

## 6. Conclusion

Although private domestic demand expanded by less than expected in 2007 Q2, higher-than-expected export growth, coupled with an acceleration in public spending enabled the Thai economy to grow in line with the MPC's projection during the first half of this year. For the rest of 2007, the MPC viewed that private domestic demand indicators began to show signs of improvement, given support from numerous factors, including improvements in investor confidence due to greater political clarity, continued fiscal stimulus, low inflation that helped maintain consumers' purchasing power, and a more accommodative monetary policy stance conducive for economic activities. Meanwhile, net exports were expected to be higher than previously projected, largely as a result of a weaker-than-expected growth of imports. Thus, the MPC assessed that the Thai economy in 2007 would grow at a rate similar to that previously projected, and the forecast range of output growth was narrowed to 4.3-4.8 per cent, given actual data for the first half of this year. As for 2008, the MPC maintained the same forecast range of 4.5-6 per cent.

Price pressures remained low but were slightly higher than previously projected, mainly from supply-side factors, including the rise in world oil and commodity prices, as well as upward adjustments in prices of goods and services previously subjected to price administration measures. However, pressures from the demand-side remained low. The MPC thus assessed that core inflation would still remain within the target range during the next 8 quarters where it was expected to average between 0.8-1.3 per cent in 2007, before slightly increasing next year to average within the previously projected range of 1-2 per cent.

Overall, prospects for the Thai economy did not change significantly from the previous *Report*. On the other hand, price pressures rose slightly. The MPC thus decided to maintain the policy rate at 3.25 per cent per annum at its meetings on 29 August and 10 October 2007. The MPC also deemed that uncertainties arising from the problems in the US subprime market could affect the Thai economy and would need to be closely monitored, going forward.

## Report: “Economic/Business Information Exchange Programme between the Bank of Thailand and the Business Sector”

*As of 30 September 2007*

From the Economic/Business Information Exchange Programme between the Bank of Thailand and 148 business firms throughout the country during 2007 Q3, most businesses revealed that business performance remained unchanged from the previous quarter. Business costs continued to increase while adjustments of retail prices of goods and services were limited, owing to the marginal recovery in domestic demand and weak consumer confidence. Towards the end of this quarter, however, some businesses witnessed signs of improvement in both consumption and investment and believed that the Thai economy would show clearer signs of recovery after the general election scheduled for the end of the year.

- **Private consumption.** Overall sales of goods and services expanded at the same rate as the previous quarter. Passenger car sales improved while motorcycle sales declined, which subsequently resulted in a minor slowdown in the car leasing business. However, most businesses expected that domestic sales should improve in 2007 Q4 following the unwinding of political uncertainties and brighter prospects in the stock market. Moreover, condominium sales improved while single detached house and townhouse sales decelerated, due partly to the changing lifestyle of urban people.
- **Private investment.** Most businesses still postponed their investment plans while waiting for greater clarity regarding government direction and policies after the general election. Nevertheless, most of these businesses indicated their readiness to invest if the situation was calm and peaceful after the general election. This was clearly reflected by an increase in investment demand in industrial parks, as well as plans for raising capital through the stock exchange market of some large enterprises.
- **Exports.** Overall export conditions slowed down in line with the slowdown in global demand and the loss of competitiveness in some industries, especially apparels. However, exports of textiles and plastic products continued to expand well. Furthermore, towards the end of this quarter, some exporters received higher book-orders from abroad in response to higher demand during year-end, a positive sign that Thai exports should be able to expand continuously throughout 2007 Q4.
- **Manufacturing sector.** Given the positive signal from pre-orders, businesses assessed that manufacturing conditions should improve for the remaining of the year. Rubber products, metals, and plastic products used in the automobile industry still expanded favourably. This was in line with the automobile industry outlook which was expected to expand favourably in 2007 Q4.
- **Prices of goods and services.** In 2007 Q3, business costs increased from rising oil prices and other operating costs such as wages. Furthermore, marketing costs to boost sales also rose substantially. Meanwhile, price adjustments were limited due to severe competition in the domestic market. As a result, profit margins of businesses declined, a situation businesses expect would continue for some time, at least in the near term.
- **Labour market and employment.** Some businesses were still faced with a labour shortage problem, both in skilled and unskilled labour, due partly to workers moving to workplace with a better environment and higher pay. As a result, some firms had to either hire alien workers or substitute labour with sophisticated machinery. Moreover, some businesses moved their production bases to other provinces where labour was abundant. The recent shutdown of some factories also helped relieve the labour shortage problem.
- **Financial sector and financial institutions.** Demand for corporate and personal loans slowed down. The amount of credit card usage also decelerated compared to the previous quarter. Even though non-performing loans (NPLs) in the corporate sector remained low, there was a sign of rising NPLs in some household groups. This prompted financial institutions to be more prudent in their credit approval policy. Nevertheless, financial institutions expected that demand for loans would improve marginally in 2007 Q4 due to the typical spending season.
- **Business limitations and risk factors.** Most businesses indicated that political uncertainties and economic conditions were the two main factors affecting consumer and business confidence. Meanwhile, the appreciation of the baht and the subprime problem in the US were secondary factors affecting business operation. Thus, the clearer political situation, particularly after the new Constitution was approved by public referendum, should stimulate consumption and investment in the coming periods.