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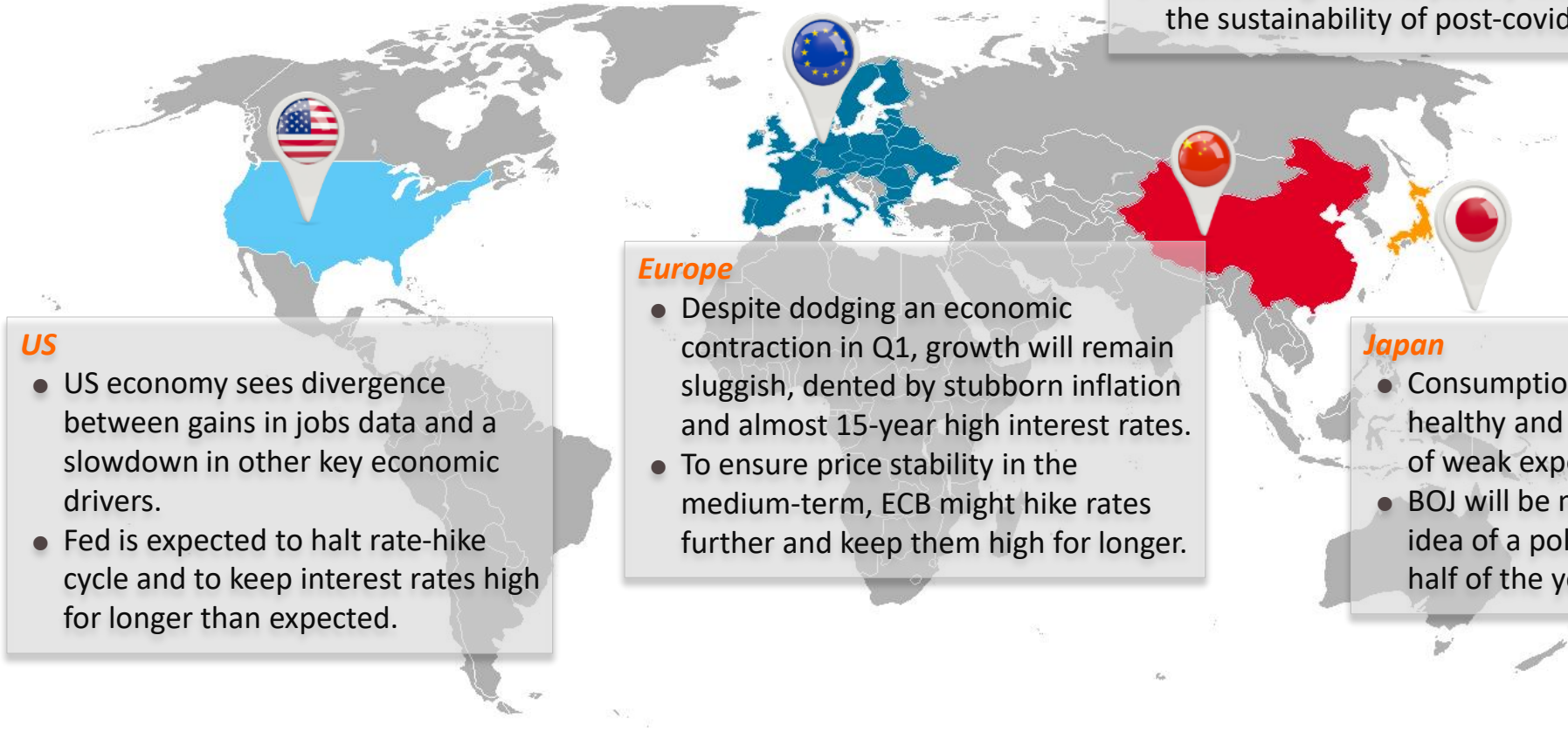
MONTHLY ECONOMIC BULLETIN

May 2023



Krungsri Research

Global: Timing of monetary policy transition



China

- Positive effects of reopening continue to boost services sector.
- Economic growth is patchy with rising concerns over the sustainability of post-covid recovery.

US

- US economy sees divergence between gains in jobs data and a slowdown in other key economic drivers.
- Fed is expected to halt rate-hike cycle and to keep interest rates high for longer than expected.

Europe

- Despite dodging an economic contraction in Q1, growth will remain sluggish, dented by stubborn inflation and almost 15-year high interest rates.
- To ensure price stability in the medium-term, ECB might hike rates further and keep them high for longer.

Japan

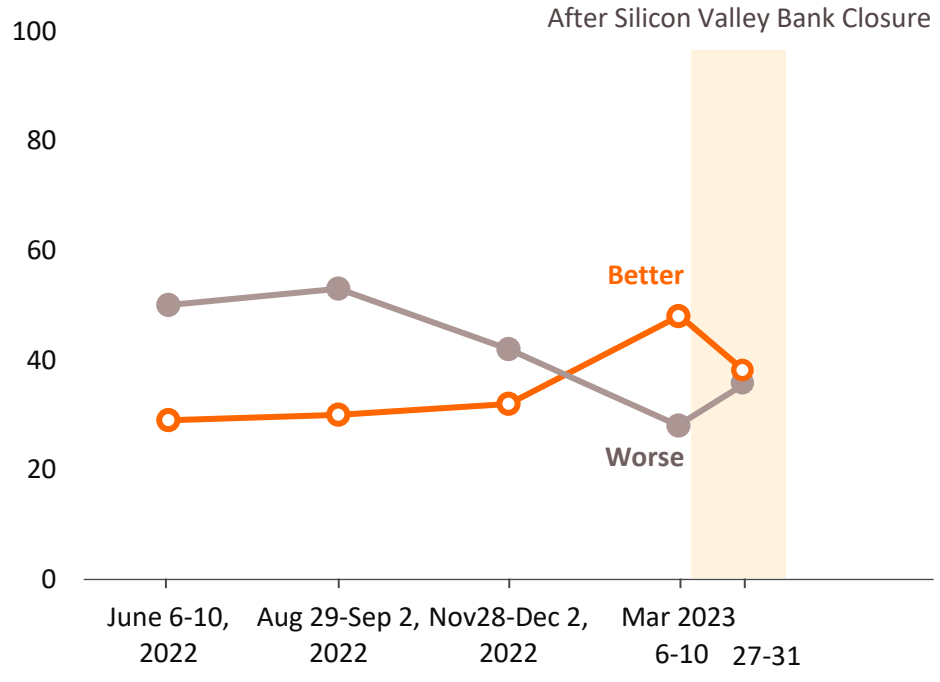
- Consumption is likely to remain healthy and mitigate the impact of weak exports on the economy.
- BOJ will be more open to the idea of a policy shift in second-half of the year .

Sentiment towards global economic prospects is weaker than in early March; rising concerns about market volatility

In early March, respondents of a McKinsey survey on the global economy survey were more positive than in the past few quarters, with 45% expecting global conditions to improve in the months ahead and only 28% predicting conditions would worsen. But by the end of March, that optimism had tempered and there was rising concerns over increasing volatility in financial markets. Respondents were twice as likely (31%) to cite market volatility as a top global risk than in early-March (15%), and continued to cite inflation and geopolitical instability as the top threats to global growth.

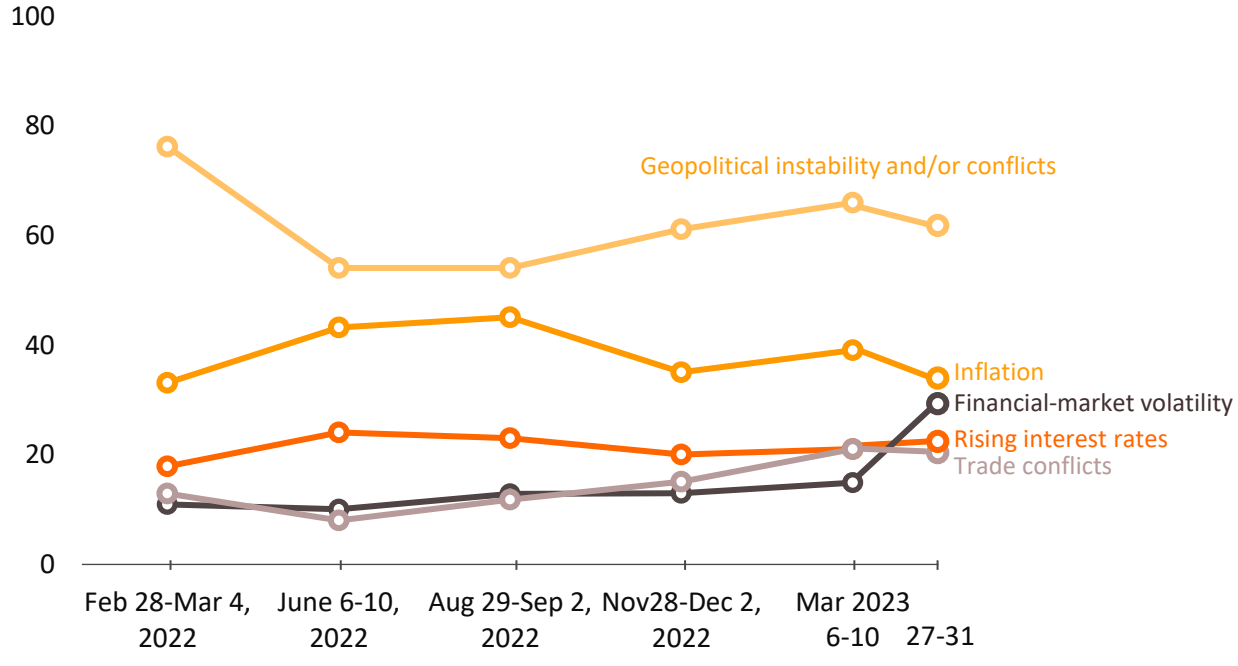
Global Economic Conditions: Expected conditions, next 6 months

(% of respondents)



Top risks to global economic growth, next 12 months

(% of respondents)

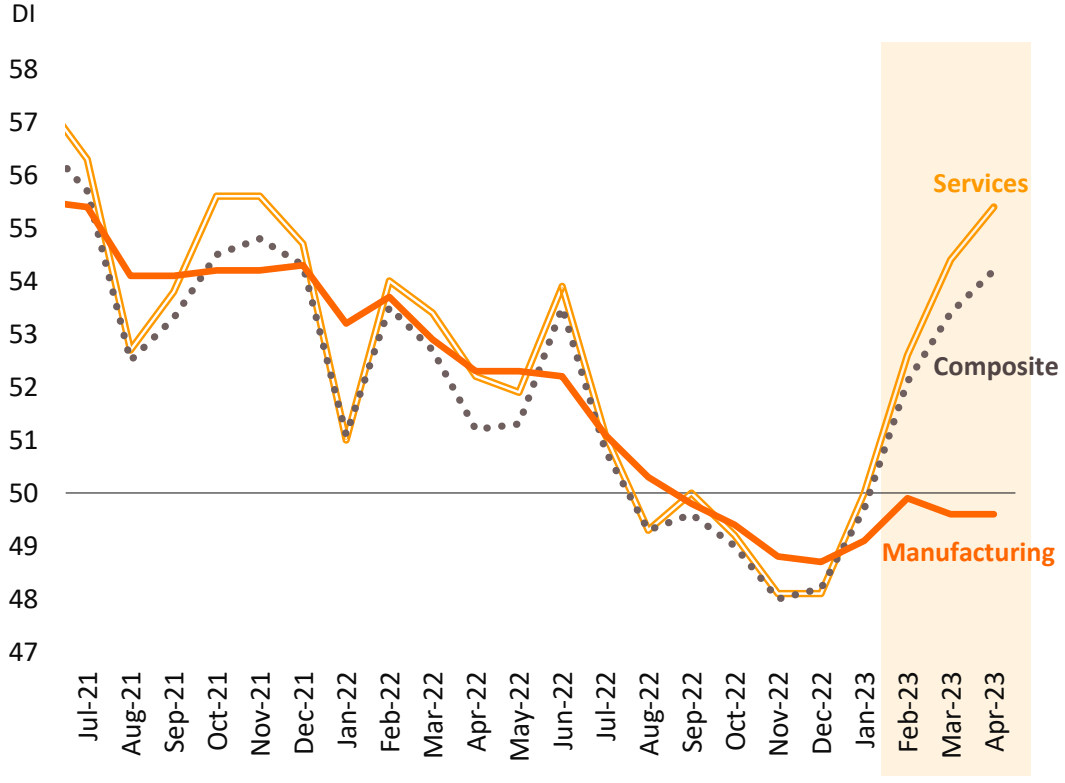


Source: McKinsey, Krungsri Research

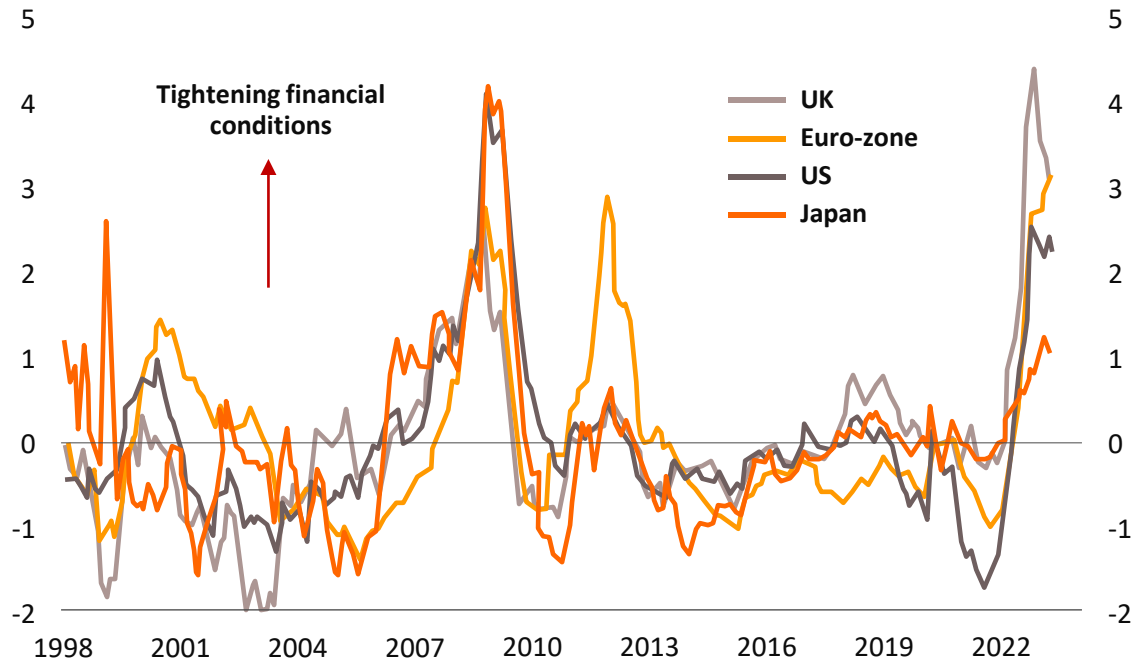
Diverging global demand trends as manufacturing activity continues to contract; global financial conditions are tighter than during the Global Financial Crisis

The global economy saw a divergence between manufacturing and services sectors. Manufacturing PMI remains in contraction zone, suggesting the current growth in manufacturing output might not be sustainable. If the services sector starts to run out of steam, the global expansion may be at risk of reversing its course. In addition, conditions for raising new financing are much tighter than before. Capital Economics (CE)'s Broad Financial Conditions Index (FCI) for developed market were close to their highest since the Global Financial Crisis (GFC) in April. Tightening financial conditions over the past 18 months has been mainly driven by a surge in borrowing costs (rather than normalization of stress measures such as spreads and banks' appetite to lend).

Global PMI



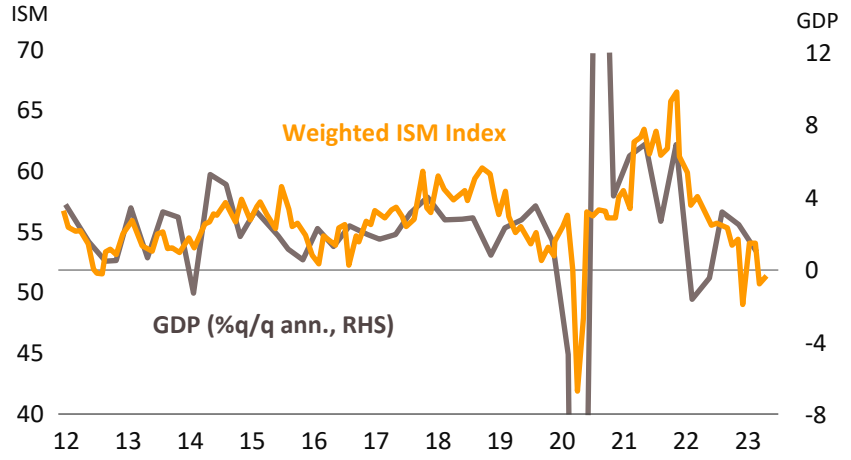
CE Broad Financial Conditions Indices



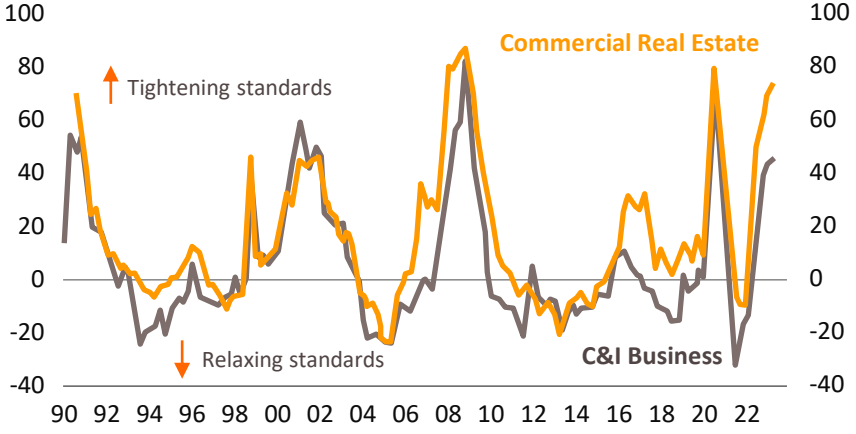
Source: S&P Global, Capital Economics, Bloomberg, Krungsri Research

US: Divergence between robust jobs data and signs of weaker growth; Fed might halt rate-hike cycle and keep interest rates high for longer than market expectations

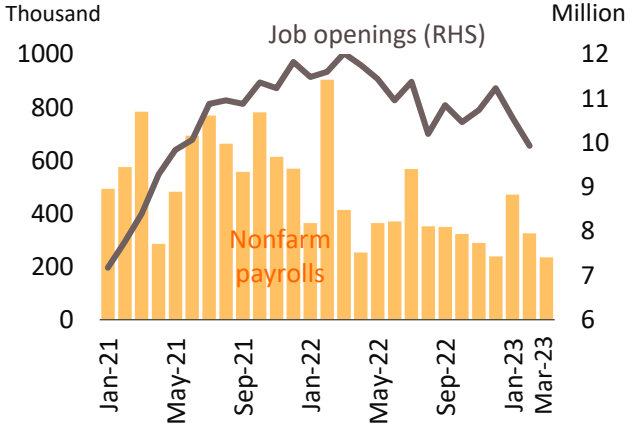
ISM Activity Surveys and Real GDP



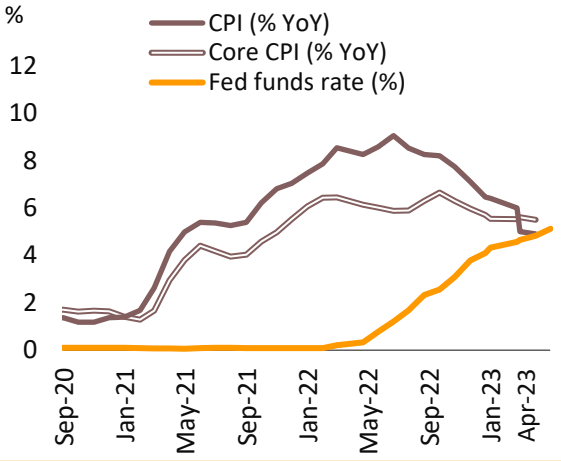
Net % of Banks Tightening Lending Standards



Job openings and Unemployment Rate



Inflation and Fed Funds rate



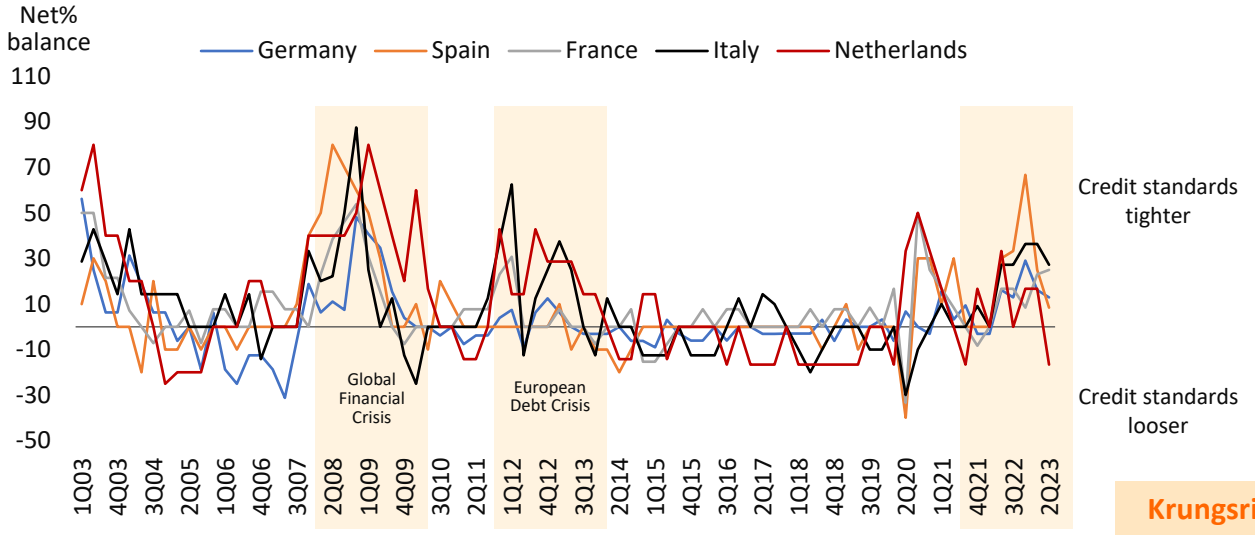
Krungsri Research's view

- **US economy is seeing a divergence between gains in jobs data and a slowdown in other key economic drivers.** Slowing economic growth, easing inflation and tightening financial conditions suggest the Fed should end the rate-hike cycle. However, record-low unemployment rate and wage-price pressure might prompt the Fed to keep rates high for longer than market expectations. The market is now expecting several rate cuts this year.
- **US FOMC raised Fed Funds rate by 25bps to 5.00-5.25% at 2-3 May meeting. Looking ahead, the Fed is expected to pause rate hikes for the following reason: (i) It is the first time the FOMC statement has omitted the message** *"the Committee anticipates that some additional policy firming may be appropriate"*. **(ii) The economy is losing steam.**. The April Consumer Confidence Index is at its lowest since July 2022. **Weighted ISM Index remains** close to its lowest since the Global Financial Crisis. **(iii) Inflationary pressure is easing** with headline inflation slipping to an almost 2-year low of 4.9% YoY in April, services sector inflation rose at the slowest pace in nearly a year, and Producer Price Index (PPI) rose at the smallest rate since January 2021, at 2.3%. **(iv) Real interest rates have turned positive**, implying the series of rapid rate hikes will have more impact on economic growth. **(iv) Lending standards are the tightest** since the GFC. Ongoing concerns about the health of regional banks could raise risk to growth in the periods ahead.
- **However, we expect the US Fed to keep interest rates high for longer than market expectations, premised on: (i) labor market remains robust.** Unemployment rate was at a half-century low of 3.4% in April and non-farm payrolls beat expectations at +253,000. **(ii) Inflation remain well above** the Fed 2% target amid wage-price pressure with average hourly earnings rising by 0.5% MoM and 4.4% YoY. Despite still-low probability of rate cuts this year, we cannot ignore that if financial conditions tighten further given lingering risks of a banking crisis and/or US debt default. If these risk factors materialize, they would increase the probability of rate cuts this year.

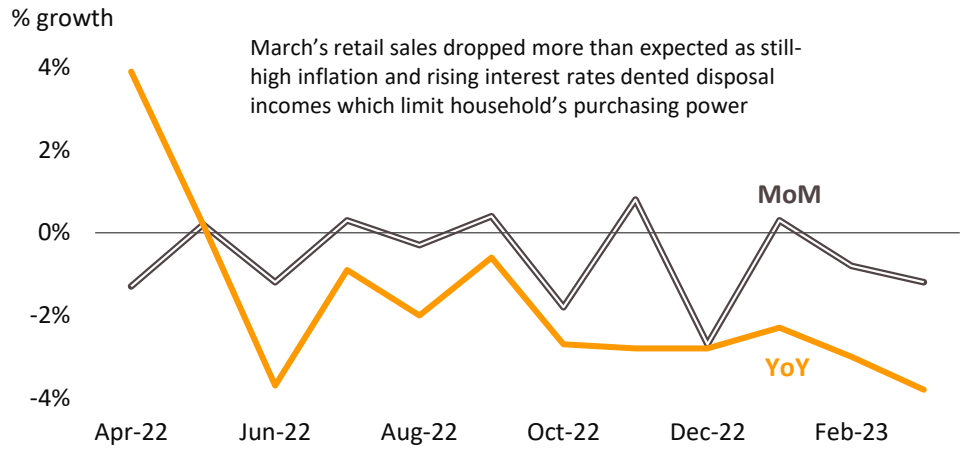
Source: ISM, Bureau of Labor Statistics (BLS), Federal Reserve, Capital Economics, CEIC, Bloomberg, Krungsri Research

Euro-zone: Despite dodging an economic contraction in Q1, growth will remain sluggish, dented by stubborn inflation and almost 15-year high interest rates

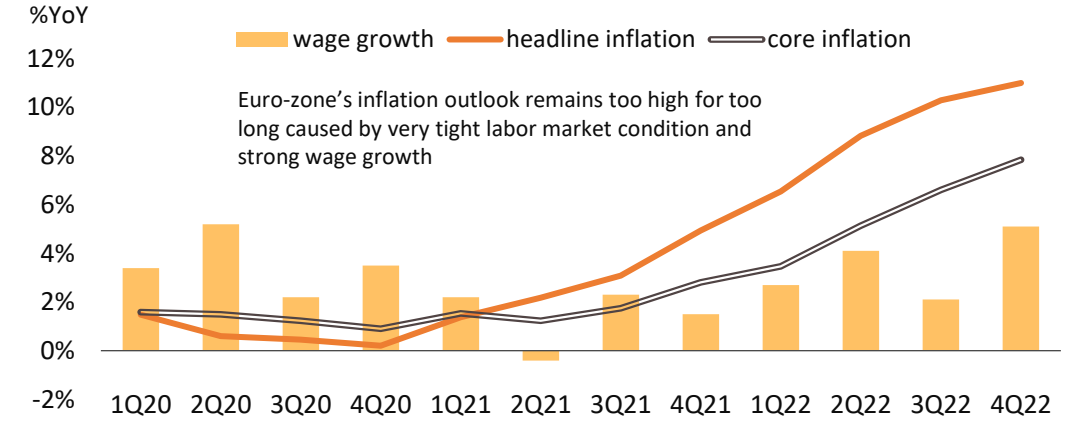
Change in Credit Standards For Enterprises (Forward Looking Three Months)



Euro-zone Retail Sales



Euro-zone Wage Growth & Inflation



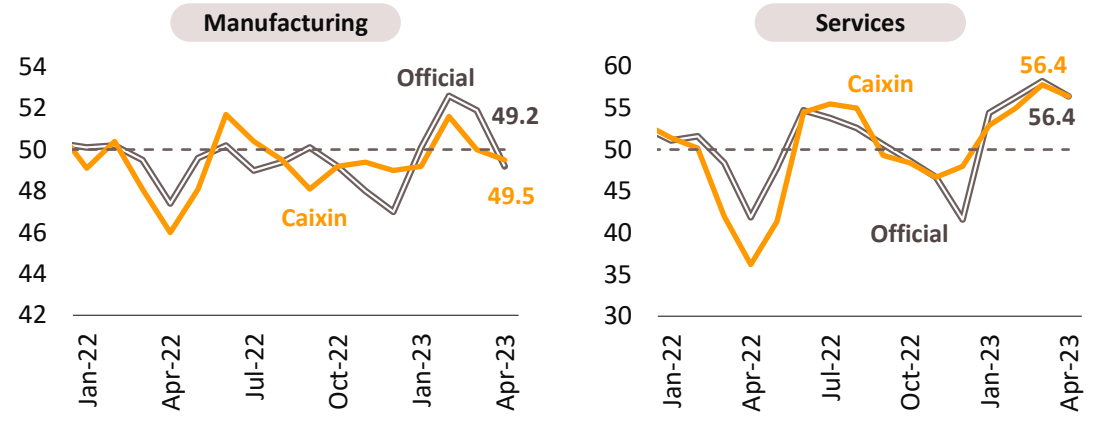
Source: ECB, CEIC, BLS, investing.com, Eurostat, Bloomberg, Krungsri Research

Krungsri Research's view

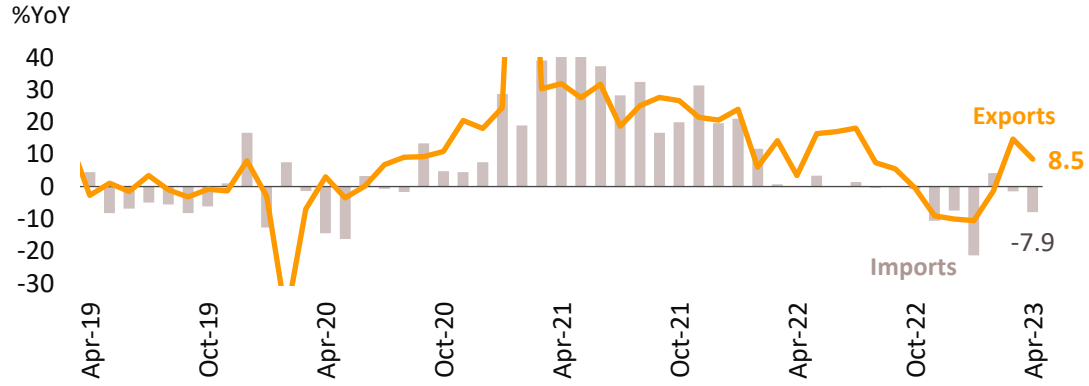
- The euro-zone economy dodged a contraction in Q1, with GDP expanding at an annual rate of 1.3%. **However, it is the weakest growth since 1Q21 as the main drivers – private consumption and investment – continued to deteriorate** with surging inflation and high interest rates eroding real household disposal income, pushing up debt service costs, and further denting consumer and business confidence. Bank also tightened lending standards (**the tightest since the 2008 GFC and 2012 European Debt Crisis**).
  - In March, euro-zone **retail sales fell 3.8% YoY and 1.2% MoM, worse than 3.1% and 0.1% expectations, respectively**.
  - In April, **headline inflation inched-up to 7.0% YoY** while **core inflation stood at 5.6%;** both remain significantly above the ECB's 2% target.
- **Falling retail sales data and still-high inflation have exposed the euro-zone economy to stagflation risk.** There are now concerns whether the recent rebound in services sector activities since economic reopening is sustainable in the second-half of the year as lagged effects of tightening monetary policy – further rate hikes – intensify amid still-high inflation.
- **At its May meeting, the European Central Bank (ECB) normalized monetary policy by slowing rate hike to 0.25% (from 0.50% at previous meetings)** and pausing reinvestment under APP since July. The ECB's latest statement suggests it does not plan to halt the rate hike cycle soon but would take a "data dependent approach" as inflation has remained too high for too long because of very tight labor market conditions and strong wage growth (+5.1% y/y in 4Q22, rising for the sixth consecutive quarter). **To achieve price stability in the medium-term and c.2% inflation rate, we expect the ECB to hike rates further and keep them high for longer. We expect policy rate to peak at 3.75% by year-end.**

China: Positive effects of reopening continue to boost services sector; economic growth is patchy with rising concerns over the sustainability of post-covid recovery

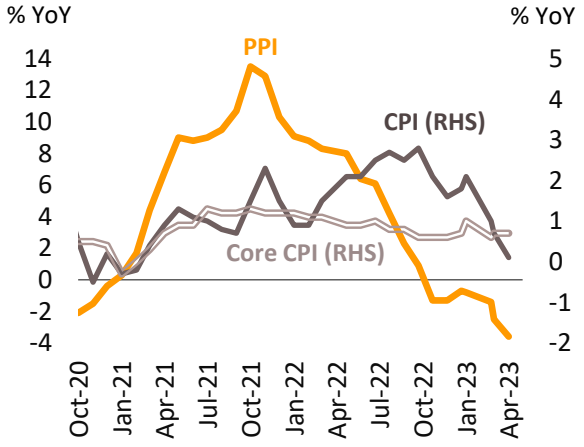
Manufacturing and Services PMI



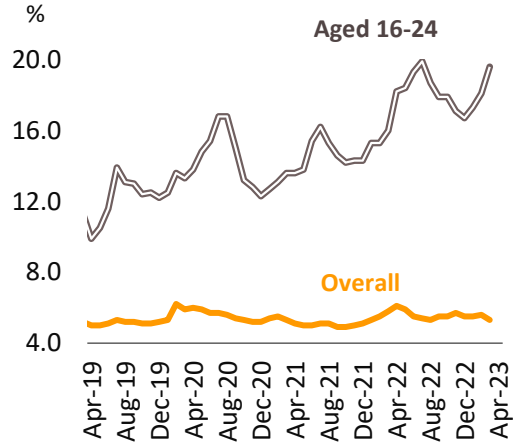
Chinese exports and imports



Inflation: CPI, Core CPI, and PPI



Unemployment Rate



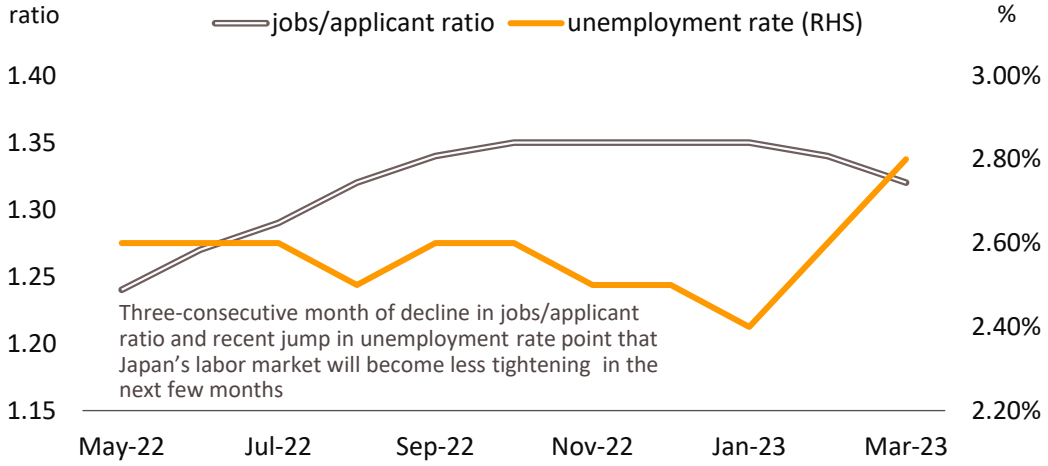
Source: National Bureau of Statistics, Markit Economics, Capital Economics, CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

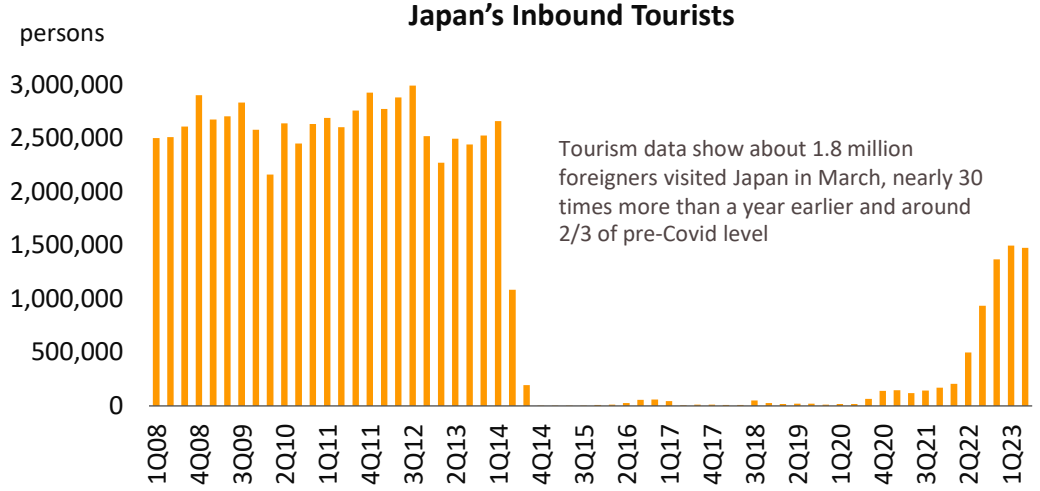
- **Following reopening after three years of pandemic restrictions, we expect China's economy to rebound this year but recovery has been patchy and many industries remain sluggish. However, the positive effects of reopening could boost the economy in 1H23 based on the following key indicators. (i)** China's economy saw a solid start in 2023 with **1Q23 GDP** growing at the fastest pace in a year, at 4.5% YoY (beating 4% market expectation), led by consumer spending (retail sales +10.6% in March and +18.4% in April). (ii) In April, the official **Composite PMI** remained in expansion zone at 54.4, albeit slowing down from 57.0, led by the Services PMI (56.4 vs 58.2). (iii) **Domestic trips** reached 274 mn nationwide during the Labor Day holidays in 2023 (+70.8% YoY), surpassing 2019 level during the same period by 19%.
- **However, China's economic growth has been patchy and recovery remains weak in many industries:**
  - I. **Slowing global economy** will dampen manufacturing activity. **Export growth** slowed down to 8.5% YoY in April from 14.8% in March. April Manufacturing PMI unexpectedly fell below-50, implying manufacturing activity contracted.
  - II. There are **growing concerns over a sustainable rebound in domestic economic activity.** China recorded a larger contraction in **imports** (-7.9% in April vs -1.4% in March) and **inflation is low** (Consumer Price Index +0.1% YoY in April, Producer Price Index -3.6%). **Investment in real estate** fell 6.2% YoY during Jan-Apr. **Jobless rate for 16-24 year olds rose** for the fourth straight month to a record high of 20.4% in April. In addition, **corporate profits have missed** market expectations, falling 21.4% YoY in 1Q led by petroleum & coal, non-ferrous metal smelting & rolling, computers, communication & electronic equipment, and chemical products.
  - III. **New bank loans tumbled** more than expected to 718.8 bn yuan in April (vs 1.4 trn yuan economists' forecast and 3.89 trn yuan in March. This also raised concerns over the sustainability of China's economic recovery when reopening effects fade.

Japan: Inflation is close to peaking amid signs of less tight labor market; overall growth is expected to be flat this year

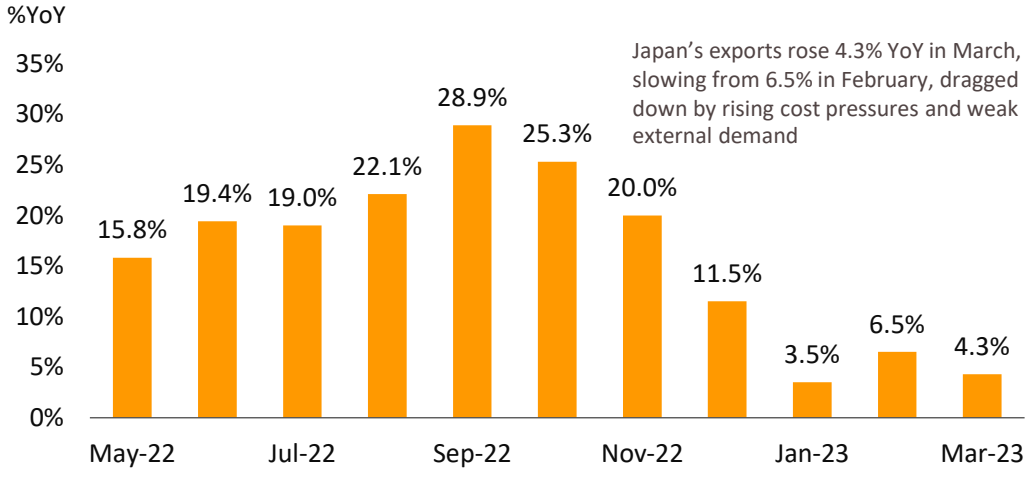
Japan Jobs/Applicant Ratio & Unemployment Rate



Japan's Inbound Tourists



Japan's Export



Source: Japan's Cabinet Office, BOJ, CEIC, investing.com, Bloomberg, Krungsri Research

Krungsri Research's view

- Japan's jobs/applicant ratio has been falling for three consecutive months and unemployment rate has jumped recently. **These could mark a *turning point* for Japan; its tight labor market would ease and help to cool inflationary pressures** by preventing labor costs from surging. Weak economic growth would also support that.
  - In March, Japan's **unemployment rate unexpectedly rose to 2.8% from 2.6% the month before, the highest reading since January 2022. Meanwhile, jobs/applicant ratio has dropped to 1.32 from 1.34, the lowest since August 2022**.
  - In March, **headline inflation rate edged down to 3.2% YoY, the slowest in six months. Core inflation rate rose 3.1% YoY, the slowest in five months**. In addition, Japan' Import Price Index dropped by 1.4% MoM to 161.8, the lowest since March 2022.
- As inflation continue to ease gradually and foreign tourists return following the end of its border control measures in April, these might offset the impact of looser labor market conditions. **Domestic consumption is likely to remain healthy and would mitigate the impact of weaker exports resulting from the global economic slowdown.** However, it might not be sufficient to spur GDP growth in Japan, which we project to be flat this year.
- On the monetary policy front, Bank of Japan (BOJ) governor Ueda Kazuo has indicated he would maintain an ultra-loose policy – especially yield curve control (YCC) policy - until inflation reaches the BOJ's 2% target and is sustainable. **However, the bank is more open to a policy shift in the second-half of the year as ultra-loose policy has disrupted smooth market function and creating larger policy divergence relative to other countries**.

Thailand: Timing of political and policy transition

- **Domestic political developments after the general election will have a major influence on the direction of Thailand's economy.** The former opposition parties, led by Move Forward party (MFP) which secured overwhelming support from voters, are expected to form the next coalition government. **But there is lingering uncertainty:** (i) coalition talks would involve navigating through conflicting policies; (ii) the Senate can influence the selection of the next prime minister as MFP leader Pita still needs at least 66 seats to influence the selection; (iii) Pita's media shares controversy could disqualify him as MP. **If the next government cannot be formed as planned, it would hurt sentiment and delay the implementation of FY2024 budget bill. We are keeping our 2023 GDP growth forecast at 3.3% pending clearer political and economic policy direction.**
- 1Q23 GDP grew 1.9% QoQ sa and 2.7% YoY led by recovering tourism activity and strong growth in the agricultural sector which boosted domestic spending.
- In early 2Q23, foreign tourist arrivals softened because of low season and restricted number of flights. However, there are bright prospects for Thailand's tourism industry supported by a substantial increase in flight slots for Chinese airlines in 3Q.
- Exports shrank less than expected in March but we are maintaining 0.5% growth projection for this year. Exports of some items improved but overall Thai exports will be capped by shrinking exports in major Asian countries and weaker Manufacturing PMI in core countries.
- For private investment, sentiment slipped because of shrinking manufacturing activity. Domestic political situation will influence investment in the next period. Private consumption would be supported by recovering tourism activity which is helping to lift employment. Keep an eye on populist policies under the next government
- Looking at policy rate, although inflation has slowed down to the BOT's target rate for the second consecutive month in April, the BOT expressed it might be appropriate to normalize the policy rate. **We expect the MPC to raise rate at the 31 May meeting from 1.75% to 2.00%. After that, the real policy rate is expected to turn positive for the first time since 2020, allowing the MPC to halt the current rate-hike cycle.**

Krungsri Research Forecasts for 2023

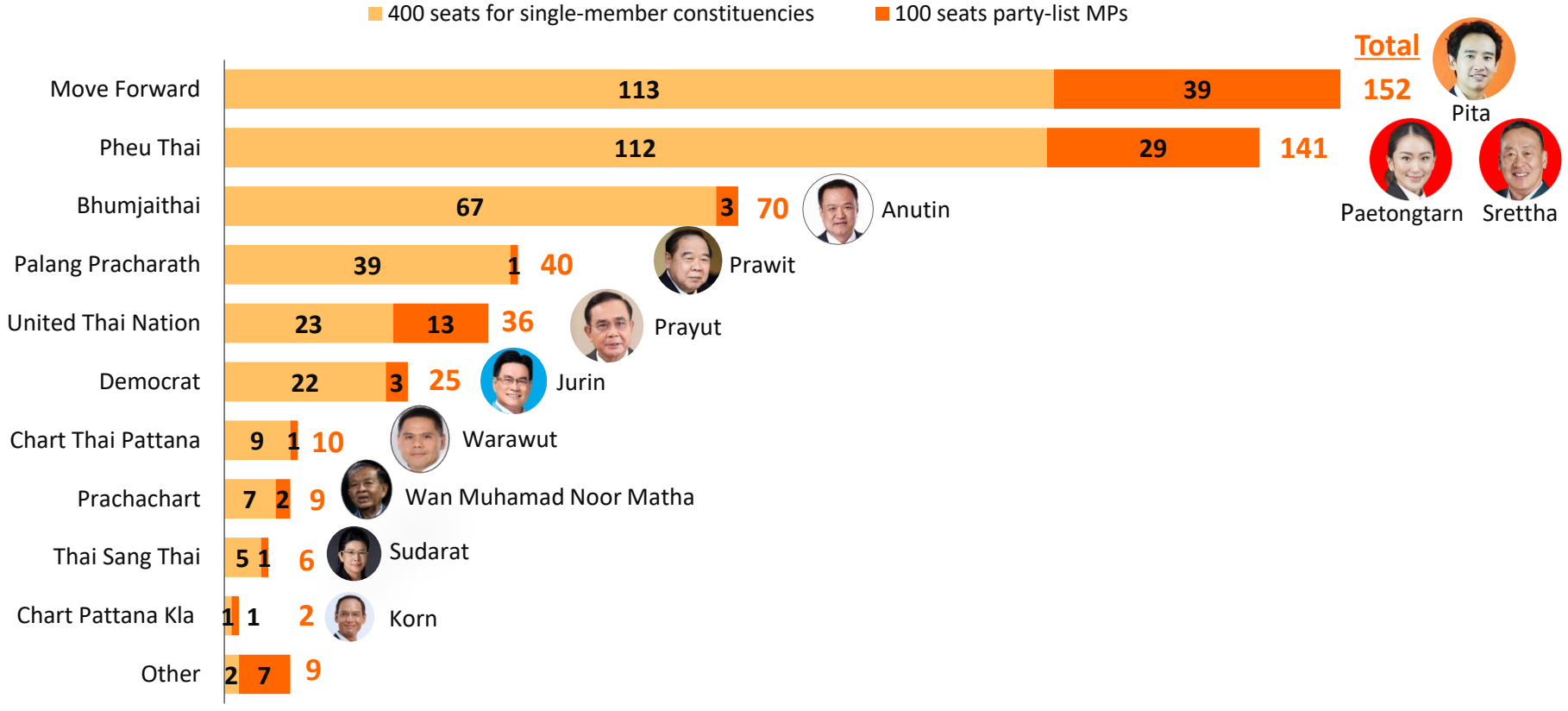
Krungsri Research Forecast		2021	2022	2023F
GDP growth	YoY (%)	1.5	2.6	3.3
Private Consumption Expenditure	YoY (%)	0.6	6.3	3.3
Government Consumption Expenditure	YoY (%)	3.7	0.2	-1.0
Private Investment	YoY (%)	3.0	5.1	2.7
Public Investment	YoY (%)	3.4	-4.9	1.5
Nominal Exports in USD (f.o.b.)*	YoY (%)	19.2	5.5	0.5
Nominal Imports in USD (f.o.b.)*	YoY (%)	27.7	15.3	1.0
Current Account Balance	USD, bn	-10.6	-16.9	8.0
Tourist Arrivals	Mn, persons	0.4	11.1	25-28
Headline Inflation	YoY (%)	1.2	6.1	2.5
Policy Interest rate (end of period)	(%)	0.50	1.25	2.00
Dubai crude price - period average	USD/bbl	69	96	82

Note: * base on BOT data
Source: NESDC, BOT, MOC, MOTS, Bloomberg, Krungsri Research

Thailand's 2023 general election delivered political transition with a strong victory for opposition parties but there is uncertainty over coalition talks

With over 99% of votes counted, the Move Forward Party has won the general election with 113 constituency MP seats and 39 part-list seats, outperforming expectations and polls. It also took 32 of 33 constituency seats in the capital, Bangkok. Move Forward will be the core party to form the next government. Addressing reporters on May 15, Move Forward leader Pita Limjaroenrat said he has reached out to four former opposition parties and one new party to form a coalition government with 310 combined seats in the Lower House, comprising Pheu Thai Party (141 seats), Prachachart Party (9), Thai Sang Thai Party (6), Thai Liberal Party (1) and Fair Party (1). However, coalition talks would take time and the road would be rocky ahead.

Election Result: 500 Seats in Lower House



Note: Unofficial result (count 99.18%)
Source: Office of The Election Commission of Thailand, Krungsri Research

Move Forward and other former opposition parties agree to form next coalition government but the road ahead could be rocky

We summarize two scenarios for the next coalition government. With 99% of votes counted by May 15, Move Forward Party (MFP) and Pheu Thai Party (PTP) are the unofficial winners with 293 seats in the 500-seat Lower House; while Palang Pracharath Party (PPRP) and United Thai Nation Party (UNTP), the former government parties, won about 76 seats in total. However, there is lingering uncertainty over whether the pro-democratic parties would be able to form the next government because parliamentary rules require the 250 members of a military-appointed Senate to vote on the Prime Minister appointment.

***Formular #1: MFP, PTP, and other former opposition parties form next government**

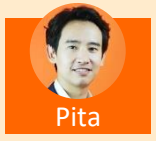
Next government (**310 seats**)

MFP	PTP	TLP	TSTP	PNP	FP
152 seats	141 seats	1 seat	6 seats	9 seats	1 seat

Medium to high probability: MFP and PTP agreed on May 15 to form ruling coalition

Scenarios for the formation of the next coalition government

- MFP, PTP, Thai Liberal Party (TLP), Thai Sang Thai Party (TSTP), Prachachart Party (PNP) and Fair Party (FP) have agreed **to form the next coalition government with 310 seats** in the Lower House.
- **But there is lingering uncertainty: (i) coalition talks** would involve navigating through conflicting policies between MFP and PTP; **(ii) the Senate is a powerful bloc which can influence the selection of the next prime minister** as MFP leader Pita **still needs at least 66 seats** to influence the selection; (iii) Pita's media shares controversy could disqualify him as MP. **If the next government cannot be formed as planned, it would hurt sentiment and delay the implementation of FY2024 budget bill.**
- **Candidates for next PM:**







***Formular #2: PTP, PPRP and other former government parties form next government**

Next government (**296 seats**)

PTP	PPRP	BJTP	Democrat Party	Other parties
141 seats	40 seats	70 seats	25 seats	20 seats

Low to medium probability: Concerns over public dissatisfaction

Scenarios for the formation of the next coalition government

- **Despite the overwhelming win by opposition parties, led by MFP, they might not be able to form the next government if there is** weak support from Senators or serious conflicts in MFP and PTP policies. In this case, PTP might join hands with PPRP and other government parties to form the government with support from military-appointed senators.
- **The election results show Thais want change and democratic reform, and the return of military backed-parties, like PPRP, could cause widespread public fury and lead to street protests,** which will hurt confidence.
- **Candidates for next PM:**







Source: Local Press, Krungsri Research

The two main political parties expected to form the next coalition government are focusing on boosting domestic spending, which could raise fiscal burden

	Key policies	 Move Forward	Pheu Thai 
Consumption	Cash in hand:	☑ **Welfare: children THB1,200/month, elderly THB3,000/month (worth THB526 bn)**	☑ **Digital wallet THB10,000 per person, Spend within 6 months (worth THB550 bn)**
	Wage	☑ **THB450 daily minimum wage, increase every year**	☑ **THB600 daily minimum wage by 2027** ☑ **THB25,000 minimum for employees with at least a bachelor's degree**
	Farmers	☑ Returning 10 million rai of land, and giving title deeds to Sor Por Kor landholders	☑ **3-Year, debt moratorium** ☑ **Increase farm income 3 times by 2027**
	Others	☑ THB0.70/unit cut in electricity bill ☑ **THB5,000 coupon for job training (1 million workers)**	☑ **Raise minimum household income to THB20,000 per month**
Investment	Digital economy	☑ Focus on Chip industry	☑ Thailand is ASEAN's Blockchain Hub and FinTech Center
	Infrastructure	☑ Electric buses in every province, Drinkable tap water	☑ High-speed train China-Thailand-Singapore
	Special Economic Zones	☑ Waive tax for Thai SMEs which invest in the EEC, grant soft loans, and help SMEs penetrate the global market	☑ Set up “New Business Zones” to support start-ups and SMEs
	Tourism	☑ Budget to provincial and sub-district levels to support development plans such as public spaces, tourism zones or local transportation. ☑ Adjust the accommodation acts to enable all type of accommodation to be listed in the system; Promote Thailand's soft power by subsidizing film makers	☑ Develop one new landmark per district nationwide ☑ Develop medical tourism and healthcare landmarks ☑ Make Thailand a regional transportation hub with 120 mn passengers per year ☑ Improve facilities at airports to reduce long queues
	Others (Green, SMEs, jobs)	☑ Create 1 million jobs ☑ 100,000 baht investment fund for each SME and boost the TCG operating fund to 20 bn a year to guarantee more loans for SMEs. ☑ Reduce corporate tax for SMEs to 0-15%, reduce their utility bills	☑ Loan-guarantee system for SMEs by upgrading the Thai Credit Guarantee Corporation (TCG) to play that role ☑ Cut electricity bills for SMEs ☑ Draw in more FDI to integrate SMEs into manufacturing supply chains
Politics & others	Social	☑ Safe school	☑ Solve PM2.5
	Politics	☑ Amend Charter; anti-coup bill; election of governors in all provinces; fight corruption ☑ MFP will not join any coalition that includes military political parties	☑ Amend Charter, anti-coup bill ☑ Fight corruption
	Others	☑ Abolish military conscription ☑ Strengthen anti-monopoly laws to spur innovation	☑ Abolish military conscription

Source: Local Press, TDRI, Krungsri Research

2023 General Election timeline: Next government expected to be formed by August, which means there could be delays in approving and implementing FY2024 budget bill

That is less than two months before the 2024 fiscal year (starting October 1, 2023). So, there is risk of a delay in approving and implementing the FY2024 budget bill. In the 2019 election, the government was formed in early July but the FY2020 budget bill (which should start on October 1, 2019) was delayed by 3-4 months and only approved in January 2020.

Election timeline and budget bill approval: 2023 vs 2019

2023 Election

Mar'23 | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan'24

FY 2024

1. **14 May: General election**
2. **Early Jul:** Election results certified (within 60 days after election)
   End Jul: New parliament sitting and appointment of President of the Parliament (within 15 days after election results are certified)
3. **Early Aug:** New PM is elected
   Aug: New cabinet is appointed
4. ? With less than two months to approve the FY2024 budget bill, which is scheduled start on 1 October 2023, there is **risk of a delay** in approving and implementing the budget

2019 Election

Mar'19 | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan'20

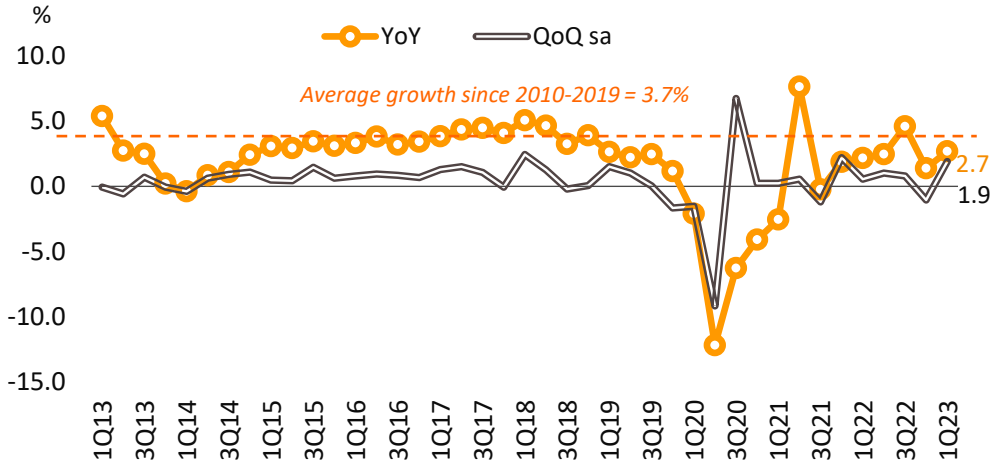
FY 2020

1. **24 Mar: General election**
2. **9 May:** Election results are certified
   24 May: New parliament sitting and appointment of President of the Parliament
3. **5 Jun:** New PM is elected
   10 Jul: New cabinet is appointed
4. In 2019, the new government took more than two months to approve FY2020 budget bill, but it was only implemented in Jan 2020, after **a delay of 3-4 months**.

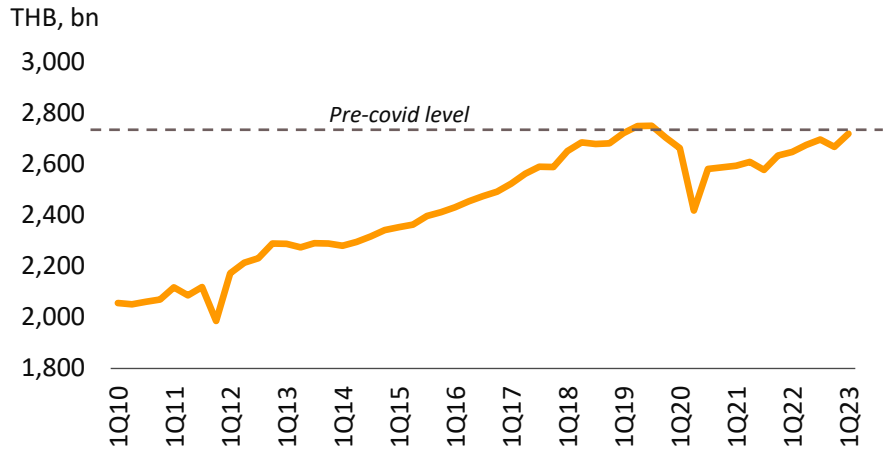
Source: Local Press, Krungsri Research

1Q23 GDP grew 1.9% QoQ sa and 2.7% YoY driven by recovering tourism activity and strong agricultural sector which boosted domestic spending

Thailand's GDP growth



Real GDP (sa)

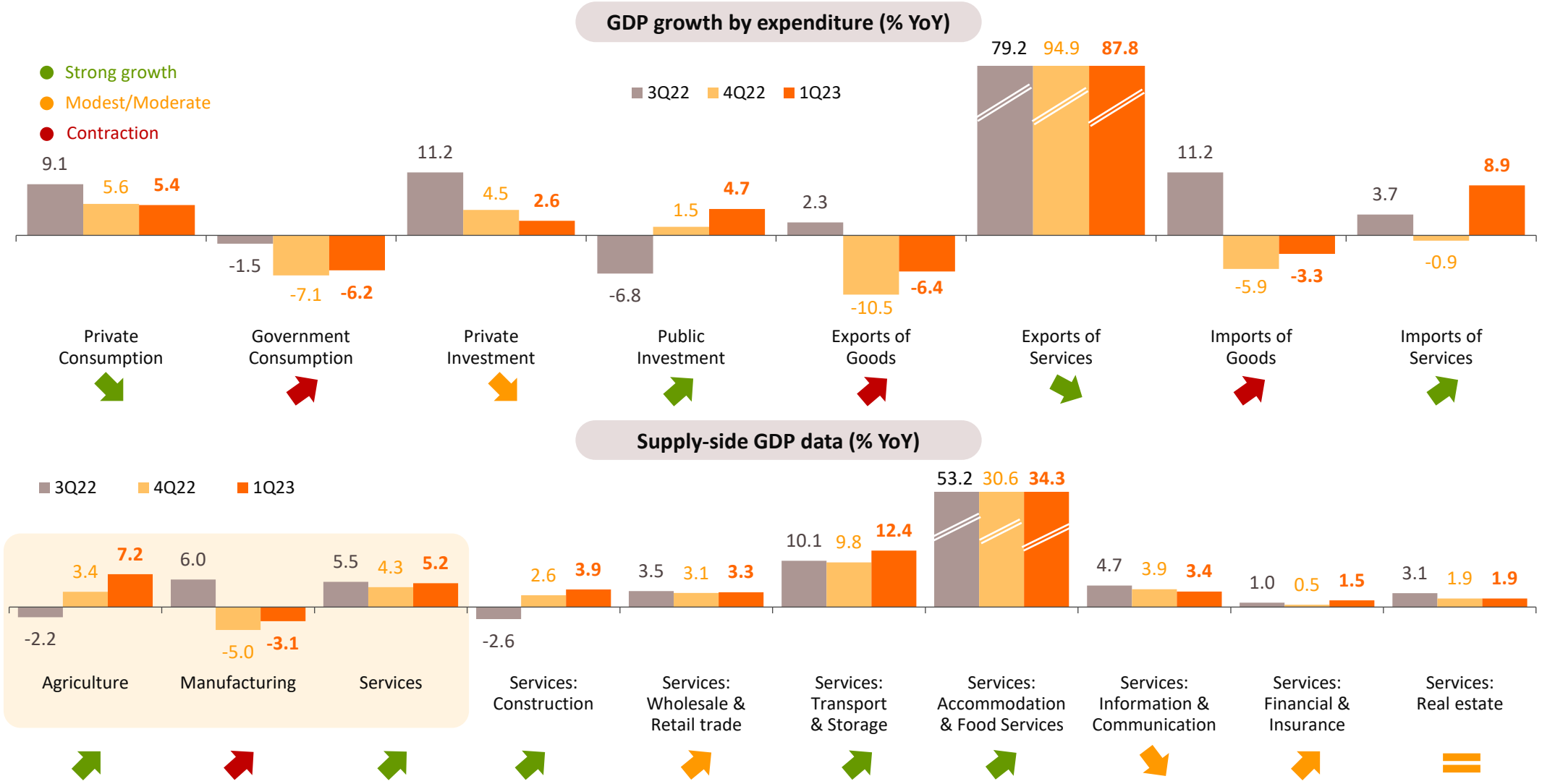


Krungsri Research's view

- **The recovering tourism sector and domestic spending will be the key drivers of the Thai economy. 1Q23 GDP expanded by +2.7% YoY in 1Q23, up from +1.4% in 4Q22.** It was also slightly stronger than consensus estimate of +2.3% and our projection of +2.2%. This was driven by (i) recovering inbound and domestic tourism activity, (ii) improving private consumption amid higher employment and rising farm income, and (iii) higher public investment. Private investment rose at a slower pace in both the construction sector and machinery equipment. Merchandise exports and public consumption continued to shrink in 1Q23.
- **On the supply side, 1Q23 GDP growth was driven by agriculture (+7.2% YoY in 1Q23 vs +3.4% in 4Q22) and services sector (+5.2% vs +4.3%),** led by accommodation & food service activities (+34.3%), transportation & storage (+12.4%) and information & communication (+3.4%). However, due to a contraction in goods exports (-6.4%), the industrial sector posted a contraction (-3.1%).
- **We are keeping 2023 GDP growth projection at +3.3% pending the formation of the next government and clearer policy direction.** 1Q23 GDP grew 1.9% QoQ sa, close to our projection of +1.8%. Thailand avoided a technical recession as the economy had contracted 1.1% in 4Q22. For the rest of this year, the Thai economy will continue to recover led by the tourism sector. However, political developments following the general election would influence the direction of the economy. The former opposition parties, led by Move Forward party (MFP) which secured overwhelming support from voters, are expected to form the next coalition government. **But there is lingering uncertainty: (i) coalition talks** would involve navigating through conflicting policies; **(ii) the Senate can influence the selection of the next prime minister** as MFP leader Pita still needs at least 66 seats to influence the selection; **(iii) Pita's media shares controversy** could disqualify him as MP. **If the next government cannot be formed as planned, it would hurt sentiment and delay the implementation of FY2024 budget bill.**

Source: NESDC, Krungsri Research

Strong recovery in tourism and private consumption supported 1Q GDP growth; agriculture and services sectors continued to expand but manufacturing shrank again amid weak exports

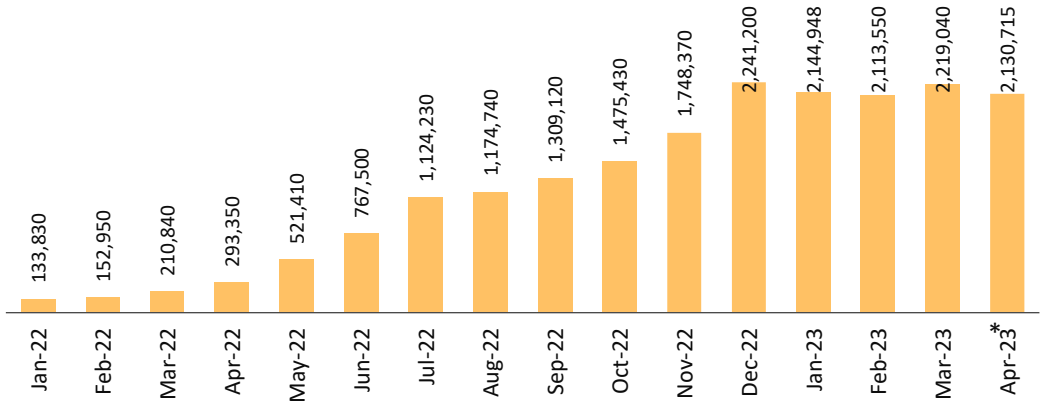


Source: NESDC, Krungsri Research

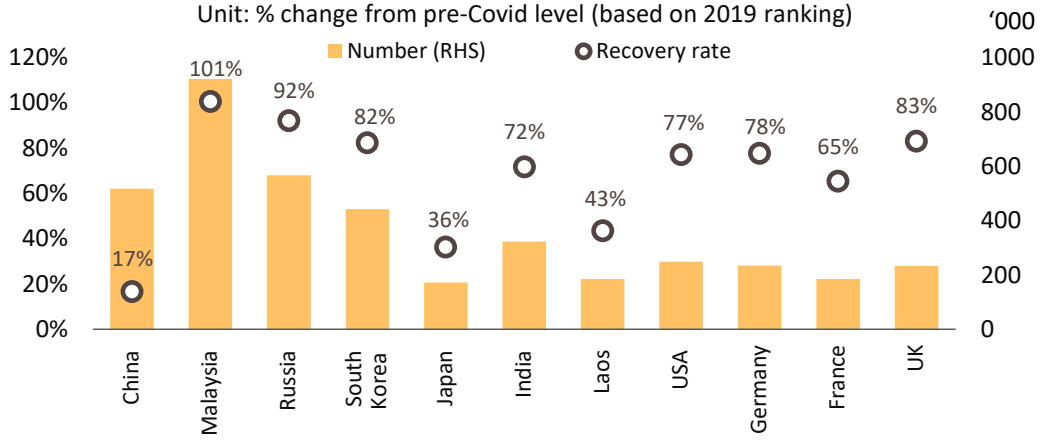
Tourism sector: Foreign tourist arrivals softened in early 2Q23 because of low season and restricted number of flights

Preliminary data from the Tourism Authority of Thailand show the country welcomed 2.13mn foreign tourists in April, down from 2.22 mn in March. **In the first four months of this year, tourist arrivals reached 8.60mn or 61% of pre-Covid level (2019)**. **They generated THB353 bn receipts (53% of pre-Covid level).** In the first quarter of 2023, arrivals from Malaysia, Russia, South Korea, and the UK had reached 80-100% of pre-pandemic levels. Chinese tourists are returning slowly (preliminary TAT data shows 843,920 Chinese tourists visited Thailand in the first four months, or 21% of pre-Covid level) but that would rise in 2H23 as the Civil Aviation Authority of Thailand (CAAT) will increase flight slots for Chinese airlines from 152 weekly flights to 327 in June, 450 in July, and 452 in September.

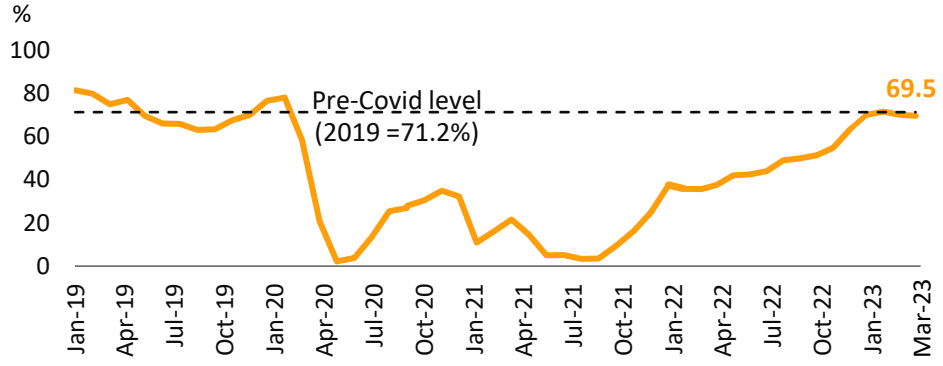
Foreign tourist arrivals reached 8.60 mn in 4M 2023



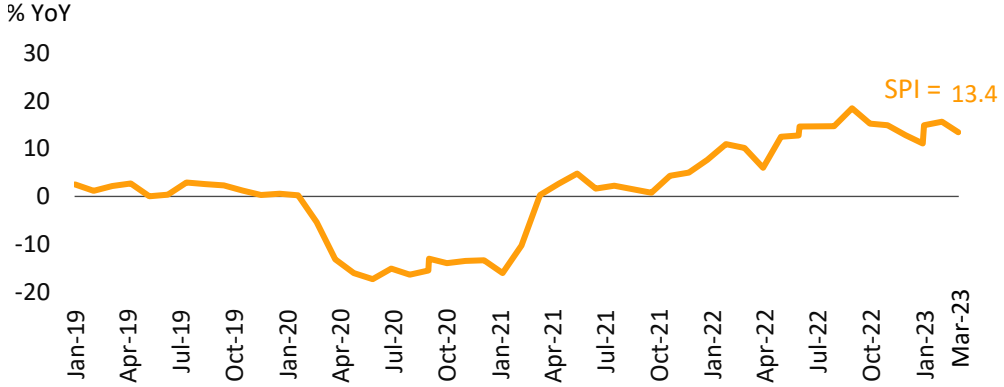
Recovery in international arrivals (Jan-Mar 2023)



National average occupancy rate has returned to pre-Covid level in 1Q2023



Recovering tourism activity contributed to the continuous expansion of the Services Production Index (SPI)

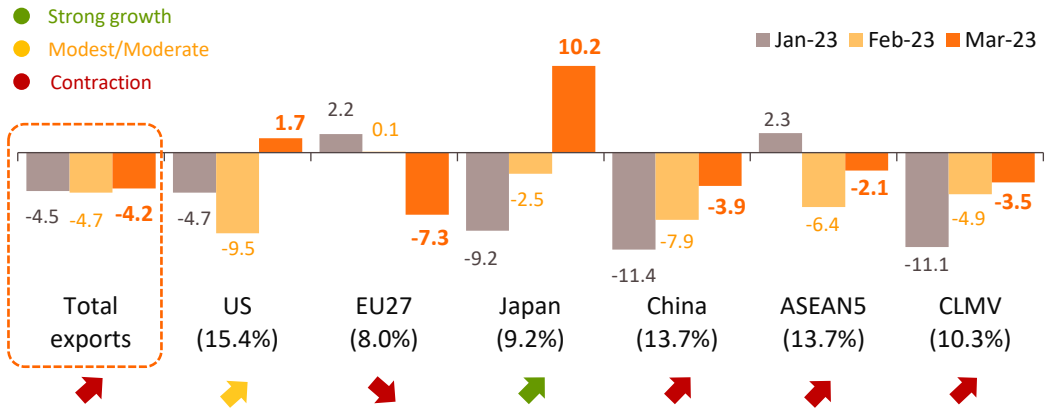


Note: * preliminary data

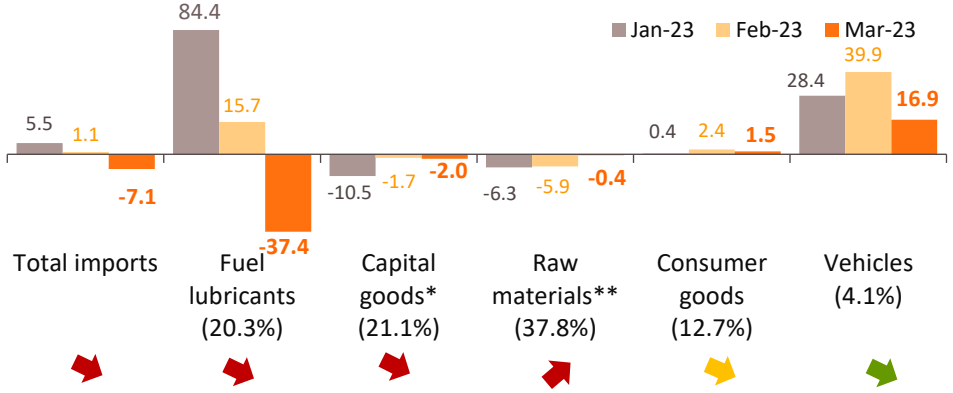
Source: MOTS, CEIC, Krungsri Research

Exports shrank less than expected in March, we maintain 0.5% growth for this year

Exports by major destination (%YoY)

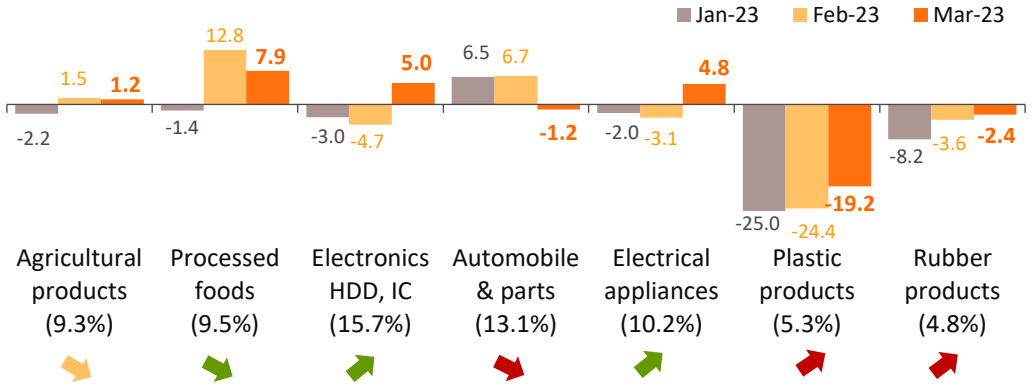


Imports by major product (%YoY)



* Capital goods excl. aircraft, ship ** Raw materials exclude gold

Exports by major product (%YoY)



Krungsri Research's view

- **In March, merchandise export value fell for the sixth consecutive month, by 4.2% YoY to USD27.7 bn.** This was better than the 14% contraction expected by the market and export value is at a 1-year high. Excluding oil and gold, exports expanded by 1.3%. Exports to major markets improved with smaller magnitude of decline in exports to China, ASEAN, and CLMV, while those to the US and Japan have started to grow again. By sector, exports grew 4.2% for agricultural and agro-industrial goods, but export of industrial goods contracted for the 6th consecutive month by 5.9%.
- The improvement in March takes Thai export value to close to its historic high of USD 28.9bn recorded in March 2022, and this has helped to lift 1Q23 exports to a total of USD 70.3bn (down 4.5% YoY). For the rest of 2023, exports will benefit from China reopening, easing supply chain disruptions, and stronger demand for food and agricultural products in overseas markets. Nevertheless, the export sector will be affected by weaker global manufacturing activity, effects of tighter monetary policies on demand in major economies, and slowing pent-up demand in China. ***On this note, we expect the value of Thai exports to increase by only 0.5% in 2023.***

Note: (% share in 2022)
Source: MOC, Krungsri Research

Export of some items improved but overall exports will be capped by shrinking exports in major Asian countries and weaker Manufacturing PMI in core countries

Easing global supply chain disruption and China's reopening have helped to boost some the export of some products such as cars & parts, electrical appliances and fresh, frozen & dried fruit. ***Looking ahead, there are discouraging signs with major Asian countries registering shrinking exports and weakening Manufacturing PMI in core countries.***

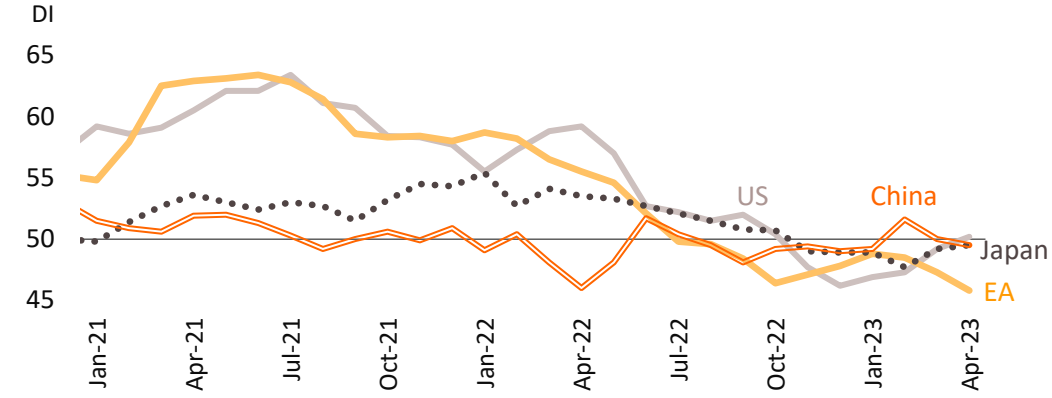
Thai exports by major product and destination

Thailand: March's export growth (% YoY)	World	US (17%)	EU (8%)	Japan (9%)	China (12%)	ASEAN-5 (14%)	CLMV (11%)
Total	**-4.2**	**+1.7**	**-5.3**	**+10.2**	**-3.8**	**-2.1**	**-3.5**
Cars & parts (9.8%)	+1	+2	+117	+25	-38	+7	+27
Computer & parts (7.2%)	-6	+8	-1	+1	-63	+52	+60
Rubber products (4.8%)	-2	-21	-17.3	+11.1	+27	-6	-14
Plastic resin (3.7%)	-21	+2	-7.0	-7	-26	-25	-25
Chemical products (3.3%)	-19	-32	+20	-8	-40	-17	-18
Electronic IC (3.3%)	-1	-1	+24	+3	-1	-8	+57
Fresh, frozen & dried fruit (2.0%)	+94.5	+34	+25	-29	+138	-13	-39
Rubber (1.8%)	-41	-60	-51	-36	-22	-62	-17
Electrical appliances (1.7%)	+29	+27	+0	+6	-4	+14	+66
Plastic products (1.6%)	-16	-25	-16	-4	-7	-19	-8
Tapioca products (1.5%)	+6	+26	-17	-0	+4	-31	+11
Rice (1.4%)	+7	-18	+43	+102	-12	+203	+68
Preserved fish, crustaceans (1.3%)	-8	-19	-10	+11.6	+32	+7	+15
Sugar (1.1%)	+74	-11	-	+115	-23	+105	-32

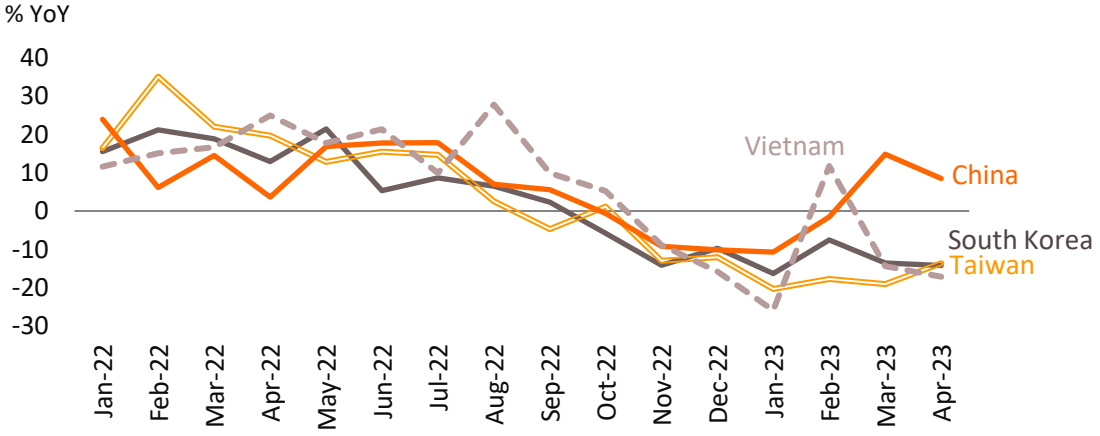
Note: (% share in 2022)

Source: MOC, CEIC, Krungsri Research

Manufacturing PMI in core countries are softening



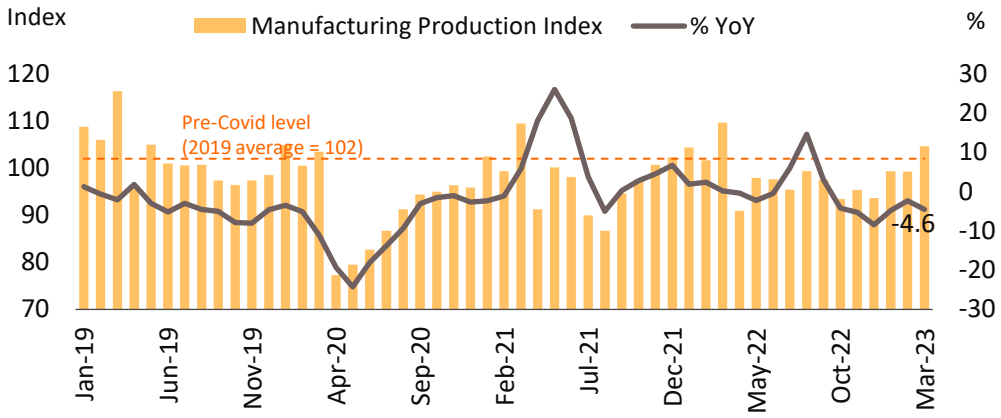
Exports of major Asian countries remained weak in April



Manufacturing production was affected by weak export sector but got a boost from recovering domestic demand and tourism activity

The Manufacturing Production Index fell for the 6th straight month in March, by 4.6% YoY. Despite being hurt by weak exports, there are tailwinds from recovering tourism activity and expanding domestic demand; these helped to bolster some industries such as food & beverage, petroleum and automotive. Overall capacity utilization remained below pre-pandemic level but there are some industries which capacity utilization has returned to pre-COVID level. ***Looking ahead, Krungsri Research expects general election activities and recovering tourism activity to support manufacturing in some industries.***

Manufacturing Production Index



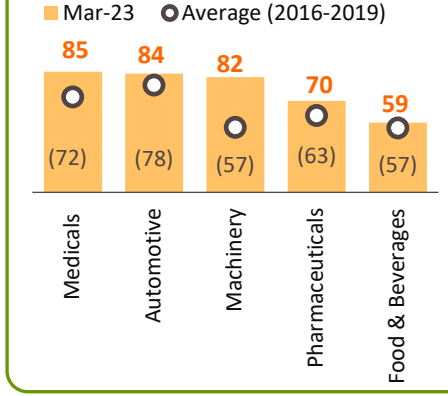
Manufacturing production growth

Manufacturing Production (%YoY)*	Weight	2021 J	F	M	A	M	J	J	A	S	O	N	D	2022 J	F	M	A	M	J	J	A	S	O	N	D	2023 J	F	M
All industry	100.0%																											**-4.6**
Food & Beverages	20.3%																											-5.9
Automotive	13.8%																											+6.7
Petroleum	9.5%																											+6.1
Chemicals	9.1%																											-7.3
Rubbers & Plastics	8.8%																											-2.4
Cement & Construction	5.5%																											-0.8
IC & Semiconductors	5.5%																											-6.1
Electrical Appliances	3.8%																											+1.0
Textiles & Apparels	3.5%																											-21.0
HDD	3.4%																											-30.8

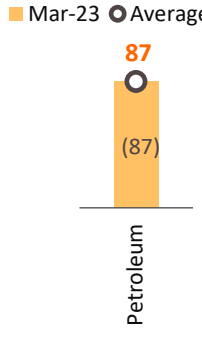
**Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum*

Capacity utilization by sector (%)

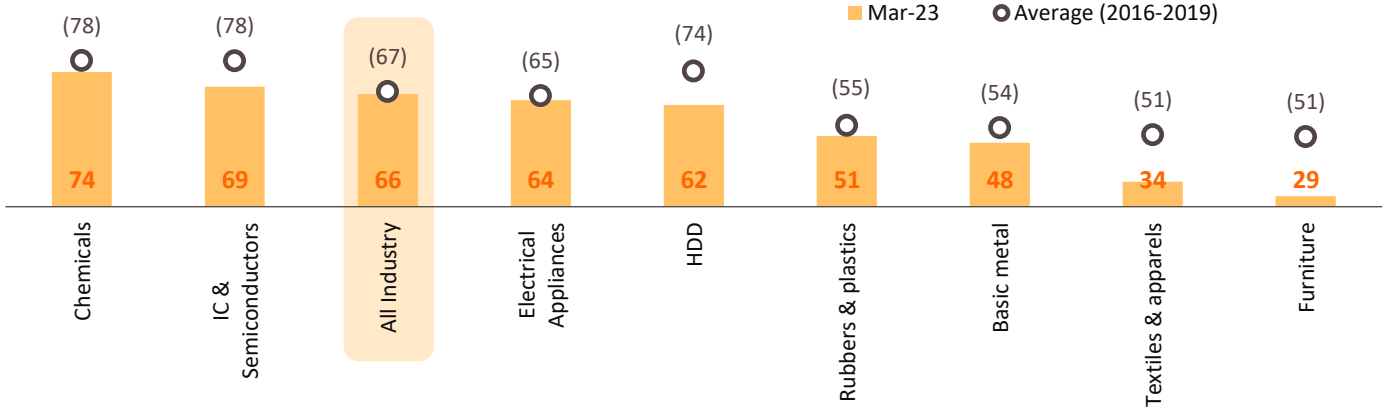
Above pre-COVID level



Approaching pre-COVID level



Below pre-COVID level

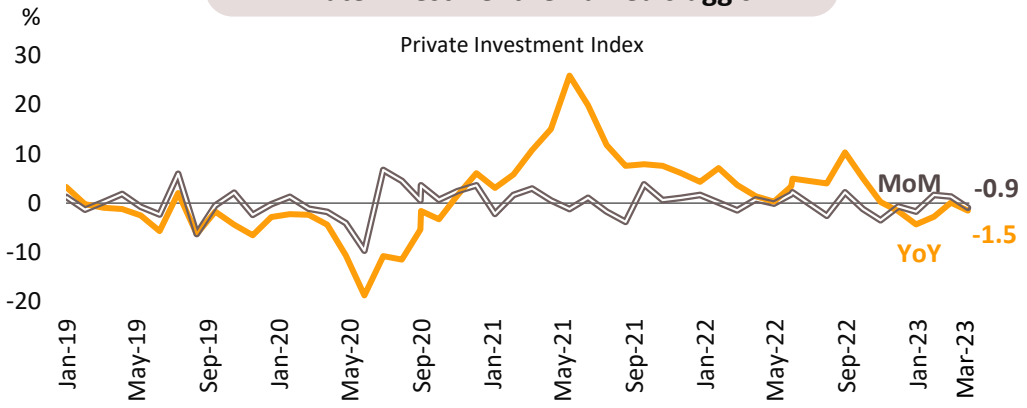


Source: OIE, Krungsri Research

Private investment: Sentiment slipped because of shrinking manufacturing activity; domestic political situation will influence investment in the next period

Private Investment Index turned to contract 1.5% YoY and 0.9% MoM in March. Weaker business sentiment in the manufacturing sector pushed down business sentiment index to 50.1 in April from 52.9 in March, amid concerns exports would be hurt by slowdown in trading partners' economies. Nonetheless, there are lingering tailwinds, as evidenced by the Ministry of Commerce's report which revealed Thailand had approved 174 investment projects by overseas investors in 1Q23 (+19% YoY) with a combined value of THB 33,048mn (+25%), mainly from Japan, China and Singapore. The BOI announced that Changan Auto, China's 4th biggest auto manufacturer, plans to establish an EV production facility in Thailand with an investment of THB 9,800mn. ***Looking ahead, the political situation and economic policy direction could have significant impact on business confidence and investment in the next period.***

Private investment remained sluggish

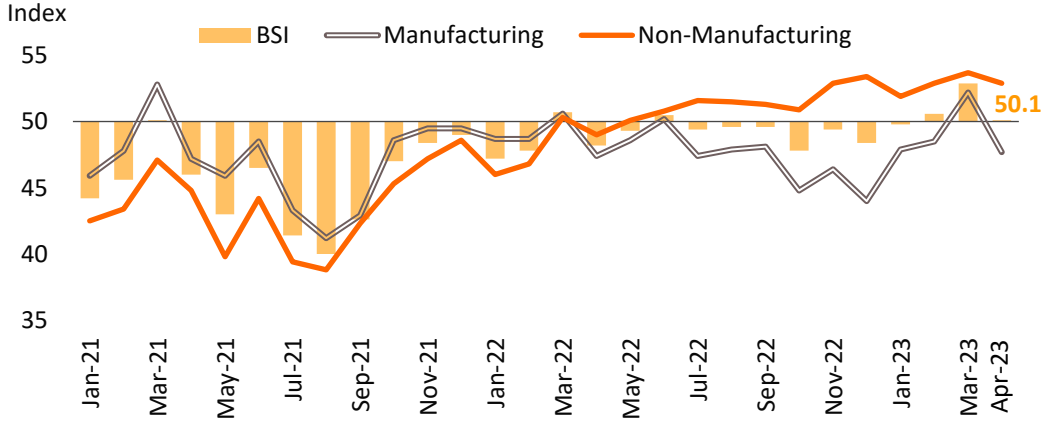


Private Investment by category

%YoY*	2021 J	F	M	A	M	J	J	A	S	O	N	D	2022 J	F	M	A	M	J	J	A	S	O	N	D	2023 J	F	M
Private investment																											-1.5
Construction area permitted																											-10.2
Construction material sales																											-0.7
Imports of capital goods																											-3.6
Machinery sales																											+1.1
Newly registered vehicles																											-17.7

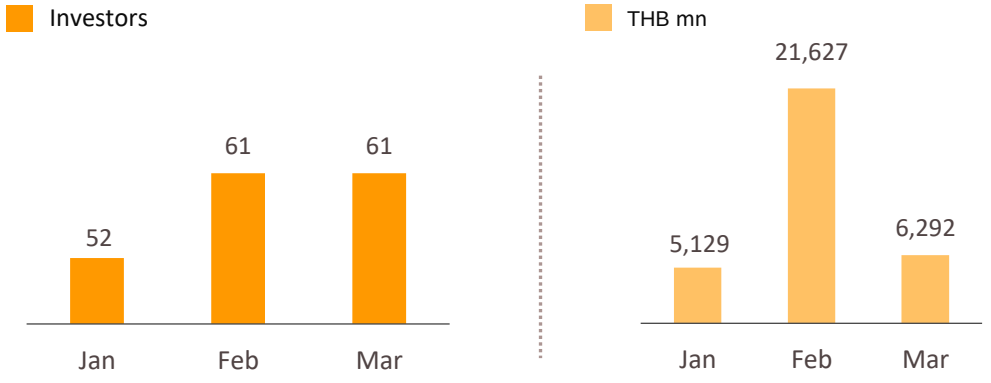
**Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum*

Business Sentiment Index fell for the first time in four months



Total foreign investments in Thailand in 1Q23

(reported by Commerce Ministry)

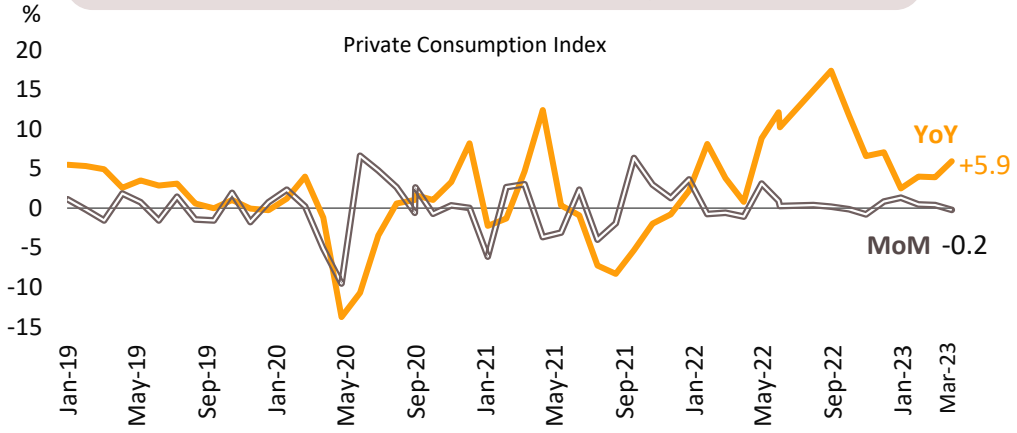


Source: MOC, BOT, Krungsri Research

Private consumption was supported by recovering tourism activity, which helped to lift employment; keep an eye on populist policies under the next government

Private Consumption Index rose 5.9% YoY in March and there was improvement in all categories driven by recovering tourism activity, rising employment in the services sector which reduced unemployment rate to pre-pandemic level, improving confidence, and the May general election. ***In addition, stimulus measures under the next government are expected to boost consumer sentiment and domestic consumption.*** However, rising interest rates and high household debt might cap consumption growth.

Private consumption was stable vs the previous month

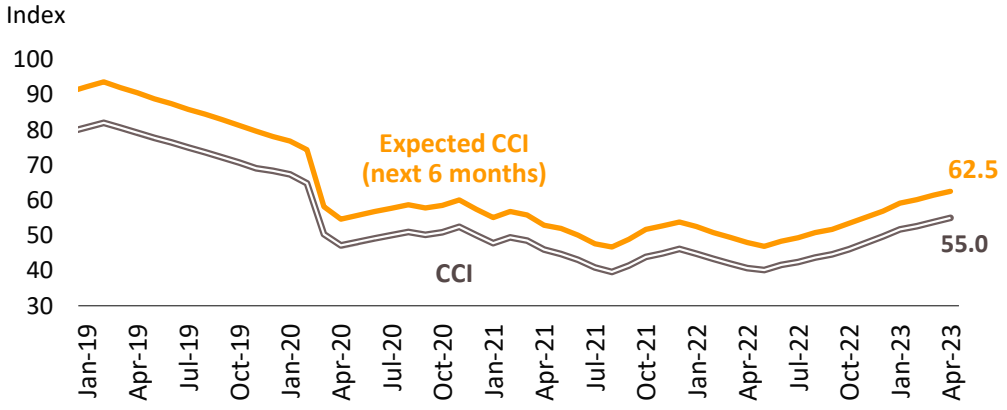


Private consumption expanded across all categories

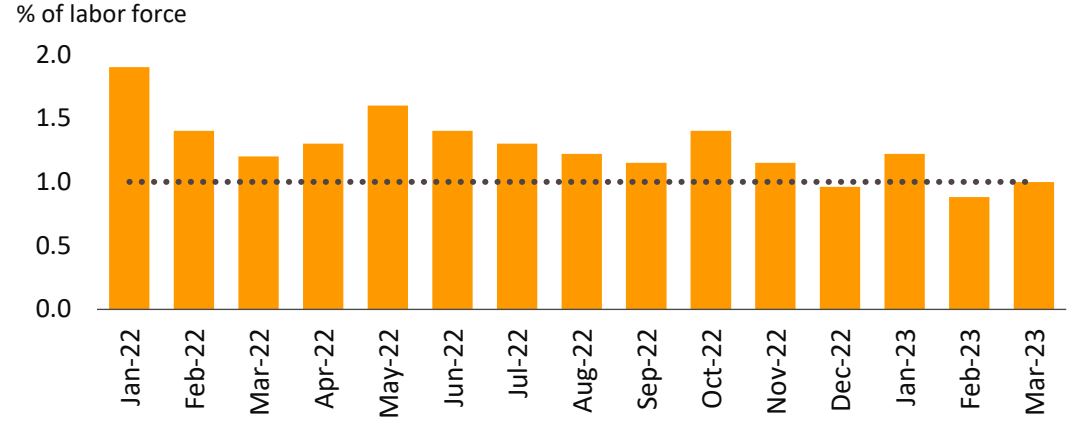
%YoY*	2021												2022												2023		
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M
Private consumption																											+5.9
Non-durables																											+2.6
Semi-durables																											+0.7
Durables																											+3.0
Services																											+28
Non-residents expenditure																											+522

**Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum*

Consumer confidence hit a 38-month high in April



Unemployment rate dropped to pre-COVID level of 1% in March

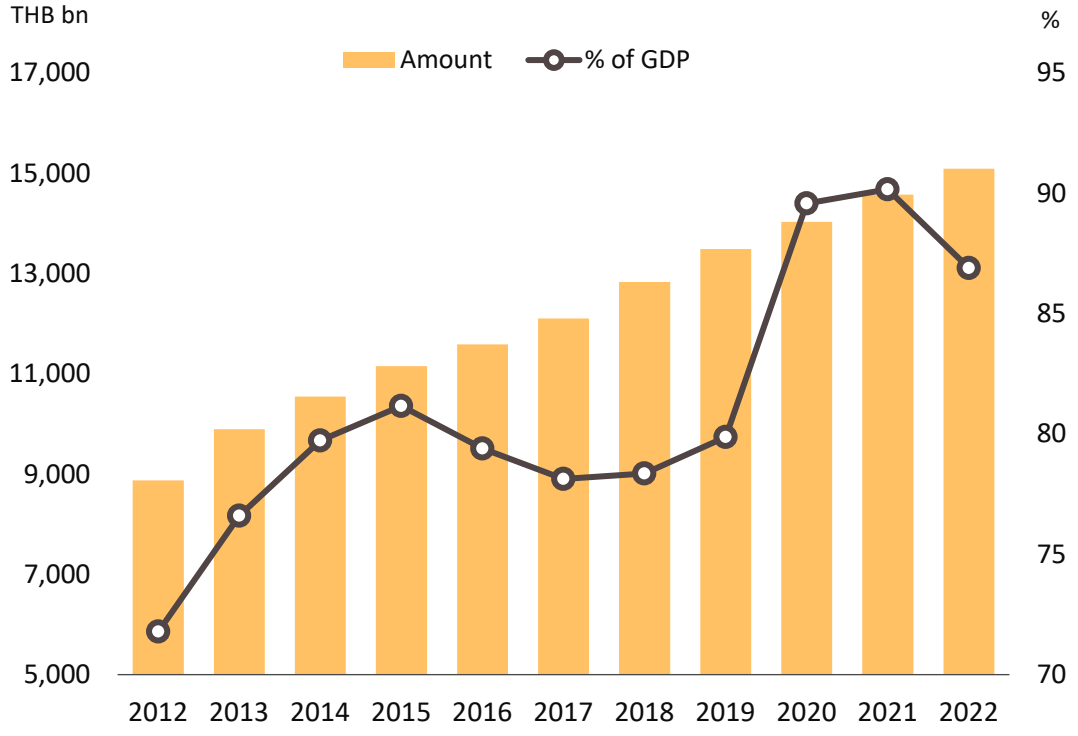


Source: BOT, UTCC, NSO, Krungsri Research

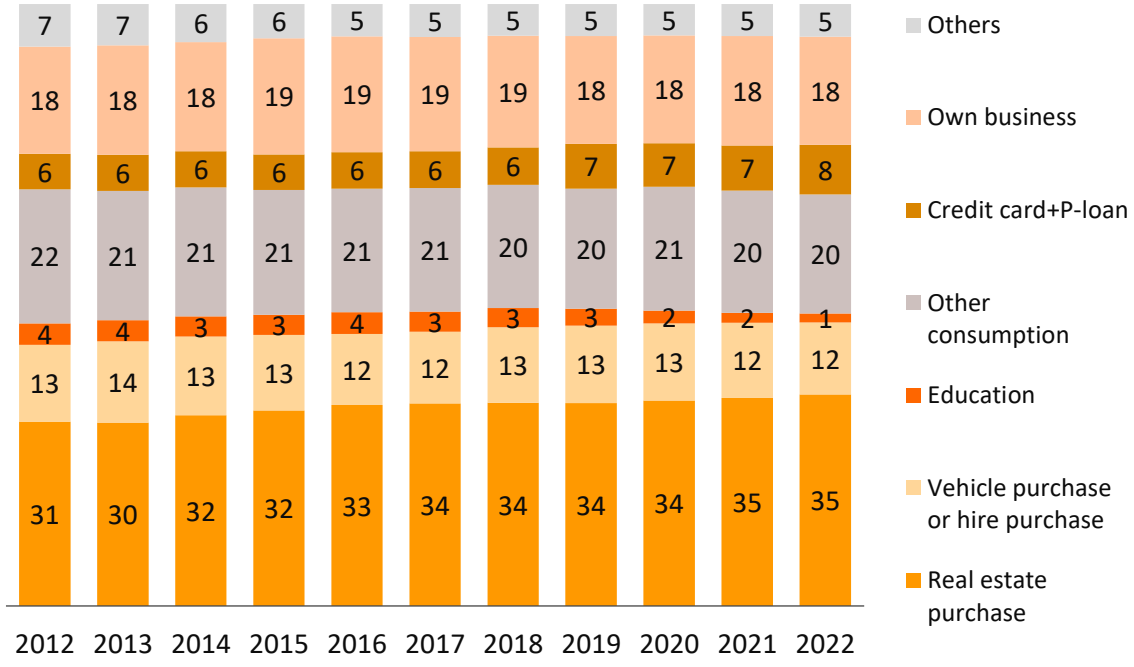
Household debt remains high at 87% of GDP and several household segments remain fragile

Household debt reached THB15.1 trn at end-2022, representing 86.9% of GDP (vs THB14.6 trn or 90.2% of GDP at end-2021). The ratio is higher than 79.9% pre-Covid level. Real estate loans account for 35% of total household debt, followed by loans for own business (18%), and hire purchase loans for vehicles (12%). The share of non-collateralized loans, especially credit card and personal loans has increased to 8.0% of total household debt in 2022 from 6-7% average over the past decade and registered 14% YoY growth in 4Q22. Overall household debt rose at a slower rate of 3.5% at end-2022 compared to +3.9% in 2021. ***We forecast household debt to GDP ratio will decrease gradually following the economic recovery in Thailand. However, some households with high debt levels are vulnerable to shocks.***

Thailand's household debt



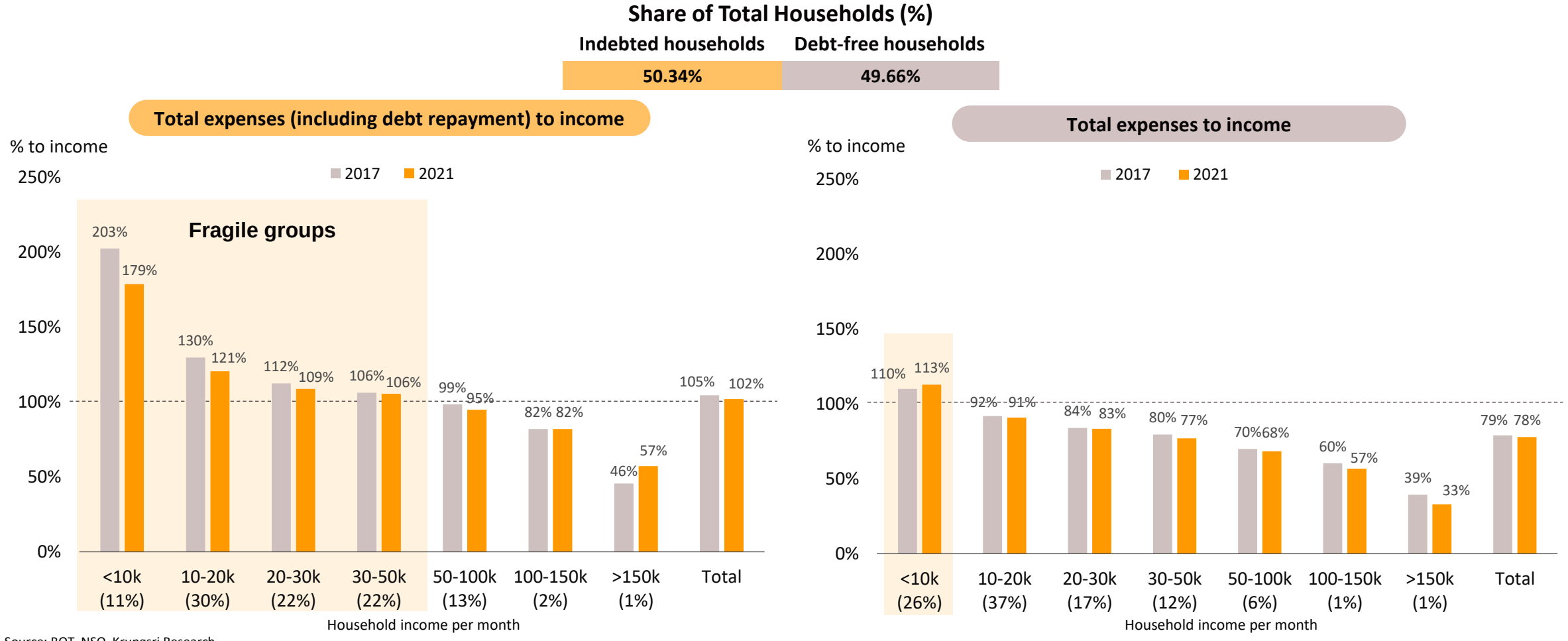
Structure of household debt (% share)



Source: BOT, CEIC, Krungsri Research

85% of indebted households and 26% of debt-free households have *weak borrowing power,* but other households have the ability to borrow more

We measured the borrowing capacity of several household groups in Thailand by looking at income, money deposits, expenses, and debt repayment. The result suggests indebted households with monthly income below THB50,000 and debt-free households with monthly income below THB10,000 have weak borrowing power as total expenses including debt repayments exceed their income. This group accounts for 85% of indebted households and 26% of debt-free households. However, households with high monthly income (more than THB50,000 for indebted households) and debt-free households (except those with monthly income below THB10,000) have room to borrow more.

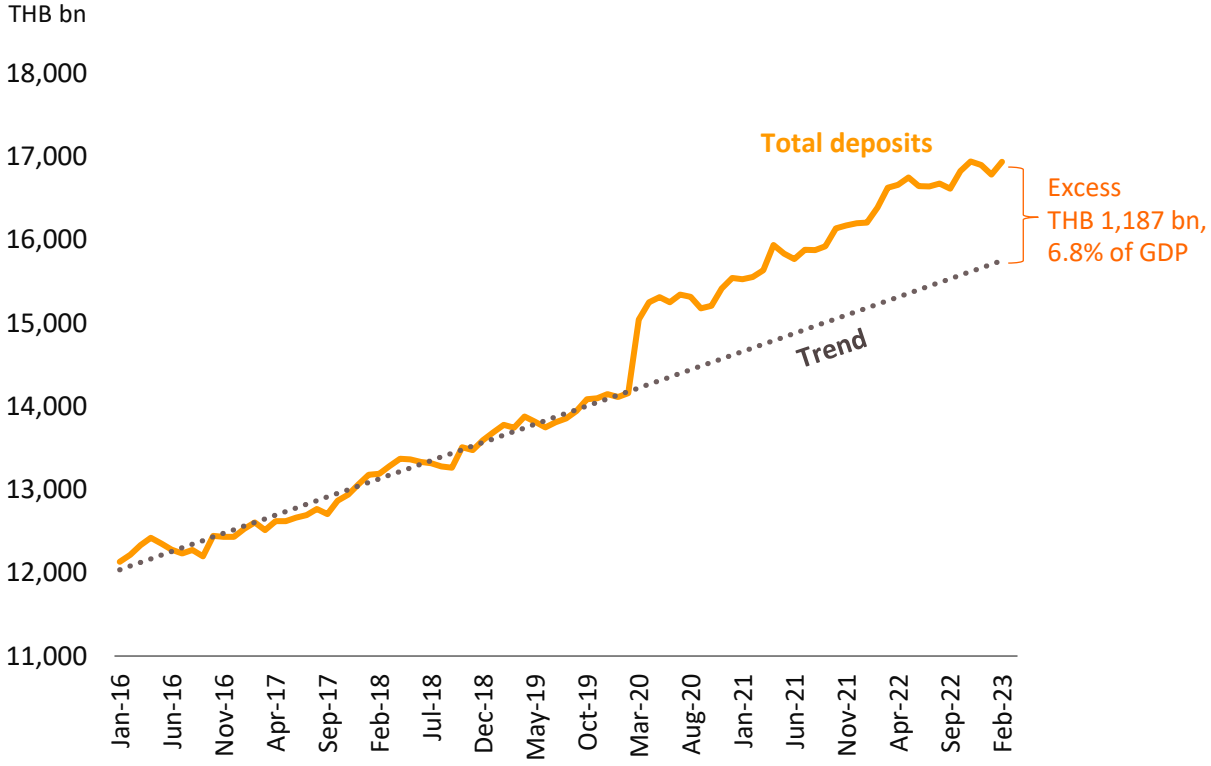


Source: BOT, NSO, Krungsri Research

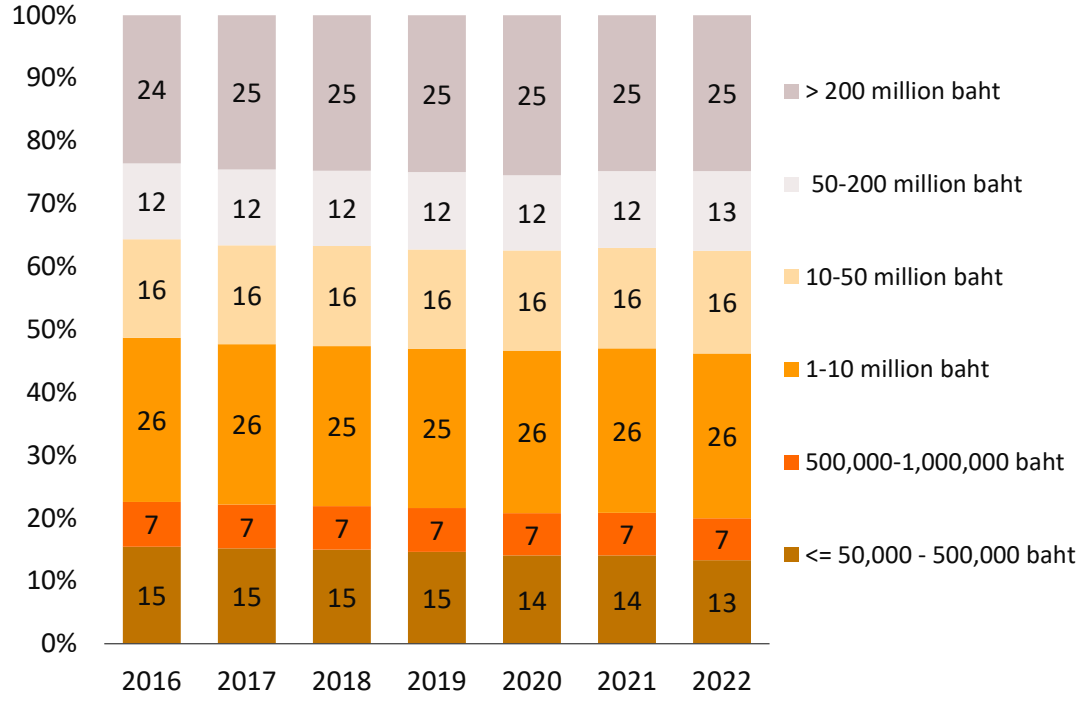
Since the pandemic, total *bank deposits* have expanded above trend by THB1.187 trn to account for 6.8% of GDP, which would support household consumption ahead

Total outstanding bank deposits stood at THB16.9 trn at end-2022, a 4.3% increase from the previous year and higher than THB 14.1 trn at the end of 2019 (pre-pandemic). Deposits with outstanding balance of 1-10 million baht accounted for the largest share at 26% of total bank deposits. At end-February, total deposits stood at THB16.94 trn and there was THB1.187 trn excess deposits. ***This excess deposits would help some household groups to maintain their spending power.***

Total deposits at commercial banks



Deposits classified by outstanding



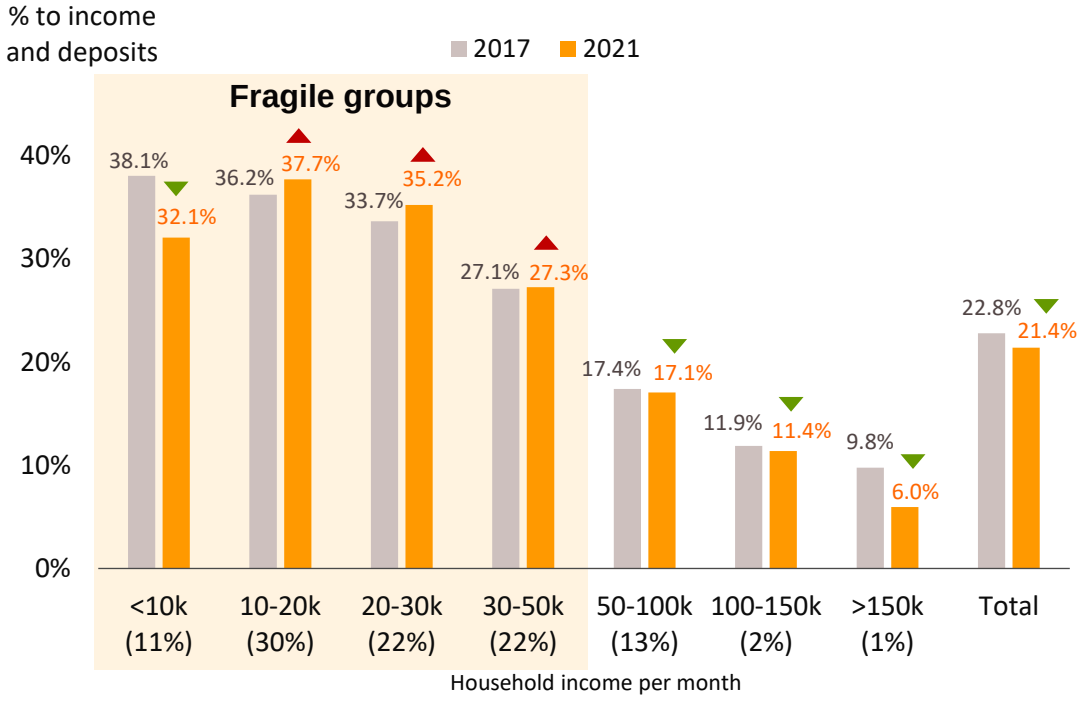
Source: BOT, Krungsri Research

Including deposits, indebted households with income below THB50,000 still experience financial stress, suggesting *limited ability to spend*

To measure the spending capacity of households by their income level, **we considered money deposits as the most liquid asset** in addition to income. Looking at the ratio of total expenses (including debt repayment) to income and deposits, **indebted households with monthly income below THB50,000 (85% of indebted households) are likely to experience financial stress due to relatively low liquidity. This group's expenses account for up to 30% of income and deposits,** implying they can spend and repay debts for only 3 years. And expenses have risen following the pandemic, which has pushed up the ratio of total expenses (including debt repayment) to income and deposits. Meanwhile, **household groups with high monthly income (more than THB50,000) and all debt-free households are in healthier financial positions, with** liquidity – income and deposits – remaining relatively high to to finance their expenses and debt repayments for more than 5 years. After the pandemic, most of these households also saw a drop in the ratio of total expenses to income and deposits, implying greater ability to spend.

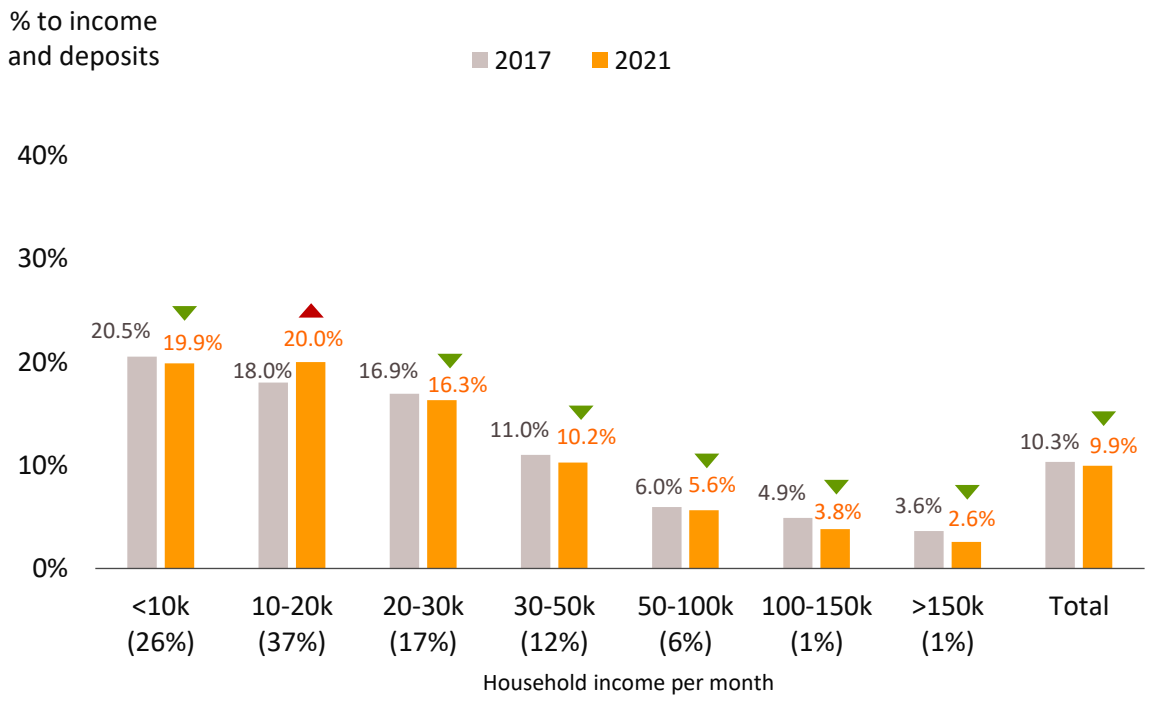
Indebted Households

Total expenses (including debt repayment) to income & deposits



Debt-Free Households

Total expenses to income & deposits



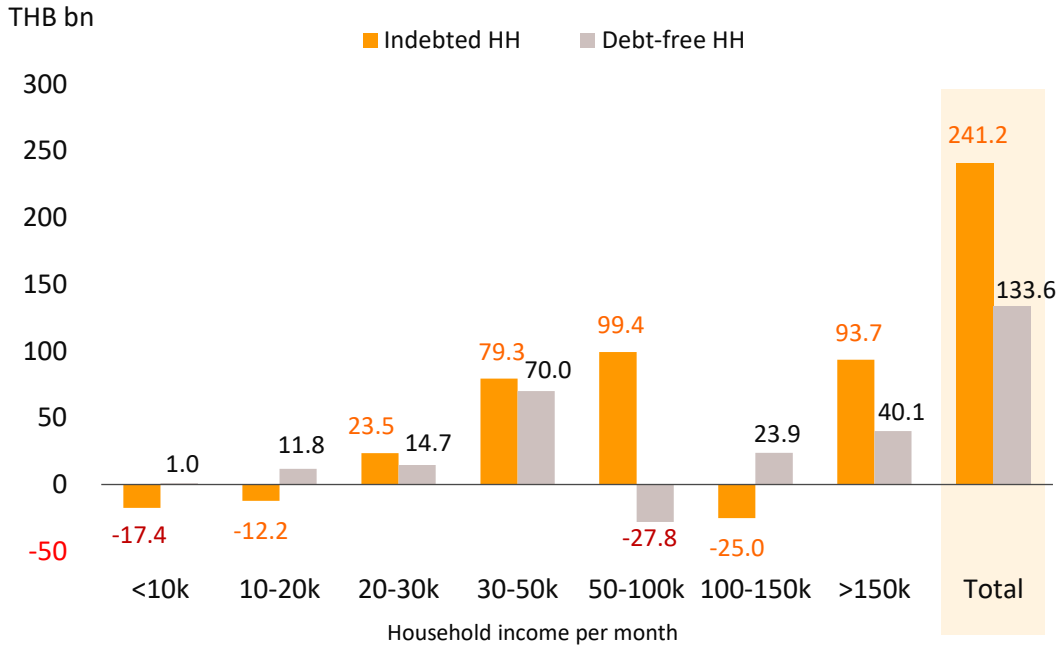
Source: BOT, NSO, Krungsri Research

Higher *net wealth* post-pandemic (2.2% of GDP) have supported borrowing and spending capacity, particularly for high-income households

Looking deeper at households' net wealth, by assessing their total liquidity (comprising income, deposits, investment and other financial assets) less total expenses (including debt repayments), we found **most households - particularly the high-income group - are wealthier than before the pandemic.** The net wealth of households in Thailand has risen by a total of THB375bn (accounting for 2.2% of GDP), suggesting greater room for borrowing and spending, especially the high-income group. But despite this, we remain cautious of the big increase in outstanding debt post-pandemic as that could increase their burden in the future.

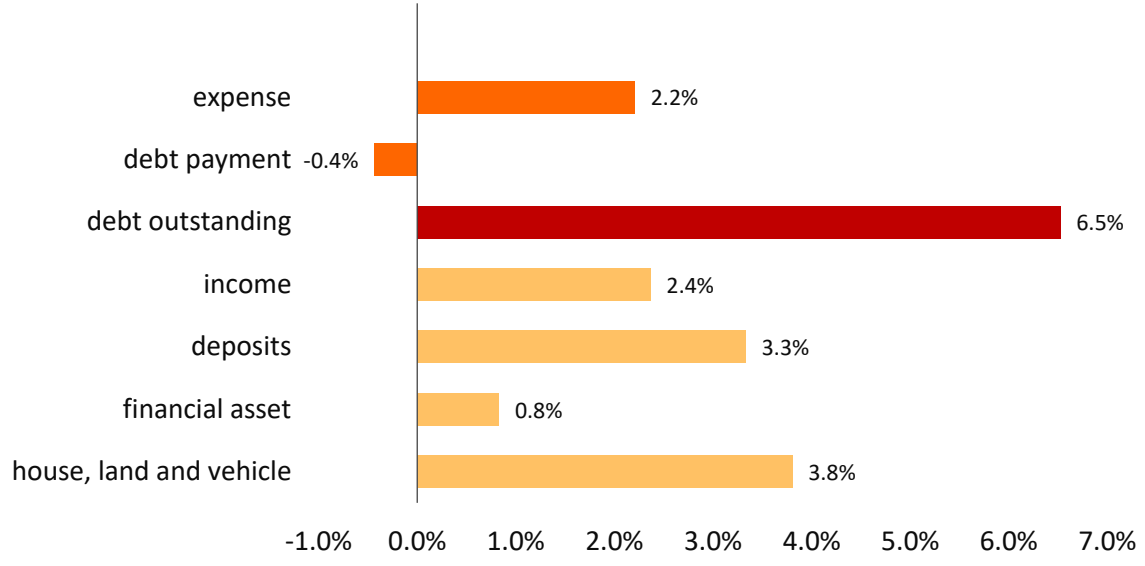
Change in net wealth of households after Covid-19*

Total liquidity (comprising income, deposits, investment and other financial assets) less total expenses (including debt payment)



Change in household debt, expenses, income and assets

(CAGR during 2017-2021)

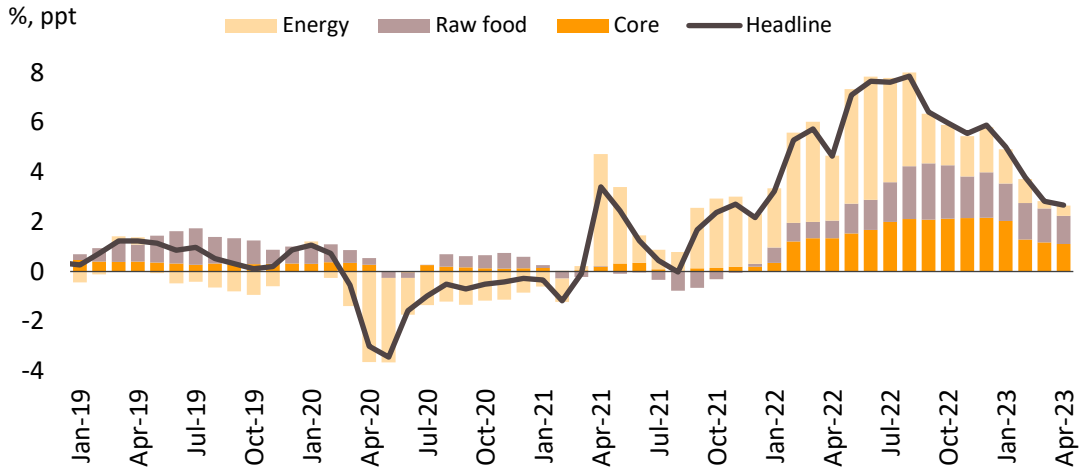


Note: *During 2017-2021

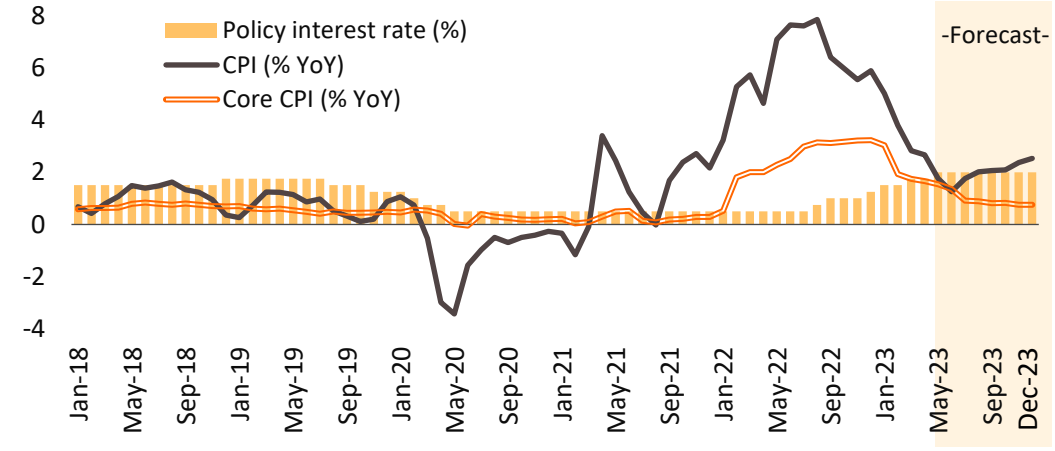
Source: BOT, NSO, Krungsri Research

MPC might raise interest rate to 2% at the May meeting; after that, real interest rate is expected to turn positive

Contributors to inflation



Policy interest rate, Consumer Price Index (CPI), Core CPI



Source: MOC, Krungsri Research

Consumer Price Index: Major categories

Consumer Price Index (% YoY)*	Weight	2021 J	F	M	A	M	J	J	A	S	O	N	D	2022 J	F	M	A	M	J	J	A	S	O	N	D	2023 J	F	M	A
Headline CPI	**100.00%**																												**2.7**
Food & beverages	41.46%																												4.5
Apparel & footwears	2.07%																												0.3
Housing & furnishing	22.25%																												3.0
Medical & personal care	5.41%																												1.8
Transportation & communication	23.30%																												-0.1
Recreation & education	4.19%																												1.5
Tobacco & alcoholic beverages	1.33%																												0.7
Raw food	20.95%																												5.5
Energy	14.32%																												3.3
Core CPI	**64.73%**																												1.7

** Red > 0%, Green < 0% / Darker colors indicate stronger momentum*

Krungsri Research's view

- **In April, headline inflation eased for the fourth straight month to 2.67% YoY** vs Krungsri Research's (and consensus) estimate of 2.70%. It slowed down from 2.83% in March following a mild increase in domestic fuel prices following global oil prices and lower prices of fresh foods on a monthly basis. Core inflation (which excludes raw food and energy prices) fell to 1.66% in April from 1.75% in March. For 4M23, headline and core inflation stood at 3.58% and 2.09%, respectively.
- **Headline inflation is likely to slow down to below 2% YoY in May,** due to high price base in May 2022 and low global oil prices (lower than the previous year). Inflation was also pushed up by the year-on-year surge in fuel price, drought which might affect agriculture output and prices, and improving domestic demand in line with recovering tourism activity as well as government stimulus measures. ***Krungsri Research will maintain 2023 headline inflation forecast at 2.5%.***
- Looking at policy rate, although inflation has slowed down to the BOT's target rate for the second consecutive month in April, the BOT expressed it might be appropriate to normalize policy rates given the continuing growth of the Thai economy and risk from demand-pull inflationary pressure. Given the recovering domestic economic activity, better-than-expected export data, and the BOT's concern over sticky core inflation, ***we expect the MPC to raise rate at the 31 May meeting from 1.75% to 2.00%. After that, the real policy rate is expected to turn positive for the first time since 2020, and allow the MPC to halt the current rate-hike cycle.***

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