

Influence of Rents on Core Inflation

Under the inflation targeting framework, the Monetary Policy Committee (MPC) sets monetary policy in order to attain price stability, using core inflation as its policy target with the range of 0-3.5 per cent. During the recent periods, core inflation remained low, due mainly to the declining trend of rents since the year 2000. As rents account for 22.6 per cent of goods and services in the basket used to calculate core inflation, the MPC

deemed it important to closely monitor activities in the housing market as part of its continuous assessment of factors affecting the inflation outlook.

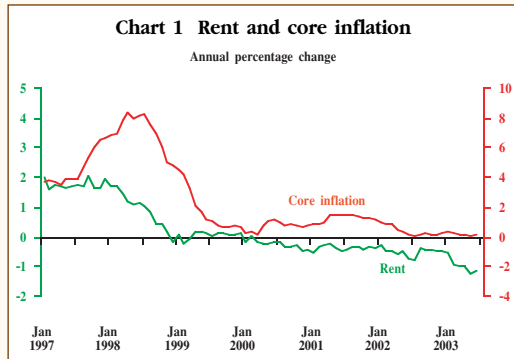
Factors contributing to the continuous decline in rents were the following.

1. The continued economic recovery, low deposit and lending rates, as well as government stimulus measures, that encouraged some tenants to buy their own houses. Demand in the housing sector thus increased. During the first 4 months of 2003, housing credit rose by 11.8 per cent year-on-year, furthermore, the number of housing registrations in Bangkok and its vicinity during 2003 Q1, increased by 4.9 per cent compared to the same period last year. Demand expansion in the housing sector was largely real demand for residential housing, although some were of investment purposes especially housings around central residential areas.

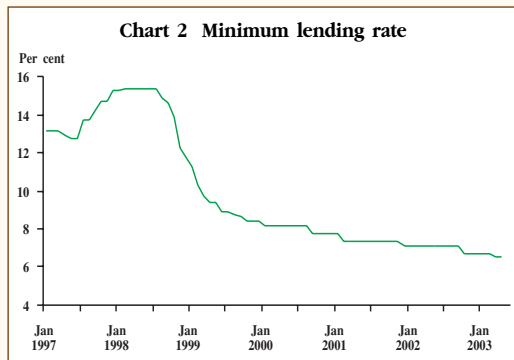
2. Remaining supply of housing projects built during the pre-crisis period.

3. Rental rates in rental contracts that were normally fixed for a certain period of time. As a result, landlords were not able to immediately raise rents, even though the economy was picking up.

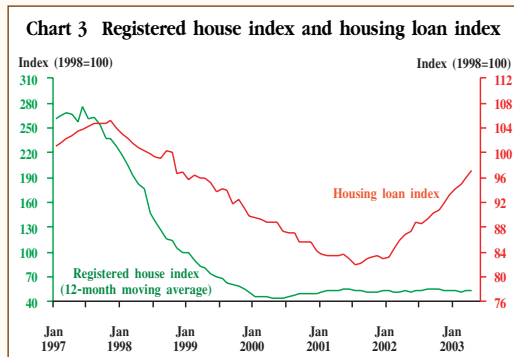
Therefore, it could be said that the persistently low core inflation during the recent period, were partly due to the continuous decline in rents. Nevertheless, the escalated demand in the housing sector following the economic recovery, the rising trend of housing prices owing to higher production costs, due to an increase in both construction material and wages, as well as the discontinuation of the real estate tax concession at the end of 2003, could lead to an increase in rents and consequently, of core inflation in the future.



Source: Ministry of Commerce



Source: Bank of Thailand



Source: Government Housing Bank and Bank of Thailand