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Press Release on the Economic and Monetary Conditions for November 2014

In November 2014, the Thai economy continued to recover at a slow pace. The main drivers were private spending both in consumption and investment. Manufacturing production accordingly increased from the previous month. On the other hand, fiscal spending decreased and merchandise export values softened on the back of weak demand from China, Japan and Europe, as well as declining oil and oil-related prices. Tourist arrivals decelerated after the end of government's temporary measure to allow private buses from Malaysia to travel outside Songkhla province. On the stability front, the decline in global oil prices led to falling inflation and a continuous surplus in the current account.

Details of economic conditions are as follows.

Private demand continued to recover as reflected by **private consumption** which edged up on the back of increased spending on nondurable and semi-durable items as well as services. This was attributable to supportive employment and income of non-farm households coupled with declines in domestic oil prices which helped to increase consumers' purchasing power. Nonetheless, spending on durable goods remained depressed as elevated debt burden made households wary of purchasing high-value durable items, and low farm prices hurt farm households' purchasing power.

Private investment expanded slightly from the previous month in both machinery and equipment investment and construction investment. The former was boosted by imports of capital goods especially in telecommunication equipment for mobile and hi-speed internet network expansion. The latter benefited from recovery in the real estate sector. Nevertheless, investment for capacity expansion was still low as most businesses still faced excess capacity and waited for clearer signs of recovery in domestic demand and exports.

Fiscal spending decreased after expedited disbursement on current expenditure last month. Capital expenditure continued to be disbursed but the overall disbursement rate was below its target. Government revenue contracted from the same period last year owing mainly to a decrease in excise tax on automobile sales. The fall in oil prices also contributed to lower import duty and VAT on oil imports.

Merchandise exports suffered from soft demand from China, Japan and Europe as well as declining prices of several oil-related goods such as petroleum, rubber, and chemical products. The value of exports in the first 11 months of the year thus remained in a slight contraction from the same period last year. Meanwhile, **merchandise import** values declined mainly on crude oil imports. On top of falling oil prices, refineries also reduced their import volume in anticipation of further falling prices.

Manufacturing production, particularly those of food and beverages, and chemical products, expanded from the previous month on account of improved domestic demand. This was coupled with planned acceleration of automobile production for the Motor Expo between the end of November and the beginning of December. In addition, some refineries resumed their operation after temporary maintenance during the end of September and the beginning of November. Improvement in manufacturing production was also reflected by higher industrial electricity consumption.

The **tourism** sector expanded at a slower pace than last month due to the end of government measure which temporarily allowed Malaysian private buses to travel outside Songkhla province as well as the declines in euro area, Russian and Japanese tourists. On top of their frail economies, Russian and Japanese tourists were also hurt by the depreciation of Russian Ruble and Japanese Yen. Nevertheless, Chinese tourists continued to increase given their lessening concerns on the political situation and Thailand is position as one of their top destinations.

Farm income which was considerably lower than the level a year ago weighed on household spending, particularly that of farm households in regional areas. This was mainly due to declines in rubber and rice prices. A drop in rubber prices resulted from lower demand from major importing countries, especially China and Malaysia in line with a slowdown in their economic conditions. Falling oil prices also put pressure on rubber prices as they are substitutable by synthetic rubber. The contraction of rice prices was due to the end of the rice pledging scheme that had kept domestic rice prices artificially high.

Overall economic stability on both domestic and external front was well maintained. Unemployment continued to be low and the fall in global oil prices led to lower inflation and continued current account surplus. The latter helped offset capital account deficit from short-term loans repayment by financial institutions and Thai direct investment abroad. Overall, the balance of payments was roughly in balance and the ratio of international reserves to short-term external debt remained high.

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