



25 June 2009

Monthly Economic Report (May 2009)

The Thai economy continued to display signs of deterioration albeit at decelerated pace in May 2009. This was reflected by domestic demand in private consumption which, partly due to the government stimulus measures, contracted at a slower rate. Private investment, meanwhile, continued to contract significantly. As for external demand, exports continued to contract. Nevertheless, a larger contraction in imports than in exports resulted in a large trade surplus. Increasing public spending is crucial to support the economy as private spending continues to remain weak. External economic stability remained robust, as reflected by high level of international reserves, while internal economic stability showed increasing risk from higher unemployment rate.

1. **Private consumption began to show signs of a decelerated level of contraction.** This was reflected in real-term value-added tax collection in May 2009 which recorded a contraction for the third consecutive month at -17.0 percent per year, and consistent with the import volume of consumer goods which contracted at -14.3 percent per year, slower than a contraction in the previous month of -21.9 percent per year. At the same time, private consumption indicators, such as the number of motorcycle sales, in rural areas contracted at a decelerated rate of -9.2 percent per year, as compared to the contraction of -17.7 percent per year in the previous month. This was partly due to economic stimulus measures (Stimulus Package I) of the government which has increased income and reduced living costs of low income earners. Nevertheless, revival in private consumption remained uncertain as passenger car sales in May 2009 contracted at -18.3 percent per year and the Consumer Confidence Index in May 2009 fell from 65.1 last month to 64.3, its lowest in 90 months.

2. **Private investment continued to contract significantly.** Investment in machinery, represented by the volume of capital goods imported, contracted for the sixth successive month at -25.5 percent per year. This was in tandem with commercial car sales, which contracted at -31.1 percent per year. Indicators of the construction and real-estate sectors, measured by real-estate tax collection, which contracted at -7.2 percent per year, and domestic cement sales, which contracted by -11.0 percent per year in April 2009, reflected a slow down in the construction sector following a contraction in the domestic economy.

3. Fiscal indicators showed that total government expenditures expanded 27.0 percent per year from last year to 161.0 billion Baht. This high level of government expenditures was largely due capital expenditure disbursement of 40.0 billion Baht, significant growth of 244.4 percent per year. Major disbursement items were the allocation of capital expenditure to the local authorities and to the sufficiency economy program. At the same time, current expenditure disbursement expanded by 5.9 percent per year to 114.8 billion Baht. Net government revenue collection in May 2009, which amounted to 217.1 billion Baht, contracted at -21.6 percent per year as part of corporate income tax collection was shifted to the month of June 2009. Furthermore, contraction in revenue collection can be attributed to contracting VAT collection from lower import value and domestic consumption.

4. External demand indicators showed that the value of exports and the value of imports continued to contract. However, a lower level of contraction in export values than in import values led to a high level of trade surplus. Value of exports in term of USD contracted at -26.6 percent per year to USD 11.7 billion in May 2009. This export value contraction can be decomposed into a volume contraction of -24.2 percent per year and an export price contraction of -3.1 percent per year. However, some exports showed improving trend, particularly manufacturing goods, automobiles and agricultural products. This was further enhanced by a large expansion into the regional and emerging markets such as China, Middle-east, Vietnam and South Africa. Import value, in terms of USD, contracted for the sixth successive month at -34.9 percent per year in May 2009. The contraction of import value can be decomposed into import volume, which contracted at -29.9 percent per year, and import price, which contracted at -6.8 percent per year. Import contraction was broad-based covering most imported products, namely capital goods, consumer goods, and raw materials. As a result, larger import value contraction relative to export value contraction led to trade balance surplus of 2.4 billion USD.

5. Supply side indicators in May 2009 showed that the manufacturing sector contracted at a slower rate than previous month, while the agricultural and service sectors, in particular the tourism industry, showed larger contractions. Manufacturing Production Index (preliminary) decelerated in May 2009 from the previous month to -12.3 percent per year. Nevertheless, certain manufacturing products such as electronics, furniture, electrical appliances, rubber and plastic, showed significant improvement likely due to expanding exports to regional markets, particularly China. On the other hand, tourism sector, an indicator of the service sector, continued to contract further as the number of in-bound tourists in May 2009 deteriorated at -19.7 percent per year to 0.9 million persons, resulting from the global economic crisis and H1N1 flu pandemic concern. Meanwhile, the Agricultural Production Index contracted further from the previous month to -8.7 percent per year in May 2009. This was partially due to the last year's higher production of rice and sugarcane which was spurred by high market prices. Also, unfavorable weather this year has caused production to decline.

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6. **External Economic Stability remained robust** as indicated by high-levels of international reserves at the end of May 2009 which stood at 121.5 billion USD or more than 5.0 times the short-term external debt. **Internal economic stability faced increasing risk of higher unemployment** as unemployment rate rose from 1.9 percent last month to 2.1 percent of the total labor force. Headline inflation in May 2009 contracted from last month to -3.3 percent per year for the fifth consecutive months due to large decline in transportation prices caused by declining energy prices. Meanwhile, public debt to GDP increased to 43.0 percent in April 2009 due to the higher public borrowing for expansionary fiscal policy in the current fiscal year. This level, however, remained well below the 50 percent public debt ceiling under the Fiscal Sustainability Framework.

