

## **Private Consumption Expected to Drive Growth Forward**

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FOR A small, open economy like Thailand's, its performance is down to the world economic recovery, as has been pointed out by many.

Nevertheless, it would be unwise for Thailand to solely put her faith on the world economy amid talks of lower potential world growth among several economists.

Instead, any extraordinary performances from the G-3 countries should be regarded as an unexpected bonus or a turn of luck.

With this mindset, attention should be called more towards domestic demand, particularly that of the private sector.

In particular, private consumption must maintain its strength so as to keep production going, which will eventually lead to higher private investment.

In this regard, there are signs that the recovery in private consumption will indeed be spearheading growth going for ward.

First, almost all workers have jobs and their income is secured.

The unemployment rate fell to the pre-crisis level of 0.9 per cent in December, so consumers should have enough money to spend.

Second, about 40 per cent of labour is employed in the agricultural sector, which is benefiting from rising agricultural prices.

This income group also has a lower propensity to save and is likely to consume a larger portion of its income than other groups.

In addition, the government policy of guaranteeing agricultural prices gives income directly to farmers, as opposed to the previous system of pawning, which gave more benefits to rice millers.

Going forward, it is unlikely that the government will call off the policy anytime soon.

This would likely shift the consumption behaviour of farmers. Again, consumers should have secured enough cash to spend.

Third, some of the effects of the government's first stimulus package last year will persist.

In particular, the 15-year free education programme will lower household expenses, which gives more income to spend every year up to 15 years.

Again, this should change household consumption behaviour here.

Fourth, while the above three factors indicate potential spending muscle, for actual spending to materialise, consumer confidence must be at a reassuring level.

The good news here is that according to the University of the Thai Chamber of Commerce, the consumer confidence index has gradually rebounded from its lowest point of 71.5 in May of last year to 79.3 in January 2010.

Clearly, consumer confidence is edging up, which is in line with recent consumption behaviour whereby consumption of durable goods such as electric appliances and cars has expanded vigorously.

Having enough income and the guts to spend would do the trick. However, the worst risk to discourage spending is political unrest.

Should there be another protest like last April, not only would it reduce consumer confidence, Thailand would be seen as an unstable place to invest and the government stimulus schemes, especially "the Strong Thailand programme", may dither.

All engines of growth would boil down to one - the export sector.

If that is the case, the fate of Thailand will have to depend indeed on the world economy, brushing off any hopes for a strong recovery.

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**(The views expressed are the author's own.)**

**Published in The Nation on Monday, February 15, 2010**