

REPORT ON INFLATION (DECEMBER 2021)

HIGHLIGHTS

- The Philippines' headline inflation rate eased to 3.6 percent in December 2021 from 4.2 percent in November 2021. The full-year 2021 inflation averaged 4.5 percent.
- Seasonally adjusted month-on-month (m-o-m) inflation eased to nil growth from 0.5 percent in the previous month.
- The decline in the overall year-on-year (y-o-y) inflation was primarily driven by the slowdown in inflation for food (3.2% from 4.1%), and transport (6.1% from 8.8%).
- Vegetable inflation fell to -10.0 percent from -1.8 percent, while fish inflation also decelerated to 7.0 percent from 7.9 percent in the same period.
- Meanwhile, meat inflation slightly increased to 11.3 percent in December from 10.7 percent in November 2021, partly due to the increase in pork inflation to 17.9 percent from 17.3 percent.
- To help ensure stable pork supply throughout this year, the National Economic and Development Authority (NEDA) reiterates its recommendation to extend the validity of Executive Order (EO) No. 133 to December 2022 from January 2022, including the distribution of more imported meat to targeted areas outside of NCR (AONCR). With the re-imposition of Alert Level 3 in NCR and nearby provinces, it is important to ensure affordable food prices and the continued delivery of goods and services.
- Non-food inflation also decreased to 3.7 percent in December from 4.1 percent in November. This was primarily driven by slower transport inflation, which fell to 6.1 percent from 8.8 percent as the decline in international crude oil prices translated to a decrease in local prices of petroleum products.

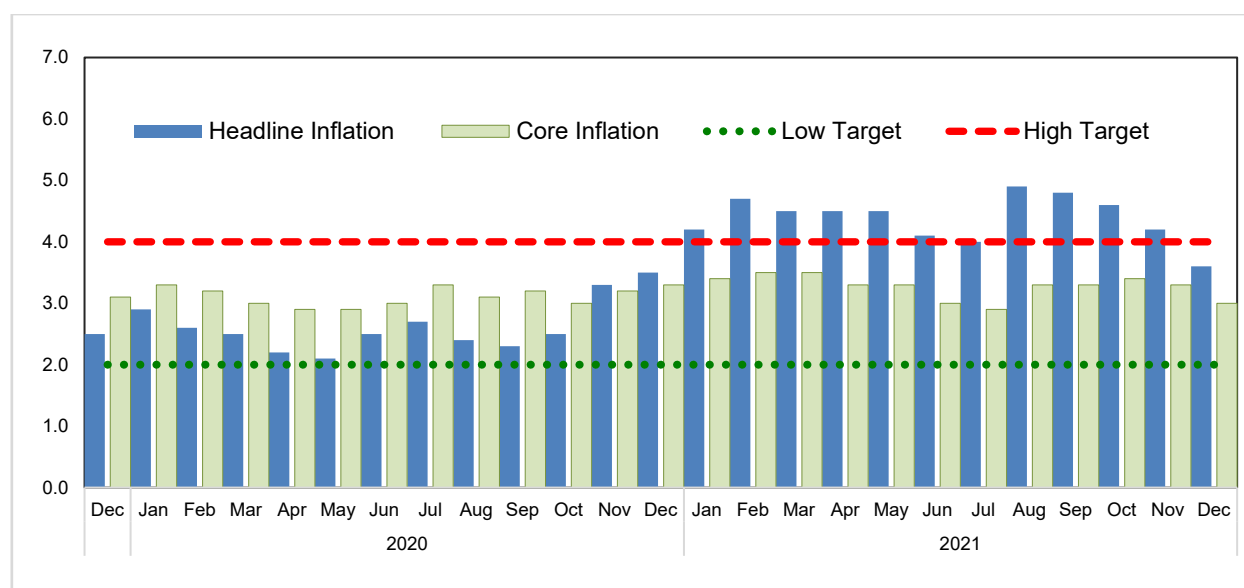
**Year-on-year inflation rates
(2012=100)**

	Nov 2021	Dec 2021	FY 2021
Philippines			
Headline	4.2	3.6	4.5
Core	3.3	3.0	3.3
Bottom 30 percent	4.2	3.3	4.8
NCR			
Headline	2.9	2.8	3.5
AONCR			
Headline	4.5	3.9	4.7

1. The headline inflation rate decelerated to 3.6 percent in December 2021, the lowest monthly inflation rate in 2021; seasonally adjusted m-o-m inflation decreased to 0.0 percent.

The Philippines' headline inflation rate significantly slowed down to 3.6 percent in December 2021 from 4.2 percent in November 2021. This latest figure is within the *Bangko Sentral ng Pilipinas*' (BSP) forecast range of 3.5 to 4.3 percent for December 2021,¹ but lower than the private sector's median forecast of 3.9 percent.² Meanwhile, full-year inflation for 2021 averaged 4.5 percent.

Figure 1. Headline inflation rates: December 2019 to December 2021



The December inflation decelerated due to slower price adjustments in transport, food and non-alcoholic beverages, alcoholic beverages and tobacco, restaurant and miscellaneous goods and services, and health. Similarly, inflation in recreation and culture, clothing and footwear, and house furnishings marginally eased. These more

¹ BSP Media and Research "Month-Ahead Inflation Forecast for December 2021"

<https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=6093> (accessed January 4, 2022)

² Noble, Luz Wendy T. Business World. "Inflation likely slowed in Dec" Bworldonline.com <https://www.bworldonline.com/inflation-likely-slowed-in-dec-poll/> (accessed on January 4, 2022)

than offset the uptick in inflation for housing and utilities and communication. Meanwhile, inflation for education remained unchanged (see Table 1).

M-o-m seasonally-adjusted inflation settled to 0.0 percent in December from 0.5 percent in November.

Table 1. Headline inflation rates in the Philippines (in percent, 2012=100)

Commodity Group	November 2021		December 2021	
	Y-O-Y	M-O-M ³	Y-O-Y	M-O-M
ALL ITEMS	4.2	0.7	3.6	0.3
Food and Non-Alcoholic Beverages	3.9	1.0	3.1	0.8
Alcoholic Beverages and Tobacco	7.5	0.3	6.5	0.3
Clothing and Footwear	1.9	0.1	1.8	0.1
Housing, Water, Electricity, Gas, and Other Fuels	4.6	0.6	5.0	0.4
Furnishing, Household Equipment, and Routine Maintenance of the House	2.4	0.1	2.3	0.1
Health	3.2	0.1	3.0	0.1
Transport	8.8	1.2	6.1	-1.2
Communication	0.2	0.0	0.3	0.1
Recreation and Culture	1.0	0.1	0.9	0.0
Education	0.7	0.0	0.7	0.0
Restaurant and Miscellaneous Goods and Services	3.7	0.2	3.5	0.2

Source: Philippine Statistics Authority

³ The month-on-month (m-o-m) inflation figures cited in Table 1 are not seasonally-adjusted.

Core inflation⁴ moderated to 3.0 percent in December, while inflation for the bottom 30 percent of households decelerated to 3.3 percent from 4.2 percent in the preceding month. The full-year 2021 figures stood at 3.3 percent and 4.8 percent, respectively.

Four items under the food and non-alcoholic beverages commodity group are among the top contributors to inflation for this month. Meat, fish, rice, and other cereals and bread contributed a total of 1.4 percentage points (ppt) to total inflation. Meanwhile, electricity, gas and other fuel, and operation of personal transport equipment contributed 1.2 ppts (see Table 2).

**Table 2. Top 10 contributors to inflation in December 2021
(in percentage points)**

Commodity group	December 2021
Electricity, Gas and Other Fuels	0.8
Meat	0.8
Fish	0.5
Operation of Personal Transport Equipment	0.4
Catering Services	0.3
Tobacco	0.2
Actual Rentals for Housing	0.2
Personal Care	0.1
Rice	0.1
Other Cereals, Flour, Cereal Preparation, Bread, Pasta and Other Bakery Products	0.1
TOTAL CONTRIBUTION TO INFLATION	3.3
Others (e.g., education, clothing & footwear, furnishings, communications, recreation, etc.)	0.3
OVERALL INFLATION	3.6

⁴ The official core inflation measure is defined as the rate of change of headline Consumer Price Index (CPI) after excluding selected food and energy items whose underlying price movements are generally characterized by short-term volatile movements. It is a measure of the broad or underlying trend or movement in the average consumer prices. Source: BSP

2. Food and non-alcoholic beverages inflation further slowed down to 3.1 percent; non-food inflation slowed to 3.7 percent.

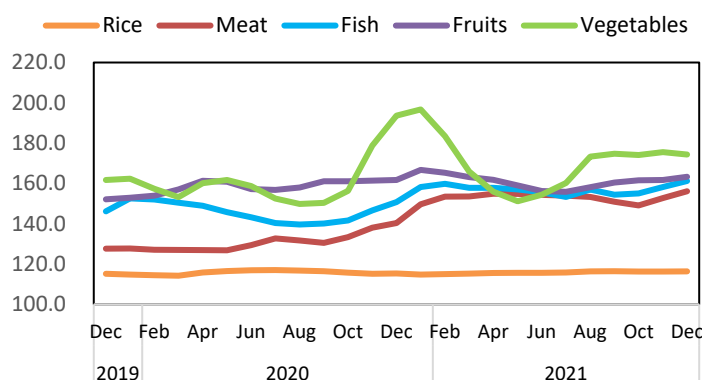
Food

Inflation of food and non-alcoholic beverages decelerated to 3.1 percent in December 2021 from 3.9 percent in November 2021. On a m-o-m seasonally-adjusted basis, food and non-alcoholic beverages inflation eased to 0.1 percent from 0.5 percent.

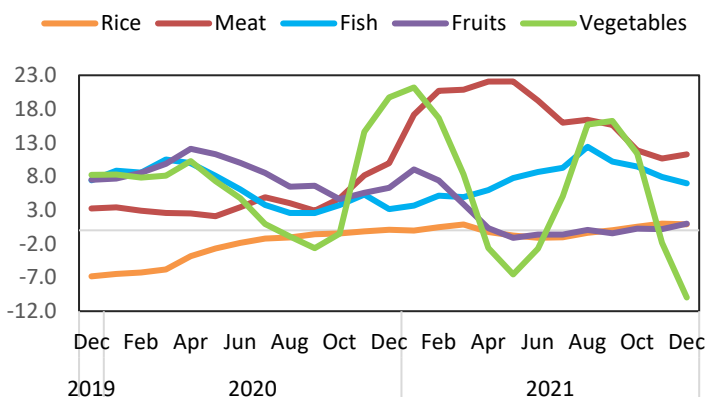
The slowdown in food commodity prices was driven by a deeper contraction in vegetable inflation (-10.0% from -1.8%), and slower adjustments for fish (7.0% from 7.9%), rice (0.9% from 1.0%), and corn (14.4% from 15.2%). These offset the acceleration in prices for meat (11.3% from 10.7%) and fruits (1.0% from 0.2%).

Vegetable prices continued to contract as local production of highland vegetables remained robust amid favorable weather conditions in Luzon. Rice prices eased driven by ample harvests and sufficient imports. Rice production reached 12.6 million metric tons (MMT) in the first three quarters of 2021, while imported totaled about 3.0 MMT for full-year 2021.

**Figure 3. Selected Food CPI
December 2019 to December 2021**



**Figure 2. Selected Food Inflation Rates
December 2019 to December 2021, in percent (%)**



Fish inflation slowed down, but mainly due to base effects. Fish supply from several areas is limited amid the closed fishing season.⁵ While Typhoon Odette brought significant damage to local fisheries,⁶ this was not yet reflected on the prices as surveyed.

Similarly, corn inflation recorded slower adjustments due to base effects.⁷ Prices remained high as international fertilizer prices surged by as much as 268 percent y-o-y in November. Fertilizer inputs comprised 13 percent of total production costs for local corn producers.

Conversely, meat prices picked up, as pork and chicken accelerated to 17.9 percent and 9.8 percent in December (from 17.3% and 8.6% in the previous month, respectively). The volume of imported prime pork cut declined by 8.6 percent,⁸ while only around 46.4 percent or 60,000 MT from MAV Plus with import certificates have been utilized. Moreover, seasonal demand from the holidays has pushed up prices for meat commodities. Similarly, fruit inflation also picked up with increased demand due to the holiday season.

Non-food

Non-food inflation decelerated to 3.7 percent in December 2021 from 4.1 percent in the previous month. On a m-o-m seasonally adjusted basis, non-food inflation also eased to 0.0 percent from 0.4 percent in the previous period.

Transport inflation slowed down to 6.1 percent from 8.8 percent in November. Inflation for the operation of personal transport equipment dropped to 22.8 percent, following a peak of 32.4 percent in the previous month, as domestic fuel prices cooled down: diesel (35.8% from 69.3%) and unleaded gas (28.7% from 30.4%). This mainly reflected lower international crude oil prices amid stable output from OPEC Plus and the dampened economic activity with the emergence of the Omicron variant. Likewise, inflation of transport services eased (0.8% from 1.6%) primarily due to base effects from the stringent restrictions in 2020.

⁵ E.g. Northeastern Palawan as of November 1, Visayan Sea as of November 15, and Zamboanga Peninsula as of December 1.

⁶ DA-DRRMC as of January 3, 2022. The fishery sector accounted for the largest production loss at 28.2 percent.

⁷ The December 2021 CPI for corn is higher than its November 2021 CPI.

⁸ from 18,728 MT in November to 17,110 MT as of December 26

Inflation in housing and utilities picked up to 5.0 percent (from 4.6%) as electricity rates rose faster (13.6% from 10.3%) owing to higher generation charges (33.3% from 27.0%). Meanwhile, liquefied natural gas prices eased by 25.4 percent, from a high of 30.7 percent in the previous month.

Inflation for restaurants (3.5% from 3.7%), health (3.0% from 3.2%), house furnishings (2.3% from 2.4%), clothing and footwear (1.8% from 1.9%), and recreation and culture (0.9% from 1.0%) eased in December compared with November. On the other hand, communication ticked higher (0.3% from 0.2%), while education inflation was unchanged (0.7%).

3. Inflation in NCR and AONCR decelerated to 2.8 percent and 3.9 percent, respectively. The Zamboanga Peninsula and Davao region recorded the highest inflation rate at 6.1 percent.

Headline inflation in NCR slowed down to 2.8 percent in December 2021 from 2.9 percent in November 2021. This is due to the slower price adjustments in transport (5.6% in December from 7.6% from November), alcoholic beverages and tobacco (6.6% from 8.1%), food and non-alcoholic beverages (1.5% from 1.7%), and furnishing and household equipment (1.0% from 1.1%). These offset the faster inflation in housing and utilities (4.4% from 4.0%) and restaurant and miscellaneous goods (2.9% from 2.8%). Meanwhile, inflation for health (3.3%), clothing and footwear (0.7%), communication (0.2%), recreation and culture (0.1%), and education (0.0%) remained unchanged from the previous month.

Table 3. Y-O-Y regional inflation rates (in percent, 2012=100)

Regions	Nov 2021	Dec 2021	YTD 2021
NCR- National Capital Region	2.9	2.8	3.5
AONCR - Areas outside the NCR	4.5	3.9	4.7
CAR - Cordillera Administrative Region	5.7	4.6	4.5
I - Ilocos Region	3.8	3.1	4.3
II - Cagayan Valley	4.1	2.4	6.4
III - Central Luzon	4.5	3.3	4.8
IV-A - CALABARZON	4.3	3.4	5.3
IV-B - MIMAROPA Region	3.3	3.0	4.6
V - Bicol Region	5.1	3.6	6.6
VI - Western Visayas	4.7	4.2	4.5
VII - Central Visayas	4.5	4.6	2.5
VIII - Eastern Visayas	3.8	3.4	3.2
IX - Zamboanga Peninsula	5.8	6.1	3.7
X - Northern Mindanao	3.7	3.6	3.8
XI - Davao Region	6.2	6.1	4.6
XII - SOCCSKSARGEN	5.6	5.3	5.1
XIII - Caraga	4.0	4.4	4.1
BARMM	2.6	2.1	2.7

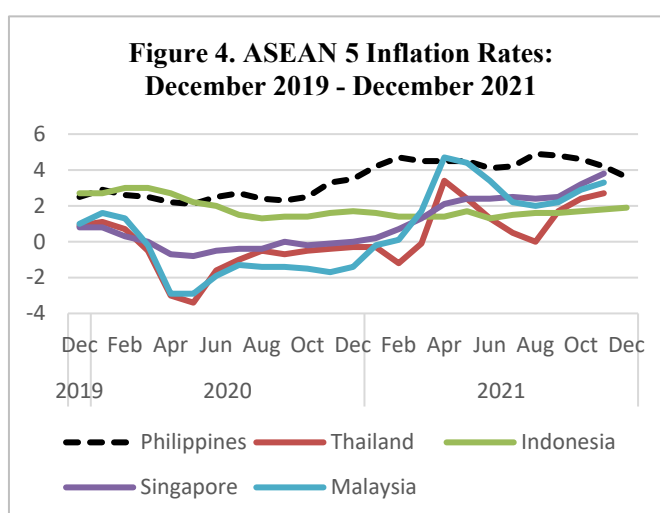
Inflation in AONCR fell to 3.9 percent from 4.5 percent. This was driven by the slower inflation in transport (6.3% in December from 9.2% in November); food and non-alcoholic beverages (3.5% from 4.4%); alcoholic beverages and tobacco (6.4% from 7.4%); restaurant and miscellaneous goods (3.6% from 4.1%); health (2.8% from 3.1%); furnishing and household equipment (2.7% from 2.8%), clothing and footwear (2.0% from 2.1%); and recreation and culture (1.1% from 1.2%). These were partly tempered by faster inflation in housing and utilities (5.2% from 4.9%), while education (0.8%) and communication (0.3%) remained stable.

In AONCR, 13 regions posted slower price movements while three regions recorded an uptick in overall prices (see Table 3). The Zamboanga Peninsula region recorded

the highest inflation rate at 6.1 percent in December, faster than the 5.8 percent figure recorded in November. This was driven by the faster inflation in food and non-alcoholic beverages (7.6% from 6.6%) and recreation and culture (2.0% from 1.1%).

4. Indonesia's headline inflation rate increased to 1.9 percent. Thailand, Malaysia, and Singapore have yet to release inflation figures for December 2021. In November 2021, inflation in these three countries accelerated.

In December 2021, Indonesia's overall inflation increased marginally to 1.9 percent (from 1.8% in November). Faster inflation was recorded in housing and utilities (0.8% in December 2021 from 0.7% in November 2021); food, drinks and tobacco (3.1% from 3.0%), and transportation (1.6% from 1.4%).⁹ On December 16, 2021, Bank Indonesia maintained its key policy rate at 3.5 percent to maintain exchange rate and financial system stability.¹⁰



⁹ BI. "The inflation rate in December 2021 was 0.57 percent. The highest inflation rate saw in Jayapura of 1.91 percent" [bps.go.id https://www.bps.go.id/pressrelease.html?katsubjek=3&Brs%5Btgl_rilis_ind%5D=&Brs%5Btahun%5D=&yt0=Search](https://www.bps.go.id/pressrelease.html?katsubjek=3&Brs%5Btgl_rilis_ind%5D=&Brs%5Btahun%5D=&yt0=Search) (accessed January 3, 2022)

¹⁰ BI. "BI 7-Dat Reverse Repo Rate held at 3.50%: Synergy Maintaining Stability and Strengthening Recovery" [bi.go.id https://www.bi.go.id/en/publikasi/ruang-media/news-release/Pages/sp_2333221.aspx](https://www.bi.go.id/en/publikasi/ruang-media/news-release/Pages/sp_2333221.aspx) (accessed January 3, 2022)

5. Inflation outlook and policy implications

In the last monetary board meeting, the BSP revised upwards its full-year 2021 inflation forecast to 4.4 percent¹¹ (from 4.3%). Inflation is seen to moderate to 3.4 percent in 2022¹² and 3.2 percent in 2023. The BSP maintains its accommodative monetary stance, with the key policy rate at 2.0 percent,¹³ and is ready to respond to potential second-round effects arising from supply-side pressures.¹⁴

Food supply

Year-end rice and chicken inventories are expected at 4.6 MMT¹⁵ and 58.7 thousand metric tons (TMT)¹⁶ (equivalent to 123 and 14 days stock), respectively. Highland vegetables are also expected to end the year in surplus, with local production at 710.6 TMT or 168.4 percent of local demand.

However, the supply of lowland vegetables will not be sufficient, with a local production outlook of 1.3 MMT or only 80.2 percent of the demand. Full-year supply of fisheries is also forecasted to fall short of demand, at a deficit of 126.9 TMT (with imports), or an equivalent of 14 days stock.¹⁷ Similarly, pork supplies will remain in a deficit at 167.8 TMT¹⁸ this year, despite the arrival of imports under EO Nos. 133 and 134. As of December 27, 2021, only around 46.4 percent or 60,000 MT of the MAV Plus first tranche has been utilized. The continued delay in import arrivals and the low utilization rate were attributed to international port closures and substantial increases in transit time (from 30 - 40 days to 120 days).

To further increase the utilization of MAV Plus, NEDA reiterates its recommendation to extend the validity of EO No. 133 to December 2022 from January 2022, including the distribution of more imported meat to targeted areas

¹¹ BSP Monetary Board Meeting (December 16, 2021)

¹² Revised higher from 3.3 percent in BSP November outlook

¹³ Overnight reverse repurchase facility at 2 percent, overnight deposit at 1.5 percent, and lending facilities 2.5 percent

¹⁴ BSP Media and Research. "Monetary Board Holds Policy Settings Steady"

<https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=6071> (accessed January 3, 2022)

¹⁵ NEDA Estimates based on basic data from DA, BOC and PSA

¹⁶ DA Outlook. Presented during the IATF – Task Group on Food Security Virtual Presser on October 14, 2021

¹⁷ BFAR, as of November 11, 2021

¹⁸ NEDA Estimates based on basic data from DA and PSA

outside of NCR.¹⁹ Aside from this, the unloading of more pork stocks from cold storage to the markets may be fast-tracked. The average stock of frozen pork in December decreased to 70,796 MT from 78,999 MT in November 2021 but remains higher than the 2019 full-year average of 40,084 MT.²⁰ The timely release of pork stocks will help increase local supply and address the supply gap to bring down pork prices.

To augment fish supply amid the ongoing closed fishing season, the government may look into the possible extension of the Certificate of Necessity to Import (CNI) which automatically expired last December 2021.²¹ As of December 27, 2021, only 33.9 TMT (59.3%) have been issued the Sanitary and Phytosanitary Import Clearance (SPSIC) and entry permit, and only 25.0 TMT (43.8%) have arrived at the Navotas Fish Port.

Weather conditions

According to the Philippine Atmospheric, Geophysical, and Astronomical Services Administration (PAGASA),²² La Niña is present in the tropical Pacific and is likely to persist between February and April 2022 before returning to ENSO-neutral by April to June 2022. Meanwhile, one to four tropical cyclones may enter or develop in the Philippines between January to June 2022. PAGASA expects above-normal rainfall conditions over some parts of the country in the coming months, which can trigger flashfloods and landslides.

In the short term, the government needs to focus on strengthening coordination efforts on disaster risk management and information dissemination. The damage from typhoon Odette across several regions in the country highlight the need for long-term engineering interventions, reforestation, and coordinated flood or water management systems across different local government units. The country's Sustainable Finance Roadmap will also help orchestrate public and private sector

¹⁹ DA's Memorandum Circular No. 23 Series of 2021, dated October 25, 2021, expanded the market coverage under MAV Plus. It allowed the distribution outside of the NCR Plus (composed of Metro Manila, Bulacan, Rizal, Laguna, and Cavite) to areas with relatively high prices of pork meat.

²⁰ Based on NMIS stock inventory data as of December 2021

²¹ The DA issued a CNI with a maximum importable volume of 60 TMT of small pelagic fish (e.g., galunggong, mackerel, and bonito) on August 27, 2021. The SPSIC issued under the CNI will automatically expire by the end of the year.

²² PAGASA. "Climate Outlook January 2022 – June 2022" *DOST.gov.ph*
<https://pubfiles.pagasa.dost.gov.ph/climps/climateforum/climateoutlook.pdf> (accessed on January 2, 2022)

efforts to pursue a green economy, support the country's Nationally Determined Contribution, and contribute to the achievement of the country's long-term priorities.²³

Transport Services

As of December 21, 2021, 86 percent of the total PHP1 billion fuel subsidy program, or about PHP860 million, have been distributed to 119, 159 public utility jeepney drivers.²⁴ The fuel subsidy program aimed to cushion the impact of the recent increase in fuel prices. Meanwhile, the Department of Transportation maintained the 70 percent passenger capacity among public utility vehicles and train lines while NCR is under Alert Level 3.

Global oil prices

The OPEC+ is expected to increase production by another 0.4 mb/d by February 2022 amid the positive outlook for global demand²⁵ which is estimated to exceed pre-pandemic levels.²⁶ Based on futures markets as of December 31, 2021, Dubai crude oil prices are expected to marginally decline from USD 77.2/b in January 2022 to 76.6/b in February 2022.

²³ Teves, Catherine. "PH boosts action for climate, community resilience" PNA.gov.ph <https://www.pna.gov.ph/articles/1164164> (accessed on January 3, 2022)

²⁴ LTFRB Official Facebook Page. "MAHIGT P800-M NA HALAGA NG FUEL SUBSIDY, NAIBIGAY NA SA HIGIT 119K PUJ DRIVERS SA BUONG BANSA". <https://www.facebook.com/photo/?fbid=221278150188154&set=a.164743062508330> (accessed January 3, 2022)

²⁵ Bloomberg. "OPEC+ Seen Reviving Output in Sign of Confidence for 2022 Demand". *Bloomberg.com*. <https://www.bloomberg.com/news/articles/2022-01-01/opec-seen-reviving-output-in-sign-of-confidence-for-2022-demand?sref=cRpLj0Ue> (accessed January 3, 2022)

²⁶ OPEC. "DoC Joint Technical Committee convenes to examine oil market developments" *opec.org* https://www.opec.org/opec_web/en/press_room/6759.htm (accessed January 4, 2022)