

Good Morning Asia - 3 April 2018

Consumer price inflation picks up in Indonesia and Thailand. A significantly weaker currency may prompt a change to Bank Indonesia's neutral policy stance

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Source: istock

3.4%

March headline inflation rate

In line with the central bank's 2018 target

Higher than expected

Inflation pressures were more broad-based but BI is unlikely to be worried for now

Headline and core inflation rates for March were slightly higher than expected. Food and energy inflation were the major drivers for last month's inflation. Other price index categories that increased YoY included clothing and healthcare. These pressures dominated the slower inflation rates for processed food and housing. We attribute the price pressure to supply issues and to a weaker IDR. These would keep Bank of Indonesia (BI) vigilant as it keeps the policy rate steady.

Inflation pressures and negative base effects (by 4Q) would likely see headline inflation rate trend toward 4% and result in an average inflation rate of 3.6% in 2018 from the 1Q average of 3.3%. There is leeway for BI to allow for higher inflation. BI targets the inflation rate to remain within the range of 2.5% to 4.5%. The leeway allows BI to keep policy settings supportive for overall growth while providing some stability. However, a significantly weaker IDR may force BI to turn hawkish. We expect IDR to trade around the IDR13700 for most of this year.

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IMF calls for more economic stimulus

In the just concluded Article IV Consultation of the Thai economy the International Monetary Fund urged for a greater policy stimulus to achieve more balanced growth.

According to [the IMF press release](#) on 29 March, the Fund staff acknowledged Thailand's improving economic performance albeit with an "unbalanced composition".

... growth has not been broad-based and the current account surplus remains large. To achieve a more balance growth, the mission recommends an expansionary policy mix based on fiscal stimulus and monetary easing, with macroprudential policy preserving financial stability.

The main reasons cited for structural imbalance were economic transformation and ageing as depressing domestic demand, while a cyclical upswing in exports failed to sufficiently trickle down

to household income and investment.

0.8%

Lower than expected

Thai CPI inflation in March

Year-on-year

Data support the IMF's call

The latest activity data support the IMF's call for increased policy accommodation. Released today, Thailand's consumer price inflation accelerated to 0.8% year-on-year in March from 0.4% in the previous month, though the print was still below the consensus centred on about 1% inflation. The higher inflation is mostly the base effect, while the main CPI components of food and transport prices continued to contract on a month-on-month basis. Core inflation, which excludes food and fuel-related components from total CPI, was unchanged at 0.6%.

And released last Friday (30 March), manufacturing output growth in February was unchanged from the 4.7% pace of January, though the previous month's growth was revised up from 3.4%. Firmer manufacturing growth was despite a sharp slowdown in volume of exports to 3.1% in February from 11.3% in January. Manufacturing drives real GDP growth. A modest pick-up in manufacturing growth from a 4.4% average in the fourth quarter of 2017 points to a pick-up in GDP growth in the first quarter of 2018.

Will policymakers heed the call?

At the last meeting on 28 March the Bank of Thailand (BoT) assessed the current accommodative monetary policy stance supportive of economic growth and return of inflation to the 1-4% policy target in the near-term. However, according to the policy statement, one policy committee member warned against prolonged accommodation, noting that such policy could lead economic units to underestimate potential changes in financial conditions, and that a policy rate hike wouldn't hinder economic recovery.

We doubt the policymakers will heed the IMF's call for more stimulus. We maintain our forecast of an on-hold BoT monetary policy this year.

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