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Press Release on Economic and Monetary Conditions for February 2011

The economy in February 2011 continued to expand on the back of robust consumption and investment, as well as strong external demand upholding export and tourism sectors. Meanwhile, manufacturing production contracted due to temporary factors.

Regarding **overall stability**, price pressure persisted despite a moderation in headline inflation. Going forward, a continual rise in expected inflation and production costs will further increase inflationary pressure.

Details of the economic conditions are as follows:

Domestic demand expanded satisfactorily. **Private Consumption Index (PCI)** rose by 3.3 percent year-on-year (yoy), following an expansion in most consumption indicators, both durable and non-durable goods consumption. This was supported by a constant increase in income in agricultural and non-agricultural sectors, as well as expanding household credits. Concurrently, **Private Investment Index (PII)** grew by 11.8 percent (yoy) from an expansion across all investment indicators. Investment in machinery and equipment increased from a rise in commercial car sales on the back of strong farm income and investor confidence. Furthermore, import of capital goods rose in response to the capacity expansion in electronics, automobile and electrical appliances industries. Likewise, investment in construction sector grew from residential and commercial construction, as well as residential reconstruction after flooding in the prior period. Meanwhile, **fiscal sector** continued to be supportive. Overall budget disbursement, both current and capital expenditures, remained satisfactory despite a smaller cash balance deficit of 18.8 billion baht due to accelerated disbursement to local authorities in the previous month.

External demand, both export and tourism sectors, continued to expand. February's **export value** registered a new record high of 18,406 million US dollars, increasing across all product categories by 29.1 percent (yoy). In particular, export value of agricultural products increased markedly in line with a new record of rubber price whereas quantity rose mainly from an increased amount of rice export. At the same time, export of manufacturing products grew favorably from exports of automobile, plastic product, and electrical appliances. In addition, exports of gold stood at 1,240 million US dollars, increasing significantly from last month following rising gold price in the world market. Tourism sector improved constantly, mainly from a rising number of tourists from Asia and Europe. **The number of**

foreign tourist arrivals in Thailand totaled 1.8 million people. Correspondingly, the hotel occupancy rate in February increased from 65.7 percent last year to 68.9 percent, improving in all country's regions.

Regarding **production sector**, **Manufacturing Production Index (MPI)** dropped by 3.4 percent (yoy) due to temporary factors. A temporary shut-down for maintenance of oil refineries significantly reduced petroleum production whereas hard disk drive production contracted from last year's high base effect. Excluding petroleum and hard disk drive industries, manufacturing production index continued to expand in tandem with productions in automobile, electrical appliances, and electrical tube and parts industries. At the same time, **agricultural production** continued to grow, following an increased production in most crops from favorable weather condition. Nevertheless, oil palm and cassava productions were still damaged by unfavorable weather conditions and pest outbreak. This month's agricultural price rose by 32.4 percent (yoy) in response to strong domestic and external demand. **Farm income**, therefore, edged up by 36.1 percent (yoy).

Expansion in domestic and external demand led to the total **import value** of 16,375 million US dollars, increasing by 18.6 percent (yoy). Higher export value with respect to import value resulted in a trade balance surplus of 2.0 billion US dollars.

Depository corporations' private credits rose by 15.0 percent (yoy) from an expansion in credit extended to household and corporate sectors in line with economic growth. Meanwhile, **depository corporations' deposits (including bill of exchange)** grew by 13.2 percent (yoy), partly due to capital inflow from foreign investment funds (FIF).

With regard to **internal stability**, price pressure persisted despite a decline in headline inflation from the previous month. Going forward, a continual rise in expected inflation and production costs will further increase inflationary pressure. **External stability** remained sound. The balance of payments continued to register a surplus, and international reserves stood at a high level.

Bank of Thailand
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