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Monthly Economic Report (April 2009)

The Thai economy displayed signs of improvement through a smaller contraction in the manufacturing sector, mainly due to the expansion of the production of food processing and chemical products. Increased production of these two sectors was, in turn, a result of an increase in exports of these two products to regional markets, particularly China and India. Nevertheless, agricultural and service sector production exhibited larger contractions. On the demand side indicators, both domestic and external spending continued to weaken as illustrated by contractions in private consumption, private investment and export indicators. Hence, it is necessary that the public sector sustains its crucial role in boosting domestic spending, at a time when the Thai economy continues to face risk from the slower-than-expected global recovery and the possibility of further contractions in domestic private expenditure. Meanwhile, external economic stability remained robust, as indicated by high level of international reserves; while internal economic stability showed lessening risk from lowered unemployment rate compared to the beginning of the year.

1. In April 2009, supply side indicators in the manufacturing sector showed signs of slower contraction; while agricultural and service sectors, in particular the tourism industry, showed larger contractions. In the case of the manufacturing sector, despite contractions at -12.8 percent per year in April 2009 compared to the same period of last year, the Manufacturing Production Index (MPI) growth rate showed a slower rate of contraction compared to the previous month's of -17.7 percent per year. Furthermore, when compared with the previous month, the seasonally-adjusted MPI expanded at 5.7 percent from the previous month, following growth rates of 2.4 percent and 2.1 percent in February and March 2009, respectively. This was mainly contributed to by an improvement in food industry and chemical product exports to regional markets, particularly China and India. Nevertheless, the service sector, tourism in particular, continued to contract as the number of in-bound tourists in April 2009 recorded at 1.1 million persons, deteriorated at -11.9 percent per year as a result of political unrest in April 2009 and the global economic crisis. Meanwhile, the Agricultural Production Index (API) contracted at -1.5 percent per year in April 2009, reduced from the previous month's growth rate of 3.4 percent per year. This contraction was due to the lower production of major agricultural goods such as second rice and sugarcane, as well as the high-based effect from the same period of last year, of which high agricultural prices contributed to a high level of harvest in 2008. In contrast, the Agricultural Price Index in April contracted at -17.2 percent per year following a drastic drop in global agricultural prices. As a result, a slow down in agricultural

prices and production dampened farm income in April 2009, causing it to contract at –18.7 percent per year.

2. In April 2009, the slower contraction of export value in comparison to import value led to a continuing trade balance surplus. Export value in April amounted to 10.4 billion USD, declined at –26.1 percent per year, resulting from export volume deterioration of –23.7 percent per year, while export price contracted slightly at –3.1 percent per year. Nevertheless, on a month-on-month basis, export value displayed an improving sign for many sectors, as the April 2009 seasonally adjusted month-on-month figure expanded at 2.3 percent per month. This was mainly due to the growth of exports to regional and emerging markets such as China, South Korea, Hong Kong, Taiwan and India. Import value of goods in April 2009 contracted at –7.2 percent per year. However, on a month-on-month basis, seasonally adjusted import value in April 2009 grew at 7.6 percent from the previous month, improving from the previous month, which grew at 2.0 percent per month. This improvement was a result of an increase in raw material imports. This, in turn, could reflect increased purchasing orders, which is consistent with the improvement of manufacturing production indicators. As import value contracted more than export value, this led to the continuing trade balance surplus of 0.6 billion USD.

3. Private consumption in April 2009 continued to sharply contract. This was reflected in real-term value-added tax collection in April which declined at –17.7 percent per year, compared to the previous month's rate of –17.5 percent per year. This was consistent with the import volume of consumer goods which fell at –21.9 percent per year. Also, the Consumer Confidence Index in April 2009 descended to its lowest level in 88 months of 65.1 points, mainly due to the political unrest. Meanwhile, private consumption in the rural sector, as indicated by motorcycle sales, contracted at –17.7 percent per year due to declining farm income following lower agricultural prices. This consequently resulted to a decline in purchasing power of the people in the rural area. Nevertheless, passenger car sales expanded for the first time in 3 months at 4.2 percent per year, owing to a shift in consumer behavior toward the usage of smaller and more economical cars, as well as the low-based effect due to high oil price that led to a delayed purchase of cars in April 2008.

4. Private investment in April 2009 continued to dwindle. Investment in machinery, proxied by the volume of capital goods imported contracted for the fifth successive months at –23.3 percent per year. This was in tandem with commercial car sales, which contracted for the twelfth successive month at –39.7 percent per year. Indicators of the construction and real-estate sectors, measured by real estate tax collection, contracted at –1.7 percent per year. Consistently, the domestic cement sales in March 2009 contracted at –11.7 percent per year, reflecting a slow down in construction sector following a contraction in the domestic economy.

5. Fiscal indicators in April 2009 showed that total government expenditures amounted to 141.7 billion Baht, contracting from the same period last year at –8.4 percent per year. This was due to longer public holidays compared



to the same period of last year, and high-based level from higher investment budget transfer to local authorities of last year. Total government expenditures disbursement in April 2009 was comprised by the current expenditure disbursement of 117.2 billion Baht, which expanded at 11.7 percent per year, and the capital expenditure disbursement of 20.0 billion Baht, which contracted by -55.7 percent per year. Net government revenue collection in April 2009, which amounted to 81.7 billion Baht, contracted at -34.8 percent per year as a result of lowered VAT collection and lower State-Owned Enterprises profit remittance, following the slowdown of the economy. Nevertheless, this lower level of income demonstrated the automatic stabilizer role of fiscal policy which lowered the tax burden on the private sector when the domestic economy slowed down. Meanwhile, the government's first priority will be to accelerate public spending, particularly capital expenditures, to support quick economic recovery.

6. In April 2009, external economic stability remained robust. This was exhibited by high-levels of international reserves at the end of April 2009 which stood at 116.8 billion USD or more than 5.0 times of short-term external debt. Internal economic stability was also becoming stronger. This was shown by a more stable unemployment rate of 1.9 percent of total labor force in both March and February of 2009, declining from 2.4 percent in January. On the other hand, headline inflation in April 2009, continued to contract at -0.9 percent per year, but on a month-on-month basis still expanded at 1.0 percent from the previous month. This showed that deflationary risk could potentially be subsiding. Public debt to GDP as of March 2009 rose to 41 percent, increasing from the previous month's rate of 40 percent due to the higher public borrowing for the current fiscal year to conduct expansionary fiscal policy. This, however, still remained well below the 50 percent public debt ceiling under the Fiscal Sustainability Framework.

