

TAX HIKES TEMPER DEMAND, MANUFACTURING  
SECTOR GROWTH

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The increase in the excise tax rates slapped on various products to generate more revenue for the government under the Tax Reform for Acceleration and Inclusion (TRAIN) act tempered demand and manufacturing growth in January, the latest Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI) showed.

Last month, the seasonally adjusted PMI score dropped to 51.7 from 54.2 in December, global research firm IHS Markit said in a report yesterday.

The reading in January was the fastest rates in the survey history, pushing Filipino manufacturers to raise selling prices at a record pace," Aw said.

"The key driver for inflation came from supply-side factors, rather than demand. Anecdotal evidence showed that new excise taxes, a weak exchange rate and higher global commodity prices, especially oil, metal and plastics, all pushed inflation higher. Given the strong relationship between PMI's gauge of input prices and official consumer inflation data, we could see stronger consumer price pressures in early 2018," Aw added.

The Department of Finance sees headline inflation to have risen to 3.3 percent in January,

the third lowest since the survey began in January 2016, "signaling a modest improvement in the health of the sector, contrasting with solid expansions in recent months," IHS Markit said.

A PMI score of above 50 indicates an increase in manufacturing activity.

"While the Philippines' manufacturing economy ended last year on a high, it started 2018 on a more modest note as demand was partially hurt by the new excise taxes... Growth in both output and new business saw a marked slowdown in January, alongside the weakest rise in employment growth

while the Bangko Sentral ng Pilipinas projected the rate of increase in the prices of basic goods to have settled within the range of 3.5-4 percent.

"The increase in the prices of domestic petroleum products on account of higher global crude oil prices along with higher food prices due to weather-related disturbances could contribute to the rise in inflation for January 2018. The higher excise taxes on fuel, sugar-sweetened beverages with the implementation of the TRAIN last month would lead to additional upward price pressures," the BSP said.

However, the BSP said the increase in prices could be part-

since the declines recorded last summer," IHS Markit principal economist Bernard Aw said in a statement.

Under the TRAIN Law that took effect on Jan. 1, the government jacked up or slapped new taxes on the consumption of oil, cigarettes, sugary drinks and vehicles, among other goods, to compensate for the restructured personal income tax regime that brought the tax-exempt cap to an annual salary of P250,000.

"One area of concern is the renewed pick-up in the price pressures, which could pose a downside risk to future growth. Survey data showed input costs increasing sharply and at one of

ly offset by lower electricity rates in Meralco-serviced areas for the month.

In December, the Cabinet-level Development Budget Coordination Committee kept the 2-4 percent inflation target for the medium-term despite the short-term inflationary impact of the TRAIN Law.

Aw said other survey indicators suggested that firms were likely to look past the near-term slowdown toward stronger growth in the year ahead. It noted that the majority of respondents to their future output index expected higher production levels in the next 12 months.

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\* TAXATION

\* DEPT. OF FINANCE (DOF)