

**Business Report**  
**“Economic/Business Information Exchange Program**  
**between the Bank of Thailand and the Business Sector”**  
**4<sup>th</sup> Quarter, 2011**

**Overall Summary**

According to the Economic/Business Information Exchange Program between the Bank of Thailand and 372 firms nationwide in 2011 Q4<sup>1</sup> and additional interviews in January 2012, overall business activity in the fourth quarter of 2011 contracted from the previous quarter. This was a result of the great floods which caused widespread and severe impact on the Thai economy. The floods directly brought about partial halt in some production sectors. This reinforced the negative impact on exports from the global economic slowdown. Nevertheless, the contraction was temporary. Signs of recovery in many industries as well as exports became more apparent in January 2012. Businesses anticipated that the economy would return to normal within the third quarter of 2012<sup>2</sup>.

**Consumption.** Private consumption was temporarily affected in 2011 Q4 owing to supply-side and logistic problems. Businesses anticipated that consumption will recover in 2012 Q1 following accelerated spending in order to repair and replace belongings damaged by the floods. The rebound in consumption was facilitated by the recovery of employment situation as well as financial support from the government and financial institutions.

**Production and exports.** Production gradually recovered after the floods subsided, leading to a recovery of exports. Industries directly affected by the floods were expected to return to pre-flood level of production within 2012 Q3. Meanwhile, those affected indirectly through supply chain disruptions had resumed their production during the end of 2011 in response to continued favourable demand. Such businesses acquired raw materials from alternative sources domestically and abroad, increased production in alternative plants located in other provinces or countries, relocated machines and labour to produce elsewhere, and imported finished goods in order to accommodate favourable post-flood demand.

**Investment.** Although halted temporarily by the floods, businesses continued to invest. Private investment tended to expand given the need for repair, reconstruction, and flood prevention, as well as investment for expanding business while flood-ridden competitors encountered difficulties. Foreign investors remained confident in their business operations in Thailand. Nonetheless, the credibility of the government’s water management plan, labour shortage, wage increase, and investors’ diversification strategies were major factors affecting foreign investor’s investment decision in the long run.

**Employment.** Employment situation was affected slightly by the floods, as prior to the floods most businesses had experienced labour shortage. Therefore, they attempted to keep their employment as long as possible in order to resume production quickly after the floods subsided. As for the unemployed persons due to the floods, businesses anticipated that such unemployed persons could be absorbed by increasing demand for labour from large businesses.

**Production costs.** Supply chain disruptions pushed up production costs in short run. However, a 300 Baht minimum wage increase and floating price of natural gas contributed to an upward trend of production cost in 2012. However, prices of many goods and services could not increase to fully compensate the increase in cost due to intense competition.

<sup>1</sup> Including responses from business sentiment survey (about 700 business firms per month)

<sup>2</sup> More details in “Thailand Floods 2011: Impact and Recovery from Business Survey”, Bank of Thailand, January 2012.  
[http://www.bot.or.th/English/EconomicConditions/Thai/BLP/Documents/ThaiFloodSurvey2011\\_Eng.pdf](http://www.bot.or.th/English/EconomicConditions/Thai/BLP/Documents/ThaiFloodSurvey2011_Eng.pdf)

**Credits.** Private credits tended to expand well after the flood subsided, given increasing demand for repair and reconstruction. Household credit tended to increase due to demand for repairs of properties and purchase of durable goods. Corporate credit tended to increase from loan demand for working capital, plant restoration, and imports of new machinery.

**Business constraints and risks.** Businesses were concerned about labour shortage, increase in wage, and the slowdown in global economy, particularly in the euro area. Moreover, the credibility of the government's water management strategy was the latest business constraint affected business decision and investment intention in the future.

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