

Philippines: Crucial 3 could drive renewed acceleration of inflation

August inflation surges to 5.3%YoY from 4.7% in previous month



Bags of rice at a market in Manila, Philippines

5.3%

 August YoY inflation

Higher than expected

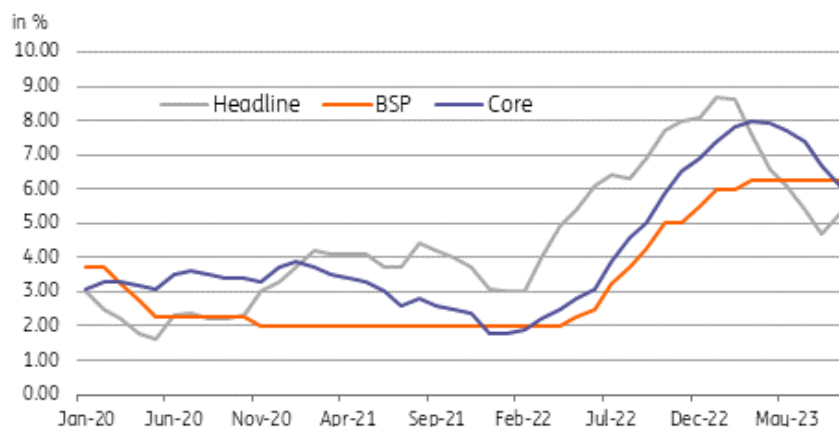
Usual suspects

August inflation rose to 5.3% YoY, settling much higher than market expectations for a 4.7% YoY rise. The usual suspects of rice and transport costs tag-teamed to help reverse a 6-month downward trend. Rice inflation jumped to 8.7% YoY, up sharply from 4.2% YoY due to supply shortages. Other food items also contributed to the resurgence in inflation with fish prices rising 6.9% YoY, fruits up 9.6% YoY and vegetables surging 31.9% YoY due to storm damage.

Meanwhile, transport costs, which had been a major source of downward pressure on inflation over the past 6 months, shifted back into inflation (0.2%) after posting 3 straight months of

declines. Meanwhile, inflation for services such as restaurants & accommodation, personal care and other services all posted slower inflation likely due to the lagged impact of BSP policy tightening carried out over the past few months.

Watch the Crucial 3: Rice Transport and Electricity



Source: Philippine Statistics Authority and BSP

BSP on notice

The recent uptick in inflation reverses what was a steady streak of slowing inflation. However, with supply shocks to important food items and imported energy, we could see a resumption of price pressures building up. President Marcos has implemented a price cap on retail rice prices in a bid to curb the surge in prices while also lowering tariffs for rice imports. We previously noted the importance of inflation for three key commodities, namely rice, electricity and transportation and we believe the inflation path will be driven largely by how inflation for these items behaves.

The August upside surprise now has Bangko Sentral ng Pilipinas (BSP) on notice although we doubt one data point will be enough for Governor Remolona to flip back into tightening mode. However, should inflation for these key commodities accelerate further, we believe Governor Remolona will not hesitate to hike further to get a hold of inflation expectations.

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