

Philippines: Inflation soars in June

Further monetary policy tightening is likelier at the next meeting, after inflation soared to 5.2% in June



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5.2%

Inflation rate in June

Exceeds central bank forecast of 4.3- 5.1%

Higher than expected

Inflation surprising on the upside could require a more aggressive monetary tightening.

Inflation soared to a 5.5-year high of 5.2% in June from May's 4.6% and beat the upper end of BSP's forecast range of 4.3-5.1%. Consensus was at a more moderate 4.8%. Core inflation also jumped to 4.3% in June, from May's 3.6%. Higher inflation for food and non-alcoholic beverages, utilities, transportation and education combined to bring the upside inflation surprise. The cost of education plays a significant role every June as school tuition and fees are paid just before the start of the school year. Excluding the impact of education, headline inflation would still be high and would be at the upper end of BSP's forecast range. Full implementation of the government's

supply augmenting measures would moderate inflation. However, additional cost-push pressures are emerging. Three regional wage boards approved 4-5% increases in minimum wages. Another regional wage board might approve a 6% increase. In addition, the government has allowed a 12% increase in minimum transport fares for the country's capital and two adjoining regions. Expanding the increase to other regions could follow. Another price pressure is through the recovering oil price. PHP weakness is another price pressure and it depreciated by c.7% YoY in June. Demand pull price pressures from strong economic activity and income tax reform are likely to exacerbate the tight price environment. These price pressures, together with the upside June inflation surprise, fuel expectations of high inflation. Reining in inflation expectations, aside from stabilizing PHP, may require a more aggressive central bank response. We now expect BSP to raise policy rates at the next policy rate meeting (in August) by at least 25bp. A higher policy rate increase is possible.