

Inflation

May 2016

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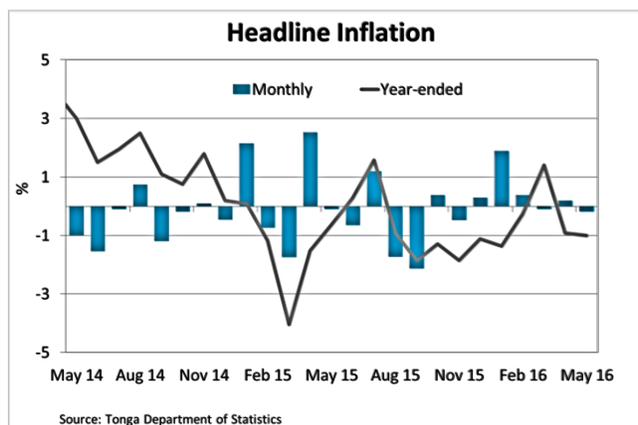
	May 16	Apr 16	Mar 16	Feb 16
Headline*	-1.0	-0.9	1.4	-0.3
Domestic^	1.9	2.8	5.2	3.9
Imported^	-2.9	-3.7	-3.7	-4.2
Underlying*	5.1	6.2	10.8	8.3

*Year-ended growth

^Percentage point contribution to year-ended growth

Annual headline deflation continues driven by lower imported food prices

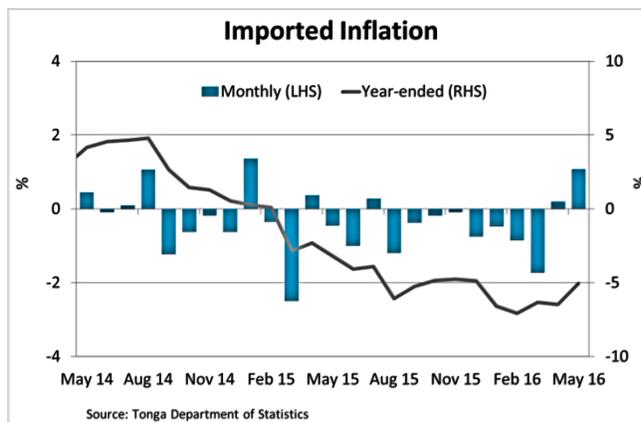
A 1.1% rise in imported prices over the month of May was offset by a 1.8% decline in domestic prices, which resulted in the Consumer Price Index (CPI) declining by 0.2%. Domestic food prices decreased the most by 3.8% due to lower prices recorded for swamp taro, cassava, late yams, pele leaves, tomatoes, cabbage, pineapple, pawpaw and stringed fish. This reflected higher supply for some of the root crops driving the prices lower, which coincides with an increase in the exports of swamp taro and cassava in May. This offset a 0.8% rise in public transport prices. The prices for other components particularly on housing, household operations, clothing & footwear, tobacco, alcohol & kava and miscellaneous goods & services remained unchanged in May 2016.



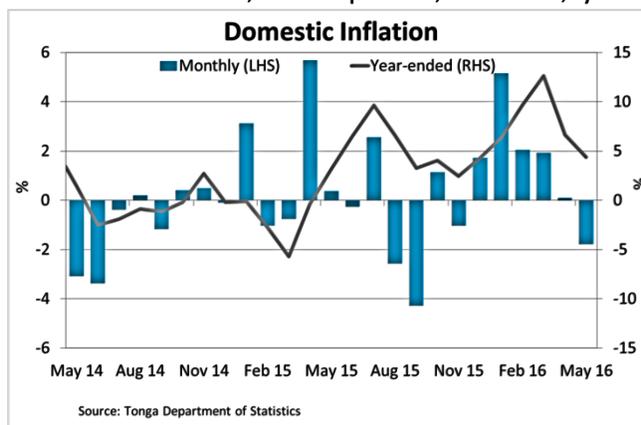
Between April and May, world oil prices have been steadily rising from USD\$47 to USD\$49 per barrel. The effects of this has seen a pick-up in both local electricity and fuel prices at the bowsers. In addition, imported food prices rose by 1.4% for items such as potatoes, mutton flaps, chicken pieces. A shortage in supply of flour and sugar saw prices rise significantly to

cope with an increase in demand. Ongoing talks between importers and suppliers meant a delay in shipment by a month. The price of house maintenance goods also increased by 0.9% over the month.

Headline inflation recorded deflation of 1.0% over the year ended May, due to a 5.0% decline in imported prices offsetting a 4.4% rise in domestic prices. Prices for all imported food items declined except for sugar and flour, driving an 8.5% fall in imported food prices. Price controlled by the Tonga Competent Authority assisted the lower prices for some of the food items whilst short supply of sugar and flour during the month caused the higher prices. A decline in petrol, diesel and electricity prices coincides with a USD\$13.23 decrease in global oil prices over the year. This offset the increase in prices for clothing & footwear (8.6%), alcohol (7.7%) and house maintenance goods (0.9%).



Domestic prices however rose reflecting an increase in prices for all categories except for the price of electricity under the household operations category. Kava-Tonga price has doubled since April 2016 due to low supply. Higher prices for taro tarua, swamp taro, cassava, yams (early & late), tomatoes, carrots, ripe banana, coconuts (brown & green), peanuts, octopus, cockles and stringed fish contributed to a 2.9% increase in domestic food prices. The unfavorable weather conditions during the year had affected the agricultural supply which is consistent with the decrease in agricultural exports volume. Higher prices for household furniture, furniture & textiles have been supported by the ongoing construction activities, lower weighted average lending rate and strong growth in household loans over the year. Prices of public transport and house maintenance goods & services also rose over the year.



The annual core inflation rate (excluding energy and imported food) increased by 5.1% indicating the influence of global prices on inflation in Tonga.

On the outlook, the NRBT continues to expect that inflationary pressure will ease in the remaining months of 2015/16 and to record an annual deflation of 1.1% in June 2016. This is due to lower global fuel and food prices together with better growth in local agricultural produce compared to a year ago. Annual inflation is expected to increase to a peak of 4.7% in November 2016 as signs of world oil prices start to pick up before falling to 3.1% in January 2017. However, the developments in world oil and food prices pose a risk to this inflation forecast.

Inflation Breakdown*

	Weight %	Month-ended		Year-ended	
		Change %	Contribution to total ppt	Change %	Contribution to total ppt
CPI	100	-0.2	-0.2	-1.0	-1.0
Domestic	42.2	-1.8	-0.8	4.4	1.9
Food	17.8	-3.9	-0.8	2.8	0.6
<i>Fruit & vegetables</i>	6.5	-7.9	-0.8	4.9	0.5
<i>Meats, fish & poultry</i>	3.7	0.3	0.0	3.3	0.1
<i>Dairy farm & vegetable products</i>	0.5	0.0	0.0	-8.0	0.0
<i>Cereals & cereal products</i>	3.4	0.0	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	0.0	0.0	1.0	0.0
Transportation	0.5	0.8	0.0	0.2	0.0
Tobacco & Alcohol	1.5	0.0	0.0	51.7	0.7
Household Operation	17.3	0.0	0.0	-1.7	-0.3
<i>Domestic Power & Fuel</i>	6.0	0.0	0.0	-12.5	-0.7
<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	19.8	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	0.4
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	1.1	0.6	-5.0	-2.9
Food	27.9	1.5	0.4	-8.4	-2.4
<i>Fruit & vegetables</i>	0.9	0.4	0.0	-10.4	-0.1
<i>Meats, fish & poultry</i>	14.6	1.3	0.2	-14.3	-2.3
<i>Dairy farm & vegetable products</i>	3.2	0.4	0.0	-2.1	-0.1
<i>Cereals & cereal products</i>	3.5	1.6	0.1	-1.2	0.0
<i>Other food</i>	5.7	2.1	0.1	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	2.2	0.2	-6.3	-0.6
<i>Private</i>	8.6	3.2	0.2	-8.7	-0.7
<i>Public</i>	2.9	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.5	0.0	0.0	1.7	0.1
<i>Tobacco</i>	2.9	0.0	0.0	-1.1	0.0
<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	0.8	0.0	-1.9	-0.1
<i>Domestic Power & Fuel</i>	1.1	0.7	0.0	-4.0	0.0
<i>Household Appliances</i>	1.2	0.0	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	2.0	0.0	-2.8	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	1.0	0.0	0.9	0.0
Miscellaneous goods & services	6.4	-0.1	0.0	-1.9	-0.1
Underlying CPI measures					
Ex. Energy**	81.4	-0.5	-0.4	0.4	0.3
Ex. imported food	72.1	-0.8	-0.6	2.0	1.4
Ex. energy and imported food	53.5	-1.4	-0.8	5.1	2.8

* 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