



BANK OF THAILAND

BOT Press Release

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Press Release on the Economic and Monetary Conditions for December 2012 and Year 2012

In December 2012, the overall economy moderated after having expanded strongly in private consumption and investment as well as showing an improvement in merchandise exports during the preceding months. This corresponded to a slowdown in manufacturing production. Nevertheless, economic fundamentals remained and sound, with rising employment, an uptrend in consumer and business confidence, and strong private credit growth. Economic stability was meanwhile well maintained overall, with stable core inflation and a surplus in the balance of payments.

The analysis of this month's data is still based on a seasonally adjusted comparison with the previous month. This can reflect the economic momentum more accurately than year-on-year growth figures which are distorted by the low base effect due to last year's historical flood. Details of the economic conditions are as follows:

Private spending decelerated following a marked acceleration in the preceding period. **The Private Consumption Index (PCI)** contracted by 2.9 percent month-on-month (mom) from lower VAT collection, which was in line with a decline in imports of consumer goods and automobile purchases. Nonetheless, automobile purchases remained at an exceptionally high level as car manufacturers continued to utilise full production capacity to accommodate the order backlog. **The Private Investment Index (PII)** also declined by 0.8 percent (mom) as investment in machinery and equipment had already accelerated in the flood reconstruction period. At the same time, construction investment was partly constrained by labour shortage.

Merchandise export value was recorded at 17,955 million US dollars, down slightly from the previous month, reflecting a soft recovery in global demand. Exports of electrical products, especially hard disk drives (HDD), petroleum and steel declined following a period of acceleration, while exports of vehicles and electrical appliances continued to expand well and exports of rubber recovered on the back of a pickup in demand from China. The **tourism** sector remained buoyant, with the number of foreign tourist arrivals reaching 2.4 million due to an increase in tourists from China, ASEAN countries, South Korea and Japan.

Moderated domestic demand and merchandise exports corresponded to a decline in manufacturing production and merchandise imports. **The Manufacturing Production Index (MPI)** contracted by 5 percent (mom) from the production of HDD, petroleum, and food and beverages. Nonetheless, production of integrated circuits and parts gradually improved along with the easing of production constraints as a result of the flood,

while automobile production was sustained at a high level. **Merchandise import value** was registered at 17,672 million US dollars, contracting slightly from the previous month from imports of consumer goods, capital goods as well as raw materials and intermediate goods.

Despite the deceleration in private spending, private income continued to expand favourably. **Farm income** rose by 2.5 percent (mom), as the expansion in output compensated for the slight fall in rice and oil palm prices, with the latter being affected by global demand slowdown. During this month, production of rice accelerated from an early harvest to make time for second crop farming which, if delayed, could be affected by the possibility of drought. At the same time, production of oil palm rose, thanks to favourable climate. In the nonfarm sector, employment maintained a good trend in tandem with a low unemployment rate.

On the **fiscal side**, government spending declined after an acceleration of transfers to the Village Funds and the Student Loan Fund at the beginning of the fiscal year, while capital expenditure was stable. This together with an increase in revenue collection from corporate income tax carry-over from last month and income remittance from the 3G license auction led to a government cash balance surplus of 8.6 billion baht during this month.

Regarding **economic stability**, headline inflation accelerated to 3.63 percent (yoy) from fresh food prices, particularly vegetable and fruit prices. Core inflation stabilised at 1.78 percent (yoy). On the external side, the balance of payments registered an overall surplus as a result of surplus in both the current account and the capital account, which owed mainly to an increase in non-resident portfolio investment and short-term borrowing by foreign bank branches.

For **the year 2012 as a whole**, the economy expanded well, partly from private reconstruction investment after the flood and partly from the extra stimulus provided by the government and accommodative monetary conditions. Even though the impact of weakening global demand became more apparent in the latter half of the year, spillovers beyond merchandise exports and export-oriented manufacturing production were limited.

Economic stability remained sound as the unemployment rate stayed low and inflation moderated from the previous year, owing largely to a decline in fresh food prices. The balance of payments registered a stronger surplus compared to the year earlier with contribution from both the current account and the capital account.

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