



Press Release
March Quarter 2008 Consumer Price Index

The underlying Consumer Price Index CPI rose by 2.9 per cent in the March quarter to be 7.9 per cent higher through-the-year, driven largely by increases in the price of rents, council charges, fuel and power and food. Headline CPI increased by 3.1 per cent in the March quarter to be 7.5 per cent higher in through-the-year terms. This shows that headline CPI has converged with underlying CPI which has been elevated since mid 2007.

This outcome is of great concern to the Government as it represents the highest rate of inflation both headline and underlying since inflation was brought under control in 2003.

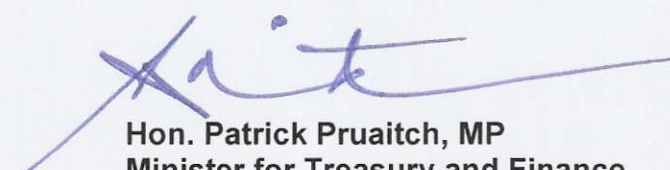
Price increases have been broad based with 16 of the 24 subgroups in the CPI basket recording above trend increases during the quarter. Imported goods increased by 7.4 per cent largely due to higher world food and fuel prices, as well as the lagged impact of the depreciation in the Kina against most currencies over the last year. But domestic prices are also increasing strongly with non-tradeable inflation up 7.7 per cent over the last year, this is not just imported inflation.

All regions recorded price increase in the March quarter. Over the last year growth in prices have been fairly sharp running above 5 per cent for all the major towns in the country

This acceleration of inflation is worrying, and the Government will continue to monitor the major contributing factors:

- The impact of the commodity boom, which is imparting a great deal of external stimulus into the domestic economy;
- The inflationary impact of the fiscal stimulus associated with draw downs from trust accounts
- The continuing growth in the money supply; and
- The depreciation of the Kina against most key trading partner currencies.

The Government remains committed to maintaining macroeconomic stability, and the benefits that it entails: strong economic growth, strong employment growth and relatively low interest rates. For this reason, the Government will continue to be mindful of inflationary pressures in the conduct of fiscal policy.


Hon. Patrick Pruaitch, MP
Minister for Treasury and Finance