**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 |   |   |   |   |   |   |   |   |   |   |   |   |