

## Philippines: March inflation settles at 3.3% as downtrend intact

Inflation continues to slide with the basket-heavy food subsector weighing on the headline number as supply conditions normalise



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# 3.3%

March inflation

YTD inflation at 3.8%

Lower than expected

### Two in a row

Data-dependent Bangko Sentral ng Pilipinas (BSP) was given another data point to consider as inflation pressure in the Philippines is clearly dissipating. The 3.3% year-on-year CPI inflation in March was slightly lower than our forecast and below the Bloomberg consensus median of 3.5%. With supply chains normalising, the 2018 inflation pop has faded very quickly with inflation now firmly within the target. This should help solidify expectations for within-target inflation for this year and next.

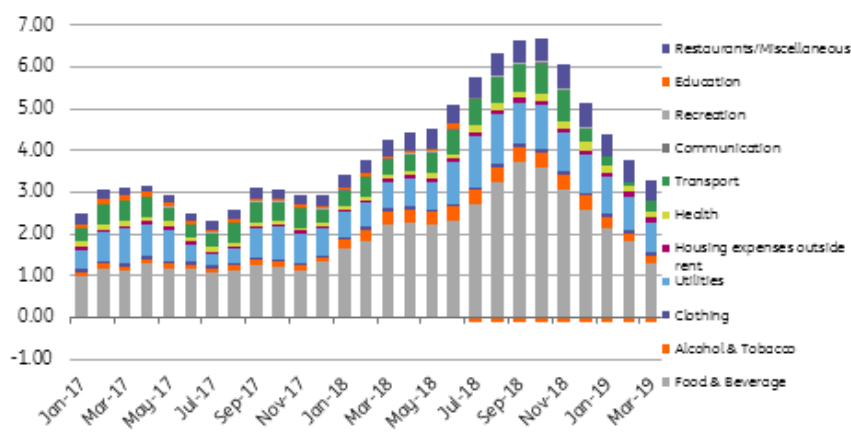
## Inflation trends lower thanks to food even with oil prices surging

The basket-heavy food index, the bane of inflation in 2018, has continued to help headline inflation stay within target with rice prices now well-behaved even before the rice tariffication law kicks in. The national government has been pro-active in securing the all-important grain with the NFA boosting palay (unhusked rice) reserves by 6,045%. Meanwhile, imports of both rice and other vegetables have risen by 78% and 138%, respectively. With food inflation held in check, overall price stability has been achieved, despite the 33% YTD increase in global crude oil prices and the 23% YTD rise in diesel prices.

## Easing inflation leaves policy door wide open...again

With inflation continuing to print within the target and with BSP forecasts showing inflation will likely settle right at the 3% mark for both 2019 and 2020, we continue to believe that the door to ease monetary policy remains wide open. Although there are risks to the inflation outlook, the threat of oil price spikes and El Niño crop damage all emanate from the supply side of the equation and would be best addressed by measures on the supply side. With low inflation now more firmly entrenched, inflation expectations anchored and demand-side pressures to inflation limited, we expect BSP to finally consider reducing reserves in the near term and slash its policy rate at the 9 May meeting given signs of growth slowing. Several institutions have scaled back their growth projections for the year.

## Philippines inflation (contribution to total in percentage points)



Source: PSA and ING