BANK OF THAILAND

BOT Press Release

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Press Release on Economic and Monetary Conditions for January 2012

The Thai economy continued to improve across all sectors in January 2012. The tourism sector fully recovered while the production sector and domestic spending gradually picked up. Overall economic stability remained sound. Employment conditions improved while headline inflation moderated from a decrease in raw food price as the floods' impact had subsided.

Details of the economic conditions are as follows:

Economic activities improved continuously as the floods' impact had subsided. The **tourism sector** recovered fully despite the terrorist warnings, evidenced by the number of foreign tourist arrivals of 1.95 million people, which resumed favorable growth of 8 percent year-on-year (yoy) after contracting by 2.2 percent (yoy) in the previous month. This was due mainly to a rising number of tourists from ASEAN, China, and Russia. Increased number of tourists, therefore, lifted the hotel occupancy rate from the previous month.

The manufacturing production contracted by 15.2 percent (yoy), edging up from last month's contraction of 25.3 percent (yoy). Marked improvements were observed in the automobile, hard disk drive, and integrated circuit and parts industries as flood-affected producers began to partly resume their production while the supply chain disruption problem also lessened as producers were able to acquire raw materials from both domestic and foreign sources. Consequently, the capacity utilization rate rose to 58.5 percent from 51.9 percent in the previous month.

Agricultural production expanded by 0.9 percent (yoy) upheld by a continuous rise in rubber, oil palm, sugar cane, and cassava production whereas rice production still contracted by the impact from floods. However, **agricultural price** dropped by 12 percent (yoy) following a decline in rubber and oil palm prices due to last year's high base effect following tight global supply. **Farm income**, therefore, decreased by 11.2 percent (yoy).

Improved employment conditions, income, and overall confidence following a continuous recovery in the production sector led to continued improvement of domestic demand. This was reflected by an expansion of the **Private Consumption Index (PCI)*** by 2.6 percent (yoy), mainly from VAT and household electricity consumption. Nevertheless, vehicle sales continued to contract despite a pent-up demand as some producers of passenger cars still could not resume the production. Concurrently, private investment began to pick up, evidenced by an improvement in the **Private Investment Index (PII)***, which contracted by 0.4 percent (yoy), improving from last month's contraction of 3.9 percent (yoy). Main contributive factor included a rise in commercial car sales, which picked up after the production resumed its normal condition. In addition, construction investment for flood-damaged residential and commercial properties also contributed to an increase in domestic cement sales.

The fiscal stimulus was limited due to a delay in the enactment of the Budget Act Fiscal Year 2012, causing both current and capital expenditures to decrease. Meanwhile, the government's revenue remained below normal level due to measures to postpone the corporate income tax collection for flood-affected firms, as well as the lift of diesel price subsidy until 29 February 2012. Lower revenue relative to expenditures, therefore, resulted in a cash balance deficit of 29.7 billion baht.

Overall economic stability remained sound. Employment condition improved while headline inflation moderated to 3.38 percent (yoy) following a decrease in fresh food price after the floods' impact had subsided. Meanwhile, core inflation stood at 2.75 percent (yoy), accelerating from the previous month due to a surge in prepared food prices. Meanwhile, the net outflow in the financial account was mainly due to Thai portfolio and Thai Direct Investment outflows.

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* January-2012 index is constructed by estimated import data from the Monetary Policy Group due to the postponement of dissemination of international trade statistics.