Philippines: Inflation could hit 2.9% in January

Crop damage from the twin storms in December 2019 and a volcanic eruption in January are set to push food costs higher

Rice for sale at a market in the Philippines

2.9%

January 2020 inflation forecast

Bloomberg median at 2.7%

Food costs on the rise

The Philippines was hit by twin storms in late December 2019, pushing up the cost of agricultural produce and causing headline inflation for December to go above consensus to 2.5%. The food component of the CPI basket accounts for roughly 38% of the total and its direction will likely dictate where headline inflation will settle in the coming months. January saw sustained disruption to the supply chain as run-off effects from the twin storms and damage from a January volcanic eruption, which will undoubtedly push food inflation higher with the headline number likely to settle above consensus again and hit 2.9%. Meanwhile, transport prices will see a slight uptick in prices on the third tranche of the fuel excise tax that was implemented, although lower global crude oil prices muted most of the impact. Lastly, "reverse" base effects from the low inflation reading in 2019 will also nudge the 2020 inflation path to bounce then settle at around 3% on average for 2020.

BSP confident despite inflation uptick, maps out easing plan

Despite the projected uptick in prices, Bangko Sentral ng Pilipinas (BSP) Governor Diokno appears unfazed as he pointed to the central bank's inflation forecast of 2.9% for 2020 (reported last December 2019). Indicating that he has "a lot of space" to unwind the previous 175bp tightening since 2018, Diokno hinted at 25 bp of easing in the 1Q of the year with up to 50 bp of rate cuts for the balance of the year. Diokno did, however, note that risks to the inflation outlook were tilted to the upside, citing the possibility of higher oil prices and supply side disruptions caused by the African swine fever (ASF). However, in light of the recent developments related to the 2019-nCoV, we do expect global growth to dissipate as China, one of the biggest cogs in the global market, is poised to show a marked slowdown. Projections for weaker global output has resulted in lower crude oil prices, which should ease inflation concerns for the Philippines. Meanwhile, a possible downward revision to China's growth outlook in 2020 will undoubtedly dampen its demand for Philippine exports with China, one of the top three trading partners for the Philippines.

Given the bleak outlook for global growth and dissipating threats to the inflation outlook, BSP will likely keep its foot on the easing pedal to help bolster sagging growth momentum. We expect the benign inflation dynamics to afford BSP scope to cut its policy rate at the 6 February meeting to give the economy a boost to help navigate the more challenging global growth scenario. Meanwhile, we do not expect the BSP to tinker with the reserve requirement (RR) ratio for now, given ample liquidity in the system and to only resume cutting RR when bank lending shows signs of improvement.

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com