



## The Recent Natural Disasters, Yaqona Prices and Inflation

Building on an earlier newspaper article titled “Inflation in Fiji” (published in the Fiji Sun on 27 February, 2016) this article provides more in-depth analysis on one of the major factors that has underpinned the high inflation in recent months – yaqona prices.

### Brief Recap

*What is inflation?* Inflation is defined as the rise in the *overall level* of prices of goods and services in an economy over time.

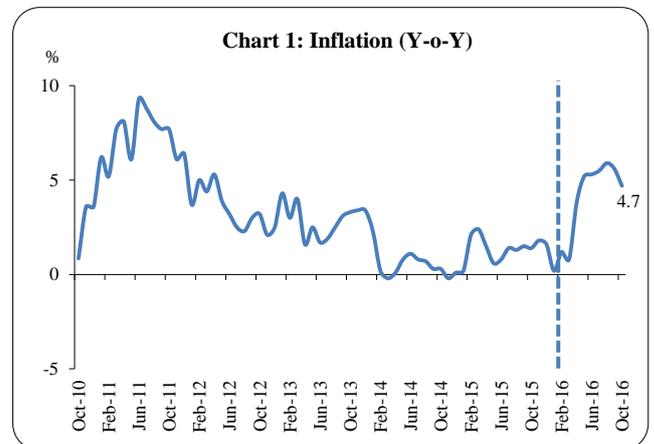
*How is inflation measured in Fiji?* Inflation is calculated as the annual percent change (year-on year (y-o-y)) in the Consumer Price Index (CPI). The CPI is a composite index that takes into account the total price of a standard basket of goods and services consumed by a typical Fijian family for a given period. This information can be sourced from the Fiji Bureau of Statistics (FBOS) monthly CPI release and website: <http://www.statsfiji.gov.fj/>

The CPI basket contains consumer items such as food, beverages, clothing & footwear, fuel, electricity, water and education to name a few. Price movements of these items are *averaged, weighted and combined* to determine the overall change in the CPI or inflation rate. Each month, the FBOS calculates an overall average from the changes in all the prices of typical goods and services in the consumer basket. Higher weights are given to the prices of goods on which consumers spend more money while lower

weights are assigned to prices of goods on which the consumer spends less.

### Recent Inflation Trend

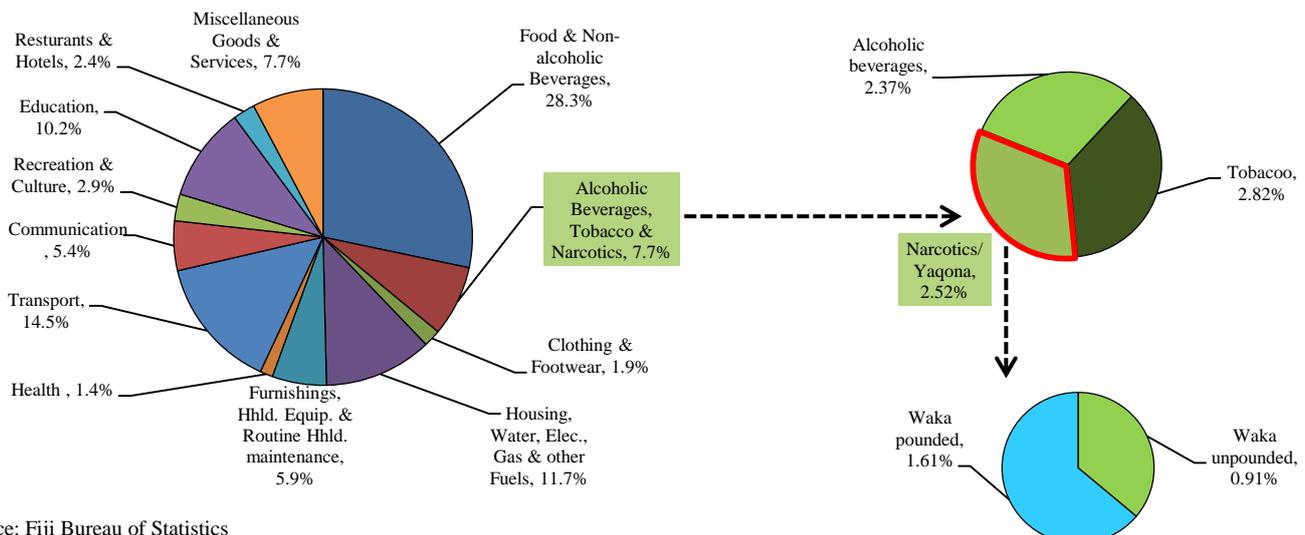
Following Tropical Cyclones (TC) Winston and Zena and the subsequent floods, inflation picked up to 3.8 percent in April 2016 and remained above the 5.0 percent mark for five consecutive months thereafter before falling to 4.7 percent in October (Chart 1). The higher inflation in these months was largely caused by a shortage of agricultural items (mainly fruit, vegetables and yaqona) due to the damage sustained from the natural disasters.



Source: Fiji Bureau of Statistics

While prices of some fruit and vegetables have since normalised due to improved market supply, prices of agricultural items, like yaqona, that take a longer time to mature have remained relatively high when compared to prices pre-cyclone.

Chart 2: Fiji’s CPI Basket (National Weights of Categories)



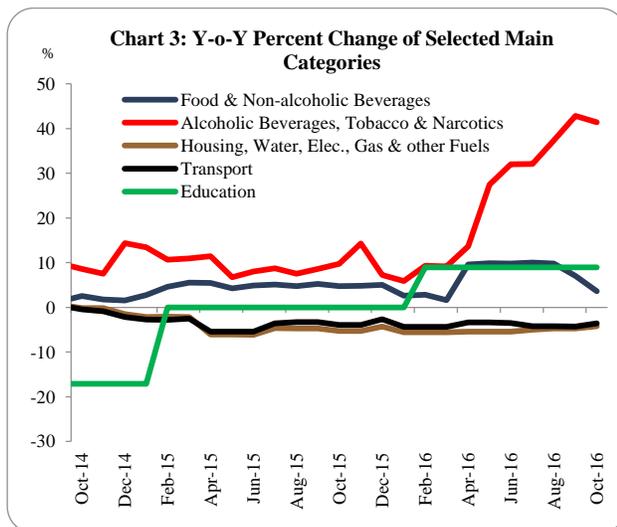
Source: Fiji Bureau of Statistics

## Fiji's CPI Basket and the Alcoholic Beverages, Tobacco & Narcotics Category

There are 12 categories in the CPI basket (Chart 2), the largest (28.3%) of which is for food and non-alcoholic beverages, which includes food agricultural items whose prices rose sharply following the natural disasters.

The alcoholic beverages, tobacco & narcotics category, which includes yaqona, represents the fifth largest grouping, making up 7.7 percent of household expenditure. This category has been one of the major drivers of inflation in recent months - whereby current prices have risen to significantly higher levels from prices in the same period last year (y-o-y percent change) (Chart 3).

**What is causing higher prices in the alcoholic beverages, tobacco & narcotics category?** When broken down, Narcotics, a sub-class of the alcoholic beverages, tobacco & narcotics category, noted a sharp increase in prices directly stemming from the rise in yaqona prices.



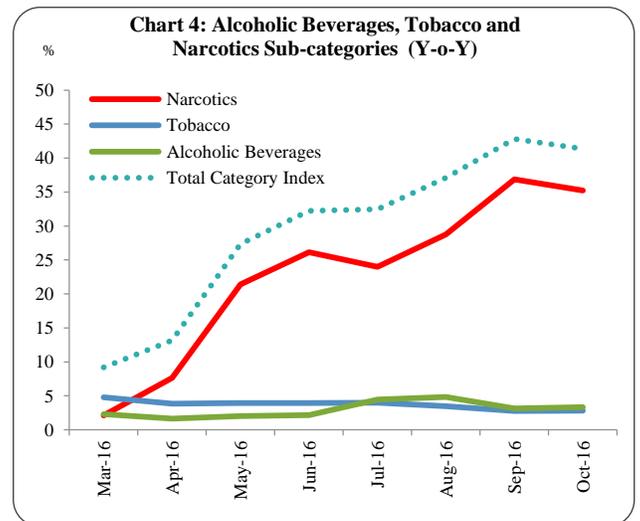
Source: Fiji Bureau of Statistics

### The Narcotics Sub-Category: Yaqona Prices

Yaqona is categorised in the CPI basket under *narcotics* and accounts for 2.52 percent of total expenditure by an average household. It is

further classified into pounded waka (1.6%) and unpounded waka (0.91%).

The other two sub-categories - alcoholic beverages and tobacco - also contributed positively to the increase in inflation but to a smaller extent (Chart 4). However, the impact of higher duties on alcohol and tobacco announced in the 2016/2017 National Budget (on 22 June) can be seen from July 2016.



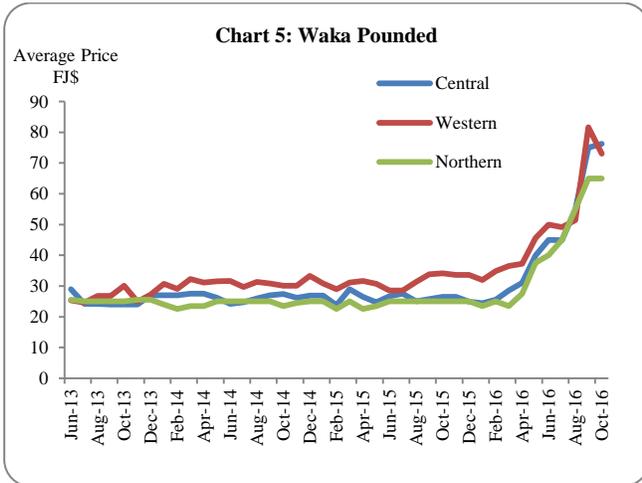
Sources: Fiji Bureau of Statistics and Reserve Bank of Fiji Estimates

### Trend in Yaqona Prices

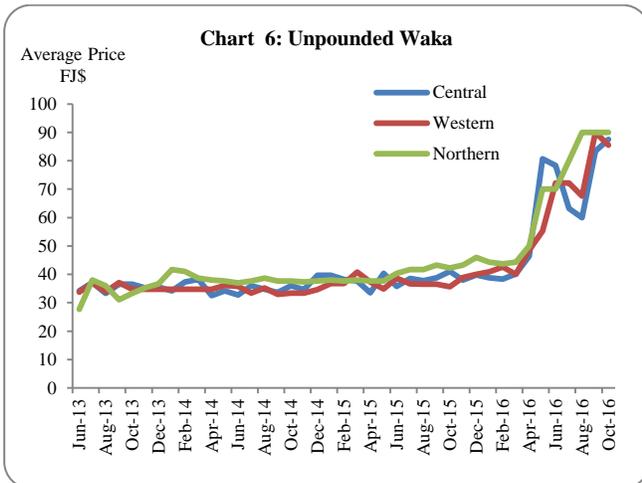
In 2014-2015, monthly yaqona prices averaged around \$34.30 per kg and \$25.10 per kg, for unpounded waka and pounded waka, respectively.

In February 2016, TC Winston destroyed a significant number of yaqona plantations in the main supply areas in Fiji (particularly Taveuni, Rakiraki and Koro Island). However, yaqona prices only began to increase from April 2016, not earlier, likely due to farmers salvaging remaining plants to avoid rot and maintain supply in the market. From May to October 2016, prices of unpounded and pounded waka rose significantly to average around \$78.40 per kg and \$52.00 per kg respectively, on the back of supply constraints (Chart 5 and Chart 6).

Prices of yaqona reached a high in May 2016 before they slowed down in June and July. Contrary to an expected normalisation in prices thereafter, yaqona prices rose further in August and remain significantly higher over the year in September and October 2016.



Sources: Fiji Bureau of Statistics and Reserve Bank of Fiji Estimates



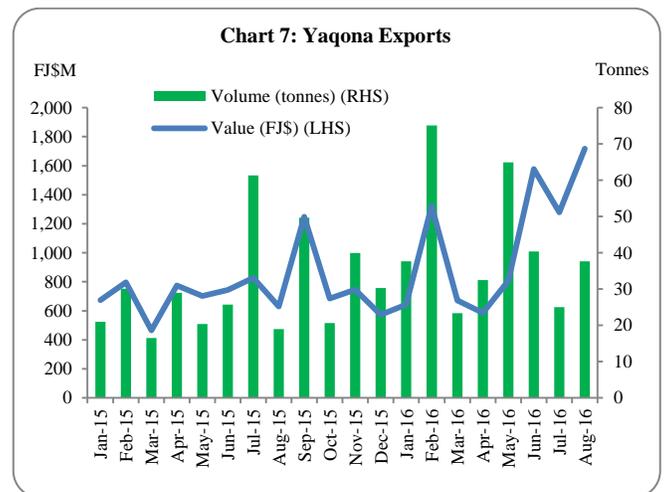
Sources: Fiji Bureau of Statistics and Reserve Bank of Fiji Estimates

The alcoholic beverages, tobacco & narcotics category in the CPI basket grew significantly over the year to October by 41.4 percent, similar to the 42.8 percent in September 2016 but

substantially higher than the 9.8 percent in October 2015, accounting for around 3.7 percentage points of the overall inflation rate of 4.7 percent.

### Trade: Yaqona Exports and Imports

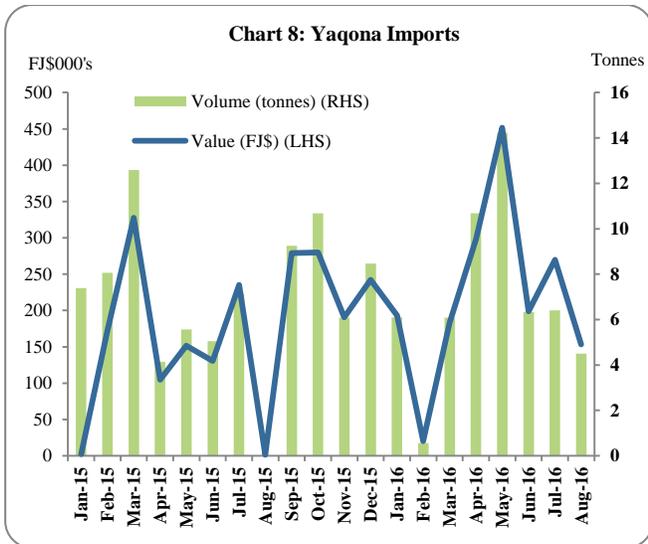
External trade in yaqona has also picked up recently. Cumulative to August 2016, the volume and value of yaqona exports is estimated to have grown by 50.9 percent (to around 336 tonnes) and 53.0 percent, respectively, when compared to the same period last year (Chart 7). Notably, volume exports were particularly higher in February and May 2016.



Source: Fiji Revenue & Customs Authority and Reserve Bank of Fiji Estimates

In addition, given supply constraints in the domestic market, yaqona imports, mainly from Vanuatu,<sup>1</sup> rose annually in both value (57.3%) and volume (9.9%) when compared to the same period last year (Chart 8). While it is expected that imported yaqona should put some downward pressure on domestic prices, consumer preferences for Fiji grown yaqona can have offsetting effects.

<sup>1</sup> Average prices in Vanuatu are also higher over the year after Cyclone Pam (13 March 2015).



Source: Fiji Revenue & Customs Authority and Reserve Bank of Fiji Estimates

Against the strong domestic and export demand

for yaqona, the current volumes of yaqona imports remain significantly lower.

### Conclusion

The spike in inflation following the natural disasters has resulted from the higher prices in the alcoholic, tobacco & narcotics category, largely driven by significant increases in prices for narcotics (yaqona).

Taking into account these recent trends in higher prices of certain items (particularly for yaqona) and its expected persistence in the months ahead due to the two to three year production cycle, inflation this year is projected to remain higher than levels in 2015.