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Press Release on the Economic and Monetary Conditions for July 2016

In July 2016, the Thai economy continued to expand despite at a slower rate. Public spending moderated after having accelerated in earlier periods while temporary factors which had supported private consumption subsided. The value of merchandise exports remained subdued in accordance with a slow recovery of trading partners' economies. As a result, private investment persisted at a low level. Nonetheless, the tourism sector displayed a high growth, partly thanks to the end of Ramadan.

**On the stability front**, headline inflation rate softened slightly on account of fresh food prices after the drought conditions alleviated. The unemployment rate continually remained low. The current account continued to post a surplus due to high tourism receipts and low levels of import value.

Details of the economic conditions are as follows.

**Private consumption** expanded at a slower pace as temporary factors which had supported household spending in earlier periods subsided, namely promotional offers in consumer goods and the launch of new car models. In its initial recovery from the drought, farm income gradually improved. Income of non-farm households stabilized. Meanwhile, spending in services continued to expand well.

**Public spending**, both current and capital expenditures, moderated after having accelerated in earlier periods. In fact, only few budget remained to be disbursed in the final stages of (1) Measures to Promote Living Standards at the Sub-District Level and (2) the Economic Stimulus Package Phase II. On the one hand, government revenue significantly increased due to receipts from the auction of 4G licenses and the receipts from digital TV licenses. On the other hand, consumption-based tax revenue expanded at a slower rate than last month in line with private consumption growth.

The value of **merchandise exports** contracted by 4.5 percent as compared to last year. Excluding gold, exports fell by 8.4 percent due to contractions in a number of products. While export volume was dragged by a slow recovery of major trading partners' economies, export prices were lower than the same period last year, especially those of petroleum-related products. However, exports of some products expanded. For example, exports of fishery increased because suppliers in other countries suffered from a shortage of raw materials resulted by shrimp diseases. Meanwhile, Thailand's supplies continued to expand. In addition, exports of integrated circuits and solar panels to the US continued to expand on the back of improving industrial production in the US.

Subdued exports and the gradual recovery of domestic demand resulted in (1) a contraction of **Manufacturing Production Index** in a variety of products, especially production of vehicles. Production of rubber products contracted in anticipation of lower demand from China as they were faced with anti-dumping measure from the US, and (2) a persistently low level of **private investment**.

However, investment in certain service sectors continued to expand such as electricity and telecommunication equipments, reflecting an uneven recovery of overall investment.

The value of **merchandise imports** contracted by 8.6 percent from the same period last year due to a decline in imports of intermediate goods and raw materials. This was in line with subdued exports and global oil prices that remained lower than last year. However, imported capital goods rose due mainly to special items, namely imports of aircrafts and drilling rigs.

**Tourism sector** continued to drive the Thai economy. The number of foreign arrivals grew by 10.8 percent from the same period last year and the increase was across the board. After seasonal adjustment, the number of arrivals rose from last month as tourists from Malaysia, Indonesia and the Middle East increased after Ramadan had ended. Moreover, tourists from China and Europe excluding Russia continued to expand. The robust growth in tourism helped support growth in related service sectors.

On the **stability** front, headline inflation rate softened slightly on account of fresh food prices after the drought conditions alleviated. The unemployment rate continually remained low. Labor moved from non-agricultural sectors to the agricultural sector as the rainfall level was sufficient for current harvest season. The current account registered a surplus of 3.7 billion US dollars due to high tourism receipts and low levels of imports. Meanwhile, the financial account posted a deficit due to short-term loan repayment by other depository corporations (ODC), portfolio outflows of foreign investment funds (FIF) by Thai investors, and continuing Thai direct investment abroad. On the other hand, capital inflows into portfolio investment in Thai securities were driven by market expectations of the Fed to delay a rate hike.

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