BANK OF THAILAND

BOT Press Release

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Press Release on the Economic and Monetary Conditions for February 2014

Overall economic activities in February 2014 softened further from the previous month owing to prolonged political protests. Households and businesses continued to hold back spending, while imports and manufacturing production contracted. Tourism was further affected by the protests. Nevertheless, merchandise exports picked up thanks to improving global demand.

On the stability front, unemployment remained low. Inflation rose on the back of fresh and prepared food prices. The trade balance and the current account balance registered surpluses owing mainly to a drop in imports. The capital account recorded a deficit as financial institutions repaid short-term foreign loans, foreign investors reduced portfolio investment in Thailand, and Thai investors increased holding of debt securities abroad. Overall, the balance of payments posted a deficit.

Details of economic conditions are as follows.

Consumer spending and business investment recorded both month-on-month and year-on-year contraction as the prolonged political protests continued to adversely affect sentiment. The **Private Consumption Index** (PCI) fell 2.5 percent from the level a year ago. Purchases of both durables and nondurables declined as consumers remained cautious in spending, given elevated debt levels and income shortfalls following a sustained economic slowdown. The **Private Investment Index** (PII) decreased 7.7 percent compared with February last year as businesses continued to defer investments. Outlays for machinery and equipment continued to post a decline, as seen especially in electronic, electrical appliance, and automobile industries. Construction investment also slowed down in line with softening economic conditions.

Manufacturing production fell from the previous month in line with weakening private-sector demand. The **Manufacturing Production Index** (MPI) dropped 4.4 percent from the same period last year due to the following factors. First, automobile production continued to be subdued after having accelerated earlier, with a pickup in overseas orders failing to offset declines in domestic orders. Second, manufacturing of building materials slowed down in line with business outlays for construction. Third, petroleum production fell this month due to a temporary maintenance shutdown of refineries.

With domestic demand and industrial production falling, imports of consumer goods, capital goods, together with raw materials and intermediate goods, contracted compared with the same period last year. **Merchandise imports** registered 14,254 million U.S. dollars, down 18.9 percent from last year.

Amid the prolonged political protests the **tourism** sector posted a contraction this month as more countries issued travel advisory warnings. Tourist arrivals totaled 2.2 million, down 8.1 percent from the same period last year. The decline in the number of tourists was attributable in part to those from China, Japan, Malaysia, and Hong Kong.

Merchandise exports recovered this month thanks to improving foreign demand. **Merchandise export** value totaled 18,150 million U.S. dollars, up 2.2 percent from the same period last year. Exports of electronics, electrical appliances, agricultural products, in particular rice and cassava, and machinery and equipment picked up. Moreover, exports of automobiles rebounded after having contracted throughout the previous months. Nonetheless, growth in certain merchandises remained soft. Steel and metal exports continued to register negative year-on-year growth, though it was due to the high base effect last year resulting from the repeal of anti-dumping measures by trading partners. Meanwhile, export value of processed agricultural products, particularly sugar, dropped in accordance with falling global prices due to excess supply. Petroleum exports also fell following the maintenance shutdown of refineries.

Farm income dropped from the previous month to a level close to a year ago. The significant slowdown in growth over the past twelve months was due to falling farm prices—both rice prices, which decreased due to the offloading of government stockpiles, and rubber prices, which were weighed down by elevated inventory levels in China. Downward pressure on rubber prices also came from rubber exporters who, given the re-imposition of export duty effective in January, now set lower buying prices. Aggregate agricultural output rose higher this month from its year-earlier level owing mainly to rubber and oil palm production following the previous expansion of planting area.

Fiscal spending increased from the same period last year on account of wage and salary expenses, together with outlays for goods and services. Meanwhile, government cash receipts declined following a drop in excise tax and VAT revenues in accordance with the economic slowdown. The government's cash balance registered a deficit of 86 billion baht.

On the **stability** front, the unemployment rate remained low. Inflation rose on the back of rising fresh food prices and a higher pass-through of liquefied petroleum gas (LPG) prices to prepared food prices. The positive current account was attributable to a surplus in the trade balance following the pickup in exports and the sharp drop in imports. The capital account recorded a deficit as financial institutions repaid short-term foreign loans, foreign investors reduced portfolio investment in Thailand, and Thai investors increased holding of debt securities abroad. Overall, the balance of payments posted a deficit.

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