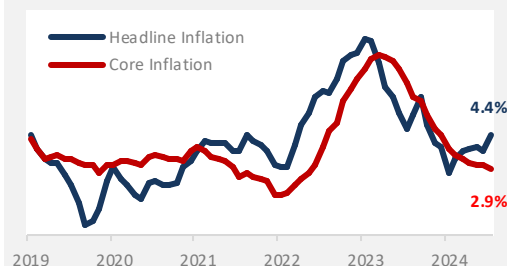


# INFLATION UPDATE

## TO PEAK OR NOT TO PEAK? JULY INFLATION POPPED HIGHER BUT IS SET TO MODERATE BY AUGUST

- July headline inflation accelerated to 4.4% year-on-year, up from 3.7% in June and higher than the Bloomberg Consensus of 4.1%. The Metrobank Research forecast was at 3.8%. Headline inflation was forced higher by base effects, and an uptick in prices for housing, water, electricity, gas, and other fuels. Heavily weighted food and non-alcoholic beverages also contributed to the upward trend. On a month-on-month (MoM) basis, inflation accelerated moderately to 0.7% from the 0.0% in June.
- Upward price pressures were partially offset by items such as alcoholic beverages and tobacco and other food items including rice, which reported slower inflation. Rice prices, which continue to drive inflation upwards, slowed down to 20.9% YoY and -0.3% MoM.
- Core inflation, which excludes selected food and energy items, came in lower at 2.9% from 3.1%.
- After July's reading, year-to-date inflation remains within the Banko Sentral ng Pilipinas (BSP) target with a year-to-date average of 3.7%.
- Notably, four (4) commodity groups posted faster annual increases, while five (5) out of 13 commodity groups slowed from the previous month.

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



### Sources of Upside Pressure

1	<b>HOUSING, WATER, ELECTRICITY, GAS, AND OTHER FUELS</b> accelerated to 2.3% from 0.1% in June, with a 70.4% share to the uptrend, driven by the slowing deflation in electricity rates and the acceleration of LPG prices.
2	<b>FOOD AND NON-ALCOHOLIC BEVERAGES</b> continue to accelerate to 6.4% from 6.1% in June, with a 17.0% share to the uptrend due to increasing prices of meat, fruits, and nuts. Fish and other seafood also posted a slower deflation.
3	<b>TRANSPORT</b> was the third source of acceleration in July with a 3.6% inflation and a 6.8% share to the uptrend, attributable to higher prices of gasoline and diesel.

### Major Contributors to overall headline

1	<b>FOOD &amp; NON-ALCOHOLIC BEVERAGES</b> remained the top and majority contributor (55.5%) due to higher prices of cereals and cereal products, meat, and vegetables.
2	<b>HOUSING, WATER, ELECTRICITY, GAS, AND OTHER FUELS</b> also remained the second major contributor to headline inflation with an 11.3% share, attributable to higher prices of rentals, LPG, and water supply.
3	<b>RESTAURANTS AND ACCOMMODATION SERVICES</b> was the third contributor to overall headline inflation with an inflation rate of 4.9% and a 10.8% share, driven by higher prices in restaurant, cafés, and the like.

## FORECASTS AND OUTLOOK

### Peak for the year?

BSP had previously telegraphed a potential breach of the inflation target in July, owing largely to base effects and still relatively elevated rice prices. Today's inflation reading validates this expectation. However, we believe July could represent the peak for the year. By August, base effects should flip to push down rice inflation, which would also be helped lower by the reduced rice tariffs. Oil prices also appear to be moderating, with domestic pump prices slated to edge lower again in the coming month. Lastly, softening domestic demand may also be exerting downward pressure on inflation as services inflation dips lower and as households look to build savings and pay down debt.

### BSP to cut rates as BSP Governor Remolona looks to inflation path

Despite the uptick in July, we believe the BSP is still looking to finally revert to policy accommodation, with the inflation path pointing to inflation staying within target this year and the next. Given the lagged impact of central bank policy action, the BSP will rightly be adopting a forward-looking approach with less focus on past data and more emphasis on the path of inflation in the coming months. Contemporaneous elevated inflation coupled with a stronger-than-expected 2Q GDP report could force the BSP to pause at its next meeting. However, moderating growth momentum and a stable inflation path could ensue as BSP follows through with rate cuts thereafter.

### Inflation to further slow down, BSP to ease monetary settings

Last July 24, Metrobank Research updated its inflation forecast to 3.3% on fading demand side pressures and in anticipation of the impact of lower rice tariffs. With this, we also penciled in 25-basis-point (bp) cuts each of the forthcoming Monetary Board (MB) meetings scheduled on August 15, October 17, and December 19, which shall bring down the BSP's policy rate by a total of 75 bps to 5.75% by year-end. With the year-to-date average inflation at 3.7%, Metrobank Research maintains its latest FY2024 inflation and policy rate outlook of 3.3% and 5.75%, respectively.

### BSP AVERAGE INFLATION FORECAST

As of April 2024 (Risk-adjusted)	As of May 2024 (Risk-adjusted)	As of June 2024 (Risk-adjusted)
2024: 4.0%	2024: 3.8%	2024: 3.1%
2025: 3.5%	2025: 3.7%	2025: 3.1%

### METROBANK RESEARCH INFLATION FORECAST

2023 Actual	2024	2025
6.00%	3.3%	3.1%

### METROBANK RESEARCH TARGET RRP RATE

2023 Actual	2024
6.50%	5.75%

# INFLATION UPDATES

## 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	

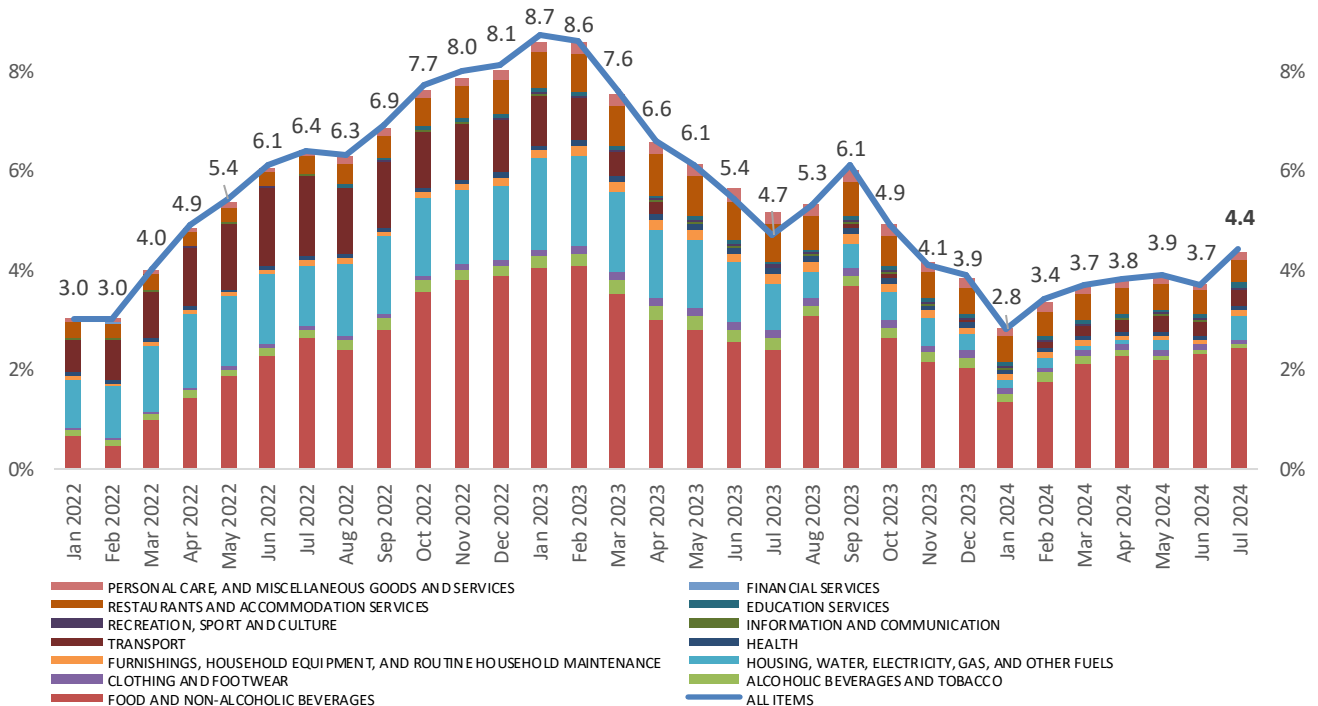
### July 2024 (in %)

All Items	4.4
Food and non-alcoholic beverages	6.4
Alcoholic beverages and tobacco	3.4
Clothing and footwear	3.1
Housing, water, electricity, gas, and other fuels	2.3
Furnishings, household equipment, and routine household maintenance	2.8
Health	2.8
Transport	3.6
Information and communication	0.5
Recreation, sport, and culture	3.4
Education services	5.8
Restaurants and accommodation services	4.9
Financial services	-0.6
Personal care, and miscellaneous goods and services	3.2

### 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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