Inflation in the Cook Islands

May 2022

What is inflation?

Inflation is the increase in the price of goods or services over time. It usually refers to prices this year, compared to prices a year ago. It is also the gradual (or sudden) decrease in the value of money.

Officially, inflation in the Cook Islands for the year to July 2022 was 4.3%, meaning prices were 4.3% more expensive than July 2021, and this is the highest inflation has been since 2008. The 2022/23 forecasts inflation for 2022/23 to be 3.9%.

What causes inflation?

Inflation is generally caused by the balance or imbalance of two things. The first is the total amount of money in circulation, and the second is the availability of goods or services that we need or want to buy.

Extreme shortages of supply and extreme spikes in demand can also send the prices of a particular good/service skyrocketing, which can affect inflation. For example, the price of fuel has increased worldwide in response to extreme shortages in oil supply caused by the situation in Ukraine.

Inflation can occur when wages are rising because higher wages inject extra cash in the economy and this can 'pull' prices up through extra demand for goods and services. Alternatively, when the cost of materials to make or provide those goods and services goes up, prices are 'pushed' up. Both effects can occur at the same time: where there is extra cash in an economy as well as certain inputs, like fuel, becoming less available. Sometimes this just impacts one part of a market, some prices, sometimes it is much wider, affecting all prices.

Why is inflation rising?

Inflation is rising due to a number of factors which are largely outside the control of national governments. Currently the impact of the Russian war with Ukraine (which has led to sanctions that stop Russia selling oil to the world), and supply chain issues which were triggered by COVID-19 disrupting global shipping have led to fuel price rises and delays in shipping of other goods.

Whilst the shipping delays have been visible for some time, the Russia/Ukraine situation has resulted in a large but likely short-term price increase. The world oil price has fluctuated since the invasion at times falling below the pre-war price as other suppliers increase their output, and the logistics delays are expected to gradually begin clearing during 2022.

It is likely that there will be a gradual reduction in oil prices – which will lead to fuel prices reducing and that should reduce shipping costs which in turn reduces the cost of shipping food and other products.

Inflation in the Cook Islands

As a small economy that is reliant on trade with the rest of the world (for both the import of goods and the prosperity which derives from tourism) the Cook Islands is vulnerable to global price fluctuations (in particular transport costs, building materials, fuel and packaged food).

As a market at the 'end of the line' the Cook Islands is impacted by all of those external pressures, and there is little that can be done by Government. The prices that CITC and Prime Foods and the other shops pay for goods and to transport those goods to the Cook Islands have risen, and that means that prices here will go up too.

How does inflation impact you?

Households may have already noticed rising prices on food and fuel. This impacts our most vulnerable members of society, those on fixed incomes such as pensions and those on the lowest incomes, the hardest. Wages tend to adjust to higher inflation much more quickly than fixed incomes do, but with living costs already rising this is why the Minimum Wage has been lifted to $8.50, and the Old Age Pension has been increased by $20 per month

How big of a problem is inflation? It depends on our ability to adapt – whether we can redirect those dollars we're budgeting, and how much of a buffer we have. If we resort to living or depending on 'Buy Now - Pay Later' (kaiou) for everyday expenses, that's borrowing from tomorrow, and things could get worse for us.

Increasing wages needs to be managed carefully. While it is easy to say 'just pay them more' (like the Minimum Wage), the money to do so comes from the prices that those same shops and service providers charge others, often including the very same people being paid more! Increasing wages too much can actually result in more inflation, and that could hurt those very same people that you want to help.

What else is Government doing?

Because the majority of the inflation we are seeing is coming from outside of the Cook Islands, our options to respond to it are limited. The prices of the goods that are purchased for the Cook Islands are largely set in New Zealand, and New Zealand themselves are experiencing very rapid inflation, and those price rises are being passed on to us. These price rises are going to put pressure on the Government budget just as it is going to put pressure on household budgets.

The increase in the minimum wage, which is a 6 and a quarter percent increase, adds some support for those on the lowest incomes. And the increase in the old age pension rate of $20 per month provides some support for our mamas and papas. Government will continue to monitor the cost of living increases, and respond as we need to. But we must also be careful as we need to balance the impact of wage rises not just on our workers, but also our employers, and increasing wages will be passed on through further price increases which may make inflation grow faster.

The Government already subsidises shipping to the Pa Enua, which offsets some of the costs of shipping goods to the Islands. While the impact of inflation will flow through, the overall cost is reduced.

Rising healthcare costs often affect our mamas and papas more than our workers, and the cost of medicine and health care services are a regular concern in inflation around the world. The good news is that the Government already very heavily subsidises the cost of health care in the Cook Islands, so our people will not see direct impacts in rising medicine costs.

At this point, the Government is not considering changes to fuel excises to counteract price rises. Fuel excises in the Cook Islands are low: a reduction would have a very small impact on low-income household budgets. Fuel to Rarotonga attracts a 28 cent excise (Aitutaki 15c and the rest of the Pa Enua zero).

How can the impact on households be limited?

While it is hard to avoid the impacts completely, the impact of inflation can be limited through some basic changes to our daily lifestyle, but it may take a bit of planning.

A simple but important first step is to reassess our weekly budgets and think about some cheaper substitutions that could be made in purchases.

For example, if the price of corned beef is rising fast, but the price of pork or chicken is not rising as fast, making a switch from corned beef to pork or chicken can provide some relief. For example, while corned beef sells for over $20 per kilo, a carton of chicken works out to a little over $3 per kilo – and if a carton is too much chicken for our household we can share with family or friends. Vegetarian options like beans and lentils are a great way to save and to be healthy. A lentil curry with rice or a bean casserole can be made for less than $2 per person.

When grocery shopping, we can be armed with a meal plan for the week so we only buy what we need. There are other tricks like avoiding heading to the store when you're hungry or not having the kids in tow (if possible), which helps avoid any impulse purchases and sticking to your weekly budget.

Look for opportunities to substitute ingredients or products, like a cheaper brand or alternate product that will do us just fine – swapping margarine for butter is an easy money-saver, for example.

A common tip for saving money is bulk-buying when a product is on special, or buying a bigger packet. But that doesn't always work out the way we want, it needs to be done for the right products. With some things, like butter, we don't use more just because we buy more. We usually consume it at the same pace, no matter how much is at home, so stocking up when it's on sale is fine. Coffee and tea are like that too. But with other things, like beer or snacks, the more we buy, the more we end up eating! So to save on these types of things (think alcohol, for example), it pays to have less of them around the house.

We can save on fuel costs by carpooling to work or for school drop offs – if the tamariki do not catch the bus. Similarly, if you have a car and a motorbike, using the motorbike more will save on fuel. Or if it's just a trip to the local shop, walking or cycling is even cheaper again.

We can make small savings on energy by unplugging appliances when they are not in use or using power strips with switches that allow us to completely turn off the products plugged into it. Turning lights off when not in use will also cut down on electricity too. By doing so we can reduce household electricity use.

Internet and online subscriptions are an area of spending that we have a lot of control over. Many of us like to watch videos or Netflix, but this uses a lot of data. By cutting down on our online videos we might be able to move to a smaller internet plan.

If you do find yourself in a situation where you have an outstanding power and gas bill that you can't pay you should talk to the power or gas company first to see if you can make a payment arrangement with them.

What can businesses do to reduce the impact?

Businesses are often in a tough spot when prices of supplies rise as this puts them in between consumers and rising imported prices. There are some measures that can help to reduce the pain. Further information on these measures can be found from American Express and the Harvard Business Review, but the common points are:

- Review your debt: if you're carrying high-interest debt or using credit cards, seek to prioritise repayments so you can free up money in your business budget to meet other rising costs, or switch to lower interest options. For example, a line of credit (if available) may have a lower interest rate than a credit card.
- Plan ahead even more. If you can see future price spikes on the horizon, setting aside funds each week into an emergency fund can help smooth out any thin times ahead when prices take us by surprise.
- If your business can produce the same output with less inputs as a result of improved processes or new technology, this can help. Taking a look at how we do things every now and then is important to take advantage of changes that might benefit us.
- Stock up on supplies where you can: if you can buy before prices rise, it can help avoid short-term price spikes.
- Take a deeper look at what your business costs are: see if there are any costs that can be reduced, for example look for ways to reduce delivery costs or online connectivity costs.

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