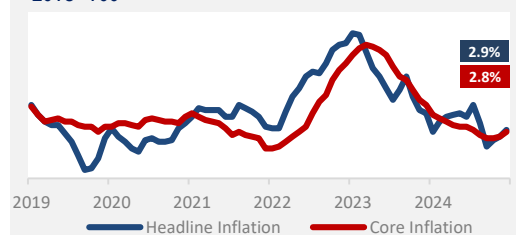


INFLATION UPDATE

FAST THEN SLOW: INFLATION COMFORTABLE WITHIN TARGET

- Philippine headline inflation accelerated to 2.9% in December, faster than the 2.5% in November but slower than the 3.9% recorded in December 2023. The latest inflation print is also higher than the 2.6% Bloomberg consensus estimate but within the Bangko Sentral ng Pilipinas (BSP)'s 2.3%-3.1% forecast for the month.
- The latest inflation print brings average annual inflation to 3.2%, in line with Metrobank Research's forecast and within the BSP's 2%-4% full-year target.
- Core inflation, which excludes volatile food and energy items, accelerated to 2.8% in December, faster than the 2.5% recorded in the preceding month but slower than the 4.4% recorded in December 2023. This brings annual average core inflation to 3.0%.
- On a month-on-month basis, headline inflation accelerated by 0.6% in December, faster than the 0.4% recorded in the preceding month.
- Food prices remained the biggest contributor to headline inflation in December. According to the Philippine Statistics Authority (PSA), the uptick in vegetable prices, such as for tomatoes and cabbages, is due to the lingering supply chain impact of weather disturbances, exacerbated by increased demand during the holiday season.

PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority

Sources of upside pressure

Rank	Category	Inflation Rate	Share to Uptrend	Main Contributors
1	HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	2.9%	52.9%	Mainly electricity, rentals, and LPG
2	TRANSPORT	0.9%	46.9%	Mainly gasoline, diesel, and passenger transport by sea

Major contributors to overall headline inflation

Rank	Category	Inflation Rate	Contribution to Headline Inflation	Main Contributors
1	FOOD AND NON-ALCOHOLIC BEVERAGES	3.4%	1.3-ppt	Led by vegetables, meat, and cereals
2	HOUSING, WATER, ELECTRICITY, GAS, AND OTHER FUELS	0.6-ppt	0.6-ppt	Due to higher prices of rentals, LPG, and water supply
3	RESTAURANTS AND ACCOMMODATION SERVICES	3.8%	0.4-ppt	Due to higher prices at restaurants and cafes

METRO RESEARCH'S TAKE

Rice to take the sidelines in 2025

Rice took a major role in last year's inflation, contributing more than half of headline inflation in the first six months of 2024. We may see a reversal this year, as it takes the sidelines in 2025, with global prices remaining tamed and with reduced rice tariffs still in effect. According to the PSA, rice inflation is expected to be negative in 2025.

Upside risks remain

Looking forward, risks remain. The Russia-Ukraine war drags on and geopolitical tensions in the Middle East persist, bringing uncertainties in the global oil market. Local weather disturbances also add supply-side risks to food inflation.

Higher demand-side pressure in 2025

Inflation in recent months registered below the 3%-level, partially offsetting the fast inflation due to rice prices at the beginning of the year. Target-consistent inflation gave room for the BSP to loosen monetary settings in 2024 to support consumption and investment. Given the lagged effects of monetary policy adjustments, we expect increasing demand-side pressure on inflation in 2025.

Barring any supply-side shocks, Metrobank Research maintains its forecast that full year inflation will settle within the BSP's 2%-4% full year target at 3.2% in 2025 and 3.0% in 2026.

Maintaining expectations

Prior to the release of the December inflation print, BSP Governor Eli Remolona Jr. stated that the BSP estimates inflation to remain within the 2%-4% target until 2026, providing room for policy rate adjustments.

With the annual average inflation settling within the BSP's full year target, we project continued monetary easing this year, which will further support growth. Metrobank Research projects that the BSP will continue easing policy settings, cutting rates by 75 bps this year and bringing the target Reverse Repurchase (RRP) rate to 5.00% by end-2025.

Related articles: 1) [Inflation Preview: 'Tis the season to be pricey.](#)

2) [BSP moves in lockstep with Fed](#)

3) [Monthly Recap: Moving in tandem](#)

4) [2025 Outlook: Expect continued monetary easing](#)

BSP RISK-ADJUSTED FULL-YEAR AVERAGE INFLATION FORECAST

	as of Aug 2024	as of Oct 2024	as of Dec 2024
2024	3.3%	3.1%	3.2%
2025	2.9%	3.3%	3.4%
2026	3.3%	3.7%	3.7%

METROBANK RESEARCH FULL-YEAR AVERAGE INFLATION FORECAST

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

METROBANK RESEARCH YEAR-END TARGET RRP RATE FORECAST

2023 Actual	2024 Actual	2025	2026
6.50%	5.75%	5.00%	4.25%

INFLATION UPDATE

ANNEX

HEADLINE INFLATION OF MAIN COMMODITY ITEMS

	December 2024 (in %)	FY 2024 (in %)
All Items	2.9	3.2
Food and non-alcoholic beverages	3.4	4.4
Alcoholic beverages and tobacco	3.1	4.6
Clothing and footwear	2.4	3.2
Housing, water, electricity, gas, and other fuels	2.9	1.7
Furnishings, household equipment, and routine household maintenance	2.7	2.9
Health	2.5	2.8
Transport	0.9	0.9
Information and communication	0.2	0.4
Recreation, sport, and culture	2.5	3.3
Education services	4.3	4.3
Restaurants and accommodation services	3.8	4.8
Financial services	-0.6	-0.6
Personal care, and miscellaneous goods and services	2.9	3.3

December 2024 (in %)

2.9
3.4
3.1
2.4
2.9
2.7
2.5
0.9
0.2
2.5
4.3
3.8
-0.6
2.9

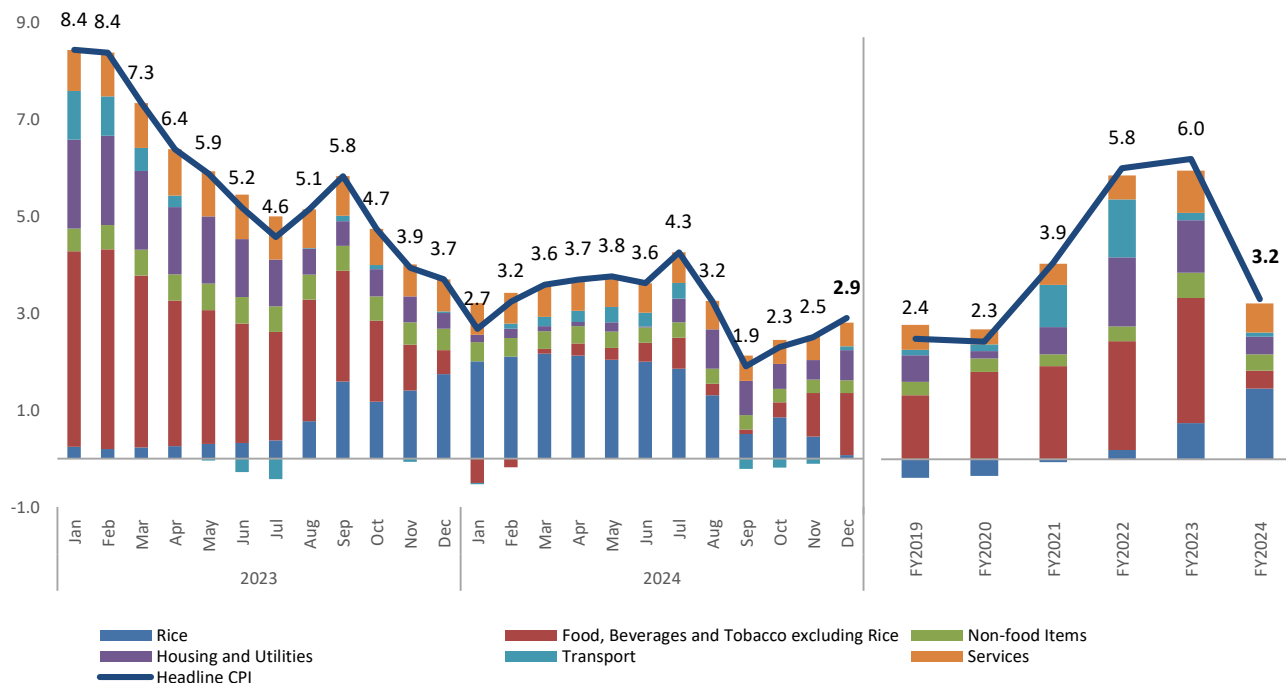
FY 2024 (in %)

3.2
4.4
4.6
3.2
1.7
2.9
2.8
0.9
0.4
3.3
4.3
4.8
-0.6
3.3

Legend
Lower vs. last month Higher vs. last month

Legend
Lower vs. last year Higher vs. last year

CONTRIBUTION TO HEADLINE INFLATION



Source: Philippine Statistics Authority
Based on weights in the commodity basket

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