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Press Release on Economic and Monetary Conditions for November 2011

The Thai economy contracted sharply in November 2011. The historic floods had a severe impact across all economic sectors. In addition, production and exports in many industries were also dampened further by the global economic slowdown. Meanwhile, inflation stood at a high level while external stability remained sound.

Details of the economic conditions are as follows:

The floods' impact on the economy intensified this month. The **agricultural sector** suffered in terms of both quantity and price. **Agricultural production** contracted by 7.2 percent year-on-year (yoy) due to damaged rice crops in the Central region, while rubber and oil palm production continued to rise due to the expansion of planting areas. Meanwhile, **agricultural price** dropped mainly from a decline in rubber price due to lower demand, as production of several automobile manufacturers was disrupted by the floods. Given the slowdown in both quantity and price, **farm income** fell by 8.6 percent (yoy). Meanwhile, **manufacturing production** continued to contract in almost all industries due to a temporary shutdown of production in flooded areas, together with the indirect impact through disruptions in supply chains and transportation network. This was reflected in a sharp contraction of the **Manufacturing Production Index (MPI)** of 48.6 percent (yoy), especially in the hard disk drive, automobile, integrated circuit and parts, and electrical appliances industries.

Regarding the **tourism sector**, foreign tourists continued to postpone their travel plans to flood-hit areas, causing the number of foreign tourists to fall to 1.2 million people, dropping by 17.5 percent (yoy). This owed largely to a decline in the number of tourists from ASEAN, China, India, and Japan. Meanwhile, the hotel occupancy rate rose slightly from the previous month due to temporary residential evacuation from the floods. Nevertheless, the tourism sector began to recover noticeably in December, as reflected by the rising number of foreign tourist arrivals at the Suvarnabhumi Airport.

Dampened agricultural and manufacturing production caused the **export value** to drop to 15.3 billion US dollars, contracting by 13.1 percent (yoy). The contraction was observed in exports of automobile, electrical appliances, and rice. Moreover, computer and integrated circuit exports also dropped in line with sluggish growth in the U.S. and the euro area. Similarly, exports of other product categories such as chemicals, plastic product, and prepared food, began to moderate in tandem with weakened global economic conditions.

The widespread floods disrupted the transportation network in several areas, which resulted in supply shortages despite the increase in production of unaffected firms. Accordingly, **Private Consumption Index (PCI)** contracted across almost all indicators by 1.6 percent (yoy), mainly from VAT and domestic automobile sales. Likewise, **private investment** contracted following disruptions in the production sector, resulting in lower investment in machinery and equipment. In particular, imports of capital goods declined across almost all product categories. Moreover, commercial car sales plunged due to the temporary shut-down of the automobile industry. In addition, investment in several construction areas had been postponed. As a result, Private Investment Index (PII) contracted by 1.3 (yoy). Regarding, the **fiscal sector**, disbursement continued to decrease as the Budget Act Fiscal Year 2012 was not yet enacted. Meanwhile, revenue collection dropped due to the flood's impact and extended tax collection period for the flood victims. Lower revenue with respect to spending, therefore, resulted in a cash balance deficit of 28.6 billion baht.

A contraction in production, exports and domestic demand, caused the **import value** to drop by 1.9 percent (yoy) (or 5.7 percent (yoy) excluding gold). This was attributable to a decrease in imports of electronic and computer parts, raw materials for chemical and plastic industries, electrical machines, as well as consumer durables such as household goods and electrical appliances and parts.

With regard to **internal stability**, inflation remained at a high level. Headline and core inflations stood at 4.19 and 2.90 percent (yoy), respectively. Regarding the labor market, an increase in the jobless claims signaled rising unemployment rate. However, the situation is expected to be temporary as labor shortages in several industries will partially absorb the unemployed labor force. Furthermore, recovery in the production sector will eventually restore the labor market to its normal conditions. **External stability** remained sound. International reserves stood at a high level despite the current account deficit from decreased exports. Meanwhile, external debts, especially with short-term maturities, decreased.

Bank of Thailand
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Contact: Macroeconomic Team
Tel: +66 (0)-2283-5647, +66 (0)-2283-5648
e-mail: MPGMacroEconomicsTeam@bot.or.th