



Philequity Corner (June 4, 2018)
By Wilson Sy

Barking up the wrong tree

Many people find it convenient to blame the rise in inflation on the government's tax reform package (TRAIN). Some are even proposing to scrap the excise tax on oil in order to put a lid on the rising cost of living. The protesters may be barking up the wrong tree. TRAIN is not to blame for our inflation woes, as we have discussed in a previous article. It is the sharp rise in crude oil prices, among others, that accounts for the bulk of our inflation figure (see *Rising oil prices – Culprit behind high inflation and current account deficit*, May 14, 2018).

DOF addresses inflation concerns

Due to the timing of TRAIN which was implemented at the start of the year, it is perceived by many to have triggered the rise in inflation. According to the DOF report, although TRAIN did add to inflation, its contribution is only minimal to the overall inflation figure. Some of the highlights of the report are the following:

1) TRAIN contributed only 0.4 percentage points to inflation

Of the 4.5 percent inflation rate in April 2018, TRAIN only contributed around 0.4 percentage points while other factors contributed the bigger share. *"In other words, if you could buy items for P100 last year, you need to spent P104.50 now for them and of that increase, only 0.40 (forty centavos) was due to TRAIN,"* according to Finance Undersecretary Karl Kendrick Chua.

2) Higher fuel prices is one of the main drivers of inflation

Increases in fuel prices were largely due to higher international crude oil prices and the depreciation of the peso. According to the DOF report, the price of Dubai crude increased by 30.5 percent year-on-year as of April 2018 while the peso depreciated 4.4 percent over the same period. Hence, the price of oil in peso terms have gone up by 36.2 percent.

3) Better tobacco tax compliance

Tobacco inflation remained high, contributing 0.2 percentage points to overall inflation. But what this means is that tax compliance is improving which is actually good for the economy.

4) Boost in government spending contributes "good inflation"

The 27 percent boost in government spending also adds to inflation but this is considered "good inflation" due to the positive impact to our economic growth. Moderate inflation is not necessarily bad especially for a fast-growing economy like the Philippines.

5) Profiteering a big factor

Other factors, including profiteering, accounted for 0.7 percentage points. The Department of Trade and Industry (DTI) are closely monitoring and checking prices of goods regularly.

Inflation fears peak

Inflation is expected to increase for the fifth straight month in May which the Bangko Sentral ng Pilipinas (BSP) forecasts to range between 4.6% and 5.4%. Some lawmakers have called for the suspension of the excise taxes on petroleum products citing the consecutive monthly increases in inflation. Meanwhile, labor groups are calling for a wage hike, blaming the rising cost of living on TRAIN.

It's always darkest before dawn

Just when everything seems bleak, crude oil plummets. News that Saudi Arabia and Russia will be relaxing their caps on oil production have caused oil prices to retreat. US benchmark WTI Crude declined for the 2nd straight week, down nearly 3.1 percent for the week after losing 4.9 percent the week before.



In the nick of time

The sharp drop in oil prices provides a respite for Filipinos just in the nick of time. If the decline in oil price continues, it may finally ease inflation. This may also assuage the concerns of those who may be prematurely calling for a wage hike and those who are blaming TRAIN for our country's economic woes.

Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit www.philequity.net to learn more about Philequity's managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 689-8080 or email ask@philequity.net.