

Inflation

March 2017

Release date: 23 June 2017

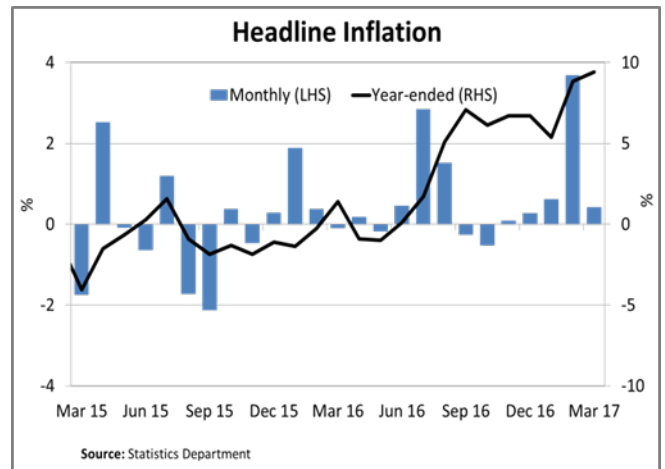
	Mar 17	Feb 17	Jan 17	Dec 16
Headline*	9.4	8.9	5.4	6.7
Domestic^	2.2	3.1	1.1	2.7
Imported^	7.2	5.8	4.3	4.0

*Year-ended growth

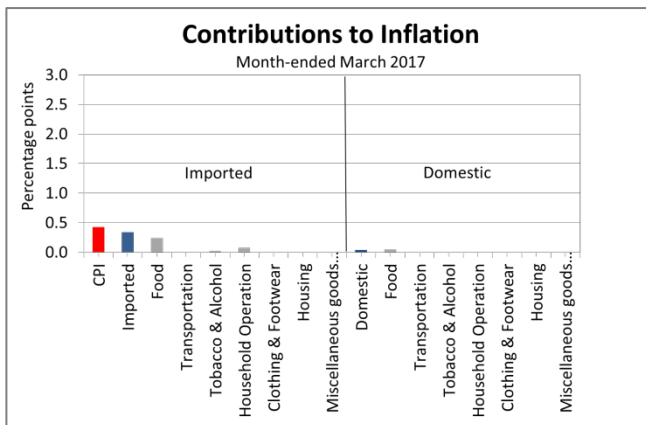
^Percentage point contribution to year-ended growth

Low inflation rates in March 2016 drove higher rates in 2017

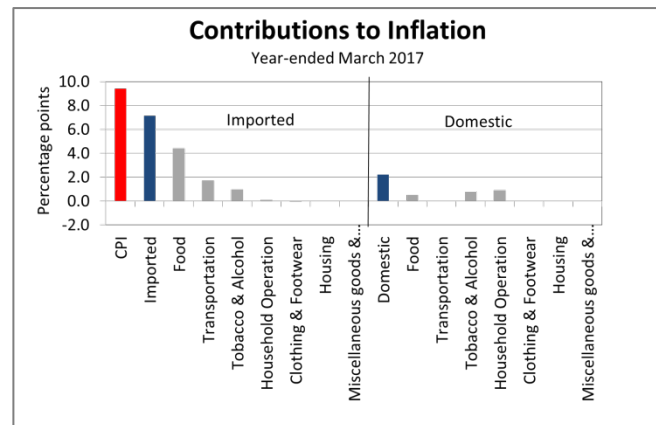
The annual headline inflation edged higher in March 2017 by 9.4% compared to a 1.4% inflation rate in March 2016. This was due to the very low level of imported prices in March 2016, which recorded a negative 6.3%. The relatively small rise over the month in the imported inflation rate of 0.6% has arithmetically resulted in a high annual imported inflation rate of 13.2% in March 2017 contributing 7.2 percentage points to the headline inflation.



However, inflation over the month rose by 0.4% mainly driven by the rise in the prices of local and imported food such as butter, eggs, sugar, and flour. Other items which also rose over the month included tobacco, kerosene, and liquid petroleum gas.

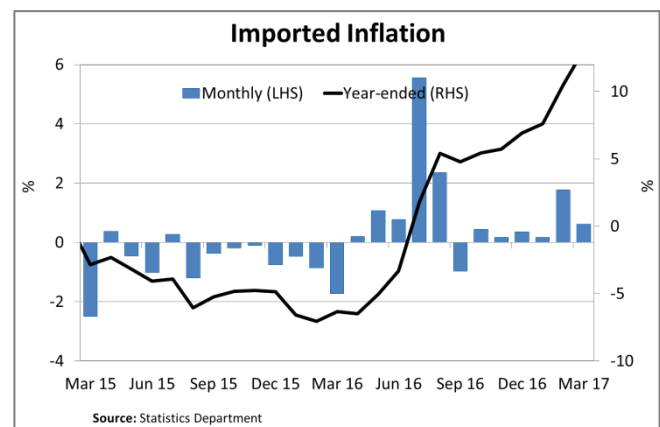


Source: Statistics Department



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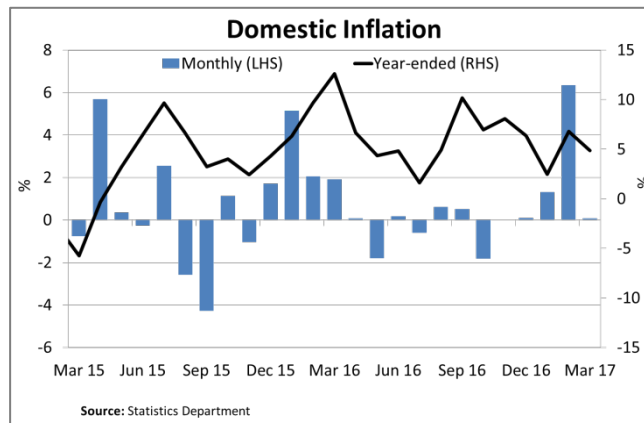
The annual imported inflation rose by 13.2% driven by higher food and oil prices. Imported food was the largest contributor which rose by 16.7% contributing 4.4 percentage points to the overall headline inflation. All imported food categories rose, led by a 24.0% increase in prices of meat, fish & poultry followed by the prices of other food components such as sugar and flour rising by 14.6%. The prices of these imported food continued to reflect the excise taxes and custom duties imposed on various imported food in July 2016. This tax effect is also reflected in the 33.0% increase in price of Winfield blue tobacco. Additionally, the increase in world oil prices drove the price of fuel higher by 26.1%, diesel and petrol rose by 34% and 26% respectively. This was followed by a 9.2% increase in household operations fuel and power which comprised of kerosene and liquid petroleum gas. The price of house maintenance goods also increased by 2.9% for items such as paint and bricks.



Source: Statistics Department

Over the month, imported prices increased by 0.6% driven by the prices of tobacco, fuel, kerosene, and liquid petroleum gas. Food items such as sugar, butter, and mutton flaps also rose over the month.

Similarly, the domestic annual inflation rate rose by 4.9% accounting for 2.2 percentage points of the headline inflation. The local inflation was driven by the rise in electricity price, continued short supply of kava-Tonga, and volatile local food prices. Increases in oil prices drove the electricity price higher by 17.8% contributing 0.8 percentage points to the annual headline inflation. The price of kava-Tonga increased over the year by 63.1%, followed by a 2.4% increase in the prices of local food, and a 5.4% increase in the price of domestic alcohol.



Monthly domestic inflation rose by 0.1% at the end of March due mainly to the seasonality of local food particularly for fruits and vegetables, and dairy products.

On the outlook, the Reserve Bank expects the upward inflationary pressure to remain in the near term as world oil and food prices slowly rise, coupled with the impact of the excise tax which was introduced in July 2016. The continued shortage of supply in kava-Tonga compared to its high demand is likely to impact the domestic inflation for some time, therefore contribute to the annual headline 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. Additionally, the vulnerability of Tonga to natural disasters also poses a risk to the local food prices and consequently the inflation outlook.

Inflation Breakdown*					
	Weight	Month-ended		Year-ended	
	%	Change %	Contribution to total ppt	Change %	Contribution to total ppt
CPI	100	0.4	0.4	9.4	9.4
Domestic	42.2	0.1	0.0	4.9	2.2
Food	17.8	0.2	0.0	2.4	0.5
<i>Fruit & vegetables</i>	6.5	1.6	0.2	-4.4	-0.5
<i>Meats, fish & poultry</i>	3.7	-3.2	-0.1	6.5	0.2
<i>Dairy farm & vegetable products</i>	0.5	3.2	0.0	15.9	0.1
<i>Cereals & cereal products</i>	3.4	0.0	0.0	18.0	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	0.8	0.0
Tobacco & Alcohol	1.5	0.0	0.0	40.0	0.8
Household Operation	17.3	0.0	0.0	5.7	0.9
<i>Domestic Power & Fuel</i>	6.0	0.0	0.0	17.8	0.8
<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	0.0	0.0
<i>Household supplies & services</i>	4.7	0.0	0.0	1.6	0.1
<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	0.6	0.3	13.2	7.2
Food	27.9	0.8	0.2	16.7	4.4
<i>Fruit & vegetables</i>	0.9	0.0	0.0	1.1	0.0
<i>Meats, fish & poultry</i>	14.6	0.6	0.1	24.1	3.2
<i>Dairy farm & vegetable products</i>	3.2	2.8	0.1	2.5	0.1
<i>Cereals & cereal products</i>	3.5	0.5	0.0	8.4	0.3
<i>Other food</i>	5.7	1.1	0.1	14.6	0.8
<i>Drinks, sweets and meal away from home</i>	0.0	0.0	0.0	0.0	0.0
Transportation	11.5	0.0	0.0	18.4	1.7
<i>Private</i>	8.6	0.0	0.0	26.1	1.7
<i>Public</i>	2.9	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.5	0.5	0.0	21.3	1.0
<i>Tobacco</i>	2.9	0.7	0.0	31.9	1.0
<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	2.6	0.1	3.3	0.1
<i>Domestic Power & Fuel</i>	1.1	9.2	0.1	5.0	0.0
<i>Household Appliances</i>	1.2	0.0	0.0	0.0	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	0.0	0.0	5.4	0.1
<i>Communication services</i>	0.0	0.0	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	2.9	0.0
Miscellaneous goods & services	6.4	0.0	0.0	-0.5	0.0

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

Source: Statistics Department