



Flash by EIC

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Oil and fresh food prices pushed headline inflation to highest in 14 months. EIC still expects the annual figure to be 1.1%

Key point

- **Headline inflation in April rose to 1.07%YOY** from 0.79%YOY in March, resulted in an average headline inflation of 0.75%YOY for the first 4 months of 2018. Meanwhile, core inflation increased slightly to 0.64%YOY from 0.63%YOY in the previous month, led to an average core inflation of 0.62%YOY for the first 4 months of 2018.
- **Headline inflation accelerated to the highest figure in 14 months because of oil and fresh food prices that grew during the period.** The average Brent price for April was at USD 71.6 per barrel, higher than the previous year by 35.0%YOY which caused the energy price index to rise by 4.7%YOY. Furthermore, fresh food price also grew for the first time in 14 months at 0.49%YOY led by vegetables that increased 6.8%YOY while the price of rice, starch, and related products grew 1.4%YOY
- **Core inflation maintained a similar level to the previous month.** This is because the price of non-food consumer goods remained stable such as clothing and shoes that increased only by 0.11%YOY, rents at 0.63%YOY, and medical and personal services at 0.49%YOY.

Implication

- **EIC still expects the annual figure of headline inflation for 2018 to be at 1.1%YOY**, a result of the global crude oil price that is likely to remain at a higher level than the previous year, the increase of excise tax for cigarettes and alcohol that is still affecting inflation in the first half of this year, as well as the impacts from the increase in minimum wage rate on costs of production from April onwards. In addition, it is also worth keeping an eye on inflation in the fresh food category that may continue to grow in the 2nd quarter as price became stable in the past two months and will receive the benefits of lower-base from the previous year. Nevertheless, benefits from lower price base for oil and fresh food are likely to disappear in the latter half of the year that is likely to slow down the inflation rate after the 2nd quarter.
- **EIC views that core inflation is likely to remain stable in 2018 at 0.6%YOY.** Since prices of consumer products are unlikely to rise due to weak consumer purchasing power, particularly in the lower income group. This is especially observable in the consumption index of non-durable products that grew by only 0.5%YOY in the first

three months of 2018, the increase in unemployment, as well as the reduction of incomes in the agricultural sector due to prices being lower than the previous year, especially for rubber and sugar cane. EIC views that weak purchasing power of the lower income group is an important factor that put pressure on core inflation because the Thai's market basket of consumer price index mainly reflects the spending habits of lower to middle-income group.

- Although headline inflation has entered Bank of Thailand's expected rate of between 1-4%, factors that could push inflation rate out of the expected range include low household purchasing power and a possible influx of agricultural produces into the market following favourable climate. Thus, EIC views that Thailand's policy rate will remain stable throughout 2018 at 1.5%. However, if the Monetary Policy Committee is concerned about the monetary stability following a long period of low interest rate, the Committee may consider increasing policy interest rate at the end of the year.

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