Philippines: August inflation dips to 2.4% as recession saps demand

August inflation fell well-below expectations with demand fading fast due to the recession

Rice for sale at a market in the Philippines

2.4%

August inflation

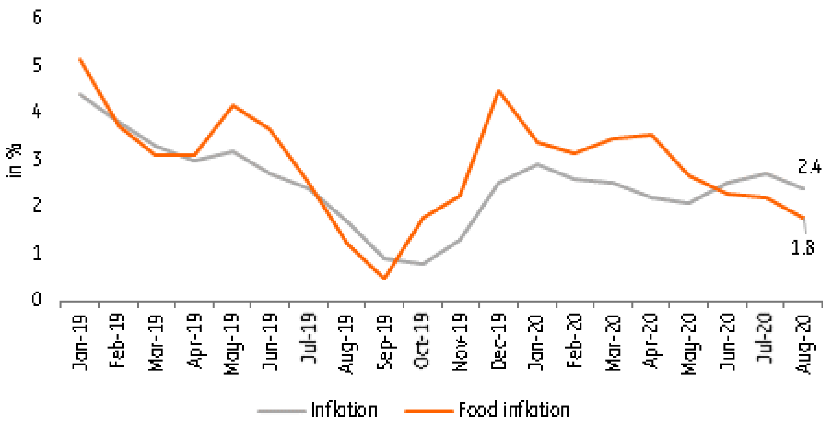
Lower than expected

August inflation drops to 2.4%

Price pressures moderated in August as demand-side price pressures faded much faster than anticipated with the economy now in recession. The capital region was placed under a more stringent quarantine level for the first two weeks of the month due to an acceleration in Covid-19 infections, which may have slowed ailing demand even further. Headline inflation was dragged lower by the index-heavy food subcomponent which increased by 1.7%, down from 2.4% in the previous month.

Bangko Sentral ng Pilipinas (BSP) recently bumped up their inflation forecast at their last policy meeting to 2.6% for 2020, likely factoring in base effects and a gradual pick-up in economic activity. But renewed lockdowns and relatively elevated Covid-19 daily infection count may have delayed the recovery. For the balance of the year, we expect inflation to remain at the lower end of the BSP's inflation target band given depressed economic activity with the stronger PHP also limiting imported inflation.

Philippine headline and food inflation



Source: PSA and ING estimates

BSP not likely to react

Despite the downside surprise in the August inflation report, Governor Diokno indicated that the latest inflation reading was consistent with BSP's view that inflation is on course to remain within target over the policy horizon. The central bank chief also indicated that he was not inclined to adjust monetary policy settings "for at least 2 quarters" and that he would likely refrain from reducing the reserve requirement with the financial market flooded with liquidity. Diokno will also likely remain sidelined as real policy rates remain negative (-0.15%) and we expect the BSP to keep policy levers untouched well into 2021.