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.

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