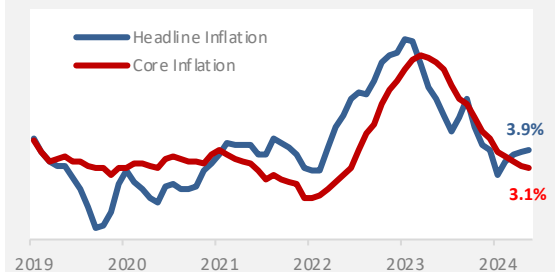


INFLATION UPDATES

INFLATION SETTLED WITHIN TARGET IN MAY AT 3.9%

- The Philippines' headline inflation rose slower-than-expected to 3.9% year-on-year in May (matching Metrobank Research's 3.9% estimate) from 3.8% in April, driven by the increase in the index for housing, water, electricity, gas, and other fuels. This brings the year-to-date average inflation from January to May 2024 to 3.5%. On a month-on-month basis, May inflation rose to 0.1% from -0.1% in the previous month.
- Meanwhile, core inflation, which excludes selected food and energy items, continued to ease to 3.1% in May from 3.2%.
- Two (2) out of 13 commodity groups posted faster annual increases, while seven (7) commodity groups posted slower inflation compared to last month. Inflation for four (4) commodity groups remained the same as in the preceding month.
- Heavily weighted rice prices continued to post a lower annual inflation rate at 23.0% from 23.9% in April as local rice prices slightly decreased.

PH Inflation Rate (in %)
2018=100



Main Sources of Acceleration

Major Contributors

1 HOUSING, WATER, ELECTRICITY, GAS, AND OTHER FUELS
increased to 0.9% from 0.4% in April, with a 56.8% share to the uptrend, driven by an acceleration in the prices of electricity and LPG.

1 FOOD & NON-ALCOHOLIC BEVERAGES
remained the top and major contributor (56.6%) as prices of cereal and cereal products, meat and ready-made food, and other products moved higher.

2 TRANSPORT
accelerated to 3.5% from 2.6% with a 43.2% share to inflation due to increases in the prices of gasoline, passenger transport by sea, and diesel.

2 RESTAURANTS and ACCOMODATION SERVICES
also remained the second major contributor (13.2%) to headline inflation despite the lower prices of services in restaurants, cafés, and the like.

3 TRANSPORT
was the third contributor to overall headline inflation with a 8.2% share, attributable to higher passenger transport by road and oil prices (gasoline and diesel).

FORECAST AND OUTLOOK

- The May headline inflation came in lower than the 4.0% consensus forecast but within the 3.7% to 4.5% forecast of the Bangko Sentral ng Pilipinas (BSP).
- Rice remains to be the major contributor to the May inflation as it continued to accelerate by 23.0% year-on-year from 23.9% in April. However, on a month-on-month basis, prices decreased by 0.2% from a slight acceleration of 0.4% in April after its peak in March at 24.4% year-on-year.
- According to the Philippine Statistics Authority (PSA), the reduction in rice prices this month is driven by continued slight incremental decreases in global rice prices since February. Despite this, rice inflation is still expected to remain elevated until July due to low base effects.
- Inflation this month was also exacerbated by transport prices which has recorded a 3.5% inflation with a 43.2% share to the upward trend. However, effects to oil prices caused by ongoing geopolitical tensions in the Middle East have been tempered as evidenced by low Brent prices last month which ranged from USD 81.36 to USD 84.22 per barrel.
- To address rice inflation, the National Economic Development Authority (NEDA) board recently approved the reduction of the duty rate to 15% for both in-quota and out-quota rates from 35%. Although this still awaits an executive order from the President prior to implementation, the PSA estimates that this will cut rice prices by approximately PHP 5 – PHP 7 per kilo.
- Metrobank Research is revising its yearend average inflation forecast to 4.0% with a **downward bias** from the previous 4.0% on the back of the projected softening of upward pressures from rice and oil prices.
- The monthly year-on-year inflation is expected to peak in July and anticipated to begin its downward trend in August. With the August and September inflation figures expected to have been released prior to the Monetary Board's scheduled meetings in the fourth quarter of the year, we maintain our view that the BSP will likely begin its monetary easing cycle in Q4 2024 should the US Federal Reserve start cutting in September 2024.

BSP AVERAGE INFLATION FORECAST

As of February 2024 (Risk-adjusted)	As of April 2024 (Risk-adjusted)	As of May 2024 (Risk-adjusted)
2024: 3.9%	2024: 4.0%	2024: 3.8%
2025: 3.5%	2025: 3.5%	2025: 3.7%

METROBANK RESEARCH INFLATION FORECAST

2023 Actual	2024	2025
6.00%	4.00% ↓	4.20%

METROBANK RESEARCH TARGET RRP RATE

2023 Actual	2024
6.50%	5.75%

INFLATION UPDATES

ANNEX

HEADLINE INFLATION OF MAIN COMMODITY ITEMS

Food and non-alcoholic beverages
Alcoholic beverages and tobacco
Clothing and footwear
Housing, water, electricity, gas, and other fuels
Furnishings, household equipment, and routine household maintenance
Health
Transport
Information and communication
Recreation, sport, and culture
Education services
Restaurants and accommodation services
Financial services
Personal care, and miscellaneous goods and services

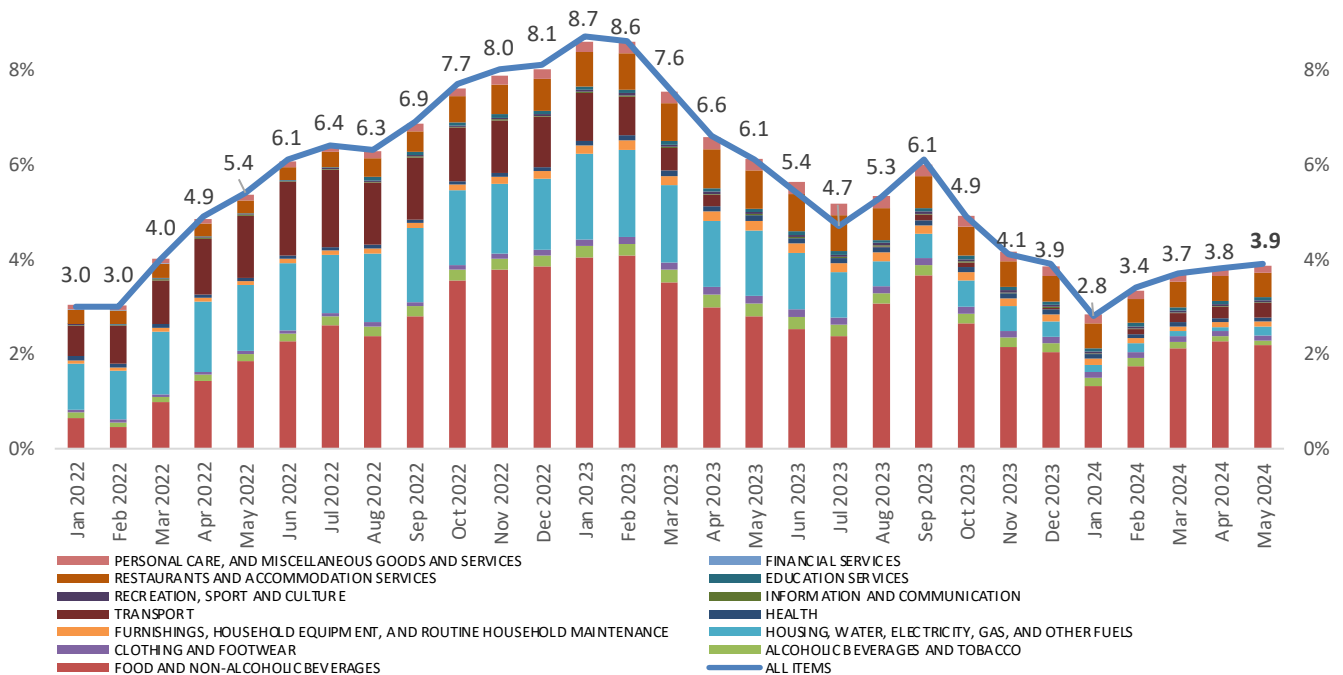
May 2024 (in %)

5.8
4.2
3.4
0.9
3.1
2.9
3.5
0.5
3.5
3.8
5.3
-0.6
3.4

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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