**DOF Economic Bulletin on Inflation Forecast**

1 June 2018

     Inflation in May likely inched to 4.9% YOY (year-on-year) in May, up from the previous month's 4.5%.

     Inflationary momentum, however, appears to be receding as the month-on-month (MOM) change slows down from 0.5% in April to 0.3% in May.

     Supply problems continue to affect food prices with vegetables accelerating to 1.4% MOM (month-on-month) from negative levels since February while the levels of rice and fish are slowing down to 0.52% and 0.72%, respectively.

   Electricity, gas and fuels are likely to have reversed to a 1.1% price decline MOM while transport continues to accelerate reflecting domestic petroleum prices.

      Sin products and non-alcoholic beverages continue to decelerate MOM to 0.74% and 2.11%, respectively.

      Restaurants which benefited mostly from the income tax cut continued to accelerate to 0.48% after slowing down in the previous month.

DOF View

Inflation may appear to be rising YOY but it is actually decelerating as the MOM inflation continues to drop.

A meaningful drop in prices is attainable if the food supply problem is solved because food accounts for 35.5% of the consumer basket. Rice tariffication will help temper rice inflation while productivity programs for the food sector would enhance longer-term price stability.

**Table 1 Inflation Forecast by Major Commodity Group**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Inflation Rate (%) | | |  | Contribution to Inflation | | |  | Month-on-Month (%) | | | |
| Commodity Group | May-17 | Apr-18 | May-18F |  | May-17 | Apr-18 | May-18F |  | Feb-18 | Mar-18 | Apr-18 | May-18F |
| **All items** | **2.87** | **4.50** | **4.92** |  | **2.87** | **4.50** | **4.92** |  | **0.70** | **0.52** | **0.52** | **0.32** |
| Food and non-alcoholic beverages | 3.05 | 5.93 | 6.45 |  | 1.21 | 2.35 | 2.56 |  | 0.50 | 0.50 | 0.41 | 0.58 |
| Rice | 1.14 | 4.33 | 4.78 |  | 0.12 | 0.43 | 0.48 |  | 1.28 | 0.76 | 0.66 | 0.52 |
| Fish | 7.59 | 12.34 | 13.63 |  | 0.44 | 0.74 | 0.82 |  | (0.15) | - | 0.92 | 0.72 |
| Vegetables | 2.04 | 6.81 | 9.36 |  | 0.06 | 0.20 | 0.27 |  | (2.32) | (2.01) | (0.95) | 1.41 |
| Non-alcoholic beverages | 0.94 | 9.35 | 11.56 |  | 0.03 | 0.26 | 0.32 |  | 1.37 | 3.16 | 2.19 | 2.11 |
| Alcoholic beverages and Tobacco | 7.30 | 19.96 | 20.46 |  | 0.16 | 0.44 | 0.45 |  | 5.34 | 2.39 | 1.31 | 0.74 |
| Alcoholic Beverages | 3.73 | 5.41 | 5.38 |  | 0.03 | 0.04 | 0.04 |  | 0.99 | 0.90 | 0.22 | 0.28 |
| Tobacco | 9.29 | 27.46 | 28.19 |  | 0.13 | 0.40 | 0.41 |  | 7.39 | 3.06 | 1.87 | 0.86 |
| NON-FOOD | 2.71 | 3.06 | 3.29 |  | 2.25 | 1.78 | 1.91 |  | 0.73 | 0.55 | 0.45 | 0.12 |
| Clothing and footwear | 2.70 | 2.19 | 2.20 |  | 0.08 | 0.07 | 0.07 |  | 0.26 | 0.17 | 0.26 | 0.18 |
| Housing, Utilities & Fuels | 3.39 | 2.99 | 2.97 |  | 0.71 | 0.63 | 0.63 |  | 1.02 | 0.83 | 0.55 | (0.20) |
| Electricity, Gas & Other Fuels | 7.22 | 4.65 | 4.45 |  | 0.45 | 0.31 | 0.29 |  | 2.26 | 2.21 | 1.67 | (1.10) |
| Furnishings, household equipment | 2.37 | 2.76 | 2.97 |  | 0.07 | 0.08 | 0.09 |  | 0.44 | 0.61 | 0.26 | 0.21 |
| Health | 2.84 | 2.77 | 2.81 |  | 0.11 | 0.11 | 0.11 |  | 0.26 | 0.44 | 0.35 | 0.13 |
| Transport | 4.25 | 4.87 | 6.12 |  | 0.30 | 0.35 | 0.44 |  | 1.38 | (0.29) | 0.78 | 0.88 |
| Communication | 0.20 | 0.30 | 0.32 |  | 0.01 | 0.01 | 0.01 |  | - | 0.10 | - | 0.02 |
| Recreation and Culture | 0.92 | 1.46 | 1.45 |  | 0.01 | 0.02 | 0.02 |  | 0.09 | 0.09 | 0.09 | 0.09 |
| Education | 3.15 | 1.78 | 1.80 |  | 0.11 | 0.06 | 0.06 |  | - | - | - | 0.02 |
| Restaurants & Misc. Services | 1.40 | 3.40 | 3.80 |  | 0.18 | 0.42 | 0.47 |  | 0.45 | 0.63 | 0.36 | 0.48 |
| Source of Basic Data: PSA |  |  |  |  |  |  |  |  |  |  |  |  |