OXFORD ECONOMICS

THE ECONOMIC IMPACT OF THE AGRI-FOOD SECTOR IN THE PHILIPPINES

2022

FIA FOOD INDUSTRY ASIA

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EXECUTIVE SUMMARY

The Southeast Asian economy is enjoying an economic revival in 2022 as borders reopen, social distancing measures are ratcheted back, and businesses return to more "normal" operations in the transition to a post-pandemic environment. Sat at the heart of this national economy is the agri-food industry, which has played a crucial role in the country's resilience throughout the past two years of the pandemic and is central to its future trajectory, too. The sector not only puts food on the table for the region's population, but also provides income and employment for a large portion of its workforce and a multitude of opportunities to businesses at each stage of the agri-food value chain.

As the industry looks forward, it faces significant risks on the horizon that threaten its growth. From inflationary pressures to demographics and policy risks, the implications matter not only to the livelihoods of agri-food industry entrepreneurs and employees but, given the size of the sector and its role in supply chains, the wider economy too.

Oxford Economics was commissioned by Food Industry Asia (FIA) to assess the total economic impact in 2021 of the agri-food sectors in five major Southeast Asian economies: Indonesia, Malaysia, the Philippines, Thailand, and Vietnam. In this report, we unpack the importance of the sector's contribution to the economy of the Philippines, and its future trajectory.

US$127 bn

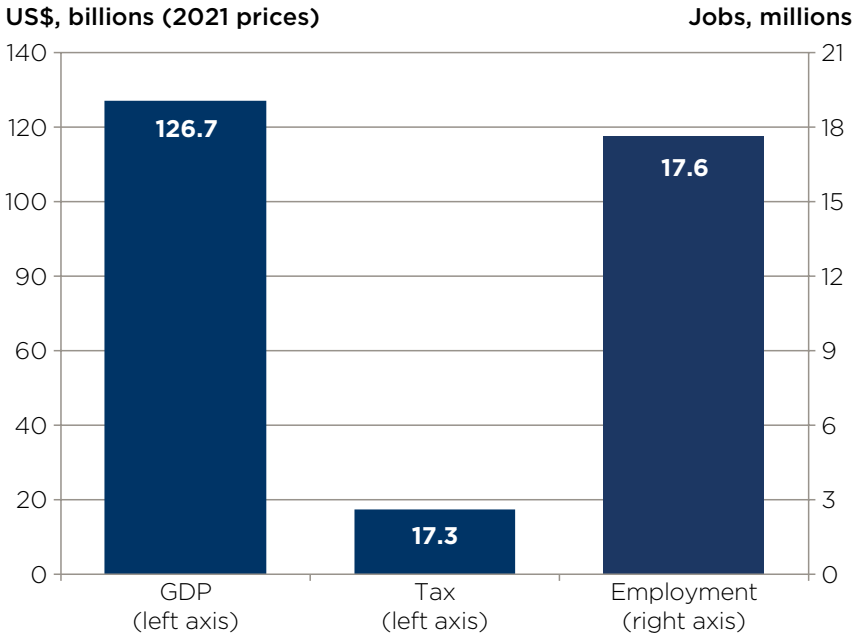
The agri-food sector's total contribution to 2021 GDP in the Philippines (in 2021 prices).

THE AGRI-FOOD SECTOR'S ECONOMIC IMPACT

In this analysis, we define the agri-food sector to be the combination of three components: agricultural production; food and beverage (F&B) manufacturing; and F&B distribution (including wholesale, retail, and hospitality services).

The agri-food sector in the Philippines created a significant contribution to national GDP in 2021, worth USD 126.7 billion. This represented nearly a third of the Philippines' economy that year. Unlike several of its Southeast Asian neighbours, the Filipino agri-food sector is primarily driven by F&B manufacturing, rather than agriculture. In 2021, the agri-food sector supported 17.6 million jobs, or nearly 40% of the total jobs in the Philippines that year. The sector also generated USD 17.3 billion worth of tax payments for the Philippines' government, primarily in the form of corporation and income taxes.

Fig. 1: Total economic contribution of the agri-food sector in the Philippines, 2021



Source: Oxford Economics

17.6 million

Total number of jobs supported by the agri-food sector in the Philippines in 2021.

Agricultural production contributed USD 51.0 billion to the Philippines' national GDP in 2021. While this didn't make agricultural production the largest component in the national agri-food sector, it still represented approximately 40% of the agri-food sector's overall economic footprint. Agricultural activities also supported nearly one in every four Filipino jobs, totalling 11.1 million jobs in 2021.

Meanwhile, F&B manufacturing remains the most significant contributor in the Filipino agri-food sector. F&B manufacturing generated USD 36.2 billion via direct channels and an additional USD 22.5 billion from indirect and induced channels, for a total footprint worth USD 58.7 billion. This is consistent with the Filipino economy's general shift away from an agricultural focus to a manufacturing and service-based economy over the years. On the labour front, F&B manufacturing sustained nearly 3.8 million jobs in the economy.

F&B distribution made up the smallest share of the agri-food sector with a contribution worth USD 17.1 billion in 2021. The bulk of this contribution was generated from retail activities, while catering and accommodation activities also made-up significant shares. Retail also accounted for the lions' share of jobs sustained by the F&B distribution component, at 1.5 million. Wholesale, catering, and accommodation activities sustained another 1.2 million jobs.

The Filipino agri-food sector was adversely affected by COVID-19, seeing its economic contribution decline significantly from 2019 levels. The sector's economic footprint fell 3.4% from its 2019 peak, to USD 126.6 billion in 2020, before rebounding slightly to USD 126.7 billion in 2021. This shock is the consequence of the broader economic decline – the whole economy contracted by 9.5% in 2021, compared to a year earlier. The agri-food sector also had a steady decrease in its employment footprint from 2015 to 2021. However, this was also driven by continuous progress in labour productivity.

While the Philippines has historically had a trade deficit in agri-food products, this deficit grew to USD 7.9 billion in 2021. Processed F&B products were the key driver, with a deficit of USD 5.4 billion, with agricultural goods contributing the remainder.

OUTLOOK FOR AGRI-FOOD DEMAND IN PHILIPPINES

"The demand-side outlook for the agri-food sector in Philippines is supported by the ongoing economic recovery, real wage growth, and the normalisation of tourist inflows."

The demand-side outlook for the agri-food sector in Philippines is supported by the ongoing economic recovery, real wage growth, and the normalisation of tourist inflows. Oxford Economics anticipates spending on food and non-alcoholic beverages in Philippines to grow from USD 101 billion in 2022 to around USD 120 billion in 2025, in 2021 price terms. But longer-term structural challenges remain. Demographics are positive by regional standards, but the sector in Philippines faces exchange rate and fiscal risks that are more pronounced than other countries in ASEAN.

THE AGRI-FOOD SECTOR IN THE PHILIPPINES

TOTAL ECONOMIC IMPACT

Agricultural production · F&B manufacturing · F&B distribution

A total contribution to GDP worth $126.7 billion

$51.0 bn · $58.7 bn · $17.1 bn

F&B manufacturing represents the **largest segment** of the industry.

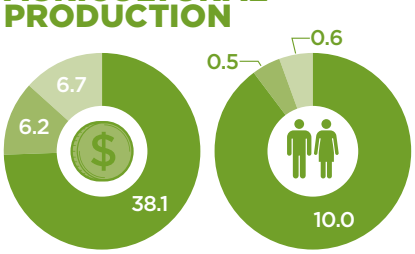
A total employment footprint of 17.6 million

11.1 mn · 3.8 mn · 2.7 mn

The Philippines agri-food sector employed **40%** of the country's workforce in 2021.

FROM FARM TO FORK

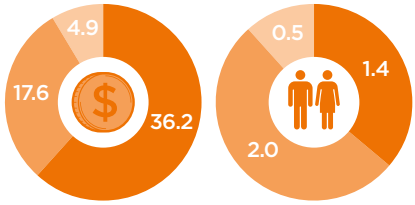
AGRICULTURAL PRODUCTION



$51.0 billion · 11.1 million

Direct · Indirect · Induced

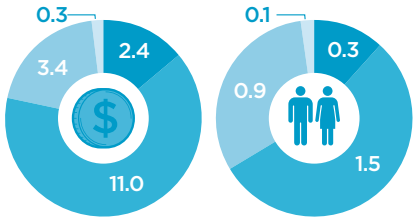
FOOD & BEVERAGE MANUFACTURING



$58.7 billion · 3.8 million

Direct · Indirect · Induced

FOOD & BEVERAGE DISTRIBUTION



$17.1 billion · 2.7 million

Wholesale · Retail · Catering · Accommodation

TRADE DEFICIT

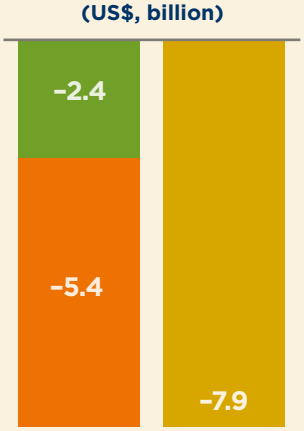
The Philippines relies on imports of food, with 2021 representing its largest trade deficit in recent years.

Agricultural products

Processed F&B products

Total

Net exports in 2021 (US$, billion)



COVID-19 IMPACT

The sector has shrunk during the COVID-19 pandemic, by a similar amount to the wider economy.

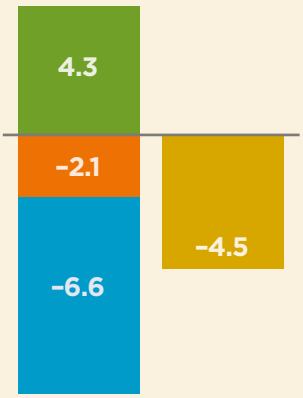
Agricultural production

F&B manufacturing

F&B distribution

Total

Change in GDP contribution (US$, billion)



Totals may not sum due to rounding. $ = US dollar.

1. INTRODUCTION

1.1 THE STRUCTURE OF THIS REPORT

This report presents an analysis of the economic contribution that the agri-food sector makes to the Philippine economy. It is structured in three parts. This chapter details the approach that we take in our analysis and how the agri-food sector is conceptualised. We then present a full assessment of the sector's economic impact, focussing on 2021, as well as detailing how it has changed over the past eight years. Finally, we go on to examine the current economic picture in the country and, critically, the factors that will influence the demand for agri-food products in the near future.

1.2 HOW WE FRAME OUR ANALYSIS

The supply of food and non-alcoholic beverages in a country relies upon a diverse network of activities, covering the production, processing, distribution, and sale of food and beverage products. In this study, we consider the agri-food sector to encompass all of these activities, representing the food value chain from farm to fork. In this respect, the sector is not only the source of essential goods to the population, but also the backbone to the region's economies.

To quantify the contribution the sector makes to the economy, we focus primarily on its "direct economic impact". This refers to the activities of enterprises directly engaged in one of those three components. We augment this analysis with an assessment of the "indirect economic impact" that flows from each component. This refers to activity within their supply chains. Finally, we assess a third tier of impact, the "induced economic impact". This refers to the activity supported by employees in the agri-food sector and its supply chain as they spend their wages. More detail on these three channels of impact and how they are estimated is provided in Box 1.

Our analysis is focused primarily on the size of the agri-food sector's economic footprint in 2021—the latest year for which complete economic statistics are available—and we evaluate the historical trend from 2015-2020. This provides us with a clear picture of the state of the agri-food sector in each country prior to the impact of the Covid-19 pandemic, and its performance since.

Component 1: Agricultural production

The Southeast Asia region is home to some of the world's major agriculture producers. In each of the five economies featured in this study, agricultural production (including both the agriculture and fishing sectors) makes up a significant proportion of the Gross Domestic Product (GDP). Rice accounts for the largest share of agricultural output, by gross production value, followed by other key commodities such as coffee, cocoa, fruits, vegetables, and maize. Livestock and poultry farming also play a critical role in the production mix. The region is characterised by large coastal or island-based geographies, and thus also supports large fishing communities, with sizeable seafood production sectors.

Agricultural production also naturally accounts for a huge share of Southeast Asian employment. Despite the sector's moderate wages, agricultural workers typically spend a high proportion of their earnings on local goods and services, thereby creating a significant spending footprint, which manifests itself as a large "induced economic impact" in our analytical framework.

Component 2: Food and beverage manufacturing

The second major component of the region's agri-food value chain is food and beverage manufacturing, which includes production, processing, and packaging. For the purpose of this study, alcoholic beverages are excluded from this category. A significant number of people are employed in this sector and its supply chain, going on to spend some portion of their income in their local economy, which stimulates a wider induced economic impact.

Component 3: Food and beverage distribution

The third and final stage of the agri-food value chain is the distribution of food and beverage products to consumers. This involves the wholesale and retail activities linked to distribution, as well as activities in the hospitality sector, such as events catering and restaurants.

BOX 1: OUR APPROACH TO ECONOMIC IMPACT ASSESSMENT

In this report, we use a bespoke economic impact modelling framework to analyse the contribution the agri-food sector makes to the economies of Indonesia, Malaysia, Thailand, the Philippines, and Vietnam. Our assessment captures three channels of impact.

Firstly, we assess **the direct economic impact** of the businesses and workers directly involved in the agri-food sector itself—that includes agricultural production, F&B manufacturing, and F&B distribution,

For the agricultural production and F&B manufacturing components, we also capture two further channels of impact, as summarised in Fig. 2.

- **The indirect economic impact** refers to the economic activity stimulated along the agri-food sector's non-food supply chain, from procurement spending.
- **The induced economic impact** refers to the economic activity that flows from the payment of wages in the agri-food sector and the businesses in its non-food supply chain. Those wages are spent in the local economy, for example in retail and leisure outlets, generating profits and wages for other businesses, which in turn stimulate further spending in their own supply chains and amongst their own employees.

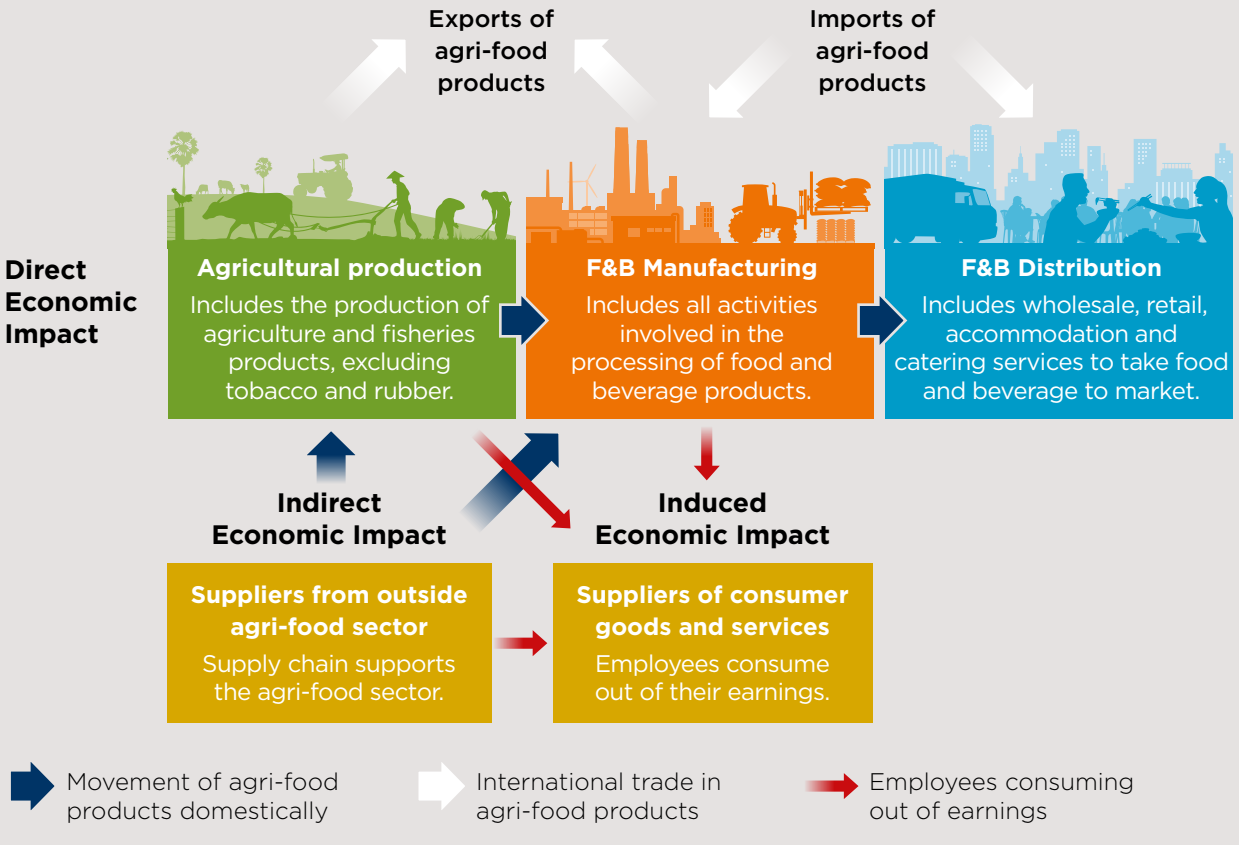
The total economic impact of the agri-food sector encompasses all of these impacts, and we present the impact in three ways:

- **Gross value added (GVA) contribution to Gross Domestic Product (GDP).** This is the value of the output produced by a firm minus its expenditure on inputs (goods and services) that are used up in production. Aggregated across all economic operators in the economy, this forms GDP (plus production taxes and subsidies), which is the most widely recognised measure of total economic output.
- **Employment.** This is measured on a headcount basis to facilitate comparisons with national statistical agencies' employment data. It therefore includes anyone who is paid wages regardless of the length of their working week or whether they work all year round. Those who are paid as part of a contract for the provision of services will be considered as part of the supply chain, for the purposes of this study.
- **Tax receipts.** This is an estimate of all income and corporation tax revenues generated by firms and employees that form part of the economic footprint.

Our results are presented on a gross basis. They therefore ignore any displacement of activity from other uses of the land, for example. They do not consider what those resources currently used by the agri-food sector, or by their suppliers, could produce in the absence of the sector's activity.

We present our results in real terms, using 2021 price levels and a 2021 USD exchange rate, for the purposes of consistent international comparison. When adjusting prices to real terms, we use official price deflators based on economy wide inflation trends. We are cognisant that inflation rates are not uniform across all sectors of the economy and that if we were to use sector-specific price deflators—especially for the agriculture sector, which is characterised by more volatile prices than the weighted national average—the implied 2021 value of the agri-food sector's economic footprint would look different. Rising prices mean the value of the agriculture sector's economic impact would rise, even if output remains static. Nevertheless, in our judgement, the soundest approach to normalising price levels is to use the national, not sectoral price deflator. This is because our analysis is designed to capture the ways in which the value that the agri-food sector generates reaches across sectors and permeates through the whole economy. Sector-specific price indices would skew this picture. For the purposes of transparency, when we observe trends in the volume of agricultural output that contradict our analysis of the value of economic output in this study, we caveat our findings appropriately.

Fig. 2. The contribution the agri-food makes to the Southeast Asian economy



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2. THE AGRI-FOOD SECTOR'S IMPACT IN THE PHILIPPINES

The structure of the Philippines agri-food sector stands out amongst its Southeast Asian neighbours. The food and beverage (F&B) manufacturing industry is the largest component of the sector in the Philippines, as opposed to agricultural production, which accounts for the lion's share of the sector's economic footprint in the wider region. This betrays the broader structural shift taking place towards an industrial and service-based economy in the Philippines—agricultural production's share of national GDP has decreased since 2015 as the broader economy has developed.

In this chapter, we map out the economic footprint of the agri-food sector in the Philippines and its different components. We then go on to analyse its trajectory over recent years and the impact the Covid-19 pandemic had on the sector's performance, before considering the Philippines' international trade position in agri-food products.

All values are quoted in US dollars, adjusted to keep prices and exchange rates constant at 2021 levels. This enables comparability across the years and the five markets in this report. As is detailed in Box 1, we adjust prices based on economy-wide, rather than sector-specific inflation indices, because our analysis is designed to capture the agri-food sector's impact throughout the whole economy.

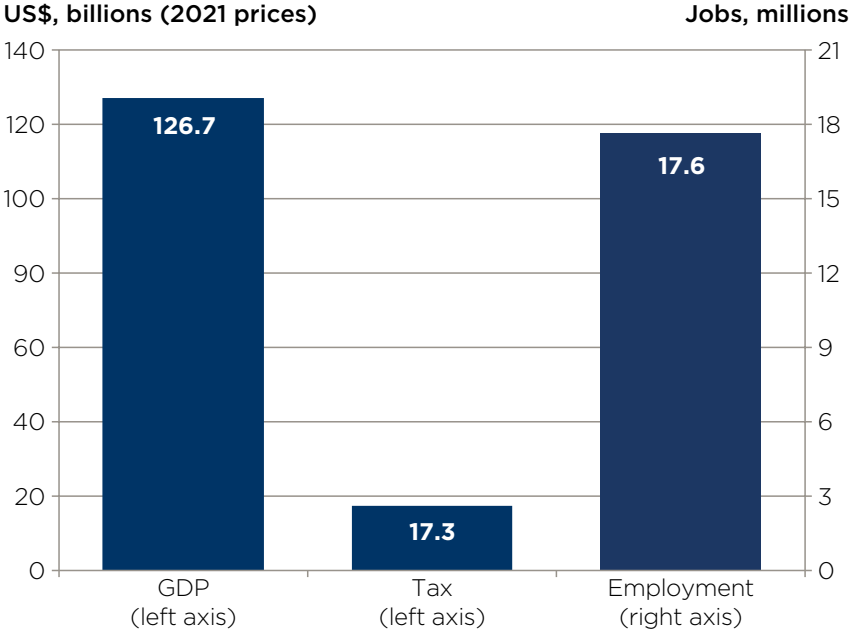
2.1 THE TOTAL ECONOMIC IMPACT OF THE AGRI-FOOD SECTOR

The agri-food sector contributed USD 126.7 billion to the Filipino economy in 2021. This contribution represented approximately 32% of the country's national GDP that year, demonstrating its huge importance in the domestic economy.

The agri-food sector supported 17.6 million Filipino jobs in 2021, accounting for nearly 40% of total employment in the economy that year. The sector also contributes large flows of tax revenues to the government each year, primarily in the form of corporation and income taxes. In 2021, the sector generated USD 17.3 billion worth of tax payments to the Philippines government.

The Philippines agri-food sector is one of the more productive in the region, with a contribution to GDP worth USD 7,200 per worker placing it second behind only Malaysia. One reason for this is the proportionately large role of food manufacturing in the sector, which tends to be more productive than agricultural production and service-oriented activity.

Fig. 3: Total economic contribution of the agri-food sector in the Philippines, 2021



Source: Oxford Economics

2.2 THE AGRI-FOOD SECTOR IN DETAIL

Our analysis focuses on the economic impact of three components of the agri-food industry: agricultural production, F&B manufacturing, and F&B distribution. The Philippines is the only country in our Southeast Asia study in which the agricultural production component does not dominate the economic footprint. Rather, it is F&B manufacturing (inclusive of its indirect and induced activities) that accounts for the largest share of the sector's contribution to GDP, generating 46% of the agri-food sector's GDP impact and 21% of its jobs.

2.2.1 Agricultural production

Despite the importance of F&B manufacturing, agricultural production still accounts for a sizeable economic impact. In 2021, agricultural production contributed USD 38.1 billion to national GDP via direct channels alone. It generated an additional USD 12.9 billion via indirect channels through the supply chain and induced channels through consumer spending.

Agricultural activities are also critical to supporting livelihoods in the Philippines. The industry sustained nearly 10 million jobs in 2021 via direct activities, and another 1.1 million jobs via indirect and induced activities. Thus, agricultural production still supported approximately one in every four Filipino jobs in 2021. Agricultural production also contributed USD 7.1 billion worth of taxes to the Philippines government in 2021.

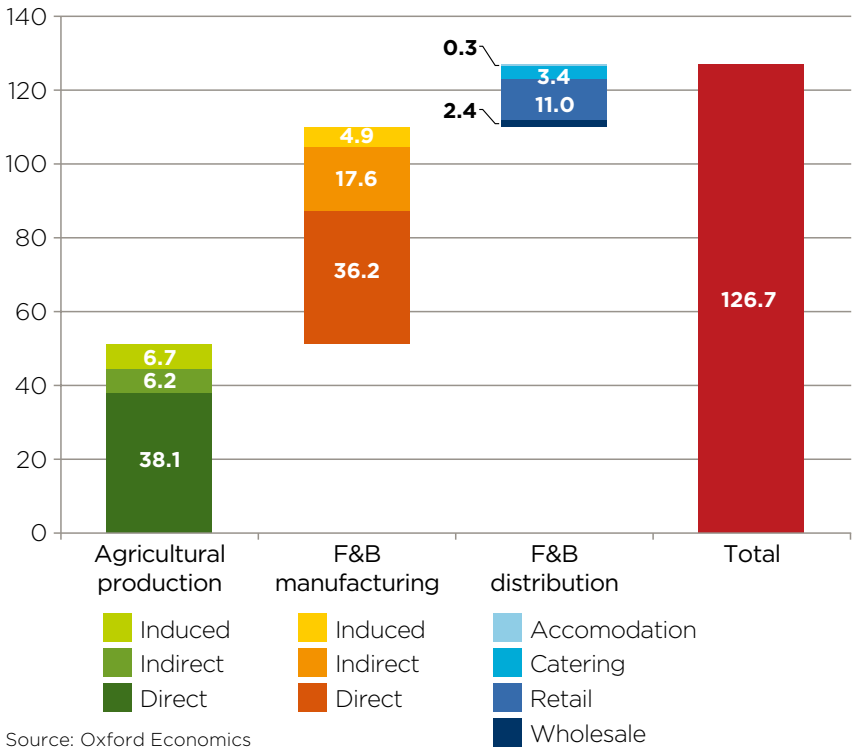
2.2.2 Food and beverage manufacturing

The F&B manufacturing sector contributed USD 36.2 billion to the Philippines GDP in 2021 via direct channels, as well as USD 17.6 billion and USD 4.9 billion via indirect and induced channels respectively. Collectively, this makes F&B manufacturing the largest contributor to GDP of the three major pillars of the agri-food sector. The Philippines was the only country in our study in which this was the case.

The importance of F&B manufacturing to the Philippines economy can also be seen in its employment statistics. This component of the agri-food sector directly sustained 1.4 million jobs in 2021, plus roughly a further 2.4 million jobs via indirect and induced channels. Workers in this part of the Philippines' agri-food industry are amongst the most productive employees in the agri-food industry overall. Furthermore, tax contributions linked to F&B distribution in 2021 totalled USD 8.2 billion.

Fig. 4: Agri-food industry contribution to the Philippines' GDP, by component, 2021

US$, billions (2021 prices)



Source: Oxford Economics

2.2.3 Food and beverage distribution

Similar to other Southeast Asian countries in our study, the F&B distribution component in the Philippines makes up the smallest share of the agri-food sector. Our analysis unpacks the F&B distribution component's impact into its wholesale, retail, accommodation, and catering activities. The total footprint across these four types of activities came to an estimated USD 17.1 billion in 2021. The lion's share was attributable to retail activities, which alone accounted for 64% of F&B distribution's footprint. Catering and accommodation activities made up 21% of the footprint whilst wholesale activities made up the rest.

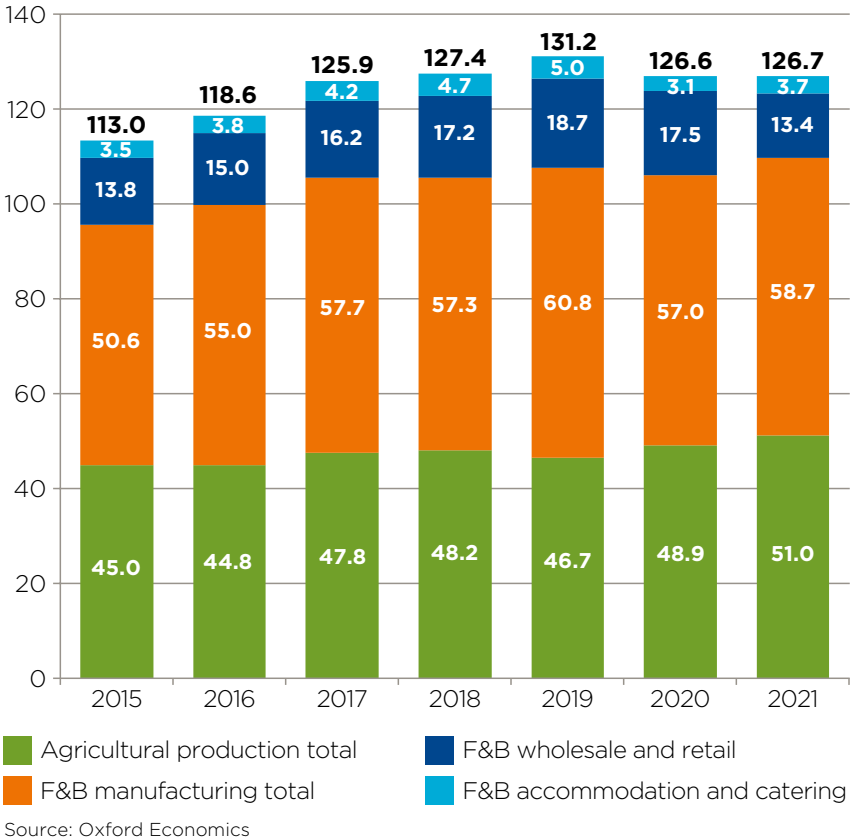
The labour demands across different activities of F&B distribution broadly mirror the contribution to GDP. Retail sustained the largest number of jobs, with 1.5 million positions in 2021; wholesale added 0.3 million more. Meanwhile, catering and accommodation activities sustained around 0.9 million jobs in the same year. F&B distribution also generated a tax footprint worth USD 1.9 billion in 2021, accounting for 11% of the agri-food's overall tax contribution that year.

2.3 THE EVOLUTION OF THE PHILIPPINES' AGRI-FOOD SECTOR

The Filipino agri-food sector was harshly affected by the economic disruption caused by the Covid-19 pandemic. The industry had consistently recorded robust year-on-year growth up to 2019, expanding at an average annual growth rate of 4%. Consequently, its USD 131.2 billion contribution to the Philippines GDP in 2019 was its largest economic footprint to-date. However, this trend reversed in 2020 with the onset of the pandemic and the sector contracted by 3.4%. The agri-food sector's performance improved marginally in 2021, but remained far from 2019 levels, contributing USD 126.7 billion to the national GDP.

Fig. 5: Change in GDP contribution by the Philippines' agri-food sector, by component, 2015-2021

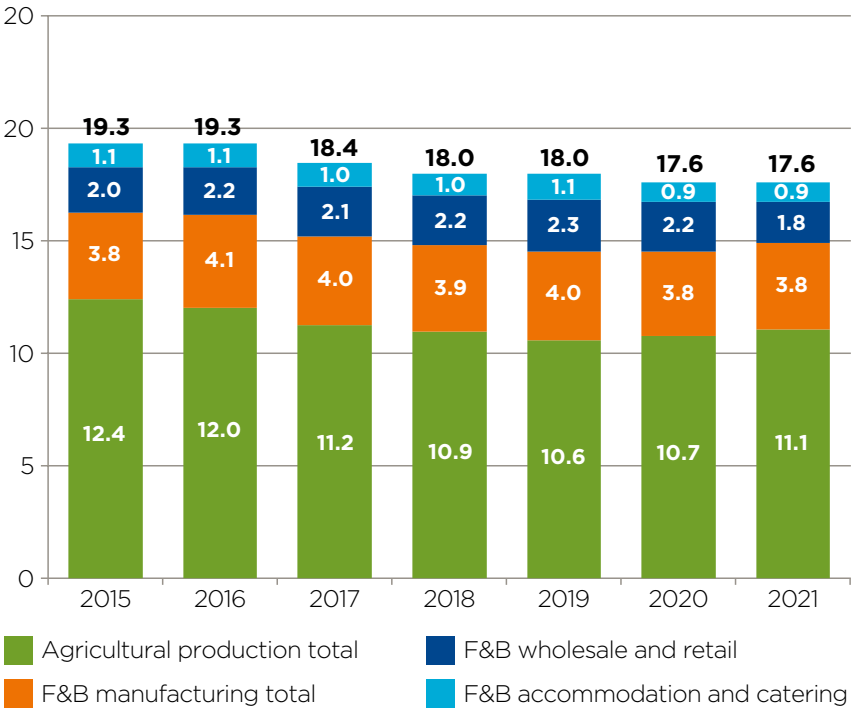
US$, billions (2021 prices)



Source: Oxford Economics

In the years leading to 2020, the agri-food sector jobs footprint progressively declined every year, despite a growing GDP footprint. By 2021, the sector supported 1.7 million fewer jobs than it did in 2015. Aside from the pandemic, a key reason for this decline is the sector's productivity improvements. Productivity across the Philippines' agri-food sector grew by 23% between 2015 and 2021, particularly in agricultural production. However, the onset of the pandemic paused this trend, with employment falling by less than GDP. This is likely a combination of firms retaining workers despite their output falling, as well as unemployed workers in other sectors of the economy reverting to lower wage professions, for instance in agriculture, where employment rose.

Fig. 6: Change in employment footprint by the Philippines' agri-food sector, by component, 2015-2021



Source: Oxford Economics

2.3.1 Agricultural production

The economic footprint of Filipino agricultural production has increased since 2015. Agricultural activities and the associated supply chain and consumer spending footprints contributed USD 51.0 billion in 2021, marking a 9% increase from its 2019 levels and a 13% increase from 2015. However, since 2019, the volume of output of the sector has fallen, which the Philippines government has attributed to the pandemic, Typhoon Odette, and waves of African swine fever that affected produce and livestock.[1] This hindered output, whilst also heightening price inflation. Alongside significant increases in global agricultural prices, the value of agricultural output has actually risen during this period, as reflected in the expanding economic footprint, but the volume of output has decreased.

Agricultural productivity was a key driver behind the shrinking employment footprint of the agri-food sector before 2020. Between 2015 and 2019, agricultural production supported an average of 4% fewer jobs each year. Here, the growth in labour productivity has allowed output to increase with a smaller workforce, allowing the workforce to transition into occupations with greater labour productivity levels.

Since the Covid-19 pandemic, jobs in the sector increased by 0.1 million in 2020, then 0.4 million in 2021. This rise could be partly explained by essential roles in the more stable agriculture sector offsetting redundancies across the wider economy and will thus likely revert to the historical trend as part of the wider economic recovery.

[1] https://www.da.gov.ph/wp-content/uploads/2021/01/CLIPPINGS-TODAY-JANUARY-28-2021.pdf

2.3.2 Food and beverage manufacturing

While F&B manufacturing was set back by the initial waves of the pandemic in 2020, it made a strong recovery in 2021. Its economic footprint fell from a record USD 60.8 billion in 2019 to USD 57.0 billion in 2020, before rising to USD 58.7 billion again in 2021. Inclusive of this recovery, F&B manufacturing's GDP contribution increased by nearly 16% in real terms between 2015 and 2021—making it the fastest growing component of the agri-food sector.

F&B manufacturing supported 3.8 million jobs in 2020 and 2021. This does not represent a significant shift from its pre-Covid-19 employment footprint, which supported between 3.8 million to 4.1 million jobs every year since 2015. Over the period since 2015, F&B manufacturing's consistent jobs footprint and growing contribution to GDP illustrate robust productivity growth in this sector.

2.3.3 Food and beverage distribution

While agricultural production and F&B manufacturing appear to have bounced back quickly from the economic impacts of the Covid-19 pandemic, F&B distribution endured the most significant fallout. The sector was on a steady upward trajectory until 2019 when its GDP contribution peaked at USD 23.7 billion (in 2021 prices). This fell sharply to USD 20.6 billion in 2020, and further to USD 17.1 billion in 2021. The USDA Foreign Agricultural Service (FAS) in Manila assessed that the 2021 decline was a result of the outbreak of the Covid-19 Delta variant and the abruptness of quarantine restrictions that followed it[2].

Ultimately, the sector endured a 28% drop in its GDP footprint between 2019 and 2021. This was primarily driven by the wholesale and retail channels, which contributed only USD 13.4 billion in 2021 compared to USD 18.7 billion in 2019.

According to the FAS in Manila, the maximum impact within wholesale and retail channels was felt by full-service restaurants, cafes, and bars. Limited-service restaurants, on the other hand, were a little more robust due to their wider area coverage, delivery, and drive-through services for certain foods.[3]. Lastly, accommodation and catering activities made up the smallest share but contracted by 37% in 2020 before partially recovering in 2021.

This pattern in F&B distribution's economic footprint was also mirrored in its labour demand. F&B distribution sustained 3.4 million jobs in 2019, but only 3.1 million jobs in 2020 and 2.7 million jobs in 2021. Wholesale and retail were the key drivers, as they progressively supported less employment every year during the pandemic. While accommodation and catering activities initially contracted in 2020, the number of jobs supported by this sector stabilised in 2020 and 2021.

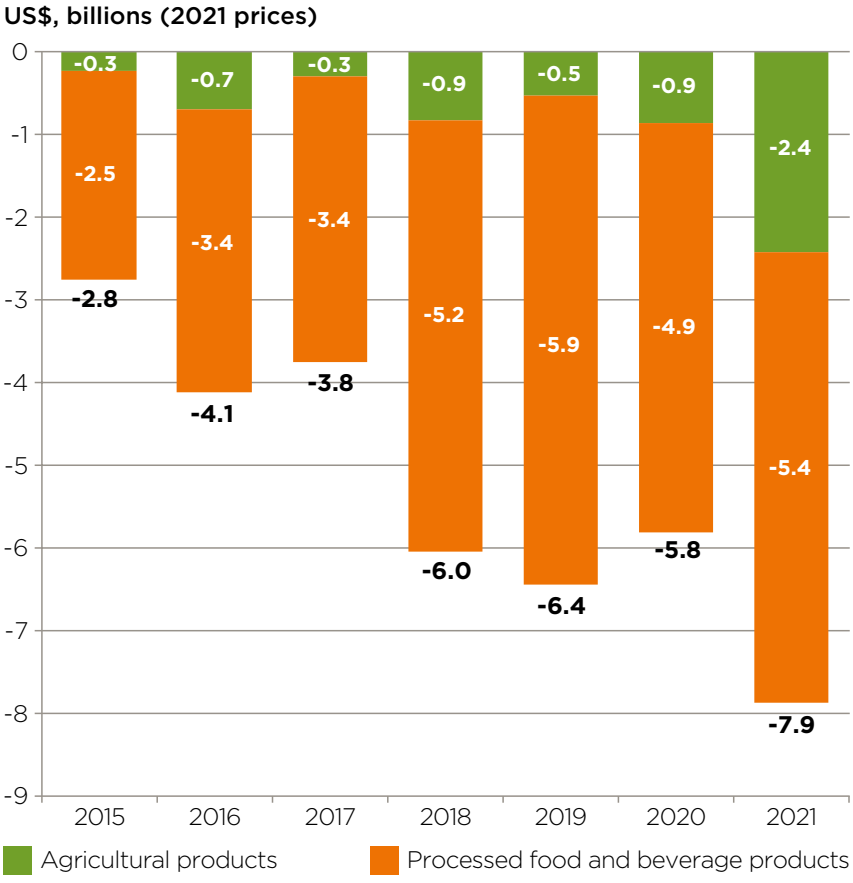
[2] Manila Bulletin: Slower growth seen in food services sector in 2021
[3] Manila Bulletin: Slower growth seen in food services sector in 2021

2.4 TRADE IN AGRI-FOOD PRODUCTS

The Philippines trade deficit in agri-food products grew significantly in 2021, reaching a net trade deficit worth USD 7.9 billion. Overall, the agri-food sector exported agri-food products worth USD 6.2 billion but imported over double this value at USD 14.1 billion. The main contributor to this imbalance was processed F&B products, which ran a deficit worth USD 5.4 billion, but agricultural products also reverted from trend to contribute significantly to the deficit in 2021.

The Philippines has broadly experienced a growing negative trade balance since 2015, it dropped by 36% in 2021 from a year earlier to its lowest point. Prior to 2021, agricultural products had accounted for between 8% to 17% of the overall deficit. However, the severe impact on agricultural production of Covid-19 and Typhoon Odette intensified demand for imports.

Fig. 7: Net exports of primary and processed food and non-alcoholic beverages, The Philippines, 2015-2021



Source: Oxford Economics

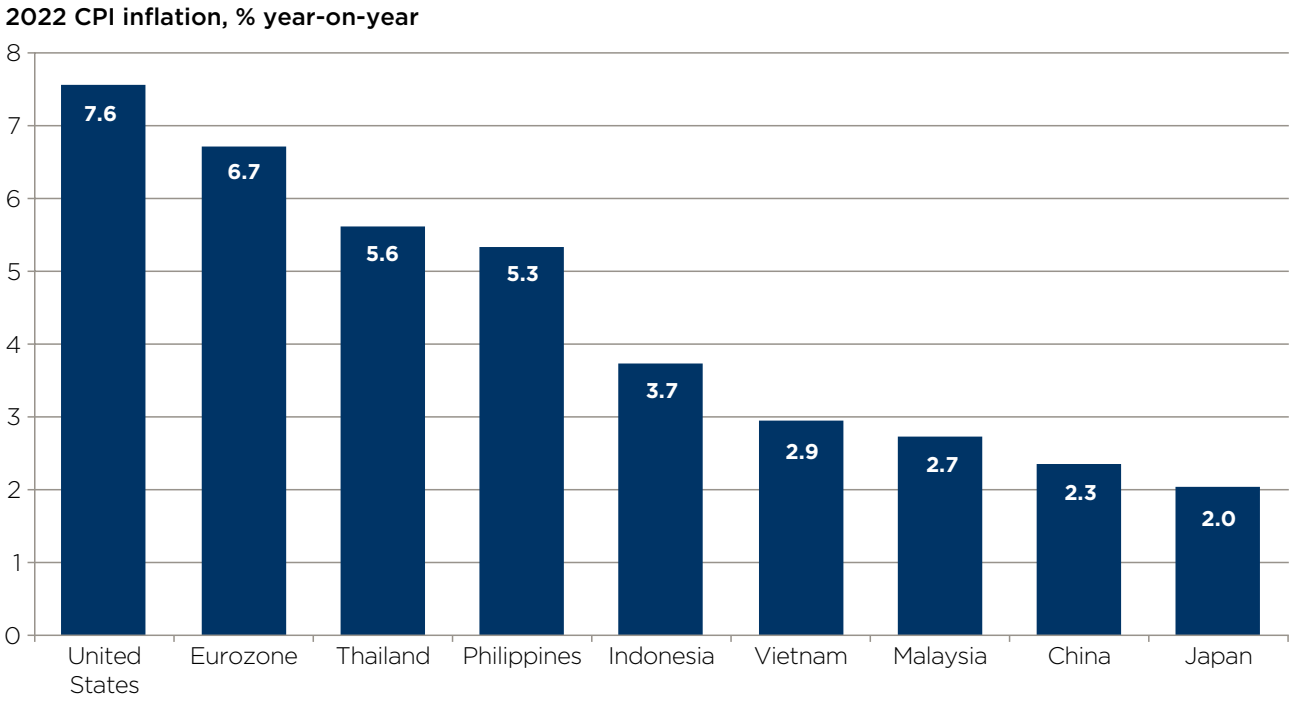
3. DEMAND OUTLOOK FOR THE AGRI-FOOD SECTOR IN THE PHILIPPINES

In this chapter, we assess the prospects for post-Covid-19 economic recovery in the Philippines and examine the implications this has for the agri-food outlook. Oxford Economics forecasts the post-Covid economic recovery to continue through 2022 and into the coming years. Inflationary pressures have risen to amongst the fastest in the ASEAN region, but more modestly so than in many other parts of the world economy. More broadly, the agri-food industry in the Philippines will benefit from a normalisation of activities, a reopening of borders, selected fiscal support, and better labour market conditions to support growing food expenditure over the next five years.

The economic rebound from Covid-19 will support household spending power to the benefit of the wider agri-food system, and a recovery in tourism will fuel demand in the hospitality industry and its supply chains. Both factors feed into a positive demand-side outlook for the sector in the coming years. And as prosperity and living standards rise in over the longer-term, we expect higher spending on food to drive growth in the agri-food sectors' economic footprint.

However, the sector will face significant macroeconomic threats to this recovery. In this chapter we unpack these opportunities and risks in more detail.

Fig. 8: Consumer price inflation, 2022



Source: Oxford Economics

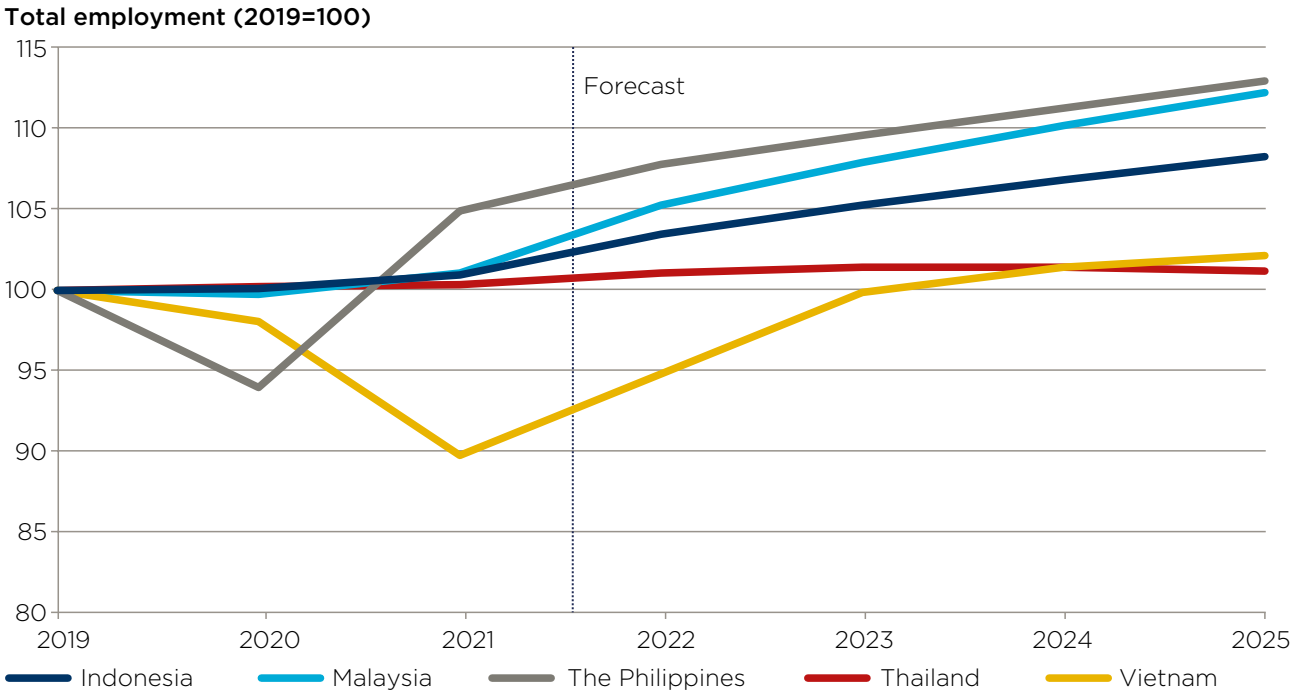
3.1 OUTLOOK FOR EMPLOYMENT AND TOURISM WILL UNDERPIN RECOVERY

3.1.1 Labour market recovery will provide a boost

The Philippines labour market bounced-back especially quickly from the losses during the first year of the pandemic, and is now generating robust wage growth, even as inflation has accelerated. As mobility gradually returns to pre-pandemic levels, the normalisation of economic activities, reopening of international borders, and policy support measures will boost employment, especially in the services sector.

The government is taking measures to try to mitigate the impacts of price pressures on consumers, but resources are modest by regional standards. While other countries have announced quite substantial fiscal measures, the Filipino government has only thus far been able to announce reduced tariffs for selected food imports. Nevertheless, in our assessment, faster inflation is likely to prove temporary and will become less of a drag on real incomes. Assuming energy prices normalise and supply chain pressures ease, we expect regional inflation to slow after 2022 and underpin real wage growth and food spending. Oxford Economics anticipates spending on food and non-alcoholic beverages in the Philippines to grow from USD 101 billion in 2022 to around USD 120 billion in 2025, in 2021 price terms.

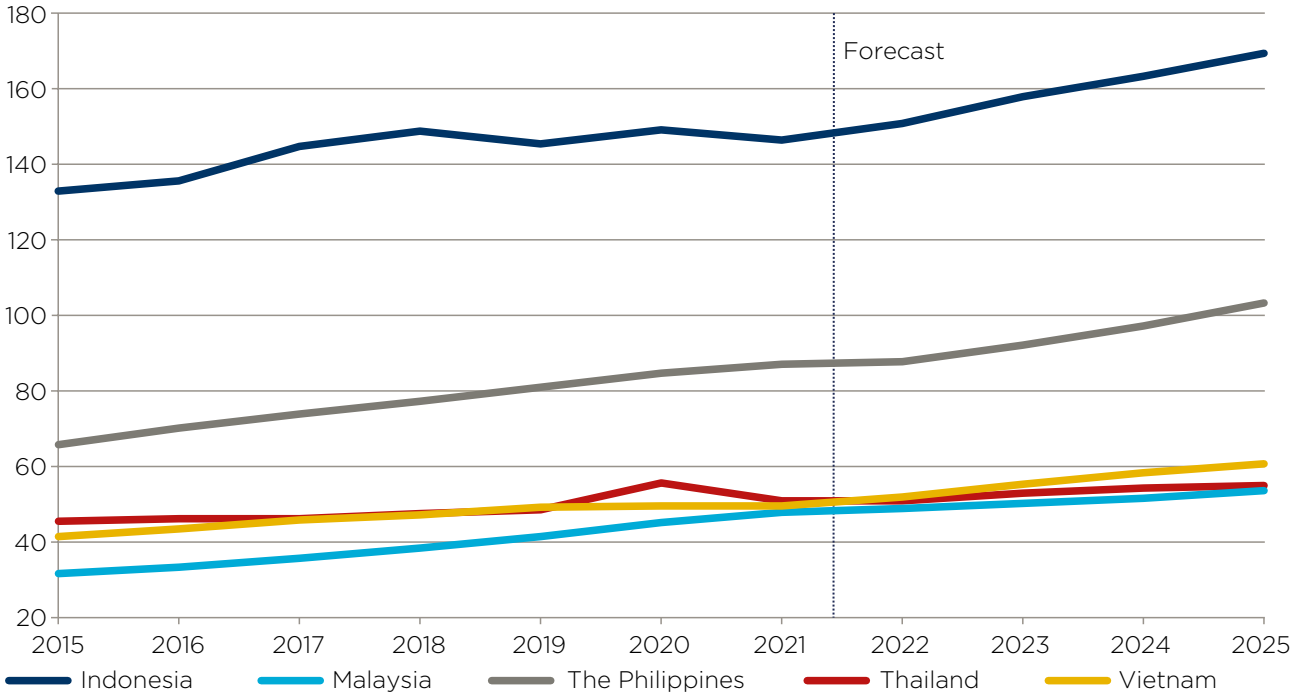
Fig. 9: Total employment by country in Southeast Asia, 2019-2025



Source: Oxford Economics

Fig. 10: Real spending on food and non-alcoholic beverages in Southeast Asia, 2015-2025

US$, billions (2015 prices)



Source: Oxford Economics

3.1.2 Tourism rebound supports the hospitality sector

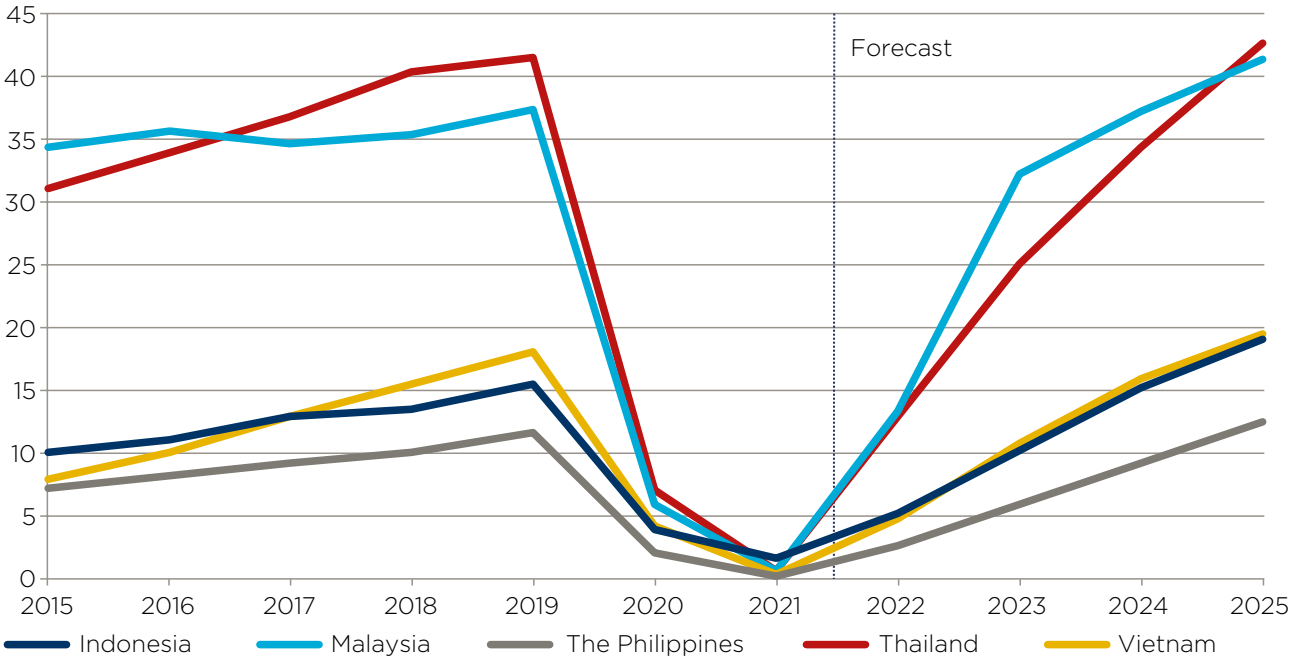
Given the importance of tourism to the Philippines (at 22% of GDP, the highest economic contribution in relative terms in the region) the pace of the tourism revival will play a key role in the agri-food sector outlook, through spending in hospitality venues. We forecast the number of tourist visitors to the Philippines to rise to 2.6 million in 2022, although this rebound remains well below the 11 million arrivals pre-Covid-19, partly due to the continued absence of Chinese outbound travellers.

The Chinese government remains resolute in enforcing its strict "zero-Covid" policy, therefore restricting international arrivals, including returning residents, which therefore limit departures. Given the size of the Chinese outbound market, it would be difficult if not impossible for destinations to fill this gap with visitors from other major source markets. Hence, we expect the tourist numbers in the region not to return to pre-Covid-19 levels by 2025. However, the Philippines is less exposed than Thailand and Vietnam in this respect.

Nevertheless, a recovery in tourism and higher domestic demand will boost spending on hospitality services from 2022 onwards, supporting the broader recovery in domestic demand for the agri-food sector. The rebound in spending on meals out will take longer in more tourism-reliant economies, especially the Philippines, than in relatively less tourism reliant economies such as Indonesia and Malaysia.

Fig. 11: Number of inbound tourists, 2015-2025

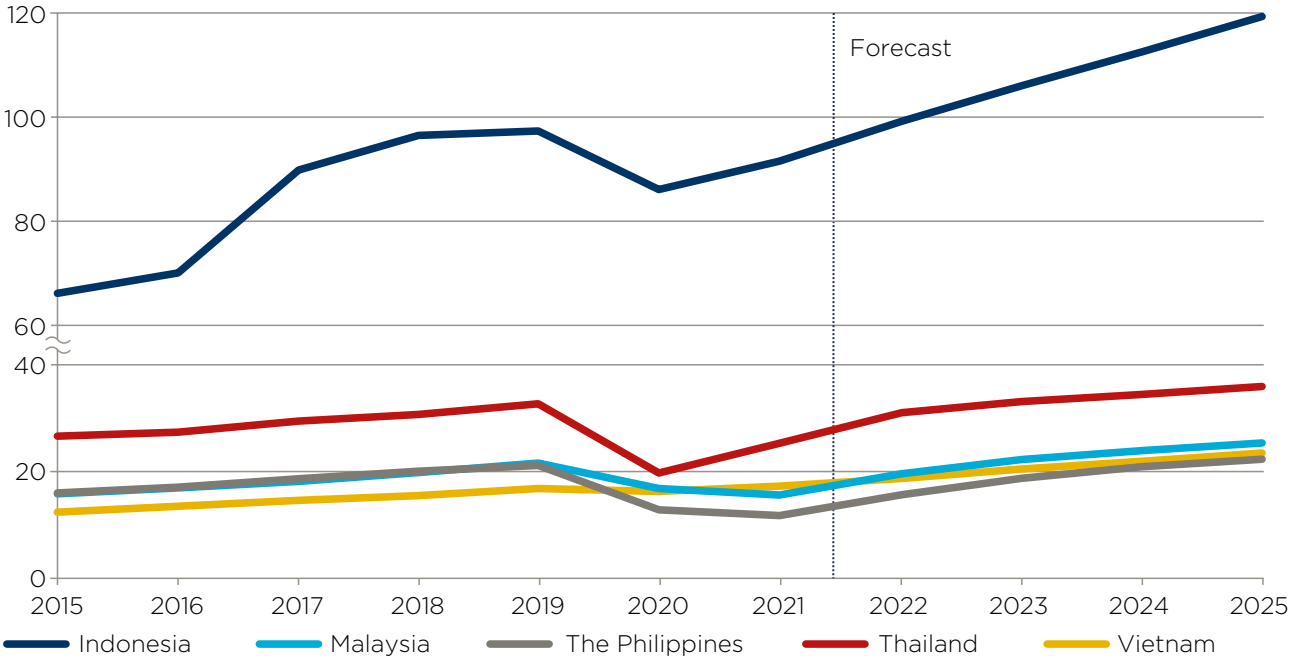
Millions



Source: Oxford Economics

Fig. 12: Real spending on eating out, 2015-2025

US$, billions (2015 prices)



Source: Oxford Economics

3.2 FOUR NEGATIVE FACTORS THAT MAY CONSTRAIN THE PACE OF RECOVERY

Despite the various reasons for optimism, the agri-food sectors in the five Southeast Asian countries will have to adapt to four key negative macroeconomic conditions, which could present major challenges. Macroeconomic risks are especially pertinent for the Philippines.

3.2.1 Rising inflation will dampen spending

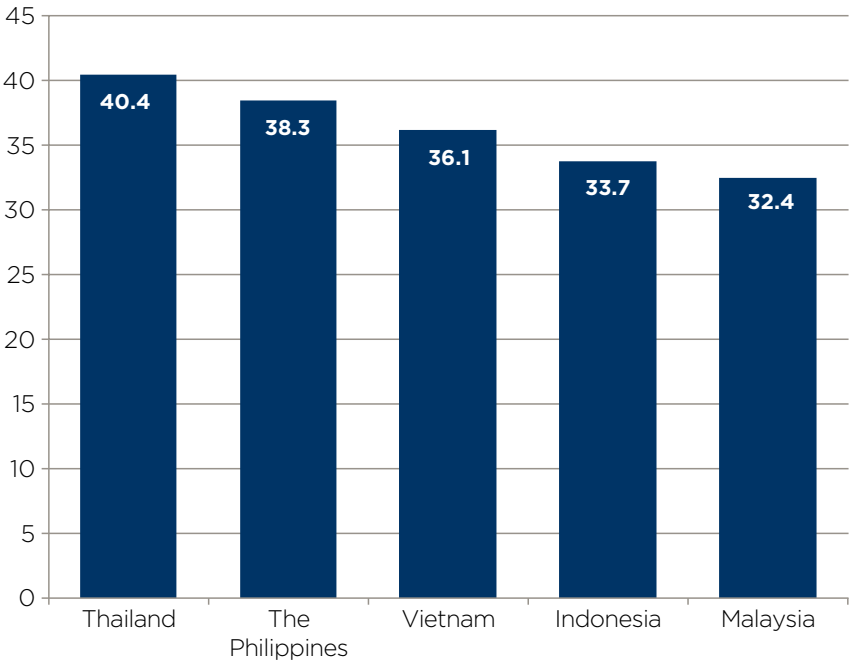
Through the first half of 2022 the Russian invasion of Ukraine drove commodity prices sharply higher across a range of commodity types. As of May 2022, both maize and corn prices were around a third higher than at the start of the year, whilst wheat prices were up around 46%—three markets for which both Russia and Ukraine are key global suppliers. Meanwhile oil and gas prices, which are also important cost drivers for food producers given the importance of energy in food manufacturing[4], have both more than doubled in price so far in 2022.

As spending on food, beverages, and restaurants accounts for a relatively large portion of household budgets in Southeast Asian countries, average households are highly impacted by this shift in global commodity prices. This is especially true for the Philippines, where food and beverages account for 38% of household spending (using the respective shares in the consumer price index as a benchmark).

Other inflationary pressures have also worsened through the course of the first half of 2022, impinging on demand for agri-food outputs. Supply chain interruptions from China's continued lockdowns have raised the cost of manufactured inputs, whilst the rebounding hospitality activity (as households "catch up" with social activities) is also pressuring the cost of providing services. Across all the countries in our report the rate of price growth will be faster in 2022 than in the past couple of years, with the acceleration especially sharp in the Philippines and Thailand (see Fig 37). Faster inflation, in turn, will squeeze real incomes and will weigh on food spending through the course of the year.

Fig. 13: Food and restaurant spending accounts for a third or more of household spending in Southeast Asia

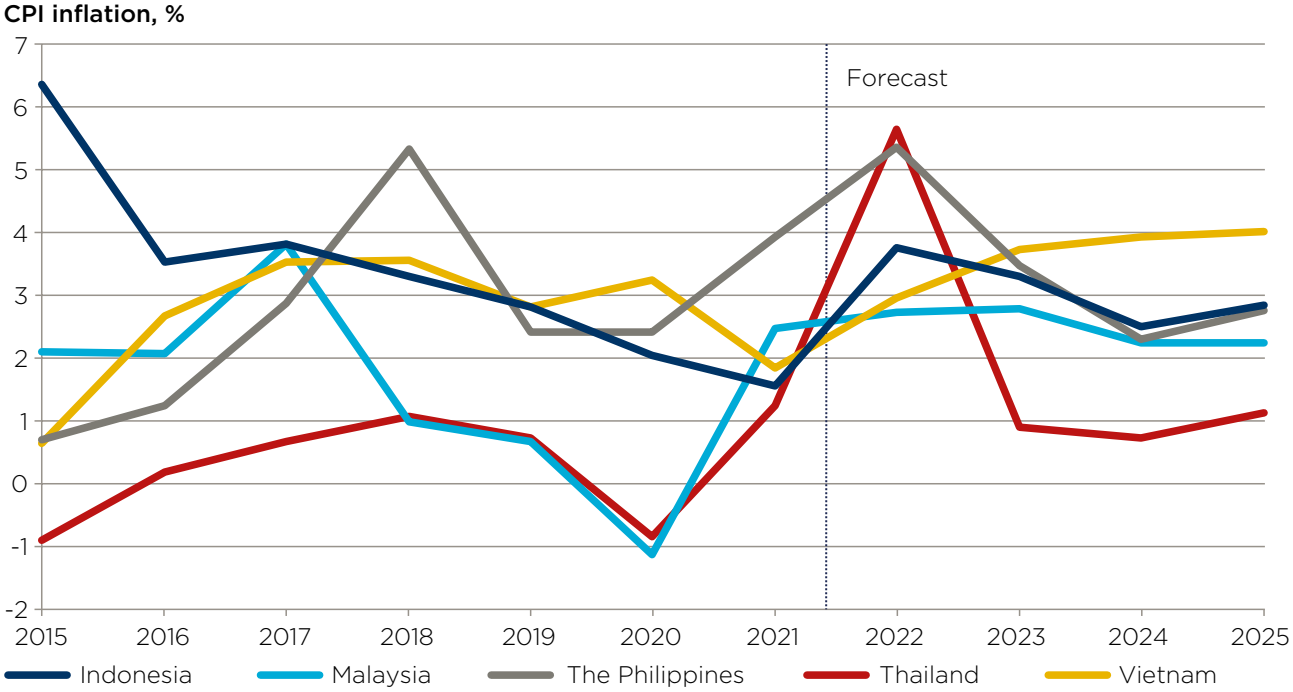
CPI weights: Food, beverages, and restaurants, %



Source: Oxford Economics

[4] For more on the pass-through of energy prices to food manufacturing costs, see "The Outlook for Food Price in Asia", Oxford Economics, 2022

Fig. 14: Consumer price inflation in Southeast Asia, 2015-2025



Source: Oxford Economics

3.2.2 The Philippines' track record of trade deficits raises risk of exchange rate uncertainty

Oxford Economics' baseline forecast is for ASEAN currencies to strengthen gradually over the coming years, along with expectations of rising productivity and more stable inflation. But the region has historically been more prone to exchange rate volatility than other parts of Asia, especially during periods of heightened global financial and economic uncertainty. Exchange rate volatility can transmit to increased food prices through the cost of imported agricultural and energy commodities. Countries with persistent trade deficits, such as Philippines, are more at risk during such periods than countries with persistent surpluses, such as Thailand and Vietnam.

3.2.3 The Philippines needs to get public finances back on track

Governments in Southeast Asia are under pressure to tackle the fiscal deficits that have widened during the coronavirus pandemic. As we discussed in the 2021 publication with FIA, *"Fiscal Risks in the food sector in Asia after Covid-19"* some governments in the region need to start balancing their books in the aftermath of Covid-19. In the Philippines, the government debt burden has risen by 20 percentage points (pp) of GDP since 2019 – the joint-highest in the region. Supply conditions for the agri-food sector may be more at risk from new policy measures, such as value added taxes on food and beverage consumption or reductions in public spending, than in countries with stronger fiscal positions.

3.2.4 The Philippines' demographics will support supply-side expansion

The decline in the working age population in some Southeast Asian countries will mean labour becomes scarcer, necessitating new and faster solutions to grow productivity. For example, Thailand's already-shrinking working-age population will mean enterprises along the agri-food value chain may need to raise worker compensation and accelerate investment and automation, and the already-high urbanisation rate in Malaysia poses similar challenges to industrial labour force growth. But the Philippines has better demographic prospects. The working age population will rise for decades to come, and less than half the population currently lives in urban areas, meaning plenty of potential labour to enter the industrial labour force.

3.3 CONCLUSION

The demand-side outlook for the agri-food sector in the Philippines is supported by the ongoing economic recovery, real wage growth, and the normalisation of tourist inflows. But longer-term structural challenges remain. Demographics are positive by regional standards, but the sector in the Philippines faces exchange rate and fiscal risks that are more pronounced than other countries in ASEAN.

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Oxford Economics was founded in 1981 as a commercial venture with Oxford University's business college to provide economic forecasting and modelling to UK companies and financial institutions expanding abroad. Since then, we have become one of the world's foremost independent global advisory firms, providing reports, forecasts and analytical tools on more than 200 countries, 250 industrial sectors, and 7,000 cities and regions. Our best-in-class global economic and industry models and analytical tools give us an unparalleled ability to forecast external market trends and assess their economic, social and business impact.

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Food Industry Asia (FIA) was formed in 2010 to enable major food and beverage manufacturers and ingredients suppliers to speak with one voice on complex issues such as health and nutrition, food safety, sustainability, and regulations and trade. From its base in Singapore, FIA seeks to enhance the industry's role as a trusted partner and collaborator in the development of science-based policy across Asia. To do so means acting as a knowledge hub for Asia's national industry associations and affiliated groups, to support with their engagement of public bodies and other stakeholders across the region.

August 2022

The modelling and results presented here are based on information provided by third parties, upon which Oxford Economics has relied in producing its report and forecasts in good faith. Any subsequent revision or update of those data will affect the assessments and projections shown.

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