Philippines: Inflation continues downward trend, July inflation at 2.4%

Base effects and slowing food prices helped push inflation to 2.4% for July

Rice for sale at a market in the Philippines

2.4%

July CPI inflation

second month of deceleration

As expected

Two data points confirm deceleration trend intact

July inflation slowed further to 2.4% from June's 2.7%, in line with market expectations and within the BSP's 2.0-2.8% forecast range. In comparison, July inflation was at 5.7% last year. Almost all subsectors posted slower price gains than the previous month except for education, as base effects of last year's implementation of free tertiary education faded. Key to the deceleration trend was the fall in the average retail price of rice in the month of July with the Rice Tarrification Law kicking in. Adding to this, electricity rates decreased for the third straight month this year. Meanwhile, transport inflation was also lower, possible causes include the free train rides students were permitted to take during specific time frames starting July 1st as well as lower pump prices due to lower crude prices. Furthermore, the Student Fare Discount Act was passed mid-July, granting students 20 percent discount on all public transportation.

It is also worth noting that a stronger peso had a hand in slower inflation for the month of July, helping to lower the cost of imported raw materials. Lastly, base effects continue to come into play. Base effects will continue to have a similar role in inflation data for the coming months with 3Q 2019 inflation expected to dip to 2%.

Price objective met, BSP to look to growth

With new data confirming the ongoing trend slowdown in inflation in the Philippines and the U.S. Federal Reserve cutting rates by 25bp last Wednesday, it is widely expected by the market that the Philippine central bank (BSP) will cut rates this Thursday, August 8. BSP has vowed to remain data-dependent with its focus shifting to the Thursday release of 2Q GDP with a market consensus of 5.9%.

Governor Diokno has telegraphed up to 50 bps worth of rate cuts for the balance of 2019 and we believe we will see at least a 25 bps rate cut (with door open for 50 bps) all the more so, given that 2Q GDP is likely to settle below the 6% handle.