

## **Analysis of February 2018 inflation and TRAIN**

- 1. Key message: TRAIN has begun to impact inflation as expected, though other factors are the bigger contributors to higher inflation.**
- 2. February 2018 inflation, under the revised series, was at 3.9 percent, which is still within the 2 to 4 percent target of the BSP.**
  - a. February inflation is higher than the 3.4 percent inflation in January 2018 (using the revised series).
  - b. Inflation in NCR, at 4.7 percent, was higher than inflation outside NCR, at 3.7 percent. This suggests that the poor and low-income households are less affected, as most of them reside outside NCR.
- 3. February 2018 inflation was driven by higher corn, fish, tobacco, and personal transport prices, all of which grew by double digits.**
  - a. Fish price remained elevated compared to last year (11.2 percent). However, month-on-month fish inflation (from Jan to Feb 2018), at -0.2 percent, suggests some price normalization as the close fishing season ends and as the fish catch in the Visayas recovers from the typhoon.
  - b. Corn inflation was high at 10.4 percent, brought about by the tropical depression in the Visayas area that led to a lower supply. Moreover, base effect last year contributed to higher inflation given higher yield and supply in February 2017, which meant lower base prices.<sup>1</sup>
- 4. Tobacco inflation remained high at 22.9 percent as tax compliance improves.<sup>2</sup>**
  - a. Higher tobacco inflation is expected to persist until September 2018 as Mighty Tobacco, now under JTI, is now paying the right taxes.
  - b. If tobacco inflation were only 8 percent, as the TRAIN law provides, then overall inflation would have gone down from 3.9 to 3.7 percent.

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<sup>1</sup> For further reading, please see <http://www.sunstar.com.ph/bacolod/business/2018/02/28/negocc-produces-more-corn-non-food-crops-591223> and <http://www.sunstar.com.ph/bacolod/local-news/2018/02/13/blue-alert-raised-negros-occidental-due-basyang-588735>.

<sup>2</sup> See the January 2018 report for more discussion.

**5. In February 2018, private vehicle owners have begun to feel the fuel excise tax, however, the bigger cause is the higher global crude oil price and the peso's depreciation (Table 1).**

- a. Private vehicle owners paid 14.5 percent more in fuel and other operating cost, of which around half is attributable to higher excise tax while the other half is attributable to higher crude oil price, as the Dubai crude price grew by 15.8 percent while the peso depreciated by 3.6 percent (for a net impact of 20 percent).
- b. On the other hand, public commuters paid only 2.9 percent more as most public utility vehicles have not adjusted their fares.
- c. Inflation rate for electricity, gas, and other fuels increased to 3.6 percent year-on-year (YOY) and 2.2 percent month-on-month (MOM), from -0.8 percent month-on-month in January, suggesting some pass through of higher excise tax and global crude prices on energy prices.

**Table 1. Crude oil price and the PHP exchange rate**

	Levels					YOY growth (percent)	
	Jan 2017	Feb 2017	Dec 2017	Jan 2018	Feb 2018	Jan 2018	Feb 2018
Dubai crude (USD per barrel)	53.37	54.17	61.41	63.83	62.72	19.6	15.8
PHP/USD	49.74	49.96	50.39	50.51	51.78	1.6	3.6
Indicative price per barrel of crude (PHP)	2,654	2,706	3,095	3,224	3,248	21.5	20.0

Sources: BSP, Indexmundi, and Reuters

**6. The price of other excisable products grew as expected (Table 2).**

- a. Prices of non-alcoholic drinks, including sweetened drinks, increased by 3.9 percent YOY, and 1.4 percent MOM. These are lower than expectations, possibly due to the sale of old stock or price absorption by firms.
- b. On the other hand, alcoholic beverages inflation was 5.1 percent and broadly in line with the increase in the alcohol excise tax under the sin tax reform (4.48 percent).

- c. **Since prices of excisable products are growing as expected, the only reason for higher overall inflation is a combination of higher global crude price, the peso's depreciation, and profiteering.**

**Table 2. Summary of commodity groups directly affected by TRAIN**

	2006 based CPI series (percent)		2012 based CPI series (percent)		Expected price increase due to TRAIN (percent)
	Feb 18 (YOY)	Jan 18 to Feb 18 (MOM)	Feb 18 (YOY)	Jan 18 to Feb 18 (MOM)	
Non-alcoholic beverages	5.1	2.4	3.9	1.4	15.0
Alcoholic beverages	5.8	1.5	5.1	1.1	4.0
Tobacco	24.8	7.7	22.9	7.4	8.0
Electricity, gas, and other fuels	6.2	2.7	3.6	2.2	9.2
Transportation (private)	7.2	2.3	14.5	4.4	7.0
Transportation (public)	3.5	0.1	2.9	0.3	0.0

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.

**7. To isolate the effect of TRAIN on inflation from other factors, we can look at month-on-month (MOM) inflation.**

- a. The Jan to Feb 2018 MOM inflation of 0.8 percent is somewhat expected. This is in line with the DOF maximum projection of additional 0.7 percentage point increase due to TRAIN.<sup>3</sup>
- b. However, the higher MOM inflation might suggest some profiteering, which we have already observed in January 2018.

<sup>3</sup> In comparison, February 2017 inflation was 3.1 percent. Adding 0.7 percentage points brings it to 3.8 percent, which is within the margin of error from the DOF estimate.

**8. Beginning 2018, inflation is revised to improve accuracy.**

- a. In line with international practice, the consumer price index (CPI) series has been rebased from 2006 to 2012 in order to ensure that the prices in the basket of goods being measured stays relevant and representative.<sup>4</sup> This has been previously announced and planned, and the rebasing has been going on since 2015.<sup>5</sup>
- b. Without regular rebasing, inflation tends to be overestimated due to the Laspeyres' effect (see Appendix 1 for details). For instance, under the 2006 series, which was used since 2009, February 2018 inflation would be 4.5 percent instead of the more accurate 3.9 percent.

**9. A moderate increase in the inflation rate is expected and not alarming in a fast-growing economy.**

- a. In 2017, the Philippine economy grew by 6.7 percent, one of the fastest in the region.
- b. With the roll-out of the ambitious "Build, Build, Build" program comprising of some 75 projects worth USD 35.5 billion (almost PHP 2 trillion), we expect our economy to grow even faster, and hence the inflation adjustment.

**10. The DTI and DOE continue to closely monitor any unusual price increase in order to prevent profiteering.**

- a. Major oil firms have also agreed to offer discounts to PUJs. This will help ease prices.
- b. Once market adjusts, we expect inflation to ease in the coming months with the average full year inflation well within the target set by the BSP.

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<sup>4</sup> To quote the PSA: "When the basket of the reference year no longer represents what is commonly purchased by the households, the CPI becomes irrelevant and tends to give wrong market signals. Hence, it is necessary to update the CPI using a base year that reflects the typical market basket of the time." In July of this year, the PSA will stop releasing the 2006 based series and will exclusively only release the 2012 series.

<sup>5</sup> For further reference, please see: <http://www.bworldonline.com/content.php?section=Economy&title=psa-to-make-2012-new-base-year-for-gdp-cpi&id=102234>.

**Annex table 1. February 2018 CPI weights and inflation rates 2012 base year)**

	Inflation rates (percent)						
	PHL Weight	PHL		NCR		ONCR	
		Feb 2018 YOY	MOM	Feb 2018 YOY	MOM	Feb 2018 YOY	MOM
<b>ALL ITEMS</b>	<b>100.0</b>	<b>3.9</b>	<b>0.8</b>	<b>4.7</b>	<b>1.1</b>	<b>3.7</b>	<b>0.7</b>
<b>I. FOOD AND NON-ALCOHOLIC BEVERAGES</b>	<b>38.3</b>	<b>4.8</b>	<b>0.5</b>	<b>6.6</b>	<b>1.0</b>	<b>4.5</b>	<b>0.4</b>
<b>A. FOOD ITEMS</b>	<b>35.5</b>	<b>4.8</b>	<b>0.4</b>	<b>6.9</b>	<b>0.9</b>	<b>4.4</b>	<b>0.3</b>
Rice	9.6	2.8	1.3	3.7	4.0	2.6	0.9
Corn	0.6	10.4	1.0	3.1	-2.7	10.8	1.1
Other cereals	3.3	2.3	0.4	4.1	0.6	1.8	0.4
Meat	6.2	6.7	0.9	7.7	0.9	6.4	0.9
Fish	5.7	11.2	-0.2	17.1	0.5	10.1	-0.2
Milk, Cheese and Eggs	3.1	2.3	0.4	2.8	0.3	2.2	0.4
Oils and Fats	0.8	4.0	0.5	9.7	0.5	2.9	0.4
Fruit	1.4	6.2	0.3	6.9	1.0	6.0	0.1
Vegetables	2.6	2.6	-2.0	2.5	-3.1	2.6	-1.8
Sugar, Jam, Honey, Chocolate and Confectionery	1.0	-1.6	0.2	1.7	0.3	-2.1	0.2
Food Products N.E.C.	1.1	1.9	1.5	5.3	2.5	1.2	1.4
<b>B. NON-ALCOHOLIC BEVERAGES</b>	<b>2.9</b>	<b>3.9</b>	<b>1.4</b>	<b>4.1</b>	<b>1.0</b>	<b>3.9</b>	<b>1.6</b>
<b>II. ALCOHOLIC BEVERAGES AND TOBACCO</b>	<b>1.6</b>	<b>16.9</b>	<b>5.3</b>	<b>21.2</b>	<b>5.3</b>	<b>16.0</b>	<b>5.4</b>
Alcoholic Beverages	0.7	5.1	1.1	6.8	0.6	4.6	1.2
Tobacco	0.9	22.9	7.4	31.5	8.3	21.6	7.2
<b>III. NON-FOOD ITEMS</b>	<b>60.1</b>	<b>2.6</b>	<b>0.6</b>	<b>3.5</b>	<b>0.9</b>	<b>2.4</b>	<b>0.5</b>
<b>A. CLOTHING AND FOOTWEAR</b>	<b>2.9</b>	<b>2.0</b>	<b>0.3</b>	<b>2.4</b>	<b>0.0</b>	<b>1.9</b>	<b>0.3</b>
<b>B. HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS</b>	<b>22.0</b>	<b>2.6</b>	<b>1.0</b>	<b>4.0</b>	<b>2.1</b>	<b>2.0</b>	<b>0.6</b>
Actual Rentals for Housing	12.9	2.2	0.4	3.6	0.9	1.5	0.3
Maintenance and Repair of the Dwelling	0.5	1.4	0.3	1.7	0.4	1.3	0.3
Water Supply and Miscellaneous Services Relating to the Dwelling	1.2	2.8	0.8	4.7	2.2	1.7	0.0
Electricity, Gas, and Other Fuels	7.4	3.6	2.2	5.3	5.9	3.1	1.2
<b>C. FURNISHINGS, HOUSEHOLD EQUIPMENT</b>	<b>2.9</b>	<b>2.5</b>	<b>0.4</b>	<b>2.3</b>	<b>0.3</b>	<b>2.5</b>	<b>0.5</b>
<b>D. HEALTH</b>	<b>3.9</b>	<b>2.1</b>	<b>0.3</b>	<b>2.6</b>	<b>0.1</b>	<b>2.1</b>	<b>0.4</b>
<b>E. TRANSPORT</b>	<b>8.1</b>	<b>5.8</b>	<b>1.4</b>	<b>6.7</b>	<b>0.8</b>	<b>5.4</b>	<b>1.6</b>
Operation of Personal Transport Equipment	2.5	14.5	4.4	15.1	2.0	14.4	5.3
Transport Services	4.8	2.9	0.3	3.7	0.3	2.6	0.2
<b>F. COMMUNICATION</b>	<b>2.9</b>	<b>0.2</b>	<b>0.0</b>	<b>0.3</b>	<b>0.1</b>	<b>0.2</b>	<b>0.0</b>
<b>G. RECREATION AND CULTURE</b>	<b>1.4</b>	<b>1.4</b>	<b>0.1</b>	<b>1.1</b>	<b>0.1</b>	<b>1.5</b>	<b>0.1</b>
<b>H. EDUCATION</b>	<b>3.3</b>	<b>2.3</b>	<b>0.0</b>	<b>1.6</b>	<b>0.0</b>	<b>2.5</b>	<b>0.0</b>
<b>I. RESTAURANTS AND MISCELLANEOUS GOODS AND SERVICES</b>	<b>12.6</b>	<b>2.5</b>	<b>0.5</b>	<b>3.2</b>	<b>0.3</b>	<b>2.3</b>	<b>0.6</b>

Note: Some figures may not exactly add up due to rounding

Source: Philippine Statistics Authority (PSA)

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

	Inflation rates (percent)						
	PHL Weight	PHL		NCR		ONCR	
		Feb 2018 YOY	MOM	Feb 2018 YOY	MOM	Feb 2018 YOY	MOM
<b>ALL ITEMS</b>	<b>100.0</b>	<b>4.5</b>	<b>0.8</b>	<b>5.6</b>	<b>0.8</b>	<b>4.2</b>	<b>0.8</b>
<b>I. FOOD AND NON-ALCOHOLIC BEVERAGES</b>	<b>39.0</b>	<b>4.9</b>	<b>0.5</b>	<b>5.7</b>	<b>0.7</b>	<b>4.8</b>	<b>0.5</b>
<b>A. FOOD ITEMS</b>	<b>36.3</b>	<b>4.9</b>	<b>0.5</b>	<b>5.6</b>	<b>0.5</b>	<b>4.8</b>	<b>0.5</b>
Rice	8.9	2.4	1.1	3.1	2.6	2.3	0.9
Corn	0.7	10.4	0.9	3.5	-2.3	10.8	1.1
Other cereals	2.8	2.3	0.4	3.7	0.4	1.9	0.3
Meat	7.0	6.4	0.9	7.4	0.6	6.1	0.9
Fish	5.8	11.7	0.1	12.8	0.2	11.5	0.1
Milk, Cheese and Eggs	3.3	2.0	0.3	3.3	0.3	1.8	0.4
Oils and Fats	0.7	4.9	0.3	12.5	0.6	2.8	0.3
Fruit	1.7	8.7	0.7	2.5	0.9	10.2	0.7
Vegetables	3.2	1.8	-1.3	1.7	-2.7	1.9	-1.0
Sugar, Jam, Honey, Chocolate and Confectionery	1.1	-3.0	0.2	0.4	0.2	-3.5	0.2
Food Products N.E.C.	1.1	1.5	1.1	2.6	1.9	1.3	1.0
<b>B. NON-ALCOHOLIC BEVERAGES</b>	<b>2.7</b>	<b>5.1</b>	<b>2.4</b>	<b>6.0</b>	<b>1.8</b>	<b>5.0</b>	<b>2.5</b>
<b>II. ALCOHOLIC BEVERAGES AND TOBACCO</b>	<b>2.0</b>	<b>17.1</b>	<b>5.4</b>	<b>13.4</b>	<b>3.3</b>	<b>17.7</b>	<b>5.7</b>
Alcoholic Beverages	1.0	5.8	1.5	6.7	0.7	5.7	1.7
Tobacco	1.0	24.8	7.7	21.4	6.1	25.3	7.9
<b>III. NON-FOOD ITEMS</b>	<b>59.0</b>	<b>3.5</b>	<b>0.7</b>	<b>5.3</b>	<b>0.8</b>	<b>2.8</b>	<b>0.8</b>
<b>A. CLOTHING AND FOOTWEAR</b>	<b>3.0</b>	<b>2.0</b>	<b>0.3</b>	<b>1.5</b>	<b>0.1</b>	<b>2.1</b>	<b>0.4</b>
<b>B. HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS</b>	<b>22.5</b>	<b>3.6</b>	<b>1.2</b>	<b>3.7</b>	<b>1.6</b>	<b>3.6</b>	<b>0.9</b>
Actual Rentals for Housing	13.8	2.5	0.4	2.9	0.1	2.3	0.4
Maintenance and Repair of the Dwelling	0.6	2.2	0.3	1.8	0.2	2.2	0.4
Water Supply and Miscellaneous Services Relating to the Dwelling	1.0	2.9	1.1	4.7	2.2	1.1	0.1
Electricity, Gas, and Other Fuels	7.1	6.2	2.7	6.2	6.2	6.2	1.9
<b>C. FURNISHINGS, HOUSEHOLD EQUIPMENT</b>	<b>3.2</b>	<b>2.5</b>	<b>0.4</b>	<b>2.6</b>	<b>0.2</b>	<b>2.5</b>	<b>0.6</b>
<b>D. HEALTH</b>	<b>3.0</b>	<b>2.6</b>	<b>0.3</b>	<b>3.6</b>	<b>0.1</b>	<b>2.4</b>	<b>0.5</b>
<b>E. TRANSPORT</b>	<b>7.8</b>	<b>4.5</b>	<b>0.7</b>	<b>10.6</b>	<b>0.6</b>	<b>2.7</b>	<b>0.7</b>
Operation of Personal Transport Equipment	1.9	7.2	2.3	6.9	0.9	7.3	2.8
Transport Services	5.9	3.5	0.1	12.0	0.6	1.3	0.0
<b>F. COMMUNICATION</b>	<b>2.3</b>	<b>0.4</b>	<b>0.1</b>	<b>0.5</b>	<b>0.1</b>	<b>0.4</b>	<b>0.1</b>
<b>G. RECREATION AND CULTURE</b>	<b>1.9</b>	<b>1.5</b>	<b>0.2</b>	<b>2.8</b>	<b>0.1</b>	<b>1.0</b>	<b>0.2</b>
<b>H. EDUCATION</b>	<b>3.4</b>	<b>2.2</b>	<b>0.0</b>	<b>1.7</b>	<b>0.0</b>	<b>2.4</b>	<b>0.0</b>
<b>I. RESTAURANTS AND MISCELLANEOUS GOODS AND SERVICES</b>	<b>12.0</b>	<b>4.2</b>	<b>0.6</b>	<b>9.6</b>	<b>2.1</b>	<b>2.2</b>	<b>1.0</b>

Note: Some figures may not exactly add up due to rounding

Source: Philippine Statistics Authority (PSA)

**Annex table 3. February 2018 CPI weights and inflation rates (YOY and Dec 2017 to Feb 2018, 2006 base year)**

	Inflation rates (percent)						
	PHL Weight	PHL Feb 2018		NCR Feb 2018		ONCR Feb 2018	
		YOY	Dec 17 to Feb 18	YOY	Dec 17 to Feb 18	YOY	Dec 17 to Feb 18
<b>ALL ITEMS</b>	<b>100.0</b>	<b>4.5</b>	<b>1.8</b>	<b>5.6</b>	<b>1.6</b>	<b>4.2</b>	<b>1.9</b>
<b>I. FOOD AND NON-ALCOHOLIC BEVERAGES</b>	<b>39.0</b>	<b>4.9</b>	<b>2.0</b>	<b>5.7</b>	<b>2.0</b>	<b>4.8</b>	<b>2.0</b>
<b>A. FOOD ITEMS</b>	<b>36.3</b>	<b>4.9</b>	<b>1.9</b>	<b>5.6</b>	<b>1.8</b>	<b>4.8</b>	<b>2.0</b>
Rice	8.9	2.4	1.5	3.1	2.6	2.3	1.3
Corn	0.7	10.4	1.8	3.5	-1.7	10.8	2.0
Other cereals	2.8	2.3	0.7	3.7	1.1	1.9	0.6
Meat	7.0	6.4	1.3	7.4	0.7	6.1	1.5
Fish	5.8	11.7	4.5	12.8	4.2	11.5	4.5
Milk, Cheese and Eggs	3.3	2.0	0.7	3.3	0.7	1.8	0.7
Oils and Fats	0.7	4.9	0.8	12.5	1.7	2.8	0.5
Fruit	1.7	8.7	3.6	2.5	2.4	10.2	3.8
Vegetables	3.2	1.8	1.5	1.7	0.5	1.9	1.7
Sugar, Jam, Honey, Chocolate and Confectionery	1.1	-3.0	0.2	0.4	1.0	-3.5	0.1
Food Products N.E.C.	1.1	1.5	1.5	2.6	2.6	1.3	1.3
<b>B. NON-ALCOHOLIC BEVERAGES</b>	<b>2.7</b>	<b>5.1</b>	<b>4.2</b>	<b>6.0</b>	<b>4.5</b>	<b>5.0</b>	<b>4.1</b>
<b>II. ALCOHOLIC BEVERAGES AND TOBACCO</b>	<b>2.0</b>	<b>17.1</b>	<b>11.6</b>	<b>13.4</b>	<b>7.8</b>	<b>17.7</b>	<b>12.1</b>
Alcoholic Beverages	1.0	5.8	2.9	6.7	2.2	5.7	3.1
Tobacco	1.0	24.8	17.2	21.4	14.2	25.3	17.6
<b>III. NON-FOOD ITEMS</b>	<b>59.0</b>	<b>3.5</b>	<b>1.1</b>	<b>5.3</b>	<b>1.3</b>	<b>2.8</b>	<b>1.1</b>
<b>A. CLOTHING AND FOOTWEAR</b>	<b>3.0</b>	<b>2.0</b>	<b>0.8</b>	<b>1.5</b>	<b>0.4</b>	<b>2.1</b>	<b>0.9</b>
<b>B. HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS</b>	<b>22.5</b>	<b>3.6</b>	<b>1.3</b>	<b>3.7</b>	<b>1.3</b>	<b>3.6</b>	<b>1.3</b>
Actual Rentals for Housing	13.8	2.5	1.0	2.9	0.6	2.3	1.1
Maintenance and Repair of the Dwelling	0.6	2.2	0.7	1.8	0.6	2.2	0.7
Water Supply and Miscellaneous Services Relating to the Dwelling	1.0	2.9	1.2	4.7	2.2	1.1	0.2
Electricity, Gas, and Other Fuels	7.1	6.2	1.9	6.2	2.8	6.2	1.7
<b>C. FURNISHINGS, HOUSEHOLD EQUIPMENT</b>	<b>3.2</b>	<b>2.5</b>	<b>0.9</b>	<b>2.6</b>	<b>0.7</b>	<b>2.5</b>	<b>1.0</b>
<b>D. HEALTH</b>	<b>3.0</b>	<b>2.6</b>	<b>1.2</b>	<b>3.6</b>	<b>1.4</b>	<b>2.4</b>	<b>1.2</b>
<b>E. TRANSPORT</b>	<b>7.8</b>	<b>4.5</b>	<b>1.1</b>	<b>10.6</b>	<b>1.4</b>	<b>2.7</b>	<b>1.0</b>
Operation of Personal Transport Equipment	1.9	7.2	3.8	6.9	3.0	7.3	4.0
Transport Services	5.9	3.5	0.3	12.0	0.8	1.3	0.1
<b>F. COMMUNICATION</b>	<b>2.3</b>	<b>0.4</b>	<b>0.1</b>	<b>0.5</b>	<b>0.1</b>	<b>0.4</b>	<b>0.1</b>
<b>G. RECREATION AND CULTURE</b>	<b>1.9</b>	<b>1.5</b>	<b>0.3</b>	<b>2.8</b>	<b>0.3</b>	<b>1.0</b>	<b>0.3</b>
<b>H. EDUCATION</b>	<b>3.4</b>	<b>2.2</b>	<b>0.0</b>	<b>1.7</b>	<b>0.0</b>	<b>2.4</b>	<b>0.0</b>
<b>I. RESTAURANTS AND MISCELLANEOUS GOODS AND SERVICES</b>	<b>12.0</b>	<b>4.2</b>	<b>1.5</b>	<b>9.6</b>	<b>2.1</b>	<b>2.2</b>	<b>1.3</b>

Note: Some figures may not exactly add up due to rounding

Source: Philippine Statistics Authority (PSA)

## Appendix 1. Rebasing the CPI from 2006 to 2012 based series

### Rationale of regular rebasing<sup>6</sup>

The consumer price index (CPI) measures how the prices of goods and services purchased by a typical household (usually called a market basket) change over time. As consumer taste, behavior, trends, and technology evolve over time, a market basket loses accuracy the farther it is from the reference or base year. Given this, the CPI needs to be regularly rebased to ensure that it adequately represents the typical basket relevant to the current economic situation.

Using an updated market basket ensures that measures derived using the CPI, such as inflation, accurately reflect the consumption pattern of a typical Filipino household. To illustrate, the changes in the contents of the consumption baskets from 2006 to 2012 show that as a share of total expenditure in the household, there were decreases in the relative weights for food, alcohol, and tobacco. Meanwhile, the weights for health, transport, communication, and restaurants all increased, reflecting the changes in spending patterns and the increasing incomes of households.

**Table 1. Comparison of the 2012 and 2006 basket weights**

	2006	2012	Diff
<b>ALL ITEMS</b>	<b>100.0</b>	<b>100.0</b>	0.0
<b>I. FOOD AND NON-ALCOHOLIC BEVERAGES</b>	<b>39.0</b>	<b>38.3</b>	-0.6
A. FOOD ITEMS	36.3	35.5	-0.8
B. NON-ALCOHOLIC BEVERAGES	2.7	2.9	0.2
<b>II. ALCOHOLIC BEVERAGES AND TOBACCO</b>	<b>2.0</b>	<b>1.6</b>	-0.4
<b>III. NON-FOOD ITEMS</b>	<b>59.0</b>	<b>60.1</b>	1.1
A. CLOTHING AND FOOTWEAR	3.0	2.9	0.0
B. HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	22.5	22.0	-0.4
C. FURNISHINGS, HOUSEHOLD EQUIPMENT	3.2	2.9	-0.3
D. HEALTH	3.0	3.9	0.9
E. TRANSPORT	7.8	8.1	0.2
F. COMMUNICATION	2.3	2.9	0.7
G. RECREATION AND CULTURE	1.9	1.4	-0.5
H. EDUCATION	3.4	3.3	-0.1
I. RESTAURANTS AND MISCELLANEOUS GOODS AND SERVICES	12.0	12.6	0.6

Source: PSA

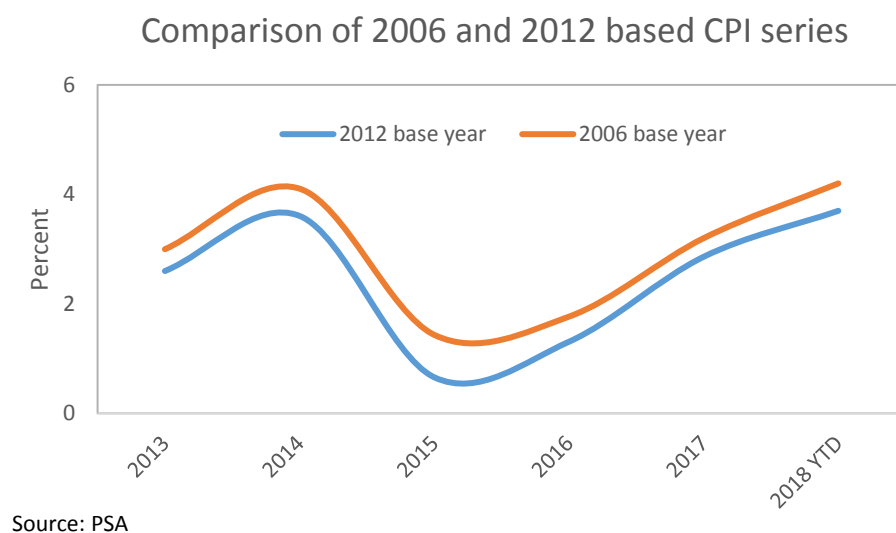
<sup>6</sup> This section borrows heavily from the CPI technical notes of the PSA. For more details, please see: [https://psa.gov.ph/sites/default/files/attachments/itsd/cpi/2006-based%20CPI%20full%20report\\_revised%20as%20of%20sep%20%202011\\_31.pdf](https://psa.gov.ph/sites/default/files/attachments/itsd/cpi/2006-based%20CPI%20full%20report_revised%20as%20of%20sep%20%202011_31.pdf), [http://web0.psa.gov.ph/sites/default/files/attachments/itsd/cpi/2012-based%20CPI%20Methodology\\_0.pdf](http://web0.psa.gov.ph/sites/default/files/attachments/itsd/cpi/2012-based%20CPI%20Methodology_0.pdf), and <https://psa.gov.ph/system/files/attachments/itsd/cpi/METHODOLOGY%20IN%20REBASING%20THE%20CONSUMER%20PRICE%20INDEX%20TO%20BASE%20YEAR%202012%20AND%20ADOPTING%20THE%20CHAIN%20METHOD%20IN%20THE%202012-BASED%20CPI.pdf>



## The Laspeyres effect

Until the CPI is rebased, the quantities in the basket of goods used is fixed based on household consumption in the base year. However, the expenditure pattern of consumers changes overtime. Households typically react to price changes by buying more goods or services that have become relatively cheaper to replace those that have become relatively more expensive (i.e., the substitution effect). As the CPI base is fixed, inflation, which is computed based on the change in CPI, tends to be overestimated the farther it is from the base year. This is called the Laspeyres effect.<sup>7</sup> Historical data supports this. Inflation rates using the 2006-based CPI are higher than those using the more recent 2012-based CPI.

**Figure 1. The 2006 series had higher inflation than the 2012 series.**



## The rebasing is on schedule

In February 2015, the PSA announced the plan to rebase the CPI from 2006 to 2012.<sup>8</sup> This was much earlier than the comprehensive tax reform proposal. PSA chose 2012 as the next base year as it was the latest year when the Family Income

<sup>7</sup> For further reading, please see:

[https://www.statssa.gov.za/cpi/documents/Note\\_on\\_CPI\\_Laspeyres,\\_Paasche\\_and\\_Fischer\\_indices\\_2013.pdf](https://www.statssa.gov.za/cpi/documents/Note_on_CPI_Laspeyres,_Paasche_and_Fischer_indices_2013.pdf)

<sup>8</sup> For more details, please see: <http://www.bworldonline.com/content.php?section=Economy&title=psa-to-make-2012-new-base-year-for-gdp-cpi&id=102234>. See also PSA Board Resolution No. 1, Series of 2017-146.

and Expenditure Survey (FIES) and the Census of Philippine Business and Industry coincide, thus giving a stronger basis for the generation of statistics.

Economists from the private sector and the academe laud the initiative to rebase the CPI regularly. Dennis Mapa, Dean of the UP School of Statistics, said that,

“[Rebasing the national accounts] may lead to a slower pace of growth or faster, but what is most important is that it’ll give us a clearer assessment of the economy. If growth slows and CPI accelerates then at least we would be aware. On the flip side, rebasing may show us that we had been underestimating growth and overestimating inflation trends.”

However, the rebasing was delayed. In January 2017, the PSA announced that the rebasing would instead be completed by end-2017.<sup>9</sup> This revised schedule puts it in line with the release this February 2018. Moving forward, the PSA plans to rebase the series every six years.

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<sup>9</sup> For more details, please see: <http://www.bworldonline.com/content.php?section=Economy&title=change-in-cpi-base-year-to-be-implemented-by-year&8217s-end---psa&id=138791>.