Summary of Inflation Report - December 2018 and Year 2018

CPI in December 2018 increased by 0.36 percent (YoY), a positive growth rate for 18 consecutive months, albeit at a decelerated pace for four months running. This was mainly due to a fall in energy prices and prices of some agricultural products due to overproduction. Indexes for other goods and services, however, continue to grow, corresponding to the improved demand indicators, notably the value-added tax (VAT) revenue. The all items less food and energy (Core inflation) rose 0.68 percent.

On average, consumer Price Index for the whole 2018 was up by 1.07 percent, which falls into Ministry of Commerce’s target range of 0.8 – 1.6 percent. Several supply and demand factors were at play. First of all, the most important factor is an increase in energy prices which has driven up indexes for energy-related goods and services. Moreover, notwithstanding seasonal variation, natural events, as well as changes in domestic and global demand leading to fluctuations in production and prices, prices of major agricultural products (food) are still a contributing factor behind an increase of the inflation rate. Domestic demand continues to expand, albeit gradually, in line with more than proportionate increase of an average wage level and VAT revenue compared to the inflation rate and improved trends in global economic recovery. All these have contributed positively to an expansion of exports and public and private investments. Last but not least, government expenditures and various economic stimulus measures have yielded positive results in terms of increasing private spending and purchasing power in many ways.

As regards the increase of indexes for prepared food (at home and away from home), the increase is, in part, owing to a rise of indexes for energy-related goods and services such as cooking gas, transport cost, and rental (which was not adjusted upward for some time), coupled with improved purchasing power and consumption demand. All these have led to an increase in prices of the products in this category in 2018, which is not unusual, considering the fact that this product category is highly sensitive to changes in energy prices (gas, fuel, electricity). Added to this is an increase in the rent index that has driven up the index for food even further.

The outlook for 2019 CPI Inflation is projected to be at 1.2 percent (0.7 – 1.7) as was the case with inflation rate for 2018. Major contributions include energy price which will increase slightly from 2018 with associated risks being volatility in global demand and production structure as well as geopolitical tension, notably, in Eastern Europe and the Middle East. This could put an upward pressure on domestic transport cost. Public and private investment will turn more favorable in 2019 as suggested by many leading indicators such as progress in new and existing infrastructure development projects and an increase in applications for investment promotion. Agricultural prices will continue to improve from 2018, especially rice and cassava, where new crop continues to be harvested until Q1 of 2019. Growers of oil palm and rubber, however, will see their prices increase thanks to several government measures. Prices of manufactured products, particularly major domestically-produced manufactured products, are facing two pressures: one from a production-cost rise (as suggested by producer price index: PPI) and another from intensified competition, especially from imports. This will lead to subdued increase in the index. Exports will maintain its growth momentum from 2018 alongside global economic recovery. It will also gain from high possibilities of export production bases being relocated to Thailand which also brings about a rise in domestic prices and purchasing power. Thai Baht exchange rate is likely to depreciate following the US economic recovery and a slowdown of capital inflows. This will add to import cost and raise export revenue, which eventually put the inflation up.

All in all, our preliminary analyses suggest that all of the above factors will cause CPI in 2019 to continue to expand at the rate close to that of 2018.