BANK OF THAILAND

BOT Press Release

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Press Release on Economic and Monetary Conditions for June and the Second Quarter of 2012

The Thai economy expanded at a slower pace in June 2012. The European debt crisis began to weigh on exports which in turn led production in export-oriented industries to contract. Nonetheless, the tourism sector and domestic demand continued to grow although replacement spending, both consumption and investment, decelerated after registering a marked acceleration in the preceding period. Concurrently, overall economic stability was sound as unemployment rate remained at a low level and inflation rate remained relatively stable.

Details of the economic conditions are as follows:

The European debt crisis began to weigh on exports, causing **export value** to drop by 4.3 percent year-on-year (yoy) following a plunge in exports of manufacturing products across almost all products and markets. This was partly due to softening global demand, particularly in exports of electrical appliances, electronics, as well as chemical and plastic products. Meanwhile, exports of agricultural products continued to contract from declining rice exports as a result of deteriorated price competitiveness and declining rubber export price as a result of softened demand from China. Meanwhile, export value of petroleum products moderated in tandem with a decline in global oil prices.

Deteriorating exports conditions from the European debt crisis caused **manufacturing production** to decline as evidenced by a 9.6 percent (yoy) contraction in the Manufacturing Production Index (MPI). Consequently, the capacity utilization rate dropped to 72.4 percent from 74.3 percent in the previous month from contracted production in export-oriented industries, especially hard disk drive and integrated circuit and parts. Nonetheless, automobile production continued to expand markedly as all manufacturers continued to accelerate their production to accommodate large pent-up demand. Meanwhile, **agricultural production** grew by 7 percent (yoy) from an increase in rice production, partly attributable to abundant water supply, as well as replanting to compensate for flood-damaged production. In addition, production of rubber, oil palm, shrimp, and livestock particularly swine and egg also expanded well. Concurrently, **agricultural price** dropped by 11.7 percent (yoy), largely attributable to a decline in rubber price, which stemmed from softening global demand especially from China, as well as declining oil prices. Farm income, therefore, contracted by 5.6 percent (yoy).

However, the **tourism sector** remained robust. The number of foreign tourist arrivals in Thailand recorded at 1.6 million people, rising by 10.1 percent (yoy). This was mainly due to a rising number of foreign tourists across all regions, particularly China and Vietnam thanks to favorable economic conditions in Asia. As for the spillover from the European debt crisis problem, the tourism sector has so far remained unaffected as reflected by the continued rise in the number of foreign tourists from European countries (excluding Russia), which registered 6.8 percent (yoy) growth in this month.

Consumption and investment for flood-damaged properties decelerated after registering a marked acceleration in the preceding period. **The Private Consumption Index (PCI)** grew by 4.4 percent (yoy), decelerating from spending in both non-durable and durable goods, reflected by moderated VAT collection. Meanwhile, **the Private Investment Index (PII)** expanded by 18.3 percent (yoy) in response to ongoing demand while replacement and repair investment began to slow down. In particular, machinery and equipment investment rose from investment in commercial cars and imports of capital goods while construction investment expanded from investment in commercial construction in Bangkok.

Declining production due to the European debt crisis and slowdown in replacement investment caused **the import value** to moderate to 5 percent (yoy) from decreased imports of electronics, metal, and metal products. However, imports of capital goods, as well as automobile and parts continue to grow substantially. Likewise, fuel imports accelerated from a surge in crude oil imports as one of the oil refineries prepared for the shut-down for maintenance in the following month.

The government continued their disbursements on both current and capital expenditures, particularly employee compensation as well as disbursement for flood restoration and prevention. Nevertheless, higher revenue collection relative to expenditures resulted in a cash balance surplus of 167.4 billion baht.

Regarding **overall economic stability,** unemployment rate remained at a low level. Headline inflation remained relatively stable from the previous month at 2.56 percent (yoy) as rising fuel adjustment charge (Ft) was offset by decelerating raw food prices. As for external economic stability, the current account was in surplus due to moderated imports while the capital account registered less deficit as continued Thai Direct Investment outflows by businesses and investors was somewhat offset by large capital inflows into the bond market.

Overall, **the economy in the second quarter of 2012** continued to improve, albeit with exports and export-oriented production being weighed down by the European debt crisis during the end of the quarter. Nonetheless, private consumption sustained its momentum on the back of large pent-up demand together with stimulus from the government schemes for first-time car buyers. Meanwhile, private investment and the tourism sector continued to grow. Overall economic stability remained sound as the unemployment rate remained at a low level and inflation decelerated from the previous quarter.

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