

Inflation

March 2016

Release date: 23 May 2016

	Mar 16	Feb 16	Jan 16	Dec 15
Headline*	1.4	-0.3	-1.3	-1.2
Domestic^	5.2	3.9	2.6	1.7
Imported^	-3.7	-4.2	-3.9	-2.9
Underlying*	10.8	8.3	6.8	6.2

*Year-ended growth

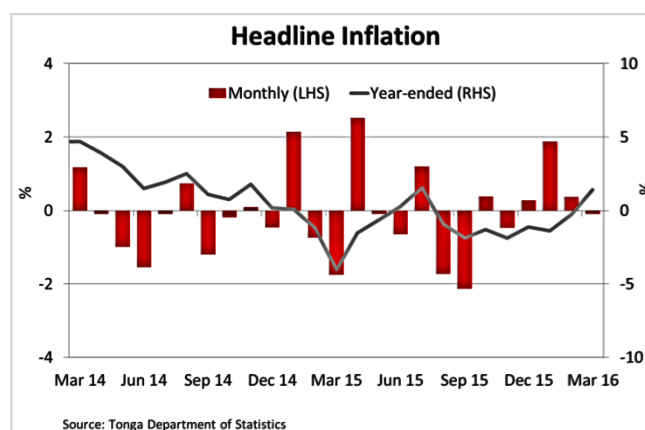
^Percentage point contribution to year-ended growth

First annual headline inflation after 7 consecutive months of deflation

The Consumer Price Index (CPI) over the month of March slightly fell by 0.1% as a result of imported prices decreasing by 1.7%. All imported categories decreased except prices for Miscellaneous goods & services. A decline in prices for petrol and diesel reflected a fall in Transportation prices by 2.9%, despite higher prices of global oil in March. The prices for imported Tobacco and Alcohol fell by 2.6% due mainly to a decrease in the price of Winfield blue. Imported Food prices also declined by 2.2% for items such as potatoes, apples and mutton flaps. The prices of house maintenance goods dropped by 2.0%.

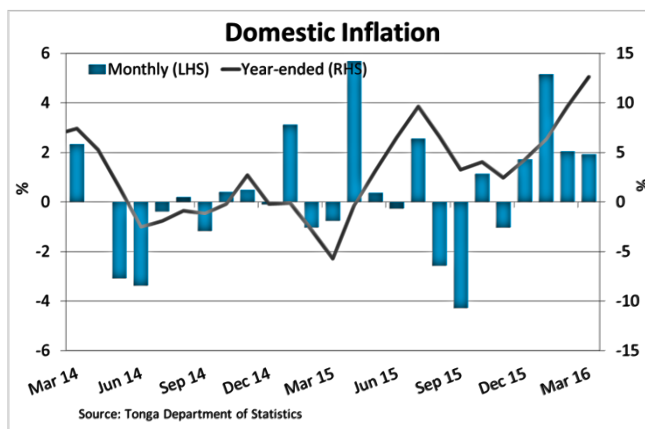
In contrast, domestic prices rose by 1.9% mainly due to higher Food prices recorded for talo futuna, cassava, tomatoes, cabbage, taro tarua leaves, pineapple, and pele leaves. The prices for Tobacco, Alcohol & Kava increased

by 3.0% driven by a rise in the price of kava-Tonga. The low production of Kava-Tonga reflects the lag effects of the drought from previous years. Domestic food prices had increased in March, indicating a decline in the supply of domestically produced food. This offsets the decreases in domestic household operations prices. Over the month, other domestic



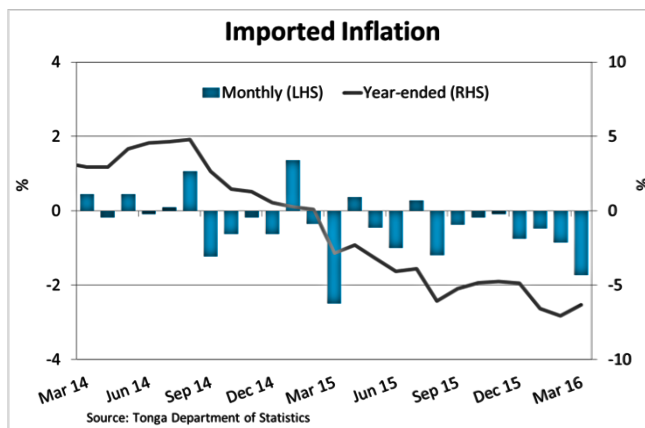
components such as Housing, Clothing & Footwear, Transportation and Miscellaneous goods & services remained unchanged.

Headline inflation over the year to March 2016 rose by 1.4%, being the first inflation rate since July 2015 and it is still within the NRBT's reference range of 6 – 8%. This is due to domestic prices increasing by 12.6% to a new record driven by a hike in the prices of kava-Tonga in February 2016. In year-ended terms, prices for domestic Tobacco, Alcohol & Kava rose by 47.7% as a result of kava-Tonga prices increasing the fastest by 90.7%. The Agricultural Census 2015 revealed that agricultural land used for Kava-Tonga plantation significantly dropped from 5,273 acres in 2001 to only 1,257 acres in 2015 supporting the short supply of kava Tonga and the continued high kava Tonga prices.



Domestic Food prices also rose by 19.4% driven by increases in prices for talo (futuna & tonga), cassava, yams (early & late), taro tarua leaves, tomatoes, capsicum, ripe bananas, watermelon, coconuts (dry & green) and pineapple. The unfavourable weather conditions had affected agricultural output during the year. Prices for household furniture, furniture & textiles increased by 19.7% reflecting increasing demands for these items, supported by the ongoing construction works and growing household loans. Prices for house maintenance goods & services rose by 6.3% and 2.2% respectively.

Contrastingly, lower prices for imported Food, Transportation, and Household Operations contributed to a 6.3% decrease in imported prices over the year. Imported Food prices fell the most by 11.7% driven by lower prices for all imported food items with mutton flaps and chicken pieces decreasing the most. Price control by the Tonga Competent Authority on chicken contributed to the fall. A decline in prices for petrol, diesel and electricity prices reflected a fall in Transportation prices by 3.9% and 2.7% decrease in Household Operations. This coincides with the decline in global oil



prices over the year by 30.3% to USD\$39.22 per barrel in March 2016. The prices for imported Clothing & Footwear and Tobacco, Alcohol & Kava, however, rose over the year.

The annual core inflation rate (excluding energy and imported food) increased by 10.8% indicating the significant influence global prices has on inflation.

On the outlook, the NRBT continues to expect that inflationary pressure will continue to ease in the remaining months of 2015/16 and to record an annual deflation of 0.84% in June 2016 then increase to a peak of 4.6% annual inflation in November 2016 as signs of world oil prices starting to pick up again before falling to 2.76% in January 2017. 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	-0.1	-0.1	1.4	1.4
Domestic	42.2	1.9	0.9	12.6	5.2
Food	17.8	6.7	1.4	19.4	3.6
<i>Fruit & vegetables</i>	6.5	16.5	1.5	45.2	3.4
<i>Meats, fish & poultry</i>	3.7	-3.2	-0.1	4.9	0.2
<i>Dairy farm & vegetable products</i>	0.5	-13.1	-0.1	-13.7	-0.1
<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	1.0	0.0
Transportation	0.5	0.0	0.0	-0.4	0.0
Tobacco & Alcohol	1.5	3.0	0.1	47.4	0.7
Household Operation	17.3	-3.5	-0.6	0.4	0.1
<i>Domestic Power & Fuel</i>	6.0	-10.9	-0.6	-6.6	-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	19.7	0.3
<i>Household supplies & services</i>	4.7	0.0	0.0	-7.5	-0.3
<i>Communication services</i>	5.2	0.0	0.0	9.3	0.5
Clothing & Footwear	0.0	0.0	0.0	0.0	0.0
Housing	1.7	0.0	0.0	2.4	0.0
Miscellaneous goods & services	3.5	0.0	0.0	24.9	0.8
Imported	57.8	-1.7	-1.0	-6.3	-3.7
Food	27.9	-2.2	-0.6	-11.7	-3.6
<i>Fruit & vegetables</i>	0.9	1.1	0.0	-10.8	-0.1
<i>Meats, fish & poultry</i>	14.6	-2.5	-0.4	-19.0	-3.2
<i>Dairy farm & vegetable products</i>	3.2	-0.1	0.0	-3.0	-0.1
<i>Cereals & cereal products</i>	3.5	-0.4	0.0	-3.0	-0.1
<i>Other food</i>	5.7	-4.0	-0.2	-0.3	0.0
<i>Drinks, sweets and meal away from home</i>	0.0	0.0	0.0	0.0	0.0
Transportation	11.5	-2.9	-0.3	-3.9	-0.4
<i>Private</i>	8.6	-4.0	-0.3	-5.5	-0.4
<i>Public</i>	2.9	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.5	-2.6	-0.1	2.1	0.1
<i>Tobacco</i>	2.9	-3.9	-0.1	-0.5	0.0
<i>Alcohol</i>	1.6	0.0	0.0	7.7	0.1
<i>Kava</i>	0.0	0.0	0.0	0.0	0.0
Household Operation	3.5	-0.1	0.0	-2.7	-0.1
<i>Domestic Power & Fuel</i>	1.1	0.7	0.0	-4.7	0.0
<i>Household Appliances</i>	1.2	0.0	0.0	0.8	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	-0.8	0.0	-4.6	0.0
<i>Communication services</i>	0.0	0.0	0.0	0.0	0.0
Clothing & Footwear	3.2	0.0	0.0	8.6	0.3
Housing	0.8	-2.0	0.0	0.1	0.0
Miscellaneous goods & services	6.4	0.7	0.0	-2.0	-0.1
Underlying CPI measures					
Ex. Energy**	81.4	0.9	0.7	2.6	2.2
Ex. imported food	72.1	0.7	0.5	7.2	5.0
Ex. energy and imported food	53.5	2.3	1.3	10.8	5.8

* 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