

Key messages of the November 2018 inflation analysis¹

As of December 17, 2018

- Inflation in November 2018 decelerated to 6.0 percent year-on-year. This brings average or year-to-date (YTD) inflation to 5.2 percent (Table 1A).
 - The YTD inflation is 1.2 percentage points above the central bank's upper-end target of 4 percent.
 - Meanwhile, month-on-month inflation (MOM) further decelerated and is now negative at -0.2 percent. This means that on average, prices are lower in November compared to what they were in October of this year. It has continued to decelerate for three consecutive months starting September 2018.
 - The substantial easing of MOM inflation points to a downward inflation path. This reflects the results of concerted government efforts in recent months to tame the prices of goods, and decreasing global crude oil prices.
 - The central bank forecasts inflation to average 5.2 percent in 2018 and expects it to slow down in the last quarter of 2018 and fall towards the 3 percent average target in 2019.

- In November 2018, the top 10 contributors to inflation, including raw food items, accounted for 4.6 percentage points (ppt) of the 6.0 percent inflation (Table 1B).
 - Of these products, TRAIN contributed around:
 - 25 percent of personal transport inflation,
 - 5 percent of electricity and gas inflation,² and
 - 100 percent of non-alcoholic beverages inflation.
 - Historically, these top 10 products have been among the top contributors to inflation, generally accounting for more than half of total year-on-year (YOY) inflation since late-2016.³
 - Among these products, the shares of petroleum input to total output are small (from 3.4 to 9.3 percent), suggesting minimal pass through of oil prices. This also suggests an even smaller pass through of oil

¹ This draft is prepared by DOF staff.

² From a low of PHP 27.9 in Meralco areas (1.4%) to a high of PHP 162 in non-Meralco areas (8.1%) in the total billing for those consuming 200 kwh per month for electricity, 0.9% for LPG (PHP 1.12 out of the PHP 123 per kg), and 7.8% for kerosene (PHP 3.36 out of the 43.25 per liter).

³ See also the appendix tables for historical 2016 and 2017 data, when there was no TRAIN yet.

excise taxes from TRAIN on consumer prices. TRAIN's contribution to higher oil prices is around half, while the high, albeit falling, international price of crude imports accounts for the other half.

- Raw food continues to be a significant driver of inflation, but its total contribution to the top 10 drivers has now fallen to less than half. This implies that government efforts and directives to tame inflation, such as AO 13 and MCs 26, 27, and 28, are now beginning to be felt. However, persistently high food prices still reinforces the need to urgently implement solutions that will increase and stabilize the supply of key food and agriculture products to bring down prices for Filipino families.
 - Among the highest contributors to inflation in November are rice, fish, meat, and vegetables (total contribution of 2.2 ppt out of the 6.0 percent inflation).
 - Rice remains the top contributor to inflation at 0.8 ppt in November, from only 0.1 ppt in January 2018. In other words, household spending on rice increased from 3 centavos for every additional peso spent in January to 12 centavos in November compared to a year before.
 - Fish comes in second, contributing 0.7 ppt. This is equivalent to an additional spending of around 10 centavos for every peso in November 2018 compared with a year prior.
 - Inflation of meat remains elevated, contributing 0.4 ppt. This is equivalent to an additional spending of around 5 centavos for every peso spent on meat compared to a year before.
 - Lastly, inflation of vegetables also remains elevated, contributing 0.3 ppt. This is equivalent to an additional spending of around 4 centavos for every peso spent on meat compared to a year before.
 - Food-abundant and agriculturally-productive Region III and CAR continue to have the lowest regional inflation rates at 4.4 and 4.5 percent, respectively.
 - This strongly suggests that reforming agriculture and increasing productivity are key to bringing down prices.
 - Agricultural productivity can be increased by i) individualizing the agrarian reform collective titles to improve property rights and incentivize farm production, and ii) improving efficiency by

reallocating the budget from favoring certain crops (e.g., rice) and production inputs into more broad-based farm infrastructure, R&D, and support service.

- Finally, to help mitigate the impact of inflation, whether TRAIN related or not, the Department of Social Welfare and Development (DSWD) and the Department of Transportation (DOTr) continue to fast-track the social mitigating measures of TRAIN, namely the distribution of cash transfers and fuel cash cards.

Table 1A. Summary of 2018 monthly inflation statistics (in percent)

2018	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Ave.	2018
Year-on-year	3.4	3.9	4.3	4.5	4.6	5.2	5.7	6.4	6.7	6.7	6.0	5.2	Year-on-year
Month-on-month	0.9	0.8	0.5	0.5	0.0	0.6	0.5	0.9	0.8	0.3	-0.2	0.5	Month-on-month
Year-to-date	3.4	3.7	3.8	4.1	4.1	4.3	4.5	4.8	5.0	5.1	5.2	N/A	Year-to-date

Table 1B. Summary of 2018 contribution to inflation (in ppt) (sorted by Nov 2018)

Commodity group	YOY contribution to inflation in ppt												Commodity group
2018	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Ave.	2018
Rice	0.1	0.3	0.3	0.4	0.4	0.4	0.5	0.7	1.0	1.0	0.8	0.5	Rice
Fish	0.7	0.6	0.7	0.7	0.7	0.6	0.7	0.7	0.8	0.8	0.7	0.7	Fish
Elec., gas, fuels	0.4	0.3	0.3	0.3	0.3	0.7	0.9	0.8	0.7	0.6	0.5	0.5	Elec., gas, fuels
Catering services	0.2	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	Catering services
Housing rentals	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.3	Housing rentals
Meat	0.4	0.4	0.4	0.3	0.3	0.3	0.4	0.5	0.5	0.5	0.4	0.4	Meat
Personal transp.	0.3	0.4	0.3	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.4	0.5	Personal transp.
Non-alc bev.	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.3	Non-alc bev.
Public transport	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.3	0.1	Public transport
Vegetables	0.1	0.1	0.2	0.2	0.2	0.2	0.4	0.5	0.5	0.4	0.3	0.3	Vegetables
Total of top 10	2.6	2.8	3.1	3.2	3.5	3.8	4.7	5.0	5.3	5.3	4.6	4.0	Total of top 10

Source: PSA

Table 2. Summary of 2018 MOM inflation statistics (in percent) (sorted by Nov 2018 contribution to inflation)

2018	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Ave.	2018
Commodity group	MOM contribution to inflation in ppt												Commodity group
Rice	0.0	0.1	0.1	0.1	0.0	0.1	0.1	0.2	0.3	0.0	-0.2	0.1	Rice
Fish	0.3	0.0	0.0	0.1	-0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.0	Fish
Elec., gas, fuels	-0.1	0.2	0.2	0.1	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	Elec., gas, fuels
Catering services	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Catering services
Housing rentals	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	Housing rentals
Meat	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	Meat
Personal transp.	0.1	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.1	0.1	-0.1	0.0	Personal transp.
Non-alc bev.	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Non-alc bev.
Public transport	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.2	0.0	Public transport
Vegetables	0.1	-0.1	-0.1	0.0	0.0	0.1	0.1	0.1	0.1	-0.1	-0.1	0.0	Vegetables
Total of top 10	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Total of top 10
Source: PSA													

**Table 3. Top 10 drivers of Nov 2018
inflation sorted by contribution to inflation**

Rank	Commodity group	Contri- bution to YOY inflation (ppt)	YOY inflation (percent)	MOM inflation (percent)
1	Rice	0.8	8.1	-2.3
2	Fish	0.7	12.5	0.3
3	Elec., gas, fuels	0.5	6.5	-0.5
4	Catering services	0.4	5.3	0.5
5	Housing rentals	0.4	3.1	0.1
6	Meat	0.4	6.3	-0.2
7	Personal transp.	0.4	15.9	-5.5
8	Non-alc bev.	0.4	13.0	0.5
9	Public transp.	0.3	7.1	3.7
10	Vegetables	0.3	11.5	-2.5
Sources: PSA				

**Table 4. Top 10 drivers of Nov 2018 inflation
and their corresponding production input shares**

Rank	Commodity group	Input shares based on the IOT (percent)					
		Oil	Trade (including oil)	Labor cost	Opera- ting surplus	Others	Total
1	Rice	0.6	7.1	34.6	25.7	32.0	100
2	Fish	0.7	8.2	16.1	39.0	36.1	100
3	Elec., gas, fuels	8.2	5.6	7.5	53.9	24.8	100
4	Catering services	0.9	10.0	13.6	16.1	59.4	100
5	Housing rentals	0.5	7.8	0.0	84.8	6.9	100
6	Meat	0.5	7.3	19.3	24.2	48.8	100
7	Personal transp.	19.2	10.4	14.0	15.0	41.4	100
8	Non-alc bev.	1.4	12.6	5.5	33.4	47.1	100
9	Public transport	19.2	10.4	14.0	15.0	41.4	100
10	Vegetables	0.6	7.9	22.0	51.1	18.4	100

Sources: PSA and the 2012 input-output table (IOT)
Note: The commodity groups are sorted in the order of contribution to inflation.

Table 5. Top 10 commodities with the highest inflation rates (sorted by YOY inflation rates)

Rank	Commodity group	YOY inflation (percent)	Contribution to YOY inflation (ppt)	MOM inflation (percent)
1	Tobacco	29.6	0.3	0.8
2	Personal transp.	15.9	0.4	-5.5
3	Non-alc bev.	13.0	0.4	0.5
4	Fish	12.5	0.7	0.3
5	Vegatables	11.5	0.3	-2.5
6	Recreational services	11.1	0.0	0.2
7	Sugar, jam, honey	10.5	0.1	-0.7
8	Postal services	8.6	0.0	0.5
9	Rice	8.1	0.8	-2.3
10	Public transport	7.1	0.3	3.7
Source: PSA				

Detailed analysis

- In November 2018, rice remains the top driver of inflation, although to a lesser extent. Its contribution to inflation decreased to 0.8 ppt in November from a full 1 ppt in October. Despite this, however, rice prices remain elevated due to recent weather disturbances and inadequate imported rice.

In early-November, the average retail price of regular-milled rice was recorded at PHP 40.67/kg. This was around 14 percent higher than the prevailing prices in November of last year. However, this is on average lower than the prevailing prices in October by PHP 5.05/kg. This is reflected in the negative MOM inflation of rice. To further bring down prices, the National Food Authority (NFA) has approved the importation and entry of an additional 750,000 MT of rice this year and 1 million MT of rice in 2019. On the other hand, the rice tariffication bill, which is expected to be signed into law by the president very soon, approved in bicam, will provide a longer-term and more sustainable solution in bringing down rice prices for all Filipinos.

- Fish prices continue to remain elevated due to lower supply brought about by the effects of climate change, stricter fishing rules, recent typhoons, and the closed fishing season. Intensified implementation of Presidential Administrative Order No. 13 allows the issuance of certificates of necessity by the DA to bring in fish imports into regions with low supply.
- The contribution of electricity, gas, and other fuels to inflation increased due to the slight increase of 12 centavos in Meralco's electricity rates. The inflation rate of this commodity group remains elevated due to the culmination of previous rate increases, as around half of the price increase happened pre-TRAIN. The high price of crude oil, especially in early November, also contributed to higher prices of household fuels.
 - For consumers in Metro Manila and neighboring areas, the slightly higher electricity rates are due to increases in generation charge which were slightly offset by the reduction in other charges. Consumers faced an average rate of PHP 10.09/kwh in November, which is slightly higher than the PHP 9.97/kwh in October. This implies an increase of PHP 24 in the total bill for a household which consumes an average of

200 kwh/month. However, much of the rate increases happened before November this year, as well as in 2017, and thus the elevated inflation is attributable to the culmination of multiple rate increases from September 2017 (Table 6).

- Prices of household fuels also increased. For instance, the price of LPG went up by around PHP 95 per 11 kg tank, and kerosene by around PHP 11 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 1.12 per kg and PHP 3.36 per liter of excise taxes and VAT, respectively, under TRAIN.

Table 6. Summary of price increases in Meralco electricity rates

	Rate increases since September 2017	PHP per kwh	Change in the rate (PHP)
Electricity (Meralco)	Aug-17	8.38	
	Sep-17	9.25	0.86
	Oct-17	9.28	0.03
	Nov-17	9.63	0.34
	Dec-17	9.25	-0.38
	Total 2017		0.85 (50%)
	Jan-18	8.72	-0.53
	Feb-18	9.47	0.75
	Mar-18	10.32	0.85
	Apr-18	10.55	0.23
	May-18	10.00	-0.54
	Jun-18	9.88	-0.13
	Jul-18	10.19	0.31
	Aug-18	10.22	0.03
	Sep-18	10.07	-0.15
	Oct-18	9.97	-0.10
	Nov-18	10.09	0.12
	Total 2018		0.84 (50%)
	Cumulative increase		1.69

Source: Meralco

- Lower but still elevated inflation in the non-essential catering services, apart from the effect of higher raw food prices, implies that more people are eating out, as the additional take home pay of taxpayers, together with wages from more employment opportunities, are finding its way into restaurants and other retail. Preliminary third quarter data from leading fast food restaurants and retailers shows revenues continue to grow by double digits.
- The increase in housing rentals reflects the increasing value of properties nowadays as the economy grows. Increasing demand for residential units from local professionals and foreign investors across central business districts continue to drive up prices.
- Inflation of meat has also decelerated reflecting the stabilization in wholesale and farmgate prices and recovery from recent weather disturbances. However, with the increasing consumer demand for meat, prices still remain elevated. We can expect meat prices to decrease in the coming months as additional supply meets the demand.
- Private vehicle users faced higher pump prices of diesel and gasoline, which cost PHP 7.6 and 5.2 per liter more, respectively, compared to November of last year. However, on a MOM basis, personal transport inflation decelerated by -5.5 percent, biggest drop among the top 10, largely reflecting the decreasing international oil prices.
 - The part of the price increases, PHP 4.8 for diesel and PHP 2.0 for gasoline, is due to the higher import price of crude (around USD 67.7 per barrel) and peso depreciation (PHP 52.2 to a USD).
 - Of the total price increases per liter, only PHP 2.80 for diesel and PHP 2.97 for gasoline are due to TRAIN (excise and VAT included).
 - This means that TRAIN accounts for less than 40 percent of the total price increase of diesel.
 - On the other hand, gasoline, which is primarily used to fuel the cars of the richer deciles, can absorb the excise due to relatively lower crude oil prices that translated to lower retail prices.
- Prices of non-alcoholic drinks, including sweetened beverages, increased by 12.0 percent. Even with rising sugar prices, this is below the expected

increase of 15 percent, possibly due to price absorption by firms as profits fell in some beverage corporations, despite an increase in sales.

- Meanwhile, public transport inflation entered the top 10 for the first time in 2018, coinciding with the jeepney fare rate hike, which increased from PHP 8 to PHP 10 and took effect in the first week of November. However, the recent sharp decrease in crude oil prices have pushed the Land Transportation and Regulatory Board (LTFRB) to review this decision. Recently, they have issued a provisional roll-back order which lowers the jeepney minimum fare from PHP 10 to PHP 9, as they continue to review the appropriate fare levels in the country.
- Despite positive YOY inflation, prices of vegetables decelerated in November compared to a month ago. The negative MOM inflation of vegetable prices in November suggests price normalization from effect of recent weather disturbances. Moreover, with the recent end of the typhoon season, we can expect prices of vegetables to further stabilize in the coming months.

Appendix: 2016 to 2017 inflation statistics

Appendix table 1. Summary of 2017 inflation statistics (all in percent or ppt)

2017	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ave.	2017
Year-on-year	2.5	3.1	3.1	3.2	2.9	2.5	2.4	2.7	3.1	3.1	3.0	2.9	2.9	Year-on-year
Month-on-month	0.4	0.4	0.0	0.4	-0.1	0.0	0.1	0.3	0.6	0.2	0.4	0.3	0.3	Month-on-month
Year-to-date	2.5	2.8	2.9	3.0	2.9	2.9	2.8	2.8	2.8	2.8	2.9	2.9	N/A	Year-to-date
Commodity group	YOY contribution to inflation in ppt												Commodity group	
Rice	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	Rice
Fish	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.4	Fish
Elec., gas, fuels	0.2	0.4	0.6	0.6	0.5	0.2	0.1	0.2	0.5	0.6	0.5	0.4	0.4	Elec., gas, fuels
Catering services	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.1	Catering services
Housing rentals	0.3	0.2	0.3	0.2	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	Housing rentals
Meat	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.3	Meat
Personal transp.	0.4	0.5	0.4	0.3	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	Personal transp.
Non-alc bev.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Non-alc bev.
Public transport	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2	Public transport
Vegetables	0.2	0.3	0.3	0.2	0.1	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.1	Vegetables
Total of top 10	1.6	2.2	2.5	2.4	2.0	1.6	1.4	1.9	2.4	2.5	2.4	2.3	2.1	Total of top 10

Source: PSA

Note: The top 10 contributors are sorted in the order of the November 2018 YOY contribution to inflation for easy comparison.

Appendix table 2. Summary of 2016 inflation statistics (all in percent or ppt)

2016	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ave.	2016
Year-on-year	0.7	0.5	0.6	0.7	0.9	1.3	1.3	1.3	1.7	1.8	2.1	2.2	1.3	Year-on-year
Month-on-month	0.1	-0.2	0.0	0.3	0.2	0.4	0.2	0.0	0.2	0.2	0.6	0.4	0.2	Month-on-month
Year-to-date	0.7	0.6	0.6	0.6	0.7	0.8	0.9	0.9	1.0	1.1	1.2	1.3	N/A	Year-to-date
Commodity group	YOY contribution to inflation in ppt													Commodity group
Rice	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0	Rice
Fish	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	Fish
Elec., gas, fuels	-0.4	-0.5	-0.6	-0.6	-0.5	-0.4	-0.3	-0.2	-0.1	-0.1	0.0	0.1	-0.3	Elec., gas, fuels
Catering services	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	Catering services
Housing rentals	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.4	Housing rentals
Meat	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	Meat
Personal transp.	-0.2	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	0.0	0.0	0.1	-0.1	Personal transp.
Non-alc bev.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Non-alc bev.
Public transport	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Public transport
Vegetables	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.2	0.3	0.3	0.3	0.3	0.3	Vegetables
Total of top 10	0.0	-0.2	-0.3	-0.2	0.0	0.3	0.4	0.5	0.8	1.0	1.1	1.2	0.4	Total of top 10

Source: PSA

Note: The top 10 contributors are sorted in the order of the November 2018 YOY contribution to inflation for easy comparison.