Current developments

Overview

Headline inflation rose in July 2024, driven by higher food and energy costs. The higher July inflation stemmed from higher electricity rates and domestic petroleum prices. Inflation for education services also accelerated with the start of the school year. Food inflation climbed due to faster price increases for meat, fish, and corn, while rice inflation remained high.

Core inflation measures showed mixed trends but remained stable. The official core inflation continued to ease. Meanwhile, estimates of BSP-computed core inflation measures increased but remained generally stable. Core inflation is the part of inflation that is most closely affected by monetary policy.

Global crude oil prices fell due to weak economic activity. Sluggish global economic performance indicated reduced oil demand, contributing to lower prices. US job growth slowed down, and unemployment rose in July 2024. Manufacturing activity weakened across Asia, Europe, and the US, reflecting low demand. Asia's crude oil imports also declined in the same month.

Inflation expectations continue to be well-anchored. Mean inflation forecasts for 2024–2026 eased based on the results of the BSEF for August 2024. Analysts expect inflation to be within target over the policy horizon, with projections moving closer to the midpoint of the target range. Risks to the inflation outlook are broadly balanced, with local inflation expected to trend lower for the rest of the year.

The domestic economy expands at a faster pace in Q2 2024. On the demand side, domestic demand, particularly investments and government spending, drove gross domestic product (GDP) growth. Exports grew at a slower pace amid weak external demand. On the production side, services and industry expanded. Meanwhile, the agriculture sector declined due to the adverse impact of *El Niño* during the quarter.

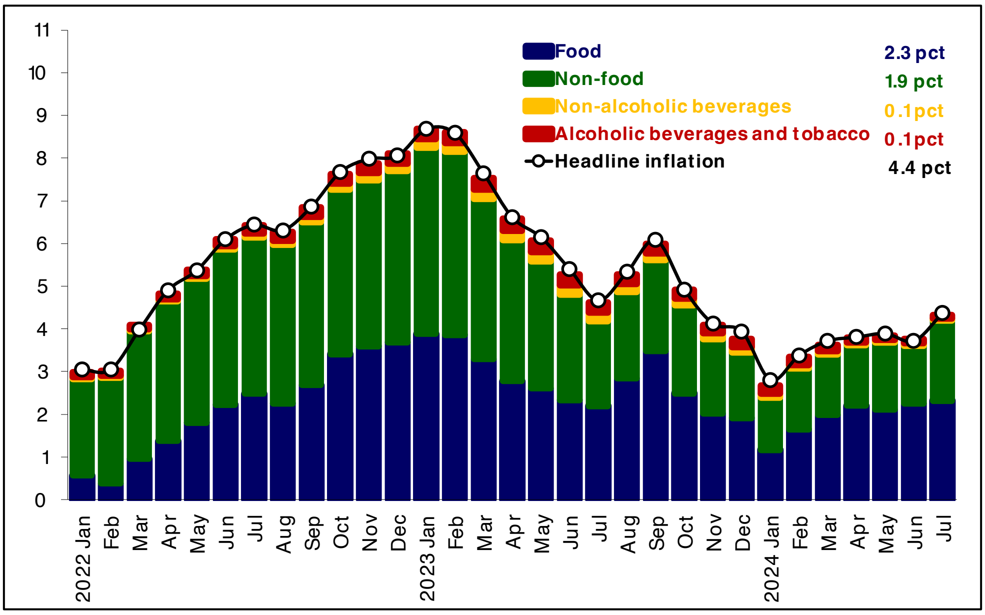
Demand indicators suggest that domestic growth prospects remain firm over the medium term. Output grew despite slower household consumption in Q2 2024, driven by strong domestic demand, especially in construction. Labor conditions improved in June 2024, with a lower unemployment rate. The preliminary purchasing managers' index (PMI) eased in July 2024, but business managers remain optimistic about economic recovery across all sectors in August 2024.

Prospects for global economic growth improved amid strong demand and continued business optimism. The IMF maintained its 2024 global growth projection, reflecting increased global economic activity despite persistent services inflation and trade tensions. As cyclical factors waned, activity aligned more closely with its potential, narrowing output divergence across economies. Risks to the global outlook remain balanced, but near-term risks have become more significant. Upside risks to inflation include slow disinflation in services and potential price pressures from renewed trade or geopolitical tensions, raising the likelihood of prolonged high interest rates.

I. Price conditions

Headline inflation. Headline inflation rose to 4.4 percent in July 2024, an increase from 3.7 percent in the previous month. This was driven by higher non-food costs, including electricity rates and domestic petroleum prices. Inflation for education services also picked up with the start of the school year, and food inflation contributed further to the rise. On a seasonally adjusted month-on-month (m-o-m) basis, inflation increased from zero percent in June to 0.6 percent in July.

Figure 2
Headline Inflation
2018=100
in percent



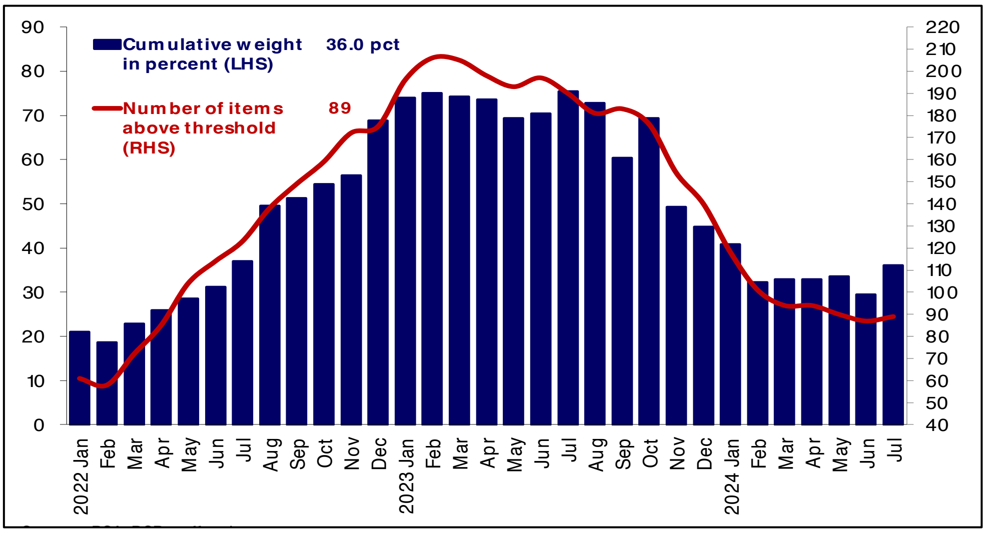
Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas

Inflation rates above target were recorded for 89 out of 315 items in July 2024, making up 36.0 percent of the consumption basket. Meanwhile, 119 items had inflation rates below target. The remaining 107 items (38.2 percent of the CPI basket) had inflation rates within target. Of the 89 items above target, 59 items were classified under food, non-alcoholic and alcoholic beverages, and tobacco. Twelve new items exceeded the 4.0-percent threshold, five of which belonged to the food and non-alcoholic beverages category.

Figure 3

Consumer Price Index Items with Inflation Rates Above Threshold

2018=100



Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas

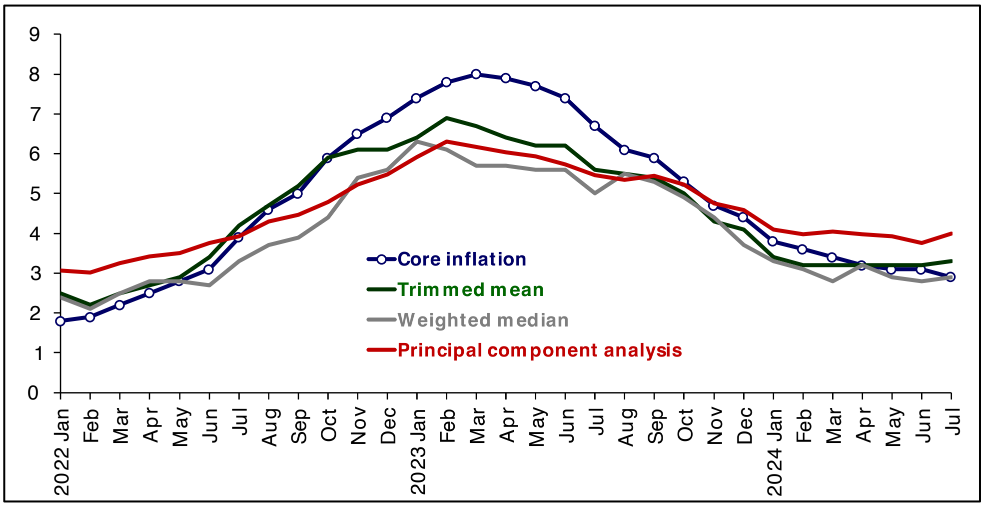
RHS – right-hand side
LHS – left-hand side

Core inflation. The official core inflation eased further to 2.9 percent in July 2024 from 3.1 percent in June 2024, marking a decline that has been ongoing since March 2023. Meanwhile, preliminary estimates of BSP-computed core inflation measures increased but remained generally stable.

Figure 4

Estimates of Core Inflation Measures

year-on-year; in percent



Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas (BSP) staff calculations using five-digit disaggregation for the BSP-computed core inflation, namely trimmed mean and weighted median

Core inflation excludes 10 volatile food and energy Consumer Price Index (CPI) items from the headline CPI. This includes (a) cereals (rice and corn); (b) meat (fresh, chilled, and frozen); (c) fish (live, fresh, chilled, and frozen); (d) dates, figs, and tropical fruits; (e) other vegetables (fresh and chilled); (f) fruit-bearing vegetables; (g) electricity; (h) liquefied hydrocarbons; (i) diesel; and (j) gasoline. In total, this accounts for 29.6 percent of the CPI basket.

Food inflation. Food inflation rose in July 2024 due to faster increases in prices of meat, fish, and corn. Moreover, rice inflation remained elevated at double-digit rates, albeit slower compared with the previous month's rate.

Table 14
Inflation Rates for Selected Food Items
2018=100
year-on-year; in percent

Commodity	July 2023	June 2024	July 2024
Food and non-alcoholic beverages	**6.3**	**6.1**	**6.4**
Food	6.3	6.5	6.7
Cereals and cereal products	5.9	16.3	15.6
Cereals	4.3	21.8	20.7
Rice	4.2	22.5	20.9
Corn	5.8	13.1	17.5
Flour, bread, and other bakery products; pasta products; and other cereals	10.1	3.0	2.6
Meat and other parts of slaughtered land animals	-1.7	3.1	4.8
Fish and other seafood	4.5	-1.4	-0.8
Milk, other dairy products, and eggs	9.7	1.3	1.8
Oils and fats	2.0	-3.0	-2.6
Fruits and nuts	8.4	5.6	8.4
Vegetables, tubers, cooking bananas, and pulses	21.8	7.2	6.1
Sugar, confectionery, and desserts	21.4	-3.0	-3.4
Ready-made food and other food products not elsewhere classified	7.8	5.9	6.0
Non-alcoholic beverages	6.8	2.0	1.8
Alcoholic beverages and tobacco	**10.9**	**3.8**	**3.4**

Sources of basic data: Philippine Statistics Authority; Bangko Sentral ng Pilipinas

Non-food inflation. Non-food inflation increased in July 2024 with the upward adjustments in electricity rates and higher domestic petroleum prices. Inflation for education services also accelerated with the start of the school year.

Table 15

Inflation Rates for Selected Non-Food Items

2018=100

year-on-year; in percent

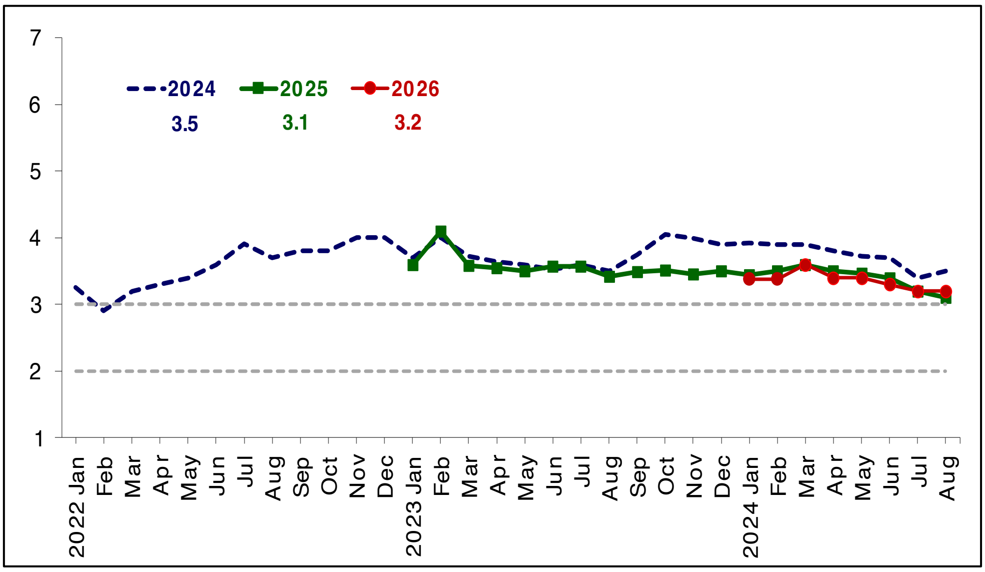
Commodity	July 2023	June 2024	July 2024
Non-food	**3.3**	**2.3**	**3.1**
Clothing and footwear	4.8	3.2	3.1
Housing, water, electricity, gas, and other fuels	4.5	0.1	2.3
Electricity, gas, and other fuels	2.5	-5.7	0.7
Furnishings, household equipment, and routine household maintenance	5.8	2.8	2.8
Health	3.9	2.9	2.8
Transport	-4.7	3.1	3.6
Passenger transport services	7.2	3.3	3.1
Information and communication	0.7	0.5	0.5
Recreation, sport, and culture	4.7	3.5	3.4
Education services	3.7	3.8	5.8
Restaurant and accommodation services	7.9	5.1	4.9
Financial services	0.0	-0.6	-0.6
Personal care and miscellaneous goods and services	5.6	3.2	3.2

Sources of basic data: Philippine Statistics Authority; Bangko Sentral ng Pilipinas

II. Inflation expectations

Preliminary results from the BSEF for August 2024 showed that the mean inflation forecast for 2024 further eased to 3.5 percent (from 3.7 percent in May 2024). Forecasts for 2025 and 2026 also decreased to 3.1 percent (from 3.5 percent) and 3.2 percent (from 3.4 percent), respectively.[8]

Figure 5
Survey of External Forecasters
mean forecast for full year; in percent



Source: Bangko Sentral ng Pilipinas

This was based on forecasts provided by 23 respondents. The survey was conducted from 8–13 August 2024.

Analysts' forecasts continued to move closer to the midpoint of the target range. Risks to the inflation outlook are broadly balanced, with local inflation expected to trend lower for the rest of the year.

Downside risks to the inflation outlook are seen to stem largely from lower rice prices, following the implementation of EO 62. Analysts also anticipate downward inflationary pressures from a stronger peso against the US dollar, as well as favorable base effects.

Meanwhile, the main upside risk is expected to arise from second-round effects, such as higher electricity costs brought about by a potential uptick in oil prices amid geopolitical conflicts.

[8] The median forecast increased for 2024 at 3.5 percent (from 3.3 percent in the July survey) and remains unchanged for 2025 and 2026 at 3.1 percent and 3.0 percent, respectively.

Table 16
BSP Survey of External Forecasters
annual percentage change
August 2024

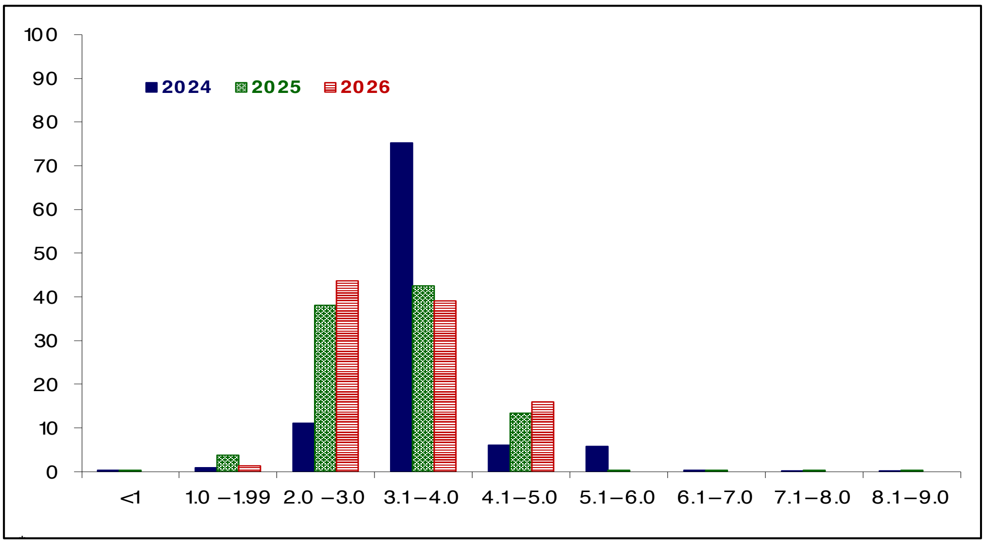
	2024			2025	2026
	Q3	Q4	FY	FY	FY
1) Al-Amanah Islamic Bank	4.00	4.40	5.50	5.00	5.00
2) ANZ	–	–	3.60	3.10	3.00
3) Banco De Oro	–	–	3.30	2.70	–
4) Bangkok Bank	4.00	3.50	3.70	3.50	3.20
5) Bank of Commerce	3.46	2.92	3.37	–	–
6) Barclays	3.40	3.30	3.40	–	–
7) CTBC Bank	3.30	2.80	3.10	3.00	3.00
8) Deutsche Bank	3.60	3.60	3.60	3.50	–
9) eManagement for Business and Marketing Services	3.60	3.30	3.50	3.60	3.25
10) Goldman Sachs	3.10	2.80	3.20	2.70	2.70
11) HSBC	3.30	2.60	3.30	2.30	–
12) Metrobank	3.10	2.90	3.30	3.10	3.00
13) Mizuho	3.50	3.20	3.50	2.80	–
14) Modular Asset Management	3.60	3.20	3.50	3.50	3.80
15) Moody's Analytics	4.00	3.50	3.60	3.20	3.00
16) Nomura	2.50	1.80	2.80	2.30	–
17) Regis Partners	–	–	3.80	3.50	–
18) Pantheon Macroeconomics	4.00	3.10	3.50	2.50	2.60
19) Philippine Equity Partners	3.48	3.23	3.45	3.04	–
20) Security Bank	3.80	3.70	3.70	3.30	3.00
21) Standard Chartered	3.30	2.50	3.10	3.10	3.00
22) Sun Life Investment Management and Trust Corp.	3.00	2.50	3.30	2.50	2.70
23) Union Bank of the Philippines	4.00	3.80	3.70	3.50	3.20
Median forecast	3.50	3.20	3.50	3.10	3.00
Mean forecast	**3.50**	**3.10**	**3.50**	**3.10**	**3.20**
High	4.00	4.40	5.50	5.00	5.00
Low	2.50	1.80	2.80	2.30	2.60
Number of observations	20	20	23	21	14
Government target	**3.0 ± 1.0**	**3.0 ± 1.0**	**3.0 ± 1.0**	**3.0 ± 1.0**	**3.0 ± 1.0**

Source: Bangko Sentral ng Pilipinas

Forecasts provided by 18 out of 23 respondents indicated an 86.4-percent chance (from 87.2 percent in July) that inflation will remain within the 2.0–4.0 percent target range for 2024. Meanwhile, analysts estimated a 12.5-percent chance (from 12.0 percent) that inflation will exceed the target range. For 2025 and 2026, the probability of inflation staying within the target range decreased to 80.6 percent (from 84.3 percent) and 82.7 percent (from 86.8 percent), respectively.[9]

[9] Histogram results of the BSP's survey of private-sector economists for August 2024 showed that majority of the respondent-analysts expect inflation to settle within the 2.0–4.0 percent target range for 2024–2026.

Figure 6
Probability Distribution for Analysts' Inflation Forecasts
2024–2026



Source: Bangko Sentral ng Pilipinas Survey (August 2024)

Probability distributions were averages of those provided by 18 out of 23 respondents.

Preliminary August survey results showed that most analysts expect the BSP to cut the policy rate by 25 bps in Q3 2024, with a follow-up reduction in Q4 2024. Forecasters anticipate a total cut of 50 bps by the end of 2024. Moreover, they expect the BSP to lower the rate by 50–250 bps in 2025, with additional cuts of up to 100 bps by the end of 2026.

Figure 7
Assigned Probabilities for Inflation for 2024–2026

Figure 7.1
Evolution of Probability Distribution of Analysts' Inflation Forecasts for 2024
Survey of external forecasters results
August 2024 vs. May 2024

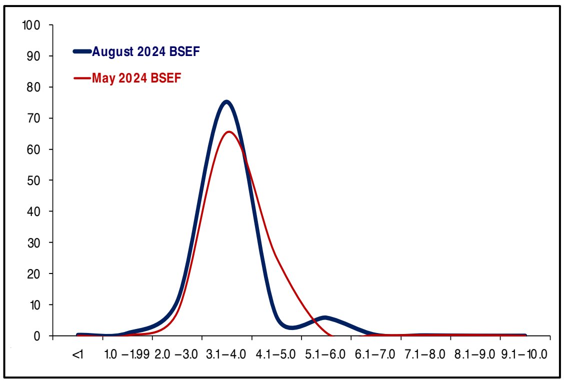


Figure 7.2
Evolution of Probability Distribution of Analysts' Inflation Forecasts for 2025
Survey of external forecasters results
August 2024 vs. May 2024

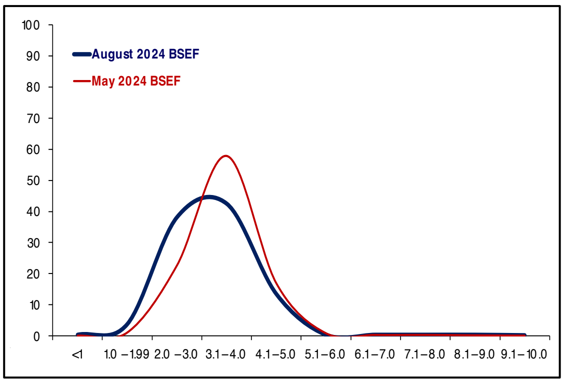
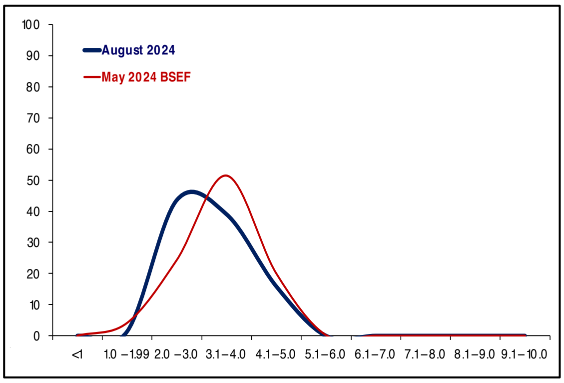


Figure 7.3
Evolution of Probability Distribution of Analysts' Inflation Forecasts for 2026
Survey of external forecasters results
August 2024 vs. May 2024



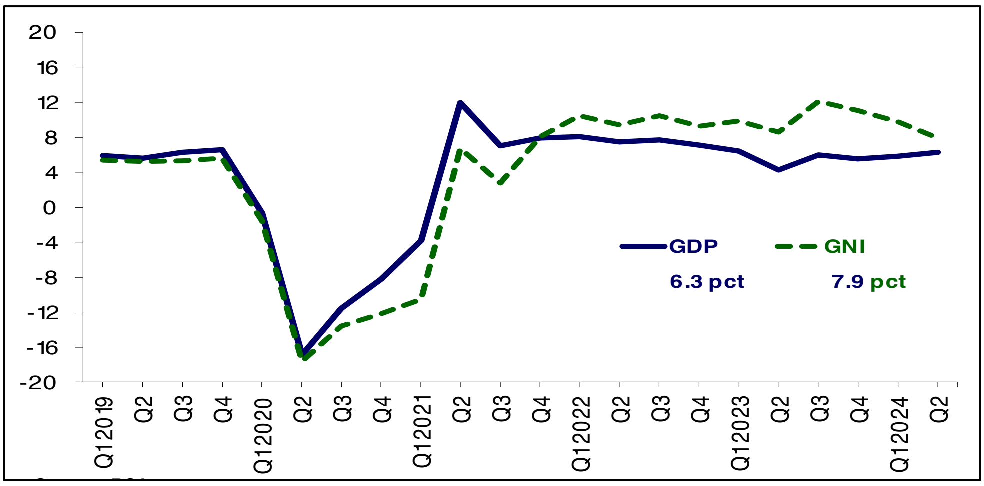
Source: Bangko Sentral ng Pilipinas

Most analysts expect inflation to stay within the 2.0–4.0 percent target range for 2024–2026. Compared to the July survey, the August probability distribution for 2024 remained narrow and within the target range. The probability distribution shifted slightly to the left for 2024–2026, indicating a strong likelihood that inflation will stay well within the target range.

III. Demand conditions

Output growth accelerated to 6.3 percent in Q2 2024, higher than 5.8 percent in Q1 2024 and 4.3 percent in Q2 2023. This brings real GDP growth to 6.0 percent for the first half of the year, which is at the low end of the 6.0–7.0 percent government target for 2024. The Q2 2024 growth was driven by domestic demand, especially investments and government spending, with significant growth in construction. Gross national income rose at a slower pace, as net primary income growth remained in double digits but decelerated. Seasonally adjusted quarter-on-quarter GDP growth slowed down from 1.1 percent in Q1 2024 to 0.5 percent in Q2 2024.

Figure 8
Gross Domestic Product and Gross National Income
at constant 2018 prices; year-on-year; growth rate in percent



Source: Philippine Statistics Authority

Aggregate demand. Under the expenditure approach, household spending, government spending, investments (or capital formation), and exports contributed 3.2 ppts, 1.7 ppts, 3.0 ppts, and 1.2 ppts, respectively, to total GDP growth in Q2 2024.

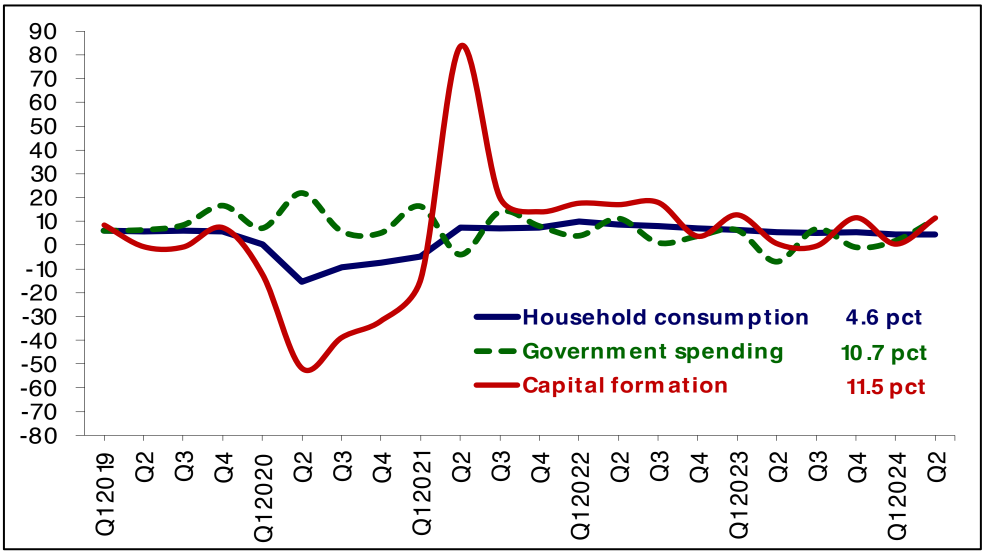
Household consumption, which accounted for 67.8 percent of GDP, remained steady from the previous quarter. Growth in household spending was attributed to tourism-related spending, particularly recreation and culture and restaurants and hotels; transport; miscellaneous goods and services; and housing, water, electricity, gas, and other fuels.

Government spending accelerated in Q2 2024. The NG's disbursement report cited increased maintenance and operating expenses for social, health, and education programs.[10] Spending also rose for infrastructure projects, including roads, bridges, flood control systems, hospitals, multi-purpose buildings, and railways. Interest payments, transfers to local governments, and subsidies for irrigation system restoration and development contributed further to the rise.

Figure 9

Gross Domestic Product by Expenditure Shares

at constant 2018 prices; growth rate in percent



Source: Philippine Statistics Authority

Capital formation or investments grew at a faster pace, driven by construction. Public construction sustained its double-digit growth as the government's infrastructure agencies expedited the rollout of various construction and rehabilitation projects. Private construction, particularly commercial construction, also expanded.

Overall exports grew at a slower pace. Goods exports moderated as exports of electronic products fell, largely due to a decline in shipments of semiconductors. Growth in exports of services also eased in Q2 2024, driven by a slowdown in the expansion of business services exports.

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[10] This was based on the latest available DBM report on the NG's disbursement performance as of May 2024. (Source: https://www.dbm.gov.ph/wp-content/uploads/DBCC/2024/NG-Disbursements_May-2024_for-posting.pdf)

Meanwhile, overall growth in imports was higher in Q2 2024 than in the previous quarter, reversing the contraction recorded in Q2 2023. Imports of services grew at double-digit rates due to increased spending on travel, miscellaneous services, and transport. Imports of goods also rebounded, driven by higher purchases of mineral fuels, lubricants, electronic data processing equipment, consumer electronics, and feeding stuff.

Table 17
Gross Domestic Product by Expenditure Shares
at constant 2018 prices; growth rate in percent

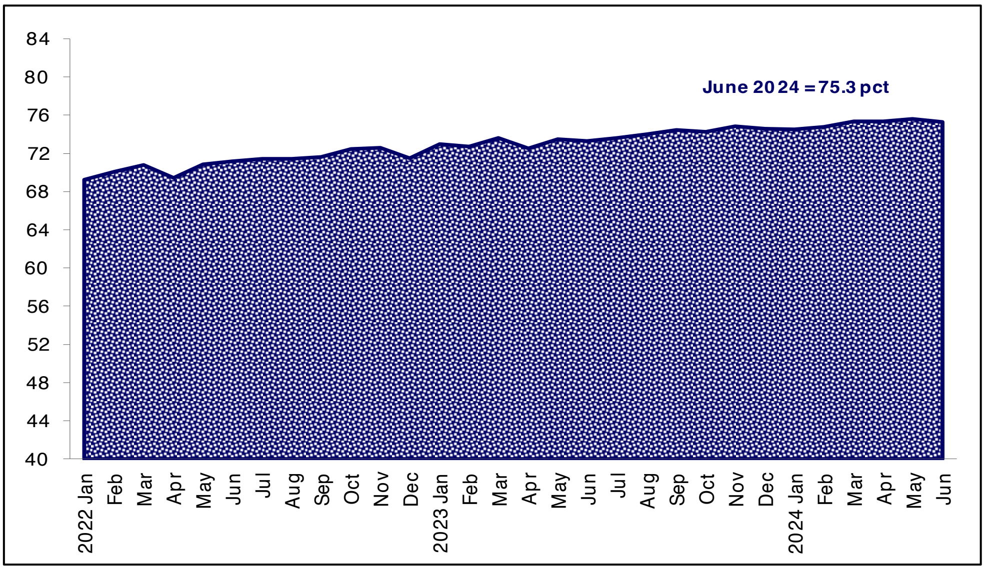
Expenditure shares	2023 Q2	2024 Q1	2024 Q2
Household final consumption expenditure	5.5	4.6	4.6
Government final consumption expenditure	-7.1	1.7	10.7
Gross capital formation	0.7	0.5	11.5
Gross fixed capital formation	4.3	2.1	9.5
Exports of goods and services	4.7	8.4	4.2
Imports of goods and services	-0.6	2.2	5.2

Source: Philippine Statistics Authority

Other demand indicators

Capacity utilization. Based on the PSA's Monthly Integrated Survey of Selected Industries (MISSI), the preliminary average capacity utilization rate of the manufacturing sector declined in June 2024.

Figure 10
Monthly Average of Capacity Utilization for Manufacturing
2018=100
in percent

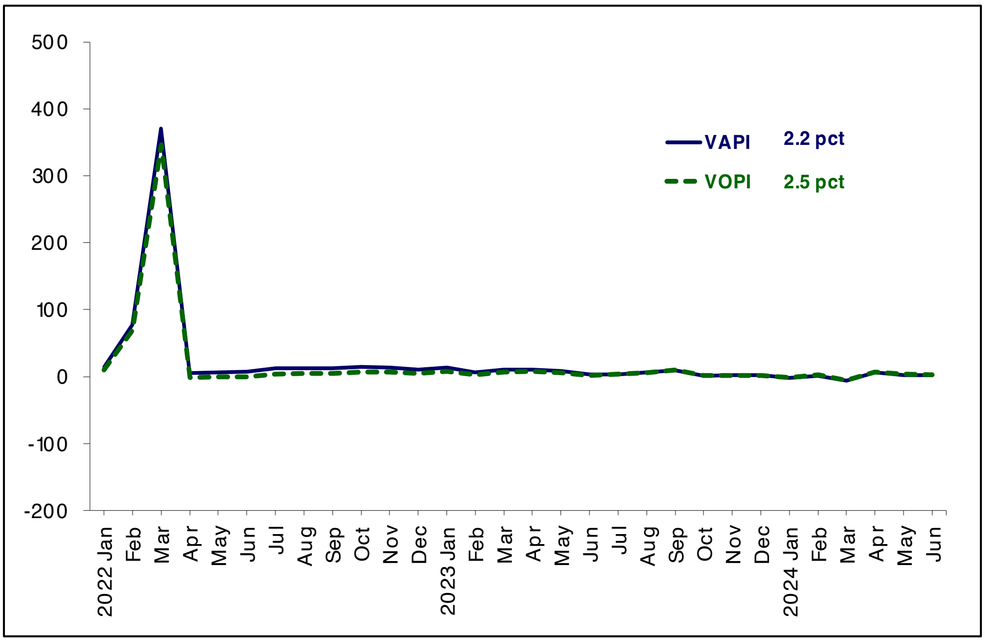


Source: Philippine Statistics Authority

Of the 565 establishments surveyed by the PSA, 51.7 percent operated at or above the 80.0 percent capacity level in June 2024 (from 53.2 percent in May 2024).[11] Average capacity utilization eased slightly but stayed above the year-to-date (y-t-d) average. Industries maintained high production levels to meet seasonal demand. Out of 22 major industries, three, including the manufacture of other non-metallic mineral products, operated at or above 80.0 percent capacity. The remaining 19 industries operated between 60.0–79.0 percent capacity.

Volume and value of production. Preliminary MISSI results showed that factory output, as measured by the volume of production index (VoPI), grew at a slower pace in June 2024. Of the 22 subsectors, coke and refined petroleum products posted the highest year-on-year (y-o-y) growth. This was followed by furniture manufacturing. Conversely, the manufacture of wood and bamboo products posted the largest contraction for the month.

Figure 11
Volume and Value Indices of Manufacturing Production
2018=100
year-on-year; in percent



Source: Philippine Statistics Authority

The value of production index also moderated in June 2024. The subsectors with the highest expansions mirrored those of the VoPI, while the manufacture of wood, bamboo, cane, rattan articles, and related products posted the largest contraction.

[11] Monitoring the response rate helps the BSP assess the quality of reported data and how representative it can be. The response rate of surveyed establishments decreased from 59.0 percent (preliminary) in May 2024 to 58.5 percent (preliminary) in June 2024. The revised response rate for May 2024 was 71.5 percent.

Table 18

Growth in Volume of Production Index by Industry Division

2018=100

year-on-year; in percent

Gainers		June 2024
1)	Coke and refined petroleum products	46.0
2)	Furniture	29.7
3)	Fabricated metal products, except machinery and equipment	19.6
4)	Machinery and equipment, except electrical	18.8
5)	Electrical equipment	15.3
6)	Chemical and chemical products	11.5
7)	Food products	8.8
8)	Beverages	7.3
9)	Rubber and plastic products	3.2
10)	Basic pharmaceutical products and pharmaceutical preparations	2.9
11)	Textiles	2.5
12)	Computer, electronic, and optical products	0.5
Losers		**June 2024**
1)	Wood, bamboo, cane, rattan articles, and related products	-58.9
2)	Printing and reproduction of recorded media	-18.7
3)	Basic metals	-17.7
4)	Other non-metallic mineral products	-17.1
5)	Other manufacturing, repair, and installation of machinery and equipment	-14.1
6)	Transport equipment	-8.8
7)	Wearing apparel	-5.3
8)	Leather and related products, including footwear	-3.7
9)	Tobacco products	-0.8
10)	Paper and paper products	-0.4

Source: Philippine Statistics Authority

Table 19

Growth in Value of Production Index by Industry Division

2018=100

year-on-year; in percent

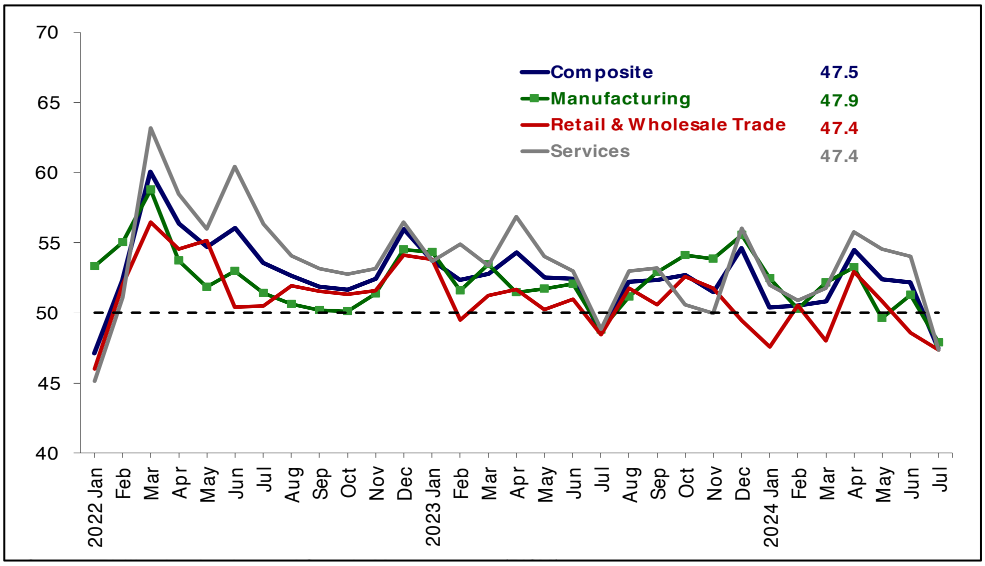
Gainers		June 2024
1)	Coke and refined petroleum products	44.5
2)	Furniture	28.9
3)	Machinery and equipment, except electrical	20.4
4)	Electrical equipment	14.9
5)	Fabricated metal products, except machinery and equipment	14.5
6)	Chemical and chemical products	11.4
7)	Food products	9.8
8)	Beverages	8.6
9)	Tobacco products	4.8
10)	Basic pharmaceutical products and pharmaceutical preparations	4.6
11)	Computer, electronic, and optical products	4.1
12)	Rubber and plastic products	1.8
13)	Textiles	0.6
14)	Leather and related products, including footwear	0.2
Losers		**June 2024**
1)	Wood, bamboo, cane, rattan articles, and related products	-60.2
2)	Other non-metallic mineral products	-18.9
3)	Basic metals	-17.5
4)	Printing and reproduction of recorded media	-17.3
5)	Other manufacturing, repair, and installation of machinery and equipment	-13.7
6)	Transport equipment	-6.2
7)	Wearing apparel	-4.2
8)	Paper and paper products	-0.7

Source: Philippine Statistics Authority

Purchasing managers' index. The preliminary composite PMI declined to 47.5 index points in July 2024 (from 52.2 in June 2024).[12] Overall economic activity contracted for the first time since July 2023, as conditions across all economic sectors deteriorated. Nonetheless, business managers are optimistic that economic conditions for all sectors will recover in August 2024.

[12] An index above 50 indicates economic expansion, while an index below 50 implies contraction. PMI surveys are conducted during the last week of the month. Typhoon Carina may have affected the responses since the preliminary survey was done from 29 July 2024 to 5 August 2024, following the typhoon.

Figure 12
Purchasing Managers' Index Diffusion Index



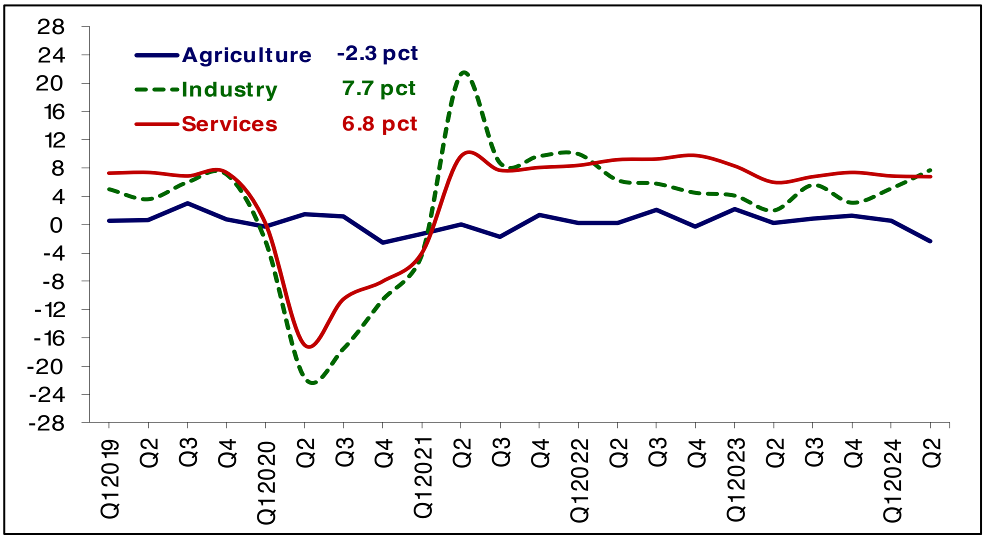
Source: Philippine Institute of Supply Management

IV. Supply conditions

Aggregate supply. On the production side of the economy, output for the services and industry sectors continued to expand in Q2 2024. The services sector remained the top contributor, driven by wholesale and retail trade, repair of motor vehicles and motorcycles; finance and insurance activities; and professional and business services.

The agriculture sector experienced a slump in Q2 2024. The adverse impact of *El Niño* during the quarter resulted in output reductions for major crops, such as *palay* and corn; other agricultural crops; sugarcane; and banana.

Figure 13
Gross Domestic Product by Industrial Origin
at constant 2018 prices



Source: Philippine Statistics Authority

The industry sector improved compared with previous quarters. This is on account of the faster growth in construction, manufacturing of coke and refined petroleum products, food products, chemical and chemical products, printing and reproduction of recorded media, and electrical equipment.

Table 20
Gross Domestic Product by Industrial Origin
at constant 2018 prices; growth rate in percent

Industrial origin	2023	2024	
	Q2	Q1	Q2
Agriculture, forestry, and fishing	0.2	0.5	-2.3
Industry sector	2.0	5.1	7.7
Mining and quarrying	-2.8	0.4	4.8
Manufacturing	1.0	4.4	3.6
Electricity, steam, water, and waste management	4.6	6.9	9.1
Construction	3.5	7.0	16.0
Service sector	6.0	6.9	6.8
Wholesale and retail trade, repair of motor vehicles and motorcycles	5.2	6.6	5.8
Transportation and storage	17.1	5.4	14.8
Accommodation and food service activities	27.3	13.1	10.4
Information and communication	3.5	4.2	6.8
Financial and insurance activities	5.2	10.3	8.2
Real estate and ownership of dwellings	3.1	4.5	7.2
Professional and business services	6.8	7.0	7.6
Public administration and defense, compulsory social security	-2.4	3.8	1.8
Education	6.8	3.7	2.1
Human health and social work activities	8.5	8.6	9.3
Other services	22.0	9.0	10.5

Source: Philippine Statistics Authority

Oil market developments. The spot price of Dubai crude oil decreased for the period 1–6 August 2024 compared with the full-month average in July 2024. Sluggish global economic performance signaled a potential drop in oil demand, leading to lower crude oil prices. Job growth in the US slowed down, and the unemployment rate increased in July 2024.[13] Weak manufacturing activity in Asia, including China; Europe; and the US due to tepid demand contributed further to the drop. Asia's crude oil imports also declined in the same month.

Meanwhile, escalating tensions between Israel and Lebanon's Hezbollah and Iran could lead to an all-out war in the Middle East, raising the geopolitical risk premium in global oil prices.

[13] The US unemployment rate jumped to near a three-year high of 4.3 percent in July 2024 amid a significant slowdown in hiring, heightening fears that the labor market was deteriorating and potentially making the economy vulnerable to a recession. (Source: https://www.reuters.com/markets/us/us-job-growth-misses-expectations-july-unemployment-rate-rises-43-2024-08-02)

On the domestic front, week-on-week domestic prices for gasoline, kerosene, and diesel declined by ₱0.75 per liter, ₱0.80 per liter, and ₱3.40 per liter, respectively, as of 30 July 2024.

Developments in the agriculture sector. The output of agriculture, forestry, and fishing (AFF) contracted by 2.3 percent in Q2 2024 amid the decline in the gross value added from *palay* and corn. This was partially offset by increases in poultry and egg, support activities to AFF, and fishing and aquaculture.

Crop production, which contributed 53.2 percent of the total value of agriculture and fisheries, fell by 8.6 percent in Q2 2024, reversing the 1.2-percent increase from the previous year.[14] *El Niño* negatively impacted crops, causing *palay* and corn production to drop by 9.5 percent and 20.3 percent, respectively. However, the production of *calamansi*, cacao, and cabbage increased, partially offsetting the decline.

Livestock production, which accounted for 15.3 percent of total agricultural output, decreased by 0.3 percent in Q2 2024. Local hog production has improved since the ASF outbreak but has yet to return to its pre-ASF level. The ASF remains a threat to hog repopulation efforts due to the lack of widespread commercial distribution of vaccines.

Meanwhile, poultry production increased by 8.7 percent, contributing 16.9 percent to total agricultural output. This improvement is due to recoveries from the Avian influenza (AI). According to the Department of Agriculture's status update as of 2 August 2024, only six regions or nine provinces have remaining AI cases in the country.

The fisheries sector, which constituted 14.6 percent of the total value of production in agriculture and fisheries, recorded an expansion of 2.2 percent in Q2 2024. Improvements in fish production followed the open fishing season. However, the government underscores the need to expedite the development of more aquaculture farms and mariculture parks to support the fisheries subsector.

Global food prices. The Food and Agriculture Organization (FAO) All Rice Price Index[15] averaged 133.3 points in July 2024. This is lower by 2.4 percent than the 136.6 points in June 2024 but still 2.8 percent above the year-ago level of 129.7 points. The m-o-m decline was largely due to slower export demand for Asian rice varieties amid ample supplies.

As of July 2024, quotes for 5% broken rice varieties from Vietnam, Thailand, and Pakistan increased by 23.1 percent, 22.9 percent, and 20.5 percent, respectively.

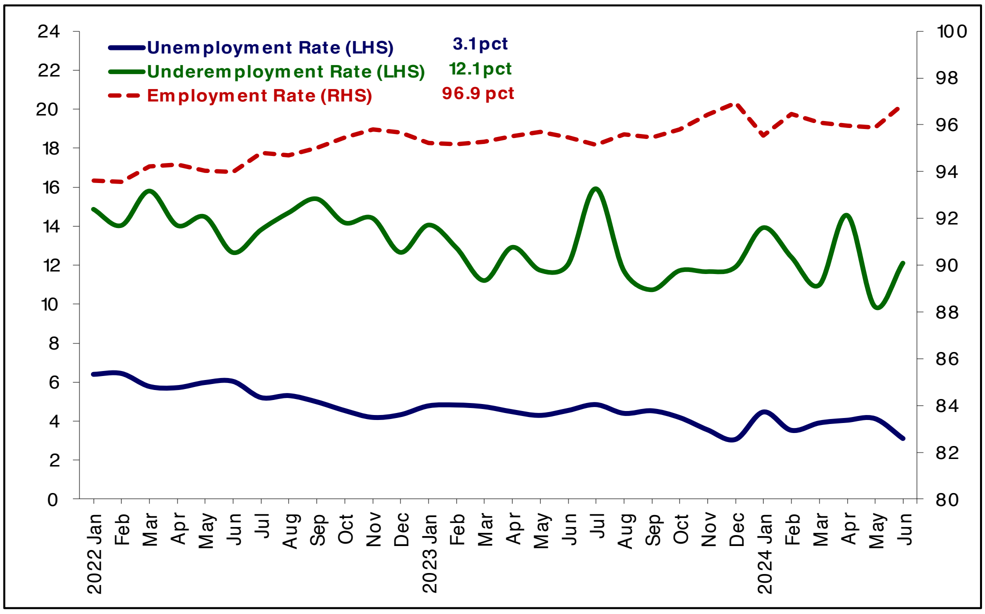
The FAO Food Price Index declined to 120.8 points in July 2024 relative to the month-ago level of 121.0 points (revised). The m-o-m decrease was attributed to lower prices of cereals, owing to ample global supplies and favorable output prospects. Lower cereals prices outweighed price increases in vegetable oil, meat products, and sugar.

[14] The growth rates of the subsectors and commodities are based on the Q2 2024 *Performance of Philippine Agriculture* report published by the PSA on 7 August 2024.
[15] The FAO All Rice Price Index is based on 21 rice export quotations, which are grouped into four categories: indica, aromatic, japonica, and glutinous rice varieties.

V. Labor market conditions

The unemployment rate fell from 4.1 percent in May 2024 to 3.1 percent in June 2024. This is the lowest rate since April 2005 and matches the December 2023 rate. This means the number of unemployed Filipinos dropped from 2.1 million to 1.6 million. The underemployment rate was higher in June 2024 compared with 9.9 percent in May 2024 but remains lower than the pre-pandemic rate of 14.8 percent and the 10-year average.[16] Almost half of underemployed Filipinos work in the services sector, with a third in agriculture. Underemployment rates rose in industry and agriculture but fell in the services sector.

Figure 14
Labor Market Indicators
in percent



Source: Philippine Statistics Authority

VI. Monetary operations

As of 31 July 2024, the BSP liquidity facilities absorbed a total outstanding amount of ₱1.624 trillion. Term instruments, particularly BSP bills (BSPB) and TDFs, accounted for most of the BSP's monetary operations, with a combined share of 70.5 percent.[17] Meanwhile, the overnight RRP facility and overnight deposit facility comprised 20.9 percent and 8.6 percent, respectively.

At the 31 July 2024 auction, the overnight RRP rate settled at 6.5073 percent. This was 0.73 bp higher than the target RRP rate of 6.5 percent. The y-t-d average spread between the overnight RRP rate and the target RRP rate narrowed to 2.03 bps from the y-t-d average of 2.18 bps in the previous month.

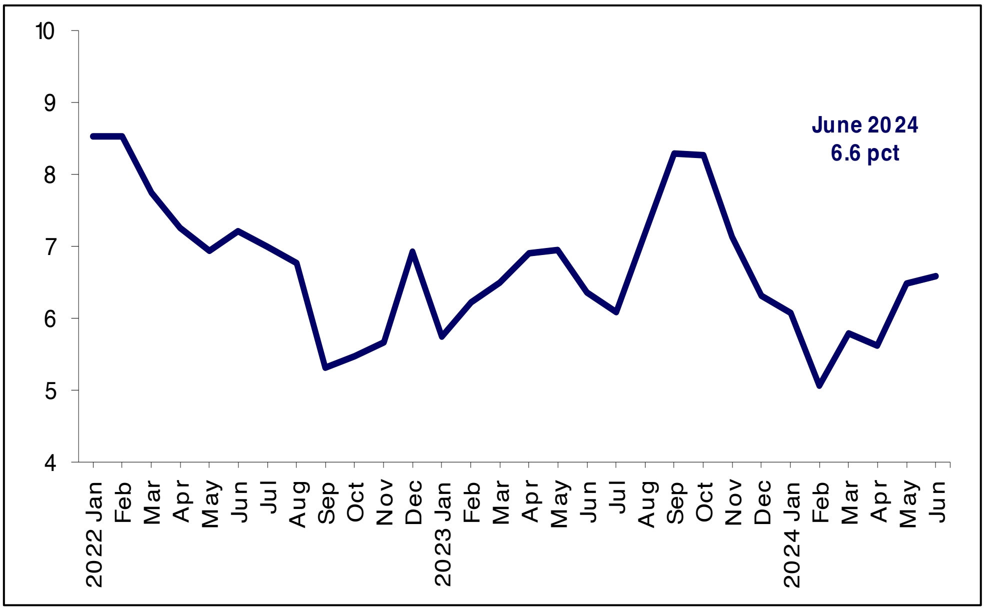
[16] Visibly underemployed persons are those who worked for less than 40 hours a week during the survey period and want additional hours of work or an additional job.
[17] Of the 70.5 percent, BSPB and TDF had shares of 58.4 percent and 12.1 percent, respectively.

Interest rates for the TDF and BSPB remained stable within the interest rate corridor and above the target RRP rate, reflecting a premium for longer durations. At the 31 July 2024 auction, the weighted average interest rates (WAIRs) for 7-day and 14-day TDFs rose by 0.63 bps to 6.5161 percent and 0.48 bps to 6.5494 percent, respectively. At the 29 July 2024 auction, the WAIRs for 28-day and 56-day BSPBs fell by 0.85 bps to 6.5695 percent and 2.03 bps to 6.5705 percent, respectively.

VII. Financial conditions

Domestic liquidity. Preliminary data showed that domestic liquidity (M3) grew from 6.5 percent in May 2024 to ₱17.5 trillion in June 2024. On a m-o-m seasonally adjusted basis, M3 increased by about 0.5 percent.

Figure 15
Domestic Liquidity
year-on-year; growth rate in percent

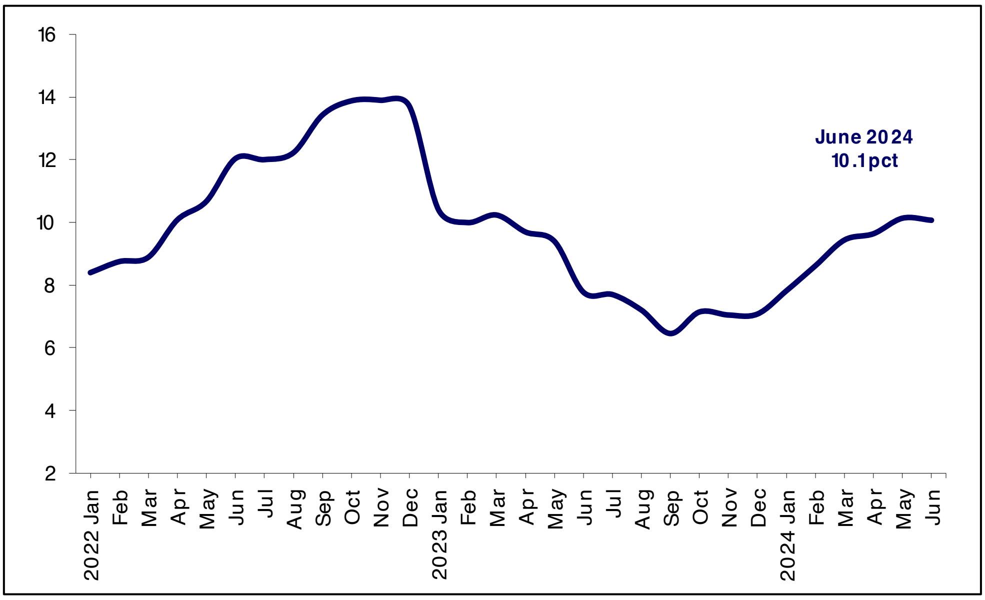


Source: Bangko Sentral ng Pilipinas

Domestic claims continued to drive the expansion in M3, as claims on the private sector grew with the sustained expansion in bank lending to non-financial private corporations and households. Net claims on the central government also expanded, partly due to the sustained borrowings of the NG. On the liabilities side, expansion in time deposits drove the growth in M3.

Bank lending. Bank lending rose at double-digit rates, supported by strong demand from households and businesses. However, growth slowed down to single-digit rates from Q2 2023 to Q1 2024, partly due to the BSP's tight monetary policy. Outstanding loans of universal and commercial banks have begun to recover. Preliminary data showed that these loans, net of RRP placements with the BSP, grew by 10.1 percent y-o-y in June 2024, matching the rate in May 2024. On a seasonally adjusted m-o-m basis, outstanding loans slightly increased by 0.4 percent.

Figure 16
Loans Outstanding of Commercial Banks
year-on-year; growth rate in percent



Source: Bangko Sentral ng Pilipinas

Outstanding loans to residents, net of RRPs, grew slightly slower from 10.2 percent in May 2024 to 10.1 percent in June 2024. Similarly, growth in loans to nonresidents accelerated from 8.1 percent to 9.8 percent. Loans for production activities also rose by 8.3 percent in June relative to 8.4 percent in the previous month. Key industries posted varying growth rates: 26.2 percent for transportation and storage; 12.3 percent real estate; 9.3 percent for wholesale and retail trade; 8.9 percent for manufacturing; 5.7 percent for and electricity, gas, steam, and air conditioning supply.

Consumer loans to residents expanded by 25.0 percent in June 2024, slightly lower than 25.6 percent in May 2024, amid the rise in credit card loans.

Credit standards

In Q2 2024, bank respondents reported unchanged credit standards and loan demand from enterprises. Over the next quarter, most of the participating banks anticipate a broadly steady business loan demand.

Lending to enterprises. Results of survey on lending standards showed that most respondents retained standards for firms for Q2 2024. Meanwhile, the diffusion index (DI) approach indicated a sustained net tightening of credit standards due to the deterioration of borrowers' profiles and the profitability of banks' portfolios.

For the next quarter, the modal approach showed participant banks' anticipation of steady lending standards for businesses. However, the DI approach pointed to expectations of a net tightening in credit standards amid concerns over the deterioration of borrowers' profiles and the profitability and liquidity of banks' portfolios.

Table 21

General Credit Standards for Loans to Enterprises (Overall)

	2022				2023				2024	
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Tightened considerably	10.0	6.5	10.4	4.3	6.7	4.3	2.1	0.0	0.0	1.9
Tightened somewhat	16.0	13.0	8.3	12.8	13.3	4.3	10.6	12.0	11.8	11.1
Remained basically unchanged	**72.0**	**76.1**	**77.1**	**80.9**	**73.3**	**89.1**	**80.9**	**88.0**	**86.3**	**87.0**
Eased somewhat	2.0	4.3	4.2	2.1	6.7	2.2	6.4	0.0	2.0	0.0
Eased considerably	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	100	100	100	100	100	100	100	100	100	100
Diffusion index for credit standards	**24.0**	**15.2**	**14.6**	**14.9**	**13.3**	**6.5**	**6.4**	**12.0**	**9.8**	**13.0**
Weighted diffusion index	**17.0**	**10.9**	**12.5**	**9.6**	**10.0**	**5.4**	**4.3**	**6.0**	**4.9**	**7.4**
Mean	2.7	2.8	2.8	2.8	2.8	2.9	2.9	2.9	2.9	2.9
Number of banks responding	**50**	**46**	**48**	**47**	**45**	**46**	**47**	**50**	**51**	**54**

Source: Bangko Sentral ng Pilipinas

A positive diffusion index for credit standards indicates that banks that tightened their credit standards outnumbered those that eased ("net tightening"), whereas a negative diffusion index indicates that banks that eased their credit standards outnumbered those that tightened ("net easing").

Lending to households. In Q2 2024, estimates show that surveyed banks maintained the lending standards for households due to stable borrowers' profiles and banks' unchanged risk tolerance.

Table 22

General Credit Standards for Loans to Households (Overall)

	2022				2023				2024	
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Tightened considerably	2.5	5.4	5.4	5.7	3.0	3.0	0.0	0.0	0.0	0.0
Tightened somewhat	12.5	5.4	10.8	8.6	18.2	9.1	15.6	11.8	11.4	11.4
Remained basically unchanged	**62.5**	**73.0**	**64.9**	**71.4**	**51.5**	**69.7**	**68.8**	**70.6**	**77.1**	**80.0**
Eased somewhat	17.5	13.5	18.9	14.3	27.3	12.1	12.5	14.7	11.4	8.6
Eased considerably	5.0	2.7	0.0	0.0	0.0	6.1	3.1	2.9	0.0	0.0
Total	100	100	100	100	100	100	100	100	100	100
Diffusion index for credit standards	**-7.5**	**-5.4**	**-2.7**	**0.0**	**-6.1**	**-6.1**	**0.0**	**-5.9**	**0.0**	**2.9**
Weighted diffusion index	**-5.0**	**-1.4**	**1.4**	**2.9**	**-1.5**	**-4.5**	**-1.6**	**-4.4**	**0.0**	**1.4**
Mean	3.1	3.0	3.0	2.9	3.0	3.1	3.0	3.1	3.0	3.0
Number of banks responding	**40**	**37**	**37**	**35**	**33**	**33**	**32**	**34**	**35**	**35**

Source: Bangko Sentral ng Pilipinas

A positive diffusion index for credit standards indicates that more banks have tightened their credit standards compared to those that eased ("net tightening"), whereas a negative diffusion index for credit standards indicates that more banks have eased their credit standards compared to those that tightened ("net easing").

For Q3 2024, modal results indicated that majority of respondent banks expect unchanged household loan standards. Meanwhile, the DI method revealed expectations of a net easing of lending standards due to banks' higher risk tolerance, improved profitability of loan portfolios, and a less uncertain economic outlook.

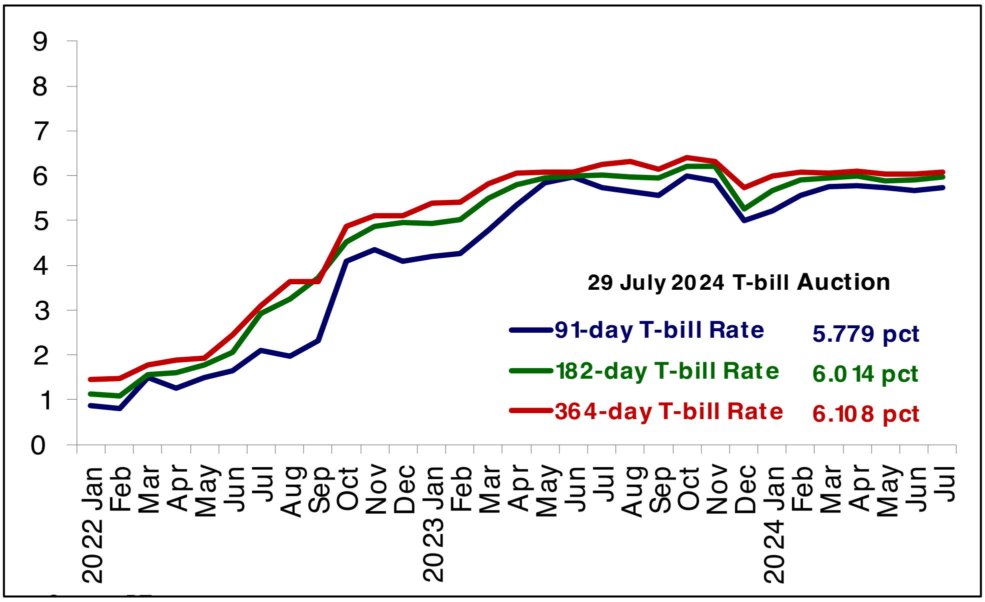
Loan demand. In Q1 2024, modal results indicated a steady household loan demand for most banks. Conversely, the DI method showed a net increase in demand across all key household loan categories, driven by higher household consumption and more attractive financing terms offered by banks.

For Q2 2024, modal results indicated that most respondent banks expect credit demand from households to remain basically unchanged. Meanwhile, DI results projected an anticipated net increase in consumer loan demand, mainly due to higher household consumption and favorable financing terms offered by banks.

Capital markets

Primary government securities market and rates. During the 29 July 2024 Treasury bill (T-bill) auction, the average interest rates for the 91-day, 182-day, and 364-day T-bills rose by 3.6 bps, 2.3 bps, and 2.7 bps, respectively, from the rate fetched during the 22 July 2024 auction.

Figure 17
Treasury Bill Rates
in percent



Source: Bureau of the Treasury

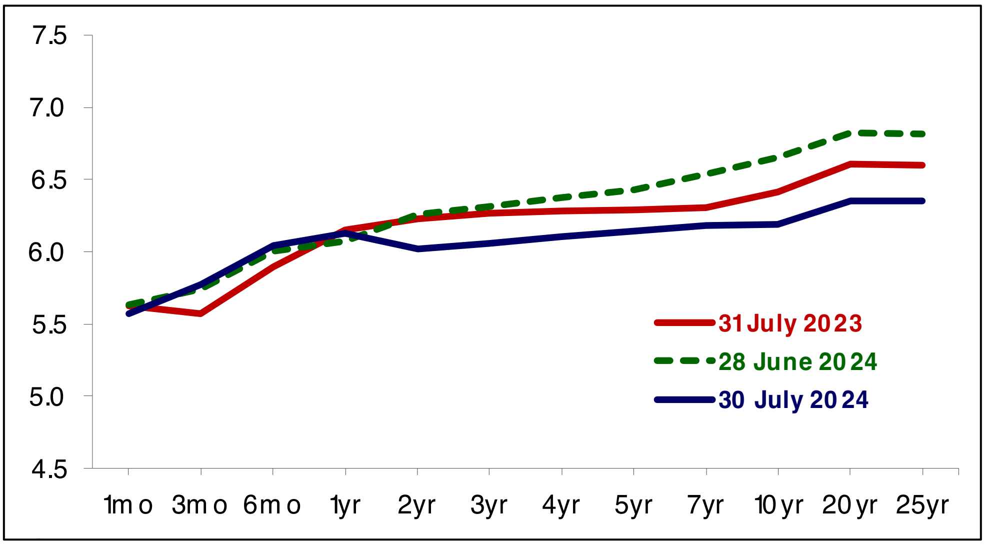
The Bureau of the Treasury (BTr) Auction Committee fully awarded the offered amount of ₱6.5 billion each for the 91-day and 182-day and ₱7.0 billion for the 364-day T-bills. Total tenders for all maturities reached ₱36.0 billion or about 1.8 times the total amount offered of ₱20.0 billion.

On 30 July 2024, the BTr fully awarded ₱30.0 billion of the re-issued 20-year Treasury bonds (T-bonds), with a remaining life of three years and one month. The said T-bond fetched an average rate of 6.009 percent, which was lower by 42.1 bps than the 6.4300 percent average interest rate quoted for the same tenor during the 23 July 2024 auction. The auction was oversubscribed, with tenders reaching ₱62.6 billion or 2.1 times the offered amount of ₱30.0 billion.

Secondary market government securities yield curve. On 30 July 2024, secondary market GS yields declined across most tenors (except for the 3-month, 6-month, and 1-year tenors) relative to the end of June 2024, driven by buying interest to meet end-user demand. Consequently, the negative spreads in secondary market rates over the BSP overnight RRP rate on 30 July 2024 generally widened compared with end-June 2024 levels.

As of 30 July 2024, the spreads between the 10-year and 1-year GS rates and the 10-year and 5-year GS rates narrowed to 6.5 bps and 5.1 bps (from 57.9 bps and 22.4 bps as of end-June 2024), respectively. This was mainly due to the decline in the 10-year GS rate.

Figure 18
Yields of Government Securities in the Secondary Market
in percent

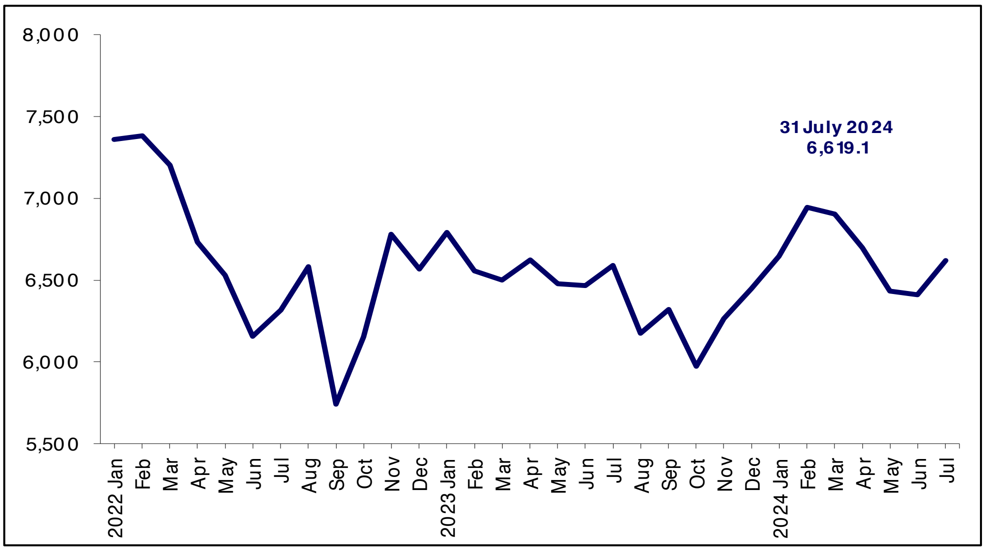


Source: Bloomberg

Stock market. For the period 1–31 July 2024, the Philippine Stock Exchange Index (PSEi) rose to 6,619.1 points. The increase was supported by optimism on monetary policy easing by the BSP and the US Federal Reserve (US Fed), following the slower domestic inflation in June 2024, the drop in the US CPI, and positive data releases during the month.

For the week ending 6 August 2024, the PSEi declined from 6,619.1 points as of end-July 2024. The upward trend in July was not sustained, as concerns over the Bank of Japan's shift in monetary policy stance led to the unwinding of the yen carry trade, thereby causing a sharp decline in Japanese and Asian stock markets.

Figure 19
Philippine Stock Exchange Index
index points



Sources: Philippine Stock Exchange; Bangko Sentral ng Pilipinas

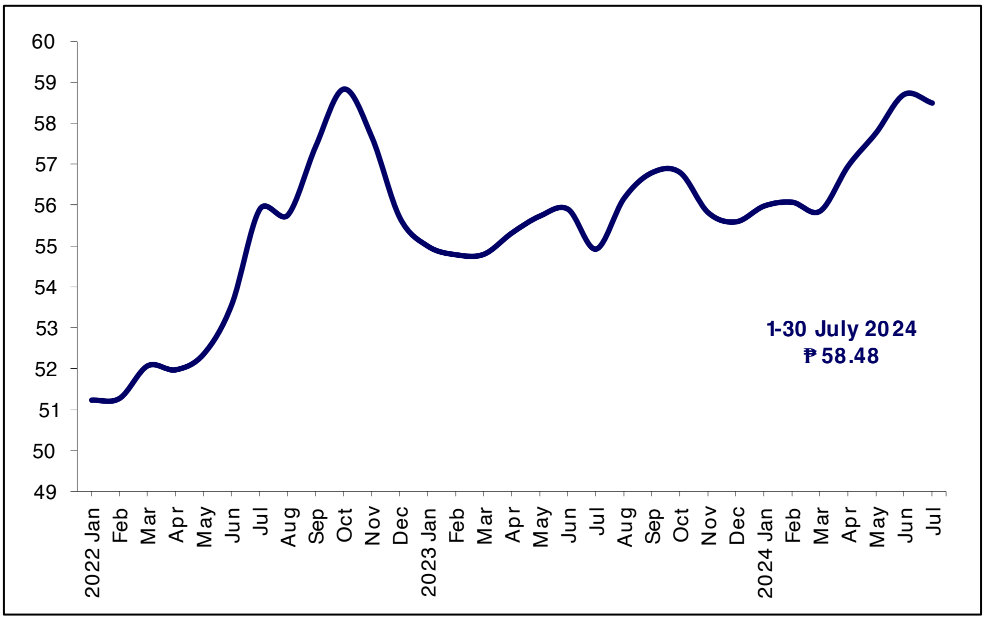
Exchange rate. For the period 1–30 July 2024, the peso averaged at ₱58.48/US$1, appreciating by 0.37 percent against the June 2024 average. The peso's appreciation was driven by improved market sentiment amid the release of lower-than-expected US CPI inflation in June[18]; higher US unemployment rate in June[19]; lower US S&P Global PMI in June[20]; and dovish remarks from US Fed officials,[21] which strengthened expectations that the Fed would begin easing policy rates within the year.

Similarly, the BSP's decision to maintain its monetary policy settings in June, alongside higher foreign direct investment (FDI) net inflows from January–April,[22] lower unemployment rate in May,[23] higher personal remittances in May,[24] and the release of slower-than-expected headline inflation in June, supported the peso. However, these factors were partly offset by the reported increase in NG deficit in May; slower growth in manufacturing activity in June[25]; and decline in gross international reserves (GIR) in June.[26]

[18] US CPI eased from 3.3 percent to 3.0 percent y-o-y in June 2024.
[19] US unemployment rate increased to 4.1 percent in June 2024 from 4.0 percent in May 2024 and 3.6 percent in June 2023.
[20] US S&P Global PMI declined from 54.8 index points in May 2024 to 55.3 index points in June 2024.
[21] US Fed Chair Jerome H. Powell stated that the US is back on a disinflationary path, but policymakers need more data to ensure that recent lower inflation readings accurately reflect the state of the economy before considering lowering policy interest rates. Meanwhile, Federal Reserve Bank of New York President John C. Williams stated that achieving the 2.0-percent inflation target will take time and that the US Fed is committed to this goal.
[22] FDI posted US$556.0 million net inflows in April 2024, albeit lower by 36.9 percent than the US$881.0 million net inflows posted in April 2023. Despite the decline in FDI during the month, the level increased by 18.7 percent in January–April 2024, reaching US$3.5 billion (from US$3.0 billion in the same period last year).
[23] The unemployment rate decreased from 4.3 percent in May 2023 to 4.1 percent in May 2024.
[24] Personal remittances from OFs rose by 3.7 percent from US$2.78 billion in May 2023 to US$2.88 billion in May 2024.
[25] The NG's budget deficit widened by 43.1 percent from ₱122.2 billion in May 2023 to ₱174.9 billion in May 2024. Meanwhile, S&P Global Philippines Manufacturing PMI, which measures the country's monthly factory performance, stood at 51.3 in June, slightly lower than the 51.9 reading in May.
[26] The GIR settled at US$104.70 billion as of end-June 2024, which is a decrease from the end-May 2024 level of US$105.02 billion.

As of 30 July 2024, the peso closed at ₱58.65/US$1, depreciating by 5.58 percent against the US dollar on a y-t-d basis.[27]

Figure 20
Peso-Dollar Rate
PHP/USD



Source: Reference Exchange Rate Bulletin

On a real trade-weighted basis, the peso lost external price competitiveness y-o-y in June 2024 against the basket of currencies of all trading partners and trading partners in developing countries, as indicated by the increase in the real effective exchange rate (REER) index of the peso by 0.20 percent and 0.36 percent, respectively. This was attributed to the widening inflation differential, which offsets the impact of the nominal depreciation of the peso. Meanwhile, the peso gained external price competitiveness against the basket of currencies of advanced countries, as the impact of the nominal depreciation of the peso offsets the widening inflation differential, resulting in a decrease in the REER index of the peso by 0.86 percent.[28,29]

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[27] The y-t-d volatility of the peso, as measured by the coefficient of variation, stood lower than that of the Japanese yen but higher than that of the Chinese yuan, Singapore dollar, Malaysian ringgit, Indonesian rupiah, South Korean won, and Thai baht.

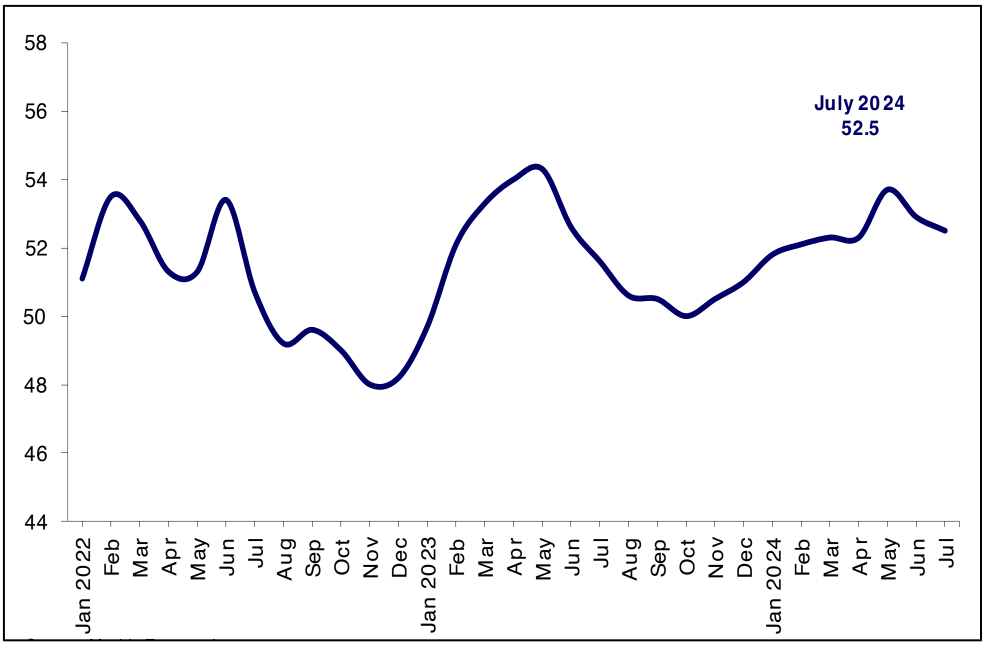
[28] The Trading Partners Index (TPI) measures the nominal and real effective exchange rates of the peso across the currencies of 14 major trading partners of the Philippines, which include the US, euro area, Japan, Australia, China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates (UAE), and Thailand. The TPI-Advanced measures the effective exchange rates of the peso across currencies of trading partners in advanced countries, consisting of the US, Japan, euro area, and Australia. The TPI-Developing measures the effective exchange rates of the peso across 10 currencies of partner developing countries, consisting of China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, UAE, and Thailand.

[29] The REER index represents the nominal effective exchange rate (NEER) index of the peso, adjusted for inflation rate differentials with the countries whose currencies comprise the NEER index basket. On the other hand, the NEER index represents the weighted average exchange rate of the peso vis-à-vis a basket of foreign currencies.

VIII. External developments

Global economic activity expanded amid strong demand and improved business optimism. In July 2024, the JP Morgan All-Industry Output Index expanded at a slower pace. Manufacturing new orders dropped for the first time this year, while activity in the services sector improved marginally. Economic activity rose in almost all covered countries, led by India, followed by Brazil and the US. Meanwhile, growth in the euro area slowed down to a near-stagnant pace.[30,31]

Figure 21
JP Morgan Global All-Industry Output Index
index points



Source: Marikit Economics

In the July 2024 WEO Update, the IMF maintained its 2024 global economic growth projection at 3.2 percent, consistent with the April 2024 WEO Update. The outlook reflects the upturn of global economic activity despite persistent services inflation and trade tensions. The varying momentum in activities has narrowed the output divergence across economies, as cyclical factors waned and activity aligned more closely with its potential.

For advanced economies, the IMF 2024 baseline growth estimate remained stable. Stronger household consumption in the euro area is anticipated to offset the slower-than-expected growth in the US. Meanwhile, the 2024 growth forecast for emerging markets and developing economies was slightly higher, driven by stronger economic activity in China and India.

[30] JP Morgan Global Composite PMI; https://www.pmi.spglobal.com
[31] A diffusion index is calculated for each survey variable. The index is the sum of the percentage of "higher" responses and half the percentage of "unchanged" responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month and a reading below 50 indicating an overall decrease.

Overall, risks to the global outlook remain balanced, though near-term risks have gained importance. These include upside risks to inflation that emanate from a slow progress on services disinflation, as well as price pressures from renewed trade or geopolitical tensions. Such inflation risks have increased the likelihood of interest rates remaining higher for a longer period.

Policy actions by other central banks. In their July 2024 meetings, the Bank of Canada and the People's Bank of China reduced their respective key interest rates, while the Bank of Japan increased its key interest rate. The Reserve Bank of New Zealand, the Bank of Korea, Bank Negara Malaysia, Bank Indonesia, the European Central Bank, and the US Fed maintained their key policy rates to rein in price pressures and ensure that inflation expectations remain anchored amid persistent global supply shocks. On 1 August 2024, the Bank of England (BoE) reduced its key interest rate by 25 bps to 5.0 percent. BoE Governor Andrew Bailey noted that while lower inflation had paved the way for interest rate cuts, sharp reductions should not be expected as the BoE will continue to make rate adjustments on a meeting-to-meeting basis.