

Philippines: Inflation could dip below 3% in May

Inflation in the Philippines, something of a scourge in 2018, looks set to decelerate further as rice prices continue to fall



Rice for sale at a market in the Philippines

9.8%

Weighting of rice in CPI basket

Philippines

Rice falls a 6th straight week

Rice is the basic staple in the Philippines and is often the main determinant in differentiating a full meal from a snack. As a commodity in the CPI basket, rice commands nearly ten percent of the total and was one of the main reasons for the 2018 inflation pop that saw price gains top 6.7%. Bad weather and delayed importation both contributed to the price spike which saw the central bank, BSP, rattle off a series of aggressive rate hikes that have since begun to sap the growth momentum of one of the region's fastest growing economies.

With rice supply chains normalising even ahead of the implementation of the Republic Act 11203 which lifted import restrictions, rice prices have fallen for 6 straight weeks according to latest data from the Philippine statistics authority. Meanwhile, the rest of the food basket, which corners 38% of the CPI basket, has seen disinflation for 7 straight months, helping headline inflation exhibit that

humped-shape curve given the [supply-side nature of the 2018 episode](#). With the government proactively importing foodstuffs (up 22.5% YTD) with the El Niño dry spell in effect, we can expect food prices to remain stable for the next few months.

Philippine inflation could slip below target

With food prices likely stable or decelerating, we can expect overall headline inflation to be tame for the rest of the year. The May figure could fall below the BSP's inflation target of 3% as fuel prices saw only marginal gains year-on-year, although utility costs are projected to be slightly higher for the said month. And although global crude oil prices remain elevated (up 29.5% YTD), we've seen only a marginal effect on headline inflation given transportation's 8.06% weight in the CPI basket. With supply conditions stable for now, we expect the BSP's forecast for 2.9% inflation in 2019 to hold with possible further easing given the BSP's dovish leaning.