

Inflation

December 2014

Release date: 10 February 2015

	Dec 14	Nov 14	Oct 14	Sep 14
Headline*	0.2	1.8	0.7	1.1
Domestic^	-0.1	1.1	-0.1	-0.5
Imported^	0.3	0.8	0.9	1.6
Underlying*	1.6	3.6	1.3	0.6

*Year-ended growth

^Percentage point contribution to year-ended growth

Ending the year with a dip

The year 2014 ended with a 0.5% decline in headline inflation over December. This was largely due to falling global oil prices which led to a decline in the Household Operation, and the Transportation components. In contrast, Food prices increased over the month. Limited domestic food supply caused by the recent drought affected domestic prices, whereas the lower Tongan pa'anga against the New Zealand Dollar (NZD) over the month contributed to the rise in imported food prices.

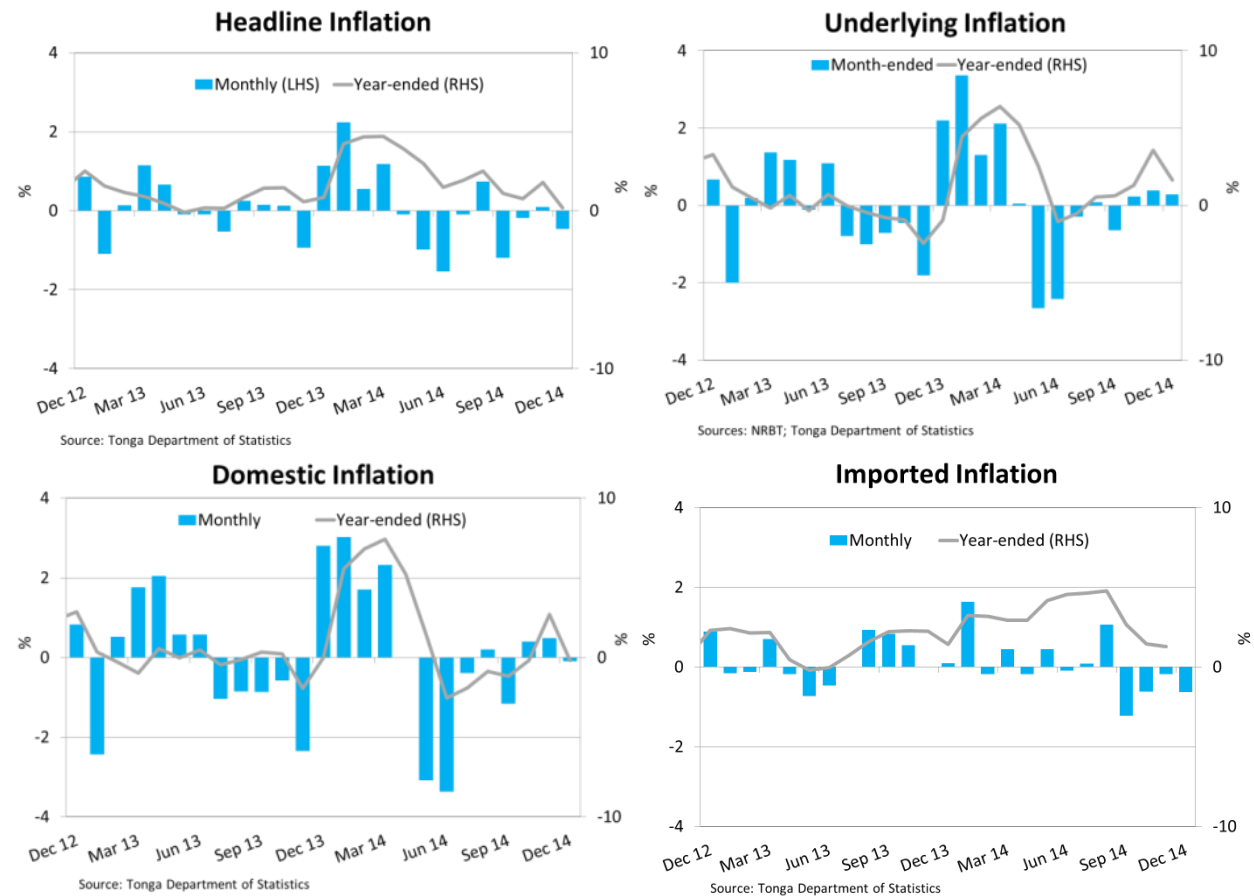
Annual inflation was 0.2% in December being the lowest headline inflation rate since July 2013. However, the slight increase from December 2013 was caused by imported prices rising over the year, particularly for Clothing & Footwear, Food, and Miscellaneous goods & services. Clothing & Footwear prices increased after having remained constant for three years to December 2013. Imported Food prices increased by 1.3% due to a rise in the prices of Meats, fish & poultry, whilst Cereals & cereal products, and Other food prices decreased. Prices for Transportation (specifically Private) fell by 5.5% reflecting the drop in global oil prices.

The local prices decreased by 0.2% due to a relatively large fall in prices of components under Household Operation. Over the year, Domestic power & fuel prices dropped

offsetting the increase in the prices of Domestic Food items, and Miscellaneous goods & services. El Niño weather effects have significantly influenced the short supply of Domestic Food items such as leaf vegetables (Pele & cabbage), and root crops (early yam & kumara). As a result, prices for Fruits & vegetables have increased by 7.2% since December 2013. A drop in the prices of Meats, fish & poultry were offset by the greater rise in prices of Fruits & vegetables.

Inflation is expected to ease further in the near term with a possibility of deflation due to popular predictions for further decline in world oil prices. Domestically, food prices are expected to marginally offset the contracting energy prices.

Since September 2011, headline inflation has kept well below the NRBT’s reference range of 6-8% and continues to do so. The NRBT is monitoring inflation changes and will adjust its monetary policy stance if needed to maintain price stability and encourage economic growth.



Inflation Breakdown*

	Weight %	Month-ended		Year-ended	
		Change %	Contribution to total ppt	Change %	Contribution to total ppt
CPI	100	-0.5	-0.5	0.2	0.2
Domestic	42.2	-0.1	0.0	-0.2	-0.1
Food	17.8	0.9	0.1	0.7	0.1
<i>Fruit & vegetables</i>	6.5	1.6	0.1	7.2	0.4
<i>Meats, fish & poultry</i>	3.7	1.4	0.0	-6.4	-0.2
<i>Dairy farm & vegetable products</i>	0.5	0.0	0.0	-0.7	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	0.6	0.0
Transportation	0.5	0.0	0.0	0.0	0.0
Tobacco & Alcohol	1.5	0.0	0.0	0.0	0.0
Household Operation	17.3	-1.2	-0.2	-1.6	-0.3
<i>Domestic Power & Fuel</i>	6.0	-3.3	-0.2	-4.4	-0.3
<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	0.1	0.0
<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	0.0	0.0
Clothing & Footwear	0.0	0.0	0.0	0.0	0.0
Housing	1.7	0.0	0.0	0.0	0.0
Miscellaneous goods & services	3.5	0.0	0.0	2.1	0.1
Imported	57.8	-0.6	-0.4	0.5	0.3
Food	27.9	2.5	0.0	1.3	0.4
<i>Fruit & vegetables</i>	0.9	-4.7	-0.1	-4.4	0.0
<i>Meats, fish & poultry</i>	14.6	0.5	0.1	4.2	0.7
<i>Dairy farm & vegetable products</i>	3.2	-0.2	0.0	1.5	0.0
<i>Cereals & cereal products</i>	3.5	0.0	0.0	-3.8	-0.1
<i>Other food</i>	5.7	0.2	0.0	-3.1	-0.2
<i>Drinks, sweets and meal away from home</i>	0.0	0.0	0.0	0.0	0.0
Transportation	11.5	-3.0	-0.4	-5.5	-0.7
<i>Private</i>	8.6	-4.0	-0.4	-7.3	-0.7
<i>Public</i>	2.9	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.5	0.0	0.0	-1.0	0.0
Household Operation	3.5	-0.6	0.0	-1.6	-0.1
<i>Domestic Power & Fuel</i>	1.1	-1.7	0.0	-2.4	0.0
<i>Household Appliances</i>	1.2	0.0	0.0	0.1	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	0.0	0.0	-2.5	0.0
<i>Communication services</i>	0.0	0.0	0.0	0.0	0.0
Clothing & Footwear	3.2	0.0	0.0	16.2	0.5
Housing	0.8	-0.5	0.0	-0.9	0.0
Miscellaneous goods & services	6.4	0.0	0.0	3.7	0.2
Underlying CPI measures					
Ex. Energy**	81.4	0.3	0.2	1.5	1.2
Ex. imported food	72.1	-0.6	-0.4	-0.2	-0.1
Ex. energy and imported food	53.5	0.3	0.1	1.6	0.8

* Due to rounding and Tonga Department of Statistics errors some data may not aggregate precisely.

**Excluded from the 'Ex energy' index is imported transportation and 'domestic fuel and power' component of 'Household operation'.

Source: Tonga Department of Statistics