



BANK OF THAILAND



BOT Press Release

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Press Release on the Economic and Monetary Conditions for September and the Third Quarter of 2015

In September 2015, the Thai economy recovered at a gradual pace, mainly supported by (1) a slight improvement in private consumption and investment from the previous month and (2) a continued disbursement of government budget despite some decline after having accelerated in the preceding period. But the number of foreign tourists continued to decelerate, weighing on the service sector's role in shoring up economic growth. Meanwhile, merchandise exports contracted in almost all categories following the economic slowdown in China and ASEAN countries.

On the stability front, headline inflation became less negative as the base effect of high global oil prices started to wane off. The unemployment rate remained flat, with more workers migrating back to the agricultural sector due to more favorable rainfall. The current account continued to post a surplus as a result of low merchandise imports.

Details of economic conditions are as follows.

Private expenditure edged up marginally from the previous month. **Private consumption** indicators improved on the back of spending on non-durable necessary goods and services. Meanwhile, purchases of durable goods declined from the previous month, reflecting the fact that households remained cautious in their spending. This was in line with: (1) farm income that declined with farm prices, especially rubber prices; (2) non-farm household's income that stayed flat; and (3) financial institutions' caution in extending credit to households. **Private investment** increased slightly from the previous month, thanks to machinery and equipment investment, but the improvement was limited only to imports of telecommunication equipment and commercial car sales. Overall, the level of private investment remained low, reflecting the fact that businesses had sufficient production capacity to accommodate domestic and external demand.

Regarding **public spending**, disbursement continued at a healthy pace especially on capital expenditure for transportation and irrigation projects, although the overall disbursement decelerated somewhat after picking up in the earlier period. Government revenue increased from the same period last year, thanks to the collection of revenues from state-owned enterprises that was expedited toward the end of the fiscal year. In addition, new stimulus measures launched by the government this month also supported private sector's confidence in the economic outlook over the periods ahead.

The **tourism** sector was affected by the Bangkok bombing incident in August. This resulted in a lower growth in the number of foreign tourists of 8.7 percent from the same period last year (compared to 39.4 percent in July, which was the period prior to the bombing) mainly due to the deceleration in the number of Chinese tourists.

Merchandise exports were sluggish following the economic slowdown in China, as well as weaker momentum in ASEAN economies that were affected by weaker demand from China. Prices of certain export goods also stayed low in line with global oil prices. As a result, export values in several key product categories such as petroleum, chemical, petrochemical, and agricultural products, continued to contract. Overall, the value of merchandise exports excluding gold contracted by 7.2 percent from the same period last year, despite the sustained growth in exports of automobiles and electronic parts.

Weak external demand, coupled with the slowdown in the production of automobiles, food, and beverages following the introduction of new products in the earlier period, led to a slight decline in **manufacturing production** from the previous month. On the other hand, **merchandise imports**, particularly those of raw materials, capital and consumer goods, dropped in line with subdued recovery momentum. Crude oil imports also contracted due to low global oil prices. As a result, the value of merchandise imports excluding gold fell 17.0 percent from the same period last year.

On the **stability** front, headline inflation became less negative, coming in at -1.07 percent, as the base effect of high global oil prices waned off and domestic demand pressure stayed low. The unemployment rate remained stable from last month, with more workers migrating back to the agricultural sector thanks to more favorable rainfall. The current account registered a surplus of 1.6 billion U.S. dollars due to low merchandise imports. The capital account posted a deficit as a result of (1) capital outflows due to Thai businesses' investment abroad and (2) foreign investors' sell-off of Thai equities given the anticipation of FED's rate hike and concerns over the Chinese economy. In overall, the balance of payments recorded a surplus.

Overall economic activity in the third quarter of 2015 recovered at a slow pace. Private consumption improved slightly especially in non-durable necessary goods and services. Private investment in some categories started to pick up, mostly targeted at enhancing productivity and replacing old machinery. Public spending continued to play a role in supporting the economy, despite some decline after picking up in the earlier period. However, merchandise exports were weak compared to the last quarter, following the economic slowdown in China and ASEAN countries. Meanwhile, the tourism sector decelerated after the bombing incident in Bangkok, which also weighed on other tourism-related service sectors. On the stability front, the unemployment rate was stable, headline inflation remained negative, and the exchange rate depreciated in line with regional currencies. The current account continued to register a surplus following merchandise imports that stayed low and the ratio of international reserves to short-term external debt that remained sound.

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