Philippines: Inflation eases slightly, settles at 4.5% as food inflation slows

The index-heavy food component offsets higher transport costs to help inflation ease in March

Source: Shutterstock

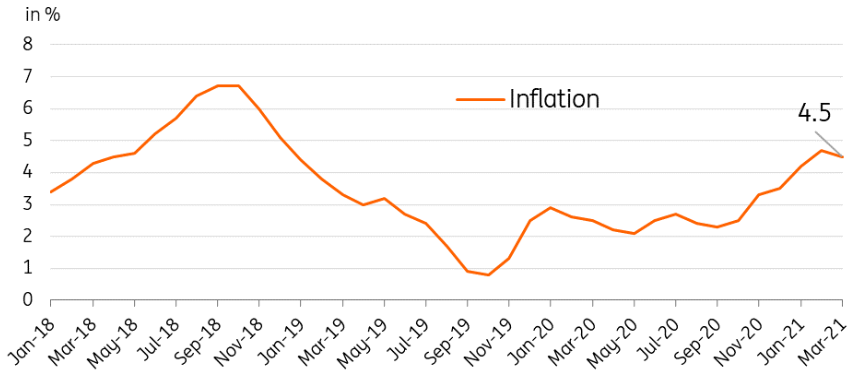
4.5% March CPI inflation

Lower than expected

Inflation settles at 4.5%

Headline inflation remained above target in March but eased slightly to 4.5% from the previous month with food inflation decelerating. The price freeze on meat items coupled with the harvest season helped food inflation slow, offsetting faster transport inflation. Food inflation, which accounts for nearly 36% of the total CPI basket, slowed to 5.8% from 6.7% in the previous month with notable declines in the price of meat, fish, vegetables and fruits. Transport costs continued to pick up with transport services rising 13.8% due to higher retail fuel prices and implementation of social distancing guidelines. Inflation for other services also saw prices accelerate, up 3.1% with costs associated with the ongoing pandemic, such as personal protective equipment and takeout surcharge, pushing up headline inflation. Meanwhile, signs of weak domestic demand continue to manifest with the recreation and culture component posting negative inflation for the 9th straight month with Filipinos likely cutting back on luxuries given the recession. Although it may be too early to deem the March 4.5% inflation the peak for the year, we do note that the likelihood of inflation hitting 5% has now diminished somewhat.

Philippines inflation



Source: Philippine Statistics Authority

Central bank to look through breach, keep rates steady for now

Despite the inflation target breach, Bangko Sentral ng Pilipinas (BSP) has vowed to retain its current accommodative stance, citing the "transitory" nature of the current spike in prices. Monetary authorities remain hopeful inflation will decelerate once supply-side remedies to African Swine Fever take root although the latest central bank inflation forecasts peg inflation to settle above target in 2021. Nonetheless, we expect BSP to keep policy rates at 2% in order to bolster the economic recovery, with several regions now under strict lockdown due to a recent spike in Covid-19 infections. BSP will only consider recalibrating monetary policy should second-round effects such as wage hikes become apparent or if inflation expectations become unanchored. Receding concerns about inflation may calm the Philippine bond market in the near term while PHP is expected to outperform regional peers as soft import demand limits depreciation pressure.