

Philippines: Inflation soars further in July

High July inflation of 5.7% raises the chances of a 50 basis point rate hike by the central bank this Thursday



5.7%

July inflation rate

At upper end of BSP forecast of 5.1% to 5.8%

Higher than expected

Inflation continues to surprise on the upside making an aggressive monetary policy response imperative

Inflation soared further to 5.7% in July to a fresh 5.5-year high from 5.2% in June and 4.6% in May. The July inflation rate exceeded the consensus forecast of 5.5% and is at the higher end of Bangko Sentral ng Pilipinas' (BSP's) forecast range of 5.1% to 5.8%. July delivered an upside surprise as inflation rates for food, alcoholic beverage, utilities and transport components accelerated. Demand-side pressures continue with core inflation rising further to 4.5% from June's 4.3% and May's 3.6%. The government's efforts to address supply and distribution constraints have not been effective. Second-round effects are partially reflected in the higher July inflation through significantly higher transport inflation. In addition, there are now nine regional wage boards that

have announced 4% to 9% minimum wage increases, which started to be implemented in April. Most of the nine wage boards implemented increases from June to early August. The peso crude oil price in July was 61% higher YoY while PHP was more than 4% weaker YoY. The continued weakness of PHP exacerbates higher global oil prices. We expect these price pressures to persist, albeit at more moderate increases until the likely peak in August or September. These price pressures together with another upside inflation surprise in July fuel expectations of higher inflation. Reining in inflation expectations aside from stabilising PHP requires a more aggressive central bank response. We expect BSP to raise policy rates by 50 basis points at this Thursday's policy rate meeting. Further tightening is likely in 4Q.