

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

Overall Summary

According to the Economic/Business Information Exchange Program between the Bank of Thailand and 319 firms nationwide in 2011 Q2^{1/}, overall business conditions continued to expand despite rising costs. Domestic and foreign demand grew favorably. As a result, businesses adjusted their prices upward in line with increasing production costs. However, some could not adjust their price due to intense competition. As for production, vehicle production dropped during April to May but resumed its normal level at the end of this quarter since supply disruptions alleviated. Looking ahead, businesses anticipated continued economic expansion, especially in both public and private investment activities. Nonetheless, concerns over labor shortage, political instability, and the new government’s policy implementation after election remained.

Consumption expanded from the previous quarter in line with firm economic expansion due to elevated farm income contributed by high major crop prices and increased crop output. Besides, financial institutions’ credit expansion, sales promotion schemes, and revitalized consumer confidence also helped bolster consumption.

Real estate market moderated from the previous quarter. Developers continued to pursue development plans by cautiously launching new residential projects with partial price raised due to rising cost, while offering various marketing schemes still. Overall demand moderated somewhat due to the moderation in demand for condominium despite continued demand for low-rise houses. Mortgage credit continued to expand well. Consumers obtained better financial accesses thanks to intense competition among financial institutions.

Tourism’s business condition remained favorable following expansion of emerging economies (e.g. China, India, and ASEAN) as well as effective internet marketing. Accommodation prices remained unchanged especially in middle and low segment due to intense competition from service apartments and non-registered hotels. However, food and beverage prices increased to some extent.

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.

Investment expanded from the previous quarter. To accommodate growing demand, firms continued to invest in order to expand their production capacity together with investment in new machinery for workers’ replacement. As for the wholesale and retail sectors, investment in new branches was continuously undertaken. Going forward, investment was deemed to expand vigorously, both from private investment (e.g. alternative energy power plants, vehicle part factories) and public investment (e.g. mass transit system, dual rail track project).

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

Employment remained strong in line with economic expansion. Businesses continued to experience shortage for labor in every position owing to labor migration to agricultural and service sectors as well as labor qualification mismatch. Thus, wage and turn-over rate tended to increase. Although businesses expressed more concerns over availability of labor than wage rate, political campaign on minimum wage jump would be a major risk to businesses and deteriorate Thai competitiveness in many sectors.

Production costs. Certain commodity prices showed some decline. For example, cotton price dropped following new crop production and the draining of China's cotton stock. Rubber and steel prices also registered a declining trend. However, raw material prices and overall production costs remained high. Consequently, businesses adjusted their prices upward especially in food and beverage sectors. Looking forward, businesses anticipated that price pressure would linger for the remaining of this year, as there were goods on the list waiting for price adjustments. Energy price and raw material price were volatile but price adjustment going forward was expected to be smaller compared to the previous period.

Credit continued to expand. Credit granted to large corporate and SMEs expanded well including credits for fixed investment and working capital. Credit granted to household also expanded in line with growing consumption. In the mean time, hire purchase loans for car slowed down due to Japanese car firms' delay in delivery. However, hire purchase loans for motorcycle continued to expand following the increasing farm income.

Business constraints and risks. Difficulty in price adjustment given rising cost and labor shortage continued to be top business constraints. Nevertheless, the increase in interest rate posed less concern to businesses compared to the difficulty in financial access. Regarding other business risks, political instability, the new government's policies after the election, global economic condition, and inflation pressure were deemed to worsen production costs and consumers' purchasing power going forward.

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