a 14.5% 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 of cosmetics and toiletries declined by 3.5%.

Contrastingly, the local index has declined by 1.3% over the month due to the continued abundant supply of domestic fruits and vegetables driving its prices lower by 8.7%. The excess supply of domestic vegetables allows customers to get more for the fixed value of \$3.00 per bunch. Additionally, local cereal products prices fell by 2.3%, these had both led to a 3.2% decline in total domestic food prices. The fall in vegetable prices outweighed the 8.7% rise in price of household furniture.

Annual domestic inflation slowed to 2.6% in September 2017 from 3.9% last month, making up 1.2 percentage points of the annual headline



inflation. The electricity price was the major driver of domestic inflation, followed by prices of kava-Tonga and housing/household goods and services. The increase in oil prices coincided with the 12.6% rise in the electricity price which contributed 0.5 percentage points to the overall headline inflation. Kava-Tonga price increased over the year by 31.5% 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. Additionally, the price of household furniture rose by 8.7% whilst house maintenance services increased by 21.2%. However, the prices of local fruits and vegetables, and eggs drove local food prices to fall by 1.3%.

On the outlook, the Reserve Bank anticipates the annual headline inflation rate to increase further in October 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	-0.1	-0.1	5.8	5.8
Domestic	42.2	-1.3	-0.3	2.6	1.2
Food	17.8	-3.2	-0.6	-1.3	-0.3
<i>Fruit & vegetables</i>	6.5	-8.7	-0.7	-8.8	-0.7
<i>Meats, fish & poultry</i>	3.7	4.5	0.2	9.2	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	-2.3	-0.1	1.2	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	2.8	0.1
Transportation	0.5	0.0	0.0	0.0	0.0
Tobacco & Alcohol	1.5	0.0	0.0	20.9	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	31.5	0.5
Household Operation	17.3	0.2	0.0	3.8	0.6
<i>Domestic Power & Fuel</i>	6.0	0.0	0.0	11.9	0.5
<i>Household Appliances</i>	0.0	0.0	0.0	0.0	0.0
<i>Household furniture, furnishing & textiles</i>	1.4	8.7	0.1	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	-2.2	-0.1	-2.2	-0.1
Clothing & Footwear	0.0	0.0	0.0	0.0	0.0
Housing	1.7	19.8	0.3	19.8	0.3
Miscellaneous goods & services	3.5	0.0	0.0	0.0	0.0
Imported	57.8	0.9	0.5	8.1	4.6
Food	27.9	1.3	0.4	10.8	3.1
<i>Fruit & vegetables</i>	0.9	2.9	0.0	3.2	0.0
<i>Meats, fish & poultry</i>	14.6	3.9	0.7	15.7	2.5
<i>Dairy farm & vegetable products</i>	3.2	-2.0	-0.1	7.0	0.2
<i>Cereals & cereal products</i>	3.5	-0.8	0.0	2.1	0.1
<i>Other food</i>	5.7	-3.7	-0.2	5.3	0.3
<i>Drinks, sweets and meal away from home</i>	0.0	0.0	0.0	0.0	0.0
Transportation	11.5	2.0	0.2	5.7	0.6
<i>Private</i>	8.6	2.8	0.2	7.9	0.6
<i>Public</i>	2.9	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.5	0.3	0.0	20.3	1.0
<i>Tobacco</i>	2.9	0.3	0.0	24.0	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	0.6	0.0	6.0	0.2
<i>Domestic Power & Fuel</i>	1.1	-5.0	0.0	14.5	0.1
<i>Household Appliances</i>	1.2	1.1	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	5.4	0.1	4.3	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	0.4	0.0	1.6	0.0
Miscellaneous goods & services	6.4	-2.0	-0.1	-3.5	0.0

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

Source: Statistics Department