Current Developments

Overview

Headline inflation increases slightly in April 2024. Inflation rose slightly due mainly to the higher year-on-year (y-o-y) increase in the prices of food and non-alcoholic beverages. Food inflation climbed further due to the increase in the prices of vegetables and fish from negative inflation readings in March. Meanwhile, non-food inflation was broadly steady as higher gasoline and diesel prices, which reflect rising international crude oil prices in April, were offset by lower inflation for heavily weighted subcomponents, namely, housing, water, electricity, gas, and other fuels, as well as restaurants and accommodation services.

Core inflation measures show mixed trends. The official core inflation eased further, while preliminary estimates of BSP-computed core inflation measures showed mixed trends.

Global crude oil prices decrease due partly to easing geopolitical risks. Dubai crude oil prices for 1-9 May 2024 decreased from the full-month average price in April 2024. The ongoing ceasefire negotiations between Israel and Hamas, with the aid of international mediators, eased the geopolitical risk premium in world oil prices. However, to date, no agreement has been reached, and Israel's attacks on Gaza continue. Moreover, demand concerns stemming from prospects of higher-for-longer US interest rates as the US Federal Reserve maintained their policy rates last 1 May 2024 continued to contribute to lower global oil prices during the reference period.

Inflation expectations for 2024 ease further. Preliminary results of the BSP's survey of external forecasters for May 2024 showed that the mean inflation forecast for 2024 eased further. For 2025, the mean forecast was steady, while for 2026, the mean forecast increased. Analysts expect within-target inflation over the policy horizon, although settling at the upper end of the target range as uncertainty lingers. Upside risks continue to dominate due mainly to supply chain disruptions.

Domestic economy expands in Q1 2024, suggesting that growth prospects remain broadly intact. Real GDP grew albeit at a slightly slower pace than the government target of 6.0 to 7.0 percent. On the demand side, household spending and investments expanded as government spending rebounded. Exports also recovered, signaling some improvement in external demand. On the production side, the services and agriculture sectors expanded, albeit at a slower pace. Meanwhile, the industry sector grew faster, supported by manufacturing and construction.

Demand indicators continue to signal expansion. The manufacturing sector's preliminary average capacity utilization rate improved to its highest level since 2019. Industries maintained their resources on expectations of improved demand for manufactured goods. The preliminary composite purchasing managers' index (PMI) in April 2024 was also upbeat. Looking ahead, business managers anticipate economic conditions to further improve, albeit softer, for all sectors in May 2024.

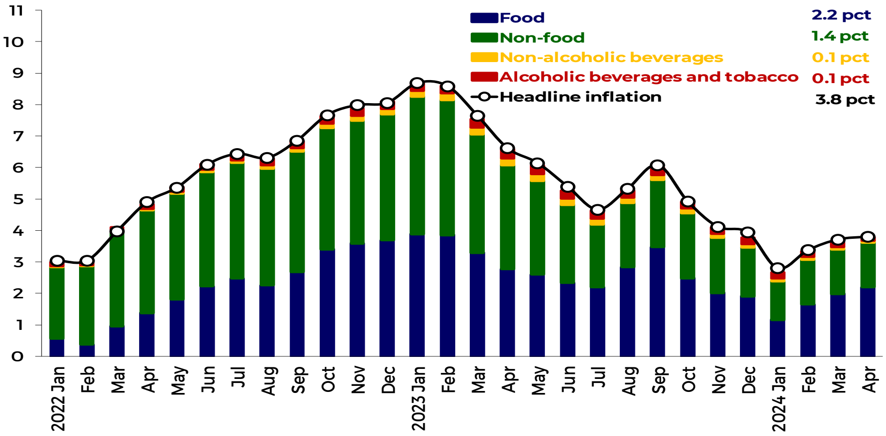
Domestic liquidity remains adequate to support economic activity. Preliminary data showed that domestic liquidity (M3) continued to rise in March 2024. During the same period, bank lending also rose. In terms of credit conditions, lending standards based on the diffusion index method were mixed with a net tightening of credit standards for businesses and maintained loan standards for households. In the government securities market, the Bureau of the Treasury fully awarded bids at auctions amid strong demand.

Prospects for global economic growth improve as overall economic activity exhibits resilience amid tight financial conditions. The JP Morgan All-Industry Output Index increased in March 2024 as new business intakes accelerated. Meanwhile, the IMF slightly raised its 2024 global economic growth projection, reflecting the surprisingly resilient economic activity through the global disinflation of 2022-2023. The resilience of the global economy, despite central bank interest rate increases, has reflected the ability of households in major advanced economies to draw on substantial savings accumulated during the pandemic. However, the pace of global economic expansion is still low by historical standards due to near-term factors, including the still-high borrowing costs and withdrawal of fiscal support, as well as the longer-term effects from the COVID-19 pandemic and Russia's invasion of Ukraine, weak growth in productivity, and increasing geoeconomic fragmentation.

1. Price Conditions

Headline inflation. The y-o-y headline inflation in April 2024 rose slightly from 3.7 percent in March due mainly to the higher increase in the prices of food and non-alcoholic beverages. Meanwhile, non-food inflation was broadly steady for the third consecutive month. On a month-on-month (m-o-m) seasonally adjusted basis, headline inflation slowed down to 0.2 percent in April from 0.3 percent in March.

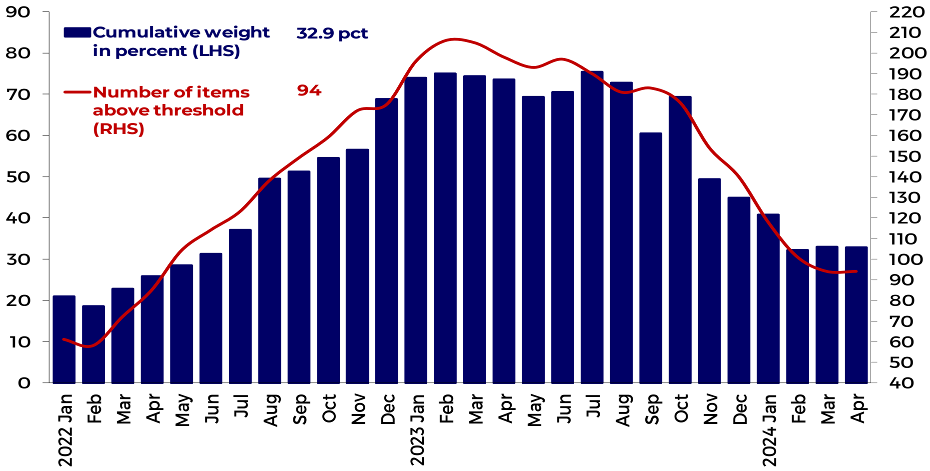
Figure 2
Headline Inflation
(2018=100); in percent



Sources: Philipine Statistical Authority (PSA), BSP

In total, 94 of 315 items had inflation rates above target in April and accounted for a third of the total consumption basket (32.9 percent). Meanwhile, 107 items had inflation rates below target. The remaining 114 items (about 43.9 percent weight in the CPI basket) had inflation rates within target. Of the 94 CPI items that had inflation above target, 65 items were classified under food, non-alcoholic and alcoholic beverages, and tobacco. Nine of the new CPI items were above the 4.0-percent threshold, six of which belonged to the food and non-alcoholic beverages classification.

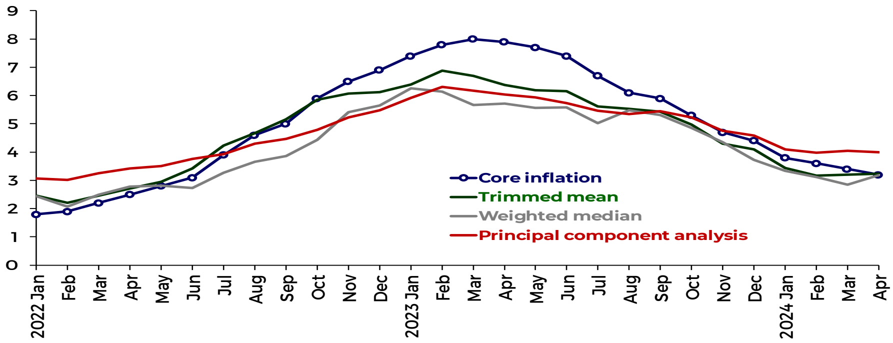
Figure 3
CPI Items with Inflation Rates Above Threshold (2018=100)



Sources: PSA, BSP staff estimates

Core inflation. The official core inflation eased further to 3.2 percent in April 2024 from 3.4 percent in March. Meanwhile, preliminary estimates of BSP-computed core inflation measures showed mixed trends.

Figure 4
Estimates of Core Inflation Measures
year-on-year; in percent



Note: Core inflation excludes ten (10) volatile food and energy CPI items from the headline CPI equivalent to around 29.6 percent of total basket. This includes (1) cereals (rice and corn); (2) meat, fresh, chilled and frozen; (3) fish, live, fresh, chilled and frozen; (4) dates, figs, and tropical fruits; (5) other vegetables, fresh and chilled; (6) fruit-bearing vegetables; (7) electricity; (8) liquefied hydrocarbons; (9) diesel; and (10) gasoline. In total, this accounts for around 29.6 percent of total CPI basket.
Sources: PSA and BSP staff calculations using 5-digit disaggregation for the BSP-computed core inflation namely, trimmed mean, and weighted median.

Food inflation. Food inflation rose in April 2024 due to the increase in vegetables and fish inflation from negative inflation readings in March. Moreover, rice inflation remained elevated at double-digit rates, albeit slower compared with the previous month's rate.

Non-food inflation. Non-food inflation was broadly steady despite higher gasoline and diesel prices amid the continued increase in international crude oil prices. Higher gasoline and diesel prices were offset by lower inflation for heavily weighted subcomponents, namely, housing, water, electricity, gas, and other fuels, as well as restaurants and accommodation services.

Table 12
Inflation rates for Selected Food Items (2018=100)
year-on-year; in percent

Commodity	Apr 2023	Mar 2024	Apr 2024
Food and non-alcoholic beverages	**7.9**	**5.6**	**6.0**
Food	8.0	5.7	6.3
Cereals and cereal products	5.4	17.3	16.9
Cereals	3.3	22.4	22.1
Rice	2.9	24.4	23.9
Corn	8.4	-2.6	-0.6
Flour, bread and other bakery products, pasta products, and other cereals	11.7	4.6	4.1
Meat and other parts of slaughtered land animals	4.2	2.0	1.0
Fish and other seafood	7.0	-0.9	0.4
Milk, other dairy products, and eggs	13.0	2.3	1.9
Oils and fats	11.7	-4.6	-4.4
Fruits and nuts	14.7	7.9	6.9
Vegetables tubers, cooking bananas and pulses	10.0	-2.5	4.3
Sugar, confectionery and desserts	33.7	-2.9	-2.8
Ready-made food and other food products, n.e.c.	9.5	4.3	4.8
Non-alcoholic beverages	7.2	2.6	2.3
Alcoholic beverages and tobacco	**12.7**	**6.7**	**4.9**

Sources of basic data: PSA, BSP

Table 13
Inflation Rates for Selected Non-Food Items (2018=100)
year-on-year, in percent

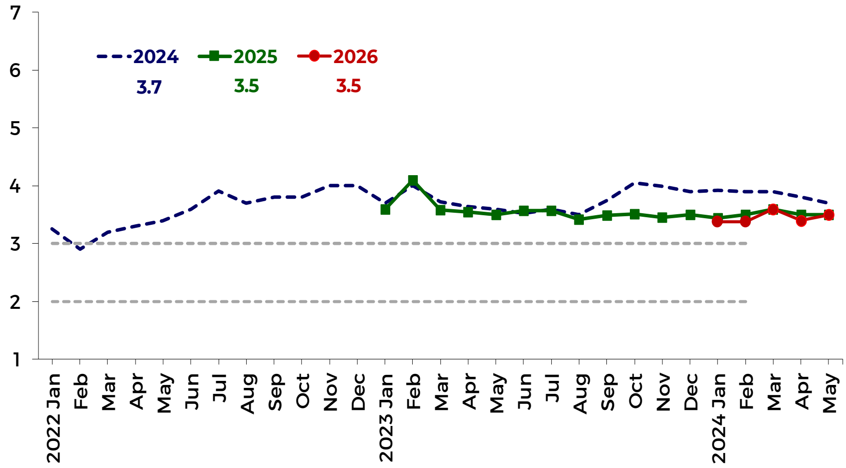
Commodity	Apr 2023	Mar 2024	Apr 2024
Non-food	**5.5**	**2.4**	**2.4**
Clothing and footwear	5.1	3.6	3.6
Housing, water, electricity, gas and other fuels	6.5	0.5	0.4
Electricty, gas, and other fuels	7.6	-4.7	-5.1
Furnishings, household equipment & routine household maintenance	6.1	3.2	3.1
Health	4.1	3.2	3.0
Transport	2.6	2.1	2.6
Passenger transport services	13.3	3.0	2.4
Information and communication	0.7	0.4	0.5
Recreation, sport and culture	4.7	3.9	3.8
Education services	3.6	3.8	3.8
Restaurant and accommodation services	8.6	5.6	5.4
Financial services	0.0	-0.6	-0.6
Personal care and miscellaneous goods and services	5.7	3.6	3.5

Sources of basic data: PSA, BSP

2. Inflation Expectations

Preliminary results of the BSP's survey of external forecasters (BSEF) for May 2024 showed that the mean inflation forecast for 2024 further eased from 3.8 percent in April 2024.[12] By contrast, mean forecasts for 2025 were unchanged at 3.5 percent but were higher for 2026 from 3.4 percent.

Figure 5
BSP Survey of External Forecasters
mean forecast for full year; in percent



*Based on forecasts provided by 20 respondents. The survey was conducted from 9 to 15 May 2024.
Source: BSP

Analysts expect within-target inflation over the policy horizon, although settling at the upper end of the target range as uncertainty lingers. Upside risks continue to dominate due mainly to supply chain disruptions.

The main upside risks to the inflation forecast are: (1) elevated prices of basic goods (particularly oil and food, including rice) owing to supply-side pressures brought by the geopolitical conflict in the Middle East; (2) adverse impact of *El Niño*; and (3) potential negative effect of *La Niña* in the second half of the year.

Meanwhile, a few analysts cited downside risks from (1) easing albeit still elevated food and non-food inflation, such as rice and oil; and (2) waning inflationary pressures on prices as *El Niño* and base effects weaken in the near term.

[12] There were 20 respondents in the BSP's survey of external forecasters in May 2024, based on submissions from 9 to 15 May 2024.

Table 14
BSP Survey of External Forecasters
annual percentage change; May 2024

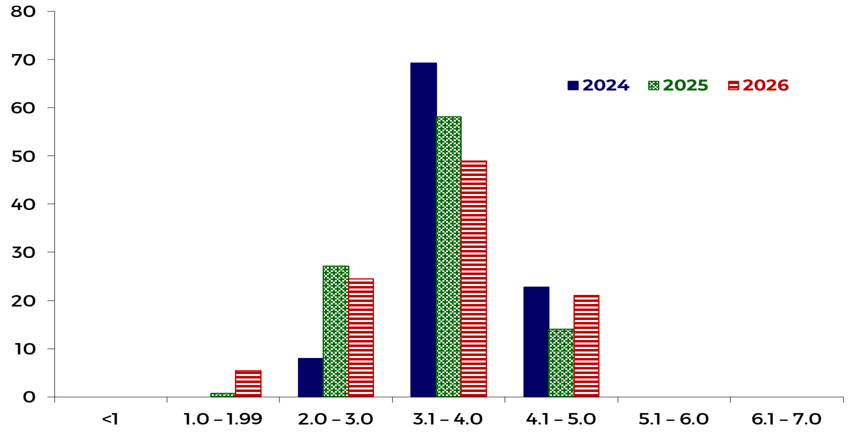
	2024			2025	2026
	Q2	Q3	FY	FY	FY
1) Al-Amanah Islamic Bank	5.60	5.60	5.00	5.00	5.00
2) ANZ	4.00	3.80	3.80	3.00	-
3) Asia ING	4.00	3.30	3.40	3.50	3.50
4) Bangkok Bank	3.80	3.70	3.70	3.50	3.50
5) Bank of Commerce	4.16	3.75	3.61	-	-
6) Barclays	4.00	3.50	3.70	3.40	-
7) Citibank	3.90	3.50	3.60	3.30	-
8) CTBC Bank	4.10	3.00	3.50	3.50	3.60
9) Deutsche Bank	-	-	3.80	3.50	-
10) Eastwest Bank	4.10	3.80	3.70	3.80	3.50
11) eManagement for Business and Marketing Services	3.96	3.66	3.44	4.22	4.25
12) Land Bank of the Phils	4.30	4.20	4.00	3.60	2.00
13) Maybank Investment Banking Group	4.00	3.50	3.50	3.00	3.00
14) Metrobank	-	-	4.00	4.20	-
15) Mizuho	4.10	3.50	3.50	2.80	-
16) Modular Asset Management	3.80	3.20	3.20	3.10	3.50
17) Philippine Equity Partners	4.20	3.60	3.60	3.10	-
18) Standard Chartered	-	-	3.50	3.50	-
19) Sun Life Investment Management and Trust Corp.	4.00	2.50	3.80	2.70	3.00
20) Union Bank of the Phils.	4.10	4.00	3.80	3.70	3.50
Median Forecast	4.0	3.6	3.7	3.5	3.5
Mean Forecast	**4.1**	**3.7**	**3.7**	**3.5**	**3.5**
High	5.6	5.6	5.0	5.0	5.0
Low	3.8	2.5	3.2	2.7	2.0
Number of Observations	17	17	20	19	11
Government Target	**3.0±1.01**	**3.0±1.01**	**3.0±1.01**	**3.0±1.01**	**3.0±1.00**

Source: BSP

Based on the probability distribution of the forecasts provided by 15 out of 20 respondents, there is a 77.2-percent chance (from 71.5 percent) that inflation will settle within the 2-4 percent target range in 2024. Meanwhile, there is a 22.8-percent probability (from 28.3 percent) that inflation will breach the upper end of the target range. For 2025, the probability that inflation will fall within the target band increased to 85.3 percent (from 78.2 percent). For 2026, there is the 73.5-percent probability (from 76.5 percent) that inflation will settle within the target band.[13]

[13] Histogram results of the BSP's survey of private sector economists for May 2024 showed that majority of the respondent-analysts expect inflation to settle within the 2-4 percent target range for 2024 to 2026.

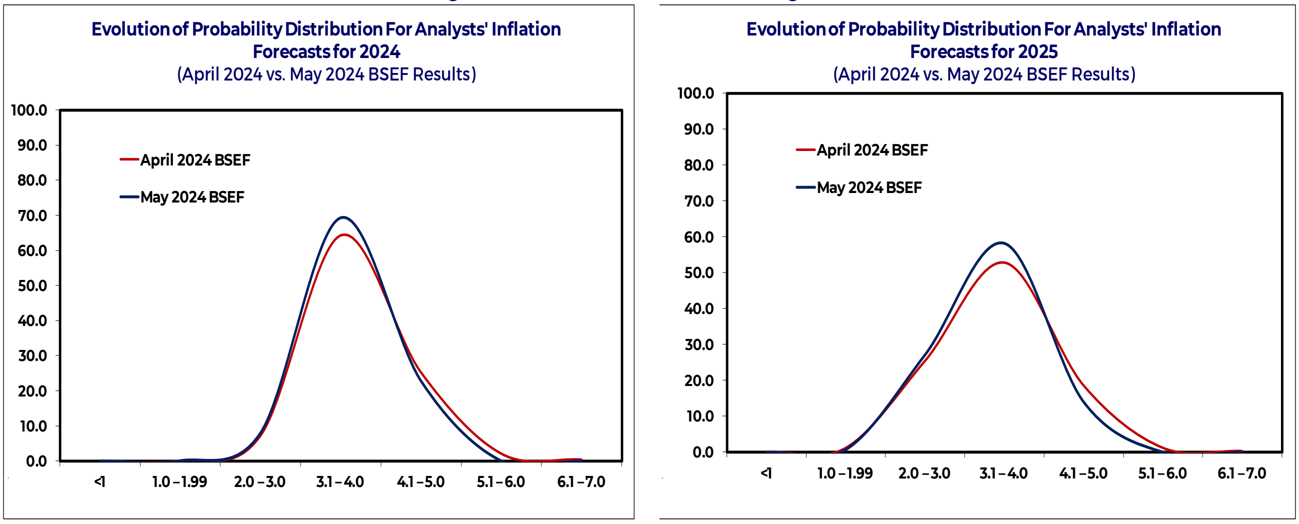
Figure 6
Probability Distribution for Analysts' Inflation Forecasts* (2024-2026)



*Probability distributions were averages of those provided by 15 out of 20 respondents.
Source: May 2024 BSP Survey

The results of the survey showed that most of the analysts anticipate current monetary policy settings to remain unchanged in Q2 2024. For Q3 2024, majority of the analysts foresee policy settings to remain unchanged, although about the same number of respondents expect a 25-bp cut in the policy rate during the period. By the end of 2024, the BSP is expected to reduce the policy rate by 25 to 150 bps. For 2025, BSP is seen to further loosen its policy stance by a range of 25 to 250 bps. For 2026, analysts expect an additional reduction of about 50 to 150 bps in the policy rate.

Figure 7
Evolution of Probability Distribution for Analysts' Inflation Forecasts

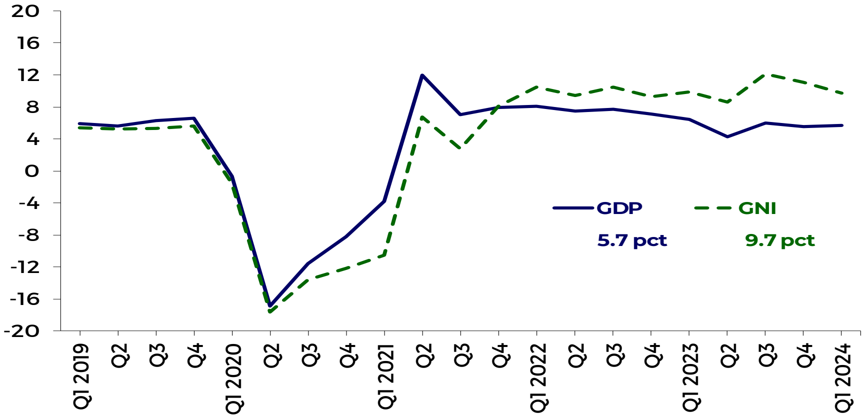


Relative to the February 2024 MPR, the shape of the May 2024 BSEF's probability distribution for analysts' inflation forecasts for 2024 and 2025 has narrowed, implying an increased probability that inflation will settle within the 2-4 percent target band. This could indicate a further anchoring of inflation expectations. The probability distribution during the February 2024 round showed a fatter distribution, suggesting heightened uncertainty as responses were more dispersed across various inflation outcomes.

3. Demand Conditions

Output expanded albeit at a slightly slower pace in Q1 2024 from 5.5 percent in Q4 2023 and 6.4 percent in Q1 2023, supported by growth in the industry sector, particularly manufacturing, as well as the services sector. Export performance likewise recovered. Similarly, the gross national income (GNI) rose at a more moderate pace as growth in net primary income eased.

Figure 8
Gross Domestic Product and Gross National Income
at constant 2018 prices; year-on-year growth in percent

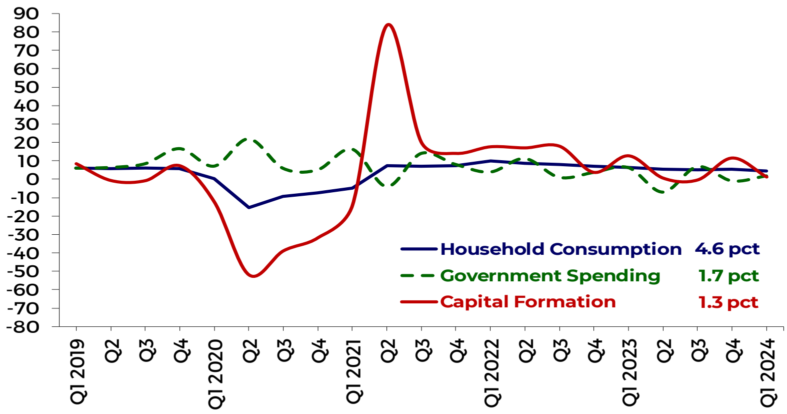


Source: PSA

The Q1 2024 growth was lower than the government target of 6.0 to 7.0 percent. On a seasonally adjusted basis, quarter-on-quarter (q-o-q) GDP growth also slowed down to 1.3 percent in Q1 2024 from 1.8 percent in the previous quarter.

Aggregate demand. Under the expenditure approach, household spending, government spending, investments (or capital formation), and exports contributed 3.5 percentage points (ppts), 0.2 ppt, 0.3 ppt, and 2.1 ppts, respectively to total GDP growth in Q1 2024.

Figure 9
Gross Domestic Product by Expenditure Shares
at constant 2018 prices; growth rate in percent



Source: PSA

Household consumption, which accounted for 74.5 percent of GDP in Q1 2024, grew slower. This was mainly attributed to weaker household spending for food and non-alcoholic beverages, alcoholic beverages, transport, education, restaurants and hotels, and miscellaneous goods and services amid elevated inflation and extreme heat brought about by the ongoing *El Niño*.

Government spending recovered in Q1 2024. Based on the NG's disbursement report,[14] this was due to higher interest payments, larger transfers to Local Government Units (LGUs), and an increase in maintenance and other operating expenses (MOOE).

Capital formation or investments slowed down from previous double-digit growth rates. Contractions were registered in durable equipment and valuables. Construction and breeding stocks, and orchard development also showed sluggish performance.

Meanwhile, external demand improved as overall exports recovered. The growth in exports of goods and services was led by components/devices (semiconductors), electronic data processing, chemicals, tuna, and fresh bananas, as well as business services, travel, telecommunications, computer and information services, transport, and manufacturing services on physical inputs owned by others.

Overall imports also grew albeit moderately. Imports of services continued to grow at double-digit rates, owing to growth in travel, business services, and miscellaneous services. Meanwhile, imports of goods declined due to a contraction in imports of transport equipment, components/devices (semiconductors), industrial machinery and equipment, mineral fuels, lubricants and related materials, and plastics in primary and non-primary forms.

Table 15
Gross Domestic Product by Expenditure Shares
at constant 2018 prices; growth rate in percent

Expenditure Shares	2023		2024
	Q1	Q4	Q1
Household Final Consumption Expenditure	6.4	5.3	4.6
Government Final Consumption Expenditure	6.2	-1.0	1.7
Gross Capital Formation	12.8	11.6	1.3
Gross Fixed Capital Formation	10.9	10.2	2.3
Exports of Goods and Services	1.1	-2.5	7.5
Imports of Goods and Services	4.2	2.0	2.3

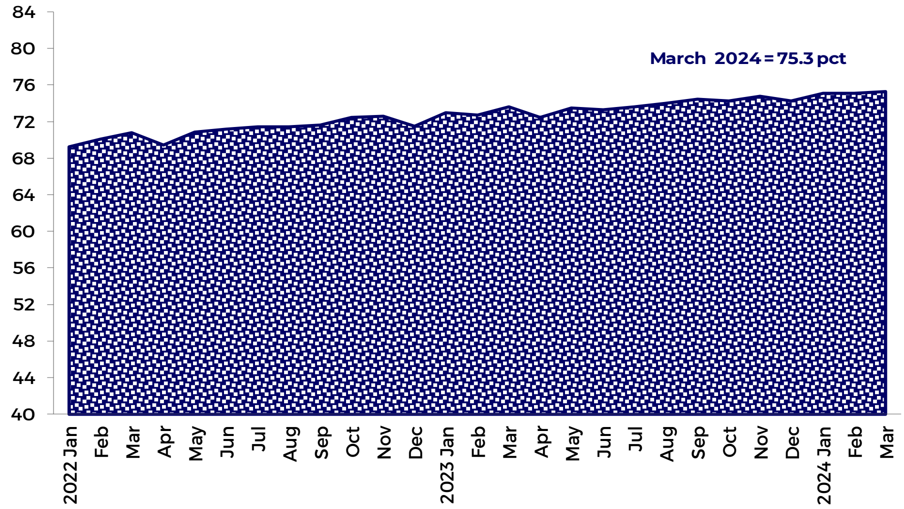
Source: PSA

Other demand indicators

Capacity utilization. The manufacturing sector's preliminary average capacity utilization rate improved in March 2024, based on the PSA's Monthly Integrated Survey of Selected Industries (MISSI).

[14] Based on latest available DBM report on NG Disbursement Performance as of February 2024. DBM Report on the National Government Disbursement Performance (February 2024). Retrieved from: https://www.dbm.gov.ph/index.php/reports/ng-disbursement-performance?view=article&id=2750&catid=201.

Figure 10
Monthly Average of Capacity Utilization for Manufacturing
(2018=100); in percent



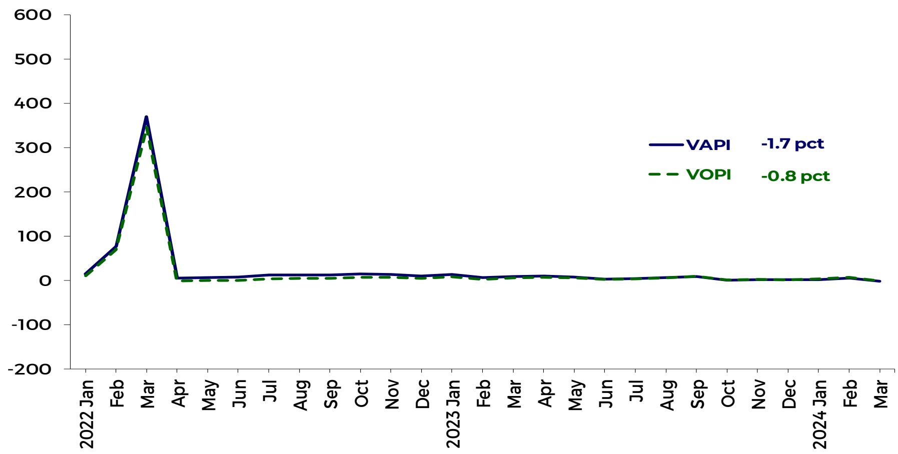
Source: PSA

Of the 618 respondent-establishments surveyed by the PSA, about 52.9 percent operated at or above the 80.0 percent capacity level in March 2024 (from 52.0 percent in February 2024).[15] Average capacity utilization has increased to its highest level since 2019, as industries have maintained their resources based on expectations of improved demand for manufactured goods. Of the 22 major industries, four industries, led by the manufacture of machinery and equipment except electrical products, operated above the 80 percent capacity level, while the remaining 18 industries operated at 60 to 79 percent capacity range.

Volume and value of production. Preliminary results of the MISSI showed that factory output, as measured by the volume of production index (VoPI), declined in March 2024. Of the 22 subsectors, the manufacture of chemical and chemical products posted the highest y-o-y expansion, followed by the manufacture of wearing apparel; coke and refined petroleum products; while the manufacture of wood, bamboo, cane, rattan articles and related products posted the largest contraction for the month.

[15] Monitoring the response rate helps the BSP understand the quality of data reported and how representative it can be. The response rate of surveyed establishments increased to 64.1 percent (preliminary) in March 2024 from 57.2 percent (preliminary) in February 2024. The revised response rate for February 2024 was 73.3 percent.

Figure 11
Volume and Value Indices of Manufacturing Production
2018=100; year-on-year in percent



Source: PSA

Similarly, the value of production index (VaPI) decreased in March 2024. Of the monitored subsectors, manufacture of chemical and chemical products; wearing apparel; and coke and refined petroleum products posted the highest expansions. Meanwhile, the manufacture of wood, bamboo, cane, rattan articles and related products contracted the most.

Table 16
Growth in Volume of Production Index by Industry Division
2018=100; year-on-year; in percent

	Gainers	Mar-24
1)	Chemical and Chemical Products	29.1
2)	Wearing Apparel	13.1
3)	Coke and Refined Petroluem Products	10.2
4)	Machinery and Equipment Except Electrical	7.8
5)	Furniture	6.8
6)	Computer, Electronic and Optical Products	5.3
7)	Fabricated Metal Products, except Machinery and Equipment	4.8
8)	Beverages	4.5
9)	Leather and Related Products, Including Footwear	0.9
	Losers	**Mar-24**
1)	Wood, Bamboo, Cane, Rattan Articles and Related Products	-24.2
2)	Electrical Equipment	-18.2
3)	Tobacco Products	-17.1
4)	Textiles	-16.8
5)	Other Non-Metallic Mineral Products	-16.0
6)	Printing and Reproduction of Recorded Media	-14.1
7)	Other Manufacturing and Repair and Installation of Machinery and Equipment	-13.8
8)	Transport Equipment	-12.1
9)	Basic Pharmaceutical Products and Pharmaceutical Preparations	-9.2
10)	Rubber and Plastic Products	-9.2
11)	Basic Metals	-8.2
12)	Food Products	-8.1
13)	Paper and Paper Products	-3.8

Source: PSA

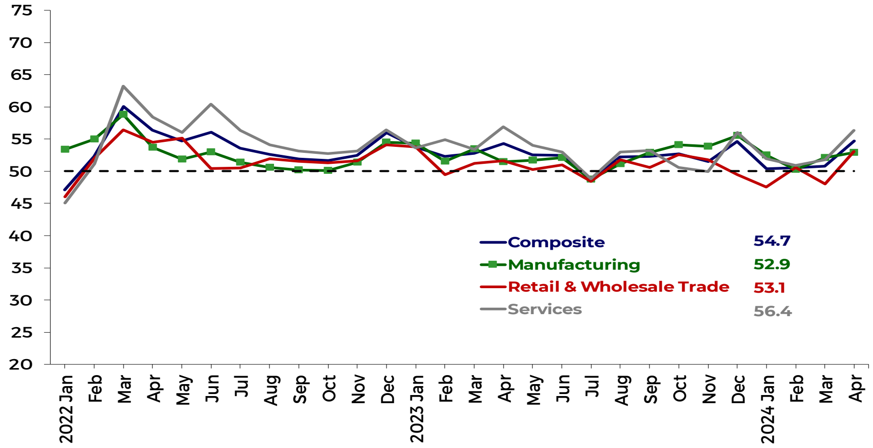
Table 17
Growth in Value of Production Index by Industry Division
2018=100; year-on-year; in percent

	Gainers	Mar-24
1)	Chemical and Chemical Products	26.4
2)	Wearing Apparel	11.9
3)	Coke and Refined Petroluem Products	9.4
4)	Beverages	8.2
5)	Computer, Electronic and Optical Products	7.5
6)	Machinery and Equipment Except Electrical	6.8
7)	Furniture	5.6
8)	Leather and Related Products, Including Footwear	4.8
9)	Fabricated Metal Products, except Machinery and Equipment	0.3
	Losers	**Mar-24**
1)	Wood, Bamboo,Cane, Rattan Articles and Related Products	-26.4
2)	Other Non-Metallic Mineral Products	-18.4
3)	Electrical Equipment	-17.5
4)	Textiles	-17.5
5)	Other Manufacturing and Repair and Installation of Machinery and Equipment	-14.5
6)	Printing and Reproduction of Recorded Media	-14.3
7)	Basic Metals	-11.4
8)	Transport Equipment	-11.0
9)	Tobacco Products	-10.7
10)	Rubber and Plastic Products	-10.1
11)	Basic Pharmaceutical Products and Pharmaceutical Preparations	-8.5
12)	Food Products	-7.2
13)	Paper and Paper Products	-5.5

Source: PSA

Purchasing managers' index.[16] The preliminary composite PMI was higher in April 2024 (from 50.8 in March).[17] Overall economic activity improved markedly as all economic sectors expanded faster for the month. Looking ahead, business managers anticipate economic conditions to further improve, albeit softer, for all sectors in May 2024.

Figure 12
Purchasing Managers' Index Diffusion Index



Source: Philippine Institute of Supply Management (PISM)

4. Supply Conditions

Aggregate supply. On the production side of the economy, output for the services, agriculture, and industry sectors continued to expand in Q1 2024. The services sector remained the top contributor, driven by accommodation and food services, and finance and insurance activities, which posted double-digit gains during the quarter.

The agriculture sector's performance also expanded in Q1 2024, although at a slower pace. This was due mainly to the reported output reductions for palay, and livestock, as well as banana, coconut including copra, fishing and aquaculture, cassava, and abaca.

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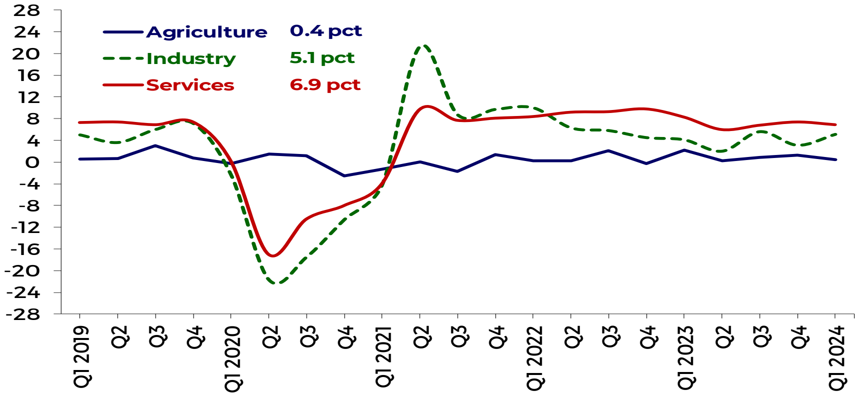
[16] Data based on the monthly PMI report of the Philippine Institute for Supply Management (PISM).
[17] The actual formula used to calculate the PMI assigns weights to each common element and then multiplies them by 1.0 for improvement, 0.5 for no change, and 0 for deterioration. As a result, an index above 50 indicates economic expansion, and an index below 50 implies a contraction. PMI surveys are conducted on the last week of the month.

Figure 13
Gross Domestic Product by Industrial Origin
at constant 2018 prices



Source: PSA

The industry sector improved compared with previous quarters. This can be traced mainly to the faster growth in the manufacturing of food products, wearing apparel, computers, electronic and optical products, chemical and chemical products, coke and refined petroleum products, and electrical equipment.

Table 18
Gross Domestic Product by Industrial Origin
at constant 2018 prices; growth rate in percent

Industrial Origin	2023		2024
	Q1	Q4	Q1
Agriculture, Forestry, and Fishing	2.2	1.3	0.4
Industry Sector	4.1	3.1	5.1
Mining and Quarrying	-2.1	10.3	0.3
Manufacturing	2.2	0.5	4.5
Electricity, Steam, Water and Waste Management	6.9	5.5	6.3
Construction	11.0	8.4	7.0
Service Sector	8.3	7.4	6.9
Wholesale and Retail Trade and Repair of Motor Vehicles and Motorcycles	6.8	5.2	6.4
Transportation and Storage	14.6	9.4	5.6
Accomodation and Food Service Activities	28.0	18.1	13.9
Information and Communcation	4.5	5.0	4.2
Financial and Insurance Activities	8.2	12.0	10.0
Real Estate and Ownership of Dwellings	3.1	5.5	4.1
Professional and Business Services	7.7	6.1	7.5
Public Administration and Defense; Compulsory Social Security	1.5	6.2	3.8
Education	6.8	8.1	4.6
Human Health and Social Work Activities	7.6	6.4	8.5
Other Services	37.0	11.6	8.5

Source: PSA

Oil market developments. The spot price of Dubai crude oil decreased for the period 1-9 May 2024 compared with the full-month average price in April 2024. The ongoing ceasefire negotiations between Israel and Hamas, with the aid of international mediators, eased the geopolitical risk premium in world oil prices. However, to date, no agreement has been reached, and Israel's attacks on Gaza continue. Moreover, demand concerns stemming from prospects of higher-for-longer US interest rates as the US Fed maintained policy rates last 1 May 2024 continued to contribute to lower global oil prices during the reference period.

Nonetheless, upside risks to oil prices remain. The uncertainty induced by the on-going conflict in the Middle East, especially with the continued strikes of Israel in Gaza, as well as the Russia-Ukraine war continued to drive the uptick in global oil prices.

On the demand side, the recovery in Chinese exports and imports, especially in crude oil imports[18] in April 2024 offset the decline in oil prices. Plausible rate cuts by other central banks, which increase expectations of higher oil demand, could also provide support for higher oil prices in the near term. For instance, the Swiss National Bank started the rate-cutting cycle among major central banks in March 2024. Sweden's Riksbank also made its first rate cut since 2016 on 8 May 2024. Further, while the Bank of England (BOE) maintained its policy rate at its 9 May 2024 meeting, several members of its Monetary Policy Committee supported a 25-bp cut. The BOE Governor also signaled possible rate cuts in the next scheduled policy meetings.

On the domestic front, week-on-week domestic prices for gasoline, kerosene, and diesel declined by ₱5.90 per liter, ₱1.05 per liter, and ₱0.90 per liter, respectively, as of 7 May 2024.

Developments in the agriculture sector. The Agriculture, Forestry, and Fishing (AFF) posted a growth of 0.4 percent in Q1 2024, slower than in previous quarters.[19] The positive contribution of poultry, egg, sugarcane, coffee, and other agricultural crops was dampened by the lower output in palay, livestock, banana, and coconut, including copra, fishing and aquaculture, cassava, and abaca.

Crop production, which contributed more than half (57.6 percent) of the total value of production in agriculture and fisheries, declined by 0.3 percent in Q1 2024.[20] The contraction in production may be attributed to the negative impact of *El Niño* on crops, with palay declining by 2.0 percent in Q1 2024. This was partly offset by improvements in the production of other crops, such as onion (28.6 percent), coffee (25.2 percent), and sugarcane (17.2 percent).

Likewise, Q1 2024 livestock production, which accounted for 13.9 percent of total agricultural output, decreased by 3.6 percent. While local hog production has shown improvement since the African Swine Fever (ASF) outbreak, it has yet to return to the pre-ASF level. ASF remains a threat to hog repopulation efforts, and the ASF vaccine is still undergoing trials and processes for government approval.
The fisheries sector, which comprised 12.5 percent of the total value of production in agriculture and fisheries, also recorded a contraction of 1.3 percent in Q1 2024. The government underscores the need to upgrade and expedite the development of more aquaculture farms and mariculture parks to support the fisheries sub-sector.

[18] Shipments from China grew 1.5 percent y-o-y in April 2024 by value from -7.5 percent in March, which marked the first contraction since November. Meanwhile, Chinese imports for April increased 8.4 percent, reversing a 1.9 percent fall in March. Chinese crude oil imports in April also rose by 5.45 percent y-o-y. Reuters (9 May 2024). "China's exports and imports return to growth, signaling demand recovery." https://www.reuters.com/world/china/chinas-exports-return-growth-april-imports-beat-forecast-2024-05-09/

[19] Based on the Q1 2024 National Accounts report published by the Philippine Statistics Authority on 9 May 2024.

[20] The growth rates of the subsectors and commodities are based on the January to March 2024 Performance of Philippine Agriculture report published by PSA on 8 May 2024.

Meanwhile, poultry production increased by 5.9 percent, which contributed 16.0 percent to total agricultural output. The improvement in poultry production may be attributed to recoveries from Avian Influenza (AI). Based on DA's latest status update as of 3 May 2024, there are only six regions or eight provinces with remaining AI cases.

Global food prices. The Food and Agriculture Organization (FAO) All Rice Price Index[21] averaged 135.7 points in April 2024, lower by 1.7 percent from 138.1 points in March 2024 but still 9.3 percent above the year-ago level of 124.2 points. The m-o-m decline was due to improved supply conditions amid ongoing rice crop harvest and the depreciation of the Thai baht against the US dollar.

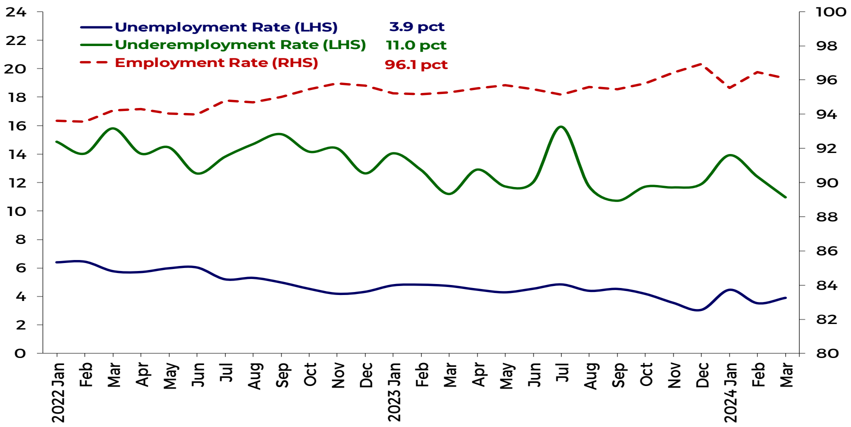
As of April 2024, quotes for 5% broken rice varieties from Vietnam, Thailand, and Pakistan increased by 32.3 percent, 26.2 percent, and 26.4 percent, respectively.

The FAO Food Price Index increased slightly to 119.1 points in April 2024 relative to the month-ago level of 118.8 points, although still lower than the year-ago level of 128.7 points. The m-o-m increase was attributed to higher prices of cereals, vegetable oils, and meat owing to strong import demand and weather-related supply disruptions, which outweighed price declines of sugar and dairy products.

5. Labor Market Conditions

The unemployment rate slightly increased in March 2024 from 3.5 percent in February. This is equivalent to about two million unemployed Filipinos during the month, higher compared with 1.8 million in the previous month. The underemployment rate was lower in March 2024, from 12.4 percent in February 2024, mainly due to a notable decrease in visible[22] underemployment.

Figure 14
Labor Market Indicators
in percent



Source: PSA

[21] The FAO All Rice Price Index is based on 21 rice export quotations. These quotations are combined into four groups consisting of Indica, Aromatic, Japonica, and Glutinous rice varieties.
[22] Visibly underemployed persons are those who worked for less than 40 hours a week during the survey period and want additional hours of work or an additional job.

6. Monetary Operations

As of 26 April 2024, the total outstanding amount absorbed in the BSP liquidity facilities settled at ₱1.544 trillion. Term instruments, particularly the BSP bills (BSPB) and term deposit facilities (TDF) accounted for most of the BSP's monetary operations with a combined share of 69.2 percent.[23] Meanwhile, the overnight reverse repurchase (ON RRP) facility and overnight deposit facility (ODF) had shares of 21.4 percent and 9.4 percent, respectively.

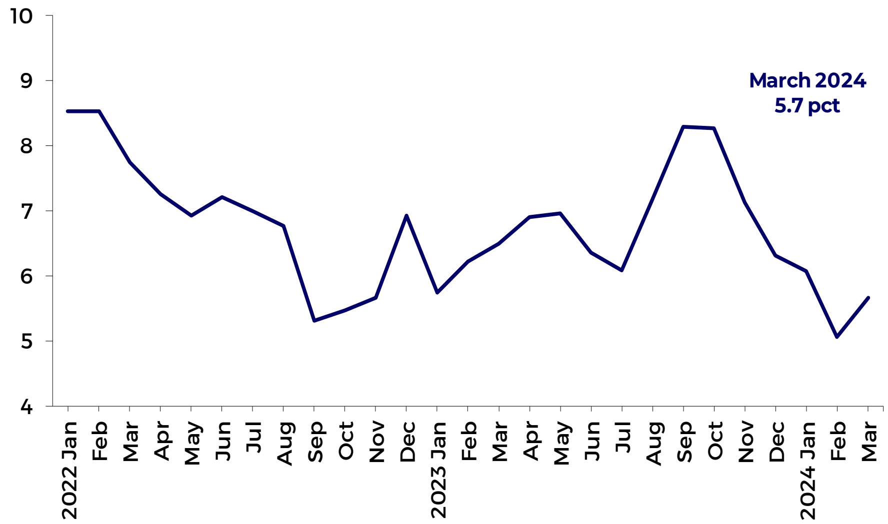
At the 26 April 2024 auction, the ON RRP rate settled at 6.0529 percent, 0.29 bp higher than the target RRP rate of 6.5 percent. The year-to-date (y-t-d) average spread between the ON RRP rate and the target RRP rate narrowed to 2.35 bps from the y-t-d average of 3.04 bps of the previous month.

Meanwhile, interest rates for the TDF and the BSPB decreased but remained within the interest rate corridor and above the ON RRP rate, as market participants were assigned a premium for the longer duration. At the 24 April 2024 auctions, the weighted average interest rates (WAIRs) in the 7-day and 14-day TDFs declined by 0.84 bp and 1.56 bps to 6.5300 percent and 6.5668 percent, respectively. Similarly, the WAIRs for the 28-day and 56-day BSPBs fell by 0.22 bp and 1.39 bps to 6.6804 percent and 6.6643 percent, respectively, in the auctions on 26 April 2024.

7. Financial Conditions

Domestic liquidity. Preliminary data showed that domestic liquidity (M3) grew in March from 5.1 percent (revised) in February to about ₱17.2 trillion. On a m-o-m seasonally adjusted basis, M3 increased by about 0.9 percent.

Figure 15
Domestic Liquidity
year-on-year growth rate; in percent



Source: BSP

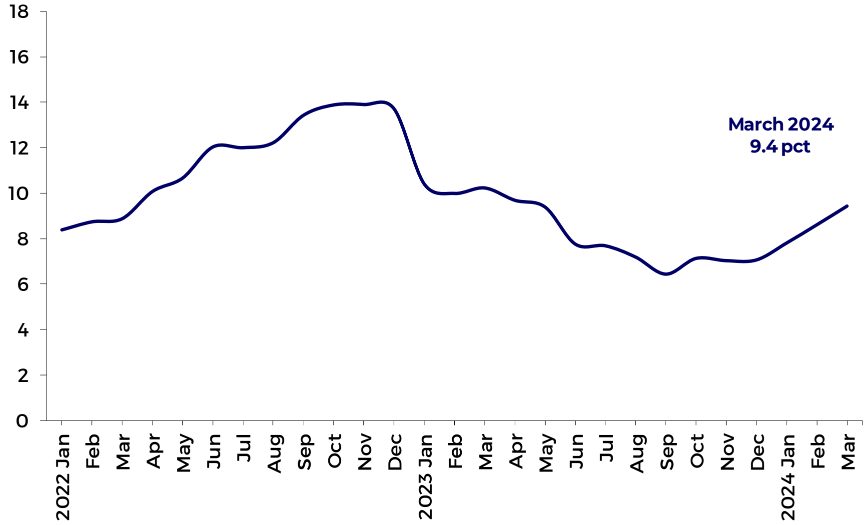
[23] Out of the 69.2 percent, BSPB and TDF had a share of 50.1 percent and 19.1 percent, respectively.

Domestic claims continued to drive the expansion in M3, as claims on the private sector grew with the sustained expansion in bank lending to non-financial private corporations and households. Net claims on the central government also expanded with the decline in deposits by the national government with the BSP.

On the liabilities side, the growth in M3 was driven mainly by the expansion in time deposits.

Bank lending. Preliminary data indicated that outstanding loans of universal and commercial banks (U/KBs), net of RRP placements with the BSP, grew from 8.6 percent in February. On a m-o-m seasonally adjusted basis, outstanding universal and commercial bank loans, net of RRPs, went up by 1.3 percent.

Figure 16
Loans Outstanding of Commercial Banks
year-on-year growth rate; in percent



Source: BSP

Meanwhile, outstanding loans to residents, net of RRPs, increased by 9.5 percent in March from 8.7 percent in the previous month. Outstanding loans to non-residents[24] rose by 9.1 percent in March after expanding by 6.5 percent in the previous month. Outstanding loans for production activities increased by 7.7 percent in March from 6.8 percent in February mainly due to the rise in loans to major sectors, particularly real estate activities (11.5 percent); electricity, gas, steam, and air conditioning supply (10.1 percent); wholesale and retail trade, and repair of motor vehicles and motorcycles (6.6 percent); construction (18.3 percent); manufacturing (4.9 percent); and transportation and storage (14.3 percent).

Similarly, consumer loans to residents increased by 25.4 percent in March, from 25.2 percent in February, driven by the rise in credit cards, motor vehicles, and salary-based general-purpose consumption loans.

[24] Outstanding loans to non-residents include loans by UKB's foreign currency deposit units (FCDUs) to non-residents.

Credit standards

In Q1 2024, bank respondents see unchanged credit standards from enterprises as well as loan demand based on the modal approach. Over the following quarter, most of the participating banks anticipate a broadly steady business loan demand.

Lending to enterprises. Based on the modal approach, results for Q1 2024 showed that most respondents retained loan standards for firms. Meanwhile, the diffusion index (DI) approach indicated a net tightening of lending standards across all borrower firm sizes due to a deterioration of borrowers' profiles and the profitability of bank portfolios, as well as the lower risk tolerance of banks.

Over the next quarter, the modal approach showed participant banks' anticipation of steady lending standards for enterprises. Meanwhile, the DI method pointed to expectations of tightening loan standards given the deterioration in the profitability and liquidity of banks' portfolios and borrowers' profiles.

Table 19

General Credit Standards for Loans to Enterprises (Overall)

	2021				2022				2023				2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Tightened considerably	10.6	8.0	4.2	4.2	10.0	6.5	10.4	4.3	6.7	4.3	2.1	0.0	0.0
Tightened somewhat	14.9	20.0	20.8	14.6	16.0	13.0	8.3	12.8	13.3	4.3	10.6	12.0	11.8
Remained basically unchanged	**66.0**	**70.0**	**70.8**	**75.0**	**72.0**	**76.1**	**77.1**	**80.9**	**73.3**	**89.1**	**80.9**	**88.0**	**86.3**
Eased somewhat	8.5	2.0	4.2	6.3	2.0	4.3	4.2	2.1	6.7	2.2	6.4	0.0	2.0
Eased considerably	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Diffusion index for credit standards	**17.0**	**26.0**	**20.8**	**12.5**	**24.0**	**15.2**	**14.6**	**14.9**	**13.3**	**6.5**	**6.4**	**12.0**	**9.8**
Number of banks responding	**47**	**50**	**48**	**48**	**50**	**46**	**48**	**47**	**45**	**46**	**47**	**50**	**51**

Note: A positive diffusion index for credit standards indicates that more banks have tightened their credit standards compared to those that eased ("net tightening"), whereas a negative diffusion index for credit standards indicates that more banks have eased their credit standards compared to those that tightened ("net easing").
Source: BSP

Lending to households. In Q1 2024, both the modal and DI methods revealed that surveyed banks maintained the lending standards for households due to the unchanged risk tolerance of banks, the steady profitability of their asset portfolios, and the stable economic outlook and profile of borrowers.

Table 20
General Credit Standards for Loans to Households (Overall)

	2021				2022				2023				2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Tightened considerably	9.4	5.7	5.6	2.9	2.5	5.4	5.4	5.7	3.0	3.0	0.0	0.0	0.0
Tightened somewhat	9.4	20.0	11.1	8.6	12.5	5.4	10.8	8.6	18.2	9.1	15.6	11.8	11.4
Remained basically unchanged	**75.0**	**68.6**	**69.4**	**65.7**	**62.5**	**73.0**	**64.9**	**71.4**	**51.5**	**69.7**	**68.8**	**70.6**	**77.1**
Eased somewhat	6.3	5.7	13.9	17.1	17.5	13.5	18.9	14.3	27.3	12.1	12.5	14.7	11.4
Eased considerably	0.0	0.0	0.0	5.7	5.0	2.7	0.0	0.0	0.0	6.1	3.1	2.9	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Diffusion index for credit standards	**12.5**	**20.0**	**2.8**	**-11.4**	**-7.5**	**-5.4**	**-2.7**	**0.0**	**-6.1**	**-6.1**	**0.0**	**-5.9**	**0.0**
Number of banks responding	**32**	**35**	**36**	**35**	**40**	**37**	**37**	**35**	**33**	**33**	**32**	**34**	**35**

Note: A positive diffusion index for credit standards indicates that more banks have tightened their credit standards compared to those that eased ("net tightening"), whereas a negative diffusion index for credit standards indicates that more banks have eased their credit standards compared to those that tightened ("net easing").
Source: BSP

For Q2 2024, modal results showed a higher number of bank respondents anticipating maintained loan standards for households. However, the DI approach has indicated a net tightening of credit standards, largely due to expectations of banks of a deterioration in the profitability of their portfolios and on borrowers' profiles, as well as banks' reduced risk tolerance.

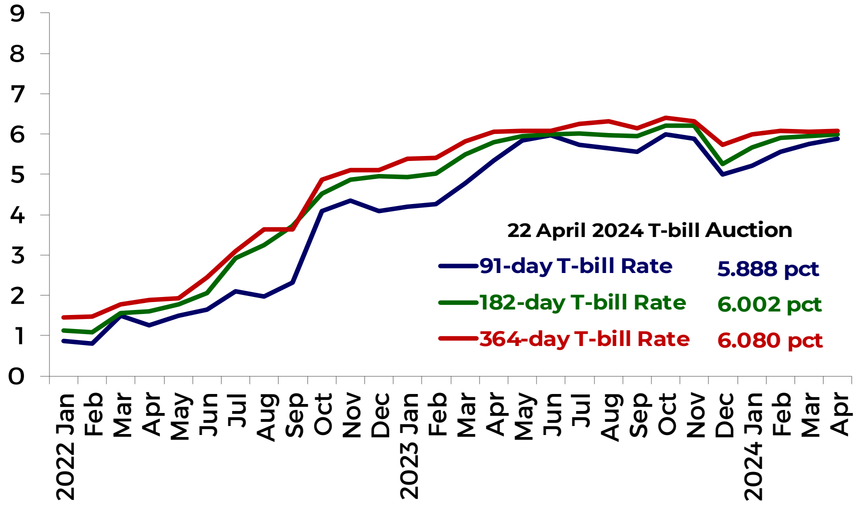
Loan demand. In Q1 2024, most surveyed banks reflected a steady household loan demand based on the modal results. On the other hand, the DI method showed a net increase in demand across all key household loan categories, driven by increasing household consumption and more attractive financing terms offered by banks.

For Q2 2024, modal results indicated that most respondent banks expect credit demand from households to remain basically unchanged. Meanwhile, according to the DI method, there is an anticipated net increase in consumer loan demand mainly due to higher household consumption and favorable financing terms offered by banks.

Capital markets

Primary GS market and rates. During the 22 April 2024 treasury bill (T-bill) auction, the average interest rates for the 91-day, 182-day, and 364-day rose by 1.8 bps, 2.9 bps, and 3.6 bps, respectively, from the rates fetched during the 15 April 2024 auction.

Figure 17
Treasury Bill Rates
in percent



Source: BTr

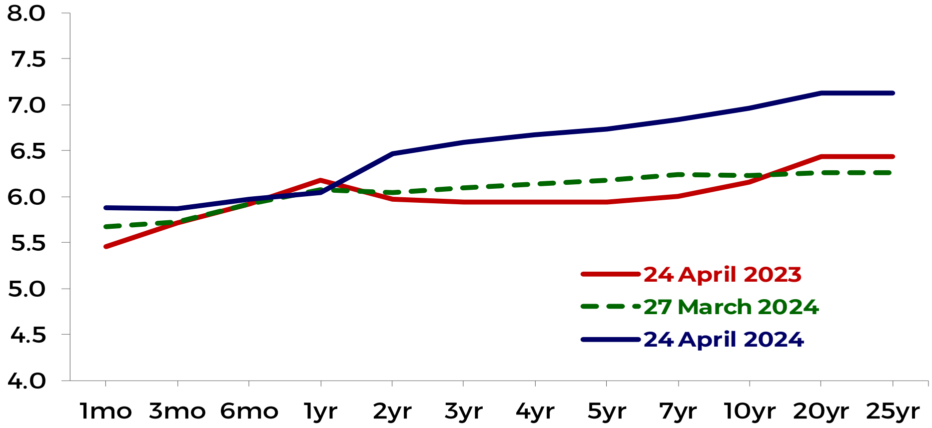
The Bureau of the Treasury (BTr) Auction Committee awarded in full the offered amounts of ₱5.0 billion each for the 91-day, 182-day, and 364-day T-bills. Total tenders for all maturities reached about ₱44.8 billion, or about 3.0 times the total amount offered of ₱15.0 billion.

On 23 April 2024, the BTr partially awarded ₱16.6 billion of the re-issued 20-year T-bonds with a remaining life of 19 years and 10 months. These T-bonds fetched an average interest rate of 7.017 percent, higher than the 6.189 percent average interest rate quoted for the same paper when it was last offered on 19 March 2024. The auction was oversubscribed, with tenders reaching around ₱34.9 billion or 1.2 times the offered amount of ₱30.0 billion.

Secondary market GS yield curve. On 24 April 2024, secondary market GS yields increased across tenors (excluding the 1-year tenor) relative to the end of March 2024, as market players adjusted their expectations of a rate cut due to less dovish comments from the BSP and the US Fed. However, the losses in the bond market were limited by some bargain hunting as yields hit y-t-d highs. Consequently, the spreads in secondary market rates over the BSP overnight RRP rate on 24 April 2024 were generally narrower relative to end-March 2024 levels.

As of 24 April 2024, the spreads between the 10-year and 1-year GS rates and the 10-year and 5-year GS rates widened to 91.3 bps (from 15.8 bps as of end-March 2024) and to 22.3 bps (from 4.9 bps as of end-March 2024) mainly due to the increase in the 10-year GS rate.

Figure 18
Yields of Government Securities in the Secondary Market
in percent



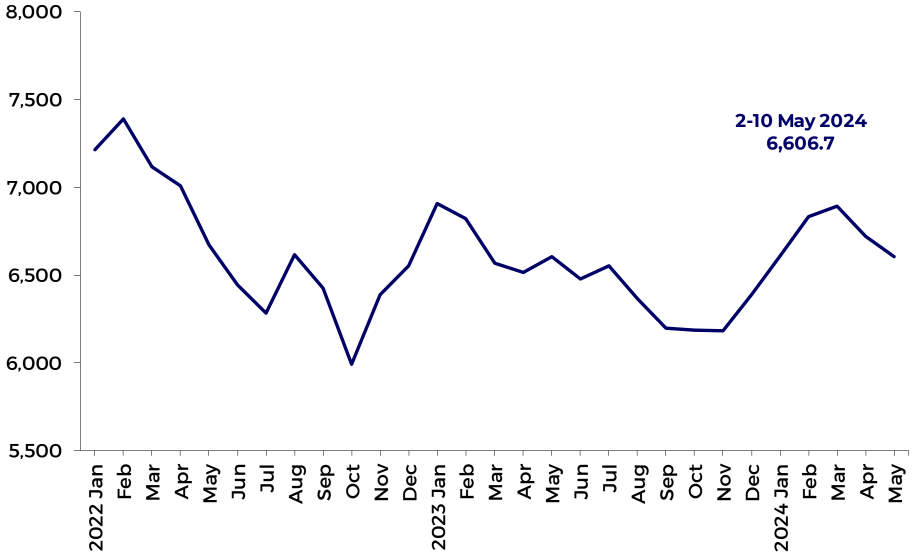
Source: Bloomberg

Stock market. On 2-10 May 2024, the Philippine Stock Exchange Index (PSEi) was broadly unchanged from the previous month's average of 6,651.8 index points. The main index was supported by reports of slower-than-expected US employment data in April, which partly strengthened expectations of a rate reduction from the US Fed.[25]

However, gains were tempered by lower-than-expected Philippine GDP growth in Q1 2024,[26] a higher unemployment rate in March,[27] and the broadly unchanged headline inflation in April. By the end of the review week, the decision by the US Fed to retain its monetary policy[28] further contributed to the decline in the domestic equities market.

[25] On 3 May, the S&P 500 rose by 1.3 percent to 5,127.79, marking its largest gain since late February. The softer-than-expected employment report, showing a growth of 175,000 jobs in April (missing a year) (the lowest since October 2023), along with the smallest annual change in average hourly earnings since May 2021 (3.9 percent). (reuters.com)
[26] The country's gross domestic product (GDP) posted a year-on-year growth of 5.7 percent in the first quarter of 2024, higher than the previous quarter's growth of 5.5 percent. (psa.gov.ph)
[27] The Philippines' unemployment rate in March 2024 was estimated at 3.9 percent, higher than the 3.5 percent estimate in February 2024. However, this was lower than the recorded unemployment rate in March 2023 at 4.7 percent. (psa.gov.ph)
[28] US Fed Chair Powell stated that following three months of higher-than-anticipated price increases in the first quarter of 2024, it will now take longer than previously anticipated for policymakers to be assured that Federal Open Market Committee's (FOMC) inflation target of 2.0 percent will be reached. (reuters.com)

Figure 19
Philippine Stock Exchange Index
index points



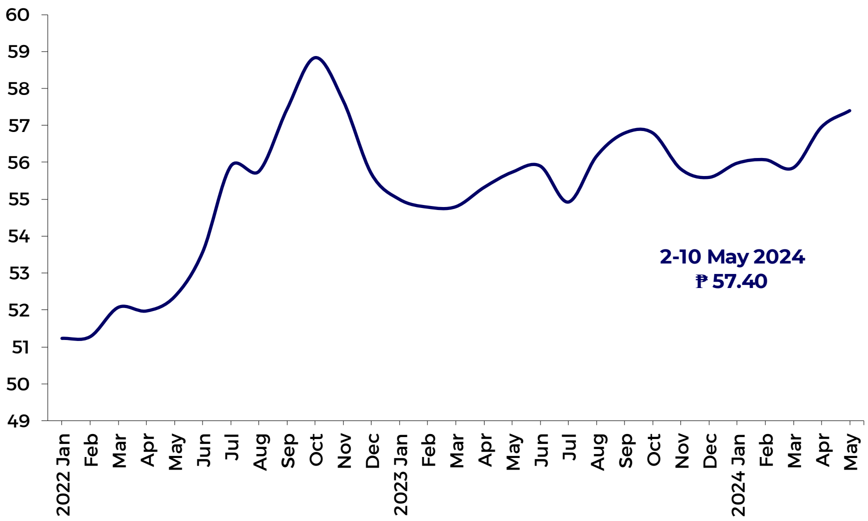
Sources: Philippine Stock Exchange, BSP

Exchange rate. On 2-10 May 2024, the peso depreciated[29] by 0.79 percent relative to the previous month's average of ₱56.95/US$1. This depreciation was attributed to broad US dollar strength following US Fed pronouncements on the need for US monetary policy to remain restrictive for longer. On the domestic front, dampened market sentiment amid (1) lower-than-expected GDP growth in Q1 2024; (2) rising inflation, as well as the persistence of upside risks to inflation further weighed down on the peso. These factors were partly offset, however, by net foreign direct investment (FDI) inflows in February[30] and hints of easing geopolitical tensions in the West Philippine Sea.[31]

As of 10 May 2024, the peso closed at ₱57.42/US$1, depreciating by 3.57 percent against the US dollar on a y-t-d basis. Nevertheless, it has remained less volatile relative to most currencies in the region, as indicated by a coefficient of variation of 1.16 percent.[32]

[29] For the week 2-10 May, the peso appreciated by 0.36 percent to an average of ₱57.40/US$1 from the previous week's (22-30 April) average of ₱57.61/US$1.
[30] The growth of foreign direct investment (FDI) net inflows was sustained in February 2024, posting a 29.3 percent increase year-on-year to reach US$1.4 billion from the US$1.1 billion net inflows in February 2023.
[31] President Ferdinand Marcos Jr. stated that the Philippines will not resort to water cannons or any offensive weapons in the West Philippine Sea, noting the Philippine Navy and Coast Guard's mission to ease tensions in the disputed waters. (Reuters)
[32] The peso's year-to-date volatility, as measured by the coefficient of variation stood lower than that of the Japanese yen, Thai baht, South Korean won, and Indonesian rupiah, but higher than the Chinese yuan, Singaporean dollar, and Malaysian ringgit.

Figure 20
Peso-Dollar Rate
PHP/US$



Source: Reference Exchange Rate Bulletin, Treasury Department, BSP

On a real trade-weighted basis, the peso appreciated y-o-y in April against the basket of currencies of all trading partners (TPI), trading partners in advanced (TPI-A) and developing (TPI-D) countries, as indicated by the increase in the REER index of the peso by 3.68 percent, 3.01 percent, and 3.58 percent, respectively. This appreciation was traced mainly to the combined impact of the widening inflation differentials with trading partner countries and the nominal appreciation of the peso.[33,34]

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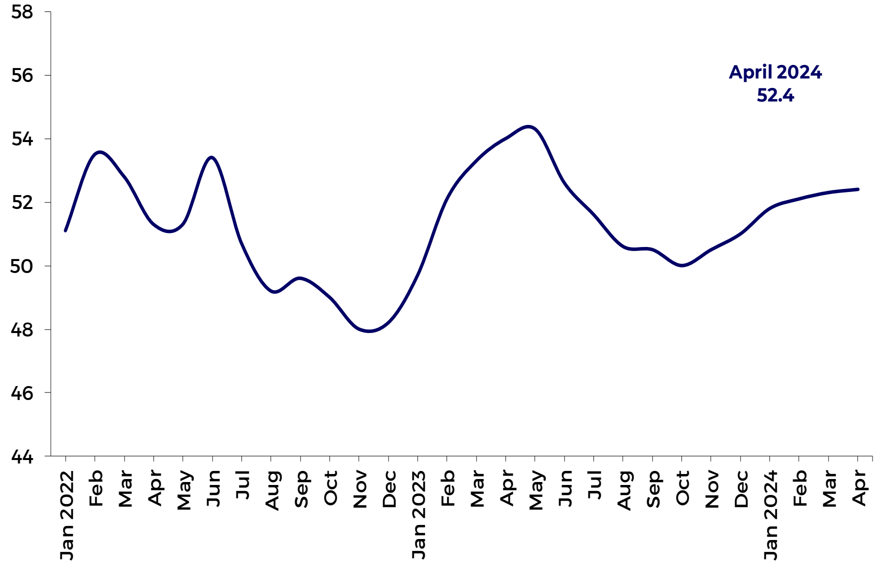
[33] The trading partners index (TPI) measures the nominal and real effective exchange rates of the peso across the currencies of 14 major trading partners of the Philippines which include the US, Euro Area, Japan, Australia, China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand. The TPI-Advanced (TPI-A) measures the effective exchange rates Of the peso across currencies of trading partners in advanced countries comprising of the US, Japan, Euro Area, and Australia. The TPI-Developing (TPI-D) measures the effective exchange rates of the peso Across 10 currencies of developing partner countries which includes China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand.

[34] The REER index represents the nominal effective exchange rate (NEER) index of the peso, adjusted For inflation rate differentials with the countries whose currencies comprise the NEER index basket. The NEER index, meanwhile, represents the weighted average exchange rate of the peso vis-à-vis a basket of foreign currencies.

8. External Developments

Global economic activity continued to expand amid strong demand and improved business optimism. In April 2024, the JP Morgan All-Industry Output Index increased as new business expanded faster mainly due to higher trade volumes from international markets. Economic activity rose in almost all the countries covered except Canada.[35]

Figure 21
JP Morgan Global All-Industry Output Index
index points



Source: Markit Economics

In the April 2024 WEO, the IMF raised its 2024 global economic growth projection to 3.2 percent from 3.1 percent in the January WEO Update, reflecting the surprisingly resilient economic activity through the global disinflation of 2022-2023. Growth in employment and incomes remained steady, indicating supportive demand developments and a supply-side expansion amid an unanticipated boost to labor force participation. Despite significant central bank interest rate increases, the global economy has demonstrated resilience, reflecting the ability of households in major advanced economies to draw on the substantial savings accumulated during the pandemic.

However, the pace of expansion remains low compared with historical standards primarily due to near-term factors, such as still-high borrowing costs, the withdrawal of fiscal support, the longer-term effects from the COVID-19 pandemic, Russia's invasion of Ukraine, weak growth in productivity, and increasing geo-economic fragmentation.

[35] JP Morgan Global Composite PMI, https://www.pmi.spglobal.com/. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of "higher" responses and half the percentage of "unchanged" responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease.

For advanced economies (AEs), the IMF 2024 baseline growth estimate improved owing to the revision to US growth and stronger household consumption in the euro area. Likewise, the 2024 growth forecast for emerging markets and developing economies (EMDEs) saw a slight increase, as the moderation in emerging and developing Asia was offset by rising growth for economies in the Middle East, Central Asia, and sub-Saharan Africa.

Risks to the global outlook are now broadly balanced. The IMF cited the following upside risks to the revised baseline growth forecasts: (1) short-term fiscal boost in the context of elections; (2) further supply-side surprises allowing for faster monetary policy easing; (3) spurs to productivity from artificial intelligence; and (4) structural reform momentum gathering.

Meanwhile, the following downside risks to global growth remain plausible: (1) new commodity price spikes amid regional conflicts; (2) persistent inflation and financial stress; (3) faltering recovery of China; (4) disruptive fiscal adjustment and debt distress; (5) distrust of government eroding reform momentum; and (6) intensified geo-economic fragmentation.

Policy actions by other central banks. In their April meetings, the Reserve Bank of India, Bank of Thailand, Bank of Canada, Reserve Bank of New Zealand, European Central Bank, Bank of Korea, People's Bank of China, and Bank of Japan maintained their respective key policy interest rates, as they continued to assess the impact of previous monetary policy adjustments.

Meanwhile, Bank Indonesia raised its benchmark interest rate by 25 bps to 6.25 percent to shore up the weak rupiah, which has fallen to four-year lows on rising risk aversion and a delay in the expected timing of the US Fed's reduction in interest rates.