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## Monthly Economic Report (May 2011)

***“Thai economy in May 2011 continued to grow, particularly the exports sector supported by major trading partners’ economies. Also, private consumption and investment showed steady growth despite the impact from a constraint on automobile production as an aftermath of the Tsunami in Japan.”***

Mr. Naris Chaiyasoot, Director-General of the Fiscal Policy Office, revealed that **“Thai economy in May 2011 continued to grow, particularly the exports sector that was supported by major trading partners’ economies. This was reflected by the export value of 19.5 billion US dollar, equivalent to the growth of 17.6 percent. Nonetheless, exports of motor vehicles show a continual contraction due to a production constraint from the Tsunami in Japan. Meanwhile, private consumption continued to grow, as indicated by the real-term value added tax that expanded 36.2 percent from the same period of last year, faster than the growth rate of 11.5 percent last month. This was consistent with the volume of consumer goods import that grew 15.5 percent. On the other hand, consumption of durable goods dwindled, as signified by domestic passenger car sales that contracted -15.2 percent, the first time in the past 20 months. This was also due to production constraint in the production of automobile**

Mr. Boonchai Charassangsomboon, Executive Director of Macroeconomic Policy Bureau, further elaborated that **“Economic indicators of manufacturing and agricultural sectors subsided, while those of service sector continue to expand. Manufacturing Production Index in May 2011 contracted -3.9 percent, especially attributed to the contraction in production of automobile due to constraints in imports of parts from Japan. Meanwhile, Agricultural Production Index also shrunk -5.9 percent, while tourist arrival showed a continual expansion at 65.6 percent.”**

Director-General concluded that **“Thailand economic indicators in May 2011 indicated a continued expansion of domestic demand and exports, albeit slightly slower. This was partly due to production constraint, especially in automobile industry that has postponed the production, which was expected to resume during the second half of the year. Nevertheless, the Ministry of Finance was confident that Thai economy would grow within the forecast range of 4.0 – 5.0 percent”**

*Further details are as follows*

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**1. Private consumption in May 2011 continued to expand well,** As the real-term VAT collection in May 2011 grew at 36.2 percent from last year, much faster than last month of 11.5 percent. This was consistent with import volume of consumption goods in May 2011 that steadily grew at 15.5 percent. On the other hand, consumption of durable goods as measured by domestic passenger car sales contracted -15.2 percent, the first time in the past 20 months, much lower than the growth rate of 17.8 percent last month. This was due the fact that automobile plants could not produce at their full capacity as a result of the Tsunami in Japan, hence the delays in delivery of automobiles to customers. However, motorcycle sales in May 2011 still grew well at 27.9 percent, continued from the growth rate of 11.2 percent in April. This was partly due to high real farm income growth of 6.1 percent coupled with low unemployment. Consumer Confidence Index in May 2011 stood at 71.1 points, the first increase within the past 4 months, partly due to an expectation that after the general election in July 2011 the new administrator would introduce new economic stimulus policy, and the lower retail gasoline prices.

**2. Private investment in May 2011 also continued to expand well, although slower than last month, especially investment in machinery.** This was reflected by imports of capital goods in May 2011 which expanded at 8.2 percent from last year, slightly slower than previous month's growth of 17.4 percent. This was consistent with the commercial car sales in May 2011 which contracted -6.2 percent, the first contraction within the past 19 months, from last month's growth rate of 17.7 percent. This was partly due to constraint on manufacturing of automobile. Private investment indicator in terms of construction as measured by property tax collection growth in May 2011 rebounded to the normal rate of 3.8 percent, compared to last month's growth rate of 57.8 percent, reflecting the continual growth in real estate sector following better economic situation. However, cement sales contracted for the second consecutive month at -5.8 percent, from last month's contraction of -1.0 percent.



**3. Exports in May 2011 continued to expand owing to the economic growth of major trading partners.** Export value for May 2011 stood at USD 19.5 billion, expanded at 17.6 percent from last year, slightly lower than last month's rate of 24.6 percent. The major cause of this slow downs stems from the slower growth of automobile exports of 25.8 percent, as a result of disasters in Japan. Meanwhile, exports to other major trading partners, including Japan, China, the US, and Eurozone continued to grow, while exports to Australia and the Philippines considerably shrank. **Imports value in USD terms continued to expand well.** Import value in May 2011 amounted to USD 19.2 billion or expanded at 33.8 percent per year, faster than last month's growth of 27.9 percent. This was attributed to faster import volume growth of 19.6 percent, while import price growth accelerated to 11.8 percent, mainly due to an expansion in all sectors, especially in raw materials and capital goods. Higher export value as compared to imports caused a trade surplus in May 2011 of USD 0.2 billion.

**4. Fiscal indicators in May 2011 showed that fiscal policy continued to support the Thai economy as indicated by public sector's budget deficit.** In May 2011, budget balance showed a deficit of -80.0 billion Baht. In May 2011, budget disbursement amounted to 211.4 billion Baht, particularly subsidy to the Ministry of Education of 8.3 billion Baht, debt repayment of Public Debt Management Office of 8.2 billion Baht, and subsidy to Local Government Administration Department of 3.3 billion Baht, resulting in the first eight months of FY2011 (October 2010 – May 2011) budget disbursement of 1,510.3 billion baht. Moreover, under the Strong Thailand 2012 Program, there was a disbursement of 4.5 billion Baht in May 2011, which contributed to the accumulated disbursement of 79.8 percent of the approved budget framework of 350 billion Baht. Net government revenue collection (net of local authorities' subsidy allocation) for May 2011 amounted to 351.2 billion Baht, expanding at 25.6 percent from last year, due to the collection of Corporate Income Tax and Value Added Tax. This resulted in the first eight months of FY2011 (October 2010 –March 2011) revenue collection of 1,271.8 billion Baht, or expanding at 12.1 percent, indicating economic recovery for Thailand.

**5. Supply-side sector indicators for May 2011 showed that manufacturing and agricultural production exhibited a contraction, while service continued to expand well.** Manufacturing Production Index in May 2011 contracted -3.9 percent from last year, following a contraction of -8.1 percent year-on-year in the previous month, mainly due to a drop of



production in automotive as a result of constraint in imports of parts from Japan that caused a delay in production. However, this production was expected to return to normal during the second half of the year. **Meanwhile, Agricultural sector indicator as measured by Agricultural Production Index (API) (Preliminary) in May 2011 showed a negative growth of -5.9 percent from last year, first contraction since December 2011.** This was partly due to the end of harvest season, coupled with irregular base last year from drought and plant disease that caused a delay in production season of major crops such as rice, tapioca, and sugar cane. Nevertheless, the Agricultural goods prices in May 2011 continued to expand well at 18.7 percent from last year, due to higher global agricultural prices from higher demand, resulted in a growth of real farm income of 6.1 percent from last year. **Furthermore, service sector as indicated by tourism sector in May 2011 showed a constant expansion** as the number of inbound tourists was recorded at 1.4 million persons, expanded at a high rate of 65.6 percent from last year, owing to the low base of last year as political unrest in Bangkok was at its peak. This well-expanded growth can be seen in all country groups, particularly North-East Asia.

**6. Economic stability remained robust.** Headline inflation in May 2011 grew at 4.2 percent per year, accelerating from 4.0 percent per year in the previous month, mainly from an increase in prices of processed food and fruits, and transportation and fuel items, while core inflation grew 2.5 percent per year, albeit faster than last month's rate of 2.1 percent but still falls in the target range of 0.5 – 3.0 percent. Unemployment rate in April 2011 was at 0.8 percent of total labour force, an equivalent of 285 thousands unemployed persons. Public debt to GDP ratio at the end of April 2011 stood at 41.0 percent, well below the 60 percent public debt ceiling under Fiscal Sustainability Framework. Likewise, external economic stability remained robust and resilient to risk from volatilities in the global economy as indicated by high-level international reserves at the end of May 2011 at USD 185.5 billion or approximately 3.5 times of short-term external debt.

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