Inflation Report Summary – July 2021

The headline inflation in July 2021 slowed down from the previous month, primarily owing to the government measures to lower the cost of living towards utility bills and the dropped prices of particular agricultural products; while energy prices continued to expand.

The Consumer Price Index in July 2021 increased 0.45 percent (YoY), decelerating from 1.25 percent in the previous month. This was a result of **the continuous expansion of the index for energy at 6.30 percent** and **the increase in the price of particular agricultural products** such as pork, eggs, and fresh fruits following mild demand during the lockdown. The spread of African swine occurred in domestic farmed pigs, together with low base effects in eggs and fresh fruits were also the causes of the decrease. However, **the government measure to reduce utility bills** in July – August, **the reduction in tuition and education fees**, as well as **the declining price of some fresh food** such as rice and fresh vegetables were the decelerating factors for the inflation rate. Other prices were quite stable and moved in line with the current production and demand during the COVID-19 pandemic.

Excluding volatile food and energy prices, the core CPI increased 0.14 percent (YoY), decelerating from 0.52 percent in the previous month. **On a monthly basis, the CPI rose 0.12 percent (MoM). For a 7-month average, headline inflation increased 0.83 percent (AoA).**

The inflation slowdown in July was consistent with related economic indicators which expanded at decelerated rates, including VAT revenue from imports, sales of commercial vehicles and motorcycles, and farmers' income**.** In addition, the Producer Price Index (PPI) and Construction Materials Price Index (CMI) continued to expand at accelerated rates of 5.0 percent (YoY) and 7.8 percent respectively. These were in line with the slight drop of Capacity Utilization (Cap-U), Manufacturing Production Index (MPI), Construction Material Sales Index, and the volume of steel sales. However, amid the tightening pandemic restriction, domestic purchasing power and demands could be uplifted in the light of Thai exports recovery, more or less.

The CPI for August 2021 is projected to rise at a gradual rate as the government measures on lowering cost-of-living by reducing electricity and water bills are still effective until the end of August 2021. The price of energy is also a significant factor as it tends to rise at decelerated rates but up and down prices may be seen following global economic uncertainty. Other goods and services are expected to move inconsistent with production and demand for consumption; while, agricultural prices are expected to swing following uncertain weather. In addition, the outbreak of COVID-19 could limit economic activities, affecting overall purchasing power and consumption, and would cause the inflation rate to move within a limited range. However, efficient vaccine procurement and distribution, as well as the government's economic stimulus measures, should encourage inflation to move within the Bank of Thailand's inflation target of 1 to 3 percent.

Annual headline inflation in 2021 is projected to grow at the rate between 0.7 to 1.7 percent (with an average of 1.2 percent) which is an appropriate range that would effectively support the current Thai economy.

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