

Philippines CPI, Aug 2023

Headline accelerates, driven by higher food inflation

After six consecutive months of slowing, headline inflation rate in Aug 2023 picked up to +5.3% YoY (Jul 2023: +4.7% YoY; consensus: +4.7% YoY; 8M2023: +6.6% YoY) on higher FNAB inflation. Nevertheless, core inflation rate eased further to +6.1% YoY (Jul 2023: +6.7% YoY; 8M2023: +7.4% YoY). With the re-acceleration of headline inflation in Aug 2023, we adjust upward our 2023 headline inflation rate forecast to +6.0% from +5.5% previously.

Headline re-accelerated, core decelerated further

Headline inflation rate in Aug 2023 ended the six consecutive months of deceleration from the peak of +8.7% YoY peak in Jan 2023, as it picked up to +5.3% YoY (Jul 2023: +4.7 YoY; 8M2023: +6.6% YoY; 2022: +5.8%); mainly on higher costs for food & non-alcoholic beverages (FNAB). FNAB costs picked up to +8.1% YoY (Jul 2023: +6.3% YoY; 8M2023: +8.4% YoY) on higher costs for rice, fish and vegetables. Housing, Water, Electricity, Gas and Other Fuel (HWEGOF) inflation eased to +2.5% YoY (Jul 2023: +4.5% YoY; 8M2023: +6.3% YoY) on decline in electricity and gas costs, while water supply (Fig. 18) and rental paid for housing remained elevated (Fig. 19). MoM, headline inflation was up +1.1% (Jul 2023: +0.1%).

Rice prices increased +8.7% YoY during the month (Jul 2023: +4.2% YoY; 8M2023: +3.8% YoY; 2022: +2.1%); mainly due to lower rice production and higher import prices following export bans by rice exporters such as India and Myanmar. Vegetable inflation rose to +31.9% YoY (Jul 2023: +21.8% YoY) due to losses from weather disruptions such as Super Typhoon Egay.

Meanwhile, core inflation stays on easing mode, decelerated to +6.1% YoY (Jul 2023: +6.7% YoY; 8M 2023: +7.4% YoY; 2022: +3.9%); in line with the easing domestic demand growth.

Revised upward our headline inflation forecast to +6.0% from +5.5% previously

With the re-acceleration in headline inflation in Aug 2023, we adjusted upward our 2023 headline inflation rate forecast to +6.0% from +5.5% previously (2022: +5.8%). The headline inflation underscores the upside risk to inflation due to several factors. Firstly, the onset of El Nino and export ban on rice and other food items, which raise the risk of disruption in agricultural production and thus upward pressures on food prices. Secondly, while the recently announced PHP40 hike in daily minimum wage for NCR is unlikely to affect inflation significantly, the proposed PHP150 daily nationwide minimum wage hike could put further upside risk to inflation outlook. Thirdly, possible further rise in transport costs, following the recent hike in LRT fares and retail diesel and gasoline prices due to the firm global crude oil prices.

Expect BSP rate to stay at 6.25% till end-2023

The re-acceleration in headline inflation underscores the upside risk to consumer prices amid factors like El Nino, rice export ban, transport fare hike and potential nationwide minimum wage hike. But we expect BSP to keep interest rate at 6.25% for the rest of this year as core inflation continues to ease. The next BSP monetary policy meeting is on 21 Sep 2023.

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Figure 1: Consumer Price Index (2018=100)

% YoY	May-23	Jun-23	Jul-23	Aug-23	3Q-22	4Q-22	1Q-23	2Q-23	8M2023	2022
CPI-All Items	6.1	5.4	4.7	5.3	6.5	7.9	8.3	6.0	6.6	5.8
Food & Non Alcoholic Beverages (FNAB)	7.4	6.7	6.3	8.1	6.8	9.9	10.2	7.4	8.4	5.9
Alcoholic Beverages & Tobacco	12.3	11.6	10.9	10.1	9.2	10.6	11.4	12.2	11.5	7.9
Clothing and Footwear	5.1	5.1	4.8	4.8	2.7	3.5	4.7	5.1	4.9	2.6
Housing & Utilities	6.5	5.6	4.5	2.5	6.6	7.1	8.2	6.2	6.3	6.4
Furnishing, Household, Equipment & Routine Maintenance	6.2	6.0	5.8	5.6	3.3	4.4	5.8	6.1	5.9	3.2
Health	4.1	3.9	3.9	3.9	2.4	2.8	3.7	4.0	3.9	2.6
Transport	(0.5)	(3.1)	(4.7)	0.2	15.7	12.2	8.4	(0.3)	2.5	12.9
Information & Communication	0.7	0.7	0.7	0.7	0.5	0.6	0.7	0.7	0.7	0.6
Recreation, Sports & Culture	4.9	4.8	4.7	4.9	2.4	3.4	4.4	4.8	4.6	2.3
Education Services	3.6	3.6	3.7	2.9	2.6	3.5	3.6	3.6	3.6	1.8
Restaurant & Accommodation Services	8.3	8.2	7.9	7.1	4.1	6.4	8.0	8.4	8.0	4.1
Financial Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.2
Personal Care, & Miscellaneous Goods & Services	5.7	5.8	5.6	5.5	3.2	4.1	5.3	5.7	5.5	3.0
Core Inflation	7.7	7.4	6.7	6.1	4.3	6.4	7.7	7.7	7.4	3.9

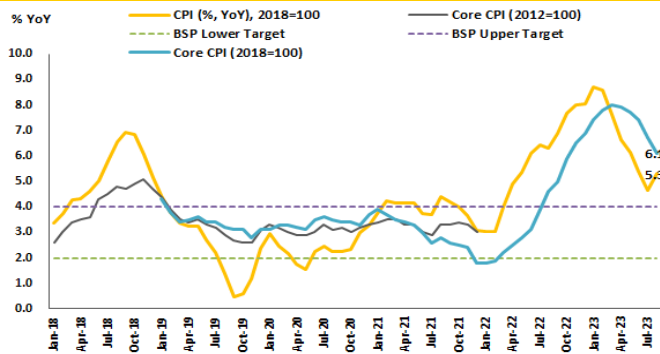
Source: PSA, CEIC

Food cost a key inflation upside risk factor

“Food & Non Alcoholic Beverages (FNAB)” inflation accelerated to +8.1% YoY in Aug 2023 (Jul 2023: +6.3% YoY; 8M2023: +8.4% YoY) with prices rose MoM by +2.4% (Jul 2023: +0.5%). Accordingly, food inflation rose to +8.2% YoY in Aug 2023 (Jul 2023: +6.3% YoY; 8M2023: +8.5% YoY) with percentage share of contribution to CPI rising to 44.9% in Aug 2023 from 36.3% in 2022 (Fig. 4 & 5). We now expect FNAB costs to remain elevated in the near term as global food price inflation continue to stay firm, in addition to elevated fertilizer and feedmeal costs (Fig. 11 & 12) as well as potential agriculture damage from weather disturbances i.e. typhoons and El Nino. India’s recent decision to ban exports of non-basmati rice also brings further upside risk to elevated rice inflation.

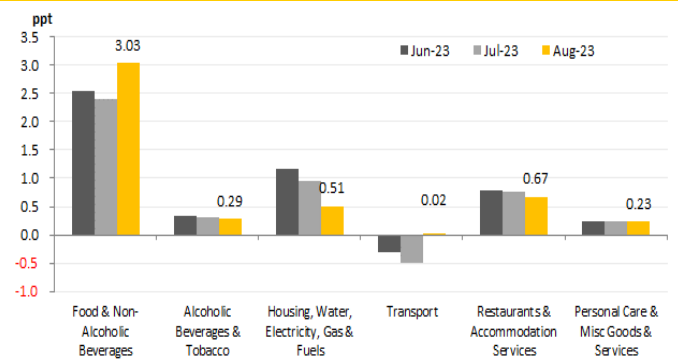
Meanwhile, Transport costs was up +0.2% YoY in Aug 2023 (Jul 2023: -4.7% YoY; 8M2023: +2.5% YoY) as Transport inflation posted smaller surge by +14.6% YoY in Aug last year vs. +18.1% YoY in Jul 2022, in response to the surge in global crude oil prices last year (Aug 2023: USD86.2/bbl; 8M2023: USD80.6/bbl; Aug 2022: USD99.8/bbl; Jul 2022: USD113.3/bbl). Domestic diesel price posted smaller decline at -16.1% YoY in Aug 2023 (Jul 2023: -33.9% YoY) and similarly, gasoline price at -8.7% YoY (Jul 2023: -23.2% YoY); as retail diesel and gasoline prices were raised during the month. On MoM basis, “Transport” cost was up by +2.3% in Aug 2023 (Jul 2023: +0.1%).

Figure 2: Headline inflation, core inflation and BSP's inflation target range



Sources: CEIC, Maybank IBG Research

Figure 3: Contributions to inflation rate (percentage point of % YoY change in CPI)



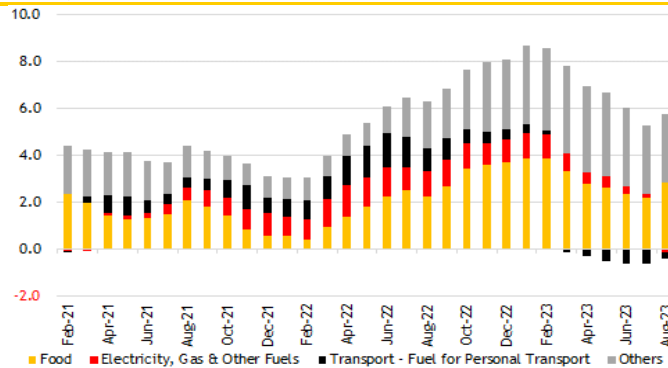
Sources: CEIC

Figure 4: Inflation - "Food, Utilities/Energy, Fuel" vs "Others"

Period	% YoY		ppt contribution to CPI		% share of contribution to CPI	
	2022	8M2023	2022	8M2023	2022	8M2023
Headline Inflation	5.8	6.6	5.8	6.6	100.0	100.0
Food	6.1	8.5	2.1	3.0	36.3	44.9
Electricity, Gas & Other Fuels	15.8	7.7	1.1	0.5	18.4	7.9
Transport - Fuels & Lubricants	39.1	(12.0)	0.9	(0.3)	16.1	(4.3)
Others	3.0	6.1	1.7	3.4	29.2	51.6

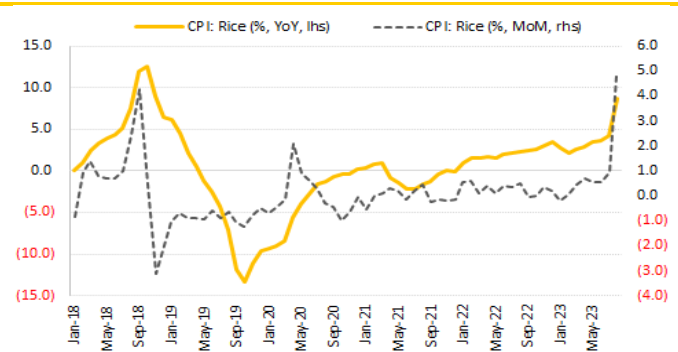
Source: Maybank IBG Research

Figure 5: Contributions to % YoY Inflation Rate (percentage point)



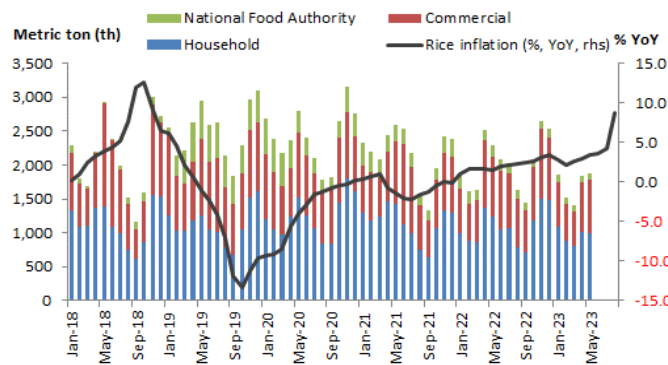
Sources: CEIC, Maybank IBG Research

Figure 6: Spike in rice price



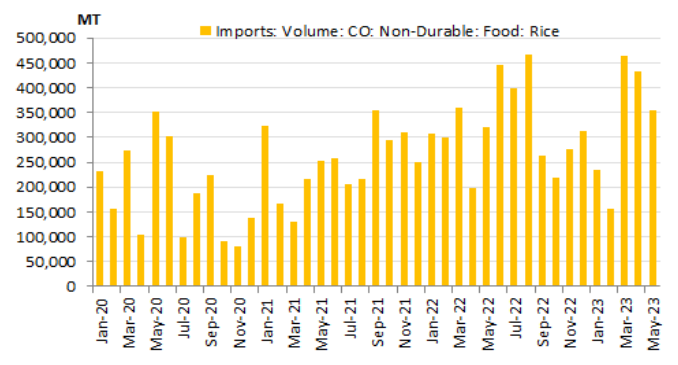
Sources: CEIC

Figure 7: Total rice stock inventory running low



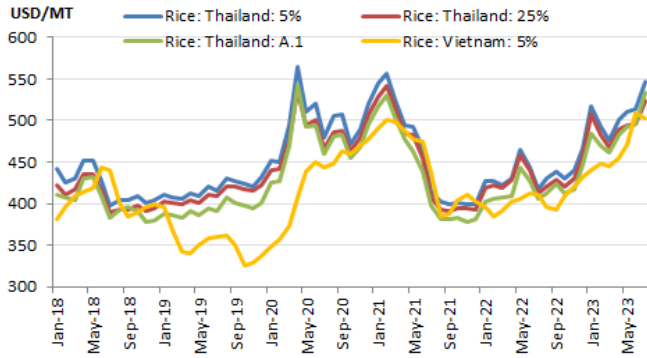
Source: PSA, CEIC

Figure 8: Higher rice import volume since Mar 2023 could help to cushion impact from low inventory



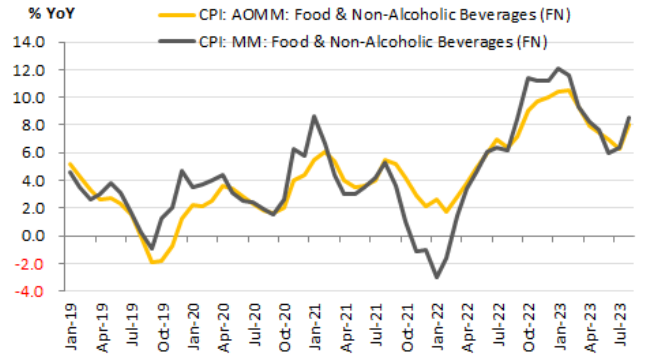
Source: PSA, CEIC

Figure 9: Rising global rice prices



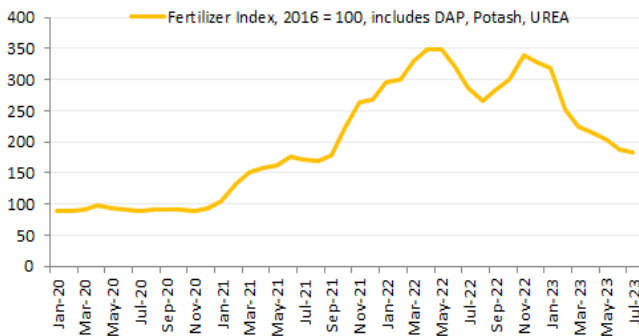
Source: World Bank, CEIC

Figure 10: Monthly FNAB inflation for Metro Manila (MM) and Areas Outside Metro Manila (AOMM)



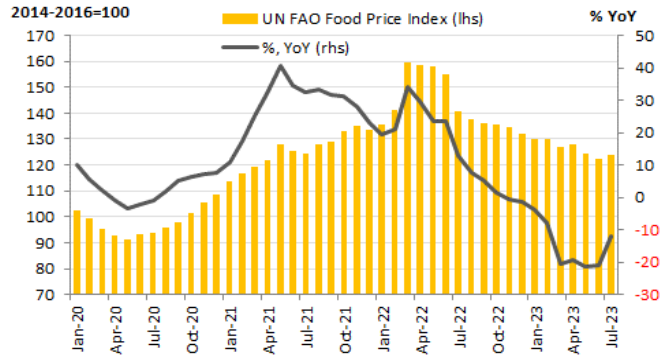
Source: PSA, CEIC

Figure 11: Global fertilizer off the peak in Apr 2022



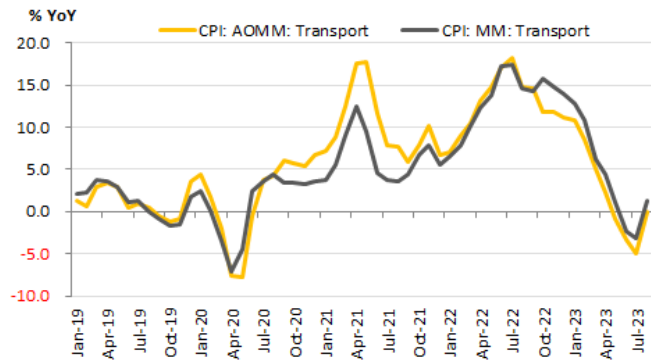
Sources: IMF, CEIC

Figure 12: Global food price index gradually easing but stays elevated



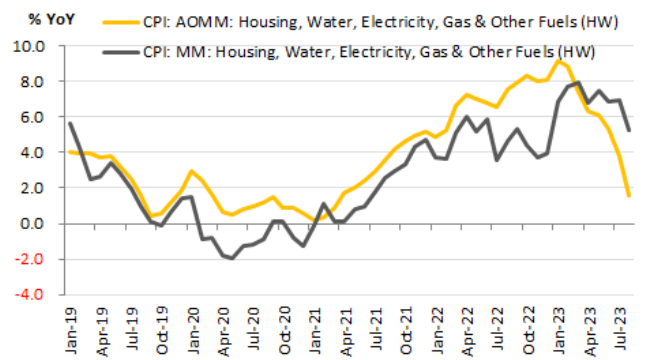
Sources: FAO, CEIC

Figure 13: Monthly transport inflation for Metro Manila (MM) and Areas Outside Metro Manila (AOMM)



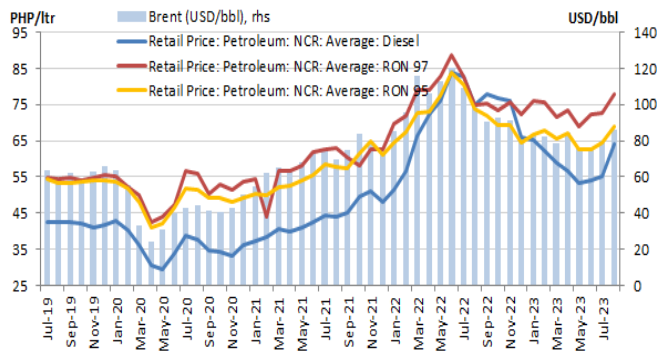
Source: PSA, CEIC

Figure 14: Monthly Housing & Utilities inflation for Metro Manila (MM) and Areas Outside Metro Manila (AOMM)



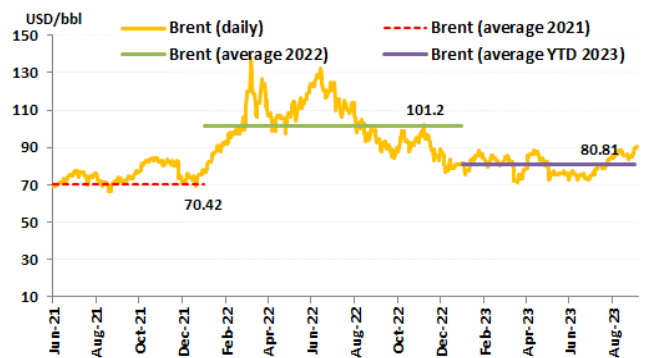
Source: PSA, CEIC

Figure 15: Average retail fuel prices (NCR)



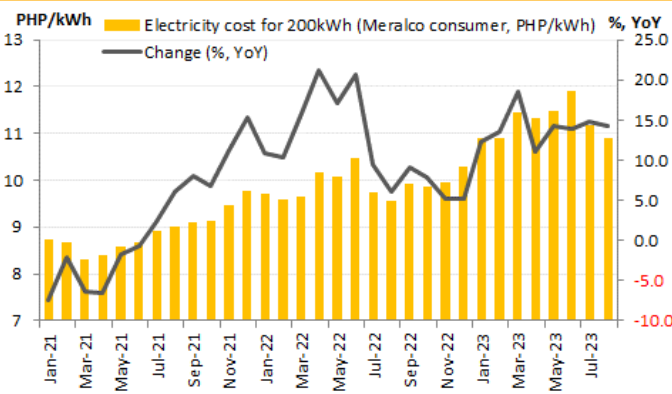
Source: Department of Energy, CEIC

Figure 16: Average crude oil Brent price slightly above USD80.0/bbl YTD2023



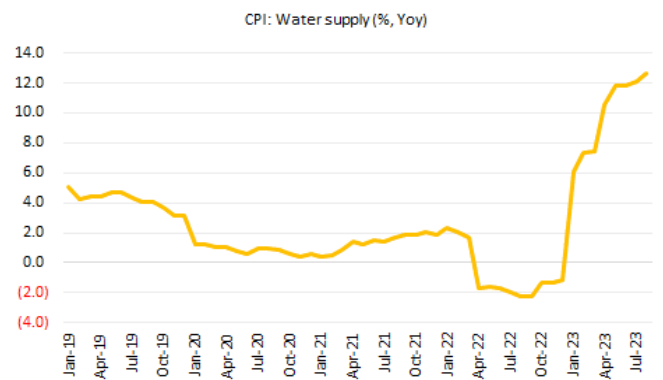
Source: Bloomberg

Figure 17: Meralco electricity costs



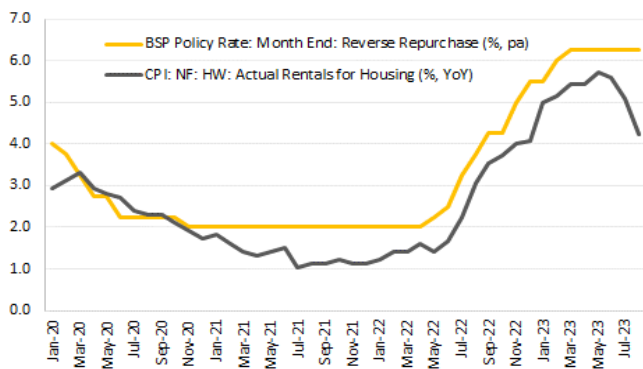
Sources: Meralco, news reports

Figure 18: Surging water supply inflation



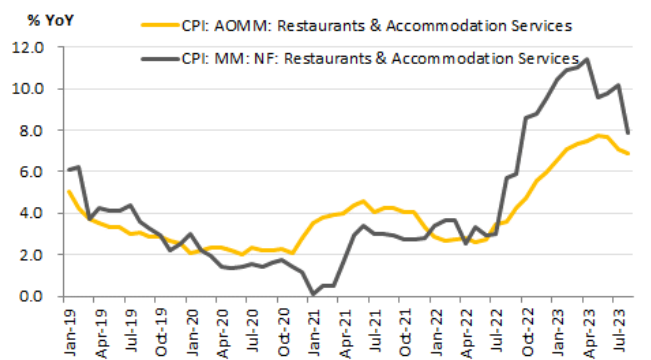
Source: PSA, CEIC

Figure 19: Elevated rental costs on aggressive BSP's policy rate hikes



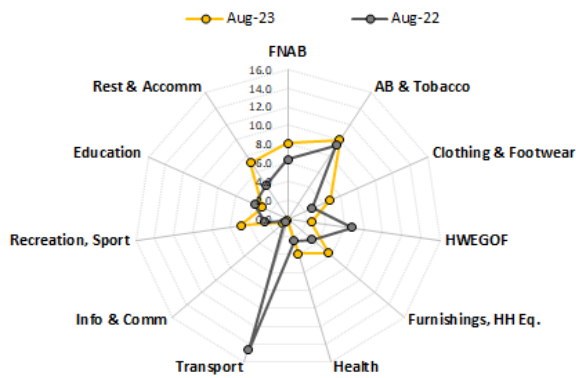
Source: PSA, CEIC

Figure 20: Smaller gap in Restaurants & Accommodation Services inflation pace in MM and areas outside MM



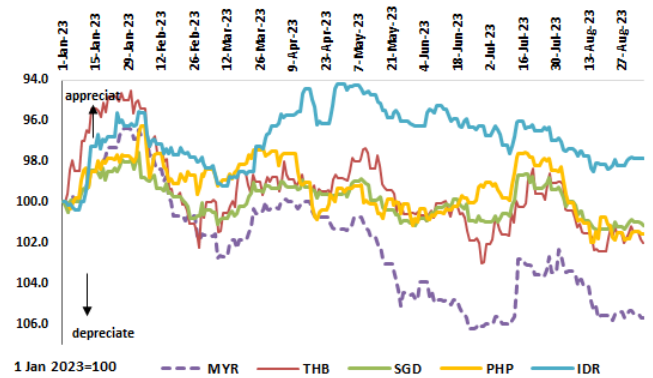
Source: PSA, CEIC

Figure 21: Monthly headline inflation (% YoY); Aug 2023 vs. Aug 2022



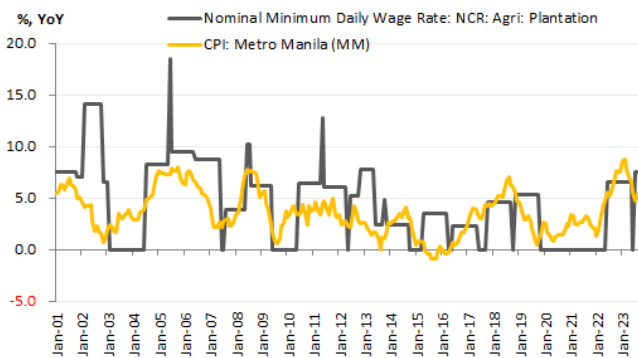
Source: CEIC

Figure 22: Regional currencies performance vs. USD



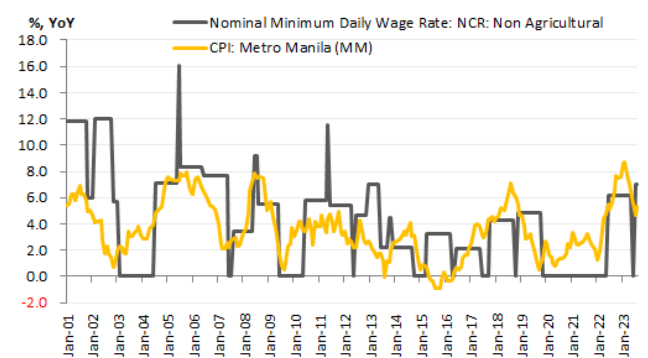
Source: Bloomberg

Figure 23: Nominal minimum wage (agriculture) and inflation in NCR



Source: CEIC

Figure 24: Nominal minimum wage (non-agriculture) and inflation in NCR



Source: CEIC

Figure 25: Agriculture losses in Philippines caused by El Nino phenomenon (1994-2016)

El-Nino period	No. of month	Category	Total area affected (ha)	Production loss (volume, MT)		
				Total	Rice	Maize
1994-1995 (Aug-Apr)	9	Moderate	183,572	405,775	230,515	175,260
1997-1998 (Apr-May)	14	Strong	677,441	1,056,743	684,262	372,481
2002-2003 (Apr-Mar)	12	Moderate	159,043	340,938	247,254	93,684
2004-2005 (Jun-Feb)	9	Weak	204,688	349,762	34,651	315,111
2006-2007 (Aug-Feb)	7	Weak	224,419	321,164	25,411	292,072
2009-2010 (Jun-May)	12	Strong	555,102	1,180,000	540,469	623,579
2016 (Feb-Jul)	6	Strong	556,721	1,480,672	491,238	510,457

Source: Striking a Balance: Managing El Niño and La Niña in Philippines' Agriculture (World Bank, 2019)

Figure 26: Agriculture damage from major natural disasters and FNAB inflation during disaster at month t

Month	Disaster	Name	Agriculture damage (PHP m)	FNAB Inflation (% YoY) at month t													
				t-1	t	t+1	t+2	t+3	t+4	t+5	t+6	t+7	t+8	t+9	t+10	t+11	t+12
Oct-10	Typhoon	Juan	11,528	4.3	3.5	3.9	4.0	4.8	5.9	6.2	6.3	6.2	6.0	5.7	5.2	5.0	5.7
Sep-11	Typhoon	Pedring	13,458	5.2	5.0	5.7	4.8	4.1	3.1	1.5	1.5	1.9	1.9	2.1	2.5	3.6	3.7
Dec-12	Typhoon	Pablo	33,470	2.5	2.5	2.7	2.9	2.7	2.0	2.2	2.1	1.9	1.3	2.2	2.9	3.3	4.2
Nov-13	Typhoon	Yolanda	25,248	2.9	3.3	4.2	4.5	4.8	5.0	5.3	5.8	6.4	7.2	7.5	6.6	6.0	5.4
Jul-14	Typhoon	Glenda	33,849	6.4	7.2	7.5	6.6	6.0	5.4	4.6	4.5	4.0	3.5	3.3	2.5	1.6	0.9
Oct-15	Typhoon	Lando	10,910	0.1	0.2	1.0	1.1	0.9	0.9	1.0	0.8	1.4	1.9	1.7	1.5	1.9	2.3
Sep-18	Tropical Cyclone	Ompong	31,648	8.6	10.2	9.6	8.1	6.5	5.0	4.1	3.2	2.8	2.9	2.4	1.5	0.0	-1.8
Oct/Nov 2020	Typhoon	Gang of 6 (4Q 2020)	16,600	2.2	4.4	4.6	5.9	6.2	5.3	3.8	3.5	3.6	3.9	5.5	5.0	3.7	2.2
Oct-21	Typhoon	Maring	1,700	5.0	3.7	2.2	1.6	1.7	1.2	2.6	3.8	4.9	6.0	6.9	6.3	7.4	9.4
Dec-21	Typhoon	Odette/Rai	17,700	2.2	1.6	1.7	1.2	2.6	3.8	4.9	6.0	6.9	6.3	7.4	9.4	10.0	10.2
Sep-22	Typhoon	Karding	3,000	6.3	7.4	9.4	10.0	10.2	10.7	10.8	9.3	7.9	7.4	6.7	6.3	8.1	n.a.
Oct-22	Tropical Cyclone	Paeng	7,214	7.4	9.4	10.0	10.2	10.7	10.8	9.3	7.9	7.4	6.7	6.3	8.1	n.a.	n.a.

Source: National Disaster Risk Reduction and Management Council (NDRRMC), NEDA, CEIC, Dept of Agriculture

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