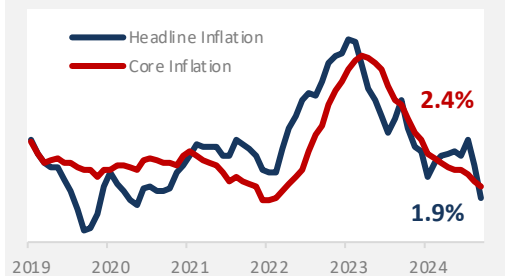


INFLATION UPDATE

SUB-2.0: INFLATION TAKES A DEEP DIVE

- September headline inflation slipped to 1.9% on a year-on-year (YoY) basis, down from the 3.3% recorded in August. This month's print is below the Bloomberg consensus estimate of 2.5%, lower than the Metrobank Research's 2.3% expectation.
- Year-to-date inflation now stands at 3.4% YoY, still within the BSP's 2%-4% full-year target.
- On a month-on-month (MoM) basis, headline inflation declined by 0.2% in September, a reversal compared to the 0.1% acceleration in the preceding month.
- Core inflation, which excludes selected food and energy items, declined further to 2.4% YoY, lower than the preceding month's 2.6%.
- Lower food inflation, driven in large part by rice disinflation at 0.1% MoM contributed to the slower print. Utilities and transportation also weighed on the headline number. Lastly, slower inflation was also noted across the services sector, in particular recreation, restaurants, and personal services, all indicating slower demand and softer growth as elevated borrowing costs weigh on growth.

PH Inflation Rate (in %)
2018=100



Sources of Downside Pressure

1	FOOD AND NON-ALCOHOLIC BEVERAGES slowed down to 1.4% from 3.9% in August, with a 69.1% share to the downtrend largely due to the much slower inflation of cereals and cereal products, as well as vegetables, tubers, fish, and other seafood.
2	TRANSPORT declined further by 2.4% from the -0.2% in August, with a 14.6% share to the downtrend attributed to the deflation in both gasoline and diesel.
3	HOUSING, WATER, ELECTRICITY, GAS, AND OTHER FUELS decelerated to 3.2% from 3.8% in August, contributing 9.4% to the downtrend due to the decline in both LPG and electricity prices.

Major Contributors to Overall Headline Inflation

1	HOUSING, WATER, ELECTRICITY, GAS, AND OTHER FUELS emerged as the top contributor to overall inflation, with a share of 34.9% due to lower prices in rentals, LPG prices, as well as electricity rates.
2	FOOD AND NON-ALCOHOLIC BEVERAGES dropped to the second place with a 27.0% share to overall inflation, attributed to the price of cereals and cereal products, meat and others, as well as fruits and nuts.
3	RESTAURANTS AND ACCOMMODATION SERVICES posted an inflation rate of 4.1% and contributed 20.1% to overall inflation, amid the slow down in prices of services in restaurants, cafes, and others from 4.6% in the preceding month.

METROBANK'S TAKE

Target locked for full-year inflation

Current year-to-date inflation of 3.4% YoY confirms that the full-year inflation will remain within the BSP's 2%-4% target for 2024 as rice, the major contributor to inflation in the previous months, is still expected to continue its decline through the rest of the year.

Persisting supply risks

The Philippine Atmospheric, Geophysical, and Astronomical Services Administration (PAG-ASA) confirms that although weather conditions are still neutral, there are signs that the La Niña phenomenon is developing, with experts suggesting an 81% chance of it unfolding in the last quarter of the year and potentially impacting local agricultural production.

Escalating geopolitical tensions in the Middle East also pose an upside risk, with the threat of oil supply disruptions in the global space.

Full-year inflation to edge lower to 3.2%

With the recent downside surprise for inflation, Metrobank Research has adjusted its FY2024 forecast to 3.2%. The revision reflects the projected sustained decline in rice prices as we enter the harvest season and as other risks to inflation remain balanced. For FY2025, we have likewise revised our forecast to 2.9%, barring any supply side shocks, while we maintain our 3.0% forecast for FY2026.

Remolona points to easing for the year and the next

In a recent statement last September 26, BSP Governor Eli Remolona Jr. said that the BSP could possibly cut by 25 basis points (bps) at each of the remaining Monetary Board meetings scheduled in October and December, which should bring the BSP's Target Reverse Repurchase (RRP) rate down to 5.75% by year-end, in line with Metrobank Research's forecast. Remolona also highlighted that a 50-bp cut would only be considered should the economy face a "hard landing".

Related articles: 1) [Slower inflation, more rate cuts, and faster growth: First look at 2026](#)
2) [September inflation preview: Will inflation finally slide to the 2% level?](#)

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%	2.9%
2026	-	-	3.3%

METROBANK RESEARCH FULL-YEAR AVERAGE INFLATION FORECAST

2023 Actual	2024	2025	2026
6.00%	3.2%	2.9%	3.0%

METROBANK RESEARCH YEAR-END TARGET RRP RATE FORECAST

2023 Actual	2024	2025	2026
6.50%	5.75%	4.75%	4.25%

INFLATION UPDATE

ANNEX

HEADLINE INFLATION OF MAIN COMMODITY ITEMS

All Items	1.9
Food and non-alcoholic beverages	1.4
Alcoholic beverages and tobacco	3.1
Clothing and footwear	2.9
Housing, water, electricity, gas, and other fuels	3.2
Furnishings, household equipment, and routine household maintenance	2.6
Health	2.6
Transport	-2.4
Information and communication	0.4
Recreation, sport, and culture	2.8
Education services	4.3
Restaurants and accommodation services	4.1
Financial services	-0.6
Personal care, and miscellaneous goods and services	2.9

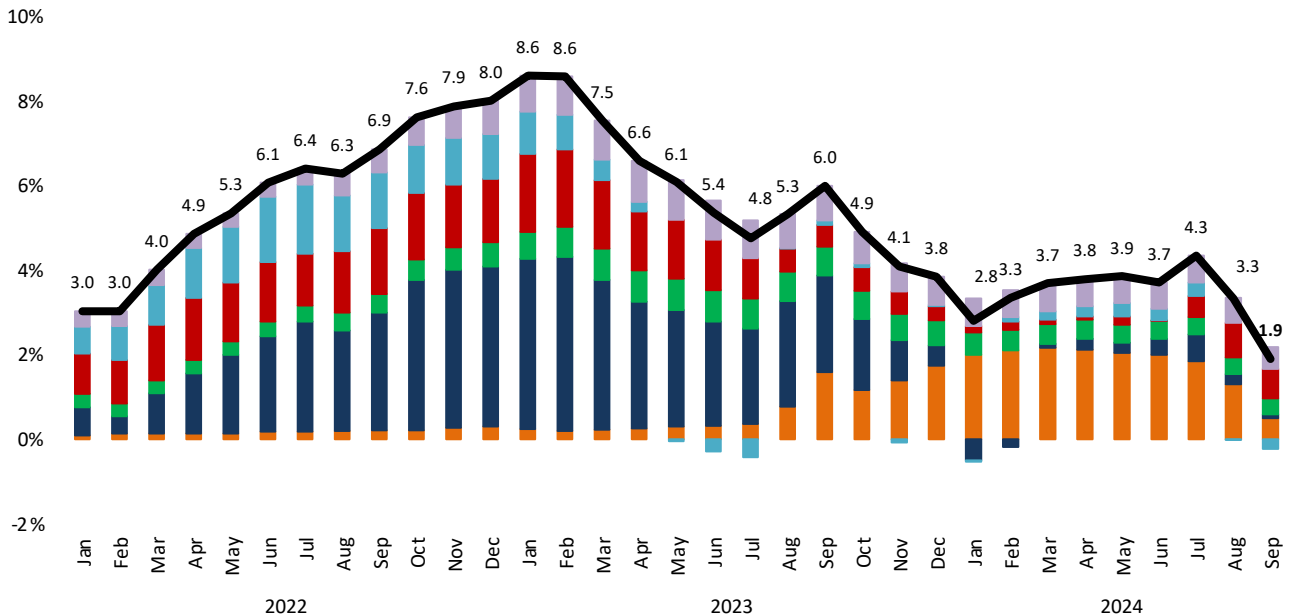
September 2024 (in %)

All Items	1.9
Food and non-alcoholic beverages	1.4
Alcoholic beverages and tobacco	3.1
Clothing and footwear	2.9
Housing, water, electricity, gas, and other fuels	3.2
Furnishings, household equipment, and routine household maintenance	2.6
Health	2.6
Transport	-2.4
Information and communication	0.4
Recreation, sport, and culture	2.8
Education services	4.3
Restaurants and accommodation services	4.1
Financial services	-0.6
Personal care, and miscellaneous goods and services	2.9

Legend

Lower vs last month Higher vs last month

CONTRIBUTION TO HEADLINE INFLATION



■ Rice ■ Food, Beverages and Tobacco excluding Rice ■ Non-food Items
■ Housing and Utilities ■ Transport ■ Services
— Headline CPI

*Based on weights in the commodity basket

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