

Inflation

January 2017

Release date: 23rd May 2017

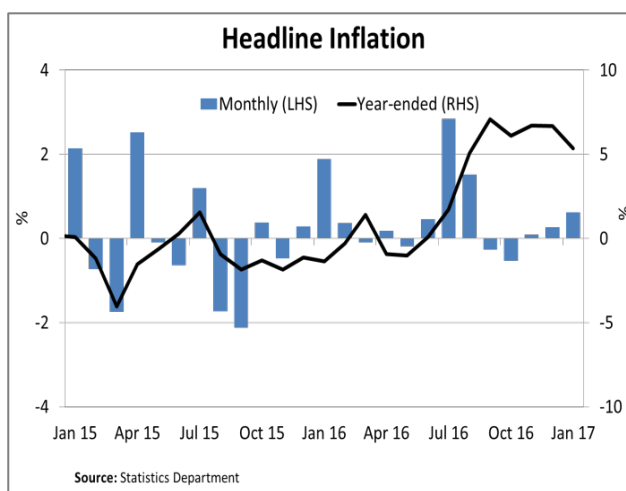
	Jan17	Dec16	Nov 16	Oct 16
Headline*	5.4	6.7	6.8	6.1
Domestic^	1.1	2.7	3.4	2.9
Imported^	4.3	4.0	3.4	3.2

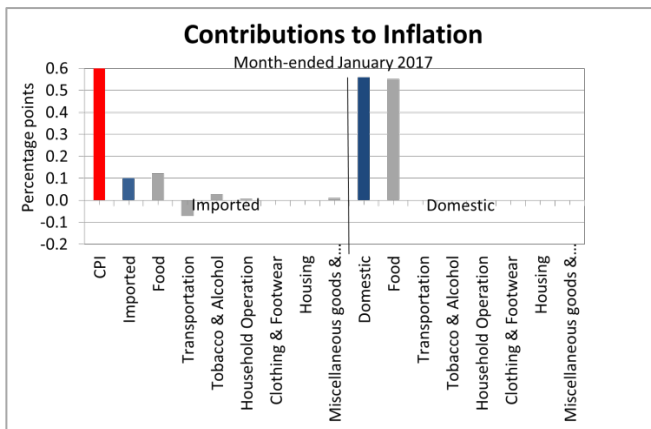
*Year-ended growth

^Percentage point contribution to year-ended growth

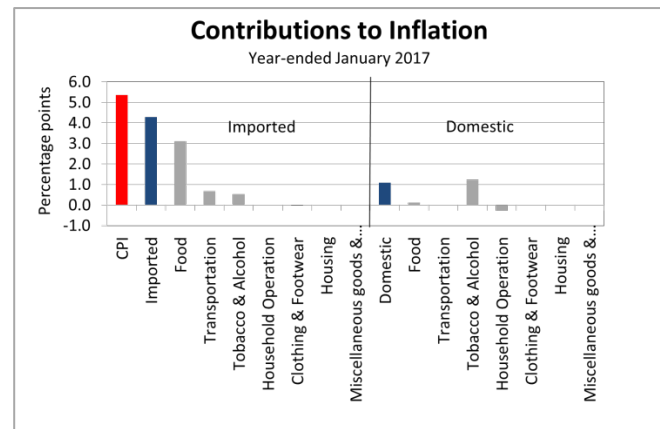
Annual headline inflation starts high in 2017

In the year ended January 2017, the annual headline inflation rate rose by 5.4%. This was substantially high compared to the same period last year where the headline inflation rate fell by 1.3%. Over the year to January 2015, the fall in imported prices was sufficient to offset the increased domestic prices. But since July 2016 the imported inflation started to rise, accompanied by the high domestic inflation thus drove the headline inflation higher. Over the month, the inflation rate rose by 0.6% as a result of increased food, Winfield cigarette, cosmetics and toiletries prices.



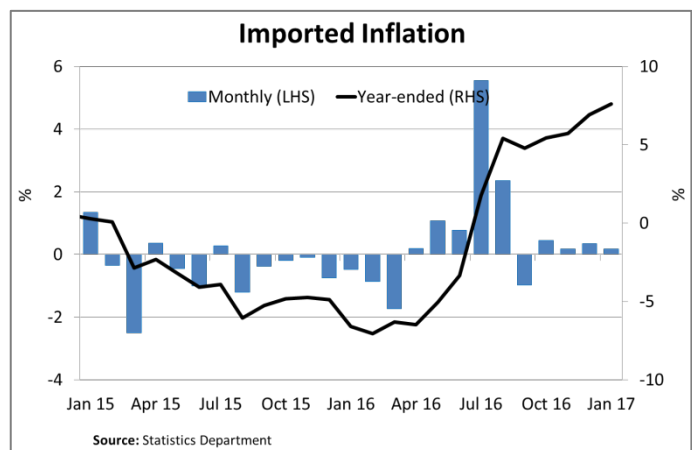


Source: Statistics Department



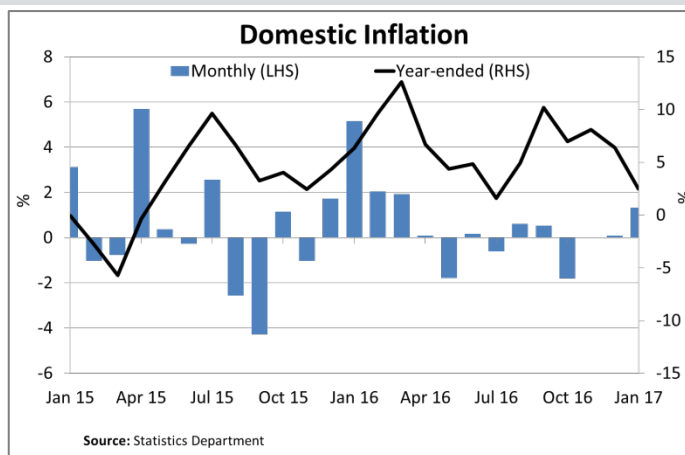
Source: Statistics Department

Over the year to January 2017, the annual imported inflation rate remained high, rising by 7.7%. The largest contributor to the higher imported prices was the price of imported meat, fish and poultry with 18.3% rise, followed by a 16.6% rise in the cost of imported tobacco. These continued to reflect the impact of the amended custom duties and excise taxes introduced in July 2016. The prices of mutton flaps and chicken pieces rose by 27.3% and 19.1% respectively, whilst the price of Winfield blue cigarette increased by 19.8%. Additionally, oil prices rose by 9.4% as the prices of petrol and diesel increased by 9.6% and 11.8% respectively. Also increasing over the year were the prices of other food components such as cereals and cereal product, and sugar. The prices of household supplies and services have increased by 5.4% and the price of house maintenance goods rose by 2.7% annually. Although the prices of imported fruits and vegetables declined by 6.5% annually, it was insufficient to offset the increased prices of other imported food.



Source: Statistics Department

Moreover, the domestic annual inflation rate rose by 2.4%. This is a slower rate of increase compared to a 6.4% rise in the previous year. Nonetheless, the price of kava-Tonga remained the highest contributor to domestic inflation with 167.6% rise over the year due to its continued short supply. This was followed by the increase in the prices of various food components due to seasonal factors, and the rise in the prices of locally produced alcohol.



On the outlook, the effects of the shortage in supply of kava-Tonga, and the amended custom duties and excise taxes effective July last year will continue to be reflected in the annual headline inflation of the upcoming months. With world oil and food prices slowly on the rise, this will impact imported inflation while seasonality in local produce will affect the domestic inflation. The Reserve Bank anticipates the annual headline inflation rate to fall below the inflation reference rate of 5% per annum in 2017/18. However, movements in commodity and oil prices and other temporary factors may pose a risk to this forecast.

Inflation Breakdown*

	Weight %	Month-ended Contribution		Year-ended Contribution	
		Change %	to total ppt	Change %	to total ppt
CPI	100	0.6	0.6	5.4	5.4
Domestic	42.2	1.3	0.6	2.5	1.1
Food	17.8	2.9	0.6	0.6	0.1
<i>Fruit & vegetables</i>	6.5	7.4	0.5	-3.3	-0.3
<i>Meats, fish & poultry</i>	3.7	-0.2	0.0	-6.7	-0.3
<i>Dairy farm & vegetable products</i>	0.5	0.0	0.0	-3.0	0.0
<i>Cereals & cereal products</i>	3.4	0.0	0.0	17.9	0.6
<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	2.8	0.1
Transportation	0.5	0.0	0.0	0.2	0.0
Tobacco & Alcohol	1.5	0.0	0.0	80.6	1.2
<i>Tobacco</i>	0.0	0.0	0.0	0.0	0.0
<i>Alcohol</i>	0.8	0.0	0.0	5.4	0.0
<i>Kava</i>	0.7	0.0	0.0	167.6	1.2
Household Operation	17.3	0.0	0.0	-1.7	-0.3
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	0.2	0.1	7.6	4.3
Food	27.9	0.4	0.1	11.4	3.1
<i>Fruit & vegetables</i>	0.9	1.7	0.0	-6.5	-0.1
<i>Meats, fish & poultry</i>	14.6	0.8	0.1	18.2	2.6
<i>Dairy farm & vegetable products</i>	3.2	-0.6	0.0	-1.6	0.0
<i>Cereals & cereal products</i>	3.5	-0.2	0.0	6.9	0.2
<i>Other food</i>	5.7	0.2	0.0	7.0	0.4
<i>Drinks, sweets and meal away from home</i>	0.0	0.0	0.0	0.0	0.0
Transportation	11.5	-0.7	-0.1	6.7	0.7
<i>Private</i>	8.6	-0.9	-0.1	9.4	0.7
<i>Public</i>	2.9	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.5	0.6	0.0	11.3	0.5
<i>Tobacco</i>	2.9	0.7	0.0	16.5	0.5
<i>Alcohol</i>	1.6	0.0	0.0	0.0	0.0
<i>Kava</i>	0.0	0.0	0.0	0.0	0.0
Household Operation	3.5	0.2	0.0	0.0	0.0
Clothing & Footwear	3.2	0.0	0.0	-0.9	0.0
Housing	0.8	0.0	0.0	2.7	0.0
Miscellaneous goods & services	6.4	0.2	0.0	0.3	0.0

* Due to rounding errors some data may not aggregate precisely.

Source: Statistics Department