

REPORT ON INFLATION (AUGUST 2022)

HIGHLIGHTS

- The Philippine Statistics Authority (PSA) reported that headline inflation was at 6.3 percent in August 2022, significantly higher than the 4.4 percent inflation in August 2021. Nonetheless, seasonally adjusted month-on-month (m-o-m) inflation decelerated to 0.4 percent from 0.6 percent last month.
- The August 2022 inflation outturn is within the *Bangko Sentral ng Pilipinas*' (BSP) forecast range of 5.9 to 6.7 percent. Year-to-date (YTD) inflation is at 4.9 percent.
- Inflation of food and non-alcoholic beverages accelerated to 6.3 percent from 5.5 percent in August 2021, following an increase in the prices of corn, rice, bread, fruits, and sugar, but was partly offset by the lower inflation of meat, fish, and vegetables.
- Non-food inflation increased to 6.2 percent, up from 3.5 percent in August 2021, as inflation of transport, electricity, gas, and other fuels remain elevated.
- To mitigate the impact of inflation, the government must fast-track the distribution of subsidies, including the targeted cash transfers for low-income households and fuel subsidies for public utility drivers and the agriculture and fisheries sector. Timely importation of key food items to augment domestic supply, along with strengthened price monitoring of basic commodities, will also help alleviate price pressures.

Year-on-year inflation rates* (2018=100)

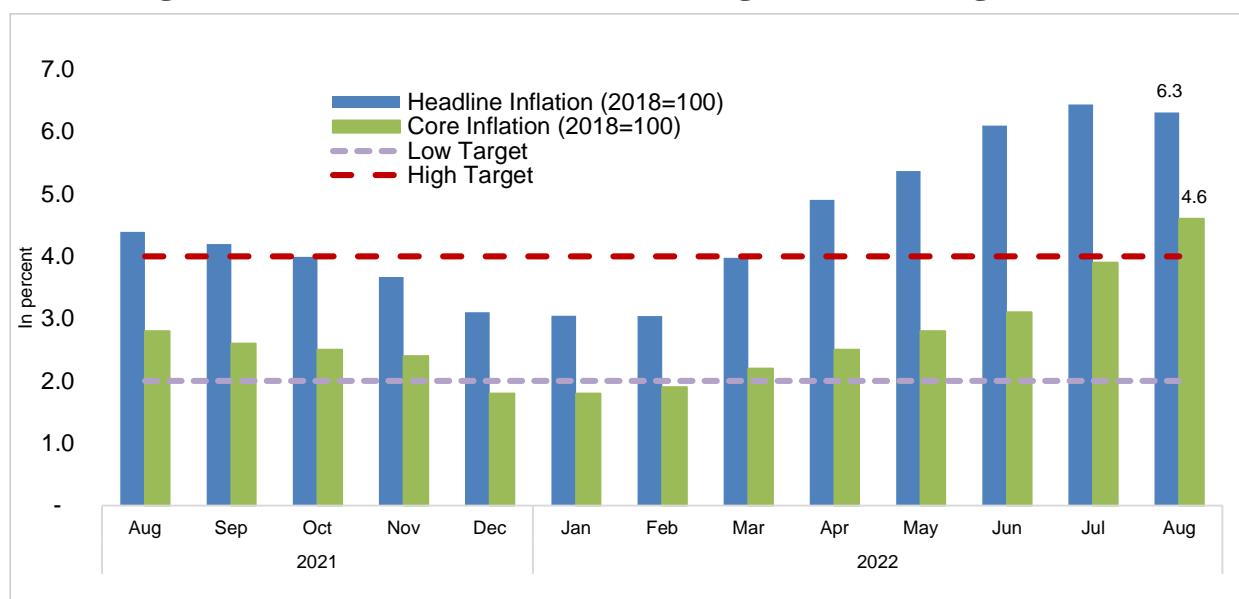
	Aug 2021	Jul 2022	Aug 2022	YTD 2022
Philippines				
Headline	4.4	6.4	6.3	4.9
Core	2.8	3.9	4.6	2.9
Bottom 30 percent*	5.3	5.9	5.9	4.3
NCR				
Headline	3.3	5.1	5.7	4.0
AONCR				
Headline	4.8	6.8	6.5	5.1

*Bottom 30 percent uses 2012 as base year

1. The headline inflation rate picked up to 6.3 percent in August 2022; seasonally adjusted m-o-m inflation decelerated to 0.4 percent.

The Philippines' headline inflation increased to 6.3 percent in August 2022 from 4.4 percent in August 2021. This is within the BSP's 5.9 to 6.7 percent forecast for the month¹ and slightly lower than the private sector's median forecast of 6.4 percent.² YTD inflation stood at 4.9 percent, which is above the government's inflation target of 2.0 to 4.0 percent.

Figure 1. Headline Inflation Rates: August 2021 – August 2022



Inflation for most key commodity groups registered faster inflation, particularly for food and non-alcoholic beverages, transport, housing and utilities, and education services, among others. Core inflation accelerated to 4.6 percent in August 2022 from 2.8 percent in August 2021.

¹ "Month-Ahead Inflation Forecast for August 2022."

<https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=6423> (accessed on September 4, 2022)

² Ta-asan, Keisha B. Business World. "Inflation likely held steady at 6.4% in August – poll" [Bworldonline.com](https://www.bworldonline.com/top-stories/2022/09/05/472449/inflation-likely-held-steady-at-6-4-in-august-poll/) <https://www.bworldonline.com/top-stories/2022/09/05/472449/inflation-likely-held-steady-at-6-4-in-august-poll/> (accessed on September 5, 2022)

Electricity, gas, and other fuels, and the operation of personal transport equipment remained the top sources of inflation in August 2022, contributing a total of 2.1 percentage points (ppts). These are followed by meat and fish inflation, with a contribution of 1.0 ppt. Meanwhile, bread and other cereals, rice, and sugar contributed a total of 0.5 ppt to total inflation (see Table 1).

Table 1. Top 10 Contributors to Inflation in August 2022 (in ppts)

Commodity group	August 2022
Electricity, Gas, and Other Fuels	1.1
Operation of Personal Transport Equipment	1.0
Meat and Other Parts of Slaughtered Land Animals	0.6
Fish and Other Seafood	0.4
Actual Rentals for Housing	0.4
Food and Beverage Serving Services	0.4
Passenger Transport Services	0.4
Sugar, Confectionery, and Desserts	0.3
Flour, Bread and Other Bakery Products, Pasta	0.2
Rice	0.2
TOTAL CONTRIBUTION TO INFLATION	4.9
Others (e.g., education, clothing and footwear, furnishings, communications, recreation, etc.)	1.4
OVERALL INFLATION	6.3

M-O-M seasonally-adjusted inflation slowed down to 0.4 percent (from 0.6% in the previous month), reflecting the recent easing in the prices of food and non-alcoholic beverages and transport. On the other hand, housing and utilities, education, health, restaurant and accommodation, and personal services accelerated m-o-m.

Table 2. Headline M-O-M Seasonally Adjusted Inflation Rates
(in percent, 2018=100)

Commodity Group	Aug 2021	Jul 2022	Aug 2022	
	Y-O-Y	M-O-M/SA	Y-O-Y	M-O-M/SA
ALL ITEMS	4.4	0.6	6.3	0.4
Food and Non-Alcoholic Beverages	5.6	1.0	6.3	0.5
Alcoholic Beverages and Tobacco	9.4	1.0	9.3	1.1
Clothing and Footwear	1.8	0.5	2.8	0.4
Housing, Water, Electricity, Gas, and Other Fuels	3.4	-0.1	6.8	1.4
Furnishing, Household Equipment, and Routine Maintenance of the House	2.0	0.4	3.4	0.4
Health	3.8	0.1	2.5	0.3
Transport	6.9	1.8*	14.6	-2.8*
Information and Communication	0.6	0.0**	0.4	0.0**
Recreation, Sport, and Culture	1.1	0.4**	2.4	0.4**
Education Services	0.9	-0.1	3.8	2.2
Restaurant and Accommodation	4.0	0.5	4.2	1.1
Financial Services	43.3	0.0**	0.0	0.0**
Personal Care and Miscellaneous Goods and Services	2.2	0.3	3.3	0.5

Source: Philippine Statistics Authority

Note: *No seasonality for transport sector; **Not seasonally-adjusted; data was insufficient to establish seasonality at the time of evaluation of the models for seasonal adjustment

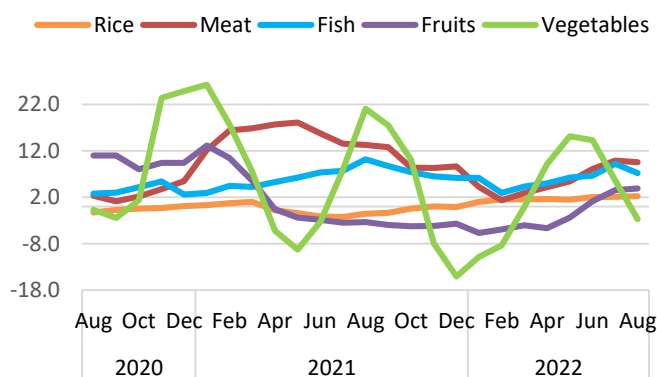
2. Inflation of food and non-alcoholic beverages accelerated to 6.3 percent; non-food inflation picked up to 6.2 percent.

Food

Inflation of food and non-alcoholic beverages increased to 6.3 percent in August from 5.5 percent in August 2021. On a m-o-m seasonally-adjusted basis, it eased to 0.5 percent (from 1.0% in the previous month).

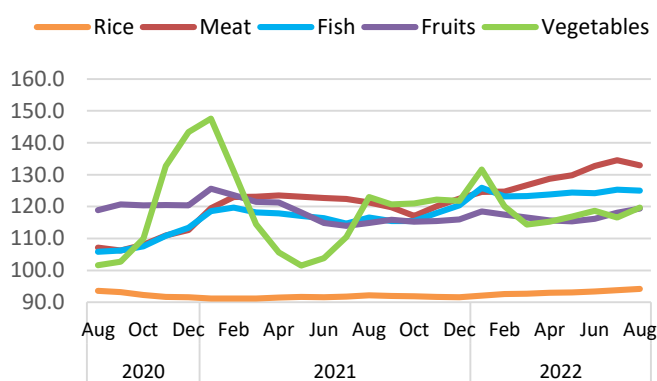
Faster food inflation was driven by rice (2.2% from -1.5%), corn (26.1% from 10.1%), bread and cereals (8.0% from 1.8%), fruits (3.9% from -3.4%), and sugar (26.0% from 1.2%), among others. Meanwhile, meat (9.6% from 13.3%), fish (7.2% from 10.2%), and vegetables (-2.7% from 21.1%) recorded slower inflation.

Figure 2. Selected Food Inflation Rates: August 2020 to August 2022, in percent (%)



Rice and corn inflation accelerated, owing to high fuel and fertilizer costs. Elevated global prices of cereals owing to supply concerns added more pressure. Meanwhile, the accelerated increase in sugar inflation was primarily due to domestic supply issues.

Figure 3. Selected Food CPI: August 2020 to August 2022



Lower meat inflation was driven by slower inflation of pork (4.6% from 22.2%) and beef (9.2% from 12.4%). Improvements in the local pork production and import arrivals have eased the pressure on pork prices. Meanwhile, chicken inflation (20.9% from 7.4%) accelerated due to the Avian Influenza (AI) outbreak.³

The slowdown in vegetable inflation may be attributed to improved supply due to government measures in place to ensure the availability of agri-related products in local markets through KADIWA and other programs.⁴

³ As of 25 August 2022, the Bureau of Animal Industry (BAI) confirmed that Avian Influenza (AI) cases were reported in 66 municipalities and 129 barangays in 18 provinces. A total of 1,459,184 heads were culled as part of disease control measures.

⁴ In partnership with LGUs, agribusiness companies, private companies/institutions (e.g., electric cooperatives, commercial malls, villages), national agencies, and other entities, the DA pursues the KADIWA ni Ani at Kita in NCR and other areas. This initiative seeks to directly connect food producers to consumers, thereby reducing the cost of agriculture and fishery products. Currently, a total of 220 regular KADIWA outlets are operating nationwide. As of May 15, 2022, about PHP10.96 billion in sales have been generated from the 37,430 KADIWA activities. These activities have benefited 650 farmer cooperatives, associations, and agri-fishery enterprises and served 5.77 million households.

Fish inflation slowed down mainly due to base effects,⁵ as supply issues remain amidst adverse weather conditions and higher production costs.

Inflation of other food items increased: milk and other dairy products (6.5% from 0.5%), oils and fats (19.6% from 5.6%), ready-made food products (5.8% from 0.9%), and non-alcoholic beverages (3.4% from 1.0%).

Non-food

Non-food inflation increased to 6.2 percent in August 2022 from 3.5 percent in August 2021. On a m-o-m seasonally adjusted basis, non-food inflation slightly increased to 0.4 percent (from 0.3% in the previous month).

Housing and utilities inflation accelerated to 6.8 percent in August 2022 from 3.4 percent in August 2021. This was due to the faster inflation in electricity, gas, and other fuels (15.7% in August 2022 from 8.3% in August 2021) following higher generation charges (33.4% from 19.6%). Meanwhile, liquefied petroleum gas (9.4% from 28.0%) slowed down and kerosene inflation increased (64.3% from 30.1%).

Transport inflation continues to be elevated at 14.6 percent in August 2022. Private transport inflation jumped to 34.7 percent in August 2022 from 15.3 percent in August 2021, while public transport inflation increased to 7.9 percent from 4.5 percent following the nationwide provisional increase in public utility jeepney (PUJ) fares.⁶ Year-on-year inflation of unleaded gas (31.8% from 9.8%) and diesel (74.8% from 17.9%) are significantly higher relative to the same period last year. Nevertheless, global oil prices are expected to decline, reflecting the slower demand resulting from the tightening of major economies.

⁵ Fish CPI for August 2022 (125.0) was higher than in August 2021 (116.6).

⁶ Effective July 1, 2022, the LTFRB implemented a provisional PUJ fare hike of PHP1 in Metro Manila and Regions III and IV (from the previous PHP10), and a PHP2 hike to the base fare in all other regions (from PHP9).

Education services (3.8% in August 2022 from 0.9% in August 2021) also picked up with the resumption of face-to-face classes this year.

3. Inflation accelerated to 5.7 percent in NCR and 6.5 percent in areas outside the NCR (AONCR). The Zamboanga Peninsula recorded the highest inflation rate at 9.1 percent.

The headline inflation in NCR gained pace at 5.7 percent in August 2022 from 3.3 percent in August 2021, while inflation in AONCR increased to 6.5 percent from 4.8 percent in August 2021.

Table 3. Y-O-Y Regional Inflation Rates (in percent, 2018=100)

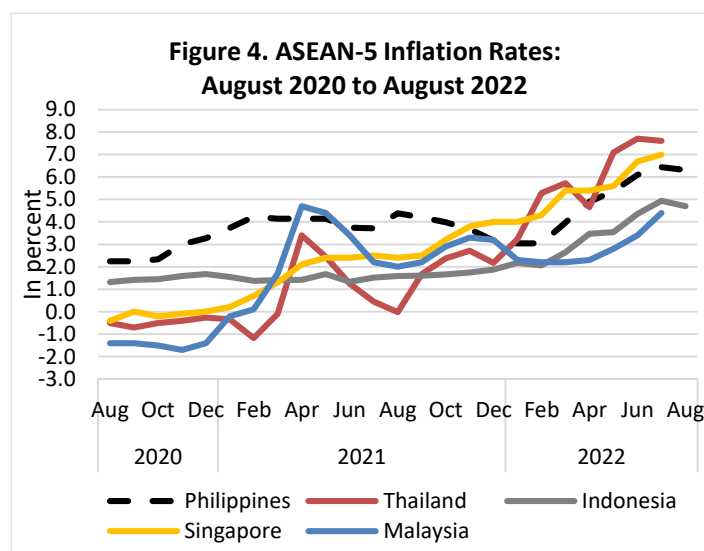
Regions	August 2021	August 2022	YTD 2022
NCR	3.3	5.7	4.0
AONCR	4.8	6.5	5.1
CAR	4.4	6.5	6.0
I - Ilocos Region	4.6	6.2	5.1
II - Cagayan Valley	7.6	5.2	4.1
III - Central Luzon	5.4	6.5	5.6
IV-A - CALABARZON	5.3	5.1	4.4
IV-B - MIMAROPA	4.1	7.1	4.9
V - Bicol Region	6.7	6.3	4.4
VI - Western Visayas	3.8	7.4	5.5
VII - Central Visayas	1.9	7.4	5.7
VIII - Eastern Visayas	4.5	7.2	6.2
IX - Zamboanga Peninsula	2.4	9.1	5.9
X - Northern Mindanao	3.4	6.6	5.1
XI - Davao Region	4.7	8.9	6.3
XII - SOCCSKSARGEN	5.8	6.6	5.0
XIII - Caraga	3.8	7.5	5.3
BARMM	2.1	4.9	2.6

In AONCR, all regions except Cagayan Valley, CALABARZON, and Bicol Region recorded faster inflation relative to the same period last year (see Table 3). Significantly, lower inflation in food and non-alcoholic beverages were observed in the three aforementioned regions.

The Zamboanga Peninsula recorded the highest inflation rate at 9.1 percent from 2.4 percent in August 2021.

4. Indonesia's inflation increased to 4.7 percent; in other ASEAN countries, inflation has been mostly on the uptrend.

In August 2022, Indonesia's overall inflation stood at 4.7 percent, up from 1.6 percent in August 2021. Faster inflation was recorded in transportation (6.6% in August 2022 from 0.3% in August 2021); food, beverages, and tobacco (7.7% from 3.3 %); personal care and other services (4.9% from 0.6%); household equipment and maintenance (4.9% from 2.0%); and housing and utilities (3.1% from 0.4%).⁷ On August 23, 2022, the Bank Indonesia raised its key policy rate by 25 bps to 3.75 percent.⁸



Malaysia, Singapore, and Thailand have yet to report inflation figures for August 2022. In July 2022, Malaysia and Singapore recorded faster inflation.

⁷ BI. "The deflation in August 2022 was 0.21 percent. The highest deflation saw in tanjung Pandan of 1.65 percent." <https://www.bps.go.id/pressrelease/2022/09/01/1864/deflasi-terjadi-pada-agustus-2022-sebesar-0-21-persen--deflasi-tertinggi-terjadi-di-tanjung-pandan-sebesar-1-65-persen-.html> (accessed September 2, 2022)

⁸ BI. "BI 7-Day Reverse Repo Rate Raised by 25 BPS to 3.75%: Sunergy Maintaining Stability and Strengthening Recovery" https://www.bi.go.id/en/publikasi/ruang-media/news-release/Pages/sp_2422622.aspx (accessed September 2, 2022)

5. Inflation outlook and policy implications

The BSP raised its 2022 inflation forecast as of August 2022⁹ to 5.4 percent from its June forecast of 5.0 percent – with inflation possibly peaking in Q3 2022.¹⁰ The short-term outlook is driven by the potential impact of higher non-oil prices, the continued domestic fish supply deficit, the sharp increase in sugar prices, and the pending petitions for fare hikes amid elevated oil prices. Meanwhile, slower-than-expected global economic recovery could slow down inflation. The BSP raised its key policy interest rate by a total of 175 basis points since May, bringing the key policy rate to 3.75 percent. The BSP is prepared to take necessary actions to keep inflation within its target.

Food supply

A sufficient supply of rice, chicken, highland vegetables, yellow corn, and white corn is expected throughout 2022. Rice inventories are estimated at 2.9 million metric tons (MMT), or about 77-day stocks, while chicken inventories will be at 179.4 thousand MT (TMT), equivalent to 40-day stocks.^{11,12} Highland vegetables will also remain sufficient, with local production at about 1.0 MMT or 146 percent of local demand.¹³ Lastly, a surplus in yellow and white corn supply is expected for the marketing year (MY)¹⁴ 2021/22¹⁵.

⁹ BSP Monetary Board Meeting – August 18, 2022

¹⁰ BSP Monetary Board Meeting – June 23, 2022

¹¹ Presented during the Task Group on Food Security (TGFS) Meeting on June 15, 2022.

¹² Source: DA – National Livestock Program (NLP) as of July 11, 2022

¹³ DA-High Value Crops Development Program's estimates as of August 5, 2022.

¹⁴ Marketing year starts from July to June of the succeeding year.

¹⁵ DA National Corn Program (sent through email on September 1, 2022)

On the other hand, the local production outlook for lowland vegetables is estimated at 1.6 MMT for 2022, or 91 percent of local demand.¹⁶ The pork and fish supply deficit are estimated at 65.8 TMT¹⁷ and 319.8 TMT,¹⁸ respectively.

To prevent further increases in inflation and protect the purchasing power of consumers, the government is prioritizing food security and the reduction of transport and logistics costs. In this regard, the government issued Executive Order No. 171, s. 2022 on May 21, 2022, which extends and modifies tariffs on rice, pork, corn, and coal until December 2022. The timely unloading of pork stocks from cold storage will complement this measure.¹⁹

To boost domestic supply, the government will support the agriculture sector through lower input costs, development of new farming technologies, extension of financial assistance to farmers, and the strengthening of the agricultural value chain.

The DA-Bureau of Animal Industry (BAI) will strengthen its containment and monitoring of emerging animal diseases, such as the timely updating of its African Swine Fever (ASF) zoning and the fast-tracking of the implementation of its hog repopulation, subsidy, and credit programs. Likewise, the government is conducting ASF vaccine research and trials. Also, the DA-BAI and relevant stakeholders plan to tackle the imbalance of poultry supply and demand by improving supply forecasts, intensifying the early reporting of farmers affected by the Avian Influenza (AI) outbreak, and surveillance in the 1-kilometer quarantine zone around the infected farms, streamlining the indemnification process, and harmonizing and unifying guidelines on the logistics of live birds, poultry products and by-products

¹⁶ The damages caused by the recent continuous rain and earthquake is not expected to have a significant impact on the national supply of highland and lowland vegetables, as most of the damages are related to corn and irrigation facilities. As of August 22, 2022, the DA has recorded a total of PHP1.1 billion in damages due to continuous rains (90.8% of which is corn, meanwhile 93.2% of which is from Region 2). As of August 12, 2022, the DA has recorded a total of and PHP282.5 million due to the earthquake (64.8% of which are irrigation facilities in Abra).

¹⁷ DA-National Livestock Program (NLP) as of July 11, 2022

¹⁸ Some supply-side issues are high fuel and wheat prices that inhibits fishing and transportation activities.; *Source: DA-BFAR presentation on June 15, 2022*

¹⁹ A continuous build-up of frozen pork stocks in cold storages was observed. The inventory of frozen pork as of the 4th week of August 2022 was at 75,219 MT, which is 8.4 percent higher than the 69,422 MT inventory on the same week of July 2022

during the AI outbreak.²⁰ Lastly, private-public partnerships will be undertaken to uplift the backyard poultry sector affected by AI.²¹

The Livestock Development and Competitiveness (LDC) Bill will modernize the country's livestock, poultry, and corn sectors. Among the major provisions of the LDC Bill are the updating of the corn industry roadmap and the establishment of “competitiveness enhancement funds” for the livestock value chain.

To ensure a sufficient supply of sugar and ease price pressures, timely importation is needed, along with strengthened monitoring of the market against unscrupulous hoarders and profiteers.

In the long term, DA intends to improve the production of various agricultural commodities through an enhanced value chain system. DA will oversee and guide the research and development of planting systems and the improvement of the animal industry, as well as guarantee climate-smart farm products.²²

Social protection

To help cushion the impact of higher fuel prices, more than 158,000 farmers and fisherfolk are each set to receive PHP3,000 worth of fuel discounts. As of August 17, 2022, a total of 131,145 accounts were already created nationwide. Out of the total accounts, 120,827 were already loaded with fuel discounts, and 42,084 cards have been distributed to corn farmers and fisherfolk nationwide. Apart from the scheduled nationwide caravans for the distribution of the fuel discount cards, DA is also coordinating with relevant government agencies to ensure that at least two fuel

²⁰ DA-AFID. “Poultry stakeholders unite to find solutions for chicken supply panic” *DA.gov.ph* <https://www.da.gov.ph/poultry-stakeholders-unite-to-find-solutions-for-chicken-supply-panic/> (accessed on August 3, 2022)

²¹ DA BAI and UNAHCO Inc. entered into a Memorandum of Understanding (MOU) to uplift the backyard poultry sector in areas affected by AI. The MOU specifically covers the joint undertaking of BAI and UNAHCO in conducting the Bird Flu Free Nation, One Health, One Nation Program to help strengthen Bird Flu awareness (e.g., conduct of seminars/webinars and fora) and biosecurity protocols (e.g., products demos and sampling).

²² Rodriguez, Adora D. “Marcos relays food production agenda in 1st SONA” *DA.gov.ph* <https://www.da.gov.ph/marcos-relays-food-production-agenda-in-1st-sona/> (accessed on August 3, 2022).

stations shall be present in every municipality with target beneficiaries under the program.

The government must also fast-track the distribution of the second tranche of subsidies for PUJ drivers and operators and the fuel cash subsidies for tricycle drivers.

The Department of Budget and Management (DBM) approved the release of PHP1.4 billion additional funds²³ to support the extension of the *Libreng Sakay Program*²⁴ for all the passengers of the EDSA Bus Carousel until December 2022.

Weather conditions

According to the Philippine Atmospheric, Geophysical, and Astronomical Services Administration (PAGASA),²⁵ La Niña has re-strengthened and may continue until February 2023 with a 60 percent chance, followed by El Niño-Southern Oscillation (ENSO) neutral conditions thereafter. In general, PAGASA expects normal to above-normal rainfall conditions over most parts of the country in the coming months, and these can trigger flash floods and rain-induced landslides. Meanwhile, 7 to 11 tropical cyclones may enter or develop in the Philippines from September 2022 to February 2023.

Global oil prices

The International Energy Agency (IEA) expects that the Organization of Petroleum Exporting Countries+’ (OPEC+) will not increase output in the coming months because of a decline in Russian production and the limited spare capacity in Saudi

²³ DBM. <https://www.dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/2323-dbm-releases-p1-4b-funding-for-the-extended-dotr-ltfrb-libreng-sakay-at-the-edsa-busway> (accessed September 2, 2022)

²⁴ The Service Contracting Program is already in Phase III

²⁵ PAGASA. “151ST CLIMATE FORUM CLIMATE REVIEW SEPTEMBER 2022 – FEBRUARY 2023” [DOST.gov.ph https://pubfiles.pagasa.dost.gov.ph/climps/climateforum/climateoutlook.pdf](https://pubfiles.pagasa.dost.gov.ph/climps/climateforum/climateoutlook.pdf) (accessed on August 30, 2022).

Arabia and the United Arab Emirates.^{26,27} The global oil outlook remains uncertain amid the slowdown in major economies, protracted by the Russia-Ukraine conflict, zero-COVID policy in China, supply constraints, monetary policy dynamics, high sovereign debt levels, and other geopolitical risks. Nevertheless, based on futures markets, as of September 2, 2022, Dubai crude oil prices are expected to decline from USD92.1/bbl in September to USD88.9/bbl in October and to USD85.3/bbl in December 2022.

²⁶ <https://www.bloomberg.com/news/articles/2022-08-11/iea-sees-little-chance-that-opec-will-supply-more-oil>

²⁷ The OPEC+ will conduct its 32nd ministerial meeting on September 5, 2022.