

Short analysis of July 2018 inflation

As of 10 August 2018

- Inflation in July 2018 reached 5.7 percent, bringing year-to-date (YTD) inflation to 4.5 percent. This brings inflation beyond the upper end of the BSP's 2 to 4 percent target and has reached the DBCC's full year forecast of 4.5 percent.
- On the other hand, month-on-month inflation (MOM) decelerated to 0.5 percent, from 0.6 percent in June, suggesting the beginning of price stabilization.
- On a regional basis, inflation was lowest in Region III, Central Luzon, at 2.7 percent. This suggests that a productive rice sector, and agriculture in general, is key to bringing inflation down.

Table 1. Summary of 2018 inflation rates (percent)

2018	Jan	Feb	March	April	May	June	July
Year-on-year	3.4	3.9	4.3	4.5	4.6	5.2	5.7
Month-on-month	0.9	0.8	0.5	0.5	0.0	0.6	0.5
Year-to-date	3.4	3.7	3.8	4.1	4.1	4.3	4.5

Source: PSA

- The top 10 contributors to YOY inflation, together with the underlying reasons, are summarized in the table and bullets below. They are not much different from the June scenario.

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	0.9	11.5	1.7
2	Fish	0.7	11.4	0.1
3	Operation of personal transport equipment	0.6	25.1	-0.8
4	Rice	0.5	5.0	0.6
5	Vegetables	0.4	16.0	5.6

6	Actual rentals for housing	0.4	3.1	0.4
7	Catering services	0.4	4.6	0.4
8	Meat	0.4	5.8	0.9
9	Non-alcoholic beverages	0.3	11.1	0.7
10	Tobacco	0.3	29.4	1.2

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	29.4	0.3	1.2
2	Operation of personal transport equipment	25.1	0.6	-0.8
3	vegetables	16.0	0.4	5.6
4	corn	13.0	0.1	-0.4
5	Electricity, gas and other fuels	11.5	0.9	1.7
6	Fish	11.4	0.7	0.1
7	Non-alcoholic beverages	11.1	0.3	0.7
8	Postal services	9.8	0.0	0.1
9	Sugar, jam, honey, chocolate and confectionery	7.4	0.1	3.2
10	Alcoholic beverages	6.2	0.0	0.6

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

1. The leading driver of inflation was electricity, gas and other fuels.
 - For consumers in Metro Manila and neighboring areas, the higher price of electricity represents a combination of higher feed-in-tariff (FIT) allowance rate,¹ and the upward adjustment in the generation charge due to the depreciation of the peso.

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

Consumers faced an average rate of PHP 10.19 per kwh in July, which is up by 3.2 percent from the average rate in June.

- Prices of household fuels also increased. For instance, the price of LPG increased by around PHP 35 per 11 kg tank, and kerosene by around PHP 12 per liter, both since the start of the year. Much like gas and diesel, these fuels are both by-products of crude. This means that price increases were primarily driven by the increase in crude oil prices and peso depreciation, as LPG and kerosene are only subject to PHP 1 per kg and PHP 3 per liter excise taxes, respectively, under TRAIN.

2. Fish prices remained elevated due to prolonged red tide warnings in various provinces, the start of the rainy season, stricter fishing laws, overfishing in municipal waters, and climate change concerns that have moved fish supply farther outside Philippine waters.
3. Private vehicle users faced higher pump prices of diesel and gasoline, which were PHP 14.30 and 11.60 per liter more, respectively, compared to July 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 20 and 26 percent of the retail price increase, respectively, of diesel and gasoline.
 - The rest is due to higher crude oil prices compared to July of last year (around USD 73.4 per barrel), and peso depreciation (PHP 53.43 to a USD).
 - **On the other hand, MOM inflation was negative, reflecting the slight decrease in crude oil prices between June and July.**
4. Rice prices remain elevated despite the arrival of stocks.
 - Despite the arrival of 250,000 MT of rice, the country's rice stock fell by around 8 percent in July. This led to elevated rice prices. For instance, the price of regular-milled rice increased to PHP 41.07, compared to PHP 38.69 in July of last year.
 - Going forward, aside from the bidding for the importation of more than 800,000 MT of rice, the National Food Authority (NFA) is considering the proposal of importing an additional

500,000 MT. This is expected to help stabilize or reduce rice prices in the near-term.

- A key solution is the passage of the rice tariffication bill, now certified as urgent by the President, is entering second reading in the plenary in the House, and is now being finalized at the committee level in the Senate.

5. Prices of vegetables increased in July. Multiple typhoons at the start of the rainy 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.
6. Housing rentals increased due to the partial expiration of RA 9653 or the rent control act. Towards the end of 2017, the rent control act was extended for another 3 years or until the end of 2020. However, units constructed after the approval of the resolution are not covered by the extension. The effects of this are now being felt by renters.
7. 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. Preliminary second quarter data from leading fast food restaurants and retailers show that revenues continue to grow in double digit pace.
8. Prices of meat have gone up due to higher prices of corn, a primary ingredient in most animal feeds. M-O-M corn inflation, however, is now negative. Historically, lower corn inflation usually means lower meat inflation. This suggests a decrease in meat prices in the coming months.
9. Prices of non-alcoholic drinks, including sweetened beverages, increased by 11.1 percent. This is below the expected increase of 15 percent, possibly due to price absorption by firms as profits fell in some companies, despite an increase in sales.

10. Tobacco prices have increased due to higher excise tax and better tax administration. The excise tax has increased to PHP 35 per pack in July, from PHP 32.5 in the first half of 2018. Meanwhile, 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 more affordable variants, other tobacco manufacturers likewise increased their prices, based on market surveys.