

Inflation

March 2018

Release date: 29 June 2018

	Mar 18	Feb 18	Jan 18	Dec 17
Headline*	9.8	3.4	6.0	5.5
Domestic [^]	6.1	-0.4	1.3	1.2
Imported [^]	3.7	3.8	4.7	4.3

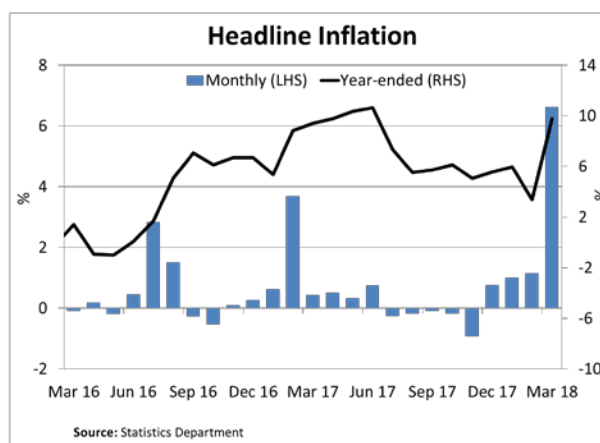
*Year-ended growth

[^]Percentage point contribution to year-ended growth

Domestic food prices hiked over the month pushing the annual headline inflation higher

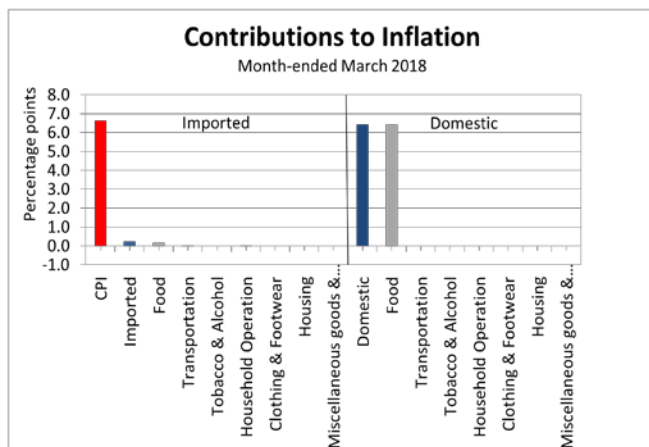
The domestic prices rose significantly over the month by 15.4%, the highest monthly increase in history, causing an overall monthly inflation rate of 6.6%. The monthly inflation was solely driven by the marked increase in domestic food prices particularly for fruits and vegetables. The damages from Tropical Cyclone (TC) Gita in February affecting the local food supply explained the increase in price as the majority of damages were on fruits & vegetables, followed by various other food items such as root crops. Imported inflation also slightly rose over the month as imported food prices rose further.

The hike in local food prices pushed the annual headline inflation rate to 9.8%, compared to 9.4% in March 2017 and 3.4% last month. The imported component of inflation remained relatively stable in terms of its 3.7 percentage points contribution to the overall headline inflation. However, the domestic component of inflation contributed 6.1 percentage points to the overall headline inflation. Seasonality and damages to fruits and vegetables caused by TC Gita resulted in lower supply of these food items. The price of vegetables was therefore stable at \$3.00 per bunch but with smaller quantity.

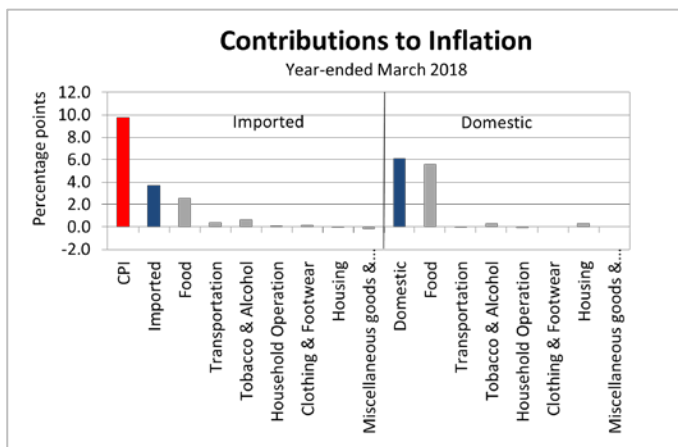


The prices of imported food, fuel and household supplies rose over the month which resulted in a 0.3% rise in the monthly imported inflation. The main driver was a 0.6% rise in imported food prices such as meat products, miscellaneous food category and dairy products which was partially offset by a decline in the price of some fruits & vegetables. Additionally, the price of diesel increased over the month by 1.1%,

whilst prices of household supplies and services slightly rose by 0.2%. On the other hand, the price of medical health services and supplies declined by 0.8%.

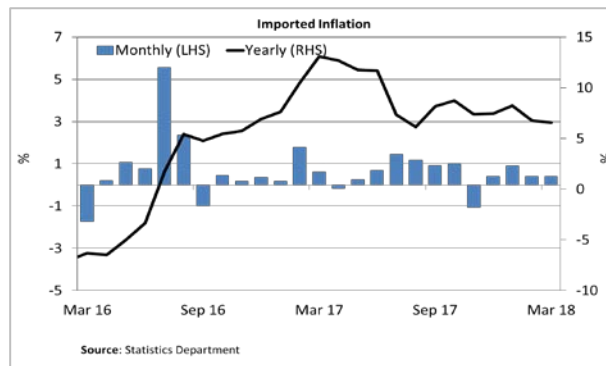


Source: Statistics Department



Source: Statistics Department

The annual imported inflation rose to 6.5% driven by higher prices for food, tobacco, fuel and clothing. Imported food prices continued to be the largest contributor which rose by 9.1% and contributed 2.5 percentage points to the overall headline inflation. The meat, fish & poultry category had the highest increase of 13.6%, followed by an 8.5% rise in the price of dairy products, and a 4.5% 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 over the year. This was reflected in the increased prices of chicken pieces and lamb flaps by 16.1% and 15.6% respectively over the year. The second highest contributor to the imported inflation was the price of tobacco which rose by 15.5% 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 March 2018 by 17.8%.



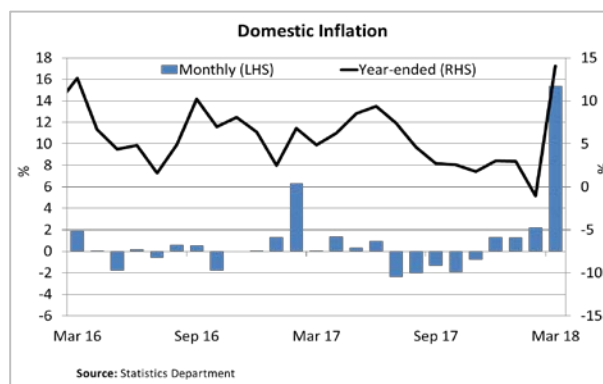
Source: Statistics Department

Additionally, fuel prices rose by 4.9% over the year contributing 0.4% to the annual headline inflation. The prices of diesel and petrol rose over the year by 8.0% and 4.3% 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. Clothing supplies also increased by 6.9%. These outweighed the annual fall in the price for stationery supplies, medical health services and supplies, cosmetics and toiletries, and house maintenance goods.

The monthly domestic inflation spiked by 15.4% over the month, recording the highest growth rate compared to previous years. This was solely driven by the impact of TC Gita and the seasonality of local food supply. Fruits and vegetable category rose by 79.3% over the months as prices of capsicum, tomatoes, carrots, cabbage, watermelon and green coconuts increased.

Moreover, this has pushed the annual domestic inflation higher to 14.0% and contributed 6.1 percentage points to the overall headline inflation. The local food group was the highest contributor of 5.6 percentage points as fruits and vegetables rose over the year by 55.4%. Other local goods and services which rose over the year included the prices of kava-Tonga and housing maintenance goods and services having equal contribution to the headline inflation of 0.3 percentage points each. These outweighed the annual decline in 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 for the benefit of the people of Tonga.

On the outlook, the annual headline inflation rate is anticipated to slow down to the Reserve Bank's 5% reference rate before the end of 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
CPI	100	6.6	6.6	9.8	9.8
Domestic	42.2	15.4	6.4	14.0	6.1
Food	17.8	34.3	6.4	27.4	5.6
<i>Fruit & vegetables</i>	6.5	79.3	6.4	55.4	5.3
<i>Meats, fish & poultry</i>	3.7	1.9	0.1	8.2	0.3
<i>Dairy farm & vegetable products</i>	0.5	0.0	0.0	0.8	0.0
<i>Cereals & 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	-0.3	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	-0.5	-0.1
<i>Domestic Power & 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 & 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	21.7	0.3
Miscellaneous goods & services	3.5	0.0	0.0	0.0	0.0
Imported	57.8	0.3	0.2	6.5	3.7
Food	27.9	0.5	0.2	9.1	2.5
<i>Fruit & vegetables</i>	0.9	-2.9	0.0	-3.8	0.0
<i>Meats, fish & poultry</i>	14.6	0.1	0.0	13.6	2.1
<i>Dairy farm & vegetable products</i>	3.2	0.0	0.0	8.5	0.3
<i>Cereals & cereal products</i>	3.5	0.8	0.0	-0.2	0.0
<i>Other food</i>	5.7	2.6	0.1	4.5	0.3
<i>Drinks, sweets and meal away from home</i>	0.0	0.0	0.0	0.0	0.0
Transportation	11.5	0.2	0.0	3.7	0.4
<i>Private</i>	8.6	0.3	0.0	4.9	0.4
<i>Public</i>	2.9	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.5	0.0	0.0	13.0	0.6
<i>Tobacco</i>	2.9	0.0	0.0	15.5	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	2.8	0.1
<i>Domestic Power & Fuel</i>	1.1	0.0	0.0	4.5	0.0
<i>Household Appliances</i>	1.2	0.0	0.0	3.8	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	0.2	0.0	0.2	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	0.0	0.0	-1.1	0.0
Miscellaneous goods & services	6.4	0.0	0.0	-2.7	-0.2

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

Source: Statistics Department