

# Inflation

Release date: 22 March 2018

## December 2017

	Dec 17	Nov 17	Oct 17	Sep 17
<b>Headline*</b>	<b>5.5</b>	<b>5.0</b>	<b>6.1</b>	<b>5.8</b>
Domestic^	1.2	0.7	1.1	1.2
Imported^	4.3	4.3	5.0	4.6

\*Year-ended growth

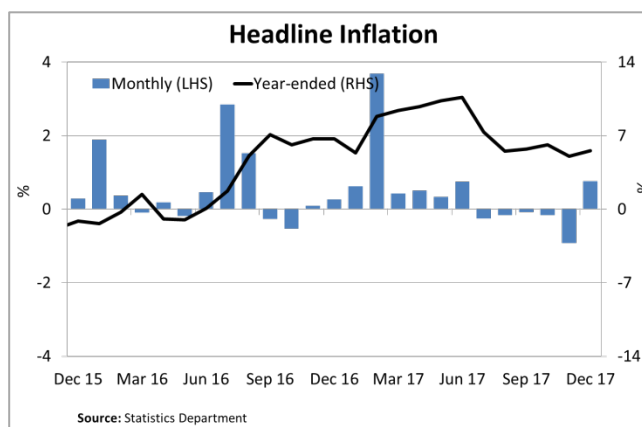
^Percentage point contribution to year-ended growth

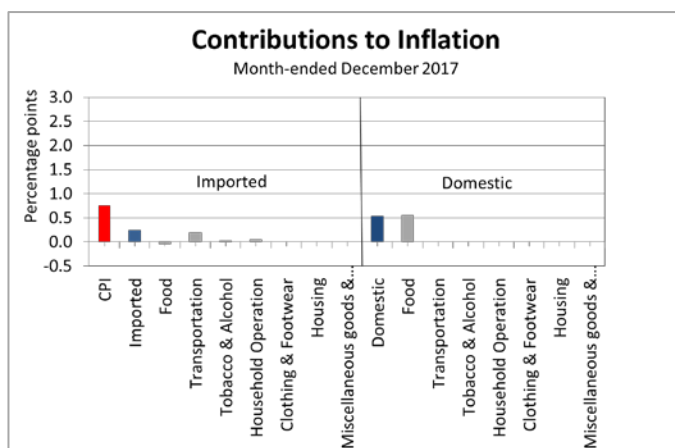
## Local prices driving annual inflation higher

The monthly inflation rose by 0.8% as both domestic and imported inflation increased during December. The local component of inflation was mainly driven by the seasonality of local food prices whilst the imported component was driven by the increase in the prices of petroleum and tobacco .

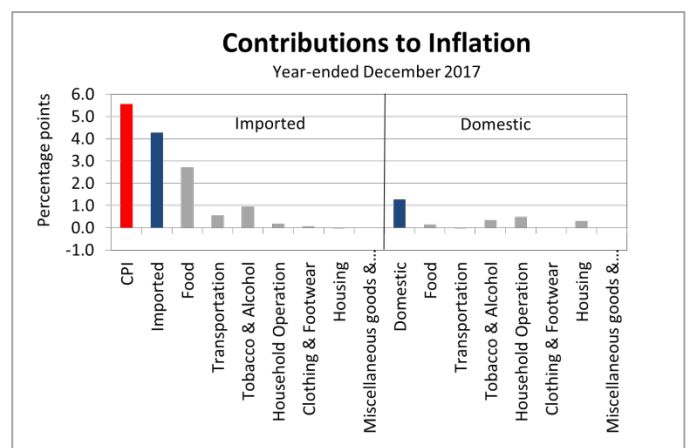
The headline inflation rose over the year by 5.5%, which was lower than the annual inflation rate of 6.7% that was recorded in December 2016. In comparison to 5.0% last month, the seasonality of local food pushed the domestic inflation's percentage point contribution upward from 0.7 to a total of 1.2 percentage point contribution to the overall headline inflation. Imported inflation contributed 4.3 percentage point similar to that of last month. Food prices was the leading contributor from the imported component of inflation followed by tobacco and petroleum prices.

The domestic component of inflation continued to reflect the higher prices of electricity and local kava-Tonga over the year. The rise in housing and food prices were additional contributors to the local inflation.





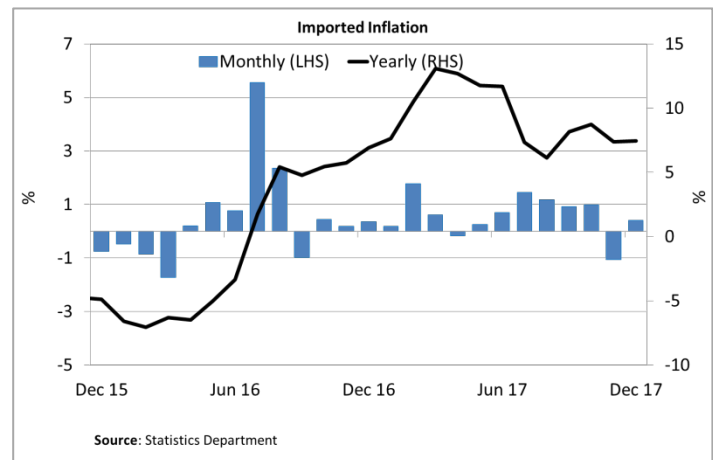
Source: Statistics Department



Source: Statistics Department

Imported prices slightly rose by 0.4% over the month mainly due to an increase in petroleum prices. Majority of the food prices declined during the month particularly prices of meat, fruit & vegetables, and cereal products. These included prices of food such as chicken pieces, salted beef, and sugar which outweighed the continuous rise in the prices of fuel and tobacco.

The annual imported inflation remained at 7.4% relatively similar to that recorded last month, but higher compared to 6.9% in December 2016. Higher prices of food, tobacco & alcohol and oil continued to drive the increase. Imported food was the largest contributor which rose by 9.4% contributing 2.7 percentage points to the overall headline inflation. The prices of all imported food categories rose, the highest contributor was the price of meat, fish & poultry which rose by 13.0% with 2.1 percentage point contribution. This was mainly due to an increase of 19.6% and 10.8% in the prices of lamb flaps and chicken pieces respectively. This was followed by a 10.1% rise in the prices of dairy products such as butter. Moreover, prices of other food components also rose by 4.4% which included food such as sweets and sugary drinks reflecting the further increase in excise tax in July 2017. The price of fruits and vegetables rose by 7.4% for items such as potatoes, onions, apples, and oranges.



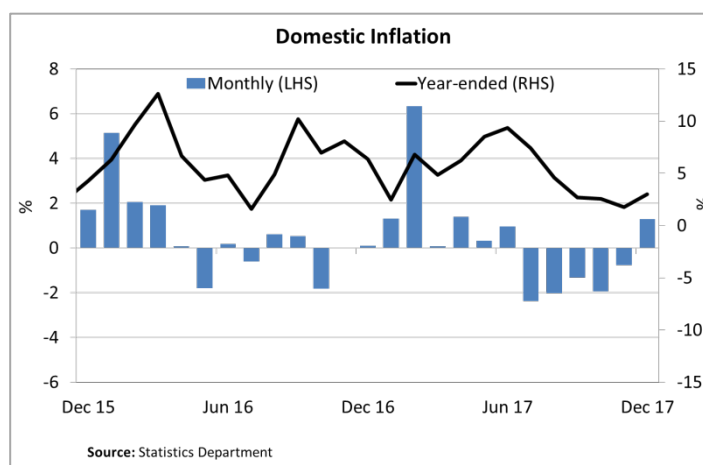
Source: Statistics Department

The tobacco and alcohol category rose by 19.7% over the year, as prices of tobacco such as Winfield blue had increased by 25.2%. The new excise and customs amendment order in July 2017 further increased

taxes on these goods which also contributed to the prices changes. Additionally, the movements in world oil prices coincided with a 7.4% increase in the prices of fuel. Both diesel and petrol prices rose by equal percentage of 7.9% followed by an 18.9% increase in the price of fuel and power under the household operations group (e.g. kerosene and liquid petroleum gas). Clothing and footwear prices also recorded a 2.0% rise over the year. On the other hand, the prices for stationery supplies, cosmetics and toiletries, and house maintenance goods had lowered over the year.

Monthly domestic inflation rose by 1.4% solely driven by the seasonality of local food which rose by 3.2% over the month. This could also indicate increased demand for these food items during the festive month as families prepare feasts for church activities, family reunions, weddings and other events held during the end of year season. Prices of fruits and vegetables rose by 6.4% for crops such as tomatoes, capsicum, watermelon, and pele leaves. Seafood prices for fish and octopus also rose over the month.

Annual domestic inflation rose by 3.0% in December 2017, which was higher than the 1.8% rise recorded last month however lower than the 6.4% increase in December 2016. The monthly rise in local food prices has increased the domestic inflation percentage points contribution by 0.5 to a total 1.2 percentage points to the annual headline inflation. The prices of electricity, kava-Tonga, and housing were the major drivers of domestic inflation. The constant increase in oil prices coincided with



a 9.7% rise in the electricity price which contributed 0.4 percentage points to the overall headline inflation. The kava-Tonga price increased over the year by 19.0% and contributed 0.3 percentage points to the overall headline inflation. Housing price has increased by 19.8% which includes housing rent prices. Local food price recorded a 0.7% increase over the year with 0.1 percentage point contributed to the annual headline inflation.

On the outlook, the Reserve Bank anticipates the annual headline inflation rate will remain around the Reserve bank's inflation reference rate of 5% per annum in the near term. This is due to an expected rise in food and fuel prices. However, the movement in global oil and food prices pose a risk to this outlook. The continued shortage of supply in kava-Tonga compared to its high demand, is likely to impact the domestic inflation for some time and therefore contribute to the higher annual headline inflation. Additionally, the vulnerability of Tonga to natural disasters also poses a risk to the local food prices and consequently the inflation outlook.

Inflation Breakdown*					
	Weight	Month-ended		Year-ended	
	%	Change	Contribution	Change	Contribution
		%	to total	%	to total
			ppt		ppt
<b>CPI</b>	<b>100</b>	<b>0.8</b>	<b>0.8</b>	<b>5.5</b>	<b>5.5</b>
Domestic	42.2	1.3	0.5	3.0	1.2
Food	17.8	3.2	0.6	0.7	0.1
<i>Fruit &amp; vegetables</i>	6.5	6.5	0.4	-5.0	-0.4
<i>Meats, fish &amp; poultry</i>	3.7	3.5	0.1	12.3	0.5
<i>Dairy farm &amp; vegetable products</i>	0.5	0.0	0.0	-1.6	0.0
<i>Cereals &amp; cereal products</i>	3.4	0.6	0.0	1.8	0.1
<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	0.0	0.0
Transportation	0.5	0.0	0.0	-0.3	0.0
Tobacco & Alcohol	1.5	0.0	0.0	13.0	0.3
<i>Tobacco</i>	0.0	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	19.0	0.3
Household Operation	17.3	0.0	0.0	3.2	0.5
<i>Domestic Power &amp; Fuel</i>	6.0	0.0	0.0	9.7	0.4
<i>Household Appliances</i>	0.0	0.0	0.0	0.0	0.0
<i>Household furniture, furnishing &amp; textiles</i>	1.4	0.0	0.0	8.7	0.1
<i>Household supplies &amp; services</i>	4.7	0.0	0.0	0.0	0.0
<i>Communication services</i>	5.2	0.0	0.0	-2.2	-0.1
Clothing & Footwear	0.0	0.0	0.0	0.0	0.0
Housing	1.7	0.0	0.0	19.8	0.3
Miscellaneous goods & services	3.5	0.0	0.0	0.0	0.0
Imported	57.8	0.4	0.2	7.4	4.3
Food	27.9	-0.2	0.0	9.4	2.7
<i>Fruit &amp; vegetables</i>	0.9	0.0	0.0	7.4	0.1
<i>Meats, fish &amp; poultry</i>	14.6	-0.5	-0.1	13.0	2.1
<i>Dairy farm &amp; vegetable products</i>	3.2	-0.2	0.0	10.1	0.3
<i>Cereals &amp; cereal products</i>	3.5	0.2	0.0	0.8	0.0
<i>Other food</i>	5.7	0.4	0.0	4.4	0.3
<i>Drinks, sweets and meal away from home</i>	0.0	0.0	0.0	0.0	0.0
Transportation	11.5	1.9	0.2	5.5	0.6
<i>Private</i>	8.6	2.6	0.2	7.4	0.6
<i>Public</i>	2.9	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.5	0.5	0.0	19.7	1.0
<i>Tobacco</i>	2.9	0.8	0.0	25.2	0.9
<i>Alcohol</i>	1.6	0.0	0.0	6.4	0.1
<i>Kava</i>	0.0	0.0	0.0	0.0	0.0
Household Operation	3.5	1.8	0.1	6.1	0.2
<i>Domestic Power &amp; Fuel</i>	1.1	5.9	0.1	18.9	0.2
<i>Household Appliances</i>	1.2	0.0	0.0	1.1	0.0
<i>Household furniture, furnishing &amp; textiles</i>	0.0	0.0	0.0	0.0	0.0
<i>Household supplies &amp; services</i>	1.2	0.0	0.0	1.2	0.0
<i>Communication services</i>	0.0	0.0	0.0	0.0	0.0
Clothing & Footwear	3.2	0.0	0.0	2.0	0.1
Housing	0.8	0.0	0.0	-1.7	0.0
Miscellaneous goods & services	6.4	0.0	0.0	-3.5	0.0

\* Due to rounding errors some data may not aggregate precisely.

Source: Statistics Department