Flash by EIC

SCB Economic Intelligence Center

December 3, 2018

Headline inflation dipped to 0.94% in November 2018, the lowest reading in 8 months.

Key point

- **Headline inflation in November dipped to 0.94%YOY, down from 1.23%YOY in the previous month.** This is the third consecutive monthly decline, and the lowest level since March 2018. Thus, for the first 11 months of this year, headline inflation averaged at 1.13%YOY. Meanwhile, core inflation also slowed from 0.75%YOY last month to 0.69%YOY in November. Therefore, core inflation averaged at 0.71%YOY for the first 11 months this year.

- **Headline inflation slowed in November following softer energy price and core inflation.** The growth in energy price index slipped to 3.29%YOY, compared to 8.11%YOY last month, as a result of the - 6.91%YOY contraction in average Brent price in November. However, raw food price index increased by a slight 0.33%YOY in November, after recording a -1.48%YOY contraction last month. This was due to the improvement in meat price index, which accelerated 1.01%YOY in November, up from 0.21%YOY in the previous month, while vegetables and fruits price index contracted at a slower rate of -3.25%YOY, after the -8.33%YOY fall last month. **Core inflation slowed as a result of moderations in a number of components.** Leading the decline in core inflation were the growth in prices of housing and furnishing, prepared food, personal care expenditure, apparel and footwear, and public transportation services, which dipped to 0.53%YOY, 1.52%YOY, 0.28%YOY, 0.20%YOY, and 0.35%YOY; down from 0.59%YOY, 1.54%YOY, 0.70%YOY, 0.47%YOY, and 0.66%YOY last month, respectively. Moreover, prices of tobacco and alcoholic beverages rose more slowly at 0.23%YOY, compared to 0.41% last month, due to the high-base effect of the increase in excise tax that took place in September last year.

Implication

- **EIC has revised down its forecast for average headline inflation in 2018 from 1.2%YOY to 1.1%YOY,** considering that the decline in global crude price during the past 3 months has weighed down headline inflation, and the high-base effect in crude price will become more pronounced towards the end of the year. **However, EIC has maintained the forecast for average core inflation in 2018 at 0.7%YOY.** In November, core inflation remained unchanged from the previous month (0.00%MOM). This was the first time that it did not expand on a month-on-month basis since

December 2015 (when it contracted -0.02%MOM). The slowdown in core inflation reflects lukewarm consumer spending growth, as household income growth remained limited. Indeed, the growth of both agricultural and non-agricultural income has shown signs of moderation recently. Non-agricultural income expanded by only 1.89%YOY during the first 10 months of the year, while agricultural income rose by merely 2.27%YOY in November, down from 3.86% in the previous month. Nevertheless, average core inflation is expected to rise going forward, following recovery in domestic consumption and investment, as well as various government stimulus packages that will take effect between year-end and beginning of next year.

- **EIC believes that even though this month's inflation reading was lower than the lower-bound of the policy target range, it will not alter the interest rate policy path in the following period.** Although headline inflation slipped below 1.0% in November, it still averaged at 1.13%YOY since January, and is expected to average at around 1.1%YOY by the end of 2018. Likewise, the average headline inflation is expected to be above 1.0% for 2019. For these reasons, EIC believes that the Monetary Policy Committee (MPC) will still be able to deliver its first policy rate hike in 7 years soon, either in December 2018 or in February 2019. The supporting reasons for raising the rate in the December 2018 meeting are that headline inflation rate is already within the target range and the timing of the hike will not be too close to the election period, when uncertainties might be high. However, the first hike may instead come in the February 2019 if some of the committee members prefer to wait a little longer to ensure that inflation and growth conditions warrant a rate hike. In any case, EIC believes that policy tightening will take place gradually, and expects policy rate to be between 2.0-2.5% at the end of 2019.

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