

Philippines

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Lower June CPI Supports BSP's Increasing Easing Bias

- Headline CPI eased to 3.7% YoY in June versus 3.9% in May (Consensus and OCBC: 3.9%). Core inflation held steady at 3.1% YoY in June.
- With 2024 year-to-date headline CPI averaging 3.5% YoY, we see downside risks to our full year forecast of 3.9% YoY (2023: 6.0%).
- The data is turning more favourable for Bangko Sentral ng Pilipinas (BSP) to ease in 3Q24. This suggests our baseline forecast, for BSP to cut its policy rate by a cumulative 50bp starting in 4Q24, could be brought forward.

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Headline CPI eased to 3.7% YoY in June versus 3.9% in May (Consensus and OCBC: 3.9%). The drivers were quite mixed. Food inflation rose by 6.1% YoY versus 5.8% in May but was more than offset by an easing in transportation (3.1% versus 3.5%) and utilities (0.1% versus 0.9%) components. Meanwhile, core inflation held steady at 3.1% YoY in June.

The volatility in food price inflation remains a source of uncertainty for the disinflation trajectory. Specifically for June, key vegetables and meat prices¹ rose. Although rice inflation eased slightly, it remained elevated at 22.5% YoY in June versus 23.0% in May. We expect the disinflationary trend in rice prices to continue following the government's decision to extend lower tariffs for key agricultural and energy products until 2028 to improve food and energy security².

With 2024 year-to-date headline CPI averaging 3.5% YoY, we see downside risks to our full year forecast of 3.9% YoY (2023: 6.0%). Indeed, following June's CPI print, BSP noted that the "balance of (the) CPI outlook (has) shifted to (the) downside". BSP lowered its 2024 risk-adjusted CPI forecasts sharply to 3.1% YoY (previous: 3.8%), with BSP Governor Eli Remolona signalling that a rate cut in August 2024 is "somewhat more likely".

Looking ahead, the BSP will have July's headline CPI and 2Q24 GDP growth prints (OCBC forecast: 6.2% YoY versus 5.7% in 1Q24) to better assess the growth-inflation dynamics. The data is turning more favourable for Bangko Sentral ng Pilipinas (BSP) to ease in 3Q24. Even so, the next set of incoming data will determine the timing of the cut relative to our baseline forecast of a cumulative 50bp in 4Q24 remains on track. We expect a cumulative 100bp in rate cuts in 2025.

¹ The acceleration of food inflation was mainly driven by higher food prices in 'vegetables, tubers, plantains, cooking bananas and pulses', and 'meat and other parts of slaughtered land animals'. Philippine Statistics Authority. (2024, July 5). Summary Inflation Report Consumer Price Index (2018=100): June 2024 [Press release]. Retrieved from Philippine Statistics Authority.

² NEDA Board approves Comprehensive Tariff Program calibrating current tariff rates until 2028 to lower prices of goods. (2024, June 5). Retrieved from Philippine Information Agency.

Drivers of inflation, %YoY	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Headline CPI inflation	5.4	4.7	5.3	6.1	4.9	4.1	3.9	2.8	3.4	3.7	3.8	3.9	3.7
Food & Non-Alcoholic Beverages	6.7	6.3	8.1	9.7	7.0	5.7	5.4	3.5	4.6	5.6	6.0	5.8	6.1
Alcoholic Beverages & Tobacco	11.6	10.9	10.1	9.8	9.3	9.0	9.0	8.4	8.6	6.7	4.9	4.2	3.8
Clothing & Footwear	5.1	4.8	4.8	4.7	4.8	4.3	4.2	3.8	3.6	3.6	3.6	3.4	3.2
Housing, Water, Electricity, Gas & Other Fuels	5.6	4.5	2.5	2.4	2.6	2.5	1.5	0.7	0.9	0.5	0.4	0.9	0.1
Furnishings, HH Equip & Routine HH Maintenance	6.0	5.8	5.6	5.4	5.3	4.7	4.5	3.9	3.3	3.2	3.1	3.1	2.8
Health	3.9	3.9	3.9	4.1	4.0	3.8	3.7	3.3	3.0	3.2	3.0	2.9	2.9
Transport	-3.1	-4.7	0.2	1.2	1.0	-0.8	0.4	-0.3	1.2	2.1	2.6	3.5	3.1
Information & Communication	0.7	0.7	0.7	0.6	0.8	0.6	0.5	0.5	0.4	0.4	0.5	0.5	0.5
Recreation, Sport & Culture	4.8	4.7	4.9	5.1	5.0	4.9	4.2	4.0	3.8	3.9	3.8	3.5	3.5
Education Services	3.6	3.7	2.9	3.8	3.8	3.5	3.5	3.8	3.8	3.8	3.8	3.8	3.8
Restaurants & Accommodation Services	8.2	7.9	7.1	7.1	6.3	5.6	5.6	5.5	5.3	5.6	5.4	5.3	5.1
Financial Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Personal Care & Misc Goods & Services	5.8	5.6	5.5	5.4	5.3	4.8	4.6	4.0	3.8	3.6	3.5	3.4	3.2
Core CPI	7.4	6.7	6.1	5.9	5.3	4.7	4.4	3.8	3.6	3.4	3.2	3.1	3.1

Source: Philippine Statistics Authority, CEIC, OCBC

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