



BANK OF THAILAND NEWS

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Press Release on Economic and Monetary Conditions for January 2011

The economy in January 2011 continued to expand. Private consumption and private investment resumed favorable growth after a moderation in the prior month. Meanwhile, external demand expanded continuously from both export and tourism sectors.

Regarding overall stability, price pressure persisted and became more apparent in response to rising demand, higher inflation expectations and production costs, as well as tightened labor market.

Details of the economic conditions are as follows:

Domestic demand resumed favorable growth on the back of high farm income, low interest rates, as well as strong investors' confidence. **Private Investment Index (PII)** grew at a faster pace by 13.0 percent year-on-year (yoy) following expansions in all private investment indicators. In particular, investment in machinery and equipment expanded considerably from a substantial rise in imports of capital goods. This was partly due to imports of oil drilling platform and imports of machinery for capacity expansion in export-oriented industries such as electronics, vehicle, and electrical appliances, in response to continuous external orders. Besides, commercial car sales continued to grow well. Likewise, investment in construction increased markedly from private sector's residence reconstruction after flooding in the prior period. Concurrently, **Private Consumption Index (PCI)** rose by 4.7 percent (yoy) as all private consumption indicators, both durable and nondurable goods consumption, grew satisfactorily due to higher purchasing power following economic expansion. Meanwhile, **fiscal sector** remained supportive, reflected in a cash balance deficit of 120.4 billion baht from accelerated expenditures. This was partly owing to subsidy expenditure disbursement to local authorities. In addition, disbursement of other expenditures, both current and capital expenditures, remained satisfactory.

External demand, both export and tourism sectors, expanded continuously. January's export value amounted to 16,523 million US dollars, increasing across all product categories by 21.4 percent (yoy). In particular, export value of agricultural products continued an expansion in response to rising rubber and cassava prices. Meanwhile, exports of manufacturing products expanded well following exports of vehicle, plastic product, and electrical appliances. The tourism sector continued to grow robustly. **The number of foreign tourist arrivals in Thailand** recorded at 1.8 million people, particularly due to the rising number of tourists from China and Russia. Correspondingly, the hotel occupancy rate rose to 62.6 percent from 58.5 percent in December, improving in all country's regions except in the Northeastern area.

Production sector expanded in tandem with both domestic and external demand. **Manufacturing Production Index (MPI)** resumed growth of 3.7 percent (yoy) after a contraction of 3.4 percent (yoy) last month. This was owing to production expansions in textile, petroleum, vehicle, and electrical appliances. Nonetheless, production of hard disk drive continued to contract as a result of last year's high base effect. Meanwhile, **agricultural products** increased continuously, mainly due to this month's higher rice production as a result of a delayed plantation from the effect of drought during the middle of last year. Concurrently, palm oil, coconut and cassava productions were still damaged from the earlier adverse effects of natural disaster and pest outbreak. At the same time, agricultural prices accelerated by 26.3 percent (yoy) in response to strong domestic and external demand. **Farm income**, therefore, edged up by 30.6 percent (yoy).

Expansions in both domestic and external demand, together with a record high of 1,789 million US dollars imports of gold from a decrease in gold price, resulted in **import value** of 17,111 million US dollars, accelerating to 31.2 percent (yoy). The greater import value with respect to export value resulted in the trade balance deficit for the first time in the 5-month period.

Depository corporations' private credits continued to accelerate to 14.4 percent (yoy), in line with improving economic conditions. This was due to rising credits extended to both household and business sectors. Meanwhile, **depository corporations' deposits (including bill of exchange)** grew by 11.3 percent (yoy), partly due to accelerated deposit accumulation of depository corporations.

With regard to **internal stability**, price pressure persisted and became more apparent in response to rising demand, higher inflation expectations and production costs, as well as tightened labor market. For **external stability**, despite the trade balance deficit, the current account remained in a surplus from net services and transfers, and international reserves remained at a high level.

Bank of Thailand
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the resilience of the Thai economy against shock and instability*