MANILA BULLETIN
THE PHILIPPINES' LEADING NATIONAL NEWSPAPER

Monday, March 19, 2018

B1 and B7

TRAIN 1, peso, oil take toll on consumers

By THE BUSINESS SECTION

Almost three months from the effectivity of TRAIN 1, coupled with rising oil prices and the weak peso, higher prices take toll on consumers. The government, however, said the impact is temporary and inflation is going to normalize, reverting to target range in 2019.

Inflation

January inflation climbed to four percent from 3.3 percent in December before TRAIN, and to 4.5 percent in February, the highest in three years. Based on the 2012 Consumer Price Index, series, inflation year-to-date averaged at 3.7 percent, with the re-based January inflation at 3.4 percent, and February at 3.9 percent.

The Bangko Sentral ng Pilipinas expects inflation to exceed the two percent to four percent target range for 2018, to average "slightly above" the high-end of the target or more than four percent, and then decelerate to within price range expectations.

"The higher inflation in 2018 reflects the projected higher prices of domestic petroleum products, electricity rates, sugar-sweetened beverages, and tobacco, which are seen to be temporary. Mitigating measures, such as unconditional cash transfers and transport subsidies, are expected to help prevent potential second-round effects from developing. Moreover, the potential expansion of the economy's productive capacity is expected to temper price pressures over the medium-term."

It is too soon to see evidence of second-round effects from current inflation, or any evidence that would lead to second-round effects which would prompt a monetary policy action from the central bank.

These second-round effects typically would include a slowing of economic activity, or transport fare adjustments or petitions for wage increases. First-round price changes, in the meantime, are "evolving more or less as expected, and transitory," according to BSP Governor Nestor A. Espenilla Jr.

"The recent uptick in (January and February) inflation was largely due to supply-side factors, as fish and vegetables prices, among others, hiked significantly. The recent wage adjustments pertain to those filed prior to the implementation of TRAIN."

As for transport fares, these remain unchanged, he added, although Espenilla noted the reported "clamor for upward adjustments" in transport fares in some regions, but these are not reflected in the actual CPI.

Espenilla said concerns on electricity adjustments "refer to direct effect of higher ▶B-7

* TRAIN 1 (TAX REFORM FOR ACCELERATION AND INCLUSION)

* CONSUMERS

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excise tax on coal and VAT on transmission charges on household electricity bills."

The BSP is confident inflation will normalize and return within the two percent to four percent target range in 2019. For this year, he said, headline inflation will not exceed five percent.

Based on preliminary estimates of the tax reform law, inflation could increase by half a percentage point up to one percentage point in 2018 and by less than half percentage point in 2019. "Price pressures could come from higher consumption taxes at least in the short run, and increased demand from higher infrastructure spending and higher disposable income due to lower personal income tax," said Espenlilla.

"Nevertheless, the BSP will remain watchful against signs of higher inflation becoming more broad-based and persistent to ensure that inflation expectations remain consistent with the target and monetary policy remains appropriate," he said.

Consumer spending

Consumer spending is expected to slow because TRAIN is seen to reduce, instead of increase, the spending power of a large majority of Filipino workers, according to a stock market study.

"Only 6 percent of Filipinos, or 15 percent of workers, get tax savings (from income tax) while 100 percent are paying higher excise taxes on fuel, sugar, and others," the study said. The study's author, however, has requested for non-attribution.

The study noted "overseas Filipino workers, farmers, fishermen, construction workers, drivers, house helpers, and informal workers (who do not pay income taxes) will be worse off."

This is because the additional cash transfer of ₱200 per month is equivalent to only ₱1.10 per person per day and will be given for only three years while the effects of higher taxes and inflation are permanent.

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Among the biggest impact of TRAIN is the higher excise tax on fuel since "bulk of all fuel sold in the Philippines is used in transport (passenger and freight), manufacturing, and power generation."

The study added that, the Social Security System's plan to "hike contribution and shift to 50:50 sharing (up from 33 percent for workers) will eat up to 28 percent of tax savings."

On the part of businesses, the biggest concern is higher oil prices and its inflationary effect as well as the resulting increase in interest rates due to rising inflation.

DMCI Holdings Chairman Isidro Consunji said in an interview that the conglomerate is most sensitive to the cost of construction materials, oil prices, a weak peso and higher interest rates.

He said the rise in cost of construction materials still has no impact on the company's margins since it has hedged its requirements for a year.

However, higher fuel prices due to TRAIN, global market forces, and a weaker peso will eventually have an impact on margins since this cost cannot be passed on to customers.

"While it is not yet too significant, we are wary that rising fuel prices is a creeping inflation," said Consunji.

Bitter sugar

The impact of the new tax on sugar-sweetened beverages (SSBs) swung from the sugar industry to manufacturers to consumers.

Once without taxes, SSBs have been slapped a tax rate of ₱6 per liter under TRAIN, while drinks with HFCS are taxed twice at ₱12 per liter. Beverages that normally has high amount of HFCS are soft drinks and energy drinks.

"In relation to this, I think it is worth to mention the income of national government from sugar sweetened beverages for the month of January alone, which amounted to ₱2.5 billion in tax," Sugar Regulatory Administration (SRA) Chief Hermenegildo Serafica said in an interview.

"This is an additional contribution of the sugarcane industry to the national government," he added.

Of the amount cited by Serafica, tax collections from Coke amounted to ₱1.186 billion, while the government collected ₱666 million from Pepsi. ARC Refreshments had to pay ₱293.015 million, while Nestle Philippines paid ₱143.5 million.

Tax collections from Zesto Corp. stood at ₱7 million; Inter Beverages Philippines, ₱112 million; Asia Brewery, Inc., P18 million; Liwayway Marketing, ₱16.049 million; SMB Inc., ₱10.726 million.

The tax reform did not only result in higher tax for SSB manufacturers, it also pushed them to shift back to their original formula that they have ditched several years ago when prices of sugar shot up.

At some point in 2014, millgate sugar prices surged, with average millgate price of B sugar or domestic raw sugar hitting as high as ₱1,800 per 50-kilo bag.

As of February 11, the average composite millsite price of raw sugar stood at ₱1,379.22 per 50-kilo bag.

The wholesale price of sugar stood at ₱1,500 per 50-kilo bag as of March 9 while the retail price was around ₱32 to ₱46 per kilogram (kg). Refined sugar costs around ₱43 to ₱55 per kilogram.

The high cost of sugar had forced soft drink manufacturers to use imported high fructose corn syrup (HFCS) in their formula, effectively reducing their dependence on sugar. To date, the Philippines has no domestic production of HFCS.

In 2014, the volume of HFCS that arrived in the country surged to 213,185 metric tons (MT) from 32,199 MT recorded a year ago. Since TRAIN law was implemented, the demand for HFCS plummeted to less than 5,000 MT as of February 19.

"We have shifted away from the use of HFCS in our products, beginning 01 January 2018. This, we hope, will help reduce the impact for our customers, as the SSB tax levies a ₱12 per liter rate for drinks with HFCS versus the ₱6 per liter rate for sweeteners other than HFCS," Juan Lorenzo Tañada, Director for Legal and Corporate Affairs of Coca-Cola FEMSA Philippines, said in an email to Business Bulletin.

As of now, SRA is trying to keep the price of sugar from moving drastically. This, as a significant price increase could actually trigger companies into purchasing sugar from overseas.

Oil prices

Tension over cost spikes at the pumps initially dogged the implementation of the higher excise taxes levied on petroleum products from the start of 2018.

And that was expected given the extent of tax adjustments for each fuel product: ₱2.50 per liter for diesel; ₱2.65 per liter for gasoline; ₱3.00 per liter for kerosene; and ₱1.00 per liter for liquefied petroleum gas. It also was not comforting at all for consumers that, in the whole month of January, domestic pump prices were incessantly rising.

Providentially, the Department of Energy (DOE) came to the rescue – on its announcement that the 'old inventories' of the oil companies (lasting 15 days to roughly 30 days of supply) cannot be enforced with the new excise taxes yet under the Tax Reform for Acceleration and Inclusion (TRAIN) Act of the Duterte administration.

Somehow, that spared consumers from additional price spikes until January 15 or January 29, depending on the oil company that they patronize.

By 'un-taxing' the old inventories, the DOE later on vouched that it was able to generate at least ₱2.7 billion savings for consumers – in the form of taxes that were not passed on within a specified period.

However, the DOE's Oil Industry Management Bureau (DOE-OIMB) said that the actual impact on volume sales as well as revenue collections of the government due to the delayed TRAIN taxes enforcement in the oil sector "cannot be properly assessed yet, because data and reports are still being collated."

In the interval, when TRAIN-underpinned price increases were finally implemented second week to last week of January 2018, the oil industry had also seen two-time hefty rollbacks in prices on at least two weeks in February.

The oil companies announced price cuts for diesel products at ₱1.30 per liter on the weeks of February 13 and February 18; gasoline prices had been down by ₱1.00 and ₱1.15 per liter; and kerosene by ₱0.85 and ₱1.20 per liter, respectively.

Less impressed, however, had been the transport sector – that with the prevailing weekly seesaw in prices at the pumps, there had been less assurance on their part that higher fuel prices would not gobble up on their daily earnings, hence, they were persistent on seeking hike in transport fares.

Defense

Economic managers Finance Secretary Carlos G. Dominguez III and Socioeconomic Planning Secretary Ernesto M. Pernia down played the recent spike in consumer prices. "We expect that the SSB tax will be inflationary, we know that we want it, that's why it's a health measure," Dominguez explained. For tobacco, the finance chief said "we want cigarettes to be expensive, so we have to take it."

"Alcoholic beverages whose inflation rate grows by 4.8 percent... this reflects the four percent adjustment in sin taxes according to the sin tax law, so that's expected, it's okay," the finance chief said.

Dominguez, meanwhile, explained the increase in electricity, gas and other fuel prices was not due to the implementation of

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the TRAIN.

"The average, again, crude premium prices rose to $63 a barrel in January from $53 a barrel the year before, representing a 19 percent increase. Add to this the 1.6 percent exchange rate depreciation, the peso depreciated following the rise of interest rates in the US," he said.

Pernia, meanwhile, noted that based on the National Economic and Development Authority's calculations, only 0.7 percent of inflation for this year is attributable to the effects of the TRAIN law.

He also noted that it was also possible that certain merchants have taken advantage of the situation by raising the prices of their goods prematurely.

"It was so easy to point a finger at TRAIN," Pernia pointed out.

"We must enforce fair consumer pricing among businesses. In January, there were anecdotal reports that some of them are taking advantage of the TRAIN Law by prematurely increasing their selling prices despite no additional input costs to their production and services brought about by the law," he added.

Trade and Industry Secretary Ramon M. Lopez, however, said no profiteering case has been reported even as the agency intensified price monitoring efforts. He maintained that retailers have behaved well and if there had been increases in prices on goods early in January, these were imposed on new stocks, not on the old inventories.

TRO

Consumer advocacy group Laban Konsyumer, Inc. has filed an urgent motion as supplemental pleading to the Supreme Court on their petition for a temporary restraining order (TRO) against the first package of the government's comprehensive tax reform program.

In this filing, (LKI) President Victorio Mario Dimagiba cited the government efforts to protect the poor from higher prices of commodities.

These efforts include the implementation of the expanded cash transfer to benefit the poorest 10 million households where each would get ₱2,400 in 2018.

"Without any relief from this Honorable Court, the petitioners and consumers, particularly low-income and poor families, stand to suffer grave and irreparable injury, hence, the immediate need for the injunctive relief to be issued," it added.

LKI President Victorio Mario Dimagiba said "It could be philosophical when government say the inflation rate will normalize" noting that the government controls and computes the numbers.

"But to the consumers, we don't understand those economic lingo. What is real is that we consumers feel the pangs of high prices," Dimagiba stressed. (By Lee C. Chipongian, James A. Loyola, Myrna M. Velasco, Madelaine B. Millaflor, Chino A. Leyco, Bernie Cahiles-Magkilat).