



Flash by EIC

2 July 2018



Headline inflation in June was pushed to 1.38%YOY by oil price while fresh food price dropped.

Key point

- **Headline inflation in June decreased to 1.38%YOY from 1.49%YOY in May**, leading to an average headline inflation of 0.97%YOY for the first half of 2018. Core inflation on the other hand increased to 0.83%YOY from 0.80%YOY in the previous month, leading to an average core inflation of 0.69%YOY for the first half of 2018.
- **Increased crude oil price continued influencing headline inflation whereas fresh food price declined.** In June, the average Brent price was at USD 75.2 per barrel, 60.4%YOY higher than last year, causing the energy price index to rise by 9.6%YOY. However, the fresh food price dropped by 1.75%YOY due mainly to the prices of fresh vegetables and fruits which decreased by 5.9%YOY. Prices of meats, eggs and dairy products also declined.
- **Core inflation hit 31-month high.** This is due mainly to the transportation and communication price index which increased by 4.1%YOY from 3.3%YOY in the previous month. The prices of other non-food consumer products such as processed food, electricity and water supply also increased due partially to the higher energy price.

Implication

- **EIC expects the annual average headline inflation of 2018 to be at 1.3%YOY**, with an average headline inflation of the second half of the year potentially being higher than the first half due to the likeliness that crude oil price in world market will stay higher than last year throughout the rest of this year. For the second half of 2018, EIC forecasts the average crude oil price to be at USD 73.5 per barrel, a rise by 30%YOY, which will affect domestic oil retail price as well as costs of goods and services. The increased excise tax on cigarettes and alcoholic beverages will continue influencing inflation rate until September. Moreover, the impacts from the increase in minimum wage on production costs remain to be seen. Nevertheless, fresh food price may still be sensitive to the overwhelming fresh produce in the market as the weather this year has been helpful to crop yields.

■ **EIC expects the annual average core inflation of the year 2018 to be 0.7%YOY**, with the core inflation likely to be indirectly affected by the increased oil price which influences costs of consumer products and transportation services. Prices of other products and services have a potential to gradually rise due to increasing household incomes including recovering agricultural incomes and non-agricultural wages which have been improving since the beginning of the year. Nevertheless, with household debts remaining the obstacle to purchasing ability, the prices of products and services may not increase significantly.

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