



28 August 2008

# Monthly Economic Report (July 2008)

Thai economy in July 2008 expand continuously, supported by strong external demand through historically highest level of export, while domestic demand also grew vigorously. External economic stability remained robust while internal economic stability continuously faced some risks from increasing inflationary pressure. Nevertheless, inflationary pressure expected to subside in the near future, due to the effect from the six economic assistance programs (announced on 15 July 2008) and the declining trend of oil price.

1. **Private consumption in July 2008 expand continuously.** Consumption indicator for durable goods as shown by the growth of motorcycles sales in July accelerated to 16.3 percent (y-o-y), the highest rate in three years, due to rising farm income from people in the rural area following increasing agricultural prices. This is coincided with the passenger car sales, which continue to expand significantly at 27.5 percent (y-o-y) in July. Consistently, the import volume of consumer goods also continued to expand well at 40.7 percent (y-o-y) in July. Moreover, consumption indicator from real-term value-added tax collection grew strongly at 23.3 percent (y-o-y) in July. Meanwhile, the July Consumers' Confidence Index, which is the leading consumption indicator, also expand slightly to 71.8 points from 70.8 points in June, due mainly to the effect from the six economic assistance programs and the declining trend of oil price.

2. **Private investment in July 2008 started to recover significantly.** Investment indicator for equipment and machinery measured from import volume of equipment and machinery increased by 28.4 percent (y-o-y), picking up robustly from the growth rate of 8.4 percent (y-o-y) in June. The strong acceleration of the import volume of equipment and machinery is partly due to the import of special items, i.e. the oil driller machinery. Meanwhile, the investment indicator for construction-related investment from real-estate tax collection also increased vigorously at 43.0 percent (y-o-y) in July 2008, thanks to recent tax measure to lower real estate taxes in order to stimulate real estate investment. However, the investment indicator from commercial car sales in July contracted at -29.3 percent (y-o-y) caused mainly by slow down in pick-ups and trucks sales.

**3. Fiscal indicators in July 2008** showed that the net tax revenue collected amounted to 105.5 billion baht, increasing at 22.1 percent (y-o-y) in July. This high growth rate is due to the low base in July 2007, from 6.9 billion baht Value-Added Tax transfer by central government to local authorities. Without this transfer, the net tax revenue collection in July 2008 will increase at the rate of 9.8 percent (y-o-y). Meanwhile, the revenue from the 3 main tax collective departments expanded strongly at the rate of 14.4 percent (y-o-y), reflecting the overall economic condition that still expand continuously and the increasing in price level, which led to the higher VAT and import duty receives. Consequently, the July income-based tax revenue increased at 8.6 percent (y-o-y) following the higher corporate sector's income, while the revenue from consumption-based tax revenue increased by 33.3 percent (y-o-y) following the high growth rate of import value. On the other hand, total government budget disbursement in July amounted to 138.8 billion Baht, contracting at -5.3 percent (y-o-y) due to the high-base from last year. Disbursement of current expenditure amounted to 115.9 billion baht, slightly contracted at -3.0 percent (y-o-y), while capital expenditure disbursement was 18.6 billion baht, contracted at -20.2 percent (y-o-y), due to the high-base effect from the same period of last year, when large capital expenditure transfer to local authorities took place. Meanwhile, during the first 10 months of fiscal year 2008 (October 2007 - June 2008), the total expenditure disbursed amounted to 1,359 billion Baht, expanding at 4.4 percent (y-o-y), or 76.4 percent of the Fiscal Year 2008 budget expenditure framework. For the whole of Fiscal Year 2008, the fiscal year budget expenditure is expected to meet the target disbursement rate of 94.0 percent of the Fiscal Year 2008 budget expenditure framework.

**4. Export value in July 2008 grew at the historically record** at 43.9 percent (y-o-y), accelerated from the June growth rate of 27.4 percent (y-o-y). In USD terms, the export value of goods in July amounted to the highest level of USD 17.0 billion. This high export value growth rate comprised of the 24.2 percent (y-o-y) expansion in export volume and the 15.9 percent (y-o-y) expansion in the export price. This strong overall export performance was the result of the expansion in almost all categories of export goods, especially fuel, agricultural products, jewelry and industrial goods like electrical appliances and vehicles. Meanwhile, considering the dimension of export market, it is evident that the high export growth came from all export markets, especially new emerging export markets such as Australia continent and Vietnam. On the other hand, **import value in July 2008 rose at historical level as well**, recorded at USD 18.0 billion and expanding by 55.1 percent (y-o-y), accelerated from the previous month's growth rate of 30.7 percent (y-o-y), and comprised of the 30.2 percent (y-o-y) expansion in import volume and the 19.1 percent (y-o-y) expansion in the price of goods imported. The historically high import level was due to expansion in all categories of import goods, i.e. fuel, consumer goods, capital and machinery, and raw materials. The acceleration of raw materials imported implies that Thai economy's production sector may vigorously grow in the near future. However, the greater amount of import value compared to the export value resulted in the deficit trade balance of USD -1.0 billion in July.

5. On the supply side, economic indicators in July 2008 showed that agricultural sector and manufacturing sector expanded well, while the service sector from tourism expanded with a declining trend due to the effect of high oil price. Indicator from manufacturing sector as indicated by Manufacturing Production Index (preliminary) in July grew at 9.8 percent (y-o-y), accelerated from previous month's growth rate of 8.8 percent (y-o-y). This growth was mainly supported by the growth of export manufacturing such as electronics, electrical appliances, automobiles and garment. On the agriculture sector, the indicator still expanded well. Agricultural Production Index grew by 11.7 percent (y-o-y), from the expansion of the major crops production such as rice (second crop), rubber and tapioca. This is due to the high global agricultural prices, which then motivate the farmers to accelerate their harvests. On the service sector in tourism continued to expand, but at a declining trend. The continuously high amount of in-bound tourists to Thailand in July was recorded at 1.3 million persons, expanded at 9.3 percent (y-o-y), but decelerated slightly from the growth of 11.7 percent (y-o-y) in June. This is due to the effect of high oil price, which leads to higher prices of air fare and fuel surcharge, and subsequently affected number of in-bound tourists.

6. **Overall economic stability remained strong.** For external stability, international reserves at the end of July stood at USD 104.1 billion, which remained more than 4 times greater than short-term external debts. **Internal stability is facing higher risks from increasing inflationary pressure.** Headline inflation in July increased to 9.2 percent (y-o-y), from 8.9 percent (y-o-y) in June, due to continued rising oil price and food-related prices. However, it is expected that **the inflationary pressure will be subsided in the near future as result of the six economic assistance programs, and the declining trend of oil price.** Unemployment rate in June remained low at 1.2 percent of the total labor force. Public debt to GDP as of June was at 35.8 percent, remained well below the 50 percent public debt ceiling under the Fiscal Sustainability Framework.

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Table 1 Monthly Economic Indicators

	2007	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08
<b>External Sector/</b>								
- Dubai crude oil price (US\$/Barrel) /7	68.4	87.3	89.7	96.2	103.4	118.7	128.0	131.2
- Fed funds rate (%) /7	4.25	3.00	3.00	2.25	2.00	2.00	2.00	2.00
<b>Fiscal sector/1</b>								
- Net government revenue (Billion baht)	1,470.2	97.2	116.5	95.4	125.2	276.9	96.6	105.5
(%y-o-y)	6.8	-6.2	12.4	-8.4	46.1	13.6	-5.8	22.1
- Tax collection from revenue, customs and excise departments	1,517.6	115.0	114.3	119.8	119.8	284.0	110.4	115.7
(%y-o-y)	4.7	9.8	9.5	8.8	11.6	15.9	3.7	14.4
- Income-based tax (Billion baht)	588.1	34.6	32.4	43.2	37.8	156.1	33.8	34.5
(%y-o-y)	6.8	7.8	14.1	14.6	8.0	21.6	3.8	8.6
- Consumption-based tax (Billion baht)	445.2	44.2	40.3	40.1	44.3	40.7	42.4	47.1
(%y-o-y)	4.9	19.1	13.3	14.6	17.0	14.4	16.0	33.3
- Government expenditure (Billion baht)	1,668.1	158.4	118.7	125.1	154.6	126.8	143.2	138.8
(%y-o-y)	25.1	63.2	-40.8	-10.5	33.5	-7.5	12.9	-5.3
- Current expenditure (Billion baht)	1,273.2	93.9	98.0	100.4	104.9	108.4	107.3	115.9
(%y-o-y)	27.4	25.3	-28.4	-6.0	7.4	19.9	15.1	-3.0
- Capital expenditure (Billion baht)	297.7	53.0	10.7	13.1	45.1	11.6	29.8	18.6
(%y-o-y)	37.7	336.0	-80.4	-37.5	233.3	-71.6	7.5	20.2
- Carry-over budget (Billion baht)	97.2	11.5	10.0	11.6	4.6	6.8	6.1	4.3
(%y-o-y)	-17.0	15.7	10.3	3.4	-0.2	17.8	5.7	15.1
<b>Supply-side indicators</b>								
<b>Agricultural sector</b>								
- Agricultural production index (%y-o-y) /6	1.9	-0.6	3.6	1.3	10.3	18.4	12.5	11.7
- Agricultural price index (%y-o-y) /6	1.2	10.3	15.9	28.1	40.5	37.9	36.4	41.3
- New employment in agricultural sector(%y-o-y) /3	1.0	-1.5	2.1	1.1	-0.1	3.9	3.9	n.a.
<b>Industrial sector</b>								
- Manufacturing production index (%y-o-y) /10	8.1	13.5	12.3	9.1	11.3	8.2	8.8	9.8*
- Imports of raw materials in USD (%y-o-y) /1	14.8	31.7	27.2	30.1	43.3	23.2	27.6	52.9
- Capacity utilization (%) /10	66.1	68.2	66.0	68.3	60.9	66.0	66.3	65.1
- New employment in industrial sector(%y-o-y) /3	2.1	-1.0	1.2	1.2	0.8	-0.3	-5.3	n.a.
<b>Service sector</b>								
- No. of foreign tourists (Million persons) /11	14.46	1.45	1.49	1.41	1.26	1.18	1.15	1.27
(%y-o-y)	4.7	10.3	15.7	13.9	14.5	18.7	11.7	9.3
- New employment in service sector(%y-o-y) /3	2.0	3.9	0.1	3.7	5.3	6.7	3.2	n.a.
<b>Demand-side indicators</b>								
<b>Private Consumption Indicators</b>								
- Value Added Tax at constant price (%y-o-y) /1	3.6	15.0	9.1	10.2	12.2	8.3	7.6	23.3
- Imports value of consumer goods in USD (%y-o-y) /1	24.6	55.1	30.9	29.6	42.0	26.5	44.0	48.2
- Imports volume of consumer goods in USD (%y-o-y) /1	20.3	45.3	23.1	23.0	34.0	17.4	34.2	40.7
- Sales of passenger cars (%y-o-y)	-11.3	32.8	44.9	39.2	13.7	29.4	29.3	27.5
- Sales of motorcycles (%y-o-y)	-17.2	-5.0	5.6	8.9	7.6	1.6	7.1	16.3
- Consumer confident index (Index) /5	71.0	71.2	72.6	73.8	73.0	71.8	70.8	71.8
<b>Private Investment Indicators</b>								
- Total taxes collected from real estate transaction (%y-o-y) /1	2.9	8.8	15.9	-27.1	44.6	20.4	25.9	43.0
- Domestic cement sales (%y-o-y) /2	-5.0	-7.0	-1.7	-8.5	-2.3	3.5	-16.7	n.a.
- Imports value of capital goods in USD (%y-o-y) /1	0.8	65.5	23.4	24.5	25.1	10.0	15.0	36.2
- Imports volume of capital goods in USD (%y-o-y) /1	-1.2	58.6	17.9	18.3	18.4	4.1	8.4	28.4
- Sales of commercial cars (%y-o-y)	-6.0	11.4	1.3	10.3	8.2	-3.7	-20.9	-29.3
- Industrial Confidence Index (%y-o-y) /9	80.9	86.0	83.0	83.2	78.8	71.4	73.6	76.9
<b>International trade indicators/1</b>								
- Exports (Billion USD): custom basis	152.5	14.0	13.0	14.8	13.8	15.5	16.3	17.0
(%y-o-y)/4	17.2	33.3	16.6	14.5	27.0	21.4	27.4	43.9
- Export price (%y-o-y)/4	5.8	9.8	9.8	10.2	10.7	12.5	14.3	15.9
- Export volume (%y-o-y)	10.9	21.4	6.0	3.8	14.7	7.9	11.5	24.2
- Imports (Billion USD): custom basis	140.0	14.6	13.7	14.6	15.6	14.2	15.6	18.0
(%y-o-y)/4	8.7	49.1	33.3	32.7	44.4	15.7	30.7	55.1
- Import price (%y-o-y)	5.3	14.8	15.4	16.5	16.3	17.4	19.4	19.1
- Import volume (%y-o-y)	3.2	29.9	15.5	13.9	24.2	-1.4	9.4	30.2
- Trade balance (Billion USD): custom basis	12.1	-0.7	-0.7	0.2	-1.8	1.3	0.6	-1.0
<b>External economic stability /2</b>								
- Average exchange rate (Baht/USD)	34.5	33.2	32.6	31.4	31.6	32.1	33.2	33.5
- Current account (Billion USD)	15.8	1.4	0.8	0.9	-1.7	0.6	0.7	n.a.
- International reserve (Billion USD)	87.5	92.8	100.5	110.0	109.8	108.9	105.7	104.8
<b>Internal economic stability /4</b>								
- Unemployment rate (%) /3	1.4	1.7	1.5	1.5	1.5	1.4	1.2	n.a.
- Producer price index (%yoy)	3.3	10.0	11.2	11.1	12.7	15.6	18.6	21.2
- Headline inflation (%yoy)	2.3	4.3	5.4	5.3	6.2	7.6	8.9	9.2
- Core inflation (%yoy)	1.1	1.2	1.5	1.7	2.1	2.8	3.6	3.7
- Public debt to GDP (%) /1	37.6	35.4	35.5	35.8	36.1	36.1	35.8	n.a.

1/Data from Ministry of Finance

2/Data from Bank of Thailand

3/Data from National Statistic Office

4/Data from Ministry of Commerce

5/Data from University of Thai Chamber of Commerce

6/Data from Office of Agricultural Economics

7/Data from Reuters

8/Data from Tourism Authority of Thailand

9/Data from Board of Investment

10/Data from Office of Industrial Economics

11/ Data from Immigration Office