# Inflation

## What is inflation?

Inflation is the rate of increase in prices for goods and services.

As inflation rises, every dollar you own buys a smaller percentage of a good or service.

Therefore, the value of a dollar does not stay constant when there is inflation.

## How is it measured in Samoa?

Inflation is measured in Samoa using the Consumer Prices Index (CPI), compiled by the Samoa Bureau of Statistics.

The CPI looks at the prices of nearly 100 different things we commonly spend money on – like bread, toilet paper and bus fares – and tracks how these prices change over time.

The Samoa Bureau of Statistics updates the CPI every month.

All the prices it collects are combined using information on average household spending patterns to produce an overall prices index.

It also takes into account how much we spend on different items. So items are weighted – they are given more importance in the inflation indexes – according to how much we spend on them.

We typically spend more on petrol than on butter, for example.

So a large rise in the price of petrol would affect the overall rate of inflation more, as it has weight of 39.1 in the CPI. While a rise in the price of butter is less likely to affect the overall index, as it has a weighting of 9.4.

The overall inflation rates are expressed as percentages. If CPI is 3 percent, this means that on average, the price of products and services we buy is 3 percent higher than a year earlier. Or, in other words, we would need to spend 3 percent more to buy the same things we bought 12 months ago.

## Why is it important?

Inflation data is used in many ways by the government and businesses, and plays an important role in setting economic policy.

That's because the Central Bank of Samoa uses inflation to set inter-bank interest rates.

The Central Bank has an annual inflation target for Samoa of below 3 percent.

If the Bank thinks inflation will be above 3 percent, it may increase interest rates to try to reduce it. By increasing interest rates, less money will be created as bank loans are more expensive. With less money in the system prices are forced to drop.

Equally, if the Bank thinks inflation is likely to be below 3 percent, it may cut interest rates. This would increase the amount of money in the system as bank loans become cheaper and more attractive. With more money available sellers can raise their prices and expect they will be met.

That's why inflation is a crucial factor in determining the rates banks charge for mortgages and the rates they offer on savings accounts.