

# Inflation

## December 2015

Release date: 2 February 2016

	Dec 15	Nov 15	Oct 15	Sep 15
<b>Headline*</b>	<b>-1.2</b>	<b>-1.9</b>	<b>-1.3</b>	<b>-1.9</b>
Domestic^	1.7	1.0	4.0	1.3
Imported^	-2.9	-2.8	-4.9	-3.2
<b>Underlying*</b>	<b>6.2</b>	<b>4.7</b>	<b>5.9</b>	<b>5.3</b>

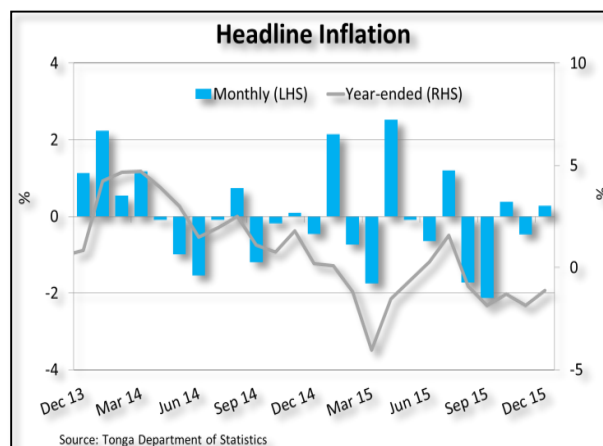
\*Year-ended growth

^Percentage point contribution to year-ended growth

## Headline deflation continues at End of Year

Prices as measured by the Consumer Price Index (CPI) increased by 0.3% over the month, driven mainly by a 1.7% rise in domestic prices. Specifically, Domestic Food prices rose by 4.5% due to increase in prices for Fruit & vegetables and Meats, fish & poultry items such as pawpaw, watermelon, dry coconut, peanuts, tomatoes, carrots, octopus, cockles (to'o) and also stringed fish (mixed). High demand for these domestic food items during the month due to annual events including Church Conferences of the Tokaikolo and Seventh Day Adventist Churches, Villages and various family re-unions (Fatumu Day, Tokomolo Day and Folaha Day to name a few) and school anniversaries (Beulah College) could have contributed to the increase in prices. In addition, prices for Tobacco & Alcohol also rose by 4.3%.

Imported prices however fell by 0.8% over the month as a result of lower prices for Food which declined by 1.1% and Transportation by 0.8%. This included food items such as mutton flaps and chicken pieces while the decline in prices for petrol and diesel were reflected in the fall in Private Transportation prices. The fall in World oil prices from USD\$44.9 per barrel in



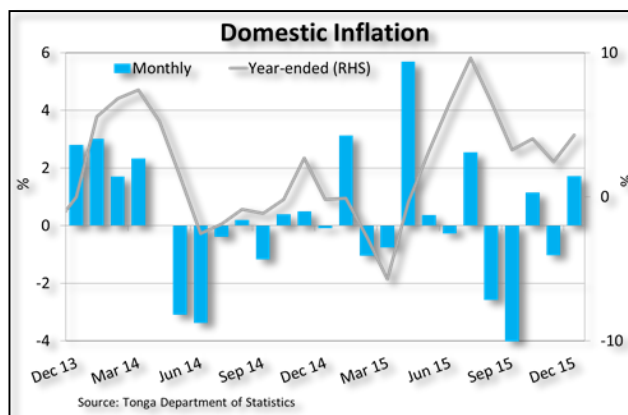
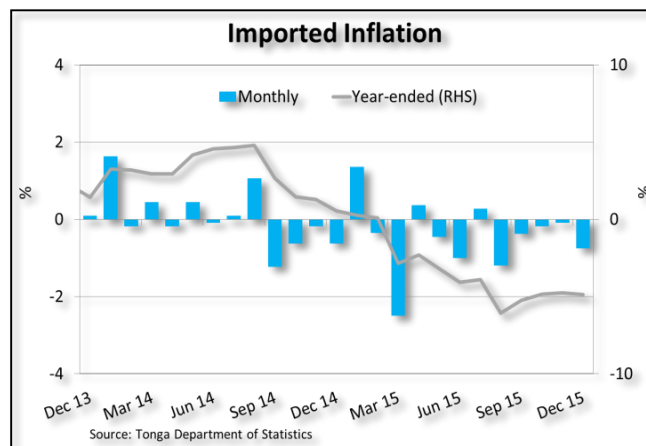
November 2015 to USD\$36.59 in December 2015 continued to positively impact the Transportation Prices.

Annual inflation decreased by 1.2% due to falling imported prices. Imported inflation declined by 4.9% as a result of decreases in Transportation by 8.6%, Food by 8.5% and Household Operation by 6.2%. The fall in imported prices was mainly attributed to the decline in the price of mutton flaps, chicken pieces, petrol, diesel, as well as electricity prices.

The decrease was mainly due to a significant fall in global oil prices by 36.5% to USD\$36.59 per barrel in December 2015 down from USD\$57.63 in December 2014. However, prices for Clothing & Footwear increased over the year but were insufficient to offset the decline in imported prices.

On the contrary, Domestic prices rose by 4.3% as a result of higher Food prices recorded for capsicum, ripe bananas, pineapple, pawpaw, dry and green coconuts, eggs, tuna and stringed fish. An increase in demand for these food items may have contributed to the increase in prices with banquets prepared for activities such as Church Conferences, school anniversaries, villages and several number of family reunions during Christmas and end of year season. The rise in Domestic Food prices could also be driven by a lower supply due to unfavourable weather conditions over the year. The annual core inflation rate (excluding energy and imported food) increased by 6.2% indicating the significant influence global prices has on inflation. However, it is still below the NRBT's reference range of 6-8%.

On the outlook, the NRBT continues to expect that headline inflation will continue to remain low in the near term. However, risks to this forecast would be developments in world oil and food prices for both domestic and imported inflation.



### Inflation Breakdown\*

	Weight %	Month-ended		Year-ended	
		Change %	Contribution to total ppt	Change %	Contribution to total ppt
<b>CPI</b>	<b>100</b>	<b>0.3</b>	<b>0.3</b>	<b>-1.2</b>	<b>-1.2</b>
Domestic	42.2	1.7	0.7	4.3	1.7
Food	17.8	4.5	0.9	15.6	2.7
<i>Fruit &amp; vegetables</i>	6.5	9.3	0.7	41.4	2.5
<i>Meats, fish &amp; poultry</i>	3.7	3.4	0.1	6.0	0.2
<i>Dairy farm &amp; vegetable products</i>	0.5	0.0	0.0	0.7	0.0
<i>Cereals &amp; cereal products</i>	3.4	0.0	0.0	-1.6	-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	0.0	0.0
Transportation	0.5	0.0	0.0	-0.1	0.0
Tobacco & Alcohol	1.5	4.3	0.1	4.3	0.1
Household Operation	17.3	-1.1	-0.2	-5.7	-1.0
<i>Domestic Power &amp; Fuel</i>	6.0	-3.2	-0.2	-11.1	-0.7
<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	2.0	0.0
<i>Household supplies &amp; services</i>	4.7	0.0	0.0	-7.5	-0.3
<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	0.0	0.0
<b>Imported</b>	<b>57.8</b>	<b>-0.8</b>	<b>-0.4</b>	<b>-4.9</b>	<b>-2.9</b>
Food	27.9	-1.1	-0.3	-8.5	-2.6
<i>Fruit &amp; vegetables</i>	0.9	-0.5	0.0	-4.4	0.0
<i>Meats, fish &amp; poultry</i>	14.6	-2.6	-0.4	-16.5	-2.8
<i>Dairy farm &amp; vegetable products</i>	3.2	-0.2	0.0	-1.5	-0.1
<i>Cereals &amp; cereal products</i>	3.5	0.1	0.0	-1.1	0.0
<i>Other food</i>	5.7	1.3	0.1	7.5	0.4
<i>Drinks, sweets and meal away from home</i>	0.0	0.0	0.0	0.0	0.0
Transportation	11.5	-0.8	-0.1	-8.6	-1.0
<i>Private</i>	8.6	-1.1	-0.1	-11.2	-1.0
<i>Public</i>	2.9	0.0	0.0	-0.5	0.0
Tobacco & Alcohol	4.5	-0.1	0.0	11.6	0.5
<i>Tobacco</i>	2.9	-0.1	0.0	13.6	0.4
<i>Alcohol</i>	1.6	0.0	0.0	7.6	0.1
<i>Kava</i>	0.0	0.0	0.0	0.0	0.0
Household Operation	3.5	-0.3	0.0	-6.2	-0.2
<i>Domestic Power &amp; Fuel</i>	1.1	-1.1	0.0	-14.6	-0.2
<i>Household Appliances</i>	1.2	0.0	0.0	1.6	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	0.0	0.0	-5.8	-0.1
<i>Communication services</i>	0.0	0.0	0.0	0.0	0.0
Clothing & Footwear	3.2	0.6	0.0	8.9	0.3
Housing	0.8	-1.2	0.0	1.2	0.0
Miscellaneous goods & services	6.4	-0.4	0.0	-0.2	0.0
<b>Underlying CPI measures</b>					
Ex. Energy**	81.4	0.7	0.6	0.7	0.6
Ex. imported food	72.1	0.9	0.6	2.0	1.4
Ex. energy and imported food	53.5	1.7	0.9	6.2	3.2

\* Due to rounding 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