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Press Release on the Economic and Monetary Conditions for October 2014

In October 2014, the Thai economy showed broad-based improvement. Private consumption and the tourism sector continued to recover. Public spending accelerated and merchandise exports expanded on the back of improvement in global demand and a temporary boost from exports to the euro area ahead of Thailand's GSP tax privilege expiration. Meanwhile, manufacturing production rose from the previous month in line with both domestic and global demand. **Overall, however, the recovery in economic activities remained at a slow pace.**

On the stability front, unemployment remained low. Inflation further declined on the back of decreases in fresh food and energy prices. As for external stability, the current account posted a surplus in both the trade balance and the service, income, and transfer balance which helped offset a deficit in the capital account owing to Thai investors' overseas investment and foreign investors' selling of short-term debt securities. Overall, the balance of payments was roughly in balance and the ratio of international reserves to short-term external debt remained high.

Details of economic conditions are as follows.

Private demand continued to improve as reflected by **private consumption** which expanded on the back of increased spending on nondurable items. This was attributable to supportive non-farm households' purchasing power, particularly those of middle and high income households. However, growth in private consumption remained below its normal trend due to a drag from a high level of automobile purchases in the preceding period. Furthermore, households were still cautious to spend in light of persistently high debt levels. In addition, low farm prices hurt purchasing power of households in the countryside, especially those in the South.

Private Investment increased from the previous month in both construction and machinery and equipment investment. The former was attributable to construction of new condominiums along mass transit system routes and expansion of retail businesses in regional areas. The latter benefited from investment in the telecommunication sector, particularly mobile and hi-speed internet network expansion. Nevertheless, investment for production capacity expansion remained subdued owing mainly to excess capacity in several industries.

Fiscal stimulus increased this month partly from expedited disbursement of purchases of goods and services and capital expenditures. Government revenue dropped from its last-year level following a decrease in income tax in tandem with economic slowdown in the previous period. Consumption tax revenues also declined, particularly excise tax after having accelerated from the first-car buyer scheme.

The **tourism** sector continued to improve thanks to the return of tourists from Asia, particularly China in light of their eased concerns on the political situation and temporary visa fee exemption. This was coupled with more tourists from Malaysia as their private buses were temporarily allowed to travel outside Songkhla province until the end of October. Nevertheless, signs of recovery in the number of foreign tourists from Europe and the U.S. remained unclear as these groups of tourists have long-term travel plans and the euro area economies have softened.

Increasing export orders from the U.S. and ASEAN countries as well as a temporary boost from exports to the euro area ahead of Thailand's GSP tax privilege expiration next year caused **merchandise exports** to expand on both month-on-month and year-on-year basis. This was due mainly to exports of automobiles, electronics, electrical appliances and petrochemical products. Meanwhile, **merchandise imports** decreased after having accelerated last month. However, imports of raw materials and intermediate goods, and consumer goods showed sign of gradual improvement in line with domestic and global demand.

Manufacturing production picked up on account of improved global demand, planned acceleration of hard disk drive production before year end, and gradual recovery in domestic oriented production. Reflecting improvement in manufacturing production was higher industrial electricity consumption.

Farm income weighed on household spending. Farm prices were lower than the same period last year, led by rubber prices resulting from a decrease in global orders from major importing countries, especially China in line with a slowdown in its economic condition. Additionally, rice prices contracted after the end of the rice pledging scheme and the recent offloading of government rice stockpiles. However, seasonally-adjusted farm income rose from last month following increases in rice and corn production thanks to favorable precipitation, while farm prices were largely unchanged.

On the **domestic stability** front, unemployment was low. Inflation decelerated on account of a drop in fresh food prices due to higher meat and egg supply, together with falling energy prices following a continuous decline in global oil prices. On the external stability front, the current account registered a surplus stemming from increases in exports and tourist receipts. Meanwhile, the capital account recorded a deficit from Thai investors' portfolio and direct investment abroad and foreign investors' selling of short-term debt securities. Overall, the balance of payments was roughly in balance and the ratio of international reserves to short-term external debt remained high.

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