

PRESS RELEASE

ECONOMIC PERFORMANCE IN JANUARY 2008

Major features of the month:

- ☞ International reserves grew substantially;
- ☞ The merchandise trade deficit increased;
- ☞ Tourism earnings fell;
- ☞ Private remittances dropped;
- ☞ The annual headline inflation increased further.

Balance of payments opened 2008 with an overall monthly surplus

After a \$17.8 million monthly surplus in December 2007, the balance of payments recorded a favourable outcome in January 2008 with another overall monthly surplus of \$10.7 million. Reflecting this encouraging performance was a substantial inflow of capital funds during the month under review that more than offset the increased merchandise trade deficit and lower estimated seasonal decreases in tourism earnings and private remittances. As a consequence, the current level of official gross foreign reserves grew 5 percent to \$241.4 million, which was sufficient to cover 4.9 months of imports. This level was higher than the 4.7 months import cover in December 2007 as well as the 3.9 months cover in January 2007.

Merchandise trade deficit increased

After a reduction in the previous month, the merchandise trade balance widened in January 2008 following increased import payments and lower export revenues during the month. Import payments increased 20 percent (\$8.7 million) to \$51.6 million reflecting increased imports of petroleum products by the private sector as well as Government imports. Export earnings, on the other hand, fell 53 percent (\$1.5 million) to \$1.4 million due largely to decreased receipts from fresh fish and nonu juice exports. In the event, the merchandise trade deficit widened 26 percent (\$10.3 million) to \$50.3 million, a level that was also 2 percent (\$1.1 million) higher than the trade deficit in January 2007.

Tourist arrivals decreased

In keeping with historical trends, tourist arrivals decreased 46 percent in January 2008 to 8,888 following the high associated with the seasonal influx during the end-of-year Christmas holidays. A huge reduction in holiday makers, particularly from Australia and New Zealand, as well as those visiting friends and relatives (mainly from American Samoa) accounted for the significant fall in tourist numbers during the month. In the event, tourism revenue decreased 37 percent (\$14.3 million) to \$24.7 million, a level that was nevertheless 11 percent (\$2.5 million)

higher than in January 2007. In the first seven months of 2007/08, total tourism revenue of \$187.1 million was 11 percent higher than in the same period of 2006/07, largely reflecting the increased earnings received during the hosting of the 13th South Pacific Games in August/September 2007 as well as the seasonal inflow during the Christmas holidays.

Private remittances declined

Based on historical trends, provisional estimates for private remittances showed a 13 percent (\$3.7 million) drop to \$24.6 million in the month under review. However, when compared to the level in January 2007, private remittances in the month under review was 26 percent (\$5.1 million) higher, contributing to a 26 percent increase in total private remittances for the first seven months of 2007/08.

Inflation rate measures trend in different directions

According to a report by the Ministry of Finance, the headline Consumer Price Index (CPI) increased 3.7 percent in January 2008. Driving this month's expansion were increases of 6.2 percent and 4.9 percent respectively in the "Food" and "Miscellaneous" sub-indices. Consequent to fluctuating exchange rates and increased inflation of trading partners (particularly New Zealand, Australia and USA), the imported food component climbed 1.6 percent reflecting higher prices for anchor butter, eggs, Maggie noodles, mutton flaps and turkey tails. Bad seasonal weather conditions, on the other hand, accounted for a 13.3 percent jump in the local food component, its largest monthly increase since January 2004 when Cyclone Heta struck the country. Reflecting this rise were higher prices for local foodstuffs such as taro, banana, taamu, yam, coconut and most significantly, fresh fish following very heavy rain in the month under review. The "Miscellaneous" sub-index also contributed to the higher headline CPI in January 2008, rising 4.9 percent largely as a result of an 8.2 percent expansion in its local component consequent to an approximately 95 percent surge in registration fees for the National University of Samoa.

The higher headline CPI in January 2008 contributed to the acceleration of the annual headline inflation rate to 6.4 percent from 6.1 percent at the end of 2007 and 3.7 percent in January last year. A combination of external factors (higher inflation rates of trading partners, appreciating New Zealand and Australian dollars and continued escalation in fuel prices) and domestic conditions contributed to the current trend with the unexpected severe wet conditions in January 2008 having a profound effect on prices.

However, when the influence of extreme movements in the prices of volatile consumer items are excluded, the annual underlying inflation rate slipped to 6.8 percent in the month under review from 6.9 percent at end December 2007.

Other economic indicators in January 2008

Heavy rain, which resulted in severe flooding at the Fugalei Market on 25th January 2008, affected the supply of agricultural produce to the Market in the month under review. Decreasing 1 percent at the start of the year, the lower overall volume of agricultural produce reflected the shortage in taro, taamu, head cabbage, Chinese cabbage and cucumber. As a result, the overall price index at the Market increased 6 percent. When compared to January 2007, however, the current volume of agricultural produce was 16 percent higher while stronger demand pushed the price index up 3 percent over the year.

The US dollar weakened against all the major currencies in the Samoan exchange rate basket in January 2008. Accounting for the significant pressure on the greenback during the month

were a series of weak US data, particularly in the housing and employment sectors, which intensified speculation of the US economy plunging into a recession in the short term and led to more aggressive rate cuts by the Federal Reserve. In the event, the Tala strengthened against the US dollar (up 1.5 percent) and weakened against the New Zealand dollar (down 1.5 percent), the Australian dollar (down 0.9 percent), Japanese Yen (down 3.2 percent), European Euro (down 0.4 percent), and Fijian dollar (down 0.8 percent).

CENTRAL BANK OF SAMOA
27th February 2008