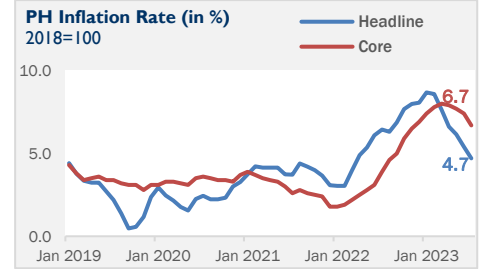


# INFLATION UPDATES

## JULY 2023 INFLATION: NEARING TARGET RANGE

- Headline inflation continued to decline to 4.7% in July 2023 versus 5.4% previously, driven by further easing in prices of utilities, food & non-alcoholic beverages, and transportation.
- Moreover, core inflation further eased to 6.7% in July 2023, versus 7.4% in June 2023 and 3.9% in July 2022. This continued decline in core prices further indicates easing price pressures in the overall economy.
- Eight (8) commodity groups recorded lower year-on-year inflation, one (1) recorded a contraction, one (1) posted faster inflation, and two (3) recorded stable inflation.



### Main Sources of Deceleration

- HOUSING, WATER, ELECTRICITY, GAS and OTHER FUELS** eased from 5.6% to 4.5% this month with a 39.2% share to downtrend, driven by the cooling prices of electricity, rentals and LPG.
- FOOD & NON-ALCOHOLIC BEVERAGES** continued to contract from 6.7% in June to 6.3% this month, with 25.1% share to downtrend on account of the declining prices of meat, fish and other seafood, as well as sugar, confectionery and desserts.
- TRANSPORT** cooled from -3.1% to -4.7% this month with a 24.1% share to downtrend driven by easing prices of other passenger transport by road, passenger transport by air and passenger transport by bus.

### Major Contributors

- FOOD & NON-ALCOHOLIC BEVERAGES** remains the top contributor, increasing its share to overall inflation to 50.0% in July driven by the increase in prices of cereal products, vegetables, and milk, other dairy products and eggs.
- HOUSING, WATER, ELECTRICITY, GAS and OTHER FUELS** with 4.5% inflation in July follows food as top contributor with a 20.2% share to inflation driven by rentals, electricity, and water supply.
- RESTAURANTS and ACCOMMODATION SERVICES** is the third contributor to overall headline inflation with a 16.0% share and with an 7.9% inflation attributed to restaurants, café, and the like.

## FORECASTS AND OUTLOOK

- This month's inflation print came in lower than Research's initial forecast of 5.0% which provides a stronger case to support expectations that prices are continuously easing and that inflation will persist to track a downward trajectory especially with higher base effects kicking in in the latter part of the year.
- Research continues to see inflation further decelerating in the coming months, falling within the BSP's target range of 2%-4% in as early as October, versus previous forecast of November.
- However, upside risks remain such as the increase in transport costs in August and price pressures from global rice exporters which we already see feeding into rice inflation.
- Nonetheless, this is not yet seen manifesting into Headline inflation in 2023 due to lagged effects and as slowdown in prices of other key commodities still offset the gradual increase in rice prices. Vietnam rice prices already hit USD 600/MT in August (from around USD542/MT in end of July) and our estimates show a lag of 4 months and a 30-bp increase in headline inflation in December which will continue to seep into the 2024 inflation.
- **Given this recent development, Research has revised its FY average inflation estimate to 5.6% (from 5.8%) for 2023 but maintains its 4.3% forecast for 2024** to take into account upside risks stemming from rice inflation.
- While price pressures have significantly tempered for 2023, upside pressures from rice inflation will be a major consideration for the BSP, alongside the looming impacts of El Niño on food prices, which may push inflation expectations higher, which we see will prompt the BSP to keep interest rates at its current level of 6.25% until yearend. Nonetheless, cuts may still happen in 2024.

### BSP INFLATION FORECAST

2023	2024
5.4%	2.9%

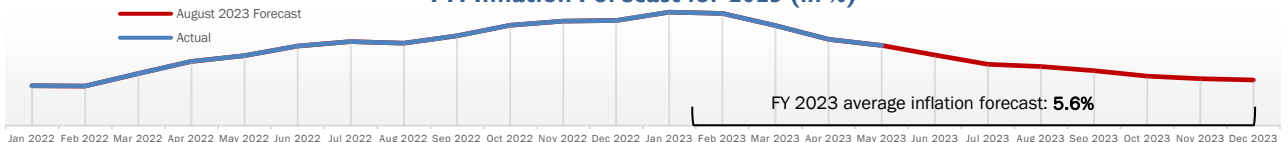
### METROBANK RESEARCH INFLATION FORECAST

2023	2024
5.6%	4.3%

### METROBANK RESEARCH RRP RATE FORECAST

2023
6.25%

### PH Inflation Forecast for 2023 (in %)



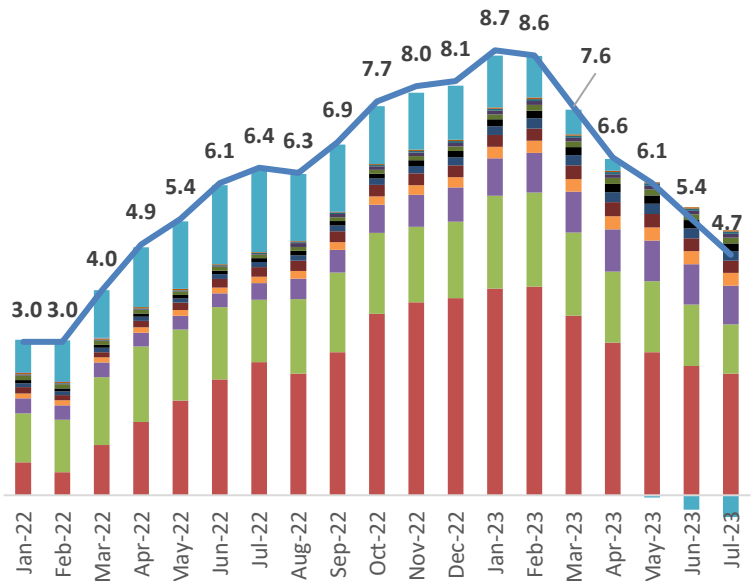
# INFLATION UPDATES

## ANNEX

HEADLINE

HEADLINE INFLATION OF MAIN COMMODITY ITEMS	July 2023
FOOD AND NON-ALCOHOLIC BEVERAGES	6.3
ALCOHOLIC BEVERAGES AND TOBACCO	10.9
CLOTHING AND FOOTWEAR	4.8
HOUSING, WATER, ELECTRICITY, GAS, AND OTHER FUELS	4.5
FURNISHINGS, HOUSEHOLD EQUIPMENT, AND ROUTINE HOUSEHOLD MAINTENANCE	5.8
HEALTH	3.9
TRANSPORT	-4.7
INFORMATION AND COMMUNICATION	0.7
RECREATION, SPORT AND CULTURE	4.7
EDUCATION SERVICES	3.7
RESTAURANTS AND ACCOMMODATION SERVICES	7.9
FINANCIAL SERVICES	0.0
PERSONAL CARE, AND MISCELLANEOUS GOODS AND SERVICES	5.6

Contribution to Headline Inflation of Main Commodity Items



\*Based on weights in the commodity basket

Legend

Lower vs last month Higher vs last month

CORE INFLATION CONTRIBUTION TO FOLLOW