

Philippines: May inflation surprises on the downside

The May inflation rate of 4.6%, which is at low end of central bank forecast, reduces pressure to hike policy rates later this month. Uncertain second-round effects should keep BSP vigilant



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4.6%

Inflation in May

MoM disinflation for food and utilities

Lower than expected

Lower-than-expected May inflation could delay further central bank tightening

May inflation surprised on the downside as food, non-alcoholic beverages and utilities posted MoM disinflation. This brought annualized headline inflation to only 4.6%, below the market's median forecast of 4.9% and at the low end of Bangko Sentral ng Pilipinas (BSP's) forecast of 4.6% to 5.4%.

The government encouraged rice millers in the major rice producing regions to sell some inventory at a 10% discount to April prices. Tighter monitoring of retail prices also helped. We anticipate that the delivery of government imported rice to major ports this month will bring back low-priced subsidized rice to the market and offset other price pressures. Oil prices have eased also but a weaker PHP is likely prevent the full translation of the drop in global oil prices at the pump. We believe that recent developments indicate that inflation is at or near the peak. These developments also cut the pressure on BSP to hike policy rates this month. However, we still expect BSP to hike policy rates at the 21 June meeting to pre-empt second-round effects and stabilize inflation expectations. Tri-partite regional wage boards are considering higher minimum wages while regulators deliberate on higher minimum transport fares. BSP's 4.6% and 3.4% 2018 and 2019 inflation forecasts assume a 3.6% increase in minimum wages and a modest increase in transport fares. Significantly higher increases may result in a double peak of inflation while keeping inflation expectations on an uptrend. The other consideration is a weakening PHP. Further weakness could still push prices higher. Manufacturers have signaled price increases to cover higher costs resulting from higher oil prices and a weaker PHP. While we argue for a rate hike this month, the likelihood is now closer to even.