

krungsri Research

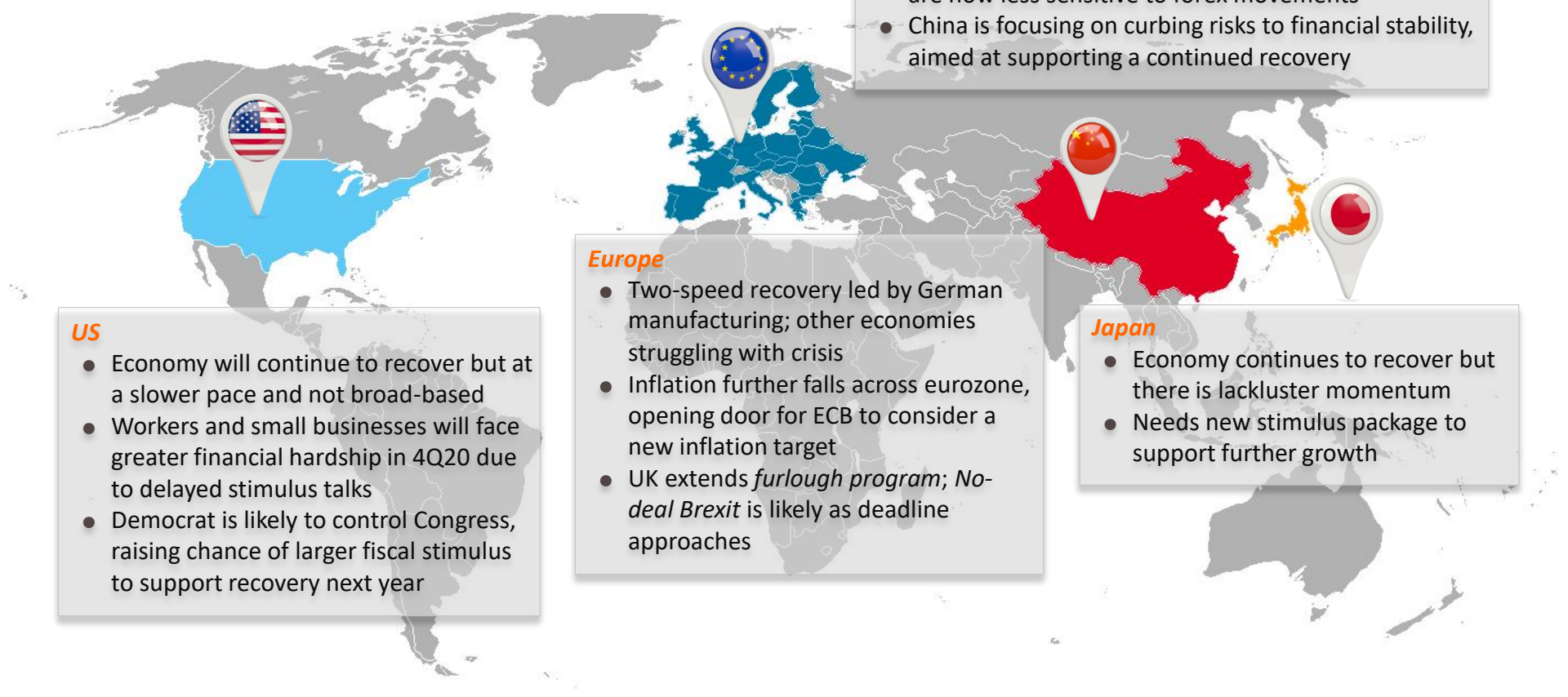
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MONTHLY ECONOMIC BULLETIN

October 2020

Krungsri Research

Global: Fragile and fragmented rebound



China

- Economic recovery is more broad-based; consumption and services sectors will rebound
- Yuan should continue to appreciate; China exports are now less sensitive to forex movements
- China is focusing on curbing risks to financial stability, aimed at supporting a continued recovery

US

- Economy will continue to recover but at a slower pace and not broad-based
- Workers and small businesses will face greater financial hardship in 4Q20 due to delayed stimulus talks
- Democrat is likely to control Congress, raising chance of larger fiscal stimulus to support recovery next year

Europe

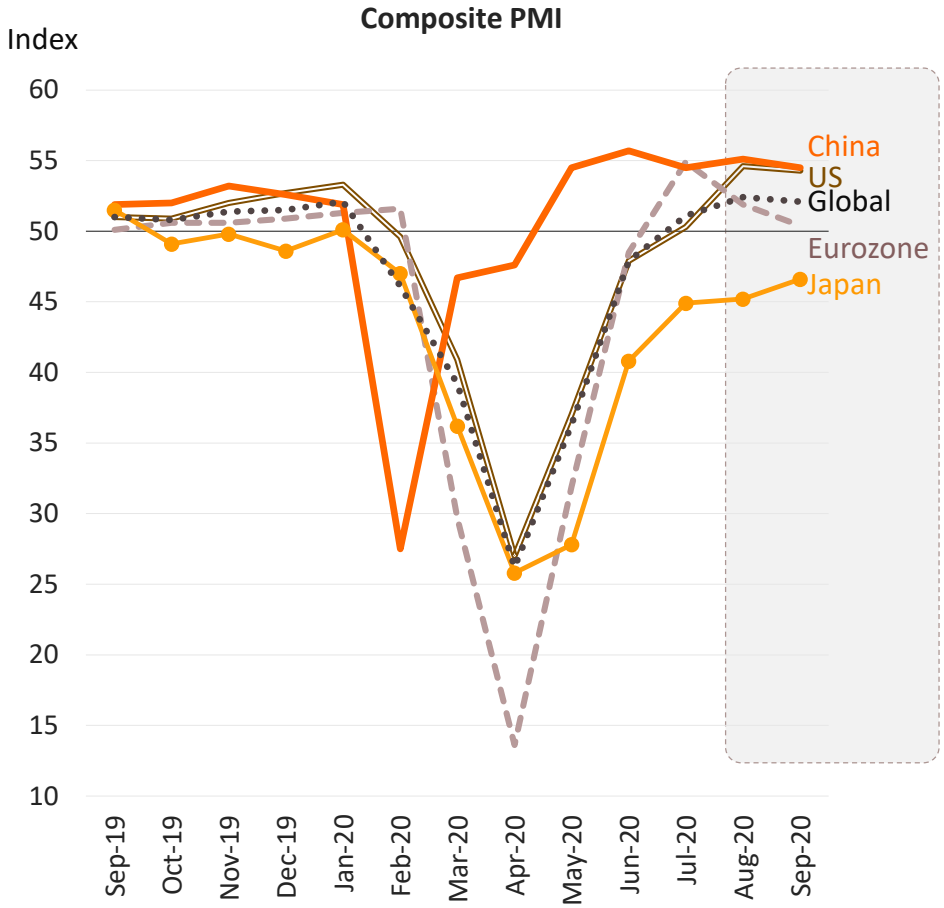
- Two-speed recovery led by German manufacturing; other economies struggling with crisis
- Inflation further falls across eurozone, opening door for ECB to consider a new inflation target
- UK extends *furlough program*; *No-deal Brexit* is likely as deadline approaches

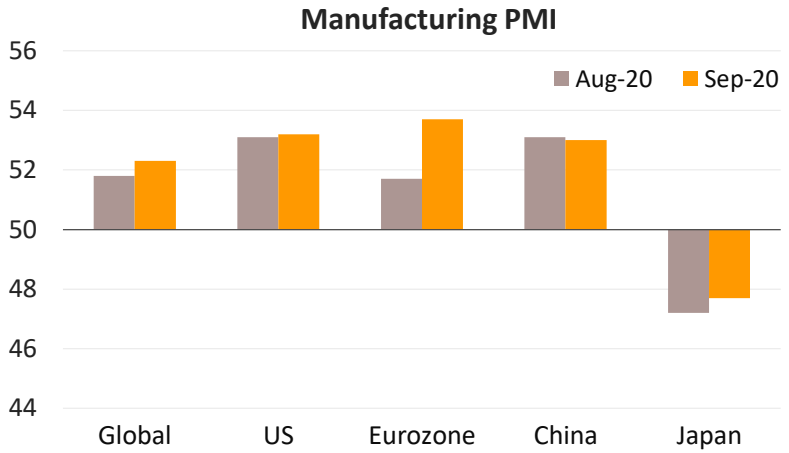
Japan

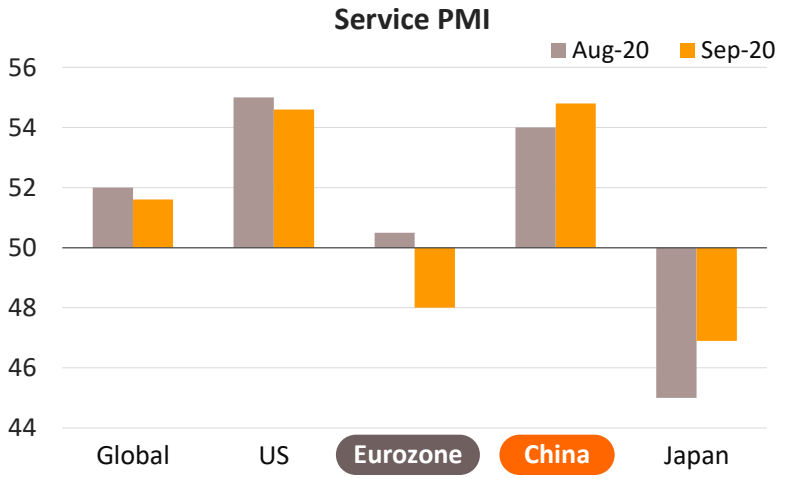
- Economy continues to recover but there is lackluster momentum
- Needs new stimulus package to support further growth

China and US lead global recovery; Eurozone activity lose momentum; Japan rebounds at a slow pace

Global overall economic activity, indicated by the Composite PMI, was stable in September led by growth in China and the US. Despite a rebound in the manufacturing sector, overall activity in Eurozone tumbled for the second consecutive month dragged by the services sector due to restrictions following a resurgence in COVID-19 cases. In Japan, Manufacturing and Services PMI data continued to rise but remain below 50.0, indicating a further contraction in economic activity.



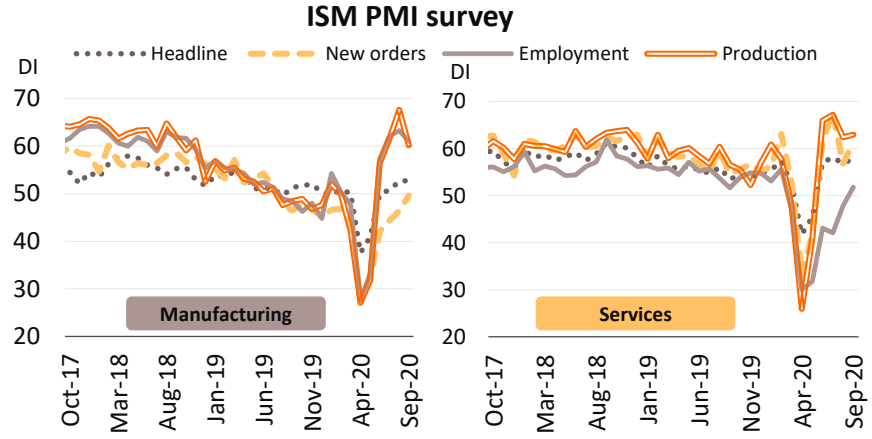


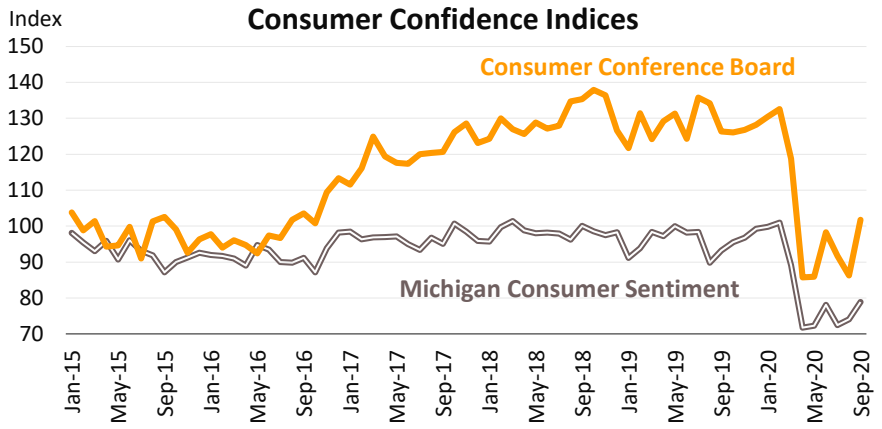


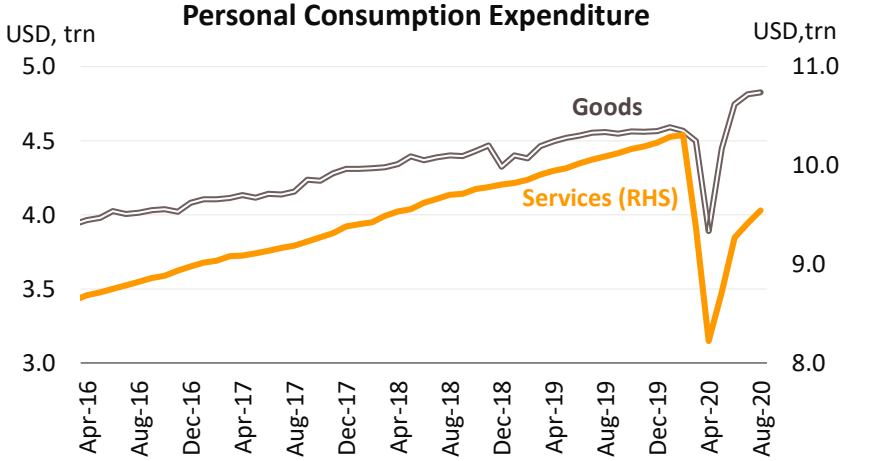
Source: Bloomberg, Markit, Krungsri Research

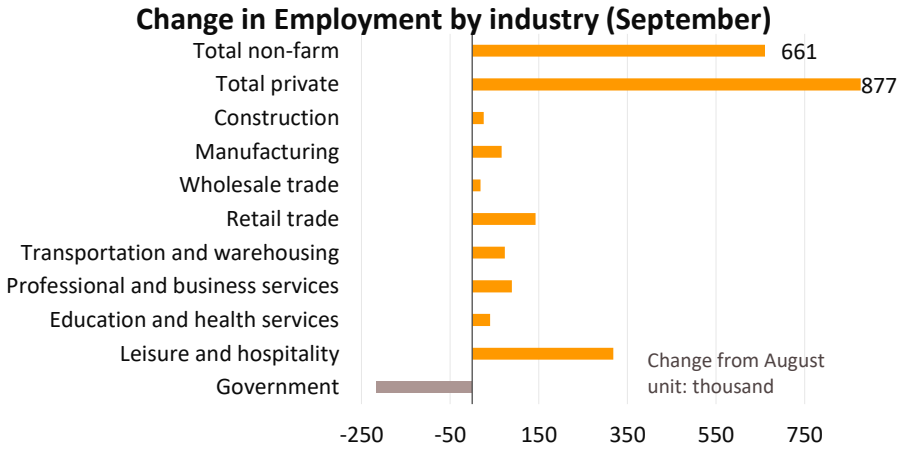
US: Economy continues to recover but at slower pace and is not broad-based

US economy continues to recover but it is not broad-based. Manufacturing PMI fell to 55.4 in September from 56.0 in August, as new orders declined. Services PMI inched-up 0.9 point to 57.8 in September, suggesting the first expansion in employment sub-index since the pandemic. Consumer Confidence Index surged 15.5 points to 101.8 in September supported by rising sentiment among the wealthier group, as unemployment among the lower-income group remained high. Personal Consumption Expenditure (PCE) on goods has rebounded to above pre-pandemic level since June. In contrast, Services PCE lagged and remained below pre-outbreak level, suggesting a long road to recovery. Total private payrolls rose by 877k with non-farm payrolls rising by 661k jobs in September, slower than a 1.489 mn increase in August, due to a reduction in government hiring as pandemic restrictions encouraged online learning. This suggests the next phase of recovery will shift to lower gear.





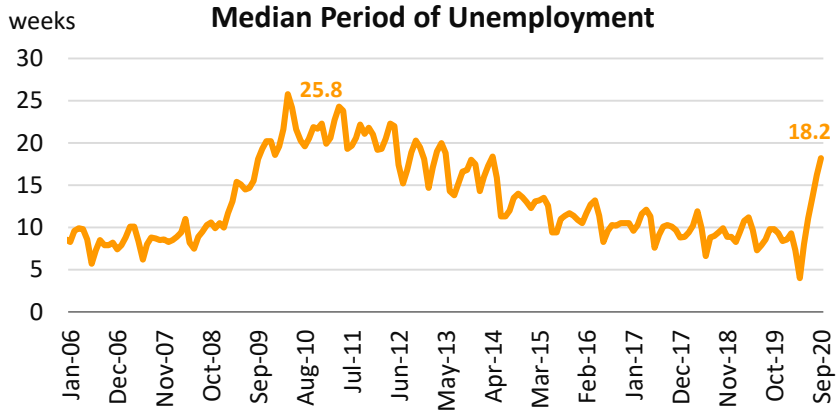


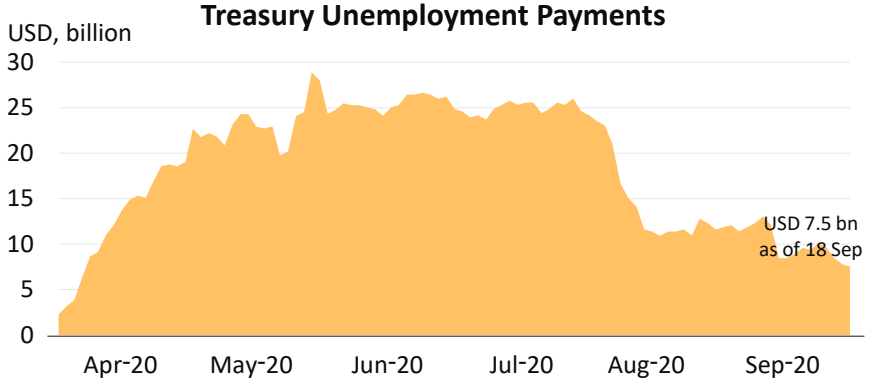


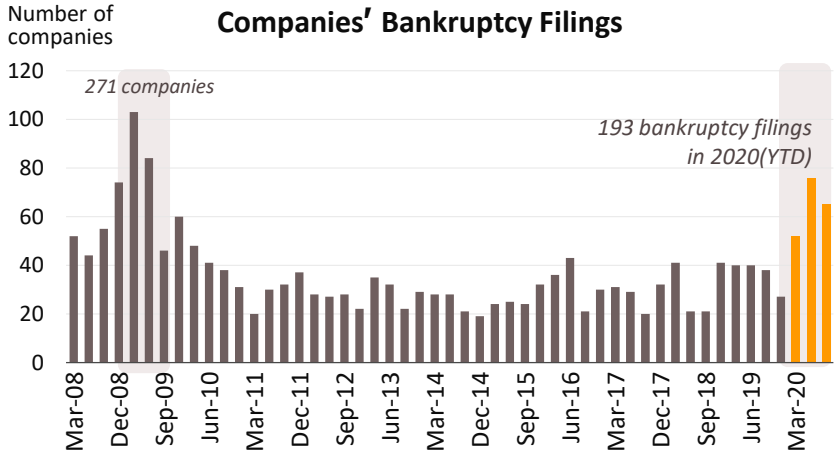
Source: Institute for Supply Management (ISM), Bureau of Labor Statistics (BLS), Bureau of Economic Analysis (BEA), Michigan University, Bloomberg, Krungsri Research

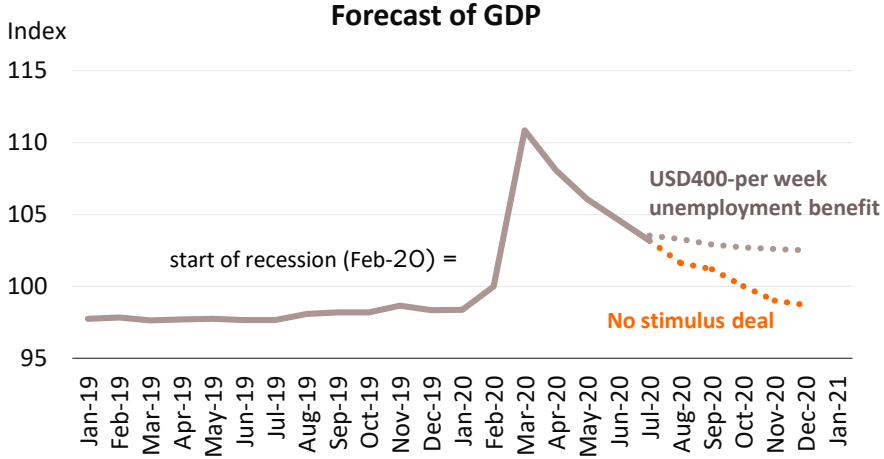
Workers and small businesses will face greater financial hardship in 4Q20 due to delayed stimulus talks

Delays in the fiscal stimulus package continue to hurt workers and small businesses. A government survey shows the median period of unemployment has risen to 18.2 weeks, the highest since 2010. Payments of jobless benefits has dropped to USD7.5 bn as at 18 September, reflecting treasury is running out of funds to support those who have lost jobs. In the business sector, 193 companies have filed for bankruptcy in the first nine months of 2020. This is 64% higher than in the same period last year, reflecting a tough business environment. The deadlock between White House and Democrat over a new stimulus package means there is no fresh relief for struggling businesses and the unemployed. Fed Chair Jerome Powell warned the delay would jeopardize the recovery trajectory. Without fresh stimulus, 4Q20 GDP growth would be 5 percentage points below the estimated growth in the USD400-per week unemployment benefits scenario.



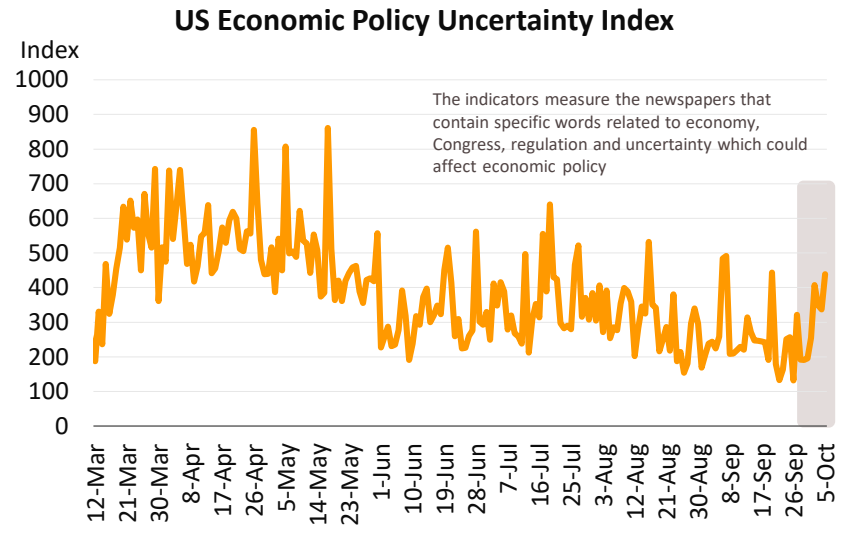


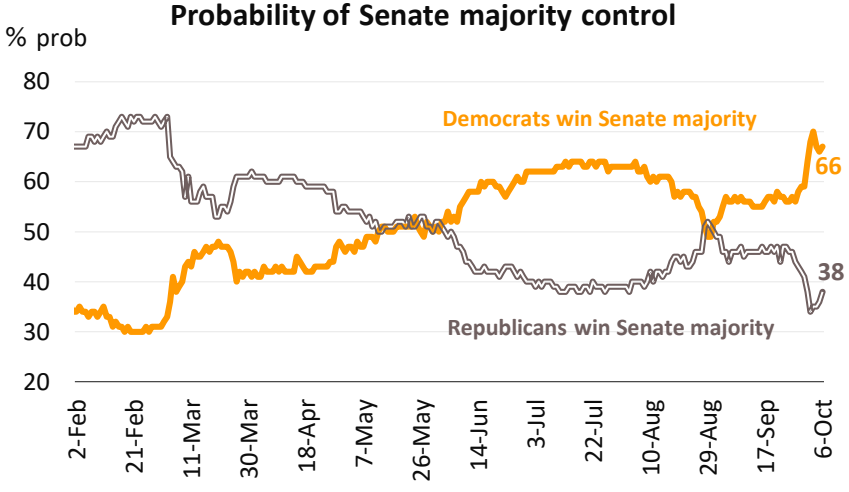


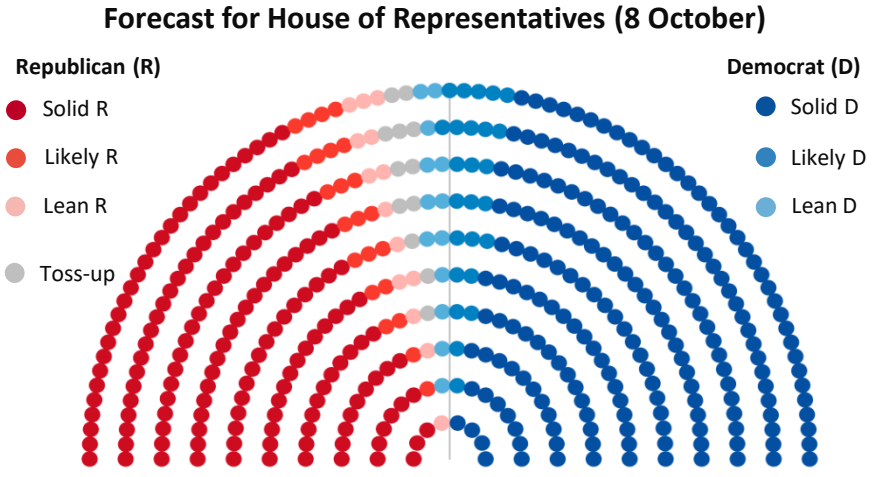


Source: Bureau of Labor Statistics (BLS), Bureau of Economic Analysis (BEA), Federal Reserve Bank of St.Louis, U.S. Department of Treasury, Bloomberg, Krungsri Research

Democrat is likely to control Congress, raising chance of a larger fiscal stimulus to support recovery next year







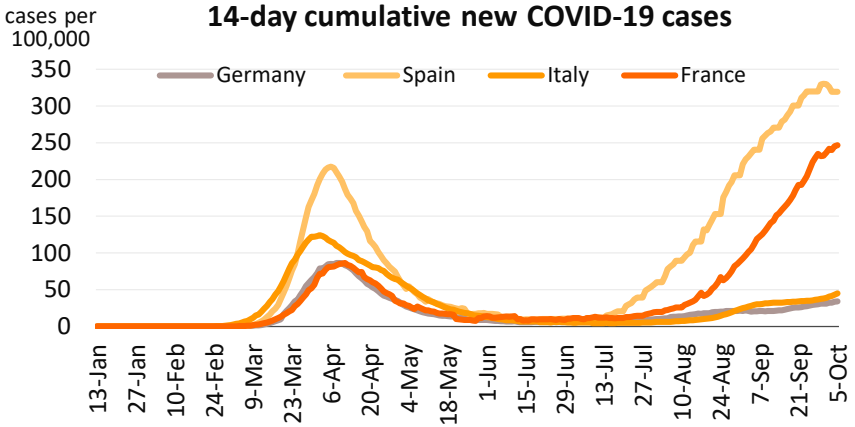
Krungsri Research's view

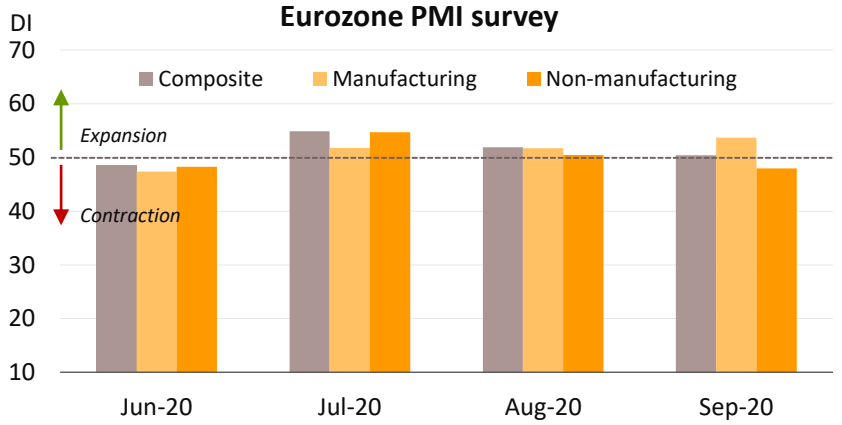
- News of Trump testing positive for COVID-19 has increased the odds of Biden winning. Uncertainty increased a few days after the first debate, with the US Economic Policy Uncertainty Index rising from 195 to 407, reflecting a sense of chaos in economic policy.
- **Market forecasts suggest Democrat will return to control House and possibly, Senate.** The upcoming poll will see the election of 435 House representatives and 35 out of 100 senators. The latest poll shows Biden is leading, and Democrats would have majority in the House with 232 seats, Republicans 191 seats. It would be a coin toss for the remaining 12 seats. In the Senate, the prediction is 66% chance of Democrat securing majority control. This implies Democrats could have a sweeping win
- On the fresh stimulus bill, Congress is unlikely to pass the bill before the election even if the economy is faltering. However, a Democrat win could benefit the economy more with a USD2.2 trn stimulus budget compared to the USD1.6 trn proposed by the White House. This would support the US economic recovery next year.

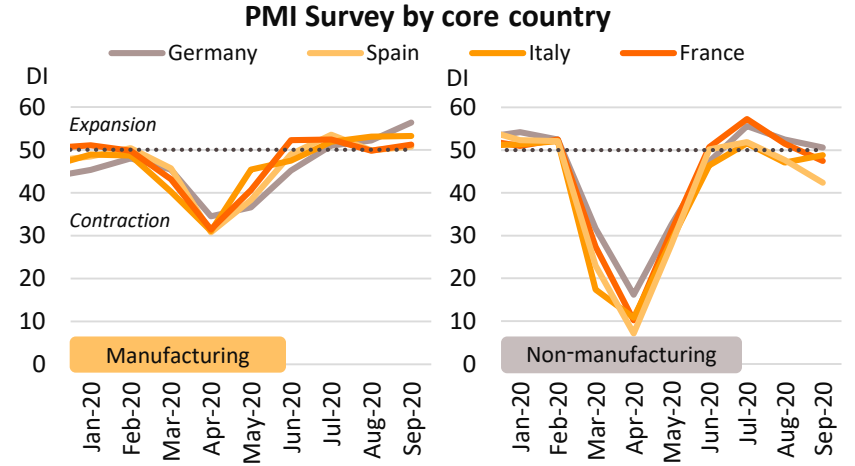
Source: Predictit.org, ABC News, Economic Policy Uncertainty (EPU), Bloomberg, Krungsri Research

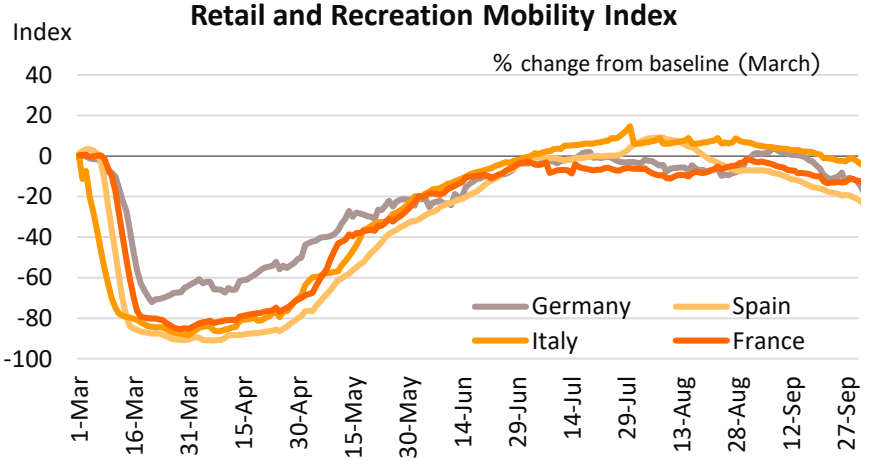
Europe: Two-speed recovery led by German manufacturing; other economies struggling with crisis

The number of news COVID-19 cases continue to surge in Spain and France, exceeding highs in March and April. This has forced those countries to reimpose restrictions. The Eurozone is seeing a two-speed recovery. Manufacturing PMI rose to 53.7 in September led by a solid rebound in Germany. However, the Composite PMI edged down to 50.1 in September from 51.9 in August as Non-Manufacturing PMI slipped to 48.0, suggesting a return to contraction territory. By country, Germany's Non-Manufacturing PMI edged down to 50.6 in September while Spain booked the largest drop to 42.4 from 47.7 in the previous month. The rest of this region continues to see a fragile recovery, especially Spain where the retail and recreation mobility index has fallen sharply since mid-August to below those of other major countries.



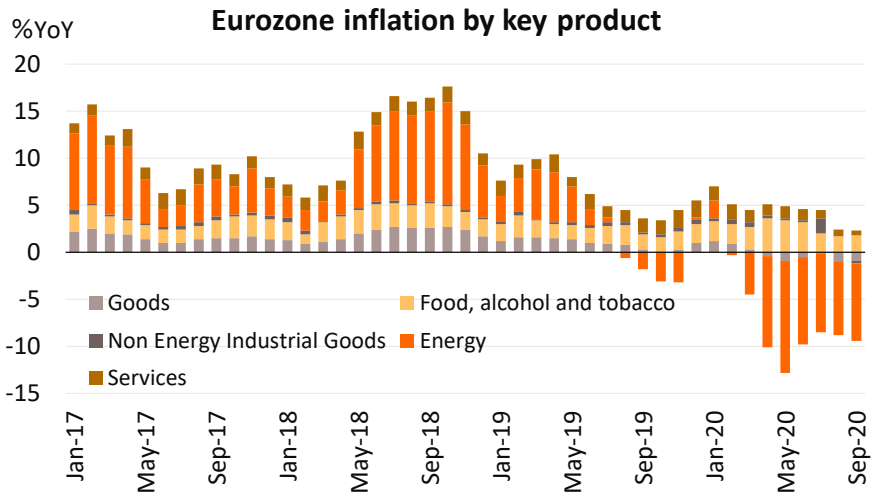


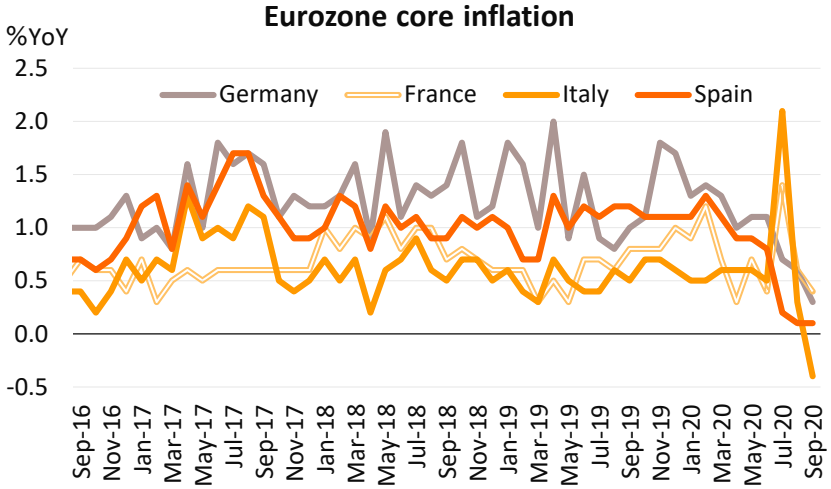


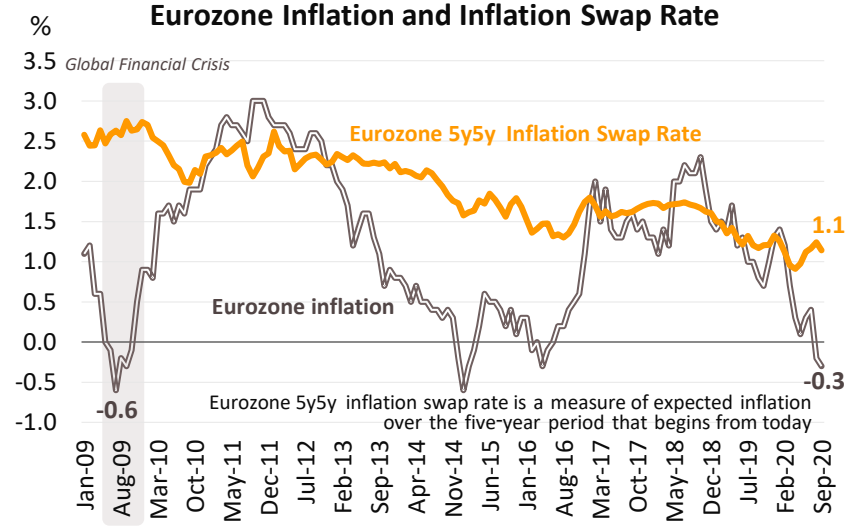


Source: European Centre for Disease Prevention and Control, IHS Markit, Eurostat, Krungsri Research

Inflation further falls across eurozone, opening door for ECB to consider a new inflation target







Source: European Central Bank (ECB), Eurostat, Bloomberg, Krungsri Research

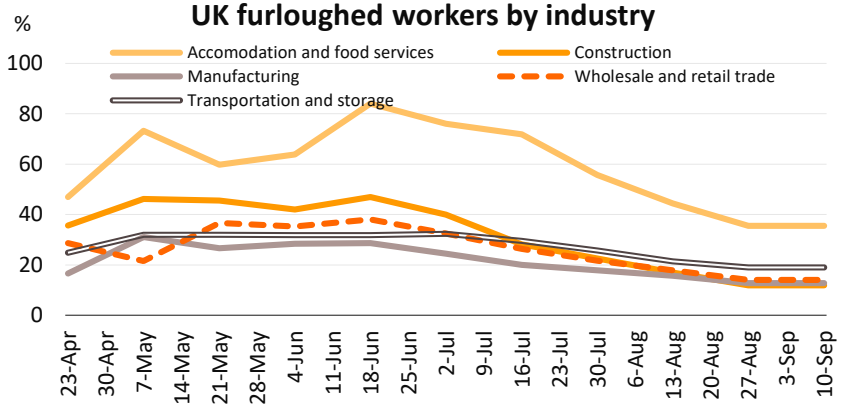
Krungsri Research's view

- Eurozone headline inflation fell from -0.2% YoY in August to -0.3% YoY in September, the lowest since 2016, due to the continual drop in energy prices and temporary VAT reduction in Germany. Core PCE softened to 0.2% led by clothing and footwear, due to the extension of summer sales season, a stronger Euro currency, and subdued demand.
- Although inflation is still above 2009 level, it has fallen substantially and not yet recovered. Lower core inflation across the eurozone has added to the ECB's concerns about deflationary pressure. Inflation swap rate has plunged to a new low of 1.1% in September, indicating inflation expectations were anchored to a lower level than the previous crisis
- ECB president Lagarde seems to be more dovish after suggesting the ECB would consider a *"higher and systemmetric"* average inflation target in the policy review in 2021. Even as fears of deflation escalate, **we maintain the next policy easing would be in early 2021 rather than end 2020,** because the ECB did not discuss this issue at the September meeting and it would not reach the ceiling for asset purchases until the second half of 2021 given the current pace of purchases.

UK extends furlough program; *No-deal Brexit* is likely as deadline approaches

More than 5 million people (17.7% of UK workforce) are under the furlough program, most in the accommodation and food services industries. The government has extended the program (originally supposed to expire October this year) to April 2021 under the Winter Economic Plan. However, the UK is facing other issues. The Brexit deadline is approaching and there is rising risk of a *No-deal Brexit*. Johnson has set the deadline for an agreement for 15 October but the latest Internal Market Bill is threatening EU trade talks, and both parties might have to accept the risk of not having a trade agreement. This could send the UK into a tougher period. Brexit had cost the UK GBP132bn (6% of GDP) since 2016 and would cost another GBP70 bn in 2020 (3.2% of GDP). A *No-deal Brexit* would also hit other economies, especially in the EU. It could lead to over 700k job losses in EU companies, particularly major exporters to the UK. Germany would be the hardest hit, losing 175k jobs, followed by China (91k), France (80k) and Poland (78k).

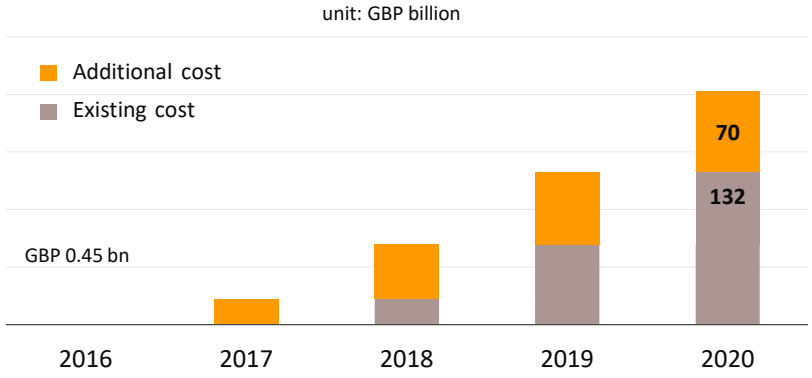
UK furloughed workers by industry



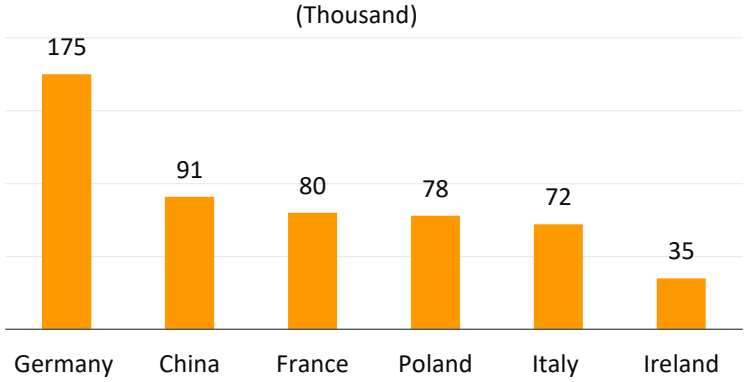
Brexit Transition Timeline

Date	Key events
29 September - 2 October	9th round of UK-EU negotiations
15-16 October	Last European Council meeting to adopt a deal
26 November	Deadline for deal to be presented to the European Parliament
31 December	End of transition period

Cumulative cost of Brexit to UK economy



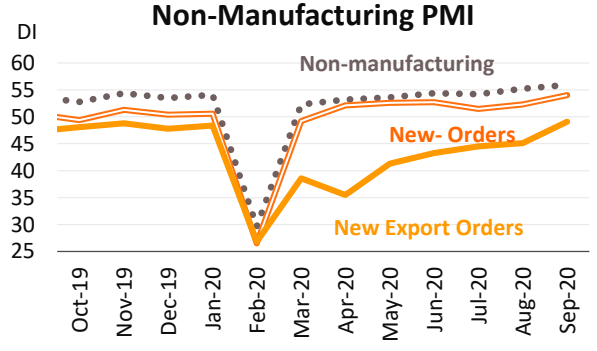
Number of job losses under no-deal Brexit scenario

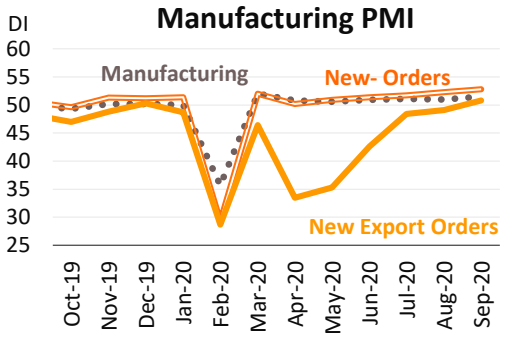


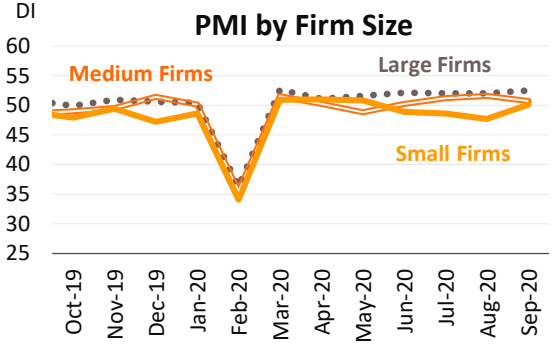
Source: European Commission, Office of National Statistics (ONS), Halle Institute for Economic Research, Financial Times, Bloomberg, Krungsri Research

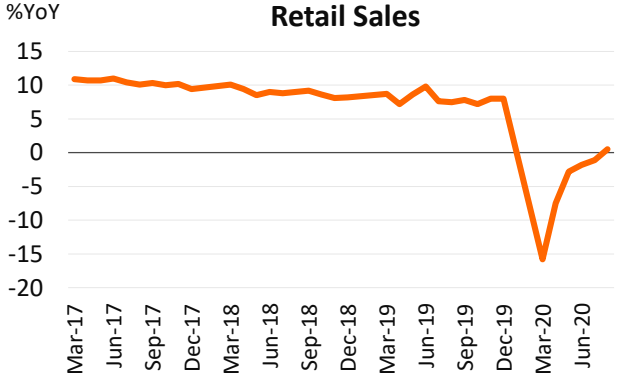
China: Economic recovery is more broad-based; consumption and services sectors will rebound

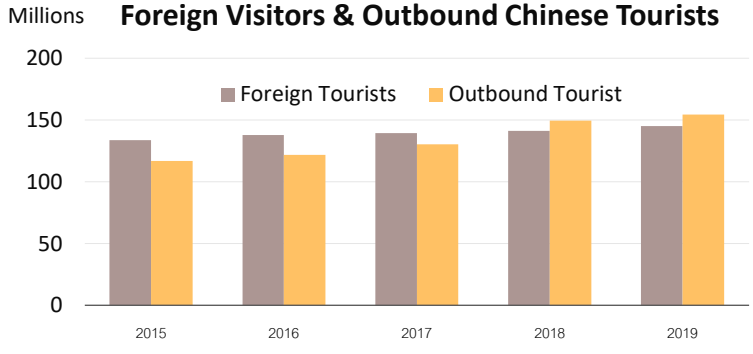
September Manufacturing PMI rose to a 6-month high of 51.5, while Non-Manufacturing PMI jumped to a 6-year high of 55.9. Recovery is gaining strength with the new export orders component of the Manufacturing PMI rising above 50.0 for the first time in 8 months. **Recovery is also more broad-based as PMI data by firm size are all showing expansion, especially for small firms which rose to 50.1.** More importantly, **retail sales turned positive in August, for the first time since the COVID-19 outbreak, suggesting household spending is picking up. And, China's tourism industry has recovered during the 8-day Golden Week holiday. Although the number of domestic tourists were below last year's level, it reached 637 million travelers and generated CNY467bn receipts compared to 115 million travelers and CNY47.6bn receipts during the 5-day Labor Day holiday in May.** In fact, domestic tourists in China accounted 97% of total tourists, while foreign visitors accounted for only 3%. Moreover, Chinese tourists who had plans to travel abroad will switch to domestic destinations, which would lift domestic spending and the services sector. **Looking forward, the stronger recovery in the services sector and continued expansion in the manufacturing sector would support overall economic growth in the periods ahead.**

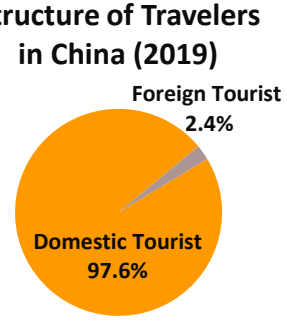








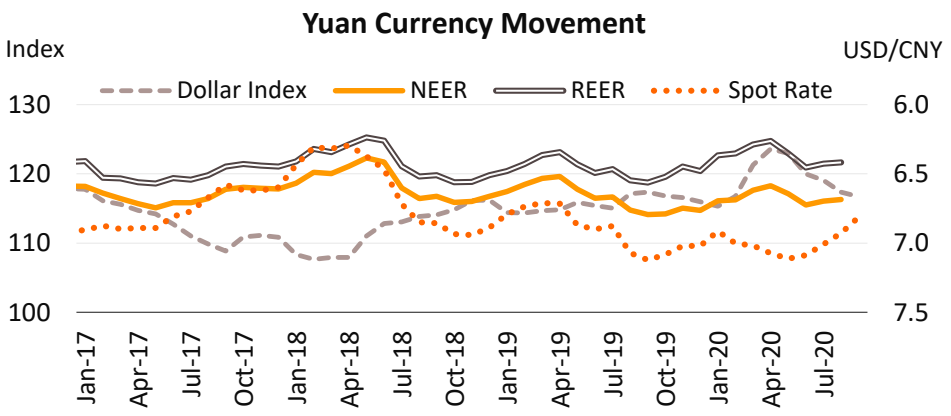


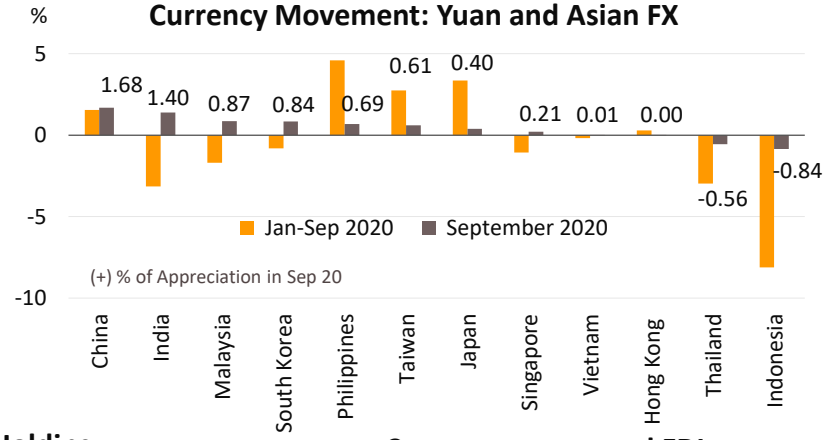


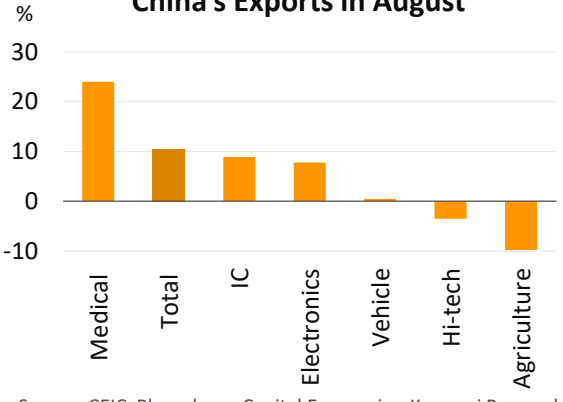
Source: National Bureau of Statistics, Ministry of Culture and Tourism, Caixin, HIS Markit, CEIC, Capital Economics, Bloomberg, Krungsri Research

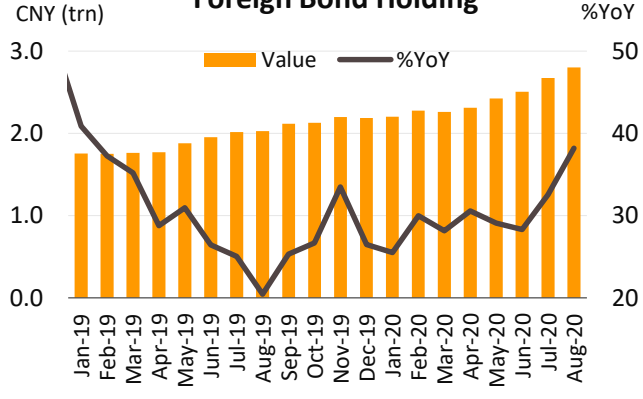
Yuan to appreciate further; China exports are now less sensitive to foreign exchange movements

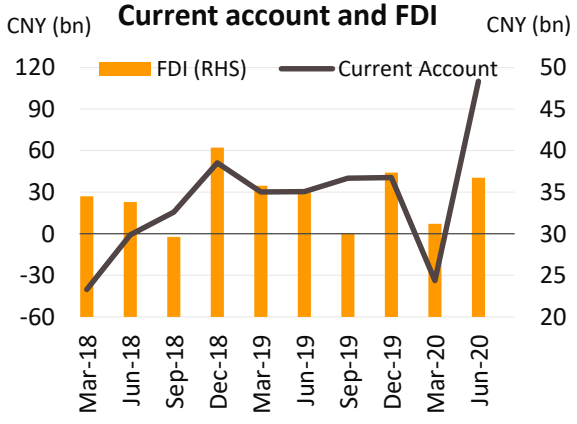
In September, the Yuan appreciated 1.68% against the US dollar to 6.81, the strongest in 16 months. This is the highest appreciation among peers. **Looking ahead, the Yuan should continue to appreciate because the stronger economic recovery would attract foreign funds into China through bonds and foreign direct investment.** The Yuan would be driven by a continued surplus in the country's current account balance, policy to promote the Yuan as an international currency, a weaker US dollar, and strong possibility of a Democrat winning the US Presidential election. **It should not have large impact on Chinese exports because several of its key export products are necessities and inelastic to changes in foreign exchange rates, such as medical products and IC** which are in-demand in the COVID-19 era and work-from-home and social distancing policies. Despite the stronger Yuan, August exports grew 10.5% YoY led by medical product (+24%). **The appreciating yuan will also strengthen its role in "dual circulation" because it would benefit imported-content infrastructure investment, which will be one of China's major growth drivers.**









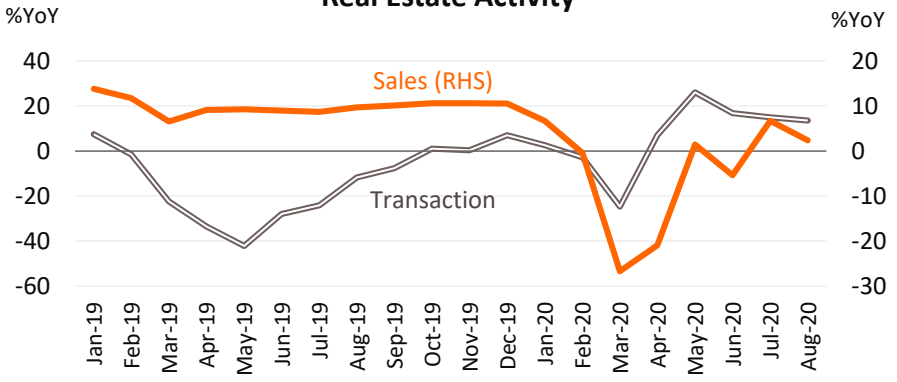


Source: CEIC, Bloomberg, Capital Economics, Krungsri Research

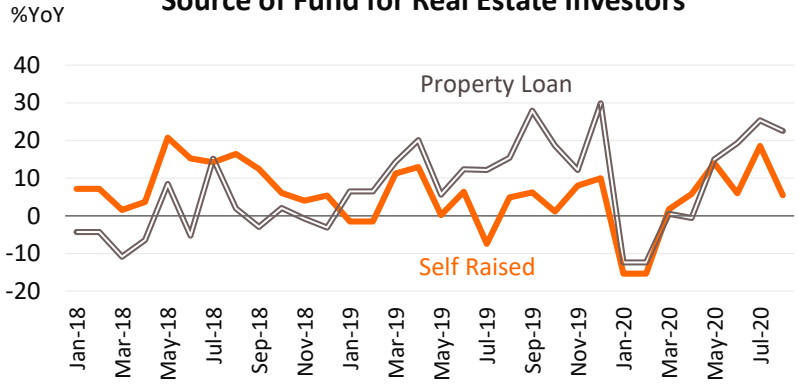
China is focusing on curbing risks to financial stability to support a continued recovery

Chinese authorities are focusing more on some sectors to prevent bubbles and financial instability, although these measures could sacrifice accelerating higher growth. Since the COVID-19 outbreak in China – which had hit the nation hard - the central bank (PBOC) has injected liquidity and cut interest rates, which led to lower mortgage rates. **As a result, property sales and transactions picked up rapidly and led to excessive demand and higher leverage for developers.** To pre-empt risks, **the PBOC and Ministry of Housing announced they were drafting the "*Three Red Lines*" regulation, where real estate developers who want to refinance will be required to pass financial soundness assessment.** This regulation will be launched on 1st January 2021, but its announcement has caused property loans to drop and slowed down real estate activity, which could reduce bubble risk. And, there were also signs of rising non-performing loans, especially at city commercial and rural commercial banks. **Therefore, the PBOC encourages small and local banks to merge and strengthen their capital buffer. These measures would reduce risk of insolvency & default and support financial stability. This could rein in growth in some risk sectors but the overall economy would continue to expand in the next period.**

Real Estate Activity



Source of Fund for Real Estate Investors



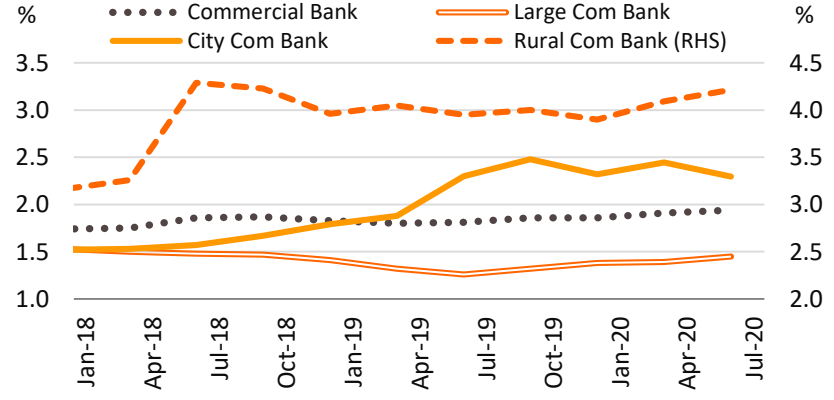
The Three Red Line Criteria

For developers who want to refinance, they will be assessed against **three red lines**, or **thresholds**:

- A 70% ceiling on liabilities to assets, excluding advance proceeds from projects sold on contract;
- A 100% cap on net debt to equity;
- A cash to short-term borrowing ratio of at least one.

If all three are breached, the company won't be allowed to increase its debt in the following year.
If it passes all three, it can increase its debt a maximum of 15% in the next year.

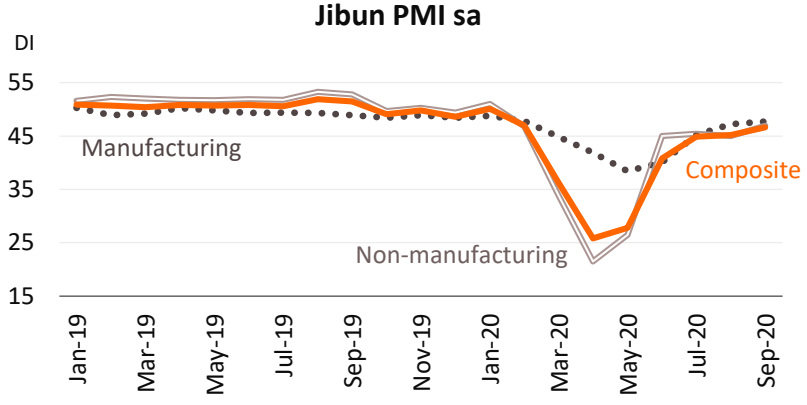
Non-Performing Loan

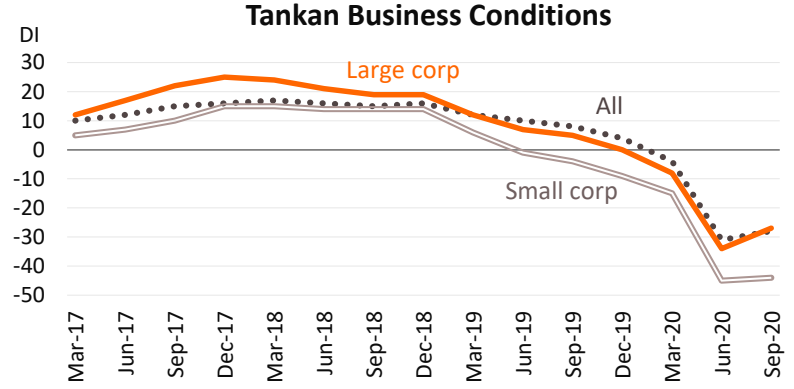


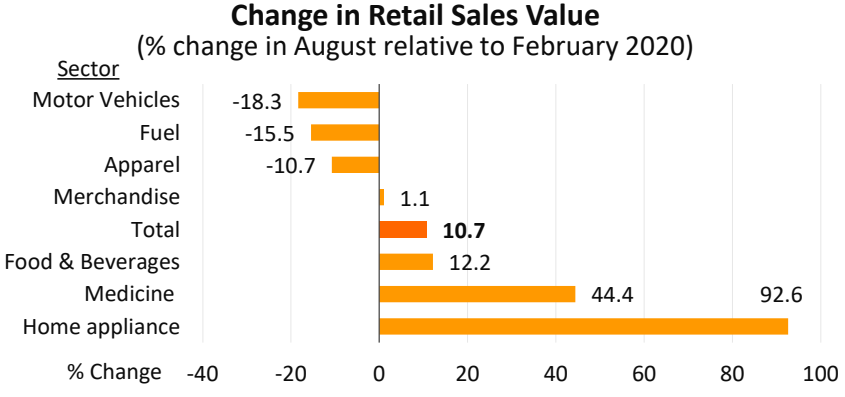
Source: CEIC, Bloomberg, Capital Economics, Reuters, Xinhua, Krungsri Research

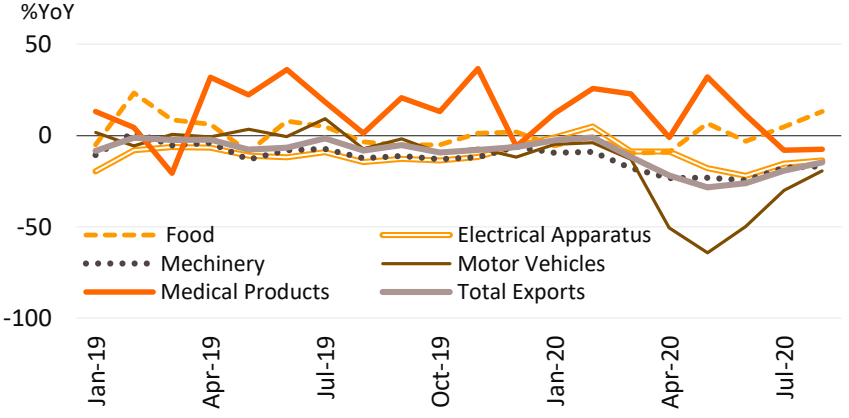
Japan: Economy continues to recover gradually but lackluster momentum

The overall economy is slowly recovering. September Jibun PMI has been improving, reflected by an increase in Manufacturing PMI to a 7-month high of 46.6 and Non-Manufacturing PMI to an 8-month high. **But several economic indicators remained sluggish. The Tankan Business Condition indices for large and small manufacturers picked up in 3Q20** but remained in negative territory and below pre-pandemic levels. **Retail sales continued to improve in August, albeit still in contraction territory.** Sale of vehicles, fuel and apparel dropped sharply, while sale of food & beverage, medicine and household appliances picked up. **Based on a household survey in August, people saved 44% of their income instead of spending,** the highest saving rate since 1992, indicating consumers are still cautious. On the external front, **exports dropped by 12.1% YoY in August, the 13th straight month of decline.** Major export items continued to suffer from weak global trade, particularly vehicle (-19.4%), machinery (-16.8) and electrical appliances (-13.6%). **Subdued demand in both domestic and external sectors imply the Japanese economy remains weak and needs additional stimulus measures to support the recovery process in the next period.**









Source: CEIC, Capital Economics, Bloomberg, Krungsri Research

Needs new stimulus package to support further growth

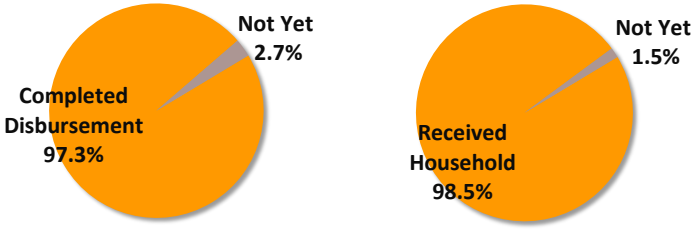
The Japanese government has introduced two fiscal stimulus package since the COVID-19 pandemic, but **overall economic activities remain weak, especially demand. This suggests a need for fresh fiscal supports to boost recovery.** Most of the fiscal stimulus supports have been in the form of transfers to firms and households to maintain employment and business operations. At the end of August, the government revealed that 98.5% of households had received the JPY 100,000 cash aid, implying direct support to boost household spending would end soon. However, vulnerable households may still need assistance. **Recently, Suga's cabinet started to work on the third supplementary budget for the new stimulus package, which is expected to be compiled as early as in November 2020 and then be submitted to the House of Representatives before January 2021.** The third package is expected to mostly support the services sector and include additional cash aid. **The new stimulus package would help to boost domestic spending, but it remains unclear if it can generate sufficient multiplier effect to sustain overall economic growth going forward.**

Total Size of Fiscal Stimulus and Supplementary Budget (Unit: JPYtrn)

Measures	First Fiscal Stimulus	First Supplementary Budget	Second Fiscal Stimulus	Second Supplementary Budget
Enhancing treatment	2.5	1.8	N/A	3.0
Maintaining Employment	80.8	19.6	N/A	14.1
Boosting Recovery	8.5	1.8	N/A	4.8
Supporting Economic & Social	15.7	0.9	N/A	-
Additional Measures	9.6	1.6	N/A	10.0
Total	**117.1**	**25.7**	**117.1**	**31.9**

One-off JPY 100,000 per Household Cash Handout

(As end of August 2020)



Third Supplementary Budget Proposal

Key Measures	• Additional support for hardest hit sectors, especially hospitality and tourism • Additional cash aid • Lift minimum wage
Time Frame	• Submit proposed budget to House of Representatives in January • Expected to take effect no later than March 31 (end of FY2020)
Expected Size	JPY 42trn (7.6% of GDP)

Source: The Japan Cabinet Office, CEIC, Capital Economics, Bloomberg, Nikkei Asian Review, Kyudo News, Krungsri Research

Thailand: Still-sluggish recovery

Foreign tourist arrivals near-zero for the 5th consecutive month in August. Exports (excluding gold) saw double-digit contraction. Long-stay tourist visa will have minimal impact. Private consumption shrank after end of long holiday in July.

- There were near-zero foreign tourist arrivals in August. The government is allowing a selected group of foreign tourists to enter Thailand starting October. This is a positive sign but the impact will be limited. The authorities plan to admit only 1,200 tourists per month that is expected to generate about THB1bn receipts monthly; this is a small fraction of the 3mn visitors and THB150 bn monthly income pre-COVID.
- Merchandise exports fell by 7.9% YoY in August compared with -11.4% in July. Excluding gold, exports fell by 14.3% (same as July).
- Private Consumption Index (PCI) contracted 1.1% YoY, worse than -0.1% in July, as spending on non-durable goods and services declined after the long holidays in July. Private Investment Index (PII) fell by a slower rate of -4.6% in August (vs -7.5% in July). In September, Business Sentiment Index (BSI) rose for the fifth consecutive month following easing lockdown measures, but the Consumer Confidence Index (CCI) dipped on concerns over domestic political risks.

Manufacturing production continued to improve but concentrated in some sectors. Services sector recovery is slow with contraction in most sectors. Despite improving economic activity, labor market showed signs of weakening.

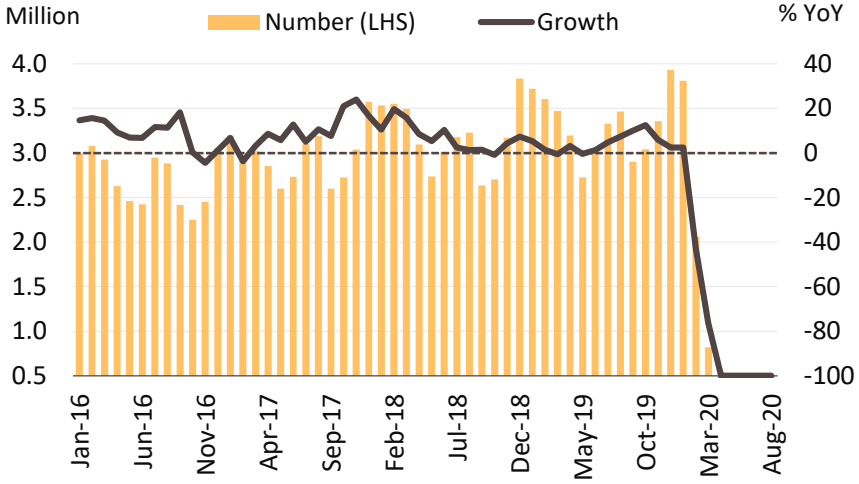
- The Manufacturing Production Index (MPI) dropped by 9.4% YoY in August, improving from -12.7% in July. However, this is the 16th straight month of contraction amid the prolonged impact on external and domestic demands. The Service Production Index (SPI) continued to recover slowly and remains far below pre-pandemic level, posting double-digit contraction for the 6th straight month at -12.9% YoY in August (vs -16.9% in July).
- Despite a rebound in economic activity, the labor market weakened. Layoffs and jobless claims continued to surge in August.

Economic relief package for 4Q20 is much smaller than recent schemes. MPC has a more pessimistic outlook for next year; likely to maintain policy rate this year and beyond.

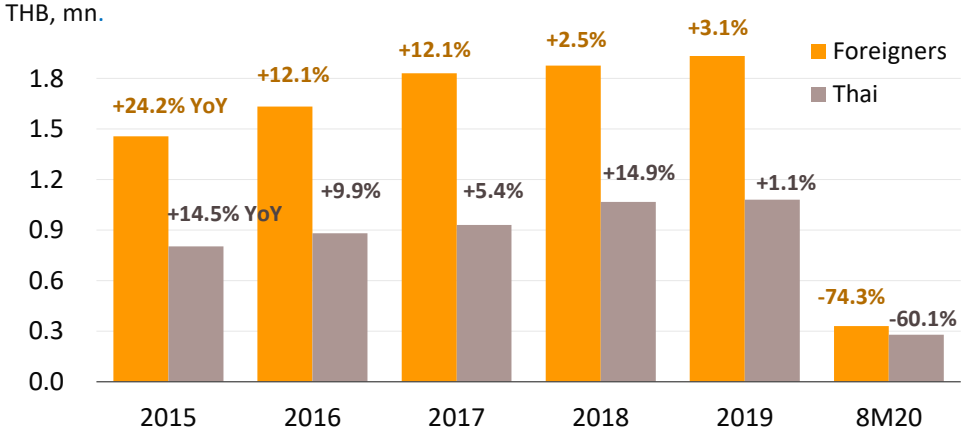
- In 4Q20, the government approved economic stimulus measures worth less than THB100bn compared to more than THB400bn in 2Q-3Q. Hence, the positive effects would be limited and risks would increase after the debt moratorium scheme ends on October 22.
- The BOT has downgraded 2021 GDP growth forecast but the MPC noted *"the level of overall liquidity in the financial system remains ample", suggesting* the MPC is unlikely to deliver more broad-based monetary stimulus such as rate cuts. The committee view that the *"overall economic activity would take at least two years before returning to the pre-pandemic level",* implying the MPC would maintain rock-bottom interest rates in the foreseeable future.

Foreign tourist arrivals at near-zero again in August; long-stay visa will have minimal impact

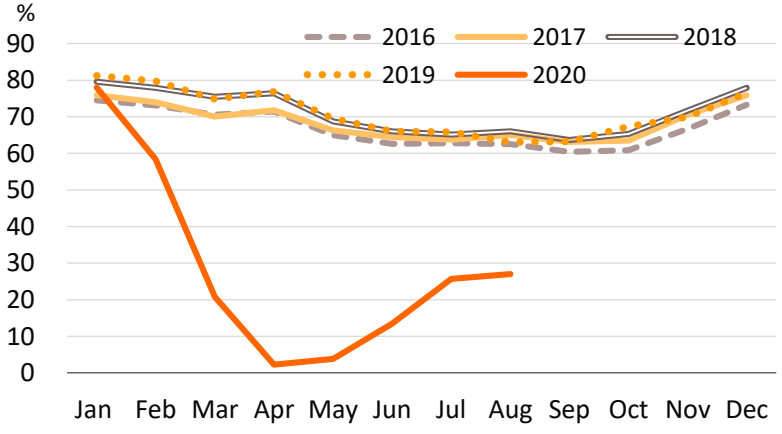
Foreign Tourist Arrivals



Tourism Receipts from Foreign and Thai Tourists



Nationwide Average Occupancy Rate

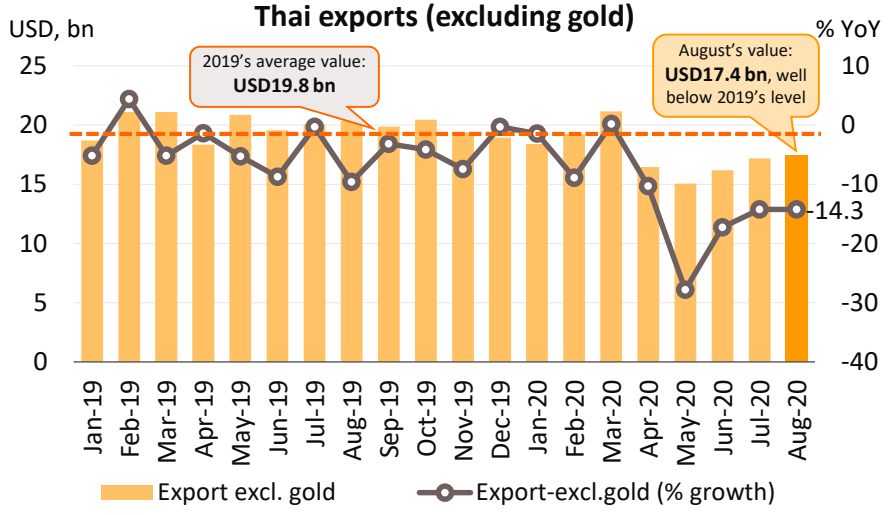


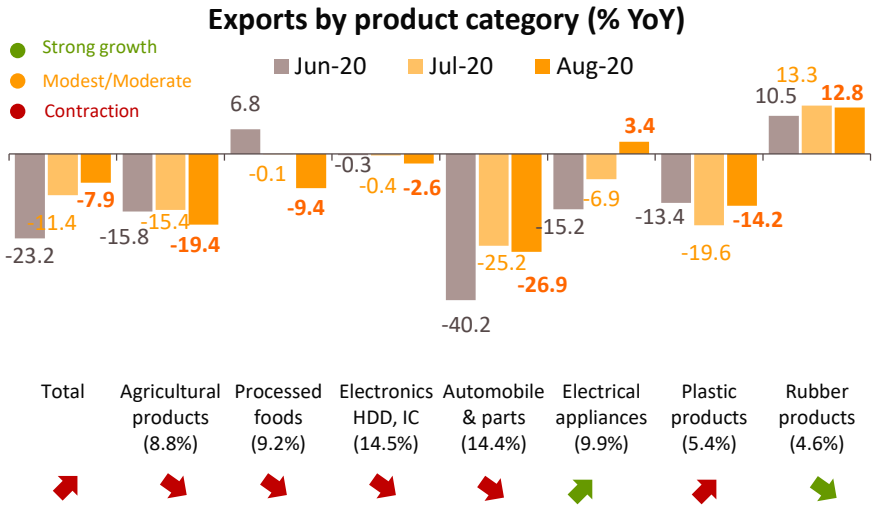
Source: MOTS, Krungsri Research

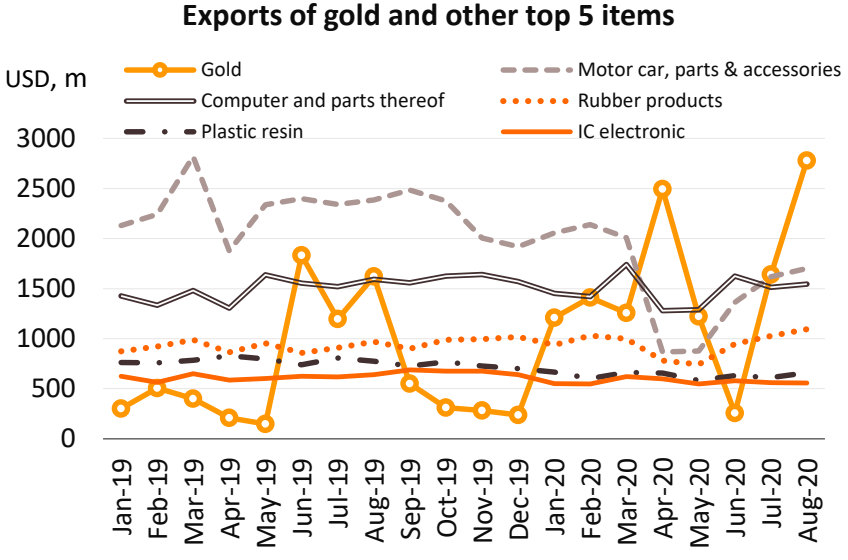
Krungsri Research's view

- **Foreign tourist arrivals at near-zero since April.** Hence, foreign tourist arrivals in 8M20 contracted by 74.8% to 6.7 mn.
- **In 8M20, tourism receipts fell by 69.2% YoY to THB0.61 trn**, of which THB0.33 trn was derived from foreign tourists (-74.3%) and THB0.28 trn from Thai tourists (-60.1%). Despite government measures to promote domestic tourism since late-July, nationwide occupancy rate remained low at 27% compared to 63% in the same period last year.
- **The government plans to allow selected groups of foreign tourists to enter Thailand, starting October.** They are targeting long-stay tourists under a Special Tourist Visa. The visa would allow them to stay in the country for up to 90 days. It can be extended twice up to a total stay of 270 days. **This is a positive sign but the impact will be limited.** Authorities plan to admit only 1,200 tourists per month, generating total monthly receipts of around THB 1bn. This is a small fraction of the 3 mn visitors and THB150 bn monthly receipts pre-COVID.

Exports posted less negative growth but excluding gold, they contracted at double-digit rate







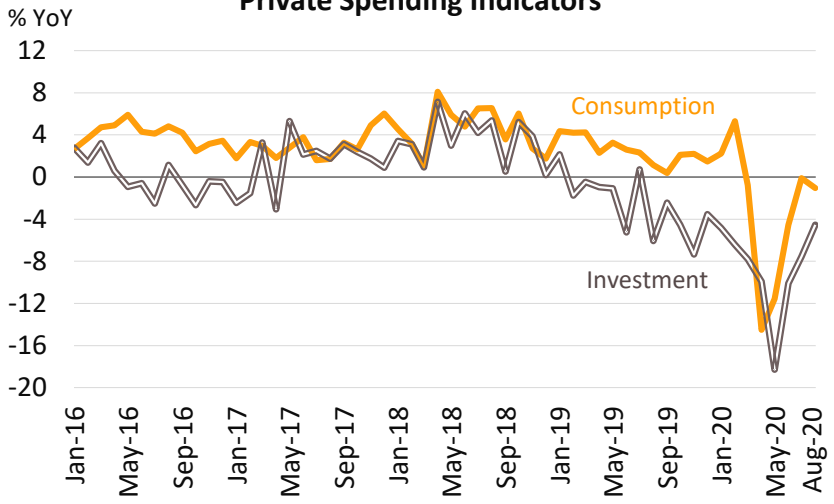
Source: Ministry of Commerce (MOC), Krungsri Research

Krungsri Research's view

- **Merchandise exports** dropped by 7.9% YoY in August compared with -11.4% in July. Excluding gold, exports shrank by 14.3%, similar to July. There was no change to exports of products related to work-from-home policy and social distancing. However, **exports of major items continued to plunge due to weak global demand, while exports of key agricultural products have been affected by the drought.** By destination, exports to all major markets have worsened, except to the US where exports have risen in the past 3 months.
- **Bleak outlook for Thai exports.** This is reflected in the following: (i) most of Thailand's top 10 export items (except gold and rubber products) continued to drop, by between 3.0% to 30.0%. Higher exports of some items should be temporary, influenced by work-from-home policy and pent-up demand. (ii) Exports to major markets, except to the US, dropped sharply and will remain sluggish. Total imports by major countries continued to contract: Japan (-20.0% YoY in August), China (-2.0% in August) and Eurozone (-13.9% in July). (iii) In Thailand, the sharp contraction in imports of raw material & intermediate goods (-17.3% in August) reflects weaker exports in the next period.

Smaller drop in private investment in August; consumption shrank after end of long holidays in July

Private Spending Indicators

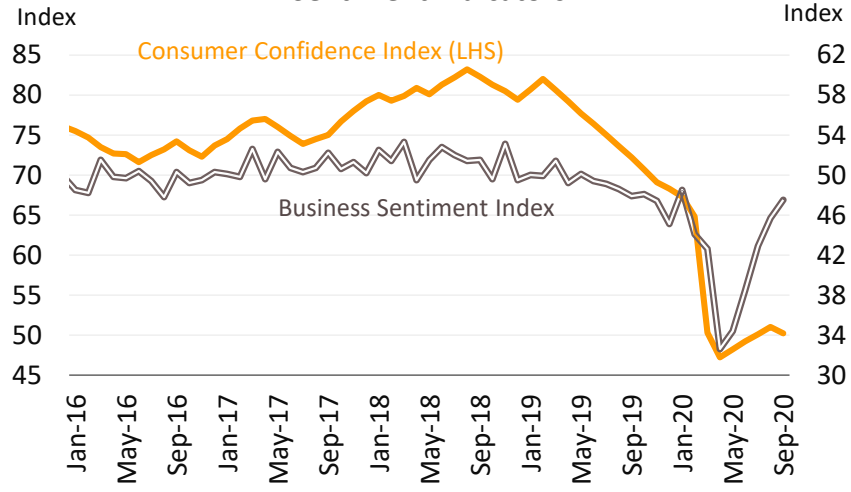


Private Spending by category

Private spending indicators % YoY*	2019 J	F	M	A	M	J	J	A	S	O	N	D	2020 J	F	M	A	M	J	J	A
Private consumption																				
Non-durables																				
Semi-durables																				
Durables																				
Services																				
Non-residents expenditure																				
Private investment																				
Construction area permitted																				
Construction material sales																				
Imports of capital goods																				
Machinery sales																				
Newly registered vehicles																				

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

Sentiment indicators



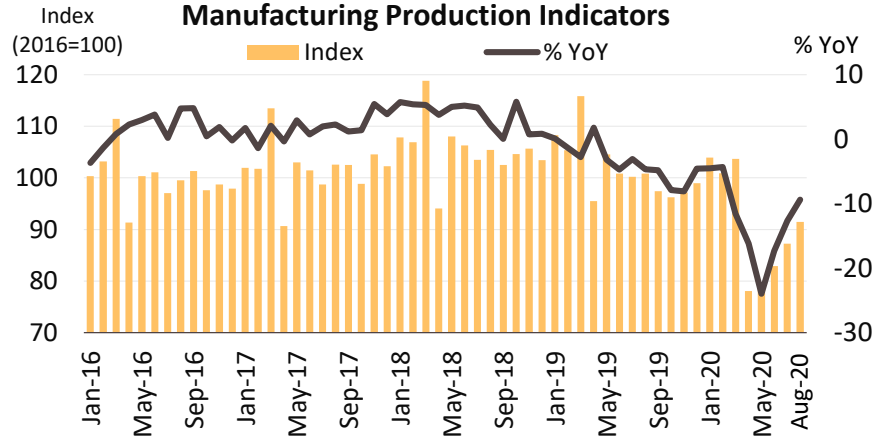
Krungsri Research's view

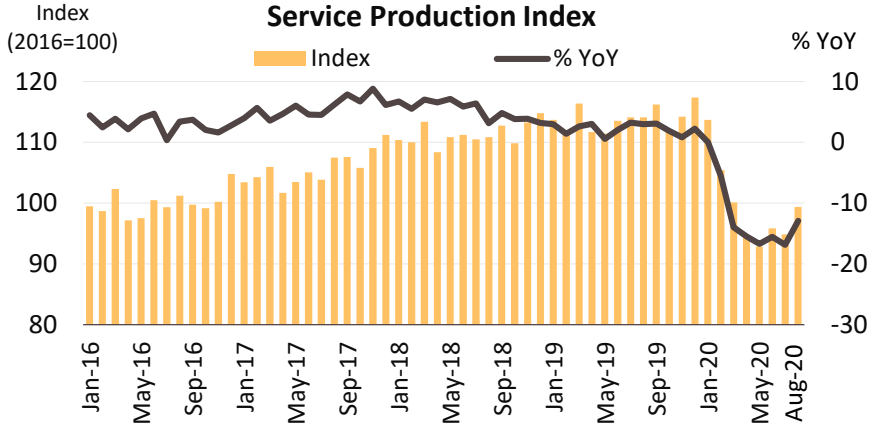
- The Private Investment Index (PII) fell by a slower rate of -4.6% in August (vs -7.5% in July) due to an improvement in spending on machinery & equipment, reflected by the smaller contraction in imports of capital goods and new vehicle registrations. Construction spending inched up. However, Private Consumption Index (PCI) contracted 1.1% YoY, worse than -0.1% in July, as spending on non-durable goods and services declined after the long holidays in July (vs a year-ago; a temporary factor). Spending on durable goods also continued to drop, but at a slower rate.
- Business Sentiment Index (BSI) picked-up for the fifth consecutive month in September, supported by easing of lockdown measures, a higher order book, and stimulus measures. However, the Consumer Confidence Index (CCI) dipped on concerns over domestic political risks.

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

Manufacturing production improved but concentrated in some sub-sectors; services sector remained weak

The Manufacturing Production Index (MPI) fell by 9.4% YoY in August, improving from -12.7% in July, led by a rebound in the production of electrical appliances, IC semiconductor and chemical products. However, this is the 16th straight month of contraction, led by lower production of cars and hard disk drives, because of the COVID-19 impact on external and domestic demand. **The Service Production Index (SPI)** recovered at a slow pace and is still far from pre-pandemic level, posting double-digit contraction for the 6th straight month at -12.9% YoY in August (vs -16.9% in July). Specifically, there was a sharp contraction in tourism-related businesses such as accommodation, food services, transportation, and storage due to the ban on international flights and entry of foreign tourists for the 5th consecutive month.





Manufacturing Production: Top 10 industries

Manufacturing Production (% YoY)*	Weight	2019						2020							
		J	A	S	O	N	D	J	F	M	A	M	J	J	A
All industry	100.0%														
Food & Beverages	19.9%														
Automotive	13.9%														
Petroleum	9.6%														
Chemicals	9.2%														
Rubbers & Plastics	8.9%														
Cement & Construction	5.5%														
IC & Semiconductors	5.5%														
Electrical Appliances	3.8%														
Textiles & Apparels	3.5%														
HDD	3.4%														

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

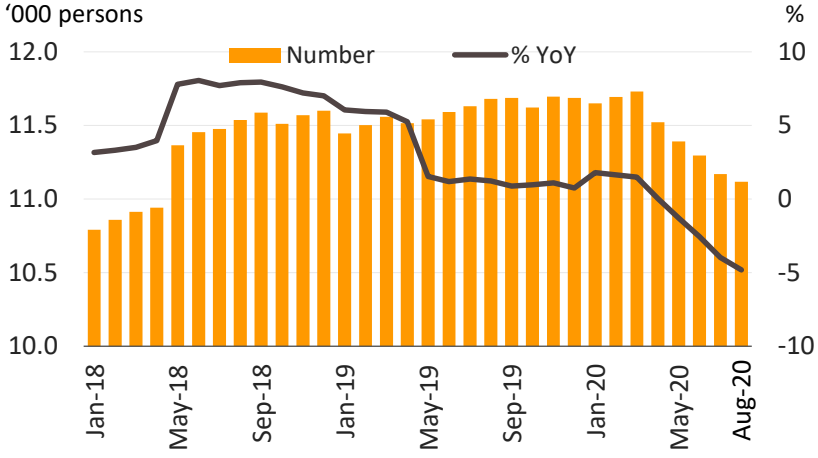
Service Production

Service Production (% YoY)*	2019						2020							
	J	A	S	O	N	D	J	F	M	A	M	J	J	A
All sectors														
Wholesale & Retail Trade														
Transportation and Storage														
Accommodation and Food Service														
Information and Communication														
Financial and Insurance														
Real Estate Activities														
Professional, Scientific and Technical														
Administrative and Support Service														
Public Admin & Defence														

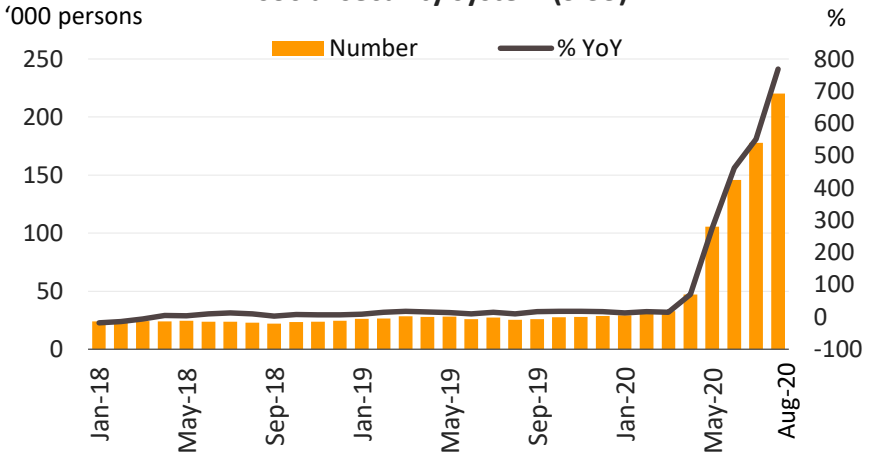
Source: Office of Industrial Economics (OIE), MOC, Krungsri Research

Despite recovering economic activity, labor market weakens as layoffs increase

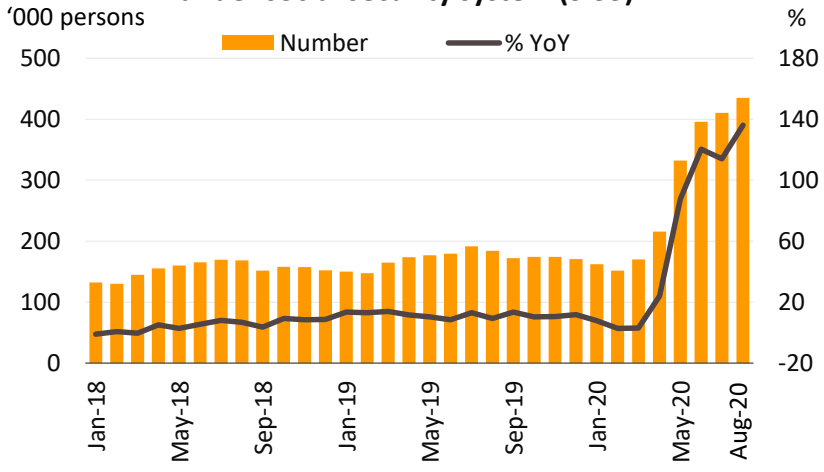
Number of insured employees under social security system (S.33)



Number of laid-off workers under social security system (S.33)



Number of unemployment claims under social security system (S.33)



Krungsri Research's view

- The NSO reported unemployment rate inched down to 1.9% in August (vs 2.1% in July) but is higher than 1.0% in 2019.
- The labor market remains vulnerable, as the number of employees insured under Section 33 contracted for the 4th straight month, by 4.9% YoY to 11.1 mn in August.
- **Layoffs continued to surge by 768% YoY to 220,324 in August and jobless claims rose 136% YoY to 435,010. Layoffs are highest in tourism-related sectors.**
- **The weaker labor market will hurt household income and purchasing power, which would dampen consumer spending and create a negative feedback loop to the overall economy.**

Note:The insured persons (Section 33) under Social Security System account for 31% of total number of employed persons.

Source: Social Security Office, Ministry of Labor and Social Welfare, Krungsri Research

Cash aid has dropped sharply; 4Q20 stimulus package is much less than recent schemes

In 4Q20, the government approved several measures to support the Thailand's economic recovery: (i) THB51 bn cash aid to boost domestic consumption. Payments will be made through *State Welfare Cards* and *Co-payment* scheme (G-Wallet)'; (ii) tax deduction for the purchase of selected products, which is estimated to reduce government tax revenue by THB10 bn; and (iii) THB23 bn program to support new graduate employment. However, the cash aid budget (more than THB400 bn) will be exhausted soon as layoffs continue to rise. The less than THB100bn stimulus package for 4Q20 is much smaller than in 2Q-3Q20. Therefore, there would be limited positive effects on the economy and risks would increase after the debt moratorium scheme ends on October 22.

Economic measures in response to COVID-19

Fiscal Policy

THB390bn for cash aid Phase I (THB5,000/month for 3 months)
- THB240bn for 16 mn severely affected persons **(Apr-Jun)**
- THB150bn for 10 mn farmers **(May-Jul)**

THB51bn to support consumption (Oct-Dec)
- THB21bn for Welfare Card holders (THB500/month for 3 months)
- THB30bn for Co-payment program up to THB3,000/person for 10 mn people

THB10bn in lost tax revenue to boost spending via personal income tax deduction of up to THB30,000 /person for purchase of selected products (3.7mn taxpayers)

THB23.5bn for cash aid phase II (THB1,000 /month for 3 months) **(Jul-Sep)**
- THB20bn for vulnerable group
- THB3.5bn for Welfare Card holders

THB23bn for new undergraduate employment (1 year)
- Co-payment of salary (up to THB7,500/person)

THB21bn for promoting domestic tourism (Jul 2020-Jan 2021)
- *We Travel Together* project

Q1 J F M Q2 A M J Q3 J A S Q4 O N D Q1
2020 2021

Monetary Policy

Policy rate cuts: -75bp (Feb-May)

Debt restructuring program (Mar - Dec): Debt outstanding THB6.9trn (as of 31 Aug)

Debt moratorium on principle and interest (effective 23 Apr-22 Oct)

THB500bn for soft loans (effective 27 Apr): **THB118 bn approved loan** (as of 5 Oct)

Source: BOT, NESDC, Krungsri Research

MPC has more pessimistic outlook for 2021; may maintain policy rate in the foreseeable future

BOT Forecasts		2020F		2021F	
		Previous	Latest	Previous	Latest
GDP growth	YoY (%)	-8.1	-7.8 ▲	5.0	3.6 ▼
Private Consumption Expenditure	YoY (%)	-3.6	-3.5 ▲	2.5	2.0 ▼
Government Consumption Expenditure	YoY (%)	3.8	3.4 ▼	3.1	5.1 ▲
Private Investment	YoY (%)	-13.0	-11.4 ▲	5.6	4.2 ▼
Public Investment	YoY (%)	5.8	8.8 ▲	14.1	11.4 ▼
Nominal Exports in USD (f.o.b.)	YoY (%)	-10.3	-8.2 ▲	4.5	4.5 =
Nominal Imports in USD (f.o.b.)	YoY (%)	-16.2	-13.7 ▲	4.1	4.4 ▲
Current Account Balance	USD, bn	15.5	14.0 ▼	20.2	14.6 ▼
Tourist Arrivals	persons, m	8.0	6.7 ▼	16.2	9.0 ▼
Headline Inflation	YoY (%)	-1.7	-0.9 ▲	0.9	1.0 ▲
Core Inflation	YoY (%)	0.0	0.3 ▲	0.1	0.2 ▲

Krungsri Research's view

MPC has voted unanimously to leave policy rate unchanged; BOT takes slightly less gloomy view for this year but is more pessimistic about next year.

- At the last meeting under Governor Veerathai Santiprabhob on September 9, the BOT's Monetary Policy Committee (MPC) voted unanimously to keep policy rate at a record low of 0.50%, as widely expected.
- The BOT nudged up 2020 Thai GDP growth forecast from -8.1% to -7.8%, citing a slight improvement in domestic consumption and investment. However, due to slow recovery in the tourism sector, the BOT revised down 2021 Thai GDP growth forecast from +5.0% to +3.6%.

MPC is likely to maintain policy rate this year and beyond

- Despite downgrading 2021 growth outlook, the MPC noted *"the level of overall liquidity in the financial system remains ample".* This suggests the MPC is unlikely to deliver further broad-based monetary stimulus, such as more rate cuts. The committee viewed that *"overall economic activity would take at least two years before returning to the pre-pandemic level",* implying the MPC would maintain rock-bottom interest rates for the rest of this year and beyond.

We propose targeted direct loans and easing credit conditions as main policy instruments

- Krungsri Research projects Thailand's economy would contract sharply in 2020 and would take more than three years to recover to pre-outbreak level. Liquidity support measures are critical as hardest-hit companies could face temporary liquidity shortage.
- Our simulation model found that interest rate cuts and debt moratorium would help only 3.0% and 10.1% of total troubled firms, respectively. In our view, the main policy instruments should be (i) targeted direct loans; and (ii) easing credit conditions. These two tools would help 29.2% and 26.6% of total troubled firms, respectively, to avoid liquidity shortage in the next two years.

Source: BOT, Krungsri Research

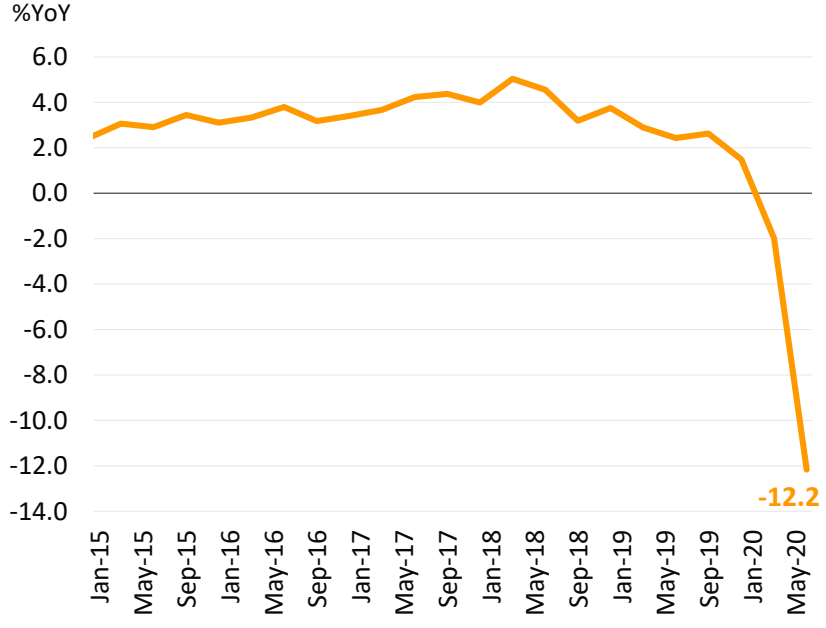
Measuring the COVID-19 impact on the labor market and household sector

- At the height of the COVID-19 pandemic, the Thai economy posted the worst contraction in 22 years at -12.2% YoY in 2Q02. The crisis also had severe impact on the labor market, which transmitted down to household income and spending.
- **Unemployment surged to 745k in 2Q20 from 395k in 1Q20.** Underemployment also rose to 346k from 220k. By sector, the largest drop in employment was recorded in the manufacturing sector, followed by construction and other services. The pandemic forced more than 700k to return to the agricultural sector in 2Q20. It also reduced **total hours worked by 6.3% in 2Q20, equivalent to the loss of 2.7mn full-time jobs.** The largest declines in average hours worked were in services-related sectors (ranging from -20% to -30% QoQ in 2Q20).
- Looking ahead, Krungsri Research expects **workers in services-related sectors to experience the largest pay cut of 20-50% in 2020**, led by hotel & lodging, air transportation, food & beverage, and amusement & recreation. Those in business services and oil & gas could see 10-20% pay cut, while those retail & wholesale trade, banking services, electronics, and beverage would see 5-10% pay cut.
- As a result, **total household income is projected to drop by 6.9% in 2020,** comprising 7.5% in urban areas and 6.0% in rural areas. Middle-class households in urban areas would see a larger drop in income than other groups. By occupation and asset size, households with smaller asset size are likely to face larger income losses, led by non-agricultural entrepreneurs, labor in services sectors, and labor in transportation.
- COVID-19 has had different impact on household liquidity. We classified households into 3 groups, comprising those with Positive cash flow, Severely-hit (by COVID-19 impact), and Structurally-weak (pre-pandemic). **Structurally-weak households (3.01mn, 14.2% of total households) and Severely-hit households (3.67mn, 17.3%) are facing negative cash flows. This suggests rising risks of a drop in household consumption and default on debts.** This means the government stimulus programs are insufficient to support household income and consumer spending in these two groups.
- **We expect total household expenditure to drop by 4.5% in 2020,** led by lower spending on education, tourism & recreation, and housing. Hence, the tourism sector would suffer from a drop in spending by residents as well as the absence of foreign tourists.

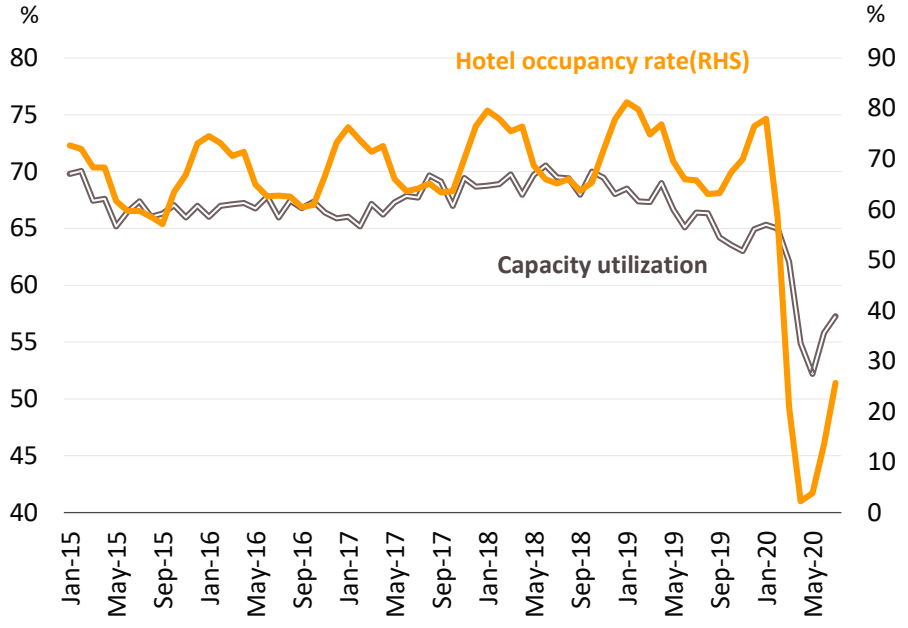
COVID-19 crisis caused Thai economy to post the worst contraction in 22 years

Thailand has been successful in controlling the domestic outbreak. However, the economy has been severely hit by the lockdown as well as travel restrictions. This led to the near-collapse of the tourism industry and negative income effect. Thai GDP contracted by 12.2% YoY in 2Q20, the largest contraction since the Asian Financial Crisis. The pandemic adversely affected both the manufacturing and services sectors. Capacity utilization in the industrial sector is 15% below pre-pandemic level and hotel occupancy rate is 50% below pre-crisis level. The pandemic has affected the Thai economy severely, particularly the labor market, and that will continue to dampen household income and consumer spending.

Thailand GDP growth



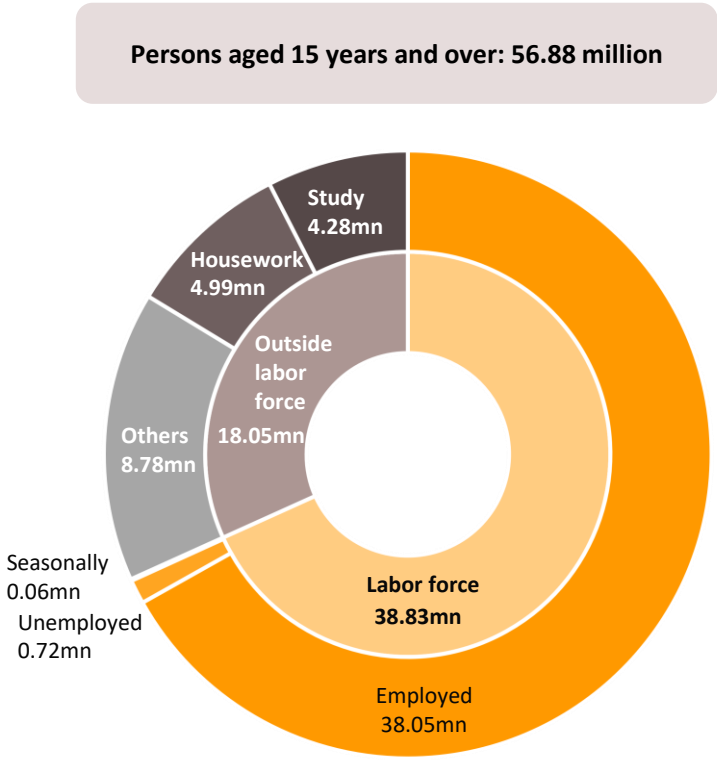
Capacity utilization and hotel occupancy rate

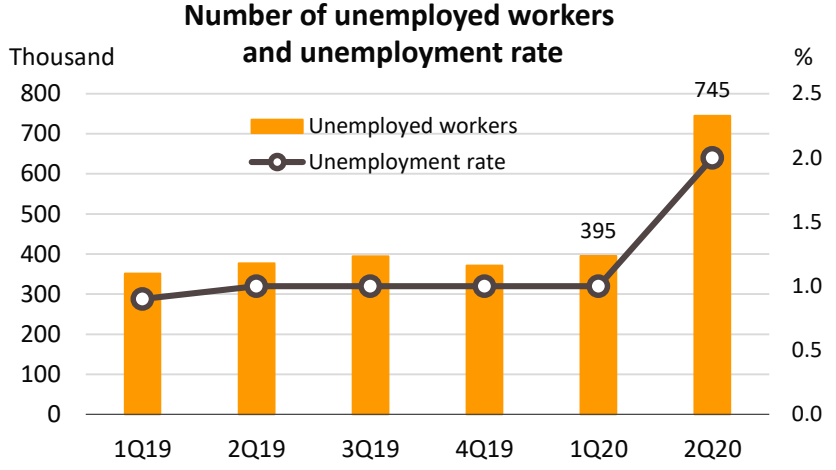


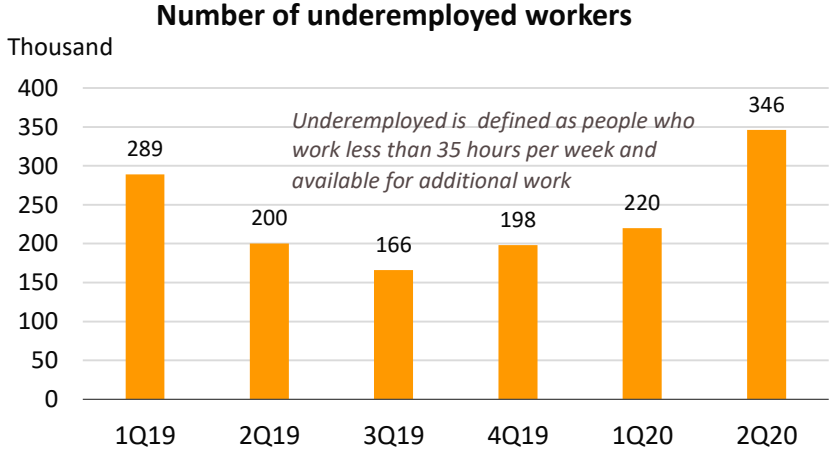
Source: NESDC, Office of Industrial Economics, Bank of Thailand, Krungsri Research

Unemployed jumped to 745k in 2Q20 from 395k in 1Q20; underemployment rose to 346k

The Labor Force Survey (August 2020) revealed there were 56.88 million people aged 15 years and over, of which 38.83 million were in the labor force (98% were employed, 1.9% were unemployed, and 0.2% were seasonally inactive labor force). 18.05 million were not in the labor force (27.6% were housework, 23.7% were students, and 48.6% 'others'). The number of unemployed surged to 745k in 2Q20 from 395k in 1Q20 (+89% QoQ). The number of underemployed rose to 346k in 2Q20 from 220k in 1Q20, which means more people are working fewer hours.



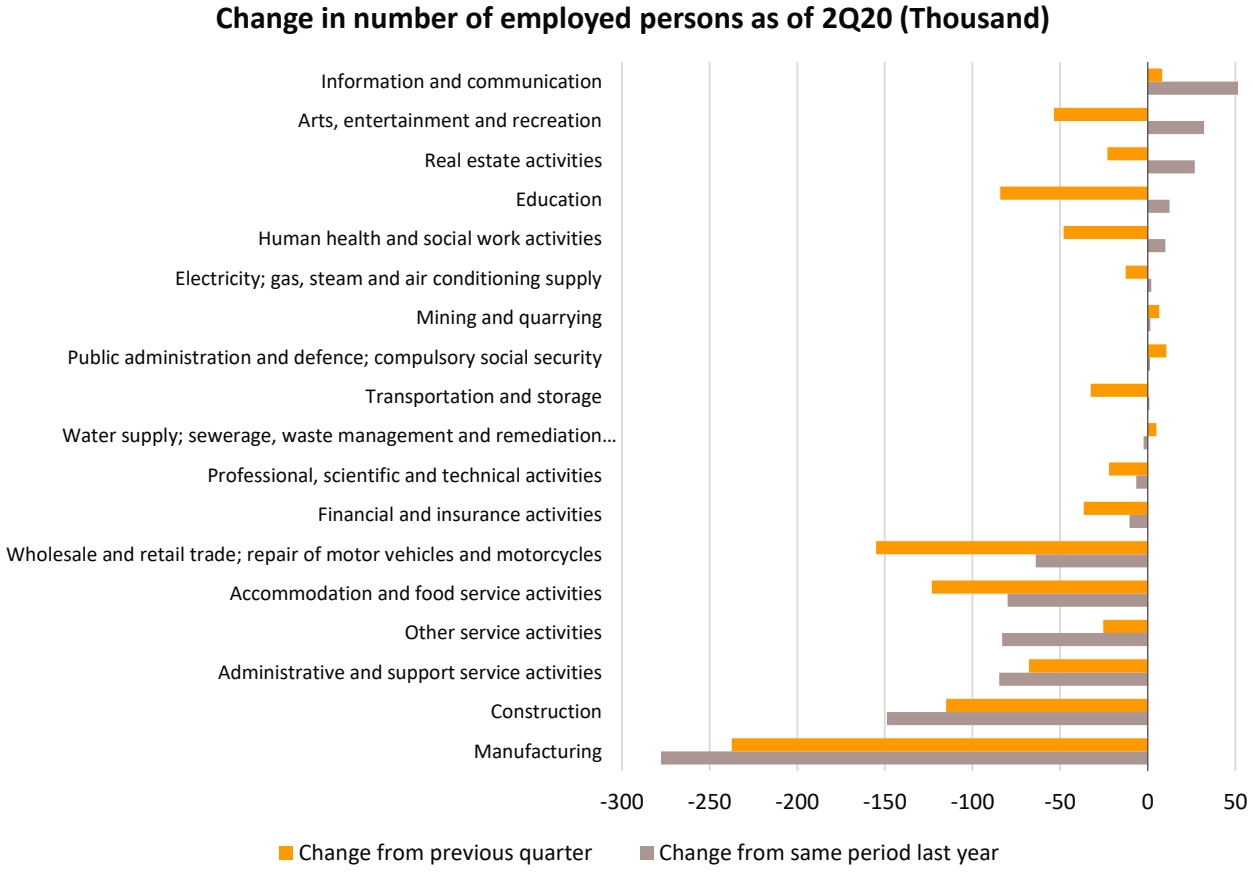


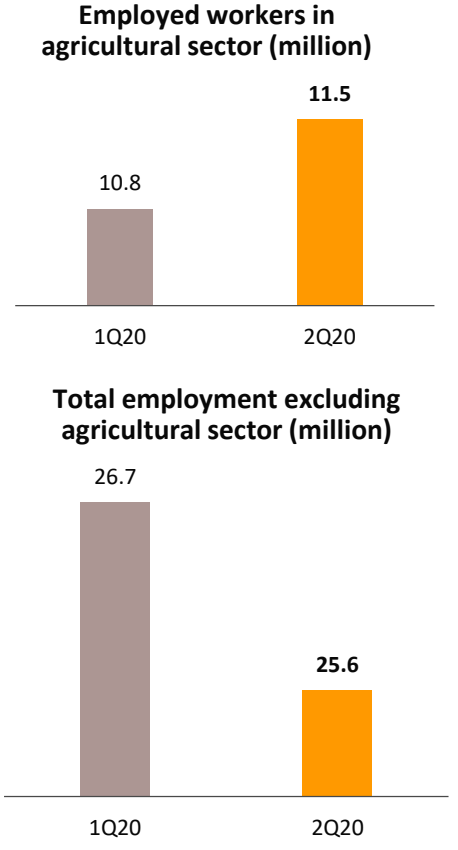


Source: NSO Household Socio-Economic Survey, Krungsri Research

Pandemic forced 700k workers to return to the agricultural sector in 2Q20

As the crisis continues, companies have been forced to lay off staff to reduce payroll costs. Industries that registering the largest drops in employment during 2Q19-2Q20 were manufacturing and construction, where total employment fell by 426k, followed by 'other services' sectors. This reveals the effects of factory closures and the impact on vulnerable groups such as casual workers in the construction sector. However, the agricultural sector recorded the largest increase in employment, suggesting some of those who lost jobs had been absorbed by the sector. **Excluding the agricultural sector, total employment fell by 1.1 million persons in 2Q20.**



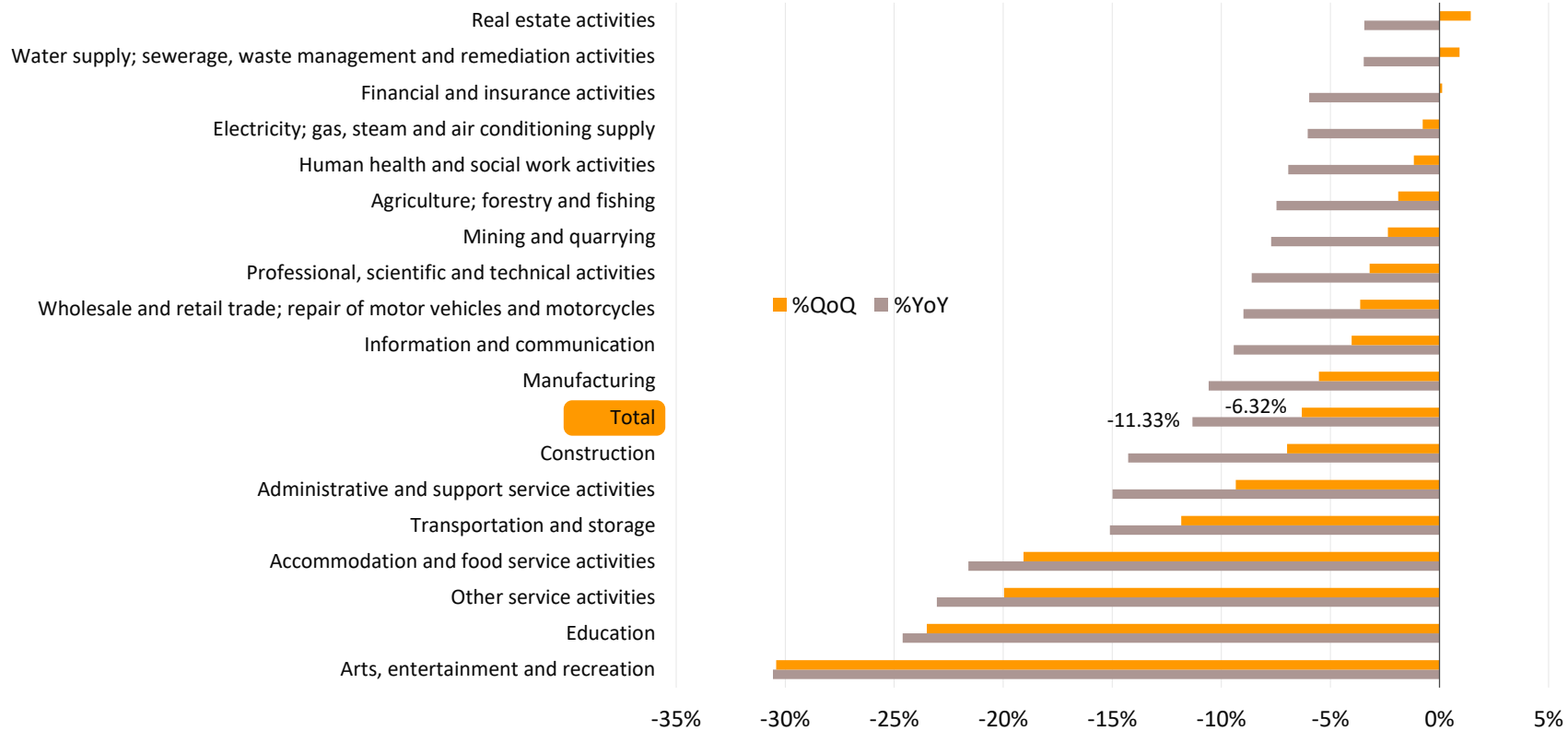


Source: ILO, Krungsri Research

A drop in total hours worked in 2Q20 is equivalent to loss of 2.7mn full-time jobs, led by services-related sectors

In 2Q20, total number of hours worked in Thailand declined by 6.3% from the first quarter of the year. This is equivalent to the loss of 2.7 million full-time jobs (assuming 40-hour work week). The sectors that registered the largest drops vs 1Q20 were art, entertainment & recreation (-30.4%), education (-23.5%), other services (-20.0%), and accommodation & food (-19.1%), followed by other services-related sectors. These illustrate the severe impact on the services sector and manufacturing (-5.5% hours worked).

Change in average hours worked per week of employed persons by sector as of 2Q20 (%QoQ and %YoY)

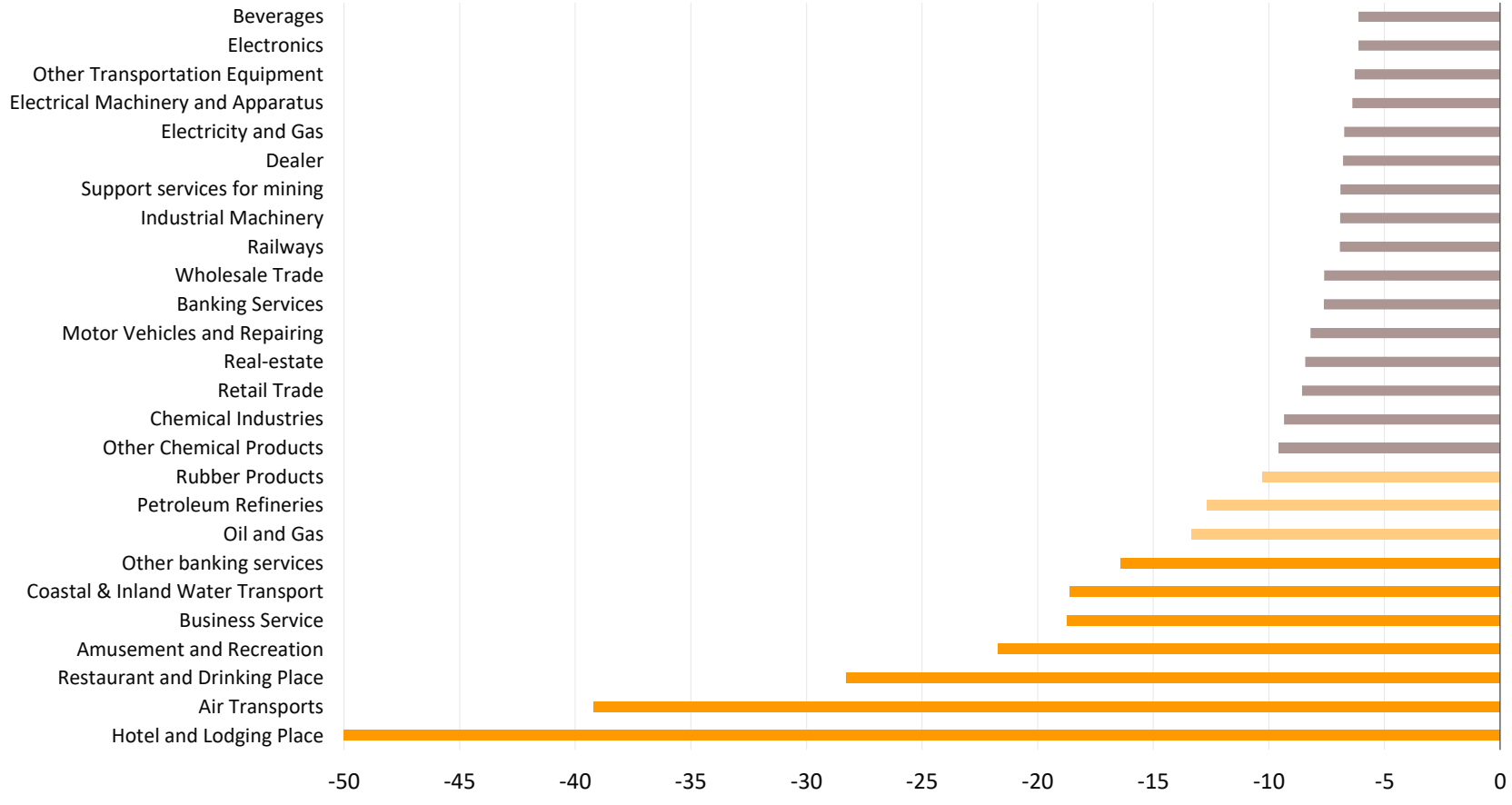


Source: ILO, Krungsri Research

Krungsri Research estimates wages in services sector would drop by 18%-50% in 2020

We project Thai GDP would contract by 10.3% this year. Tourism-related sectors would register the largest drop in wages of 18%-50% this year. Hotel and lodging industry would see a 50% wage reduction, followed by Air transportation (-39.2%) and restaurant & beverage (-28.3%). Manufacturing sector would register the smallest wage loss.

Forecast of wage losses in 2020 (% YoY)

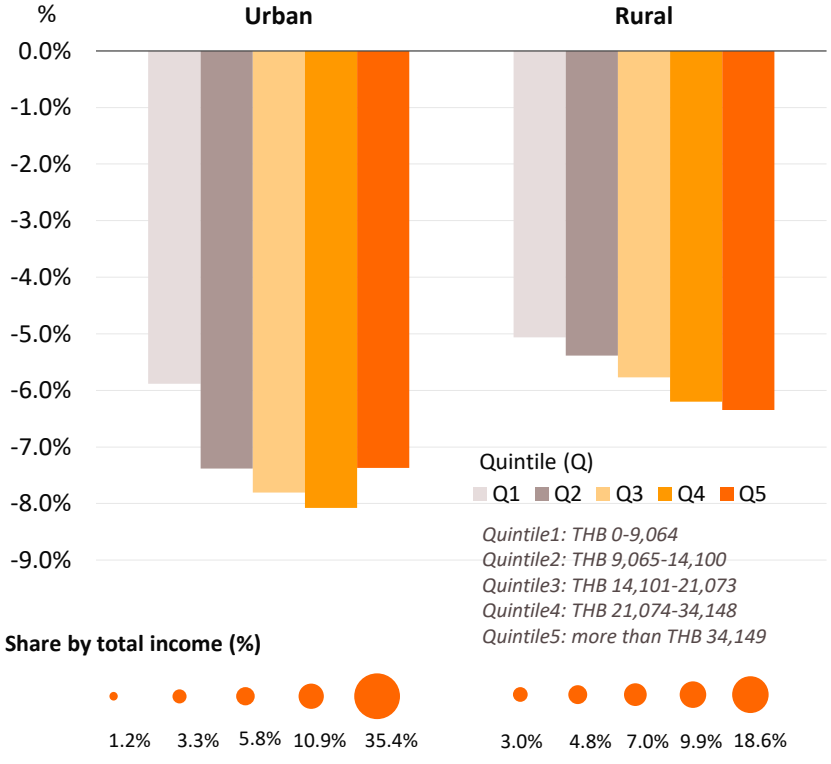


Source: GTAP, Krungsri Research

Middle-income households in urban areas and less wealthy households to see larger income loss

Total household income is expected to decline by 6.9% in 2020, including -7.5% in urban areas and -6.0% in rural areas. Middle-income households will experience larger income losses than other groups, especially in urban areas. There is income inequality in Thailand, with high-income households in urban areas (fifth quintile) accounting for 35.4% of total income, and the lowest income group accounting for only 1.2%. By occupation and asset level, households with smaller asset level would suffer the largest income losses, led by non-agricultural entrepreneurs, labor in the services sector, and labor in transportation.

Forecast of household income loss (%) by area and income group



Forecast of household income loss (%) by occupation and asset category

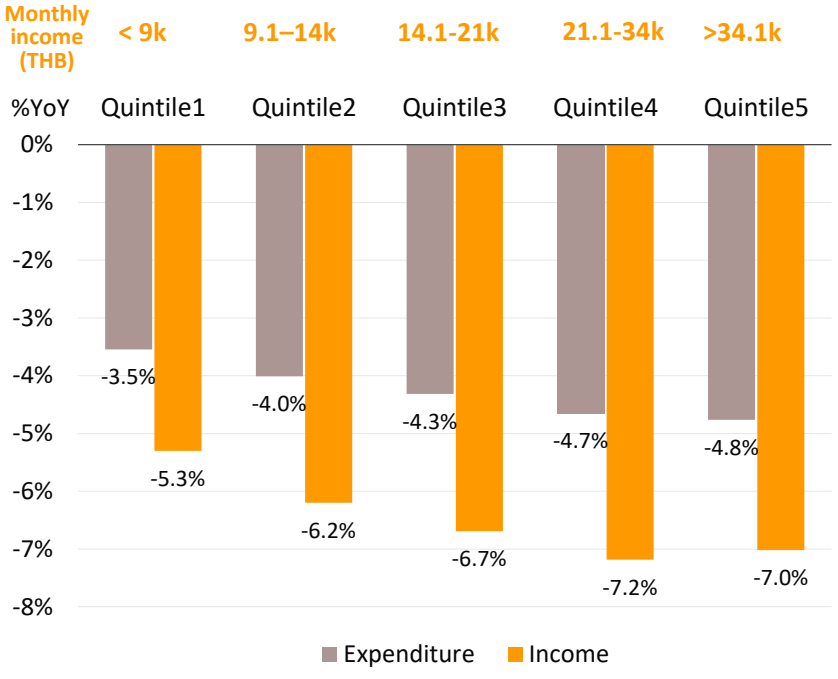
Occupation	Asset category (THB)					
	Overall	<0.20m	0.21-0.60m	0.61-1.17m	1.18-2.31m	>2.32m
Non-agricultural entrepreneurs	-9.4%	-12.2%	-10.0%	-9.2%	-8.0%	-7.4%
Labor in services	-8.1%	-9.6%	-7.2%	-6.8%	-6.6%	-5.1%
Labor in transportation	-6.7%	-7.6%	-5.0%	-5.8%	-4.1%	-3.3%
Professionals	-6.6%	-8.1%	-6.1%	-4.8%	-5.6%	-5.6%
Labor in manufacturing	-5.9%	-4.7%	-5.1%	-5.0%	-5.4%	-5.0%
Economically inactive	-5.5%	-4.8%	-4.6%	-4.4%	-4.6%	-4.6%
Labor in construction	-4.6%	-3.4%	-4.1%	-3.3%	-3.7%	-4.3%
Labor in agricultures	-4.6%	-4.0%	-3.7%	-3.3%	-3.4%	-3.6%
Fishery	-4.4%	-3.5%	-3.6%	-3.6%	-3.9%	-3.0%
Farmer owing land	-4.4%	-3.9%	-3.4%	-3.4%	-3.4%	-3.5%
Farmer renting land	-4.3%	-3.2%	-3.5%	-3.2%	-3.4%	-3.4%
Armed forces occupations	-2.8%	-1.4%	-1.8%	-2.6%	-2.0%	-1.7%

Source: NSO Household Socio-Economic Survey, Krungsri Research

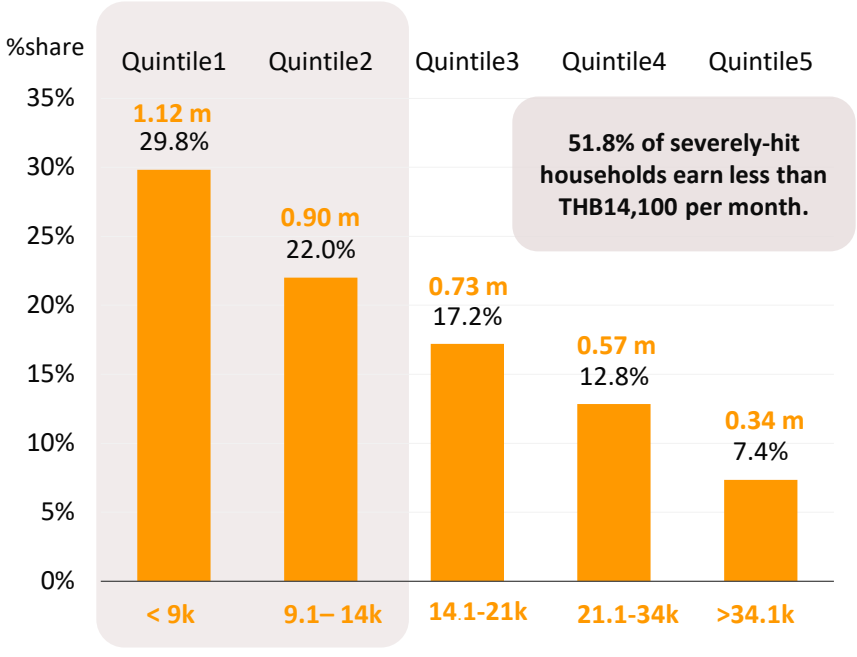
Low-income households are most vulnerable

The pandemic has reduced household income across all segments, from the poorest to the richest. However, it has had the largest impact on the lower-income group because they have relatively low savings to tide them over if they lose their job or there is a pay cut. Our analysis revealed **3.67 million households have been severely hurt by the pandemic and have negative cash flow**; more than half the households in this group earn less than THB14,100 per month.

Forecast drop in household income and expenditure by income level



Number of households facing negative cash flow due to COVID-19

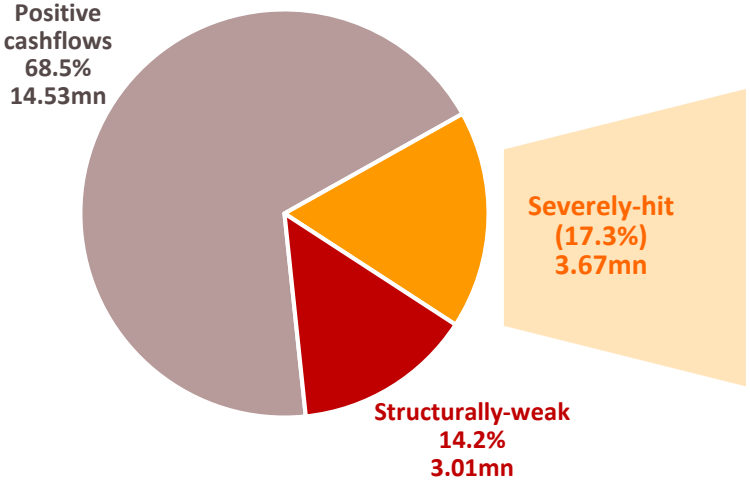


Source: NSO Household Socio-Economic Survey, Krungsri Research

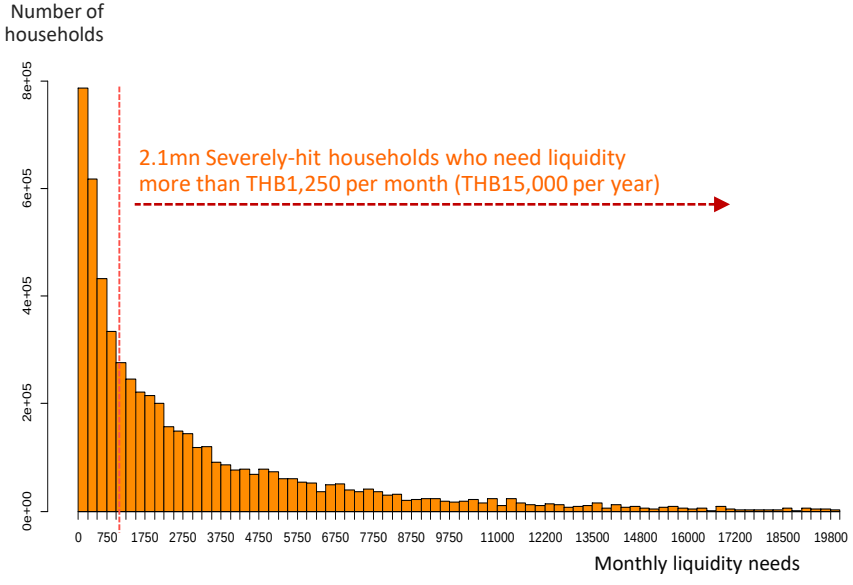
31% of households will suffer from negative cash flow, 17% is severely impacted by the pandemic

The pandemic has had different impact on household liquidity. We classified households into 3 groups, comprising those with Positive cash flow (income exceed expenses), Severely-hit (expenses exceed income due to the pandemic), and Structurally weak (expenses had exceeded income even before the pandemic). Apart from 3.01mn Structurally-weak households (14.2% of total households), 3.67mn Severely-hit households (17.3% total households) would also face liquidity problems. These two groups would face income shortfall of at least THB438bn per year. This would hurt consumption and could increase risk of default. Without government support, total household expenditure would drop by 8% this year. However, the government is offering THB5,000 per month cash aid for 3 months (total THB15,000) to 15mn persons, at a total budget of THB240 bn. But when this aid ended in September, 2.1mn Severely-hit households and the Structurally-weak households would face income shortfall again. This implies current measures are insufficient to support household income and consumer spending in the periods ahead.

Proportion of households by liquidity condition



Monthly liquidity needs of Severely-hit households



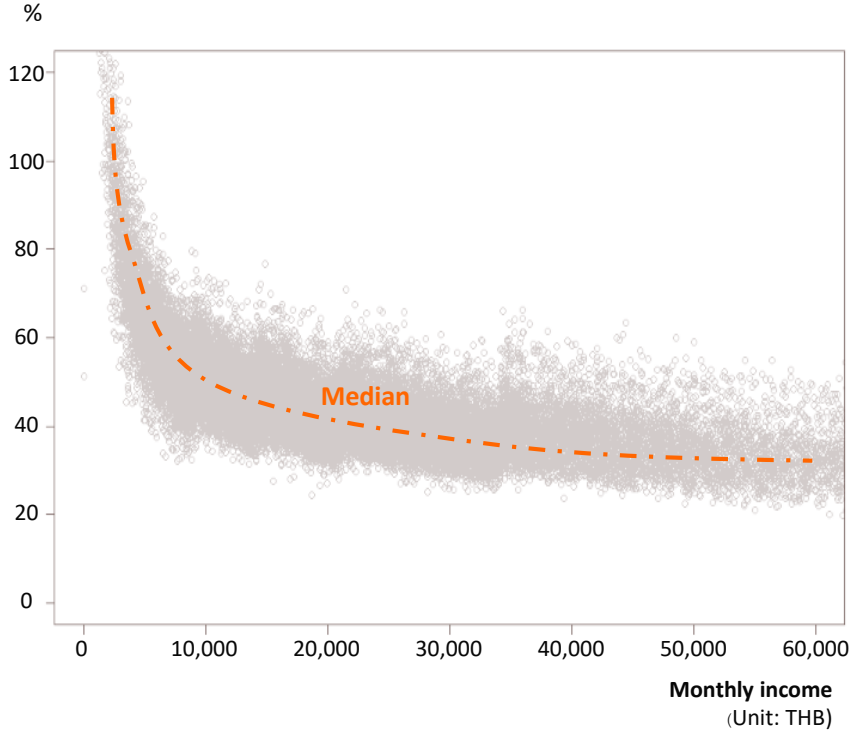
Income shortfall	
	Severely-hit households: THB20.6 bn per month, THB247.2 bn per year
	Structurally-weak households: THB15.9 bn per month, THB190.8 bn per year

Source: NSO Household Socio-Economic Survey, Krungsri Research

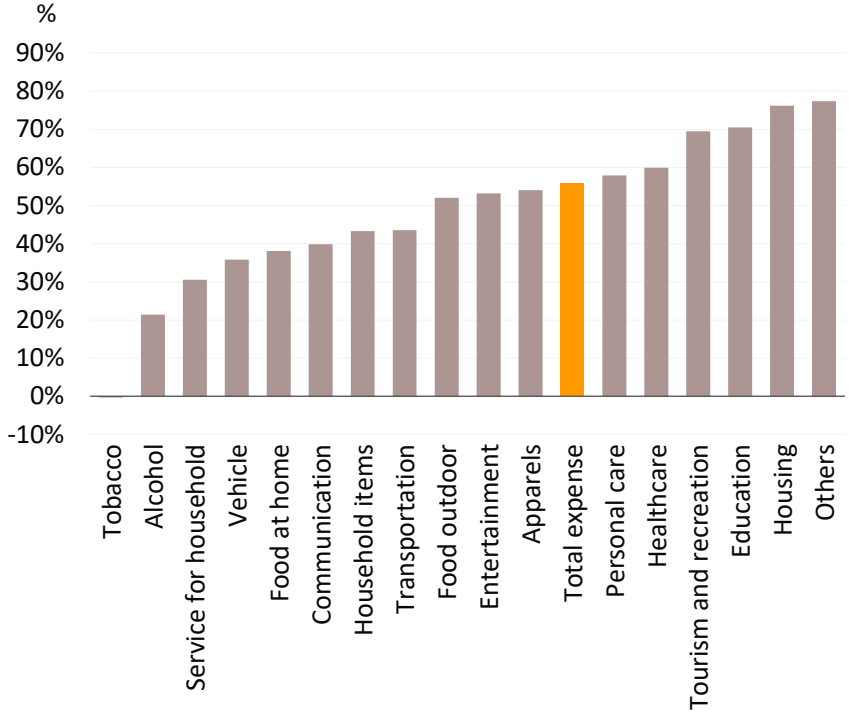
Marginal Propensity to Consumer drops when income rises

The Marginal Propensity to Consume (MPC) is the extra consumer spending arising from an increase in income. The MPC is influenced by 2 key factors - income level and type of goods/services. In Thailand, the majority of households are low income which MPC is much higher than for wealthier households. The lower-income group would tighten their belts more than wealthy households when their income drop, meaning they are more sensitive to changes in income levels. The MPC can also be influenced by the type of product or services. For the low-income group, spending on housing, education and tourism is highly sensitive to income changes. Spending on alcohol is less-sensitive, suggesting they are less likely to drink less alcohol if their income drop. In contrast, the MPC for tobacco is negative, implying households would consume more tobacco when their income drop.

Marginal Propensity to Consume declines when income rises



Marginal Propensity to Consume for selected products for low-income group*

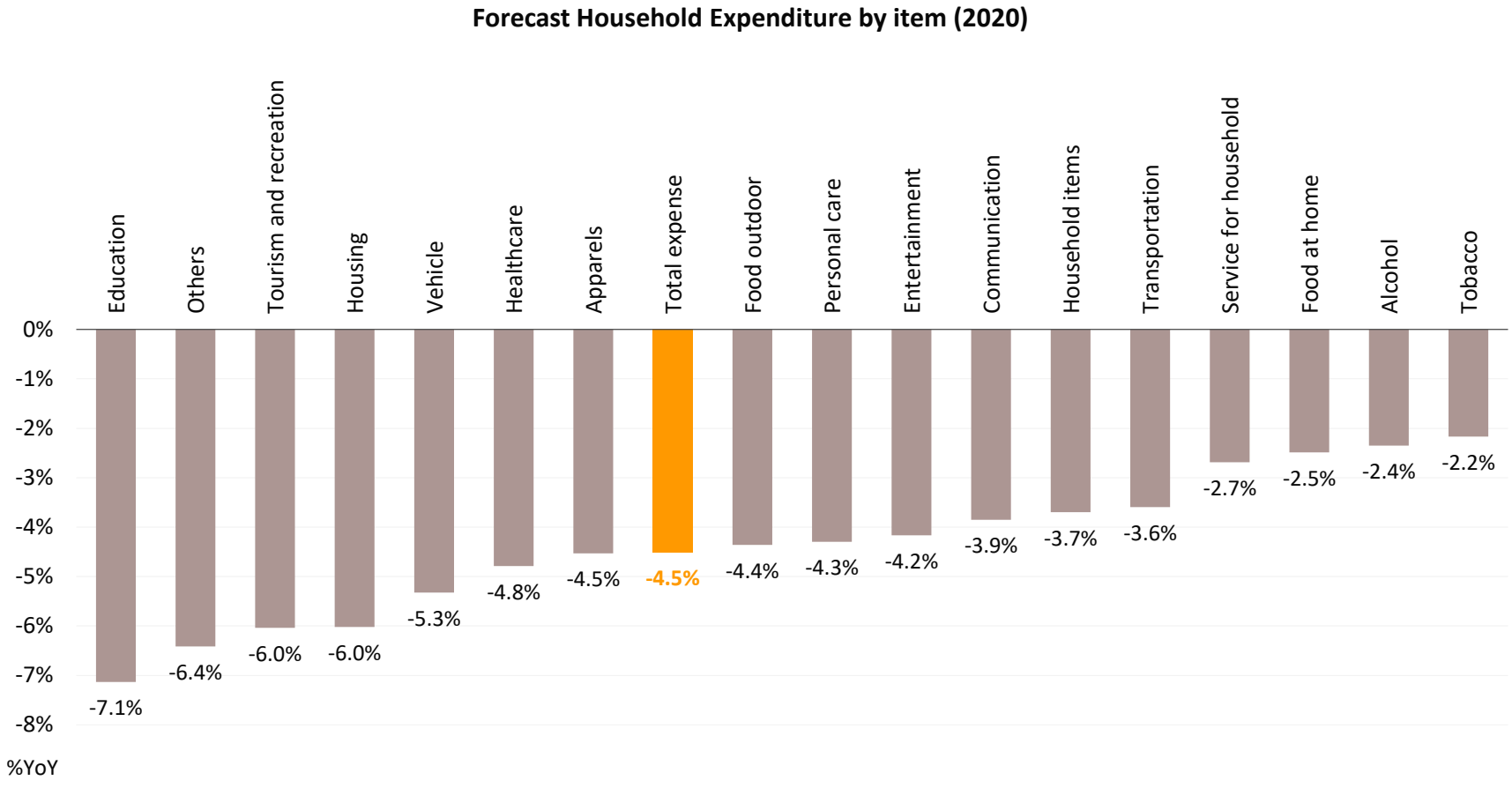


Note: *Household's characteristics as followed;
Live in Bangkok metropolis and urban area
Less than 12 years of schooling
The lowest income group (the first quintile)

Source: NSO Household Socio-Economic Survey, Krungsri Research

Total household expenditure would drop by 4.5% in 2020; education and tourism are highly sensitive to income loss

Total household expenditure would drop by 4.5% YoY this year, assuming the aforementioned wage losses. The largest drops would be seen in education, tourism & recreation and housing sectors, which are highly sensitive to income loss. The smallest drops would be in alcohol and tobacco, suggesting households tend to continue consuming these items even if income drop.



Source: NSO Household Socio-Economic Survey, Krungsri Research

Households are sensitive to housing and tourism spending; tourism hit by travel bans and income losses

Expenses on housing and tourism & recreation are most sensitive to income changes in all income groups. This implies the tourism sector would be hit by travel restrictions, and indirectly, by income losses. Households would likely cut spending on tourism more than other expenditures when their income drop. For low- to middle-income households, they are more to expenditures on food, outdoor and apparels when their income change. The poorest households are more sensitive to education spending, suggesting they would forgo education when income drop.

Household MPC by item and monthly income level

THB 0-9,064	THB 9,065-14,100	THB 14,101-21,073	THB 21,074-34,148	more than THB 34,149
Housing	Housing	Tourism and recreation	Housing	Housing
Education	Food outdoor	Housing	Tourism and recreation	Tourism and recreation
Tourism and recreation	Apparels	Food outdoor	Entertainment	Entertainment
Healthcare	Tourism and recreation	Apparels	Apparels	Personal care
Personal care	Education	Entertainment	Communication	Apparels
Total expense	Total expense	Total expense	Vehicle	Communication
Apparels	Entertainment	Personal care	Personal care	Vehicle
Entertainment	Personal care	Vehicle	Food outdoor	Food outdoor
Food outdoor	Vehicle	Education	Education	Total expense
Transportation	Healthcare	Communication	Total expense	Transportation
Household items	Transportation	Transportation	Transportation	Education
Communication	Communication	Household items	Healthcare	Household items
Food at home	Household items	Healthcare	Household items	Healthcare
Vehicle	Food at home	Food at home	Food at home	Food at home
Service for household	Service for household	Service for household	Alcohol	Alcohol
Alcohol	Alcohol	Alcohol	Service for household	Service for household
Tobacco	Tobacco	Tobacco	Tobacco	Tobacco

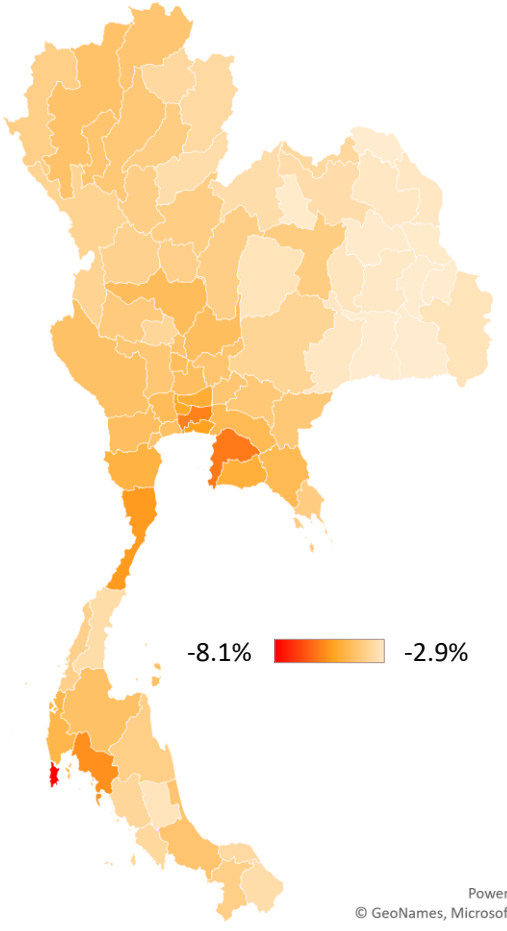
Higher MPC (more sensitive to income loss)

Source: NSO Household Socio-Economic Survey, Krungsri Research

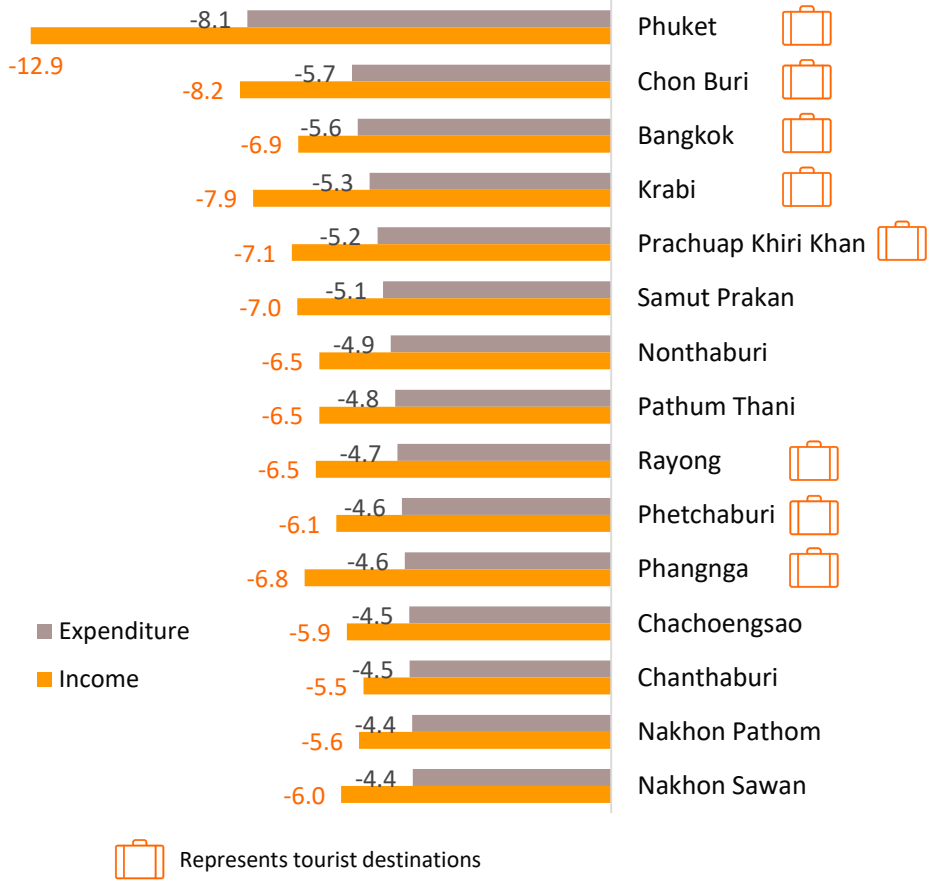
Household spending dropped the most in tourism-dependent provinces

This is led by Phuket, followed by Chon Buri, Bangkok, Krabi and Prachuap Khiri Khan. For other provinces, Bangkok Metropolis Region (BMR) showed the largest drop in household expenditure led by Samut Prakan, Nonthaburi and Pathum Thani because of income losses in the manufacturing and services sectors. Northeastern Thailand registered the smallest decline in consumption because the economy there is driven by the agriculture.

Drop in household consumption by province

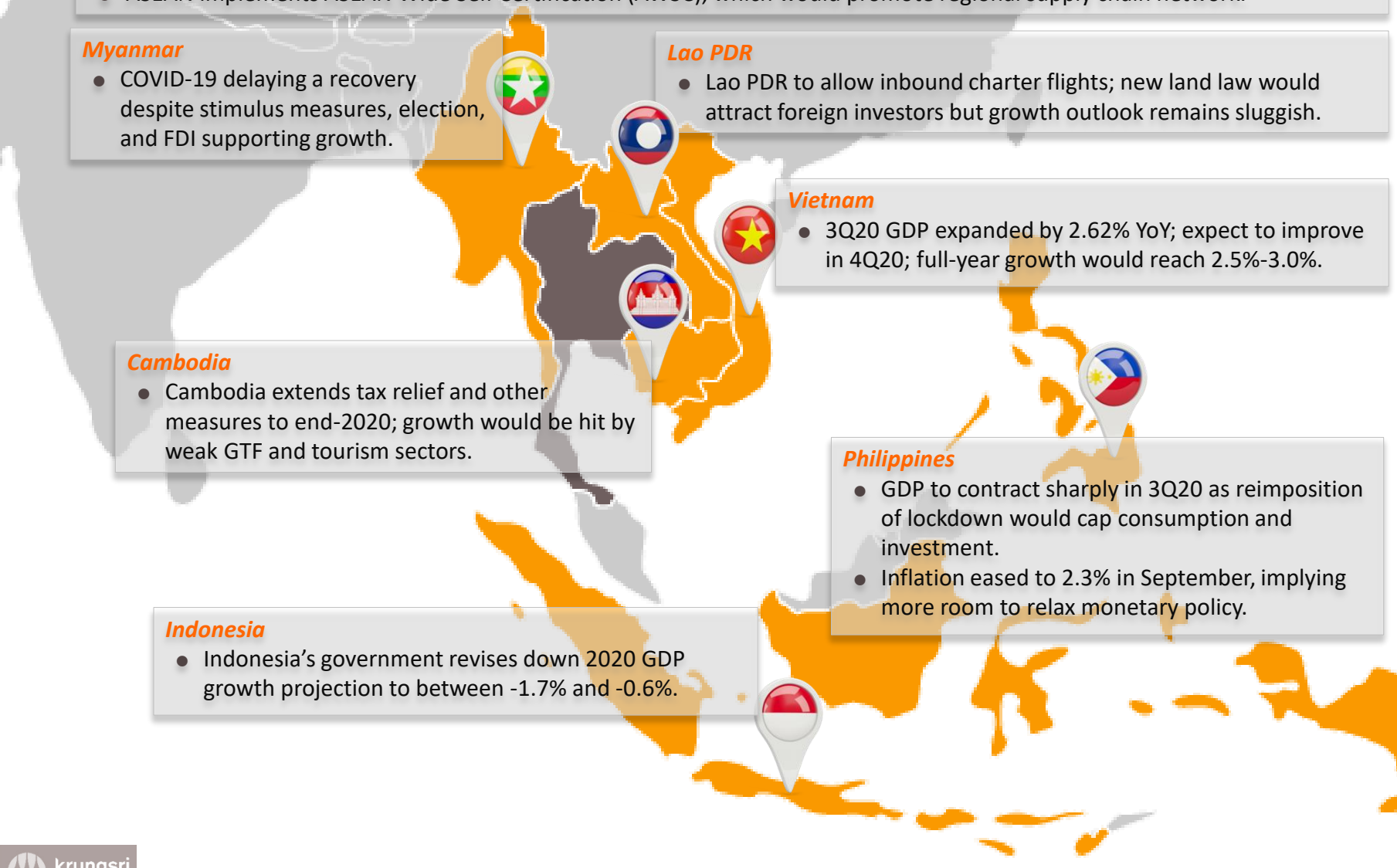


Most-affected provinces in terms of household expenditure



Source: NSO Household Socio-Economic Survey, Krungsri Research

Regional Economic and Policy Developments in October



ASEAN

- ASEAN economy would contract more-than-expected as extended COVID-19 impact will derail regional recovery.
- ASEAN implements ASEAN Wide Self Certification (AWSC), which would promote regional supply chain network.

Myanmar

- COVID-19 delaying a recovery despite stimulus measures, election, and FDI supporting growth.

Lao PDR

- Lao PDR to allow inbound charter flights; new land law would attract foreign investors but growth outlook remains sluggish.

Vietnam

- 3Q20 GDP expanded by 2.62% YoY; expect to improve in 4Q20; full-year growth would reach 2.5%-3.0%.

Cambodia

- Cambodia extends tax relief and other measures to end-2020; growth would be hit by weak GTF and tourism sectors.

Philippines

- GDP to contract sharply in 3Q20 as reimposition of lockdown would cap consumption and investment.
- Inflation eased to 2.3% in September, implying more room to relax monetary policy.

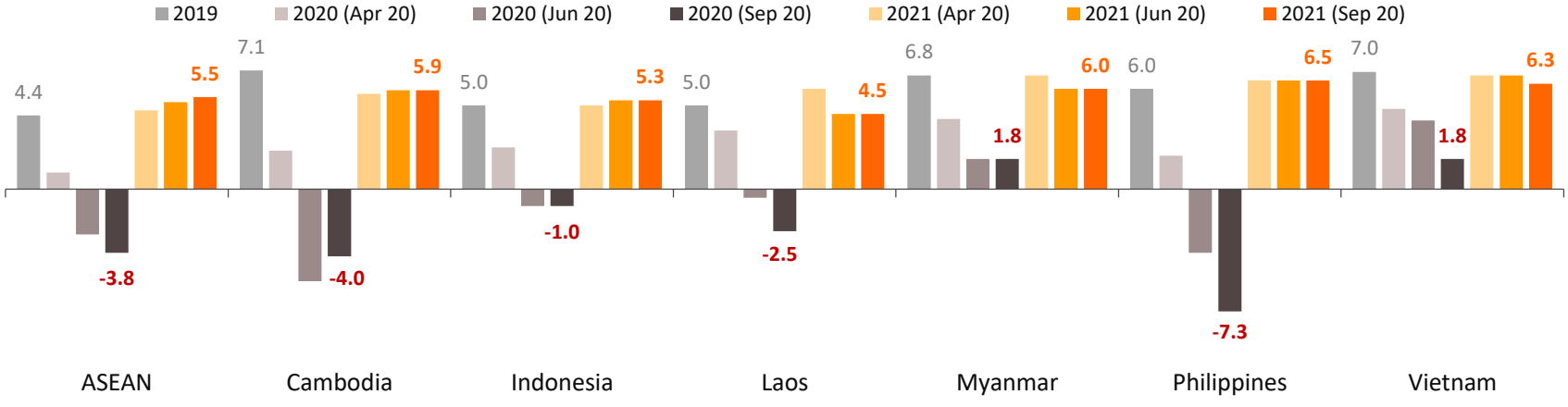
Indonesia

- Indonesia's government revises down 2020 GDP growth projection to between -1.7% and -0.6%.

ASEAN economy would contract more-than-expected as extended COVID-19 impact will derail regional recovery

- According to the *Asian Development Outlook* (September 2020), **the Asian Development Bank (ADB) revised down economic growth projection for ASEAN in 2020 to -3.8% from -2.7%. The Philippines** would see a deeper contraction of -7.3% (from -3.8%). **Laos** is projected to register -2.5% growth (from -0.5%). **Vietnam**'s growth has been revised down but remains in positive territory at +1.8% (from +4.1%). On a positive note, the ADB projects **Vietnam and Myanmar would grow at the same pace as China this year.**
- **The major downside risk remains the extended COVID-19 impact worldwide and in the region, which could derail regional economic recovery.** COVID-19 cases continue to surge in the region, especially in Indonesia, the Philippines, and Myanmar. These could lead to another lockdown (possibly partial) in those countries. Consequently, consumption expenditure – the major growth driver for most of ASEAN countries, at about 60% of GDP on average – would remain subdued in the coming months. In addition, given still-weak external demand and limited cross-country transportation, recovery in the export and tourism sectors would be delayed.
- **However, we anticipate economies with strong fundamentals will continue to register positive growth.** For example, **Vietnam** has diversified exports, from IT products supported by several supply chain clusters in the country, to agricultural products as the government continues to develop the agriculture and agro-processing sector. The country's export growth increased by 4.1% YoY in the first nine months of 2020 led by computers & parts – its top export product at up to 18% of total exports – because of work from home trend. Agricultural products – including rice and fishery products – also benefited from the recently-enforced EVFTA. **Myanmar** will also benefit from economic reforms which will continue to draw FDI inflows.
- **In contrast, economies with weak economic fundamentals will struggle with the extended COVID-19 impact. Philippines** relies a lot on remittances from overseas which account for up to c.12% of its GDP. The lockdowns worldwide have led to significant job losses, which would reduce remittance inflows. **Laos** has limited revenue sources, mainly from electricity exports and tourism, and is dependent on demand from Thailand and China. It also has high external and public debts, which means the government has limited ability to stimulate growth. Given still-sluggish demand in Thailand and the tourism sector at a standstill amid surging new COVID-19 cases worldwide, Laos' economic growth would fall into negative territory.

ASEAN: ADB's economic growth projection for 2019-2021 (%YoY)



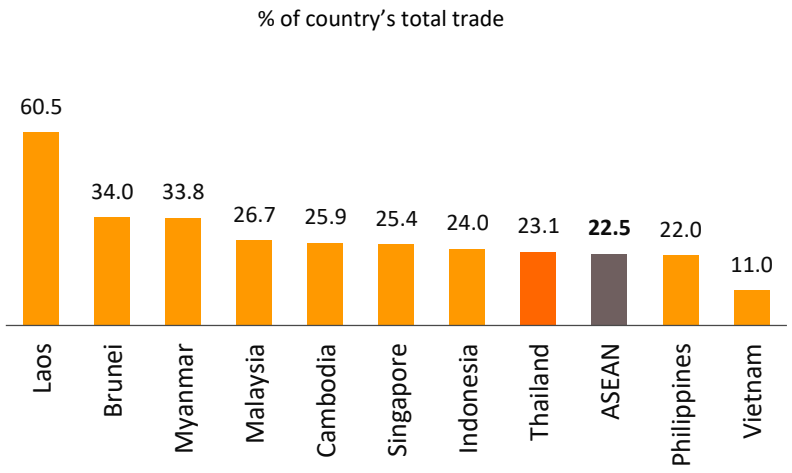
Source: ADB Outlook 2020 Update (April, June, September 2020), CEIC, Krungsri Research

ASEAN implements ASEAN Wide Self Certification (AWSC) to promote regional supply chain network

Origin Certification Procedure (OCP) under AFTA*

Country	Pre-export verification (examination of origin)	Issuance of Certification of Origin (CO)
Cambodia	• Within 7 working days	• 10 hours, 55 mins
Indonesia	• 15 working days for first time users; 1 working day for exporters in database	• Within 1 day
Laos	• 3-7 days	• 3 days
Malaysia	• 7 working days	• 1 working day
Philippines	• Within 5 working days	• Within same day
Singapore	• Step 1: Factory registration – 1 week • Step 2: Manufacturing cost statement - at least 7 days before exportation	• 2-3 working hours
Thailand	• 3 working days	• Within 1 day; 4 hours for Electronic Data Interchange (EDI) systems
Vietnam	Within 5 working days	

Intra-ASEAN trade by country



Krungsri Research's view

- ***The ASEAN-wide Self Certification (AWSC)* regime took effect on 20 September 2020**. The AWSC allows certified exporters to conduct self-certification of the origin of goods for their own products to enjoy preferential trade treatment under the ASEAN Trade in Goods Agreement (ATIGA).
- **The AWSC could be part of efforts to improve convenience and export competitiveness among ASEAN members.** To get FTA privileges, exporters have to secure a Certificate of Origin (CO) to declare their products meet the minimum 40% regional value content (RVC, based on total product value). Data from Economic Research Institute for ASEAN and East Asia (ERIA) shows that the current process to acquire the CO in each country takes 3 to 15 working days and requires applicants to submit hard copies of documents. **Registered exporters under the scheme can certify the origin of their products by themselves and submit electronic documents between member countries. This will help (i) reduce cost (fees) and time to get a certification, (ii) reduce costs of having to submit hard copies, (iii) easily submit e-documents through the system, and (iv) shorten the declaration and clearance process at ports/customs.**
- **We also expect the improved export procedure to help promote trade within the region, where intra-ASEAN trade accounts for 22.3% of total trade. This would help to strengthen the intra-regional supply chain network.**

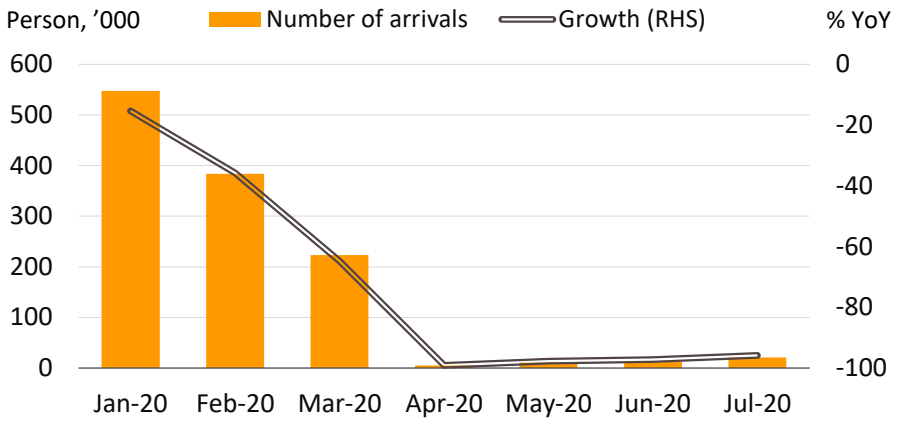
Note: *data from Economic Research Institute for ASEAN and East Asia (ERIA).
Source: asean.org, ERIA, CEIC, Krungsri Research

Cambodia extends tax relief and other measures to end-2020; growth would be dragged by GTF and tourism sectors

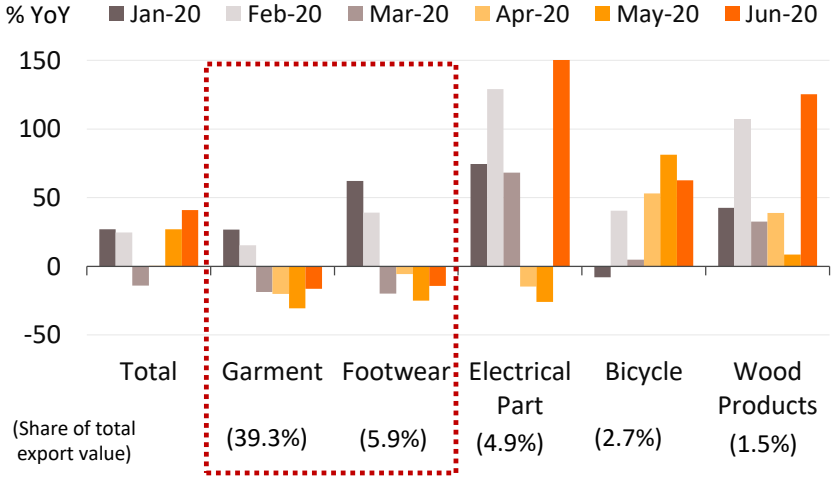
Cambodia: Key relief measures

Measures	Targeted sectors
• Paying USD40 per month for a worker until end-2020	• Garment, textile and footwear • Tourism
• An exemption from monthly taxes	• Tourism • Registered hotels • Guest houses • Restaurants • Tour agencies
• The postponement of social security payment obligations on the pension system	• Garment, textile and footwear • Tourism
• Applying the minimum tax to all airline entities operating in Cambodia	• Aviation

Cambodia: Foreign tourist arrivals



Cambodia: Major export products



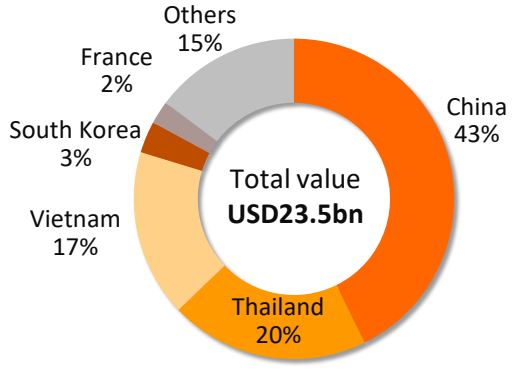
Source: National Bank of Cambodia, Ministry of tourism, CEIC, local news media, Krungsri Research

Krungsri Research's view

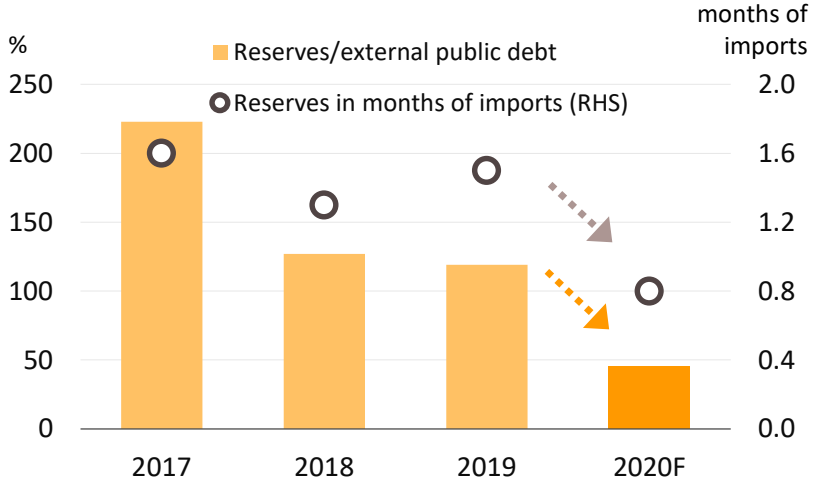
- **Cambodia's government has extended support measures for businesses affected by the COVID-19 pandemic, including the garment, textile, and footwear (GTF), tourism and aviation sectors, to end-2020.** (see table)
- The GTF and tourism sectors are major drivers of Cambodia's economy. They employ c.25% of its labor force and contribute 30% of GDP. We anticipate the extended relief measures would reduce the burden on workers and businesses during this crisis. However, **the measures would be insufficient to spur growth in consumption and investment.**
- **Looking ahead, we anticipate the GTF and tourism sectors to remain weak** because (i) they are not essential products & services; (ii) the EU has withdrawn preferential treatment for some of Cambodia's GTF goods under the Everything But Arms (EBA) scheme; and (iii) **Cambodia has continued to increase minimum wage to USD192 per month, from current USD190, effective 1 January, 2021. Rising wages will not only dampen its export competitiveness, but also discourage new FDI inflows** because Cambodia will lose its appeal as a low-cost production base for labor-intensive industries.

Lao PDR to allow inbound charter flights; new land law to attract foreign investors but growth will remain sluggish

Laos: major sources of FDI (cumulative 1989-2019)



Laos' international reserves*



Source: World Bank, Ministry of Information, Culture and Tourism, MPI, CEIC, Krungsri Research

New Land Law: Key details

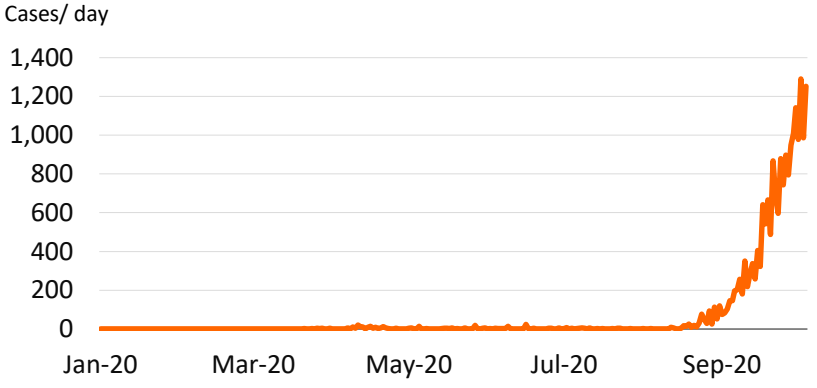
Issues	Details
• Ownership	• Foreigners are permitted to have limited ownership of land-use rights for state land.
• Purpose of land use rights	• Restricted to the development of condominiums, apartment buildings, or other residential or commercial complexes.
• Rights	• Foreigners will have legal right to transfer, mortgage, or bequeath rights to the land and the buildings on it. • They will have the right to sell or transfer ownership of individual units in a building to potential buyers (Lao citizens and foreigners).

Krungsri Research's view

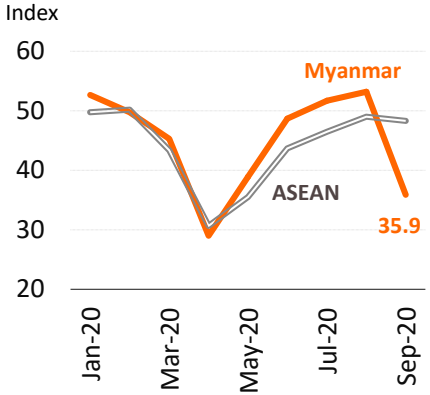
- **Laos government has extended its COVID-19 prevention measures to 31 October 2020. It also has agreed in-principle to allow group tours under charter flights from low-risk countries. The government recently introduced a new *Land Law,* effective in August 2020.** which would allow foreigners to have limited land-use rights for state land for up to 50 years (renewable). Under this law, foreign developers is no longer restricted to accessing land through concession and lease agreements. **We anticipate the charter flights plan and new land law would target Chinese tourists and investors; China is the top 3 source of foreign tourists and the largest investors in Laos, respectively.** China has large investments throughout the country, from the development of special economic zones to other infrastructure. The latest moves would increase China role in Laos' economy.
- However, in early September, **Fitch Ratings downgraded Laos to CCC, matching Moody's downgrade in mid-August. This reflects strong external liquidity pressure** as a result of the coronavirus shock and maturity of a large amount of sovereign debt. Laos has to repay USD500m the rest of 2020 and USD1.1bn per year over 2021-2024. In addition, **Laos' fiscal deficit is projected to deteriorate, which will increase the need to secure near-term financing. The fragile economic structure, vulnerability to external shocks, the rating downgrades, as well as the COVID-19 impact on Laos' economy, could increase default risk and worsen its economic prospects.**

Myanmar: COVID-19 to delay recovery despite support from stimulus measures, election, and FDI

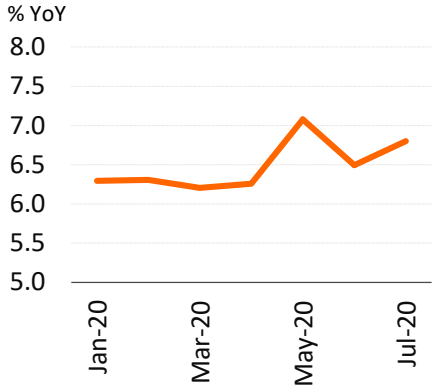
New COVID-19 cases in Myanmar



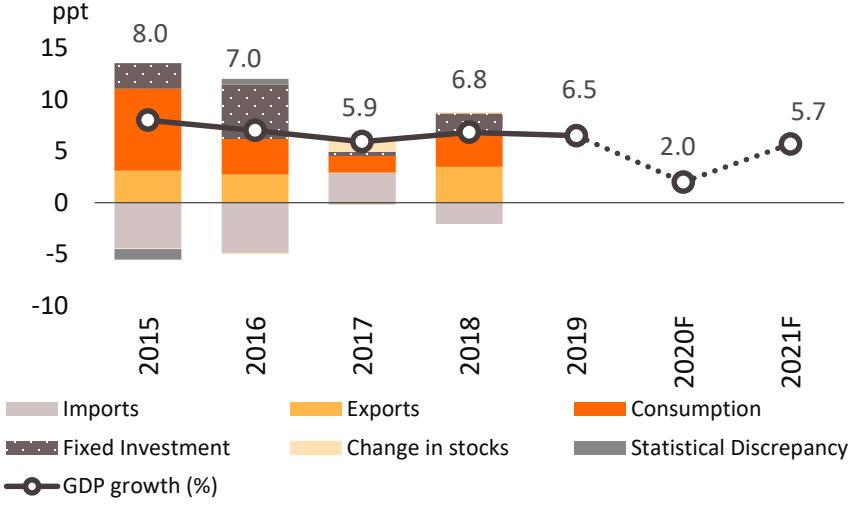
IHS Markit Manufacturing PMI: Myanmar and ASEAN



Myanmar: Growth of cumulative FDI



Myanmar: Contribution to real GDP growth (%)



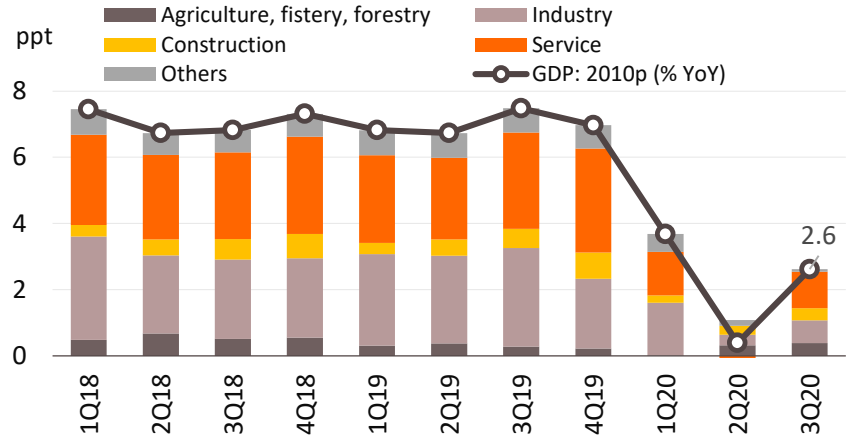
Note: *% share of cumulative Permitted Enterprise (PE): Approved Amount, data as of July 2020
Source: IMF, IHS Markit, Ministry of Planning and Finance, CEIC, Krungsri Research

Krungsri Research's view

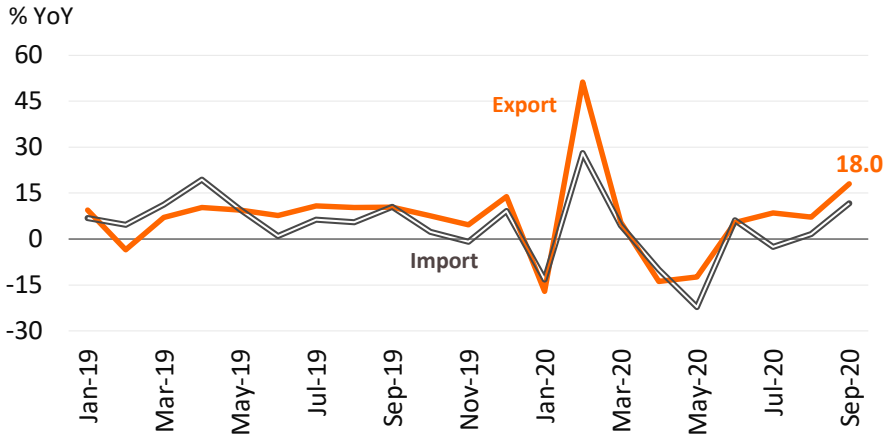
- **Myanmar has seen another round of COVID-19 outbreak. Total cases have reached 30,000 with daily new cases have accelerated** from 14 in August to 1,087 in the 1st week of October. Most of the cases are in Yangon city, the country's largest economic area which accounts for c.23% of total nominal GDP. Authorities have reimposed strict lockdown measures in the city which has stalled most economic activities.
- **The IHS Markit Manufacturing PMI for Myanmar has dropped sharply to 35.9 in September, the second-lowest on record,** after expanding for two consecutive months. This was because factories had temporarily closed in key regions and border trade was blocked. With production tumbling in September, backlog fell by the largest pace in three months and the 12-month outlook for production moderated to the lowest since April.
- **We expect a new outbreak to derail recovery in domestic consumption**, the largest GDP component at c.68% of Myanmar's GDP. **Growth would be weaker than expected but is projected to remain in positive territory. This would be supported by higher government spending** – including stimulus packages (c.2.9% of GDP) and pre-election spending (polls scheduled for 8 November 2020). **Rising FDI driven by economic reforms would also support growth**. The key FDI destinations have expanded from oil & gas and power (traditional sectors) to banking & financial services and information & communication industries. The latter sectors are attracting more FDI following reforms in banking and digital sectors to transition to a digital economy.

Vietnam's GDP expanded by 2.62% YoY in 3Q20, to improve in 4Q20; full-year growth would reach 2.5%-3.0%

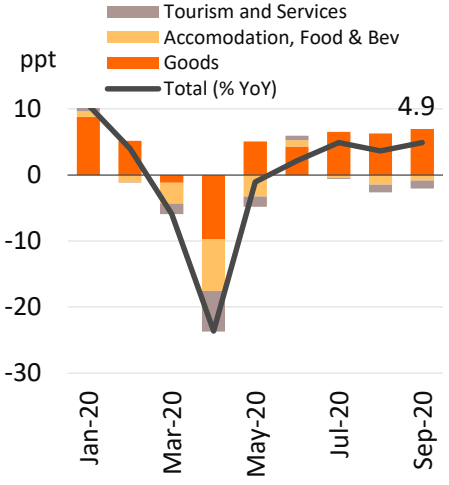
Vietnam: Contribution to GDP - Production side



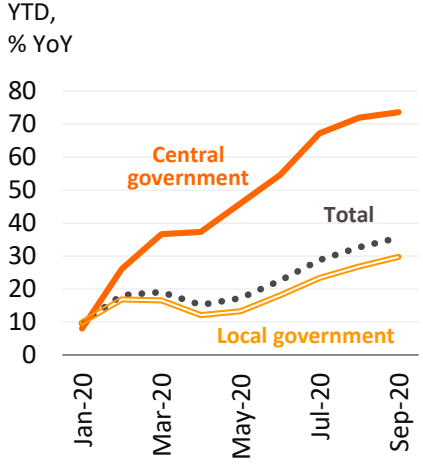
Vietnam's export and import growth



Vietnam retail sales: component contribution



Vietnam state investment



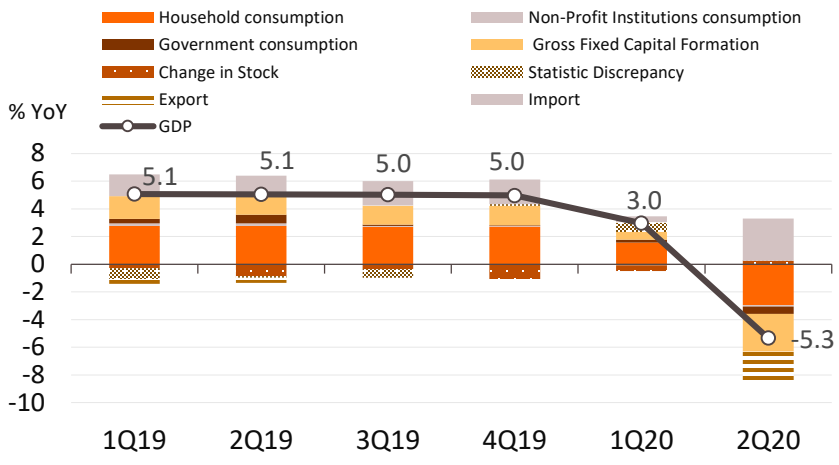
Source: GSO, CEIC, Krungsri Research

Krungsri Research's view

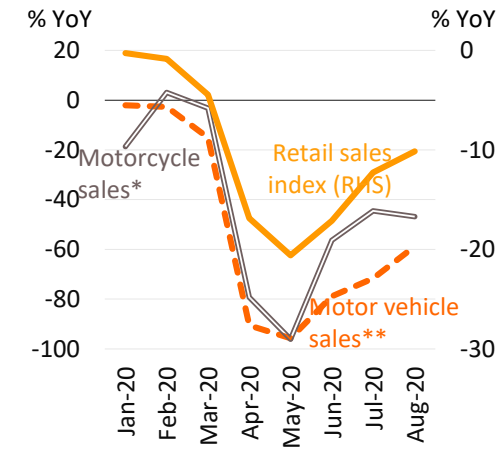
- **Vietnam's economy expanded by 2.6% YoY in 3Q20 led by strong growth in exports and state investment, as well as a recovery in domestic demand. In the first nine months of 2020, the economy grew 2.1%, the strongest among Asian countries.**
- Exports have performed well, surging 11.1% YoY in 3Q20, close to its 5-year annual average of 12.1%. This is supported by strong growth in major export products, led by computer (+26.8% YoY), machinery & equipment (+62.8%), wood & wooden products (+28.0%), and iron & steel (+67.6%). **Vietnam's export sector is supported by strong cost-competitiveness, development of supporting industries, and several FTAs including EVFTA and CPTPP. The significant recovery in the services sector is also a major contributor to economic expansion, led by a recovery in trade, retail sales, and accommodation services** despite another lockdown measures in the central region of the country. This reflects the continued recovery in consumption expenditure and domestic tourism. Accelerating state investment – especially spending by the central government – also supported growth.
- Looking ahead, **Vietnam's economy would continue to recover. We expect full-year growth to be 2.5%-3.0% this year.** This would be driven by anticipated positive growth in exports, an increase in government investment spending, and resilient domestic demand.

Indonesia's government slash 2020 GDP growth projection to between -1.7% and -0.6%

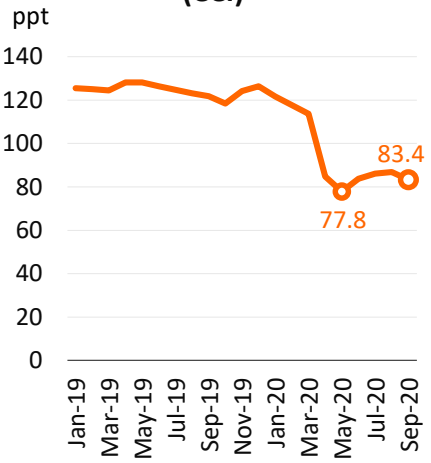
Indonesia: Contribution to GDP - Expenditure side



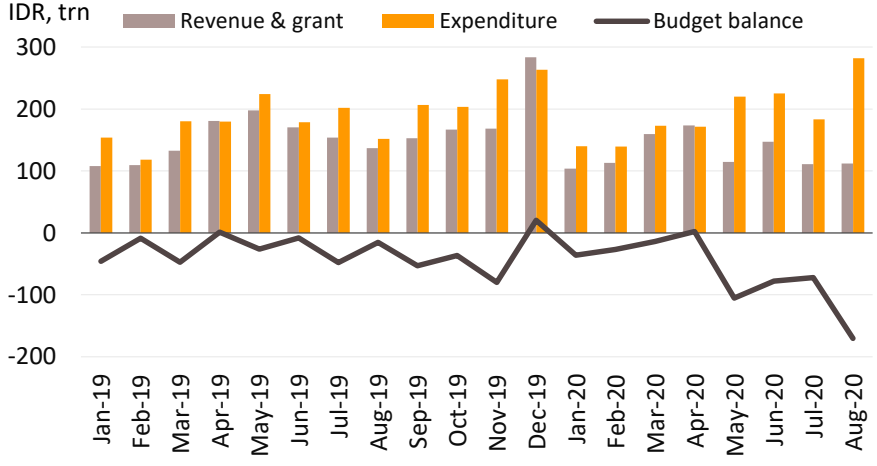
Indonesia's motor vehicle sales, motorcycle sales, and retail sales index



Consumer Confidence Index (CCI)



Indonesia's government balance



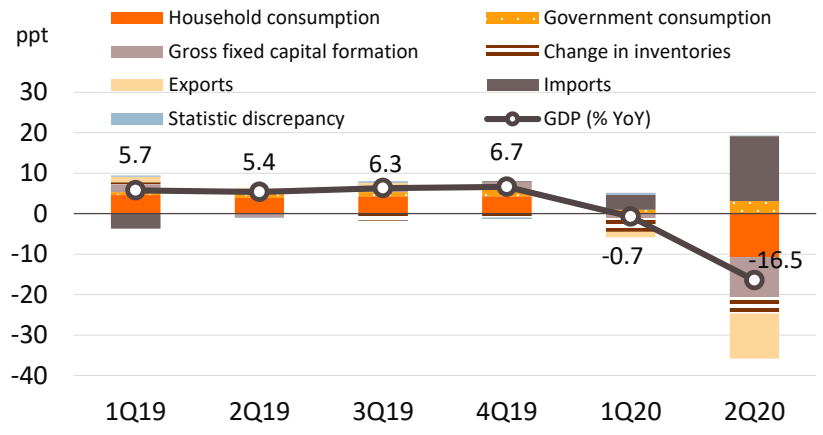
Note: * data from the Indonesian PT Astra International Tbk (PT Astra)
** data from the Association of Indonesian Automotive Manufacturers (Gaikindo)
Source: Bank Indonesia, Directorate General of Treasury, CEIC, Krungsri Research

Krungsri Research's view

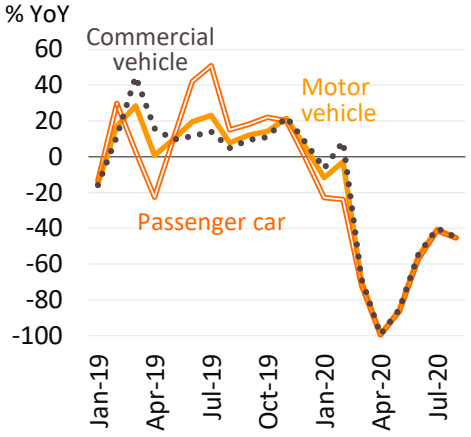
- **The Indonesian government has revised down its growth projection for 2020 again, to between -1.7% and -0.6%** from its previous forecast of between -1.1% and +0.2%. **This is in line with our view that Indonesia's economy would contract this year.**
- **Recent developments suggest recovery remains weak. Consumption, the country's largest GDP driver at 57% of total GDP, would remain sluggish amid worsening consumer confidence.** New COVID-19 cases continue to surge and authorities have extended partial lockdown measures several times since 5 June, mainly in Jakarta – Indonesia's largest city which contributes c.20% of national GDP. Hence, **retail sales index and motor vehicle sales remained in deep negative territory.** Consumer Confidence Index (CCI) also fell in September, for the third straight month, and wis close to the country's low of 77.8. **Government spending accelerated in August although disbursements have reached only 56% of the total budget for 2020 – similar level to the same period last year.** The Finance Minister blamed the reduced spending on red tape and social restrictions during the pandemic. **This implies disbursement of the remaining stimulus packages for this year would be delayed.**
- **Looking ahead, the extended partial lockdown and still-rising new COVID-19 cases would delay economic recovery. Although accelerating government expenditure in the coming months would improve economic activity in 2H20, full-year growth would remain in negative territory.**

Philippines' GDP to contract sharply in 3Q20 as another lockdown caps consumption and investment

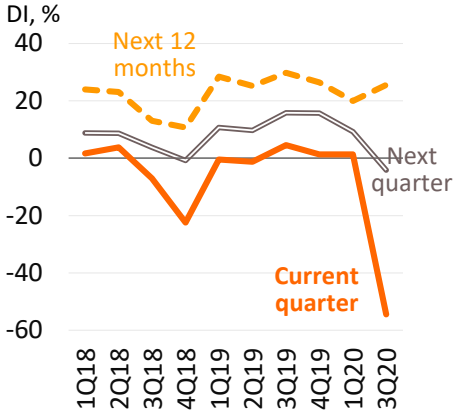
Philippines: Contribution to GDP - Expenditure side



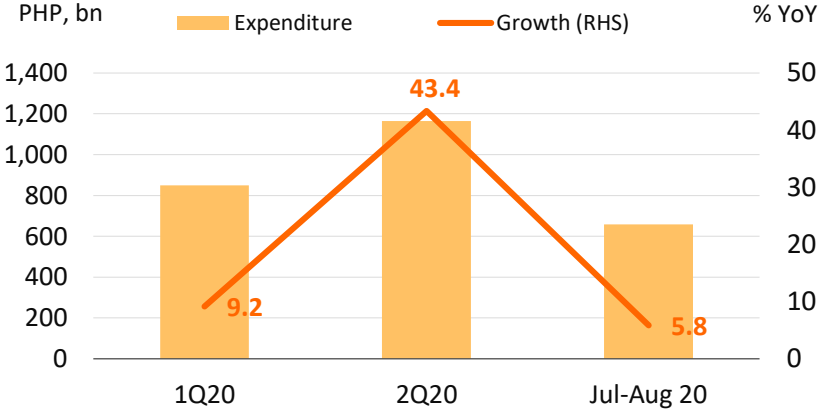
Philippines' motor vehicle sales



Philippines' Consumer Expectation Survey (CES)*



Philippines' government expenditure



Note: * There is no survey for 2Q20.

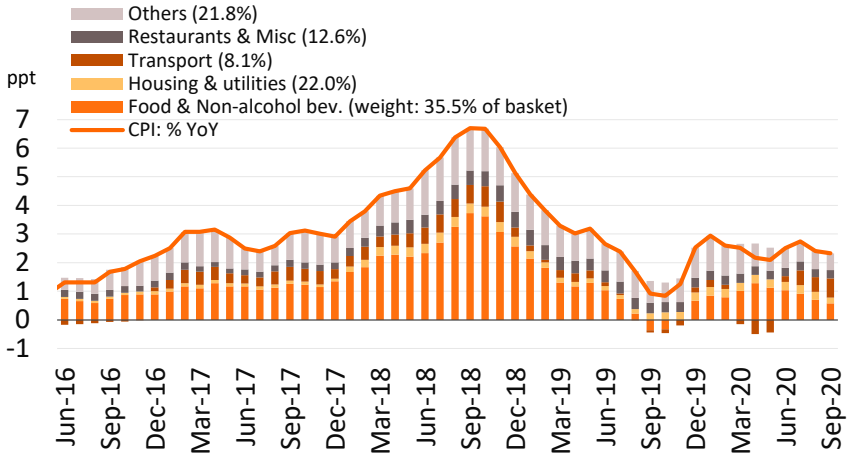
Source: Philippine Statistics Authority, Bangko Sentral ng Pilipinas, CEIC, Krungsri Research

Krungsri Research's view

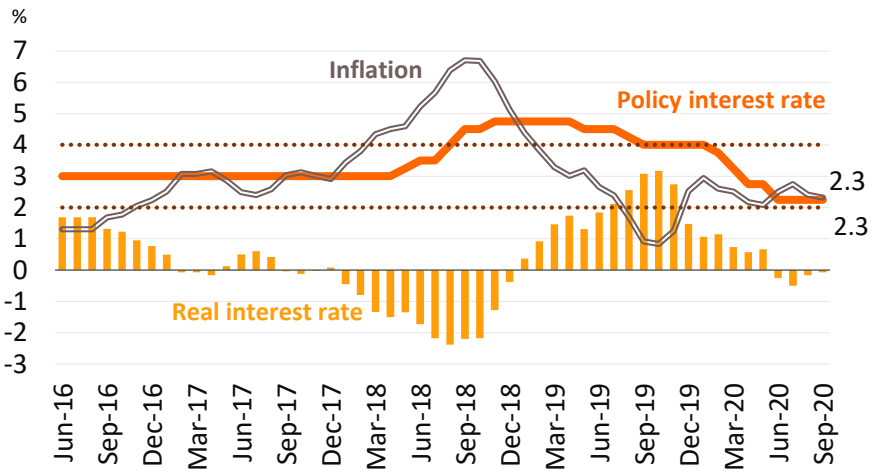
- The slump in consumption spending, the largest GDP driver at c.78% of national GDP, had dragged the Philippines' into a recession in 2Q20. **Looking ahead, consumption would remain sluggish because of the extended lockdown. Export growth would remain in negative territory. Government expenditure would rise at a slower pace given more prudent spending and still-muted construction industry due to the lockdown.**
- **Recovery in domestic demand paused in 3Q20.** The extended lockdown measures since late-July has worsened consumer sentiment, reflected by a sharp drop in motor vehicle sales and consumer confidence. **Demand will remain weak in 4Q20** due to the extended lockdown and relatively small cash aid for workers program under the 2nd relief package valued at PHP20bn vs PHP100bn under the first package.
- Philippines' exports – led by electronic products which contributed 57% of total exports – experienced a double-digit contraction in the first eight months of 2020. **Exports are likely to contract further in the coming months given weak recovery in global demand and lower export competitiveness** relative to other countries which export similar products - including Vietnam – partly due to higher wages, a stronger peso, and relatively limited export privileges.
- **Government expenditure was a major GDP driver in 2Q20, but it would increase at a slower pace in 3Q20** following the expiry of Phase 1 fiscal stimulus in June and more prudent spending. The Finance Minister said *"We have the resources necessary to endure this challenge, but we must also conserve our resources for succeeding rounds of this fight".* **In 4Q20, given the modest PHP160bn Phase 2 fiscal recovery bill (compared to PHP209.9bn Phase 1 bill) and a high base in 4Q19 (+27.4% YoY), we expect government expenditure to be slower.** And, disbursements would be limited due to the extended lockdown measures and because most of the expenditure is allocated to support domestic demand and MSMEs.

Philippines' inflation eased to 2.3% in September, implying more room for further easing of monetary policy

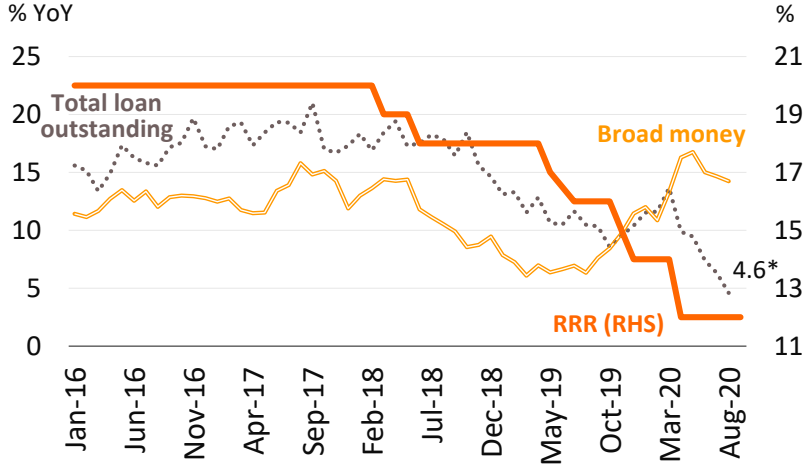
Philippines: Headline inflation



Philippines: Inflation and policy interest rate



Liquidity in Philippines' banking system



Note: * data of 4 big banks (source: Philstar.com)

Source: Bangko Sentral ng Pilipinas, CEIC, Krungsri Research

Krungsri Research's view

- **Philippines' inflation eased to 2.3% in September**, slowing for a second straight month, supported by lower food prices and weak domestic demand. **The Bangko Sentral ng Pilipinas (BSP) also revised down its 2020 inflation forecast to 2.3%**, from 2.6%, closer to the lower-end of its 2%-4% range for this year. It also revised down 2021 and 2022 inflation forecasts to 2.8% and 3.0%, respectively.
- **The easing inflationary pressure would allow the central bank to relax monetary policy further to address the anticipated deep economic contraction as well as looming risks from the extended lockdown. The monetary stimulus should lift (bank) loan growth,** which recently fell to a 13-year low of 4.6% YoY in August. The next policy move would be to reduce both reserve requirement ratio (RRR) and policy interest rates. **Further rate cuts could reduce pressure the peso** which has strengthened by 4.8% this year (up to September). This would help improve its export competitiveness as well.

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