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# Philippines CPI, Oct 2023

## Headline inflation returns to easing mode as core inflation slows further

Headline inflation rate eased to +4.9% YoY in Oct 2023 (Sep 2023: +6.1% YoY; MIBG: +5.8% YoY; consensus: +5.6% YoY; 10M2023: +6.4% YoY) mainly on lower FNAB inflation. Core inflation rate moderated further to +5.3% YoY (Sep 2023: +5.9% YoY; 10M2023: +7.0% YoY). With the better-than-expected headline inflation in Oct 2023, we adjust downward our 2023 headline inflation rate forecast to +6.0% (our original forecast in Sep 2023) from +6.3% previously.

## Easing headline as core moderated further

Headline inflation rate in Oct 2023 eased to +4.9% YoY (Sep 2023: +6.1% YoY; 10M2023: +6.4% YoY; 2022: +5.8%); mainly on lower costs for food & non-alcoholic beverages (FNAB). FNAB inflation slowed to +7.0% YoY (Sep 2023: +9.7% YoY; 10M2023: +8.4% YoY) on lower inflation for rice as well as fish & vegetables. Housing, Water, Electricity, Gas and Other Fuel (HWEGOF) inflation inched up to +2.6% YoY (Sep 2023: +2.4% YoY; 10M2023: +5.5% YoY) on higher gas costs, while water supply (Fig. 18) and rental paid for housing remained elevated (Fig. 19). MoM, headline inflation was down -0.2% (Sep 2023: +1.1%).

Rice prices rose at a slower pace at +13.2% YoY during the month (Sep 2023: +17.9% YoY; 10M2023: +6.1% YoY; 2022: +2.1%); mainly due to the increased in domestic supply as harvest season started as well as higher rice imports. Vegetable inflation also slowed to +11.9% YoY (Sep 2023: +29.6% YoY) on stable supply of vegetables.

Core inflation also moderated further to +5.3% YoY (Sep 2023: +5.9% YoY; 10M2023: +7.0% YoY; 2022: +3.9%); in line with the easing domestic demand growth.

# Adjust downward our headline inflation forecast to +6.0% from +6.3% previously

With the better-than-expected headline inflation in Oct 2023, we adjust downward our 2023 headline inflation rate forecast to +6.0% (our original forecast in Sep 2023) from +6.3% previously (2022: +5.8%). Nevertheless, we continue to see risk of "sticky/elevated" inflation due to several factors. Firstly, the onset of El Nino and export ban on rice and other food items, which raise the risk of disruption in agricultural production and supplies, thus upward pressures on food prices. Secondly, the potential for nationwide daily minimum wage hike could put further upside risk to inflation outlook. Thirdly, possible further rise in transport costs, following the firm global crude oil prices amid the political tension in the Middle East.

## Expect BSP to keep policy rate at 6.50% this year

We see headline inflation to resume the downward trend in coming months after the re-acceleration in Aug-Sep 2023 as the rice harvest season as well as steady supply of vegetable and other commodities should keep FNAB inflation in check. At the same time, the government is expected to continue with non-monetary measures to ensure adequate supply of food, amid factors like El Nino, which is expected to remain until mid-2024. As such, we take the view BSP will keep interest rate at 6.50% for the rest of this year, after the off-cycle +25bps rate hike on 26 Oct 2023. BSP's monetary policy meetings are scheduled on 16 Nov and 14 Dec 2023.

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| % YoY  | Jul-23 | Aug-23 | Sep-23 | Oct-23 | 4Q-22 | 1Q-23 | 2Q-23 | 3Q-23 | 10M2023 | 2022 |
|--|--------|--------|--------|--------|-------|-------|-------|-------|---------|------|
| CPI-All Items  | 4.7    | 5.3    | 6.1    | 4.9    | 7.9   | 8.3   | 6.0   | 5.4   | 6.4     | 5.8  |
| Food & Non Alcoholic<br>Beverages (FNAB)                     | 6.3    | 8.1    | 9.7    | 7.0    | 9.9   | 10.2  | 7.4   | 8.0   | 8.4     | 5.9  |
| Alcoholic Beverages &<br>Tobacco                             | 10.9   | 10.1   | 9.8    | 9.3    | 10.6  | 11.4  | 12.2  | 10.3  | 11.1    | 7.9  |
| Clothing and Footwear  | 4.8    | 4.8    | 4.7    | 4.8    | 3.5   | 4.7   | 5.1   | 4.8   | 4.9     | 2.6  |
| Housing & Utilities  | 4.5    | 2.5    | 2.4    | 2.6    | 7.1   | 8.2   | 6.2   | 3.1   | 5.5     | 6.4  |
| Furnishing, Household,<br>Equipment & Routine<br>Maintenance | 5.8    | 5.6    | 5.4    | 5.3    | 4.4   | 5.8   | 6.1   | 5.6   | 5.8     | 3.2  |
| Health   | 3.9    | 3.9    | 4.1    | 4.0    | 2.8   | 3.7   | 4.0   | 4.0   | 3.9     | 2.6  |
| Transport  | (4.7)  | 0.2    | 1.2    | 1.0    | 12.2  | 8.4   | (0.3) | (1.1) | 2.2     | 12.9 |
| Information &<br>Communication                               | 0.7    | 0.7    | 0.6    | 0.8    | 0.6   | 0.7   | 0.7   | 0.7   | 0.7     | 0.6  |
| Recreation, Sports &<br>Culture                              | 4.7    | 4.9    | 5.1    | 5.0    | 3.4   | 4.4   | 4.8   | 4.9   | 4.7     | 2.3  |
| Education Services   | 3.7    | 2.9    | 3.6    | 3.8    | 3.5   | 3.6   | 3.6   | 3.4   | 3.6     | 1.8  |
| Restaurant &<br>Accommodation Services                       | 7.9    | 7.1    | 7.1    | 6.3    | 6.4   | 8.0   | 8.4   | 7.4   | 7.8     | 4.1  |
| Financial Services   | 0.0    | 0.0    | 0.0    | 0.0    | 0.0   | 0.0   | 0.0   | 0.0   | 0.0     | 8.2  |
| Personal Care, &<br>Miscellaneous Goods &<br>Services        | 5.6    | 5.5    | 5.4    | 5.3    | 4.1   | 5.3   | 5.7   | 5.5   | 5.5     | 3.0  |
| Core Inflation   | 6.7    | 6.1    | 5.9    | 5.3    | 6.4   | 7.7   | 7.7   | 6.2   | 7.0     | 3.9  |

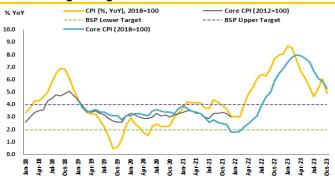
Figure 1: Consumer Price Index (2018=100)

Source: PSA, CEIC

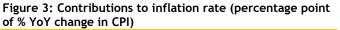
## Food cost a key inflation upside risk factor

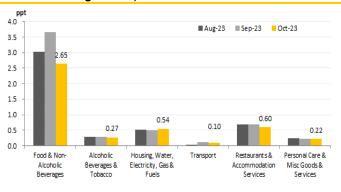
"Food & Non Alcoholic Beverages (FNAB)" inflation eased to +7.0% YoY in Oct 2023 (Sep 2023: +9.7% YoY; 10M2023: +8.4% YoY) with prices declined MoM by -1.0% (Sep 2023: +2.0%). Accordingly, food inflation eased to +7.1% YoY in Oct 2023 (Sep 2023: +10.0% YoY; 10M2023: +8.6% YoY) with percentage share of contribution to CPI rising to 46.5% in Oct 2023 from 36.3% in 2022 (Fig. 4 & 5). We continue to see upside risk to FNAB costs in the near term as global food price inflation continue to stay firm, in addition to elevated fertilizer and feedmeal costs (Fig. 11 & 12) as well as potential agriculture damage from weather disturbances i.e. typhoons and El Nino. India's recent decision to ban exports of non-basmati rice also brings further upside risk to elevated rice inflation.

Meanwhile, Transport costs were up +1.0% YoY in Oct 2023 (Sep 2023: +1.2% YoY; 10M2023: +2.2% YoY) in response to the stable global crude oil prices (Oct 2023: USD91.3/bbl; 10M2023: USD83.0/bbl; Oct 2022: USD93.2/bbl). Domestic diesel price posted smaller decline at -11.2% YoY in Oct 2023 (Sep 2023: -12.7% YoY) and similarly, gasoline price at -1.5% YoY (Sep 2023: -2.4% YoY). On MoM basis, "Transport" cost declined -0.2% in Oct 2023 (Sep 2023: +1.0%).



## Figure 2: Headline inflation, core inflation and BSP's inflation target range





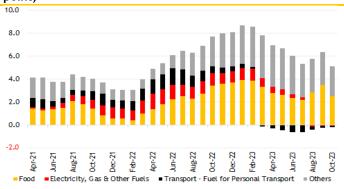
Sources: CEIC, Maybank IBG Research

### Figure 4: Inflation - "Food, Utilities/Energy, Fuel" vs "Others"

| Period                         | <u>%</u> | <u>% YoY</u> |      | ution to CPI | <u>% share of contribution to CPI</u> |         |  |
|--------------------------------|----------|--------------|------|--------------|---------------------------------------|---------|--|
|                                | 2022     | 10M2023      | 2022 | 10M2023      | 2022                                  | 10M2023 |  |
| Headline Inflation             | 5.8      | 6.4          | 5.8  | 6.4          | 100.0                                 | 100.0   |  |
| Food                           | 6.1      | 8.5          | 2.1  | 3.0          | 36.3                                  | 46.5    |  |
| Electricity, Gas & Other Fuels | 15.8     | 5.8          | 1.1  | 0.4          | 18.4                                  | 6.1     |  |
| Transport - Fuels & Lubricants | 39.1     | (10.6)       | 0.9  | (0.3)        | 16.1                                  | (4.0)   |  |
| Others                         | 3.0      | 5.8          | 1.7  | 3.3          | 29.2                                  | 51.4    |  |

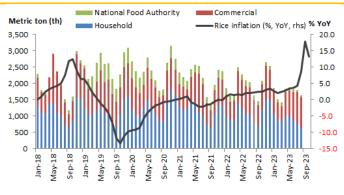
Source: Maybank IBG Research

## Figure 5: Contributions to % YoY Inflation Rate (percentage point)



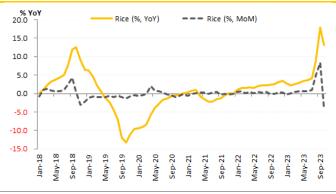
Sources: CEIC, Maybank IBG Research

# Figure 7: Total rice stock inventory expected to improve with the start of harvest season



Source: PSA, CEIC

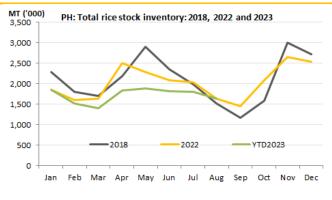
## Figure 6: Drop in rice inflation



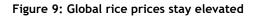
Sources: CEIC

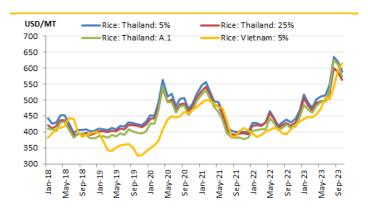
Sources: CEIC

# Figure 8: Year-end harvest season expected to keep FNAB inflation steady in coming months

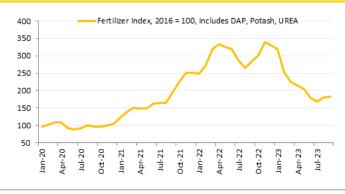








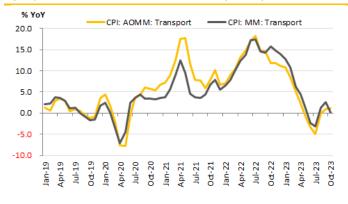
Source: World Bank, CEIC



### Figure 11: Global fertilizer off from the peak in Nov 2022

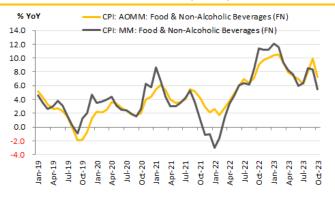
Sources: IMF, CEIC

## Figure 13: Monthly transport inflation for Metro Manila (MM) and Areas Outside Metro Manila (AOMM)



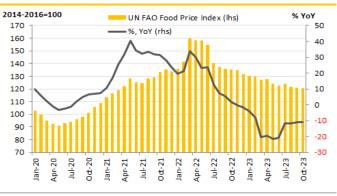
Source: PSA, CEIC

## Figure 10: Monthly FNAB inflation for Metro Manila (MM) and Areas Outside Metro Manila (AOMM)

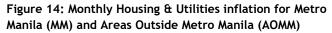


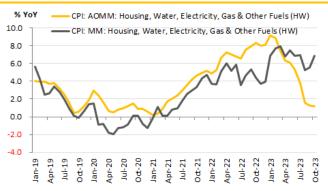
Source: PSA, CEIC

## Figure 12: Global food price index



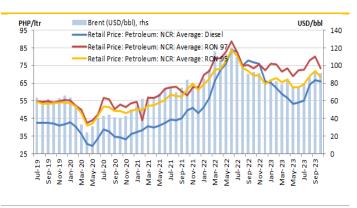
Sources: FAO, CEIC





Source: PSA, CEIC

Figure 15: Average retail fuel prices (NCR)



Source: Department of Energy, CEIC

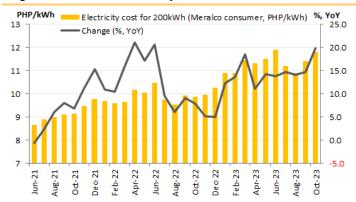
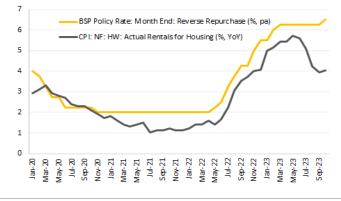


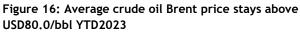
Figure 17: Meralco electricity costs

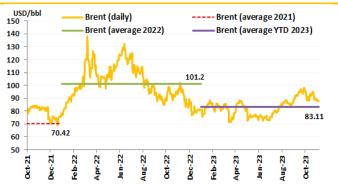
Sources: Meralco, news reports

# Figure 19: Elevated rental costs on aggressive BSP's policy rate hikes

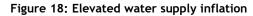


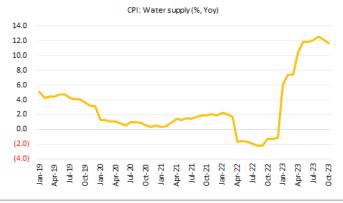
Source: PSA, CEIC





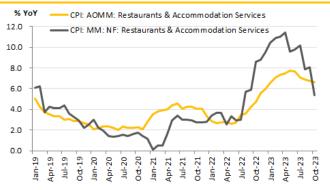
Source: Bloomberg





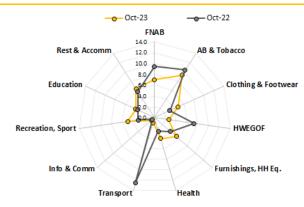
Source: PSA, CEIC

# Figure 20: Sharp drop in Restaurants & Accommodation Services inflation pace in MM vs. areas outside MM



Source: PSA, CEIC

# Figure 21: Monthly headline inflation (%, YoY); Oct 2023 vs. Oct 2022



Source: CEIC

# Figure 23: Nominal minimum wage (agriculture) and inflation in NCR

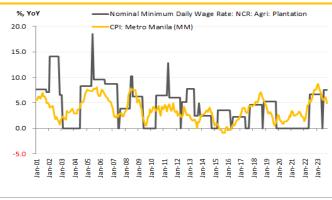
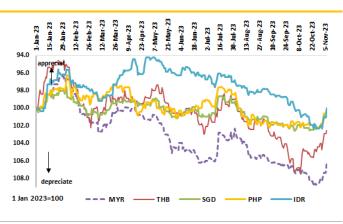
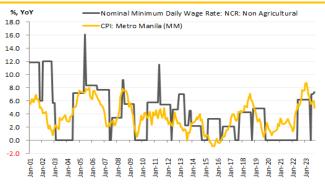


Figure 22: Regional currencies performance vs. USD



Source: Bloomberg

## Figure 24: Nominal minimum wage (non-agriculture) and inflation in NCR



Source: CEIC

Source: CEIC

## Figure 25: Agriculture losses in Philippines caused by El Nino phenomenon (1994-2016)

|   | •                   |              |          |               | · · · ·                      |         |         |  |
|---|---------------------|--------------|----------|---------------|------------------------------|---------|---------|--|
|   | El-Nino period      | No. of month | Category | Total area    | Production loss (volume, MT) |         |         |  |
|   |                     |              |          | affected (ha) | Total                        | Rice    | Maize   |  |
| 1 | 1994-1995 (Aug-Apr) | 9            | Moderate | 183,572       | 405,775                      | 230,515 | 175,260 |  |
| 1 | 1997-1998 (Apr-May) | 14           | Strong   | 677,441       | 1,056,743                    | 684,262 | 372,481 |  |
| 2 | 2002-2003 (Apr-Mar) | 12           | Moderate | 159,043       | 340,938                      | 247,254 | 93,684  |  |
| 2 | 2004-2005 (Jun-Feb) | 9            | Weak     | 204,688       | 349,762                      | 34,651  | 315,111 |  |
| 2 | 2006-2007 (Aug-Feb) | 7            | Weak     | 224,419       | 321,164                      | 25,411  | 292,072 |  |
| 2 | 2009-2010 (Jun-May) | 12           | Strong   | 555,102       | 1,180,000                    | 540,469 | 623,579 |  |
| 2 | 2016 (Feb-Jul)      | 6            | Strong   | 556,721       | 1,480,672                    | 491,238 | 510,457 |  |

Source: Striking a Balance: Managing El Niño and La Niña in Philippines' Agriculture (World Bank, 2019)

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