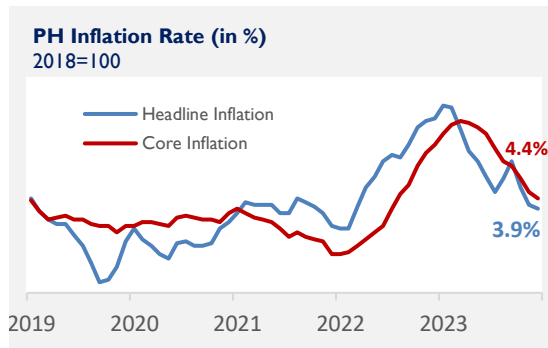


# INFLATION UPDATES

## INFLATION SLOWS FURTHER TO 3.9% IN DECEMBER

- Philippines headline inflation dropped to 3.9% year-on-year from 4.1% in November (+0.16% month-on-month), mainly driven by a slower annual increase in the prices of Electricity, LPG and Rentals, followed by lower inflation on vegetables, meats, and coffee and coffee substitutes.
- The latest headline print brings full year 2023 average headline inflation to 6%, noting the highest recorded inflation for the year of 8.7% in January and the lowest recorded inflation for the year in December. This year's inflation is slightly higher than the annual average inflation rate of 5.8% in 2022.
- Meanwhile, core inflation also continued to decelerate to 4.4% in December versus 4.7% in November 2023. This brings down the full year average core inflation to 6.6%.
- Eight (8) out of 13 commodity groups posted slower annual increases, and four (4) recorded zero percent growth vs November inflation data. Meanwhile, transport prices posted faster inflation in December at 0.4% from -0.8% the previous month.
- However, rice inflation further increased to 19.6% compared to 15.8% in November.



### Main Sources of Deceleration

1	<b>HOUSING, WATER, ELECTRICITY, GAS and OTHER FUELS</b> slowed further to 1.5% from 2.5% in November with a majority share of 59.6% to the downtrend, driven by the lower prices of electricity, LPG and rentals.
2	<b>FOOD &amp; NON-ALCOHOLIC BEVERAGES</b> eased further to 5.4% from 5.7% in November, with a 31.6% share to the downtrend on account of the sharp fall in gasoline and diesel prices.

### Major Contributors

1	<b>FOOD &amp; NON-ALCOHOLIC BEVERAGES</b> remained the top contributor and increasing its share to the overall inflation to 53.0% from 52.6% in November driven by the prices of cereal / cereal products, fish and other seafood, and dairy products and eggs.
2	<b>RESTAURANTS and ACCOMODATION SERVICES</b> again followed food as a major contributor with a 5.6% inflation similar to November with an increased share of 14.0% to overall inflation, driven by restaurants, café, and the like.
3	<b>HOUSING, WATER, ELECTRICITY, GAS and OTHER FUELS</b> was the third contributor to overall headline inflation with share of 8.3% and a 1.5% inflation attributed to rentals, water supply and LPG.

## FORECASTS AND OUTLOOK

- In line with Metrobank Research's baseline forecast, 2023 full-year average headline inflation was at 6.0%. We therefore retain our FY2024 average local inflation forecast at 4.3%.
- Our above-target baseline forecast for 2024 remains largely driven by the risk of upward pressure on rice prices, given that exporting countries, particularly, Thailand and Vietnam, have cited that dry spells and flash floods last year have led to a forecasted fall in crops through to 2024.
- We also note that the December 2023 rice inflation, which printed at 19.6% (from 15.8% in November) was the highest reported since March 2009's 22%.
- Rice inflation in December tracked the pick-up in Asian rice export benchmark prices—Thai rice prices rose to USD659/MT as of end-December (from USD640/MT in November) while the Vietnamese rice prices rose to USD632.90/MT (from USD629.41/MT in November). Both benchmarks are at year-to-date highs.
- While our estimates show that headline inflation will remain above the BSP's target band from 2Q2024 onwards, we think that dissipating price pressures in other non-volatile commodity prices as indicated by the move lower in core inflation (from 4.7% in November to 4.4% in December), will make the case for the BSP to consider lowering rates as early as June.
- We think that policy rates may not need to be as restrictive as current levels throughout the year, especially if core inflation continues to move lower, as the average difference between the BSP policy rate and domestic headline inflation (from 2009-2023) has been at 28 bps vs. 260bps currently.

### BSP Average Inflation Forecast

As of August 2023	As of September 2023	As of November 2023 (Risk-adjusted forecast)	As of December 2023 (Risk-adjusted forecast)
2024: 3.3%	2024: 3.5%	2024: 4.4%	2024: 4.2%
2025: 3.4%	2025: 3.4%	2025: 3.4%	2025: 3.4%

### METROBANK RESEARCH INFLATION FORECAST

2022 Actual	2023 Actual	2024
5.80%	6.00%	4.30%

### METROBANK RESEARCH TARGET RRP RATE

2023 Actual	2024
6.50%	5.50%

## ANNEX

### HEADLINE INFLATION OF MAIN COMMODITY ITEMS

Food and non-alcoholic beverages	5.4
Alcoholic beverages and tobacco	9.0
Clothing and footwear	4.2
Housing, water, electricity, gas, and other fuels	1.5
Furnishings, household equipment, and routine household maintenance	4.5
Health	3.7
Transport	0.4
Information and communication	0.5
Recreation, sport and culture	4.2
Education services	3.5
Restaurants and accommodation services	5.6
Financial services	0.0
Personal care, and miscellaneous goods and services	4.6

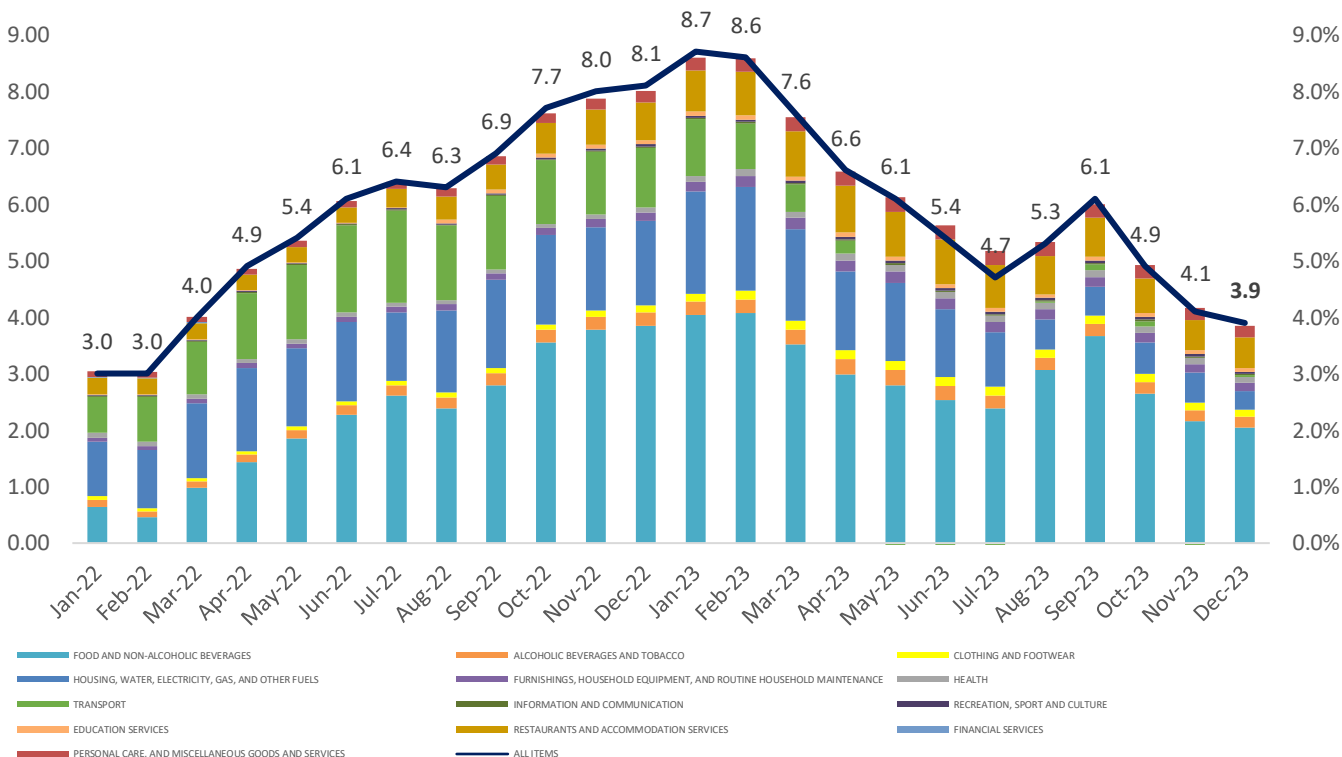
### December 2023

Food and non-alcoholic beverages	5.4
Alcoholic beverages and tobacco	9.0
Clothing and footwear	4.2
Housing, water, electricity, gas, and other fuels	1.5
Furnishings, household equipment, and routine household maintenance	4.5
Health	3.7
Transport	0.4
Information and communication	0.5
Recreation, sport and culture	4.2
Education services	3.5
Restaurants and accommodation services	5.6
Financial services	0.0
Personal care, and miscellaneous goods and services	4.6

### Legend

Lower vs last month Higher vs last month

### MAIN COMMODITY ITEMS' CONTRIBUTION TO HEADLINE INFLATION



\*Based on weights in the commodity basket

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