Philippines: October inflation boosts odds for November hike

Philippines inflation hit 6.7% year-on-year in October as base effects were unable to compensate for still elevated food price pressures. Prices accelerated by 0.3% versus September, indicating that the "hump-shaped" inflation path could be more drawn out

Source: Shutterstock

6.7% October inflation

Higher than expected

Inflation shows decelerating m-o-m trend but headline remains elevated

Price pressures abated somewhat in October but inflation remained elevated at 6.7%, unchanged from September. Despite the decelerating trend, inflation remains well above the central bank's

(BSP) inflation target as a variety of cost push and demand pull pressures have built up over the past few months. Stubborn food inflation may have been the likely culprit as follow-on effects from typhoon Ompong continued to hound the basket-heavy food component (38% of total).

BSP's "hump-shaped curve" to be more drawn out

The 6.7% print validates earlier expectations that inflation was close to or had peaked for the year and is now expected to taper off slowly going into the year-end. Measures undertaken by the government to address supply chain bottlenecks appear to have found their way to price tags, alleviating some pressure on food prices. But inflation remains sticky given supply constraints. Rice imports helped whittle down the price for the all-important staple and up to 500,000 MT are expected to arrive to augment supply further. We hope non-monetary policy measures will continue to be deployed to help limit price gains ahead of the Christmas season. On risks to the upside, oil prices remain elevated despite trending lower in recent weeks while second-round effects are scheduled for November with minimum wages adjusted in the metropolis and transport fares increased.

Food prices had actually come down from September, slowing from 9.7% to 9.4% although rice and fish prices accelerated to offset slower price gains in meat, fruits and vegetables. In terms of the contribution to the overall 6.7% print, food prices alone rendered 3.61 percentage points to the total (54%) making it the major culprit for the still-elevated reading. Despite imports and better weather, food prices remain sticky with supply bottlenecks still not completely resolved though price gains on a month-on-month basis dropped from 0.98 to 0.25. Other major sources of inflation were utilities (1.05 percentage points or 16% of the total) and transport, given the bump in oil prices seen in late September and early October. What's clear is that food price pressures appear to be abating, and will likely be the single most important subsector that the government can target to alleviate the bane of inflation. If food prices continue to trend lower, the rice tariffication bill passes as expected and oil prices decelerate, we could very well see inflation trend quickly back to within target in 2019.

"Moderate" rate hike in the offing

That being said, the central bank (BSP) remains vigilant against any signs of second-round effects and will look to anchor inflation expectations going forward. Governor Nestor Espenilla made note of a "moderate" policy adjustment to do just this, with the BSP expected to hike rates by 25 basis points before year-end. Given that inflation has not been able to show a substantial deceleration, the likelihood of that "moderate" rate hike at the 15 November meeting has increased. The peso should continue to benefit from structural and capital flows in the coming week as well as the BSP's hawkish bias of late.

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