

Business Report
“Economic/Business Information Exchange Program
between the Bank of Thailand and the Business Sector”
As of 30 September 2011

Overall Summary

Overall business activity expanded from the previous quarter following favorable domestic and foreign demand according to the Economic/Business Information Exchange Program between the Bank of Thailand and 316 firms nationwide in 2011 Q3^{1/}. Exports of goods and services continued to expand. In particular, vehicle production grew significantly to fulfill the backlog of orders incurred during the supply chain disruption. Domestic consumption and investment remained strong. Looking ahead, industrial production and exports are expected to be affected by the widespread floods but the impact would be temporary. Meanwhile, the downside risk on export growth from the slowdown in the U.S. and the euro area economies increased. Labor shortages and difficulty in price adjustments also remained constraints to businesses.

Consumption remained favourable although consumption in flooded areas from the end of the quarter onwards was adversely affected. Factors underlying the consumption growth momentum remained strong. For example, farm income remained high while wages and work hours in the manufacturing sector increased. In addition, financial support from bank and non-bank financial institutions, sale promotion schemes and the government’s stimulus package helped maintained the growth momentum for consumption to smooth over the temporary slowdown due to the floods.

Real estate activity slowed down from the previous quarter as developers and home buyers adopted a wait-and-see attitude pending the government’s real estate stimulus measure. As a result, the number of newly launched housing projects declined. Most newly launched projects were townhouses. Going forward, developers expect to increase house prices during the rest of this year and next year following higher costs of land, rising raw material prices, and wage hikes.

Tourism increased on the back of favourable domestic and foreign demand. Order books from Asian countries such as China, ASEAN, and the Middle East remained healthy. Order books from Japan also increased following its economic recovery. In contrast, order books from the U.S. and Europe declined due to higher downside risk to economic growth. Vehicle production expanded significantly in order to meet the backlog of orders incurred during the supply chain disruption following the Japan crisis. Consequently, tire and auto-parts industries expanded. The hard disk drive industry expanded this quarter as final demand from China increased. Electrical appliances, particularly televisions and air-conditioners, expanded well following domestic and external demand for new models. However, going forward, production and exports are expected to decline temporarily due to the widespread floods.

Production and exports expanded robustly in most sectors owing to strong domestic and foreign demand. Agricultural sector benefited from high crop prices and increased crop output. Manufacturing sector also expanded due to the increased productions of electrical appliances, electronic parts, plastic, and petroleum products. While, vehicle production dropped during April to May but resumed its normal level at the end of the second quarter since supply disruptions alleviated. In the meantime, hard disk drive production started to edge up as global stock lessened. Regarding textile and garment industry, the sharp decline in cotton price adversely affected the production. Thus, make-to-order production strategy was used in order to reduce such risks of volatile raw material cost.

^{1/}Including responses from business sentiment survey (about 700 business firms per month).

Investment expanded from the previous quarter. Businesses invested in order to replace obsolete machinery, expand production capacity, and substitute for labor. Given tightening capacity utilization, the vehicle and parts industry ramped up its investment in order to expand production capacity and upgrade technology to accommodate production of new car models. Regarding the wholesale and retail sectors, investment plans for new warehouses and branches were undertaken. In addition, hotels renovated their conference and functional rooms in order to attract more MICE customers. Going forward, businesses anticipated that both public and private investment would expand following increased investment demand for machinery, plants, and the restoration of buildings damaged by the floods as well as mega-project investment.

Employment remained strong in line with economic expansion. In this quarter, workers migrated from the non-agricultural sector into the agricultural sector due to the growing season. As a result, businesses experienced labor shortages. In anticipation of the 300 baht minimum income policy and higher production costs, firms adjusted themselves by increasing labor productivity, outsourcing some parts of production process, basing remuneration on output, substituting machinery for labor, and converting benefits into wages. In addition, some businesses (e.g. garment, processed food, handicraft, electrical appliance) considered other options such as relocating production to neighbor countries and downsizing.

Production costs. Domestic oil price decreased in this quarter due to the cessation of the oil fund contribution fee. However, raw material prices and overall production costs, especially for agricultural products (e.g. sugar, rubber, rice, pork), remained high. Thus, businesses, particularly food businesses, steadily raised their prices. Nevertheless, price adjustment proved difficult because of intense competition and price controls. As a result, the increase in consumer prices has not compensated for the rise in production costs.

Corporate and household credit continued to grow. As for corporate credit, loans for fixed investment and working capital grew well for both large corporates and SMEs, especially in the manufacturing and trading sectors. Household loans also expanded in line with consumption. Auto loans accelerated after delivery of vehicles returned to normal. Moreover, high farm income continued to support demand for vehicles.

Business constraints and risks. Businesses continued to be constrained by labor shortages and difficulties in price adjustment amid rising production costs. Going forward, businesses expressed greater concerns over how the Thai economy would fare given the slowdown of the U.S. and euro area economies as well as the supply shortage due to the floods.

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