

**Report: “Economic/Business Information Exchange Programme
between the Bank of Thailand and the Business Sector”
As of 30 June 2010**

According to the Economic/Business Information Exchange Programme between the Bank of Thailand and 254 firms nationwide during 2010 Q2^{1/}, overall business conditions continued to improve from the previous quarter. Despite an unfavourable atmosphere from the political unrest, its impact was limited. Meanwhile both domestic and foreign demand continued to expand, following the global economic recovery, higher farm income from rising in crop prices and improved confidence of both consumers and businesses, during the last month of this quarter. Looking ahead, overall business conditions would continue to improve, owing to fiscal stimulus packages and increasing trend in demand, attracting businesses to increase their investment in the following period. Nonetheless, domestic political instability, uncertainty in economic conditions, and difficulties in price adjustments due to high competition, would constitute risks to businesses in the forthcoming period.

Private Consumption. Private consumption still expanded, despite the domestic political instability. However, sales of household products and durable goods, such as cars and electrical appliances, remained high, following continued economic recovery, rising farm income, various businesses’ marketing promotion, and particularly relaxation in terms and conditions of consumer credit, together with improved consumer confidence during the last month of this quarter.

Tourism. Tourism industry deteriorated from the previous quarter, owing to the domestic political unrest, especially in Bangkok and the Central region, while tourism in the Southern part was still able to expand, following an increase in number of tourists from Singapore and Malaysia. Nevertheless, after the political unrest had been resolved at the end of the quarter, number of tourists noticeably regained, particularly from Asian countries, e.g. China, Hong Kong, and ASEAN.

Production and Exports. Production and exports improved, in response to an increase in order books from both domestic and foreign markets, particularly those in vehicles, electronics and electrical appliances industries. Political instability adversely affected distribution of raw materials and final products, as well as night shift production in factories located where curfew was imposed. However, the impact was limited. Production, in the second quarter, remained unchanged, compared to the previous quarter, whereas order books were still at a high level, especially backlog orders of vehicles which, to date, accumulated 2-4 months ahead.

Private Investment. Private investment continued to expand from the previous quarter in response to increased demand. Particularly, investment in machinery was aimed to improve efficiency in vehicle, Hard Disk Drive, and electrical appliances industries, as reflected by increasing imports of capital goods. According to Board of Investment (BOI), the number of projects applying for investment incentives increased compared to the same period of last year, most of which were in alternative energy power plants, hot-rolled sheet and vehicle parts industries.

Employment. Employment conditions improved, as reflected by an increase in demand for labour in manufacturing sectors. A number of SMEs experienced tightened labour conditions, as they were unable to offer a competitive wage rate, set by large firms, leading to a higher turnover rate of employment and a longer recruitment period for SMEs. In this quarter, a higher number of entry of the newly graduates had somewhat alleviated the tight labour market conditions.

Cost and Prices. Businesses encountered higher cost of production, following an increase demand for raw materials to serve expanded production in this quarter. However, businesses had to rely more on the efficient cost management, as there were difficulties in price adjustment due to higher competition.

Credit Conditions. Demand for corporate credit slightly increased from the previous quarter. Loans to large corporate were mainly for fixed investment and working capital, whereas loans to SMEs were granted for working capital and refinancing in response to low interest rate. Meanwhile, credit standards for corporate loans remained almost unchanged from the previous quarter. However, financial institutions still closely monitored their credit lines granted to businesses in tourism and real estate sectors.

Business Constraints and Risk Factors. The major business constraint was difficulty in price adjustment, owing to an intense market competition from domestic and foreign markets, as well as the authority’s price control measures. As a result, businesses could not adjust their prices despite increasing cost. Nevertheless, businesses reported that the political risk and economic uncertainty alleviated continuously.

^{1/}Including responses from business sentiment survey (about 520 business firms per month).