

REPORT ON INFLATION (MAY 2022)

HIGHLIGHTS

- The Philippine Statistics Authority (PSA) reported that headline inflation increased to 5.4 percent in May 2022 from 4.9 percent in the previous month. The inflation rate is within the *Bangko Sentral ng Pilipinas*' (BSP) forecast range of 5.0 to 5.8 percent for the month.
- Year-to-date (YTD) inflation settled at 4.1 percent, slightly above the BSP's target range of 2.0 to 4.0 percent for 2022.
- Faster inflation for both food and non-food commodity groups contributed to the increase in headline inflation.
- Food inflation further accelerated to 5.2 percent in May from 4.0 percent in April, due to faster inflation rates for vegetables, fish, and meat.
- Meanwhile, non-food inflation continued to increase to 5.6 percent in May from 5.4 percent in April, driven by transport inflation which increased to 14.6 percent in May from 13 percent in April due to elevated world oil prices.
- To help cushion the impact of higher fuel prices on the most vulnerable, the government has increased the total budget for targeted subsidies to PHP6.1 billion. As of June 1, 2022, over 180,000 PUV drivers and operators have received their PHP6,500 fuel subsidy under the *Pantawid Pasada* program. At the same time, more than 158,000 farmers and fisherfolk are also set to receive PHP3,000 as fuel discounts.
- Moreover, to facilitate the entry of more goods at lower prices, President Duterte issued Executive Order No. 171 to modify tariff rates for pork, corn, rice, and coal. This is among the key recommendations of the Economic Development Cluster in addressing the inflationary impact of the Russia-Ukraine conflict.

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

	Apr 2022	May 2022	YTD 2022
Philippines			
Headline	4.9	5.4	4.1
Bottom 30 percent**	3.8	4.3	3.5
NCR			
Headline	4.4	4.7	3.1
AONCR			
Headline	5.1	5.5	4.3

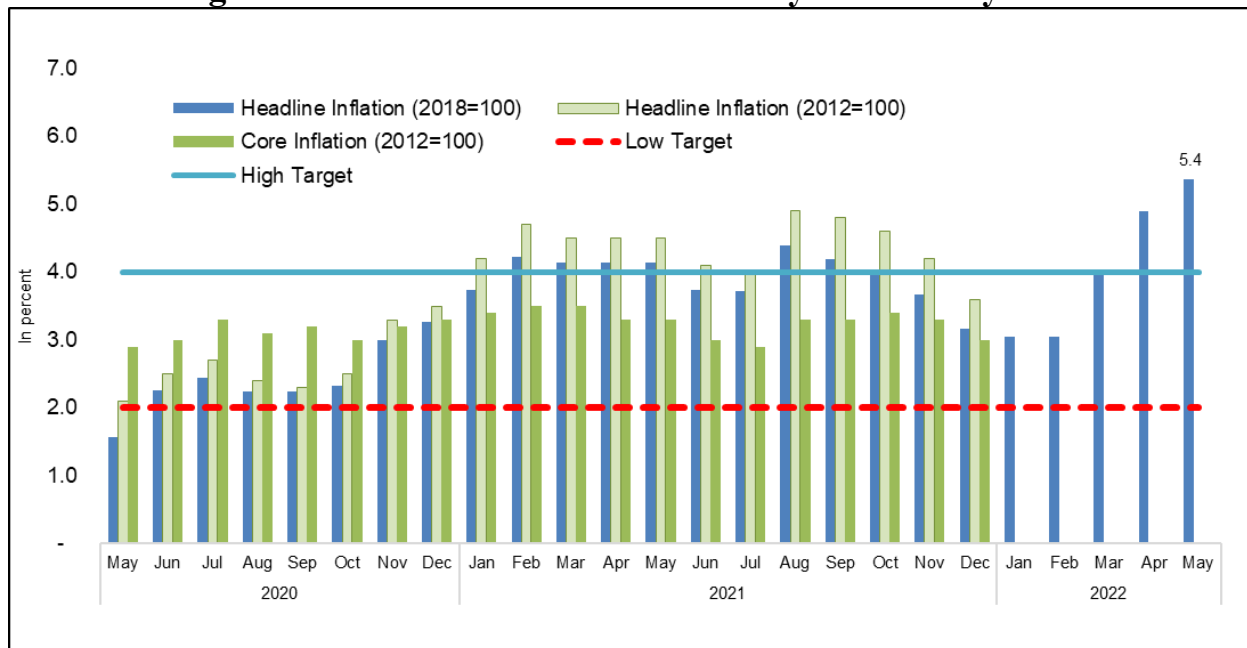
*Starting January 2022, the PSA has rebased the Consumer Price Index (CPI) to 2018 from the previous 2012 base year.

**Bottom 30 percent uses 2012 as base year
Source: Philippine Statistics Authority (PSA)

1. The headline inflation accelerated to 5.4 percent in May 2022; seasonally adjusted month-on-month inflation slowed down to 0.5 percent.

The Philippines' headline inflation increased to 5.4 percent in May 2022. This is within the *Bangko Sentral ng Pilipinas*' (BSP) forecast for the month of 5.0 to 5.8 percent and consistent with the private sector's median forecast.¹ YTD inflation is at 4.1 percent, slightly above the government's inflation target of 2.0 to 4.0 percent for 2022.

Figure 1. Headline inflation rates: May 2020 – May 2022



The uptick in May inflation was driven by the faster price adjustments in food and non-alcoholic beverages, transport, alcoholic beverages and tobacco, personal care, recreation, and clothing and footwear. On the other hand, housing and utilities and house furnishings registered slower inflation, while inflation in education, health,

¹ Ta-asan, Keisha B. Business World. "May inflation likely surged past 5%" Bworldonline.com <https://www.bworldonline.com/top-stories/2022/06/06/452898/may-inflation-likely-surged-past-5/> (accessed on June 6, 2022)

financial services, restaurant and accommodation, and information and communication remained stable (see Table 1).

Meanwhile, month-on-month (m-o-m) seasonally-adjusted inflation decelerated to 0.5 percent in May from 1.0 percent in April.

Table 1. Headline Inflation Rates in the Philippines (in percent, 2018=100)

Commodity Group	April 2022		May 2022	
	Y-O-Y	M-O-M ²	Y-O-Y	M-O-M ³
ALL ITEMS	4.9	0.8	5.4	0.4
Food and Non-Alcoholic Beverages	3.8	0.7	4.9	0.6
Alcoholic Beverages and Tobacco	5.9	1.4	6.8	1.2
Clothing and Footwear	2.0	0.2	2.1	0.3
Housing, Water, Electricity, Gas, and Other Fuels	6.9	0.6	6.5	0.0
Furnishing, Household Equipment, and Routine Maintenance of the House	2.6	0.3	2.5	0.2
Health	2.4	0.1	2.4	0.3
Transport	13.0	2.7	14.6	1.8
Information and Communication	0.7	0.0	0.7	0.0
Recreation, Sport, and Culture	1.6	0.2	1.7	0.2
Education Services	0.6	0.0	0.6	0.0
Restaurant and Accommodation	2.8	0.2	2.8	0.8
Financial Services	0.0	0.0	0.0	0.0
Personal Care, and Miscellaneous Goods and Services	2.3	0.3	2.5	0.3

Source: Philippine Statistics Authority

Operation of personal transport equipment and electricity, gas, and other fuels are the top sources of inflation, contributing a total of 2.6 percentage points (ppt). Meanwhile, food items, particularly vegetables, fish, meat, rice, corn, and bread and other cereals contributed a total of 1.5 ppts to total inflation (see Table 2).

² The month-on-month (m-o-m) inflation figures cited in Table 1 are not seasonally-adjusted.

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

Table 2. Top 10 Contributors to Inflation in May 2022 (in ppts)

Commodity group	May 2022
Operation of Personal Transport Equipment	1.3
Electricity, Gas, and Other Fuels	1.3
Vegetables, Tubers, Plantains, Cooking Bananas, and Pulses	0.4
Fish and Other Seafood	0.4
Meat and Other Parts of Slaughtered Land Animals	0.3
Food and Beverage Serving Services	0.3
Actual Rentals for Housing	0.2
Flour, Bread, and Other Bakery Products, Pasta Products, and other Cereals	0.1
Rice	0.1
Corn	0.1
TOTAL CONTRIBUTION TO INFLATION	4.6
Others (e.g., education, clothing and footwear, furnishings, communications, recreation, etc.)	0.8
OVERALL INFLATION	5.4

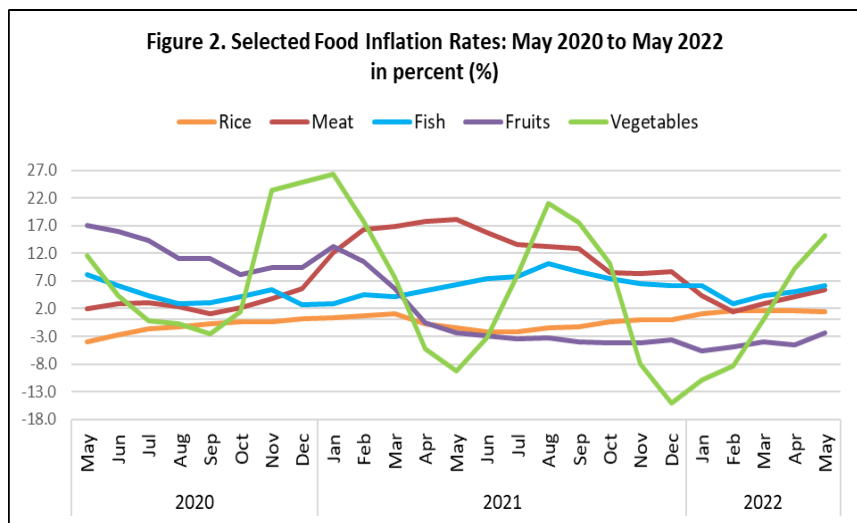
2. Food inflation further accelerated to 5.2 percent in May from 4.0 percent in April, due to faster inflation rates for vegetables, fish, and meat.

Food

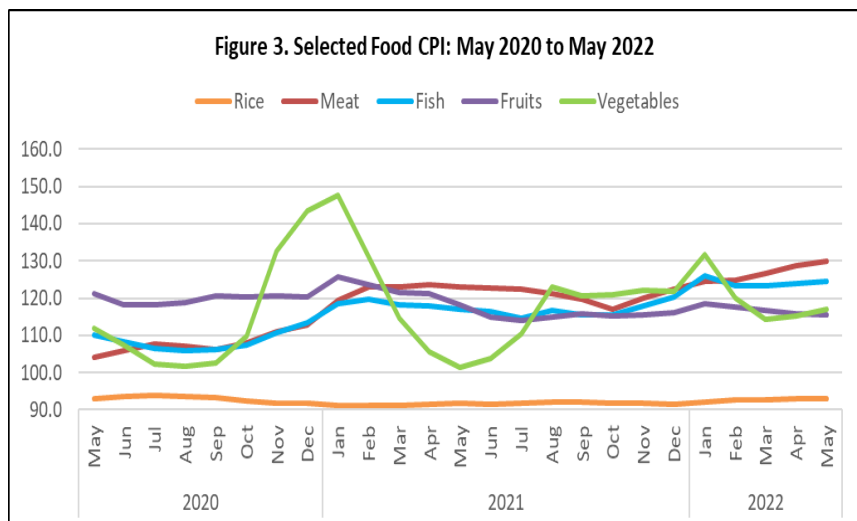
Inflation of food and non-alcoholic beverages accelerated to 4.9 percent in May from 3.8 percent in the preceding month. On a m-o-m seasonally-adjusted basis, price inflation for food and non-alcoholic beverages increased to 1.0 percent from 0.7 percent in April.

The faster food inflation was primarily driven by broad-based increases across most food commodities. In particular, vegetables (15.2% from 9.2%), meat (5.4% from 4.2%), and fish (6.2% from 5.0%) inflation inched up, while fruits (-2.4% from -4.6%) registered a slower deflation. Corn inflation slowed down but remained elevated (24.4% from 27.1%). Meanwhile, rice (1.5% from 1.6%) recorded slower inflation.

Vegetable inflation accelerated due to higher fertilizer and transportation costs. As of May 2022, local fertilizer prices increased by 77 to 169 percent year-on-year (y-o-y).⁴ Fertilizer inputs account for 6 to 21 percent of total farmer production costs.



Fish prices accelerated due to low imports, increased production costs mainly due to elevated fuel prices,⁵ and higher transportation costs. Out of the 60,000 metric ton (MT) Maximum Importable Volume (MIV) under Certificate of Necessity to Import (CNI) for Q1 2022, 38,695 MT MIV were not utilized.



⁴ Based on weekly average prices as reported in DA-FPA data through ANRES inputs

⁵ According to the Pambansang Lakas ng Kilusang Mamamalakaya ng Pilipinas (Pamalakaya), fuel comprised 80 percent of fishing production cost

Meat inflation also increased to 5.4 percent, led by the higher inflation for chicken (7.4% from 3.9%) amid the Avian Influenza (AI) outbreak. The Department of Agriculture - Bureau of Animal Industry (DA-BAI) reported that 48 municipalities and 84 barangays in 14 provinces⁶ have active AI cases as of May 27, 2022. A total of 200,368 poultry animals have been culled due to the recent outbreak.

Pork also registered faster inflation at 5.1 percent from 4.8 percent due to tight local supply and slow distribution of imported pork. As of May 23, 2022, the inventory of frozen pork was at 49,281 MT, 7.7 percent higher than the 45,751 MT inventory on April 25, 2022. Similarly, the inflation of beef increased to 7.7 percent from 7.4 percent for the period.

Meanwhile, fruits posted slower deflation following the onset of the rainy season, resulting in decreased supply.

On the other hand, corn inflation slowed down but remained elevated as global conflict continues to constrain global supply and drive-up international prices. Inflation of bread products (4.8% from 4.1%), sugar and other sweetened items (8.7% from 7.3%), ready-made food and other products (3.5% from 2.9%), milk and dairy products (1.5% from 1.1%), and oils (13.6% from 11.7%) have also increased.

Non-food

Non-food inflation picked up to 5.6 percent in May 2022 from 5.4 percent in April 2022. On a m-o-m seasonally adjusted basis, non-food inflation eased to 0.5 percent from 0.7 percent in the previous period.

Transport recorded faster inflation at 14.6 percent from 13.0 percent in the previous month. This was driven by the operation of personal transport equipment inflation which increased to 47.9 percent from 44.4 percent in the previous month, amid elevated petroleum prices. Prices of unleaded gas (56.8% from 48.2% y-o-y) and

⁶ Bulacan, Pampanga, Nueva Ecija, Tarlac, Bataan, Laguna, Camarines Sur, Sultan Kudarat, Benguet, North Cotabato, South Cotabato, Davao del Sur, Maguindanao and Isabela

diesel (90.3% from 89.1%) continued to accelerate. This reflects the continuous increase in international crude oil prices as a result of the Russia-Ukraine conflict, stronger demand prospects following China's receding COVID-19 cases, and Organization of Petroleum Exporting Countries'+ (OPEC+) decision to maintain its current pace of production increase (0.432mb/d).

Housing and utilities inflation decelerated to 6.5 percent from 6.9 percent mainly due to base effects. Year-on-year inflation in electricity, gas, and other fuels (18.8% from 19.9%) remained high, although slower than the previous month. Liquefied petroleum gas recorded slower inflation (29.8% from 49.4%) while kerosene inflation increased (69.3% from 66.4%).

3. NCR and areas outside the NCR (AONCR) inflation accelerated to 4.7 percent and 5.5 percent, respectively. The Cordillera Administrative Region (CAR) recorded the highest inflation rate at 6.9 percent.

Headline inflation in NCR inched up to 4.7 percent in May 2022 from 4.4 percent in April. This is due to broad-based increases across commodity groups: transport (13.8% from 12.3%), food and non-alcoholic beverages (4.6% from 3.4%), restaurants and accommodation services (3.3% from 2.5%), alcoholic beverages and tobacco (6.5% from 5.2%), clothing and footwear (1.2% from 0.8%), personal care and other services (2.2% from 1.9%), recreation, sport, and culture (1.0% from 0.7%), and health (1.9% from 1.6%). These offset the slower inflation in housing and utilities (5.2% from 6.0%), furnishing and household equipment (2.6% from 3.1%), and information and communication (0.4% from 0.7%). Meanwhile, inflation in education services (-0.1%) and financial services (0.0%) remained steady.

Similarly, inflation in AONCR picked up to 5.5 percent from 5.1 percent in the previous month. This was attributed to faster price adjustments in transport (14.7% from 13.2%), food and non-alcoholic beverages (4.9% from 3.8%),

alcoholic beverages and tobacco (6.8% from 6.0%), personal care and other services (2.6% from 2.4%), clothing and footwear (2.2% from 2.1%), furnishing and household equipment (2.5% from 2.4%), and recreation, sport, and culture (1.9% from 1.8%). These compensate for the deceleration in the price indices of restaurants and accommodation services (2.6% from 2.8%), housing and utilities (7.0% from 7.2%), and health (2.5% from 2.6%). Meanwhile, information and communication (0.7%), education services (0.8%), and financial services (0.0%) were unchanged from the previous month.

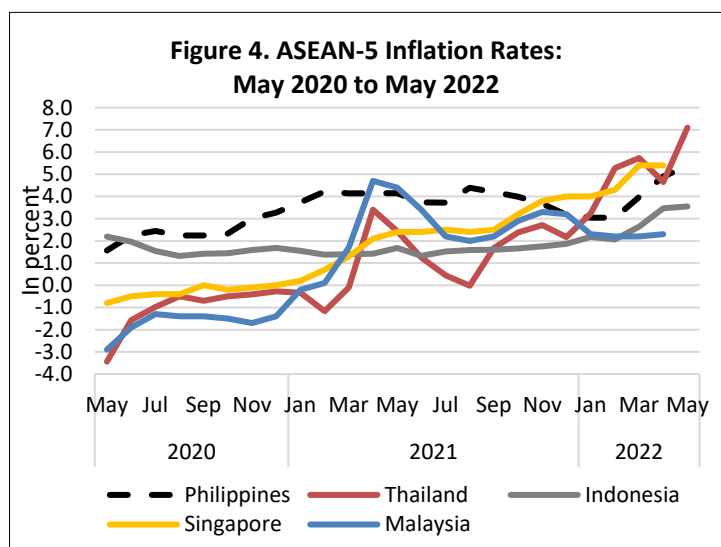
In AONCR, 14 out of 16 regions recorded an uptick in inflation (see Table 3). CAR recorded the highest inflation rate at 6.9 percent in May from 6.3 percent in April. This was mainly driven by the faster inflation in transport (24.0% from 22.4%), food and non-alcoholic beverages (6.9% from 6.3%), alcoholic beverages and tobacco (6.9% from 6.0%), clothing and footwear (2.9% from 2.4%), furnishing and household equipment (2.2% from 1.8%), personal care and other services (3.1% from 2.7%), health (2.0% from 1.7%), housing utilities (6.5% from 6.2%), restaurant and accommodation services (6.4% from 6.2%), recreation and sport, and culture (2.3% from 2.1%), and information and communication (0.5% from 0.4%).

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

Regions	Apr 2022	May 2022	YTD 2022
NCR	4.4	4.7	3.1
AONCR	5.1	5.5	4.3
CAR	6.3	6.9	5.4
I - Ilocos Region	5.2	5.7	4.4
II - Cagayan Valley	4.6	5.1	3.3
III - Central Luzon	6.1	6.7	4.6
IV-A - CALABARZON	4.7	5.1	3.7
IV-B - MIMAROPA	4.1	5.3	3.7
V - Bicol Region	4.2	4.9	3.7
VI - Western Visayas	4.9	5.9	4.6
VII - Central Visayas	5.4	5.3	5.2
VIII - Eastern Visayas	6.1	6.3	5.6
IX - Zamboanga Peninsula	4.5	5.6	4.6
X - Northern Mindanao	4.6	4.6	4.4
XI - Davao Region	5.3	6.4	5.2
XII - SOCCSKSARGEN	4.2	4.7	4.2
XIII - Caraga	4.4	5.1	4.2
BARMM	2.1	2.4	1.9

4. Indonesia and Thailand's inflation rates increased to 3.6 percent and 7.1 percent, respectively.

In May 2022, Indonesia's overall inflation accelerated to 3.6 percent from 3.5 percent in April 2022. Inflation was faster in most commodity groups including food, beverages and tobacco (5.6% from 5.2%); furnishings and household equipment (4.4% from 4.2%); health (2.3% from 2.2%); and restaurants



(3.6% from 3.5%), among others.⁷ On May 24, 2022, the Bank Indonesia maintained its key policy rate at 3.5 percent to maintain exchange rate stability, control inflation, and stimulate economic growth.⁸

Similarly, Thailand's inflation rate jumped to 7.1 percent in May 2022. This was driven by faster inflation in food (6.2% from 4.8%); transportation and communication (13.1% from 10.7%); and housing (6.7% from 0.1%).⁹ The Bank of Thailand is expected to keep its policy rates unchanged at 0.5 percent during its June 8 meeting.

Malaysia and Singapore have yet to report inflation figures for May 2022. In April 2022, inflation increased slightly in Malaysia and remained steady in Singapore.

5. Inflation outlook and policy implications

As of May 19, 2022, the BSP revised its 2022 inflation forecast upwards to 4.6 percent from its March estimate of 4.3 percent.¹⁰ This accounts for the elevated inflationary pressures due to higher global commodity prices and a shortage in domestic supplies of pork and fish. By 2023, inflation is seen at the upper end of the target band at 3.9 percent. **The BSP raised its key policy interest rate by 25 basis points to 2.25 percent.**¹¹ It sees the hike as an appropriate measure to temper inflation expectations and second-round effects.¹²

⁷ BI. "Inflation in May 2022 was 0.40 percent. The highest inflation occurred in Tanjung Pandan at 2.24 percent." https://www.bps.go.id/pressrelease.html?katsubjek=3&Brs%5Btgl_rilis_ind%5D=&Brs%5Btahun%5D=&yt0=Search (accessed June 2, 2022)

⁸ BI. "BI 7-Day Reverse Repo Rate held at 3.50%: Strengthening Synergy to Maintain Stability and Support Recovery" https://www.bi.go.id/en/publikasi/ruang-media/news-release/Pages/sp_2413622.aspx (accessed June 2, 2022)

⁹ http://www.price.moc.go.th/price/cpi/index_new_e.asp

¹⁰ BSP Monetary Board Meeting – May 19, 2022

¹¹ Overnight reverse repurchase rate, overnight deposit, and lending facilities rate all increased by 25 basis points to 2.25 percent, 1.75 percent, and 2.75 percent, respectively

¹² Monetary Policy Summary May 2022.

https://www.bsp.gov.ph/SitePages/PriceStability/FullReportMPR/MonetaryPolicyReport_Full_May2022.aspx (accessed June 6, 2022)

Food supply

A sufficient supply of rice, chicken, and highland vegetables is expected throughout 2022. Rice inventories are estimated at 2.6 million MT (MMT), or about 68-day stocks, while chicken inventories are forecasted at 178.1 thousand MT (TMT), equivalent to 40-day stocks.¹³ Highland vegetables will also remain sufficient, with local production at about 1.1 MMT or 151 percent of local demand.¹⁴

For lowland vegetables, the local production outlook is estimated at 1.7 MMT for 2022, or only 95 percent of local demand. Likewise, the pork supply deficit is estimated at 128.4 TMT.¹⁵ Similarly, faster increases in demand for fish are expected to result in a supply deficit. A corn supply deficit of 3.6 MMT is forecasted for the marketing year (MY)¹⁶ 2021/22,¹⁷ even after considering alternative feed supplies such as cassava.

To address this, the government issued EO 171, s. 2022, on May 21, 2022 which extended and modified tariffs on rice, pork, corn, and coal. The tariff adjustments will facilitate the diversification of import sources for these products. Moreover, the Plant, Plant, Plant Program 2 was launched on March 7, 2022 as part of proactive measures to boost local food production. Fertilizer subsidy comprises PHP20 billion of the total PHP24 billion budget for the program. Meanwhile, urban and peri-urban agriculture, local feed production, aquaculture and mariculture fisheries, and food mobilization make up the remaining PHP4 billion.

The DA-BAI may strengthen its monitoring and containment of emerging animal diseases, including the recent outbreak of AI. These include direct culling, disease investigation, quarantine zoning, transportation, and movement regulations, and direct coordination with relevant stakeholders and local government units. The DA-BAI may also consistently update its African Swine Fever (ASF) zoning and

¹³ NEDA & DA estimates

¹⁴ Presented during the Task Group on Food Security (TGFS) Meeting on April 5, 2022.

¹⁵ DA National Livestock Program, as of May 17, 2022.

¹⁶ Marketing year starts from July to June of succeeding year.

¹⁷ NEDA estimates

subsequently expedite the implementation of its hog repopulation, subsidy, and credit programs. Likewise, the government is also implementing science-based measures and technologies, such as continuous ASF vaccine research and trials.¹⁸ To complement these, timely unloading of pork stocks from cold storage is also necessary.

Moreover, the Livestock Development and Competitiveness (LDC) Bill is being proposed to modernize the livestock, poultry, and corn sectors in the country. Among the major provisions of the LDC Bill is the updating of the corn industry roadmap, along with the establishment of “competitiveness enhancement funds” for the livestock value chain.

To augment the domestic supply of fish, the DA issued an additional CNI with an MIV of 38,695 MT on May 23, 2022.¹⁹ Amid the low utilization of the Q1 2022 CNI, there is a need to consider expanding the list of eligible importers—which are currently limited to members of the commercial fishing sector and fisheries associations and cooperatives.²⁰ Moreover, the DA may continue pursuing the removal of the CNI requirement for the importation of fish for wet markets.

The DA-Bureau of Fisheries and Aquatic Resources (BFAR) may also intensify measures to boost fish production. These interventions include the establishment of legislated fish hatcheries and demonstration farms, provision of better-equipped fishing vessels to fisherfolk associations, and capacity building on the use of environment-friendly fishing gears.

To address agri-fishery smuggling that may distort local food supply, the government will strengthen the Sub-Task Group on Economic Intelligence (STG-

¹⁸ Talavera, Catherine, “DA testing new anti-ASF vaccines”.

<https://www.philstar.com/nation/2022/04/11/2173678/da-testing-new-anti-asf-vaccines> (accessed May 3, 2022)

¹⁹ DA Administrative Order 10-2022: Guidelines in the Implementation of FAO 259 in relation to the Certificate of Necessity to Import 38,695 MT of Frozen Fish and Fishery / Aquatic Products for Wet Markets for the Benefit of the Consuming Public

²⁰ Pursuant to Section 5 of the Fisheries Administrative Order 259-2018: Rules and Regulations on the Importation of Fishery/Aquatic Products for Wet Markets During Closed and Off-fishing Seasons or during Calamities.

EI), surprise inspections,²¹ first border controls and protection, and development of a centralized digital system for better data management and transparency.

To help cushion the impact of higher fuel prices on the most vulnerable, more than 158,000 farmers and fisherfolk are set to receive PHP3,000 as fuel discounts. The DA is also coordinating with the Department of Energy (DOE) to expand the list of participating oil companies that will accept fuel discount cards.

Weather conditions

According to the Philippine Atmospheric, Geophysical, and Astronomical Services Administration (PAGASA),²² the La Niña phenomenon in the tropical Pacific is expected to weaken in the coming months. Meanwhile, 11 to 15 tropical cyclones may enter or develop in the Philippines between June to November 2022. PAGASA expects normal rainfall conditions over most parts of the country in the coming months with above-normal rainfall conditions in some areas.

Transport Services

As of June 1, 2022, over 180,000 public utility vehicle (PUV) drivers and operators have received the PHP6,500 subsidy to mitigate the impact of the spike in energy-related prices.²³ The Land Transportation and Franchising Regulatory Board (LTFRB) targets to immediately finish the distribution of the first tranche.

²¹ DA Communications Group, “Economic intel group confiscates smuggled vegetables in Divisoria Market”. <https://www.da.gov.ph/economic-intel-group-confiscates-smuggled-vegetables-in-divisoria-market/> (accessed May 2, 2022)

²² PAGASA. “Climate Outlook June 2022 – November 2022” *DOST.gov.ph* <https://pubfiles.pagasa.dost.gov.ph/climps/climateforum/climateoutlook.pdf> (accessed on May 3, 2022).

²³ LTFRB Official Facebook Page <https://www.facebook.com/ltfrb.central.office> (accessed June 3, 2022)

Global oil prices

As of June 2, 2022, OPEC+ confirms its plans to adjust the monthly overall production upwards by 0.432 mb/d for the month of July 2022.^{24,25} Meanwhile, the global oil outlook remains uncertain amid developments in the Russia-Ukraine conflict, easing of zero-COVID policy in China, supply constraints, monetary policy dynamics, high sovereign debt levels, and other geopolitical risks. Based on futures markets, as of June 3, 2022, Dubai crude oil prices are expected to remain stable at USD107.7/bbl in July 2022²⁶ and decline to USD97.3/bbl in December 2022.

Economic recovery

Amidst the recent external developments, the Development Budget Coordination Committee (DBCC) has narrowed its 2022 full-year gross domestic product (GDP) growth target from 7.0-9.0 percent to 7.0-8.0 percent.²⁷ This is in line with heightened external risks such as the Russia-Ukraine conflict, China's slowdown, and monetary normalization in the United States. The government will continue to push for the full implementation of EO 166 which includes further reopening the economy and resuming face-to-face classes. For 2023-2025, the real GDP growth assumption was retained at 6.0-7.0 percent as the economy is expected to sustain its strong recovery in the medium term.²⁸

²⁴29th OPEC and non-OPEC Ministerial Meeting https://www.opec.org/opec_web/en/press_room/6882.htm (accessed June 3, 2022)

²⁵ This is the same pace of production increase for June and May 2022, but higher than the 0.4mb/d increase in April and in the preceding months.

²⁶ Dubai crude oil average at USD102.8 in April 2022

²⁷ DBCC. "DBCC Joint Statement for the 181st DBCC Meeting" *DBM.gov.ph* <https://dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/2218-dbcc-joint-statement-for-the-181st-dbcc-meeting> (accessed on May 26, 2022)

²⁸ DBCC. "DBCC Joint Statement for the 181st DBCC Meeting" *DBM.gov.ph* <https://dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/2218-dbcc-joint-statement-for-the-181st-dbcc-meeting> (accessed on May 26, 2022)