



## Flash by EIC

1 December 2017

### Oil prices continued to drive inflation upward, to 0.99%YOY in November

#### Key point

- Headline inflation in November increased to 0.99%YOY from 0.86%YOY last month. Core inflation rose to 0.61%YOY from 0.58%YOY
- The main contributor of higher headline inflation rate was the increased global crude oil prices. The average Brent price in November jumped 34.7%YOY, escalating the domestic retail oil prices. However, raw food prices continued to contract for the ninth consecutive month at -1.2%YOY, especially the prices of meat, eggs and dairy products as well as fruit and vegetable prices.
- Core inflation grew due partly to the 5.8%YOY increase in tobacco and alcohol prices following the excise tax restructuring in September and partly to the 4.3%YOY rise in household electricity prices following the upward adjustments in the electricity Ft rate for September-December.

#### Implication

- EIC expects the inflation rate for 2017 and 2018 to be 0.7%YOY and 1.1%YOY respectively. The main inflation drivers continue to be the rising global crude oil prices and the ongoing effects from the excise tax hike. EIC views that Brent will likely average to USD 58 per barrel in 2018 from USD 54 per barrel this year, and the excise tax hike on tobacco and alcohol will continue to push up inflation during the first half of next year. On the other hand, raw food prices, especially fruit and vegetable prices, will continue to face downward pressure from the possible influx of agricultural produce into the market following more suitable climate and precipitation next year.
- On the contrary, EIC expects core inflation to stay close to the current low rate, at around 0.5% and 0.6% in 2017 and 2018 respectively. This is due to the still-recovering purchasing power, especially in the middle and lower income groups, slowing down the price rise of consumer goods.

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