

**Report: “Economic/Business Information Exchange Programme
Between the Bank of Thailand and the Business Sector”**

As of 30 September 2008

From the Economic/Business Information Exchange Programme between the Bank of Thailand and 80 business firms throughout the country during 2008 Q3, it was revealed that overall sales of the business, private consumption and investment declined from the previous quarter partly due to the concerns regarding political uncertainties. Nevertheless, exports still grew well. The production costs and inflationary pressures were down following the decrease in oil prices. As for an economic outlook for the fourth quarter of 2008, businesses expected that domestic demand, both consumption and private investment, would continue to slow down as a result of fragile consumer confidence, external risk from the prolonged US financial crisis.

Private Consumption

Overall private consumption growth moderated from the previous quarter, reflecting from lower sales of goods and services. The consumer confidence was still fragile due to the political uncertainties. As a result, consumers became more cautious in their spending and purchased only necessary products regardless of the economic stimulus measures from the government. As for the final quarter of 2008, businesses anticipated that private consumption would continue to slow down.

Private Investment

Private investment slowed down from the previous quarter due to high pressure on production costs and oil prices although they have declined somewhat in this quarter. Also, political uncertainties have caused businesses to postpone their investment decisions and became more cautious in operating their businesses. As for investment front, although in the short run Japanese businesses were concerned with political uncertainties, in the long run they still had confidence in Thai economy, both commercial and investment perspectives. The reasons for this were strong economic fundamentals and a highly qualified labor force in Thailand.

Export Conditions

Overall exports continued to favourably expand in this quarter owing to the demand from new markets especially those in Asia and Middle East that were still expanding, together with depreciation of Thai baht against US dollar in the previous period. Nevertheless, it was expected that the financial crisis in the US would have an adverse effect on foreign demand which would become a threat to Thai exports in the near future. In response, exporting firms had to monitor, assess the situation closely as well as improve their business strategies, for example diversifying into new export markets.

Costs and Prices

The business operating costs decreased from the previous quarter mainly due to the falling of oil and raw materials prices, in line with a slowing down of inflationary pressure. Consequently, most businesses had yet to adjust their prices. Although there was a minimum wage adjustment, most businesses were not affected because they still had some capability to absorb the increase in their labour costs. However, businesses had tried to improve their productivity and had expanded their distribution channels in order to increase their profit margins.

Credit

The demand for corporate and household loans expanded slightly from the previous quarter, especially loans for working capital and inventory build-up. The demand for fixed asset investment loans increased slightly while household demand for residential loans increased significantly. Nonetheless, financial institutions tightened their credit standard more than the previous quarter as a result of uncertainty in economic conditions and growing concerns regarding credit quality, especially loans granted to small and medium-sized enterprises.

Business limitations and risk factors

Most businesses viewed that major domestic limitations and risk factors included high costs of production and economic uncertainties resulted from political instability. For external risks, the financial crisis in the US would be the key risk factor for business

operations in the near future. Besides, it should be noted that businesses had become more concerned regarding a decrease in demand from both domestic and foreign markets.
