

Philippines: April inflation to be right on target at 3.0%

Inflation continues to decelerate rapidly and is expected to be within target for a third straight month, with the Philippines central bank (BSP) forecasting April inflation in a range of 2.7-3.5%



Source: Shutterstock

-0.90% price change for regular milled rice
y-o-y change

BSP's Research Department sees inflation between 2.7-3.5%

Philippine inflation continues to slide with the April reading expected to dip to 3.0% after the 3.3% print in March. With rice prices (a hefty 9% weight in the CPI basket) declining year-on-year, we can expect headline inflation to remain subdued. Utility rates, on the other hand, may have increased month-on-month but may likely be a touch lower compared to the same period in 2018. The downward trend in inflation comes despite a 31.6% year-to-date increase in Dubai crude prices as well a 24.6% jump in domestic diesel prices, showing that the deceleration in food inflation, which constitutes roughly 34% of CPI, will be more than enough to offset the effects of an

energy price spike.

Three and counting, BSP to be forward looking?

The April reading would mark the third month in a row that inflation is back within the central bank's target, as supply chains continue to normalise after last year, which saw inflation breach the upper end of the BSP's target band. Given the supply side nature of last year's breach, inflation has plunged back to earth quickly, with the latest BSP inflation forecast at 3.0% for both 2019 and 2020. Meanwhile, inflation expectations remain well anchored with the latest BSP survey among private sector forecasters pointing to inflation settling at 3.3% for the year.

BSP has vowed to remain data-dependent in its actions and will have three months' worth of within-target inflation prints to consider. Furthermore, given the forward-looking nature of inflation targeting, inflation expectations and forecasts both point to inflation remaining within target for the next two years. Given BSP Governor Diokno's recent remarks hinting at a rate cut (and RRR reduction) within the year, we expect that we are getting closer to the central bank finally reversing its previous ultra-aggressive stance.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.