Philippines: February inflation slips as transport inflation eases

Headline inflation in February settled at 8.6%YoY, slightly below that recorded for January and slower than the market consensus

Price pressures continue to mount in the Philippines as supply chain constraints disrupt food supplies

8.6% February YoY CPI inflation

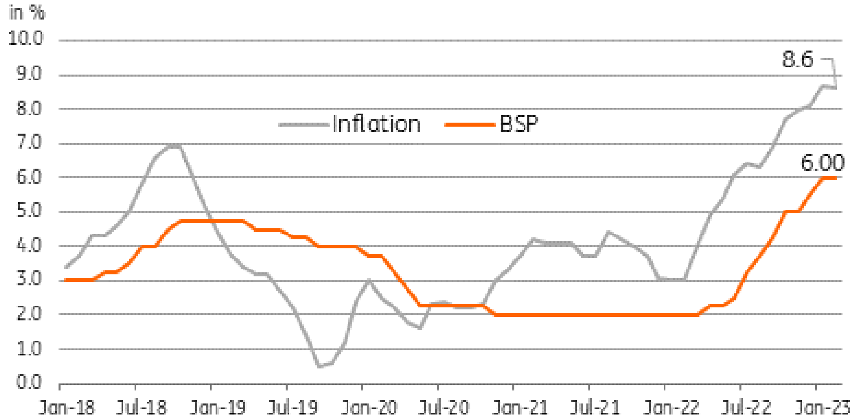
Lower than expected

February inflation at 8.6%

Headline inflation settled at 8.6%YoY in February, below market expectations for an 8.9% rate. The dip in February can be traced to slower transport inflation (9.0% from 11.1%) and flat inflation for utilities (8.6%). Despite easing inflation for energy-related items, food inflation accelerated further to hit 10.8%YoY as supply-side remedies have yet to deliver relief. Meanwhile, core inflation quickened to 7.8%YoY (7.4% previous), the fastest pace seen since March 1999 showcasing how broad-based this episode of inflation has become.

Aside from supply constraints driving up food prices, robust demand side pressures were also evident in the pickup of inflation for recreation (4.4% from 4.2%), restaurants (8.1% from 7.6%) and personal care (5.3% from 5%). We expect inflation to remain sticky for the rest of the year with headline and core inflation likely only returning to target by December.

Philippine CPI inflation and BSP policy rate



Source: Philippine Statistics Authority

BSP to tighten further but a downshift is likely

Despite the softer-than-expected headline inflation reading for February, we believe the Bangko Sentral ng Pilipinas (BSP) will still need to tighten policy further. With inflation easing slightly and falling below 9%, BSP will likely downshift to a 25bp rate increase at the 23 March meeting. BSP Governor Medalla recently shared that he would only consider a 50bp rate hike should headline inflation top 9%. Today's inflation report solidifies our expectation that Governor Medalla can opt for a 25bp rate increase, taking the overnight reverse repurchase rate to 6.25%, which should likely be the peak for this tightening cycle.

The PHP will likely be pressured in the near term as softer inflation opens the door for a less aggressive policy response from the central bank.

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