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Press Release on the Economic and Monetary Conditions for August 2014

The Thai economy continued to improve on the back of domestic demand and the tourism sector although growth momentum in August 2014 declined slightly as public and private spending softened after having accelerated during the initial period of political change. The tourism sector improved gradually while manufacturing production expanded slightly, led by production of electronics and petroleum. The former benefited from the buildup of inventories in preparation for the expected increase in exports in the period ahead, while the latter benefited from the resumption of refineries after a temporary maintenance shutdown in the previous months. Nevertheless, overall merchandise exports remained weak.

On the stability front, unemployment remained low. Inflation declined slightly on the back of falling fresh food and energy prices. For external stability, the current account recorded a surplus, while the ratio of international reserves to short-term external debt remained high.

Details of economic conditions are as follows.

Private consumption softened after having accelerated in the past 2-3 months following improvement in the political situation and temporary factors such as the World Cup, particularly spending on nondurable items such as food and beverages. Meanwhile, consumer outlays on durable items remained flat. The economic stimulus from **fiscal spending** also retracted after accelerating in the earlier period. Fiscal spending declined on the back of government purchases of goods and services, while capital expenditure disbursement remained slow. Government revenue decreased, reflecting depressed economic activities in the first half year and the fact that the economy is still in the early stage of recovery.

Improvement in **private investment** was still precarious and not broad-based as overall demand remained below its normal trend, in particular the slow recovery of exports. This was coupled with excess capacity in several industries. Thus, businesses were still geared towards enhancing production efficiency. Meanwhile, construction investment, which improved in the previous period, was flat.

Weakened global demand for Thai products from almost all regions caused seasonally adjusted **merchandise exports** to contract on a month-on-month basis, particularly exports of automobiles, electrical appliances and petrochemical products. While exports of electronics expanded following up-cycle of the global electronic industry, its growth was lower than those observed in other Asian countries since Thai producers continued to suffer from limited production capability in response to the increasing global demand toward high-technology items. **Merchandise imports** continued to be low with the contraction in imports of capital and consumer goods as well as automobiles and parts.

Improved foreign demand for electronic goods prompted manufacturers to build up inventories in preparation for future exports. In addition, refineries resumed their operation

after temporary maintenance. Together, electronics and petroleum production helped overall **manufacturing production** to expand from the previous month.

The **tourism** sector improved gradually as the number of tourists from China relatively started to return on the back of alleviated concerns about the political situation. Several countries, however, still maintained their travel warning levels. As a result, the number of foreign tourists recovered gradually and remained below its normal trend.

Farm income remained low which might dampen private consumption in the period ahead. This was attributable to a decrease in rubber prices following elevated global inventory levels as well as soft global demand. However, farm prices were not likely to drop further as a result of a slowdown in the recent offloading of government rice stockpiles, and higher world demand for rice and shrimp. On the production side, overall farm output dropped compared to the previous month mainly from cassava and oil palm production.

On the domestic **stability** front, unemployment remained low. Inflation declined slightly on the back of falling fresh food prices, which fell due to excess fruit and vegetable supply following favorable weather conditions, and softening energy prices in line with global prices. On the external front, the current account recorded a surplus mainly from low imports. The capital account posted a deficit, following foreign investors' sell-off of short-term debt securities for profit taking as well as short-term loans repayment by financial institutions, and pushed the balance of payments into a deficit. External stability however remained sound as the ratio of international reserves to short-term external debt remained high.

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