BANK OF THAILAND

BOT Press Release

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Press Release on the Economic and Monetary Conditions for December and Year 2013

Overall economic activities in December 2013 continued to soften from the previous month. Manufacturing production and private-sector spending were held down by weak sentiments among businesses and households in light of ongoing economic slowdown and domestic political protests. On the external front, tourism growth was moderating following the enforcement of China's new tourism law. However, merchandise exports gained some traction in line with a global demand recovery.

On the stability front, inflation edged lower on the back of a decline in fresh food prices. The current account posted a surplus thanks to the positive trade balance. The capital account registered a deficit owing to outflows of foreign portfolio investment and overseas investment in debt securities by Thai investors. Overall, the balance of payments recorded a slight deficit.

Details of the economic conditions are as follows.

Overall economic activities continued to slow down particularly in manufacturing production and private investment. The **Manufacturing Production Index** (MPI) dropped 6.1 percent year-on-year (yoy) mainly due to a number of factors. First, automobile production, which had expanded at a robust pace during the prior year, continued to decline despite an increase in export orders. Second, beer production fell, given elevated levels of inventories, and also in line with lower demand attributable in part to the new excise tax rates effective in September. Third, frozen shrimp production continued to be restrained by the ongoing outbreak of disease.

The **Private Investment index** (PII) contracted 8.1 percent (yoy), given that most businesses had already accelerated their investment earlier and some businesses decided to postpone investment amid current economic and political uncertainties. Outlays for machinery and equipment contracted, while construction spending slowed down.

The contraction of manufacturing production and private investment weighed on imports of capital goods, automobiles and parts, and raw materials and intermediate goods excluding fuel. **Merchandise imports** registered 16,280 million US dollars, down 9.3 percent (yoy).

Consumer spending stayed largely unchanged from the previous month as households remained cautious. The **Private Consumption Index** (PCI) fell 0.2 percent (yoy) as spending on durable goods—automobiles in particular—continued to contract in light of last year's high level and given a decline in new orders. Meanwhile, spending on nondurable goods, such as food and beverages, moderated to a slower pace.

The **tourism** sector expanded at a slower pace after the enforcement of China's new tourism law since October 2013 and amid domestic political unrest. This month's tourist arrivals were recorded at 2.6 million, up 6.7 percent (yoy) compared with 11.9 percent last month.

Merchandise exports improved gradually along with improving global demand. Merchandise export value stood at 18,227 million US dollars, up 1.8 percent (yoy) thanks to a rise in both exports of agriculture products, especially rice and rubber, and exports of manufactured products—in particular, petroleum and petrochemical products, electrical appliances, integrated circuits and parts. However, some merchandise exports continued to decline given supply-side constraints. Shrimp disease outbreak still held down fishery production. Meanwhile exports of hard disk drives continued to suffer from the changes in consumer preference toward higher technology products.

Farm income rose 6.9 percent (yoy) thanks primarily to increases in certain agricultural prices. Prices of palm oil and cassava, in particular, picked up in accordance with rising demand for renewable energy production. Prices of shrimp and livestock edged higher as production failed to meet demand. Nonetheless, rice prices continued to decline in line with global prices given good harvest in major producing countries. Rubber prices also dropped owing to excess supply despite an increase in foreign orders, particularly from China. Meanwhile, farm output increased owing importantly to rice production following favorable weather conditions. Rubber production also rose thanks to the previous expansion of planting area.

Fiscal spending rose compared with the same period last year given the expedited transfers of subsidy to local administration and government purchases of goods and services. Government cash receipts, on the other hand, dropped from the year-earlier level, partly because of lower receipts on excise tax and import duty following the downturn in economic activities and partly on account of last year's high base attributable to the cash receipts from the 3G license auction. Overall the government's cash balance posted a deficit of 118 billion baht.

On the **stability** front, headline inflation eased to 1.67 percent (yoy) thanks to lower fresh food prices following this month's ample supply of vegetables and fruits. The current account posted a surplus given a positive trade balance. Meanwhile, the capital account recorded a deficit mainly because of outflows of foreign portfolio investment and overseas debt securities investment by Thai investors. Overall, the balance of payments registered a slight deficit.

For **the year 2013 as a whole**, overall activities broadly slowed down. Private consumption was subdued after accelerating during the year earlier. Some businesses postponed their investment pending improvement in economic and political prospect. Merchandise exports only slowly picked up owing to shortages of raw materials and given constraints in production technology in certain industries to meet changes in global preferences. Fiscal impetus was softened as a result of the lower-than-usual disbursement of capital expenditure. The tourism sector, however, expanded robustly and was a key driver of the economy in 2013.

Regarding **last year's economic stability**, the unemployment rate remained low. The slowing in readings of inflation was in line with energy prices and the economic slowdown. The current account registered a deficit owing mainly to gold imports and repatriation of profits and dividends, while the capital account posted a surplus given financial institutions' overseas borrowing and foreign direct investment. Overall, the balance of payment recorded a deficit.

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