

PRESS RELEASE

ECONOMIC PERFORMANCE IN JUNE 2009

Major features of the month

- ∞ **Inflationary pressures subside further;**
- ∞ **International reserves slipped;**
- ∞ **Higher tourist arrivals boosted tourism earnings;**
- ∞ **Exports and imports increased;**

Inflationary pressures easing

The latest price developments, according to the Samoa Bureau of Statistic's CPI release for June 2009, showed inflationary pressures easing much further. Dropping 0.1 percent from May 2009, the headline CPI, on a point to point basis, decelerated sharply from 12.9 percent to 9.2 percent in June 2009.

The major contributors to this month's lower headline CPI were reduced food and energy prices as represented by decreases of 0.5 percent and 0.9 percent respectively in the "Food" and "Transport and Communications" commodity groups. Offering some reprieve to consumers in general were lower prices for imported foodstuffs (such as eggs, onions and salt), local agricultural produce supplied at the Fugalei Market and fish sold at the Savalalo Market. Similarly, decreased prices were recorded for unleaded petrol and diesel, reducing the pressure on motorists during the month under review.

As expected, the annual average headline inflation rate remained steady at 14.2 percent from the previous month but was more than doubled the 6.2 percent inflation rate at end June 2008. Despite the annual rate being high, the latest downward inflationary trend appeared to have peaked in June 2009, with an improved outlook for the rest of the year as the strong inflationary pressures that stemmed largely from cost push factors in 2008 have gradually faded in 2009.

Excluding the regulated and seasonal price movements from the price data, the CPI recorded an underlying increase of 0.3 percent in June 2009. And, reflecting the prevailing lower demand pressure associated with the slowing economy, the year-on-year rate of underlying inflation dropped to 13.1 percent, from 15.4 percent at end May 2009. As expected, on the other hand, the annual average underlying inflation rate continued its increase to 17.2 percent from 16.9 percent at end May 2009 and nearly tripled the 6.9 percent inflation at end June last year.

International reserves slipped

Although Samoa's external reserves was under pressure in June 2009, its reduction from the previous month was moderate. At \$268.9 million, the level of international reserves at the end of the month under review was 1 percent lower than in May 2009 and represented a \$1.7 million overall monthly deficit in the balance of payments, which followed a huge \$17.0 million overall monthly surplus in the previous month. Despite this monthly drop, the current level of external assets was 6 percent higher than in June 2008 and sufficient to cover 5.2 months of imports, up from the 5.1 months cover in May 2009 and June 2008.

Tourist arrivals increased

The tourism sector received another boost in June 2009 with tourist arrivals jumping 10 percent to 11,385, the highest monthly number of tourists in the year so far. This month's higher tourist arrivals, which largely reflected those arriving for holiday, to visit friends and relatives as well as sporting events, was also 6 percent higher than in June 2008. With the exception of a 3 percent drop in travellers from the 'other countries' category, this month's favourable outcome reflected increases from all the major tourist markets, particularly USA and American Samoa. And, with a 7 percent increase in average tourist spending, tourism revenue in June 2009 increased 18 percent (\$4.6 million) to \$30.2 million, a level 13 percent higher than in June last year. For the fiscal year 2008/2009 as a whole, tourist arrivals were 9 percent higher than in 2007/2008, pushing tourism proceeds up by 18 percent.

Merchandise trade deficit increased

The merchandise trade deficit in June 2009 increased 10 percent (\$3.8 million) to \$40.5 million reflecting a larger increase (of \$4.3 million) in import payments compared to that of export earnings (of \$0.5 million). At this current level, however, it was 20 percent lower than the \$50.9 million trade deficit in June 2008. The higher imports in the month under review, valued at \$43.4 million, was due largely to a \$6.0 million boost in 'other imports' of the private sector, representing increased foodstuffs for wholesale companies, building supplies, motor vehicles and electricity equipment for the EPC. These more than offset decreased imports by Government (down \$1.2 million) and petroleum products (down \$0.5 million). Export earnings, on the other hand, shot up 21 percent to \$2.9 million consequent to increased exports of fresh fish, coconut cream, beer, soft drinks, coconuts and a shipment of coconut oil (after its absence in May 2009).

Private remittances

Actual remittances for June 2009 are not yet available. However, the latest private remittances data at hand showed a provisional increase of 3 percent (\$0.8 million) to \$29.1 million in the month under review. This was mainly in the form of increased cash and in-kind transfers to families as well as a moderate rise in remittances in the form of motor vehicles. At this current level, however, it was 10 percent lower than in June 2008. Nevertheless, in the twelve months ending June 2009, total private transfers increased 6 percent to \$366.7 million from \$344.4 million in the same period ending June 2008.

Other economic indicators in June 2009

The volatile flow of supplies of agricultural produce to the Fugalei Market continued in the month under review with a 5 percent decrease in the overall volume, following a seasonal high in May 2009. The decreased supply in the month under review, which was the lowest monthly level throughout 2008/2009, was largely due to the reduced availability of taro, banana, taamu and pumpkin. The overall price level at the Fugalei Market fell slightly from May 2009 reflecting decreased prices for coconut, breadfruit, head cabbage, tomatoes and Chinese cabbage. When compared to a year ago, the current volume of agricultural produce at the Market was 6 percent lower with prices consequently higher by 27 percent.

Decreased demand for safe-haven currencies saw the US dollar weaken further in June 2009. This month's lower demand for the greenback was partially due to the release of some strong US statistics (such as robust US retail sales data and fewer claims for jobless benefits) as well as a mounting demand for higher yielding assets. In the event, the Tala strengthened against the US dollar (up 0.7 percent) and the European Euro (up 1.3 percent) but weakened against the New Zealand dollar (down 0.5 percent) and Australian dollar (down 0.3 percent). Against other currencies outside the Samoa exchange rate basket, the Tala strengthened against the Japanese Yen (up 1.9 percent) but slid against the Fijian dollar (down 3.1 percent) in the month under review.