

# Inflation

## February 2018

Release date: 28 May 2018

	Feb 18	Jan 18	Dec 17	Nov 17
<b>Headline*</b>	<b>3.4</b>	<b>6.0</b>	<b>5.5</b>	<b>5.0</b>
Domestic^	-0.4	1.3	1.2	0.7
Imported^	3.8	4.7	4.3	4.3

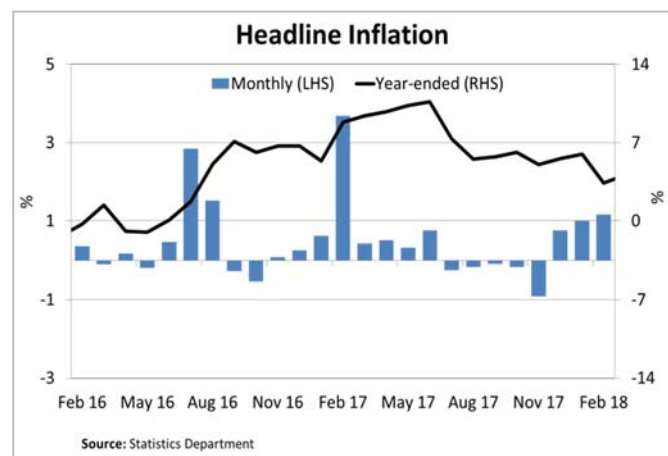
\*Year-ended growth

^Percentage point contribution to year-ended growth

## Lower domestic prices eases annual headline inflation

Despite a jump in domestic prices over the month, the fall in year-ended domestic prices have helped drive annual inflation down to 3.4% compared to an 8.9% hike in February 2017 and 6.0% last month.

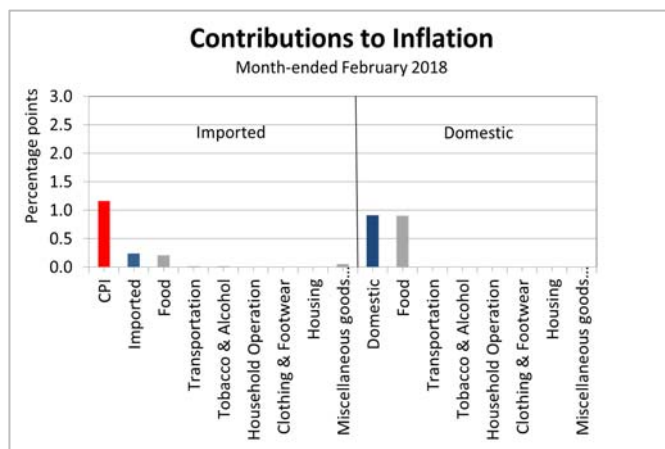
The domestic headline inflation rose by 1.2% over the month of February 2018. The increase in the local food prices doubled relative to last month which contributed 0.9 percentage points to the monthly increase. Seasonality and damages to fruits and vegetables caused by Tropical Cyclone (TC) Gita resulted in lower supply. The price was therefore stable at \$3.00 per punch but with smaller quantity. Additionally, the prices of a few imported commodities increased over the month which included prices of meat, winfield tobacco, diesel and other goods. This contributed 0.3 percentage points to the monthly inflation.



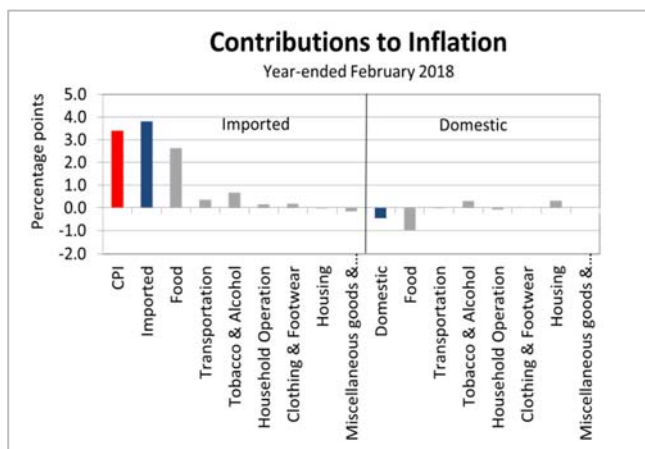
Imported inflation solely contributed to the annual headline inflation with 3.8 percentage points, which was partially offset by the annual decline in domestic prices due to a favorable season despite the cyclone in February 2018 compared to February 2017.

The prices of various imported goods rose over the month which resulted in a 0.5% rise in the monthly imported inflation. The main driver was a 0.7% rise in imported food driven by a 2.2% increase in the price of meat such as lamb chops, chicken pieces, salted beef and corned beef. This was partially offset

by a decline in the price of other food categories such as fruits & vegetables, dairy products and cereal products. Increase in prices of miscellaneous goods such as diapers and mosquito coils was the second contributor to the monthly rise in imported inflation. Other imported goods which recorded an increase over the month included diesel, winfield tobacco and cement bag.

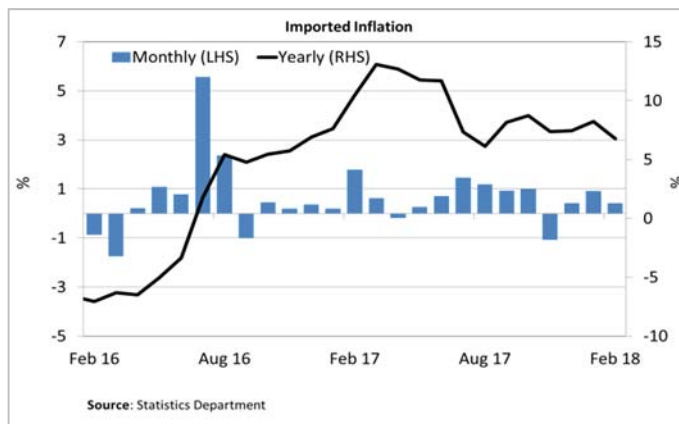


Source: Statistics Department



Source: Statistics Department

The annual imported inflation rose to 6.8% driven by higher prices for food, tobacco and clothing. Imported food prices continued to be largest contributor which rose by 9.4% and contributed 2.6 percentage points to the overall headline inflation. The meat, fish & poultry category had the highest increase of 14.1%, followed by an 11.4% rise in the prices of dairy, and 2.9% rise in the price of other food components which comprises of items such as sugar and flour. 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 16.5% and 15.5% respectively over the year. The second highest contributor to the imported inflation was the price of tobacco which rose by 16.4% and contributed 0.6 to the annual change of 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 February 2018 by 18.7%.



Source: Statistics Department

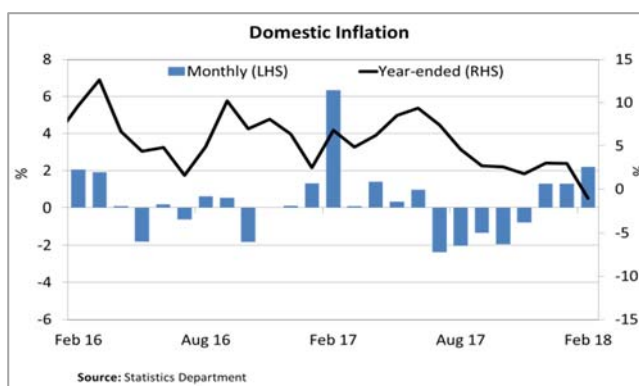
Additionally, fuel prices rose by 4.7% over the year contributing 0.4% to the annual headline inflation. The prices of diesel and petrol rose over the year by 7.2% and 4.3% respectively followed by a 14.2% increase in the price of fuel and power under the household operations group (e.g. kerosene and liquid petroleum gas). 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. Clothing supplies also increased by 6.9%. These outweighed the annual fall in the price for stationery supplies, cosmetics and toiletries, and house maintenance goods.

The monthly domestic inflation rose by 2.2%, solely driven by the impact of TC Gita and the seasonality of local food supply. Fruits and vegetable category rose by 14.6% over the months as prices of tomatoes, pineapples, capsicum, cucumber and leafy vegetables increased.

However, domestic inflation declined by 1.1% over the year partially offsetting the contribution to the overall headline inflation by 0.4 percentage points.

This was driven by the fall in local food and electricity prices which outweighed the annual rise in kava-Tonga and housing prices. Despite the monthly increase in prices of local fruits and vegetables, it was favourable in comparison to its season in February 2017. Hence, the price of fruits and vegetables declined by 11.9% which outweighed the annual rise in prices of meat, fish, and cereal products. Additionally, electricity price has declined over the year by 2.2% amongst other goods such as communication, transportation (inter-island ferries). The decline in the price of electricity reflected the government decision to hold any tariff increase up to June 2018 following the aftermath of TC Gita for the benefit of the people of Tonga. These outweighed the rise in the prices of housing maintenance goods and services, and local alcohol and kava-Tonga. Therefore, the overall decline in domestic prices has partially offset the increase in imported prices annually by 0.4 percentage points.

On the outlook, the annual headline inflation rate is anticipated to be around 4.0% in March 2018 due to higher expectations in the prices of food, transportation, tobacco, alcohol and kava-Tonga. However, favourable 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.



Inflation Breakdown*					
	Weight	Month-ended		Year-ended	
	%	Change	Contribution	Change	Contribution
		%	to total	%	to total
			ppt		ppt
<b>CPI</b>	<b>100</b>	<b>1.2</b>	<b>1.2</b>	<b>3.4</b>	<b>3.4</b>
Domestic	42.2	2.2	0.9	-1.1	-0.4
Food	17.8	5.0	0.9	-5.0	-1.0
<i>Fruit &amp; vegetables</i>	6.5	14.5	1.0	-11.9	-1.1
<i>Meats, fish &amp; poultry</i>	3.7	-3.3	-0.1	2.8	0.1
<i>Dairy farm &amp; vegetable products</i>	0.5	-0.7	0.0	4.0	0.0
<i>Cereals &amp; cereal products</i>	3.4	0.0	0.0	0.0	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	0.0	0.0	11.4	0.3
<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	0.0	0.0	14.9	0.3
Household Operation	17.3	0.0	0.0	-0.6	-0.1
<i>Domestic Power &amp; Fuel</i>	6.0	0.0	0.0	-2.2	-0.1
<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	0.0	0.0	21.7	0.3
Miscellaneous goods & services	3.5	0.0	0.0	0.0	0.0
Imported	57.8	0.4	0.2	6.8	3.8
Food	27.9	0.7	0.2	9.4	2.6
<i>Fruit &amp; vegetables</i>	0.9	-0.3	0.0	-0.9	0.0
<i>Meats, fish &amp; poultry</i>	14.6	2.1	0.4	14.1	2.2
<i>Dairy farm &amp; vegetable products</i>	3.2	-0.9	0.0	11.4	0.3
<i>Cereals &amp; cereal products</i>	3.5	-1.5	0.0	-0.5	0.0
<i>Other food</i>	5.7	-1.5	-0.1	2.9	0.2
<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	3.5	0.4
<i>Private</i>	8.6	0.1	0.0	4.7	0.4
<i>Public</i>	2.9	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.5	0.3	0.0	13.6	0.7
<i>Tobacco</i>	2.9	0.4	0.0	16.4	0.6
<i>Alcohol</i>	1.6	0.0	0.0	6.5	0.1
<i>Kava</i>	0.0	0.0	0.0	0.0	0.0
Household Operation	3.5	0.0	0.0	5.4	0.2
<i>Domestic Power &amp; Fuel</i>	1.1	0.6	0.0	14.2	0.1
<i>Household Appliances</i>	1.2	0.0	0.0	3.7	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	-0.5	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	0.1	0.0	-1.0	0.0
Miscellaneous goods & services	6.4	1.0	0.1	-2.7	-0.2

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

Source: Statistics Department