

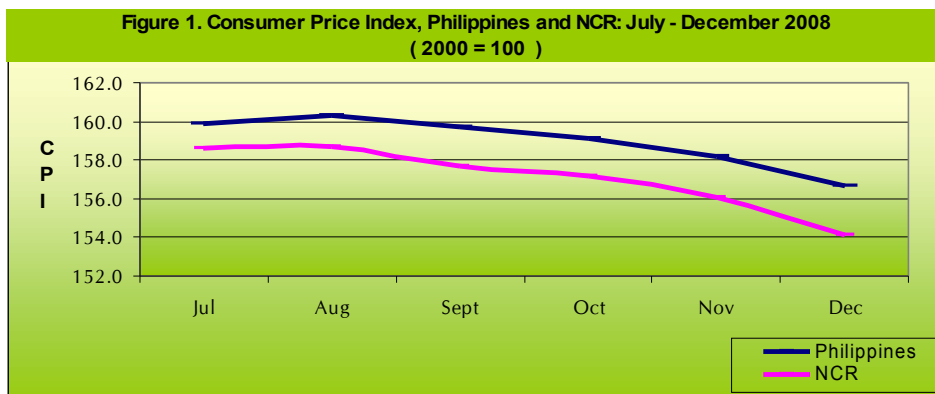


# SPECIAL RELEASE

## DECLINING CPI, INFLATION RATES IN NCR FOR THE SECOND HALF OF 2008

### National CPI higher than NCR CPI in the last six months of 2008

Figure 1 demonstrates a slight increase in the Consumer Price Index (CPI) from July 2008 to August 2008 both at the national level and in National Capital Region (NCR). A downward trend was observed for both, however, all the way from August 2008 to December 2008. Likewise, the national CPI recorded

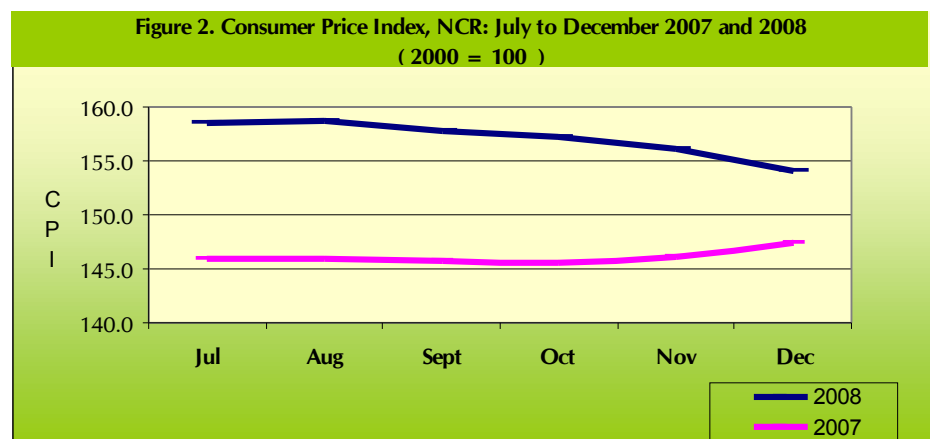


consistently higher figures than the CPI in NCR during the last semester of 2008. This occurrence showed a complete change from the previous semester where NCR recorded higher CPI than the national figures.

The national CPI recorded an index of 159.9 in July 2008, increased by 0.6 percentage point in August 2008, then gradually decreased thereafter until it hit 156.7 percent in December 2008. Refer to Table 1 for details.

### CPI in NCR on the downward trend in the second semester of 2008

In contrast to the index recorded during the last semester of 2007 where the CPI was on the upward trend as shown in Figure 2, the CPI in NCR during the last six months of 2008 had been on the downtrend recording an index of 158.6 in July 2008, going up slightly by 0.01 percentage point in August 2008 and declined monthly from August 2008 to December 2008. Refer to Table 1 for details.



## Fuel, Light and Water still recorded the highest CPI in NCR

Among the commodity groups, Fuel, Light and Water still recorded the highest CPI in NCR but with an erratic trend from August to September 2008. This commodity group is followed by Services which recorded a slight increase from July 2008 to August 2008, then a downward index from August 2008 to December 2008. Food, Beverages and Tobacco came next with a likewise erratic trend. The other three commodity groups of Clothing, Housing and Repairs, and Miscellaneous exhibited an upward trend in the CPI all the way from July to December of 2008.

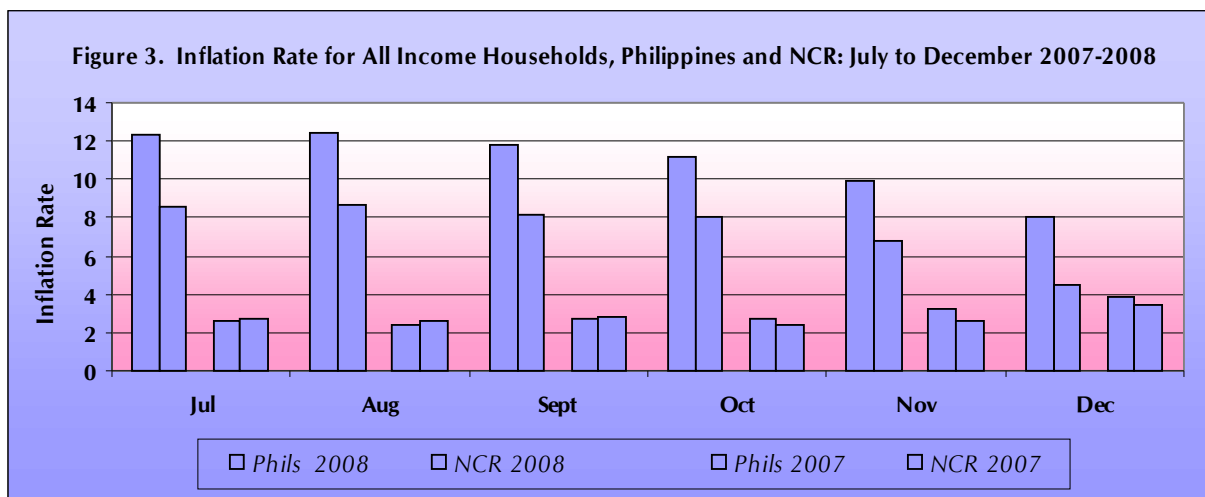
**Table 1. CPI for All Income Households by Commodity Group: NCR, July to December 2007-2008 (2000=100)**

Commodity Group	July		August		September		October		November		December	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
All Items (PHILIPPINES)	159.8	142.4	160.4	142.6	159.8	142.8	159.1	143.1	158.2	144.0	156.7	145.1
All Items (NCR)	158.6	146.0	158.7	146.0	157.7	145.7	157.2	145.5	156.1	146.1	154.1	147.5
Food, Beverages & Tobacco	148.6	131.4	148.3	132.5	148.4	133.4	147.7	134.2	147.4	134.8	148.1	136.9
Clothing	137.1	130.2	137.3	130.2	137.4	130.2	137.6	130.3	137.6	130.3	137.6	130.4
Housing and Repairs	137.4	133.5	137.7	133.5	137.8	133.5	138.0	133.5	138.0	133.6	138.1	133.7
Fuel, Light and Water	219.6	230.0	219.6	223.5	217.8	212.5	223.0	202.8	226.1	204.7	211.1	209.9
Services	198.4	171.7	198.7	172.1	194.2	172.2	190.6	173.3	184.1	174.3	177.9	175.1
Miscellaneous	123.9	121.6	124.6	121.7	124.6	121.8	124.9	121.8	125.2	121.8	125.4	121.9

Source: EIID, NSO

## National Inflation Rates still higher than NCR in the second half of 2008

The national inflation rates (IR) remained higher than NCR during the second half of 2008 although both followed exactly the same trend. The Philippines and NCR recorded an increase in IR from July 2008 to August 2008 then showed a declining trend from August 2008 to December 2008. The national IR went down by 21.4 percentage point from 12.3 in July 2008 to 8.0 in December 2008. NCR, on the otherhand, went down by 48 percentage point with an IR of 8.6 in July 2008 to 4.5 in December 2008. Both the Philippines and NCR recorded very much lower inflation rates during the same period in 2007, however, it was both in the upward trend.



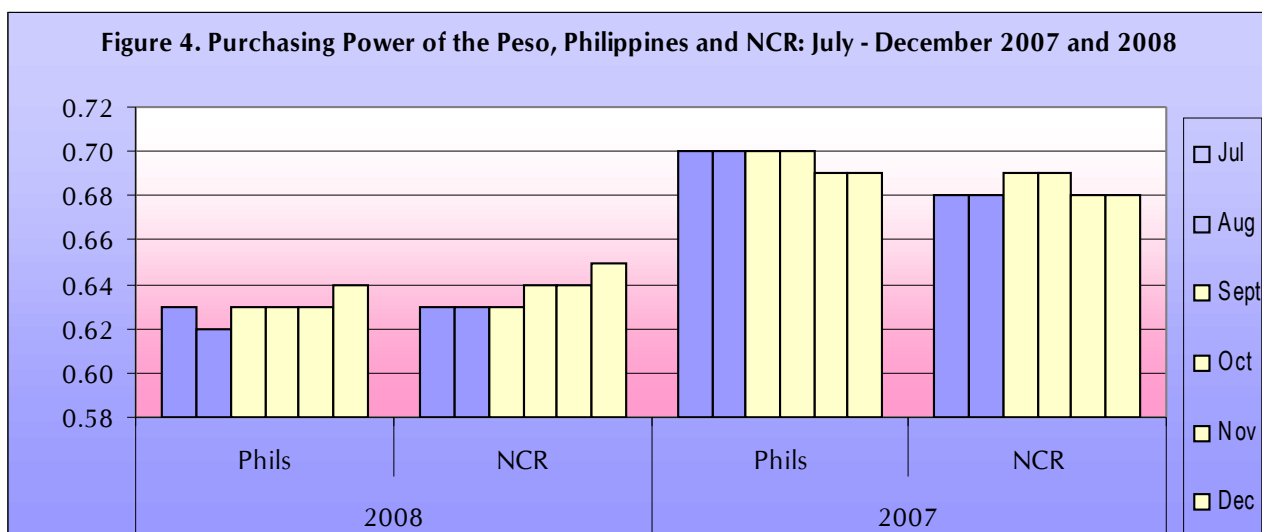
**Table 2. Inflation Rate for All Income Households, Philippines and NCR: July to December 2007 – 2008**

	July		August		September		October		November		December	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
PHILIPPINES	12.3	2.6	12.4	2.4	11.8	2.7	11.2	2.7	9.9	3.2	8.0	3.9
NCR	8.6	2.7	8.7	2.6	8.2	2.8	8.0	2.4	6.8	2.6	4.5	3.5

Source: EIID, NSO

### NCR Purchasing Power of the Peso slowly picked up in the last six months of 2008

While the IR was generally on the downward trend both for the Philippines and NCR, the Purchasing Power of the Peso (PPP) in NCR showed a slight improvement as it recorded Php0.63 in July 2008 and increased to Php0.65 by the end of the year. The Philippines likewise registered a PPP of Php0.63 in July 2008 and increased to Php0.64 in December 2008.



Source: EIID, NSO

**Table 3. Purchasing Power of the Peso, Philippines and NCR: July - December 2007 and 2008**

	July		August		September		October		November		December	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
PHILIPPINES	0.63	0.70	0.62	0.70	0.63	0.70	0.63	0.70	0.63	0.69	0.64	0.69
NCR	0.63	0.68	0.63	0.68	0.63	0.69	0.64	0.69	0.64	0.68	0.65	0.68

Source: EIID, NSO

## TECHNICAL NOTES ON THE CONSUMER PRICE INDEX (CPI)

### I. INTRODUCTION

The Consumer Price Index (CPI) is an indicator of the change in the average retail prices of a fixed basket of goods and services commonly purchased by households relative to a base year. It shows how much, on the average, prices of goods and services have increased or decreased from a particular reference period known as the base year. Since price is the cost or the amount of money for which something can be bought or sold, CPI therefore compares the current cost of certain goods and services with their cost during the base year.

To illustrate, an index of 157.0 in 2008 means that consumer prices have increased by 57.0 percent from year 2000 (base year). It also means that a set of commodities which can be purchased by an average Filipino household at Php100 in June 2000 is bought at Php157.00 in 2008.

### II. HISTORICAL BACKGROUND OF THE CPI

**1941** : The CPI which was called Cost of Living Index, was constructed by the Department of Labor - Labor Statistics Division before it was officially transferred to the Bureau of the Census and Statistics (now the National Statistics Office) on January 1, 1941.

**1945** : The Cost of Living Index series used 1941 as base year and covered Manila only. The market basket contained 66 commodities representing goods and services commonly purchased by low-income families (families living within minimum level of subsistence). This series lasted for 18 years from 1945 to 1963.

**1964** : First revision was made. New weights were based on the results of the 1961 Survey of Income and Expenditures while the average price for 1960-1962 was used as the base price. This was referred to as the Consumer Price Index for Low-Income Families in Manila (families whose annual income did not exceed P2,400). The market basket contained 244 items.

**1965** : With 1961 as base year. The series covered Manila only.

**1970** : With 1966 as base year. This time, CPI was computed for low, middle and all-income groups covering all provinces. Moreover CPI for high-income group was also computed for Manila and suburbs. Market basket consisted of 249 items for low-income, 368 for middle-income, 242 for high-income and 479 for all-income groups.

**1976** : With 1972 as base year. This series was limited only to all-income households. It covered all regions and provinces in the country including the National Capital Region (NCR).

**1982** : With 1978 as base year. Weights were derived based on the 1975 Family Income and Expenditures Survey (FIES) results updated to 1978 prices. It covered all-income households. The market basket contained 407 items.

**1992** : With 1988 as base year. Weights were derived the 1988 FIES from the expenditure data. Market basket was established for each region with the number of items ranging from 384 (for NCR) to 651 (for Region IV). Unlike in previous series where the composition of the market basket was determined by the Inter-Agency Committee on Price Statistics, the market basket used in this series was determined through the 1985 Commodity and Outlet Survey (COS) which was conducted using the sample households of the 1985 FIES. The 1985 COS was the first survey of its kind in the country, aimed at identifying the market basket through the commodities and services commonly consumed most of the time and the type of outlets where these commodities and services are commonly purchased or availed of by the households.

**1996** : With 1994 as base year. Weights were derived from the 1994 FIES expenditure data. Market basket for each province and city were constructed from the 1994 COS and the results of the validation work on the availability and saleability of the items in the 1988 market basket in the different geographical areas.

**2000 :** With 2000 as base year. Updating of the 1994 market basket was done by establishing the availability and saleability of the items in various outlets.

### **III. COMPONENTS OF THE CPI**

#### **A. BASE YEAR**

The base period is the period, usually a year, at which the index number is set to 100. It is the reference point of the index number series.

Year 2000 was chosen as the base year since (1) it was perceived to be more politically, economically and socially stable and (2) it was the year when FIES was conducted.

#### **B. MARKET BASKET**

Market basket is referred to the sample of goods and services that are commonly purchased and bought by an average Filipino household. The market basket used in the construction of the 2000 CPI was drawn from the results of the updating activity of the 1994 market basket. NCR has a total of 701 items in the current market basket from 705 previously.

#### **C. WEIGHTING SYSTEM**

Weights are assigned to commodity groups/sub-groups to reflect the consumption priorities of households and the way they allocate resources to meet their needs. Moreover, weight is a value attached to a commodity or group of commodities to indicate the relative importance of that commodity or group of commodities in the market basket.

The weights for the 2000-based CPI were derived from the expenditure data of the 2000 FIES, a nationwide survey that covered 41,000 households. Each province/city was considered a domain so much so that weights were generated for each of them. This was done to account for the differences in consumption patterns because of geographical location. The weight for each item of expenditure is a proportion of that expenditure item to the total national expenditure. The total (all items) national expenditure is equal to 100. Likewise, geographical weights were also determined where the weight of the region is equal to the sum of the weights of the provinces belonging to that region. The sum of the weights for the region is equal to the national weight.

### **IV. DATA COLLECTION**

CPI data collection is done through the collective effort of the Bureau of Agricultural Statistics (BAS) and the NSO. BAS collects price data for agricultural commodities in NCR and in provincial capitals where there are BAS offices while NSO collects prices for all other commodities in all other areas.

Except for FBT which is monitored on a weekly basis in NCR, price collection is done twice a month. First collection phase is done during the first five days of the month while the second phase is on the 15th to 17th day of the month. About 459,000 price quotations gathered throughout the country are entered into the computation of the monthly CPI.

Data are collected from the sample outlets (outlets or establishments where prices of commodities/services are collected or quoted) which were chosen using the following criteria:

1. Popularity of an establishment along the line of goods to be priced;
2. Consistency and completeness of stock.  
*Consistency of stock* - the outlet has a constant, steady or regular stock of commodities listed in the CPI survey forms as well as of those commodities of the same kind and belonging to the same commodity  
*Completeness of stock* - the sample outlet carries in its stock many if not all of the items included in the CPI survey forms relative to the other outlets in the area.
3. Permanency of outlet - the outlet to be chosen should be an established store or stall in the market area. It should not be an ambulant or transient vendor.

4. Geographical location - the outlet should be in a convenient place and is accessible to the majority if not all consumers in the area.

## V. COMPUTATION OF THE CPI

The formula used in computing the CPI is the weighted arithmetic mean of price relatives, a variant of the Laspeyres formula with fixed base year period weights. In computing the CPI, the formula is

$$\text{CPI} = \frac{\text{Sum } [(P_n/P_o)]}{\text{Sum } (W)} \times 100$$

Where:  $P_n$  = current price  
 $P_o$  = base period price  
 $W = P_o Q_o$  = weights

## VI. ECONOMIC INDICATORS DERIVED FROM THE CPI

### 1. Inflation Rate

Inflation rate is defined as the annual rate of change or the year-on-year change in the CPI. That is,

$$\text{Inflation Rate} = \frac{\text{CPI}_2 - \text{CPI}_1}{\text{CPI}_1} \times 100$$

Where:  $\text{CPI}_2$  - is the CPI in the second period  
 $\text{CPI}_1$  - is the CPI in the previous period

### 2. Purchasing Power of Peso (PPP)

Another important economic indicator derived from the CPI is the PPP. The PPP is a measure of the real value of the peso in a given period relative to a chosen reference period. It is computed by getting the reciprocal of the CPI and multiplying the result by 100. That is,

$$\text{PPP} = \frac{1}{\text{CPI}} \times 100$$

## D. INDEX FORMULA

The construction of the CPI basically uses a Laspeyres Formula (fixed base year weights). The formula is modified as the weighted arithmetic mean of price relatives. That is,

$$\text{Index} = \frac{\text{Sum } ((P_n / P_o) * (P_o * Q_o))}{\text{Sum } (P_o * Q_o)} \times 100$$

Where:  $P_n$  = current price  
 $P_o$  = base year or base price  
 $P_o * Q_o$  = base year weight