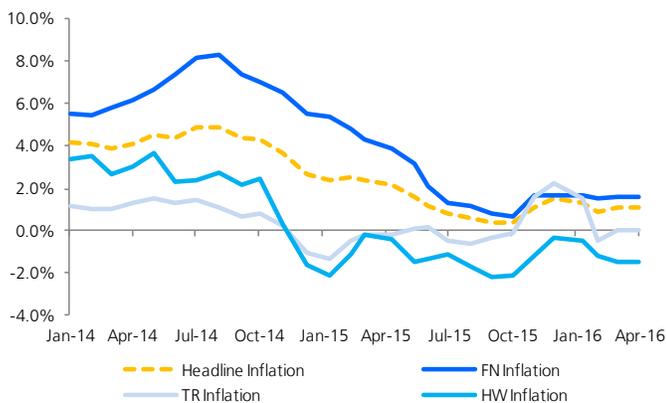


**Friday, May 06, 2016**

## April 2016 Inflation Update

- April headline inflation came in at 1.1% (unchanged from March). It is slightly lower than consensus forecast, but still falls within the BSP's forecast range of 0.7-1.5%.
- Average inflation for Jan-Apr is 1.1%, well below BSP's FY16 inflation target of 2-4%.
- Core inflation was maintained at 1.5%.

### Headline Inflation vs. Select Commodity Groups



Source: Philippine Statistics Authority, First Metro Securities

- The pace of CPI was unchanged from March's 1.1% as heavyweights Food and Non-Alcoholic Beverages (FN), Housing, Water, Electricity, Gas, and Other Fuels (HW), and Transport (TR) indices continued to move in the same rates they moved in the previous month.

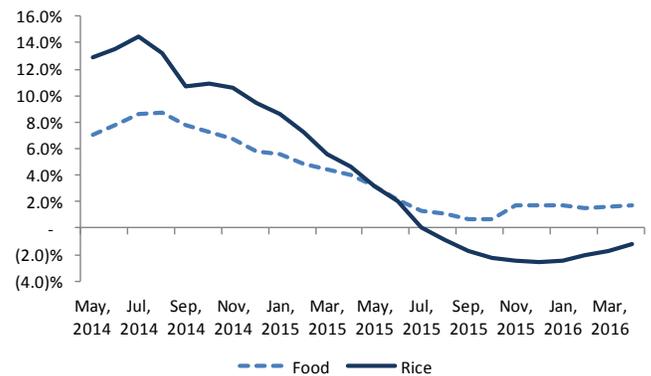
### Inflation Y-o-Y Growth Rates

Commodity Group	Mar-16	Apr-16
Food and Non-Alcoholic Beverages (FN)	1.6%	1.6%
Alcoholic Beverages and Tobacco (AT)	5.0%	5.2%
Clothing and Footwear (CF)	1.8%	1.9%
Housing, Water, Electricity, Gas, and Other Fuels (HW)	-1.5%	-1.5%
Furnishing, Household Equipment and Routine Maintenance of the House (FH)	1.5%	1.4%
Health (HT)	1.9%	2.2%
Transport (TR)	0.0%	0.0%
Communication (CO)	0.1%	0.1%
Recreation and Culture (RC)	1.1%	1.3%
Education (ED)	3.6%	3.6%
Restaurants and Miscellaneous Goods and Services (RS)	1.9%	2.1%
<b>Headline Inflation</b>	<b>1.1%</b>	<b>1.1%</b>

Source: Philippine Statistics Authority

- On a month-on-month basis, consumer prices rose by 0.2% (vs. Mar-15 0.1%). This acceleration was caused by:
  - 0.1% rise in FN index due to higher markups in milk, cheese & eggs, fruits, and vegetables. While the price of rice is still declining, its deflation is slowing down.
  - 0.6% jump in HW index brought about by the increase in electricity rates as a consequence of higher demand and higher FiT-all charges. In the Meralco franchise alone, average residential customers saw an increase of P0.22/kWh in their April electricity bills.
  - The TR index was flat as ship and taxi fare rollbacks offset the price hikes in gasoline, diesel prices, and air fares.

### Food Inflation vs. Rice Inflation



Source: Philippine Statistics Authority, First Metro Securities

### Inflation Outlook

- According to PAG-ASA, El Niño will continue to weaken and that we should see rains by June. However, we still see upside risk in food prices, especially rice, given the drought that the world's largest rice exporters are currently experiencing. The incoming lean season (Jul-Sept) should also be critical and ample preparation should be done in order to ensure that we do not see sharp hikes in rice prices.
- We believe oil prices will remain subdued as the major global oil producers continue to struggle to craft a long-term strategy on oil output. Transport fares are fairly sticky; hence, we do not expect any jump in the near term especially with crude prices remaining low.
- With sufficient supply and commodity prices remaining low, we also do not see electricity prices rising sharply even with the strong growth in power demand.
- We expect the BSP to maintain its policy stance in the upcoming MB meeting (May 12) even with inflation remaining below the full-year target as demand conditions remain fairly intact.

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