



# NATIONAL RESERVE BANK OF TONGA

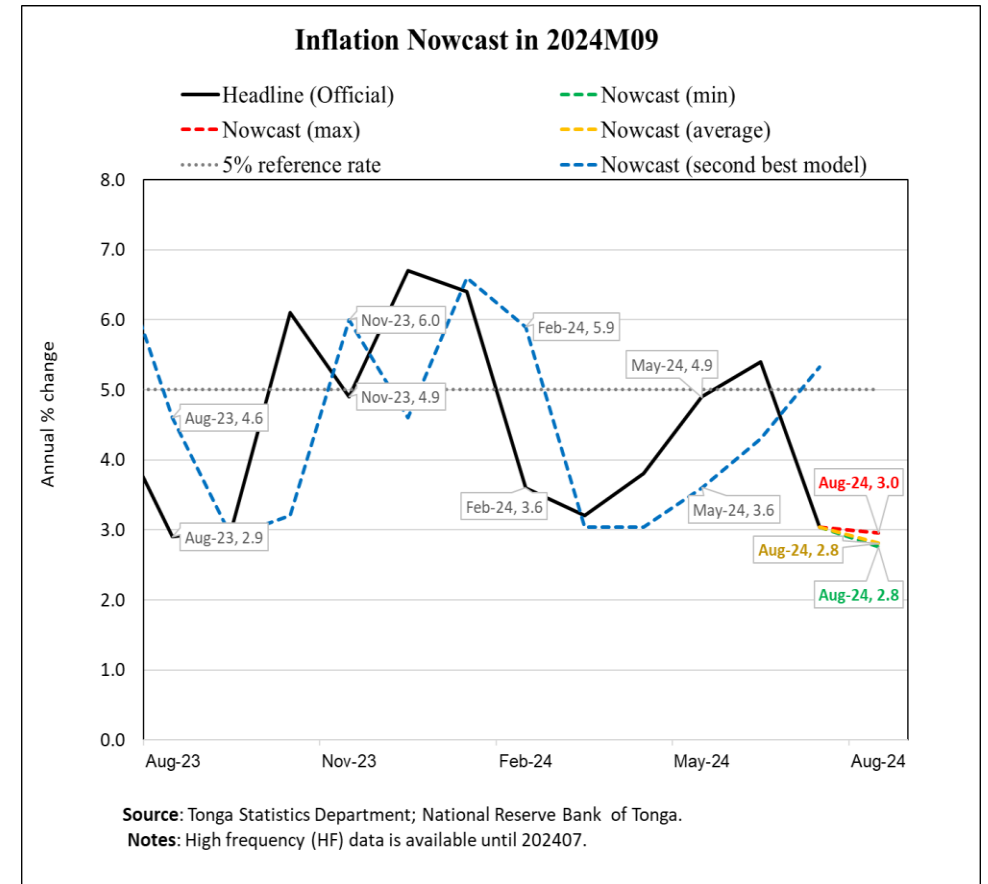
## Tonga Inflation Nowcast

The Tonga Inflation Nowcast report is not the official forecast of the National Reserve Bank of Tonga. Rather, it is solely an econometric model-based estimates using the latest available data. The explanatory variables in the models are chosen based on their statistical significance, randomness property, stationarity, and appropriateness in explaining inflation in the current forecasting period thus they are subject to change. The variables used for estimation are:

- Domestic food inflation
- Imported food inflation
- New Zealand dairy products inflation
- New Zealand construction inflation
- Oil price inflation
- Nominal Effective Exchange Rate
- Lags of inflation

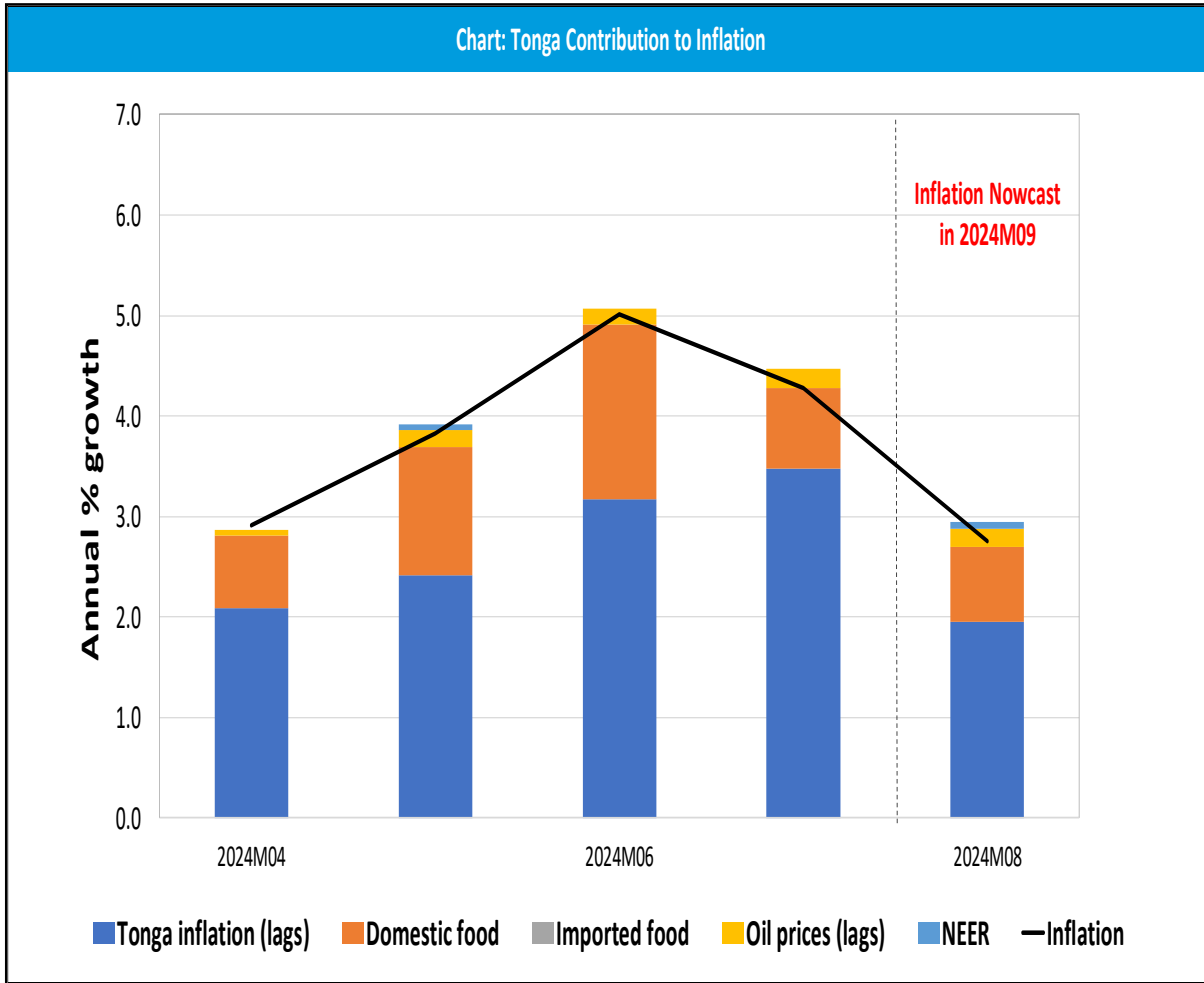
Given the different frequency and lag in data release (i.e. NZ construction quarterly data), the *second best model* is estimated without the NZ construction data to ensure consistency in the nowcast, and enable the decomposition of the inflation nowcast and changes in the inflation nowcast. Nonetheless, the other high frequency indicators are generated for the nowcasting period by using the *Automatic ARIMA method*.

The econometric estimations are however independent from any subjective views of the Banks's staff and its Board's members.





# Contribution to Inflation Nowcast

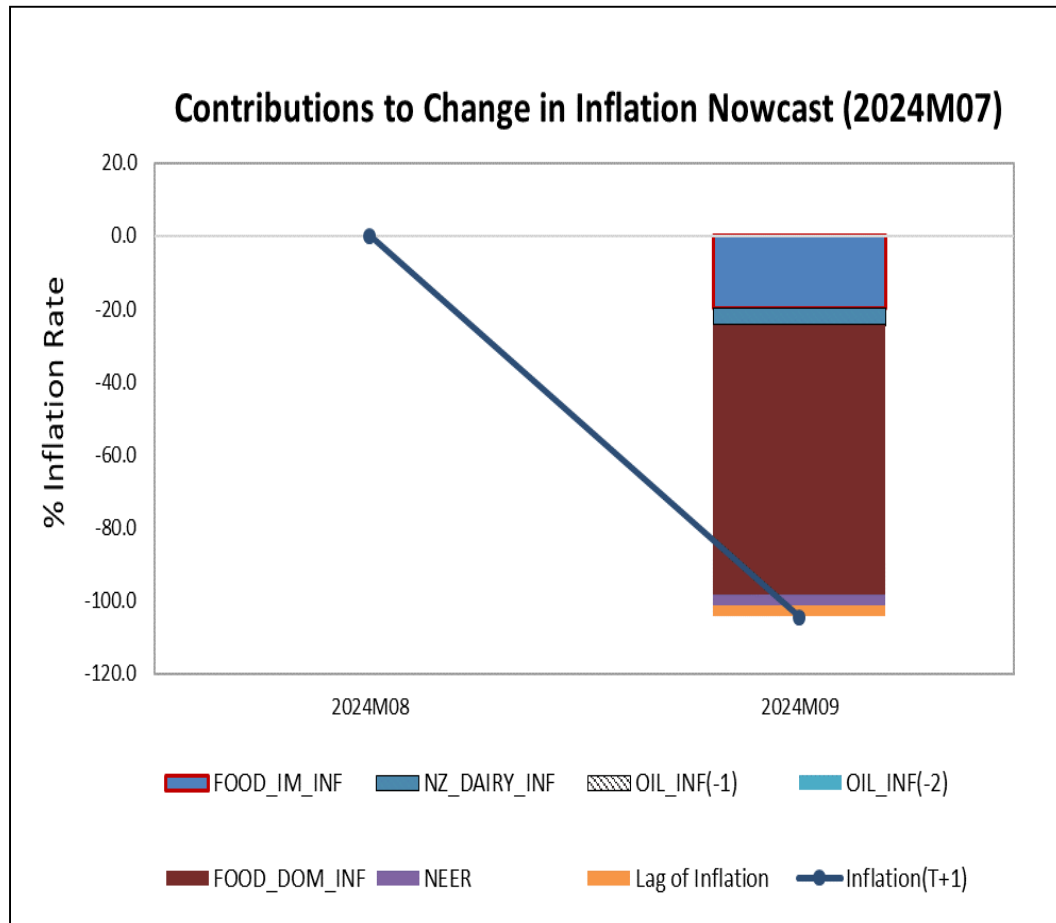


- The inflation nowcast in 2024M09 (from the second best model), with the latest available data July 2024, shows that the headline inflation will remain below **the 5% reference rate in August 2024**. The main contributors to the headline inflation in the upcoming month will be the persistence of inflation, domestic food, and imported food inflations.
- The nowcast decomposition for **July 2024**, based on the second best econometric model, shows that the main contributors to the headline inflation were:
  - ✓ Lags of inflation (persistence of inflation)
  - ✓ Domestic food inflation
  - ✓ Oil inflation
- Domestic food prices declined over the month, supported by the slowdown in demand and consumption as the festive season has come to an end. At the same time, the local supply shows improvement over the month. Despite the decline over the month in the price of domestic food items, the annual increase still remained relatively high. In July 2024, domestic food prices contributed around 2.0 percentage points to the headline inflation. Meanwhile, imported food items declined at annual rate which further reduced the inflationary pressures.

**Note:** This analysis is solely based on the second best econometric model.



# Change in Inflation Nowcast for 2024M07



- **The main contributors to the change in the inflation nowcast for July 2024 are:**
  - Domestic food inflation
  - Imported food inflation (including NZ Dairy productions inflation)
  - NEER
  - Lags of inflation (persistence in inflation)
  - Lag of oil inflation
- Domestic food prices were anticipated to slow down in July 2024 given the decline in demand and consumption as the festive season ended. Nonetheless, the domestic food prices fell at a faster pace than initially expected, further supported by the improvement in local supply particularly for agricultural products such as vegetables and root crops.
- On the other hand, imported food items, oil, and persistence of inflation declined further than the forecast, thus contributing to the change inflation inflation nowcast for July 2024.