No.48/2013

Press Release on the Economic and Monetary Conditions for September and the Third Quarter of 2013

In **September 2013**, the overall economy stabilized owing primarily to steady private consumption and investment, which in turn made the recovery in manufacturing production still precarious. Nevertheless, exports of some products showed signs of recovery and the tourism sector expanded robustly.

On the stability front, inflation eased and unemployment remained low. The current account posted a deficit due to a negative balance in the services, income and transfers account. However, a surplus in the capital account led to an overall balance of payments surplus.

Details of the economic conditions are as follows:

Improving global demand started to have a positive impact on Thai **merchandise exports**, especially agricultural products, automobiles and integrated circuits and parts. However, exports of fishery and hard disk drives (HDD) continued to contract as the outbreak of shrimp disease persisted and domestic production technology could not fully reap the benefit of growing global demand for high-tech products. Moreover, exports of steel, metal and gold markedly declined owing to the high base effect from last year. As a result, merchandise export value totalled 19,169 million US dollars and still contracted by 6.3 percent year-on-year (yoy).

Overall private consumption levelled off. Durable consumption contracted, particularly from automobile purchases. Households had meanwhile become more cautious with other big-item spending given their previous debt accumulation and less optimistic sentiment. This also contributed to a slower pace of nondurable consumption, such as fuel and household electricity. The contraction in the **Private Consumption Index** (PCI) by 6.1 percent (yoy), however, was partly due to a one-off factor, the high base effect from exceptional consumption-based VAT collection last year.

Private investment continued to stabilize. Nevertheless, when compared to the high base from post-flood reconstruction last year, the **Private Investment index** (PII) declined by 3.3 percent (yoy). The contraction was due mainly to a slowdown in commercial car sales and imports of machinery and equipment, especially in the electronics industry. In addition, some businesses postponed their investment awaiting a clearer recovery in the export outlook. Construction investment, however, continued to expand as reflected by construction areas permitted for residential purpose as well as cement sales.

Fragile export performance and subdued domestic demand weighted on manufacturing production and merchandise imports. The **Manufacturing Production Index** (MPI) declined by 2.9 percent (yoy) as (1) production of frozen shrimp continued to be held back by the disease,

(2) production of automobiles slowed down as the increase in export orders could not fully offset the decline in domestic orders, and (3) production of beer dropped temporarily as producers awaited more clarity in the excise tax levy. Meanwhile, **merchandise imports** stood at 16,608 million US dollars, declining by 6.1 percent (yoy) due to lower imports in all categories.

Farm income dropped by 2.6 percent (yoy) as output fell from a decline in shrimp production, while paddy rice, cassava and oil palm production suffered from unfavourable weather. Rice production was also partly damaged by the flood. Meanwhile, farm price rose on account of higher shrimp and livestock prices due to high demand relative to supply. However, rice price fell from external factors, most importantly low global demand as a result of uncompetitive price of Thai rice and good harvest in major importing countries.

The **tourism** sector expanded robustly, with 2.1 million foreign tourist arrivals which increased by 27.6 percent (yoy), thanks to more tourists from China, Malaysia and Russia.

Fiscal spending picked up mainly from transfer payments under the rubber subsidy scheme. Nonetheless, capital expenditure disbursement for some irrigation and transportation projects continued to be delayed by procurement problems and construction labour shortage. For government revenue, personal income tax expanded well, but overall cash receipts decreased owing to corporate income tax carry-over to next month. With revenue outpacing expenditure, the government's cash balance posted a surplus of 74 billion baht.

On the **stability** front, headline inflation decelerated to 1.42 percent (yoy) due to a slowdown in prices of all major categories. Core inflation was at 0.61 percent (yoy) on the back of limited pass-through of costs to retail prices as domestic demand softened. Unemployment stayed low. The trade balance recorded a surplus but was offset by a larger deficit in the services, income and transfers account due to high repatriation of profits and dividends. As a result, the current account posted a deficit. On the other hand, the capital account was in surplus as foreign investors returned to purchase domestic bonds and equities as well as raised foreign direct investment in Thailand. The balance of payments posted a surplus overall.

The economy in **the third quarter of 2013** showed some signs of recovery from the previous quarter as exports of some products gradually improved in line with global demand. Meanwhile, the tourism sector continued to grow robustly. Private consumption and investment stabilized, which made the recovery in manufacturing production still precarious. Fiscal spending accelerated but remained below target. On the stability side, inflation eased and unemployment stayed low. The current account registered a deficit, albeit by less than in the previous quarter owing to less repatriation of profits and dividends. The capital account also recorded a deficit mainly from short-term loan repayments by financial institutions. Overall, the balance of payments registered a smaller deficit compared to the previous quarter.

Bank of Thailand
31 October 2013

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