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Press Release on Economic and Monetary Conditions for June and the Second Quarter of 2011

The economy in June 2011 grew from favorable domestic and external demand. Meanwhile, manufacturing production improved, especially from the recovery in production and exports of automobiles after the supply disruption problem from the natural disaster in Japan subsided.

With regard to **overall stability**, inflation remained high following the gradual pass-through of production costs into prices of goods and services underpinned by continued strong demand. Furthermore, inflation expectations were likely to increase from the expectation of future government spending plan.

Details of the economic conditions are as follows:

Manufacturing Production Index (MPI) resumed growth of 3.3 percent year-on-year (yoy) after a four-consecutive-month contraction. In particular, production in automobile industry improved after the supply disruption problem had been resolved since the end of May 2011. Furthermore, production in hard disk drive industry expanded for the second month in response to a continued reduction of inventory level. Meanwhile, production in other industries grew continuously following expansion in both domestic and external demand. However, production in garment and textile industries continued to contract as volatile cotton prices resulted in customers' order postponement. At the same time, **agricultural production** contracted continuously by 8.1 percent (yoy) mainly from decreased rice production as a result of the government's campaign to dissuade farmers from second crop plantations since the beginning of the year. In addition, rubber production also declined due to fewer harvesting days following continuous rainfall in the South. Concurrently, **agricultural price** grew at a slower pace from the previous month, but remained at a high level. This was attributable to an increase in the supply of agricultural products, as well as an improvement in the shortage of rubber supply in the global market. As a result, **farm income** rose by 3.6 percent (yoy) albeit moderating from the prior period.

External demand, both export and tourism sectors, continued to expand markedly. **Export value** amounted to 20,816 million US dollars, growing across all product categories by 16.4 percent (yoy). In particular, exports of agricultural products rose mainly from an increase in rice export due to decreased supply in the global market and rising demand from China as its supply was damaged by natural disaster. Moreover, rubber export increased in line with the recovery of global automobile production. Meanwhile, exports of manufacturing products expanded particularly from rubber and petroleum products, while automobile export began to improve after a contraction in the last two months. Regarding **tourism sector**, the number of foreign tourist arrivals in Thailand totaled 1.5 million people, growing by 54.4 percent (yoy), owing to the rising number of tourists across all regions, especially from China, Malaysia, and India. In addition, strong growth was partly attributable to last year's low base effect as a result of the political unrest.

Domestic demand expanded mainly from private consumption. **Private Consumption Index (PCI)** rose by 3.5 percent (yoy). Expansion was observed across most components, especially VAT and fuel consumption. Furthermore, domestic automobile sales picked up after the supply disruption problem subsided. An improvement in consumption was driven by favorable employment and household income, as well as continued expansion in household credit. Concurrently, **Private Investment Index (PII)** grew by 7.4 percent (yoy), moderating from the previous month mainly from a slowdown in investment in machinery and equipment. Notably, imports of capital goods decelerated after prior period's acceleration. However, investment in the construction sector expanded as the construction area permitted in municipal areas increased, due mainly to rising commercial and residential construction projects. Factors contributing to the growth in investment included the level of business confidence which stood higher than 50, and acceleration in credit extended to corporate sector. **Fiscal expenditures** remained supportive to the economy. However, June's government revenue exceeded expenditures, particularly from higher-than-expected corporate income tax collection in line with economic expansion. As a result, the government's cash balance registered a surplus of 178.7 billion baht.

Improvement in manufacturing production, together with expansion in both domestic and external demand, caused the **import value** to reach 18,931 million US dollars, increasing by 23.5 percent (yoy), especially from imports of raw materials and intermediate products. Meanwhile, import value of automobile and parts began to resume the level prior to the impact from Japan's natural disaster.

For **internal stability**, inflation remained high following the gradual pass-through of production costs into prices of goods and services underpinned by continued strong demand. In addition, inflation expectations were likely to increase from the expectation of future government spending plan. The headline and core inflations stood at 4.06 and 2.55 percent (yoy), respectively. **External stability** remained sound, with international reserves standing at a high level.

The economy in the second quarter of 2011 registered a continuous growth on the back of strong domestic and external demand. Nevertheless, private investment expanded at a slower pace after prior period's acceleration. Meanwhile, production sector decelerated. In particular, agricultural production moderated as a result of the government's campaign to dissuade farmers from second crop plantations, together with early rice plantations and harvest during January-April. Meanwhile, manufacturing production contracted mainly from a decline in production of automobile industry as a result of the impact from the natural disaster in Japan. In addition, customers' order postponement from volatile cotton prices hampered the production of garment and textile industries. Regarding internal stability, inflation remained high.

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