

Macro Note

Thailand: Disinflation Continued In Dec Amid Ongoing Subsidies

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- In Dec 23, Thailand's headline CPI continued to fall by 0.83% y/y from -0.44% y/y in Nov, the third consecutive month of negative inflation rate and the lowest rate in almost 3 years. Amid subdued economic growth and easing global oil prices, the rapid disinflation process has primarily been driven by the government's subsidies for energy and electricity prices on the back of favorable supply conditions. In 2023, headline inflation rose 1.23 % (+6.08% in 2022), slightly below our estimate of 1.3%. Core inflation remained unchanged from Nov at 0.58% y/y, and the annual core inflation rose by 1.27% y/y in 2023 (+2.51% in 2022). A sharp slowdown in the annual core inflation may reflect the overall anemic aggregate demand in the economy in 2023.
- Thailand has entered a period of technical deflation¹ as expected, owing to the government's supply-side interventions. This was reflected by a sharp contraction in energy inflation to -4.52% y/y in Nov from -1.55% y/y in Oct. Overall, downward pressures on prices were attributed to a fall in both food and non-food inflation which turned negative in Dec of -0.63% y/y and -1.0% y/y, respectively.
- In 2024, the Ministry of Commerce (MOC) expected inflationary pressures to remain sluggish on the back of some remaining government subsidies, subdued global oil prices, and limited impact of El Niño effects. Headline inflation was estimated to settle in the range of -0.3% to 1.7% in 2024. Based on the latest outturn in Dec and trends of underlying pressures, we therefore revise down our projection for the headline inflation to average 1.6% in 2024 from the previous estimate of 2.0% before rebounding to an average of 2.3% in 2025.
- Demand-pullback leading to deflation risks remain low for Thailand at current juncture in our view as deflationary pressures should gradually dissipate amid the ongoing economic recovery driven by a recovery in the external sector and resilient domestic demand. In addition, amid well-anchored inflation expectations, a low inflation trend induced by supply-side interventions should also normalize once the government's existing subsidies and other short-term measures expire in 1H24.

Government's Subsidies For Energy And Electricity Resulted Into Deflation
Unsurprisingly, the headline consumer price index (CPI) continued to contract by 0.83% y/y from -0.44% y/y in Nov, slightly deeper-than-expected and marking the third consecutive month of negative inflation. It was also the lowest rate in almost 3 years. As a result, Thailand has slipped into a period of technical deflation. The short-term government's subsidies for energy and electricity prices continued to

¹ A technical deflation refers to the period when a negative inflation continues at least 3 months, according to the IMF: Deflation Determinants, Risks, and Policy Options (IMF, 2003). And deflation refers to a broad-based and lasting decline in prices.

add downward pressures on the headline figure. While most subsidies were terminated, some remain effective including subsidies to diesel prices and electricity costs for low-income households. Against this backdrop, the inflation rate should rebound and normalize in line with the ongoing economic recovery. In addition, the remaining interventions will be expiring in Apr 2024, according to the government's plan. **Energy inflation** (with the weight of 12.4% in the CPI basket) slumped further to -5.12% y/y from -4.52% y/y in Nov, and **electricity prices** (with the weight of 5.5% in the CPI basket) fell by -3.14% y/y in Dec, almost unchanged pace in Nov of -3.15% y/y. Overall, **non-core inflation** (with the weight of 33% in the CPI basket) continued to contract further to -3.42% y/y from a negative rate of -2.28% y/y. In Dec, **core inflation** (excluding raw food and energy prices) was recorded at 0.58% y/y, unchanged from Nov and, in 2023, core inflation rose 1.27% (+2.50% in 2022). The outturn of a softening core inflation in 4Q23 should reflect weak overall economic growth which has continued from the previous two quarters.

By major categories, **prices of food and non-alcoholic beverages** (with the weight of about 40% in the CPI basket) declined by -0.63% y/y from +0.20% in Nov thanks to a drop in raw food prices. **Non-food and beverage inflation**, with the weight of 60% in the CPI basket, also continued to decline in Dec, falling further to -1.0% y/y (Nov: -0.87% y/y). The contraction was attributed to a lingering fall in the categories of **housing/furnishing**, with the weight of 23.2% in the CPI basket, (Dec: -0.73% y/y, Nov: -0.76% y/y) and **transport and communication**, with the weight of 22.7% in the CPI basket (Dec: -2.20% y/y, Nov: -1.84% y/y), while prices of other categories rose slightly, or remained relatively unchanged.

Based on the outturn in Dec, the MOC continued to assess that the deflation risk remained low for Thailand since:

- The negative inflation rate in 4Q23 was driven primarily by short-term government measures to subsidize electricity and energy prices, and most of them were terminated in Dec 23.
- The decline in price was not on a broad-based basis in Dec. According to the MOC, 270 items or 63% of 430 items in the CPI basket (about 63%) continued to record an increase in prices, prices of 49 items (11% of the basket) remained unchanged, and only 107 items (25% of the entire basket) recorded a decline in prices.
- The Thailand's economic recovery was expected to be on track into 2024 and inflationary pressures should build up.

However, the authorities expected weak inflationary pressures to continue into Jan 24 as some short-term subsidies for electricity costs to low-income households remain on the back of softening global oil prices and limited impact of El Niño. In 2024, the MOC expected the headline inflation to be in the range of -0.3% to 1.7%, unchanged from the projection given in Dec 23².

Deflationary Pressures Are Expected to Ease As The Economic Recovery Continues

Thailand has entered into a period of technical deflation as we previously expected as the negative inflation lingers for 3 months. However, we view that the structural deflation risk remains low given the ongoing economic recovery driven by a resilient domestic demand. Additionally, with well-anchored inflation expectations, the inflation trend should normalize once the government's subsidies and other short-

² The MOC's key assumptions in 2024: (1) economic growth rate in the range of 2.7%- 3.7%, (2) annual average of Dubai oil prices of 80-90 USD/barrel, and (3) the average of the USD/THB exchange rate in the range of 34-36.

term measures expire in Apr 24 on the back of the economic recovery. In 2024, the government has planned to introduce fiscal stimulus, particularly the digital wallet scheme, and this should boost aggregate demand and induce upward pressures on prices.

Nonetheless, the headline inflation is expected to remain weak and hover around the bound of the Bank of Thailand (BOT)'s target range of 1%-3% in 2024. On the demand side, we expect household consumption to moderate following the surge in previous periods against the backdrop of slower credit growth and tighter financial conditions. The outturn of core inflation in Dec and the recent trend of the GDP deflator also suggested anemic economic activity, amid weak labor market conditions. On the supply side, against the backdrop of gloomy global growth and easing global oil prices, upward pressures on prices remain muted, reflected by a subdued trend of the produce price index (PPI) and a persistent drop in import prices.

Overall, with subdued underlying price pressures, we revise down our inflation forecast for 2024 to record at an average 1.6% from the previous estimate of 2.0% and it should rebound to 2.3% in 2025 in line with underlying factors.

In terms of the BOT's policy rate in 2024, we reiterate our view that the BOT will keep the rate unchanged at the current level of 2.50% in the absence of meaningful inflationary pressures, while concerns over financial imbalances and household debts remain. However, we do not rule out the possibility of rate cuts by the BOT in 2H24 should downside risks to growth take place.

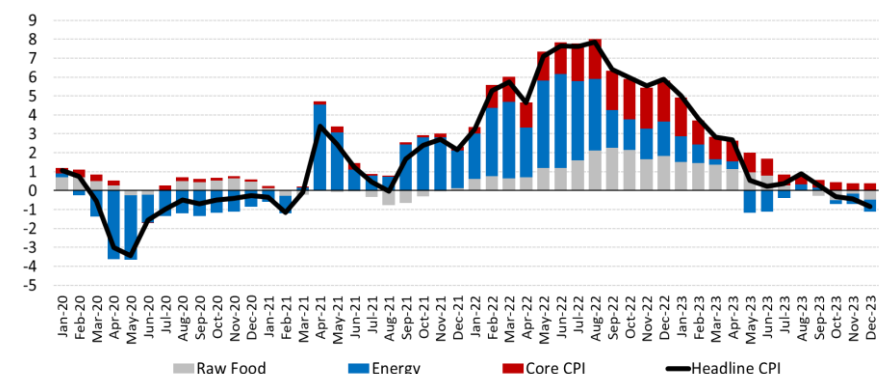
Summary of Key Items of the CPI Inflation (% y/y)

Source: CEIC, UOB Global Economics & Markets Research

Items	Weight	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Headline Inflation	100.0	5.02	3.79	2.83	2.67	0.53	0.23	0.38	0.88	0.30	-0.31	-0.44	-0.83
Core Inflation	67.1	3.04	1.93	1.75	1.66	1.55	1.32	0.86	0.79	0.63	0.66	0.58	0.58
Non-Core Inflation	32.9	8.80	7.38	4.89	4.60	-1.32	-1.68	-0.49	1.05	-0.30	-2.09	-2.28	-3.42
Raw Food	20.6	7.32	7.14	6.66	5.50	4.70	3.92	1.37	0.00	-1.30	-2.45	-0.76	-2.30
Energy	12.4	11.08	7.75	2.42	3.30	-9.55	-9.11	-3.12	2.58	1.21	-1.55	-4.52	-5.12
Food and Non Alcoholic Beverages	40.4	7.70	5.74	5.22	4.53	3.99	3.37	1.49	0.74	-0.10	-0.65	0.20	-0.63
Non Food & Beverages	59.7	3.18	2.47	1.22	1.39	-1.83	-1.88	-0.38	0.98	0.59	-0.09	-0.87	-1.00
Housing and Furnishing	23.2	3.11	3.08	3.16	3.03	-0.70	2.04	1.91	1.84	-0.68	-0.68	-0.76	-0.73
Transport and Communication	22.7	4.26	2.45	-0.70	-0.09	-4.58	-6.91	-3.25	0.26	1.68	-0.04	-1.84	-2.20
Medical and Personal Care	5.7	1.94	2.00	2.03	1.79	1.92	1.80	1.80	1.41	1.17	1.27	0.88	0.88
Recreation, Education and Religion	4.5	1.41	1.39	1.46	1.48	1.49	0.70	0.61	0.60	0.61	0.56	0.62	0.66
Apparel & Footwears	2.2	0.22	0.28	0.26	0.27	0.47	0.45	0.28	0.25	0.27	0.09	0.03	0.00
Tobacco & Alcoholic Beverages	1.4	0.98	1.13	0.69	0.67	0.69	0.65	0.56	0.46	0.62	1.07	1.01	1.00

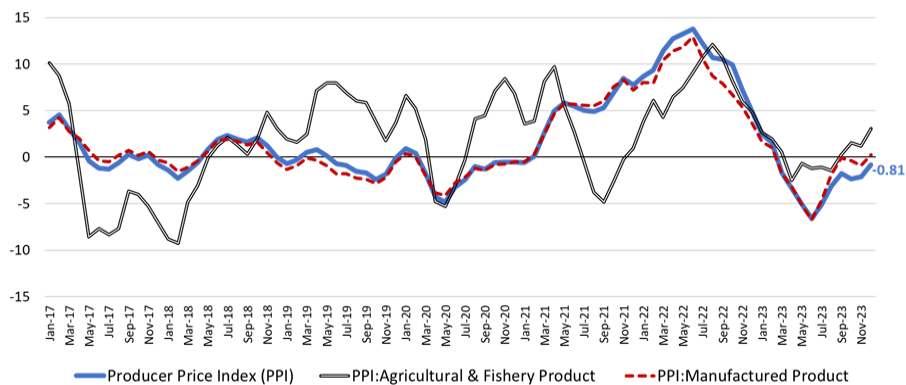
Government's Subsidies for Energy and Electricity Prices Continue to Drive Inflation into Negative

Source: CEIC, UOB Global Economics & Markets Research



PPI Remains Contracted in Dec 23 (% y/y)

Source: CEIC, UOB Global Economics & Markets Research



Our Forecast

%	As of 8 Jan	1Q24	2Q24	3Q24	4Q24
BOT 1-D Repo Rate	2.50%	2.50%	2.50%	2.50%	2.50%

Source: Global Economics & Markets Research (as of 8 Jan 2024)

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