Philippines: Inflation rises to 2.5%, BSP cuts likely on hold

Price pressures remain subdued however with demand crippled by record-high unemployment

Rice for sale at a market in the Philippines

2.5% June headline CPI inflation

Higher than expected

Inflation picks up in June but crippled demand to limit rise

June inflation ticked higher to 2.5%, up from the 2.1% headline inflation reading posted in May. The main drivers for the slight uptick in June inflation were the gain in food prices (+2.7%) and the normalization in transport costs (+2.3%) with crude oil prices recovering. Dampening the upward pressure on headline inflation was continued weak inflation for utilities (+0.4%) with power companies offering refunds because of the pandemic. Despite the acceleration of prices in June, price pressures generally remain subdued with the economy reeling from the ill effects of the 3-month lockdown imposed last March. With unemployment skyrocketing to 17.7% in 2Q, demand for commodities remains weak which should keep a lid on price pressures in the coming months.

Inflation outlook allows BSP to keep rates floored

With year-to-date inflation at 2.5%, inflation is expected to settle at the lower-end of the Bangko Sentral ng Pilipinas' (BSP) 2-4% inflation target band and allow the central bank to keep its current accommodative stance. However, with the BSP's real (inflation adjusted) policy rate now negative (-0.25%), we reiterate our expectation that the central bank will refrain from cutting policy rates in the near term and look to additional liquidity enhancement measures should the economy need more stimulus. PHP will continue to enjoy short-term strength as the surprise inflation reading will likely mean BSP policy rate cuts are off the table for the time being.

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