

## Thailand Watch

## Weak inflation continued

**Inflation continued to fall**

In December, headline inflation continued to fall, showing a year-on-year contraction of -0.83% and a month-on-month reduction of -0.46%. This represents a greater decline than the -0.3% observed in November and is also lower than the -0.3% consensus estimate. The lower inflation figure was primarily driven by falling energy (-5.12% YoY) and raw food (-2.30% YoY) prices. Over the full year, the headline inflation rate rose by 1.23%.

**Energy subsidies**

The weak YoY inflation was in part due to the government's subsidies for electricity and diesel prices. We estimate that these measures have contributed to approximately a one percentage point decrease in YoY inflation. We anticipate that, without a substantial supply shock, inflation is likely to remain low in 2024.

**Food price decline**

Overall food inflation declined in December 2023, but there is a divergence in price between multiple items. The price of food and non-alcoholic beverages contracted 0.63% YoY compared to the previous month's +0.20%, driven by contractions in the price of meat, poultry, and fish, as well as vegetables and fruits. On the other hand, the price of rice, flour, and cereal products remained the key positive contributor, which expanded at a robust pace of 4.2% YoY, while the price of eggs and dairy products surged at 6.97% YoY. Until excess supply in the meat, poultry, and fish industries resolves, overall food inflation may remain in contraction in 1H24.

**Weak core inflation — subdued demand pressure**

Excluding food and energy, core CPI inflation has started to stabilize at a low level, reflecting the lack of domestic demand and the deterioration in the pricing power of businesses. The sequential momentum of core CPI remained weak at 0.06% MoM, resulting in stabilization of the YoY figure at 0.58%. Key categories, including medical & personal care, communication & equipment as well as shelter costs, recorded price inflation below 1%. The weak core inflation indicated weak demand and a sluggish rebound, in our view.

**Chance of a rate cut in 2H24**

We expect the Bank of Thailand (BoT) to disregard the recent disinflation trend and maintain its hawkish stance for the time being. The BoT has dismissed the low inflation, attributing it to the base effect and supply side factors, and is likely to focus more on financial stability issues. We think given the weak domestic demand, low inflation, and loan growth contraction, the chance of a rate cut would rise markedly in the latter half of the year, particularly if the digital wallet plan does not go through and if economic growth turns out to be weaker than expected.

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CPI – Consumer price index

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**Exhibit 1: Headline inflation continued to fall by 0.83% in December**

Consumer Price Index (% YoY)

	Weight	2021	2022	Jan-Dec-23	Oct-23	Nov-23	Dec-23
Headline CPI	100.00	1.23	6.08	1.23	-0.31	-0.44	-0.83
Food and beverages	36.29	-0.12	6.92	2.56	-0.65	0.20	-0.63
Non-food and beverages	63.41	2.13	5.50	-7.97	-0.09	-0.87	-1.00
Apparel and footwear	2.83	-0.26	0.04	0.24	0.09	0.03	0.00
Housing and furnishing	22.8	-1.72	4.75	1.20	-0.68	-0.76	-0.73
Medical and personal care	6.16	0.23	1.13	1.57	1.27	0.88	0.88
Transportation and communication	24.21	7.74	9.06	-0.98	-0.04	-1.84	-2.20
- Motor fuel	8.03	24.59	23.93	-2.94	-0.37	-4.74	-5.62
Recreation and education	6.11	-0.45	0.23	0.96	0.56	0.62	0.66
Tobacco and alcoholic beverages	1.59	0.28	2.00	0.80	1.07	1.01	1.00
Core CPI	72.52	0.24	2.50	1.27	0.66	0.58	0.58

Source: MoC

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**Exhibit 2: Headline inflation persisted in its downward trend**

Consumer Price Index (% MoM)

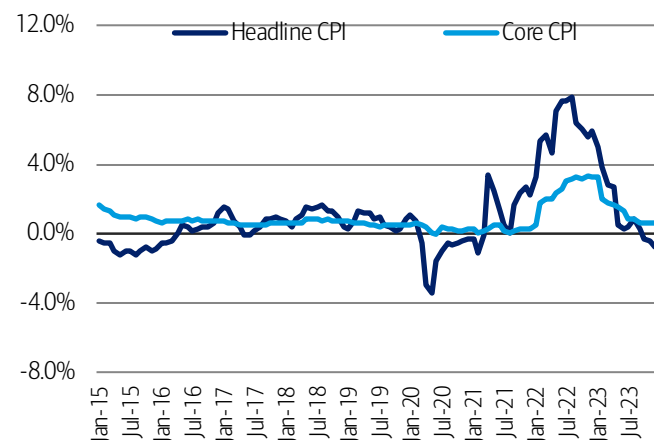
	Weight	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Headline CPI	100.00	-0.01	0.55	-0.36	-0.28	-0.25	-0.46
Food and beverages	36.29	-0.60	0.23	-0.16	0.18	0.23	-0.51
Non-food and beverages	63.41	0.42	0.76	-0.50	-0.61	-0.58	-0.44
Apparel and footwear	2.83	-0.13	-0.02	0.08	-0.17	0.00	-0.09
Housing and furnishing	22.8	0.04	0.07	-1.29	0.01	-0.03	0.04
Medical and personal care	6.16	0.16	-0.01	-0.06	0.22	-0.16	0.03
Transportation and communication	24.21	0.97	1.87	-0.04	-1.58	-1.42	-1.13
- Motor fuel	8.03	2.39	4.54	-0.09	-3.73	-3.49	-2.77
Recreation and education	6.11	0.09	0.01	0.03	0.02	0.07	0.10
Tobacco and alcoholic beverages	1.59	0.01	-0.05	0.27	0.46	0.03	0.01
Core CPI	72.52	0.04	0.02	-0.03	0.08	0.06	0.06

Source: MoC

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**Exhibit 3: Inflation remained weak in December**

Headline and core CPI (%YoY)

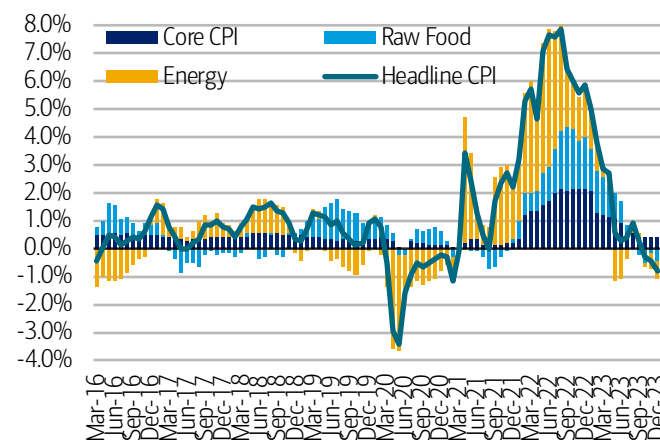


Source: MoC, KKPS

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**Exhibit 4: Food and energy prices mainly contributed to the decline**

Contribution to inflation



Source: MoC, KKPS

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