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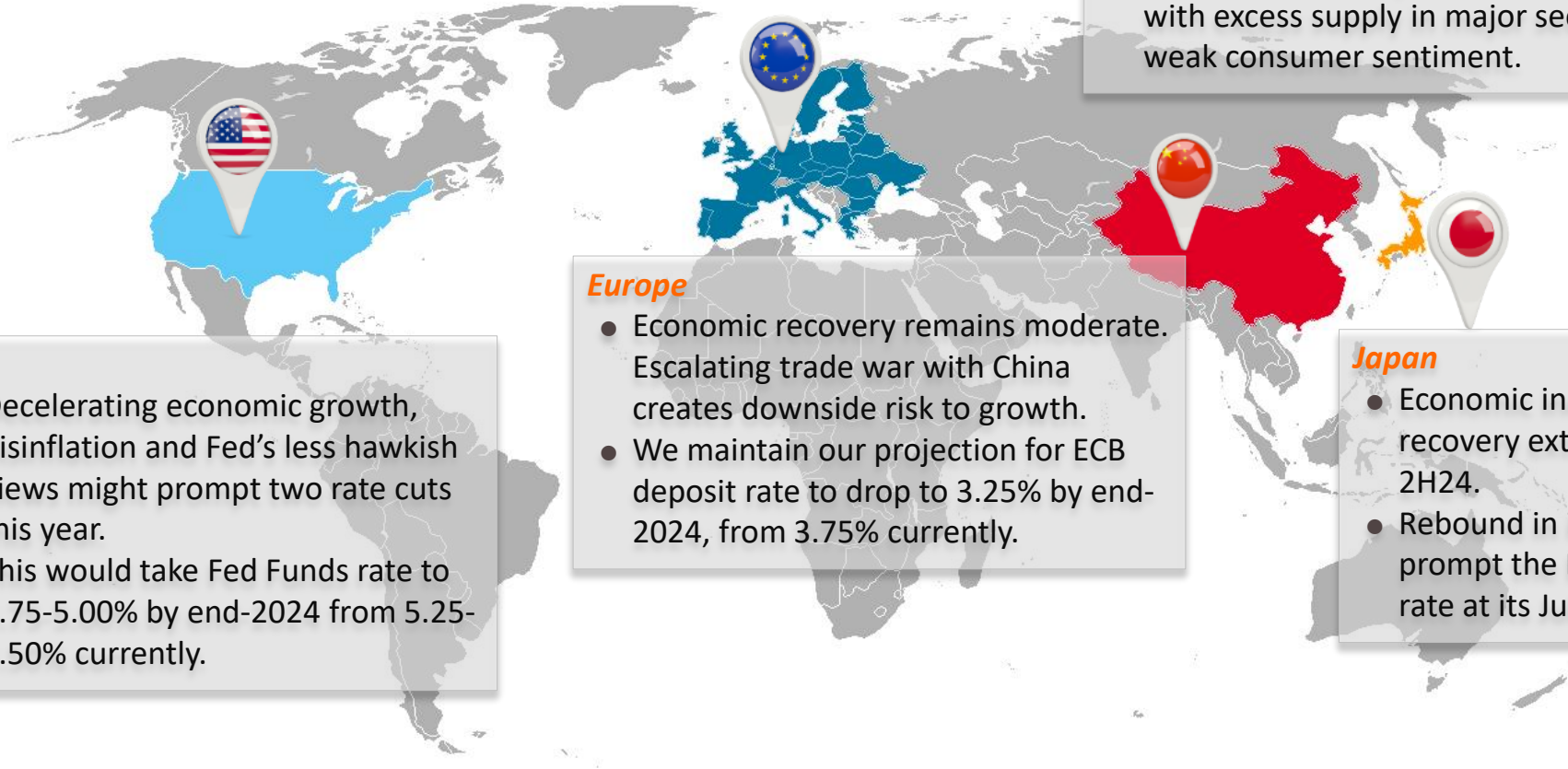
MONTHLY ECONOMIC BULLETIN

July 2024



Krungsri Research

Global: Cyclical drivers, structural drags



China

- Despite some easing in the real estate sector, economic recovery would be limited and uneven with excess supply in major sectors and persistent weak consumer sentiment.

Europe

- Economic recovery remains moderate. Escalating trade war with China creates downside risk to growth.
- We maintain our projection for ECB deposit rate to drop to 3.25% by end-2024, from 3.75% currently.

US

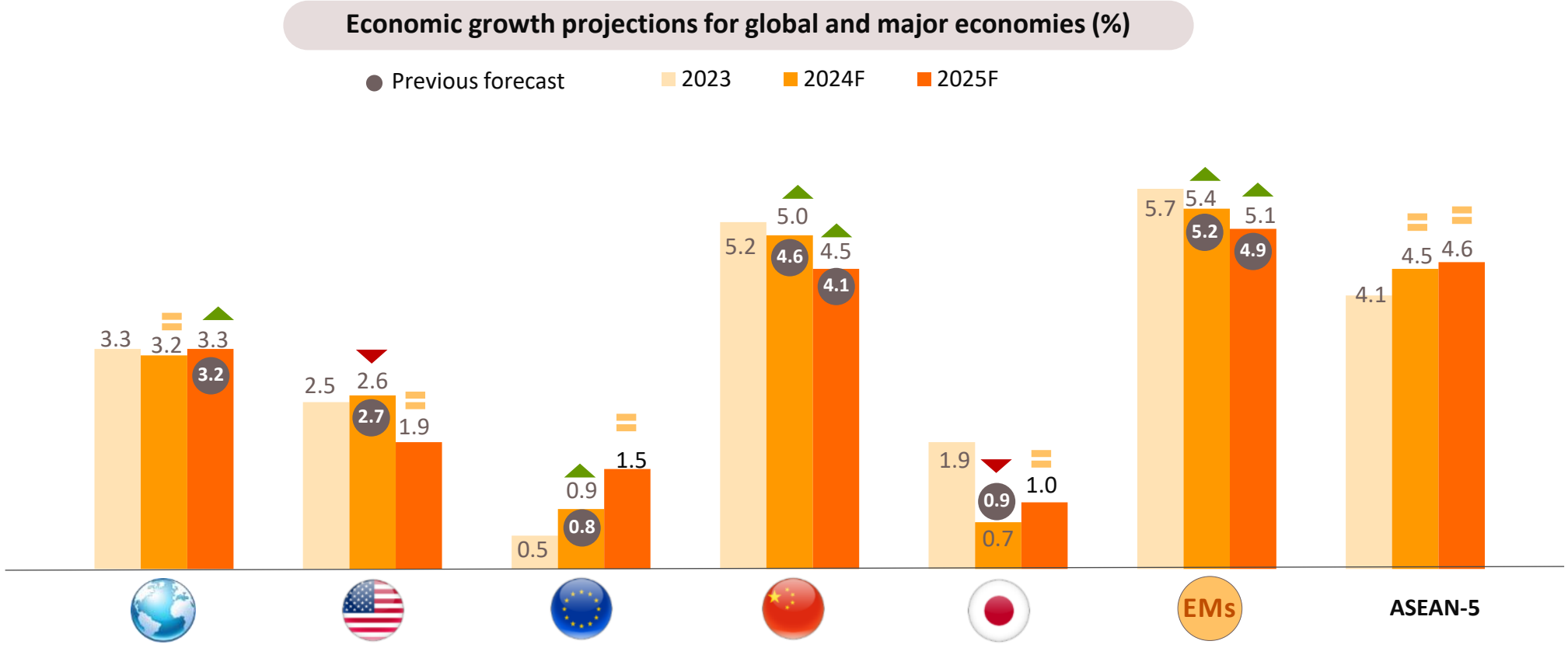
- Decelerating economic growth, disinflation and Fed's less hawkish views might prompt two rate cuts this year.
- This would take Fed Funds rate to 4.75-5.00% by end-2024 from 5.25-5.50% currently.

Japan

- Economic indicators show recovery extending through to 2H24.
- Rebound in inflation should prompt the BOJ to raise policy rate at its July's meeting.

IMF expect *global growth* to remain stable at 3.2% in 2024 and 3.3% in 2025, amid risks from escalating trade tensions and increased policy uncertainty

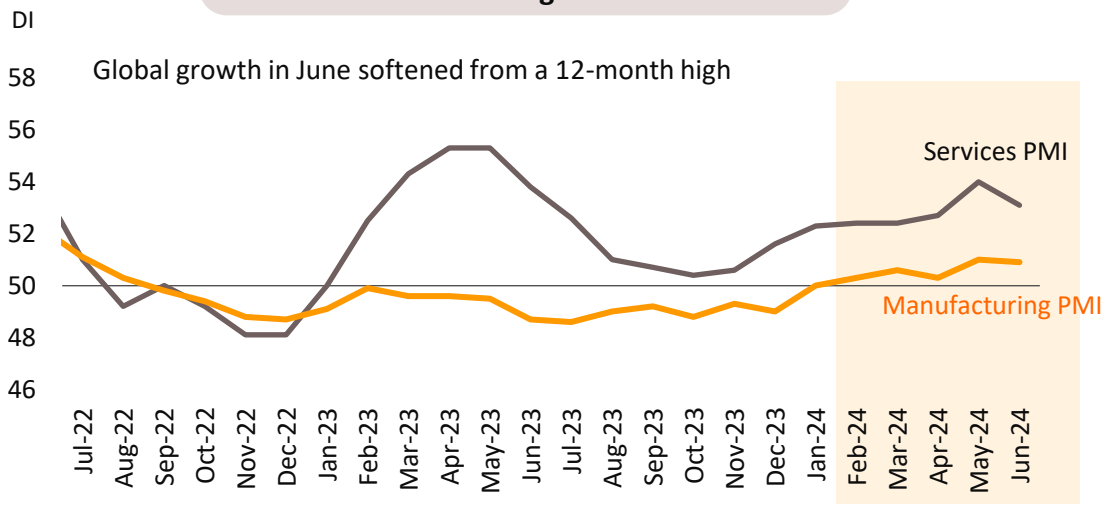
In July, the IMF saw the global economic outlook broadly unchanged from the April 2024 World Economic Outlook (WEO) forecast, with projected growth of 3.2% in 2024 and 3.3% in 2025. In the context of escalating trade tensions and increased policy uncertainty, the upside risks to inflation could increase, complicating monetary policy normalization or raising the prospect of high-for-longer interest rates. According to the IMF, **the potential for significant swings in economic policy as a result of elections this year, with negative spillovers to the rest of the world, has increased the uncertainty around the baseline.** These potential shifts entail fiscal profligacy risks that will worsen debt dynamics, adversely affecting long-term yields and ratcheting up protectionism. **Trade tariffs, alongside a scaling up of industrial policies worldwide,** can generate damaging cross-border spillovers and trigger retaliation, resulting in a costly race to the bottom. **By contrast, policies that promote multilateralism and faster implementation of macrostructural reforms could boost supply gains, productivity, and growth, with positive spillovers worldwide.**



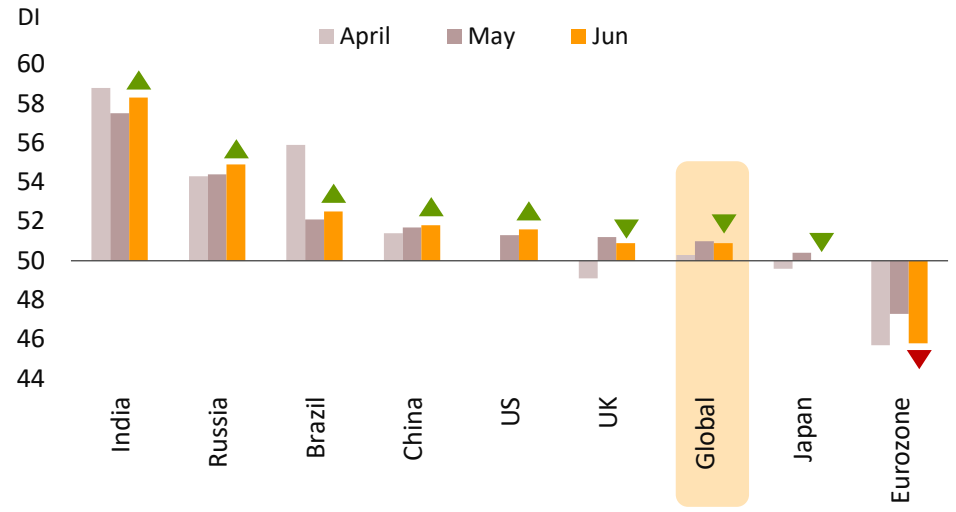
Notes: EMs: Emerging and Developing Asia
Source: IMF, World Economic Outlook (July 2024), Krungsri Research

Global trends point towards softer growth ahead - slower growth in manufacturing new orders, new export orders contracted, future output dropped to 8-month low

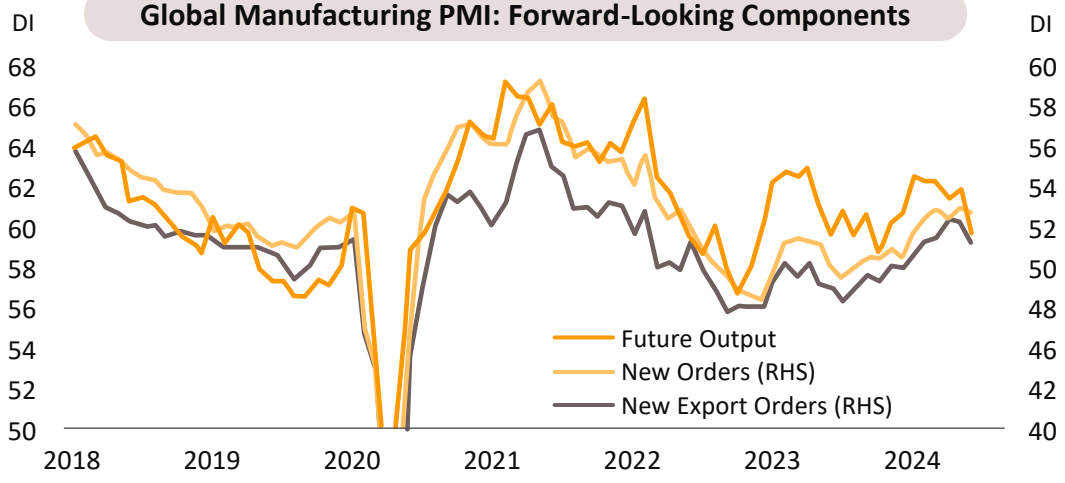
Global Manufacturing and Services PMI



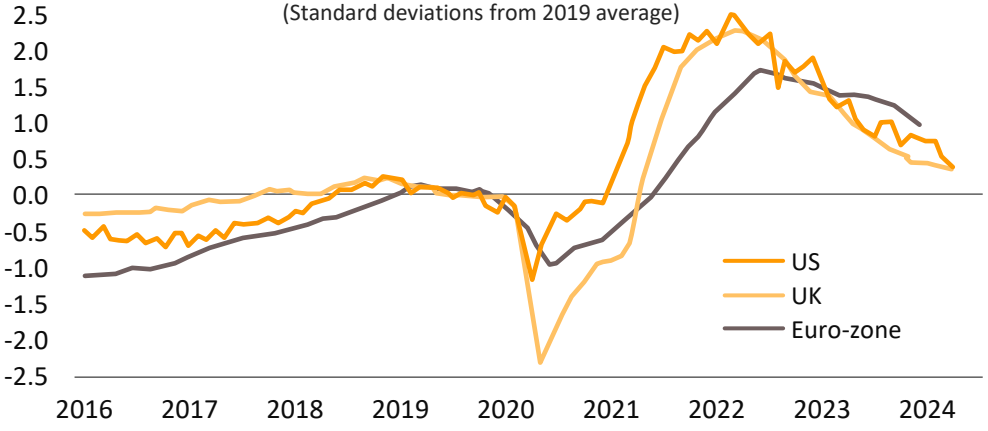
Major Countries' Manufacturing PMI



Global Manufacturing PMI: Forward-Looking Components



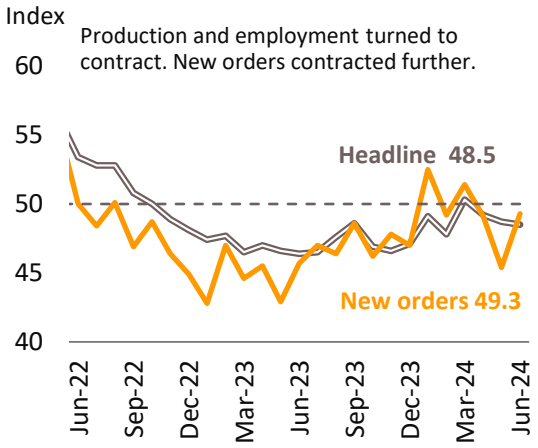
Vacancy Rates



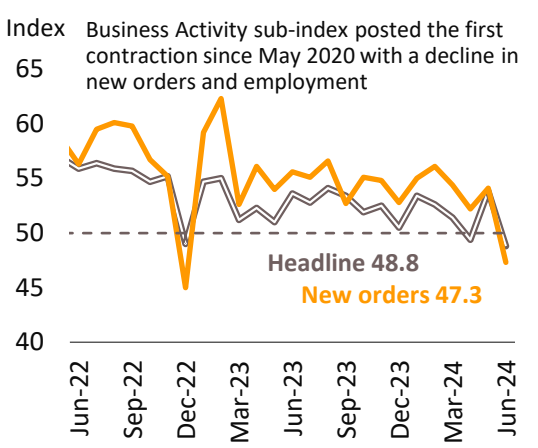
Source: S&P Global, Capital Economics, CEIC, Bloomberg, Krungsri Research

US: Decelerating economic growth, disinflation, and Fed's less hawkish views might prompt two rate cuts this year

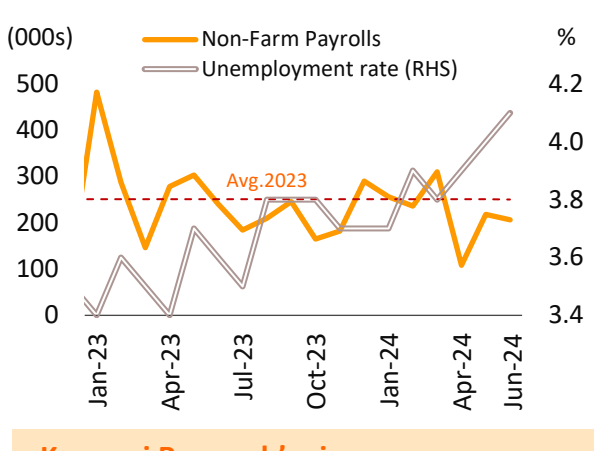
ISM Manufacturing PMI



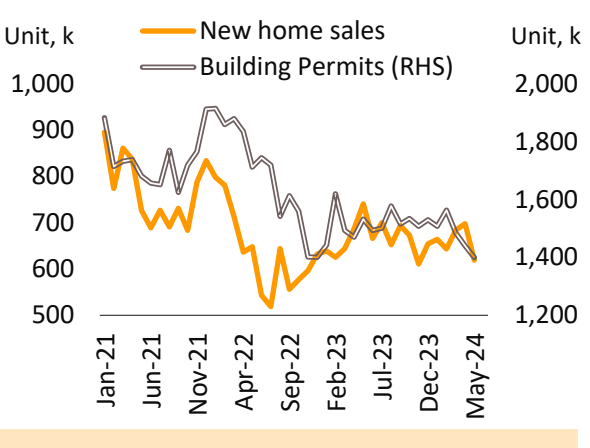
ISM Services PMI



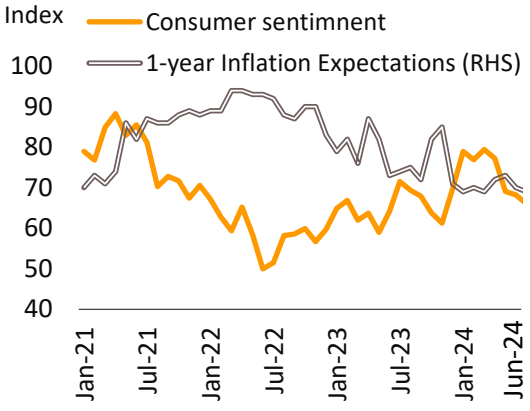
Payrolls and Unemployment



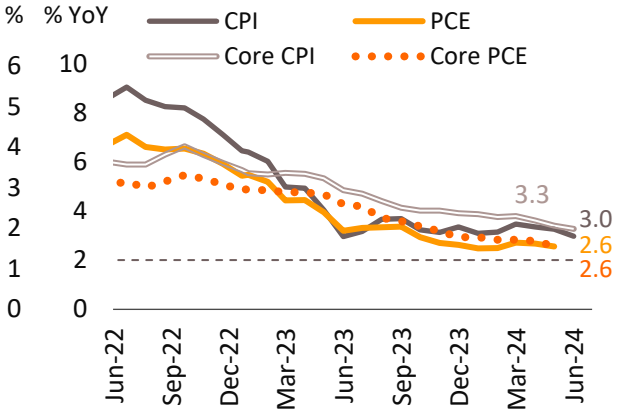
New Home Sales & Building Permits



Consumer Sentiment (U of Michigan) and 1-year Inflation Expectations



CPI, Core CPI, PCE, and Core PCE



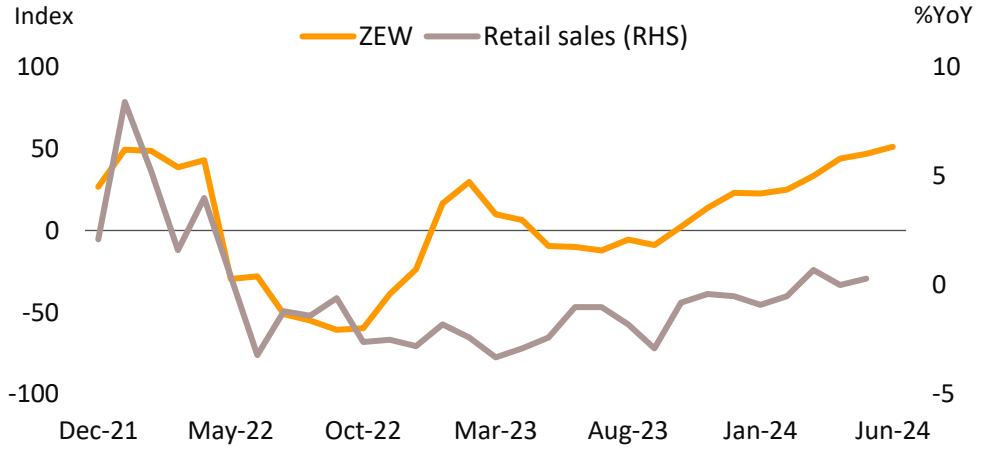
Source: ISM, BLS, CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

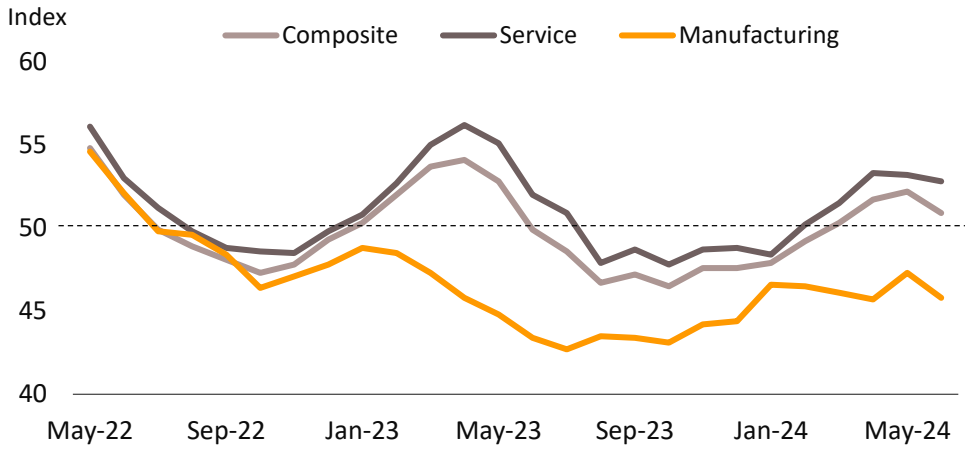
- **Fed Chair Powell expressed a less hawkish stance, citing disinflation and concern about rates being too high for too long.** His key messages include (i) *"we are getting back on the disinflationary path"*; (ii) *"elevated inflation is not the only risk we face"*; and (iii) "*reducing policy restraint **too late or too little** could unduly weaken economic activity and employment".* This implies the Fed is more concerned about downside risks to the US economy created by tight monetary policy.
- **Mounting evidence of a slowing economy and softening inflation also reinforces our projection of two rate cuts this year.**
  - **Signs of decelerating growth: (i) weaker services and manufacturing activity** with June ISM Services PMI tumbling to the weakest since April 2020 (pandemic lockdown) and ISM Manufacturing PMI falling for the third straight month; **(ii) cooling labor market** with the unemployment rate rising to a 2-1/2- year high of 4.1%; **(iii) weak housing market,** as new home sales fell to a 6-month low in May and building permits to the lowest since June 2020; and **(iv) signs of struggling consumers** with July consumer sentiment falling for the 4th consecutive month to the lowest since November, amid still-high interest rates.
  - **Softening price pressure: (i) June Consumer Price Index** fell 0.1% MoM, the first drop since May 2020. Inflation softened for the 3rd straight month to a one-year low of 3% YoY and **core inflation** eased to over a 3-year low of 3.3%. **(ii) May core PCE prices** rose only 0.1% MoM, the smallest rise in 6 months, while core PCE inflation eased to 2.6% YoY, the lowest since March 2021. **(iii) One-year inflation expectations** fell to 2.9% in July. And **(iv) wage growth** slowed to a 3-year low of 3.9% in June, helping to ease the second-round effect on inflation.
- **Premised on cooling inflation, decelerating economic growth, and high real interest rates, coupled with risks from rising trade tensions and uncertain election results, we expect the FOMC to start to cut rates in September, and a second cut in December. That would take the Fed Funds rate to 4.75-5.00% by end-2024, from 5.25-5.50% currently.**

Eurozone: Economic recovery remains moderate; escalating trade war with China creates downside risk to growth

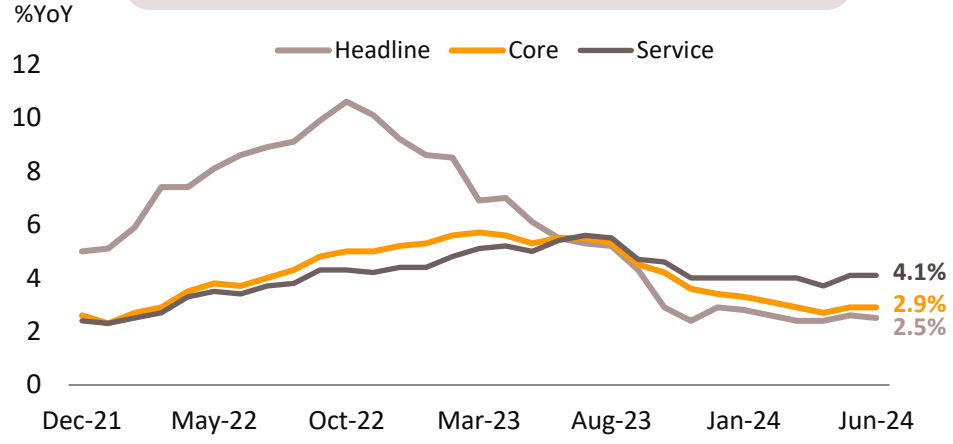
ZEW Economic Sentiment and Retail Sales



HCOB PMI Index



Harmonized Index of Consumer Prices (HICP)



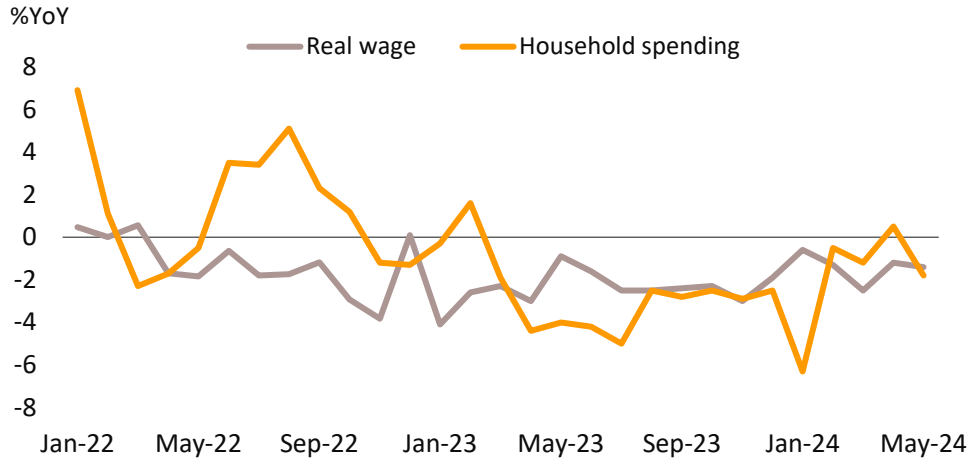
Source: ECB, World Bank, CEIC, investing.com, Eurostat, Bloomberg, Krungsri Research

Krungsri Research's view

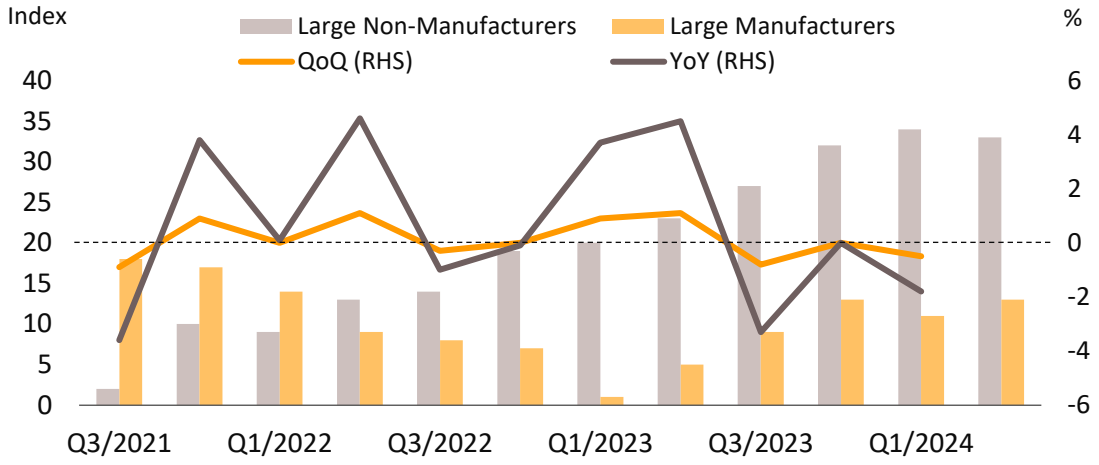
- **Eurozone economy could be in the early stage of a mild recovery.** GDP growth has reversed from contraction zone to expansion, and sentiment is improving. However, growth would remain weak given subdued manufacturing activity (Manufacturing PMI dropped to 45.8 in June, and output contracted at the fastest rate this year). However, there is a downside risk to economic growth if the trade war with China escalates.
- **Worsening trade tensions increase uncertainty over Eurozone growth in 2H24.** The escalating trade war with China could later hurt recovery prospects in the Eurozone, especially in target industries. The most recent red flag is China launching an anti-dumping investigation in selected EU products such as pork and brandy, and possibly hiking import tariffs on other products such as large-engine capacity cars from the EU, in response to the EU raising duties of up to 48% on imported Chinese EVs starting July 4 for 4 months. This provides time for both parties to discuss a solution.
  - In 2023, the EU exported USD 2.4 bn worth of pork to China, about 20% of total EU pork exports.
- **In the latest election in France, the left-wing *New Popular Front* alliance won majority seats but not the 289 needed to secure an absolute majority in the Lower House.** The loss by the far-right National Rally (RN) party, which was projected to win earlier, is attributed to NFP and President Emmanuel Macron's Together bloc working together to draw anti-RN votes. This should help France to avoid the large, unfunded fiscal expansion but could lead to a less stable government as no single party has controlling votes.
- **Given the political uncertainty, risk from rising trade tensions, weak economic growth, and disinflation, the ECB is likely to cut interest rates this year.** However, still-tight inflation in the services sector (4.1% YoY in June) and stronger wage growth (4.7% YoY in 1Q24) suggest ECB might not cut rates at every meeting. We will maintain our projection that the ECB deposit rate would drop from 3.75% currently to 3.25% by end-2024.

Japan: Economic indicators show recovery extending to 2H24, while rebound in inflation could prompt the BOJ to raise policy rate at July meeting

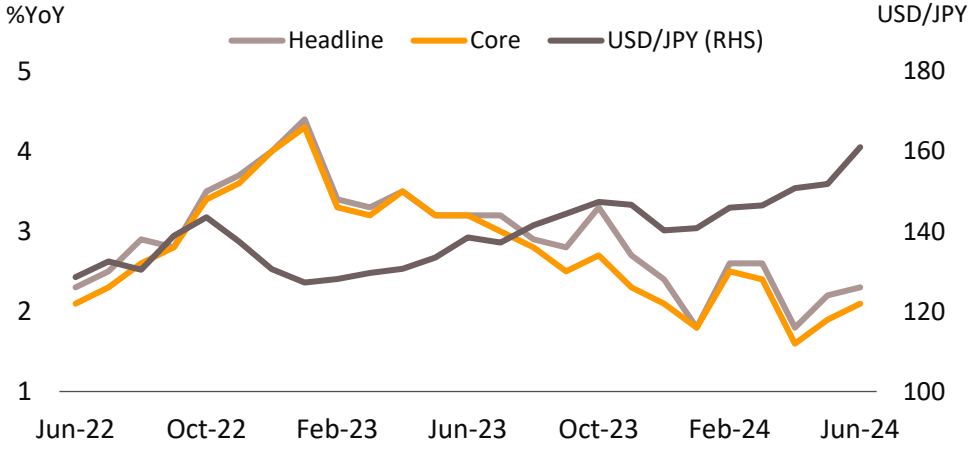
Real Wage and Household Spending



Tankan Manufacturers Index and GDP Growth



Consumer Price Index and USD/JPY



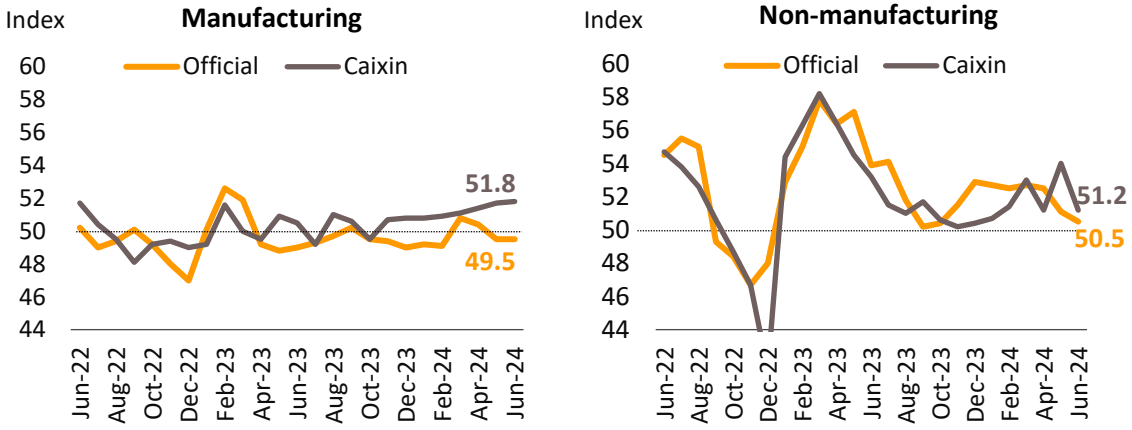
Source: Bank of Japan, International trade, CEIC, Investing.com, Bloomberg, Krungsri Research

Krungsri Research's view

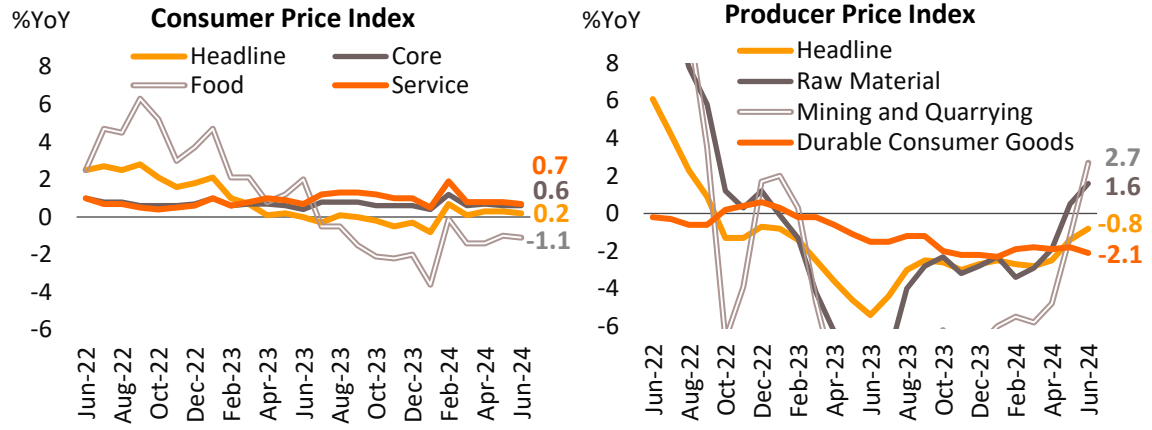
- **1Q24 GDP growth remained weak at -1.8% YoY and -0.5% QoQ, but economic conditions are improving, and growth could be stronger in 2H24.** The highest pay hike in more than 3 decades was still slower than the inflation rate. That caused household spending to shrink in May (-1.8% YoY vs +0.5% in April), marking the steepest drop since January. However, rising wages will gradually feed into domestic spending, and stronger exports and improving sentiment among large manufacturers would support Japan's economy in 2H24.
  - In 2Q24, Tankan index of sentiment for large manufacturers was at 13 points, 8 points higher than its pre-covid level. Tankan index of sentiment for large non-manufacturers was at 33 points, 13 points higher than its pre-covid level.
  - In 5M24, tourist arrivals in Japan reached 14.64 million, accounting for 106% of pre-covid level.
  - In 5M24, Japan's export value grew 10.31% YoY to JPY42.5tn, exceeding the pre-covid level
- **The impact of a higher inflation rate on consumption would be reduced by higher wages and economic recovery.** The inflation rate could climb up to 3% in 2H24 mainly because of the expiry of power & gas subsidies in May, but domestic consumption would still grow premised on positive trends in the broader economic indicators. **However, economic growth would still be below its long-term average of 1.2% in the period ahead due to demographic challenges, geopolitical fragmentation, trade tensions, and the unwinding of ultra-loose monetary policy**.
- **Coupled with a rebound in inflation and a weaker yen, the Bank of Japan (BOJ) might need to normalize monetary policy further at the July 30-31 meeting.** The central bank might raise policy rates by 10-15 bps to 0.20-0.25%, and announce a plan to unwind quantitative easing, including trimming bond purchases by JPY16.1trn (USD 99.7bn) in the first year of implementation. That would reduce monthly purchases to JPY4.65trn from JPY6trn currently.

China: Despite some easing in the real estate sector, economic recovery would be limited and uneven given excess supply in major sectors and persistent weak consumer sentiment

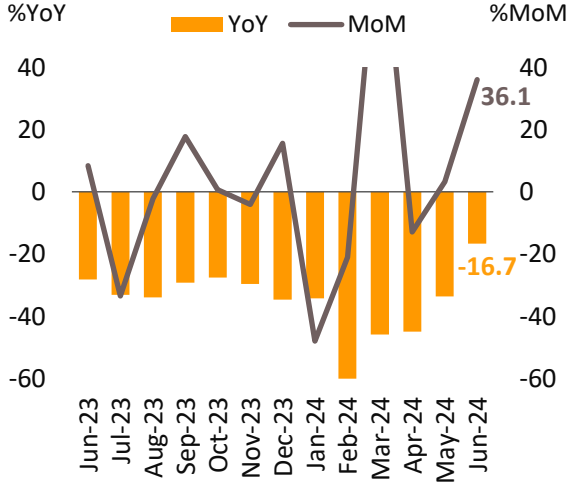
Purchasing Managers' Index (PMI)



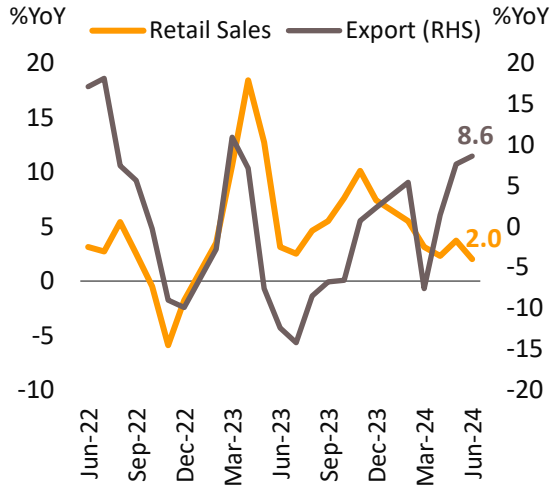
Consumer and Producer Price Index (CPI and PPI)



New Home Sales by Top 100 Developers



Retail Sales of Goods and Exports



Source: NBS, CEIC, Bloomberg, Nikkei Asia, China Real Estate Information Corp. and Krungsri Research

Krungsri Research's view

- **Economic recovery remains uneven.** The services sector has been improving over the last 18 months. However, the manufacturing sector has remained volatile since reopening, with some key industries experiencing excess supply (e.g., automobiles) and some benefitting from the government's trade-in program (e.g., electrical appliances). **Looking ahead, we expect 3Q24 GDP growth to be slightly better than 2Q24 (+4.7% YoY), driven by the expanding services and export sectors, and easing of the real estate slump.** However, fragile domestic demand remains a concern.
- **Consumer prices are steady while producer prices improved**. In June, headline inflation remained subdued due to weak domestic demand. China marked the slowest retail sales growth since December 2022, at +2% YoY. Meanwhile, the Producer Price Index (PPI) registered a smaller drop, with prices in raw material and mining & quarrying segments rising 1.6% and 2.7% YoY, respectively. **We project the PPI would bounce back to positive territory in 3Q24, partly attributed to a recovery in upstream sectors following a slower decline in real estate activities.**
- **The real estate sector continued to improve, easing a drag on the economy.** New home sales by the top 100 developers contracted at a slower pace in the past 3 months, thanks to stimulus measures such as smaller down payments for first- and second-home buyers and the removal of a nationwide floor for mortgage rates. However, liquidity problems among major developers remain a concern (e.g., Vanke expected to deliver a USD1.24bn loss in 1H24). **We expect new home sales to continue to improve in 2H24 but remain in a contraction zone or register a slightly positive at best due to still-large excess supply in Tier-1 cities that could take 2-3 years to clear.**

Thailand: Cyclical recovery lags and structural problems linger

- **Thailand's cyclical recovery is lagging behind its neighbors in the region.** We forecast Thailand's GDP will grow by only 2.4% in 2024, reflecting extended delays in public spending, weak exports, and structural headwinds. However, growth would improve to about 3% YoY in 2H24 from an estimated 1.8% in 1H24, driven by the recovering tourism sector and accelerating disbursement of public spending from mid-2024.
- **In the tourism sector,** foreign tourist receipts have risen to 90% of pre-Covid level in 1H24. Additionally, foreign tourist arrivals are expected to increase to 18.1 million in 2H24 from 17.5 million in 1H24.
- **Accelerating public spending** helped to drive the economy in the second quarter, but we need to monitor disbursements after it slowed down again in June. Despite improving public investment, **private investment** is recovering slowly amid weak exports and sentiment, and concerns uncertainty in the domestic political scene.
- **Exports** are expected to grow at a slower pace in 2H24 amid headwinds from structural problems and rising trade tensions. Recent export growth had temporarily benefited from an increase in agricultural outputs. For the full year, exports could register only 1.8% growth. **Amid rising trade tensions**, global growth and trade could be hit by **US-China tariff hikes.** However, that could also lead to trade being diverted to other Asian countries. By sector and destination, **losses in Thai exports** would be broad-based while gains would be concentrated in only a few destinations.
- **Private consumption growth** is slowing following the continued drop in confidence and structural problems triggered by high household debt. Employment and nominal wages in most sectors have risen beyond pre-covid levels, but **real wages in major sectors have yet fully recovered, reflecting weak purchasing power.**
- **For the Digital wallet program,** the funds to finance this scheme would be adjusted to THB450bn, coming from FY2024 and FY2025 budgets. The program is estimated to contribute 0.5-1.0% of GDP.
- Headline inflation has eased below the official target in June. BOT signaled it would keep the **policy rate** at 2.50% this year.

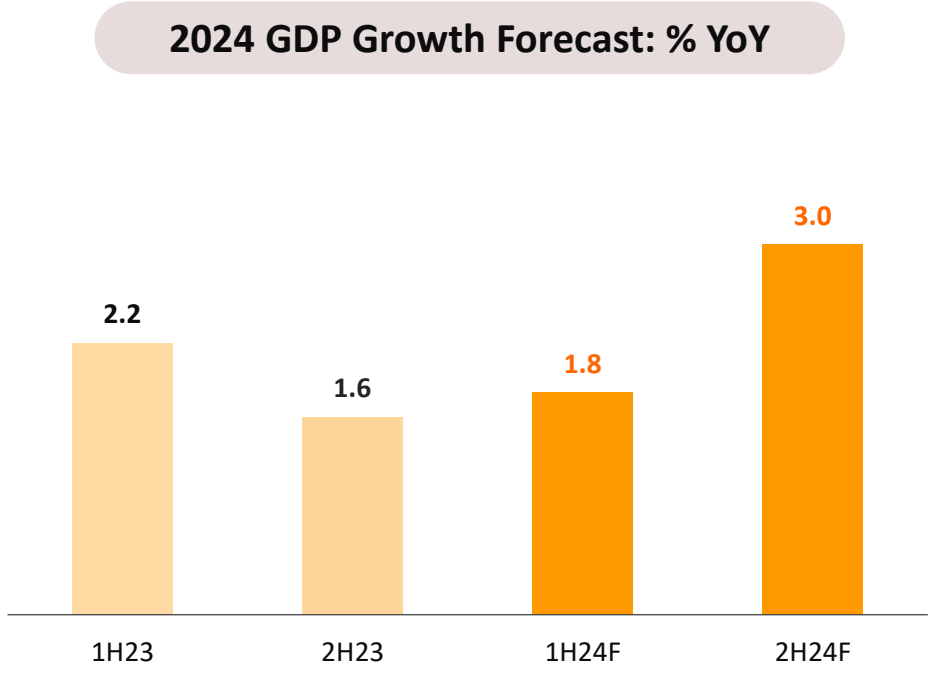
Krungsri Research Forecasts for 2024

Krungsri Research Forecast		2022	2023	2024**
GDP growth	YoY (%)	2.5	1.9	2.4
Private Consumption Expenditure	YoY (%)	6.2	7.1	3.4
Government Consumption Expenditure	YoY (%)	0.1	-4.6	1.5
Private Investment	YoY (%)	4.7	3.2	3.0
Public Investment	YoY (%)	-3.9	-4.6	-1.1
Nominal Exports in USD (f.o.b.)*	YoY (%)	5.4	-1.7	1.8
Nominal Imports in USD (f.o.b.)*	YoY (%)	14.0	-3.1	4.2
Current Account Balance	USD, bn	-15.7	6.6	6.5
Tourist Arrivals	Mn, persons	11.1	28.2	35.6
Headline Inflation	YoY (%)	6.1	1.2	0.7
Policy Interest rate (end of period)	(%)	1.25	2.50	2.50
Dubai crude price - period average	USD/bbl	96	82	85

Note: * Based on BOT data, ** 2024 projection excluding Digital Wallet Scheme
Source: NESDC, BOT, MOC, MOTS, Bloomberg, Krungsri Research

2H24 Outlook: Cyclical recovery to be capped by domestic and external headwinds

We expect 2024 GDP growth at mark only +2.4%, reflecting longer-than-expected delays in public spending, weak exports, and structural headwinds. However, growth would improve to 3% y-o-y in 2H24 from an estimated 1.8% in 1H24. The Thai economy would see a cyclical recovery with further growth in the tourism sector and accelerating disbursement of public spending from mid-2024, particularly capital expenditures (after a 7-month delay in approving the Budget Bill).



Upside/Downside to our growth projection

Upside

- Accelerating disbursement of FY2024 budget and crowding-in effect on private investment
- Additional stimulus measures to boost domestic tourism
- Surprise gains in foreign tourist arrivals
- Improving employment and income following recovery in the services sector

Downside

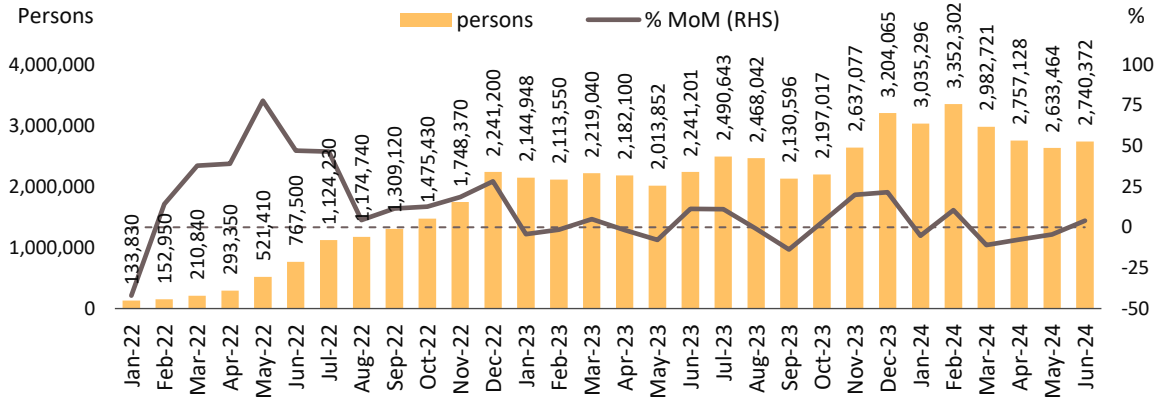
- Domestic politics and risks
- Impact of El Nino and La Nina
- Intensifying global trade tensions
- Risk of global slowdown amid still-tight monetary policy
- Prolonged geopolitical tension
- Domestic structural problems

Source: NESDC, Krungsri Research

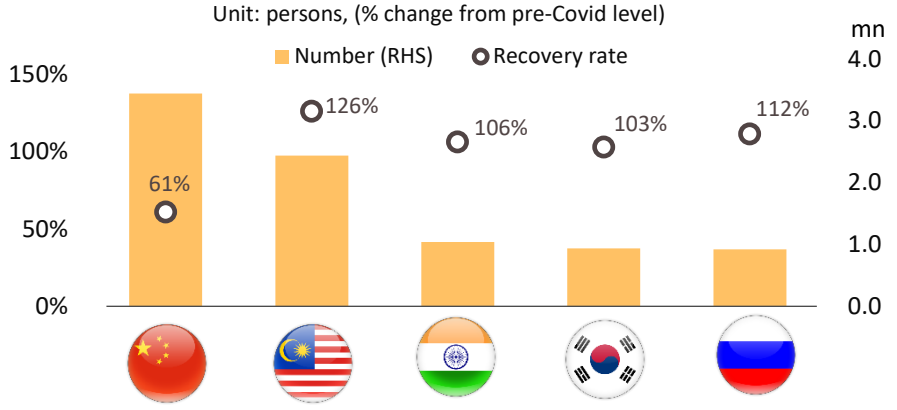
Tourism sector: Foreign tourist receipts rose to 90% of pre-Covid level in 1H24; tourist arrivals are expected to increase to 18.1 mn in 2H24 from 17.5 mn in 1H24

Thailand welcomed 2.74 mn foreign tourists in June, marking a slight improvement from May (+4.0%), driven by the extended free-visa measure and Pride Month celebration. In the first half of 2024**, tourist arrivals reached 17.5 mn (89% of pre-Covid level vs 71% in 2023) and generated THB 826bn receipts (91% of pre-Covid level vs 63% in 2023)** led by Chinese tourists which made up the largest group; however, they are only 61% of the pre-Covid level. Tourists from Malaysia, India, Russia, and South Korea surged to 103-126% of pre-Covid levels. We maintain foreign tourist arrivals at 35.6 mn for this year, supported by the decision to extend visa-free visits for tourists from 93 countries (vs only 57 countries in 1H24), and increasing flight routes and frequencies from target tourist countries such as India.

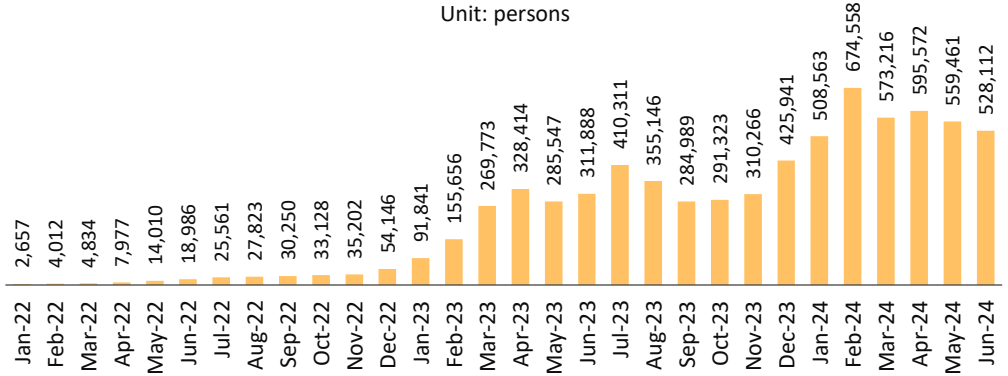
Foreign tourist arrivals reached 17.5 million in 1H24



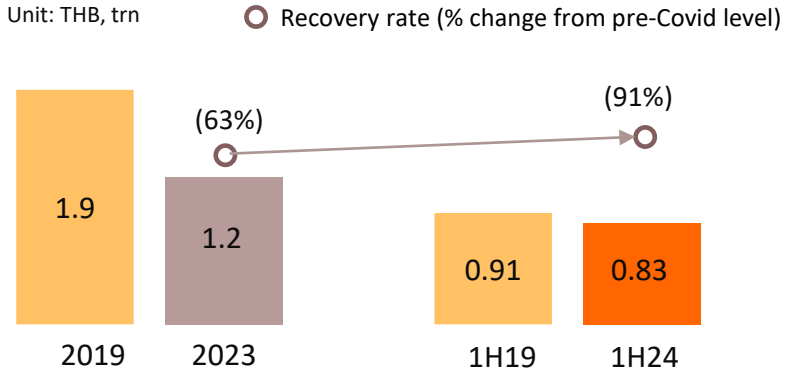
Top 5 tourist arrivals by country in 1H24 (Jan-Jun)



Chinese tourist arrivals still below pre-COVID levels



Foreign tourist receipt (THB, trn)

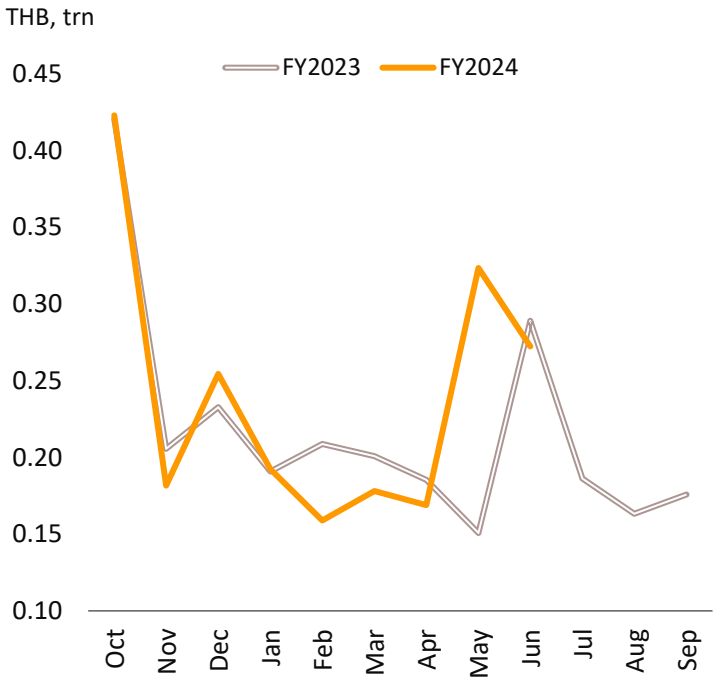


Source: MOTS, CEIC, Krungsri Research

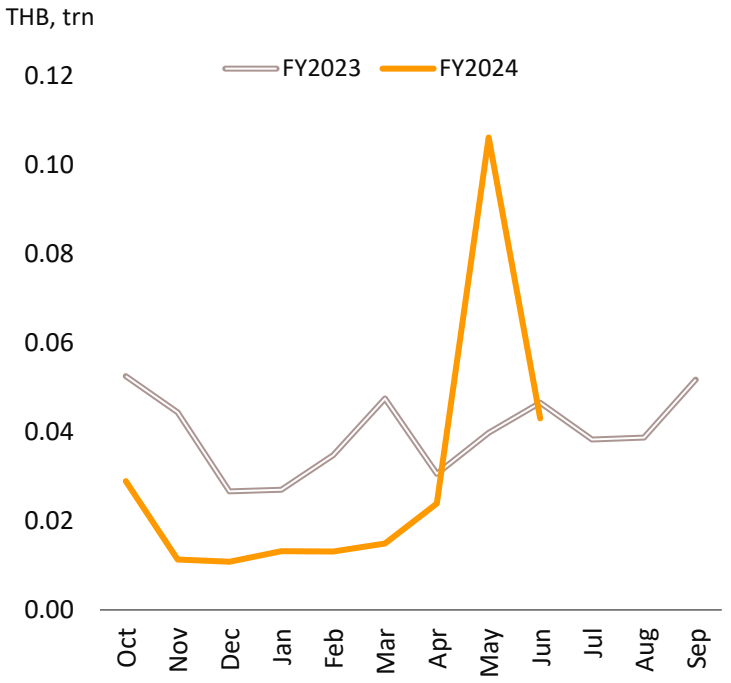
Accelerating public spending helped to drive the economy in the second quarter, but monitor disbursements after it contracted again in June

According to preliminary data from the Ministry of Finance, public spending had improved significantly in the second quarter of the calendar year (March-June 2024). It is expected to be a key driver of GDP growth in 2Q24. Current and capital budget disbursements increased by 44.4% and 319.7% from 1Q24, respectively, and by 22.3% and 48.1% from 2Q23. **But in June, both current and capital budget disbursements fell again,** by 5.8% and 7.5% y-o-y, respectively. This comes after a sharp acceleration in May (+114.3% and 166.8%, respectively). In the first 9 months of FY2024 (October 2023 to June 2024), spending of the current budget reached THB2.15 trn or 78% of the annual budget and rose 3.3% YoY. For the capital budget, the government disbursed THB0.27trn or only 37% of the annual capital budget, falling 24.1% YoY.

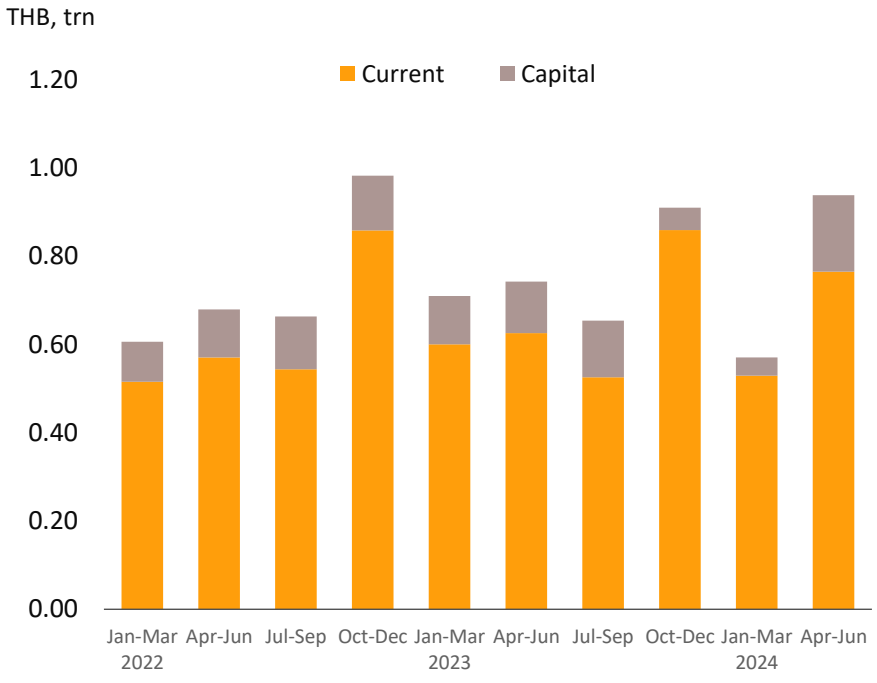
Current expenditure disbursement



Capital expenditure disbursement



Quarterly disbursement

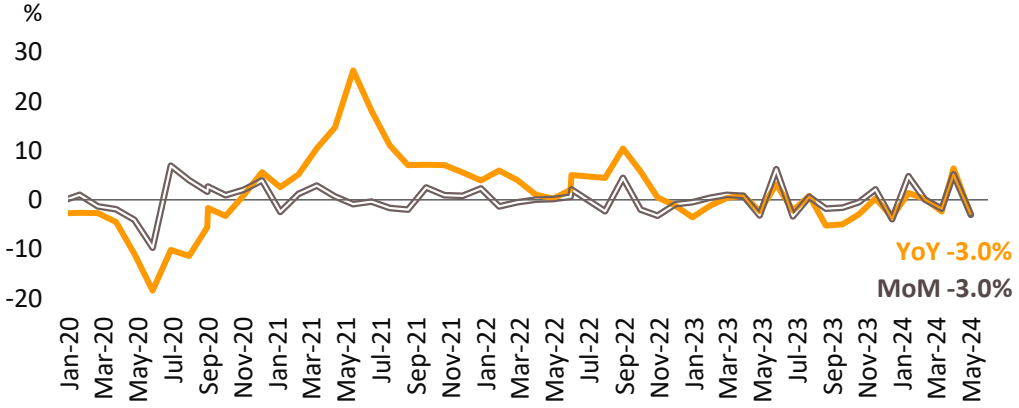


Source: MOF, Krungsri Research

Despite improving public investment, *private investment* remains slow amid weak exports and sentiment, and uncertainty in the domestic political scene

Private investment remains weak, reflected by the following: (i) Private Investment Index contracted in May (-3.0% YoY and -3.0% MoM sa); (ii) Business Sentiment Index remained in the contraction zone in June (below 50) for the ninth consecutive month; and (iii) Manufacturing Production Index contracted by 1.5% YoY in May after expanding in April for the first time in 19 months. Additionally, the capacity utilization rate has remained below 60% for 10 consecutive months. **We expect private investment to remain volatile for the rest of the year.** Although some segments may benefit from accelerating public investment, weak exports could discourage private investment. Additionally, domestic political uncertainties might continue to pressure investor sentiment.

Private Investment Index contracted again in May

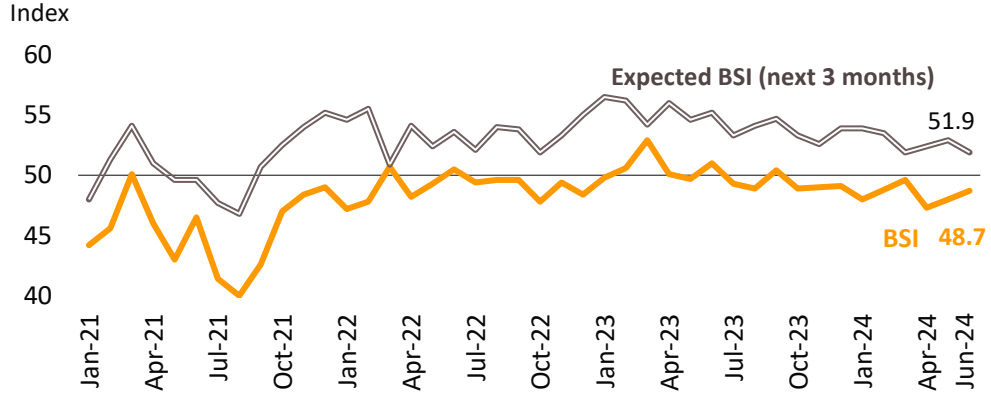


Private Investment by category

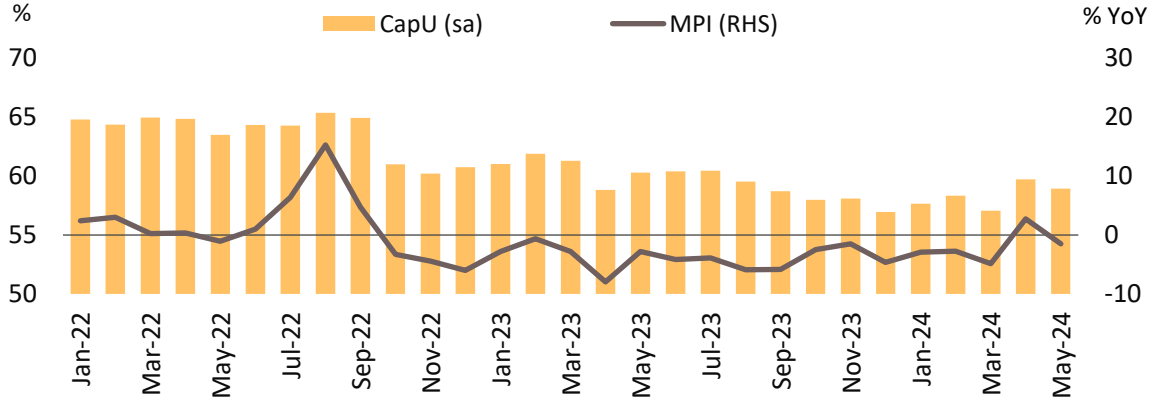
%YoY*	2021												2022												2023												2024			
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M
Private investment																																								-3.0
Construction area permitted																																								11.5
Construction material sales																																								-10.1
Imports of capital goods																																								-8.2
Machinery sales																																								-6.9
Newly registered vehicles																																								-23.6

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

Business Sentiment Index inched-up in June but remains low



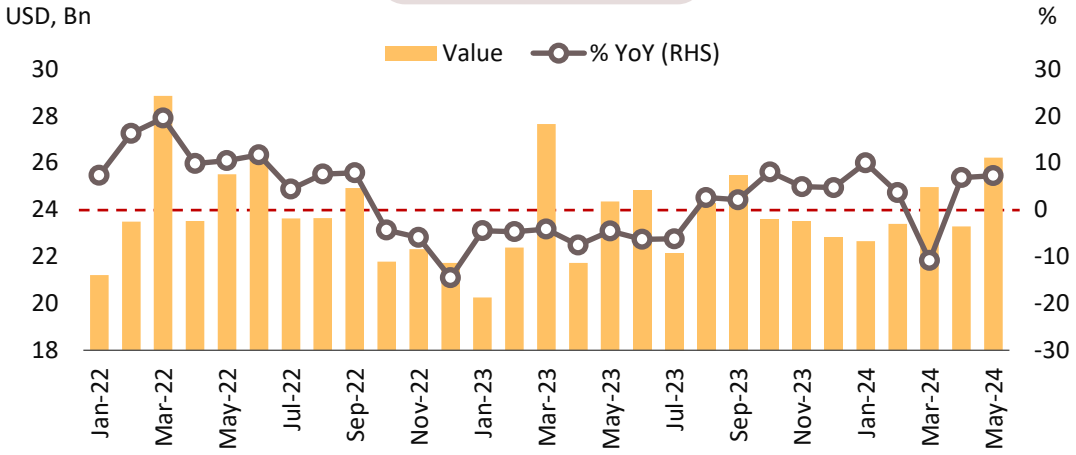
Manufacturing Production Index and Capacity Utilization Rate



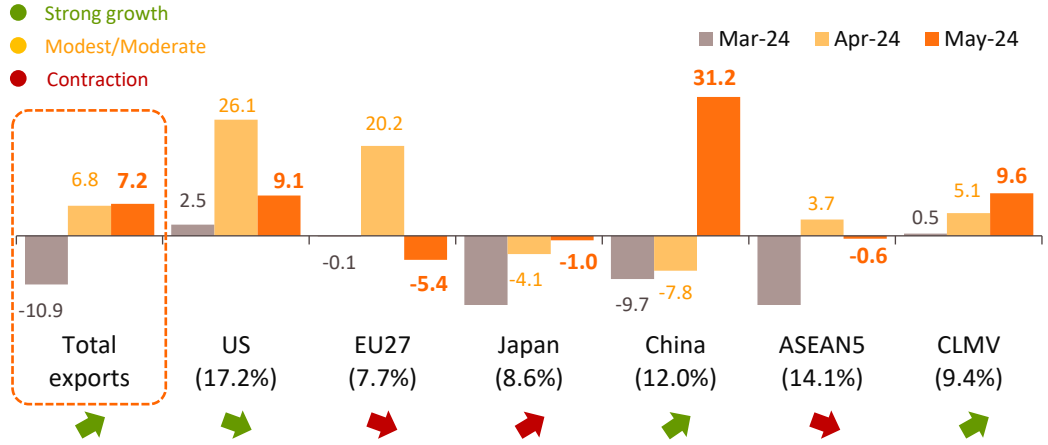
Source: BOT, OIE, CEIC, Krungsri Research

Exports are expected to grow at a slower pace in 2H24 amid headwinds from structural problems and rising trade tensions

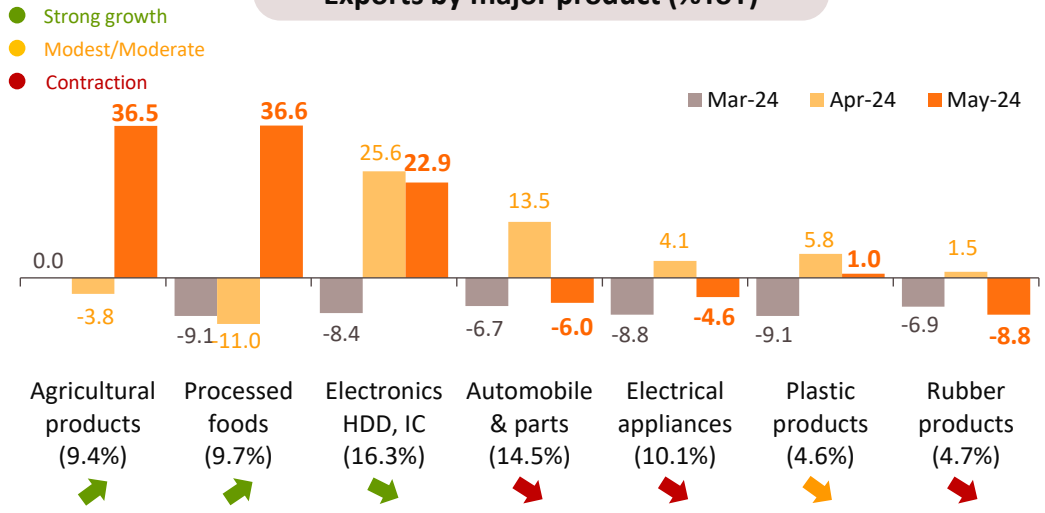
Exports



Exports by major destination (%YoY)



Exports by major product (%YoY)



Note: (% share in 2023)
Source: MOC, Krungsri Research

Krungsri Research's view

- **Merchandise export value marked 7.2% growth in May to reach a 14-month high of USD26.2bn.** Excluding gold and oil, exports grew 6.5%. Product categories that performed well include fresh, chilled, frozen & dried fruit (+128%), rubber (+46.6%), computers & computer equipment (+44.4%), and fax machines, telephones, equipment & parts (+110.7%). Categories in which exports shrank were autos, equipment & parts (-2.1%), electronic integrated circuits (-11.9%), rice (-4.5%), and sugar (-46.1%). By destination, there were stronger exports to the US, China, and CLMV nations, but exports to Japan, the EU, and the ASEAN-5 shrank. Over 5M24, export growth averaged 2.6%.
- **Jump in export value in May was partly attributed to better agricultural yields and resulting 36.5% YoY surge in export of agricultural goods.** Unfortunately, the outlook is less positive for the rest of the year, and the export sector will have to contend with structural problems that are troubling the manufacturing sector, reflected by a range of worsening industrial indicators. These include a 1.9% contraction in the Manufacturing Production Index in 5M24, and the Thai Industries Sentiment Index falling for the third month to a 7-month low of 88.5 in May. In addition, Thailand's labor productivity is worsening in many industries, and trade tensions between the US and China are rising. **In light of these headwinds, export value might grow by only 1.8% this year.**

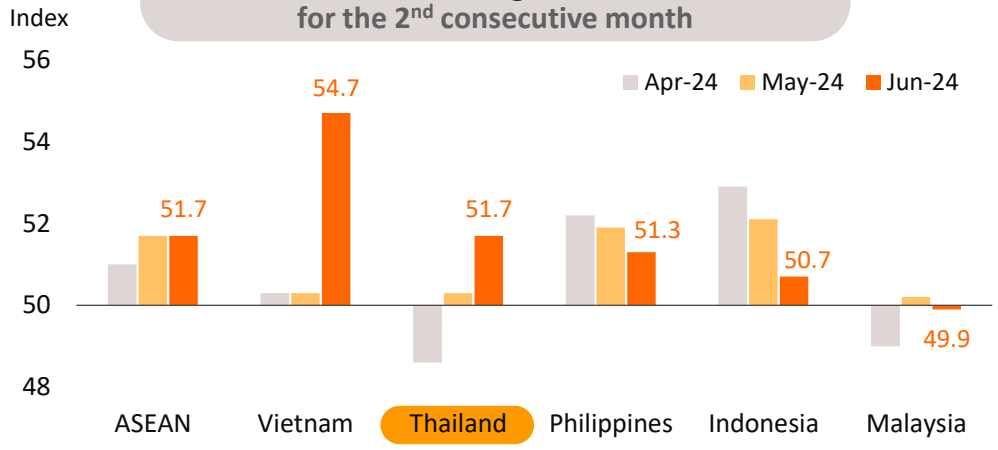
Recent export growth attributed to temporary rise in agricultural outputs; Thai exports might grow by only 1.8% this year

In the first five months of this year, Thai exports grew 2.6% YoY led by agricultural products which increased by 4.7% (including rice, rubber, and fruit). Exports of industrial products (computers & parts, and plastic products) expanded by 2.4%, while exports of agro-industrial products (rubber products, tapioca products, and sugar) fell by 1.3%. Exports remained weak in many Thai industries (including cars & parts, electronic ICs, chemical products, and plastic resin), reflecting structural problems in Thailand's industrial production sector. **Although there are some positive signs with rising exports from key Asian countries, we expect Thai exports to grow slowly the rest of this year due to weak manufacturing activity and the impact of trade tensions.**

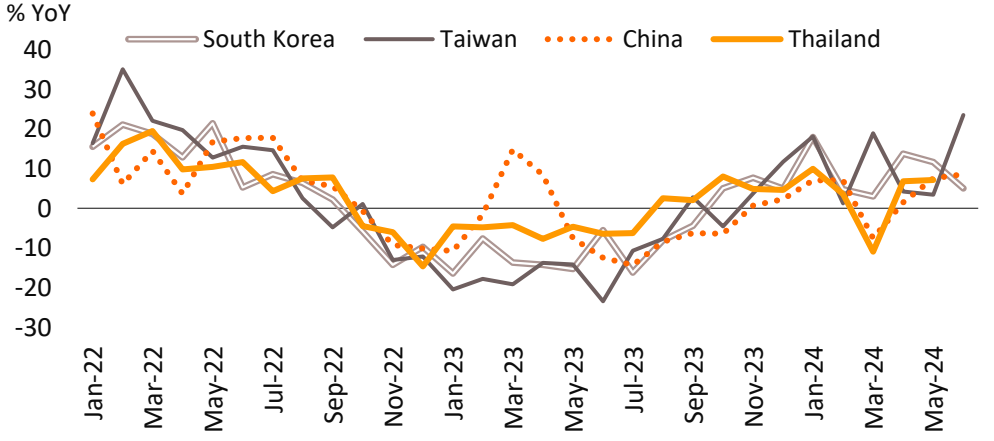
Thai exports by major product and destination

Thailand: Jan-May's export growth (% YoY)	World	US (17%)	EU (8%)	Japan (9%)	China (12%)	ASEAN-5 (14%)	CLMV (9%)
Total	**+2.6**	**+12.5**	**+0.8**	**-6.5**	**+1.5**	**-2.7**	**+6.9**
Cars & parts (10.9%)	-2.3	+21.1	-8.2	+0.5	-7.8	-19.5	-35.1
Computer & parts (6.3%)	+23.6	+32.4	+39.9	-6.7	+40	-19.1	-1.8
Rubber products (4.7%)	-3.3	+14.9	+2.5	-4.1	-31	-4.7	+7.8
Electronic IC (3.4%)	-11.1	-39.9	-18.7	-2.0	-2.7	-13.0	-16
Plastic resin (3.1%)	-3.7	+30.0	-12.2	-8.8	-4.5	+0.9	-0.8
Chemical products (2.8%)	-6.8	-2.6	-13.9	-18.1	-9.5	-11.1	-3.7
Fresh, frozen & dried fruit (2.0%)	+5.0	-11.0	+16.7	+12.6	+4.2	-18.2	+49.9
Electrical appliances (1.9%)	-5.9	-7.8	-9.2	+4.7	+23.3	-10.2	-18.9
Rice (1.8%)	+39.7	+23.5	+15.3	+10.1	-3.5	+182	+16.0
Plastic products (1.5%)	+7.6	+40.6	+4.5	-6.1	+5.5	+5.8	-2.0
Rubber (1.3%)	+30.9	+65.7	+50	+36.0	+10.0	+32.6	+170
Tapioca products (1.3%)	-18.2	+20.7	-7.8	+3.1	-38	+90.6	-4.4
Preserved fish, crustaceans (1.2%)	+5.3	+4.6	+13.2	-12.1	-28	-9.7	-4.2
Sugar (1.2%)	-34.5	+147.4	-52.9	+61.3	+47.0	-54.8	+53.0

Thailand Manufacturing PMI was above-50 for the 2nd consecutive month



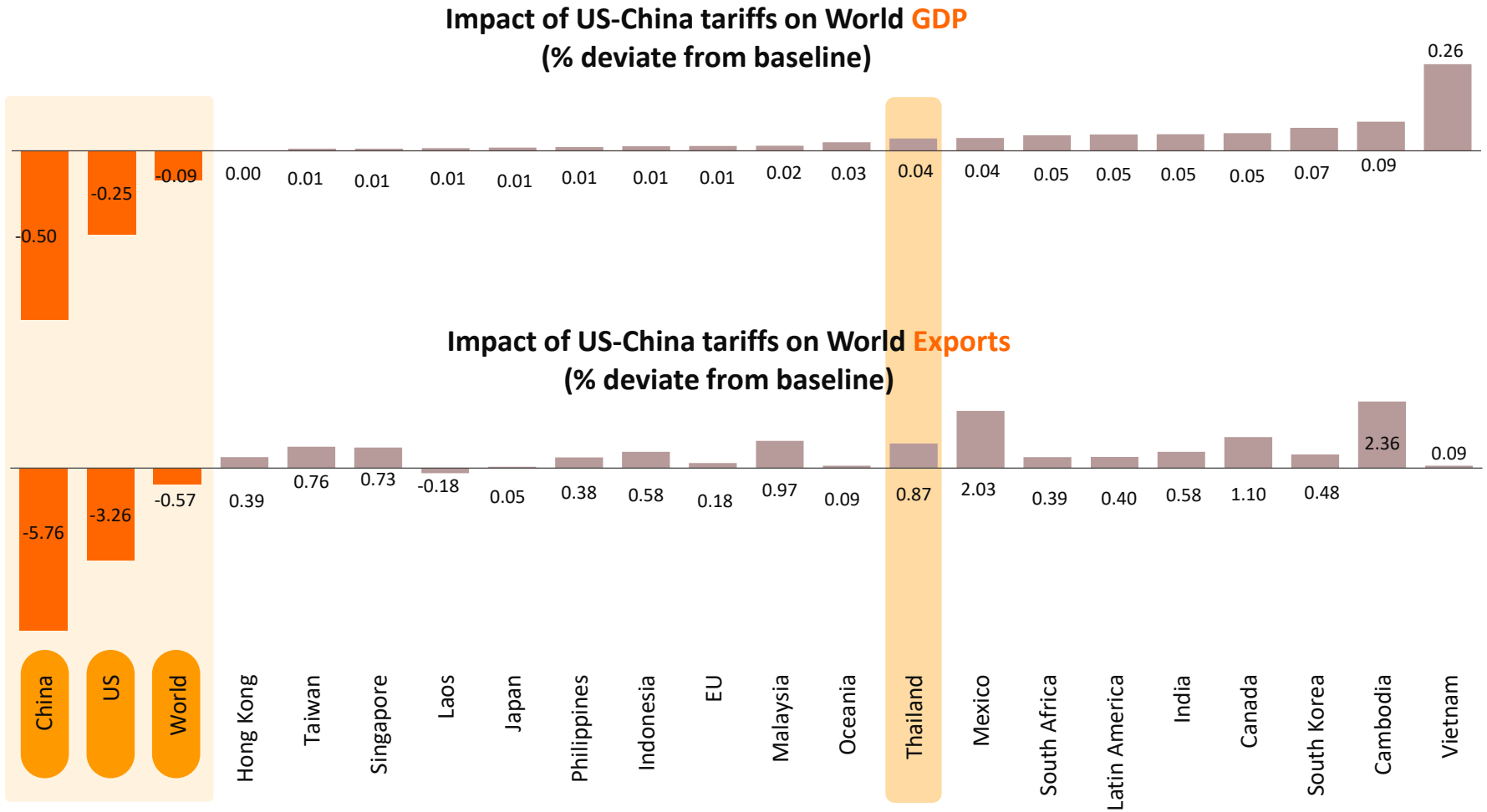
Exports of major Asian countries continued to grow in June



Note: (% share in 2023)
Source: MOC, S&P Global, Markit Economics, CEIC, Bloomberg, Krungsri Research

Global growth and trade could be hit by *US-China tariff hikes*; worst impact on China and US but Asian countries could benefit from trade divergence

For the global economy, the 25% tariff hikes by US-China would reduce global economic growth by 0.09% and exports by 0.57%, from the baseline. US-China tariff hikes would hurt both countries' exports (China -5.76%, US -3.26%) and GDP (China -0.50%, US -0.25%). Thailand and other Asian countries could benefit from trade diversion and longer-term relocation of production bases, but gains would be small because their countries would also be hurt by the weaker global trade and economy.



Source: : Global Trade Analysis Project (GTAP), Krungsri Research

By sector and destination, losses in *Thai exports* would be broad-based while gains would be concentrated in only few destinations

Impact of US-China tariffs (25%) on Thai exports by sector and destination (% deviation from baseline)

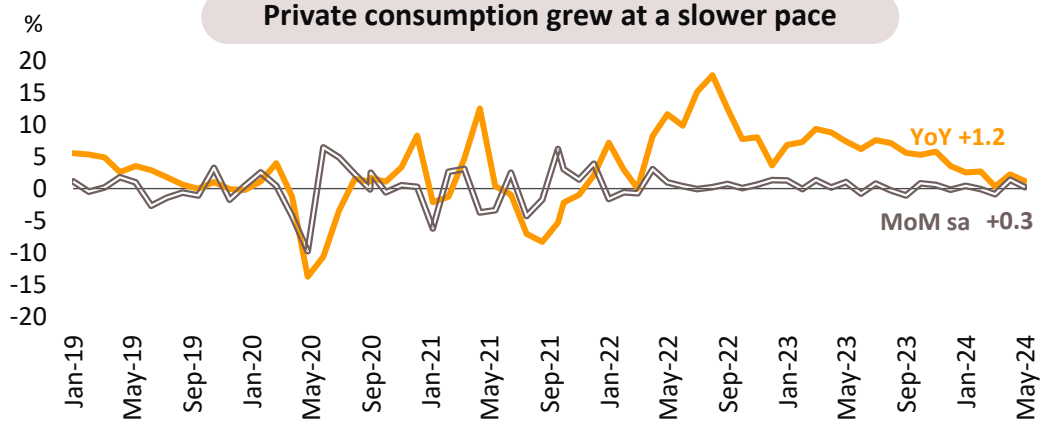
Sector	China	South Korea	Japan	Hong Kong	Taiwan	India	Vietnam	EU	Oceania	Laos	South Africa	Malaysia	Singapore	Philippines	Indonesia	Latin America	Canada	Mexico	Cambodia	USA
Electronic & computer equipment	-1.877	-0.878	-0.441	-0.664	-0.377	-0.474	-0.098	-0.503	-0.322	-0.215	-0.203	0.208	0.144	0.002	-0.048	-0.150	0.114	1.250	-0.053	15.395
Chemical, rubber, plastic products	-0.382	-0.666	-0.487	-0.467	-0.290	-0.897	-0.445	-0.135	-0.316	-0.095	-0.277	-0.384	-0.142	-0.302	-0.220	-0.140	-0.129	-0.075	0.292	0.524
Machinery and equipment	-0.312	-0.317	-0.890	-0.468	-0.186	-0.533	-0.616	-0.203	-0.391	-0.834	-0.245	-0.355	-0.561	-0.223	-0.473	-0.294	-0.082	-0.343	-0.405	1.382
Textiles, apparel and leather	-0.223	-0.262	-0.343	-0.309	-0.115	-0.262	-0.320	-0.319	-0.179	-0.097	-0.314	-0.093	-0.107	-0.185	-0.112	-0.208	-0.214	0.018	-0.281	2.246
Wood products	-0.186	-0.080	-0.050	-0.012	0.011	-0.036	-0.032	-0.024	-0.039	-0.014	-0.029	-0.044	-0.008	-0.013	-0.025	-0.009	0.011	0.010	-0.016	0.463
Other non-metallic mineral products	-0.025	-0.012	-0.012	-0.005	0.001	0.007	0.068	-0.003	-0.008	0.034	-0.017	-0.010	-0.009	-0.020	0.006	0.000	-0.001	0.004	0.278	0.024
Manufacturing nec.	-0.016	-0.056	-0.119	-0.122	-0.016	-0.030	-0.004	-0.239	-0.120	-0.003	-0.025	-0.015	-0.015	-0.028	-0.008	-0.034	-0.106	0.002	0.015	1.819
Fabricated metal products	-0.017	-0.029	-0.142	-0.014	-0.019	-0.115	-0.295	-0.021	-0.134	-0.185	-0.094	-0.054	-0.023	-0.073	-0.035	-0.025	-0.020	0.002	-0.038	0.380
Basic metals	-0.020	-0.181	-0.058	-0.039	-0.212	-0.116	-0.101	-0.012	-0.148	-0.013	-0.057	-0.048	-0.070	-0.081	-0.048	-0.009	-0.011	-0.005	-0.004	0.033
Motor vehicles	-0.012	-0.006	-0.038	-0.005	-0.014	-0.021	0.054	-0.012	-0.024	-0.040	-0.094	0.061	-0.008	0.112	0.069	0.323	0.007	-0.135	0.104	0.022
Other transport equipment	0.003	-0.048	-0.023	-0.021	-0.006	-0.014	0.005	-0.037	-0.028	-0.080	-0.039	-0.027	-0.007	-0.056	-0.125	-0.054	-0.036	-0.005	-0.083	0.000
Energy	0.000	0.003	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Paper products	0.014	-0.012	-0.006	-0.055	-0.019	-0.007	-0.001	-0.005	-0.021	-0.007	-0.014	-0.019	-0.024	-0.029	-0.016	0.000	-0.002	-0.001	0.008	0.014
Food & beverages	-0.030	-0.121	-0.319	-0.229	-0.036	0.016	0.072	-0.027	-0.086	0.087	-0.139	-0.035	-0.039	0.054	0.006	0.016	-0.124	0.033	0.963	0.201
Petroleum	0.032	-0.005	-0.003	-0.017	-0.005	-0.001	0.021	0.000	0.000	0.038	0.000	-0.033	-0.125	-0.022	0.004	0.000	0.000	0.002	0.168	0.002
Agriculture	0.445	-0.002	-0.017	-0.119	-0.027	0.004	0.010	-0.001	0.000	0.011	-0.008	-0.023	-0.013	-0.005	-0.015	0.000	-0.018	-0.008	0.030	-0.002
Total	-2.837	-2.858	-3.015	-2.783	-1.331	-2.536	-1.654	-2.054	-1.899	-1.427	-1.702	-0.876	-1.115	-0.870	-1.054	-0.659	-0.636	1.045	0.988	22.239

Source: GTAP, Krungsri Research

Private consumption growth is slowing following continued declines in confidence and structural problem from high household debt

The private consumption index improved slightly in May (+1.2% YoY and +0.3% mom sa). Spending on services increased led by the tourism sector, while spending on non-durable and durable goods contracted. **For the rest of this year, private consumption would continue to be supported by** (i) the improving tourism sector following recent measures to stimulate tourist spending in secondary cities in Thailand; (ii) measures to reduce energy bills; (iii) a program to reduce lending rates to help vulnerable groups; and (iv) the end of El Niño (characterized by dry weather) in the middle of this year, which should improve farm output and income. However, the consumer confidence index has dropped for the fourth consecutive month in June to a 9-month low. Coupled with structural issues arising from weaker employment in manufacturing and elevated household debt levels, they will drag consumption growth. As of end-1Q24, household debt stood at THB16.37trn, which is 90.8% of GDP.

Private consumption grew at a slower pace

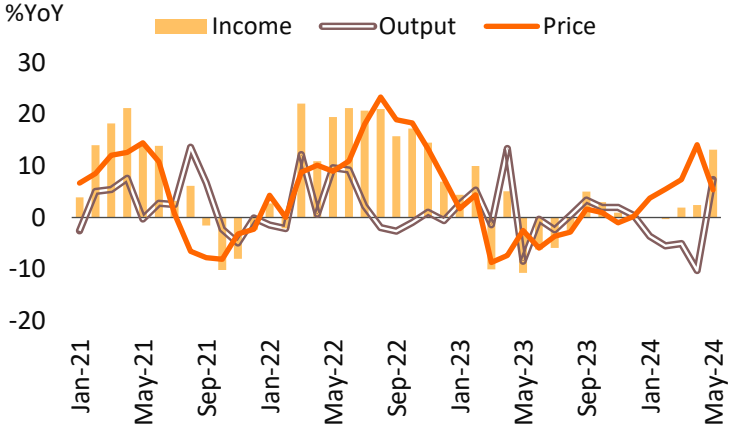


Private consumption by category

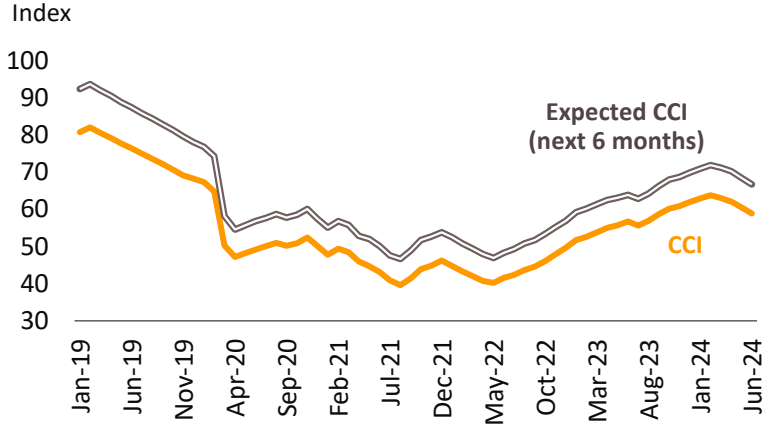
%YoY*	2021												2022												2023												2024				
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	
Private consumption																																									1.2
Non-durables																																									1.6
Semi-durables																																									-0.6
Durables																																									-9.8
Services																																									6.9
Non-residents expenditure																																									42.2

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

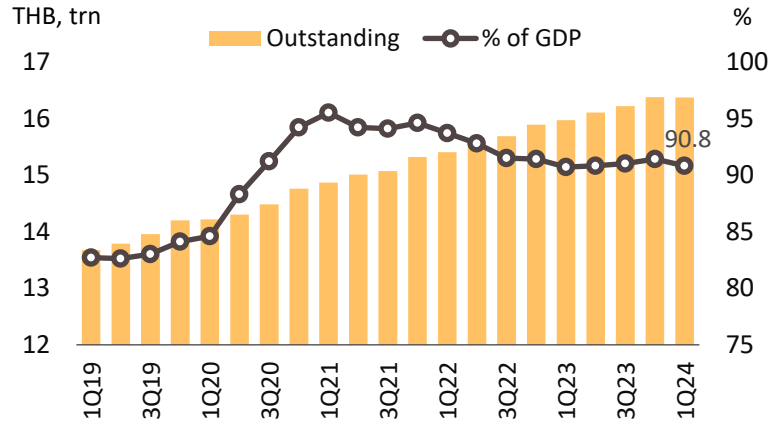
Possible increase in farm output after ending of El Niño



Consumer confidence fell to the lowest in 9 months



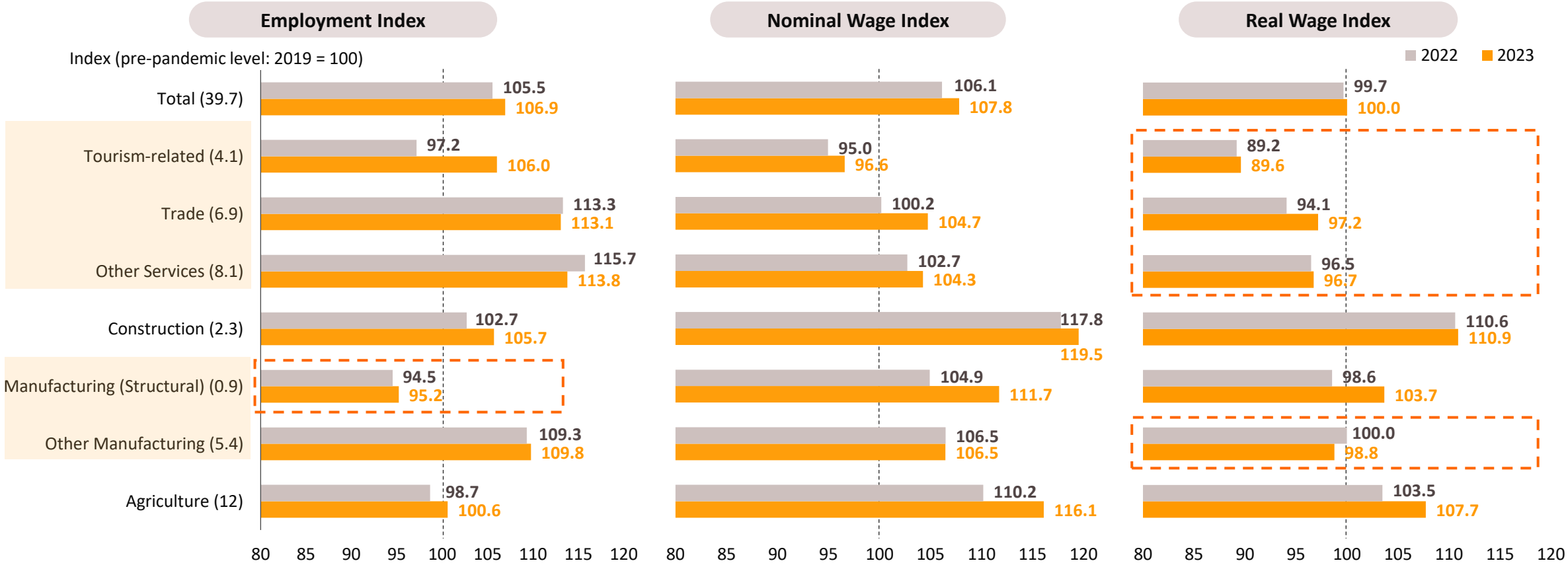
Household debt remains high at 90.8% of GDP in 1Q24



Source: CEIC, BOT, University of the Thai Chamber of Commerce (UTCC), Krungsri Research

Employment and nominal wages in most sectors have risen beyond pre-covid levels, but real wages in major sectors have yet fully recovered, reflecting weak purchasing power

Following the COVID-19 impacts, **Thailand has experienced a revival in employment and nominal wages across most sectors**, surpassing their pre-pandemic levels by an average of 7% and 8% in 2023. **However, real wages in major sectors have yet to fully recover**. Specifically, real wages in tourism and trade sectors remained weaker than their pre-pandemic levels by 10% and 3%, respectively. In manufacturing that suffered from structural problems, the sector's employment was 5% below its pre-covid level, suggesting the impact of structural factors such as lower competitiveness, higher competition, or weaker labor productivity. The latest data (as of May) also indicates that the country's average nominal wages for the first 5 months of this year was 1.2% less than the same period last year. **Overall, key indicators underscore persistent headwinds, particularly the still-weak purchasing power of around 25 million people, representing more than 60% of total workforce.**

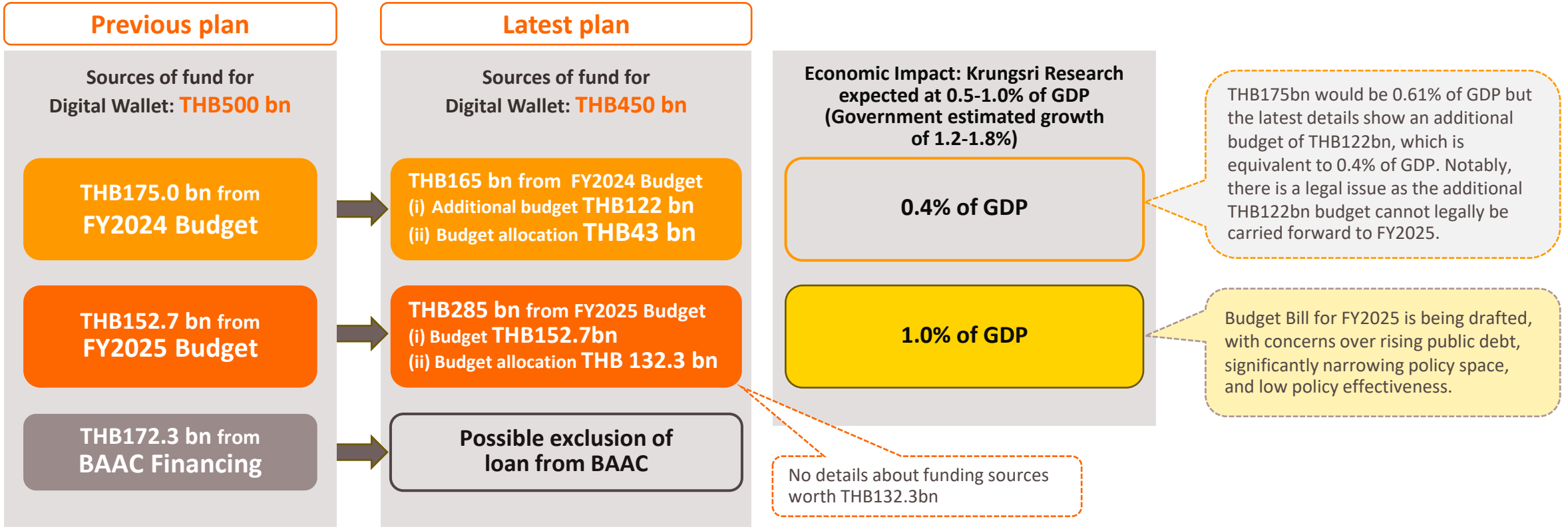


Note: The number in brackets represents each sector's employment (mn persons) in 2023.
Manufacturing (Structural) includes textile and apparel, petrochemical products, basic metals, and HDD. Tourism-related includes hotel and restaurant, and recreation.

Source: NSO, BOT and Krungsri Research

Digital Wallet: Funds to finance this project adjusted to THB450bn, coming from FY2024 and FY2025 budgets, estimated to contribute 0.5-1.0% to GDP

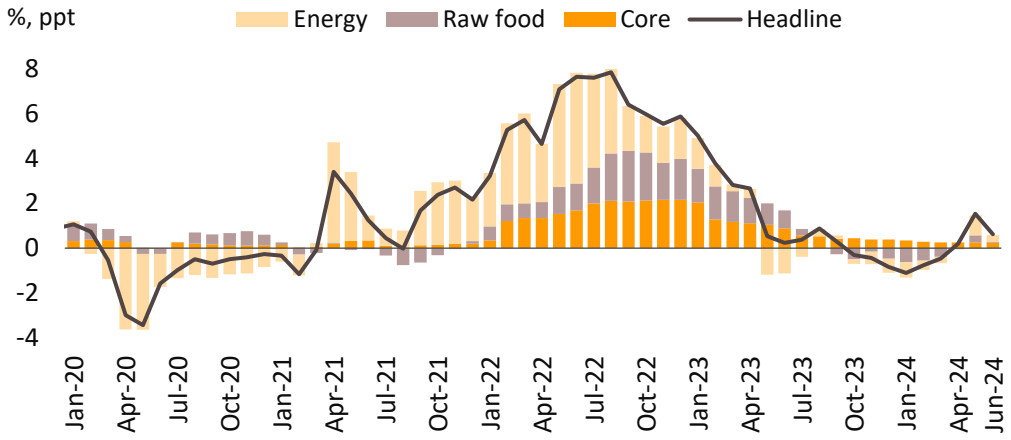
The sub-committee that oversees the 10,000-Baht digital wallet project met on July 10. Following that, they announced a preliminary plan to reduce the budget for the project from THB500 bn to THB450 bn. They also decided funding would come from the annual budgets for FY2024 and FY2025. Regarding economic impact, this program is expected to stimulate private consumption. The government still expects the program to boost economic growth by 1.2-1.8%. **Krungsri Research estimates it would contribute 0.5-1.0% to GDP** as (i) there is uncertainty over budget allocation and legal issues. The additional THB122bn budget, by law, cannot be carried forward to FY2025 (which starts in October 2024) right away; (ii) there are lingering concerns over the effectiveness of this program (due to relatively low multiplier effect) and (iii) uncertainty over source of funds for the THB 132.3bn budget allocation for the program. According to a survey, 80% of digital wallet recipients would reduce their regular spending and opt to save money or repay their debts. The impact of this program will also depend on when the project is rolled out and other details.



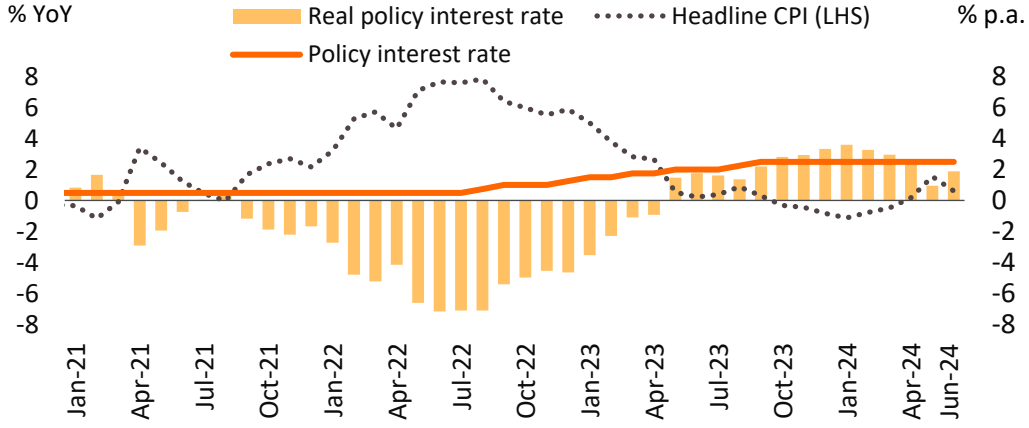
Source: NESDC, Local press and Krungsri Research

Headline inflation eased below official target in June, BOT signaled it would keep *policy rate* at 2.50% this year

Contributors to inflation



Real policy interest rate



Source: MOC, BOT, Krungsri Research

Consumer Price Index: Major categories

Consumer Price Index (% YoY)*	Weight	2022 J F M A M J J A S O N D	2023 J F M A M J J A S O N D	2024 J F M A M J
Headline CPI	**100%**			0.62
Food & beverages	41.8%			0.48
Apparel & footwears	2.1%			-0.53
Housing & furnishing	21.9%			-0.82
Medical & personal care	5.4%			0.12
Transportation & communication	23.3%			2.41
Recreation & education	4.2%			0.71
Tobacco & alcoholic beverages	1.3%			1.53
Raw food	21.3%			0.19
Energy	14.2%			2.43
Core CPI	**64.5%**			0.36

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

Krungsri Research's view

- **Headline inflation cooled from 1.54% YoY in May to 0.62% in June,** thanks to the ending of changes to electricity prices and baseline effects in May, and the onset of more favorable weather that has fed into a drop in prices for fresh food. Core inflation, which excludes raw food and energy prices, eased from 0.39% to 0.36%. **In 1H24, headline and core inflation rates averaged 0% and 0.41%, respectively.**
- Having briefly returned to the target range for the first time in 13 months in May, headline inflation dropped back under the target in June. We see inflation gradually rising through 2H24 and possibly hitting the 1-3% target in 4Q24. **For the whole of 2024, headline inflation is expected to average just 0.7%.** Price increases are being curbed by: (i) normalizing yields of agricultural goods following the end of excessively hot weather; (ii) assistance with household electricity bills, part of government measures to help with the cost of living; and (iii) slow economic recovery and weak demand, as reflected in still-low core inflation. However, the reduction in subsidies could put upward pressure on inflation, while external factors, including the uncertain geopolitical outlook, could push up oil prices and freight charges, which would add to the production cost.
- **Policy rate outlook.** The BOT governor acknowledged that the economy is growing slowly, but it is returning to its growth potential. He added that the current level of interest rates is appropriate based on the BOT's "outlook-dependent" approach. The BOT has also expressed its concerns over structural problems in the manufacturing sector, intensifying competition from overseas players, and persistent, high household debt levels. Coupled with expectations of higher inflation going forward, **the MPC to keep the policy rate at 2.50% throughout 2024.**

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