

Business Report
“Economic/Business Information Exchange Program
between the Bank of Thailand and the Business Sector”
Second Quarter, 2012

Overall Summary

According to the Economic/Business Information Exchange Program between the Bank of Thailand and 285 firms nationwide and Business Sentiment Survey in 2012 Q2¹, business activities recovered continuously. Most businesses resumed normal production and expedited their production to accommodate demand and build up inventory. However, the euro area’s economic crisis started to affect export sector at the end of this quarter and began to show adverse impact on production. In 2012 Q3, business activities were expected to expand moderately, mainly supported by favorable expansion in domestic consumption and investment. Nonetheless, the impact of the euro area’s economic crisis on exports and export-related businesses would be more apparent.

Consumption: Private consumption expanded from the previous quarter, reflected by a marked increase in sales of various durable and non-durable goods. This was supported by favorable purchasing power and consumer confidence, sales promotion, and an expansion of business’s distribution channel. For 2012 Q3 outlook, consumption was anticipated to grow moderately. This was due partly to risk to export income associated with the global economic slowdown.

Production and Exports: Production and exports continued to recover from the previous quarter. Production of most businesses returned to normal, particularly production in automobiles, electrical appliances, and consumer goods. Moreover businesses accelerated their production to accommodate demand for consumption and build up inventory. The improvement in manufacturing production helped exports to gradually recover. However, exports at the end of this quarter had been affected by the euro area’s economic crisis which also began to show adverse impact on production. In 2012 Q3, production and exports were expected to grow moderately as impact from the euro area’s economic crisis became more apparent. Nonetheless, most businesses had not received proposals on trade credit extension from European clients and had not yet experienced credit default. But businesses would be more cautious going forward.

Investment: Private investment expanded steadily, particularly reconstruction-related investment in manufacturing sector which included investment for flood prevention. Furthermore, there were investment in machinery to alleviate the impact of labor shortage and minimum wage hike as well as investment to accommodate future economic growth. Going forward, investment tended to moderate in 2012 Q3 after registering a marked acceleration in the first half of this year and being affected by the euro area’s economic crisis.

Employment: Employment situation remained tight. Businesses experienced labor shortage as some workers moved to agricultural sector. Meanwhile, there was qualification mismatch in the new workers market. As

¹ Business sentiment survey is conducted by the Bank of Thailand on monthly basis. The survey is sent to about 1,000 firms nationwide including manufacturing, financial services, trade, transportation, contraction, and real estate sectors. Respondent firms is about 600 firms per month.

a result, some businesses could not operate at full capacity and produced less than orders. As a consequence of labor shortage, most businesses hired their workers at a rate higher than or close to minimum wage of 300 baht per day. Therefore, after minimum wage increased in April, most businesses could bear and manage higher labor cost, although they had to increase overall wage structure. But businesses expressed more concern over labor productivity which did not keep up with an increase in wages.

Production cost and Price: Production cost continued to increase in accordance with minimum wage hike, higher energy prices, and elevated raw material prices. The impact on production cost varied among businesses depending on cost structure and financial conditions. Moreover, most businesses viewed that minimum wage hike was not the main cause affected business conditions. While they placed more concern over increased energy and raw material prices which were significant factors influencing business performance. As a result, prices of goods tended to increase somewhat in 2012 Q3 following elevated production cost.

Credits: Private credits expanded considerably both corporate credits and household credits following demand for consumption and investment. Regarding corporate credits, the credit expansion was for working capital and fixed investment. Businesses which demanded higher credits than the previous quarter were mainly from processed food, beverage, plastic product, auto parts, petroleum product, retail and wholesale, hotel and restaurant, and real estate businesses. Meanwhile, mortgage loans and vehicle hire purchase loans recovered in line with robust domestic demand. Going forward, private credits tended to expand favorably in 2012 Q3, continuously supporting economic activities.

Business constraints and Risks: Business's concern over labor shortage was broad-based. Moreover, businesses anticipated that the next increase in minimum wage nationwide to 300 baht per day starting at the beginning of 2013 would affected many businesses more severely than this year impact. While impact of the slowdown in global economy on exports was apparent. Foreign orders declined and businesses in export supply chain began to be affected. Regarding domestic demand-oriented industries, businesses viewed that political uncertainty and efficiency of the government's water management plans remained risk to consumer confidence and future investment decision.

Economic Intelligence Team
Macroeconomic and Monetary Policy Department
Monetary Policy Group
Bank of Thailand
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Tel: (+66) 2283 6920, 2283 5646
E-mail: EconomicIntelligenceTeam@bot.or.th