Philippines: Inflation ticks higher to 2.7% on transport costs

Price pressures in the Philippines remain relatively benign reflecting stalling domestic demand

Shoppers in a Philippines' supermarket

2.7%

Philippines CPI inflation

July

Higher than expected

Inflation ticks higher to 2.7% in July

Headline inflation inched up to 2.7% in July from 2.5% in the previous month as transport prices and slightly higher utility costs nudged the index higher. Quarantine protocols implemented by the government pushed transport costs higher as riders are no longer allowed to share rides with fellow passengers while utility bills were also slightly more costly due to elevated costs for water services. Food inflation slowed somewhat to 2.4% but higher costs for certain meat items kept the overall hefty index from falling rapidly. Year-to-date inflation as of July settled at 2.5% and we expect a further pickup in headline inflation throughout the 3Q followed by a decline to close out the year.

Goldilocks inflation report, should keep BSP on hold for now

The slight uptick in inflation for July may be enough to keep the central bank, Bankgo Sentral ng Pilipinas (BSP), to remain on hold at their next policy meeting but the still well-behaved dynamic of inflation will likely translate to a long pause from Governor Diokno. The BSP governor previously indicated he would keep his stance unchanged "for at least two quarters" and we believe he will refrain from cutting policy rates further to prevent real policy rates from falling too deep into negative territory. Currently, the BSP's inflation-adjusted policy rate is at -0.45%. BSP, however, has also shared that it will take the 2Q GDP report into account for future policy decisions but we only expect BSP to alter its stance should growth fall well past the most pessimistic GDP forecast for 2Q.