

Short analysis of June 2018 inflation

As of 13 July 2018

- Inflation in June 2018 reached 5.2 percent, bringing year-to-date (YTD) inflation to 4.3 percent, exceeding the upper end of the BSP's 2 to 4 percent target, but within the DBCC's full year forecast of 4.0 to 4.5 percent.
- Month-on-month inflation (MOM) increased to 0.6 percent from close to zero last month.

Table 1. Summary of 2018 inflation rates (percent)

2018	Jan	Feb	March	April	May	June
Year-on-year	3.4	3.9	4.3	4.5	4.6	5.2
Month-on-month	0.9	0.8	0.5	0.5	0.0	0.6
Year-to-date	3.4	3.7	3.8	4.1	4.1	4.3
Source: PSA						

- The top 10 contributors to YOY inflation, together with the underlying reasons, are summarized in the tables below.

Table 2. Top 10 drivers of June 2018 inflation ranked by contribution to inflation

Rank	Commodity group	Contribution to YOY inflation (ppt)	YOY inflation (percent)	MOM inflation (percent)
1	Electricity, gas and other fuels	0.7	9.4	0.1
2	Fish	0.6	11.2	0.5
3	Operation of personal transport equipment	0.6	25.6	1.7
4	Rice	0.5	4.7	0.5
5	Catering services	0.4	4.4	0.3
6	Meat	0.3	5.0	0.8
7	Non-alcoholic beverages	0.3	10.6	0.7
8	Tobacco	0.3	28.3	0.6
9	Vegetables	0.2	8.6	3.4
10	Education	0.1	4.0	3.8
Source: PSA				

Note: The commodity groups are ranked in the order of contribution to inflation.

Table 3. Top 10 commodities with the highest inflation rates

Rank	Commodity group	YOY inflation (percent)	Contribution to YOY inflation (ppt)	MOM inflation (percent)
1	Tobacco	28.3	0.3	0.6
2	Operation of personal transport equipment	25.6	0.6	1.7
3	Corn	14.1	0.1	0.6
4	Fish	11.2	0.6	0.5
5	Non-alcoholic beverages	10.6	0.3	0.7
6	Postal services	9.7	0	0.0
7	Electricity, gas and other fuels	9.4	0.7	0.1
8	Vegetables	8.6	0.2	3.4
9	Alcoholic beverages	5.9	0	0.4
10	Fruit	5.3	0.1	-1.4

Source: PSA

Note: The commodity groups are ranked in the order of YOY inflation rates.

- The leading driver of inflation was electricity, gas and other fuels.
 - The higher price of electricity was in part driven by the new feed-in-tariff (FIT) allowance rate¹ from PHP 0.18 to 0.26 per kwh. This has contributed to the cumulative PHP 3.16 per kwh increase in Meralco rates since July 2017. On the other hand, there was no price increase since May, so MOM inflation is close to zero.
 - Meanwhile, LPG prices increased by around PHP 24 per 11 kg tank since the start of the year. This is mostly driven by the increase in crude oil prices and peso depreciation, as LPG is only subject to PHP 1 per kg excise tax under TRAIN.

¹ The feed-in-tariff is a policy mechanism that is designed to promote more renewable sources of energy.

Table 4. Summary of price increases in Meralco electricity rates

	Rate increases since July 2017	Unit (PHP per kwh)
Electricity (Meralco)	Jul 2017	0.08
	Aug 2017	0.13
	Sep 2017	0.86
	Oct 2017	0.03
	Nov 2017	0.34
	Total 2017	1.44
	Feb 2018	0.75
	Mar 2018	0.85
	Apr 2018	0.12
	Total 2018	1.72
	Cumulative increase	3.16
Source: Meralco		

2. Fish prices remained elevated due to red tide warnings, the onset of the rainy season, stricter fishing laws, and climate change concerns that have moved fish supply outside Philippine waters.

3. Private vehicle users faced higher pump prices of diesel and gasoline, which were PHP 15.55 and 11.90 per liter more, respectively, compared to June of last year.
 - However, of the total increase in retail prices, only PHP 2.80 and PHP 2.97 per liter are due to TRAIN (excise and VAT included).
 - This means that TRAIN only accounts for 18 and 25 percent of the retail price increase, respectively, of diesel and gasoline.
 - The rest is due to higher crude oil prices (around USD 75/barrel) and peso depreciation (PHP 53.05 to a dollar) in June.

4. Rice importation and distribution was delayed.
 - The first tranche of rice imports, which were approved back in February 2018, started arriving in June 2018.
 - However, as of mid-June, only around half of the approved 250,000 MT has arrived, so the full effect has not yet been felt and rice prices remain elevated.

- Rice prices are expected to stabilize in the coming weeks as this round of importation is completed.
 - The government has also opened the bidding for the additional importation of more than 800,000 MT of rice. This is expected to reduce rice prices in the near-term.
5. The sustained high inflation in the non-essential catering services implies that more people are eating out, as the additional take home pay of taxpayers is finding its way into restaurants, parties, and celebrations.
 6. Prices of meat have gone up due to higher prices of corn, a primary ingredient in most animal feeds. In turn, corn prices have increased due to recent weather disturbances in Isabela, Bukidnon, and Cotabato, which are major corn producing provinces. Extreme heat and rains have negatively affected the harvest schedule of farmers in these areas.
 7. Prices of non-alcoholic drinks, including sweetened beverage, increased by 10.6 percent. This is below the expected increase of 15.0 percent, possibly due to price absorption by firms as profits fell in some companies, despite an increase in sales.
 8. Higher tobacco inflation is expected to persist since Mighty Corporation, which is now under Japan Tobacco International (JTI), is now paying the right taxes, and consequently passing this on to consumers. In part due to higher market prices, particularly the cheaper variants, other tobacco manufacturers likewise increased their prices, based on market surveys.
 9. Prices of vegetables increased in June. Incessant rain at the onset of the wet season usually causes fluctuations in the production of vegetables, leading to price volatility. In response, the Department of Agriculture (DA) has set SRPs for most agricultural products to help stabilize prices, while the Department of Trade and Industry (DTI) will help monitor prices in the markets.

10. Lastly, education inflation increased due to the opening of the 2018 school year. This usually comes with tuition fee increases. However, this is seasonal and is expected to normalize in the coming months.