



Headline inflation slows in February due to Thai Baht appreciation

Key point

- Headline inflation for February was 0.42%YOY, a slowdown from 0.68%YOY in January. Meanwhile, core inflation accelerated slightly to 0.63%YOY from 0.58%YOY in the previous month.
- The drop-off in headline inflation was attributed to the decrease in the petroleum retail price following the 10%YOY appreciation of Thai Baht in February. This factor led to a reduction in the costs of crude oil import although the price of crude oil has risen over 18%YOY. The energy price index rose slightly at 1.70%YOY. In addition, the price of LPG was reduced to a level that was lower than the same period of last year after the price was allowed to float and the Thai Baht appreciated. Raw food price index continued to fall for the 12-consecutive month at -1.53%YOY, especially the price of meat, eggs, and dairy products leading to a slower headline inflation overall.
- Core inflation has picked up slightly due to the 1.11%YOY increase in the price of prepared food. However, prices of non-food consumer products were still falling, such as clothing and shoes which saw 0.03%YOY reduction and telecommunication goods that fell by 0.04%YOY.

Implication

- EIC expects the average headline inflation for 2018 to recover to 1.1%YOY, based on the global crude oil price that is higher than the previous year due to the agreement to reduce oil production by OPEC and Non-OPEC member countries, as well as the rising excise tax that is expected to affect inflation into the first half of this year. Nevertheless, there are still factors that could negatively impact inflation recovery including fresh food prices, especially vegetables and fruits, will be pressured by the influx of agricultural produces into the market due to a favourable climate and increased precipitation. At the same time, the appreciation of Thai Baht will lead to an increase in the volume of imports that impact the inflation rate. The low inflation rate remains a challenge to the monetary policy in the foreseeable future, as EIC expects Thailand's policy rate to remain stable at 1.5% throughout 2018.

- EIC expects the core inflation to remain low and unchanging at 0.6% in 2018. Prices of consumer goods are unlikely to increase due to the weak consumer purchasing power particularly the lower income group. The increase in minimum wage rate in the current stagnant employment market is unlikely to make a significant impact on the purchasing power overall. Regardless, it is possible that some businesses will have to increase the price of certain goods to cope with the increasing labour costs.

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