Analysis of May 2018 inflation and TRAIN

Key messages

1. **May 2018 year-on-year inflation reached 4.6 percent, slightly higher than April's 4.5 percent. However, month-on-month inflation between April and May was close to zero, indicating that prices have stabilized.**

2. **In the first five months of 2018, year-to-date inflation reached 4.1 percent, or just slightly higher than the upper band of the 2 to 4 percent inflation target.**

3. **Core inflation, on the other hand, is lower at 3.6 percent and suggests that underlying prices are stable and the higher headline inflation is temporary.**

4. **TRAIN's contribution to inflation, as previously estimated, remains at around 0.4 percentage points (ppt). The DOF, NEDA, BSP, and DTI all arrived at similar estimates using different methods to model the legislated tax increases.**

5. **Other supply and demand factors contributed more to higher inflation (Table 1).**
   a. **On the supply side, higher than expected crude oil price due to geopolitical reasons (reaching USD 77 per barrel), a weaker peso (reaching 52.5 pesos to a dollar), and rice supply issues and importation lag contributed some 0.8 ppt. to May inflation.**
   b. **On the demand side, infusion of PHP 33 billion monthly in additional disposable income, alongside some unwarranted price increases, contributed some 0.3 ppt to May inflation.**
   c. **Finally, better compliance with tobacco excise taxes contributed the balance of 0.1 ppt.**

6. **Inflation is expected to temper in the second half of the year as world oil prices fall given supply increases in both OPEC and non-OPEC countries. Enactment of the rice tariffication law, which is advancing in congress, can further lower inflation by around 0.4 ppt per NEDA and BSP estimates.**

7. **The government stands ready to help the poor and vulnerable cope with higher prices through the unconditional cash transfer program, fuel vouchers, and other subsidies once the national ID is in place, which will begin later this year.**

Table 1. May 2018 inflation estimated breakdown

Factor	Contribution to inflation (in percentage points)
Actual inflation	4.6
Average inflation target /1	3.0
Excess over target	1.6
Due to TRAIN /2	0.4
Due to better tobacco excise compliance	0.1
Due to crude oil increase beyond target	0.5
Due to exchange rate beyond target	0.1
Due to rice supply issue and importation lags	0.2
Due to other factors, including demand-side factors and unwarranted price increases	0.3

Notes:
1/ The original 2018 inflation target of 2 to 4 percent assumes crude oil prices between 45 and 60 USD per barrel and an exchange rate between 48 to 51 PHP to USD.
2/ DOF estimates TRAIN impact at 0.4 percentage points (ppt). NEDA estimate is 0.42 ppt, BSP is between 0.3 and 0.5 ppt, while DTI is 0.4 ppt. Note that 0.4 ppt is lower than 0.7 ppt originally estimated by DOF in June 2017 as crude oil price and the exchange rate were lower then and thus had a bigger effect on inflation.

Detailed analysis of May 2018 inflation and TRAIN

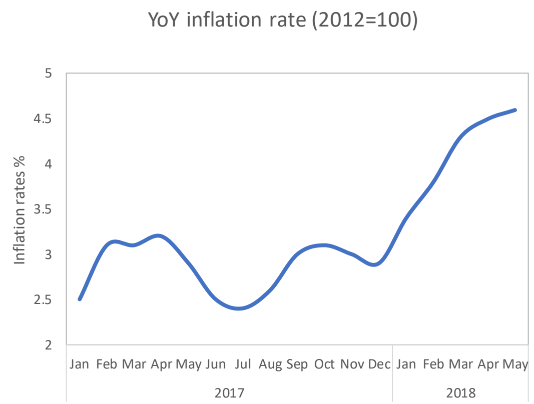
1. **Despite a steady increase in the year-on-year (YOY) inflation, month-month (MOM) inflation slowed down, indicating price stabilization.**
    a. May YOY inflation of 4.6 percent is only slightly higher than the 4.5 percent in April 2018.
    b. As a result, year-to-date (YTD) inflation reached 4.1 percent, just slightly higher than the 2 to 4 percent inflation target of the BSP.
    c. However, MOM inflation has been easing, reaching almost zero percent in May. This means that average prices between April and May did not change, indicating price normalization.

2. **Core inflation, on the other hand, is lower at 3.6 percent and suggests that underlying prices are stable and higher headline inflation is temporary.**

Table 2. YOY and MOM inflation rates

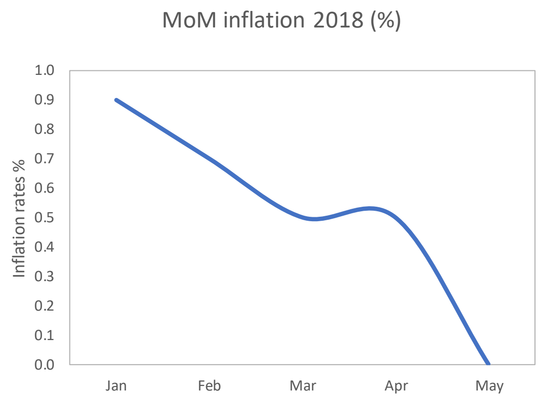
Inflation rate (%)	Jan-18	Feb-18	Mar-18	Apr-18	May-18
YOY	3.4	3.9	4.3	4.5	4.6
MOM	0.9	0.7	0.5	0.5	0.0
Source: PSA					

Figure 1: The YOY inflation steadily increased in the first five months of 2018…



Source: PSA

Figure 2: …but the MOM inflation declined consistently, indicating that prices are stabilizing.



Source: PSA

3. **On the demand side, higher inflation was triggered by additional disposable income that has increased purchasing power, alongside some unwarranted price increases.**
   a. Demand-side factors can promote GDP growth while increasing prices at the same time.
   b. In 2018, the government is releasing some PHP 33 billion monthly in additional disposable income to the people (Table 3). The breakdown is as follows: (i) PHP 2 billion per month for the Unconditional Cash Transfer (UCT) program, (ii) PHP 12 billion per month in personal income tax (PIT) reduction, (iii) PHP 15 billion per month in new wages as 30 percent of the government infrastructure spending of PHP 50 billion is labor cost, and (iv) PHP 3.5 billion per month due to free state universities and colleges (SUC) tuition (Table 3).
   c. As more money goes to people's pockets, prices tend to increase since around 90 percent of this income is spent, therefore adding demand pressures. This is evident in the first quarter GDP: high growth was sustained, driven by household expenditure, despite slightly higher prices (Table 4).

Table 3. Demand driven factors of higher inflation

Increase in consumption	Amount (PHP billion/month)
Unconditional cash transfer (UCT)	2
Personal income tax reduction (PIT)	12
Labor infrastructure effect*	15
College tuition effect	3.5
Total	**32.5**

Labor infrastructure effect*	Amount (PHP billion/month)
Gov't infrastructure	50
Wages (30 percent)	15

Table 4. Summary of overall GDP and consumption growth

	Growth (percent)		
	2017 annual	**2017 Q1**	**2018 Q1**
Nominal			
Consumption	8.8	9.3	9.4
Government spending	10.5	3.4	16.3
Investment (GFCF)	12.4	17.0	14.3
GDP	**9.2**	**9.3**	**9.7**
Real			
Consumption	5.9	5.9	5.6
Government spending	7.0	0.1	13.6
Investment (GFCF)	9.4	11.4	12.5
GDP	**6.7**	**6.5**	**6.8**
Est. deflators			
Consumption	2.9	3.4	3.7
Government spending	3.5	3.2	2.7
Investment (GFCF)	3.0	5.7	1.8
GDP	**2.5**	**2.8**	**2.9**

Source: PSA

4. **On the supply side, the higher than expected crude oil price due to geopolitical reasons, a weaker peso, and existing rice policy contributed to higher inflation as explained below**

5. **Just like in the previous months, May 2018 inflation was driven by higher rice, corn, fish, tobacco, and personal transport prices, all of which grew by double digits.**
   a. Rice prices remained elevated due to NFA management of rice supply. Box 1 on rice tariffication discusses this in detail.
   b. According to the PSA, rice and corn output from the Visayas and Mindanao regions fell in May due to a reduction in harvest and the increased pace of farmland conversion for commercial and industrial use, causing prices to further increase.[1]
   c. Fish prices remained elevated but price increases slowed down by 0.9 percentage points to 11.4 percent. Recent fish kill in Bulacan affecting 100 hectares of fish ponds and red tide warning in the Visayas region continue to bring higher fish prices compared to last year.[2] Other reasons include weather-induced supply reduction

[1] For further reading, please see http://bworldonline.com/lower-palay-corn-q2-output-seen/

[2] For further reading, please see https://www.bfar.da.gov.ph/redtide and https://www.philstar.com/nation/2018/05/08/1813072/fish-kill-hits-bulacan-ponds

and higher operating cost mainly due to higher world crude oil prices.

d. Increase in the cost of operating personal transport is mainly attributed to adjustments in the domestic price of fuel due to higher international oil prices and the peso depreciation (PHP 8.8 per liter or 21 percent of retail price for diesel), while the additional excise tax on fuel contributed less at PHP 2.8 per liter, including additional VAT, or 7 percent of the retail price.
e. Half of the inflation rate is accounted for by the increase in the price of fish (0.7 percentage points), operation of personal transport equipment (0.6), rice (0.4), catering (0.4), and electricity, gas and other fuels (0.3) (Table 7).

Table 5. Inflation of key food items

Commodity group	2016 (Ave)	2017 (Ave)	Year on year (2018 vs 2017)					YTD
			Jan	Feb	Mar	Apr	May	Jan-May
Corn	1.5	7.5	6.3	10.4	11.1	13.3	13.7	11.0
Fish	3.6	4.4	6.9	11.2	12.9	12.3	11.4	10.9
Meat	1.5	-1.5	6.1	6.7	6.2	5.0	4.8	5.8
Fruit	7.9	5.8	2.9	6.2	7.1	6.7	5.5	5.7
Vegetables	8.4	4.4	0.3	2.6	6.0	6.7	7.0	4.5
Rice	1.7	1.0	1.0	2.8	3.6	4.3	4.3	3.2
Inflation rates of selected fuel prices and exchange rate								
Exchange rate (PHP/ USD)	47.5	50.4	50.5	51.8	52.1	52.1	52.2	51.6
Diesel price (PHP per liter)	5.0	26.0	24.5	31.3	30.0	39.2	42.8	31.1
Crude oil (USD per barrel)	-19.5	28.9	19.6	15.8	23.3	30.5	73.5	22.2
Note: Some figures may not exactly add up due to rounding								
Source: Philippine Statistics Authority (PSA)								

Table 6. Top 10 items with the highest inflation rate

Commodities		2018					YTD
		Jan	Feb	Mar	Apr	May	
1	Tobacco	16.0	22.9	25.3	27.5	28.3	24.1
2	Operation of personal transport	10.6	14.5	14.1	17.8	22.9	16.0

3	Corn	7.5	10.4	11.1	13.3	13.7	11.2
4	Fish	12.3	11.2	12.9	12.3	11.4	12.0
5	Non-alcoholic beverages	1.1	3.9	7.1	9.4	9.8	6.6
6	Vegetables	3.0	2.6	6.0	6.7	7.0	5.0
7	Alcoholic beverages	4.6	5.1	5.3	5.5	5.6	5.2
8	Fruit	4.9	6.2	7.1	6.7	5.5	6.1
9	Meat	6.4	6.7	6.2	5.0	4.8	5.8
10	Electricity, gas, and other fuels	5.0	3.6	4.3	4.7	4.7	4.4
Note: Some figures may not exactly add up due to rounding							
Source: Philippine Statistics Authority (PSA)							

Table 7. Top 10 largest contributors to inflation (in percentage points)

Commodities		2018					YTD
		Jan	Feb	Mar	Apr	May	
1	Fish	0.7	0.6	0.7	0.7	0.7	0.7
2	Operation of personal transport	0.3	0.4	0.1	0.2	0.6	0.4
3	Rice	0.1	0.3	0.3	0.3	0.4	0.3
4	Catering services	0.2	0.2	0.5	0.6	0.4	0.3
5	Electricity, gas, and other fuels	0.4	0.3	0.4	0.5	0.3	0.3
6	Actual rentals for housing	0.2	0.3	0.4	0.4	0.3	0.3
7	Meat	0.4	0.4	0.4	0.4	0.3	0.4
8	Non-alcoholic beverages	0.1	0.1	0.2	0.3	0.3	0.2
9	Tobacco	0.1	0.2	0.3	0.3	0.3	0.2
10	Vegetables	0.1	0.1	0.1	0.1	0.2	0.1
Note: Some figures may not exactly add up due to rounding							
Source: Philippine Statistics Authority (PSA)							

6. **Tobacco inflation remained high at 28.3 percent as compliance continues to improve.[3]**
    a. Higher tobacco inflation is expected to persist until September 2018 since Mighty Corporation, now under Japan Tobacco International (JTI), is now paying the right taxes, and consequently passing this on to consumers. Other tobacco manufacturers likewise increased their prices, based on market surveys.

[3] See the January to April 2018 inflation reports for more discussion.

7. **In May 2018, private vehicle owners faced higher retail prices. The increase in fuel costs in May was largely due to higher global crude oil price and the peso's depreciation.**
   a. Private vehicle owners paid 22.9 percent more in fuel and other operating costs. Much of this is attributable to the higher crude oil price as Dubai crude grew by 47.2 percent and the peso depreciated by 4.7 percent, resulting in a net impact of more than 50 percent.
   b. Various factors contributed to higher crude oil price. This is discussed in Box 2.
   c. Inflation rate for electricity, gas, and other fuels was maintained at 4.7 percent, suggesting some pass-through of higher excise tax and global crude oil prices on retail energy prices. This also reflects the recent removal of VAT exemption for CDA-registered electric coops and the NGCP to level the playing field and improve efficiency.
   d. Using the economy-wide input-output table, fuel as input to production of selected commodities is minimal at less than 3 percent.

Table 8. Crude oil price and the peso exchange rate

	Levels										YOY growth				
	Jan 2017	Feb 2017	Mar 2017	April 2017	May 2017	Jan 2018	Feb 2018	Mar 2018	April 2018	May 2018	Jan 2018	Feb 2018	March 2018	April 2018	May 2018
Dubai crude (USD per barrel)	53.37	54.17	50.90	52.45	49.91	63.83	62.72	62.74	68.43	73.49	19.6	15.8	23.3	30.5	47.2
PHP/USD	49.74	49.96	50.28	49.86	49.86	50.51	51.78	52.07	52.10	52.19	1.6	3.6	3.6	4.5	4.7
Indicative price per barrel of crude (PHP)	2,654	2,706	2,559	2,615	2,489	3,224	3,248	3,267	3,565	3,835	21.5	20.0	27.7	36.3	54.1
Sources: BSP, Indexmundi, Reuters, Bloomberg															

Table 9. Share of fuel as input to production

Selected commodities	Oil as a share of total inputs	Oil as a share of intermediate inputs
Rice	0.6	2.2
Meat	0.6	1.4
Fish	0.7	2.1
Corn	0.6	2.0
Fruit	0.1	0.5
Vegetables	0.6	2.4
Note: Some figures may not exactly add up due to rounding Source: Philippine Statistics Authority (PSA)		

8. **The price of other excisable products grew as expected.**
   a. Prices of non-alcoholic drinks, including sweetened beverage, increased by 9.8 percent YOY, and 0.5 percent MOM. This is below the expected increase of 15.0 percent and 4.0 percent, respectively, possibly due to price absorption by firms as sales increased while profit fell in some companies (Table 10).
   b. On the other hand, alcoholic beverages inflation was 5.6 percent and broadly in line with the expected increase in the alcohol excise tax under the sin tax reform (4.5 percent).

Table 10. Expected price increases by commodity groups directly affected by TRAIN (percent)

Commodity group	May 18 (YOY)	Apr 18 to May 18 (MOM)	Expected price increase due to TRAIN (percent)
Non-alcoholic beverages	9.8	0.5	9.8
Alcoholic Beverages	5.6	0.4	15.0
Tobacco	28.3	0.9	4.0
Electricity, Gas, and Other Fuels	4.7	-0.2	8.0
Transportation (private)	2.2	3.1	9.2
Transportation (public)	2.3	0.1	7.0

Sources: PSA and DOF staff estimates
Notes: The expected price increases for the various commodity groups assume the following: i) the average increase in excise for alcoholic beverages and tobacco, ii) the introduction of excise taxes for sweetened drinks (i.e., the average increase in the prices of a can of Coke and a can of Coke light), iii) the increase in the retail price of a liter of diesel due only to the oil excise, and iv) zero increase in the transportation costs attributable to the oil excise.

9. **The Department of Trade and Industry (DTI) and the Department of Energy (DOE) continue to closely monitor any unusual price increase in order to prevent unwarranted price increases.**
   a. Major oil firms are continuing to offer discounts to PUJs, helping ease transport cost of commuters.[4]

[4] For further reading, please see https://www.doe.gov.ph/press-releases/doe-petron-shell-and-phoenix-agree-provide-fuel-discounts-puvs and https://businessmirror.com.ph/doe-oil-firms-sign-agreement-on-fuel-price-discount-for-puvs/.

b. The Department of Transportation is preparing the guidelines for the implementation of the fuel vouchers program (Pantawid Pasada).

10. **May inflation stood at the low end of the BSP's inflation expectation of 4.6 to 5.4 percent for May. The central bank surmise that inflation may breach the 2 to 4 percent target range, but expects the inflation path to moderate and settle within the target range in 2019.**
    a. In response to the higher inflation, the Bangko Sentral ng Pilipinas (BSP) increased the headline interest rate by 25 basis points to 3.25 percent. Further increase is not being ruled out.
    b. Inflation projections can be adjusted for reasons such as i) volatility in the prices of agricultural products, ii) natural calamities, iii) volatility in oil prices of agricultural products, iv) significant changes in government policy that directly affect prices such as changes in tax structure.[5]
    c. The interplay of these factors has affected the inflation rate recently. The BSP remains ready to implement necessary monetary measures to actively keep inflation under control, and they believe that robust domestic demand allows for a measured adjustment in the policy rate without adversely affecting the country's growth momentum.

11. **Given higher inflation, the government is committed to subsidizing the poor in the short-term while investing in their health, education, and productive capacity in the longer-term.**
    a. In the short-term, the Unconditional Cash Transfer (UCT) program of the Department of Social Welfare and Development (DSWD) is distributing PHP 2,400 in 2018 to the poorest 10 million households. This will be increased to PHP 3,600 in the next two years to help the poor cope with the temporary but moderate inflationary effects of TRAIN. The DSWD has already distributed grants to around 3.5 million households. The balance of 6.5 million will receive them starting June. The target is for 4.5 million more households to receive their benefits, for a total of 8 million before the SONA, and the remaining households by September 2018.

[5] For further reading, please see http://www.bsp.gov.ph/downloads/Publications/FAQs/targeting.pdf

b. To ease the public transport sector, the DOTR will soon be implementing the fuel vouchers to registered public utility vehicles (also called the Pantawid Pasada program).
c. Beginning the fourth quarter of 2018, Filipinos will receive their national ID, beginning with poor and vulnerable families. This will significantly improve the targeting of social services to help the poor cope with shocks.
d. In the coming months, living conditions are expected to improve further as more and better jobs are provided. The Philippines aims to create 1.7 million jobs by 2022 through the “Build, Build, Build” program, which currently consists of 75 projects worth USD 35.5 billion (around PHP 2 trillion).
e. “Build, Build, Build,” partly funded by the tax reform, will address the infrastructure gap by building six airports, nine railways, three bus rapid transits, 32 roads and bridges, and four seaports that will help bring down the costs of production, improve rural incomes, encourage countryside investments, make the movement of goods and people more efficient, reduce inflation, and create more and better jobs.

Annex table 1. May 2018 CPI weights and inflation rates (2012 base year)

	PHL Weight	Inflation rates (percent) YOY	PHL Apr MOM	YTD	Contribution to inflation (ppt) YOY	PHL Apr MOM	YTD
ALL ITEMS	**100.0**	**4.6**	**0.0**	**4.1**	**4.6**	**0.0**	**4.1**
I. FOOD AND NON-ALCOHOLIC BEVERAGES	**38.3**	**5.7**	**-0.1**	**5.3**	**2.2**	**0.0**	**2.0**
A. FOOD ITEMS	**35.5**	**5.4**	**-0.1**	**5.2**	**1.9**	**0.0**	**1.9**
Rice	9.6	4.3	0.1	3.3	0.4	0.0	0.3
Corn	0.6	13.7	1.2	11.2	0.1	0.0	0.1
Other cereals	3.3	2.1	0.1	2.2	0.1	0.0	0.1
Meat	6.2	4.8	0.8	5.8	0.3	0.1	0.4
Fish	5.7	11.4	-1.3	12.0	0.7	-0.1	0.7
Milk, Cheese and Eggs	3.1	2.0	0.0	2.1	0.1	0.0	0.1
Oils and Fats	0.8	3.0	0.1	3.8	0.0	0.0	0.0
Fruit	1.4	5.5	-1.7	6.1	0.1	0.0	0.1
Vegetables	2.6	7.0	-0.7	5.0	0.2	0.0	0.1
Sugar, Jam, Honey, Chocolate and Confectionery	1.0	0.6	0.6	-0.8	0.0	0.0	0.0
Food Products N.E.C.	1.1	3.0	0.3	2.5	0.0	0.0	0.0
B. NON-ALCOHOLIC BEVERAGES	2.9	9.8	0.5	6.6	0.3	0.0	0.2
II. ALCOHOLIC BEVERAGES AND TOBACCO	**1.6**	**20.5**	**0.8**	**17.6**	**0.3**	**0.0**	**0.3**
Alcoholic Beverages	0.7	5.6	0.4	5.2	0.0	0.0	0.0
Tobacco	0.9	28.3	0.9	24.1	0.3	0.0	0.2
III. NON-FOOD ITEMS	**60.1**	**3.3**	**0.1**	**2.9**	**2.0**	**0.1**	**1.7**
A. CLOTHING AND FOOTWEAR	**2.9**	**2.2**	**0.2**	**2.1**	**0.1**	**0.0**	**0.1**
B. HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	**22.0**	**3.0**	**-0.2**	**2.9**	**0.7**	**0.0**	**0.6**
Actual Rentals for Housing	12.9	2.3	0.1	2.2	0.3	0.0	0.3
Maintenance and Repair of the Dwelling	0.5	2.0	0.3	1.5	0.0	0.0	0.0
Water Supply and Miscellaneous Services Relating to the Dwelling	1.2	1.7	0.0	2.3	0.0	0.0	0.0
Electricity, Gas, and Other Fuels	7.4	4.7	-0.9	4.4	0.3	-0.1	0.3
C. FURNISHINGS, HOUSEHOLD EQUIPMENT	**2.9**	**2.9**	**0.2**	**2.6**	**0.1**	**0.0**	**0.1**
Furniture and Furnishings, Carpets and Other Floor Coverings	0.2	0.9	0.2	0.7	0.0	0.0	0.0
Household Textiles	0.1	1.7	0.2	1.3	0.0	0.0	0.0
Household Appliances	0.3	1.3	0.2	1.3	0.0	0.0	0.0
Glassware, Tableware, and Household Utensils	0.0	1.6	0.2	1.5	0.0	0.0	0.0
Tools and Equipment for House and Garden	0.0	2.7	0.1	2.8	0.0	0.0	0.0
Goods and Services for Routine Household Maintenance	2.3	3.3	0.1	3.0	0.1	0.0	0.1
D. HEALTH	**3.9**	**2.8**	**0.1**	**2.4**	**0.1**	**0.0**	**0.1**
Medical Products, Appliances and Equipment	2.0	1.7	0.2	1.6	0.0	0.0	0.0
Out-patient Services	0.6	3.0	0.1	2.7	0.0	0.0	0.0
Hospital Services	1.3	4.3	0.2	3.6	0.1	0.0	0.0
E. TRANSPORT	**8.1**	**6.1**	**1.0**	**5.2**	**0.5**	**0.1**	**0.4**
Operation of Personal Transport Equipment	2.5	22.9	3.1	16.0	0.6	0.1	0.4
Transport Services	4.8	0.6	0.1	1.6	0.0	0.0	0.1
F. COMMUNICATION	**2.9**	**0.3**	**0.0**	**0.3**	**0.0**	**0.0**	**0.0**
Postal Services	0.0	2.4	0.0	2.3	0.0	0.0	0.0
Telephone and Telefax Equipment	0.4	0.7	0.0	0.7	0.0	0.0	0.0
Telephone and Telefax Services	2.5	0.2	0.0	0.2	0.0	0.0	0.0
G. RECREATION AND CULTURE	**1.4**	**1.5**	**0.1**	**1.4**	**0.0**	**0.0**	**0.0**
Audio-visual, Photographic and Information Processing Equipment	0.7	0.5	0.0	0.7	0.0	0.0	0.0
Other Major Durables for Recreation and Culture	0.0	1.7	-0.1	1.0	0.0	0.0	0.0
Other Recreational Items and Equipment, Gardens and Pets	0.1	1.6	0.0	1.4	0.0	0.0	0.0
Recreational and Cultural Services	0.2	0.8	0.0	0.8	0.0	0.0	0.0
Newspapers, Books and Stationery	0.4	3.1	0.2	2.9	0.0	0.0	0.0
H. EDUCATION	**3.3**	**1.9**	**0.0**	**2.0**	**0.1**	**0.0**	**0.1**
Pre-primary and Primary Education	0.7	1.7	0.0	2.2	0.0	0.0	0.0
Secondary Education	0.6	3.2	0.0	3.5	0.0	0.0	0.0
Tertiary Education	1.9	1.7	0.0	1.6	0.0	0.0	0.0
Education Not Definable by Level	0.0	0.6	0.0	0.3	0.0	0.0	0.0
I. RESTAURANTS AND MISCELLANEOUS GOODS AND SERVICES	**12.6**	**3.7**	**0.4**	**3.0**	**0.5**	**0.0**	**0.4**
Catering Services	8.1	4.5	0.5	3.4	0.4	0.0	0.3
Personal Care	3.8	2.3	0.2	2.0	0.1	0.0	0.1
Personal Effects N.E.C.	0.6	1.7	0.1	1.5	0.0	0.0	0.0

Note: Some figures may not exactly add up due to rounding
Source: Philippine Statistics Authority (PSA)

Annex table 2. May 2018 CPI weights and inflation rates (2006 base year)

		Inflation rates (percent)			Contribution to inflation (ppt)		
			PHL			PHL	
			Apr			Apr	
	Weight	YOY	MOM	YTD	YOY	MOM	YTD
ALL ITEMS	**100.0**	**5.2**	**0.1**	**4.7**	**5.2**	**0.1**	**4.7**
I. FOOD AND NON-ALCOHOLIC BEVERAGES	**39.0**	**5.5**	**0.0**	**5.2**	**2.1**	**0.0**	**2.0**
A. FOOD ITEMS	**36.3**	**5.2**	**-0.1**	**5.1**	**1.9**	**0.0**	**1.8**
Rice	8.9	3.7	0.2	2.8	0.3	0.0	0.3
Corn	0.7	13.3	0.8	11.2	0.1	0.0	0.1
Other cereals	2.8	2.3	0.2	2.2	0.1	0.0	0.1
Meat	7.0	4.8	0.6	5.7	0.3	0.0	0.4
Fish	5.8	11.0	-0.8	11.6	0.6	0.0	0.7
Milk, Cheese and Eggs	3.3	2.0	0.2	1.9	0.1	0.0	0.1
Oils and Fats	0.7	3.0	0.6	4.2	0.0	0.0	0.0
Fruit	1.7	6.8	-1.3	7.9	0.1	0.0	0.1
Vegetables	3.2	4.1	-0.6	3.3	0.1	0.0	0.1
Sugar, Jam, Honey, Chocolate and Confectionery	1.1	0.1	0.8	-1.9	0.0	0.0	0.0
Food Products N.E.C.	1.1	2.9	0.6	2.3	0.0	0.0	0.0
B. NON-ALCOHOLIC BEVERAGES	2.7	11.2	1.0	7.5	0.3	0.0	0.2
II. ALCOHOLIC BEVERAGES AND TOBACCO	**2.0**	**21.1**	**0.6**	**18.3**	**0.4**	**0.0**	**0.4**
Alcoholic Beverages	1.0	6.3	0.3	5.8	0.1	0.0	0.1
Tobacco	1.0	31.3	0.8	26.9	0.3	0.0	0.3
III. NON-FOOD ITEMS	**59.0**	**4.3**	**0.3**	**3.7**	**2.5**	**0.2**	**2.2**
A. CLOTHING AND FOOTWEAR	**3.0**	**2.1**	**0.0**	**2.0**	**0.1**	**0.0**	**0.1**
Clothing	2.2	2.1	0.1	2.0	0.0	0.0	0.0
Footwear	0.8	2.1	0.1	2.0	0.0	0.0	0.0
B. HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	**22.5**	**4.6**	**0.1**	**4.0**	**1.0**	**0.0**	**0.9**
Actual Rentals for Housing	13.8	3.2	0.4	2.7	0.4	0.1	0.4
Maintenance and Repair of the Dwelling	0.6	2.9	0.3	2.4	0.0	0.0	0.0
Water Supply and Miscellaneous Services Relating to the Dwelling	1.0	1.6	-0.1	2.3	0.0	0.0	0.0
Electricity, Gas, and Other Fuels	7.1	7.7	-0.3	6.8	0.5	0.0	0.5
C. FURNISHINGS, HOUSEHOLD EQUIPMENT	**3.2**	**2.6**	**0.1**	**2.5**	**0.1**	**0.0**	**0.1**
Furniture and Furnishings, Carpets and Other Floor Coverings	0.2	2.4	0.2	2.0	0.0	0.0	0.0
Household Textiles	0.1	1.2	0.1	1.1	0.0	0.0	0.0
Household Appliances	0.5	1.1	0.2	1.1	0.0	0.0	0.0
Glassware, Tableware, and Household Utensils	0.2	1.7	0.2	1.4	0.0	0.0	0.0
Tools and Equipment for House and Garden	0.1	1.9	0.4	1.7	0.0	0.0	0.0
Goods and Services for Routine Household Maintenance	2.1	3.1	0.1	3.0	0.1	0.0	0.1
D. HEALTH	**3.0**	**2.7**	**0.1**	**2.7**	**0.1**	**0.0**	**0.1**
Medical Products, Appliances and Equipment	1.5	1.8	0.1	1.8	0.0	0.0	0.0
Out-patient Services	0.8	3.9	0.1	3.8	0.0	0.0	0.0
Hospital Services	0.6	3.2	0.2	3.0	0.0	0.0	0.0
E. TRANSPORT	**7.8**	**4.0**	**0.4**	**3.8**	**0.3**	**0.0**	**0.3**
Operation of Personal Transport Equipment	1.9	10.3	1.6	7.5	0.2	0.0	0.1
Transport Services	5.9	2.1	0.1	2.6	0.1	0.0	0.2
F. COMMUNICATION	**2.3**	**3.8**	**3.3**	**1.1**	**0.1**	**0.1**	**0.0**
Postal Services	0.0	11.0	1.1	10.0	0.0	0.0	0.0
Telephone and Telefax Equipment	0.5	0.0	0.0	0.1	0.0	0.0	0.0
Telephone and Telefax Services	1.7	4.3	4.0	1.1	0.1	0.1	0.0
G. RECREATION AND CULTURE	**1.9**	**1.9**	**0.3**	**1.6**	**0.0**	**0.0**	**0.0**
Audio-visual, Photographic and Information Processing Equipment	1.0	0.5	0.1	0.4	0.0	0.0	0.0
Other Major Durables for Recreation and Culture	0.0	2.4	0.0	3.0	0.0	0.0	0.0
Other Recreational Items and Equipment, Gardens and Pets	0.2	1.6	0.3	1.3	0.0	0.0	0.0
Recreational and Cultural Services	0.3	5.2	1.2	4.2	0.0	0.0	0.0
Newspapers, Books and Stationery	0.5	1.7	0.2	1.7	0.0	0.0	0.0
H. EDUCATION	**3.4**	**2.2**	**0.0**	**2.2**	**0.1**	**0.0**	**0.1**
Pre-primary and Primary Education	1.0	3.2	0.0	3.2	0.0	0.0	0.0
Secondary Education	1.2	2.2	0.0	2.2	0.0	0.0	0.0
Tertiary Education	1.2	1.5	0.0	1.5	0.0	0.0	0.0
Education Not Definable by Level	0.0	1.3	0.0	1.3	0.0	0.0	0.0
I. RESTAURANTS AND MISCELLANEOUS GOODS AND SERVICES	**12.0**	**6.0**	**0.4**	**4.9**	**0.7**	**0.1**	**0.6**
Catering Services	8.0	8.0	0.5	6.1	0.6	0.0	0.5
Personal Care	3.7	2.0	0.1	1.7	0.1	0.0	0.1
Personal Effects N.E.C.	0.4	2.4	0.1	2.0	0.0	0.0	0.0

Note: Some figures may not exactly add up due to rounding
Source: Philippine Statistics Authority (PSA)

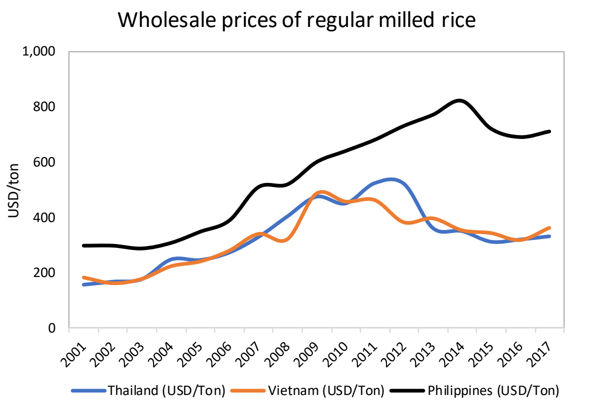
Box 1. Rice tariffication can lower inflation by 0.4 percent

Filipinos pay more for rice than Thais and Vietnamese primarily due to higher production cost, and exacerbated by restricted supply given the Philippine's rice self-sufficiency program.

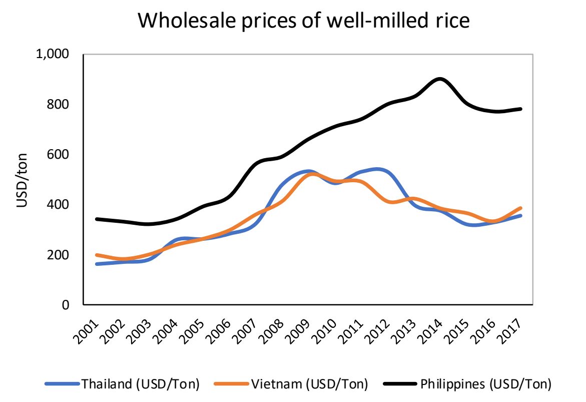
Domestic factors, such as geography, account for a part of the difference in cost. Countries like Thailand and Vietnam have wide flat plains with stable water sources that enable them to produce at a constant cost across seasons. On the other hand, relative to its population, the Philippines has limited land suitable for rice production.[6]

Consequently, among the six major Asian rice growers,[7] the Philippines rank as the third highest in terms of production cost.[8] Prices of rice in the Philippines have always been higher by at least 65 percent (Box Figures 1.1 and 1.2). The high cost and limited supply is worsened by quantitative restrictions (QR) in imports.

Box Figures 1.1. and 1.2. Filipinos pay more than Thais or Vietnamese for rice.



Source: FAO



Source: FAO

The seemingly persistent increase in rice prices in recent months negatively affects most Filipinos, particularly the poor. As of May 2018, year-to-date inflation for rice was at 3.3 percent. This affects the poor more as around 60 percent of their total budget is spent on food, 19 percent of which is spent on rice, according to the 2015

[6] For further reading, please see https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidspn1707.pdf.
[7] Aside from the Philippines, the other major Asian rice growers are Thailand, Vietnam, India, China, and Indonesia.
[8] For further reading, please see https://www.pids.gov.ph/pids-in-the-news/2434.

Family Income and Expenditure survey (FIES). On the other hand, the richer deciles only spend at most 5 percent of their budget on rice.

The current system of imposing quantitative restrictions (QR) has not produced the desired results of lowering rice prices. Upon the implementation of QR restrictions in 1996, the rice sector saw little progress. Nearly half of government spending for agricultural development has been spent on the rice sector. However, rice self-sufficiency has yet to be achieved, and prices remain high. The executive is currently urging congress to urgently pass the rice tariffication bill to liberalize rice trade so that prices can go down.

The rice tariffication bill, which is now advancing in Congress, is expected to increase rice supply through higher imports. This aims to replace the current system of imposing quantitative restrictions on rice imports with a tariff. The government proposes a 35 percent tariff on ASEAN imports and 40 percent from outside the region. Import licenses are also to be scrapped. The proposal will remove unnecessary government intervention in the market, which will enable the private sector to respond effectively to market signals. NEDA expects that rice tariffication will allow more imports to come in as restrictions are lifted, thus, lowering rice prices.

Notwithstanding the rice price surge in recent months, NEDA and BSP expect the implementation of rice tarrification to reduce inflation by up to 0.4 percentage points (ppt) in 2018 and 0.6 ppt in 2019.[9] Should rice prices fall between 4 to 7 pesos per kilo, households from all income deciles will immediately benefit. For instance, the poorest decile could save up to PHP 932.5 annually, which is equivalent to 1.7 percent of their budget (Box Table 1.1). This can be considered as good as additional income.

Box Table 1.1. Annual potential savings from cheaper rice

Household income decile	Potential savings from cheaper rice (PHP)	Percent of household income
1 (poorest)	932.5	1.7
2	1,402.0	1.6
3	1,603.1	1.4
4	1,740.4	1.3
5	1,796.5	1.1
6	1,851.3	0.9

[9] See the Box annex for the full methodology and estimates.

7	1,907.1	0.8
8	1,962.1	0.6
9	2,026.3	0.5
10 (richest)	2,096.1	0.2
Source: PSA and DOF staff estimates		

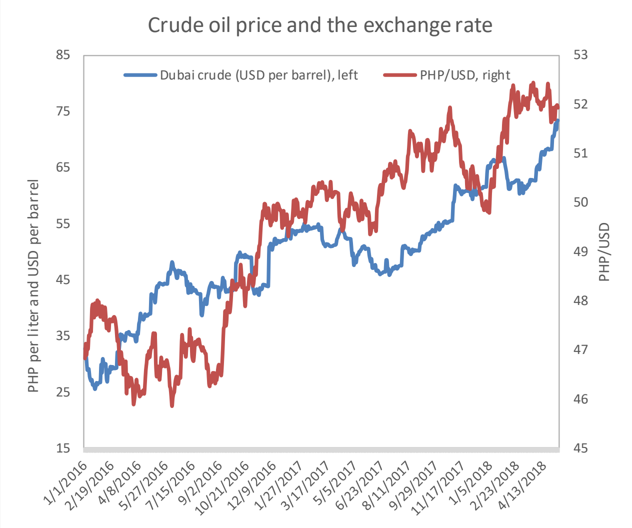
Rice tariffication will not only benefit consumers, but also farmers. According to NEDA, a 35 percent tariff rate on imports is projected to generate PHP 7 to PHP 28 billion in revenues. This will be used to improve the competitiveness of the agricultural sector.[10]

[10] For further reading, please see https://www.pids.gov.ph/pids-in-the-news/2435.

Box 2. Why have oil prices been so high?

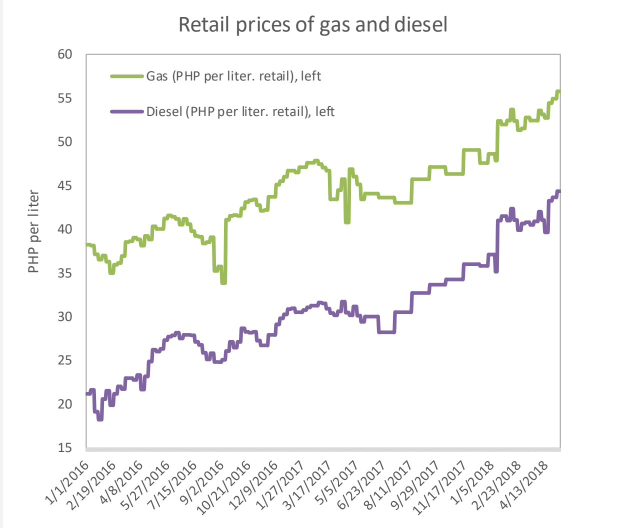
The price of Dubai crude oil in the world market has steadily gone up to around USD 77 dollar per barrel in recent weeks from a low of USD 25 per barrel in early 2016. This, together with the depreciation of the peso, and to some extent, the adjustment in oil excise, have contributed to higher retail prices of gas and diesel (Box Figures 2.1 and 2.2).

Box Figure 2.1. In 2018, higher crude oil prices and a weaker peso...



Sources: Bloomberg and DOE

Box Figure 2.2. ... have contributed to high retail prices of gas and diesel.



Sources: Bloomberg and DOE

The Organization of Petroleum Exporting Countries (OPEC) produces around half of the world's oil output, and accounts for more than 80 percent of the world's oil reserves. A combination of country specific factors among its members have contributed to elevated oil prices. Notable developments among OPEC countries include:

i. Saudi Arabia: The world largest oil exporter has been producing less than 10 million barrels a day since the start of 2018, less than its average production from 2014 to 2016 of 10.1 million. In April 2018, the total production of OPEC fell to 32 million barrels a day, lower than its 2014 to 2016 average of around 33.6 million, keeping global supply limited and boosting prices.

ii. Iran: In May, the US decided to exit its nuclear deal with Iran. This comes with an executive order which sanctions US companies that does business with Iran, and gives a maximum grace period of 180 days for companies that have existing business with Iranian entities. The last time this happened in 2012, Iran's crude oil exports fell drastically.

iii. Venezuela: Domestic crises, including a highly controversial presidential election, and substantial resignations in the state-owned oil company have caused its oil production and exports to drop.

Box Table 2.1. Crude oil production of OPEC member countries and the rest of the world (million barrels/day)

Country	2014	2015	2016	Average
Saudi Arabia	9.7	10.2	10.5	10.1
Iraq	3.4	4.1	4.5	4.0
Iran	3.2	3.3	4.1	3.5
United Arab Emirates	2.9	3.0	3.1	3.0
Kuwait	2.6	2.8	2.9	2.8
Venezuela	2.5	2.5	2.3	2.4
Nigeria	2.3	2.2	1.9	2.1
Angola	1.7	1.8	1.8	1.8
Qatar	1.5	1.5	1.5	1.5
Algeria	1.4	1.4	1.3	1.4
Ecuador	0.6	0.5	0.5	0.5
Libya	0.5	0.4	0.4	0.4
Rest of the world	45.7	46.8	45.9	46.2
Total	78.2	80.6	80.7	79.8

Source: Energy information agency

There are other reasons outside the OPEC. Russia, which is also a major oil producer, has been cooperating with the OPEC in reducing supply for almost two years now. Strong global growth, which surpassed expectations at three percent in 2017, is also fueling more demand for energy. The World Bank expects global growth to accelerate to 3.1 percent in 2018. In line with the stronger growth, they also note that world oil consumption increased by 1.6 million barrels a day in the first quarter of 2018. This represents a 1.6 percent growth compared to the same period a year ago.

Recent developments are now signaling that prices might temper, at least in the short term. In end-May, crude oil futures have dropped by 10 percent, as the energy minister of Saudi Arabia was quoted as saying that they were in intensive discussions with other OPEC countries and Russia to increase production and to help ease supply. These countries will meet in June to formally announce their decision on whether to increase supply.