



28 July 2011

## Monthly Economic Report (June and 2<sup>nd</sup> quarter of 2011)

***“Thai economy in June 2011 and in the 2<sup>nd</sup> quarter of 2011 continued to grow, particularly the exports sector that exhibited high growth coupled with private consumption and investment that continued to expand well. Automobile industry showed an impressive sign of recovery after a major slowdown during the first 2 months of the second quarter of the year.”***

Mr. Naris Chaiyasoot, Director-General of the Fiscal Policy Office, revealed that **“the Thai economy in June 2011 continued to show a strong expansion, attributed mainly to a high value of export of USD 21.1 billion, expanding at 16.8 percent from last year, thanks to well-expanded growth in agro-industry and agricultural sectors, in addition to a first positive growth in vehicles sector following two consecutive months of declines. Moreover, exports to major trading partners showed a steady expansion, especially exports to China and Japan. Likewise, domestic demand continued to expand well, attributed mainly to private consumption as shown by the real term value added tax collection growth of 12.0 percent from last year. This was consistent with sales of passenger cars which contracted at -0.5 percent from last year, an improvement from previous month decline of -15.2 percent from last year. Furthermore, private investment also continued to grow as measured by imports of capital goods which expanded at 17.4 percent per year, in tandem with sales of commercial cars, which showed a contraction of -0.3 percent per year, better than previous month decrease of -6.2 percent per year. This amelioration in sales of cars showed signs of recovery in automobile industry after supply constraints during the first two months of the 2<sup>nd</sup> quarter.**

Mr. Boonchai Charassangsomboon, Executive Director of Macroeconomic Policy Bureau, further elaborated that **“Economic indicators in June 2011 showed a strong expansion, especially from a better-than-expected exports growth and major trading partners’ economic expansion such as Japan and China. Moreover, domestic spending continued to expand well, despite negative effects from supply constraints in automobile industry, which has a tendency to recover during the rest of the year.**

Director-General of the Fiscal Policy Office concluded that **“Thailand economic indicators in June and 2<sup>nd</sup> quarter of 2011 indicated that both**

**domestic demand and exports continued to grow well and would enable the Thai economy to grow within the forecasted range of 4.0-5.0 percent per year.”**

*Further details are as follows*



## **Monthly Economic Report (June 2011)**

***Thai economy in June 2011 and in the second quarter of 2011 continued to grow, particularly the exports sector that exhibited high growth coupled with private consumption and investment that continued to expand well. Automobile industry showed an impressive sign of recovery after a major slowdown during the first 2 months of the second quarter of the year.***

**1. Private consumption in June 2011 and Q2 2011 continued to improve**, as reflected by the real-term VAT collection in June 2011 that grew 12.0 percent from last year, causing the high Q2 growth of 19.3 percent. This was consistent with import volume of consumption goods in June 2011 that steadily grew at 2.7 percent, marking the 11.9 percent growth in Q2. On the other hand, consumption of durable goods as measured by domestic passenger car sales in June 2011 contracted -0.5 percent, yet better than the -15.2 percent contraction last month, causing the growth rate of 0.3 percent in Q2, much slower than the growth of 60.3 percent in the previous quarter. This was an impact from the Tsunami disaster in Japan that triggered a shortage in automobile parts, hence the delays in delivery of automobiles to customers. Nevertheless, the automobile industry is expected to recover during the rest of the year. Meanwhile, motorcycle sales still grew well at 18.2 percent in June 2011 or 17.9 percent in Q2. This was partly due to an improvement in real farm income growth as a result of increasing agricultural prices. In addition, Consumer Confidence Index in June 2011 increased for the second months to 72.3 points, partly due to 1) the general election which was designated to take place on July 3, 2011 generated a positive psychological effect in terms of high expectation for the new government, which was hoped to make the economic situation better 2) the lower retail gasoline prices, and 3) household income which remained well from the high agricultural prices.

**2. Private investment in June and Q2 2011 also continued to expand well, especially investment in machinery.** This was reflected by imports of capital goods in June 2011 which expanded at 17.4 percent from last year, causing a Q2 growth of 14.5 percent. On the other hand, commercial car sales in June 2011 improved with the minimal contraction rate of -0.3 percent, better than -6.2 percent last month, marking the contraction rate in Q2 of -1.4 percent, falling from the strong growth of 31.7 percent in the previous quarter. 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 June 2011 dwindled at -13.6 percent, causing the soft growth rate in Q2 of 7.1 percent. This was due to high base effect, as there was an extension of property tax incentive measures which was initially scheduled to expire in June 2010. However, cement sales in June 2011 grew 4.0 percent; a low base effect as subcontractors speeded up construction well before the expiration of property tax incentive measures. This caused the Q2 cement sales to contract -1.1 percent, lower than the previous quarter growth of 1.5 percent.

**3. Exports in June and Q2 2011 continued to expand well.** Export value for June 2011 stood at 21.1 billion USD, expanded at 16.8 percent from last year, due to the 9.2 percent expansion of export volume and 7.0 percent growth of export price. This growth was particularly attributed to growth in agro, agriculture, and fuel products. The key export destinations were Japan, China, and ASEAN-5, owing to the steady economic recovery. With these factors combined, export value in Q2 2011 marked 58.1 billion USD, equivalent to 19.4 percent growth, which is much higher than as expected in June 2011. **Imports value in USD terms continued to expand well.** Import value in June 2011 amounted to 19.8 billion USD or expanded at 26.1 percent per year, a result of 12.9 percent growth in import volume and 11.8 growth in import price. This was mainly due to an expansion in imports of raw materials, capital goods and machinery, and fuel, suggesting a bright tendency for manufacturing and private consumption. Import value in Q2 2011 stood at 57.4 billion USD, or grew at 29.2 percent. Trade surplus in June and in Q2 2011 were marked at 1.3 and 0.7 billion USD respectively.

**4. Fiscal indicators in June and in the 2<sup>nd</sup> quarter of 2011 showed that fiscal policy continued to support the Thai economy as indicated by government expenditure.** In June 2011, budget disbursement amounted to 187.6 billion Baht, expanding at 38.5 percent per year, resulting in the second quarter budget disbursement of 538.7 billion Baht, or an increase of 33.0 percent from last year. This contributed to budget disbursement of 1,697.9 billion baht during the first nine months of FY2011 (October 2010 – June 2011) Moreover, under the Strong Thailand 2012 Program, there was a disbursement of 4.6 billion Baht in June 2011 which contributed to the accumulated disbursement of 283.9 billion Baht or 81.1 percent of the approved budget framework of 350 billion Baht. Net government revenue collection (net of local authorities' subsidy allocation) for June amounted to 109.6 billion Baht, expanding at 10.0 percent from last year, thanks to a continuous economic expansion, resulting in overall higher tax collection, especially corporate income tax, real value added tax and personal income tax collection. This



resulted in the first nine months of FY2011 (October 2010 – June 2011) revenue collection (net of local authorities' subsidy allocation) of 1,386.3 billion Baht.

**5. Supply-side sector indicators for June and Q2 2011 showed that service sector indicated by tourism continued to expand well while agricultural production exhibited a contraction in June but still expanded in Q2.** The number of inbound tourists was recorded at 1.49 million persons, expanded at a high rate of 53.9 percent from last year, owing to the low base of last year as an aftermath of the political unrest in Bangkok. This well-expanded growth can be seen particularly in Asian country groups, particularly China, Malaysia, and India. This caused a Q2 figure of 4.4 million persons of inbound tourists, equivalent to a steady expansion of 50.1 percent, from 14.5 percent growth in the previous quarter. Meanwhile, Agricultural sector indicator as measured by Agricultural Production Index (API) in June 2011 showed a decrease of -8.1 percent from last year, continued from last month's contraction of -5.8 percent. This was partly due to the fall of major crops production such as rice and rubber, as the climate was not in favor of the production and harvest. Nevertheless, the API in Q2 2011 still managed to grow well at 6.8 percent, a slight slowdown from the previous quarter growth of 14.1 percent. Despite that, agricultural prices in Q2 still remarkably increased at 17.7 percent, resulted in real farm income growth of 22.6 percent from last year.

**6. Economic stability remained robust.** Headline inflation in June 2011 grew by 4.1 percent per year, mainly from an increase in prices of processed food due to higher cost of livestock, and a surge in prices of transportation and fuel items owing to rising oil prices in global market. Core inflation grew by 2.6 percent per year, as a result of a rise in personal items and house rental prices. This resulted in the 2<sup>nd</sup> quarter growth of 4.1 and 2.4 percent per year for headline and core inflation, respectively. Unemployment rate in May 2011 was at 0.5 percent of total labour force, an equivalent of 200 thousands unemployed persons, due to a decline of unemployment in agricultural and service sectors. Public debt to GDP ratio at the end of May 2011 stood at 41.1 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 June 2011 at USD 184.9 billion or approximately 3.7 times of short-term external debt.





