Philippines: Inflation dips to 2.3% as Peso's strength limits imported inflation

Price gains in September remained muted, on anemic domestic demand and a strong peso

Rice for sale at a market in the Philippines

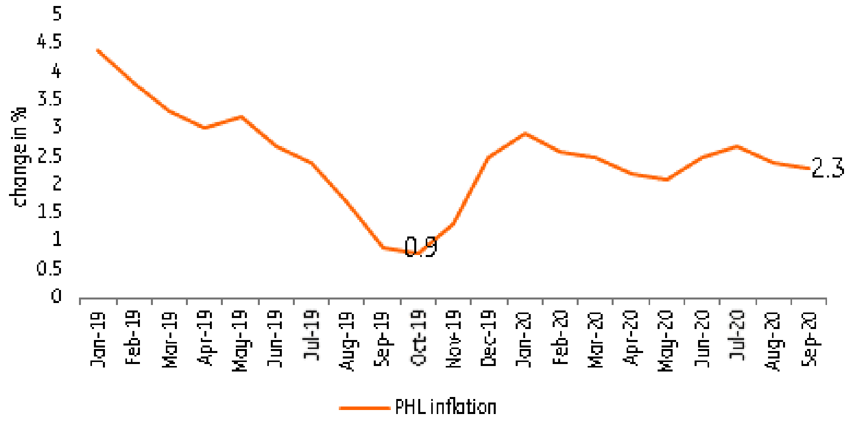
2.3% September CPI inflation

As expected

September inflation at 2.3%

Inflation dipped to 2.3% (from 2.4% in August) despite an unfavorable base, with prices gains of select food items weighing on the headline number. Overall price gains remained muted although transport costs accelerated to 8.3%, countered by food inflation which decelerated to 1.5%, from 1.8% in August. Headline inflation settled at 2.5%, at the lower-end of the Bangko Sentral ng Pilipinas (BSP) inflation target of 2-4%.

Philippines inflation



Source: PSA

Anemic demand and strong peso help limit price increases but BSP likely on hold

The peso continues to outperform Asian peers, logging a 4.78% gain year-to-date, and helping to limit imported inflation for most of the year. With the economy in recession, consumer demand remains anemic as unemployment stays elevated at around 10% for the first half of the year. Despite the anemic trend in price movements, we do not expect BSP to react with a policy adjustment in the near term given recent comments from Governor Diokno. We do not expect BSP to resort to additional rate cuts for the balance of the year as Diokno waits to gauge the impact of the flurry of rate cuts earlier in the year. Inflation will likely settle at 2.4% in 2020 and will help preserve purchasing power for Filipinos consumers in the economic recession. However, we also note that the downtrend for inflation points to fading economic momentum as consumer demand remains constrained despite recent moves by the government to gradually reopen the economy.

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