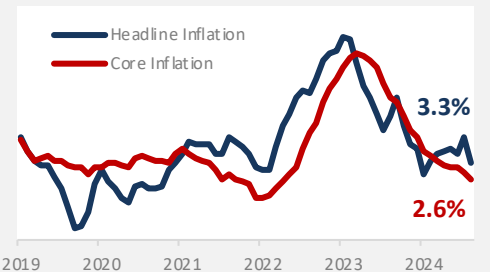


INFLATION UPDATE

INFLATION TO TAKE A SLEIGH RIDE DOWN GOING INTO “BER” MONTHS

- August headline inflation dropped to 3.3% on a year-on-year (YoY) basis, down from the 4.4% recorded in the preceding month. This month's print is slightly above the 3.2% Metrobank Research forecast for the month, below the Bloomberg consensus estimate of 3.6%, but within the Bangko Sentral ng Pilipinas (BSP)'s 3.2%-4.0% forecast.
- Rice continues to be the main driver of inflation, contributing 1.3 percentage points (ppts) out of the total 3.3%. However, this is a significant decline from the 1.9 ppt contribution in the previous month, with rice inflation relatively slowing down to 14.7% in August from the 20.9% in July.
- Core inflation, which excludes selected food and energy items, continues to be on a downtrend at 2.6%, lower than the preceding month's 2.9%.
- Year-to-date inflation now stands at 3.6%, still within the BSP's 2%-4% full-year target.
- Out of the thirteen (13) commodity groups, ten (10) posted lower YoY inflation compared to the previous month, while one (1) commodity group posted higher YoY inflation.

PH Inflation Rate (in %)
2018=100



Sources of Upside Pressure

| | |
|---|---|
| 1 | FOOD AND NON-ALCOHOLIC BEVERAGES slowed down by 3.9% compared to the 6.4% in July, with a majority share of 69.9% to the downtrend due to slower inflation of cereals and cereal products. Moreover, vegetables, tubers, fish, and other seafood decelerated. |
| | TRANSPORT decelerated by 0.2% from the 3.6% acceleration in July, with a 25.4% share to the downtrend, driven by the deflation in gasoline, diesel, and passenger transport by sea. |

Major Contributors to Overall Headline Inflation

| | |
|---|--|
| 1 | FOOD & NON-ALCOHOLIC BEVERAGES remained the top and majority contributor with a 44.3% share to headline inflation due to higher prices of cereals and cereal products, meat, and fruits. |
| 2 | HOUSING, WATER, ELECTRICITY, GAS, AND OTHER FUELS also remained the second major contributor to headline inflation with an inflation rate of 3.8% and a 24.5% share, attributable to higher prices of rentals, LPG, and electricity. |
| 3 | RESTAURANTS AND ACCOMMODATION SERVICES was the third contributor to overall headline inflation with an inflation rate of 4.6% and a 13.3% share, driven by higher prices in restaurants, cafés and the like. |

METROBANK'S TAKE

Inflation seems to have peaked in July

Consistent with expectations, August inflation data validates expectations that the 4.4% July print is the peak for the year.

Rice prices, which drove inflation upward in the previous months, has begun to slow, mainly due to the tariff reduction on rice. With this, considering high base effects, rice inflation may be expected to be in the single digits beginning September.

Upside risks from La Niña

The Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAG-ASA) estimates a 66% chance of the La Niña phenomenon beginning this month until November and persisting until the first quarter of 2025. With this, the risk of agricultural damage from extreme rain and flooding may be expected to persist until the end of year.

Inflation to further slow down, BSP to continue easing

Metrobank Research maintains its inflation forecast at 3.3% on the outlook of balanced risks to inflation outlook this year. The decline could be helped along by the impact of lower rice tariffs in the succeeding months. With rice inflation slowing, we should see inflation at the 2-percent handle as early as September.

Moderating inflation leaves the door open for more BSP rate cuts this year. We forecast that the BSP will continue with its easing cycle and deliver two more 25-basis-point (bp) cuts each in the forthcoming Monetary Board (MB) meetings scheduled on October 17 and December 19, which will bring the BSP's policy rate to 5.75% by year-end.

BSP RISK-ADJUSTED FULL-YEAR AVERAGE INFLATION FORECAST

| | as of May 2024 | as of Jun 2024 | as of Aug 2024 |
|-------------|----------------|----------------|----------------|
| 2024 | 3.8% | 3.1% | 3.3% |
| 2025 | 3.7% | 3.1% | 3.1% |
| 2026 | - | - | 3.3% |

METROBANK RESEARCH FULL-YEAR AVERAGE INFLATION FORECAST

| 2023 Actual | 2024 | 2025 |
|-------------|------|------|
| 6.00% | 3.3% | 3.1% |

METROBANK RESEARCH YEAR-END TARGET RRP RATE FORECAST

| 2023 Actual | 2024 |
|-------------|-------|
| 6.50% | 5.75% |

INFLATION UPDATE

ANNEX

HEADLINE INFLATION OF MAIN COMMODITY ITEMS

| | |
|---|--|
| All 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 | |

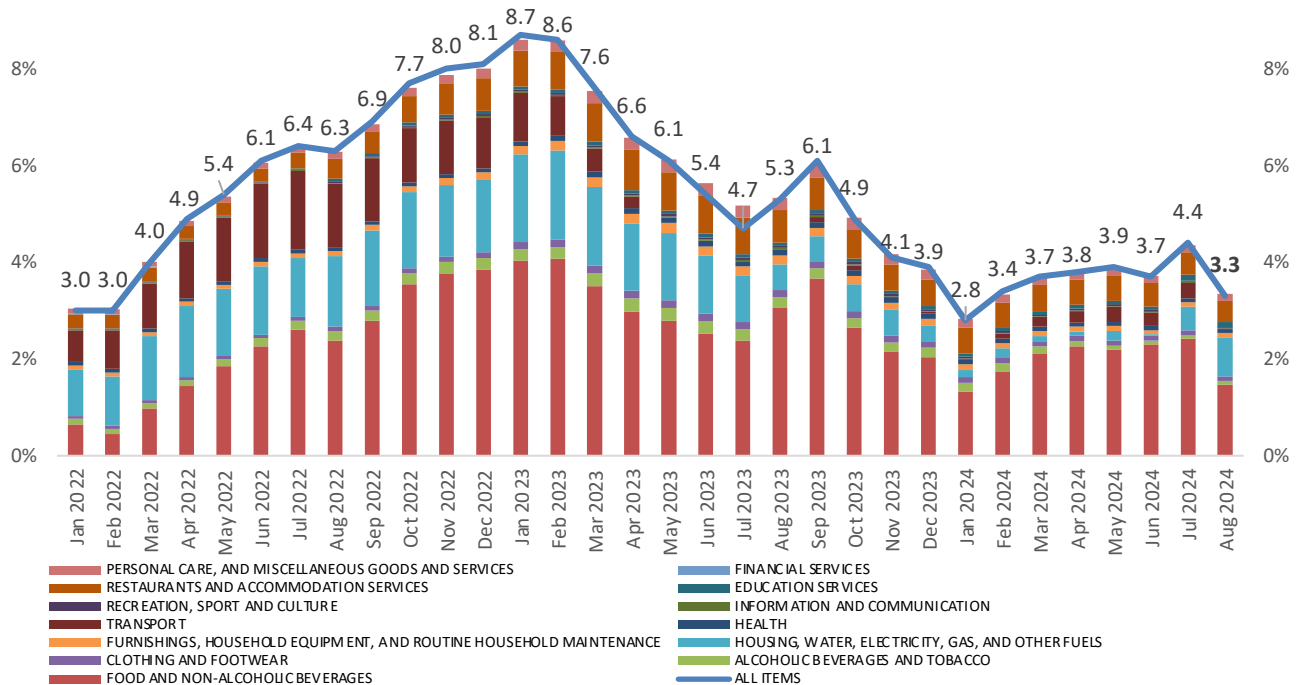
August 2024 (in %)

| | |
|---|------|
| All Items | 3.3 |
| Food and non-alcoholic beverages | 3.9 |
| Alcoholic beverages and tobacco | 3.3 |
| Clothing and footwear | 3.0 |
| Housing, water, electricity, gas, and other fuels | -3.8 |
| Furnishings, household equipment, and routine household maintenance | 2.7 |
| Health | 2.6 |
| Transport | -0.2 |
| Information and communication | 0.5 |
| Recreation, sport, and culture | 3.3 |
| Education services | 5.3 |
| Restaurants and accommodation services | 4.6 |
| Financial services | -0.6 |
| Personal care, and miscellaneous goods and services | 3.0 |

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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