

Philippines

5 January 2024

Some Inflation Relief In End-2023

- Headline CPI eased to 3.9% YoY in December from 4.1% in November, bringing the full-year 2023 average headline CPI to 6.0% YoY versus 5.8% in 2022.
- Food and utilities inflation were the main drivers of the lower inflation print. However, rice inflation remained elevated.
- We expect Bangko Sentral ng Pilipinas (BSP) to maintain its policy rate at 6.50% in 1Q24 before cutting its policy rates by a cumulative 100bp from 2Q24.

Headline CPI eased more-than-expected to 3.9% YoY in December from 4.1% in November (Consensus: 4.0%, OCBC: 3.8% YoY), taking the 2023 average to 6.0% YoY versus 5.8% in 2022. This is well above BSP 2-4% headline inflation target.

The main drivers of the print were the 'food and non-alcoholic beverages' and 'housing, water, electricity, gas and other fuels' components. Food inflation eased to 5.4% YoY in December from 5.7% in November primarily driven by lower vegetables and meat prices which more than offset higher rice prices (19.6% YoY versus 15.8% in November). Meanwhile, utilities inflation eased to 1.5% YoY from 2.5% in November given lower electricity tariffs for the month.

Core inflation also eased to 4.4% YoY from 4.7% in November. However, for the full year 2023 core inflation rose to 6.6% from 6.0% in 2022 underscoring broad-based inflationary pressures.

Notwithstanding, rice inflation in December was the highest since March 2009 and is a source of concern. The National Economic and Development Authority Secretary Arsenio Balisacan said that "the Interagency Committee on Inflation and Market Outlook will closely monitor the situation and propose further temporary tariff adjustments if necessary".

For 2024, we expect inflationary pressures to ease albeit in an uneven rather than linear manner. Our forecast is for headline CPI to average 3.9% YoY. In terms of monetary policy, we expect BSP to remain a sufficiently tight setting in 1Q24. Lower domestic inflation and the potential for rate cuts from the US Fed (starting in 2Q24 in our house view) will afford BSP room to start cutting rates from 2Q24. We expect the BSP to cut by a cumulative 100bp, taking the policy rate to 5.50% by end-2024.

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Drivers of inflation, %YoY	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Headline CPI inflation	8.7	8.6	7.6	6.6	6.1	5.4	4.7	5.3	6.1	4.9	4.1	3.9
Food & Non-Alcoholic Beverages	10.7	10.8	9.3	7.9	7.4	6.7	6.3	8.1	9.7	7.0	5.7	5.4
Alcoholic Beverages & Tobacco	10.9	11.0	12.2	12.7	12.3	11.6	10.9	10.1	9.8	9.3	9.0	9.0
Clothing & Footwear	4.4	4.8	5.0	5.1	5.1	5.1	4.8	4.8	4.7	4.8	4.3	4.2
Housing, Water, Electricity, Gas & Other Fuels	8.6	8.6	7.6	6.5	6.5	5.6	4.5	2.5	2.4	2.6	2.5	1.5
Furnishings, HH Equip & Routine HH Maintenance	5.2	6.2	6.2	6.1	6.2	6.0	5.8	5.6	5.4	5.3	4.7	4.5
Health	3.3	4.0	3.9	4.1	4.1	3.9	3.9	3.9	4.1	4.0	3.8	3.7
Transport	11.1	9.0	5.3	2.6	-0.5	-3.1	-4.7	0.2	1.2	1.0	-0.8	0.4
Information & Communication	0.7	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.8	0.6	0.5
Recreation, Sport & Culture	4.2	4.4	4.6	4.7	4.9	4.8	4.7	4.9	5.1	5.0	4.9	4.2
Education Services	3.6	3.6	3.6	3.6	3.6	3.6	3.7	2.9	3.8	3.8	3.5	3.5
Restaurants & Accommodation Services	7.6	8.1	8.3	8.6	8.3	8.2	7.9	7.1	7.1	6.3	5.6	5.6
Financial Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Personal Care & Misc Goods & Services	5.0	5.3	5.6	5.7	5.7	5.8	5.6	5.5	5.4	5.3	4.8	4.6
Core CPI	7.4	7.8	8.0	7.9	7.7	7.4	6.7	6.1	5.9	5.3	4.7	4.4

Source: CEC, OCBC

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