

Philippines Macro Flash

Faster Inflation of 3.4%YoY in Feb Largely Due to Excise Tax Effect

- **Headline inflation of 3.4%YoY in Feb (vs 3%YoY in Jan) – a tick higher than expectations** (Survey: 3.3%YoY/Citi: 3.3%YoY) — Because of the higher excise taxes on cigarettes & alcoholic beverages (CAB) effective Jan, CPI in this category expanded 29%YoY in Feb, triggering much of the CPI upside. Excluding CPI CAB from the headline CPI, inflation eased to 2.8%YoY, matching the preceding month's estimate ex-CAB. Aside from confirming lower inflation without the excise tax, the data failed to show an excise tax effect for the 2nd month in a row which could have triggered price contagion to the rest of the CPI items. Moreover we estimate an annualized rate of 3.4% in Feb for headline CPI, down from 4.2% in Jan when the higher excise tax was imposed. We thus argue that the CPI update does not lend strong support for a shift to rate tightening, since much of the CPI upside in Jan-Feb came by way of the higher excise tax effect on CAB – without this tax effect, inflation remains well below 3%.
- **Core lower than expected at 3.8%YoY in Feb** (Citi: 4%YoY) — Despite a higher YoY estimate in Feb (which includes CPI CAB), we estimate an annualized rate of 2.5% for core down from 6.3% in Jan. Non-food CPI – most of which comprised core – printed 3.8%YoY in our estimate to match core in Feb (inclusive of CPI CAB). Among the non-food components, we discover that clothing & footwear (4.8%YoY), housing rental (3.9%YoY), utilities (2.6%YoY), health (3.2%YoY), transport services (1%YoY) and communications (0.7%YoY) reported benign CPI – either in the guise of slower YoY inflation or an estimate at 1% or less in Feb. CPI education (4.4%YoY) and restaurants & miscellaneous services (2.8%YoY) in Feb matched their preceding month's rates. CPI electricity, a key component of CPI utilities, dipped 0.1%YoY.
- **Raw food components of CPI edged up in Feb** — We note that CPI rice (1.8%YoY), corn (5.9%YoY), fish (5.8%YoY), meat (1.9%YoY), and vegetables (1.4%YoY) posted incremental gains after previous months of steady to narrowing inflation. We also note that sugar and confectionery products (3.4%YoY) as well as other food products (3.3%YoY) reported higher inflation. Election spending in 1Q13, holidays in Feb, and the start of seasonal summer demand probably nudged up raw food prices and processed food prices. Because of rising raw food prices, non-core CPI posted inflation of 1.6%YoY (vs 0.9%YoY in Jan). Energy prices – the other non-core component – bucked the uptrend, with CPI transport fuel prices down 0.5%YoY in Feb alongside the dip in CPI electricity.
- **Monetary Board (MB) likely to sustain SDA yield cut by 30bp-50bp** — With benign CPI ex-excise tax effect, we expect the MB to trim the SDA rate in next week's meeting while keeping its overnight rate at 3.5%. Other than easing a strong peso, we estimate the SDA rate cut of 30-50bp will help ease BSP's balance sheet pressures by Php5bn-Php9bn on the assumption that BSP incurs an annual interest bill of Php54bn (at 3% SDA rate) with an SDA stock of Php1.8tr.

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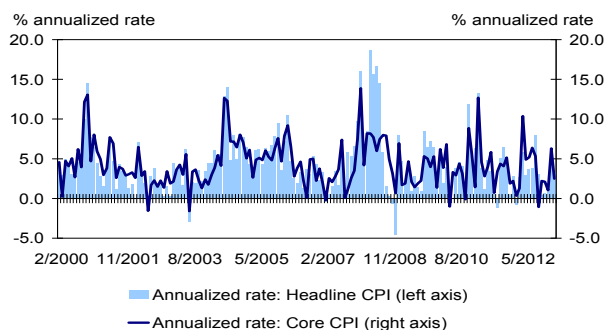
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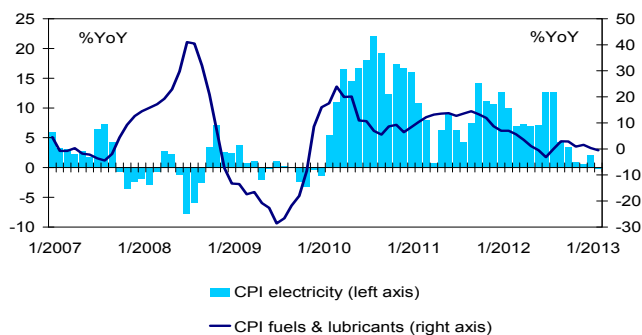
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Figure 1. Slower annualized rates for headline and core CPI in Feb



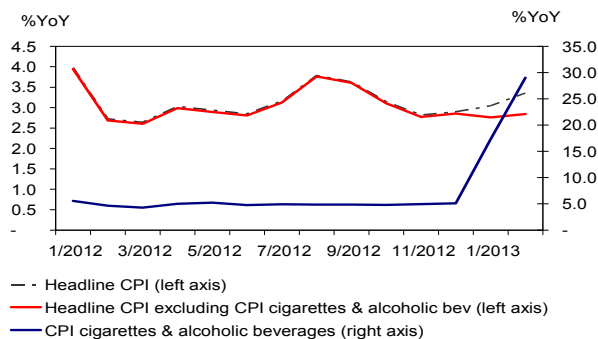
Source: CEIC, National Statistics Office, Citi Research

Figure 3. CPI energy continues to post benign inflation



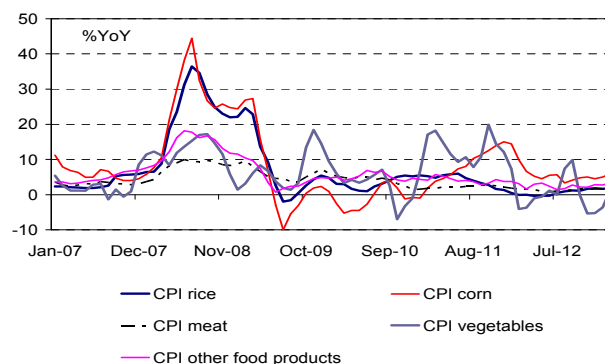
Source: CEIC, National Statistics Office, Citi Research

Figure 2. Excluding CPI cigarettes and alcoholic beverages that bore heavy excise taxation recently, headline CPI of 2.8%YoY persisted



Source: CEIC, National Statistics Office, Citi Research

Figure 4. Election spending coupled with holidays in Feb probably nudged up CPI of raw food prices and other processed foodstuffs



Source: CEIC, National Statistics Office, Citi Research

Appendix A-1

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