



An Analysis of Inflation by Division: 2017

1.0 Brief Introduction

This newspaper article builds on previously published articles titled *Inflation in Fiji* (printed in the Fiji Sun on 27 February 2016) and *The Recent Natural Disasters, Yaqona Prices and Inflation* (printed in the Fiji Sun on 10 December 2016). This particular article provides an analysis of price movements in the three Divisions (Central, Northern and Western) in 2017, focusing specifically on the major causes of higher prices in the three Divisions in 2017.

The Fiji Bureau of Statistics (FBOS) compiles the Consumer Price Index (CPI) to measure monthly average changes in prices of a number of everyday goods and services purchased by average households in Suva, Lami, Nasinu, Nausori, Lautoka, Nadi, Ba and Labasa. This data is then collated and used by the FBOS to compute the three divisional inflation rates and the national inflation level as well.

As a share of the overall CPI basket, the Central Division accounts for the highest weight of 44.5 percent, followed by the Western Division at 39.1 percent and the Northern Division with 16.4 percent.

2.0 Inflation Analysis by Division

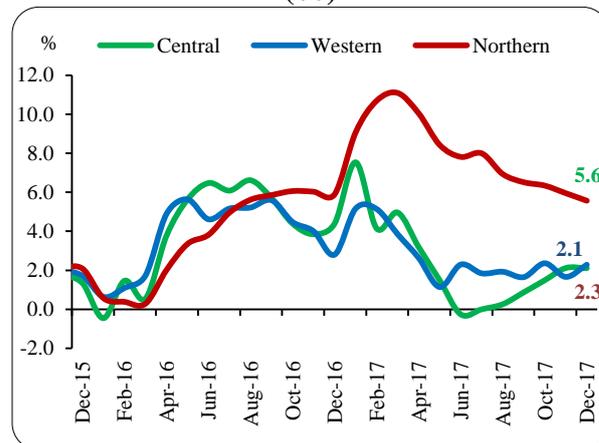
Looking at inflation by Division, annual inflation in the three Divisions have been on an upward trend since April 2016 following Tropical Cyclone (TC) Winston. Moreover, following the flash floods in December 2016, a further increase was noted in inflation particularly in the Northern division where higher prices remained and receded at a much slower pace than the other two Divisions (Chart 1.0).

In the Northern Division, inflation remained high, at an average of 8.0 percent in 2017, with a peak of 11.1 percent in March.

However, since April, inflation has been subsiding and stood at 5.6 percent in December.

Inflation in the Central Division averaged 2.3 percent in 2017, with the highest being in January at 7.5 percent. Nonetheless, price pressures began to subside from March onwards and reached a low of -0.3 percent in June. However, inflationary pressures picked up pace since August and increased to 2.1 percent in December.

Chart 1.0: Annual Inflation by Division (%)



Source: Fiji Bureau of Statistics

Inflation in the Western Division averaged 2.7 percent in 2017, with a peak of 5.2 percent registered in January. Since February, inflation had been falling, reaching a low of 1.1 percent in May. Nonetheless, prices picked up in June to 2.3 percent but fell to below 2.0 percent in the July-September period before increasing again to 2.4 percent in October. Inflation was recorded at 2.3 percent in December.

3.0 Contribution to Inflation

As per Chart 2.0, contributors leading to higher inflation in all the Divisions include the alcoholic beverages, tobacco & narcotics; transport and the housing, water, electricity,

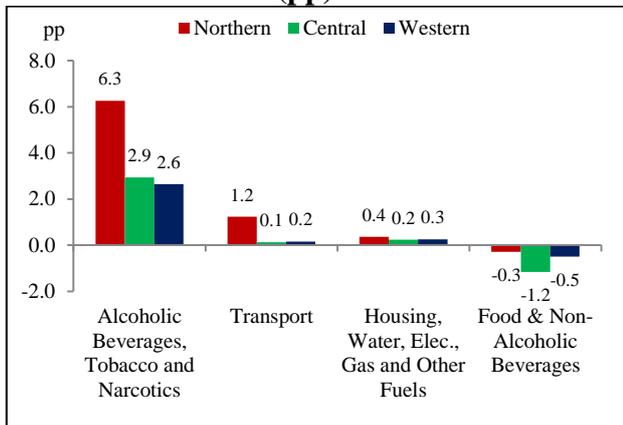


gas & other fuels categories, while food & non-alcoholic beverages category contributed negatively to overall inflation in all the Divisions.

3.1 Alcoholic Beverages, Tobacco & Narcotics

The alcoholic beverages, tobacco & narcotics category contributed a higher 6.3 percentage points (pp) to average inflation for 2017 in the Northern Division, compared to its 2.9pp and 2.6pp contributions in the Central and Western Divisions (Chart 2.0)

Chart 2.0: Contribution to Inflation (2017) (pp)



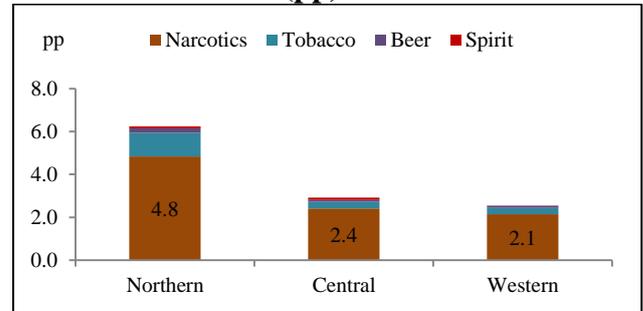
Source: Fiji Bureau of Statistics

Narcotics (which includes yaqona) and represents a sub class of the alcoholic beverages, tobacco & narcotics category, noted a sharp increase in prices from April 2016 following TC Winston. In addition, narcotics accounts for a higher 4.0 percent of the total expenditure by an average household in the Northern Division compared to the 3.0 percent and 2.0 percent in the Western and Central Divisions, respectively.

In 2017, rise in yaqona prices contributed 4.8pp towards the overall increase in the alcoholic beverages, tobacco & narcotics category in the North, much higher than the 2.4pp and 2.1pp contributions in the Central

and Western Divisions, respectively (Chart 3.0).

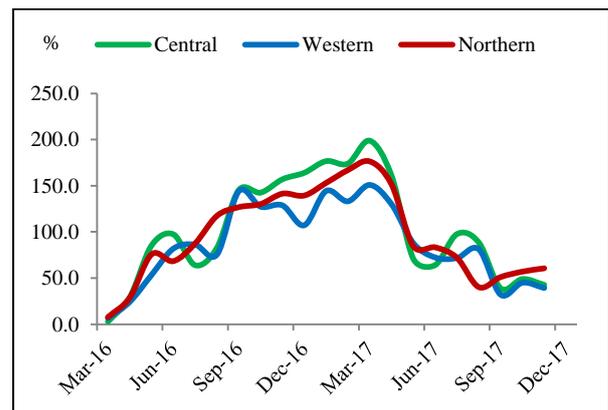
Chart 3.0: Contribution to Alcoholic Beverages, Tobacco & Narcotics (2017) (pp)



Source: Fiji Bureau of Statistics

Post TC Winston, annual price growths in yaqona had increased sharply in all the Divisions and continued to increase at a faster pace until April 2017. However, from May 2017, growths in yaqona prices have decelerated. From May to December, average growth in yaqona prices in the Western Division (+60.8%) were lower when compared to the Northern (+63.1%) and Central (+61.8%) Divisions (Chart 4.0).

Chart 4.0: Yaqona (Annual Price Changes)



Source: Fiji Bureau of Statistics

Moreover, **tobacco** prices in the Northern Division rose at a much higher rate when compared to the other two Divisions following TC Winston. Higher prices for



tobacco contributed 1.1pp to the alcoholic beverages, tobacco & narcotics category in the Northern Division, compared to 0.3pp contributions in the other two Divisions (Chart 3.0). Since March 2017, tobacco prices in the Northern Division have been growing significantly, experiencing double digit growths on an annual basis. In the March to December period, tobacco prices grew by an average 18.0 percent in the North, compared to 9.0 percent and 8.6 percent growth in the Central and Western Divisions, respectively. The increase in tobacco prices was also partly attributed to the increase in excise tax and import duty as announced in the 2017-2018 National Budget. In addition, tobacco accounts for a higher percent of total expenditure by an average household in the Northern Division (4.0%) compared to the Western (3.0%) and Central (2.0%) Divisions.

The excise tax on *alcohol* increased by 15.0 percent following the 2017-2018 Budget announcement, which saw the prices for alcoholic drinks including beer, wine and spirit increase in July in all the Divisions. The increase in beer prices contributed 0.2pp to the alcoholic beverages, tobacco and narcotics category in the Northern Division while it contributed 0.1pp in the Western and Central Divisions.

3.2 Transport

In 2017, the transport category's average contribution to inflation in the Northern Division was higher at 1.2pp relative to the marginal contributions of 0.2pp and 0.1pp in the Western and Central Divisions. In the transport category, higher prices for purchase of new cars persisted in the Northern Division, growing by an average 6.4 percent in 2017. This compared with declines noted in the Western (-6.4%) and Central (-6.5%) Divisions. Furthermore, maintenance & repair of motor vehicles is costlier in the Northern Division when compared to the other two Divisions, reflected by the annual

increase in price for this category by 5.5 percent in the North compared to no price change in the other two Divisions. Moreover, in January 2017, sea fares noted an increase in prices by 37.4 percent in the North while it remained unchanged for the other Divisions. Likewise, passenger transport by air category also noted an annual marginal increase of 0.1 percent in January 2017 in the Northern Division whilst remaining unchanged in the other two Divisions.

3.3 Housing, Water, Electricity, Gas & Other Fuels

Prices in the housing, water, electricity, gas & other fuels category were higher in 2017 and contributed on average 0.4pp to overall inflation in the Northern Division, marginally higher than the 0.3pp and 0.2pp contributions for the Central and Western Divisions, respectively. Price movements in this category have been driven primarily by gas and kerosene prices. In line with the fuel price review by the Fijian Competition & Consumer Commission, in April 2017, gas and kerosene prices increased in all the Divisions. Moreover, in January 2017, town rates in the Northern Division rose by 39.8 percent as a result of the increase in property valuations while it remained unchanged in the other two Divisions

3.4 Food & Non-Alcoholic Beverages

The food & non-alcoholic beverages category contributed negatively to overall inflation in all the Divisions in 2017 (Chart 2.0). Prices of agricultural market food items (including vegetables, fruits and dalo & cassava) increased temporarily in all the Divisions - due to supply shortages following TC Winston and flooding in 2016. Underlying this was the significant price increases for vegetables (including bean, Chinese & English cabbage, rourou, tomatoes, tubua, ota, okra and eggplants), dalo and cassava up to February 2017. However, prices began to ease thereafter, partly due to normalised



supply, which led to the lower prices in the food & non-alcoholic beverages category from April onwards. Nonetheless, annual increases in prices for fruits; meat; bread & cereal and oils & fats categories were higher in the Northern Division when compared to the other two Divisions. The higher prices of food items in the Northern Division could be partly attributed to the additional cost of freight as well as lack of competition when compared to the other two Divisions.

4.0 Conclusion

Division wise, inflation in the North was higher in 2017 when compared to the other two Divisions. The higher relative inflation in the Northern Division was due to higher prices of yaqona & tobacco, new cars, maintenance & repair of motor vehicles, increase in Labasa town council rates and increased prices of some food items.