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PHILEQUITY CORNER

By Wilson Sy

Soaring food inflation weighs on consumers

Filipinos who regularly go to the market complain about surging rice and vegetable prices. Their concerns were validated as the government reported last week that inflation quickened to 6.1% in September from 5.3% in August. This came on the back of the 9.7% increase in food prices.

Rice and vegetable prices upset household budgets

The uptick in food inflation was mainly caused by faster inflation for rice (+17.9%), vegetables (+29.6%), and fruits (+11.6%). Housewives and home budgeters lamented that high fish and vegetable prices have forced them to use chicken as a cheaper alternative and the designated staple for helpers. Aside from rice, certain vegetables (squash, cabbage, Baguio beans, petchay Baguio) have posted high double-digit inflation rates. Rice and vegetables account for 8.9% and 2.8%, respectively, of the inflation basket.

Looming fare hikes may boost transport inflation

Transport inflation was at 1.2% in September after falling to negative levels in the middle of the year. This was brought about by an initial tranche of transport fare hikes. These would likely be followed by additional increases as regulators have previously delayed fare adjustments in order to avoid fanning inflation further. Transport inflation accounts for 9% of the inflation basket and is susceptible to movements in global oil prices. Nonetheless, the recent pullback in crude caused by the lifting of Russia's export ban on diesel should provide some respite to consumers.

A stronger case for an off-cycle rate hike

In recent statements, Bangko Sentral ng Pilipinas (BSP) Governor Eli Remolona said that they are considering an off-cycle rate hike ahead of the November policy meeting. Remolona explained that this would be prompted by the emergence of upside risks to inflation caused by supply shocks. The latest inflation outturn would thus give the BSP a stronger reason to hike its policy rate again. While the central bank sees the need for government intervention measures to address supply shortages, it said that further tightening should arrest potential second-round effects that could dislodge inflation expectations. Additional policy rate hikes would also preserve the country's interest rate differential and support the resilience of the peso.

Inflation battle continues

The battle against inflation is clearly not over, and this can be seen in the re-emergence of inflation last month. Persistent and elevated inflation brings about uncertainty for everyone. This includes financial market investors, policy-makers, businessmen, restaurant owners, consumers, and households. High inflation especially for key food staples would dampen domestic consumption which accounts for about 75% of the country's GDP. This would explain the urgency of managing inflation and the need for more policy rate hikes. However, higher interest rates would temper bank lending and slow down the economy. More importantly, keeping rates higher for longer is not conducive to strong financial market performance and would usher continued market volatility.

Miracle team

Rising inflation has clearly hit the pockets of Filipinos while dampening investor returns. However, there was a moment of pride and joy as the national team unexpectedly won in the country's favorite sport. Last Friday, Gilas Pilipinas won the gold medal at the Asian games after toppling Jordan. This is the country's first basketball gold medal since the 1962 Asian games. It surpasses the memorable silver medal finish achieved by a team of PBA stars in the 1990 Asian games. The expectations were set low for this Gilas team due to the shortage of available players, the lack of preparation time, and the last-minute appointment of the head coach. Despite these, the team was led by the adept coaching of Tim Cone and the scoring heroics of Justin Brownlee. Gilas played with a never-say-die attitude throughout the tournament. The team's fighting spirit was in full display in its thrilling battle with China when Gilas had to overcome a 20-point deficit to achieve a miraculous victory against the hometown team. A quote from Tim Cone perfectly summarized his team's epic run: "After beating Iran by a point, finding a way to the miraculous win against China by one point, and to turn around and win this, it's unexplainable, the feeling we all have. This is seemingly coming from nowhere to win this gold medal."

We would like to thank Ramon Ang and Manny Pangilinan for being avid patrons of Philippine basketball and for throwing their full support behind Gilas. We also congratulate Filipino athletes that have made the country proud by winning gold medals in their respective individual sports: EJ Obiena in pole vault, Meggie Ochoa and Annie Ramirez in jiu-jitsu. Go Pilipinas!