



BANK OF THAILAND



BOT Press Release

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Press Release on the Economic and Monetary Conditions for June and the Second Quarter of 2017

In June 2017, the Thai economy continued to expand. The main growth drivers were continued expansions in merchandise exports and tourism sector, consistent with the steady improvement in external demand. Private consumption gained traction, particularly for spending on services and durable goods. However, private investment contracted from the same period last year following the slowdown in the construction sector. Public spending also contracted from capital spending. Manufacturing production remained at a similar level as the same period last year due mainly to subdued production for domestic market and inventory rundown in certain industries.

On the stability front, headline inflation continually decelerated due mainly to lower retail prices of petroleum and fresh food. The seasonally-adjusted unemployment rate slightly decrease from last month. The current account continued to post a surplus as supported by steady improvements in export value and the tourism sector.

Details of the economic conditions are as follows.

The value of **merchandise exports** continuously expanded in most product categories, with a growth of 7.6 percent compared to the same period last year, or 9.9 percent when excluding gold, thanks to growth in various product categories. In particular, (1) export of electronics and optical appliances rose to meet demand for production of devices that support the Internet of Things (IoT), automotive parts, and mobile phones. Export of telecommunication devices, particularly mobile phones, expanded thanks to demand from Japan and the Middle East countries. In addition, export of hard disk drives (HDD) also gained from last year's relocation of production base to Thailand. (2) Export of petroleum-related products expanded due to higher demand from China and ASEAN. (3) Export of agro-manufacturing products continued to expand following higher demand of rubber products and sugar. (4) Export of agricultural products expanded primarily from the export of rice, rubber, and fruits. Improving export growth led to expansion in production of various related industries. However, subdued domestic market coupled with inventory rundown in certain industries caused **manufacturing production** to remain flat compared to the same period last year.

The number of foreign tourists posted an 11.4 percent annual growth. After seasonal adjustment, the number of foreign tourists increased by 4.9 percent from the previous month. In particular, Chinese tourists continued to improve to reach a level higher than that of the same period last year, and above the level prior to the government's crackdown on illegitimate tour operator after seasonal adjustment. Moreover, tourists from Malaysia and Indonesia rose significantly thanks to the low base effect from the Ramadan occurring in June last year.

Private consumption indicators continued to expand from increased spending on services and durable goods, especially on passenger cars. Despite the improved household income, overall spending was not yet robust as consumer confidence decreased from the concern about agricultural price outlook and ability to seek future job.

Private investment indicators slightly contracted, due primarily to continual decline in construction activities as reflected by the drop in construction material sales and permitted construction area, particularly construction in the retail trade and manufacturing sectors. However, investment in machinery and equipment steadily grew.

Public spending, excluding transfers, contracted due to capital spending as there were accelerated disbursements in the first half of fiscal year, specifically in constructions projects from the Department of Highways and Department of Rural Roads. However, current spending expanded due to expenditure on compensation of civil servants.

The value of **merchandise imports** grew by 12.8 percent from the same period last year. Excluding gold, the value of merchandise imports expanded by 9.0 percent. The increase was mainly from (1) imports of raw and intermediate materials, particularly for electronic parts, consistent with an expansion in exports of such products, (2) import of capital goods excluding aircrafts, ships, floating structures, and locomotive expanded following the increased import of machinery and equipment in the telecommunication sector, and (3) import of fuel grew in most sub-categories except crude oil which declined after having accelerated last month. In addition, some oil refinery plants were closed for maintenance.

On the stability front, headline inflation continually decelerated to -0.05 percent from -0.04 percent in the previous month. This was attributed to a decrease in retail petroleum price following the decrease in global crude oil price. Fresh food prices especially fruits and vegetables also dropped as a result of this year's improved supply and high base effect from last year's drought. Core inflation remained at 0.45 percent, the similar level as last month. The seasonally-adjusted unemployment rate slightly decreased from last month. The current account posted a surplus due mainly to the trade surplus supported by steady improvements in exports. The capital and financial accounts registered a deficit due to: (1) direct investment abroad by Thai corporate, (2) portfolio investment abroad in both debt and equity securities, and (3) deposits abroad by commercial banks to adjust their foreign currency position, and foreign investment funds (FIF).

Overall economic activity in the second quarter of 2017 continued to expand, driven by export of goods which showed a high and more broad-based expansion, and the tourism sector which continued to expand steadily. The domestic economy recovered at a modest pace. Public spending and private consumption remained to be the main growth drivers albeit lower growth due to slowdown in capital spending and spending on durable goods which accelerated in the previous quarter, respectively. Private investment remained at a similar level compared to the same period last year, as investment expansion in machinery and equipment was compensated with the decline in investment activities of the construction sector. Meanwhile, manufacturing production remained unchanged from the same quarter last year due mainly to inventory rundown and subdued production for the domestic market. On the stability front, headline inflation decelerated from the last quarter as prices of fresh food decreased as a result of this year's improved supply and high base effect from last year's drought. The seasonally-adjusted unemployment rate remained low and unchanged from the last quarter. The current account continued to post a surplus following the improvement in export value and the tourism sector.

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