BANK OF THAILAND

BOT Press Release

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Press Release on the Economic and Monetary Conditions for October 2013

Economic activities in October 2013 were broadly stable. Overall private consumption continued to be subdued, and merchandise exports had yet to recover in line with improving global demand, delaying the recovery in manufacturing production and private investment. The tourism sector expanded albeit at a slower pace following China's new tourism law.

On the stability front, inflation rose slightly while unemployment remained low. The current account posted a surplus thanks to a positive trade balance. The capital account was in deficit owing to debt securities investment by Thai investors as well as an increase in overseas deposits by commercial banks to manage their foreign exchange position. The balance of payments registered a slight deficit.

Details of the economic conditions are as follows.

Private consumption was held unchanged, with this month's **Private Consumption Index** (PCI) at a level comparable to a year ago, as households remained cautious on spending given weakening confidence and elevated household indebtedness. While consumption of nondurable items—in particular, nondurable merchandise imports, household electricity, and fuel—grew at a moderated pace, expenditure on durable items especially automobiles dropped significantly from last year's elevated level under the first-time car buyer scheme.

Merchandise exports had yet to recover in line with improving global demand. This month's export value stood at 19,038 million US dollars, falling by 0.5 percent (yoy) because of two key factors. First, a number of industries faced supply-side constraints. There was a supply shortfall in shrimp production following a disease outbreak, and exports of electronics and parts increased only slightly due to limited production capability to take full advantage of the increasing global demand for high-technology items. Second, steel and metal exports fell from a high base last year. However, other exports such as automobiles, machinery and equipment, and petrochemical products improved from the same period a year ago.

Manufacturing production continued to contract year-on-year in line with restrained consumption and exports. The **Manufacturing Production Index** (MPI) dropped by 4 percent (yoy), due primarily to a fall in automobile production, as an increase in foreign orders could not compensate for a sharp decline in domestic orders, and to a contraction in frozen shrimp production because of the disease outbreak. However, there were special factors which caused unusually high levels of production in certain industries this month. Beer producers built up inventories to normal levels after the new excise tax rates were finally clarified, and oil producers raised production to comply with the new regulation on oil reserve as stipulated by the Energy Policy and Planning Office. With production of automobiles, frozen shrimps, and other special factors mentioned above excluded, manufacturing production would grow marginally in line with softened domestic demand.

Weak manufacturing production weighed on private investment. Some businesses postponed their investment awaiting clearer signs of a recovery in the economic outlook. The **Private Investment index** (PII) contracted by 4.9 percent (yoy) mainly from declines in commercial car sales and imported machinery and equipment, in part due to the high base given post-flood reconstruction last year. Meanwhile, construction investment expanded at a slower pace in line with weakening business sentiment.

Merchandise imports registered 18,701 million US dollars, down by 4.6 percent (yoy) on account of declines in imported capital goods, raw materials, intermediate goods (excluding fuel), and automobiles and parts.

Farm income rose by 5.1 percent (yoy). Agricultural output, particularly rice production, expanded following favorable weather conditions, and rubber production continued to rise thanks to the previous expansion of planting area. However, shrimp production remained affected by the disease. Farm prices slightly declined, held down by rice prices which moved in tandem with falling global prices due to good harvest in major producing countries. Rubber prices also fell owing to excess supply and high inventory levels in China, a major importing country.

The **tourism** sector expanded with 2.1 million foreign tourist arrivals, rising by 14.7 percent (yoy). The pace of growth in tourist arrivals softened from the preceding months, however, due to fewer Chinese tourists following the implementation of China's new tourism law. Meanwhile, tourists from other countries continued to expand robustly.

Fiscal spending declined from the same period last year. This was attributable both to the delay in the enactment of the Annual Expenditure Budget Act for fiscal year 2014 and to last year's high base owing to accelerated government spending. Government cash receipts rose thanks mainly to corporate income tax receipts carried over from the previous month. The government's cash balance registered a deficit of 99 billion baht this month.

On the **stability** front, headline inflation edged up to 1.46 percent following increases in fresh food prices as a result of a limited supply of vegetables and fruits caused by unfavorable weather for these products. Core inflation stood at 0.71 percent, up slightly as prices of prepared food and alcohol rose. The unemployment rate remained low. The current account posted a surplus due to a positive trade balance. On the other hand, the capital account registered a deficit owing to debt securities investment by Thai investors as well as an increase in overseas deposits by commercial banks to manage their foreign exchange position. Overall, the balance of payments posted a deficit.

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