

Inflation

June 2014

Release date: 28 July 2014

	Jun 14	May 14	Apr 14	Mar 14
Headline*	1.5	3.0	3.9	4.7
Domestic [^]	-1.1	0.6	2.2	3.0
Imported [^]	2.6	2.4	1.7	1.7
Underlying*	-1.0	2.5	5.2	6.4

*Year-ended growth

[^]Percentage point contribution to year-ended growth

Domestic prices fall in June

Tonga's headline inflation fell over June 2014, largely driven by a 7.7 per cent decline in domestic fruit & vegetable prices. This was due to strength in the supply of tomato, head cabbage and carrot in particular, and consistent with the onset of the harvesting season and favourable weather conditions. The imported components also declined over the month, due mainly to falls in prices of household fuel & power, and meat, fish & poultry.

In year-ended terms, headline inflation rose by 1.5 per cent, while remained well below the NRBT reference range. The imported component rose by 4.5 per cent, driven by price rises in meat, fish & poultry, fruit & vegetables, and dairy products. This is in light of a 9 per cent depreciation of the pa'anga relative to the New Zealand dollar, from where a majority of Tonga's food imports originate.

However, prices of the domestic component fell over the year. This was driven by a decline in prices of fruit & vegetables, only partly offset by rises in domestic fuel & power, meats, fish & poultry, and cereal products. This may reflect the increase in electricity prices for more energy-intensive activities.

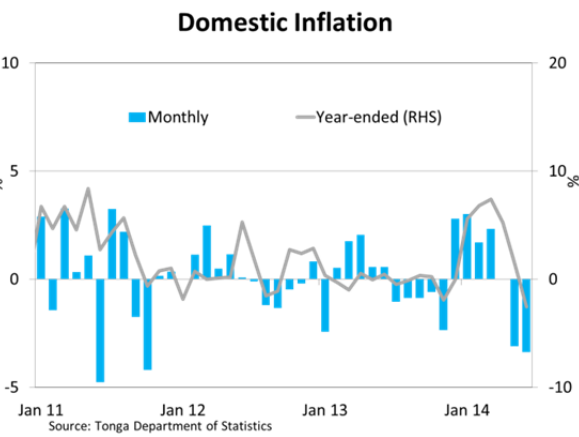
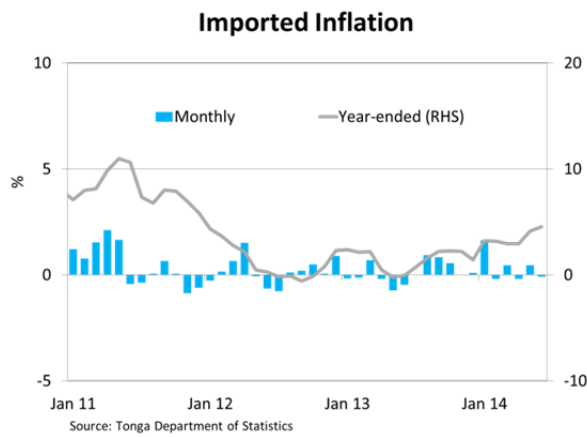
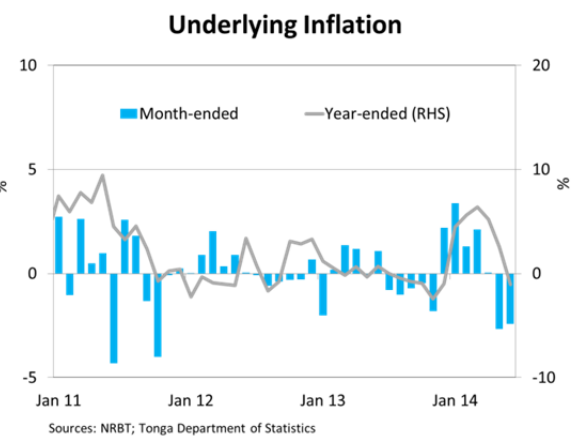
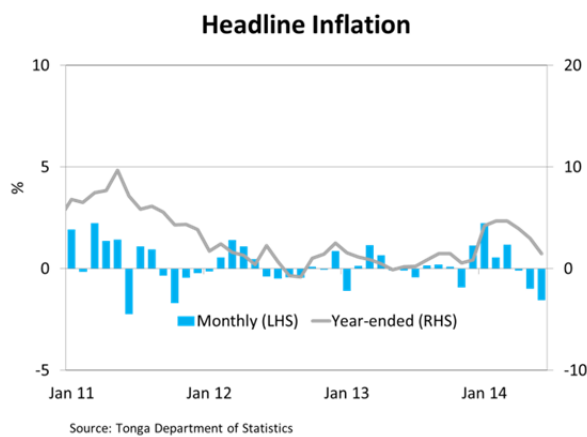
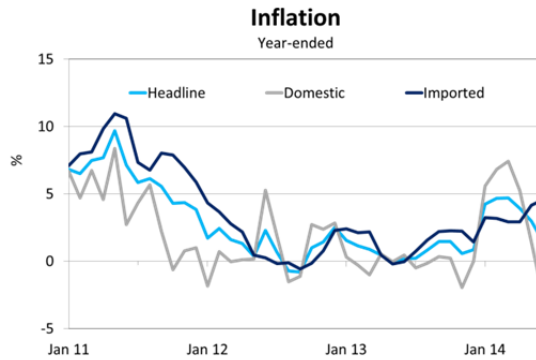
June's year-ended result was about 2.2 percentage points lower than expected, due to a rapid decline in the price of domestic fruit & vegetables. Underlying inflation, which excludes energy and imported foods, declined slightly over the year.

Looking forward, the NRBT expects headline year-ended inflation to be around 1.8 per cent in July, and 2.2 per cent by the end of 2014. This reflects a lagged effect

from recent developments and IMF expectations in world oil and food prices. According to the Ministry of Commerce Tourism & Labour, fuel prices increased by around 1 per cent for the July-August period, which we expect to add about 0.1 percentage points to inflation in July.

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	-1.5	-1.5	1.5	1.5
Imported total	57.8	-0.1	-0.1	4.5	2.6
Food	27.9	-0.6	-0.2	5.1	1.5
<i>Fruit and vegetables</i>	0.9	0.0	0.0	9.9	0.1
<i>Meats, fish and poultry</i>	14.6	-0.7	-0.1	8.6	1.3
<i>Dairy farm and vegetable products</i>	3.2	-0.2	0.0	1.7	0.1
<i>Cereals and cereal products</i>	3.5	-0.5	0.0	-0.8	0.0
<i>Other food</i>	5.7	-0.6	0.0	0.3	0.0
Transportation	11.5	0.0	0.0	3.6	0.4
<i>Private</i>	2.9	0.0	0.0	0.0	0.0
<i>Public</i>	8.6	0.0	0.0	4.8	0.4
Tobacco and alcohol	4.5	0.1	0.0	1.4	0.1
<i>Tobacco</i>	2.9	0.1	0.0	-0.1	0.0
<i>Alcohol</i>	1.6	0.0	0.0	4.4	0.1
Household operation	3.5	-2.2	-0.1	-0.2	0.0
<i>Domestic Power & Fuel</i>	1.1	-6.0	-0.1	2.2	0.0
<i>Household Appliances</i>	1.2	0.0	0.0	0.1	0.0
<i>Household supplies & services</i>	1.2	0.1	0.0	-2.8	0.0
Clothing and footwear	3.2	0.2	0.0	12.8	0.4
Housing	0.8	0.2	0.0	2.6	0.0
Miscellaneous	6.4	2.1	0.1	4.2	0.3
Domestic total	42.2	-3.4	-1.4	-2.6	-1.1
Food	17.8	-7.7	-1.4	-7.1	-1.3
<i>Fruit and vegetables</i>	6.5	-18.1	-1.3	-21.6	-1.6
<i>Meats, fish and poultry</i>	3.7	-4.1	-0.2	3.4	0.1
<i>Dairy farm and vegetable products</i>	0.5	0.0	0.0	5.4	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	0.6	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
<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	-0.1	0.0	-0.1	0.0
Miscellaneous	3.5	0.0	0.0	2.1	0.1
Underlying CPI measures					
Ex. Energy**	81.4	-1.8	-1.4	1.1	0.9
Ex. imported food	72.1	-1.9	-1.3	0.1	0.1
Ex. energy and imported food	53.5	-2.4	-1.2	-1.0	-0.5

* 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