

Inflation

January 2015

Release date: 5 March 2015

| | Jan 15 | Dec 14 | Nov 14 | Oct 14 |
|--------------------|------------|------------|------------|------------|
| Headline* | 0.1 | 0.2 | 1.8 | 0.7 |
| Domestic^ | 0.0 | -0.1 | 1.1 | -0.1 |
| Imported^ | 0.2 | 0.3 | 0.8 | 0.9 |
| Underlying* | 1.7 | 1.6 | 3.6 | 1.3 |

*Year-ended growth

^Percentage point contribution to year-ended growth

Imported prices keep inflation afloat

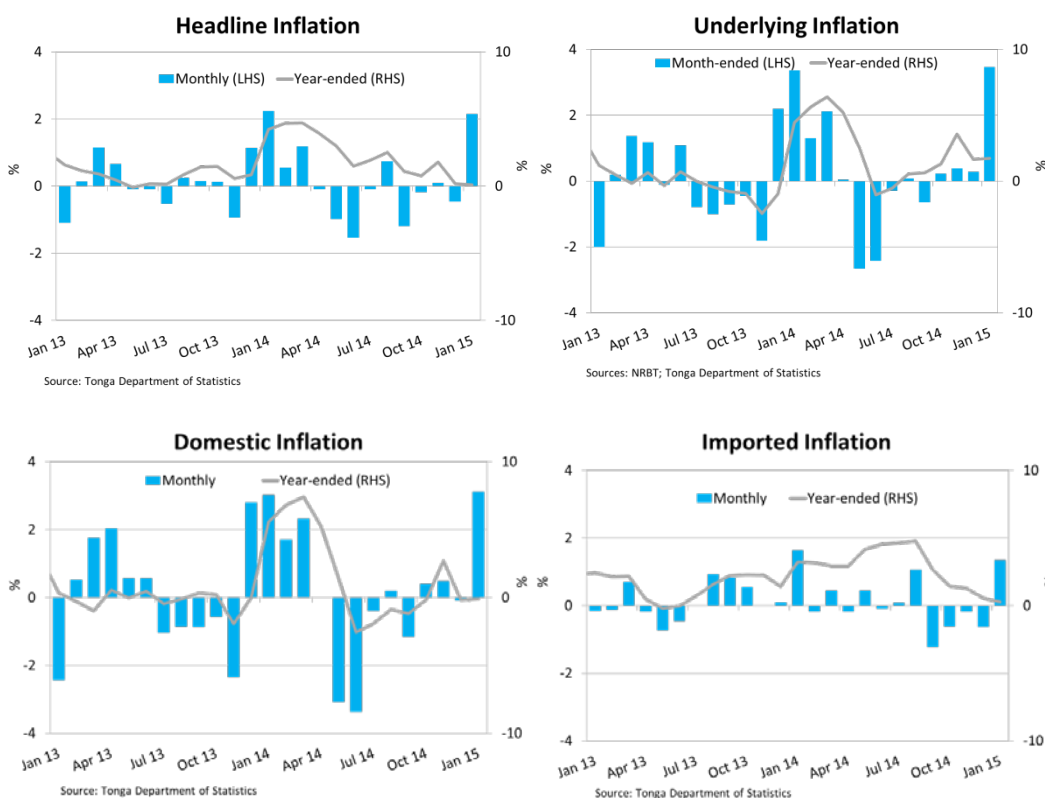
Headline inflation increased over the month of January. This was largely driven by rising Domestic and Imported Food prices. Domestic prices for Fruit & vegetables as well as Imported Meats, and fish & poultry were the main contributors to the monthly increase. The recent drought affected domestic food supply, leading to higher domestic Food prices, whereas the rising food prices in New Zealand contributed to the higher imported prices which were softened somewhat by the depreciation of the New Zealand dollar against the Pa'anga over the month. Clothing & Footwear prices also increased by 5.1% over the month seemingly due to high demand for uniforms and sandals as children prepare for the new school year. Furthermore, Imported Tobacco prices rose by 9.0% after being stable since February 2013.

In year ended terms, headline inflation rose slightly by 0.1% mainly due to an increase in the prices of Imported components. In particular, prices for Imported Food items rose by 3.5%, namely Meats, fish & poultry. On the other hand, prices for Imported Fruit & vegetables and Cereals & cereal products fell by 2.3% and 2.7% respectively. Imported Tobacco & Alcohol prices increased over the year due to an 8.8% rise in Imported Tobacco prices, which is the largest increase since June 2011.

In addition, prices for Clothing & Footwear and Miscellaneous goods & services rose, contributing to the overall increase in Imported prices. In contrast, the spillover effects from the recent falling global energy prices have influenced the Imported Household Operation and Transportation components. Domestic Power & Fuel prices declined by 2.5% over the year whereas Transportation prices fell by 11.7% (with Public Transportation prices decreasing by 0.5%, the first decline since July 2010).

Over the year, Domestic prices fell by 0.1% but this was offset by an increase in Imported prices of 0.3%. Domestic Household Operation component fell by 1.7% due to the influence of contracting energy prices. Domestic Food prices rose by 1.4% with prices for Fruit & vegetables contributing the most to this rise. However, prices for Meats, fish & poultry and Cereal & cereal products declined over the year.

Inflation is expected to ease further in the near term with a possibility of deflation due to the lag effects of falling global oil 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 stimulate economic growth.



Inflation Breakdown*

| | Weight % | Month-ended | | Year-ended | |
|---|-------------|-------------|---------------------------------|-------------|---------------------------------|
| | | Change % | Contribution to total ppt | Change % | Contribution to total ppt |
| CPI | 100 | 2.1 | 2.1 | 0.1 | 0.1 |
| Domestic | 42.2 | 3.1 | 1.3 | -0.1 | 0.0 |
| Food | 17.8 | 7.7 | 1.3 | 1.4 | 0.2 |
| <i>Fruit & vegetables</i> | 6.5 | 22.1 | 1.3 | 11.6 | 0.7 |
| <i>Meats, fish & poultry</i> | 3.7 | 0.9 | 0.0 | -9.2 | -0.4 |
| <i>Dairy farm & vegetable products</i> | 0.5 | 0.0 | 0.0 | -3.6 | 0.0 |
| <i>Cereals & cereal products</i> | 3.4 | -1.6 | -0.1 | -4.1 | -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 | -0.1 | 0.0 | -1.7 | -0.3 |
| <i>Domestic Power & Fuel</i> | 6.0 | -1.0 | -0.1 | -5.4 | -0.3 |
| <i>Household Appliances</i> | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| <i>Household furniture, furnishing & textiles</i> | 1.4 | 2.0 | 0.0 | 2.0 | 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 | 0.0 | 0.0 |
| Imported | 57.8 | 1.4 | 0.8 | 0.3 | 0.2 |
| Food | 27.9 | 2.5 | 1.0 | 3.5 | 1.0 |
| <i>Fruit & vegetables</i> | 0.9 | 2.2 | 0.0 | -2.3 | 0.0 |
| <i>Meats, fish & poultry</i> | 14.6 | 5.3 | 0.9 | 7.8 | 1.3 |
| <i>Dairy farm & vegetable products</i> | 3.2 | -0.4 | 0.0 | 0.5 | 0.0 |
| <i>Cereals & cereal products</i> | 3.5 | 1.2 | 0.0 | -2.7 | -0.1 |
| <i>Other food</i> | 5.7 | 0.4 | 0.0 | -3.0 | -0.2 |
| <i>Drinks, sweets and meal away from home</i> | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Transportation | 11.5 | -5.2 | -0.6 | -11.7 | -1.4 |
| <i>Private</i> | 8.6 | -6.7 | -0.6 | -15.2 | -1.4 |
| <i>Public</i> | 2.9 | -0.5 | 0.0 | -0.5 | 0.0 |
| Tobacco & Alcohol | 4.5 | 5.9 | 0.2 | 4.9 | 0.2 |
| <i>Tobacco</i> | 2.9 | 9.0 | 0.2 | 8.8 | 0.2 |
| <i>Alcohol</i> | 1.6 | 0.0 | 0.0 | -2.6 | 0.0 |
| <i>Kava</i> | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Household Operation | 3.5 | -0.3 | 0.0 | -2.5 | -0.1 |
| <i>Domestic Power & Fuel</i> | 1.1 | -1.7 | 0.0 | -5.8 | -0.1 |
| <i>Household Appliances</i> | 1.2 | 1.6 | 0.0 | 1.6 | 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 | -0.6 | 0.0 | -3.2 | 0.0 |
| <i>Communication services</i> | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Clothing & Footwear | 3.2 | 5.1 | 0.2 | 8.4 | 0.3 |
| Housing | 0.8 | 0.1 | 0.0 | -0.8 | 0.0 |
| Miscellaneous goods & services | 6.4 | 0.0 | 0.0 | 2.6 | 0.2 |
| Underlying CPI measures | | | | | |
| Ex. Energy** | 81.4 | 3.4 | 2.7 | 2.4 | 1.9 |
| Ex. imported food | 72.1 | 1.6 | 1.1 | -1.3 | -0.9 |
| Ex. energy and imported food | 53.5 | 3.5 | 1.8 | 1.7 | 0.9 |

* 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