

Inflation

January 2016

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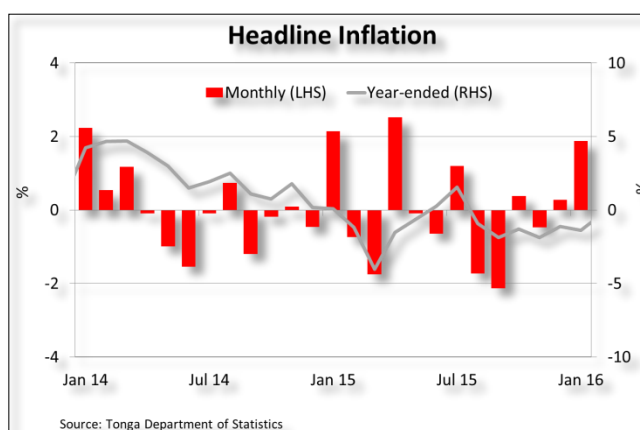
	Jan 16	Dec 15	Nov 15	Oct 15
Headline*	-1.3	-1.2	-1.9	-1.3
Domestic [^]	2.6	1.7	1.0	4.0
Imported [^]	-3.9	-2.9	-2.8	-4.9
Underlying*	6.8	6.2	4.7	5.9

*Year-ended growth

[^]Percentage point contribution to year-ended growth

Lower imported food prices drive annual deflation

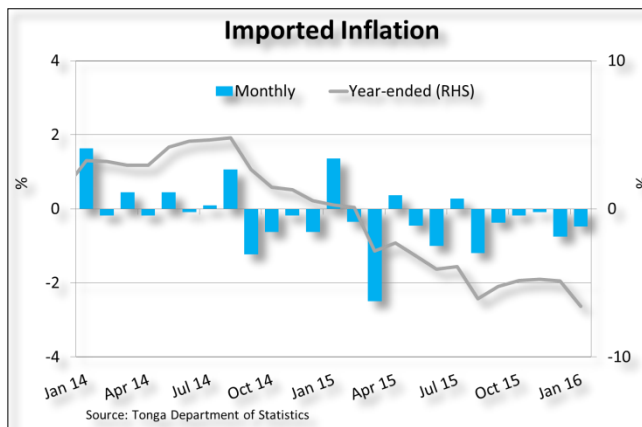
Over the month of January, the Consumer Price Index (CPI) rose by 1.9% as a result of domestic prices increasing by 5.2%. All domestic categories increased with prices for Miscellaneous goods & services increasing the fastest by 24.9%. This was due mainly to a hike in the prices of stamp for air mail to Australia from \$0.90 cents to \$5.00. In addition, the prices for Tobacco and Alcohol also rose by 5.0% due to increases in the prices of alcohol. Household Operation prices also rose by 4.6% driven by increases in prices for household furniture, furnishing & textiles reflecting the increasing demands for these items supported by the ongoing construction works and growing household loans. Prices for communication services also rose. Tropical Cyclone Ula that occurred during the month also contributed to the lower supply of agricultural production and higher domestic food prices.



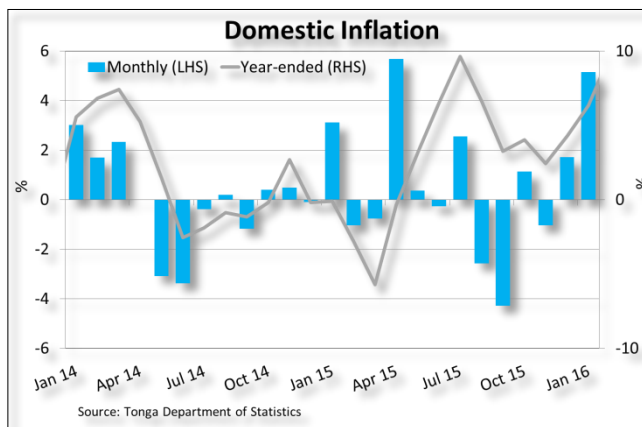
In contrast, imported prices fell by 0.5% as a result of decline in prices for petrol and diesel, reflected a fall in Transportation prices by 2.6%. This coincides with the decline in global oil prices over the month by 6.3% to USD\$34.3 per barrel in January 2016. The Miscellaneous

goods and services prices also declined by 2.4% for items such as medical health services & supplies and cosmetics and toiletries. This offset the increases in imported Clothing and Footwear prices. The increased demands from preparation for the commencement of the school year contributed to an increase in prices of school uniforms.

Headline inflation fell by 1.3% over the year due to imported prices declining by 6.7%. Imported Food prices decreased the most by 11.6%. Prices for all food items declined except for sugar. Meats, fish & poultry prices decreasing the fastest by 21.1%, mainly for mutton flaps and chicken pieces. Lower prices for potatoes and onions also contributed to a fall in the price of fruits & vegetables. Additionally, transportation and household operations costs specifically petrol, diesel and electricity prices continued to benefit from the lower global oil prices during the year. Other imported items such as Clothing & Footwear, Tobacco & Alcohol and Housing prices, on the other hand, increased over the year.



Contrastingly, higher prices for miscellaneous goods & services, food and tobacco & alcohol contributed to a 6.4% increase in domestic prices over the year to January 2016. The prices of stamps for air mail to Australia drove Miscellaneous goods & services prices up by 24.9%. Food items prices increased by 10.2% reflecting increase in prices for ripe banana, taro, cassava, sweet potatoes, yams, pawpaw, coconut, eggs, tuna, cockles and stringed fish. Tobacco, Alcohol & Kava prices also rose by 9.5% due to increases in prices for alcohol and kava. The effect of falling global oil prices drove the transportation and electricity prices lower. The annual core inflation rate (excluding energy and imported food) increased by 6.8% indicating the significant influence global oil and food prices have on inflation. However, it is still within the NRBT's reference range of 6-8%.



On the outlook, the NRBT continues to expect that headline inflation will 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
CPI	100	1.9	1.9	-1.3	-1.3
Domestic	42.2	5.2	2.2	6.4	2.6
Food	17.8	2.6	0.5	10.2	1.8
<i>Fruit & vegetables</i>	6.5	2.1	0.2	18.3	1.3
<i>Meats, fish & poultry</i>	3.7	7.6	0.3	13.0	0.5
<i>Dairy farm & vegetable products</i>	0.5	0.0	0.0	0.7	0.0
<i>Cereals & cereal products</i>	3.4	0.1	0.0	0.1	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	1.0	0.0	1.0	0.0
Transportation	0.5	0.0	0.0	-0.1	0.0
Tobacco & Alcohol	1.5	5.0	0.1	9.5	0.1
Household Operation	17.3	4.6	0.7	-1.3	-0.2
<i>Domestic Power & Fuel</i>	6.0	0.0	0.0	-10.2	-0.6
<i>Household Appliances</i>	0.0	0.0	0.0	0.0	0.0
<i>Household furniture, furnishing & textiles</i>	1.4	19.8	0.3	19.8	0.3
<i>Household supplies & services</i>	4.7	0.0	0.0	-7.5	-0.3
<i>Communication services</i>	5.2	9.3	0.5	9.3	0.4
Clothing & Footwear	0.0	0.0	0.0	0.0	0.0
Housing	1.7	2.4	0.0	2.4	0.0
Miscellaneous goods & services	3.5	24.9	0.8	24.9	0.8
Imported	57.8	-0.5	-0.3	-6.7	-3.9
Food	27.9	-0.3	-0.1	-11.6	-3.5
<i>Fruit & vegetables</i>	0.9	-1.1	0.0	-7.4	-0.1
<i>Meats, fish & poultry</i>	14.6	-0.5	-0.1	-21.1	-3.7
<i>Dairy farm & vegetable products</i>	3.2	-0.3	0.0	-1.5	0.0
<i>Cereals & cereal products</i>	3.5	0.1	0.0	-2.1	-0.1
<i>Other food</i>	5.7	0.4	0.0	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	-2.6	-0.3	-6.1	-0.6
<i>Private</i>	8.6	-3.6	-0.3	-8.2	-0.6
<i>Public</i>	2.9	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.5	0.5	0.0	5.9	0.3
<i>Tobacco</i>	2.9	0.9	0.0	5.1	0.2
<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	0.1	0.0	-5.9	-0.2
<i>Domestic Power & Fuel</i>	1.1	0.0	0.0	-13.1	-0.1
<i>Household Appliances</i>	1.2	0.9	0.0	0.9	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	-0.4	0.0	-5.6	-0.1
<i>Communication services</i>	0.0	0.0	0.0	0.0	0.0
Clothing & Footwear	3.2	4.8	0.2	8.6	0.3
Housing	0.8	-0.7	0.0	0.4	0.0
Miscellaneous goods & services	6.4	-2.4	-0.2	-2.6	-0.2
Underlying CPI measures					
Ex. Energy**	81.4	2.6	2.2	0.0	0.0
Ex. imported food	72.1	2.7	2.0	3.1	2.2
Ex. energy and imported food	53.5	4.1	2.3	6.8	3.5

* 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