



BANK OF THAILAND

BOT Press Release

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Press Release on Economic and Monetary Conditions for August 2012

The economy continued to be weighed down by the weakening global economy. Merchandise exports and production in export-oriented industries contracted further, along with imports of raw materials in these industries which signalled a continued pressure of the slowing global economy on exports trend. Nevertheless, the tourism sector and private spending continued to expand, albeit moderating private investment due to decreasing replacement and repair investment for flood-damaged properties. Concurrently, overall economic stability remained sound as the unemployment rate and inflation remained at a low level.

Details of the economic conditions are as follows:

The global economic slowdown continued to weigh on exports of goods and production in export-oriented industries. **Export value** decreased by 5.1 percent year-on-year (yoy), primarily due to contracted exports of manufacturing products following softening global demand, particularly exports of integrated circuit and parts as well as hard disk drive. Meanwhile, exports of agricultural products continued to contract on the back of declining rice exports as a result of higher price relative to competitors, and decreasing rubber export price as a result of weakening global economy. Nonetheless, exports of automobile and parts exhibited favorable growth.

Deteriorating exports led to a greater decline in **manufacturing production** as reflected in a contraction of 11.3 percent (yoy) in the Manufacturing Production Index (MPI). This was largely attributable to decreased production in export-oriented industries, especially hard disk drive and integrated circuit and parts. Meanwhile, production in industries which produced for both domestic and foreign markets registered a favorable growth following accelerated automobile production to accommodate backlog orders, as well as electrical appliances production to meet ongoing domestic demand.

Farm income rose by 3.8 percent (yoy), mainly from an increase in **agricultural production** which registered a growth of 19.4 percent (yoy) following rice production as a result of abundant water supply, as well as last year's low base effect as a result of government's campaign for farmers to refrain from second-round rice plantation. Meanwhile, **agricultural price** continually contracted by 13.1 percent (yoy) owing to declining rubber price as a result of softening global demand and last year's high base effect.

As for the **tourism sector**, the number of foreign tourist arrivals in Thailand recorded at 1.9 million, expanding by 11.8 percent (yoy), following the rising number of foreign tourists across all regions. Notably, the number of tourists from the Middle East resumed growth after Ramadan period. Meanwhile, the number of tourists from Malaysia rose in this month, reflecting lessened concerns over the earlier bombing incident in Songkla province at the end of March.

Domestic spending exhibited a continual expansion. **The Private Consumption Index (PCI)** grew by 4.1 percent (yoy), following domestic automobile sales which continued to expand well due partly to the government scheme for first-time car buyers. Concurrently, VAT collection and imports of consumer goods, particularly in food and beverage category, rose substantially. Meanwhile, **private investment** expanded at a slower pace, partly as replacement and repair investment for flood-damaged properties started to wane. The Private Investment Index (PII) increased by 14.2 percent (yoy), moderated in tandem with machinery and equipment investment, particularly in imports of capital goods.

Worsening exports which stemmed from the global economic slowdown, coupled with decelerating private investment, induced **the import value** to decrease by 11 percent (yoy). In addition, declining imports of raw materials in export-oriented industries reflected continued pressure of the weakening global economy on Thai exports going forward.

As for the fiscal sector, revenue collection rose from the previous month primarily from corporate income taxes. Nevertheless, high current and capital expenditures relative to revenue collection resulted in a cash balance deficit. However, with positive non-budgetary balance, the overall cash balance registered a surplus of 1.7 billion baht.

Regarding **overall economic stability**, the unemployment rate remained at a low level. Headline inflation moderated slightly from the previous month to 2.69 percent (yoy), owing mainly to softening raw food prices as well as decelerating core inflation from prepared food prices. Meanwhile, energy prices accelerated from the previous month following the rise in global oil prices. On external stability, the balance of payments recorded a surplus as declining imports resulted in trade surplus, and inflows of maturing Thai portfolio investment abroad and foreign investors' purchases of bonds and stocks contributed to net capital inflows.

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