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Press Release on Economic and Monetary Conditions for July 2012

The Thai economy in July 2012 was further weighed down by global economic slowdown, as evidenced by the contraction of exports of goods and production in export-oriented industries. Nevertheless, private spending continued to expand, from both consumption and investment which were partly due to government's stimulative measures and accommodative monetary conditions, and thus fostered production growth in domestic-oriented industries. Concurrently, overall economic stability remained sound as unemployment rate and inflation rate stood at a low level. Going forward, well-supported domestic demand is expected to cushion the Thai economy against impacts of global economic crisis to some extent.

Details of the economic conditions are as follows:

The global economic slowdown has put more weight on exports of goods and production in export-oriented industries. **Export value** decreased by 3.9 percent year-on-year (yoy) due to a plunge in exports of manufacturing products following weaker global demand, particularly exports of integrated circuit and parts, hard disk drive, electrical appliances, as well as textile and garments. Meanwhile, exports of agricultural products continued to contract from declining rice exports as a result of higher price relative to competitors, and declining rubber export price as a result of global economic slowdown. Nonetheless, exports of automobile and parts exhibited continual growth.

Deteriorating exports conditions caused **manufacturing production** to decline as reflected in a contraction of 5.8 percent (yoy) in the Manufacturing Production Index (MPI). This was primarily due to contracted production in export-oriented industries, especially hard disk drive and integrated circuit and parts. Nevertheless, production in domestic-oriented industries continued to grow following accelerated automobile production to accommodate backlog orders which remained at a high level, as well as air-conditioner and refrigerator production to meet ongoing domestic demand.

Farm income rose by 6.6 percent (yoy), mainly from an increase in **agricultural production** which registered a growth of 15.3 percent (yoy) following abundant water supply, as well as an expansion in production of rubber, livestock, and fruits. However, **agricultural price** dropped by 7.5 percent (yoy) due to a decline in rubber price, which stemmed from softening global demand.

Although the effect of weakening global economy on exports of goods became more evident, exports of services as partly proxied by the tourism sector remained robust. The number of foreign tourist arrivals in Thailand recorded at 1.8 million, rising by 5.3 percent (yoy), following rising number of foreign tourists across almost all regions, particularly China, Russia, and Australia. Nonetheless, the number of tourists from Malaysia continued to decline due to ongoing concern over the bombing incident in Songkla province in March. Meanwhile, the number of tourists from Middle East region continued to contract as a result of their internal social unrest.

Domestic spending registered favorable growth. **The Private Consumption Index (PCI)** grew by 7.0 percent (yoy), following rising VAT collection and imports of consumer goods, as well as continued growth in domestic automobile sales as a result of large pent-up demand and government scheme for first-time car buyers. Meanwhile, **the Private Investment Index (PII)** increased by 19.5 percent (yoy) following expansion of machinery and equipment investment owing to investment in commercial cars and imports of capital goods, and construction investment which rose from investment in residential and commercial constructions in Central, Northern, and Northeastern regions. In addition, private investment was particularly supported by businesses' confidence in Thai economy and accommodative monetary conditions.

Increased domestic spending and manufacturing production to accommodate expanding domestic demand induced **the import value** to grow by 13.3 percent (yoy), particularly in imports of capital goods, consumer goods, and automobile parts.

Fiscal stimulus continued to support the economy, reflected by an increase in disbursement of current and capital expenditures, especially current transfers, use of goods and services, and disbursement for flood restoration and prevention. Meanwhile, revenue collection increased from value added tax and duty on imports which expanded in tandem with expanding private consumption and imports. However, higher expenditures relative to revenue collection resulted in a cash balance deficit of 48.9 billion baht.

Regarding **overall economic stability**, the unemployment rate remained at a low level. Headline inflation stood at 2.73 percent (yoy), increased from the previous month due to accelerating raw food price following prices of vegetable and fruits. In addition, inflation expectation remained roughly unchanged from last month. External economic stability remained sound, with surplus in the balance of payments arising from Foreign Direct Investment inflows and foreign investors' purchases of government bonds.

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