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Press Release on Economic and Monetary Conditions for October 2010

The overall economy in October continued to grow albeit at a slower pace after a surge in the earlier period as well as the adverse effect of flood that weighed down domestic consumption. Meanwhile, tourism expanded satisfactorily, and exports slowed down less than expected. However, growth momentum remained supportive from resilient economic fundamentals such as favorable farm income, improving employment condition and government spending.

Overall stability remained sound. Headline inflation decelerated. The current account was in surplus, and international reserves stood at a high level.

Details of the economic conditions are as follows:

Domestic demand moderated from the previous month. **Private Consumption Index (PCI)** increased by 2.3 percent year-on-year (yoy), decelerating from 3.1 percent (yoy) in September. This was partly due to a considerable acceleration in the earlier period. Moreover, flood in various areas adversely affected consumer confidence and spending. Nonetheless, favorable farm income, improving employment condition and continued fiscal impulse from higher expenditure budget this year were the supporting factors for consumer's purchasing power going forward. Investment grew moderately after a marked expansion in the previous period. **Private Investment Index (PII)** increased by 17.4 percent (yoy), comparing to 20.0 percent (yoy) in September. This was mainly from a slowdown in imports of capital goods, after a considerable acceleration in the earlier period. Meanwhile, most investment indicators still expanded well such as permitted municipal construction areas which were mostly for condominiums in Bangkok.

With respect to **external demand**, export value remained at a high level of 17,046 million US dollars, rising by 16.6 percent (yoy) from both quantity and price by 8.5 and 7.5 percent, respectively. However, the growth rate moderated from 37.0 percent (yoy) during the first half of the year following the slowdown in trading partners' economies. Meanwhile, the tourism sector continued to ameliorate. The **number of foreign tourist arrivals in Thailand** recorded at 1.36 million people, rising by 12.4 percent (yoy) particularly due to the rising number of tourists from ASEAN countries and South Korea. The hotel occupancy rate in October stood at 48.9 percent, improving in every region except that in the northeastern region which remained stable due to flooding since the mid of October.

Turning to **supply side**, manufacturing production moderated towards its normal trend, in line with both domestic and external demand. **Manufacturing Production Index (MPI)** rose by 6.2 percent (yoy), slowing down from the past month partly as a result of a surge in production in the previous period, especially in the export-oriented industries. Meanwhile, production for domestic sales improved following an expansion in production capacity of one large plastic manufacturing factory to respond to rising demand. For agricultural sector, natural disaster, unfavorable weather and drought in the previous period, together with flooding and pest outbreak further damaged agricultural products, especially oil palm and rice. Crop production, therefore, shrank by 10.3 percent

(yoy), more than a contraction of 4.0 percent (yoy) last month. However, crop price continued to grow satisfactorily by 30.8 percent (yoy), causing **farm income** to edge up by 16.9 percent (yoy).

Import value, totaling 14,604 million US dollars, grew by 13.0 percent (yoy), moderating from the previous month in line with softening demand and manufacturing production. This was due to a reduction in imports of capital goods, mainly electrical and industrial machineries, after a substantial acceleration in the earlier period. In addition, imports of energy contracted as some oil refineries began to gradually decrease imports of crude oil in order to prepare for a temporary shutdown maintenance during November and December 2010.

Depository corporations' deposits (including bill of exchange) continued to expand by 11.2 percent (yoy) from an intense competition amongst commercial banks and specialized financial institutions to mobilize deposits through special depository products and bill of exchange which offered higher return than ordinary deposits to accommodate increasing demand for credit. **Depository corporations' private credits** continued to accelerate by 12.1 percent (yoy), comparing to a 10.8 percent (yoy) growth in September. Meanwhile, specialized financial institutions' credit still expanded well. Concurrently, private credits from commercial banks continuously registered an upward trend.

With regard to **internal stability**, headline inflation decelerated in tandem with raw food prices. Similarly, Producer Price Index continued to decelerate due to a slowdown in prices of agricultural products from the base effect in the previous year. For **external stability**, the trade balance and the current account continued to register surpluses, whereas international reserves remained at a high level.

Bank of Thailand
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