



No. 34/2012

Press Release on Economic and Monetary Conditions for May 2012

The Thai economy improved across all sectors in May 2012. Continued improvement in manufacturing production fueled a sustained expansion in both private consumption and investment. Concurrently, the tourism sector remained robust. Exports registered favorable growth despite the adverse impact from the European debt crisis. Meanwhile, overall economic stability remained sound as unemployment remained at a low level while headline inflation rose slightly.

Details of the economic conditions are as follows:

Manufacturing production continued its recovery path. The **Manufacturing Production Index (MPI)** expanded by 5.5 percent year-on-year (yoy) following a marked increase in automobile production due to accelerated production by all manufacturers to accommodate large pent-up demand, together with last year's low base effect resulting from Japan's natural disasters. Also notably, production of beer and electrical appliances expanded in response to ongoing demand. As a result, capacity utilization rose to 75.9 from 62.9 percent in the previous month. Meanwhile, **agricultural production** grew by 7.3 percent (yoy) from an increase in the production of rice, rubber, oil palm, livestock, and fruits. **Agricultural price** dropped by 10.8 percent (yoy), largely attributable to a continued decline in rubber price, which stemmed from heightened concerns over the European debt crisis, declining oil prices, as well as last year's high base effect. **Farm income**, therefore, contracted by 4.3 percent (yoy).

Improvement in manufacturing production upheld a steady expansion in domestic demand, as evidenced by a favorable growth of **the Private Consumption Index (PCI)** of 6.6 percent (yoy) following expansion across all consumption indicators. In particular, domestic vehicle sales surged partly from last year's low base effect together with accelerated production to meet large pent-up demand. Meanwhile, VAT collection on imports rose in tandem with a marked increase in imports of both durable and non-durable consumer goods, driving overall VAT collection. Concurrently, private investment remained robust as reflected by a surge in **the Private Investment Index (PII)** of 14 percent (yoy). Notably, steady growth in machinery and equipment investment was largely attributable to rising investment in commercial cars and imports of capital goods in several industries including electronics, automobile, and machinery and equipment. In addition, construction investment

expanded from investment in residential construction across all regions except Bangkok, as real estate developers turned to expand towards provincial markets.

Buoyant domestic demand led **import value** to increase by 16.8 percent (yoy) from expansion across all product categories, particularly capital goods from machinery imports in electronics and automobile industries. In addition, imports of automobile and parts exhibited a substantial growth as automobile production fully recovered.

Total **export value** expanded by 6.7 percent (yoy), underpinned by continued recovery in electronics, electrical appliances, and automobile industries. Nevertheless, exports of agricultural products remained contracted from rice and rubber exports. In addition, exports to Spain, Italy, and France continued to decline in contrast to most markets, reflecting the impact from the European debt crisis. As for **the tourism sector**, the number of foreign tourist arrivals in Thailand recorded at 1.5 million people, rising by 9.4 percent (yoy). This was mainly due to a rising number of foreign tourists across almost all regions, particularly China, Russia, and India. However, the number of tourists from ASEAN especially Malaysia declined, partly due to the bombing incident in March.

The fiscal stimulus continued to rise, reflected by an increase in disbursement of both current and capital expenditures. In particular, current expenditure rose mainly from increased employee compensation following measures to increase the civil servants' compensation. Concurrently, capital expenditure increased from disbursement for restoration and flood prevention. However, higher revenue collection relative to expenditures resulted in a cash balance surplus of 29.8 billion baht.

Regarding **overall economic stability**, the unemployment rate stayed at a low level. Headline inflation rose slightly to 2.53 percent (yoy) from an increase in raw food prices while inflation expectations remained stable. Balance of payments registered a deficit partly from portfolio investment outflows by both domestic and foreign investors, as well as Thai Direct Investment outflows.

Bank of Thailand

29 June 2012

Contact: Macroeconomic Team

Tel: +66 (0) 2283 5647, +66 (0) 2283 5648

e-mail: MPGMacroEconomics@bot.or.th