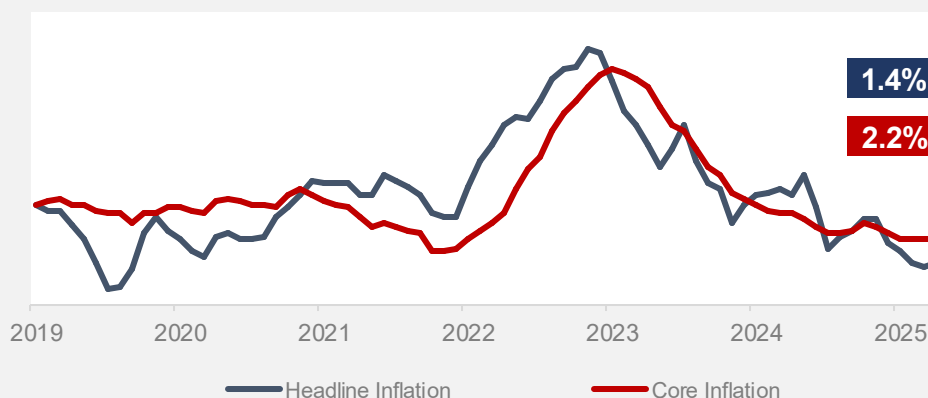


# INFLATION UPDATE

## Weak demand softens shocks

**PH Inflation Rate (in %)**  
2018=100



Source: Philippine Statistics Authority

- Philippine headline inflation saw a slight acceleration to 1.4% year-on-year (YoY) in June from the 1.3% recorded in the preceding month. This lies within the Bangko Sentral ng Pilipinas' (BSP) 1.1%-1.9% projection for the month but falls short of the 1.5% Bloomberg consensus estimate.
- Core inflation, which excludes volatile food and energy items, remains unchanged at 2.2% YoY since March.
- The faster pace of inflation was primarily driven by the higher YoY increase in housing, water, electricity, gas, and other fuels. Electricity contributed 0.3 percentage points (ppts) to headline inflation this month.
- Meanwhile, food and non-alcoholic beverages recorded lower inflation rates in June, as rice prices continue a downward trend. The reversal of the inflation in the prices of vegetables, tubers, plantains, cooking bananas, and pulses to negative territory also contributed to the slower overall food inflation. However, the price of fruits and nuts accelerated and was a major source of inflation this month.
- Month-on-month (MoM), consumer prices rose by 0.2% in June, marking its first acceleration since January.

### Sources of upside pressure

<b>1</b>	<b>HOUSING, WATER, ELECTRICITY, GAS, AND OTHER FUELS</b> <ul style="list-style-type: none"> <li>3.2% YoY inflation rate and 63.3% share to uptrend in inflation</li> <li>Due to higher prices of electricity</li> </ul>
<b>2</b>	<b>TRANSPORT</b> <ul style="list-style-type: none"> <li>-1.6% YoY inflation rate and 23.8% share to uptrend in inflation</li> <li>Due to slower deflation of gasoline and diesel prices</li> </ul>
<b>3</b>	<b>EDUCATION SERVICES</b> <ul style="list-style-type: none"> <li>5.4% YoY inflation rate and a 7.7% share to uptrend in inflation</li> <li>Due to higher prices for primary, secondary, and tertiary education</li> </ul>

### Major contributors to overall headline inflation

<b>1</b>	<b>HOUSING, WATER, ELECTRICITY, GAS, AND OTHER FUELS</b> <ul style="list-style-type: none"> <li>3.2% YoY inflation rate and a 0.7 ppt contribution to the total 1.4% headline inflation</li> <li>Led by electricity, rentals, and water supply</li> </ul>
<b>2</b>	<b>RESTAURANT AND ACCOMODATION SERVICES</b> <ul style="list-style-type: none"> <li>2.1% YoY inflation rate and 0.2 ppt contribution to headline inflation</li> <li>Due to higher prices at restaurants and cafes</li> </ul>
<b>3</b>	<b>FOOD AND NON-ALCOHOLIC BEVERAGES</b> <ul style="list-style-type: none"> <li>0.4% YoY inflation rate and a 0.2 ppt contribution to headline inflation</li> <li>Due to higher prices of meat, fish, fruits, and nuts</li> </ul>

# INFLATION UPDATE

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### METROBANK'S TAKE

#### Wage hikes and second-round effects

The recently approved PHP 50 wage hike brings the daily minimum wage of non-agricultural workers to PHP 695 and of agricultural workers to 658.

According to the Philippine Statistics Authority, the inflationary impact of wage hikes is expected to emerge after one to three months, particularly on labor-intensive commodity groups such as personal care and miscellaneous goods and services.

#### Utilities surprise

Electricity remains the top contributor to inflation in June as rates rose. In 2024, June Meralco rates were the lowest for that year. We project electricity inflation to decelerate before it stabilizes, given normalizing base effects.

The escalation of the Israel-Iran tensions led to a spike in global oil prices which has cascaded to local inflation, placing oil among the top sources of upside pressure in June. However, global oil prices are now back on a general downtrend amid current conditions.

#### Still target-consistent

Although upside risks from rice, energy, and wages persist, weak demand-side pressure, as evidenced by slow core inflation, could provide some relief.

Metrobank sees full-year (FY) inflation to average at 2.0% this year. Low base effects and the lagged impact of a more accommodative monetary policy environment adds to upside pressure. We forecast inflation in 2026 and 2027 at 3.7% and 3.0%, respectively. Our forecasts are within the government's revised full year inflation targets of 2%-3% for this year and 2%-4% for next year.

#### Below-target print provides BSP room to cut

Current inflation levels and soft economic growth suggest that the BSP has room to cut policy rates further this year.

Metrobank forecasts that the BSP will deliver two more 25 basis-point (bp) cuts by year-end and a cumulative 50 bps worth of cuts by end-2026, bringing the key policy rate to 4.25%.

#### BSP RISK-ADJUSTED FULL-YEAR AVERAGE INFLATION FORECAST

	as of Feb 2025	as of Apr 2025	as of June 2025
2025	3.5%	2.3%	1.6%
2026	3.7%	3.3%	3.4%
2027		3.2%	3.3%

#### METROBANK RESEARCH FULL-YEAR AVERAGE INFLATION FORECAST

2024 Actual	2025	2026	2027
3.2%	2.0%	3.7%	3.0%

#### METROBANK RESEARCH YEAR-END TARGET RRP RATE FORECAST

2024 Actual	2025	2026	2027
5.75%	4.75%	4.25%	4.25%

Related articles: 1) [Inflation Preview: Electric shock](#); 2) [Monthly Recap: Fed's path, Philippines cuts outlooks](#)

# INFLATION UPDATE

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### 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	

**June 2025 (in %)**

	1.4
	0.4
	3.8
	1.7
	3.2
	2.1
	2.4
	-1.6
	0.4
	2.2
	5.4
	2.1
	0.0
	2.4

**Legend**

Lower vs last month Higher vs last month

