

Philippines: Inflation surges in August

Inflation surged further in August to 6.4%, the highest since March 2009. The central bank must continue with its aggressive monetary response to contain inflation expectations



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6.4%

August inflation rate

Major upside surprise

Higher than expected

Surging inflation requires another aggressive monetary policy action

Inflation soared further to 6.4% in August on the back of a sustained surge in prices of basic food items, alcoholic beverages and tobacco and transport services. Core inflation continues to rise with a rate of 4.8% in August from 4.5% in May and only 2.2% last December. The August inflation rate exceeded forecasts including that from the central bank which projected a range of 5.5% to 6.2%. We expect inflation to remain elevated for the rest of the year with next month's inflation rate likely to remain above 6% and full-year average inflation at 5.1%, significantly higher than the

target range of 2% to 4%. Efforts by the government to address supply issues should eventually moderate price pressures. But the impact of second-round effects would still have to be reflected in production costs and retail prices. Minimum wage increases for the capital region have yet to be announced while transport groups seek another 10-15% increase in minimum fares on top of the recent increase. Inflation expectations remain on an uptrend and increase demand pull pressures as consumers and businesses anticipate elevated prices. The central bank needs to contain runaway inflation expectations and demand pull pressures. The chances of another aggressive monetary policy action have increased as inflation has surged. Another 50 basis point policy rate hike at the 27 September meeting is a real possibility.