BANK OF THAILAND

BOT Press Release

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Press Release on the Economic and Monetary Conditions for July 2013

In **July 2013**, the Thai economy continued to moderate following a decline in private consumption from car and other durable purchases and subdued exports as global demand remained fragile and domestic supply constraints persisted. Flagging demand weighed down manufacturing production and private investment, but the tourism sector continued to expand robustly.

On the stability side, inflation eased and the unemployment rate stayed low. The current account recorded a deficit due mainly to gold imports and the repatriation of profits and dividends. At the same time, the capital account posted a deficit from short-term loan repayment by financial institutions, and the overall balance of payments was in deficit.

Details of the economic conditions are as follows:

Private consumption slowed down, as reflected by the **Private Consumption Index** (PCI) which contracted 0.7 percent year-on-year (yoy). This owed mostly to the decline in car and other durable purchases, as fewer cars remained to be delivered under the first-car scheme and new car orders also dropped. At the same time, households had become more cautious with big-item spending given their previous debt accumulation. Nevertheless, non-durable purchases continued to increase, as indicated by higher fuel, electricity and imported goods consumption, especially food and beverages.

Merchandise exports declined with softened global demand and on-going supply constraints, especially from shrimp disease. The merchandise export value stood at 18,804 million US dollars, dropping by 1.3 percent (yoy) from agricultural and fishery products as well as from manufactured goods, especially processed agricultural products, petroleum products and electrical appliance parts. Tensions in the Middle East added to the slowdown in automobile exports.

Slowing consumption and exports contributed to the contraction in manufacturing production and private investment. The **Manufacturing Production Index** (MPI) dropped by 4.5 percent (yoy) as (1) production of automobile and electrical appliances suffered from weaker demand both domestically and externally, (2) processed seafood continued to be held back by shrimp supply shortage, and (3) change in consumer preference away from personal computers and towards tablets and smartphones reduced demand for hard disk drives (HDD). Meanwhile, the **Private Investment Index** (PII) declined by 5.4 percent (yoy), mainly from machinery and equipment investment by export-oriented industries. This owed in part to the high base effect from post-flood reconstruction last year. Construction investment, however, expanded in line with increased construction for both residential and commercial purposes.

Weaker exports, manufacturing production and investment weighed on imports of automobile parts and capital goods. However, imports of consumer goods continued to expand. Altogether, **merchandise imports** totalled 18,546 million US dollars, declining by 0.2 percent (yoy). Excluding gold, the import value stood at 17,137 million US dollars, down by 4.1 percent (yoy).

Farm income contracted by 1.2 percent (yoy) as output fell by 2.7 percent because water shortage and disease affected rice and shrimp production, respectively. Farm price meanwhile rose by 1.5 percent (yoy) on the back of higher shrimp price, higher livestock price due to unfavorable weather conditions for production, and higher cassava price due to rising demand for ethanol production. Rubber and rice prices declined, however, as orders from abroad, especially China in the case of rubber, slowed down.

The **tourism** sector expanded robustly, with 2.2 million foreign tourist arrivals or a growth of 22.5 percent (yoy), thanks to more tourists from China, Malaysia and Russia.

On the **fiscal side,** government spending rose from employee compensation and capital expenditure for irrigation and transportation projects. In spite of a decline in VAT and excise tax collections due to fewer car purchases, overall government revenue grew from corporate and personal income tax collections. With expenditure outpacing revenue, the government's cash balance posted a deficit of 41.9 billion baht.

On the **stability** front, headline inflation moderated to 2 percent (yoy) as contribution from fresh food prices and core inflation eased. Unemployment remained low. The current account was in deficit due mainly to gold imports and significant repatriation of profits and dividends, which was contributed to a large extent by the exceptional earnings of automobile firms and the weaker yen compared to last year. The capital account also posted a deficit with short-term loan repayment by financial institutions. The balance of payments posted a deficit overall.

Bank of Thailand
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