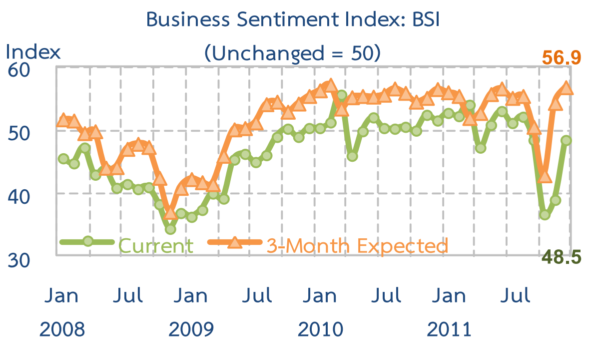
Report on Business Sentiment Index (BSI)
December 2011

In December 2011, Current BSI[1] stood at 48.5, reflecting worsening confidence in current business conditions from the previous month. Nonetheless, many components reflected improving confidence from the previous month. While the 3-month expected BSI remained above 50 in almost every component except the production cost. In this month, the top business constraints were economic uncertainty, difficulty in price adjustment, and high cost of production.

Details of the respondents' perception of business conditions are as follows:

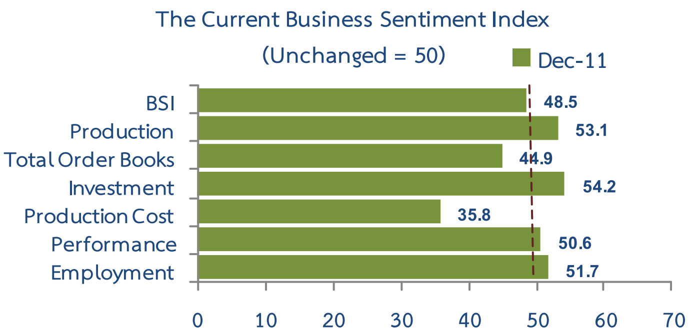
1. Business Conditions



Source: Business Sentiment Survey, December 2011, BOT.

In December 2011, confidence in current business conditions worsened compared to last month as reflected in BSI index of 48.5, lower than the confidence level for the third consecutive month. Nonetheless, business confidence in production, employment, investment, and performance improved from the previous month in line with business recovery.

Respondents expected improving business conditions in the future, as reflected in the 3-month expected BSI of 56.9. Almost every component except cost of production was above 50. This reflected a persistent pressure on production cost due partly to increasing trend of wages following the government measures.



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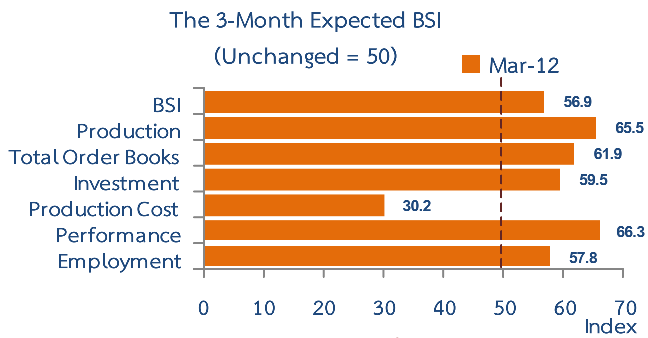

Source: Business Sentiment Survey, December 2011, BOT.

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[1] - The BSI was developed by the Bank of Thailand (BOT). The BSI diffusion index composes of six components, namely production, total order books, investment, production cost, performance, and employment. Each component is applied with equal weight then calculated into a single monthly index figure. The formula for calculation of BSI diffusion index is the following: 100×{(1.0 × percentage of respondents "improved")+(0.5×percentage of respondents "unchanged")+ (0×percentage of respondents "deteriorated")}

- The interpretations of the index are as follow :
  - Index = 50 indicates that respondents' business sentiment remains stable from the previous month
  - Index > 50 indicates that respondents' business sentiment has improved from the previous month
  - Index < 50 indicates that respondents' business sentiment has worsened from the previous month
- The survey rates from 631 medium and large sized business or 44.6 per cent of total survey distributed.
- From the correlation analysis, BSI significantly leads GDP and private investment for one quarter.
- The questionnaires are sent out during the last week of the surveyed month and are compiled by the third week of the next month

1.1 Domestic Expenditure

Confidence in current domestic order books remained worsening from the previous month for the third consecutive month but investment intention was improved. In this month, current domestic order books index remained below confidence level. This reflected that production and consumption had not fully recovered. Some customers were reluctant to accept goods from flooded factories as concern over the quality of goods remained. Nonetheless, respondents anticipated that domestic order books would improve in the future, as reflected in the 3-month expected domestic order books index of 60.6. As for the investment intention, respondents remained confidence in current investment conditions and intended to expand investment going forward as reflected in the current investment index and the 3-month expected investment index of 54.2 and 59.5, respectively.

1.2 Foreign Demand

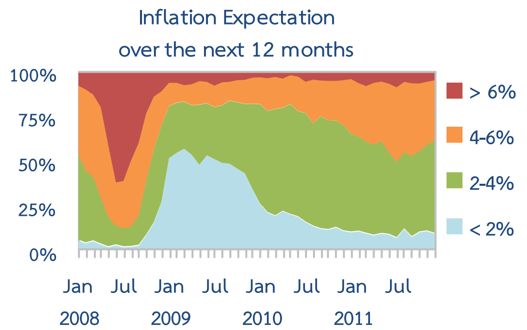
Respondents' confidence in current foreign order books and export conditions in December 2011 was affected by the global economic slowdown, reflected in foreign order books index of 44.2 and current export conditions index of 46.0, both below confidence level. Nonetheless, proportion of respondents who anticipated worsening conditions was lower than that of the previous month. In addition, respondents expected increasing foreign order books in the future as reflected in the 3-month expected foreign order books of 54.3 in line with the 3-month expected export conditions index of 55.6.

2. Businesses' Financial Conditions

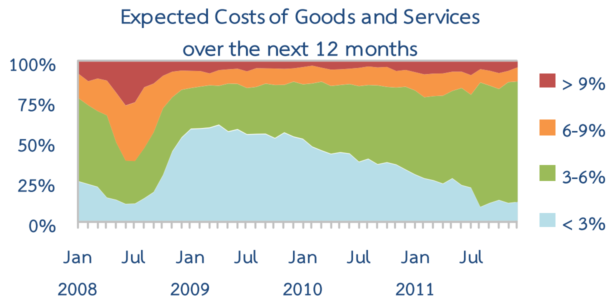
Liquidity conditions tightened continuously from the previous month. Meanwhile, interest burden was expected to increase in the future. Nonetheless, respondents continued to receive sufficient credit lines for their business requirement. In this month, liquidity condition continuously tightened from the previous month as reflected in current liquidity index at 46.8. Moreover, respondents expected tightening liquidity conditions further in the next 3 months compared to this month as reflected in the 3-month expected liquidity index of 46.6. As for the interest burden, respondents perceived higher interest burden for current period and in the future. As the current interest burden index and the 3-month expected interest rate index were continuously below the confidence level of 50. However, most respondents obtained more credits from financial institutions compared to the previous month and received sufficient credit lines for their business requirements.

3. Output Price, Cost of Goods and Services, and inflation

Output price decreased from the previous month but it was expected to increase in the next three months, as reflected in the current output price index and the 3-month expected output price index of 48.8 and 53.8, respectively. Regarding the anticipation over the next 12 months, respondents viewed that inflation would slightly decrease. The median of inflation expectation over the next 12 months decreased to 3.6 percent from 3.7 percent in the previous month due partly to decreasing trend of energy price expectation in long term. Meanwhile, expected cost of goods and services over the next 12 months remained unchanged as reflected in the median of expected cost of goods and services over the 12 months index at 4.5 percent.



Source: Business Sentiment Survey, December 2011, BOT.



Source: Business Sentiment Survey, December 2011, BOT.

%	<2%	2-4%	4-6%	>6%	Median
Nov. 11	10.4	47.7	34.7	4.9	3.7
Dec. 11	9.1	51.7	33.6	4.1	3.6

%	<3%	3-6%	6-9%	>9%	Median
Nov. 11	11.1	76.1	7.0	5.8	4.5
Dec. 11	11.8	75.8	8.9	3.5	4.5

4. Business Constraints

In this month, the top three business constraints remained unchanged from the previous month. Respondents expressed less concern about the lack of raw materials. While concern over difficulty in price adjusted and high competition from domestic market increased.

Business Constraint (% of Respondents)	Oct 11	Nov 11	Dec 11
1. Economic uncertainty	49.0	51.5	50.1
2. Difficulty in price adjustment	43.3	43.5	44.8
3. High cost of production	40.0	42.6	42.2
4. High competition from domestic market	27.8	32.2	33.3
5. Political uncertainty	25.5	30.0	29.5
6. Low demand from domestic market	30.6	29.8	25.5
7. High competition from foreign market	13.5	15.8	16.0
8. Low demand from foreign market	13.9	16.6	15.8
9. Lack of skilled labors	15.7	14.7	15.4
10. Lack of raw materials	20.2	15.6	13.5
11. Financial problem	7.3	6.2	6.8
12. Lack of information for business planning	5.5	6.2	5.2

Source: Business Sentiment Survey, December 2011, BOT

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Details of Components of Business Sentiment Index (BSI) and Other Business Conditions Indices

Surveyed questions	Jul 11	Aug 11	Sep 11	Oct 11	Nov 11	Dec11
Business Sentiment Index (BSI)	51.2	52.2	48.5	36.7	39.0	48.5
3-month Expected Business Sentiment Index	55.2	55.5	50.6	42.9	54.4	56.9
The Current Business Sentiment Indices						
Performance	58.3	58.4	53.5	35.2	36.3	50.6
Production	54.1	58.7	51.1	29.3	35.2	53.1
Employment	56.1	55.6	53.7	46.2	47.4	51.7
Investment	56.8	57.1	54.7	48.4	50.1	54.2
Production cost (inverted)	30.9	32.3	33.5	32.6	32.1	35.8
Overall order books	50.6	50.5	44.1	27.3	32.0	44.9
Domestic order books	48.8	50.1	43.0	27.4	33.0	46.1
Foreign order books	45.2	47.9	41.5	34.2	37.1	44.2
Export conditions	52.5	52.4	49.7	37.4	39.4	46.0
Output price	54.1	51.3	49.6	47.5	46.8	48.8
Average overtime work per day	48.2	45.5	48.4	58.6	59.3	53.5
Recruitment Difficulty	34.7	35.9	36.7	42.0	43.7	41.2
Interest rate burden (inverted)	34.6	34.5	37.5	42.5	45.2	46.2
Liquidity	49.8	50.1	48.1	43.7	42.9	46.8
Credit granted to the customers	51.8	51.7	52.3	51.4	52.4	51.4
Credit received from financial institutions	51.8	51.6	51.4	50.3	50.5	51.2
Sufficiency of Credit received from financial institutions	52.6	53.0	52.5	51.0	52.0	51.8
The 3-month Business Sentiment Indices						
Performance	61.5	61.6	53.2	42.2	61.3	66.3
Production	64.0	62.7	54.5	42.3	62.4	65.5
Employment	59.0	57.7	54.8	47.6	55.4	57.8
Investment	59.9	60.9	58.1	52.3	58.5	59.5
Production cost (inverted)	27.9	30.0	30.0	30.9	32.7	30.2
Overall order books	59.4	60.1	52.8	41.9	56.1	61.9
Domestic order books	57.5	58.4	51.1	40.7	55.8	60.6
Foreign order books	52.5	55.1	47.0	41.1	50.8	54.3
Export conditions	55.2	55.9	49.4	44.4	51.6	55.6
Output price	55.7	53.1	52.5	48.5	52.0	53.8
Interest rate burden (inverted)	17.2	17.8	30.4	46.2	52.1	47.9
Liquidity	49.0	47.7	43.5	39.5	44.5	46.6

Source: Business Sentiment Survey, December 2011.