BANK OF THAILAND

BOT Press Release

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No.15/2014

Press Release on the Economic and Monetary Conditions for March and the First Quarter of 2014

Overall economic activities in March 2014 softened slightly from the previous month. A slow recovery in merchandise exports, due partly to temporary plant shutdowns for maintenance in certain industries, and subdued domestic spending contributed to the ongoing contraction in manufacturing production. The tourism sector began to stabilize, as foreign tourists' concerns eased somewhat after the lifting of the state of emergency in Bangkok and surrounding areas.

On the stability front, unemployment remained low. Inflation edged up on the back of increases in prepared food and retail energy prices. The current account registered a surplus mainly because of import contraction. The capital account recorded a deficit owing to Thai direct investment and portfolio investment abroad. Overall, the balance of payments posted a slight deficit.

Details of economic conditions are as follows.

Merchandise exports were slow to pick up, restrained by temporary plant shutdowns and also held down by the slowdown in global commodity prices. The total value of exports was 19,766 million U.S. dollars, down 2.7 percent from the same period last year. Exports of hard disk drives contracted as a result of weak global demand. Exports of petroleum dropped owing to the maintenance shutdowns. Exports of agricultural products decreased in value terms following a decline in rubber and rice prices. Meanwhile, exports of steel and metal still suffered from last year's high base following the repeal of trading partners' anti-dumping measures. Nonetheless, exports in certain industries—for example, automobiles and parts, electrical appliances, and petrochemical products—were increasingly firming on the back of improving foreign demand.

Private-sector spending was broadly unchanged from the previous month due to ongoing economic and political uncertainties. Compared with the same period last year, however, private consumption remained in contraction. The **Private Consumption Index** (PCI) fell 1.4 percent from the same period last year. Households remained cautious in spending on both durable and nondurable goods in the face of income shortfalls following the economic slowdown and elevated debt levels. The **Private Investment Index** (PII) decreased 6.4 percent, compared with the same period last year, as businesses continued to defer investments awaiting a better economic outlook and clearer signs of political resolution. Outlays for machinery and equipment—particularly in automobile, electronic, and electrical appliance industries—continued to contract. Construction spending slowed down in line with the softening economic conditions.

A slow recovery in merchandise exports and subdued domestic demand, together with this month's maintenance shutdowns, led to a decline in manufacturing production from the previous month. The **Manufacturing Production Index** (MPI) dropped 10.4 percent on a year-on-year basis due to the following factors. First, automobile production, which had accelerated last year, remained sluggish; increases in foreign orders failed to offset decreases in domestic demand. Second, production of hard disk drives fell following a decline in global demand for personal computers. Third, manufacturing of petroleum and chemical products as well as tobacco products dropped owing to plant maintenance shutdowns this month.

Merchandise imports value totaled 16,286 million U.S. dollars, down 13.7 percent from the same period last year in line with subdued economic activities. The contraction was seen particularly in imports of capital goods, raw materials, and intermediate goods.

The **tourism** sector started to stabilize this month after the state of emergency was lifted on March 19. However, compared with the same period last year, tourism continued to contract. Tourist arrivals totaled 2.1 million, down 9.4 percent from the level a year ago. The decline in the number of tourists was attributable to those from Asian countries, particularly China, Malaysia, and Japan.

Farm income dropped slightly from the previous month but remained above its last year level thanks to increases in production. The rise in output was due mainly to rubber and oil palm production following expansion of planting area in preceding years. On the other hand, rice production declined due to unfavorable weather conditions. Overall farm prices were below those in the previous year. Rice prices decreased significantly due to the termination of the rice pledging scheme and the recent offloading of government stockpiles. Rubber prices also fell as a result of the softened demand from, and together with the elevated inventory levels in, China.

Fiscal spending was lower from its level a year earlier, moderating from a brisk pace in recent months when transfers to local administrations had been expedited. Furthermore, investment outlays could be disbursed only partially because of the ongoing political impasse. Government cash receipts also fell on account of a decline in personal income tax receipts following the new reduced tax rates. Excise tax revenues and import duties also declined in accordance with the economic slowdown. This month's government cash balance registered a deficit of 43 billion baht.

On the **stability** front**,** unemployment remained low. Inflation rose on the back of cost pass-through to prices of prepared food as well as an increase in retail energy prices. The positive current account was attributable to a surplus in the trade balance mainly because of import contraction. The capital account recorded a deficit owing to Thai direct investment and portfolio investment abroad although this month saw the return of foreign portfolio investment. Overall, the balance of payments posted a slight deficit.

Overall economic activity in the first quarter of 2014 was likely to contract from the previous quarter. Households and firms remained cautious in spending given concerns on the prolonged political situation. Fiscal spending, particularly capital expenditure, were disbursed only partially. The tourism sector contracted further from the prior quarter. Meanwhile, a recovery in merchandise exports could not compensate for the subdued domestic demand, leading to a contraction in manufacturing production. On the stability front, unemployment remained low. Inflation edged up on account of higher prepared food prices. The current account posted a surplus given a contraction in imports. The capital account registered a deficit owing to an increase in overseas deposits by foreign bank branches, direct investment and portfolio investment abroad by Thai investors, and outflows of foreign portfolio investment. Overall, the balance of payments posted a deficit this quarter.

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30 April 2014

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