BANK OF THAILAND

BOT Press Release

Communications and Relations Office, Corporate Communications Department
Tel. 0-2283-5016-7 Fax. 0-2281-5648 www.bot.or.th

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Press Release on the Economic and Monetary Conditions for May 2014

Overall economic activities in May 2014 picked up slightly from the previous month. Manufacturing production and private-sector spending started to show signs of recovery. Although merchandise exports to advanced economies continued to improve, overall merchandise exports were weighed down by falling prices of agricultural products and weak demand from Asian economies. The tourism sector was further affected by protests and political changes.

On the stability front, unemployment remained low. Inflation edged up on the back of increases in energy and prepared food prices. The trade balance recorded a surplus. The current account recorded a deficit mainly as a result of repatriation of profits and dividends by foreign companies and a drop in income from tourism. Meanwhile, the capital account posted a deficit owing mainly to outflows of foreign portfolio investment and Thai investors' portfolio investment overseas. Overall, the balance of payments registered a deficit.

Details of economic conditions are as follows.

Overall economic activities expanded slightly from the previous month on the back of improvement in private-sector spending and manufacturing production. Private consumption picked up pace from the previous month, as spending on nondurable items benefited from higher non-farm household income from overtime work. Compared to the level a year ago, however, the **Private Consumption Index** (PCI) contracted 0.3 percent on account of declining consumer outlays on durable items. In addition to a high base effect last year, households were cautious to spend in light of persistently high debt levels and farm income shortfalls resulting from depressed agricultural prices, particularly those of rice and rubber. Private investment edged up slightly from last month, with most investment still geared towards enhancing production efficiency. Nevertheless, the **Private Investment Index** (PII), similar to PCI, still contracted on a year-on-year basis, dropping 2.9 percent as businesses continued to defer new investments awaiting signs of economic recovery and clarity on government policy. Consequently, outlays for machinery and equipment remained in contraction while construction spending continued to be subdued.

Overall **merchandise exports** recovered slowly. The total value of exports was 19,268 million U.S. dollars, down 1.2 percent from the same period last year. Exports of automobiles, chemical products as well as steel and metals were held down by soft demand from Asian economies. Meanwhile, exports of agricultural products and processed agricultural products were affected by falling prices of rubber and sugar. However, exports in several industries—for example, electronics, petrochemical products, and textiles and apparels—increased along with improving demand from advanced economies.

An improvement in overall economic activity contributed to a sequential expansion in manufacturing production as well as imports of capital goods, raw materials and intermediate goods. However, the **Manufacturing Production Index** (MPI) contracted 4.1 percent compared with the same period last year due to the following factors. First, automobile production still suffered from last year's high base effect. Second, production of electrical appliances declined in tandem with softened domestic and global demand. Third, production of frozen shrimp continued to be restrained by supply shortage from the shrimp disease outbreak. Similarly, **merchandise imports value**, which stood at 17,638 million U.S. dollars, fell 7.7 percent year on year with contraction across all major categories.

The **tourism** sector was further affected by protests and the political change which prompted several countries to raise their travel advisory levels. The number of foreign tourist, totalling 1.7 million, were 10.7 percent lower than its year-earlier level as tourist arrivals from Asia, especially China and Malaysia, decreased.

Farm income expanded from the previous month but remained below its level last year mainly because of depressed agricultural prices, especially rice prices which fell significantly on account of the recent offloading of government stockpiles, and rubber prices which declined following elevated inventory levels in Thailand and China. Overall farm output increased from the same period last year. Rice production rose thanks to favorable precipitation. Meanwhile, oil palm production increased due to expansion of planting area in preceding years.

Fiscal spending increased on the year-on-year basis on the back of government purchases of goods and services and disbursement to the Government Pension Fund and the Social Security Office. On the other hand, only part of outlays for investment could be disbursed. Government cash receipts declined compared with its level a year earlier, in part because of lower income and consumption tax revenues consistent with the economic slowdown in the previous period. With revenues outpacing expenditures, the government's cash balance registered a surplus of 78 billion baht.

On the **stability** front, unemployment remained low. Inflation rose on the back of energy prices, especially fuel adjustment charge (FT) and domestic retail energy prices. The pass-through of higher liquefied petroleum gas (LPG) prices to prepared food prices still contributed to inflation. The trade balance registered a surplus. The current account recorded a deficit due to repatriation of profits and dividends by foreign companies as well as a drop in income from tourism. The capital account was also in a deficit owing to outflows of foreign portfolio investment and Thai investors' portfolio investments overseas. Overall, the balance of payments posted a deficit.

Bank of Thailand
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Contact: Macroeconomic Team
Tel: +66 (0) 2283 5647, +66 (0) 2283 5648
e-mail: MPGMacroEconomics@bot.or.th