

Inflation

January 2018

Release date: 6 April 2018

	Jan 18	Dec 17	Nov 17	Oct 17
Headline*	6.0	5.5	5.0	6.1
Domestic^	1.3	1.2	0.7	1.1
Imported^	4.7	4.3	4.3	5.0

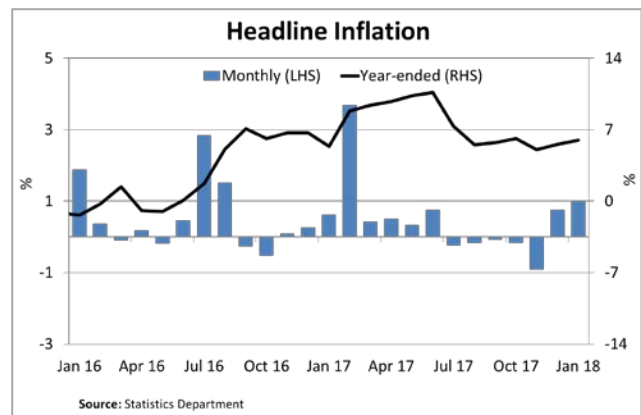
*Year-ended growth

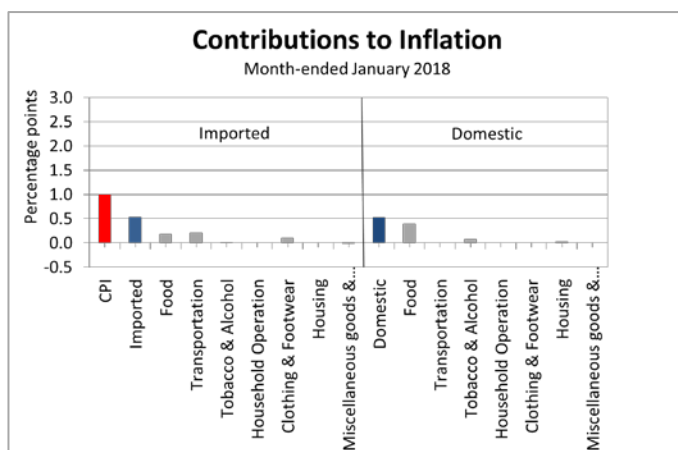
^Percentage point contribution to year-ended growth

Higher commodity prices over the month

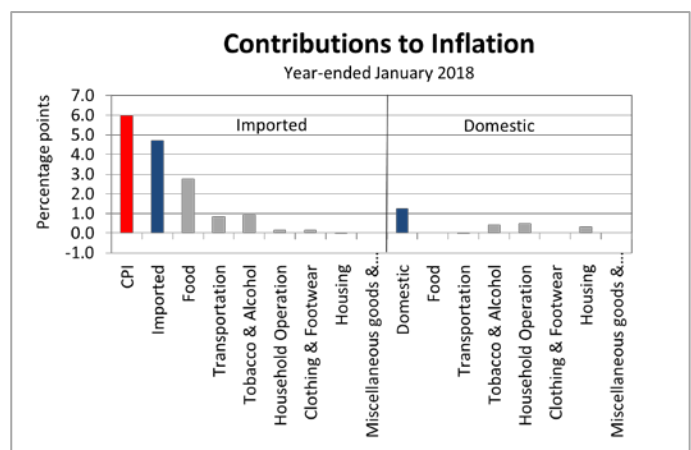
Inflation rose over the month by 1.0% as both domestic and imported commodity prices increased during the month. The local component of inflation was mainly driven by the seasonality of local food and a further rise in the price of kava-Tonga. The imported component was driven by the increase in food, fuel, and clothing prices. Both local and imported inflation contributed equal 0.5 percentage points to the monthly inflation.

Over the year, the headline inflation rose to 6.0%, higher than the annual headline inflation of 5.5% recorded last month and a 5.4% in January 2017. Key factors that helped to drive the annual inflation rate higher included the rise in global oil and food prices, and increases in the price of kava-Tonga.



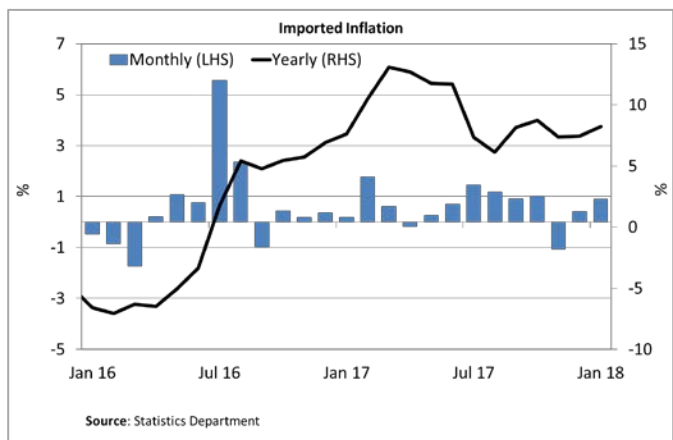


Source: Statistics Department



Source: Statistics Department

The prices of a variety of imported goods rose over the month which led to a 0.9% rise in the monthly imported inflation. The price of fuel rose by 2.6%, both diesel and petrol increased by 3.1% and 2.7% respectively. Imported food rose by 0.7% driven by the prices of mayonnaise, butter block, beef, lamb flaps, and chicken pieces to name a few. Additionally, prices of school uniform such as boys khaki shorts and girls' uniform dresses also rose throughout the month which coincided with the increased demand for uniform given the preparations for beginning of the academic year in January 2018. Other goods whose price rose over the month included house paint, household equipment, tobacco, and cosmetic & toiletries. However, stationary supplies and medical supplies had lower prices over the month.

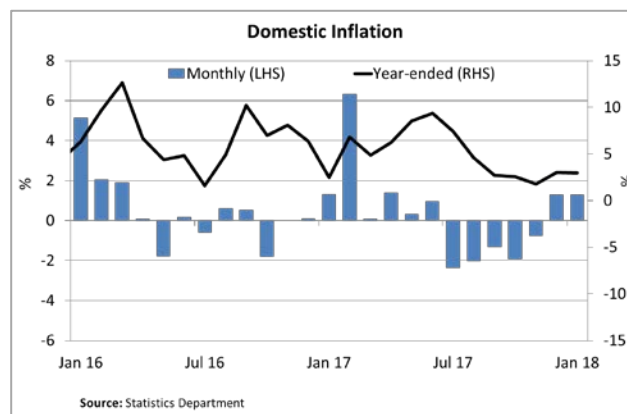


Source: Statistics Department

The annual imported inflation rose to 8.2% contributing 4.7 percentage points to the overall headline inflation. This was higher than a 7.7% recorded in January 2017 and a 7.4% last month. The annual imported inflation continued to be driven by higher food, tobacco, and oil prices. Imported food was the largest contributor which rose by 9.6% contributed 2.8 percentage points to the overall headline inflation. The prices of all imported food categories rose, led by a 12.0% increase in the price of meat, fish & poultry. This was reflected in a 16.2% and 9.4% rise in the prices of lamb flaps and chicken pieces respectively. This was followed by a 13.9% increase in the prices of dairy products such as butter. Moreover, other food components also rose by 5.8% which included food such as sweets and sugary drinks reflecting the further increase in excise tax in July 2017.

The new excise and customs amendment order in July 2017 increased taxes on tobacco and alcohol further. Hence, this category rose by 19.4% reflected in a 24.9% rise in the price of Winfield blue tobacco. Additionally, the movements in world oil prices coincided with an 11.3% rise in the price of fuel. Diesel and petrol prices rose by 12.7% and 11.7% respectively, followed by a 16.5% increase in the price of fuel and power under the household operations group (e.g. kerosene and liquid petroleum gas). On the other hand, the price for stationery supplies, cosmetics and toiletries, and house maintenance goods declined over the year.

The monthly domestic inflation rose by 1.2%, attributed to the seasonality of local food, higher kava-Tonga and coral aggregate prices. Seasonality of local food resulted in 7.5% increase in prices of fruits and vegetables which included items such as tomatoes, peanuts, pineapples, carrot, and cucumber. The price of Kava-Tonga and local alcohol increased by 2.7% and 3.4% respectively. Additionally, coral aggregates price rose by 29.4%.



In year ended terms, domestic inflation rose by 2.9% and contributed 1.3 percentage point to the overall headline inflation. The prices of electricity and kava-Tonga were the major drivers of domestic inflation. The constant increase in oil prices coincided with a 9.7% rise in the electricity price. Kava-Tonga price increased over the year by 22.2%. Each of these category contributed 0.4 percentage points equally to the overall headline inflation. Housing goods and services' prices increased by 21.7% which includes housing rent and coral aggregates.

On the outlook, the Reserve Bank anticipates the annual headline inflation rate to increase in the near term due to the expected rise in food and fuel prices. However, favourable movements in global oil and food prices may change this outlook. The continued shortage of supply in kava-Tonga compared to its high demand, is likely to impact the domestic inflation for some time and therefore contribute to the higher annual headline inflation. Additionally, the vulnerability of Tonga to natural disasters also poses a risk to the local food supply and consequently its prices and the inflation outlook.

Inflation Breakdown*					
	Weight	Month-ended		Year-ended	
	%	Change	Contribution	Change	Contribution
		%	to total	%	to total
			ppt		ppt
CPI	100	1.0	1.0	6.0	6.0
Domestic	42.2	1.3	0.5	3.0	1.3
Food	17.8	2.3	0.4	0.1	0.0
<i>Fruit & vegetables</i>	6.5	7.5	0.5	-4.9	-0.4
<i>Meats, fish & poultry</i>	3.7	-1.5	-0.1	10.8	0.4
<i>Dairy farm & vegetable products</i>	0.5	5.5	0.0	3.8	0.0
<i>Cereals & cereal products</i>	3.4	-1.7	-0.1	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	0.0	0.0
Transportation	0.5	0.0	0.0	-0.2	0.0
Tobacco & Alcohol	1.5	2.9	0.1	16.3	0.4
<i>Tobacco</i>	0.0	0.0	0.0	0.0	0.0
<i>Alcohol</i>	0.8	3.4	0.0	3.4	0.0
<i>Kava</i>	0.7	2.6	0.1	22.2	0.4
Household Operation	17.3	0.0	0.0	3.2	0.5
<i>Domestic Power & Fuel</i>	6.0	0.0	0.0	9.6	0.4
<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	8.7	0.1
<i>Household supplies & services</i>	4.7	0.0	0.0	0.0	0.0
<i>Communication services</i>	5.2	0.0	0.0	-2.2	-0.1
Clothing & Footwear	0.0	0.0	0.0	0.0	0.0
Housing	1.7	1.5	0.0	21.7	0.3
Miscellaneous goods & services	3.5	0.0	0.0	0.0	0.0
Imported	57.8	0.9	0.5	8.2	4.7
Food	27.9	0.6	0.2	9.6	2.8
<i>Fruit & vegetables</i>	0.9	2.6	0.0	8.3	0.1
<i>Meats, fish & poultry</i>	14.6	0.0	0.0	12.1	1.9
<i>Dairy farm & vegetable products</i>	3.2	2.7	0.1	13.8	0.4
<i>Cereals & cereal products</i>	3.5	0.5	0.0	1.5	0.0
<i>Other food</i>	5.7	1.5	0.1	5.8	0.3
<i>Drinks, sweets and meal away from home</i>	0.0	0.0	0.0	0.0	0.0
Transportation	11.5	2.0	0.2	8.3	0.8
<i>Private</i>	8.6	2.6	0.2	11.2	0.8
<i>Public</i>	2.9	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.5	0.3	0.0	19.3	0.9
<i>Tobacco</i>	2.9	0.3	0.0	24.7	0.9
<i>Alcohol</i>	1.6	0.0	0.0	6.5	0.1
<i>Kava</i>	0.0	0.0	0.0	0.0	0.0
Household Operation	3.5	0.4	0.0	6.3	0.2
<i>Domestic Power & Fuel</i>	1.1	-0.9	0.0	17.9	0.1
<i>Household Appliances</i>	1.2	2.6	0.0	3.7	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	-0.7	0.0	0.5	0.0
<i>Communication services</i>	0.0	0.0	0.0	0.0	0.0
Clothing & Footwear	3.2	2.9	0.1	4.9	0.2
Housing	0.8	0.6	0.0	-1.1	0.0
Miscellaneous goods & services	6.4	-0.2	0.0	-3.8	0.0

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

Source: Statistics Department