DOF Economic Bulletin on Inflation

7 July 2015

         Inflation rate dipped to 1.2% in June, 0.2 percentage point lower than DOF's internal forecast of 1.4%. This is due to lower prices of housing, utilities and food items. Inflation rate has been below the lower bound of the official target of 2% for two consecutive months. A notable deceleration in price increase is in education, whose upward adjustment may be felt later in August when many schools will have changed the start of their academic years.

         For the second quarter of 2015, inflation rate averaged 1.7%, lower than the first quarter's 2.4% and the same quarter last year of 4.4%.

**Table 1: Inflation Rate and Contribution to Inflation Rate**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | **Inflation Rate (%)** |  |  | **Contribution to Inflation Rate (%)** |
| **COMMODITY GROUP** | Jun-14 | May-15 | Jun-15 |   | 2014 Q2 | 2015 Q1 | 2015 Q2 |   | Jun-15 |   | 2015 Q2 |
| **All items** | **4.4** | **1.6** | **1.2** |  | **4.4** | **2.4** | **1.7** |  | **1.2** |   | **1.7** |
| Food & non-alcoholic beverages |       7.4 |        3.2 |       2.1 |   |     6.9 |       4.8 |    3.1 |   |       0.9 |   |       1.3 |
| Bread and Cereals |     11.1 |        2.6 |       1.7 |   |   10.5 |       5.7 |    2.7 |   |       0.2 |   |       0.4 |
| Rice |     14.0 |        3.2 |       2.0 |   |   13.3 |       7.2 |    3.3 |   |       0.2 |   |       0.4 |
| Alcoholic beverages & Tobacco |       3.7 |        3.7 |       3.8 |   |     3.9 |       4.0 |    3.8 |   |       0.1 |   |       0.1 |
| Alcoholic Beverages |       4.3 |        2.9 |       3.0 |   |     4.6 |       3.5 |    3.1 |   |       0.0 |   |       0.0 |
| Clothing and footwear |       3.4 |        2.6 |       2.5 |   |     3.4 |       3.1 |    2.6 |   |       0.1 |   |       0.1 |
| Housing, Utilities & Fuels |       2.3 |      (1.5) |      (1.3) |   |     3.0 |     (1.2) |   (1.1) |   |      (0.3) |   |     (0.2) |
| Actual Rentals for Housing |       1.7 |        2.7 |       2.5 |   |     1.6 |       3.0 |    2.7 |   |       0.3 |   |       0.3 |
| Electricity, Gas & Other Fuels |       3.4 |      (9.1) |      (9.0) |   |     5.5 |     (8.7) |   (8.2) |   |      (0.7) |   |     (0.6) |
| Furnishings, household eqt. |       2.6 |        2.2 |       1.9 |   |     2.5 |       2.2 |    2.1 |   |       0.1 |   |       0.1 |
| Health |       3.1 |        2.3 |       2.2 |   |     3.3 |       2.6 |    2.3 |   |       0.1 |   |       0.1 |
| Transport |       1.3 |        0.1 |       0.2 |   |     1.4 |     (0.7) |   (0.0) |   |       0.0 |   |     (0.0) |
| Communication |       0.1 |      (0.1) |      (0.1) |   |     0.1 |     (0.1) |   (0.1) |   |      (0.0) |   |     (0.0) |
| Recreation and Culture |       1.2 |        1.1 |       1.1 |   |     2.0 |       1.2 |    1.1 |   |       0.0 |   |       0.0 |
| Education |       5.0 |        5.1 |       3.7 |   |     4.8 |       5.1 |    4.6 |   |       0.1 |   |       0.2 |
| Restaurants & Misc. Services |       1.9 |        1.2 |       1.2 |   |     1.9 |       1.5 |    1.2 |   |       0.1 |   |       0.1 |
|   |   |   |   |   |   |   |   |   |   |   |   |
| **Core Inflation** | **4.7** | **1.8** | **1.4** |   | **3.6** | **2.5** | **1.9** |   |   |   |   |
| Source of Basic Data: NSO |   |   |   |   |   |   |   |   |   |   |   |

Table 2: Prices of Selected Commodities

|  |  |  |  |
| --- | --- | --- | --- |
| Item | Jun-14 | May-15 | Jun-15 |
| Meralco (rate per kWH for 300KW/mo consumption) |      10.96 |    10.35 |        9.77 |
| NCR Big Three Diesel Pump Price |      42.90 |    31.05 |      30.39 |
| Dubai crude oil (USD/barrel) |   108.01 | 63.69 |     61.78 |
| Regular Milled Rice (PHP/kg) |      39.42 |    37.35 |     37.31 |
| Sources: Meralco, DOE, World Bank, BAS |

DOF View

         The government should continue the effort to tame food price increases and its volatilities especially as the effects of the El Niño phenomenon are felt in many provinces.

         For the first semester of 2015, inflation rate averaged 2% so as to approach the lower bound of the official target. This development, however, is due, in part, to external events beyond the control of policy makers. The trend may be reversed in the near future. As such, the government should take advantage of the currently lower energy prices and adjust gasoline taxes before international oil prices resume their upward trend.