

## Philippines: Inflation climbs to 2.9% as food costs rise

January inflation inched higher to 2.9% as crop damage from twin storms and a volcanic eruption caused supply disruptions.



Source: Shutterstock

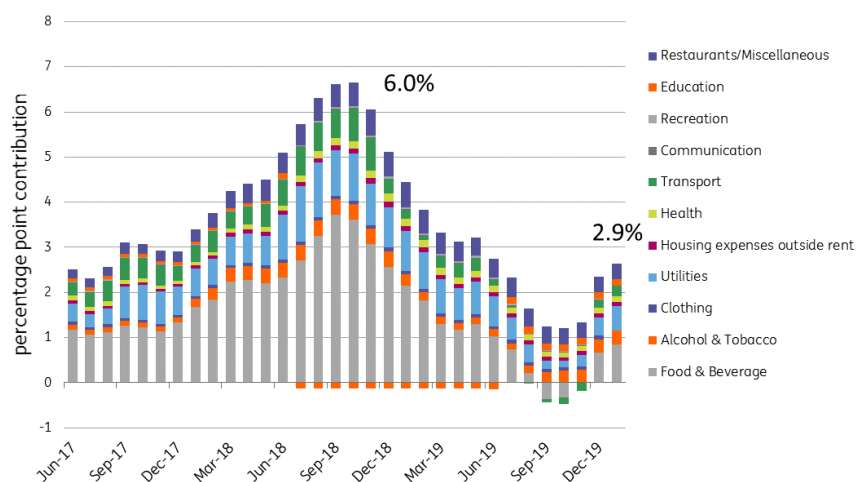
**2.9%** January inflation  
fastest in 8 months  
Higher than expected

### Food inflation continues to be the main driver for headline inflation

January inflation climbed to 2.9%YoY, moving past market expectations (2.7%) with higher food prices pulling up the overall headline number. Almost all subcomponents of the consumer price index (CPI) posted faster inflation, but the main driver for the recent uptick in inflation remains food, given its heft in the CPI basket. Food inflation hit 2.9%, up from 2.5% on runoff effects from crop damage induced by twin typhoons in late 2019 and the 2020 volcanic eruption. Meanwhile, excise taxes levied on alcoholic beverages and fuel items pushed up prices for transport (3.0% from

2.2%) and alcoholic beverages and tobacco (19.2% from 18.4%).

## Philippines inflation (percentage point contribution per component)



Source: PSA and ING estimates  
2012=100

## BSP expected the “uptick”, as reverse base effects kick in

Bangko Sentral ng Pilipinas (BSP) Governor Diokno indicated that they are fully expecting an “uptick” to inflation and that risks to the inflation outlook are tilted to the “upside”. We also expect inflation to inch higher and “bounce then settle” as reverse base effects from the 2019 inflation lows nudge prices higher in 2020. Meanwhile, risks noted by the BSP are trade war disruptions to the supply chains. For the full year, ING still expects inflation to remain within target and average 3.2% but peaking in 3Q.

## BSP to cut policy rates on Thursday

Despite the uptick in inflation, we expect the BSP to cut policy rates by 25 bps at the 6 February meeting with the BSP 2020 inflation forecast pegged at 2.9%. Given the backdrop for slowing global growth, upside risks to the inflation outlook are dampened considerably with crude oil prices tanking on expectations for weaker global growth and depressed oil demand from China. With inflation still expected to remain within target and as global growth is likely to be hampered by the spillover effects from the recent 2019-nCoV episode, we expect the central bank to resume unwinding its previous policy tightening to bolster growth momentum and chase the 6.5-7.5% growth target.

### Author

**Nicholas Mapa**

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.