

No.33/2014Press Release on the Economic and Monetary Conditions for June and the Second Quarter of 2014

Overall economic activities in June 2014 expanded from the previous month owing mainly to an increase in merchandise exports. On the domestic front, private consumption, particularly of nondurable items, continued to rise, as the improved economic and political situation shored up private sector confidence. Nevertheless, manufacturing production declined as businesses satisfied higher demand partly by running down inventories that had been accumulated on the back of softened domestic demand and slow recovery in merchandise exports in the previous period. Meanwhile, the tourism sector continued to be affected by political changes although there were signs of improvement towards the end of the month.

On the stability front, unemployment rose particularly in the agricultural sector, but the overall unemployment rate remained low. Inflation tapered off thanks to declines in energy and fresh food prices. The current account recorded a surplus as a result of export improvement and import contraction. The capital account posted a deficit owing mainly to outflows of direct investment and portfolio investment overseas by Thai investors. Overall, the balance of payments registered a deficit.

Details of economic conditions are as follows.

Overall economic activities expanded from the previous month on the back of improving merchandise exports to almost all regions, particularly the US and European countries. **Merchandise exports value**, totaling 19,527 million U.S. dollars, grew 3.8 percent from the same period last year. Exports of petrochemical products, machinery and equipment continued to increase while exports of agricultural products and petroleum benefited partly from a low base effect last year. However, exports of electrical appliances, hard disk drives and integrated circuits were held down by soft demand from Asian economies.

Improvement in economic and political situations helped restore private sentiments. Spending on nondurable items, as a result, edged up from the previous month. On the other hand, expenditures on durable items remained flat. Compared to the level a year ago, the **Private Consumption Index** (PCI) contracted 1.1 percent on account of declining consumer outlays on durable items given a high base effect last year. Private investment was unchanged from last month. Compared with June last year, however, the **Private Investment Index** (PII) dropped 2.7 percent as businesses continued to defer new investments, awaiting signs of economic recovery and clarity on government policy. Consequently, most investment was still geared towards enhancing production efficiency. Meanwhile, construction investment continued to be subdued along with a slowdown in demand for real estate.

Softened domestic demand and a slow recovery in merchandise exports in the previous period partly contributed to high inventory levels in the manufacturing sector. Consequently, businesses reduced imports of raw materials and production levels. The **merchandise imports value**, which stood at 15,664 million U.S. dollars, fell 14.1 percent from the same period last year with the contraction in imports of raw materials and intermediate goods. At the same time, the **Manufacturing Production Index** (MPI)

contracted 6.6 percent compared with its level a year earlier due to the following factors. First, automobile production declined as rising foreign orders could not compensate for last year's high base effect. Second, production of hard disk drives still suffered from subdued global demand. Third, production of electrical appliances, especially air conditioners due to a high inventory level, was held down by weakened demand from Asian economies as well as political unrest in the Middle East.

The **tourism** sector continued to be affected by political changes as several countries still maintained their travel advisory levels. The number of foreign tourist, totaling 1.6 million, fell 24.4 percent compared to the level a year ago as tourist arrivals from Asia, especially China and Malaysia, decreased. However, the easing of political uncertainty and the lifting of a nationwide curfew on June 13, 2014 helped boost tourism at the end of the month.

Farm income expanded from the previous month thanks to growth in both output and price. However, farm income decreased compared with the same period last year, mainly because of depressed agricultural prices, especially rice and rubber prices following elevated inventory levels. Overall farm output rose from its year-earlier level on account of rubber and oil palm production following expansion of planting area in preceding years. On the other hand, rice production dropped due to water shortage.

Fiscal spending declined from its level a year earlier as a result of the expedited transfers to the Village Funds in the preceding periods. Moreover, only part of outlays for investment could be disbursed. Government cash receipts declined from the same period last year following reduced collection of income tax, consumption tax and import duty consistent with the economic slowdown in the previous period. With revenues outpacing expenditures, the government's cash balance registered a surplus of 126 billion baht.

On the **stability** front, unemployment rose particularly in the agricultural sector but the overall unemployment rate remained low. Inflation tapered off on account of declines in energy and fresh food prices. The current account recorded a surplus as a result of export improvement and import contraction. The capital account posted a deficit owing to outflows of direct investment and portfolio investment overseas by Thai investors as well as providing trade credits by exporters, albeit this month saw the return of foreign portfolio investment. Overall, the balance of payments registered a deficit.

Overall economic activity in the second quarter of 2014 was likely to pick up from the previous quarter following improvement in political situation and clarity on government policy, which helped restore households and business confidence. Domestic spending, as a result, started to recover. Meanwhile, merchandise exports improved slightly due to rising demand from advanced economies in line with an expansion of export-oriented manufacturing production. Overall merchandise exports, however, recovered slowly due to softened demand from Asia. The tourism sector continued to be affected by political situations. On the stability front, unemployment remained low. Inflation edged up on the back of higher prepared food and energy prices. The current account posted a surplus mainly because of import contraction. The capital account registered a deficit owing to outflows of direct investment and portfolio investment abroad by Thai investors. Overall, the balance of payments posted a deficit.

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