Report: "Economic/Business Information Exchange Programme

Between the Bank of Thailand and the Business Sector"

As of 31 March 2009

From the Economic/Business Information Exchange Programme between the Bank of Thailand and 182 business firms throughout the country during 2009 Q1*, it was revealed that global economic crisis had affected domestic economy continually since 2008 Q4. Consequently, overall economic conditions continued to slow down and even contracted in some business sectors, especially durable goods manufacturing sector which depended largely on exports e.g. electronics and electrical appliances, automobile and auto parts. Nevertheless, businesses had adjusted themselves by reducing production costs and increasing productivity, improving inventory management, and expanding markets to compensate a drop in exports to major trading partners. The current low level of firm capacity utilization pressured businesses to reduce labor cost, as evidenced by reduced working hours and subcontracted labor. As for the economic outlook for the next period, businesses expected that consumption, investment as well as exports would continue to slow down and rebound in 2009 Q4.

Private Consumption. Private consumption slowed down progressively from the previous quarter due to the economic slowdown conditions and fragile consumer confidence, as observed in lower sales of goods and services particularly in real estate and durable goods items e.g. cars and motorcycles, leather, textiles and garment, and electronics and electrical appliances.

Private Investment. Despite relieved political problems, private investment continued to contract from the previous quarter. Weakened world economic conditions resulted in a significant drop in demand, both from domestic and foreign markets. Consequently, the reduction of businesses' capacity utilization led to excess capacity. Meanwhile, fragile business confidence, tightened credit standards for corporate loans by financial institutions, as well as, new environmental regulation also made businesses postpone investment.

Export Conditions. Overall exports continued to decline from 2008 Q4, following a considerable drop in demand from major trading partners. In response to this, most businesses, especially manufacturing and trade firms, reduced their production. The vulnerable industries included electronics and electrical appliances, automobile and auto parts, processed food, and textiles.

Production. In the first quarter of 2009, most businesses reduced their production following the weakened demand, in line with a decrease in raw material import. Businesses tried to reach their desired inventory levels in order to minimize inventory cost and maintain financial liquidity. It was noteworthy that manufacturing production index (MPI) had stabilized since January and order books of some businesses e.g. hard disk drive began to recover slightly in the second quarter. This suggested that demand and supply were undergoing an adjustment phase to reach a new balance.

Employment. Businesses who were affected by the economic slowdown adjusted themselves by reducing their labor cost, especially increased evidence of reduced working hours and subcontracted workers. Nevertheless, businesses tried to retain skilled labor as long as possible as skill training was a time consuming process and businesses could be able to expand their production immediately when their order books were recovered. However, workers that had been laid off from closed-down factories could be reemployed by other labor-scarce factories or shifted to the agricultural sector.

Costs and Prices. Business production cost decreased continuously from the previous quarter, mainly due to a fall in oil and other raw materials prices, following the decrease of global demand during the economic slowdown conditions. Meanwhile, business operating costs decreased owing to businesses' adjustment by increasing efficiency and reducing production costs. As a result of decreasing pressure in production cost as well as lower businesses' margin to boost sales in weak demand conditions, overall price level declined.

Credit. Financial institutions continued to tighten their credit standard due to on-going concerns about their credit quality, especially for SMEs and export-oriented businesses. Meanwhile, some businesses decreased their demand for working capital and new investment loan, following the decrease of order books and production.

Business constraints and risk factors. Businesses had become more concerned that the decrease in demand from both domestic and foreign markets would be prolonged and competition in domestic market would be intensified. Moreover, businesses were still concerned with domestic political problem. Risks on cost of production had been alleviated remarkably due to the decrease in oil and raw material prices.

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* Including responses from business sentiment index survey (about 520 business firms per month) and responses from special surveys (341 business firms).