

Philippines

5 September 2024

Lower CPI Justifies BSP Rate Cuts

- Headline CPI rose less-than-expected to 3.3% YoY in August versus 4.4% in July. Core inflation eased to 2.6% YoY versus 2.9% in April.
- Looking ahead, we maintain our 2024 average headline CPI at 3.5% YoY, implying a continued disinflationary trajectory ahead.
- Our base case remains for Bangko Sentral ng Pilipinas (BSP) to deliver another 25bp rate cut in 4Q24, followed by a cumulative 100bp rate cuts in 2025.

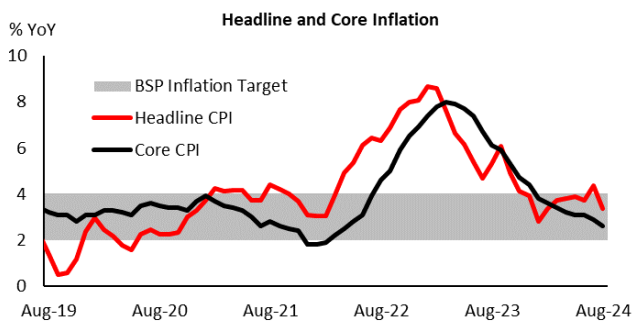
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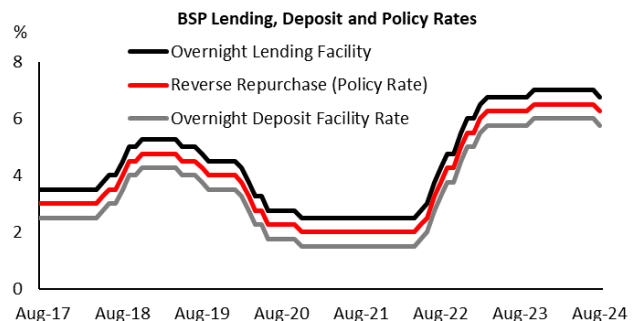
Headline CPI was lower-than-expected at 3.3% YoY in August (Consensus and OCBC: 3.6%) versus 4.4% in July. This was also within BSP’s expectations of 3.2-4.0%. Similarly, core inflation eased to 2.6% YoY versus 2.9% in July.

Lower food inflation (3.9% YoY versus 6.4%) was the major driver, with rice inflation easing to 14.7% YoY in August versus 20.9% in July. Rice inflation will likely ease further in the coming months due to a high base effect, complemented by government policies aimed at improving domestic food supplies to meet demand. Similarly, transportation inflation eased sharply (-0.2% YoY versus 3.6%) reflecting lower retail fuel prices. These more than offset higher utilities (3.8% YoY versus 2.3%) inflation.

The August headline CPI print brings the year-to-date inflation to 3.6% YoY. Looking ahead, we maintain our 2024 average headline CPI at 3.5% YoY, implying a continued disinflationary trajectory ahead. Indeed, the lower inflation in August justified BSP embarking on rate cuts at its 15 August meeting. As such, our base case remains for the BSP to deliver another 25bp rate cut in 4Q24, followed by a cumulative 100bp rate cuts in 2025.



Source: Philippine Statistics Authority, Bangko Sentral ng Pilipinas, CEIC, OCBC



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