

Business Report
“Economic/Business Information Exchange Program
between the Bank of Thailand and the Business Sector”
1th Quarter, 2012

Overall Summary

According to the Economic/Business Information Exchange Program between the Bank of Thailand and 214 firms nationwide in 2012 Q1¹, business activity in the first quarter of 2012 recovered significantly from the floods in the previous quarter. Many industries managed to resume their production, leading to export recovery. Consumption increased continuously and had reached the pre-flood level. Investment also expanded given the need for repair after the floods and capacity expansion to serve the growing domestic demand. Consequently, business activity in the second quarter was expected to expand. Nonetheless, business risk for the next period was the rising cost from 3 factors; minimum wage increase, tendency of higher raw materials prices and energy prices surge.

Consumption. Private consumption recovered continuously as production process and logistic system returned to normal. Purchasing power and consumer demand were robust from the need for repair and replacement of damaged properties and household items caused by the floods, as well as the pent-up demand from the previous period, especially cars and motorcycles.

Production and exports. Production and export recovered significantly from the previous quarter, especially vehicle and electrical appliance industries, after supply chain disruption had been relieved. This resulted in increasing manufacturing production and most productions were anticipated to reach their pre-flood level within 2012 Q2. Export was also expected to improve steadily. However, a risk to export for the next period was the weak global economy, especially the European economy. Moreover, export orders would decrease somewhat because customers place orders to other countries during the floods as they could not wait for too long and need to diversify their supply source risk.

Investment. Private investment expanded considerably from the previous quarter, especially investment for repair and replacement in manufacturing sector as reflected in rising machinery import. Furthermore, there were investment for flood prevention by many industrial estates and investment as planned before the floods by many industries. In the second quarter, investment tended to increase in order to accommodate growing domestic demand. Moreover, business would invest more on machinery in order to increase productivity and to substitute for scarce labor.

¹ Including responses from business sentiment survey (about 600 business firms per month)

Employment. Employment situation remained tight, as some labour that moved to their hometowns during the floods had yet to return to manufacturing sector. Some of them became farmers due to high agricultural prices while others waited for a new minimum wage to be enforced in April. As demand for labour increased from the recovery of manufacturing sector, some businesses had raised their minimum wages before April to maintain skilled labour and continuously invested to improve labour efficiency. However, labour intensive businesses expected to layoff some workers and used more machinery instead. Meanwhile, small and medium enterprises (SMEs) would be more severely affected by the new minimum wage, but there was still no sign of large scale worker layoff or business termination.

Production costs and price. Prices of some goods began to increase in accordance with higher costs from minimum wage increase, higher raw materials prices, and energy prices restructuring policy. Large businesses had been less affected by the rising costs than SMEs because they were more capable of cost pass-through. The prices of goods in the second quarter were expected to rise due to higher costs. However, the price adjustment would be gradual and depend on business competition and firm's market share. Thus, prices could not increase to fully compensate the increase in costs.

Credits. Demand for corporate credit tended to increase, especially from SMEs, due to demand for business restoration credit and higher working capital. Household credit tended to increase due to demand for repair of properties and purchase of durable goods after the floods.

Business constraints and risks. Businesses were concerned about higher production costs from these 3 major factors; minimum wage increase, tendency of higher raw materials prices and energy prices surge. Moreover, the credibility of the government's water management programme, political instability and the insurgency in 3 southern provinces were still business constraints and would affect investment intention in the next period.

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30 April 2012
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