

Philippines: Inflation slides again in January

Philippine headline inflation slipped to 2.8% in January, settling well-within the BSP's inflation target



Bags of rice at a market in Manila, Philippines

2.8%

YoY change

3.9% in December

Lower than expected

January inflation slides to 2.8%

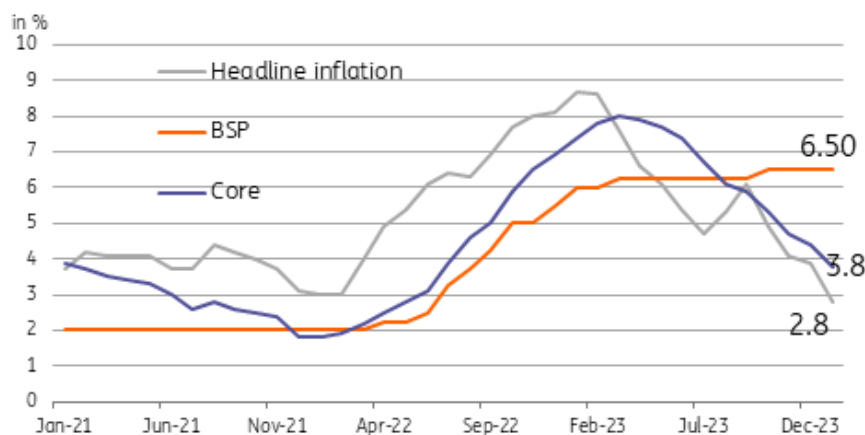
Philippine headline inflation fell sharply lower to 2.8%YoY in January, down from 3.9%YoY in the previous month and well below the market consensus of 3.1%YoY. Core inflation also moderated, slipping to 3.8%YoY and settling within target for the first time since July 2022.

Slower inflation was recorded across 10 out of the 12 subsectors, with food inflation moderating to 3.5%YoY (5.4%YoY previously) and transport inflation actually reporting negative inflation

(-0.3%YoY).

Despite slowing food inflation, however, rice inflation accelerated further to 22.6%YoY as local production remains challenged by the ongoing El Nino weather phenomenon. Rice inflation is important given the commodity's 9% weight in the CPI basket.

Philippine inflation within target for second month



Philippine Statistics Authority

BSP likely to stick to hawkish tone...for now

Despite the slide in headline inflation, we are fully expecting the Bangko Sentral ng Pilipinas (BSP) to retain their hawkish tone and promise to keep their policy stance “sufficiently tight” for the time being. BSP Governor Remolona indicated that he was expecting inflation to slide in 1Q before accelerating sharply in 2Q, justifying his outlook for rates to stay higher for longer.

However, Remolona was recently quoted saying that a rate cut in 2H was possible, but that he would need to see inflation settle well within the target range for an extended period.

If we continue to see inflation moderate well into 2Q, we do expect BSP to begin to change their tune to signal a pivot, possibly by June.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com