

Inflation

July 2014

Release date: 28 August 2014

| | Jul 14 | Jun 14 | May 14 | Apr 14 |
|--------------------|-------------|-------------|------------|------------|
| Headline* | 1.9 | 1.5 | 3.0 | 3.9 |
| Domestic^ | -0.8 | -1.1 | 0.6 | 2.2 |
| Imported^ | 2.7 | 2.6 | 2.4 | 1.7 |
| Underlying* | -0.5 | -1.0 | 2.5 | 5.2 |

*Year-ended growth

^Percentage point contribution to year-ended growth

Domestic prices continue to decline

Headline inflation continued to decline in July 2014, driven by domestic food. The domestic meats, fish & poultry category fell 2.2 per cent, particularly for octopus, tuna and frozen fishes. Domestic fruits & vegetables prices dipped 1.1 per cent likely reflecting a strong supply of head cabbage and cucumber. The imported components increased slightly over the month, due mainly to increases in prices of meat and dairy products.

In year-ended terms, headline inflation rose by 1.9 per cent, remaining well-below the reference range. The imported component drove the increase, largely due to rises in meat, fish & poultry (1.5 percentage points) reflecting the depreciation of the pa'anga relative to the New Zealand dollar. However, prices of the domestic component fell over the year. This was driven by a decline in fruit & vegetables, and meat, fish & poultry prices, only partly offset by a rise in domestic fuel & power.

The year-ended result was only 0.1 percentage point higher than expected in July, as steady prices reflected a broadly sufficient supply of goods and services. Underlying inflation, which excludes energy and imported foods, declined slightly over the year.

Looking forward, the NRBT expects headline year-ended inflation to be around 2.4 per cent in August, and 1.2 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. According to the Ministry of Commerce Tourism & Labour, fuel prices fell by 2.1 per cent in August, which we expect to deduct about 0.1 percentage points from August'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.

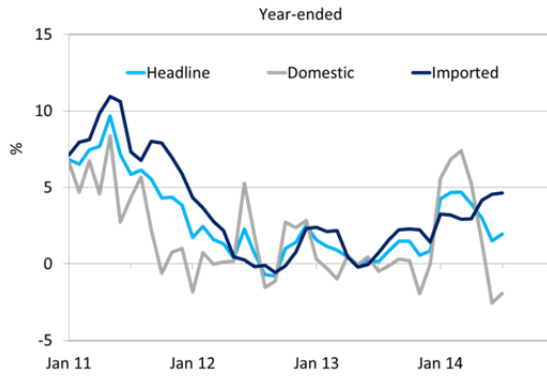
Inflation Breakdown*

| | Weight | Month-ended | | Year-ended | |
|--|-------------|-------------|-----------------------|-------------|-----------------------|
| | % | Change | Contribution to total | Change | Contribution to total |
| | | % | ppt | % | ppt |
| CPI | 100 | -0.1 | -0.1 | 1.9 | 1.9 |
| Imported total | 57.8 | 0.1 | 0.1 | 4.6 | 2.7 |
| Food | 27.9 | 0.3 | 0.1 | 5.8 | 1.7 |
| <i>Fruit and vegetables</i> | 0.9 | 0.0 | 0.0 | 9.0 | 0.1 |
| <i>Meats, fish and poultry</i> | 14.6 | 0.2 | 0.0 | 9.6 | 1.5 |
| <i>Dairy farm and vegetable products</i> | 3.2 | 0.4 | 0.0 | 1.5 | 0.0 |
| <i>Cereals and cereal products</i> | 3.5 | -0.8 | 0.0 | -1.5 | -0.1 |
| <i>Other food</i> | 5.7 | 0.3 | 0.0 | 1.7 | 0.1 |
| Transportation | 11.5 | 0.2 | 0.0 | 2.2 | 0.3 |
| Private | 2.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Public | 8.6 | 0.2 | 0.0 | 2.9 | 0.3 |
| Tobacco and alcohol | 4.5 | 0.0 | 0.0 | 1.4 | 0.1 |
| Tobacco | 2.9 | 0.1 | 0.0 | 0.0 | 0.0 |
| Alcohol | 1.6 | 0.0 | 0.0 | 4.4 | 0.1 |
| Household operation | 3.5 | -1.0 | 0.0 | 1.2 | 0.0 |
| <i>Domestic Power & Fuel</i> | 1.1 | -2.9 | 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 | 0.0 | 0.0 | -2.8 | 0.0 |
| Clothing and footwear | 3.2 | 0.0 | 0.0 | 12.8 | 0.4 |
| Housing | 0.8 | 0.9 | 0.0 | 1.3 | 0.0 |
| Miscellaneous | 6.4 | 0.0 | 0.0 | 4.2 | 0.3 |
| Domestic total | 42.2 | -0.4 | -0.2 | -1.9 | -0.8 |
| Food | 17.8 | -0.9 | -0.1 | -5.7 | -1.0 |
| <i>Fruit and vegetables</i> | 6.5 | -1.1 | -0.1 | -15.5 | -1.1 |
| <i>Meats, fish and poultry</i> | 3.7 | -2.2 | -0.1 | -3.7 | -0.1 |
| <i>Dairy farm and vegetable products</i> | 0.5 | 0.0 | 0.0 | 3.8 | 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 | 1.0 | 0.2 |
| <i>Domestic fuel and power</i> | 6.0 | 0.0 | 0.0 | 2.8 | 0.2 |
| <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 |
| Alcohol | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Kava | 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 | -0.1 | -0.1 | 1.7 | 1.4 |
| Ex. imported food | 72.1 | -0.2 | -0.2 | 0.3 | 0.2 |
| Ex. energy and imported food | 53.5 | -0.3 | -0.1 | -0.5 | -0.3 |

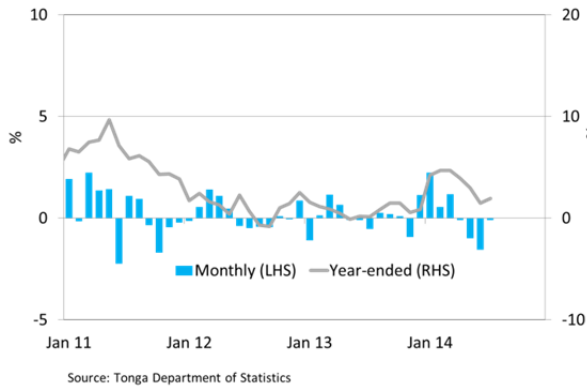
* Due to rounding and Tonga Department of Statistics errors some data may not aggregate precisely.

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

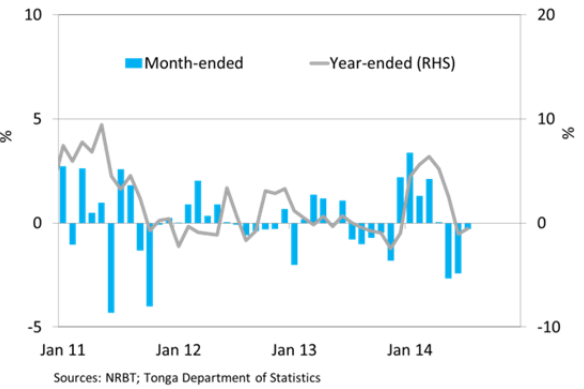
Inflation



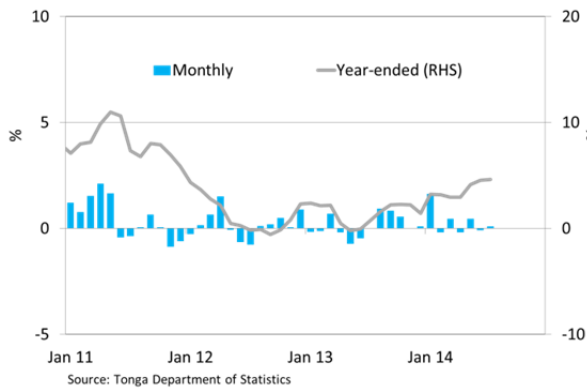
Headline Inflation



Underlying Inflation



Imported Inflation



Domestic Inflation

