Philippines: Inflation hits multi-year high, BSP to finally take notice?

June inflation rose to 6.1%, hitting a multi-year high as food, transport and utility costs continued to rise

Price pressures continue to mount in the Philippines as supply chain constraints disrupt food supplies

6.1%

June CPI inflation

fastest since 2018

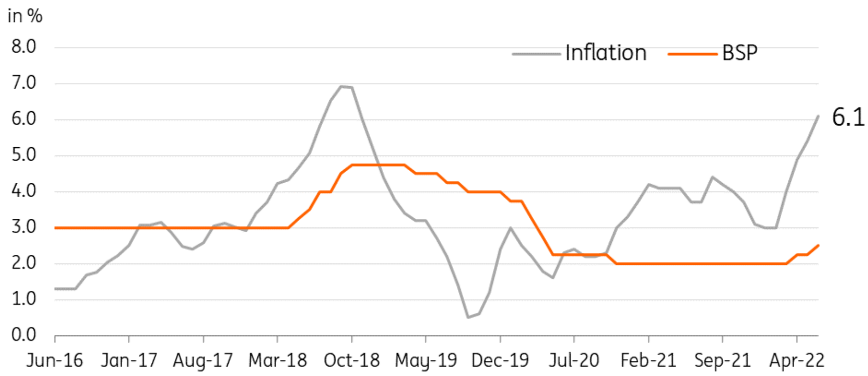
Higher than expected

Fastest since 2018

June inflation hit 6.1%YoY, accelerating at a pace not seen since 2018. Back then, the central bank was facing surging inflation caused mainly by rice shortages (rice constitutes 10% of the CPI basket). This time around, Bangko Sentral ng Pilipinas (BSP), is facing inflation driven by a host of factors including elevated energy and wheat prices coupled with resurgent domestic demand. Food inflation was the main driver for the June reading, accelerating by 6.0%, followed by transport which rose sharply by 17.1%.

All items outside of the information and communication subsector saw faster price increases as the inflation bug starts to feed through to the rest of the CPI basket. Second-round effects in the form of wage and transport fare adjustments have been granted and will only fan inflation further in the medium term. This is no longer simply a transport cost issue.

Inflation running away from the policy rate



Source: Philippine Statistics Authority

Quickening inflation finally got the BSP's attention?

Despite above-target inflation and a battered currency, BSP had previously adopted a nonchalant stance on the inflation spike, indicating that price pressures are a result of cost side factors. As such, BSP has opted for a pair of modest 25bp rate increases at their last two meetings while dismissing talk of being behind the curve.

However, with the national statistician admitting that inflation will likely head higher in the near term, BSP appears to have finally taken notice. BSP Governor, Medalla, indicated today that they are now open to more forceful rate adjustments in the near term. Furthermore, BSP confirms that they may need to hike up to 100bp more this year to fend off inflation. July inflation will likely push above 6% again and we believe this will be enough to convince BSP to whip out a more forceful 50bp rate adjustment at their August policy meeting. We expect BSP's policy rate to end the year at 3.5% or higher.

Author

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