BANK OF THAILAND

BOT Press Release

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Press Release on the Economic and Monetary Conditions for July 2015

Overall economic activities in July 2015 were weak. Only the tourism sector and public spending continued to expand well. Merchandise exports remained sluggish due to weak external demand while private consumption fell on the back of weak income and declining consumers' confidence. Subdued domestic and global demand weighed down on businesses' confidence, resulting in low manufacturing production and private investment.

On the stability front, persistently low global oil prices contributed to continued negative headline inflation. Unemployment rate was stable from the previous month, with continuing flows of labor from the agricultural sector to the non-agricultural sector. Meanwhile, the current account posted a surplus owing mainly to import contraction.

Details of economic conditions are as follows.

Merchandise exports remained sluggish partly due to the slowdown in the Chinese and the ASEAN economies which caused merchandise exports to contract in several categories. In addition, exports of petroleum, chemical, and petro-chemical products decreased as prices and orders declined on the back of falling global crude oil prices and softening trading partners' demand, respectively. At the same time, hard disk drive exports declined in almost all markets due to changes in consumer's preference toward high-technology items while fishery and processing seafood exports were affected by shortages of raw material. Overall, the value of merchandise exports this month dropped by 3.1 percent from the same period last year. This was the seventh consecutive month of contraction although exports of some goods categories improved such as automobile exports to Europe, Middle East and Australia as well as electrical appliance exports to Middle East due to their improving real estate conditions.

Private consumption indicators retracted after last month's acceleration following lower spending on durable goods, semi-durable goods and transportation services. Meanwhile non-durable spending decelerated from the previous month. This reflected consumers' cautious spending as farm income contracted further on the back of lower farm output and prices and non-farm households' income remained flat on top of their concern over the economic recovery and development on the drought situation.

Subdued domestic and global demand weighed down on businesses' confidence and led to low **manufacturing production and private investment.** Compared to the previous month manufacturing production edged up slightly due to the following temporary factors. First, automobile production increased after large manufacturers finished the adjustment of the new production lines. Second, beer production by a major player accelerated before the switching to new products. Finally, production of chemical products and electronic parts rose as manufacturers built up their inventories.

Private investment indicators remained at a low level. Construction investment decreased following the slowdown in the real estate sector which was offset by machinery and equipment investment, particularly in new commercial car models. However, others investment in machinery and equipment was still subdued especially investment for production capacity expansion. Meanwhile, the value of **merchandise imports** this month contracted by 10.6 percent from the same period last year across the board in line with weak economic activities.

The tourism sector and public spending continued to play a role in supporting the economy. Foreign tourist arrivals registered at 2.6 million, increasing from the previous month thanks to European and Asian (excluding Chinese) tourists. This was coupled with the continuing recovery in the number of Russian tourists. The number of Chinese tourists decreased slightly after having expanded markedly in the preceding period. Public spending continued to be disbursed well. Government purchases on goods and services increased especially spending by education-related agencies. Disbursement on both budgetary and non-budgetary capital expenditure especially for transportation and irrigation projects remained well, although it slightly declined after having accelerated in the earlier period. Government revenue increased by 4.2 percent from the same period last year, owing to higher excise tax rates on diesel. However, the revenue from tax collection, which reflects economic activities such as VAT and import duties, contracted from the same period last year.

On the **stability** front, headline inflation was close to last month's level, coming in at -1.05 percent year-on-year on account of low global oil prices, although fresh food prices, particularly vegetables and fruits, edged up as a result of drought. The seasonally-adjusted unemployment rate remained stable at 0.9 percent. Labor from the agricultural sector which was adversely affected by low farm prices and drought, migrated to the non-agricultural sector particularly the low-wage service sector. The current account registered a surplus of 2.1 billion U.S. dollars due to lower merchandise imports. Meanwhile, the capital account posted a deficit of 2.8 billion U.S. dollars due to short-term loan repayment by financial institutions and outflows of foreign portfolio investments in line with the regional markets. Overall, the balance of payments recorded a deficit.

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