Philippines: Inflation slides to 0.8%, likely to bounce next month

Philippine inflation dipped to 0.8% in October as base effects from last year's inflation peak kicked in. Inflation will likely rebound in the coming months as these base effects wash out.

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Nowhere to go but up

Philippine inflation hit 0.8%YoY for the month of October, mirroring the peak seen in 2018 when inflation surged to 6.7%. Base effects played a major role in forcing the headline print below 1% for a second straight month, with heavyweights food and transport posting negative price inflation. Together the food and transport components combine to 46% of the CPI basket, posting negative inflation prints of -0.9% and -1.7%, respectively. But with the base effects from the peak of 2018 fading quickly, we expect inflation to revert to target as early as December.

Supply slide inflation

Supply-side bottlenecks are to blame for the inflation surge in 2018 with the components of food and transport posting inflation prints as high as 9.7% and 8.9%. With improved weather conditions, rice tarrification and subdued oil prices now in effect, headline inflation has dropped rather quickly and is expected to remain benign given the outlook for both commodity prices and weather conditions.

BSP done for 2019, likely to ease further in 2020

After working quickly to reverse the aggressive tightening of 2018, Bangko Sentral ng Pilipinas (BSP) Governor, Diokno, is expected to resume easing monetary policy in 2020 as he looks to help give the domestic economy an added boot amidst the projected global slowdown. With inflation forecast to remain within target even after base effects wash out, BSP will continue to work to provide an environment conducive for economic growth for as long as the price objective is in hand. ING forecasts inflation to settle at 3.1% in 2020, paving the way for the central bank to cut policy rates by another 50 bps, with the first move expected in 1Q 2020.

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