

# Inflation

## October 2014

Release date: 17 December 2014

	Oct 14	Sep 14	Aug 14	Jul 14
<b>Headline*</b>	<b>0.7</b>	<b>1.1</b>	<b>2.5</b>	<b>1.9</b>
Domestic <sup>^</sup>	-0.1	-0.5	-0.4	-0.8
Imported <sup>^</sup>	0.9	1.6	2.8	2.7
<b>Underlying*</b>	<b>1.3</b>	<b>0.6</b>	<b>0.5</b>	<b>-0.5</b>

\*Year-ended growth

<sup>^</sup>Percentage point contribution to year-ended growth

## Imported prices eased in October 2014

Headline inflation eased further in October 2014. This was driven by declining prices of imported food, particularly chicken, and domestic Meat, fish & poultry. The major contributor to lower imported prices is the weaker New Zealand dollar, relative to the Tongan pa'anga over the month. Moreover, lower prices of domestic fish and beef contributed to decreases in the domestic Meat, fish and poultry category.

Headline inflation rose by 0.7% over the year to October, well-below the reference range. This was attributed mainly to an increase in the imported component which was driven mainly by rises in food prices, especially for Meat, fish & poultry. Also increasing over the year were prices of Fruits & vegetables, Dairy farm & vegetable products and Clothing & shoes. Prices of the domestic component, on the other hand, fell slightly, owing mainly to declines in food prices, particularly lower Meat, fish and poultry prices. Prices of domestic fuel and power (a subset of Household operation component) fell also, reflecting declines in domestic fuel and power over the year. Underlying inflation, which excludes imported energy and imported foods, increased by 1.3% over the year.

Looking forward, the NRBT expects headline inflation to be broadly declining in the near term. All domestic fuel prices fell in November, which we expect to deduct about 0.3 percentage points from November's inflation. However, domestic food prices is expected to offset the decline due to lagged effects from recent droughts. Inflation is then expected to decline further to less than 1% by the end of 2014 and to deflate by mid-2015. The expectation reflects a lagged effect from recent decline

in imported food prices, together with market expectations for lower world oil prices.

Uncertainties affecting world food and oil prices, and local weather patterns, pose the largest risk to the inflation outlook.

With domestic inflation easing and headline inflation well below the NRBT's reference range of 6-8%, 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 ppt	Change %	Contribution to total ppt
<b>CPI</b>	<b>100</b>	<b>-0.2</b>	<b>-0.2</b>	<b>0.7</b>	<b>0.7</b>
Imported	57.8	-0.6	-0.4	1.5	0.9
Food	27.9	2.5	-0.2	1.8	0.5
<i>Fruit and vegetables</i>	0.9	-0.6	0.0	11.4	0.1
<i>Meats, fish and poultry</i>	14.6	-0.6	-0.1	3.9	0.6
<i>Dairy farm and vegetable products</i>	3.2	-0.4	0.0	2.7	0.1
<i>Cereals and cereal products</i>	3.5	-2.0	-0.1	-3.1	-0.1
<i>Other food</i>	5.7	-0.7	0.0	-3.6	-0.2
Transportation	11.5	-1.1	-0.1	-2.7	-0.3
<i>Private</i>	2.9	0.0	0.0	0.0	0.0
<i>Public</i>	8.6	-1.5	-0.1	-3.6	-0.3
Tobacco and Alcohol	4.5	-0.7	0.0	-0.9	0.0
<i>Tobacco</i>	2.9	0.0	0.0	-0.1	0.0
<i>Alcohol</i>	1.6	-2.3	0.0	-2.6	0.0
Household Operation	3.5	-0.2	0.0	-0.7	0.0
<i>Domestic Power &amp; Fuel</i>	1.1	0.2	0.0	-0.1	0.0
<i>Household Appliances</i>	1.2	0.0	0.0	0.1	0.0
<i>Household supplies &amp; services</i>	1.2	-0.6	0.0	-3.8	0.0
Clothing and Shoes	3.2	0.0	0.0	16.2	0.5
Housing	0.8	1.0	0.0	1.0	0.0
Miscellaneous	6.4	-0.7	0.0	3.5	0.2
<b>Domestic</b>	<b>42.2</b>	<b>0.4</b>	<b>0.2</b>	<b>-0.2</b>	<b>-0.1</b>
Food	17.8	0.9	0.1	-0.5	-0.1
<i>Fruit and vegetables</i>	6.5	6.7	0.4	0.7	0.0
<i>Meats, fish and poultry</i>	3.7	-4.8	-0.2	-4.2	-0.2
<i>Dairy farm and vegetable products</i>	0.5	-5.0	0.0	-3.6	0.0
<i>Cereals and cereal products</i>	3.4	0.0	0.0	0.9	0.0
<i>Other food</i>	3.7	0.0	0.0	0.6	0.0
Transportation	17.3	0.0	0.0	0.0	0.0
<i>Private</i>	6.0	0.0	0.0	0.0	0.0
<i>Public</i>	1.4	0.0	0.0	0.0	0.0
Tobacco and Alcohol	4.7	0.0	0.0	0.0	0.0
<i>Tobacco</i>	5.2	0.0	0.0	0.0	0.0
<i>Alcohol</i>	1.7	0.0	0.0	0.0	0.0
Household Operation	0.1	0.0	0.0	-0.4	-0.1
<i>Domestic Power &amp; Fuel</i>	1.6	0.0	0.0	-1.1	-0.1
<i>Household Appliances</i>	1.5	0.0	0.0	0.0	0.0
<i>Household supplies &amp; services</i>	0.8	0.0	0.0	0.0	0.0
Clothing and Shoes	0.7	0.0	0.0	0.0	0.0
Housing	0.5	0.1	0.0	0.0	0.0
Miscellaneous	3.5	0.0	0.0	2.1	0.1
<b>Underlying CPI measures</b>					
Ex. Energy**	81.4	-0.1	-0.1	1.5	1.2
Ex. imported food	72.1	0.0	0.0	0.4	0.3
Ex. energy and imported food	53.5	0.2	0.1	1.3	0.7

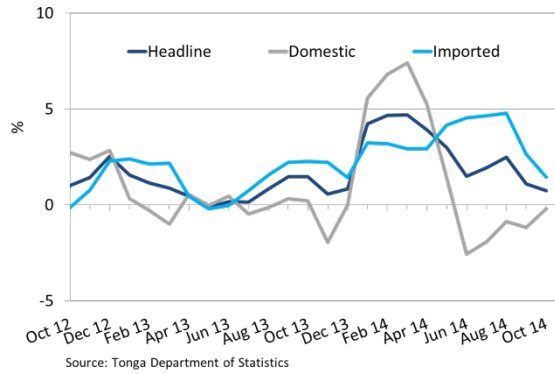
\* Due to rounding and Tonga Department of Statistics errors some data may not aggregate precisely.

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

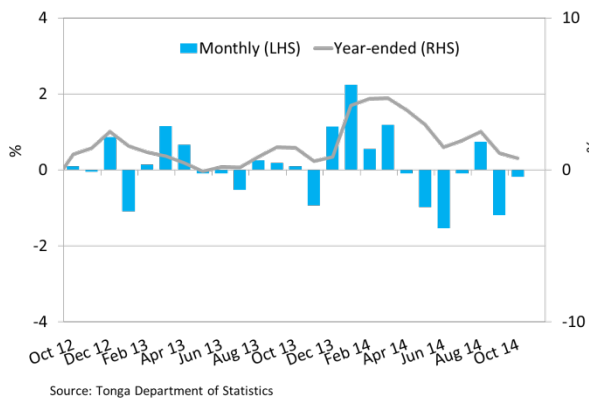
Source: Tonga Department of Statistics

## Inflation

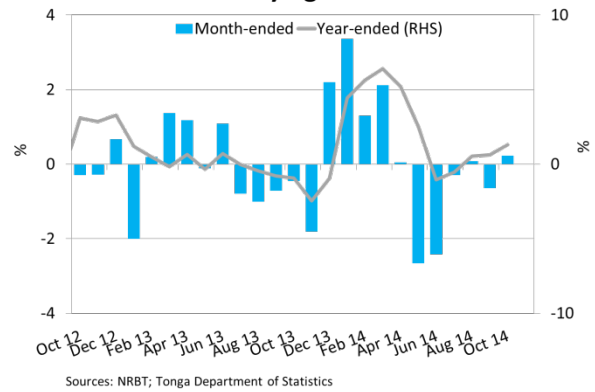
Year-ended



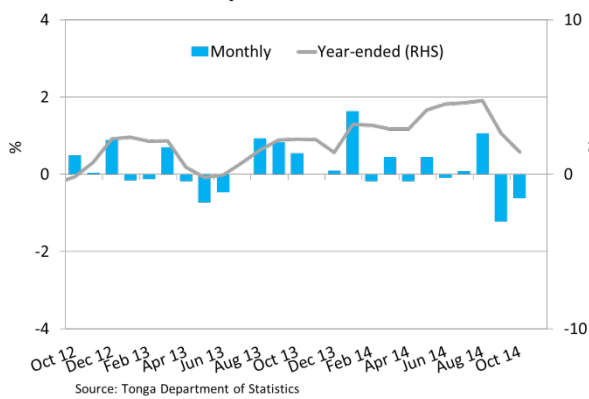
### Headline Inflation



### Underlying Inflation



### Imported Inflation



### Domestic Inflation

