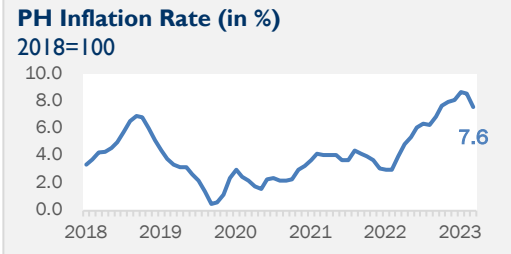


INFLATION UPDATES

MARCH 2023 INFLATION: CLEARLY ON A DOWNWARD PATH

- Inflation considerably slowed to 7.6% in March 2023 versus 8.6% the previous month, driven by the deceleration in price upticks in food, energy, and transportation.
- Nonetheless, core inflation further accelerated to 8.0% in March 2023, versus 7.8% in February and 2.2% in March 2022, indicating persistent second-round effects.
- Five commodity groups recorded lower inflation, five continued to post faster inflation, and three recorded stable inflation.



Main Sources of Deceleration

1	FOOD & NON-ALCOHOLIC BEVERAGES slowed to 9.3% vs 10.8% in the previous month with 50.5% share to downtrend, driven the slowdown of vegetables and tubers, meat, and sugar price growths.
2	TRANSPORT continued to decelerate from 9.0% to 5.3%, with 29.8% share to downtrend on account of easing gasoline and diesel prices.
3	HOUSING, WATER, ELECTRICITY, GAS and OTHER FUELS eased from 8.6% to 7.6% this month with a 19.1% share to downtrend driven by the decline in LPG prices vs previous year, and slower price uptick of electricity.

Major Contributors

FOOD & NON-ALCOHOLIC BEVERAGES remains the top contributor with 46.6% share to overall inflation driven by cereal products, fish, and vegetables.
HOUSING, WATER, ELECTRICITY, GAS and OTHER FUELS follows food with 21.6% share driven by electricity, rentals, and water supply.
RESTAURANTS AND ACCOMMODATION SERVICES garnered a higher contribution this month at 10.6% given continuous uptrend in its prices from 8.1% in February to 8.4% this month.

FORECASTS AND OUTLOOK

- The March 2023 inflation print confirms our earlier outlook that inflation had already peaked in January 2023 and is on a downward trajectory from thereon in the absence of supply and price shocks.
- We expect inflation to further decelerate in April as base effects kick in. Moreover, easing price pressures for food commodities owing to non-monetary government interventions, as well as lower global oil prices on the back of an expected global slowdown are seen to reduce inflationary pressures.
- However, inflation is expected to remain elevated (especially core inflation) as upside risks remain given the continued impact of second-round effects, the looming El Niño, and projected demand recovery in China.
- FY 2023 inflation forecast remains at the 6%-7% range but is biased towards the lower end and follows a downward trajectory, with YoY prints hitting 5% and below towards yearend.
- Even if the RRP rate peaks at 6.25% to 6.5%, rate cuts are expected given that inflation expectations are coming down, perhaps as soon as yearend 2023.

BSP INFLATION FORECAST

2023	2024
6.0% ↓	2.9% ↓

METROBANK RESEARCH INFLATION FORECAST

2023	2024
6%-7%	4.5%-5.5%

PH Inflation Forecast for 2023 (in %) FY 2023 average inflation forecast: 6%-7%

