Flash by EIC

1 February 2017

Oil price pushed headline inflation up to 1.55%YOY in January

Key point

- Headline inflation continued edging up to 1.55%YOY in January 2017 from 1.13%YOY in the previous month. Main supporting factor was the 78%YOY surge in average global crude oil price in January.
- Higher farm prices were another push for headline inflation. Fresh vegetables and fruits rose 4.7%YOY and 5.1%YOY, respectively. Prices of other consumer goods, however, did not grow much, with 0.2%YOY for apparels, 0.3%YOY for medical and personal care, and 0.5%YOY for recreation and education.
- Core inflation remained at 0.75%YOY, similar to 0.74%YOY last month. This reflected weak domestic consumption, constraining businesses from raising prices of consumer products.

Implication

- EIC expects headline inflation to reach 2.3%YOY in 2017 as a result of rising global crude oil prices. Agreements among oil exporters to cut production by 1.8 million barrels per day are expected to drive Brent up to an average price of USD 54 per barrel in 2017. Also, domestic farm prices display a decent recovery.
- Core inflation in 2017 is expected to gradually increase to 1.0%YOY. Domestic consumption will recover, as supported by improving household purchasing power and government's stimulus measures. However, pressures on consumption persist due to high household debt and a slow and uncertain economic recovery.
- EIC views that the Monetary Policy Committee will hold policy rate at 1.5% despite higher inflation in 2017. The rising inflation will indeed be very low and remain within the Bank of Thailand's inflation target band of 2.5% ± 1.5%. The low rate should also support the recovery of the domestic economy amid various risks ahead.

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