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Press Release on the Economic and Monetary Conditions for September and the Third Quarter of 2014

In September 2014, the Thai economy improved from the previous month. Overall, however, the recovery in economic activities remained at a slow pace. Private consumption expanded and the tourism sector improved gradually. Public spending, particularly public investment, improved following expedited disbursement at the end of fiscal year. On the other hand, private investment remained subdued. Merchandise exports remained weak, as did manufacturing production in export-oriented industries.

On the stability front, unemployment remained low. Inflation declined on the back of falling energy prices after changes in retail energy pricing structure. This was coupled with the absence of demand-side pressure. The current account recorded a deficit, while the ratio of international reserves to short-term external debt remained high.

Details of economic conditions are as follows.

Private consumption and public spending improved after some softening last month. **Private consumption** expanded on the back of increased spending on nondurable items such as food and beverages. This was attributable to increasing non-farm households' confidence and income. However, consumer outlays on durable items remained weak as high debt levels weighed on private consumption and low farm prices hurt purchasing power of households in regional areas. The economic stimulus from **fiscal spending** improved, particularly investment and purchases of goods and services, following expedited disbursement at the end of fiscal year. Government revenue rose thanks to corporate income tax receipts carried over from the previous month.

Merchandise exports and imports values improved in almost all major product categories after contracting in the previous period. **Merchandise exports** expanded 3.9 percent from last month. However, overall exports recovery remained sluggish as slow global economic recovery and Thailand's inability to capitalize on the current global electronic cycle weighed on exports performances. The value of exports in the first 9 months of the year contracted 0.7 percent from the same period last year. **Merchandise imports** expanded across the board due to increases in imports of capital goods, raw materials and intermediate goods, and consumer goods as well as expedited gold imports on account of lower global gold prices.

Weak global demand caused export-oriented manufacturers, particularly those of hard disk drives, to temporarily reduce production levels in order to run down stocks. Thus, overall **manufacturing production** decreased from the previous month. Nevertheless, excluding hard disk drives, production in most industries such as in food and beverages, air-conditioners, textiles and apparels expanded in line with domestic spending recovery.

Private Investment flattened from the previous month both in construction and machinery and equipment. Overall demand remained below its normal trend, in particular exports which gained additional risks from the slow recovery in global economy. This resulted in excess capacity in several industries. Thus, investment for expanding production capacity remained low with most investment still geared towards enhancing production efficiency.

Farm income continued to decline which weighed on private consumption. Rubber prices continued to decline following elevated inventory levels in China and soft demand from major importing countries, particularly Malaysia and Japan. Rice prices also declined as a result of renewed offloading of government rice stockpiles. On the production side, overall farm output dropped mainly from rubber and corn production following water shortage due to a late rainy season.

The **tourism** sector improved gradually thanks to the return of tourist arrivals from Asia, particularly China, on the back of their lessening concerns on the political situation. Nonetheless, the number of foreign tourists remained below its normal trend since many countries still maintained their travel warning advisory levels. This was coupled with softening economic conditions in some countries, especially European countries.

On the domestic **stability** front, unemployment remained low. Inflation declined on the back of falling energy prices following changes in retail energy pricing structure and declining global oil prices. This was coupled with the absence of demand-side pressure. On the external stability front, the current account recorded a deficit mainly from an increase in imports and repatriation of profits and dividends by foreign companies. The capital account posted a deficit, following short-term loans repayment by financial institutions as well as foreign investors' sell-off of short-term debt securities for profit taking. Accordingly, the balance of payments registered a deficit. Meanwhile, the ratio of international reserves to short-term external debt remained high.

Overall economic activity in the third quarter of 2014 recovered at a slow pace and not in all economic sectors. Private demand had a greater role to drive the economy but was partially restrained by low farm prices, elevated debt levels and excess production capacity in several industries. Meanwhile, only a small part of public investment outlays could be disbursed despite an acceleration at the end of the quarter. The tourism sector recovered gradually. However, merchandise exports value contracted as a result of weak global demand, particularly from European countries, Japan, and the Middle East, technological constraints, and longer-than-usual maintenance shutdown of refineries. Overall manufacturing production was flat due mainly to precarious recovery of both domestic and external demand as well as inventory destocking in some industries. On the domestic stability front, unemployment remained low. Inflation dropped on account of falling energy and fresh food prices. On the external stability front, the negative current account was attributable to a deficit in the service, income and transfer account mainly from repatriation of profits and dividends. The capital account registered a deficit. Overall, the balance of payments posted a deficit.

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