

## ***PRESS RELEASE***

### **ECONOMIC PERFORMANCE IN JUNE 2008**

#### **Major features of the month:**

- ☞ Both Headline and Underlying inflation increased ;
- ☞ International reserves rose;
- ☞ Merchandise trade deficit widened;
- ☞ Seasonal rise in private remittances and tourism earnings.

#### **Inflation rate measures increased**

According to the latest survey of consumer prices by the Ministry of Finance and the Samoa Bureau of Statistics, the headline Consumer Price Index (CPI) increased by a significant 3.3 percent in June 2008. Both domestic and international factors were responsible for this upward movement, impacting on all groups of the CPI. Largely affected were the "Food" and "Transport and communication" sub-indices which surged 4.5 percent and 2.9 percent respectively, driven mainly by the global increase in commodity prices particularly food and fuel. As a result, both the local and imported food components of the CPI jumped 7.5 percent and 2.5 percent reflecting higher prices for most of staple food crops, fresh fish as well as rice, flour, butter, turkey wings and canned fish. With international oil prices continuing to soar (new price height of USD\$131.52 per barrel in June 2008), local costs for petroleum (at \$3.15 per litre) were 7.1 percent higher than in May 2008 and were 24 percent above the level in June 2007. The "Housing and Household operations" also absorbed this increase in fuel prices as the surcharge for electricity increased to 28.4 percent from the previous 14.0 percent and home kerosene jumped by 6.5 percent to \$3.27 per litre in the period under review.

As a result, the headline inflation rate, on an annual average basis, increased further to 6.2 percent in June 2008 from 6.1 percent in May 2008 and 4.0 percent in June 2007. The major contributing factors to this upward trend in the inflation rate were increased food prices in international markets resulting from the shortages of food commodities, the continued increase in fuel prices together with the strong New Zealand and Australian dollars.

When the influence of extreme movements in the prices of volatile consumer items are excluded, the annual underlying inflation rate also rose to 6.9 percent at end June 2008 from 6.8 percent in the previous month and 5.6 percent in June 2007. This increase over the year mainly reflected the prevailing robust demand conditions within the local economy as well as soaring international commodity prices and exchange rates movements from a year ago.

#### **An overall monthly surplus was recorded for Balance of Payments**

The balance of payments ended the fiscal year 2007/08 with an overall monthly surplus of \$7.9 million after two months of deficits. Driving this favourable position were increases in tourism earnings and private remittances offsetting an increase in the merchandise trade deficit. Consequently, gross reserves

strengthened to a level that was sufficient to cover 5.1 months of imports, which was higher than 5.0 months coverage in the previous month and 4.0 months in June 2007.

### **Merchandise trade deficit increased**

The merchandise trade balance deteriorated in June 2008, as a notable surge in imports outweighed an improvement in exports. Total exports receipts rose 56 percent (\$1.1 million) to \$3.1 million due to increases in earnings from most of the export commodities such as fresh fish, nonu juices, taro and coconut oil (which appeared in June 2008 after two months of absence) . The upsurge in import payments, on the other hand was driven by petroleum products ( up \$4.0 million), Government (up \$3.9 million) and private sector imports (up \$0.3 million). In the event, the merchandise trade deficit widened 16 percent (\$7.1 million) to \$51.0 million, a level that was, however, 4 percent (\$2.1 million) lower than in June 2007.

### **Private remittances rose**

Provisional estimates show that private remittances increased 10 percent (\$2.3 million) to \$25.9 million in June 2008. This level was also 2 percent (\$0.4 million) higher than in June 2007, contributing to a 16 percent rise in total private remittances in the twelve months of 2007/2008.

### **Tourist arrivals increased**

Tourist arrivals increased for the fourth consecutive month, rising 9 percent to 10,562 in June 2008. This month's seasonal jump reflected increased travellers from American Samoa, Europe, United States and New Zealand with most arriving for holidays and visiting friends and relatives. In the twelve months ending June 2008, total tourist arrivals (of 121,506) were 1 percent higher than in the period ending June 2007. As a result of this month's higher tourist arrivals and average expenditure, tourism revenue rose 11 percent (\$2.7 million) to \$26.2 million, an increase which contributed to a 6 percent jump to \$280.2 million in total tourism revenue for the twelve months ending June 2008.

### **Other economic indicators in June 2008**

The Fugalei Market Survey recorded an unfavourable outcome in June 2008, with the overall volume of the agricultural produce decreasing 17 percent. This month's position reflected the decreased supplies of most staple food crops (such as taro, banana and taamu) and some vegetables (such as tomatoes cucumber and pumpkin). As a result, the overall price index increased 19 percent in the month under review. When compared to June 2007, the current volume and price indices at the Fugalei Market were respectively 11 percent and 1 percent lower.

The US dollar posted some mixed results against the major currencies in the Samoan exchange rate basket in June 2008. It weakened against the Australian dollar and the European EURO but strengthened against the New Zealand dollar, Japanese YEN and the Fijian dollar. Weighing heavily on the greenback's performance in the month under review were weak US economic data and the continued increase in oil prices in international markets. In the event, the Tala strengthened against the New Zealand dollar (up 2.0 percent) and Japanese Yen (up 0.2 percent), but weakened against the European euro (down 2.1 percent), Australian dollar (down 1.1 percent), and US dollar (down 0.9 percent).

**CENTRAL BANK OF SAMOA**  
**30<sup>th</sup> July 2008**