

Inflation

November 2017

Release date: 21 February 2018

	Nov 17	Oct 17	Sep 17	Aug 17
Headline*	5.0	6.1	5.8	5.5
Domestic^	0.7	1.1	1.2	1.9
Imported^	4.3	5.0	4.6	3.6

*Year-ended growth

^Percentage point contribution to year-ended growth

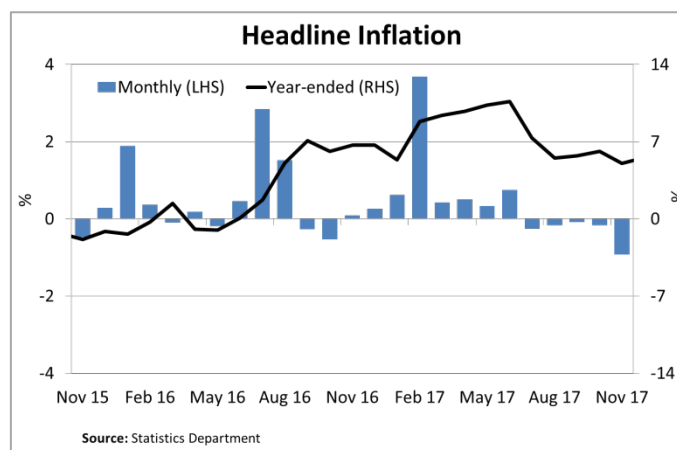
Headline inflation hits the Reserve Bank's target rate

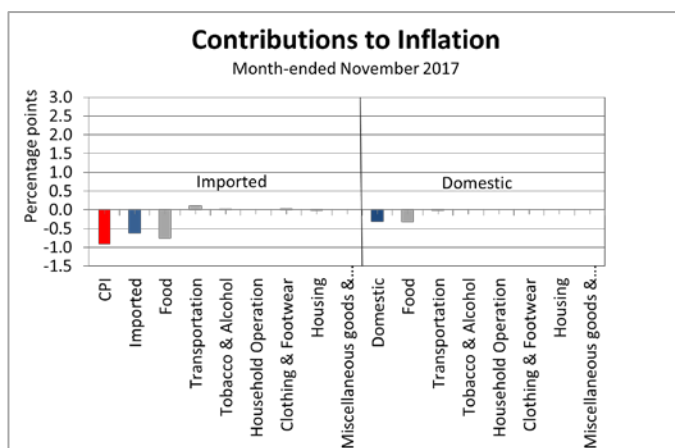
Inflation over the month fell by 1.0% as both domestic and imported inflation declined, largely driven by the decrease in food prices which outweighed the rise in fuel and tobacco prices.

The decline in inflation over the month drove the annual headline inflation rate lower to 5.0% in November 2017, compared to the 6.1% recorded last month and 6.8% in November 2016. This trend was also supported by the 1.1% decline in imported prices in November 2017, compared to a 0.2% rise in imported prices in November 2016.

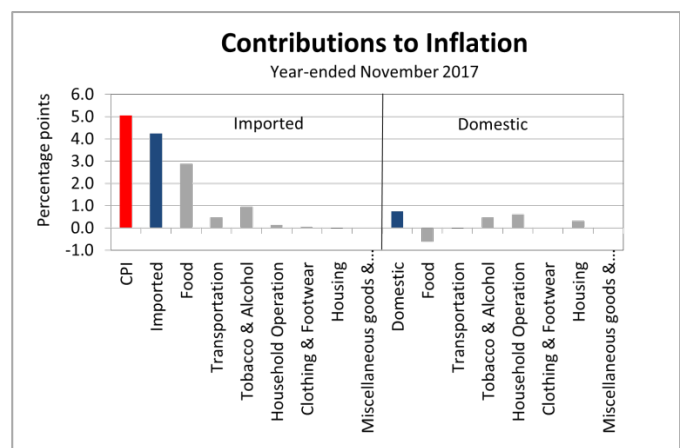
The continuous rise in annual inflation was due to higher prices of imported goods which contributed 4.3 percentage points to the annual headline inflation rate. Food prices was the leading contributor followed by the prices of tobacco, and fuel. The domestic component of

inflation continued to be driven by the prices of electricity and local kava-Tonga over the year.





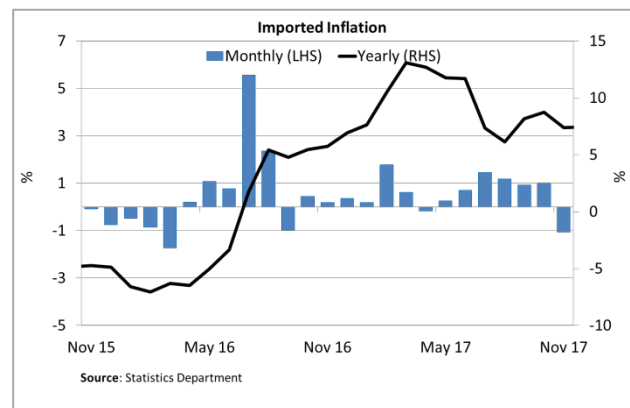
Source: Statistics Department



Source: Statistics Department

Imported prices fell by 1.1% over the month due to lower food and house maintenance goods' prices. Majority of the food prices declined during the month particularly for meat, fruit & vegetables, and cereal products. These included 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 was 7.4% in November 2017, compared to 8.8% last month. The annual imported inflation continued to be driven by higher food, tobacco & alcohol, and oil prices. Imported food was the largest contributor which rose by 9.9% contributing 2.9 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 14.3%. This was mainly due to a 20.1% and 13.1% rise in the prices of lamb flaps and chicken pieces respectively. This was followed by a 9.9% rise in the prices of dairy products such as butter. Moreover, other food components also rose by 4.1% 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 9.2% for items such as potatoes, onions, apples, and oranges.



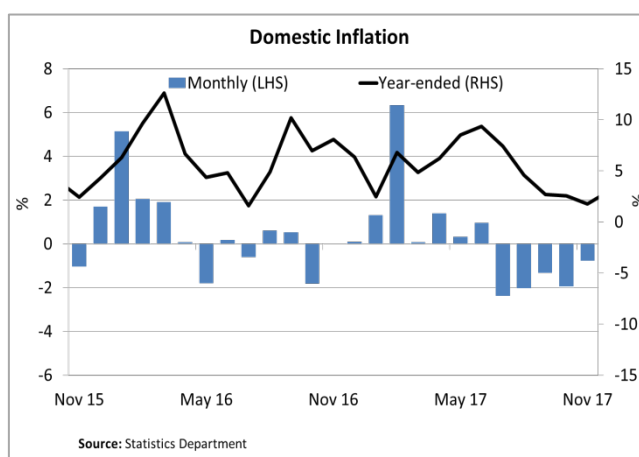
Source: Statistics Department

The new excise and customs amendment order in July 2017 increased taxes on tobacco and alcohol further. Hence, this category rose by 19.0% reflected in a 23.9% rise in the price of Winfield blue tobacco. Additionally, the movements in world oil prices drove the price of fuel higher by 6.1%. Diesel

and petrol prices rose by 8.6% and 5.8% respectively followed by a 12.8% increase in the price of fuel and power under the household operations group (e.g. kerosene and liquid petroleum gas). On the other hand, the price for stationery supplies, cosmetics and toiletries, and house maintenance goods lowered over the year.

The continued abundant supply of local fruits and vegetables remains the major driver for the 0.8% decline in the local monthly inflation over the month. The decline in price of fruits and vegetables outweighed the rise in the price of other local produces such as root crops. The price for public transport also slightly declined over the month by 0.3% which includes fares for inter-island domestic transport.

Annual domestic inflation rose by 1.8% in November 2017, lower than 2.5% recorded last month and 8.1% in November 2016. Domestic prices accounts for 0.7 percentage points of the annual headline inflation. The prices of electricity and kava-Tonga 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 0.6 percentage points to the overall headline inflation. Kava-Tonga price increased over the year by 27.0% and contributed 0.5 percentage points to the overall headline inflation. According to the Reserve Bank’s liaison program, the prolonged dry weather in the past years continued to affect the supply of kava-Tonga and therefore drove the kava price high in the beginning of 2016. It has been maintained at that high level and it is unlikely for the kava price to decline again in the near term.



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. 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 to total ppt	Change %	Contribution to total ppt
CPI	100	-0.9	-0.9	5.0	5.0
Domestic	42.2	-0.8	-0.3	1.8	0.7
Food	17.8	-1.9	-0.3	-3.3	-0.6
<i>Fruit & vegetables</i>	6.5	-7.7	-0.5	-14.2	-1.1
<i>Meats, fish & poultry</i>	3.7	2.5	0.1	11.7	0.4
<i>Dairy farm & vegetable products</i>	0.5	2.4	0.0	3.2	0.0
<i>Cereals & cereal products</i>	3.4	2.9	0.1	1.2	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	0.0	0.0
Transportation	0.5	-0.2	0.0	-0.2	0.0
Tobacco & Alcohol	1.5	0.0	0.0	18.2	0.5
<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	27.0	0.5
Household Operation	17.3	0.0	0.0	3.9	0.6
<i>Domestic Power & Fuel</i>	6.0	0.0	0.0	12.5	0.6
<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	8.7	0.1
<i>Household supplies & 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	-1.1	-0.6	7.4	4.3
Food	27.9	-2.5	-0.8	9.9	2.9
<i>Fruit & vegetables</i>	0.9	-3.5	0.0	9.2	0.1
<i>Meats, fish & poultry</i>	14.6	-4.5	-0.8	14.3	2.3
<i>Dairy farm & vegetable products</i>	3.2	0.8	0.0	10.0	0.3
<i>Cereals & cereal products</i>	3.5	-0.6	0.0	0.0	0.0
<i>Other food</i>	5.7	1.0	0.1	4.2	0.2
<i>Drinks, sweets and meal away from home</i>	0.0	0.0	0.0	0.0	0.0
Transportation	11.5	1.1	0.1	4.6	0.5
<i>Private</i>	8.6	1.3	0.1	6.1	0.5
<i>Public</i>	2.9	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.5	0.3	0.0	19.0	0.9
<i>Tobacco</i>	2.9	0.3	0.0	24.2	0.8
<i>Alcohol</i>	1.6	0.0	0.0	6.5	0.1
<i>Kava</i>	0.0	0.0	0.0	0.0	0.0
Household Operation	3.5	0.1	0.0	4.3	0.1
<i>Domestic Power & Fuel</i>	1.1	0.0	0.0	12.8	0.1
<i>Household Appliances</i>	1.2	0.0	0.0	1.1	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	0.4	0.0	1.1	0.0
<i>Communication services</i>	0.0	0.0	0.0	0.0	0.0
Clothing & Footwear	3.2	0.9	0.0	1.2	0.0
Housing	0.8	-1.2	0.0	-0.8	0.0
Miscellaneous goods & services	6.4	0.0	0.0	-3.1	0.0

* Due to rounding errors some data may not aggregate precisely.
Source: Statistics Department