

## Philippines: December inflation surprises at 2.5%, likely to bounce then settle in 2020

Crop damage from severe weather conditions in December pushed prices for the index-heavy food basket higher



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# 2.5%

December inflation

Full-year inflation at 2.5%

Higher than expected

### December inflation at 2.5% due to storm damage

Base effects from the 2018 price spike have all but faded out, which together with storm-affected food price gains, pushed December headline inflation well-past market expectations (median forecast at 2.0%) to hit 2.5%. With full-year 2019 inflation at 2.5%, Bangko Sentral ng Pilipinas (BSP) was successful in keeping price gains in-check for most of 2019.

Recent typhoon damage has caused food prices to jump higher to close out the year with the food component showing a 1.7% increase from no gain in November. Meanwhile, transport prices reversed from deflation of 2.4% in November to show 2.2% inflation as domestic pump prices rose 17.1% on a year on year basis as crude oil prices normalized from the declines of 2018.

## Inflation expected to edge higher in the coming months

We expect inflation to edge higher in 2020 as “reverse” base effects kick in, while the scheduled excise tax of fuel products takes effect later this month. This moves in line with our expectation for inflation to “bounce then settle” with headline inflation rising back to the 3% level and then remaining stable for the rest of 2020. Factoring in the reverse base effects, we expect inflation to average 3.2% and as high as 3.4% should oil prices edge higher due to possible supply side disruptions.

## BSP still on track to ease in 2020?

The surprise inflation print in December should keep the BSP on alert as they gauge price developments going into 2020. The recent escalation in tension between the US and Iran may exert additional inflationary pressure on headline inflation with global crude oil prices rising at a time when excise taxes are levied on fuel products in January 2020. Despite these developments, BSP Governor Diokno was quick to downplay a possible upside inflation breach, although he did note that risks to the inflation outlook are on the “upside”. We continue to believe that the BSP will have the scope to ease monetary policy further in 2020, with the first rate cut slated for the February meeting. The Peso may enjoy some short term strength with some market analysts pulling back expectations for a central bank rate cut given the upside surprise to inflation.

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