

Inflation

June 2018

Release date: 7 September 2018

	Jun 18	May 18	Apr 18	Mar 18
Headline*	5.9	9.4	9.6	9.8
Domestic^	2.0	5.6	5.8	6.1
Imported^	3.9	3.8	3.8	3.7

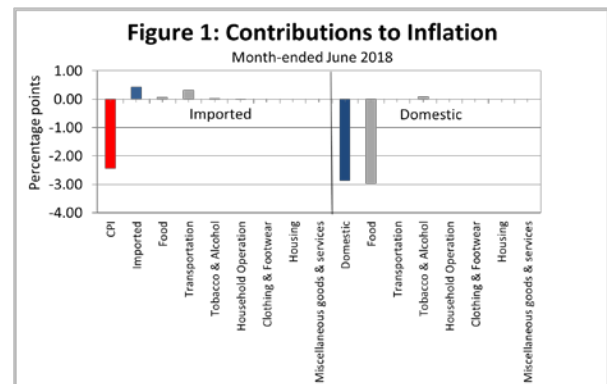
*Year-ended growth

^Percentage point contribution to year-ended growth

The domestic component of inflation pulled headline inflation lower

Monthly Inflation

The monthly headline inflation rate recorded a negative 2.5%, driven by a negative 2.9 percentage points contribution from the domestic component of inflation which was partially offset by a 0.4 percentage point contribution from the imported component of inflation (Figure 1).



Domestic prices

Domestic prices declined by 6.3% over the month, largely due to better supply of local vegetables and fruits which recorded a 23.8% decline in its prices and contributed a negative 3.0 percentage points to the overall monthly inflation. This reflected the continuation of the local vegetables season which started last month for vegetables such as tomatoes, head cabbages, capsicum, taro leaves and pineapple. This was sufficient to offset an increase in the price of other local food items and commodities which increased over the month including kava-Tonga.

Imported prices

The monthly imported inflation rose over the month by 0.8% due to an increase in the prices of fuel and food items. The prices of diesel and petrol recorded a 4.7% and 4.4% rise respectively and contributed a 0.3 percentage points to the monthly imported inflation rate. The food group increased by 0.3% as some food prices such as chicken pieces, margarine and cheese rose over the month and outweighed a decline in the prices of vegetables, cereal products and other miscellaneous food products such as sugar.

Moreover, the price of imported tobacco rose over the month by 0.8% as reflected by a 0.5% increase in the price of winfield blue.

Annual inflation

The annual headline inflation has slowed over the month to 5.9% compared to a 9.4% last month and 10.3% in June 2017 (Figure 2). This was mainly due to the favorable trend in the local fruits and vegetables over the month of June 2018. Hence, the domestic component of inflation contributed 2.0 percentage points (falling from 5.6 percentage points in May 2018) to the overall annual headline inflation rate while the imported component increased its contribution from 3.8 percentage points in the year to May 2018 to 3.9 percentage points in year ended June 2018 (Figure 3).

Domestic prices

The annual domestic inflation rate has slowed even further to 4.5% compared to a 12.7% in May 2018 and its highest of 14.0% in March 2018 (Figure 4). The favourable local food season over the month contributed to this slowed growth although the food category remained the highest contributor to the annual domestic inflation rate with 1.3 percentage points. These are due to higher prices in agricultural crops, fish, and pastries (Table 1). The second highest contributor to the annual local inflation rate was the price of kava-Tonga with a 45.4% increase over the year and a 0.9 percentage points contribution. Other local goods which also increased included house maintenance goods and household furniture, furnishing & textiles. These outweighed the annual decline in prices of electricity, public transportation and communication services. Electricity price has declined over the year by 5.4% reflecting the Government’s decision to hold any tariff increase up to June 2018 following the aftermath of TC Gita.

Imported prices

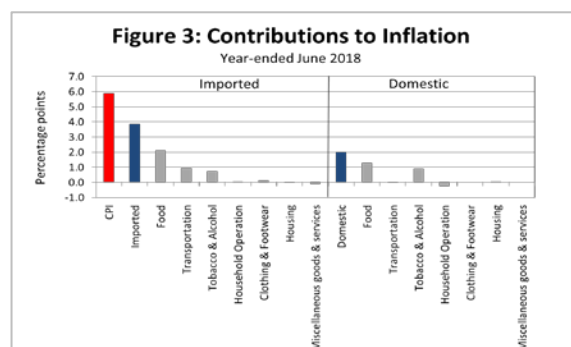
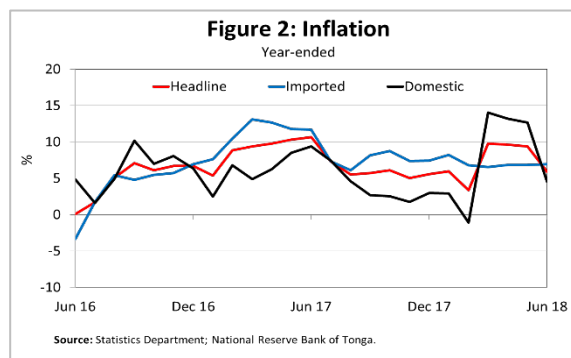
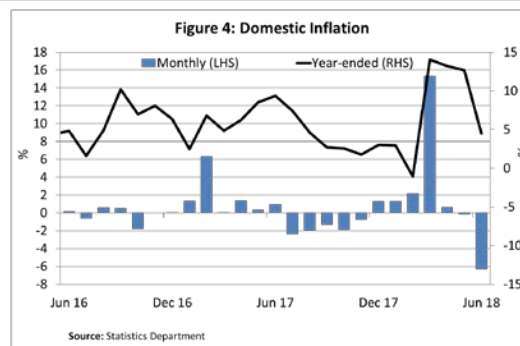


Table 1	Monthly-ended average price		YOY	
	Jun-18	Jun-17	value change	% growth
Domestic				
Tuna	15.00	10.13	4.87	48.08
Capsicum	22.42	18.50	3.92	21.19
Banana ripe	7.57	3.96	3.61	91.16
Pawpaw	4.55	1.73	2.82	163.01
Carrots	7.00	4.95	2.05	41.41
Stringed fish (mixe	9.86	8.15	1.71	20.98
Tomatoes	11.05	9.65	1.40	14.51
Coconut (green)	2.07	1.34	0.73	54.48
Pele	2.73	2.35	0.38	16.17
Watermelon	2.13	1.79	0.34	18.99
Coconut (dry)	1.08	0.81	0.27	33.33
Cockles (to'o)	5.28	5.13	0.15	2.92
Manioke	0.70	0.55	0.15	27.27
Talo - Tonga	2.35	2.24	0.11	4.91

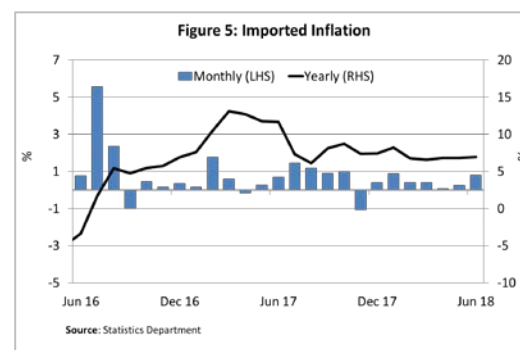
Source: Statistics Department

The annual imported inflation rate remained at 6.9% similar to that recorded last month (Figure 5). Imported food prices continued to be the largest contributor which rose by 7.5% and contributed 2.1 percentage points to the overall annual headline inflation. From the food group, the meat, fish & poultry category had the highest increase of 10.3% with a 1.6 percentage point contribution to the headline inflation. This was followed by 0.3 and 0.2 percentage points' contributions



The outweighed a decline in the prices of fruits, vegetables and cereal products. Movements in the global price of meat and poultry coupled with the changes to customs duties and excise taxes on meat products were driving prices higher. This was reflected in the increased prices of chicken pieces and lamb flaps of 11.5% and 8.9% respectively over the year.

The second highest contributors was 0.9 percentage points from the prices of fuel which rose over the year by 12.7%. The prices of diesel and petrol increased over the year by 16.6% and 12.3% respectively. The high fuel prices were due to higher world oil prices which flowed through to local oil prices with a lag of 1-2 months. Additionally, the price of imported tobacco and alcohol contributed 0.8 percentage points to the overall headline inflation. This was partly driven by the increase in excise tax on tobacco and alcohol that was introduced in July 2017. The price of Winfield blue has increased over the year to June 2018 by 20.1%.



The price of household operations goods and services increased by 1.6% which included various goods such as kerosene, liquid petroleum gas, portable radio player and kitchenware. These outweighed the annual decline in the price of stationery supplies, medical health services and supplies and house maintenance goods.

Outlook

The Reserve Bank continues to expect that the annual headline inflation rate will continue to remain around the 5% reference rate for the rest of 2018 due to favourable expectations in the prices of local food. Favourable expectations stems from the expected increase in the domestic food supply to continue in to the upcoming months which will drive its prices down. According to the Climate Update¹ from the Tonga Meteorological Service, rainfall is forecasted to be average for Tonga in the near term which remains favourable for the local food supply. However, adverse movements in global oil and food prices may change this outlook. Additionally, the vulnerability of Tonga to natural disasters also poses a risk to the local food supply and consequently its prices and the inflation outlook.

¹ Issued on 13th July 2018

Inflation Breakdown*					
	Weight	Month-ended		Year-ended	
	%	Change	Contribution	Change	Contribution
		%	to total	%	to total
			ppt		ppt
CPI	100	-2.5	-2.5	5.9	5.9
Domestic	42.2	-6.3	-2.9	4.5	2.0
Food	17.8	-12.9	-3.0	6.3	1.3
<i>Fruit & vegetables</i>	6.5	23.8	-3.0	5.7	0.6
<i>Meats, fish & poultry</i>	3.7	0.7	0.0	18.6	0.6
<i>Dairy farm & vegetable products</i>	0.5	1.5	0.0	0.0	0.0
<i>Cereals & cereal products</i>	3.4	0.0	0.0	2.3	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	-0.2	0.0
Tobacco & Alcohol	1.5	3.0	0.1	33.5	0.9
<i>Tobacco</i>	0.0	0.0	0.0	0.0	0.0
<i>Alcohol</i>	0.8	0.0	0.0	3.4	0.0
<i>Kava</i>	0.7	3.9	0.1	45.4	0.9
Household Operation	17.3	0.0	0.0	-1.6	-0.2
<i>Domestic Power & Fuel</i>	6.0	0.0	0.0	-5.4	-0.3
<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	2.2	0.3
Miscellaneous goods & services	3.5	0.0	0.0	0.0	0.0
Imported	57.8	0.8	0.4	6.9	3.9
Food	27.9	0.3	0.1	7.5	2.1
<i>Fruit & vegetables</i>	0.9	-3.3	0.0	-4.2	0.0
<i>Meats, fish & poultry</i>	14.6	0.6	0.1	10.3	1.6
<i>Dairy farm & vegetable products</i>	3.2	0.8	0.0	7.7	0.2
<i>Cereals & cereal products</i>	3.5	-0.2	0.0	-1.2	0.0
<i>Other food</i>	5.7	-0.3	0.0	6.3	0.3
<i>Drinks, sweets and meal away from home</i>	0.0	0.0	0.0	0.0	0.0
Transportation	11.5	3.3	0.3	9.4	0.9
<i>Private</i>	8.6	4.3	0.3	12.7	0.9
<i>Public</i>	2.9	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.5	0.6	0.0	15.3	0.8
<i>Tobacco</i>	2.9	0.8	0.0	18.7	0.7
<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	-0.1	0.0	1.6	0.0
<i>Domestic Power & Fuel</i>	1.1	-0.2	0.0	0.4	0.0
<i>Household Appliances</i>	1.2	0.0	0.0	3.8	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	0.0	0.0	0.3	0.0
<i>Communication services</i>	0.0	0.0	0.0	0.0	0.0
Clothing & Footwear	3.2	0.0	0.0	3.7	0.1
Housing	0.8	0.0	0.0	-1.3	0.0
Miscellaneous goods & services	6.4	0.0	0.0	-1.7	-0.1

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

Source: Statistics Department