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Press Release on the Economic and Monetary Conditions for November 2015

In November 2015, the Thai economy recovered at a gradual pace, mainly supported by domestic spending. Public spending continued to be well disbursed. Private consumption picked up on the back of a temporary acceleration in car purchases before vehicle excise tax increases come into effect at the beginning of 2016. Additionally, tourism sector increased. The overall recovery, however, continued to be weighed down by lacklustre performance of merchandise exports as a result of the slowdown in the Chinese and ASEAN economies as well as the effect of global oil price slumps which pushed down prices of some export goods. Manufacturing production and private investment remained at low levels following weak external demand.

On the stability front, headline inflation remained negative on the back of declines in energy prices. The unemployment rate was unchanged from the previous month. The current account posted a large surplus as a result of declining merchandise imports in line with soft economic activities, especially in the manufacturing sector.

Details of the economic conditions are as follows.

Public spending remained one of the main growth drivers. Government spending expanded by 17.0 percent compared to the same period last year following strong disbursement performance on both current and capital expenditures, with the latter mostly concentrated in transportation and irrigation projects. Furthermore, state-owned enterprises spending also improved, especially on power plant projects. Government revenue increased by 24.0 percent compared to the same period last year, owing partly to a temporary rise in excise tax revenue particularly on automobiles, and the continued recovery of domestic spending.

Private consumption indicators have improved for the fourth consecutive month. Despite falling farm income, the steady growth in non-farm income together with the persistent decreases in energy prices have partly supported households' purchasing power. Consumer confidence has also improved. As a result, spending on non-durable necessity goods and services continued to expand moderately, which was in line with growth in the service sector, particularly in the logistic and trading activities. Moreover, spending on durable items increased by 2.4 percent from the previous month owing to a temporary factor as consumers rushed to make their car purchases before excise tax increases come into effect at the beginning of next year. Nonetheless, overall durable consumption remained low and the car sales were expected to slow down slightly at the beginning of 2016 after the implementation of vehicle excise tax hikes.

The value of **merchandise exports** dropped by 6.6 percent compared to the same period last year, which was also a decrease from the last month's value. This reflected both a decline in

quantity and a decrease in export prices due to the economic slowdown in China and ASEAN countries and lower prices of oil-related products as a result of slumps in global oil prices. An improvement in the G3 economies could not offset the impact of the slowdown in China and ASEAN economies on Thai merchandise exports. Nevertheless, exports of certain goods registered modest growth such as automobiles, especially the new models of commercial cars and eco-cars exported to Europe, as well as electronic parts used as raw materials for new models of mobile phones.

Sluggish merchandise exports resulted in low **manufacturing production**, despite the acceleration in the production of new cars to meet a temporary boost in demand in anticipation of higher excise tax rates next year. **Private investment** indicators improved from last month. However, excluding the acceleration of car purchases, new investment was limited only to some sectors related to services such as telecommunication investment to support 4G network expansion, and alternative energy investment. Overall investment in the manufacturing sector remained soft as there remained large excess capacity.

The value of **merchandise imports** contracted by 8.5 percent compared to the same period last year. The value of crude oil imports dropped due mainly to lower global oil prices. Imports of raw materials and intermediate goods (excluding crude oil) also contracted in line with sluggish merchandise exports. Nonetheless, imports of capital goods improved in line with a gradual lift in investment in some sectors. Imports of consumer goods expanded thanks to the recovery of the tourism sector.

The **tourism sector** improved, reflected by a continued increase in the number of foreign tourists for the second consecutive month after contracting in the aftermath of the bombing incident in Bangkok. The number of foreign tourists increased by 2.5 percent from the previous month as a result of a pick-up in East Asian tourist arrivals, especially Chinese tourists. Nevertheless, the number of foreign tourist arrivals from other countries such as Australia, Russia, Indonesia and Malaysia has not recovered since their economic conditions remained subdued in line with their commodity exports.

On the **stability** front, core inflation remained low in line with the slow recovery of domestic demand. The headline inflation remained negative, at -0.97 percent, as energy prices continued to contract. The unemployment rate was unchanged from the previous month. The current account posted a surplus of 3 billion US dollars owing to low merchandise imports. The capital account registered a deficit because of 1) Thai investors' portfolio investment abroad in debt securities and direct investment and 2) foreign portfolio investment in debt and equity securities in anticipation of an impending Federal Reserve's policy rate hike.

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