

PRESS RELEASE

ECONOMIC PERFORMANCE IN MARCH 2008

Major features of the month:

- ☞ International reserves increased for the fourth consecutive month;
- ☞ Private remittances rose;
- ☞ The merchandise trade deficit widened;
- ☞ Tourism earnings fell;
- ☞ Inflation rose further.

Balance of payments recorded another positive outcome

For the fourth consecutive month, the balance of payments posted a favourable outcome with an overall monthly surplus of \$7.4 million in March 2008. Reflecting this positive external position in the month under review were increased private remittances and revenue from telecommunications, offsetting the increased merchandise trade deficit and lower tourism earnings during the month. In the event, the overall monthly balance of payments surplus pushed up the level of gross foreign reserves by 3 percent to \$251.4 million, which was equivalent to 5.0 months of imports, up from 4.9 months of imports in February 2008 and higher than the 4.0 months import cover in March 2007.

Private remittances rose

Provisional estimates for private remittances point to an 18 percent (\$3.4 million) rise to \$22.7 million in March 2008, a level that was nevertheless 5 percent (\$1.2 million) lower than that of a year ago. This months' seasonal increase contributed to a 21 percent jump to \$222.1 million in total private remittances in the first nine months of 2007/2008, partially due to the stronger New Zealand dollar and Australian dollar in the period under review, compared to the same nine months of 2006/2007.

Merchandise trade deficit widened

Following a favourable outcome in the previous month, the merchandise trade balance grew in March 2008 as imports increased while export earnings fell during the month. Exports revenue decreased 16 percent (\$0.2 million) to \$1.3 million, following lower proceeds from nonu juice, beer, nonu fruit and re-exports. Import payments, on the other hand, increased 27 percent (\$10.7 million) to \$50.4 million reflecting higher imports by Government and the private sector (for both petroleum and other commodities). In the event, the merchandise trade deficit widened 29 percent (\$10.9 million) to \$49.1 million, a level that was 7 percent (\$3.3 million) higher than that in March 2007.

Tourist arrivals increased

After decreasing in the past two months, tourist arrivals rebounded 17 percent to 8,132, but was 6 percent lower than that in March 2007. With the huge influx of visitors that arrived in August 2007 for the 13th South Pacific Games and the seasonal increase in December 2007 during the Christmas holidays, however, the total tourist arrivals in the first nine months of 2007/2008 was 2 percent higher than the same period in 2006/2007. Despite the higher tourist arrivals in March 2008, a 23 percent reduction in average expenditure resulted in a 9 percent (\$1.6 million) decrease in tourism earnings to \$15.5 million, a level that was also 7 percent (\$1.2 million) lower than in March 2007. Total proceeds from the tourism sector in the nine months ending March 2008, however, were 8 percent higher than in the period ending March 2007, reflecting the higher inflow received during the hosting of the 13th South Pacific Games as well as the seasonal increase in December 2007 during the Christmas holidays.

SamoaTel increased its export revenue from its 'Call Samoa Card' service

SamoaTel's "Call Samoa" telephone service for customers in New Zealand brought in a further increase in export revenue for the local telecommunication company. Together with a steady volume exported during the month, the company received a further 2 percent (\$7 thousand) increase to \$281 thousand in receipts from its "Call Samoa Cards", a favourable outcome given the competitive market for international phone cards within New Zealand.

Inflation rates increased

Following the incorporation of lower international call rates to New Zealand and USA in the headline Consumer Price Index (which was effective in December 2006) by the Statistical Services Division of the Ministry of Finance in their March 2008 Report, the headline CPI has been revised from December 2006 to February 2008. As a result the headline inflation rates within this period have been revised downwards. Likewise, the expected inflation rate for the coming months would be lower than was forecast in February 2008.

According to the latest consumer price survey by the Ministry of Finance, the headline Consumer Price Index (CPI) rose 0.3 percent in March 2008. This expansion was driven by a 2.7 percent jump in the "Transport and Communications" sub-index, which reflected a 9.2 percent increase in its import component due to higher prices for air mail stamps and car batteries. Smaller rises of 0.3 percent and 0.2 percent respectively were also recorded for the "Housing and Household Operations" and "Clothing and Footwear" sub-groups.

The higher headline CPI in March 2008 contributed to the annual headline inflation rate pushing it to 6.0 percent from 5.9 percent in February 2008 and 3.7 percent in March 2007. The acceleration of the headline inflation rate over the year reflected prevailing demand pressures, higher inflations of major trading partners, stronger New Zealand dollar and Australian dollar compared to a year ago as well as higher commodity prices.

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 in the month under review, from 6.8 percent in February 2008, consequent of underlying strengthening of demand conditions within the local economy as reflected by a sustained increase in the underlying CPI in the past twelve months.

Other economic indicators in March 2008

The Fugalei Market continued to display a seasonal downturn in agricultural produce for the fifth consecutive month. In March 2008, the overall volume of agricultural produce available at the Market decreased 15 percent from the previous month reflecting a reduction in supplies of taro, taamu, coconut,

head cabbage, tomatoes and cucumber. The overall price level, on the other hand, reflected lower demand conditions at the Market, decreasing 9 percent in the month under review. When compared to March 2007, the current price level was 2 percent lower due to a 3 percent jump in the overall volume of agricultural produce over the year.

The US dollars' recent slide against most of the major currencies in the Samoan exchange rate basket came to a halt at end March 2008, after it strengthened against the New Zealand dollar, Australian dollar and Fijian dollar following a much anticipated 75 basis point rate cut of the official US interest rate to 2.25 percent. However, against the European Euro, the greenback fell to an all-time low after the release of some dismal reports on the US economy, which was further exacerbated by a testimony on the short-term outlook for the US economy by the US Federal Reserve's Chairman Bernanke to the US congress. In the event, the Tala strengthened against the New Zealand dollar (up 0.9 percent), Australian dollar (up 1.2 percent), and Fijian dollar (up 0.2 percent) but weakened against the US dollar (down 0.8 percent), Japanese Yen (down 4.9 percent) and European Euro (down 4.6 percent).

CENTRAL BANK OF SAMOA

22nd April 2008