Philippines: Inflation dips to 4% in June

Philippine inflation slid to 4.1% in June from 4.5% in the previous month as transport inflation eased

Source: Shutterstock

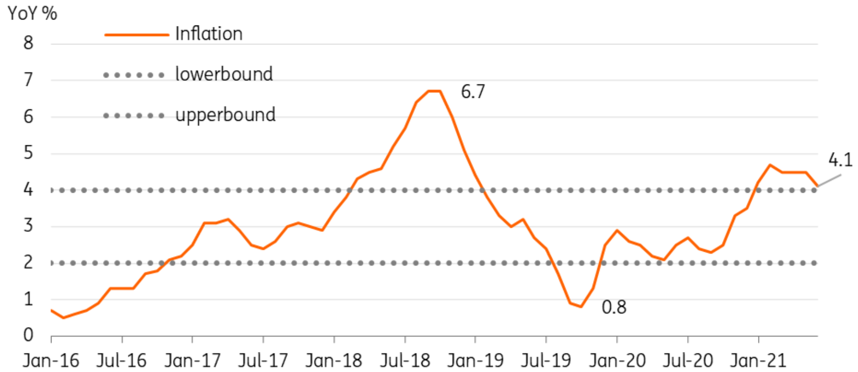
4.1% June CPI inflation

Lower than expected

June inflation at 4.1%, YTD at 4.4%

Philippine inflation decelerated to 4.1% in June, lower than market expectations as transport inflation eased significantly for the month, outweighing still-elevated food prices. Food inflation, which accounts for the bulk of headline inflation, accelerated slightly to 4.7% (from 4.6%) as meat prices stayed stubbornly high due to ongoing supply disruptions caused by African Swine Fever. The big surprise for the month was the stark deceleration in transport inflation which slowed considerably to 9.6% from 16.5% in May as base effects from pandemic-related rules for public transportation faded. Year-to-date inflation remains at 4.4% and we expect inflation to slide back within target by July should both food and transport costs behave.

Philippine inflation



Source: Philippine Statistics Authority

BSP still not likely to alter course anytime soon

Bangko Sentral ng Pilipinas (BSP) Governor Diokno has signalled that he will likely retain his accommodative stance for at least another year as he provides monetary support for the economic recovery. BSP has looked past the 6-month inflation target breach citing the need to deliver stimulus at a time of economic struggle. Subsiding inflation will relieve some pressure on the central bank to hike policy rates. With price pressures fading, we expect inflation to decelerate in the second half of the year as meat prices normalize with authorities allowing higher import volumes for the commodity. Meanwhile, base effects tied to social distancing guidelines for transport and other services are also likely to fade in the coming months, offsetting a projected acceleration in utility and fuel costs given the surge in global oil prices. With inflation set to glide back within target, we expect BSP to retain policy rates at 2% for the balance of 2021 and only consider adjusting policy by mid-2022.