BANK OF THAILAND

BOT Press Release

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Press Release on Economic and Monetary Conditions for December 2011 and Year 2011

The Thai economy started to recover in December 2011 across all sectors after the floods' impact began to subside. Economic stability remained sound as reflected by declining inflation. Although the unemployment rate rose slightly from the previous month, it remained low and is expected to decline going forward. Meanwhile, balance of payments registered a deficit, mainly due to Thai Direct Investment outflows.

Details of the economic conditions are as follows:

Economic activities started to rebound as disruptions in the production and transportation network had been resolved. **Manufacturing production** contracted by 25.8 percent year-on-year (yoy), but improved across all sectors from last month's contraction of 47.2 percent (yoy). In particular, automobile, integrated circuit and parts, and hard disk drive production increased markedly as flood-affected producers began to resume their production partially while the non-flooded factories were able to acquire raw materials from both domestic and foreign sources. As a result, the capacity utilization rose to 52.3 percent from 40.5 percent in the previous month. Improvement in the production sector also induced a broad-based recovery in **exports**. However, weak external demand continued to result in moderating exports of prepared food whereas exports of rice were still adversely affected by the flood. **Total export value**, therefore, continued to drop by 2.1 percent (yoy), though increasing modestly from the previous month. Going forward, the production and export sectors are poised to gradually resume its normal growth path in the mid-2012.

Agricultural production resumed growth of 4.8 percent (yoy) as increased rubber, oil palm, and other agricultural production more than offset flood-damaged rice production. This was due to increased planting areas for rubber and oil palm, coupled with high palm yield from sufficient rainfall. Concurrently, **agricultural price** dropped by 4.3 percent (yoy) following a continuous decline in rubber price due to softened domestic and external demand. **Farm income**, therefore, rose merely by 0.3 percent (yoy).

Domestic demand began to pick up in line with the recovery in the production sector. **Private consumption** increased as the consumer confidence rebounded, reflected by an expansion of Private Consumption Index (PCI) by 1.7 percent month-on-month (mom, sa). Improvements were seen across all consumption indicators, especially VAT while imports of consumer goods also rose markedly to compensate for a shortfall in the production sector. Furthermore, recovery in the production and transportation network also led to increased automobile sales, and fuel consumption. **Private investment** showed signs of recovery although Private Investment Index (PII) still contracted. This was reflected through improvements of construction investment indicators, which picked up from repair work, and increased construction activities in Bangkok, the Northeastern and the Southern areas as businesses resumed their construction plans. Meanwhile, investment in machinery and equipment rose from increased imports of capital goods to replace flood-damaged machinery whereas commercial car sales edged up from the previous month, albeit still below its normal level.

Import value expanded across all product categories by 19.6 percent (yoy), partly from an increase in imports of gold following a decrease in the global gold price. Excluding gold, import value rose by 6.5 percent (yoy), mainly due to expansion in imports of consumer goods, electronic machinery, and automobile parts to compensate for a shortfall of domestic goods. Furthermore, imports of crude oil rose significantly following the temporary shut-down for maintenance of oil refineries in the previous month.

The **tourism sector** started to rebound since mid-December as evidenced by an increase in the number of foreign tourists from 1.2 million people in November to 1.8 million people in this month, though still contracting by 2.2 percent (yoy). This was due mainly to rising number of foreign tourists from East Asia, who began to resume their travel to Thailand. Meanwhile, the travel warnings for terrorist activity in January are not expected to have a significant impact on the tourist confidence.

The **fiscal sector** remained stimulative. Government's revenue in December started to rise in tandem with the economic recovery. Nevertheless, higher disbursement resulted in a cash balance deficit of 37.1 billion baht. Meanwhile, more accommodative monetary policy and remedial measures from the financial institutions for flood-affected households led total outstanding credit to increase from the previous month. Concurrently, total deposit also rose continuously as financial institutions prepared to accommodate the increasing demand for credit.

Economic stability remained sound. **Headline and core inflation rates** decelerated to 3.53 and 2.66 percent (yoy), respectively, mainly following the moderation in the global crude oil price, as well as domestic food price. Moreover, although the unemployment rate rose slightly from the previous month, it remained low and is expected to decline going forward in tandem with recovery in the production sector. Balance of payments registered a deficit from capital outflows of the Thai Direct Investment.

The economy in the year 2011 experienced a marked slowdown compared to the previous year as the production sector faced supply disruption problems following Japan's natural disaster, coupled with the severe and widespread floods' impact in the Central region. Constraints in the production sector and transportation network eventually caused exports, private consumption and investment to contract in the last quarter of the year. Nevertheless, internal stability remained sound as the unemployment rate stayed low. Although higher production costs led to accelerated inflation, a decelerating trend was observed toward the end of the year. External stability also remained sound, with a surplus in the balance of payments and declining short-term external debts to total external debts.

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