Philippines: April inflation settles at 2.2%

Philippine inflation slows further on lower oil prices. Accelerating food inflation points to tightening supply conditions.

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2.2% April CPI inflation

Higher than expected

April inflation settles at 2.2%

Price pressures eased further in April as expected, down from the 2.5% reading in March but slightly faster than market expectation for a 2.1% increase. Deflation in transport costs (-6.1%) and subdued utility expenses (0.3%) likely weighed on the overall headline number while upside pressure was driven by food items (3.4%) despite government price caps on select items during the lockdown.

BSP not expected to react aggressively to slowing inflation

Despite the slower inflation trajectory, we do not expect the central bank to resort to additional aggressive policy rate cuts in the near term. BSP has offloaded 125bp worth of rate cuts for 2020 and Governor Diokno did hint at pausing to gauge the impact of previous rate cuts before acting further. We expect only a 25bp policy cut if ever BSP opts to ease further as the policy rate edges closer to its own inflation forecast of 2.2% for the year.

Inflation tug of war

Price pressures appear to be on a downtrend, with demand side pressure and the oil factor weighing on overall headline inflation. We expect inflation to be subdued for up to a month after the end of the lockdown. We also foresee a steady acceleration in price pressures in the second half of the year as supply side pressures outweigh the demand side pull. Accelerating inflation in 3Q, the period of least favorable base effect in 2020, is another reason for BSP to manage further policy rate cuts and reductions in reserves. We expect only marginal easing from here, with fiscal stimulus kicking in to support the economy.