

Philippine inflation likely peaked in 3Q

Declining food prices together with lower utility rates and pump prices bode well for the inflation outlook.



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6.5% ING forecast for October inflation

Are we there yet?

Government officials have sounded off recently on the increasing likelihood that domestic inflation had indeed peaked in 3Q, pointing to recently implemented non-monetary and monetary measures that have begun to take root. The fruits of such measures are now becoming apparent on the ground, validating our earlier expectation that inflation had peaked in [September](#), and affording BSP some leeway to pause at its November meeting.

Price pressures abating

The normalization of supply chains after super typhoon Mangkhut, coupled with the government's efforts to augment stocks and improve distribution, has been felt on the ground with the latest official data from the Philippine Statistics Authority (PSA) validating this development. A price drop

of P1.00 was recorded for regular milled rice across 7 out of the 17 regions with the average week-on-week decline at 0.5%. Prices for meat and fish were broadly stable while substantial declines were reported for vegetables such as carrots (-40%), native pechay (-50%), cabbage (-50%) and white potato (-12.5%). Aside from food, utility costs are also pulling back with Meralco lowering October charges while motorists have welcomed successive weeks of hefty pump price rollbacks. All these positive developments increase the likelihood that inflation has peaked in 3Q with the October print seen to settle at roughly 6.5% year-on-year.

A now more balanced outlook

Risks to the inflation outlook appear now more balanced with upside pressure drawn from transport fare adjustments in November coupled with the projected minimum wage hike slightly higher than BSP's assumption for its current 2018 and 2019 inflation forecast. Balancing these risks are downside pressures from the National Food Authority's (NFA) plan to fast track an additional 703,000 MT of rice via government-to-government deal to augment supply of the all-important staple going into the holiday season. If declining crude oil prices continue their trend, normalizing pump prices and utility rates, together with favourable base effects will all factor into a decelerating trend for inflation towards end-2019.

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