

**Report: “Economic/Business Information Exchange Programme
between the Bank of Thailand and the Business Sector”
As of 31 March 2011**

According to the Economic/Business Information Exchange Programme between the Bank of Thailand and 282 firms nationwide in 2011 Q1^{1/}, overall business conditions continued to expand following the continued expansion of domestic economy and external demand. As a result, selling prices of several businesses were increased in line with the rising production cost. Regarding impact of the Japan’s earthquake and tsunami in March, risks on raw material shortage in vehicle and electronic industries as well as risk to tourism industry were anticipated. While the immediate impact was limited, the on-going development of this situation needed to be closely monitored. Moreover, businesses were still concerned with the increasing cost of production but price adjustment was difficult owing to intense competition and government price control. Labour shortage and political instability also posed concerns to the business outlook.

Private Consumption expanded from the previous quarter following favorable expansion of domestic economy. High major crop prices, rising wage in private sector, and credit expansion from financial institution facilitated the increase of household purchasing power in the light of sale’s promotion schemes.

Real estate market moderated from the previous quarter. Nonetheless, firms deemed that housing demand still remained. In response, firms continued to pursue their development projects and launched new residential projects in the House and Condo Expo in March with various marketing schemes. House prices were also increased due to rising costs. Regarding the prudential measure on housing credit, firms perceived that the measure would moderate a pace of condominium sales, but rarely affect the ongoing momentum of the real estate business. Home buyers continued to receive financial services as competition among financial institutions was intense.

Tourism business continued to expand. Tourists from US, Europe i.e. UK, Russia and Asian i.e. Korea, ASEAN, and China increased. Japanese tourists were expected to decrease as a result of natural disaster. On the other hand, tourists from other countries were deemed to increase. However, accommodation prices remained unchanged because of oversupply and intense competition from service apartments and non-registered hotels.

Production and exports had been expanding across manufacturing and agriculture sectors due to both domestic and foreign demand. Agricultural sector benefited from high crop price and increased rice production. Manufacturing production also expanded in line with increased in sales of vehicle, electrical appliances and electronic parts. The Japan’s earthquake and tsunami caused adverse disruption of domestic vehicle production due to shortage of specific auto-parts from Japan. In the mean time, electronic industry could use raw material and parts from other sources but with higher costs. However, firms expected that order of food products would increase in the future.

Private Investment expanded from the previous quarter. Several manufacturing firms had already operated close to their full capacity. Firms, thus, invested to increase their production capacity in preparation for growing demand, while, some invested in new machinery in order to replace obsolete ones and substitute for workers. Regarding the wholesale and retail sector, investment for new warehouses and branches in provincial area as well as renovation projects were undertaken. Going forward, investment was deemed to expand continuously, partly due to relocation of production from Japan in order to diversify its production risk.

Employment increased from the previous quarter. Labour relocation from construction sector to agricultural sector remained due to delayed harvest period in the previous year. Businesses continued to experience labour shortage for both skilled and unskilled labour. Thus, wage and turnover tended to increase because of intense competition in labour recruitment. Subsequently, businesses adjusted themselves by increasing over-time work hours, outsourcing, employing migrant labour, and changing to labour-saving technology.

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

Production costs edged higher from the previous quarter in particular prices of oil and agricultural commodities namely rubber, palm oil, tapioca, cotton, following the increased demand from emerging markets and the world supply shortage owing to natural disasters. Consequently, consumer prices in several sectors such as processed agricultural product, food processing, textile and garment, jewellery, ceramic, construction material, and real estate sectors were increased.

Credit granted to businesses continued to expand following an increase in loan demand for fixed investment and working capital due to higher commodity prices. Household loans also expanded well, especially hire purchase loans for vehicles in line with higher household income and rising demand for vehicles.

Business constraints and risks. Businesses were still concerned with increasing production cost while experiencing difficulty in price adjustment owing to intense competition and government price control. Moreover, labour shortages both in quantity and quality became more severe. Furthermore, domestic political instability needs to be closely monitored. As for the Japan's earthquake and tsunami disaster, businesses anticipated that raw materials and parts shortages remained a risk for vehicle and electronic industries if Japanese firms could not restore their production and supply chain in time.