

# Inflation

## April 2018

Release date: 20 August 2018

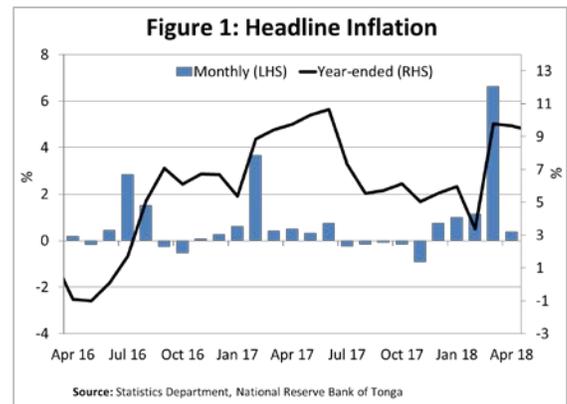
	Apr 18	Mar 18	Feb 18	Jan 18
<b>Headline*</b>	<b>9.6</b>	<b>9.8</b>	<b>3.4</b>	<b>6.0</b>
Domestic <sup>^</sup>	5.8	6.1	-0.4	1.3
Imported <sup>^</sup>	3.8	3.7	3.8	4.7

\*Year-ended growth

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

### Food prices stabilized over the month

The monthly inflation rate dropped from 6.6% over March 2018 to only 0.4% in April 2018. Lower monthly inflation rate was due to lower local food prices and a decline in the prices of fuel and imported household supplies. The drop in the monthly inflation contributed to the slow down of the annual headline inflation from 9.8% last month to 9.6% (Figure 1). However, this remains high due to the very low domestic food prices in April 2017.

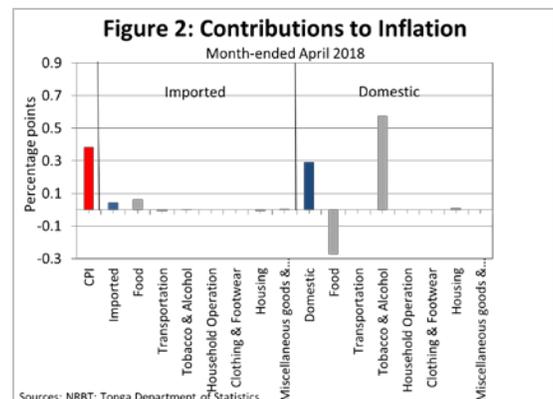


### Monthly Inflation

The slight increase in prices over the month was driven by domestic prices which increased by 0.7% contributing 0.3 percentage points to the overall monthly inflation rate (Figure 2). Imported prices increased a little by 0.1% contributing 0.1 percentage points.

#### Domestic prices

The monthly rise was solely driven by a 30.1% increase in the average prices of Kava-Tonga and Kava-Tonga fee entertainment (holo kalapu). These rose from \$135 to \$140 per kilo and \$10 to \$20 per person respectively which contributed 0.6 percentage points to the domestic monthly inflation and outweighed the fall in food prices. After a spike in the domestic prices last month which increased by 15.4% driven by a marked increase in the price of



food, the overall food prices seem stable over the month of April 2018, although trivial changes were recorded. The prices of vegetables and most root crops which included peanuts, watermelon, cucumber, taro and yam declined over the month. The seasonality of local seafood drove its prices higher over April for items such as octopus, string of mixed fishes and cockles. As a result, food prices decreased by 1.2% contributing a negative 0.3 percentage points to the overall domestic inflation rate.

### Imported prices

The monthly imported inflation increased a little in April by 0.1% due to an increase in the prices of ice cream and flour which are in the miscellaneous food group. This more than offset a decline in cereal products and the price of meat. Other imported prices which also increased over the month included tobacco and medical health services & supplies. The price increase outweighed the favourable movement in prices of house maintenance goods, household supplies and fuel particularly diesel.

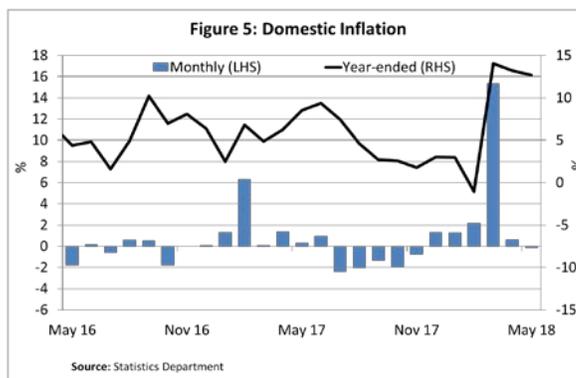
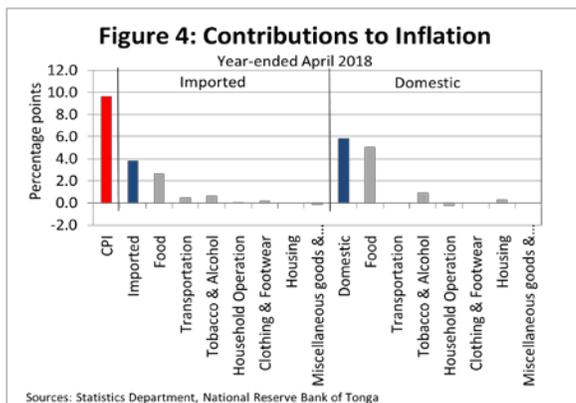
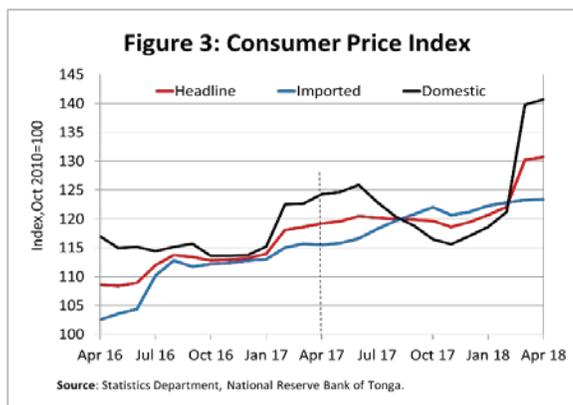
### Annual inflation

Although the monthly inflation slightly increased, the annual headline inflation remains high. This was due mainly to domestic prices being at a very low level in April 2017 (Figure 3). The domestic component of inflation contributed 5.8 percentage points to the overall annual headline inflation rate while the imported component added 3.8 percentage points.

### Domestic prices

In year ended terms, the rate of the increase in domestic prices slowed to 13.2% following a 14.0% increase in the previous month (Figure 5). The food group continued to be the highest contributor with 5.0 percentage points as the price of fruits and vegetables rose over the year by 47.8%. The prices of local fruits and vegetables which rose considerably included tomato, capsicum, coconuts, banana ripe and pawpaw.

Other local goods and services which rose over the year included the prices of kava-Tonga and housing maintenance goods and services with 0.9 and 0.3 percentage points contribution to headline inflation respectively. These outweighed the annual decline in



the prices of electricity, public transportation and communication services. Electricity price has declined over the year by 2.2% reflecting the government's decision to hold any tariff increase up to June 2018 following the aftermath of TC Gita.

### **Imported prices**

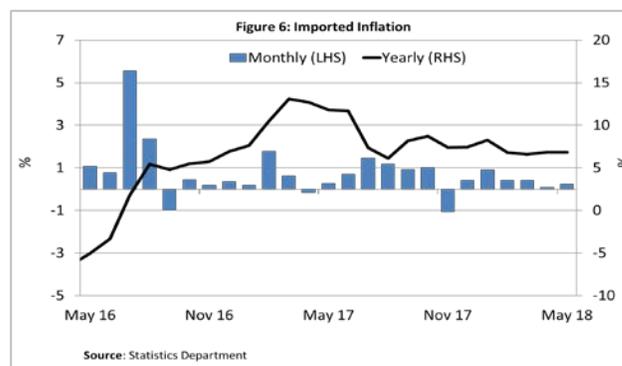
The annual imported inflation rose by 6.8% compared to a 6.5% rise last month. Imported food prices continued to be the largest contributor which rose by 9.4% and contributed 2.6 percentage points to the overall annual headline inflation. The meat, fish & poultry category had the highest increase of 14.0%, followed by an 8.8% rise in the prices of dairy, and 4.8% rise in the price of other food components.

Movements in the global price of meat and poultry coupled with the changes to customs duties and excise taxes on meat products were driving prices higher. This was reflected in the increased prices of chicken pieces and lamb flaps by 19.2% and 14.2% respectively over the year. The second highest contributor to the imported inflation was the price of tobacco which rose by 15.6% and contributed 0.6 percentage points to the annual imported inflation. Higher tobacco price was partly driven by the increase in excise tax on tobacco that was introduced in July 2017. The price of Winfield blue has increased over the year to April 2018 by 17.8%.

Additionally, fuel prices rose by 6.2% over the year contributing 0.5 percentage points to the annual headline inflation. The prices of diesel and petrol rose over the year by 8.4% and 5.9% respectively. The high fuel prices were due to higher world oil prices which flow through to local oil prices with a lag of 1-2 months. The price of clothing supplies also increased by 6.9%. These outweighed the annual decline in the price for stationery supplies, medical health services and supplies, cosmetics and toiletries, house maintenance goods and household supplies.

### **Outlook**

On the outlook, the annual headline inflation rate is anticipated to slow down to the Reserve Bank's 5% reference rate by the end of 2018 due to favourable expectations in the prices of domestic food which increase in its supply is anticipated for the remaining of 2018. According to the Climate Update<sup>1</sup> from the Tonga Meteorological Service, rainfall is forecasted to be average to above average for all of Tonga in the near term which is a favourable factor for the local food supply. However, adverse movements in global oil and food prices may change this outlook. Additionally, the vulnerability of Tonga to natural disasters also poses a risk to the local food supply and consequently its prices and the inflation outlook.



<sup>1</sup> Issued on 16<sup>th</sup> March 2018

Inflation Breakdown*					
	Weight	Month-ended		Year-ended	
	%	Change	Contribution	Change	Contribution
		%	to total	%	to total
			ppt		ppt
<b>CPI</b>	<b>100</b>	<b>0.4</b>	<b>0.4</b>	<b>9.6</b>	<b>9.6</b>
Domestic	42.2	0.7	0.3	13.2	5.8
Food	17.8	-1.2	-0.3	25.1	5.0
<i>Fruit &amp; vegetables</i>	6.5	-4.0	-0.5	47.8	4.5
<i>Meats, fish &amp; poultry</i>	3.7	7.8	0.3	15.9	0.6
<i>Dairy farm &amp; vegetable products</i>	0.5	-0.8	0.0	0.0	0.0
<i>Cereals &amp; cereal products</i>	3.4	0.0	0.0	-0.6	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	0.0	0.0
Transportation	0.5	0.0	0.0	-0.2	0.0
Tobacco & Alcohol	1.5	21.7	0.6	35.6	0.9
<i>Tobacco</i>	0.0	0.0	0.0	0.0	0.0
<i>Alcohol</i>	0.8	0.0	0.0	3.4	0.0
<i>Kava</i>	0.7	30.1	0.6	49.4	0.9
Household Operation	17.3	0.0	0.0	-1.6	-0.2
<i>Domestic Power &amp; Fuel</i>	6.0	0.0	0.0	-5.4	-0.3
<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	8.7	0.1
<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	-2.2	-0.1
Clothing & Footwear	0.0	0.0	0.0	0.0	0.0
Housing	1.7	0.6	0.0	2.2	0.3
Miscellaneous goods & services	3.5	0.0	0.0	0.0	0.0
Imported	57.8	0.1	0.1	6.8	3.8
Food	27.9	0.3	0.1	9.4	2.6
<i>Fruit &amp; vegetables</i>	0.9	1.4	0.0	1.3	0.0
<i>Meats, fish &amp; poultry</i>	14.6	-0.1	0.0	14.0	2.1
<i>Dairy farm &amp; vegetable products</i>	3.2	1.2	0.0	8.8	0.3
<i>Cereals &amp; cereal products</i>	3.5	-1.1	0.0	-1.1	0.0
<i>Other food</i>	5.7	1.3	0.1	4.8	0.3
<i>Drinks, sweets and meal away from home</i>	0.0	0.0	0.0	0.0	0.0
Transportation	11.5	-0.1	0.0	4.6	0.5
<i>Private</i>	8.6	-0.1	0.0	6.2	0.5
<i>Public</i>	2.9	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.5	0.0	0.0	13.1	0.7
<i>Tobacco</i>	2.9	0.1	0.0	15.6	0.6
<i>Alcohol</i>	1.6	0.0	0.0	6.4	0.1
<i>Kava</i>	0.0	0.0	0.0	0.0	0.0
Household Operation	3.5	-0.1	0.0	1.5	0.0
<i>Domestic Power &amp; Fuel</i>	1.1	0.0	0.0	0.7	0.0
<i>Household Appliances</i>	1.2	0.0	0.0	3.8	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	-0.2	0.0	-0.1	0.0
<i>Communication services</i>	0.0	0.0	0.0	0.0	0.0
Clothing & Footwear	3.2	0.0	0.0	4.9	0.2
Housing	0.8	-1.4	0.0	-2.4	0.0
Miscellaneous goods & services	6.4	0.0	0.0	-2.7	-0.1

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