krungsri Research

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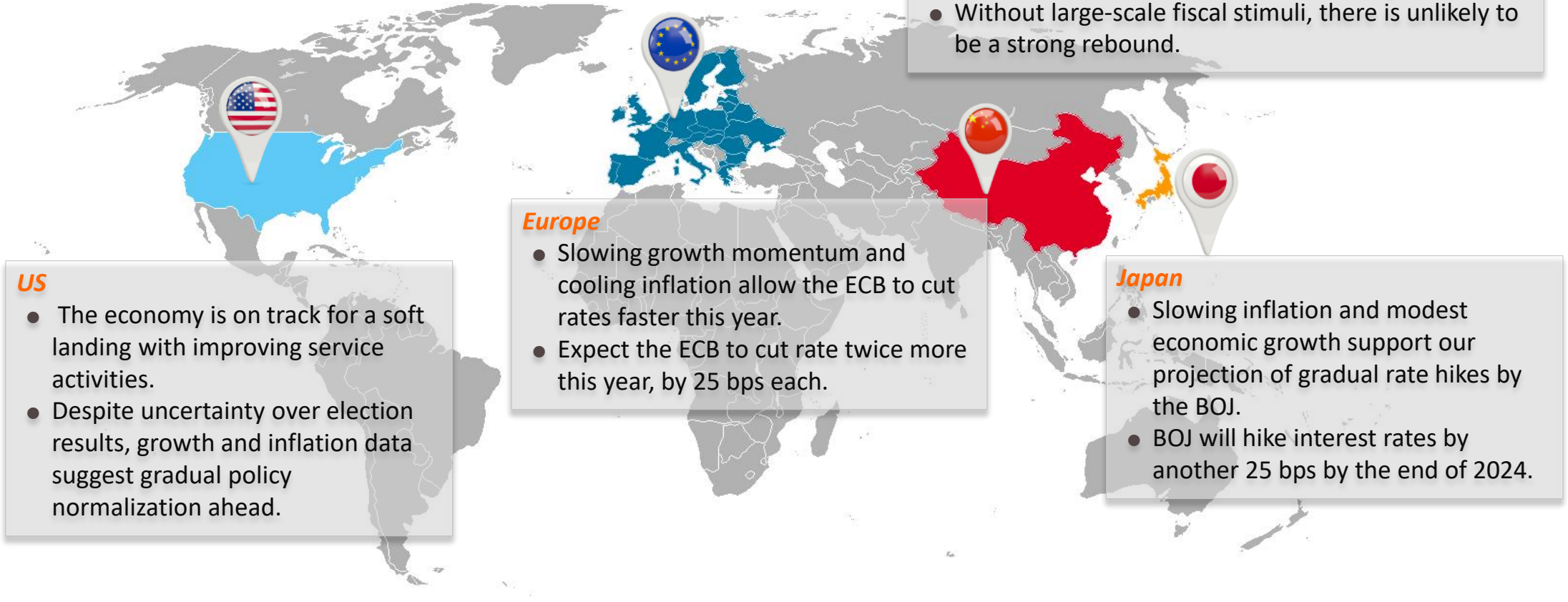
MONTHLY ECONOMIC BULLETIN

October 2024



Krungsri Research

Global: Navigating A Delicate Balance



China

- Despite new stimulus measures, structural headwinds would still hinder economic growth.
- Without large-scale fiscal stimuli, there is unlikely to be a strong rebound.

Europe

- Slowing growth momentum and cooling inflation allow the ECB to cut rates faster this year.
- Expect the ECB to cut rate twice more this year, by 25 bps each.

US

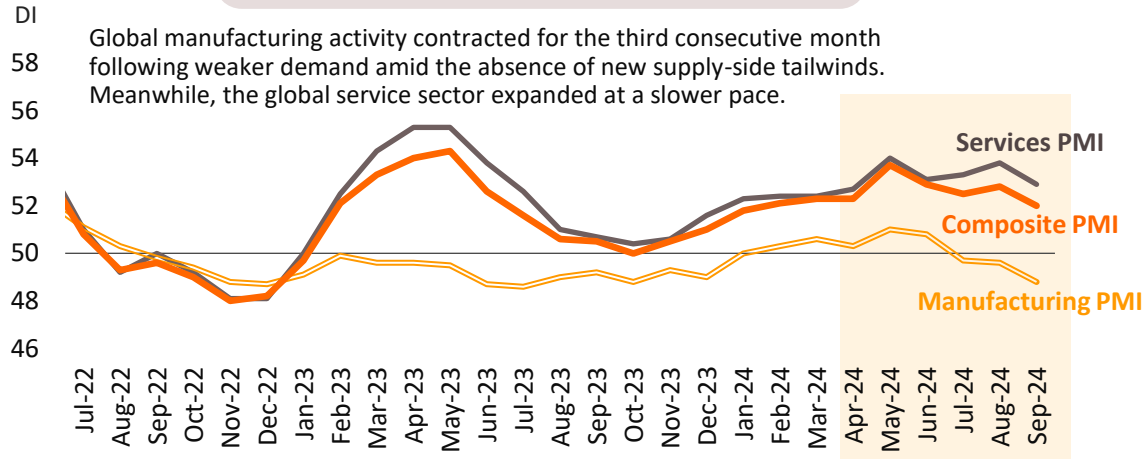
- The economy is on track for a soft landing with improving service activities.
- Despite uncertainty over election results, growth and inflation data suggest gradual policy normalization ahead.

Japan

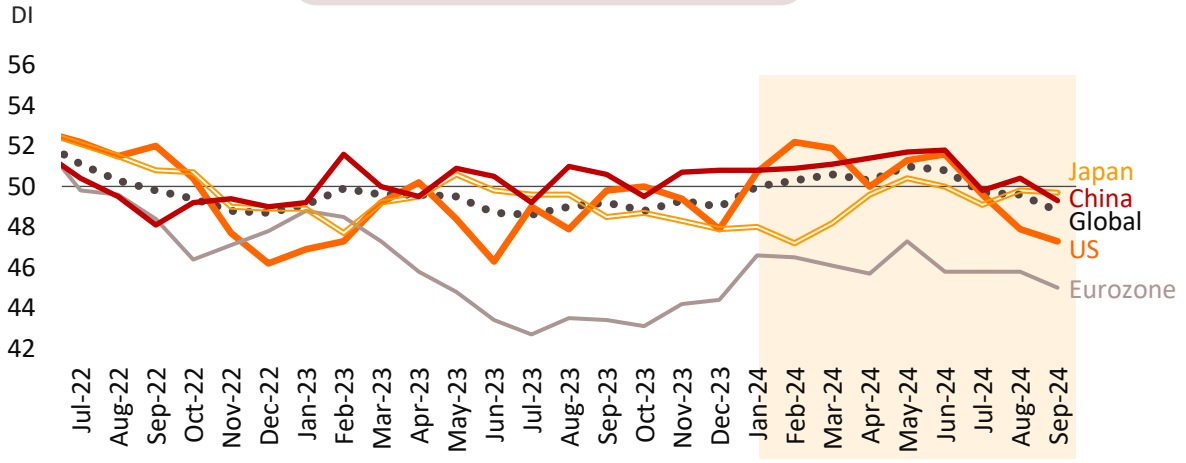
- Slowing inflation and modest economic growth support our projection of gradual rate hikes by the BOJ.
- BOJ will hike interest rates by another 25 bps by the end of 2024.

Global growth is slowest since January with weakness across regions and sectors; policy-easing decisions are complicated by geopolitical tensions

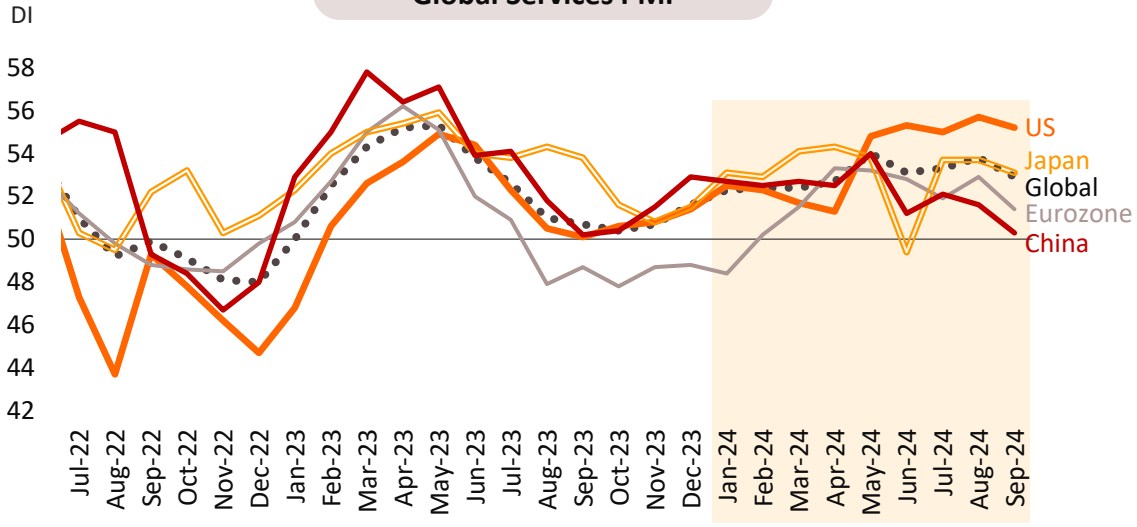
Global Manufacturing and Services PMI



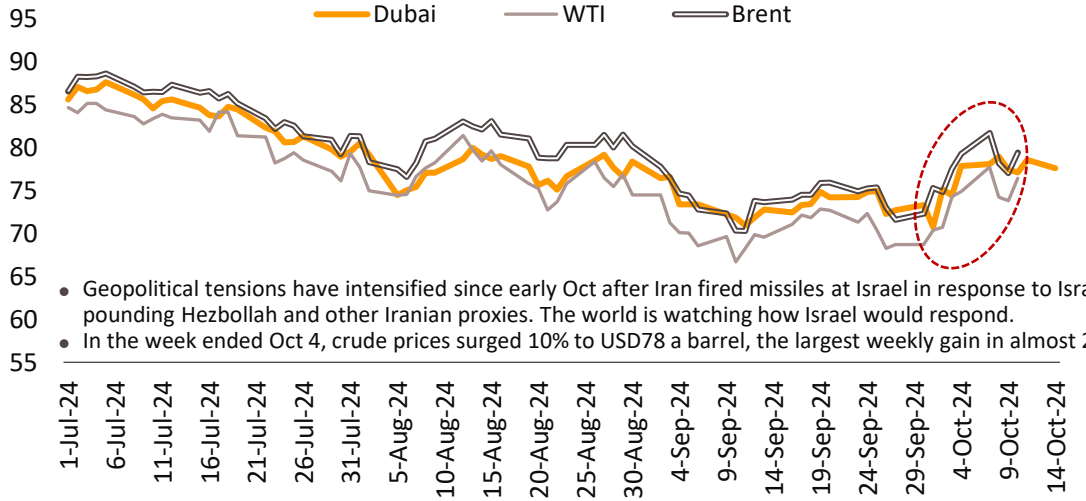
Global Manufacturing PMI



Global Services PMI



Crude Oil Prices

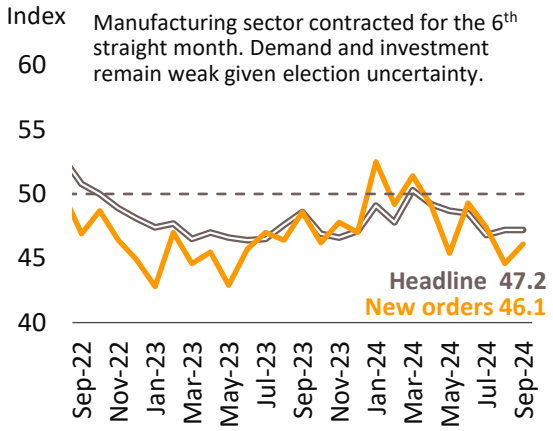


- Geopolitical tensions have intensified since early Oct after Iran fired missiles at Israel in response to Israel pounding Hezbollah and other Iranian proxies. The world is watching how Israel would respond.
- In the week ended Oct 4, crude prices surged 10% to USD78 a barrel, the largest weekly gain in almost 2 years.

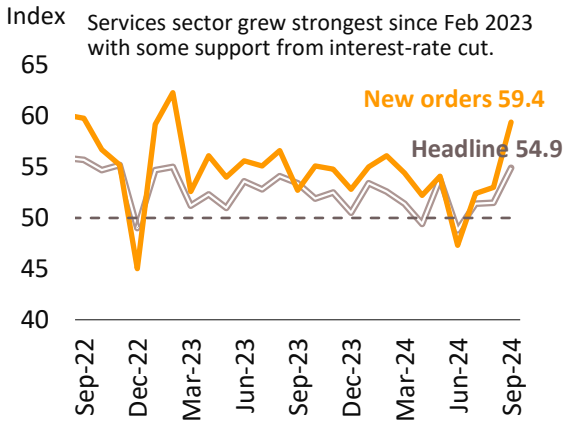
Source: S&P Global, Capital Economics (CE), CEIC, Bloomberg, Krungsri Research

US: Economy is on track for a soft landing with improving services activity; growth and inflation data suggest gradual policy normalization

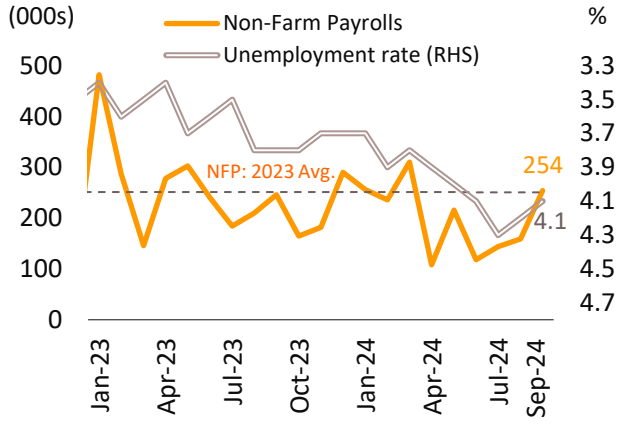
ISM Manufacturing PMI



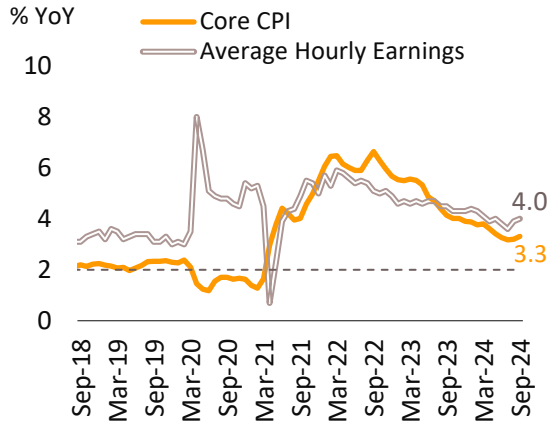
ISM Services PMI



Payrolls and Unemployment



Core CPI and Wage Growth



Major Economic Policies: Trump vs Harris

	Trump's "America First" agenda	Harris's "Opportunity Economy" proposal
Tax	• **Reduce corporate tax rate** from 21% **to 15%** for manufacturers • Remove taxes on **overtime pay & tips**, and on **Social Security benefits** for seniors	• **Raise corporate tax rate** to 28% to make the system "fairer" and implement "billionaire tax" • Increase tax deduction for **startups** • Offer tax benefits to **parents** with newborns and boost **child tax credit** for working families
Manufacturing	• **Tariff proposal** (at least 60% on Chinese-made goods and 20% tariff on imports from other countries) to incentivize companies to move to the US • **Offer foreign companies** access to federal land to attract them to move to the US	• Federal support for **biomanufacturing, semiconductors, clean energy and aerospace industries,** such as the CHIPS and Science Act. • Support tax credits worth at least $100 bn for domestic manufacturing over the next decade
Housing	• Increase the number of available homes	• Offer **first-time homebuyers up to** $25,000 down-payment assistance
Cost of living	• **Reduce energy prices** by 50% but with no specifics on how to bring down prices	• Target "price-gouging" in the **food industry** with a federal ban

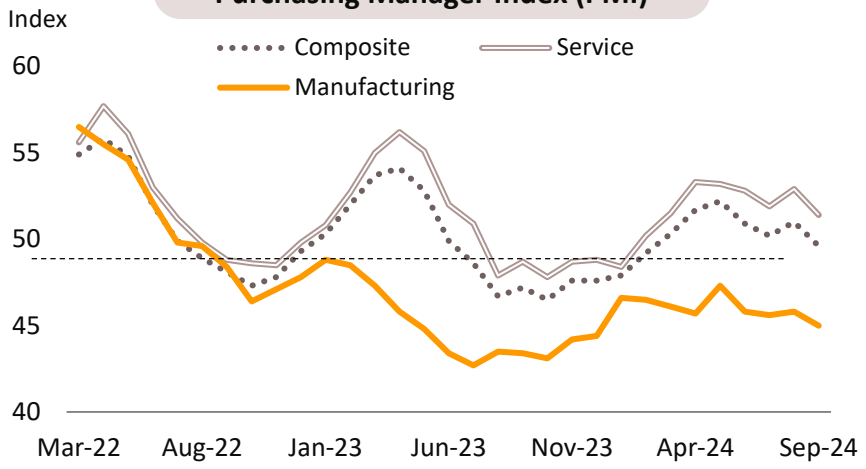
Source: ISM, BLS, BEA, Reuters, CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

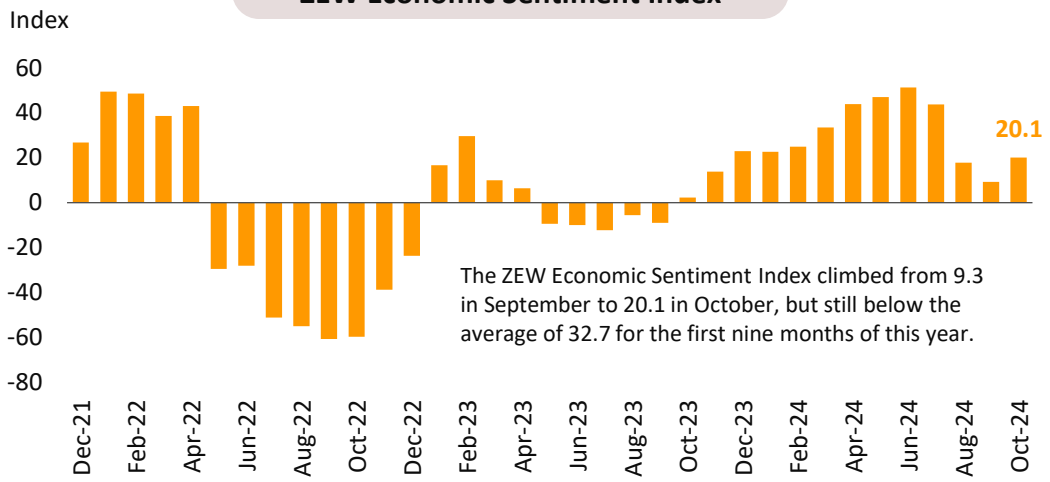
- **At the Sep 17-18 meeting, the Fed cut US policy rates for the first time since 2020, by 50bps to 4.75%-5.00%. We expect the Fed to continue to normalize monetary policy, premised on:**
  - **Slower growth, especially in consumer spending** which rose only 0.2% in Aug vs +0.5% in July. Spending on goods fell 0.1%. **Adjusted for inflation, consumer spending grew by only 0.1% vs +0.4% in July.**
  - **Factory activity contracted for the sixth straight month in Sep** and factory employment dropped by a larger magnitude. The Prices Paid Index also fell to the lowest since Dec 2023.
  - **Inflation is moving closer to the 2% target: The PCE price index rose 2.2% YoY in Aug, the smallest increase** since Feb 2021 and against +2.5% in July. CPI rose 2.4% in Sep vs +2.5% in Aug.
  - The latest **FOMC minutes revealed** that *" …almost all participants judged that the risks to achieving the committee's employment and inflation goals were roughly in balance..."*
- **Key economic indicators, however, are not soft enough to compel the Fed to deliver another 50bps rate cut.**
  - **Non-farm payrolls marked the strongest growth in 6 months** at +254K in Sep vs +159K in Aug, above the average monthly gain of 203K over the prior 12 months. The unemployment rate fell to a 3-month low of 4.1%. Wage growth (+4% YoY) and high savings rate (4.8%) should support consumption ahead.
  - **Services sector activity grew at a faster pace to a 1-1/2-year high** in Sep with a strong rise in new orders. The ISM prices paid measure for services inputs hit an 8-month high.
  - **Disinflation is slowing. Sep core CPI** rose 3.3% YoY vs +3.2% in Aug. One-year-ahead inflation expectations also rose for the first time in 5 months to 2.9%, from 2.7%.
- **Given signs of a soft-landing for the economy, slower disinflation, less hawkish views from Fed officials, and uncertainty over US presidential election results (to be held on Nov 5), the Fed is expected to deliver two more rate cuts of 25 bps each, in Nov and Dec.**

Eurozone: Slowing growth momentum and cooling inflation provide space for the ECB to cut rates faster this year

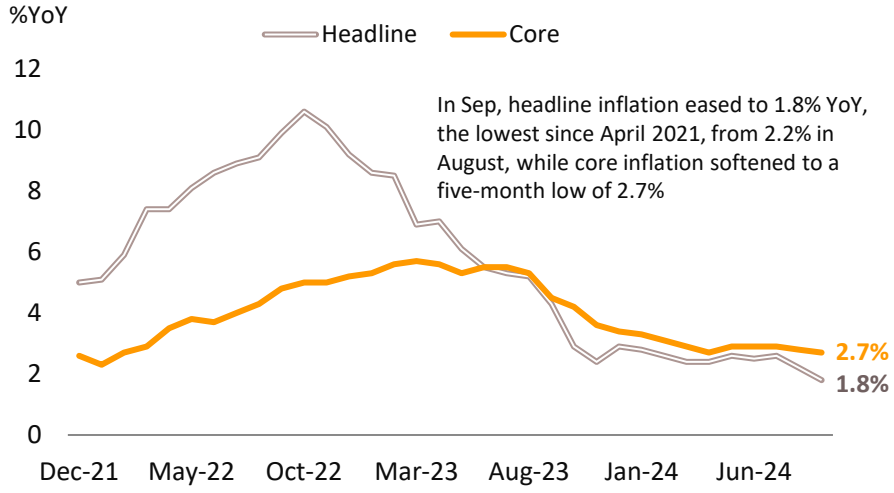
Purchasing Manager Index (PMI)



ZEW Economic Sentiment Index



Consumer Price Index (CPI)



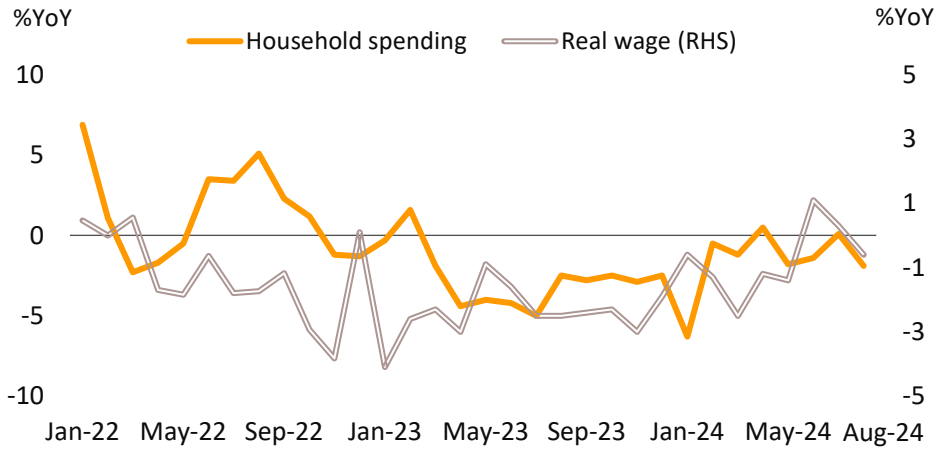
Source: ECB, CEIC, investing.com, Eurostat, Bloomberg, Krungsri Research

Krungsri Research's view

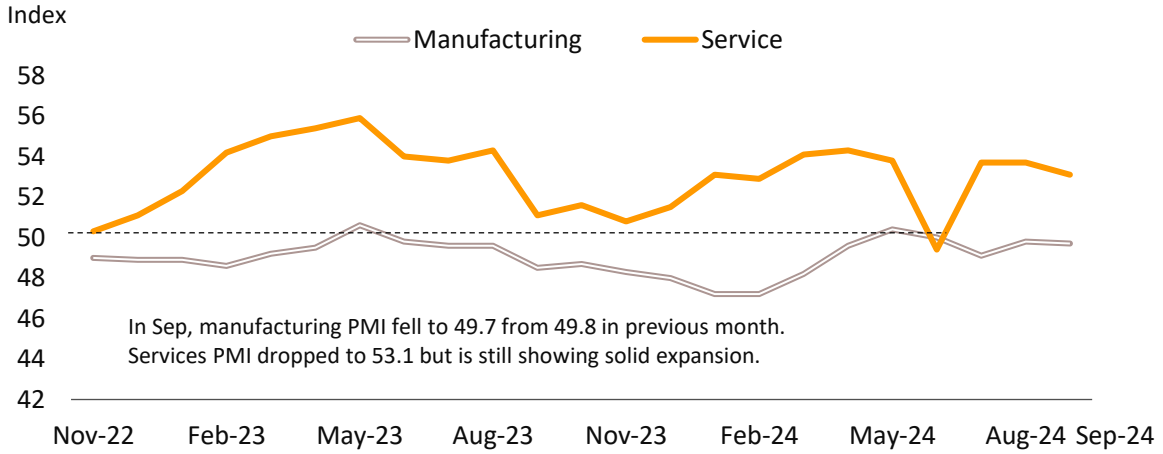
- **Economic recovery has become more fragile as key economic indicators continue to slow down.** The Eurozone economy is overshadowed by a sharper contraction in manufacturing activity in Sep, less fiscal stimulus, slow credit growth, and still-weak private consumption due to a slowing labor market and weaker confidence in the economy. Meanwhile, the boost from the Paris Olympics in Aug has faded.
  - Manufacturing PMI data continued to contract in Sep to 45, while Services PMI data slowed for the third consecutive month to 54.9.
- **Real wages have risen, and retail sales started to grow again in Aug, but consumption will remain weak.** Inflation has continued to drop to below 2% as wages continued to grow by over 4%, which pushed up real wages by 1.8% in 2Q24 (vs 1.7% in 1Q24 and 0.8% in 4Q23). This is in line with retail sales which registered the strongest growth since April 2023. However, we expect consumption recovery to remain weak, as reflected by relatively low ZEW Economic Sentiment Index, and the household savings rate rising to a 3-year high, suggesting sluggish consumption ahead.
  - In 2Q24, household saving rate rose to 15.6%, the highest since 2Q21, from 15.1% in the previous quarter.
- **The European Commission (EC) has agreed to raise total import duty to up to 45% on Chinese electric vehicles effective** this November for five years. However, the EU and China will continue with negotiations to find a resolution, particularly on setting minimum import prices and import quotas for Chinese vehicles. Failure to reach a deal, however, could lead to trade retaliation from China.
- Given overall weakness in the Eurozone economy and inflation falling below the 2% target, coupled with uncertainty over economic and trade policies amid the US presidential election in November, **Krungsri Research expects the European Central Bank (ECB) to make two more rate cuts this year, by 25 bps each. That would reduce the benchmark deposit rate to 3.00% by the end of 2024, to support economic growth.**

Japan: Slowing inflation and modest economic growth support the view that the BOJ's rate hikes will be gradual

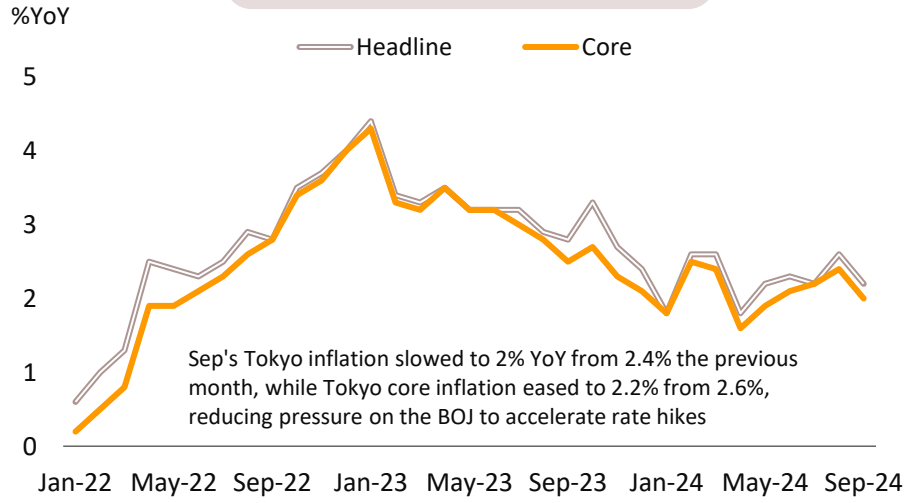
Real Wage Growth and Household Spending



Purchasing Managers' Index (PMI)



Tokyo Consumer Price Index



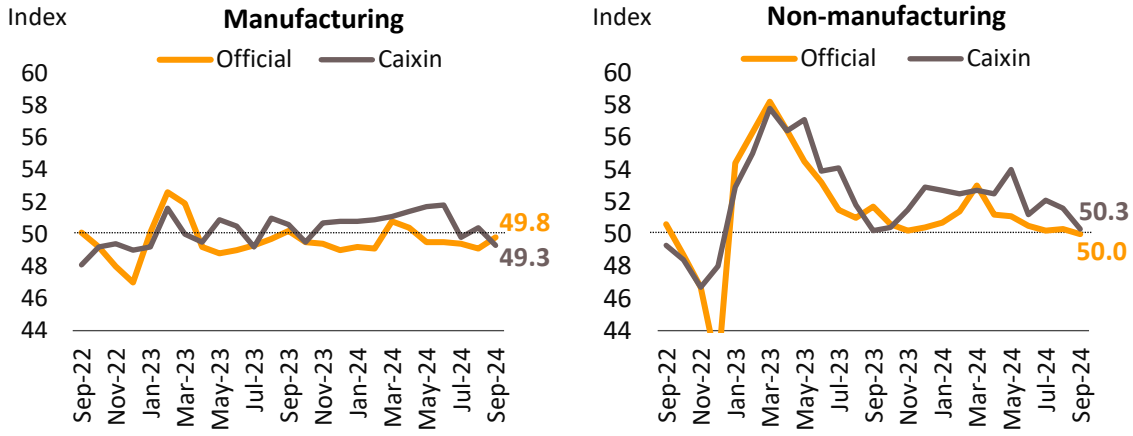
Source: Bank of Japan, CEIC, Investing.com, Krungsri Research

Krungsri Research's view

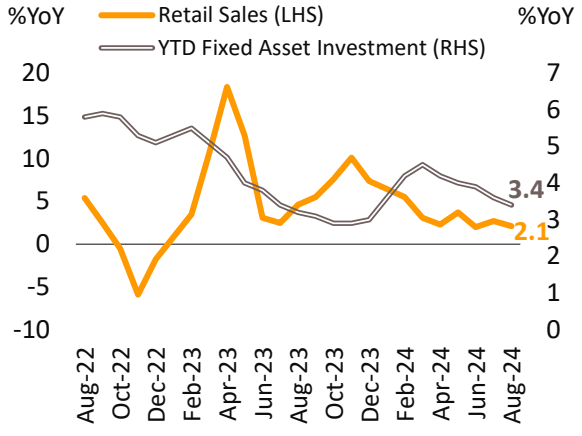
- **Japan's economy is experiencing a gradual recovery driven largely by the services sector, as manufacturing and export sectors remain weak.** Household spending continued to drop in Aug, but wage growth is the fastest since the early 1990s, and coupled with the strong services sector, these will support consumption and help the Bank of Japan (BOJ) achieve its long-term inflation targets in the next period. However, persistent weakness in the manufacturing and export sectors could continue to dampen overall economic recovery.
- **Between April and Sep, Japan saw 4,990 bankruptcies**, the highest since 2013, with small businesses hit hardest by rising costs, inflation, and labor shortage. This could weaken investor confidence and lead to job losses. Additionally, rising debt-service costs after the recent BOJ rate hike are creating further challenges.
- **Prime Minister Shigeru Ishiba is prioritizing combating deflation and promoting stable economic growth,** emphasizing that wage growth must outpace inflation to boost public confidence. The government is preparing economic measures, including cash handouts, to help low-income households and regional businesses cope with rising costs. Moreover, there could be an additional budget after the general election on Oct 27, to reduce the financial burden and stimulate domestic spending to support a sustainable recovery.
- **Slowing inflation and moderate growth suggest future BOJ rate hikes will be gradual.** BOJ Governor Kazuo Ueda indicated future adjustments will depend on economic and inflation data. Given the current conditions, Krungsri Research expects the BOJ to raise interest rates by an additional 25 bps by the end of 2024 based on further developments in economic activity and inflation trends.

China: Despite new stimulus, economic growth would still be capped by structural headwinds; strong rebound unlikely without large-scale fiscal stimuli

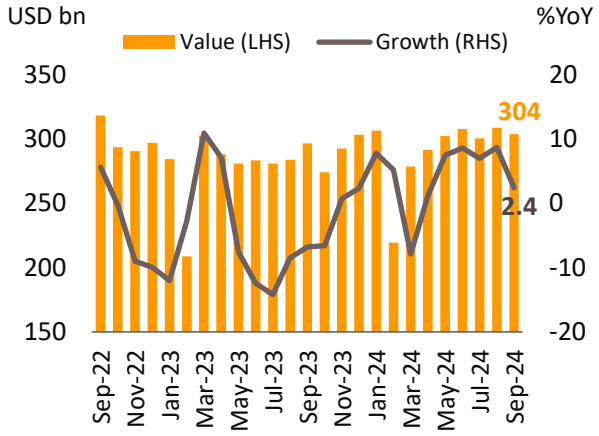
Purchasing Managers' Index (PMI)



Retail Sales and Fixed Asset Investment



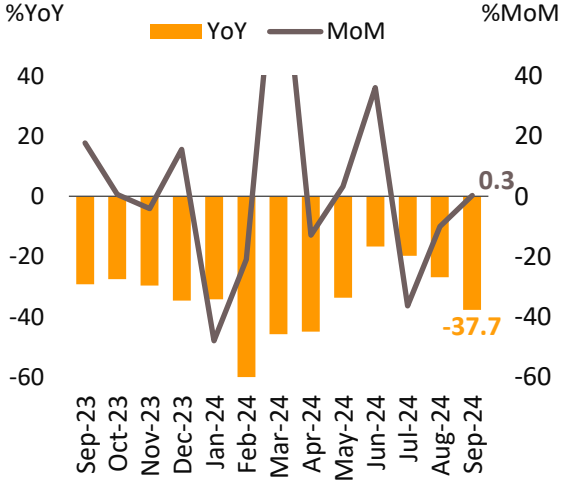
Exports



Monetary Policy in September

Measures	Previous	Latest (September)
7-day reserve repo	1.7%	**1.5%**
14-day reserve repo	1.95%	**1.85%**
1-year MLF	2.3%	**2%**
Loan prime rate (LPR)	3.35% (1 year) 3.85% (5 year)	Will decrease by around 0.2%-0.25% this year
Reserve requirement ratio (Big Banks)	10%	**9.5%** with an additional 0.25%-0.5% cut this year

New Home Sales by Top 100 Developers



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

Krungsri Research's view

- **The economic slowdown persists.** Manufacturing and services activities softened, and domestic consumption and investment remain subdued. Positive momentum from exports has started to fade amid rising trade tensions. **Looking ahead, economic growth would still be constrained by structural issues** — including still-weak labor market, oversupply, high local government debt, and the real estate slump. However, there is unlikely to be **a sharp slowdown with ongoing stimulus measures.**
- **The government has rolled out additional measures since September,** including 10-30 bps cuts in policy rate and reserve requirement ratio, subsidies to vulnerable groups, and social security benefits to unemployed graduates. On October 12, the government announced the local debt relief program but provided little details on the long-awaited fiscal stimuli. **If the government mirrors its previous approach, that could prevent a sharper slowdown but is unlikely to drive a strong recovery.**
- **Real estate slump remains a drag.** New home sales by the top 100 developers have continued to shrink since July. In response, the government took a stronger action by allowing existing mortgage holders to renegotiate interest rates starting November 1, removing homebuyer eligibility checks and property ownership limits in some major cities (e.g., Guangzhou), and allowing local governments to buy unsold homes via special bonds. **We expect these efforts to improve overall sentiment, but we might not see visible signs of recovery until 1Q25, at the earliest.**
- **To lubricate the economy, China would need to restore consumer wealth and confidence, by** (i) accelerating fiscal stimulus in both scale and scope, (ii) stabilizing new and existing house prices, (iii) maintaining recovery momentum in the stock market, which remains at 8.3% below its 2021 peak, and (iv) reducing youth unemployment, which remained high at 18.8% in August.

Thailand: Struggling to Align Growth Targets and Economic Stability

- **Key factors in 4Q24:** Economic activity would be supported by the tourism sector, normalized public spending, and stimulus measures, but structural drags, geopolitical risks and global slowdown could dampen overall growth in the quarter. Krungsri Research projects GDP would grow by 3.6% YoY in 4Q24, improving from estimated +2.3% in 3Q24. Full-year GDP growth forecast is maintained at 2.4%.
- **Tourism sector**: Despite flooding in key tourist provinces, long holidays in China and peak travel season in Europe will provide a boost in 4Q24.
- **Exports:** Improvement in 3Q24 might not be sustainable amid structural manufacturing problems and the slowing global economy. Exports of key industrial products remain weak and the outlook would be affected by slowing economic growth in the US and China.
- **Private investment** marked a slow recovery given weak sentiment and industrial production data.
- **Private consumption** is expected to get a boost in 4Q24 from the THB145 bn cash handout to vulnerable groups. **Household debt slowed to 89.6% in 2Q24**, but worsening loan quality is threatening economic growth.
- **Public spending** is expected to improve, driven by the accelerating disbursement of the capital budget. The THB145 bn cash handout to vulnerable groups should support GDP growth at between +0.2% and 0.3% but recent flooding might offset the gains.
- **Headline inflation** has been creeping up and is expected to return to the target range later this year. The forecast for 2024 is +0.5%.
- **Policy interest rate:** The MPC delivered a surprise 25 bps cut with a 5:2 vote. We expect the BOT to adopt a wait-and-see stance for further rate cuts.

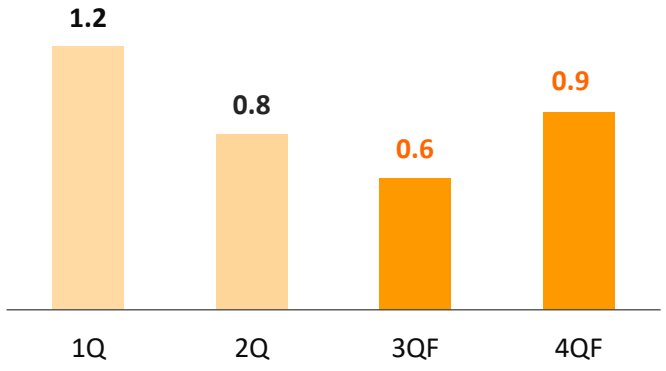
Krungsri Research Forecasts for 2024

Krungsri Research Forecast		2022	2023	2024F**
GDP growth	YoY (%)	2.5	1.9	2.4
Private Consumption Expenditure	YoY (%)	6.2	7.1	4.1
Government Consumption Expenditure	YoY (%)	0.1	-4.6	1.5
Private Investment	YoY (%)	4.7	3.2	0.2
Public Investment	YoY (%)	-3.9	-4.6	-1.1
Nominal Exports in USD (f.o.b.)*	YoY (%)	5.4	-1.5	1.8
Nominal Imports in USD (f.o.b.)*	YoY (%)	14.0	-3.8	3.5
Current Account Balance	USD, bn	-17.2	7.4	8.0
Tourist Arrivals	Mn, persons	11.1	28.2	35.6
Headline Inflation	YoY (%)	6.1	1.2	0.5
Policy Interest rate (end of period)	(%)	1.25	2.50	2.25
Dubai crude price - period average	USD/bbl	96	82	83

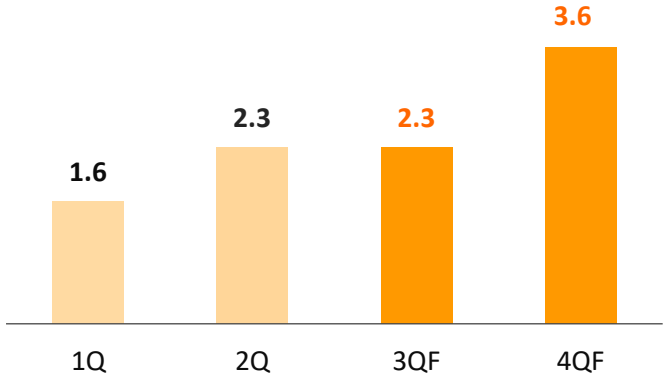
Note: * Based on BOT data, ** 2024 projection including gains from digital wallet phase I (direct cash transfers for vulnerable people) which could be largely offset by flood impacts
Source: NESDC, BOT, MOC, MOTS, Bloomberg, Krungsri Research

Key factors in 4Q24: Recovering tourism sector, normalized public spending and stimulus measures will boost economic activity, but structural drags, geopolitical risks and global slowdown could dampen overall growth

2024 GDP Growth Forecast: % QoQ sa



2024 GDP Growth Forecast: % YoY



Major factors affecting the Thai economy	3Q24	4Q24
Tourism to recover given peak season and visa-free scheme		
Government cash aid program for vulnerable group		
Domestic political transition and public spending		
Slowdown in major economies (esp. US and China)		
Impact of recent flooding		
Geopolitical risks - Middle East and Russia-Ukraine crises		
Global trade protectionism		
Losing competitiveness and rising imports from China		
High household debt and waning policy supports		

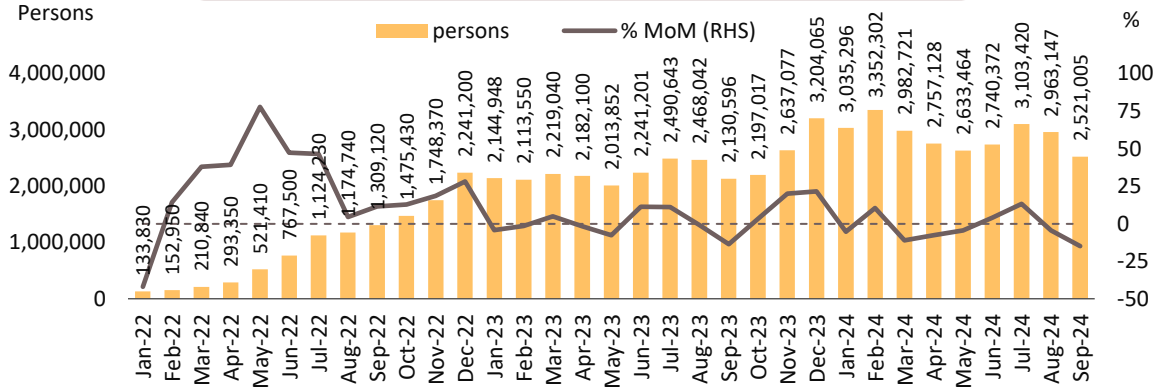
Negative impact — Positive impact

Source: Krungsri Research

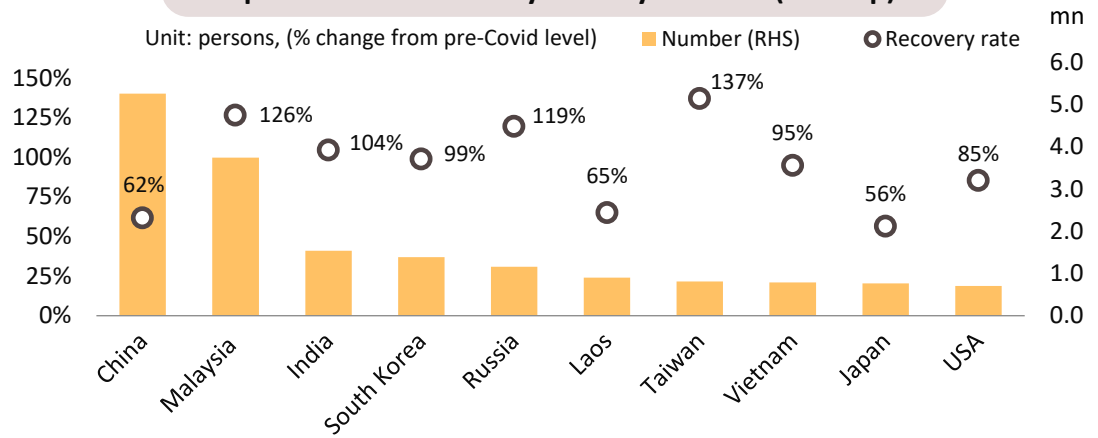
Tourism sector: Despite flooding in key tourist provinces, long holidays in China and peak travel season in Europe will provide a boost in 4Q24

Thailand welcomed 2.52 mn foreign tourists in Sep 2024 against 2.96 mn in Aug, marking the lowest this year due to fewer visitors from China and Malaysia after a surge in the previous month. **In the first 9 months of this year, tourist arrivals reached 26.1 mn (89% of pre-Covid level vs 71% in 2023) and generated THB 1,219bn receipts (88% of pre-Covid level vs 63% in 2023);** Chinese tourists made up the largest group but still are only 62% of the pre-Covid level, while tourists from Malaysia, India, Russia, and Taiwan have surpassed their pre-Covid levels. Looking ahead, some key tourist provinces might be temporarily affected by recent flooding, but there are other positive factors, including long holidays in China (early Oct) and the peak travel season in Europe and the US expected to boost monthly arrivals to about 3 mn per month in 4Q24. Hence, we maintain our forecast for foreign tourist arrivals at 35.6 mn for the full year 2024.

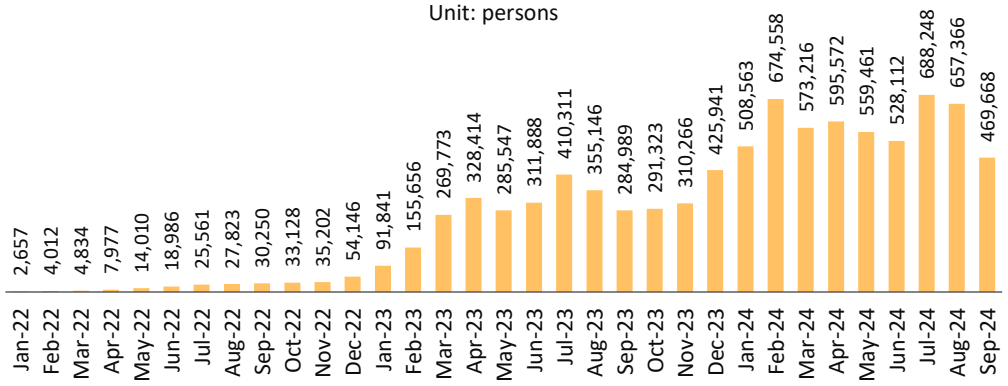
Foreign tourist arrivals reached 26.1 million in 9M24



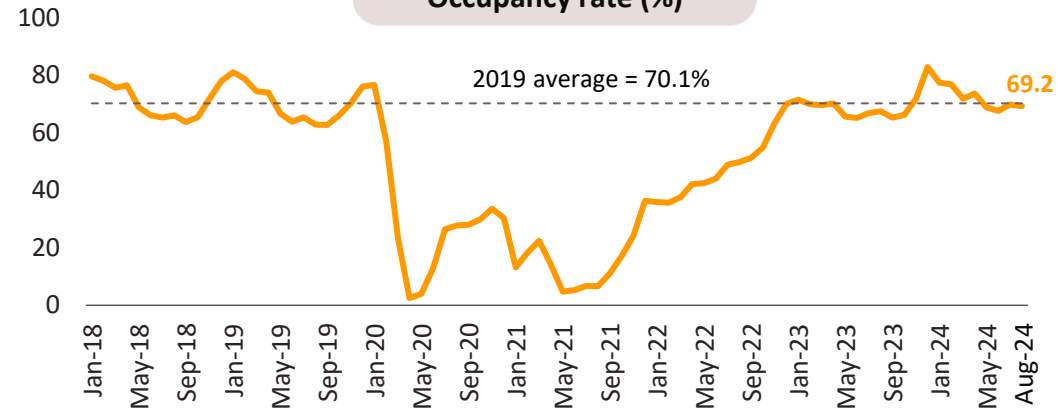
Top 10 tourist arrivals by country in 9M24 (Jan-Sep)



Chinese tourists expected to rise in 4Q24



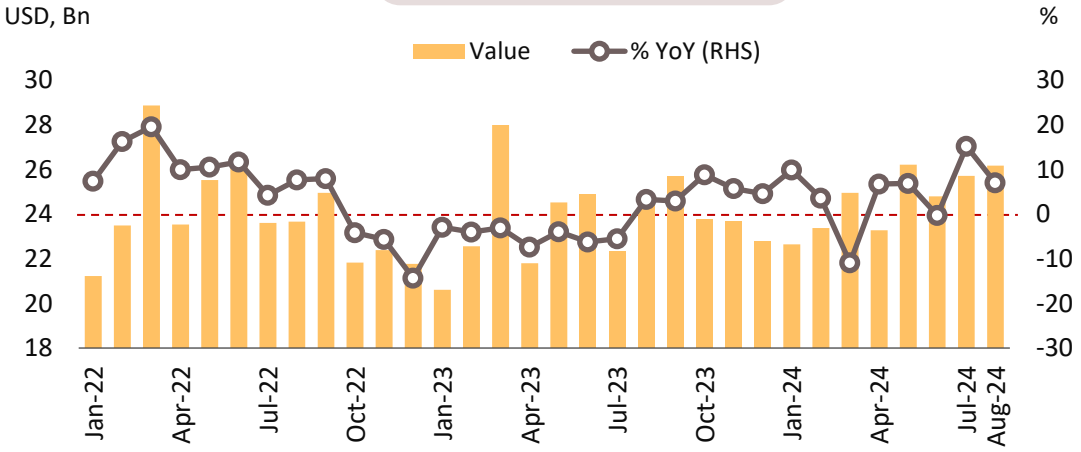
Occupancy rate (%)



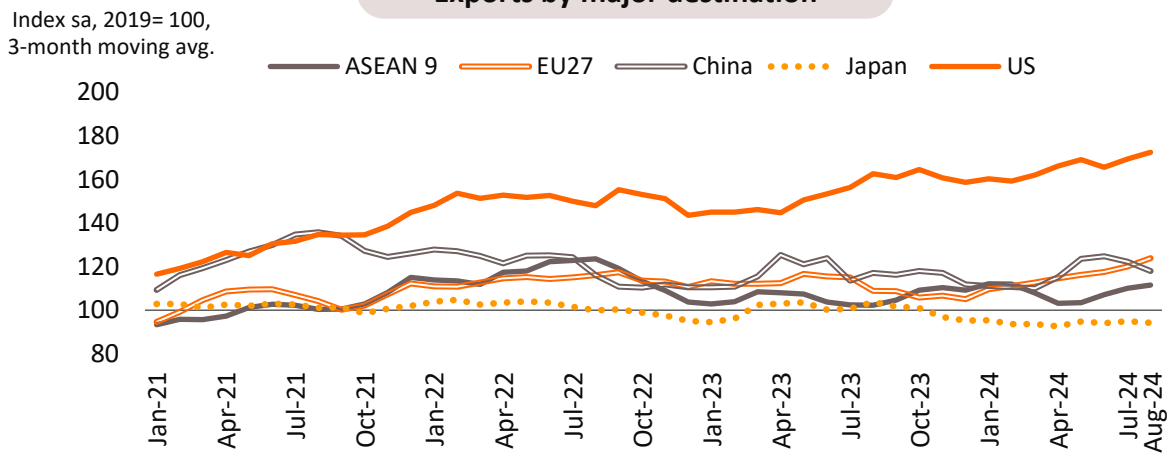
Source: MOTS, CEIC, Krungsri Research

Exports: Improvement in 3Q24 might not be sustainable amid structural manufacturing problems and global economic slowdown

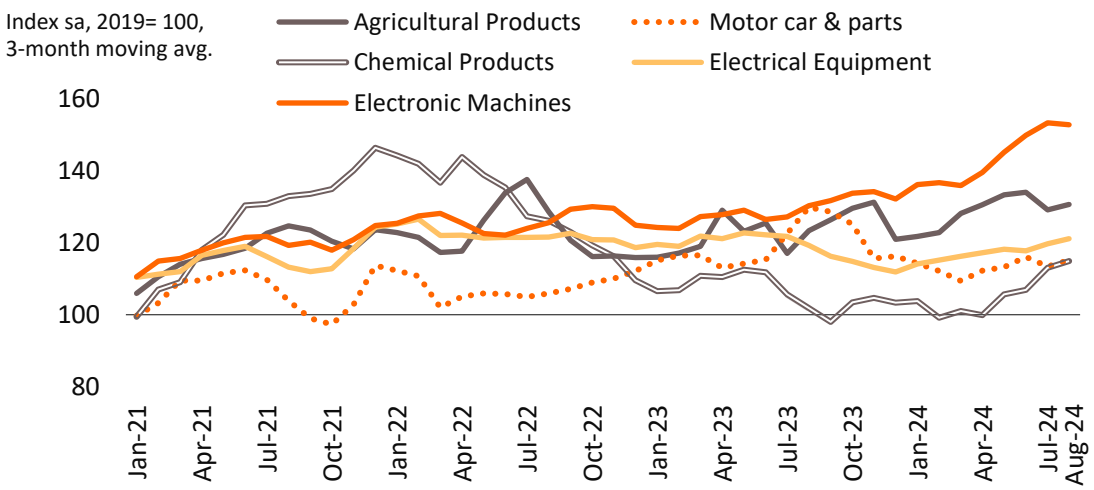
Exports



Exports by major destination



Exports by major product



Source: MOC, Krungsri Research

Krungsri Research's view

- **In Aug 2024, merchandise export value grew only 7.0% YoY to USD 26.2 bn** against 15.2% growth in July. Excluding gold, exports grew by 6.2%. Key export products that registered growth included computers & components (+74.7%), rubber (+64.8%), rice (+46.6%), air conditioners & parts (+15.2%), rubber products (+14.9%) and chemicals (+12.5%). Export of automobiles, equipment & parts reversed to a mild growth (+0.4%). However, exports contracted for integrated circuits (-33.2%), sugar (-14.2%), and cassava products (-11.5%). Exports to key regions expanded, led by the US, the EU, China, ASEAN-5, and CLMV, while exports to Japan continued to drop. **For the first 8 months of 2024, the export value grew 4.2% YoY, or 3.8% excluding gold.**
- Aug exports exceeded the Jan-July monthly average value of USD24.4 bn, supported by the recovery in the global electronics cycle and demand for agricultural & food products, driven by the growth of service activities in major markets. **However, there are several headwinds and risks ahead; Q4 could see slower export growth, and full-year export growth could be around 2%,** due to (i) clearer signs of economic slowdown in key trading partners like the US and China; (ii) domestic floods which could hurt some agricultural output; and (iii) the stronger Thai baht, which could affect exporters' income. Other risk factors include (i) structural issues, including competitiveness of Thailand's manufacturing sectors, (ii) prolonged geopolitical conflicts, and (iii) intensifying trade wars and excess supply of Chinese products flooding global and Thai markets. That could hurt Thailand's manufacturing and export sectors which are experiencing relatively high production costs.

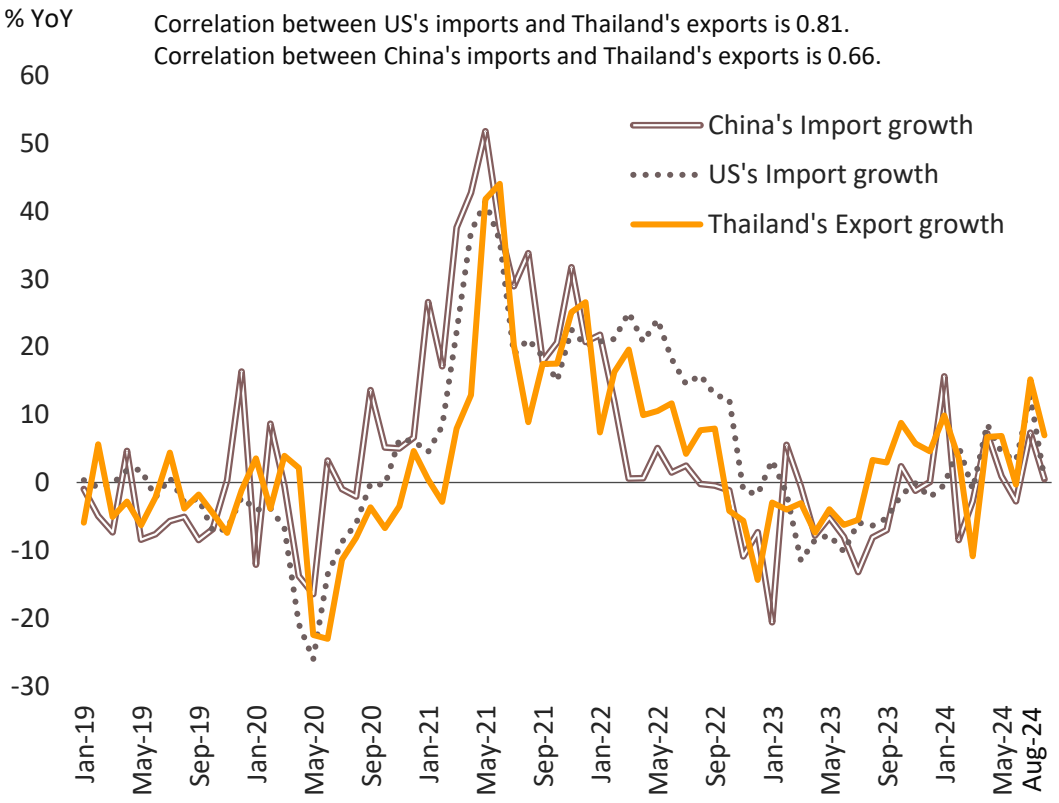
Exports of key industrial products to remain weak because of economic slowdown in the US and China

In the first 8 months of this year, Thai exports grew 4.2% YoY led by agricultural products which expanded by 8.4% (including rice and rubber). Exports of agro-industry products (rubber products, cassava products, and sugar) expanded slightly by 2.4%, and exports of industrial products (computers & components, plastic products) expanded by 4.0%. However, exports of some important industrial goods continued to contract, including cars & parts, electrical appliances, and integrated circuit boards. The economic slowdown in key trading partners, particularly the US and China, could pose risks to future export performance given the relatively high correlation between Thai exports and imports of these countries (0.81 with the US and 0.66 with China.)

Thai exports by major product and destination

Thailand: Jan-Aug's export growth (% YoY)	World	US (17%)	EU (8%)	Japan (9%)	China (12%)	ASEAN-5 (14%)	CLMV (9%)
Total	**+4.2**	**+11.7**	**+5.5**	**-7.5**	**+1.1**	**+0.6**	**+9.2**
Cars & parts (10.9%)	-2.0	+24.2	-5.5	-0.7	-4.2	-14.8	-10.2
Computer & parts (6.3%)	+34.7	+47.1	+57.3	-2.1	+57	-10.8	+20.3
Rubber products (4.7%)	+0.4	+7.0	+7.1	-5.7	-18	+3.35	+7.1
Electronic IC (3.4%)	-15.9	-39.3	-22.1	-40.1	-10.6	-10.5	-13.5
Plastic resin (3.1%)	-2.7	+29.9	-6.9	-3.4	-11.6	+9.3	+1.8
Chemical products (2.8%)	+0.4	-4.4	+7.7	-10.9	+1.6	-2.9	-1.5
Fresh, frozen & dried fruit (2.0%)	-7.7	-6.0	+16.4	+14.5	-9.6	-17.9	+96.7
Electrical appliances (1.9%)	-2.7	-7.7	-3.2	+4.2	+20.8	-8.6	-4.0
Rice (1.8%)	+44.1	+24.6	+13.5	+20.5	-8.9	+74	+0.7
Plastic products (1.5%)	+8.5	+36.2	+11.6	-4.3	+7.5	+6.8	-3.4
Rubber (1.3%)	+38.1	+54.2	+53	+49.4	+19.5	+34.4	+156
Tapioca products (1.3%)	-14.9	+25.0	+12.7	-1.6	-31	+70.4	-11.0
Preserved fish, crustaceans (1.2%)	+8.5	+1.7	+26.8	-13.6	-21	-2.7	-4.0
Sugar (1.2%)	-35.5	-35.3	-68.6	+45.4	+6.7	-58.8	+34.9

Slower imports by US and China could hurt Thai exports

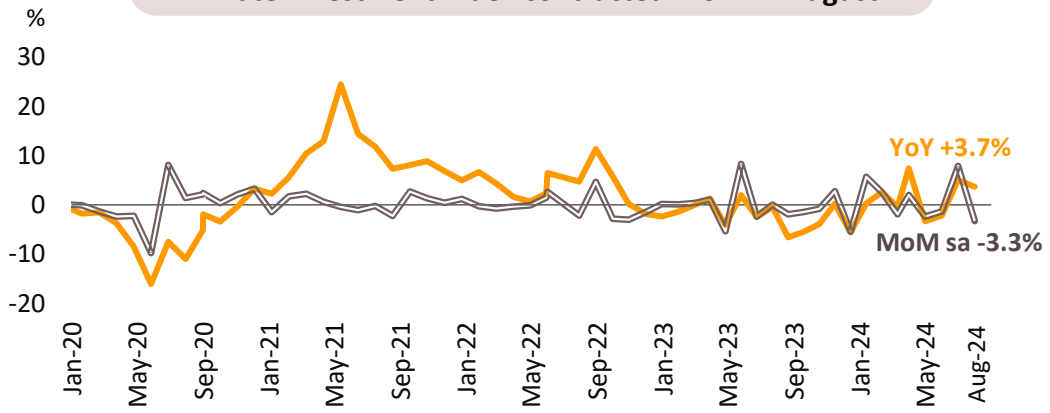


Note: (% share in 2023)
Source: MOC, CEIC, Krungsri Research

Private investment is recovering slowly amid weak business sentiment and industrial production

Business investment remained fragile in 3Q24, as reflected by the weak Private Investment Index in Aug (+3.7% YoY, -3.3% MoM sa) due to slower investment in construction and real estate, as well as still-shrinking new vehicle registrations. Moreover, leading indicators for private investment in the near future reflect still-weak growth: (i) The Business Sentiment Index dropped to a 3-year low of 45.7 in Sep; (ii) Production indicators remained weak in Aug; the Manufacturing Production Index fell (-1.9% YoY, -3.0% MoM sa) and Capacity Utilization rate is below 60% again (58.9% vs 66.7% pre-Covid). **Private investment would improve this year but at a slower pace than last year.**

Private Investment Index contracted MoM in August

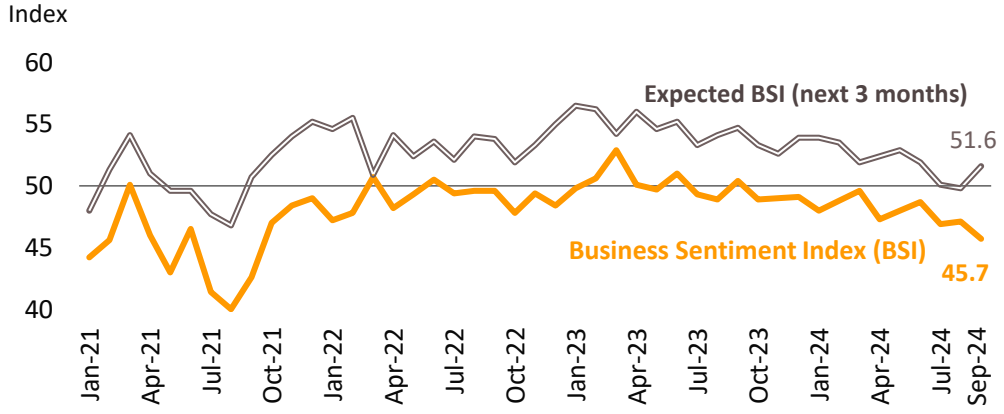


Private investment by category

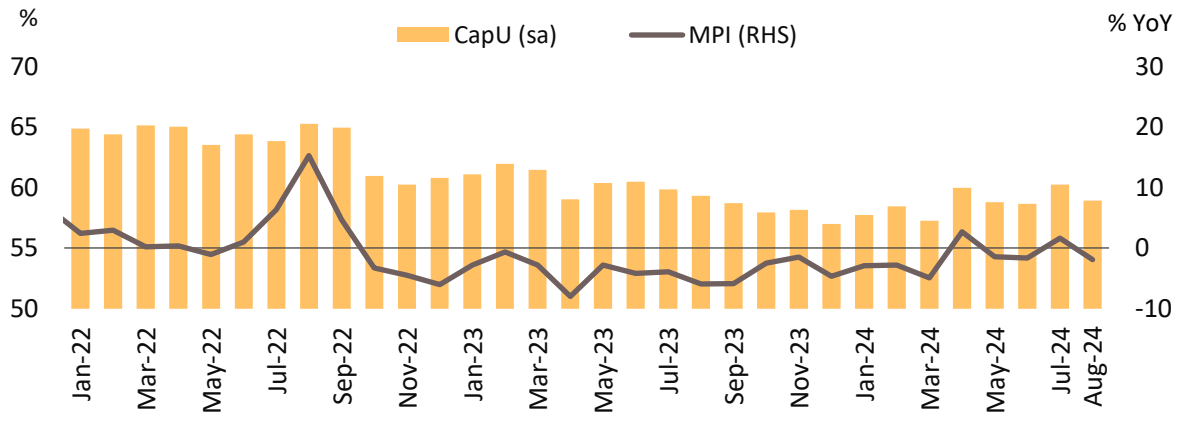
%YoY*	2021												2022												2023												2024						
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A
Private investment																																											3.7
Construction area permitted																																										-0.8
Construction material sales																																										-8.7
Imports of capital goods																																										4.8
Machinery sales																																										14.3
Newly registered vehicles																																										-22.5

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

BSI fell to 3 year-low in September



Manufacturing Production Index and Capacity Utilization Rate

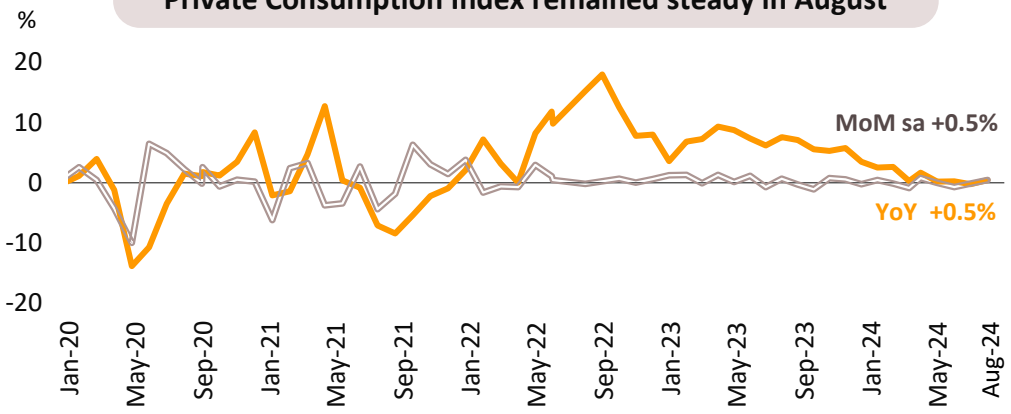


Source: BOT, OIE, CEIC, Krungsri Research

Private consumption to get a boost from THB145 bn cash aid for vulnerable group in 4Q24, but flooding and weak confidence could offset the gains

Household spending was sluggish in 3Q24. The Private Consumption Index saw only a mild increase (+0.5% YoY and +0.5% MoM sa in Aug) driven by spending on non-durable goods, especially fuel. Spending on durable and semi-durable goods fell. **In 4Q24, private consumption is expected to be boosted by the THB10,000 aid for vulnerable groups (total budget THB 145 bn) but growth could be limited.** The positive impact of this measure could be offset by flooding in several provinces which has harmed agricultural output and dampened consumer confidence for the seventh consecutive month in Sep, to a 14-month low of 55.3. There is also a headwind from high household debt, although that has dropped to less than 90% of GDP at the end of 2Q24.

Private Consumption Index remained steady in August

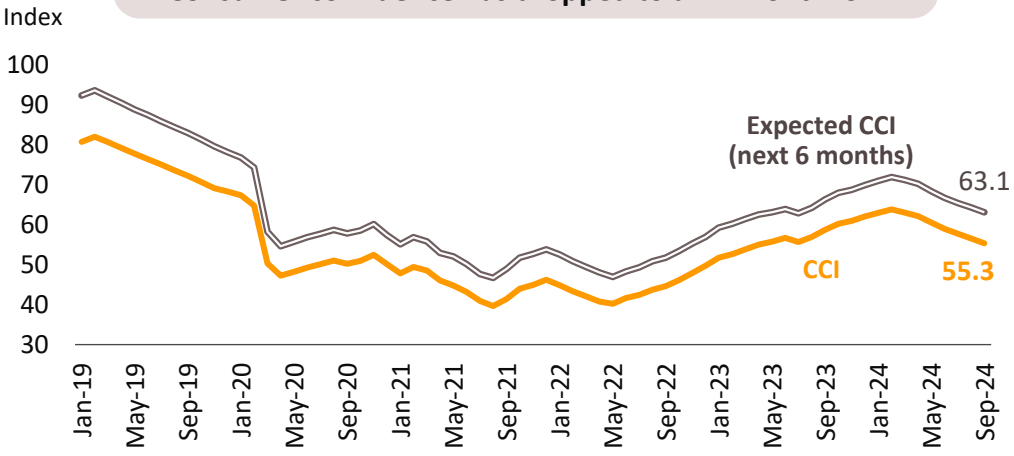


Private consumption by category

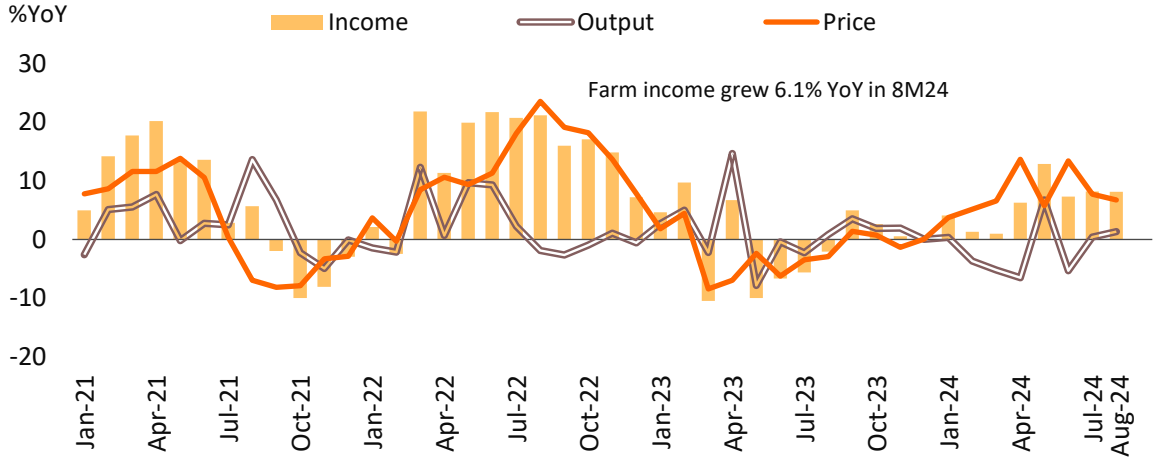
%YoY*	2021												2022												2023												2024							
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A
Private consumption																																												0.5
Non-durables																																												2.4
Semi-durables																																												-1.2
Durables																																												-11.6
Services																																												5.3
Non-residents expenditure																																												47.4

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

Consumer confidence has dropped to a 14-month low



Farm income grew, driven by higher prices

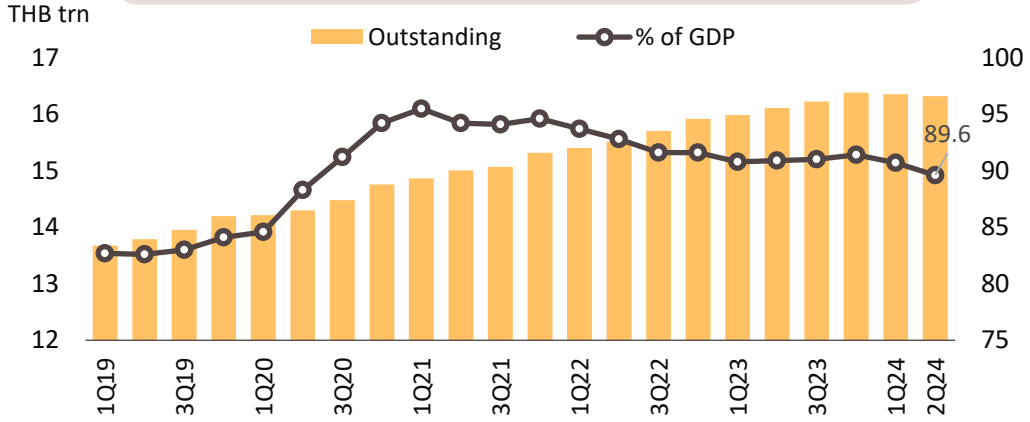


Source: BOT, OAE, University of the Thai Chamber of Commerce (UTCC), CEIC, Krungsri Research

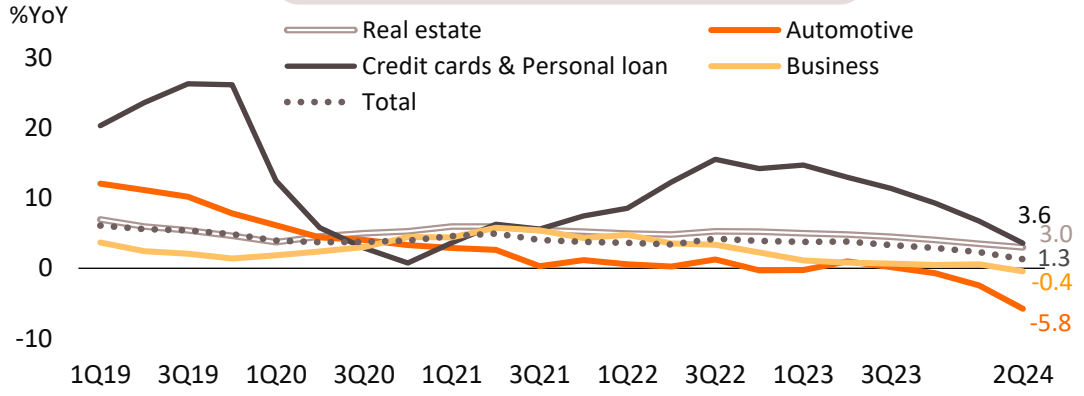
Thai household debt slowed to 89.6% in 2Q24, but weaker loan quality is a threat to economic growth

Thailand's household debt grew only 1.3% YoY in 2Q24. Despite slowing from a peak of 95.5% in 1Q21 and 90.7% in 1Q24, the household debt-to-GDP ratio remained high at 89.6% in 2Q24 compared to 84.1% in 4Q19 (pre-Covid period). Auto loans fell (-5.1% YoY), while real estate loans and credit card & personal loans decelerated. In terms of debt quality, non-performing loans (NPLs) at Thai commercial banks' stood at THB 511.2 bn in 2Q24, accounting for 2.78% of total loans vs 2.66% at end-2023. **NPL for consumer loans, especially credit cards, increased from 3.57% of total loans at end- 2023 to 4.43% at end-2Q24. Real estate NPLs rose from 3.34% to 3.71% in the same period. Auto loan NPL only inched up from 2.13% to 2.26% but could accelerate in the next period. This is reflected in the Significant Increase in Credit Risk (SICR or Stage 2) group, which reached a new high of 15.09% of total loans at end-2Q24 from 14.39% at end-2023.**

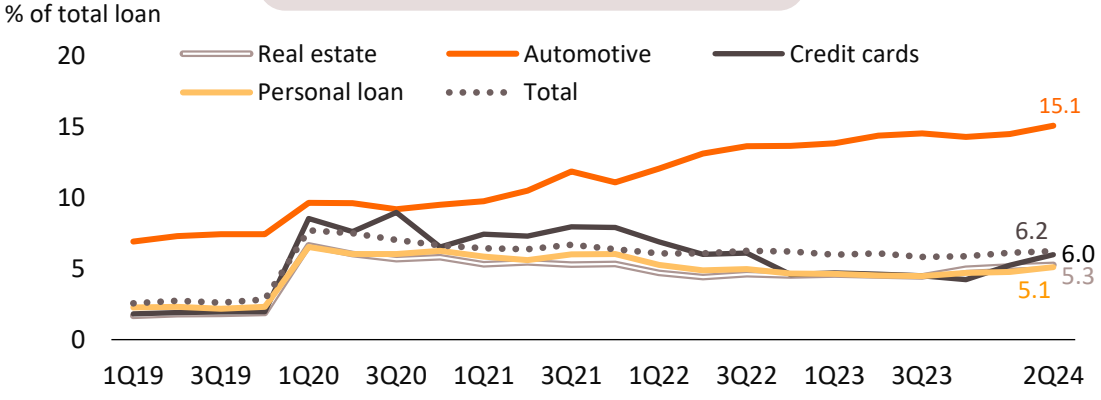
Household debt remains high at 89.6% of GDP in 2Q24



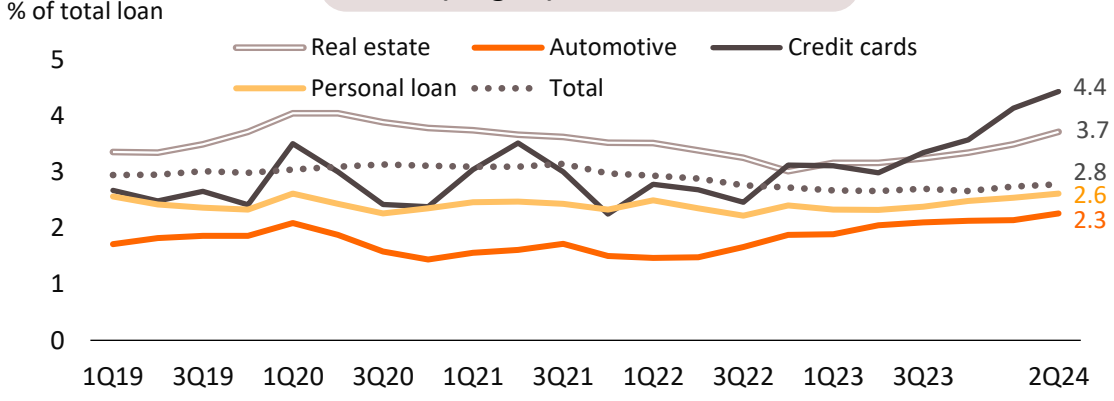
Household debt growth by portfolio



Stage 2* - Consumer Loans



NPL (Stage 3) - Consumer Loans



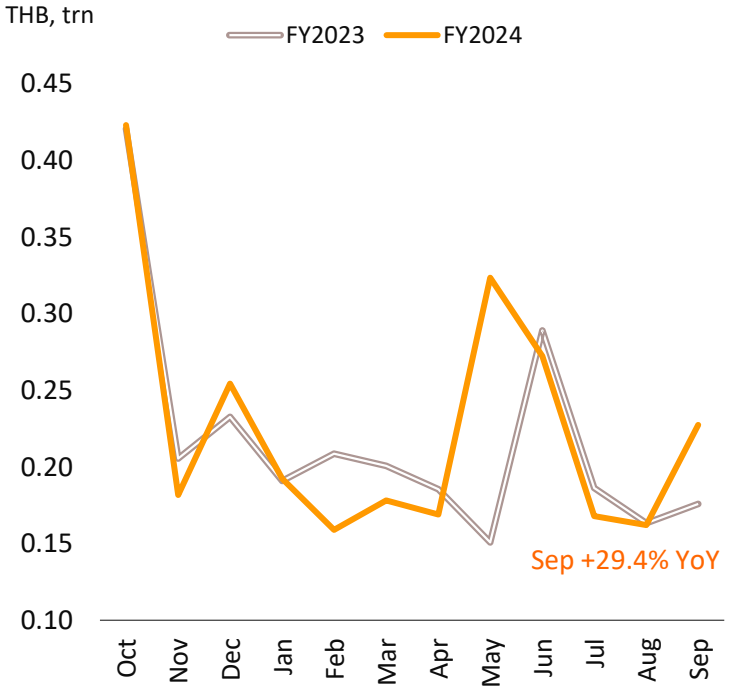
Note: Stage 2 = the debt is overdue for more than 30 days but less than 90 days

Source: BOT, Krungsri Research

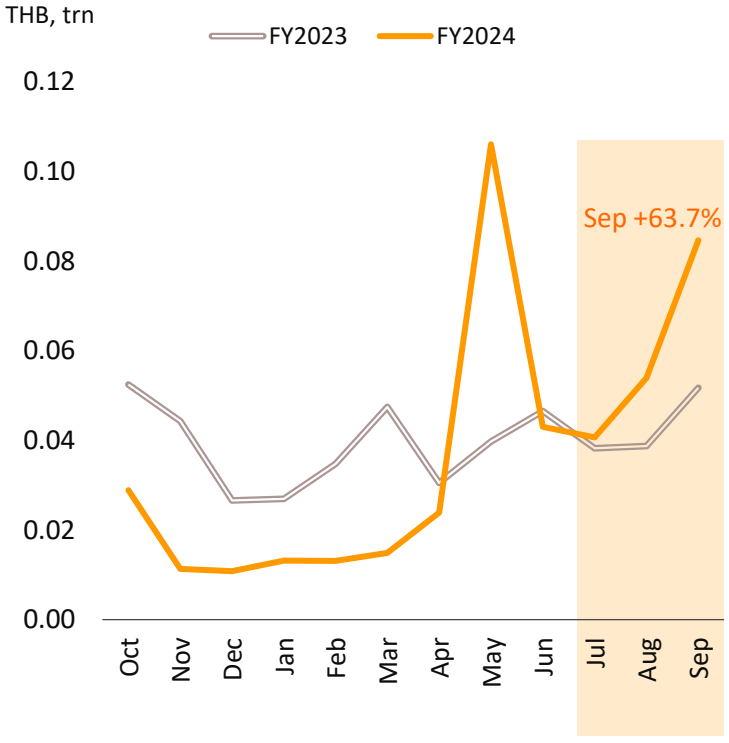
Public spending will improve, driven by accelerated disbursement of the capital budget

Preliminary data from the Ministry of Finance indicate disbursement of the current budget had increased by 29.4% YoY in Sep and disbursement of the capital budget had surged by 63.7%. In FY2024 (Oct 2023 to Sep 2024), disbursement of the current budget reached THB 2.71 trn or 98.5% of the annual budget, rising 3.9% YoY. For the capital budget, the government has disbursed THB 0.44 trn or only 61.7% of the annual budget, falling -7.0% YoY. **Despite slowing disbursements (especially the capital budget) in the last quarter of FY2024 (Jul-Sep 2024), we expect the public spending to continue to improve in the first quarter of FY2025 (Oct-Dec 2024).** This will be supported by a significantly higher investment budget for FY2025, which increased by 26.5% from the previous fiscal year to THB 0.91 trn, equivalent to 24.3% of the total budget (THB 3.75 trn).

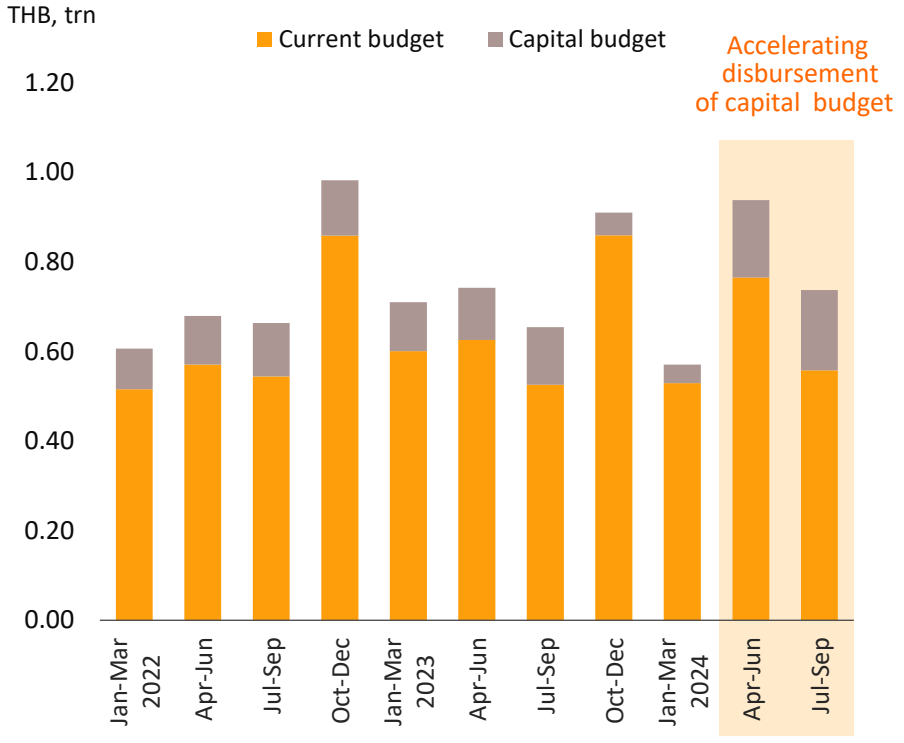
Current expenditure disbursement



Capital expenditure disbursement



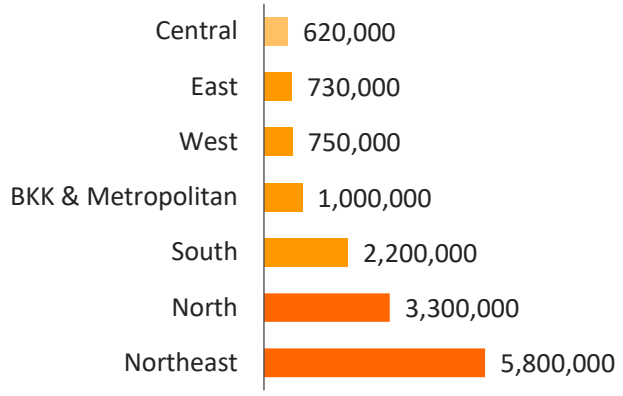
Quarterly disbursement



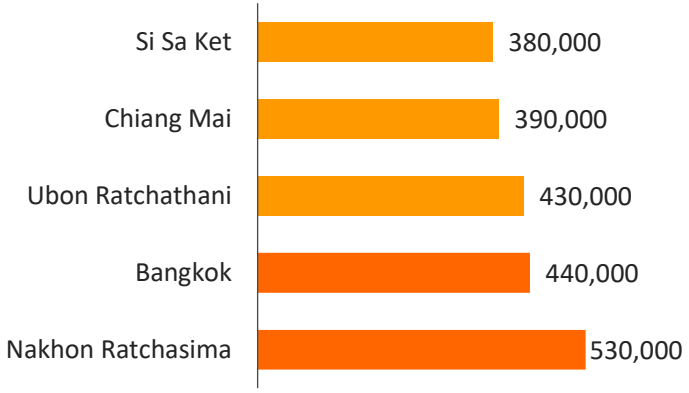
Source: MOF, Krungsri Research

We expect THB145 bn cash aid for vulnerable group to lift GDP by 0.2%-0.3% but recent flooding could offset the gains

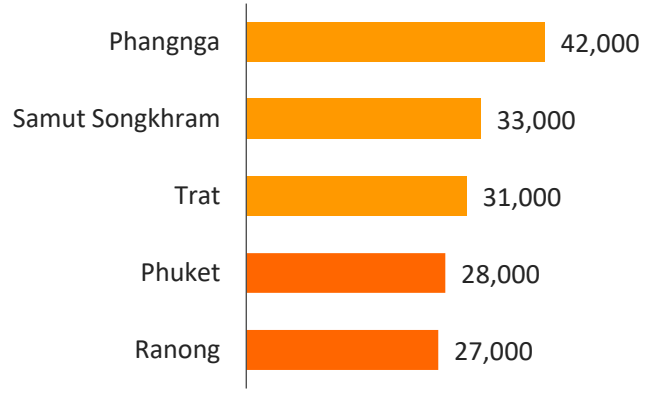
Region with most cash aid recipients (persons)



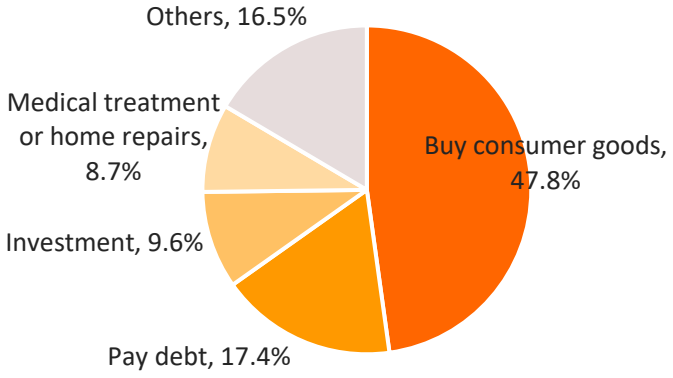
Top 5 provinces with the most eligible recipients



5 provinces with the lowest number of eligible persons



How do recipients spend the Bt10,000 aid?



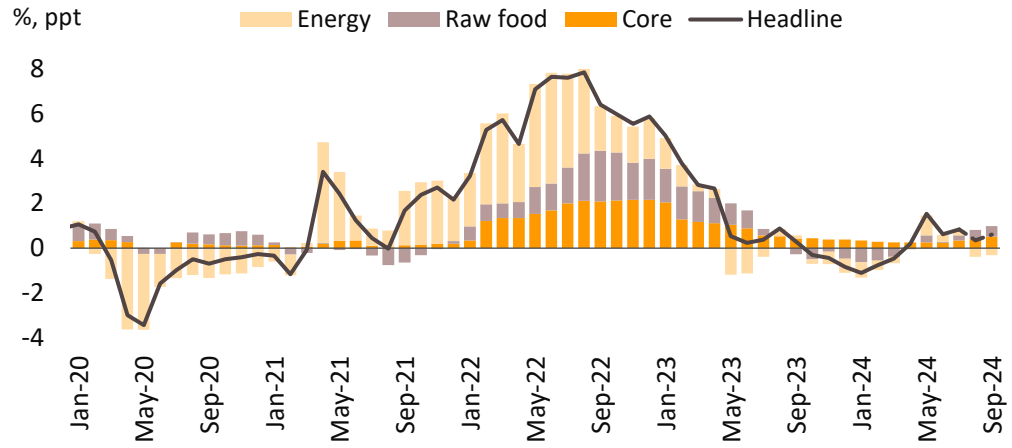
Source: Fiscal Policy Office, Dataset, Krungsri Research

Krungsri Research's view

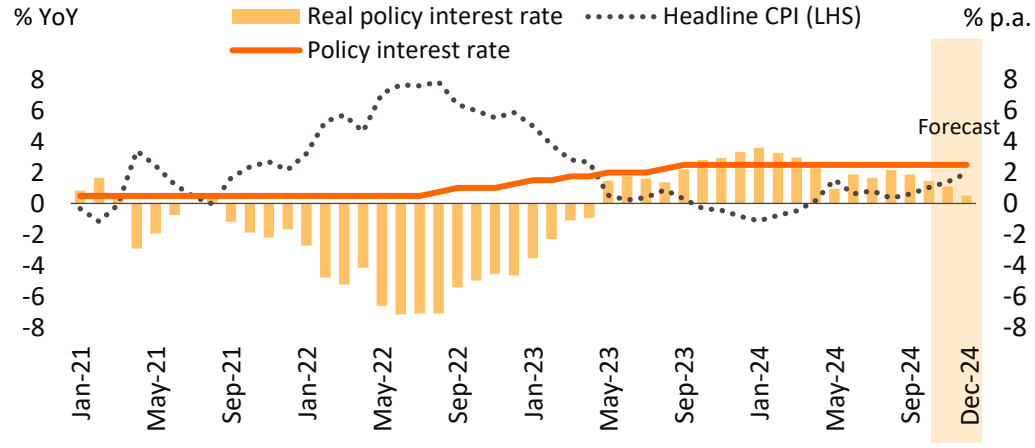
- The THB10,000 cash aid to 14.5 mn vulnerable individuals since late Sep, totaling THB145 bn, would have **a low multiplier effect on economic growth.**
- Latest survey data suggest most of the cash aid cash recipients are in the Northeast (5 mn individuals or 40% of recipients), followed by the North, South, and Bangkok metropolitan area.
- Most of the aid money was used to buy consumer goods (47.8% share), which could lead to some leakage from the Thai economy (e.g., spending on imported fuel and electrical appliances). A substantial portion (17.4%) of the aid was used to repay debt, which presents another leakage. Using the funds for investment would create the largest multiplier effect but this type of spending accounted for less than 10% of the total cash aid.
- **We estimate this stimulus measure would lift GDP by only 0.2%-0.3%. Meanwhile, Krungsri Research estimates damage from the recent flooding would reduce GDP by between 0.27% (base case) and 0.34% (worst case). Hence, we are keeping the economic growth forecast for this year at 2.4%.**

Headline inflation is rising slowly and projected to return to the target range later this year, project inflation to average 0.5% this year

Contributors to inflation



Real policy interest rate



Source: MOC, BOT, Krungsri Research

Consumer Price Index: Major categories

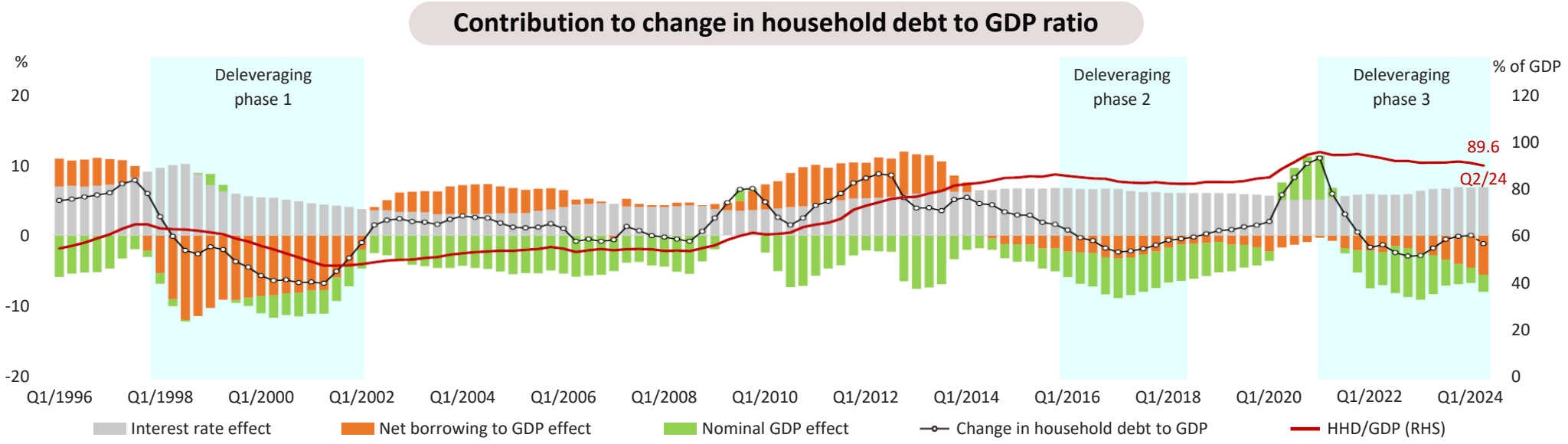
Consumer Price Index (% YoY)*	Weight	2022 J F M A M J J A S O N D	2023 J F M A M J J A S O N D	2024 J F M A M J J A S	
Headline CPI	**100%**				0.61
Food & beverages	42.1%				2.25
Apparel & footwears	2.0%				-0.66
Housing & furnishing	21.9%				0.35
Medical & personal care	5.4%				-0.11
Transportation & communication	23.0%				-1.78
Recreation & education	4.2%				0.64
Tobacco & alcoholic beverages	1.3%				1.33
Raw food	21.3%				2.31
Energy	13.9%				-2.55
Core CPI	**64.9%**				0.77

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

Krungsri Research's view

- **Headline inflation came in at +0.61% YoY in Sep,** accelerating from 0.35% in Aug, driven by higher diesel prices compared to the same period last year and recent flooding affecting the supply of fresh vegetables. However, gasohol and gasoline prices fell in line with global crude oil prices. Core inflation, which excludes prices for raw food and energy, accelerated from 0.62% in Aug to 0.77% in Sep. **In the first 9 months of this year, headline and core inflation rates averaged 0.20% and 0.48%, respectively.**
- Headline inflation is expected to rise the rest of this year and return to the BOT's target range by year-end, driven by the following: (i) cap on diesel price at THB32.94 per liter, higher than last year's cap of THB30 per liter, (ii) flood impact in agricultural areas pushing up the price of some crops, and (iii) higher prices for tourism-related goods and services, especially airfares, in line with peak tourist season in Thailand. We now project headline inflation would average +0.5% this year.

Policy interest rate: MPC delivered a surprise 25 bps cut with a 5:2 vote; we expect BOT to adopt a wait-and-see stance for further rate cuts



Krungsri Research's view

- **At the meeting on October 16, the MPC voted 5-2 to reduce the policy interest rate by 25 bps, from 2.50% to 2.25%. The unexpected rate cut in the latest MPC decision differed from our initial expectation of a rate hold.** We had anticipated a pause, given that both the economy and inflation are progressing in line with earlier MPC projections and previous MPC statements of keeping the rate unchanged. The Committee was expected to wait until December to assess a potential broad-based rise in non-performing loans (NPLs) in order to better gauge the impact of tightened financial conditions.
- **However, at this meeting, the focus on financial stability has taken precedence in the BOT's policy decisions.** Household debt is now improving as the financial deleveraging process continues. Nevertheless, concerns are rising over the impact of tighter financial conditions on slowing credit growth and deteriorating credit quality, especially among vulnerable SMEs and indebted households that have yet to fully recover. In this context, a 25-bps rate cut could help alleviate the household debt burden, loosen financial conditions, and support the real economy.
- As stated in MPC's statement *"the Committee deems that the policy rate should remain neutral and consistent with economic potential. Moreover, it should not be set too low, as that could lead to financial imbalances in the long term."*, **the Committee will likely adopt a "wait-and-see" approach, monitoring the deleveraging process and economic outlook. However, if deleveraging continues and economic conditions worsen beyond expectations, the Committee may deliver further rate cuts, though the policy rate would likely remain around 2%, which is repeatedly identified as the neutral interest rate.**

Source: BOT, Krungsri Research

KRUNGSRI RESEARCH

Pimnara Hirankasi, Ph.D. — **Head of Research Division and Chief Economist**

Macroeconomic Team

Sujit Chaivichayachat	Head of Macroeconomic Research Team
Wanicha Direkudomsak	Senior Economist
Churailuk Pholsri	Senior Economist (Forecasting)
Thansin Klinthanom	Economist
Krittabhorn Sirichaichingkun	Economist
Supasyn Itthiphatwong	Economist

Industry Team

Taned Mahattanalai	Head of Industry Research Team
Poonsuk Ninkitsaranont	Senior Analyst (Healthcare, Mobile Operators)
Piyanuch Sathapongpakdee	Senior Analyst (Transport & Logistics)
Narin Tunpaiboon	Senior Analyst (Power Generation, Modern Trade, Chemicals, Medical Devices)
Thian Thiumsak	Senior Analyst (Energy, Petrochemicals)
Puttachard Lunkam	Senior Analyst (Construction Contractors, Construction Materials, Hotels, Industrial Estate)
Patchara Klinchuanchun	Senior Analyst (Real Estate)
Chaiwat Sowcharoensuk	Senior Analyst (Agriculture)
Prapan Leenoi	Analyst (ESG)
Supawat Choksawatpaisan	Analyst (Automobile, Electronics & Electrical Appliances)
Rapeepoom Lapmak	Analyst (Agriculture, Food & Beverages)

Analytics and Intelligence Team

Pimnara Hirankasi, Ph.D.	Acting Head of Analytics and Intelligence Research Team
Nathanon Ratanathamwat	Senior Researcher
Narichaya Satafang	Researcher
Parinya Mingsakul	Researcher
Chanatta Thararos	Researcher

MIS and Reporting Team

Thamon Sernsuksakul	Information Analyst
Chirdsak Srichaiton	Information Analyst
Wongsagon Keawuttung	Information Analyst

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