Flash by EIC

SCB Economic Intelligence Center

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Oil price pushed headline inflation upward in March while core inflation remained stable

Key point

- **Headline inflation in March was at 0.79%YOY** an increase from 0.42%YOY in February resulting in an average headline inflation of 0.64%YOY for the first three months of 2018. Meanwhile, core inflation was at 0.63%YOY, the same as the previous month. An average core inflation for the first three months of the year was 0.61%YOY.
- **The main factor in the rise of headline inflation was the increased in oil price** The average Brent price in March was higher than at the same time of last year by 27.9%YOY. Consequently, the energy price index also rose by 3.8%YOY compared to 1.7%YOY last month. However, the decline of raw food prices remained a factor keeping the inflation low. This was evident in the raw food prices that continued to contract for the 13th consecutive months at -0.7%YOY. In particular, the price of meat shrank by -5.2%YOY, eggs and dairy products by -1.3%YOY, and seasonings by -1.9%YOY.
- **Core inflation remained at a similar level as previous month** Because prices of non-food consumer products were unchanging, such as clothing and shows only grew by 0.04%YOY while accommodation rents increased by 0.57%YOY and medical and personal services rose by 0.42%YOY.

Implication

- **EIC estimates headline inflation will gradually recover to an average of 1.1%YOY** The main contributing factor for the rise in inflation will be the global crude oil price that is showing a positive sign. In addition, the excise tax restructuring for tobacco and alcohol will continue to impact the inflation rate into the first half of 2018. It is also worth keeping an eye on the possible effects of the increase of minimum wage rate, effective in April, on costs of production. However, raw food prices, especially fruit and vegetable prices, will continue to exert pressure on inflation, leading to a slowdown in the recovery due to an influx of agricultural produce into the market following favourable climate and precipitation that support an increase in the rate of production. The appreciation of Thai Baht will also have a negative impact on inflation, especially in reducing energy price. The low inflation rate will maintain a significant impact on the monetary policy, in which EIC views that Thailand's policy on interest rate will be stable at 1.5% throughout 2018.

- **EIC understands that core inflation will maintain its current level at 0.6%YOY in 2018** As prices of consumer products are unlikely to rise due to weak consumer purchasing power, particularly in the lower income group. This can be observed in the consumption index of perishable products that grew by only 0.1%YOY in the first two months of the year. This is argued to be a consequence of rising unemployment rate from 0.96% at the end of 2017 to 1.28% in February 2018. Income level in the agricultural sector has also decreased from the previous year due to lower price for produces, especially for rubber and sugar cane. EIC views that the 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 reflects the spending habits of lower to middle-income groups in the main.

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