

Inflation

February 2016

Release date: 27 April 2016

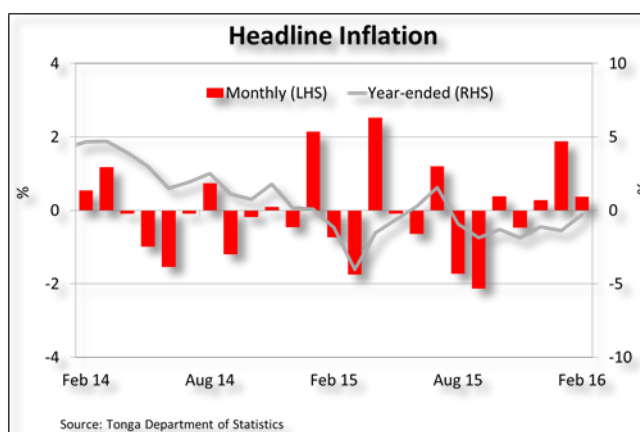
	Feb 16	Jan 16	Dec 15	Nov 15
Headline*	-0.3	-1.3	-1.2	-1.9
Domestic [^]	3.9	2.6	1.7	1.0
Imported [^]	-4.2	-3.9	-2.9	-2.8
Underlying*	8.3	6.8	6.2	4.7

*Year-ended growth

[^]Percentage point contribution to year-ended growth

Sharp increase in Kava caused a spike in domestic inflation

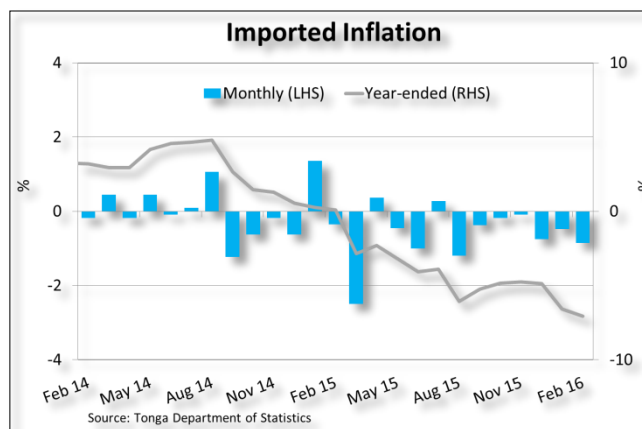
A 2% rise in domestic prices caused a slight increase in the Consumer Price Index (CPI) over the month of February 2016 by 0.4%. Kava prices rose significantly by 66.1% causing 30.6% increases in prices for Tobacco, alcohol & kava. This was due to a hike in prices of kava-Tonga from TOP\$25 to TOP\$50 per kilo. NRBT liaison with Kava growers confirmed that there is a shortage in supply of kava as the kava plantations were affected by the unfavourable weather conditions and replanting takes years to mature. Domestic Food prices also increased by 2.1% for items such as watermelon, pineapple, dry coconut, peanuts, carrots, tomatoes and pele leaves. Lower prices for public transportation were insufficient to offset the higher prices for kava and domestic food items. The prices for other components such as Housing, Household operations, Clothing & Footwear remained unchanged in February 2016.



However, prices of the imported component fell by 0.9% driven by a 2.8% decline in Transportation prices. Despite an increase in global oil prices from USD\$34.28 in January 2016 to USD\$35.1 per barrel in February 2016, prices for petrol and diesel fell. Imported Food prices decreased by 0.8% specifically on prices

for mutton flaps, chicken pieces, flour and sugar. Lower prices for Tobacco also contributed to the monthly decrease. There were higher prices for Housing and Household operations but these were insufficient to offset the lower prices for Transportation, Food and Tobacco.

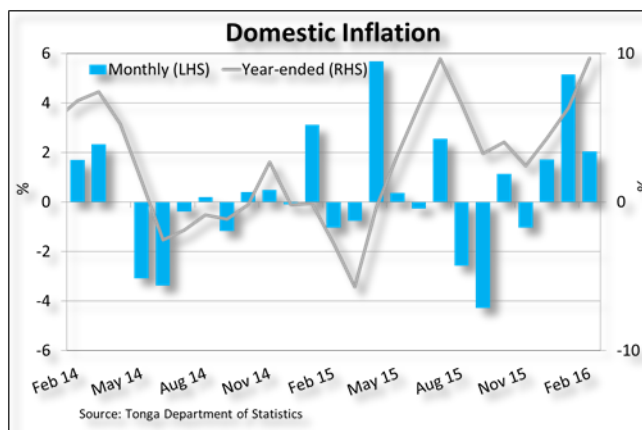
Over the year to February 2016, headline inflation fell by 0.3% due to a 7.1% decline in imported prices. Imported Food prices decreased by 13.8% due to a decline in prices for almost all items such as potatoes, onions, apples, mutton flaps, chicken pieces and flour. In addition, Household prices dropped by 4.0% particularly domestic fuel & power and also household supplies & services. Transportation prices fell over the year by 1.7% mainly due to the declining global oil prices. The global oil prices recorded in February 2016 at USD\$35.10 a barrel, declining from USD\$59.78 in February 2015.



Other imported prices for Clothing & footwear, Tobacco, Alcohol & Kava and Housing increased but were insufficient to offset the declines for food and energy prices.

On the other hand, Domestic prices increased over the year by 9.7%, being the highest domestic inflation rate on record. This was caused largely by a significant increase in Tobacco,

Alcohol & Kava prices by 43.1% specifically on local kava. The new prices for stamps (air mail), which was introduced in January 2016 contributed to a 24.9% rise in Miscellaneous goods & services. Unfavourable weather conditions over the year affected the domestic food supply which most likely contributed to a rise in Domestic Food prices of 12.1%. This include items such as talo futuna, talo tonga, cassava, early & late



yams, lu, tomatoes, capsicum, ripe banana, watermelon, pineapple, pawpaw, dry & green coconuts, tuna fish, cockles and also stringed fish. Housing prices rose by 2.4% due to an increase in prices for house maintenance of goods & services. Household operations prices increased by 1.8% driven by higher prices for household furniture, textiles and communication

services, which are supported by the on-going construction works. This also coincides with an increase in individual housing loans. The Transportation prices however declined over the year.

The annual core inflation rate (excluding energy and imported food) increased by 8.3% indicating the significant influence global prices has on inflation. However, it is still within the NRBT's reference range of 6-8%.

On the outlook, the NRBT continues to expect that headline inflation will remain low in the near term. However, risks to this forecast would be developments in world oil and food prices for both domestic and imported inflation.

Inflation Breakdown*

	Weight	Month-ended		Year-ended	
	%	Change %	Contribution to total ppt	Change %	Contribution to total ppt
CPI	100	0.4	0.4	-0.3	-0.3
Domestic	42.2	2.0	0.9	9.7	3.9
Food	17.8	2.0	0.4	12.1	2.2
<i>Fruit & vegetables</i>	6.5	9.0	0.8	24.5	1.8
<i>Meats, fish & poultry</i>	3.7	-8.7	-0.4	9.5	0.3
<i>Dairy farm & vegetable products</i>	0.5	-1.5	0.0	-0.8	0.0
<i>Cereals & cereal products</i>	3.4	0.0	0.0	0.1	0.0
<i>Other food</i>	0.0	0.0	0.0	0.0	0.0
<i>Drinks, sweets and meal away from home</i>	3.7	0.0	0.0	1.0	0.0
Transportation	0.5	-0.6	0.0	-0.4	0.0
Tobacco & Alcohol	1.5	30.7	0.5	43.1	0.6
Household Operation	17.3	0.0	0.0	1.8	0.3
<i>Domestic Power & Fuel</i>	6.0	0.0	0.0	-2.0	-0.1
<i>Household Appliances</i>	0.0	0.0	0.0	0.0	0.0
<i>Household furniture, furnishing & textiles</i>	1.4	0.0	0.0	19.8	0.3
<i>Household supplies & services</i>	4.7	0.0	0.0	-7.5	-0.3
<i>Communication services</i>	5.2	0.0	0.0	9.3	0.4
Clothing & Footwear	0.0	0.0	0.0	0.0	0.0
Housing	1.7	0.0	0.0	2.4	0.0
Miscellaneous goods & services	3.5	0.0	0.0	24.9	0.8
Imported	57.8	-0.9	-0.5	-7.1	-4.2
Food	27.9	-0.8	-0.2	-13.8	-4.3
<i>Fruit & vegetables</i>	0.9	-0.4	0.0	-11.7	-0.1
<i>Meats, fish & poultry</i>	14.6	-1.3	-0.2	-23.6	-4.3
<i>Dairy farm & vegetable products</i>	3.2	0.0	0.0	-2.5	-0.1
<i>Cereals & cereal products</i>	3.5	-0.2	0.0	-2.5	-0.1
<i>Other food</i>	5.7	-0.3	0.0	5.1	0.3
<i>Drinks, sweets and meal away from home</i>	0.0	0.0	0.0	0.0	0.0
Transportation	11.5	-2.9	-0.3	-1.7	-0.2
<i>Private</i>	8.6	-3.9	-0.3	-2.3	-0.2
<i>Public</i>	2.9	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.5	-0.2	0.0	4.7	0.2
<i>Tobacco</i>	2.9	-0.3	0.0	3.4	0.1
<i>Alcohol</i>	1.6	0.0	0.0	7.6	0.1
<i>Kava</i>	0.0	0.0	0.0	0.0	0.0
Household Operation	3.5	0.2	0.0	-4.0	-0.1
<i>Domestic Power & Fuel</i>	1.1	-0.3	0.0	-8.2	-0.1
<i>Household Appliances</i>	1.2	0.0	0.0	0.9	0.0
<i>Household furniture, furnishing & textiles</i>	0.0	0.0	0.0	0.0	0.0
<i>Household supplies & services</i>	1.2	1.1	0.0	-4.8	-0.1
<i>Communication services</i>	0.0	0.0	0.0	0.0	0.0
Clothing & Footwear	3.2	0.0	0.0	8.6	0.3
Housing	0.8	1.9	0.0	3.2	0.0
Miscellaneous goods & services	6.4	0.0	0.0	-2.6	-0.2
Underlying CPI measures					
Ex. Energy**	81.4	0.8	0.7	0.1	0.1
Ex. imported food	72.1	0.8	0.6	5.8	4.0
Ex. energy and imported food	53.5	1.5	0.9	8.3	4.4

* Due to rounding 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