

PRESS RELEASE

ECONOMIC PERFORMANCE IN MAY 2008

Major features of the month:

- ☞ **Headline inflation steadied while underlying inflation fell;**
- ☞ **International reserves remained at a comfortable level;**
- ☞ **The merchandise trade deficit worsened;**
- ☞ **Seasonal rise in private remittances and tourism earnings.**

Headline inflation rate unchanged

According to the latest survey of consumer prices by the Ministry of Finance, the headline Consumer Price Index (CPI) rose 0.4 percent in May 2008. While domestic factors contributed to the fluctuation in prices, external pressures had a more pronounced effect with soaring commodity prices in the international markets passing through to the local market. Largely affected were food and fuel prices as evident by a 1.2 percent jump in the "Food" sub-index and a 0.8 percent rise in the "Transport and Communications" sub-group. Consequent to soaring food prices in the global markets, the imported food component increased 1.9 percent reflecting increased prices for imported foodstuffs such as Chicken leg quarters, butter, flour, maggie noodles and canned fish, a worrying trend for consumers as this global phenomenon is unlikely to cease any time soon. Likewise, fuel prices in the international oil markets continued skyrocketing to record levels on a monthly basis, as fears of supply disruptions (particularly in Nigeria) and expected increased world demand pushed the average price of a barrel of crude oil to USD\$122.63, 13 percent up from the previous month and 88 percent higher from the past year. When passed through to local costs, petroleum prices (at SAT\$2.94 per litre) were 2 percent higher in May 2008 and were 22 percent above that of a year ago.

Despite the higher CPI in May 2008, the headline inflation rate, on an annual average basis, remained steady at 6.1 percent from April 2008 but was nevertheless higher than the 4.0 percent inflation rate in May 2007. While domestic sources of inflationary pressure have increased, the higher headline inflation over the past year has been partly a result of global factors, notably a general increase in commodity prices and weakening US dollar.

When the influence of extreme movements in the prices of volatile consumer items are excluded, the annual underlying inflation rate fell to 6.8 percent from 6.9 percent in the previous month but was higher than 5.0 percent inflation in May 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.

Balance of payments recorded another overall monthly deficit

The balance of payments posted an unfavourable outcome for the second consecutive month with an overall monthly deficit of \$2.9 million in May 2008. Driving this external position was a higher merchandise trade deficit and lower revenues from the telecommunications sector, which more than offset seasonal increases in tourism earnings and private remittances in the month under review. As a result, the level of gross official foreign reserves fell 1 percent to \$246.8 million. And, despite the increased import payments in May 2008, the import coverage of international reserves remained steady at 5.0 months from April 2008 and higher than the 4.0 months cover in May 2007.

Merchandise trade deficit increased

The merchandise trade balance produced an unfavourable outcome in May 2008 following a significant increase in import payments and lower export revenues. Total export receipts fell 8 percent (\$0.2 million) to \$2.0 million reflecting decreases in most export commodities, particularly, nonu juice, fresh fish, taro, beer, nonu fruit, Samoan cocoa and re-exports. Imports, on the other hand, increased 15 percent (\$5.9 million) to \$45.8 million, reflecting a \$13.0 million import of petroleum products that was partially offset by decreases in Government and private sector imports. In the event, the merchandise trade deficit widened 16 percent (\$6.1 million) to \$43.9 million, a level that was however 10 percent (\$5.1 million) lower than in May 2007.

Private remittances rose

Provisional estimates for private remittances pointed to a 14 percent (\$2.8 million) increase to \$23.6 million in May 2008. This current level, however, was 2 percent (\$0.4 million) lower than in May 2007, a drop that had little impact on total private remittances in the first eleven months of 2007/2008, which was 17 percent (\$39.0 million) higher than in the same period of 2006/2007. The stronger New Zealand and Australian currencies were, in part, responsible for this positive outcome.

Tourist arrivals increased

Tourist arrivals recorded positive growth for the third consecutive month, increasing 10 percent to 9,666 in May 2008. This month's seasonal jump reflected increased travellers from Australia, New Zealand, USA and American Samoa with most arriving on business trips and to visit friends and relatives. In the eleven months ending May 2008, total tourist arrivals (of 110,944) were 2 percent higher than in the same period ending May 2007. As a consequence of this month's higher tourist arrivals and a 30 percent increase in average expenditure, tourism revenue was boosted by 43 percent (\$7.1 million) to \$23.5 million, a gain that contributed to a 7 percent jump to \$248.7 million in total tourism earnings in the first eleven months of 2007/2008.

Other economic indicators in May 2008

After six months of unfavourable performance, the Fugalei Market produced some positive outcome in May 2008 with the overall volume of agricultural produce increasing 13 percent. This month's improved performance reflected increased supplies of banana, taamu, coconut, breadfruit, yam, head cabbage, tomatoes, Chinese cabbage and pumpkin. As a result, the overall price index fell 4 percent in the month under review. When compared to May 2007, the current volume of produce at the Market was 21 percent higher, which drove prices down 6 percent over the year.

The US dollar posted some mixed results against the major currencies in the Samoan exchange rate basket in May 2008. While the greenback rallied against the Japanese Yen and European Euro after some positive US economic data emerged (drawing speculations of a cease in the Federal Reserve's interest

rate cuts), it weakened against the Australian dollar and New Zealand dollar on account of soaring commodity prices (particularly those for crude oil). In the event, the Tala strengthened against the US dollar (up 0.3 percent), New Zealand dollar (up 0.2 percent), European Euro (up 0.7 percent) and Japanese Yen (up 1.7 percent) but weakened against the Australian dollar (down 1.0 percent).

CENTRAL BANK OF SAMOA
24th June 2008