

# Inflation

## May 2018

Release date: 20 August 2018

	May 18	Apr 18	Mar 18	Feb 18
<b>Headline*</b>	<b>9.4</b>	<b>9.6</b>	<b>9.8</b>	<b>3.4</b>
Domestic <sup>^</sup>	5.6	5.8	6.1	-0.4
Imported <sup>^</sup>	3.8	3.8	3.7	3.8

\*Year-ended growth

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

### Annual headline inflation continue to trend downward

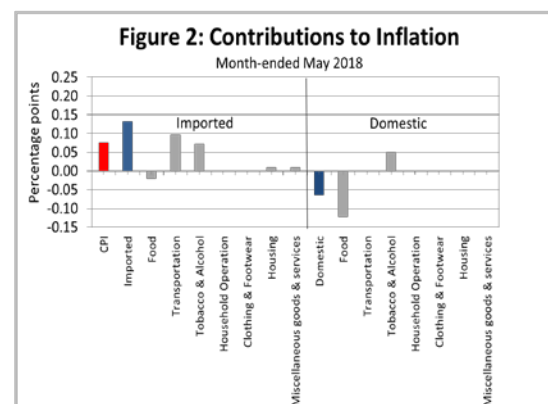
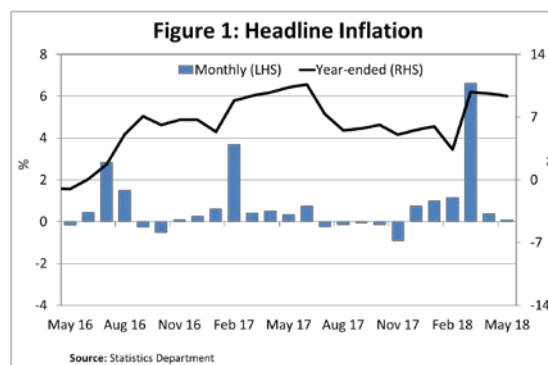
#### Monthly Inflation

In May 2018, the monthly headline inflation rate slowed to 0.1% from 0.4% in April 2018 and 0.2% in May 2017 (Figure 1). The trend was largely contributed by the imported component of inflation (Figure 2).

#### *Domestic prices*

Domestic prices declined by 0.1% over the month, as the decline in the price of local vegetables was sufficient to offset the marked increase in the prices of other food such as cassava, yam, cockles and cereal products. The favorable supply of local vegetables such as carrots, head cabbages and coconuts reflects the recovery processed of farmers from the tropical cyclone Gita in February 2018. According to the Reserve Bank's liaison program, farmers were determined after the cyclone to concentrate on short term planting crops such as vegetables for the time being for food supply purposes and financial support. The average price of kava-Tonga also slightly rose over the month to \$150 per kg.

#### *Imported prices*



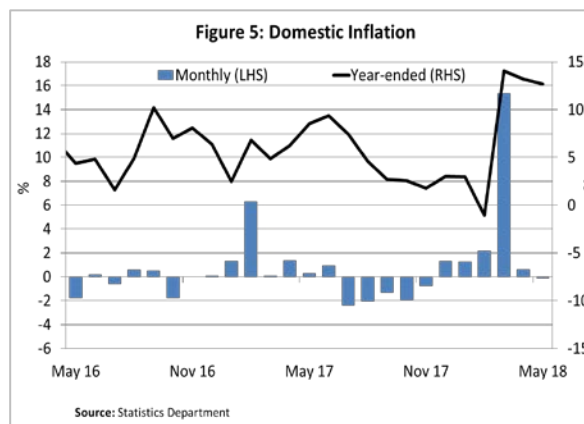
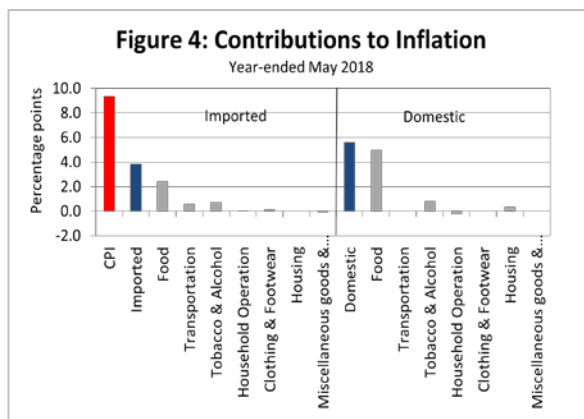
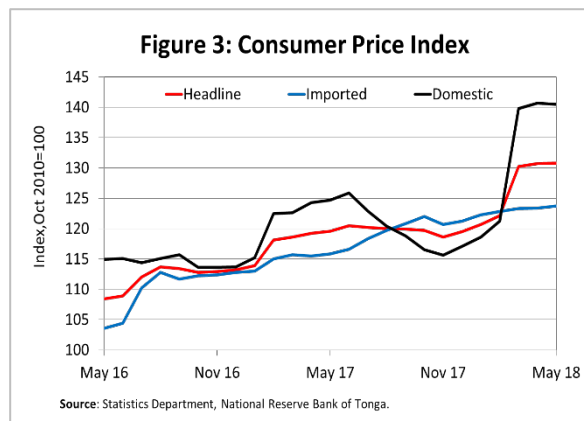
The monthly imported inflation rose over the month by 0.3% due to an increase in the prices of various imported goods excluding food items. The food group decreased by 0.1% over the month as some food prices such as chicken pieces, salted beef and sugar declined which was sufficient to offset the increase in some fruits and other meat products. However, prices of various other imported commodities rose over the month which included concrete blocks, cigarettes, petrol & diesel and cosmetic and toiletries.

### Annual inflation

The annual headline inflation has remained high at 9.4% although this is slightly lower than the 9.6% recorded in April 2018 and a 10.0% in May 2017. This was due mainly to domestic prices being at a very low level in May 2017 (Figure 3). The domestic component of inflation contributed 5.6 percentage points to the overall annual headline inflation rate while the imported component added 3.8 percentage points (Figure 4).

#### Domestic prices

Over the year to May 2018, the annual domestic inflation rate has slowed further to 12.7% compared to 14.0% in March 2018 and 13.2% last month. This was driven by the consistent decline in the monthly prices of domestic food for three consecutive months since April 2018. The food group continued to be the highest contributor with 5.0 percentage points as the price of fruits and vegetables rose over the year by 44.5%. The prices of local fruits and vegetables which rose considerably compared to May 2017 included tomato, capsicum, coconuts, ripe banana, pawpaw and pele leaves. The price of seafood products also increased over the year which included tuna, mixed string fish, octopus and cockles. The price of other local goods and services which rose over the year included the prices of kava-Tonga and housing maintenance goods and services with 0.8 and 0.3 percentage points contribution to the headline inflation respectively. 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

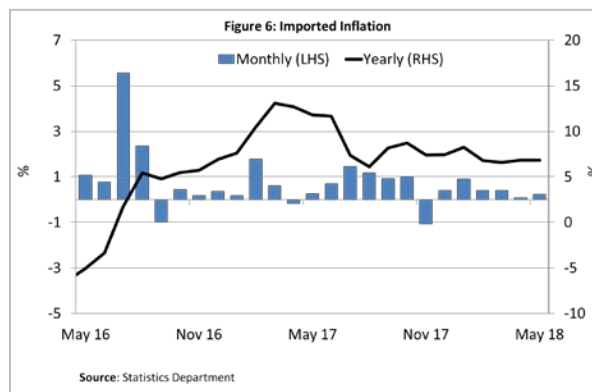
The annual imported inflation rate remained slightly the same at 6.9% compared to 6.8% last month. Imported food prices continued to be the largest contributor which rose by 8.7% and contributed 2.4 percentage points to the overall annual headline inflation. From the food group, the meat, fish & poultry category had the highest increase of 12.3% with a 1.9 percentage point contribution to the headline inflation. This was followed by 0.3 and 0.2 percentage points' contributions from other food components and dairy products respectively.

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 13.7% and 12.2% respectively over the year.

The second highest contributors were tobacco and fuel with 0.6 percentage points each. The price of tobacco rose by 17.8% which was partly driven by the increase in excise tax on tobacco that was introduced in July 2017. The price of Winfield blue has increased over the year to May 2018 by 19.5%. Additionally, fuel prices rose by 7.9% and was reflected in a 10.9% and 7.5% increase in the prices of diesel and petrol respectively. The high fuel prices were due to higher world oil prices which flow through to local oil prices with a lag of 1-2 months. Clothing supplies also increased by 5.2%. 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 slow down to the 5% reference rate before end of 2018 due to favourable expectations in the prices of food. Favourable expectations stems from the expected increase in the domestic food supply as part of an increase of supply from crops planted after cyclone Gita which will drive its prices down. According to the Climate Update<sup>1</sup> from the Tonga Meteorological Service, rainfall is forecasted to be average to above 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.



<sup>1</sup> Issued on 11<sup>th</sup> May 2018

Inflation Breakdown*					
	Weight	Month-ended		Year-ended	
	%	Change	Contribution	Change	Contribution
		%	to total	%	to total
			ppt		ppt
<b>CPI</b>	<b>100</b>	<b>0.1</b>	<b>0.1</b>	<b>9.4</b>	<b>9.4</b>
Domestic	42.2	-0.1	-0.1	12.7	5.6
Food	17.8	-0.5	-0.1	24.5	5.0
<i>Fruit &amp; vegetables</i>	6.5	-1.9	-0.3	44.5	4.3
<i>Meats, fish &amp; poultry</i>	3.7	1.6	0.1	18.6	0.7
<i>Dairy farm &amp; vegetable products</i>	0.5	0.0	0.0	0.0	0.0
<i>Cereals &amp; cereal products</i>	3.4	2.3	0.1	1.7	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	1.5	0.0	29.6	0.8
<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	2.0	0.0	39.9	0.8
Household Operation	17.3	0.0	0.0	-1.6	-0.2
<i>Domestic Power &amp; 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 &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	2.2	0.3
Miscellaneous goods & services	3.5	0.0	0.0	0.0	0.0
Imported	57.8	0.3	0.2	6.9	3.8
Food	27.9	-0.1	0.0	8.7	2.4
<i>Fruit &amp; vegetables</i>	0.9	0.2	0.0	1.5	0.0
<i>Meats, fish &amp; poultry</i>	14.6	0.1	0.0	12.3	1.9
<i>Dairy farm &amp; vegetable products</i>	3.2	-0.1	0.0	8.3	0.2
<i>Cereals &amp; cereal products</i>	3.5	-0.3	0.0	-1.1	0.0
<i>Other food</i>	5.7	-0.4	0.0	5.7	0.3
<i>Drinks, sweets and meal away from home</i>	0.0	0.0	0.0	0.0	0.0
Transportation	11.5	0.9	0.1	5.8	0.6
<i>Private</i>	8.6	1.2	0.1	7.9	0.6
<i>Public</i>	2.9	0.0	0.0	0.0	0.0
Tobacco & Alcohol	4.5	1.4	0.1	14.7	0.7
<i>Tobacco</i>	2.9	1.9	0.1	17.8	0.6
<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	0.0	0.0	1.6	0.0
<i>Domestic Power &amp; Fuel</i>	1.1	0.0	0.0	0.7	0.0
<i>Household Appliances</i>	1.2	0.0	0.0	3.8	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	0.2	0.0
<i>Communication services</i>	0.0	0.0	0.0	0.0	0.0
Clothing & Footwear	3.2	0.0	0.0	3.7	0.1
Housing	0.8	1.4	0.0	-0.6	0.0
Miscellaneous goods & services	6.4	0.2	0.0	-1.9	-0.1

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

Source: Statistics Department