

Inflation

August 2014

Release date: 9 October 2014

	Aug 14	Jul 14	Jun 14	May 14
Headline*	2.5	1.9	1.5	3.0
Domestic [^]	-0.4	-0.8	-1.1	0.6
Imported [^]	2.8	2.7	2.6	2.4
Underlying*	0.5	-0.5	-1.0	2.5

*Year-ended growth

[^]Percentage point contribution to year-ended growth

Imported prices continue to increase

Headline inflation increased in August 2014, again, driven solely by higher imported food prices. Major contributor to elevated imported prices is the strong New Zealand dollar, although it slightly depreciated relative to the pa'anga, over August. The imported meats, fish & poultry category increased 4.5 per cent, particularly for mutton flap, chicken and lamp chops. Domestic components also increased over the month, due mainly to increases in prices of meat, fish & poultry.

In year-ended terms, headline inflation rose by 2.5 per cent, but remained well-below the reference range. The imported component drove the increase, largely due to rises in meat, fish & poultry, while prices of fruits & vegetables, and dairy products increased modestly over the year. However, prices of the domestic component fell slightly over the year. This was driven by a decline in fruit & vegetables, meat, fish & poultry prices, and domestic fuel & power, coinciding with 6 per cent decline in world oil prices.

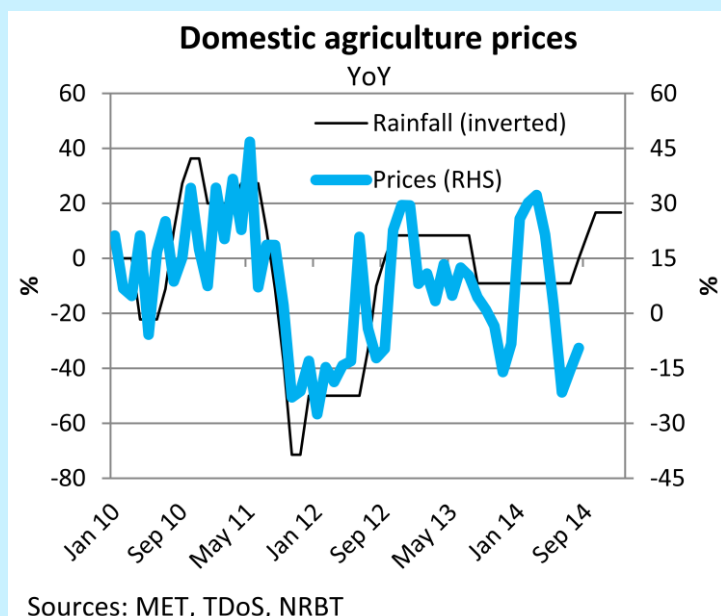
The year-ended result was 0.1 percentage point higher than forecasted in August, as imported prices continued to increase and rapid declines in prices of domestic fruits and vegetables. Underlying inflation, which excludes energy and imported foods, increased slightly over the year.

Looking forward, the NRBT expects headline year-ended inflation to be around 2.9 per cent in September, and 1.3 per cent by the end of 2014. This reflects a lagged effect from recent declines in imported food and fuel prices, together with market expectations for world oil prices, and the impact of the August- September drought

on domestic prices. According to the Ministry of Commerce Tourism & Labour, fuel prices fell by 4 per cent in September, which we expect to deduct about 0.2

Box A: Drought effects on domestic inflation

According to liaison with Tongatapu-based farmers, consistency of quality months’ rainfall is crucial to maximising harvest output. Given the relatively constant demand for fresh agriculture products, this naturally feeds through to prices. Our analysis suggests changes in the consistency of quality months’ rainfall typically passes through to domestic agriculture prices after one month.



Liaison with Talamahu market growers suggests the recent drought conditions affect some crops more than others. However, recent history suggests August prices are low and do not reflect recent rainfall observations. Therefore, the NRBT expects to see some rise in domestic agriculture prices in the near term.

percentage points from September’s inflation.

The NRBT’s inflation outlook assumes a constant exchange rate. Uncertainties affecting world food and oil prices, and local weather patterns, pose the largest risk to the inflation outlook.

With domestic inflation in decline and headline inflation well below our reference range, there are no inflationary pressures on the NRBT’s monetary policy stance in the near term.

Inflation Breakdown*

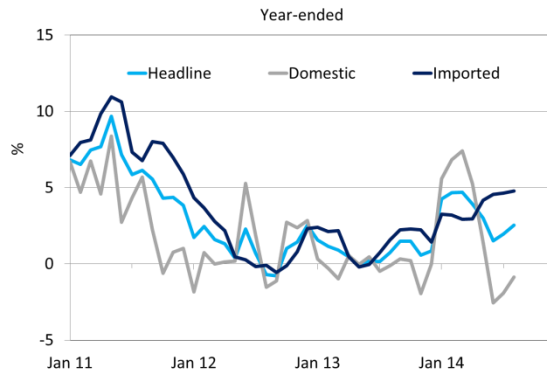
	Weight	Month-ended		Year-ended	
	%	Change	Contribution to total	Change	Contribution to total
		%	ppt	%	ppt
CPI	100	0.7	0.7	2.5	2.5
Imported total	57.8	1.1	0.6	4.8	2.8
Food	27.9	2.4	0.7	7.4	2.2
<i>Fruit and vegetables</i>	0.9	0.0	0.0	10.7	0.1
<i>Meats, fish and poultry</i>	14.6	4.5	0.8	12.6	2.0
<i>Dairy farm and vegetable products</i>	3.2	0.8	0.0	2.5	0.1
<i>Cereals and cereal products</i>	3.5	-0.1	0.0	-1.3	0.0
<i>Other food</i>	5.7	2.4	0.0	0.5	0.0
Transportation	11.5	-0.5	-0.1	-0.1	0.0
<i>Private</i>	2.9	0.0	0.0	0.0	0.0
<i>Public</i>	8.6	-0.6	-0.1	-0.2	0.0
Tobacco and alcohol	4.5	-0.1	0.0	-0.2	0.0
<i>Tobacco</i>	2.9	-0.1	0.0	-0.1	0.0
<i>Alcohol</i>	1.6	0.0	0.0	-0.3	0.0
Household operation	3.5	-0.2	0.0	1.0	0.0
<i>Domestic Power & Fuel</i>	1.1	-0.3	0.0	6.4	0.1
<i>Household Appliances</i>	1.2	0.0	0.0	0.1	0.0
<i>Household supplies & services</i>	1.2	-0.3	0.0	-3.2	0.0
Clothing and footwear	3.2	0.0	0.0	12.8	0.4
Housing	0.8	-0.5	0.0	0.9	0.0
Miscellaneous	6.4	0.0	0.0	4.2	0.3
Domestic total	42.2	0.2	0.1	-0.9	-0.4
Food	17.8	0.5	0.1	-2.1	-0.4
<i>Fruit and vegetables</i>	6.5	-3.5	-0.2	-9.5	-0.6
<i>Meats, fish and poultry</i>	3.7	8.1	0.3	2.3	0.1
<i>Dairy farm and vegetable products</i>	0.5	0.0	0.0	1.5	0.0
<i>Cereals and cereal products</i>	3.4	0.0	0.0	3.6	0.1
<i>Drinks, sweets and meals away from home</i>	3.7	0.0	0.0	0.6	0.0
Household operation	17.3	0.0	0.0	-0.4	-0.1
<i>Domestic fuel and power</i>	6.0	0.0	0.0	-1.1	-0.1
<i>Household furniture, furnishings and textiles</i>	1.4	0.0	0.0	0.1	0.0
<i>Household supplies and services</i>	4.7	0.0	0.0	0.0	0.0
<i>Communications services</i>	5.2	0.0	0.0	0.0	0.0
Housing	1.7	0.0	0.0	0.0	0.0
<i>House maintenance goods</i>	0.1	0.0	0.0	0.0	0.0
<i>House maintenance services</i>	1.6	0.0	0.0	0.0	0.0
Tobacco and Alcohol	1.5	0.0	0.0	0.0	0.0
<i>Alcohol</i>	0.8	0.0	0.0	0.0	0.0
<i>Kava</i>	0.7	0.0	0.0	0.0	0.0
Transportation (Public)	0.5	0.0	0.0	-0.1	0.0
Miscellaneous	3.5	0.0	0.0	2.1	0.1
Underlying CPI measures					
Ex. Energy**	81.4	1.0	0.8	3.1	2.5
Ex. imported food	72.1	0.0	0.0	0.4	0.3
Ex. energy and imported food	53.5	0.1	0.0	0.5	0.3

* Due to rounding and Tonga Department of Statistics errors some data may not aggregate precisely.

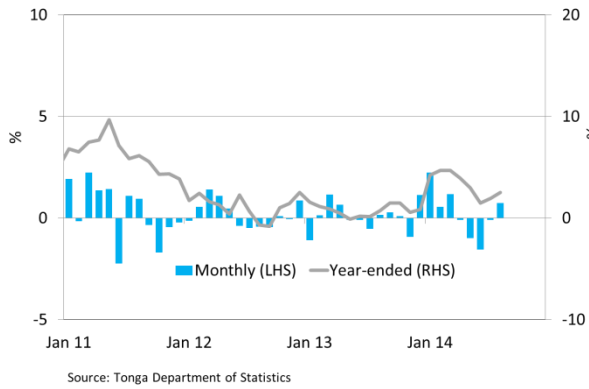
**Excluded from the 'Ex energy' index is imported transportation and 'domestic fuel and power' component of 'Household operation'.

Source: Tonga Department of Statistics

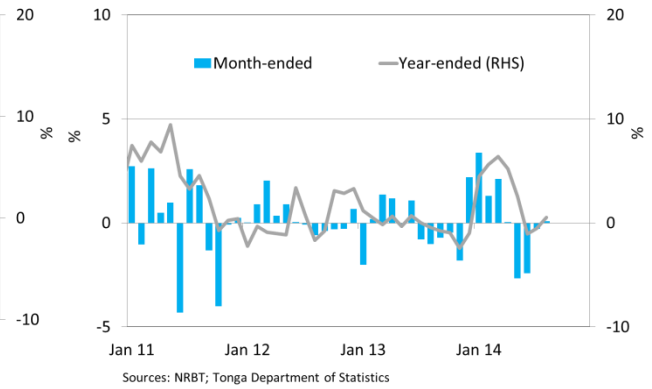
Inflation



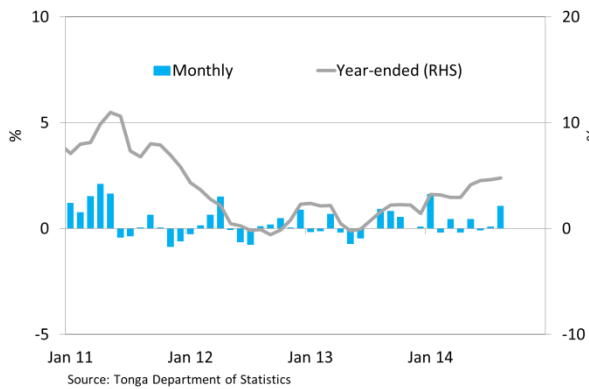
Headline Inflation



Underlying Inflation



Imported Inflation



Domestic Inflation

