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Research

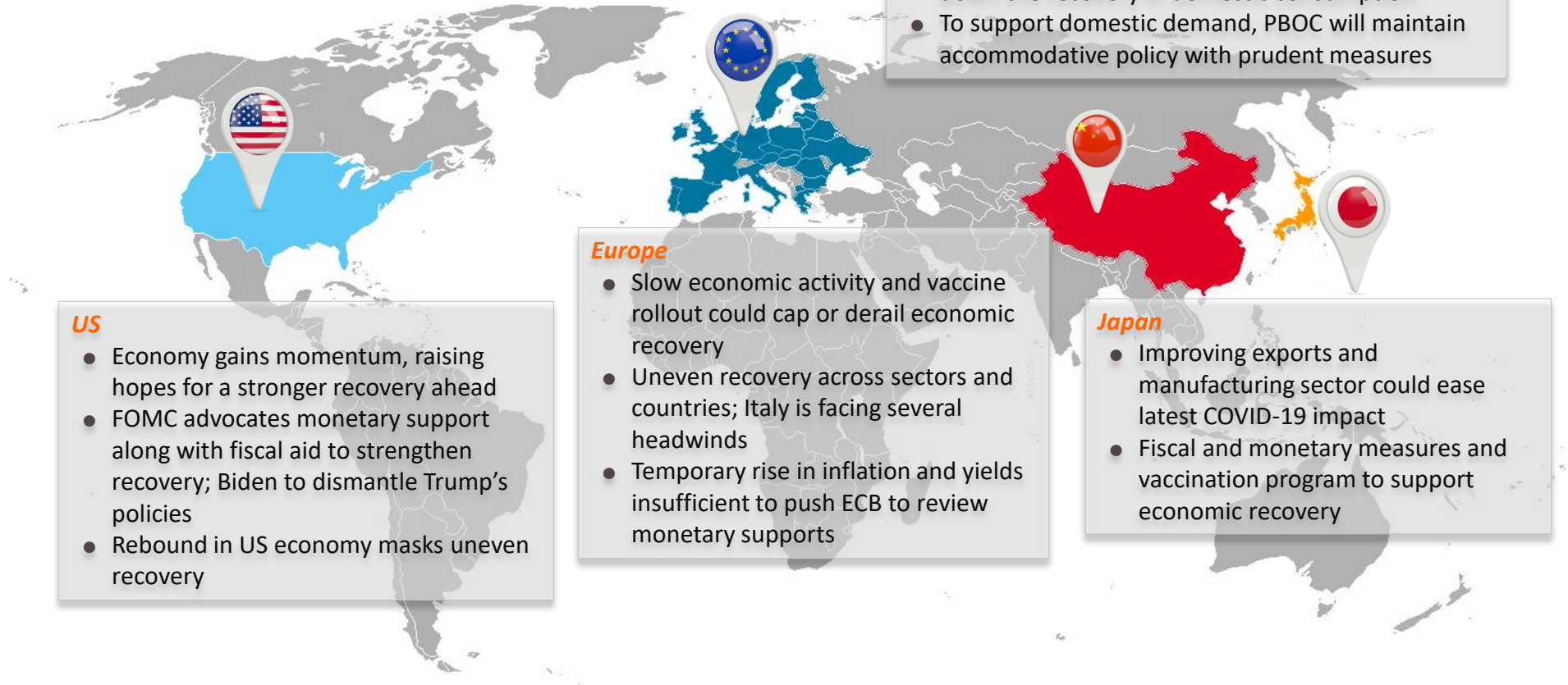
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MONTHLY ECONOMIC BULLETIN

February 2021

Krungsri Research

Global: The storm has passed, but the danger has not



China

- Latest outbreak slows services sector but will not derail recovery trajectory
- Urban residents still spending cautiously, slowing down the recovery in domestic consumption
- To support domestic demand, PBOC will maintain accommodative policy with prudent measures

US

- Economy gains momentum, raising hopes for a stronger recovery ahead
- FOMC advocates monetary support along with fiscal aid to strengthen recovery; Biden to dismantle Trump's policies
- Rebound in US economy masks uneven recovery

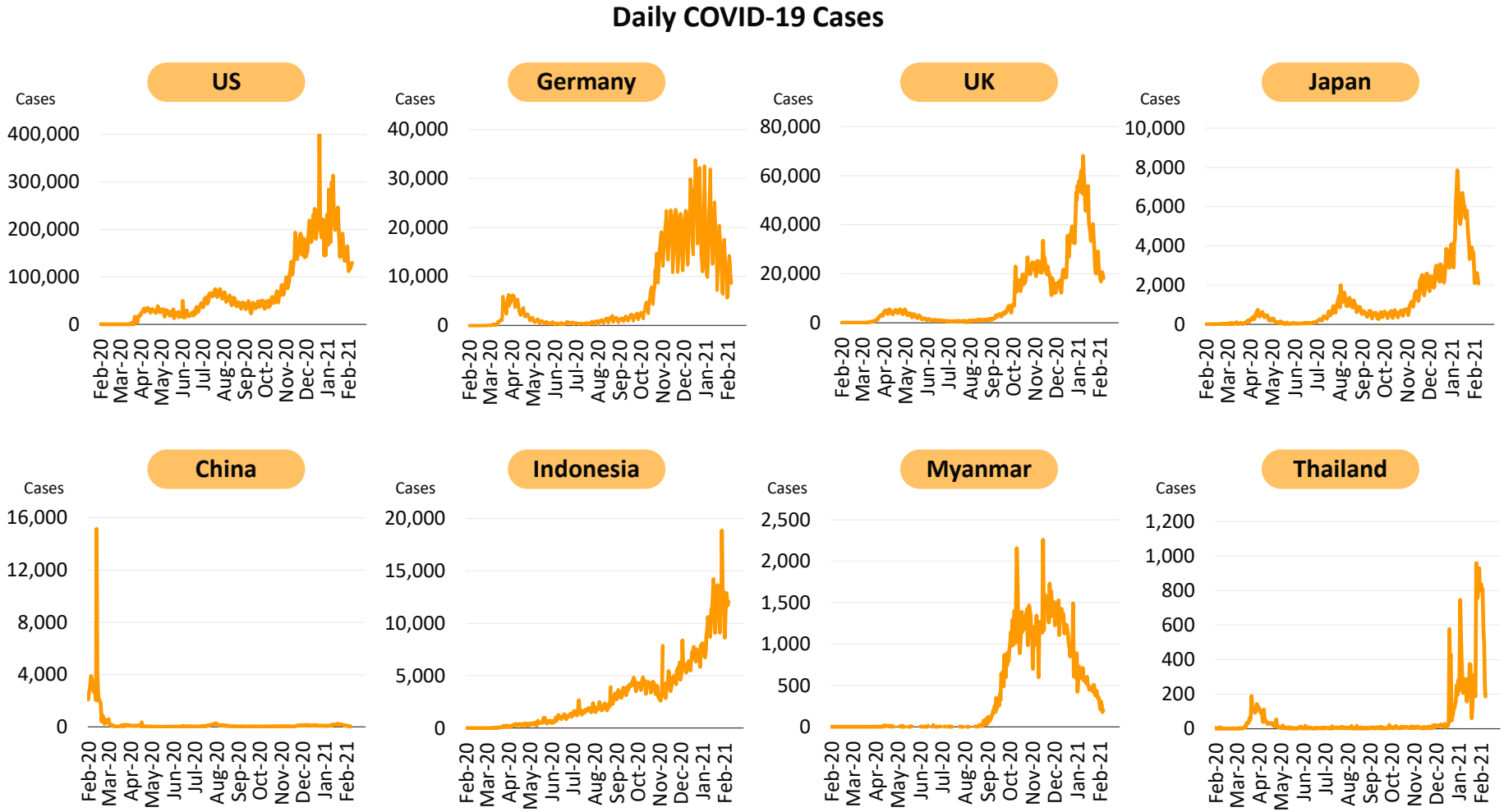
Europe

- Slow economic activity and vaccine rollout could cap or derail economic recovery
- Uneven recovery across sectors and countries; Italy is facing several headwinds
- Temporary rise in inflation and yields insufficient to push ECB to review monetary supports

Japan

- Improving exports and manufacturing sector could ease latest COVID-19 impact
- Fiscal and monetary measures and vaccination program to support economic recovery

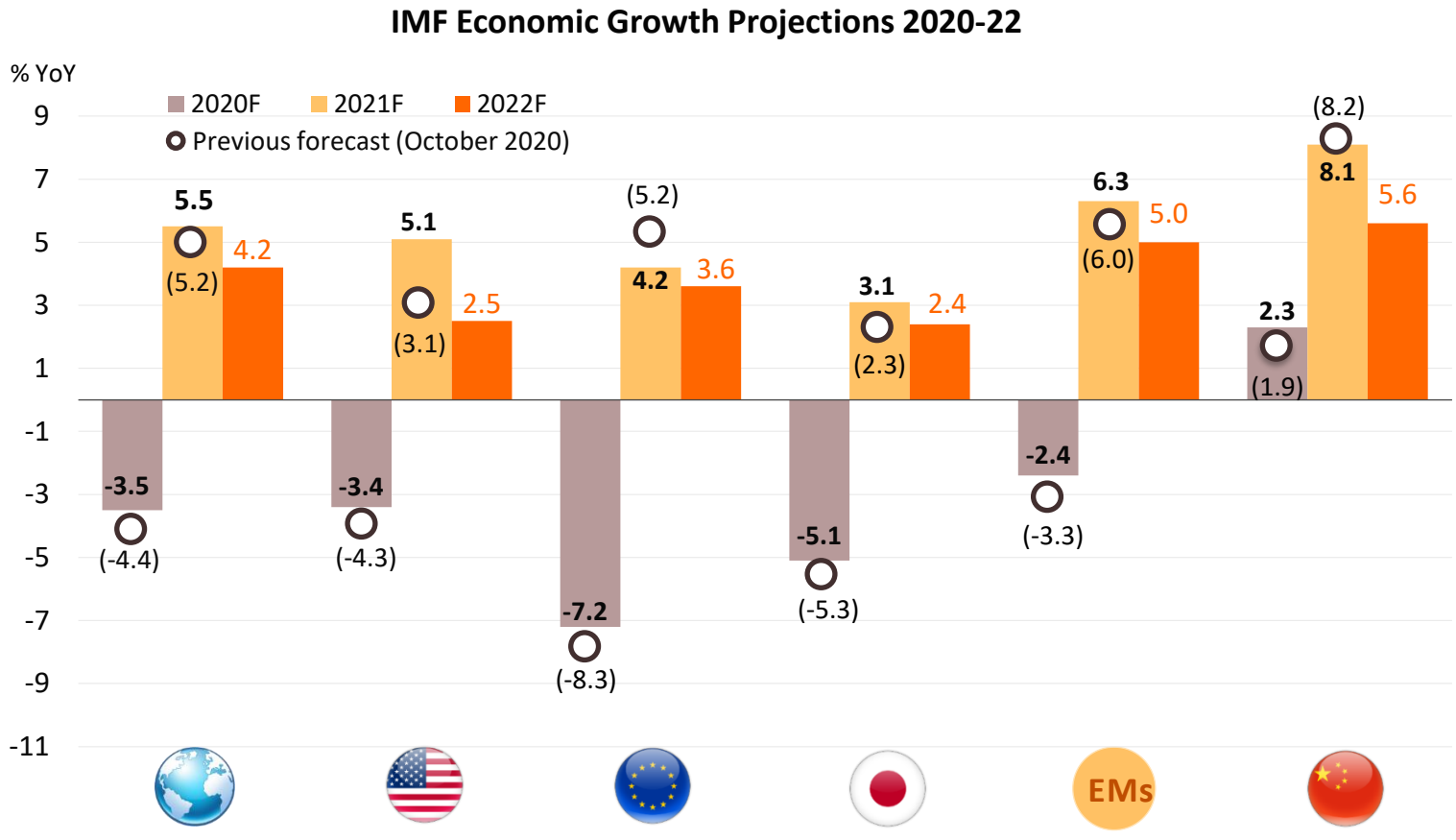
Renewed lockdowns could hurt global economic growth at the beginning of this year



Source: WHO, CEIC, Krungsri Research

IMF raised 2020 and 2021 global growth forecasts on the back of additional policy supports and vaccine approvals

Approvals for several vaccines and the launch of mass vaccination programs have raised hopes the pandemic would end soon. Latest economic data suggest stronger-than-projected momentum in 2H20. Although COVID-19 cases continue to rise, economic activity seems to be adapting to subdued contact-intensive activity. Moreover, additional measures announced at end-2020 in major countries should provide further support to the global economy. These developments indicate a stronger starting point for 2021–22 global outlook, according to the IMF.



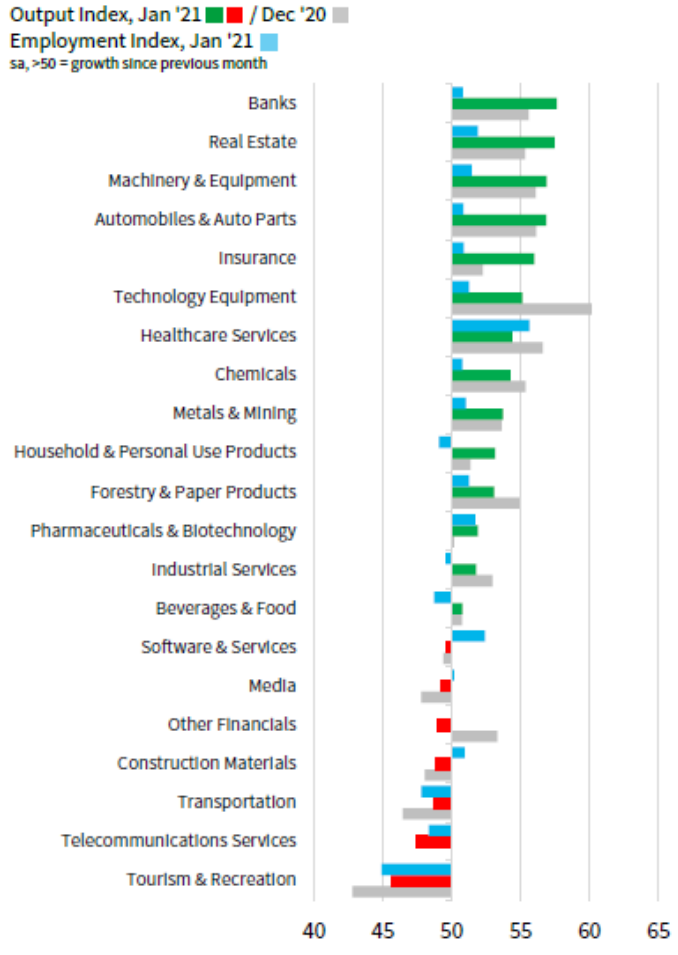
Note: ( ) October 2020 forecast

Source: IMF World Economic Outlook (January 2021), Krungsri Research

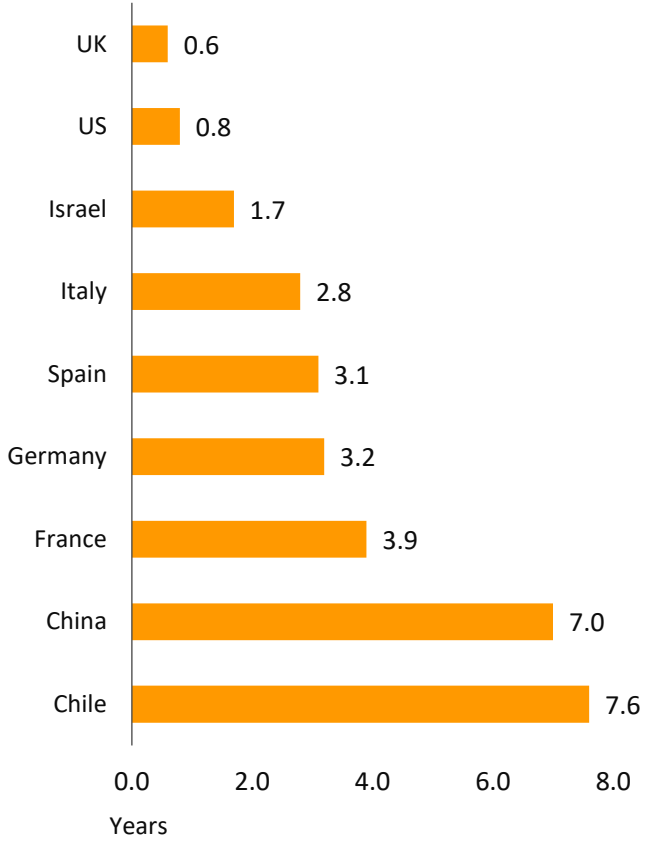
Global recovery remains uneven; it would take a long time to return to normal

Latest Global Sector PMI data suggest recovery remains uneven across sectors. Despite a pick-up in financial services activity and rising manufacturing, output in other sectors continue to be hurt by the pandemic, led by tourism & recreation. This is due partly to behavioral changes triggered by pandemic fears. Although many countries have started mass vaccination programs, it could take 3-7 years for life to return to normal based on the latest vaccination progress, according to Bloomberg's COVID-19 Vaccine Tracker.

Global Sector PMI



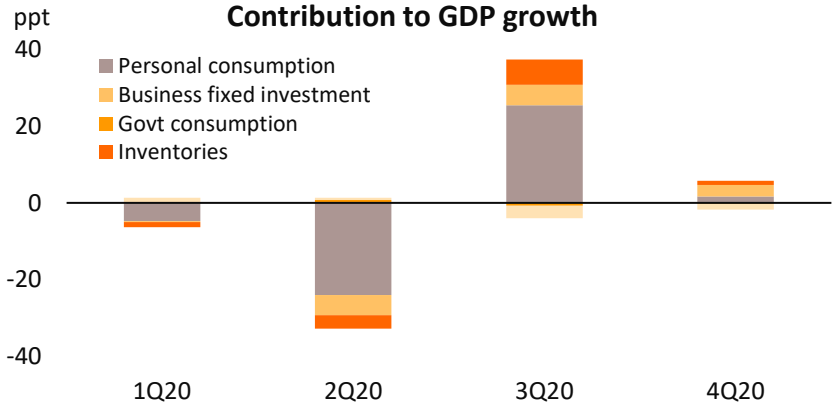
Path to Immunity: Years to inoculate 75% of the population with a two-dose vaccine at the current pace of shots given (Bloomberg's Covid-19 Vaccine Tracker)

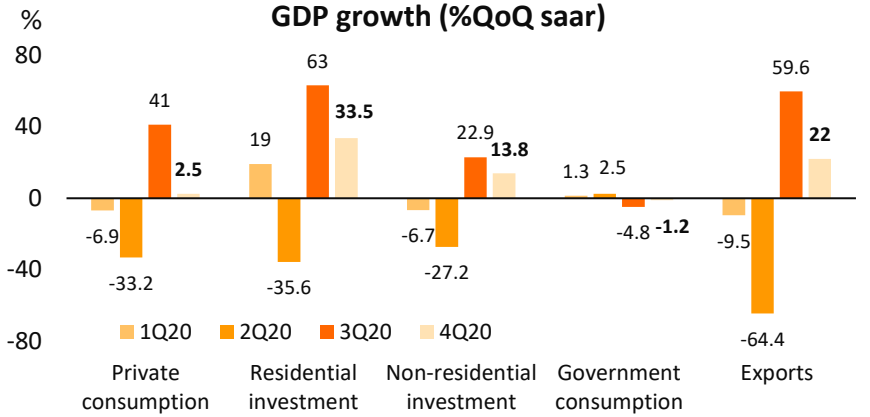


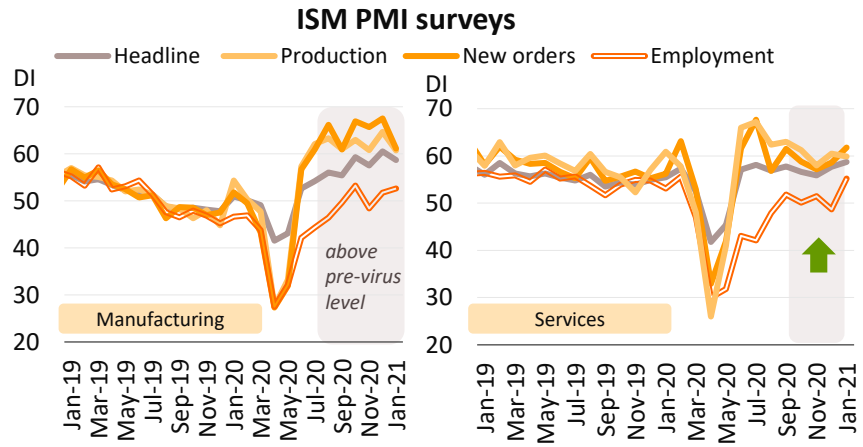
Source: IHS Markit, Bloomberg, Krungsri Research

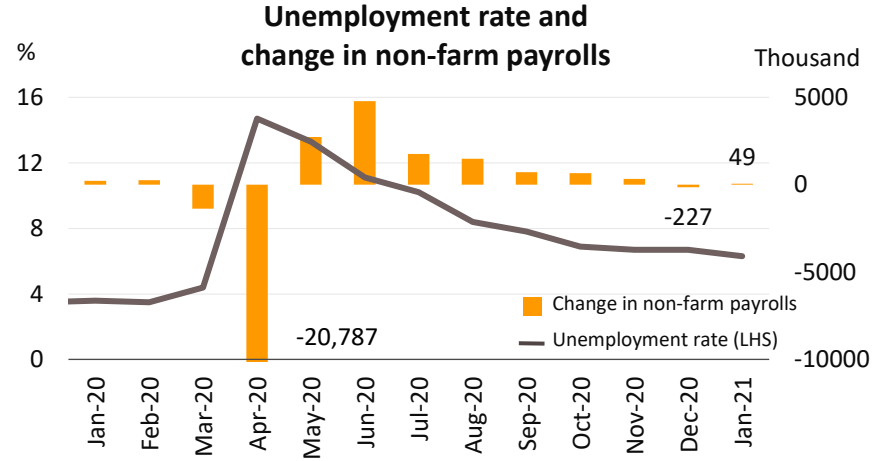
US: Economy gains momentum, raising hopes for a stronger recovery ahead

The US economy expanded 4% QoQ saar in 4Q20, but contracted by 3.5% for full-year 2020. The expansion in the final quarter was led by investment in both residential (+33.5%) and non-residential sectors (+13.8%). Private consumption, the biggest contributor to the economy, booked a moderate rebound at +2.5%. **4Q20 real GDP remained 2.5% below pre-pandemic level**. However, the vaccine rollout and optimism towards large fiscal stimulus induced a more upbeat outlook, prompting the IMF to revise up 2021 US GDP growth forecast to 5.1% from 3.1% in the previous forecast. **Services sector signaled a gradual improvement** despite the resurgence of COVID-19, led by employment (55.2 in January vs 48.7 in December). Manufacturing PMI remained solid. Non-farm payrolls turned to increase by 49k jobs and unemployment rate dropped to 6.3%, reflecting the return to work and resumption of economic activities. **The positive momentum would raise hopes for a stronger recovery ahead.**





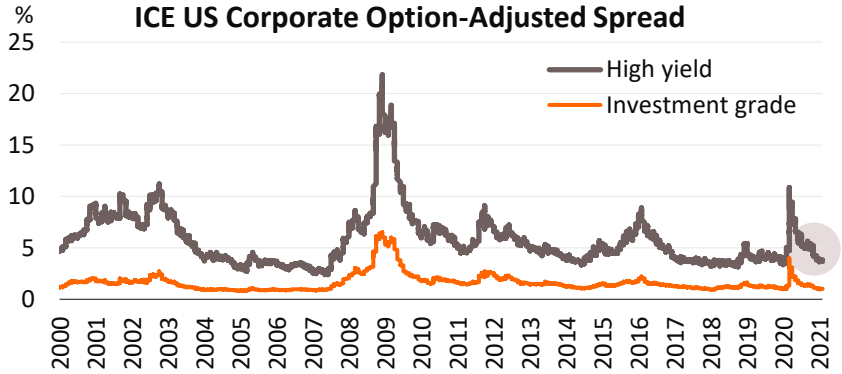


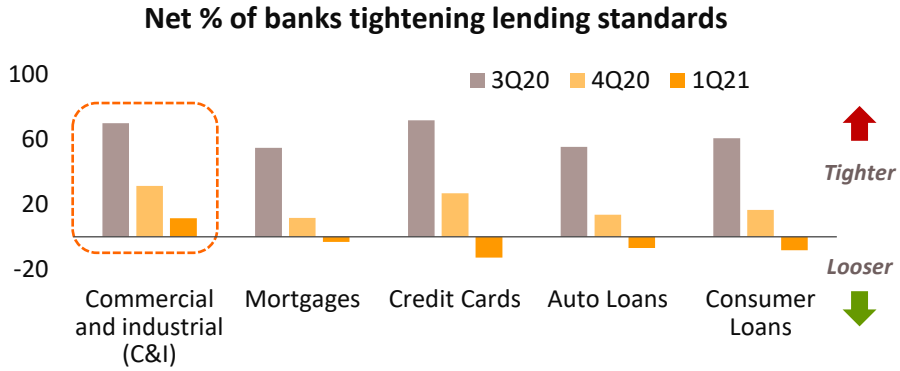


Source: Bureau of Economic Analysis (BEA), Institute for Supply Management (ISM), Bureau of Labor Statistics (BLS), Krungsri Research

FOMC advocates monetary support along with fiscal aid to strengthen recovery; Biden to dismantle Trump's policies

Although the outlook is improving**, the FOMC kept monetary policy unchanged**, citing the economy is still far from full recovery, and support fiscal aid to offset the pandemic damage. Corporate spread for high-yield bonds has dropped to 3.7%, below pre-pandemic level, raising fears of a Taper Tantrum. However, **we believe the Fed would not exit from massive support this year, and would apply forward guidance to anchor inflation and interest rate expectations.** Moreover, tightening C&I credit standards suggest the Fed will keep a dovish stance. The looser monetary policy and USD1.9trn stimulus package should support recovery this year. Since his inauguration, **Biden has signed several executive orders to address the pandemic, rejoin the Paris agreement, increase spending on American companies, and reversed Trump's immigration policies.** On China relations, the US government is committed to address abusive, unfair and illegal practices suggesting the former trade deal would remain in place. This could prompt China to accelerate purchase of American products in 2021 before Biden's administration reviews current policies, as China has bought only 58% of US products under phase-one trade deal last year.





Biden's executive orders

COVID-19

- Release a vaccine distribution plan
- Rejoin the World Health Organization (WHO)
- Require 100 million vaccine doses in the first 100 days in office

Economy

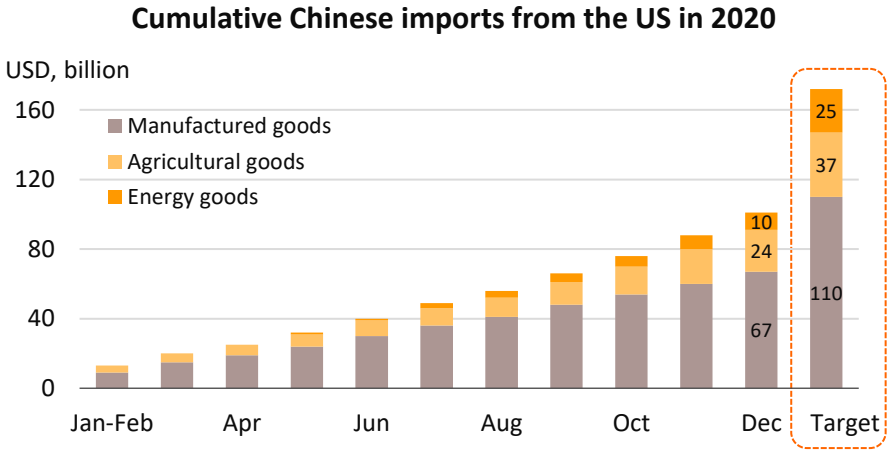
- Pause federal student loans payment
- Protect federal workforce
- ***Buy American:*** increase federal spending on American companies and workers.

Immigration

- Stop separating families at the US-Mexico border
- Reverse the order banning travelers from Muslim-majority countries
- Make the Deferred Action for Childhood Arrivals (DACA) program permanent

Environment

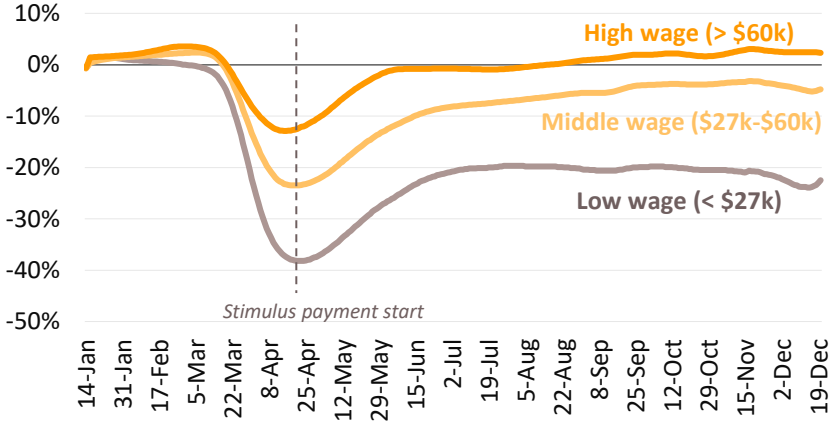
- Rejoin the Paris Climate Agreement



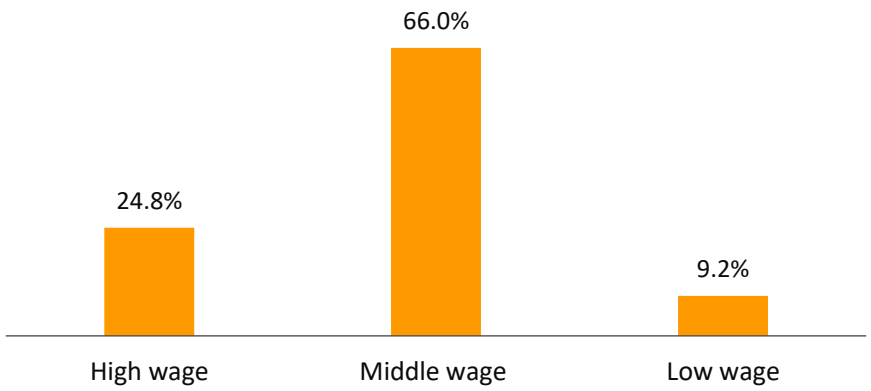
Source: Federal Reserve Board, Federal Reserve Bank of St. Louis, Trackbiden.com, Bloomberg, Krungsri Research

Rebound in US economy masks uneven recovery

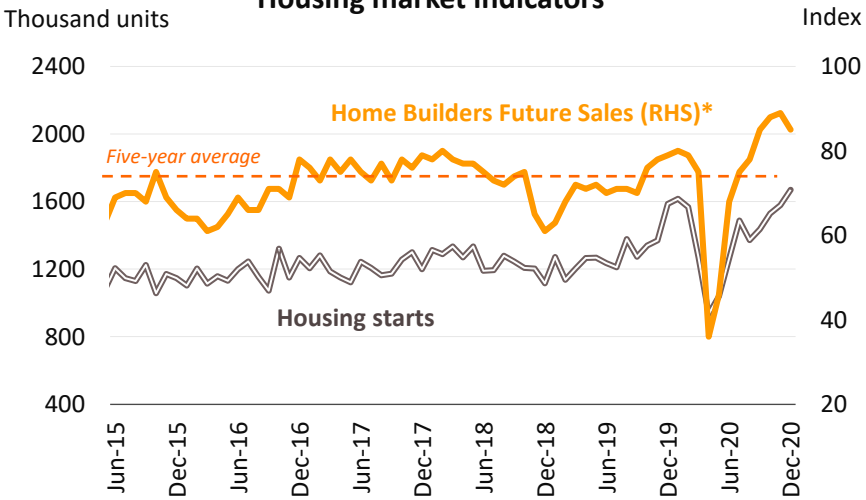
Percent change in employment by wage from January 2020



Share of employment by wage



Housing market indicators



**A reading above 50 indicates more builders view conditions as good than poor*

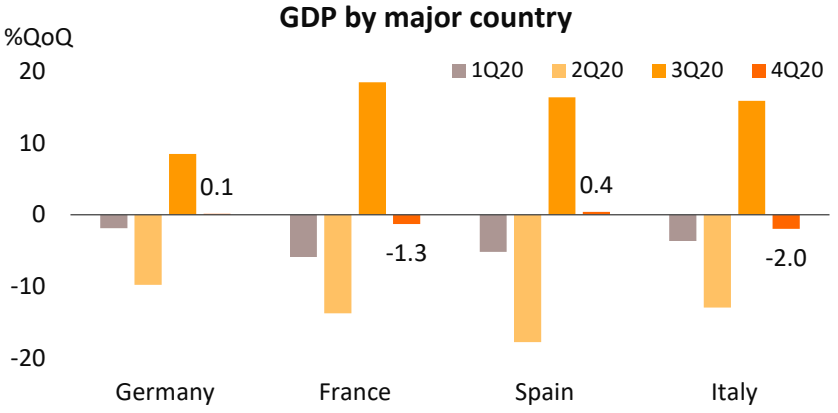
Source: BEA, National Association of Home Builders, Opportunity Insights, Krungsri Research

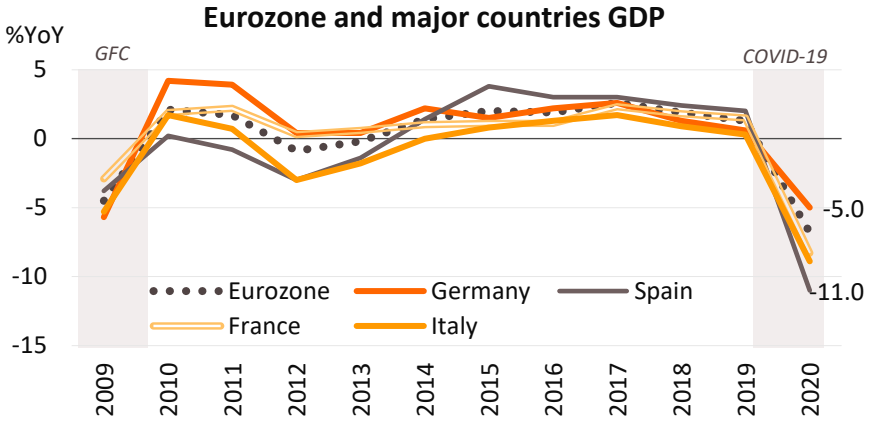
Krungsri Research's view

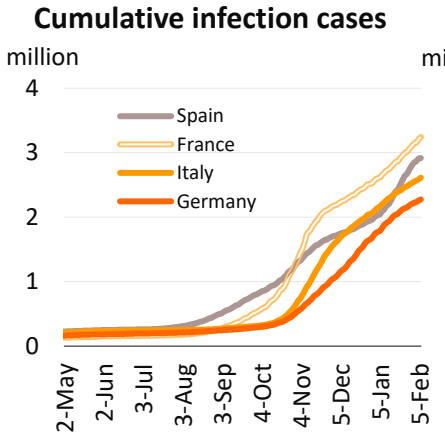
- **The unprecedented fiscal stimulus and the Fed's record-low rates could bolster the whole economy but Americans would see an uneven recovery**. Employment of high-wage labor has risen above pre-pandemic level, while employment of middle-wage labor has rebounded to only 4% below pre-pandemic level. These two groups account for more than 90% of workers, so they could be the major consumption engines in the coming period. In contrast, employment of low-wage workers (9% of total workers) remained 22% below pre-crisis level, suggesting this group experienced the worst income and job losses. This uneven recovery could further widen the income gap between high and low wage earners.
- **Keeping record-low interest rates would widen the wealth gap as the rich could benefit from the housing market.** Property remains a bright spot thanks to low mortgage rates. Housing starts have risen to its highest level since 2007. In addition, Home Builders Future Sales Index remains above its five-year average and overall conditions seem supportive.
- This widening income gap would challenge the government's policy responses to directly help severely-hit households to avoid greater inequality.

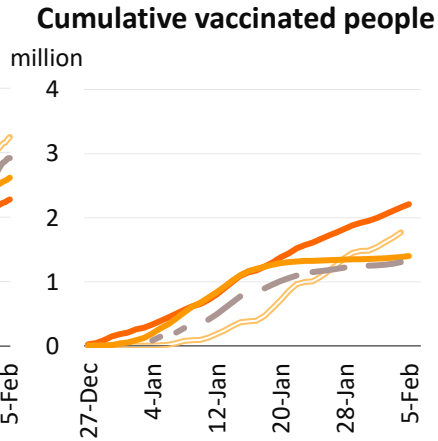
Europe: Slow economic activity and vaccine rollout could cap economic recovery

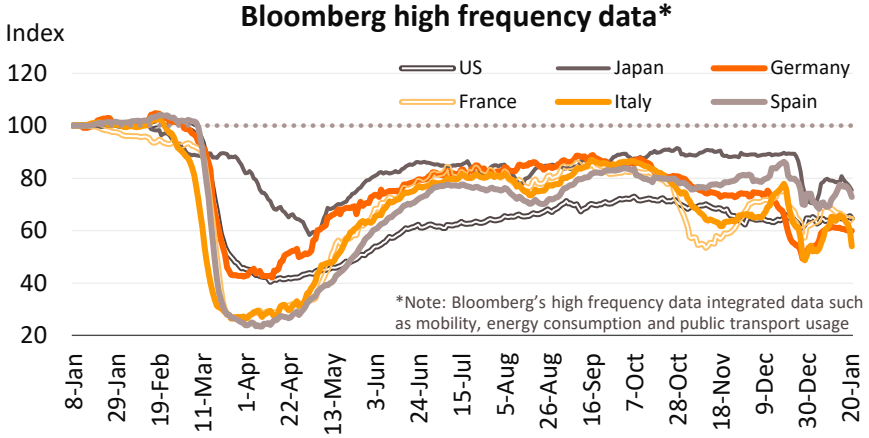
Renewed COVID-19 restrictions in Eurozone in 4Q20 had caused France and Italy's GDP to fall by 1.3% and 2% QoQ respectively. By contrast, Spain's economy expanded by 0.4% in the last quarter of 2020 driven by an increase in household consumption and fewer restrictions than elsewhere. Germany, the biggest economy in the bloc, reported 0.1% GDP growth driven by goods exports and investment. **For full-year 2020 GDP, Germany saw the smallest contraction of 5%, while Spain's economy shrank by 11%, worse than during the Global Financial Crisis.** Although the choatic and slow vaccination has raised the risks for curbing virus, **Germany and France have since accelerated vaccinations and would create herd immunity faster than Italy and Spain**. High frequency data show economic activity had weakened again in late-January but remained above levels during the initial outbreak last year, suggesting more businesses are adjusting to the restrictions. Looking forward, **the economic recovery trajectory would depend heavily on progress in the bloc's vaccination programs and when they can effectively exit from lockdown.**







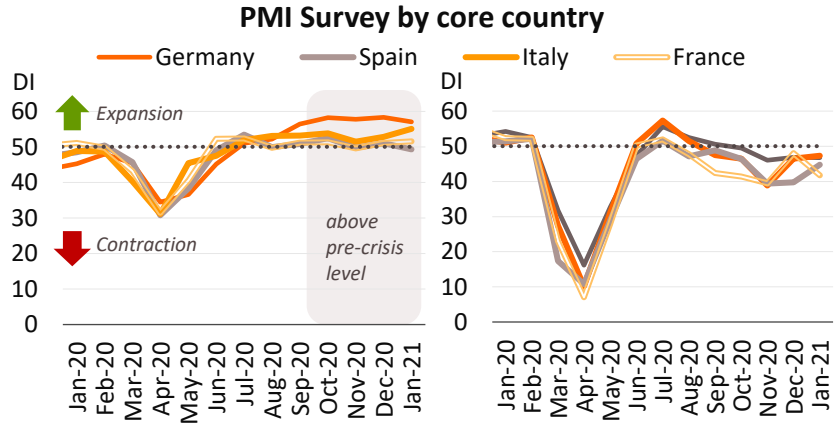


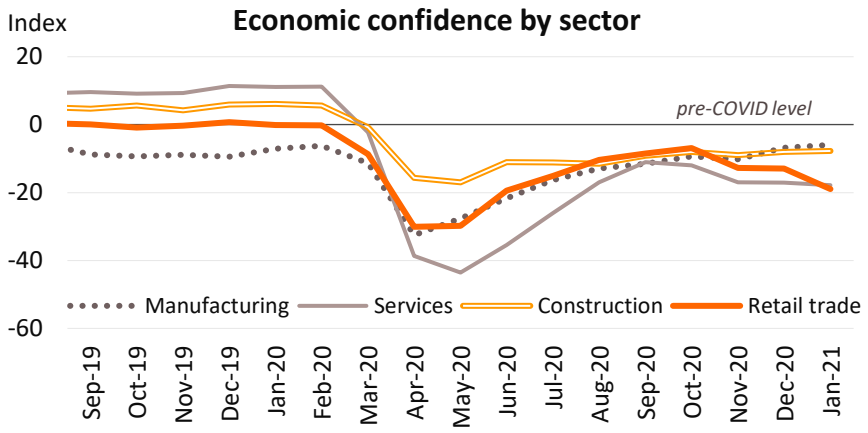


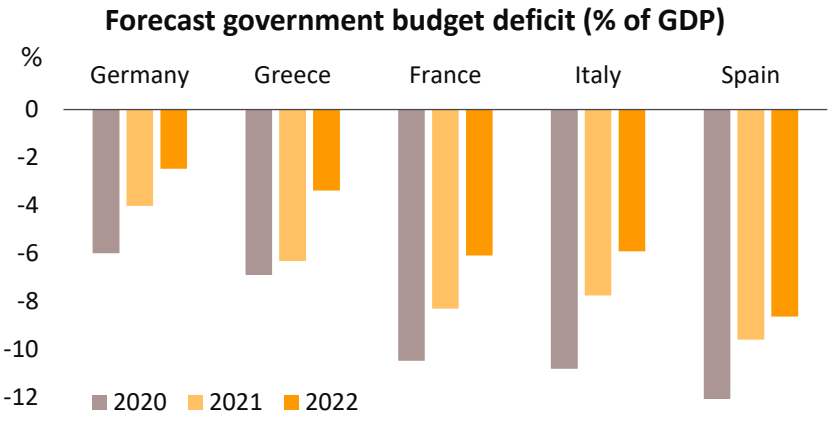
Source: Eurostat, Insee, INE, Destatis, World Health Organization (WHO), CEIC, Bloomberg, Krungsri Research

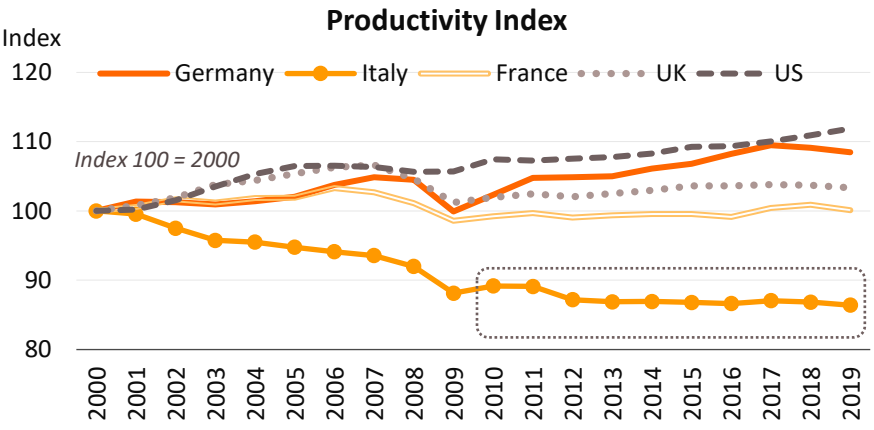
Uneven recovery across sectors and countries; Italy is facing several headwinds

The recovery in the Manufacturing sector is gaining pace, leaving the Services sector trailing further behind. Services PMI remains below-50 in the big four economies due to tighter restrictions. Meanwhile, the industrial sector has continued to expand, led by Germany and Italy where Manufacturing PMI data are above pre-crisis levels. **Economic confidence data also reflect sluggish services and retail trade sectors,** which remained weaker than the manufacturing sector and far below pre-pandemic levels. There is also uneven recovery among countries in the bloc. **Italy is facing several headwinds that could derail recovery,** including (i) **limited room for fiscal support** due to high debt level (160% of GDP) and large budget deficit (about 8% this year), (ii) **relatively low productivity,** which means Italy needs more structural reforms, and (iii) **possible delay in plan to utilize the EU Recovery Fund** which is equivalent to 12% of GDP. **These could make it challenging for the Mario Draghi-led government to seek solutions to address the crisis and help Italy's recovery to catch up with the rest of the EU.**







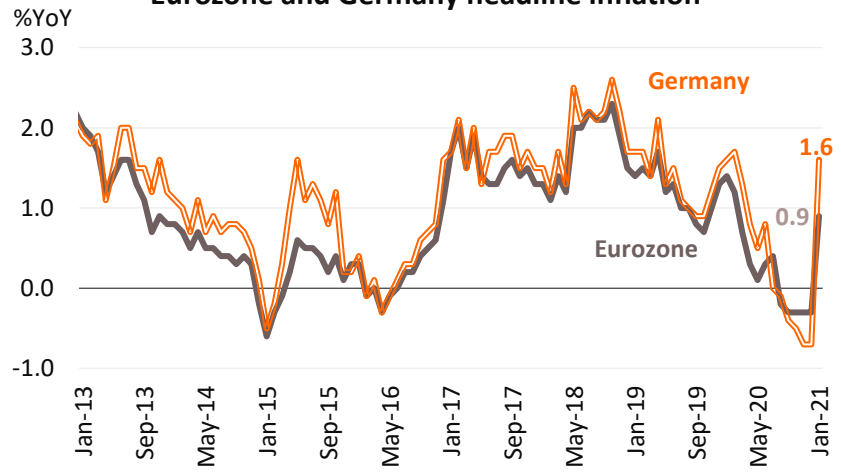


Source: IHS Markit, European Central Bank (ECB), Eurostat, Penn World Table, Krungsri Research

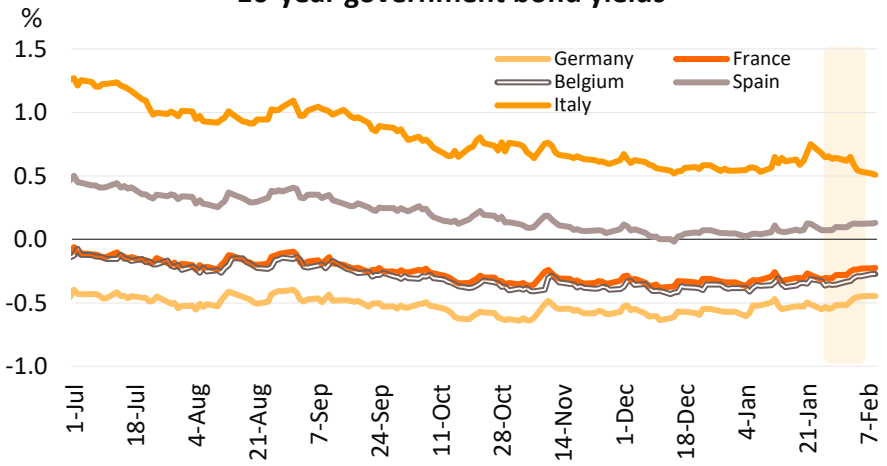
Note: Productivity index is based on all factors of production

Temporary rise in inflation and yields insufficient to push the ECB to review monetary supports

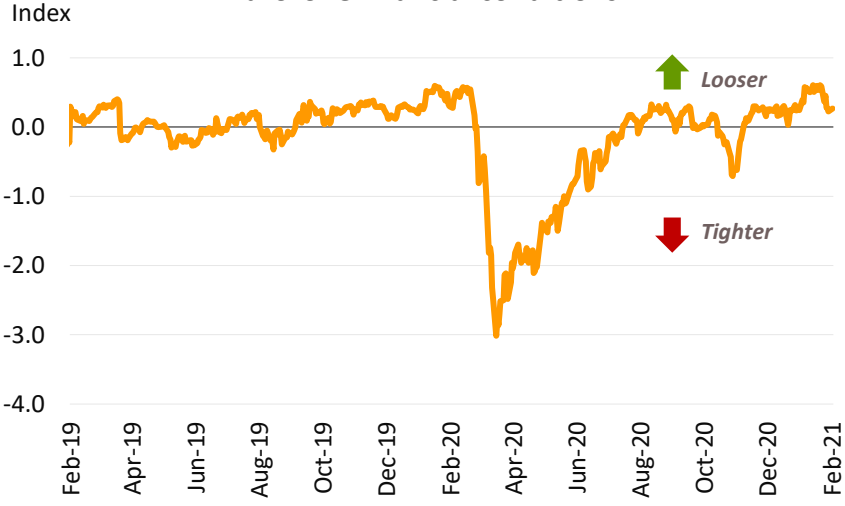
Eurozone and Germany headline inflation



10-year government bond yields



Eurozone financial conditions



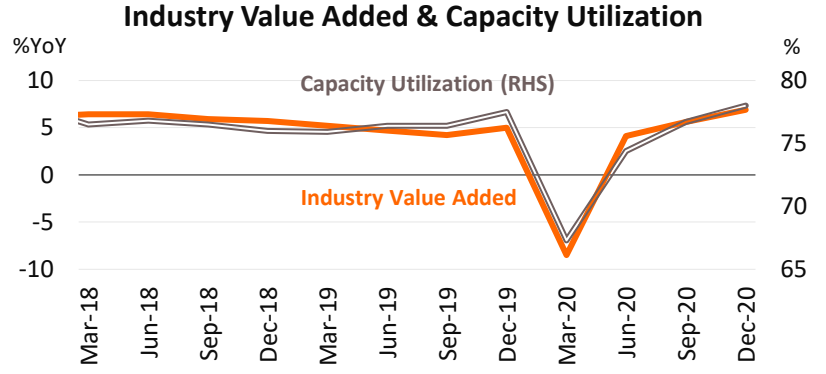
Source: Eurostat, CEIC, Bloomberg, Krungsri Research

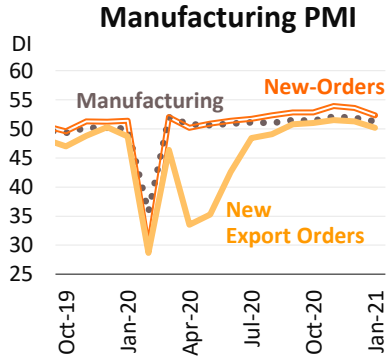
Krungsri Research's view

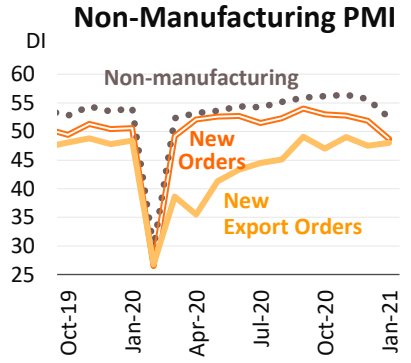
- Eurozone inflation jumped from -0.3% in December to +0.9% in January led by Germany (+1.6% YoY). **Higher headline inflation was driven by temporary factors** such as expiring tax cuts in Germany, changes to weights in the Consumer Price Index, and a delay in winter sales. **Hence, we expect inflation to soften later this year and remain below the ECB's target.**
- In late-January, 10-year government bond yields rose in several countries due to the reflation concerns. However, **the ECB will continue to cap yields, implying yields would remain low for the rest of this year.**
- The latest financial conditions are less loosening than the end of last year, dropping from 0.5 in December to 0.2 in February. This suggests the ECB to continue monitoring bank lending conditions and supporting access to financing.
- Following the temporary rise in inflation and yields, **we expect the ECB to keep its current policies to support the economy throughout the year.** Moreover, at the first policy meeting of 2021, Chistine Lagarde had reassured the ECB "stand ready" to adjust instruments to address the pandemic damage.

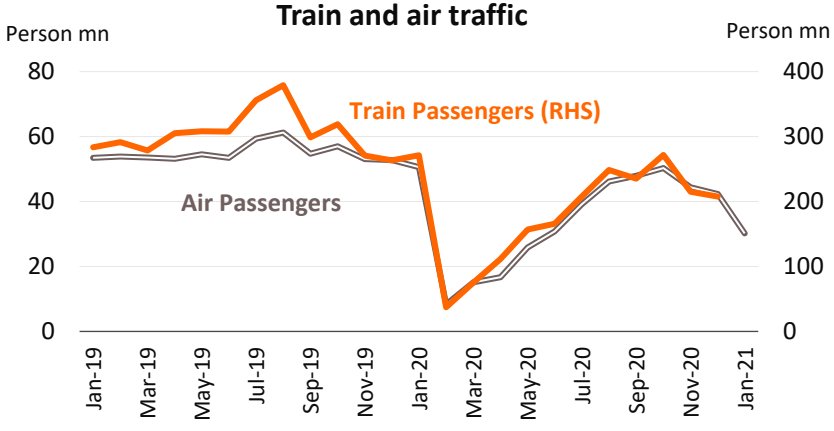
China: Latest outbreak slows services sector but will not derail recovery trajectory

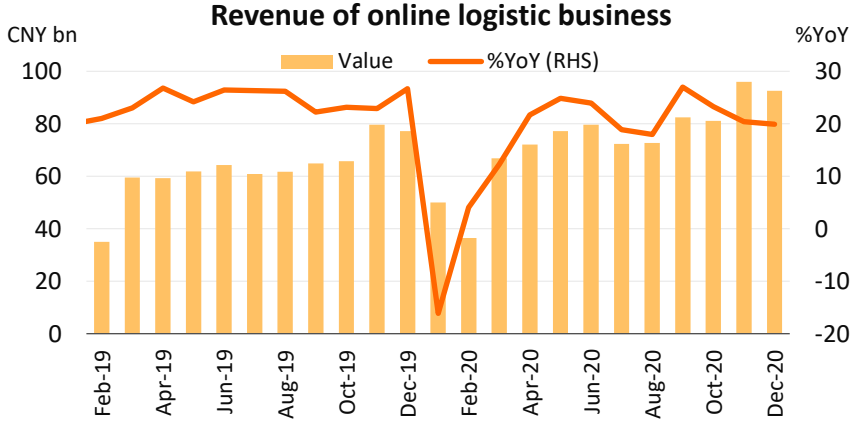
China's economy will continue to recover through 2021 as economic activities have been improving since last year and the latest outbreak is expected to have only temporary impact. In December 2020, industrial capacity utilization and value-add in the industrial sector reached 3-year highs. In January, both Manufacturing and Non-Manufacturing PMI data remained in expansion mode for the ninth consecutive month. Manufacturing sub-indices for new export orders and new orders also stayed above-50, indicating production will continue to expand in the coming period. Although travel restrictions and partial lockdown could affect the services sector in the beginning of this year, these might support manufacturing because companies might continue to operate instead of normally shutting down for 1-2 weeks during the Lunar New Year break. Online logistic businesses would also continue to operate during the seasonal holidays. These activities could mitigate the impact from the latest outbreak. **Daily COVID-19 cases have dropped significantly and there have been no local transmission for the first time in two months. The government has also eased restrictions. These would support economic activities in the next period.**







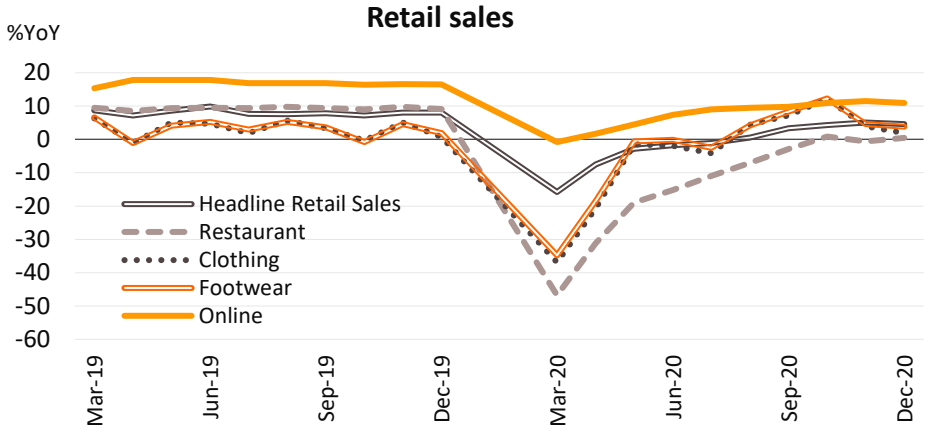


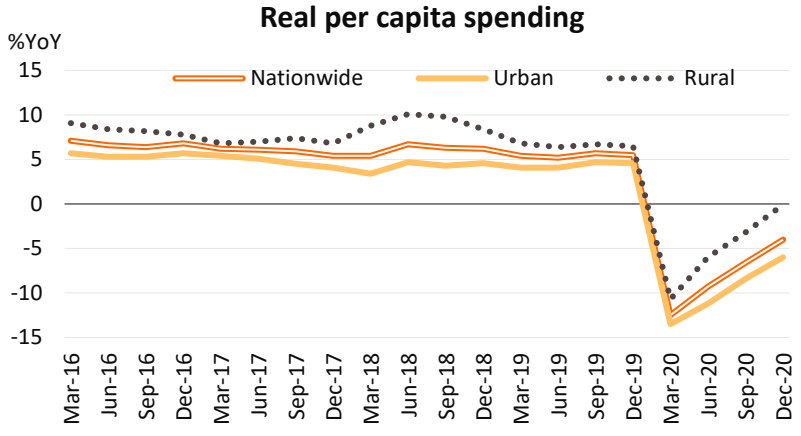


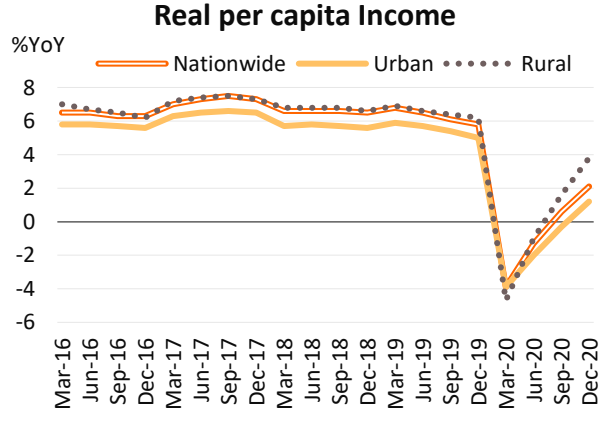
Source: National Bureau of Statistics, CEIC, Capital Economics, Bloomberg, Reuters, Krungsri Research

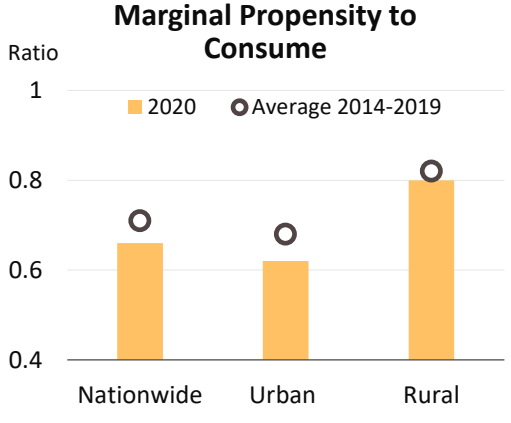
Urban residents still spending cautiously, slowing down the recovery in domestic consumption

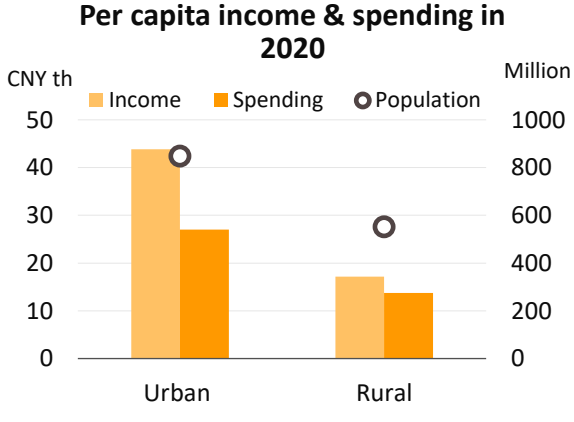
While the supply-side economy continues to strengthen and seems resilient to the resurgence in COVID-19 infections, household consumption is lagging. Retail sales growth is below pre-pandemic rate, especially for non-essential products. One explanation would be uneven recovery; the pandemic has affected urban individuals more than rural residents. **Real spending per capita in urban areas is weaker than that in rural areas.** Real per capita income of urban residents is also recovering slower than the rural population. Moreover, urban individuals are less elastic to a change in income, as reflected in lower Marginal Propensity to Consume (MPC). **Hence, urban spending, which accounts for about three-quarters of total household spending, would take longer to return to pre-pandemic level, although income and spending continue to improve.**







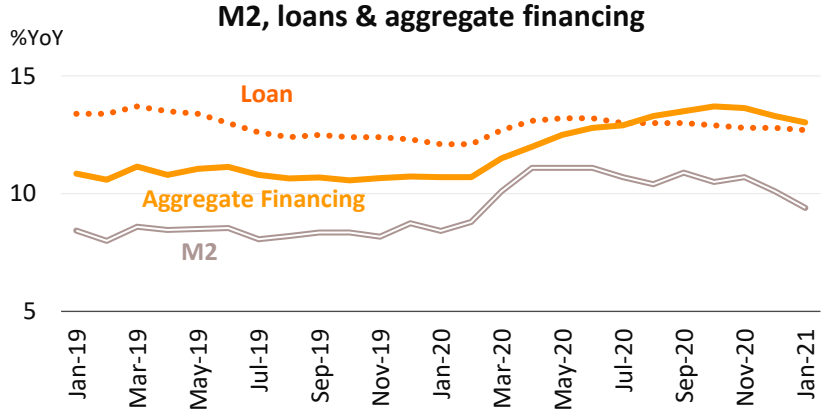


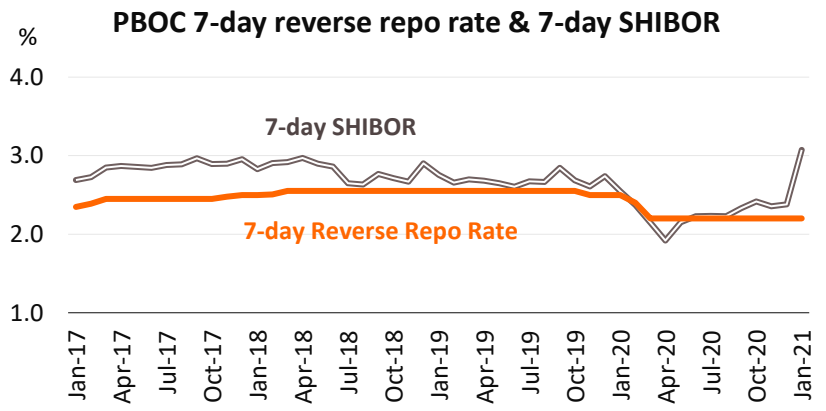


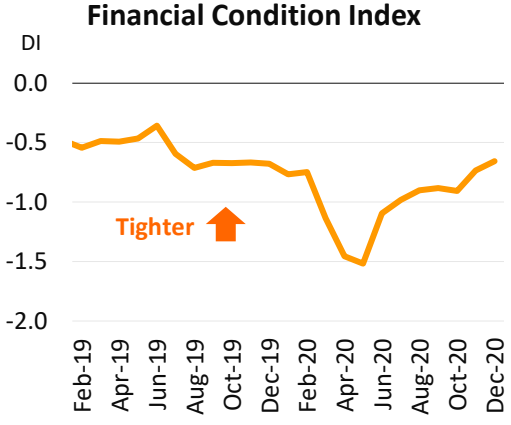
Source: National Bureau of Statistics, CEIC, Capital Economics, Bloomberg, Krungsri Research

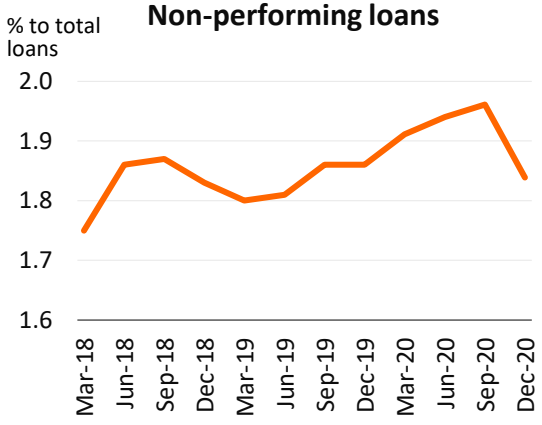
To support recovery of domestic demand, PBOC will maintain accommodative policy with prudent measures

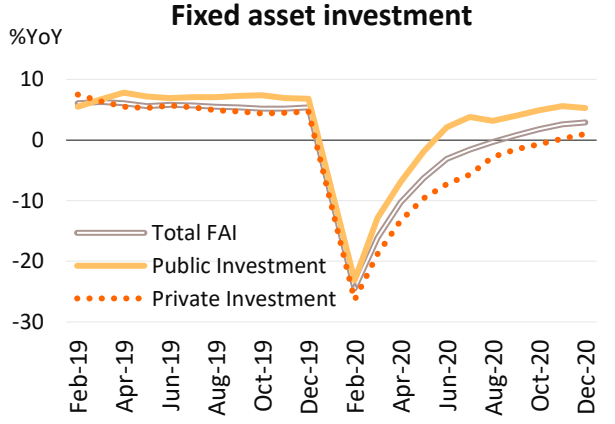
The delayed recovery of household consumption suggests the People's Bank of China (PBOC) should keep its accommodative policy stance. We expect the central bank to employ prudent and targeted measures to reduce risks. In January, bank loan growth decelerated slightly while M2 and Aggregate Financing slowed down, reflecting the central bank's efforts to deleverage and limit excessive speculation. Also, the 7-day SHIBOR has risen to its highest since 2015. Financial conditions have been tightening and are near pre-pandemic level. Nevertheless, the monitoring of credit quality would likely be directed at risky or speculative activities. Also, the recent implementation of targeted measures might be able to contain financial risks, reflected by the drop in non-performing loans. **Looking ahead, the PBOC is unlikely to raise policy interest rates until there are clear signs private consumption and private investment growth are returning to pre-pandemic levels.**







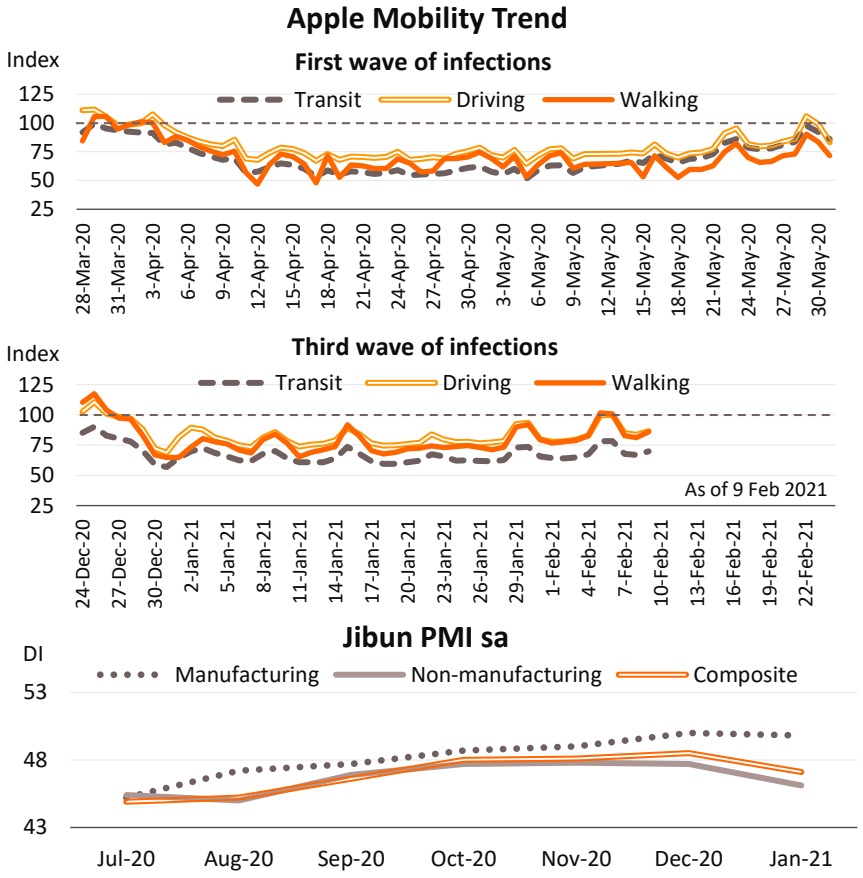


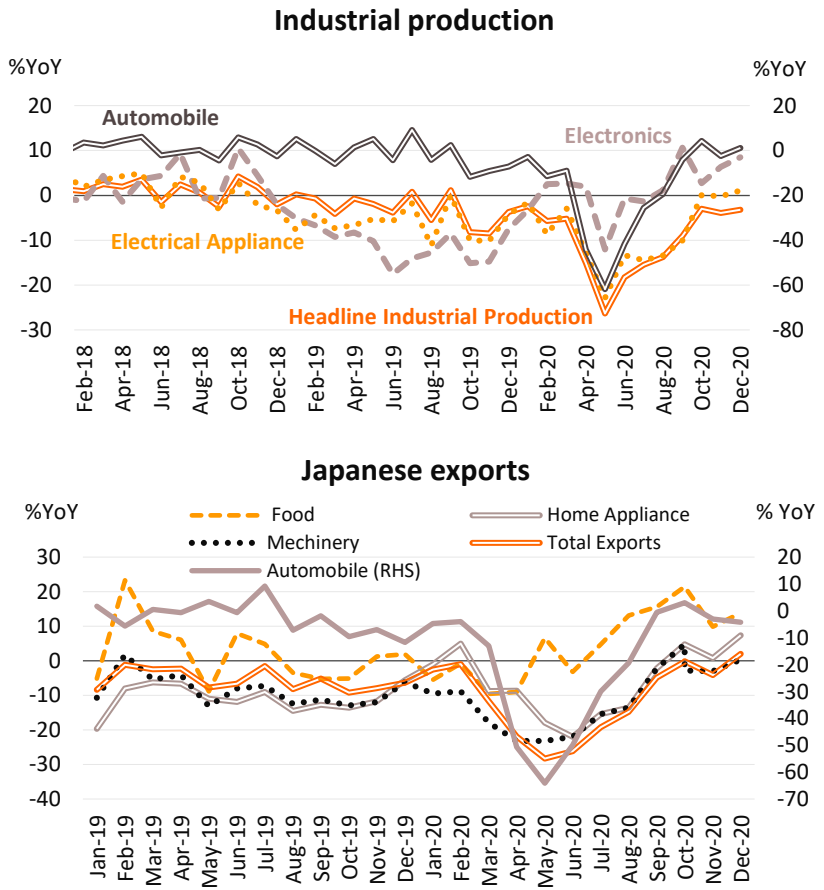


Source: National Bureau of Statistics, PBOC, CEIC, Capital Economics, Bloomberg, Reuters, Krungsri Research

Japan: Improving exports and manufacturing sector could ease latest COVID-19 impact

The government has extended the state of emergency by a month, but less stringent measures than before should ease the impact on economic activities. Latest mobility data indicate commuting has returned to normal faster than after the first outbreak last year, but the latest restrictions still hurt January PMI data, especially Services PMI which is at a 5-month low. However, several other economic indicators continued to improve: (i) Manufacturing PMI only slipped slightly; (ii) Industrial Production is improving and key industries are operating at above pre-pandemic levels; (iii) exports rose for the first time in two years; and (iv) daily domestic COVID-19 cases have been falling from a high of 7,863 cases on January 8 to less then 2,000 recently. In addition, there are fewer areas subject to restrictions. **When Japan lifts the state of emergency and exits from lockdown, the continued recovery of exports and manufacturing sectors, as well as a pick-up in the services sector, would drive the economy in the next period.**



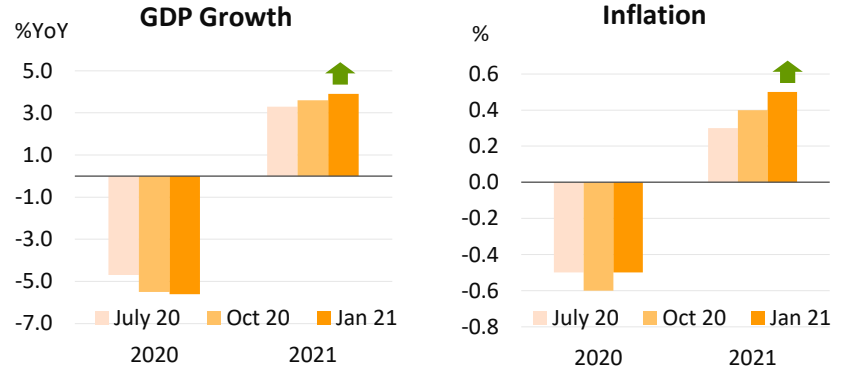


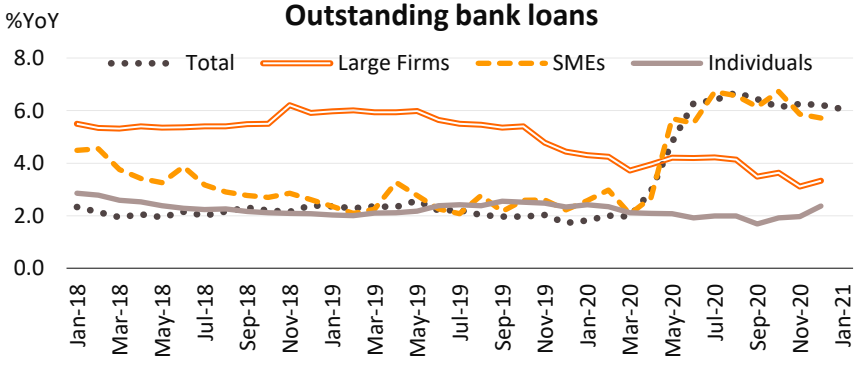
Source: CEIC, Bloomberg, Capital Economics, Krungsri Research

Fiscal and monetary measures and vaccination program to support economic recovery

The huge monetary and fiscal measures introduced since the pandemic seem sufficient to ease the impact and support the overall economy. In January, the Bank of Japan (BOJ) upgraded its economic growth forecasts for 2021 from +3.6% to +3.9%, citing positive momentum and the unprecedented stimulus packages. The BOJ continues to keep a very-loose monetary policy by controlling the yield curve, employing unlimited asset purchases, and offering interest-free lending facilities. In January, bank loan growth exceeded 6% for the 8th straight month, led by lending to SMEs. Also, the BOJ would likely keep negative interest rate until 2023. Meanwhile, the government has launched a series of supplementary budgets to ease the pandemic impact and boost domestic spending. Recently, the government decided to disburse JPY1.2trn from FY2020 reserve funds to increase subsidies for hard-hit restaurant operators and their suppliers. In addition, Japan will start its vaccination program at end-February. The government now plans to inoculate half its population by end-July (instead of June). **Therefore, the current monetary and fiscal stimulus, and the vaccination program, should help keep the economic recovery on track.**

Bank of Japan Economic Outlook





Fiscal measures to ease the impact of one-month extension of state of emergency

Target	Measures	Worth
Restaurant Operators	Offer JPY60,000 per day financial aid to restaurants and bars which are required to close early.	JPY880.2bn
Suppliers to restaurants	Increase one-off financial aid to up to JPY600,000 (instead of JPY400,000) if sales fall by at least 50% from the previous year	JPY249.0bn

Japanese COVID-19 vaccination timeline

Schedule	Targeted Groups for Inoculation
End-Feb 21	10,000 to 20,000 frontline healthcare professionals
Mar 21	3.7 million healthcare workers
April 21	36 million elderly citizens (age 65+)
May 21	8.2 million people with chronic conditions, 2 million nursing care workers and 7.5 million people age 60 to 64
Jun-July 21	Vaccinate half the population by the end of July

Source: CEIC, Bloomberg, Capital Economics, Bank of Japan, Japantimes, Kyodonews, Reuters, Krungsri Research

Thailand: COVID-19 impact and uneven recovery; what will happen if the pandemic does not end soon?

- **Our latest estimates suggest daily COVID-19 cases could peak in early February, with lower uncertainty.** The latest outbreak is having a relatively smaller impact than last year, because more business sectors are allowed to operate and the lockdown measure are less severe. However, foreign tourist arrivals will remain weak until there is mass vaccination.
- **The latest partial lockdown will continue to hurt the hospitality sector and overall demand.** Despite a recovery in overall economy this year, the pandemic would have different impact on business sectors.
- **In the household sector, there would be uneven recovery in household income among the different income classes, provinces, skill levels, and asset sizes.** Wages in the hospitality sector will remain below pre-pandemic levels. Low-income group in major provinces and most of the middle-income group would see substantially smaller incomes. Households with a smaller buffer and low-skilled workers are likely to be hurt worst.
- **We expect total household expenditure to rebound moderately this year.** Spending on housing, tourism & recreation and vehicles accounts for the largest proportion of spending among the high-income group, so that could recover in the coming period. However, total expenditure would be lower than pre-pandemic levels.
- **Export sector will be a key driver of the Thai economy,** given positive momentum in latest data. Rising external demand should support a recovery in industrial production and capacity utilization. Investment would benefit from growing exports and infrastructure projects, although the latest outbreak had hurt sentiment early this year.
- **If the pandemic does not end soon, the inequality will widen.** Sector performance would become more divergent. Unskilled labor will be hit more severely than skilled labor. Also, the low-income group in major provinces would see larger income inequality. This will lead to a more uneven recovery of the Thai economy. However, allowing the movement of resources - capital, raw materials, and labor - across sectors and locations would help to mitigate the COVID-19 impact and accelerate economic recovery.

Thailand Economic Outlook 2021

Krungsri Research Forecast		2019	2020	2021F
GDP growth	YoY (%)	2.3	-6.1	2.5
Private Consumption Expenditure	YoY (%)	4.0	-1.0	1.8
Government Consumption Expenditure	YoY (%)	1.7	0.8	4.3
Private Investment	YoY (%)	2.7	-8.4	2.9
Public Investment	YoY (%)	0.1	5.7	10.5
Nominal Exports in USD (f.o.b.)	YoY (%)	-3.3	-6.6	3.8
Nominal Imports in USD (f.o.b.)	YoY (%)	-5.6	-13.5	5.2
Current Account Balance	USD, bn	38.2	16.5	19.6
Tourist Arrivals	Mn, persons	39.8	6.7	4.0
Headline Inflation	YoY (%)	0.7	-0.8	0.8
Exchange rate (end of period)	THB/USD	30.1	30.0	29.3
Policy Interest rate (end of period)	(%)	1.25	0.50	0.50
Dubai crude price (period average)	USD/bbl	63	42	48

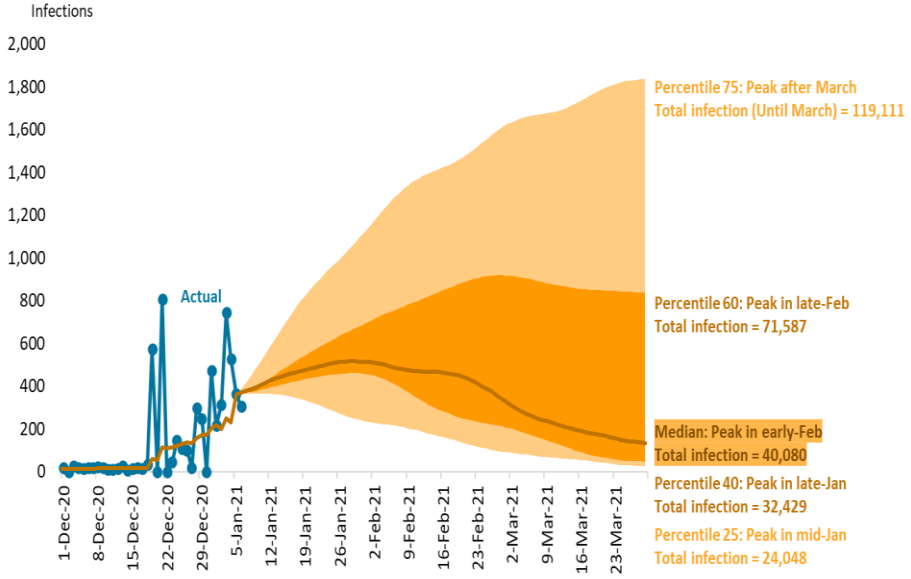
Note: * 2020 data forecast by Krungsri Research

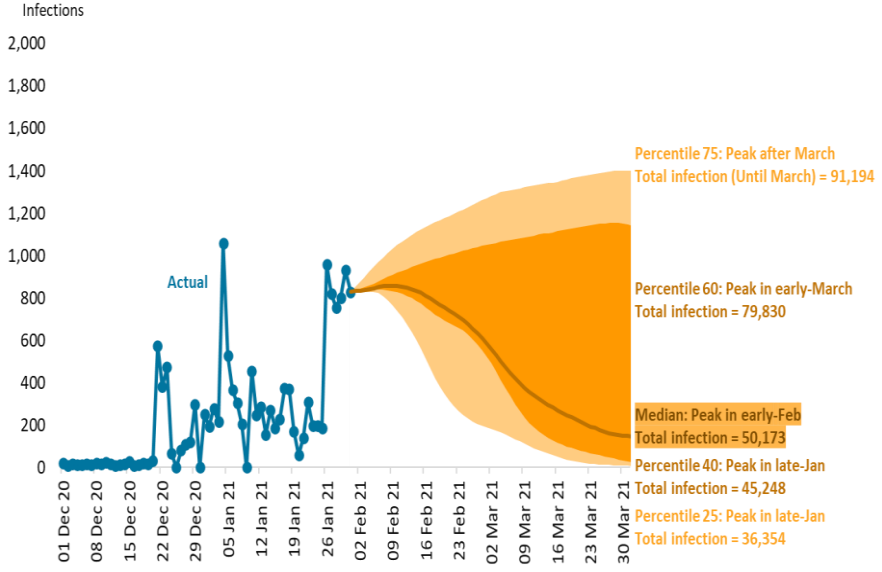
Source: Office of the National Economic and Social Development Council (NESDC), Bank of Thailand (BOT), Ministry of Commerce (MOC), Ministry of Tourism and Sports (MOTS), Krungsri Research

Our re-estimates still suggest daily COVID-19 cases could peak in early February, but with lower uncertainty

Daily COVID-19 cases (forecast by Krungsri Research)

As of 7 January 2021 → **As of 1 February 2021**



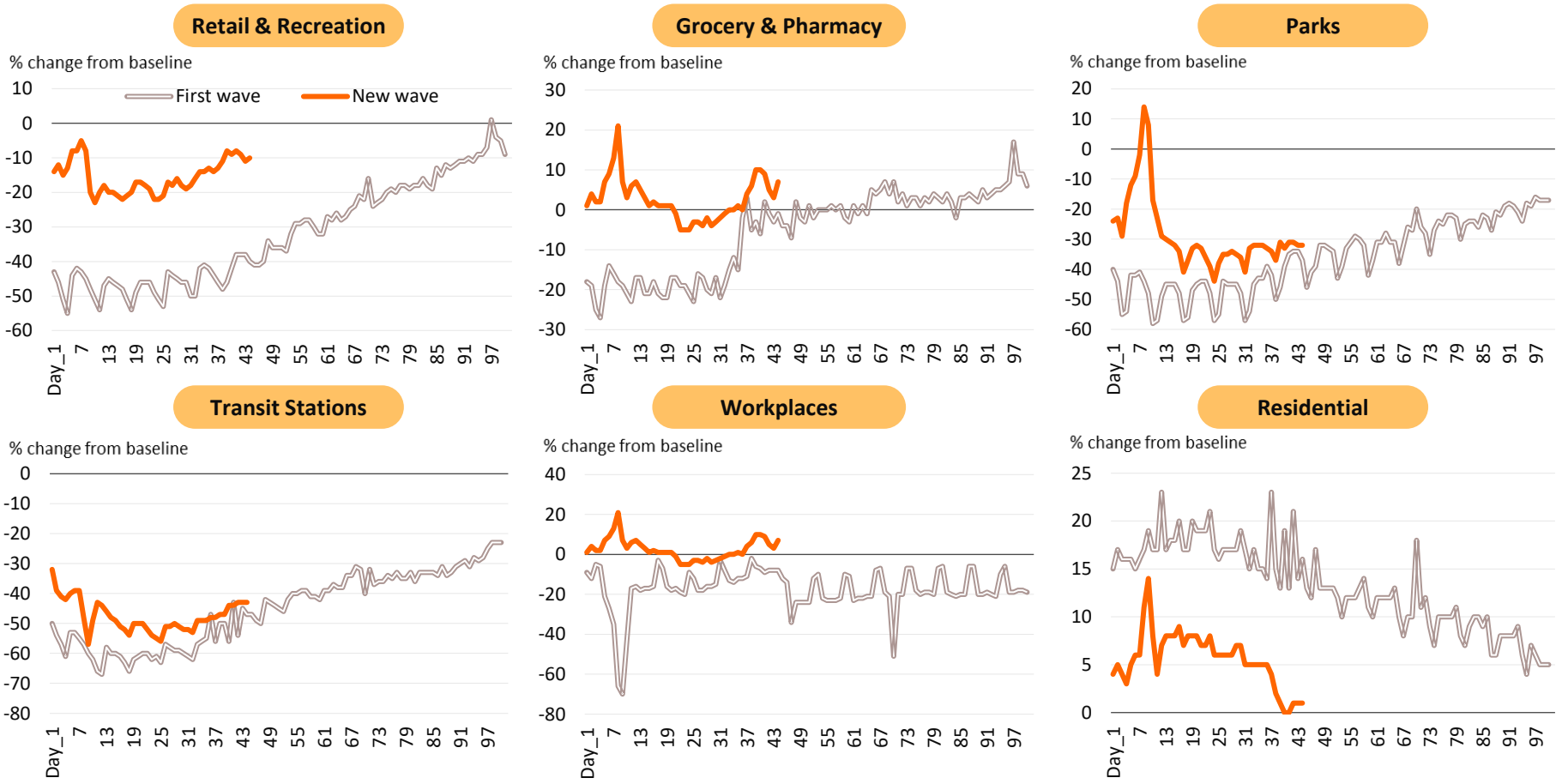


Source: Krungsri Research

Latest outbreak will have less severe impact on economic activities than last year

According to Google Community Mobility Reports (as of 5 February 2021) for six categories, following the latest lockdown measures, economic activity was better than during the initial outbreak and strict lockdown last year. Due to more relaxed and targeted measures, faster relaxation of measures, and quick relief measures to boost spending, the latest outbreak should have less severe impact on the economy than last year.

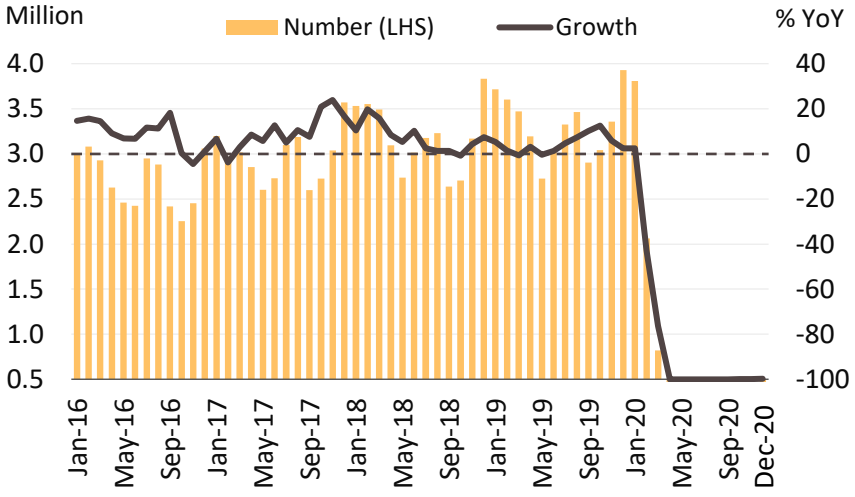
Daily activity indicator



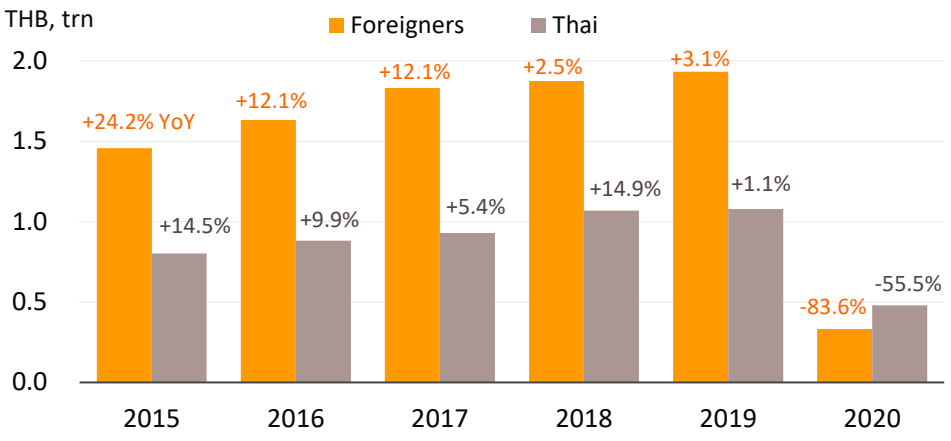
Note: Day-1 is the first day of lockdown measures to control the pandemic in each round.
Source: Google, Krungsri Research

Foreign tourist arrivals will remain weak until there is mass vaccination

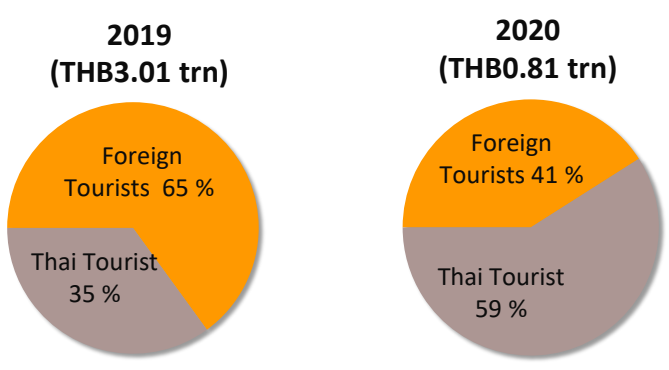
Foreign tourist arrivals



Tourism receipts from foreign and Thai tourists



Tourism receipts



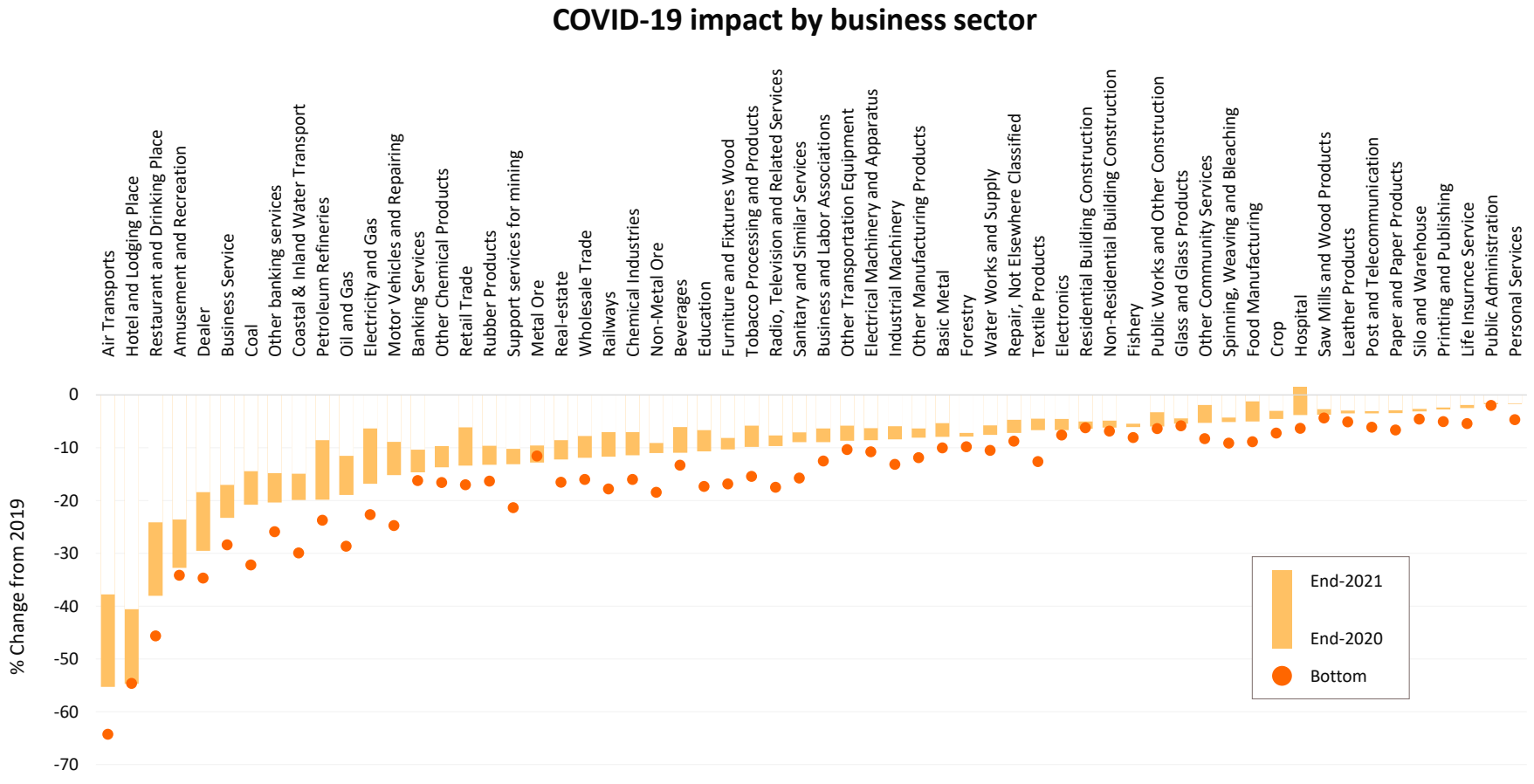
Source: MOTS, Krungsri Research

Krungsri Research's view

- **Foreign tourist arrivals fell by 99.8% YoY to 6,556 in December,** but inched up from 3,065 in November. That was the third month of positive arrivals in Thailand since April 2020. In 2020, foreign tourist arrivals contracted by 83.2% to 6.7mn and receipts tumbled 83.6% to THB332bn (41% of total tourism receipts in 2020).
- Receipts from domestic tourists shrank by 55.5% to THB480 bn (59% of total tourism receipts in 2020); this is based on 90.74 mn domestic trips (-47.5%). For full year 2020, tourism receipts fell 72.8% to THB812 bn.
- Looking at 2021, foreign tourist arrivals will remain weak until the population of key countries has been vaccinated widely. That could be 4Q this year. Meanwhile, domestic tourism might be hurt in 1Q21 because of the latest outbreak but would likely recover in the next quarter.

The latest partial lockdown will continue to hurt the hospitality sector and overall demand

The hardest-hit sectors would be air transportation, hotel & lodging places, and restaurants, followed by recreation, car dealers, and business services. They would be hit not only by the weak tourism sector and supply disruption (both domestic and international), but also the negative income effect.

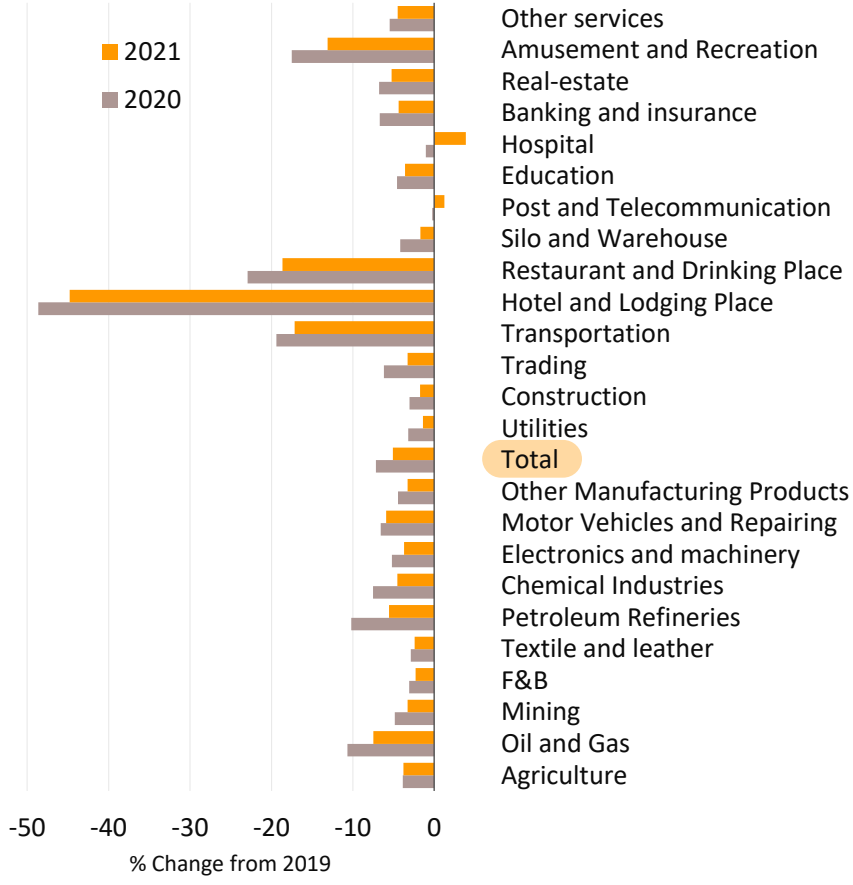


Source: GTAP, Krungsri Research

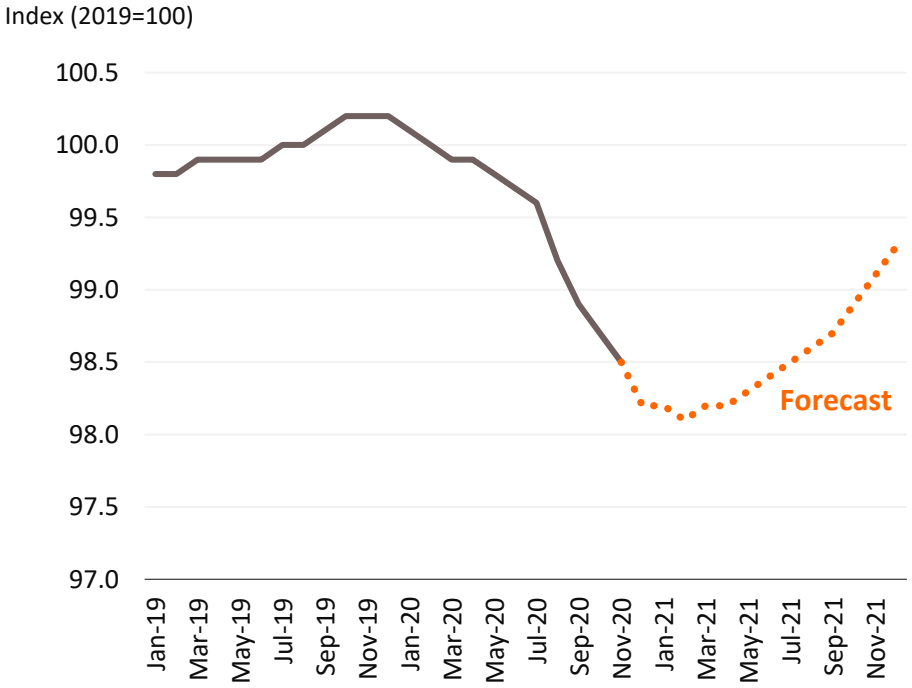
Lost revenues translated to lower wages and working hours, which will reduce household income

Despite a mild improvement this year, wages and working hours would remain below 2019 (pre-COVID) levels. Wages in the hospitality sector (including hotel, restaurant, transportation and recreation) would drop substantially. Average working hours have also dropped since the COVID-19 outbreak in early 2020 and is unlikely to improve significantly in 2021.

COVID-19 impact on wages



Average working hours
(3-month moving average)



Source: NSO Household Socio-Economic Survey, Krungsri Research

Low-income group in major provinces and middle-income earners will see a sharp drop in household income

The impact on the labor market is transmitted through lower household income and spending. Average income in 2021 is estimated to drop by 7% from pre-crisis level in 2019, but the income losses will be uneven among the different income group. **The high-income group would be least affected** (-6.6%)**. Average income for the working class would drop by 7.6%. And, the low-income group could see the largest drop in income, especially in major provinces** such as Chonburi (-12.7%), Bangkok (-12.3%), Phuket (-12.2%), Chiang Mai (-9.8%) and Krabi (-9.4%). The pandemic has highlighted the level of income-inequality in Thailand which would lead to uneven recovery among the high- and low-income groups.

Forecast drop in household income by province and income group



Source: NSO Household Socio-Economic Survey, Krungsri Research

Households with smaller buffers and low-skilled workers will be more severely hit

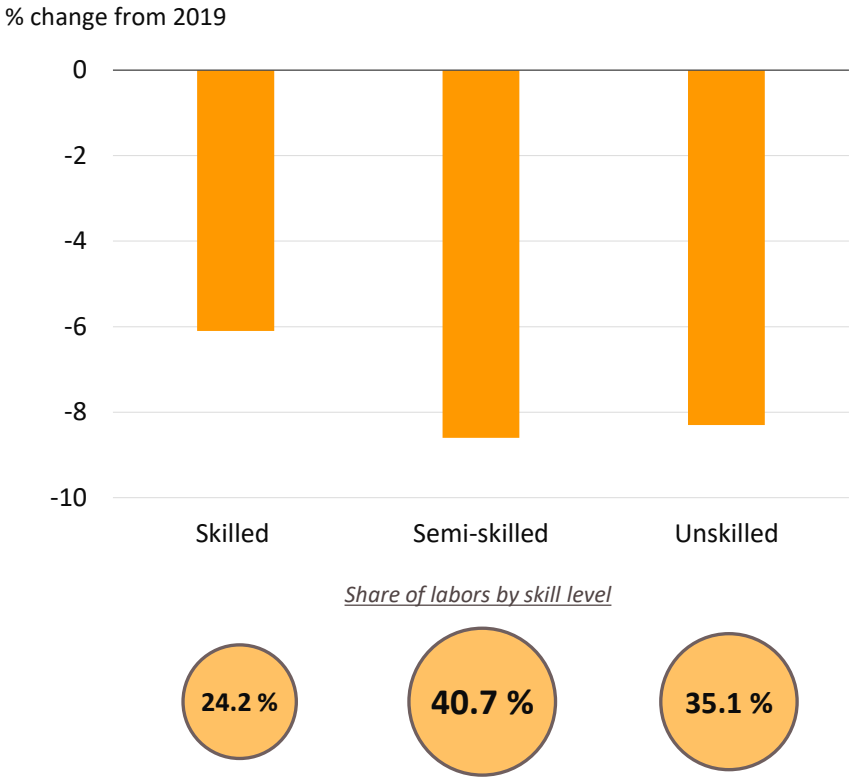
The COVID-19 impact is felt across all industries and income groups, including the high-income group. With international borders likely to remain closed for much of 2021, entrepreneurs and labors in the services sector would continue to be affected**. The ability to weather this crisis would depend on their asset size. Households with less assets (smaller buffer) would be hurt more severely** and could easily fall into poverty. Meanwhile, **households with low-skilled workers would see an 8.3% to 8.6% fall in earnings** compared to a 6.1% drop in households with skilled-workers.

Forecast of household income loss by asset size and income group

	Monthly income (THB)				
Asset category (THB)	<7.5k	7.5-15k	15-25k	25-40k	>40k
0.2m	95.6	94.1	93.8	93.1	91.9
0.2-0.7m	95.9	95.3	94.6	94.2	93.6
0.7-1.15m	95.9	95.5	95.0	94.3	94.3
1.15-2.0m	96.0	95.6	95.2	94.6	94.9
> 2.0m	96.1	95.7	95.4	95.3	95.5

Index 100 = 2019-level

Forecast of household income loss by skill level

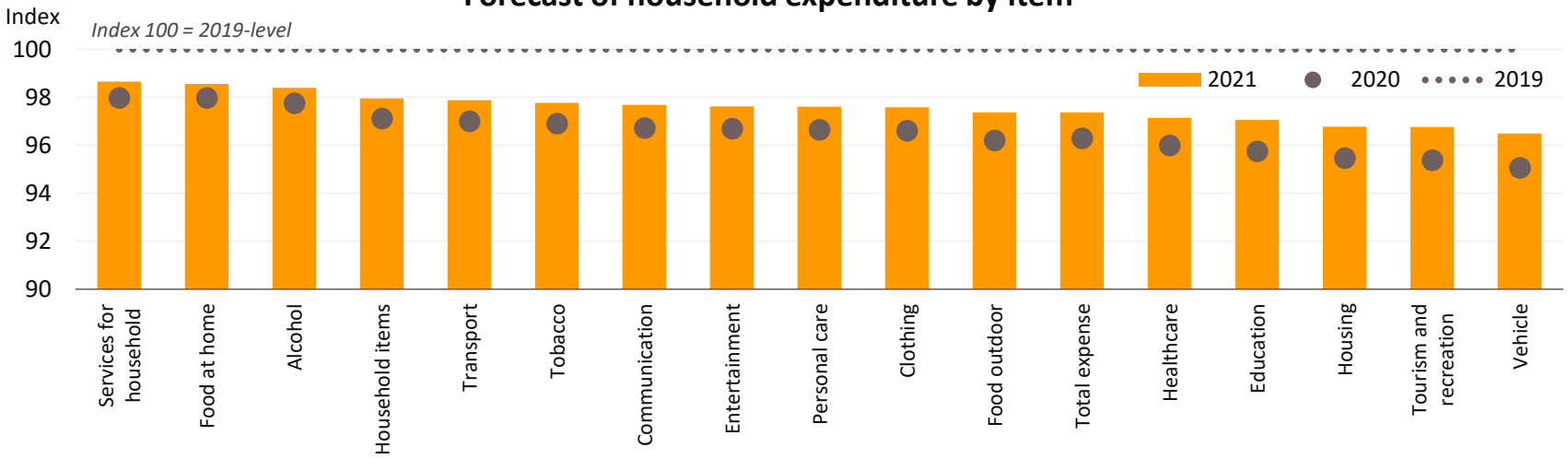


Source: NSO Household Socio-Economic Survey, Krungsri Research

Household spending on all items will rebound moderately in 2021 but remain below pre-pandemic levels

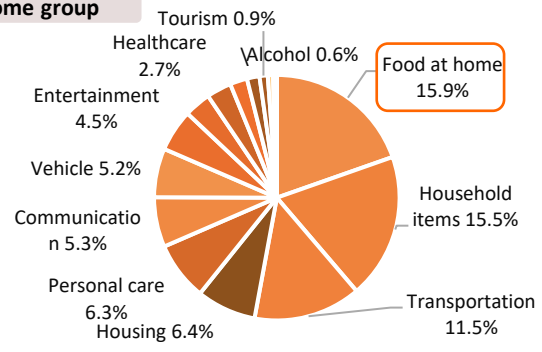
In 2021, we expect **total household expenditure to rebound moderately given several government support measures, but it would remain 2.5% below pre-pandemic level.** Spending on housing, tourism & recreation, and vehicles, saw the largest declines in 2020. These account for the largest proportion of the spending by the high-income group, so that could recover in the coming period with improving purchasing power. However, the latest outbreak has created more uncertainty in the economy and business environment, so there is an element of risk to the anticipated recovery in spending on these items. Consumption would be suppressed until the majority of the population has been vaccinated, which would then allow economic activities return to normal.

Forecast of household expenditure by item

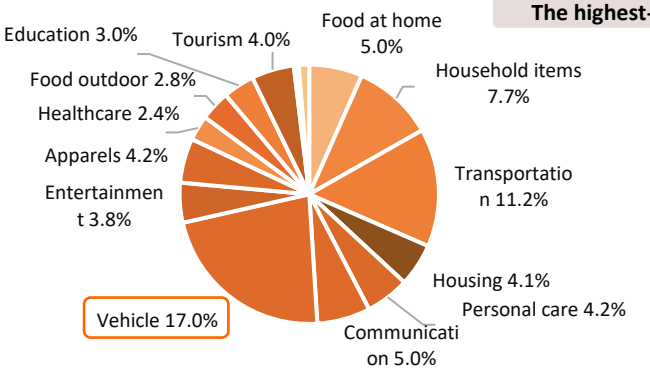


Consumption basket by income level

The lowest-income group

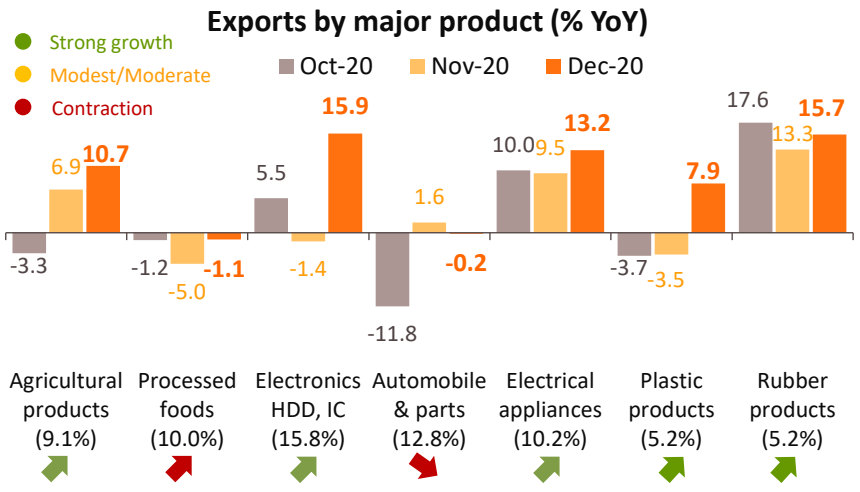


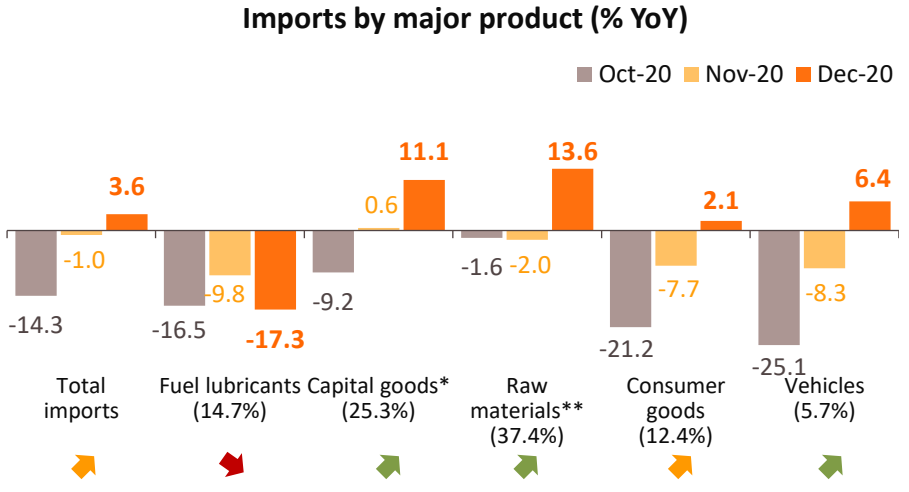
The highest-income group



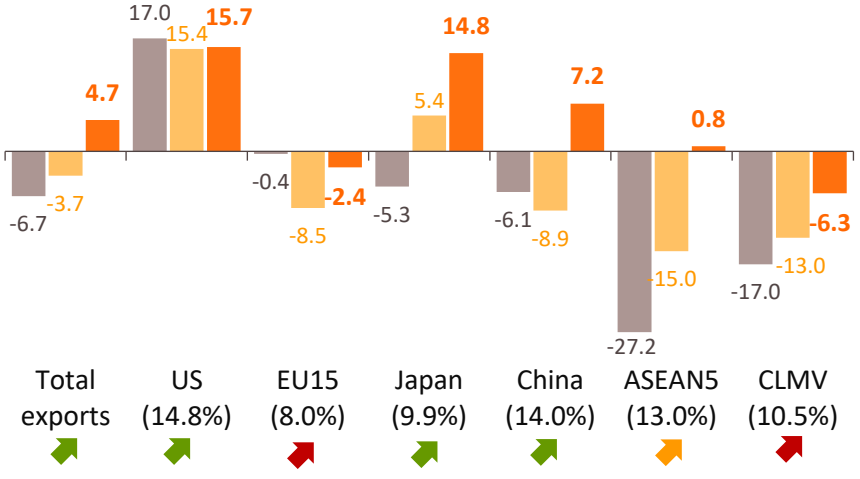
Source: NSO Household Socio-Economic Survey, Krungsri Research

Export sector will be key driver of the Thai economy; latest data show positive momentum





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



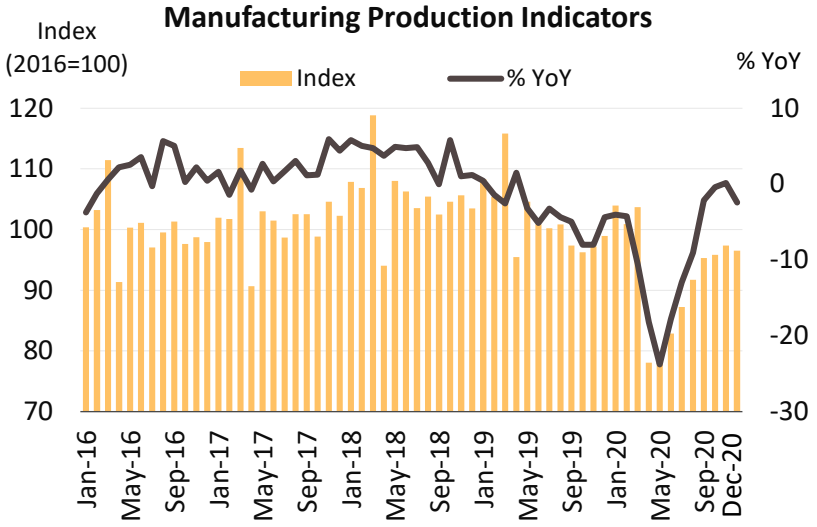
Note: ( ) share in 2020

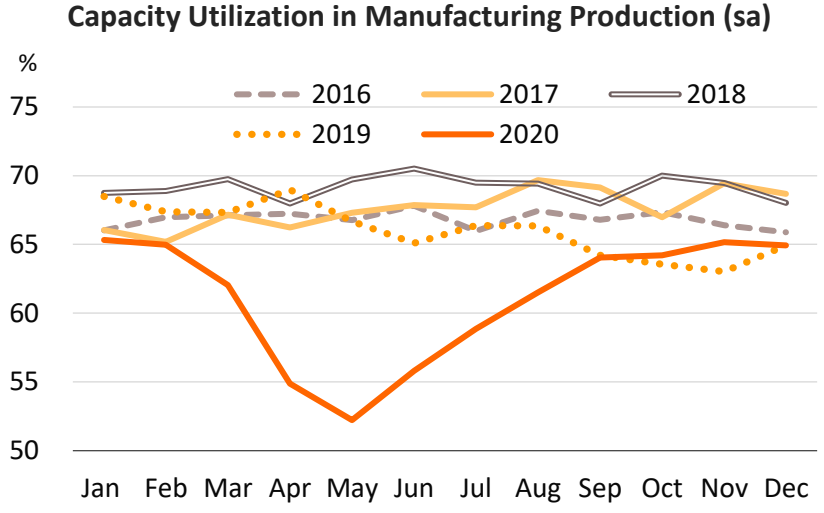
Source: MOC, Krungsri Research

Krungsri Research's view

- **Merchandise exports rose for the first time in 8 months, by 4.7% YoY in December.** It is the strongest growth in 22 months. Shipments of top-10 export items have picked up in line with recovering demand from trading partners. By destination, exports to the US grew for the 7th consecutive month, and those to other major markets, including Japan and China, rebounded. Exports to other destinations were also positive.
- **December import growth turned positive at 3.6% YoY,** the highest since March 2020, led by accelerating imports of core capital goods and raw materials (excluding gold).
- **We expect the export sector to play a key role in driving the Thai economy, supported by the following factors:** (i) positive signs from rising imports of both capital goods and raw materials & intermediate products; (ii) a cyclical recovery in the global manufacturing sector led by major economies amid massive stimulus measures; (iii) encouraging economic growth in China; and (iv) mass vaccination programs in several major countries, which would strengthen external demand in 2H21.

Rising external demand should support a recovery in industrial production and capacity utilization





Manufacturing Production: Top 10 industries

Manufacturing Production (% YoY)*	Weight	2019 J	F	M	A	M	J	J	A	S	O	N	D	2020 J	F	M	A	M	J	J	A	S	O	N	D
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%																								

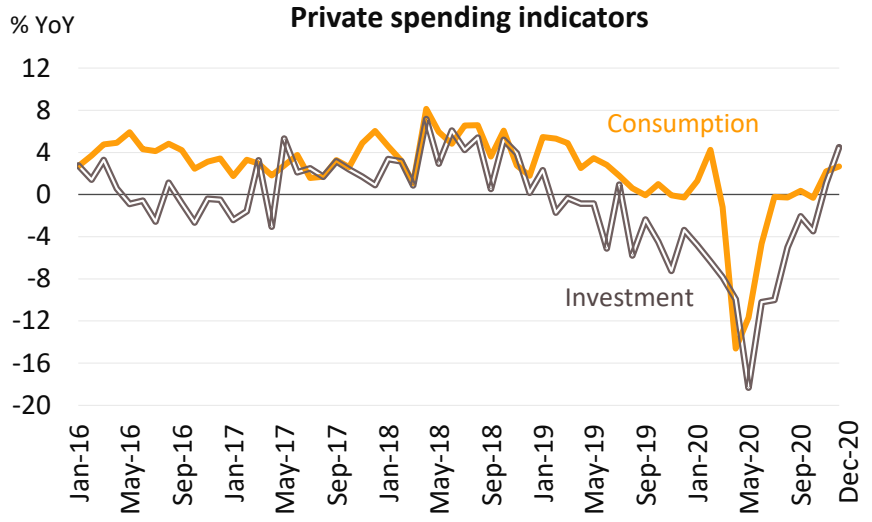
**Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum*

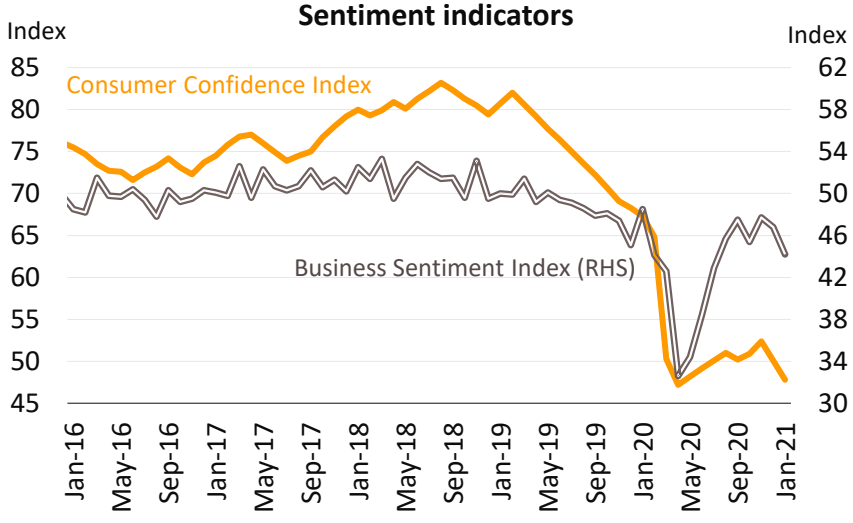
Source: Office of Industrial Economics (OIE), Krungsri Research

Krungsri Research's view

- **The Manufacturing Production Index fell by 2.4% YoY in December,** compared to a small expansion (+0.2%) in November, as a resurgence of COVID-19 had hit business activity. Output fell for petroleum, sugar, and rubber. However, several industrial sectors continued to register growth, such as automotive, electrical appliances, and IC & semiconductors. Capacity utilization for manufacturing production has almost returned to pre-pandemic level, at 64.9 in December.
- We expect the export sector to support the recovery in manufacturing production in 2021, encouraged by rising external demand and stronger imports of raw materials. The government forecasts the Manufacturing Production Index would rise by 4-5% this year compared to 8.8% contraction in 2020.

Investment would benefit from exports and infrastructure projects although latest outbreak hurt sentiment in 1Q





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

Private spending by category

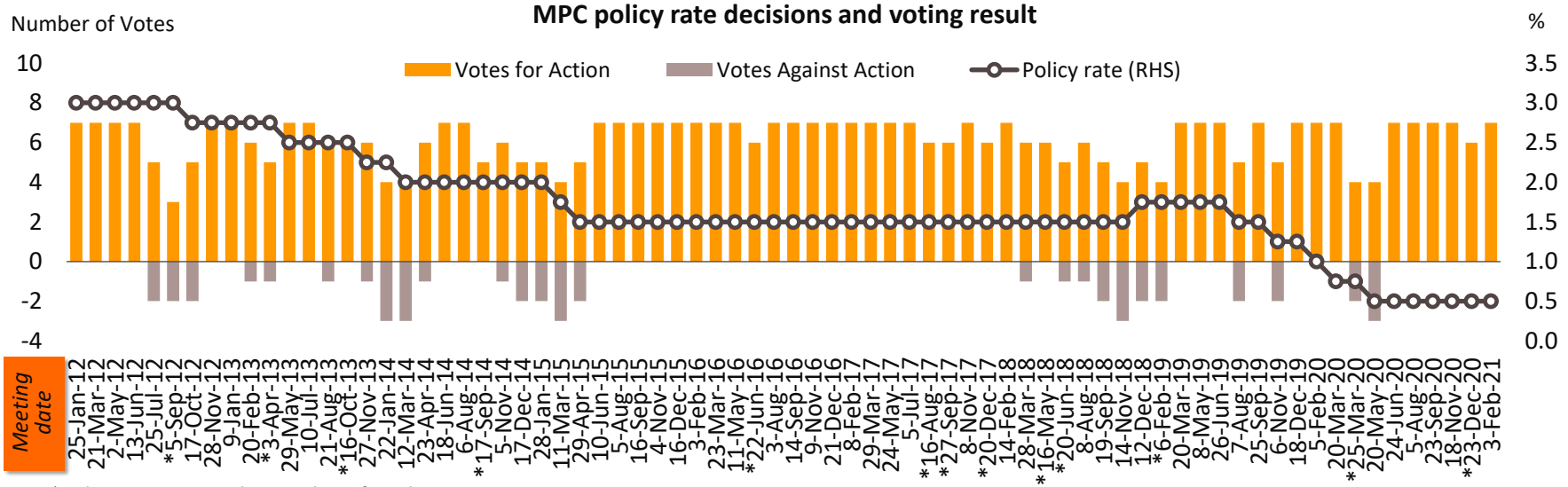
Private spending indicators	2019												2020											
% YoY*	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Private consumption																								
Non-durables																								
Semi-durables																								
Durables																								
Services																								
Non-residents 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*

Krungsri Research's view

- Private investment expanded for a second straight month, by 4.5% YoY in December (vs 1.1% November), led by higher machinery sales, imports of capital goods, new registered vehicles, and construction material sales.
- Private Consumption Index continued to rise by 2.7% YoY in December (vs 2.2% in November), following a rise in expenditure on durable goods. Nonetheless, spending on services was hit by the latest outbreak which started at end-2020, especially on travel and domestic tourism.
- The latest outbreak led to a drop in the Consumer Confidence Index (CCI) and Business Sentiment Index (BSI) in January, dropping for the second month. However, the new stimulus measures worth THB300bn and a recovery in external demand will lift sentiment going forward.

MPC likely to hold rates this year; BOT says uneven recovery requires targeted measures, in line with our view



Note: * At least one MPC member was absent from the meeting
Source: Bank of Thailand (BOT), Krungsri Research

Krungsri Research's view

- **MPC sees downside risk but opted to hold rate.** At the February 3 meeting, the MPC voted unanimously to keep policy rate at a record low of 0.50%. The MPC expressed concerns over high uncertainty and downside risks but held rates **given the committee's views of a gradual economic recovery, a more uneven economic recovery, and still-ample liquidity.** The MPC added that the more uneven recovery "would require appropriate, targeted and sufficient measures for each group". **This is in line with our view that, to support a recovery, fiscal measures and targeted monetary easing would be more appropriate than rate cuts.**
- **MPC is likely to hold policy rate throughout this year,** for the following reasons: **(i) COVID-19 risks are easing.** The number of daily cases has stabilized, and the government has relaxed lockdown measures in most areas since 1 February. Krungsri Research's model also suggests the risk of a severe outbreak (reflected in the upper segment of the forecast distribution in 1 February) is significantly lower than during the earlier projection (in 7 January). **(ii) Although we expect Thailand's GDP to contract by 4% YoY in 1Q21, economic growth is expected to turn positive from 2Q21 and recover at a gradual pace**, supported by stimulus measures, pent-up demand, COVID-19 vaccination program, and a cyclical rebound in external demand. **(iii) Interest rate cuts could cause the economic recovery to become more uneven,** as they would benefit the low-risk groups (who are able to access bank loans). Indeed, it is the high-risk sectors that are worst-hit by the pandemic and need more assistance. The very-limited room for rate cuts should be preserved for unexpected headwinds that would have broad-based impact on the Thai economy.

Source: BOT, Krungsri Research

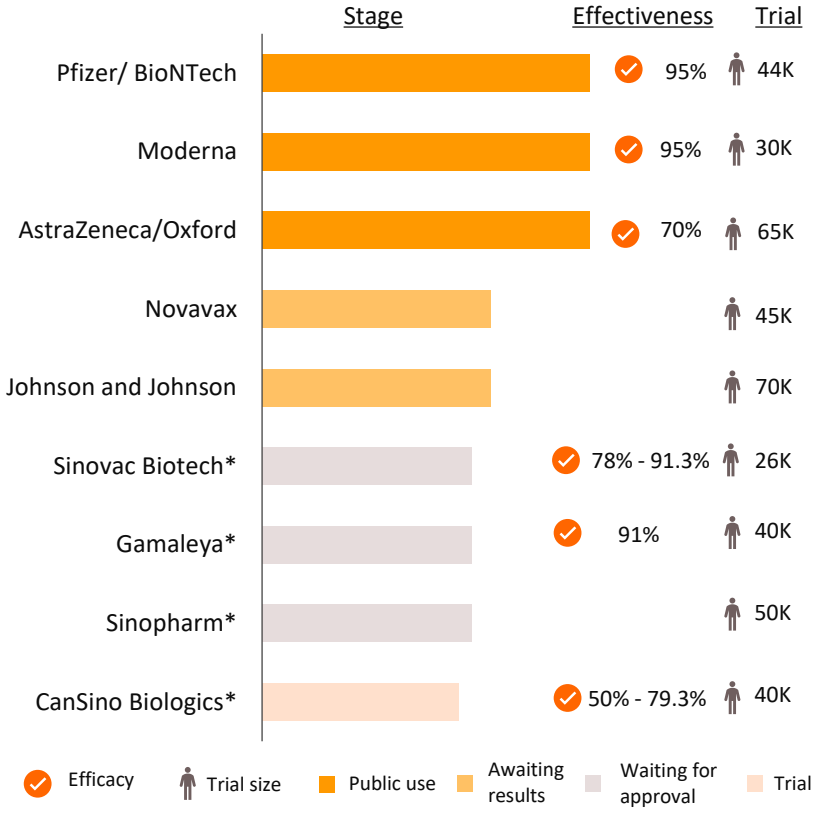
What happens if the COVID-19 pandemic does not end soon?

krungsri Research

Current vaccine development and inoculation plans suggest the pandemic might only end in late 2021

Vaccines from Pfizer, Moderna and AstraZeneca have been approved for public use, but the rest are mostly still in late-stage trials. Some countries have started vaccination programs in December last year. **The US and the EU would probably be able to inoculate more than 70% of their population this year.** China also plans to vaccinate about half of its citizens in 2021. In Thailand, about 50% of the population could receive a vaccine this year. However, deliveries and efficacy remain doubtful. **The global and domestic vaccine uncertainties means international border restrictions could remain in place for most of this year. This means Thai economy would have traverse another bumpy road to recovery this year. Additionally, that might send global and Thai economies into the unwanted scenario of an "extended COVID-19 pandemic".**

Vaccine progress



* Russia and China early approved the vaccine distribution before conducting clinical trials

Inoculation plans for major countries and Thailand

Vaccines from Pfizer/ BionTech , Moderna and AstraZeneca are approved and available for public use in US, UK, Canada and EU — Dec-20

To vaccinate 4 million medical workers — Feb-21

200,000 doses from Sinovac to inoculate health workers and high-priority group

Mar to Apr-21

800,000 doses from Sinovac for the first group and people in high-risk provinces

1,000,000 doses from Sinovac for health worker and other personnel

Plan to cover 50.7% of population (60 million people) in 2Q21 — Jun-21

26,000,000 doses from AstraZeneca/Oxford produced by SiamBioScience

Plan to vaccinate 75-85% of population to create herd immunity in 3Q21 — Sep-21

Additional 35,000,000 doses produced by SiamBioScience

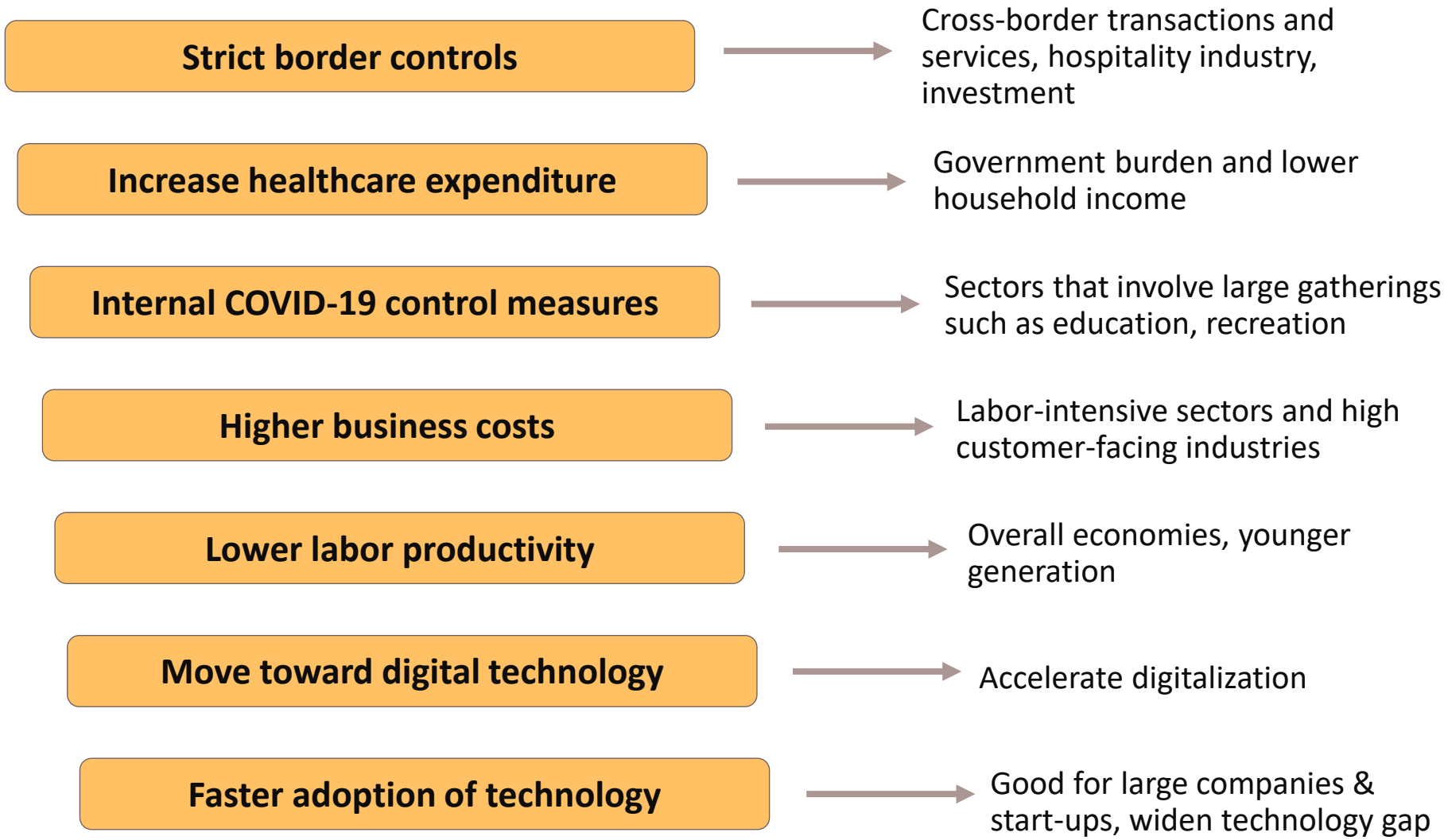
Plan to vaccinate about 70% of total population in 3Q21

Plan to cover 50% of Chinese residents (700 million people) in 2021 — Dec-21

Thailand could inoculate about half of national population in 2021

Source: BBC, The Bangkok Post, Bloomberg, Krungsri Research

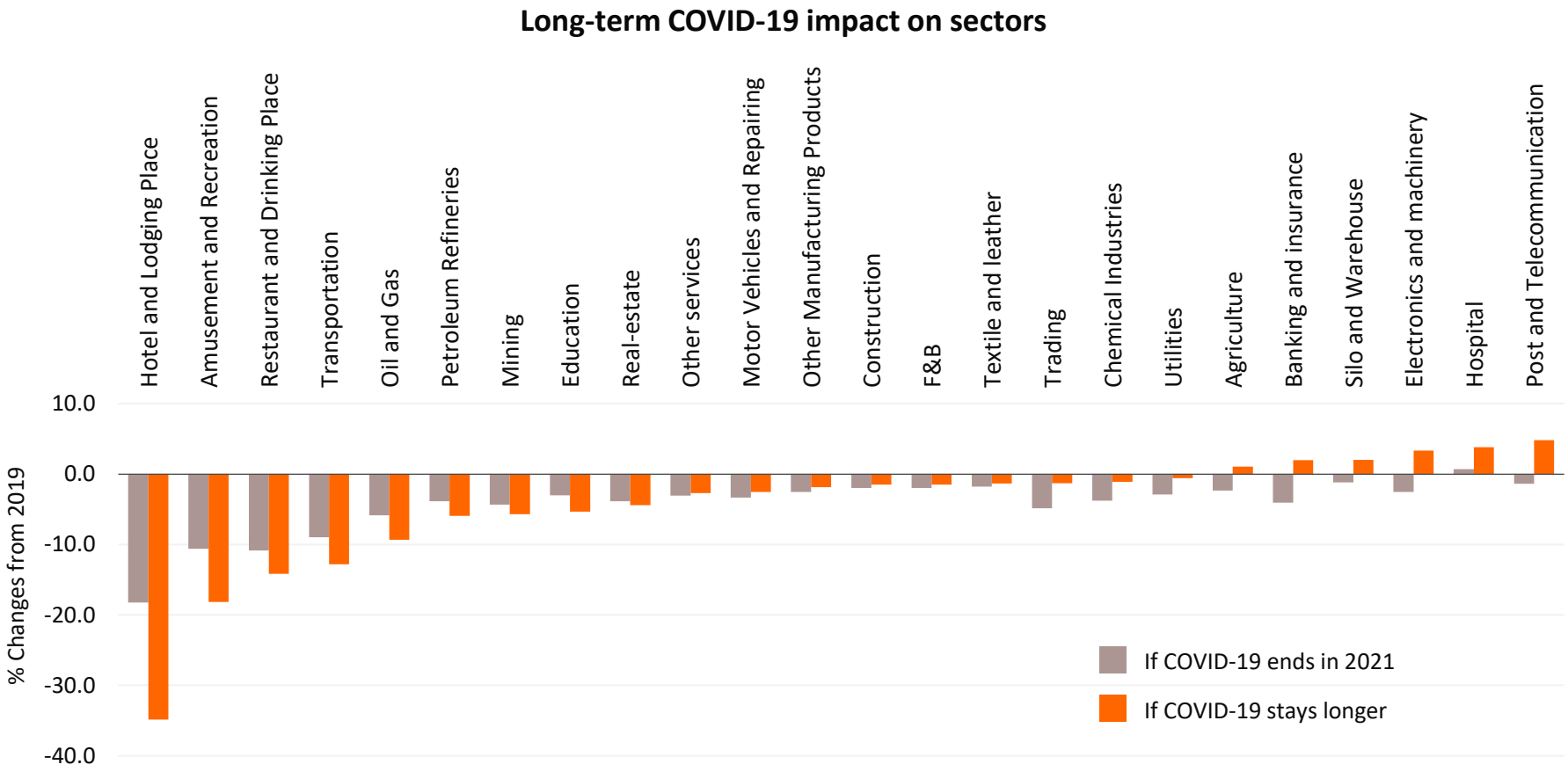
What happens if COVID-19 does not end soon?



Source: Krungsri Research

Economies will see a structural shift to meet new equilibrium if COVID-19 becomes seasonal

Hospitality industries, including hotel, restaurant, recreation, and transportation, would remain the hard-hit sectors as cross-border travel would continue t be restricted. Oil & gas and refinery sectors would be hit by lower demand for transportation. The education (face-to-face) sector would also weaken. At the other end of the spectrum, hospitals would benefit from higher expenditure on healthcare. Meanwhile, telecommunication, electronics and banking sectors could accelerate digitalization and adoption of technology. **If COVID-19 becomes a seasonal epidemic, that could lead to relocation of resources and labor from hard-hit sectors to fast-growing sectors. That would make is easier to identify winners and losers.**

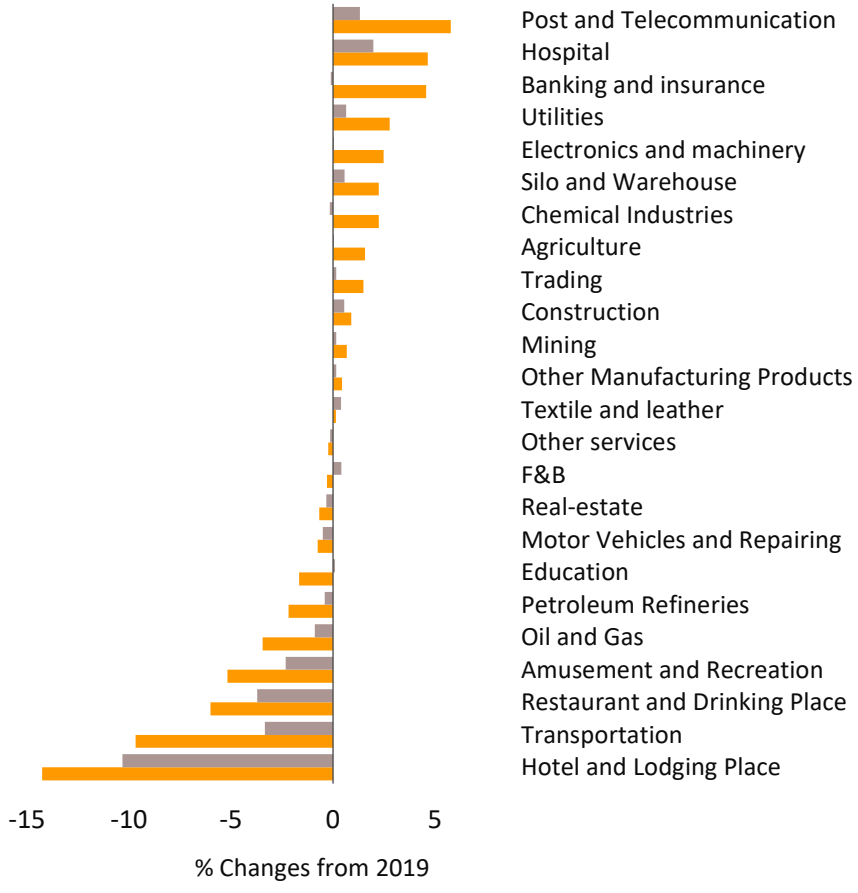


Source: GTAP, Krungsri Research

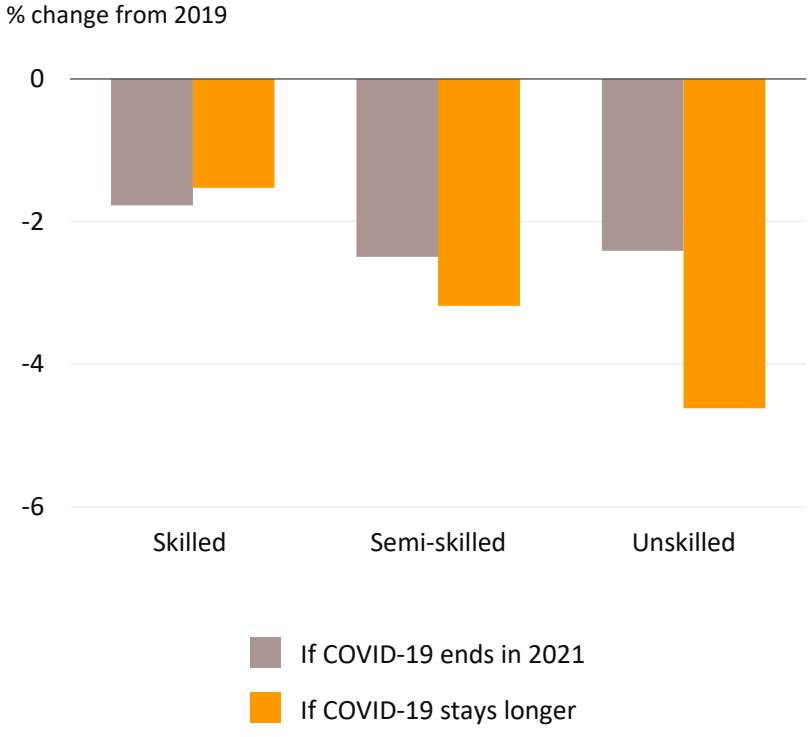
An extended pandemic will leave permanent scars on wages, and would hurt unskilled labor

An extended pandemic would hurt labor productivity, which would reduce wages for unskilled labor. In this scenario, we expect wages for unskilled labors to drop by 4.6% from pre-crisis level, compared to -2.4% if the pandemic ends in 2021. There would be no impact on skilled labor. As shown, an extended **pandemic would widen income inequality among different labor and income segments.**

Long-term COVID-19 impact on wages



Long-term loss of household income by skill level

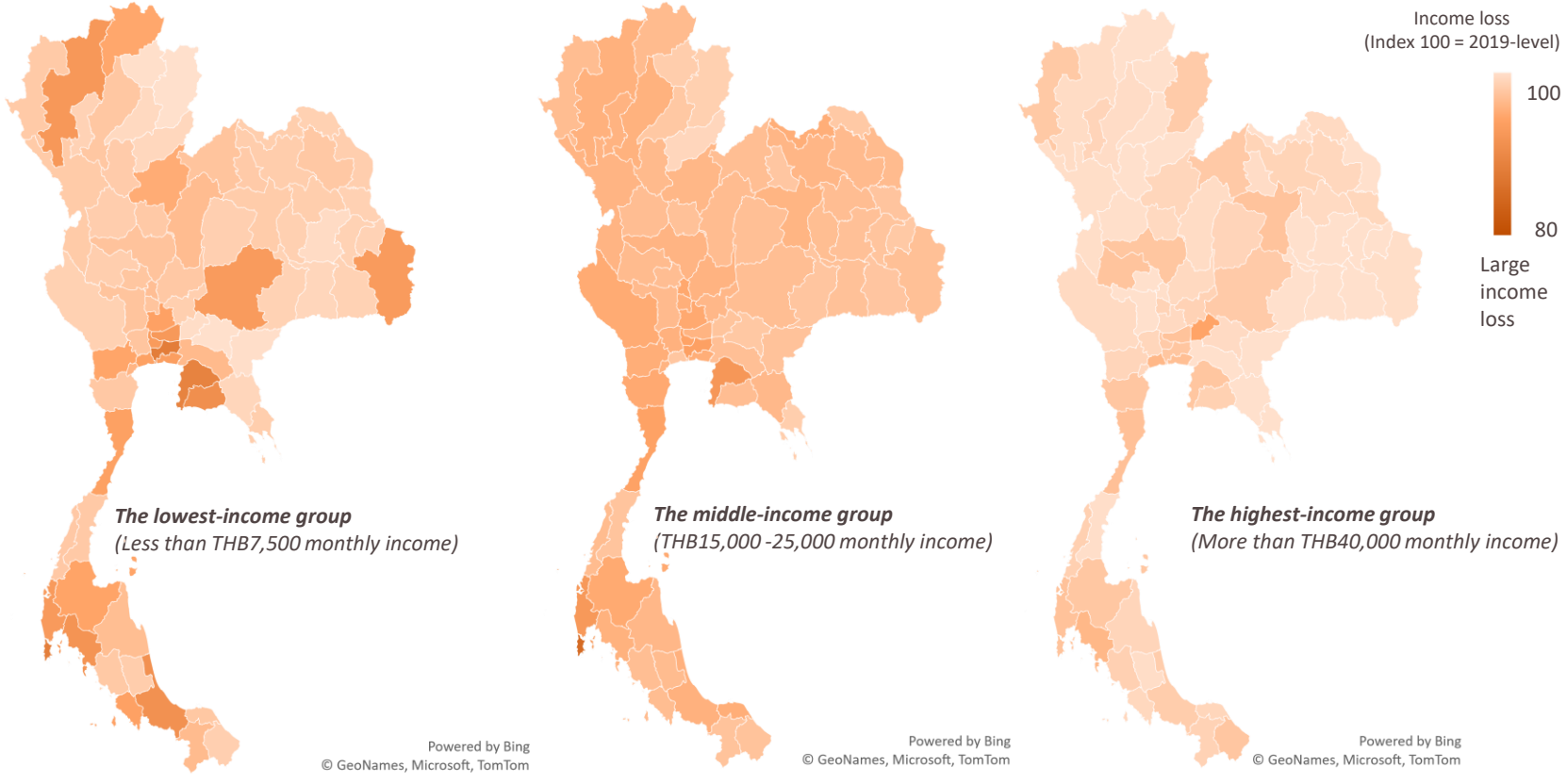


Source: NSO Household Socio-Economic Survey, Krungsri Research

An extended pandemic could encourage labor movement between sectors as well as regions

The high-income group will be resilient to further shocks and their income will return to near pre-crisis level. **Overall, the middle- and low-income groups in major provinces would remain the hardest-hit.** An extended pandemic could force the low-income group to relocate to rural areas, which would worsen income inequality in Thailand. That could slow down economic recovery in the coming years.

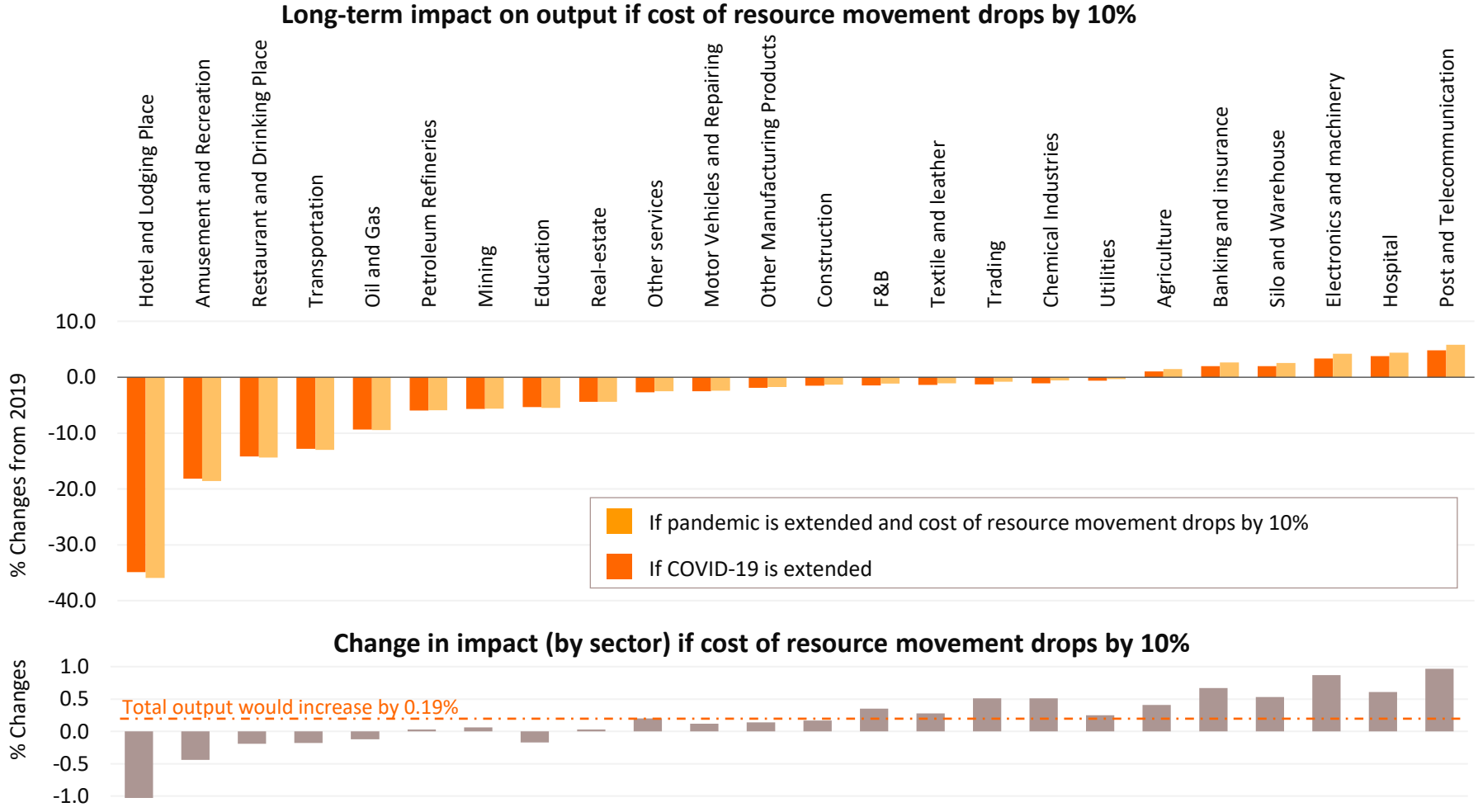
Long-term loss of household income by province and income group



Source: NSO Household Socio-Economic Survey, Krungsri Research

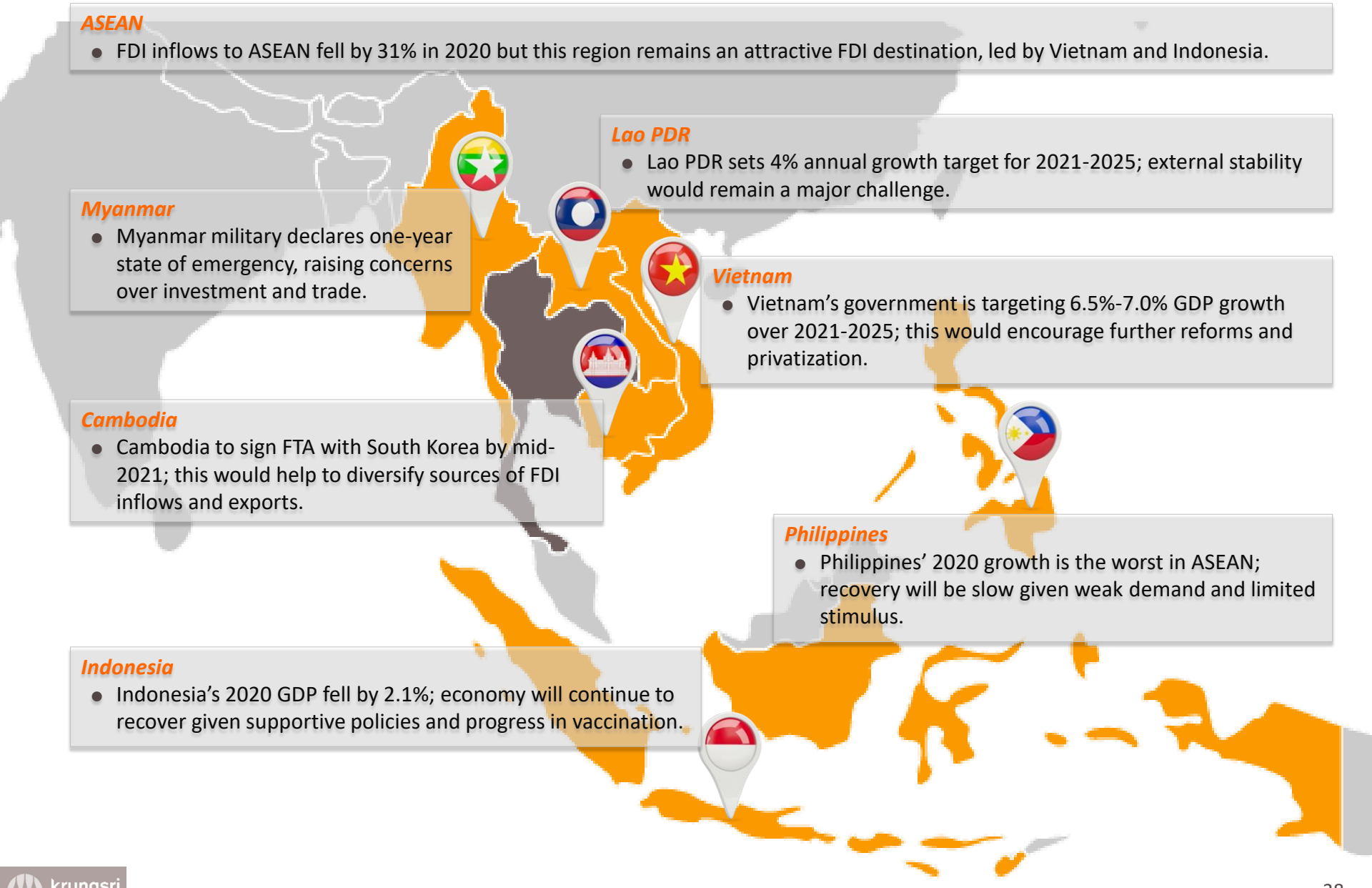
Allowing movement of resources across sectors could reduce COVID-19 impact and speed up recovery

Several industries will perform better if resources are allowed to move freely across sectors. Although hotel & lodging places, recreation, and restaurant industries will continue to underperform, **total industry output would increase by 0.19% if cost of resource movement drops by 10%**. This would boost average wage by 0.24% and support economic recovery in coming years.



Source: NSO Household Socio-Economic Survey, Krungsri Research

Regional Economic and Policy Developments in February



ASEAN

- FDI inflows to ASEAN fell by 31% in 2020 but this region remains an attractive FDI destination, led by Vietnam and Indonesia.

Lao PDR

- Lao PDR sets 4% annual growth target for 2021-2025; external stability would remain a major challenge.

Myanmar

- Myanmar military declares one-year state of emergency, raising concerns over investment and trade.

Vietnam

- Vietnam's government is targeting 6.5%-7.0% GDP growth over 2021-2025; this would encourage further reforms and privatization.

Cambodia

- Cambodia to sign FTA with South Korea by mid-2021; this would help to diversify sources of FDI inflows and exports.

Philippines

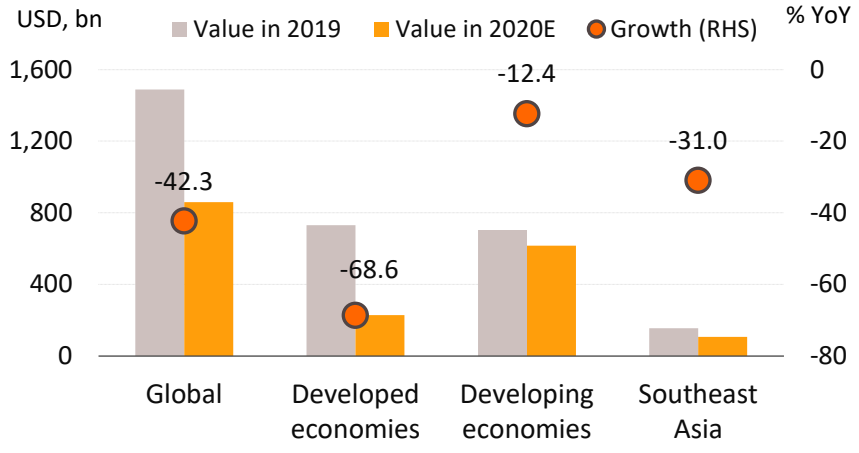
- Philippines' 2020 growth is the worst in ASEAN; recovery will be slow given weak demand and limited stimulus.

Indonesia

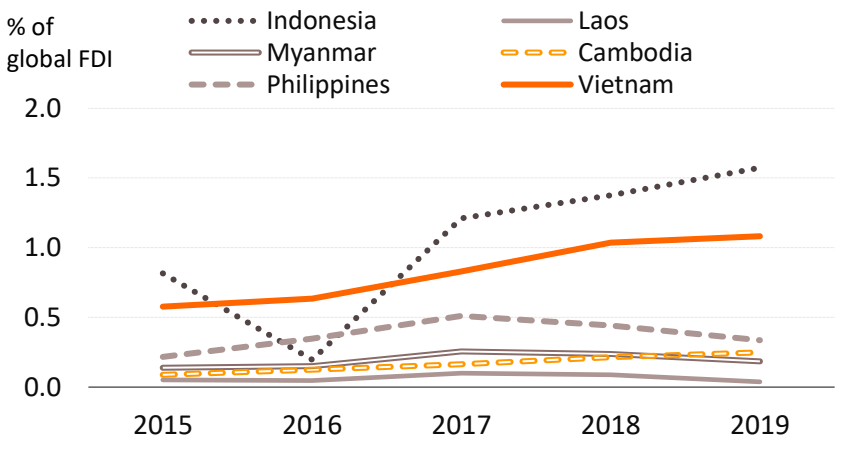
- Indonesia's 2020 GDP fell by 2.1%; economy will continue to recover given supportive policies and progress in vaccination.

ASEAN's FDI inflows fell by 31% in 2020 but the region remains attractive, led by Vietnam and Indonesia

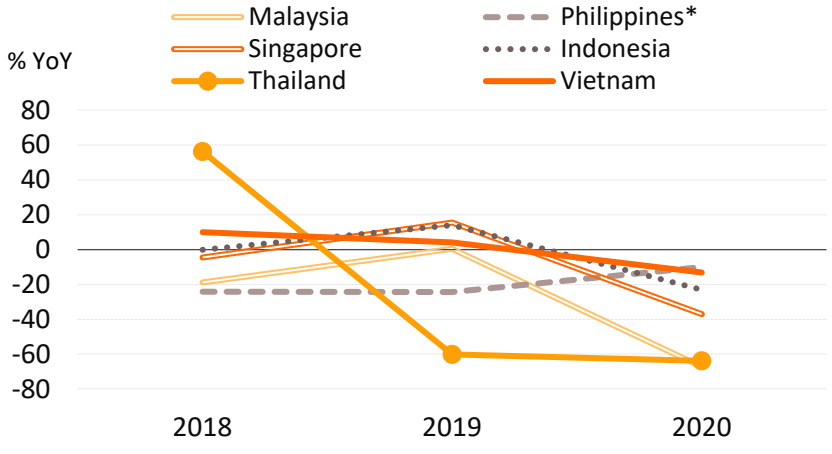
FDI inflows in 2020, by region



Share of Southeast Asian countries' FDI inflows



FDI in Southeast Asian countries



Note: * Data of Philippines is during January-October 2020 from Bangko Sentral ng Pilipinas.
Source: UNCTAD, CEIC, Krungsri Research

Krungsri Research's view

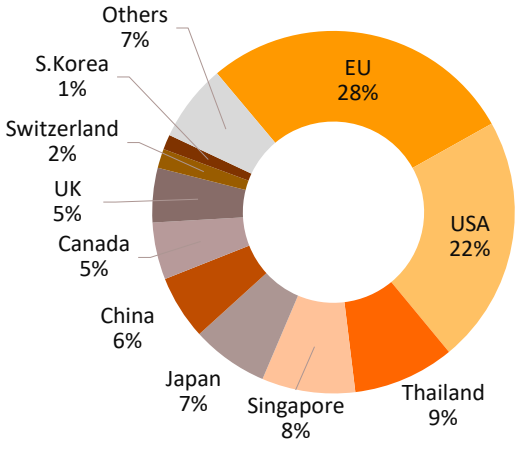
- In 2020, FDI inflows in Southeast Asia dropped by 31% YoY, compared to a 4.1% rise in 2019, according to the UNCTAD. However, the contraction was less severe than for the whole world (-46%).
- **We have more optimistic outlook for FDI in ASEAN than other regions.** This is supported by (i) several high-growth economies that are expected to expand by over 5.0% p.a. over the next 5 years, and (ii) abundant resources coupled with relatively low costs. Furthermore, the region would take advantage of the newly-signed Regional Comprehensive Economic Partnership (RCEP) agreement. This would increase ASEAN's share of global FDI inflows, which has doubled over the past 5 years to 10.5% in 2019 from 5.6% in 2015.
- However, economic growth would be uneven due to country-specific strengths and weaknesses in the region. **We expect Vietnam and Indonesia to be the leading FDI destinations in 2021**. This would be driven by (i) major progress in economic reforms. Indonesia has enacted the omnibus law which significantly relaxes labor laws and investment policies to promote the EV industry; Vietnam is accelerating privatization and promoting investment in high-tech industries; (ii) successful containment of COVID-19 Vietnam and quick progress in Indonesia's vaccination program, which would support quick resumption of investment activity; and (iii) political stability in Vietnam would also boost investor confidence.

Cambodia to sign FTA with South Korea by mid-2021; this would diversify sources of FDI inflows and exports

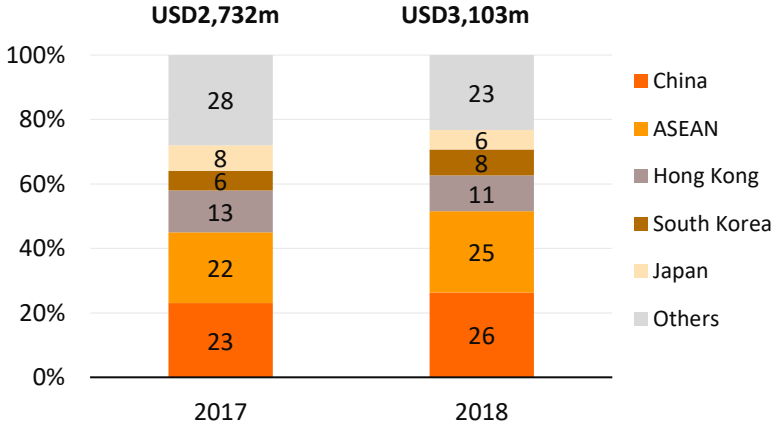
Cambodia: Bilateral FTAs

FTA	Tariff reduction (% of tariff lines)
• Cambodia-China FTA (signed in October 2020)	• Cambodia: eliminate 90.0% • China: eliminate 97.53%
• Cambodia-Korea FTA (to be signed by mid-2021)	• Cambodia: eliminate 93.8% • South Korea: eliminate 95.6%

Cambodia: Major export markets (2019)



Major sources of FDI inflows to Cambodia[1/]



Note: 1/ based on data from ASEAN Investment Report 2019

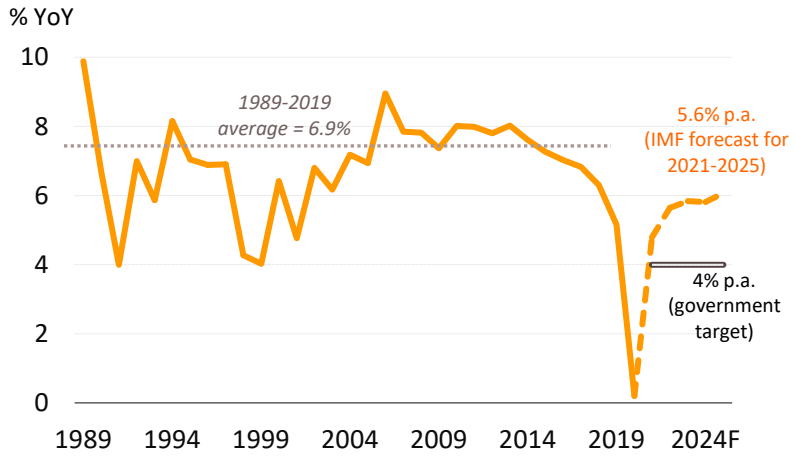
Source: Trademap, CEIC, local news media, Krungsri Research

Krungsri Research's view

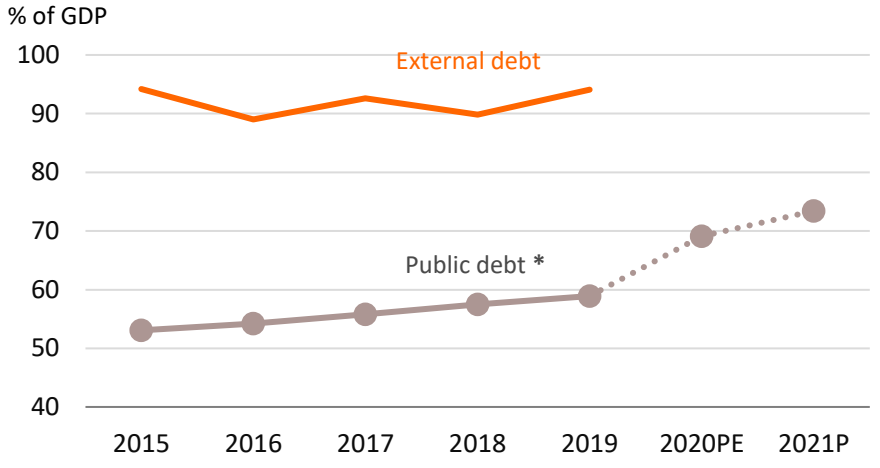
- On 3 February, Cambodia and South Korea concluded talks for the Cambodia-Korea Free Trade Agreement (CKFTA), which is scheduled to be signed in mid-2021. Under the pact, Cambodia will eliminate import tariffs on 93.8% of tariff lines and South Korea will impose zero tariffs on 95.6% of tariff lines.
- Cambodia has generally managed the pandemic well, although the economy is struggling with looming uncertainties and partial suspension under the EBA program. The CKFTA is the second bilateral agreement after the FTA with China (The Cambodia-China Free Trade Agreement: CCFTA) which was signed in October 2020. This pact will provide more benefits than the ASEAN-Korea FTA (AKFTA). For example, Cambodia will see tariffs eliminated for 95.6% of tariff lines under CKFTA vs 90% under AKFTA.
- **These developments will help Cambodia to expand its export markets and improve its export competitiveness. We anticipate the CKFTA would increase export opportunities for several of Cambodia's major products, including garments, electronic products, and tropical fruits. It could also promote Korean investment industries other than garment and footwear, such as electronic products and auto parts because of better competitive advantage under the FTAs. This will also reduce market concentration risks in the longer term.**

Lao PDR sets 4% annual growth target for 2021-2025; external stability will remain a major challenge

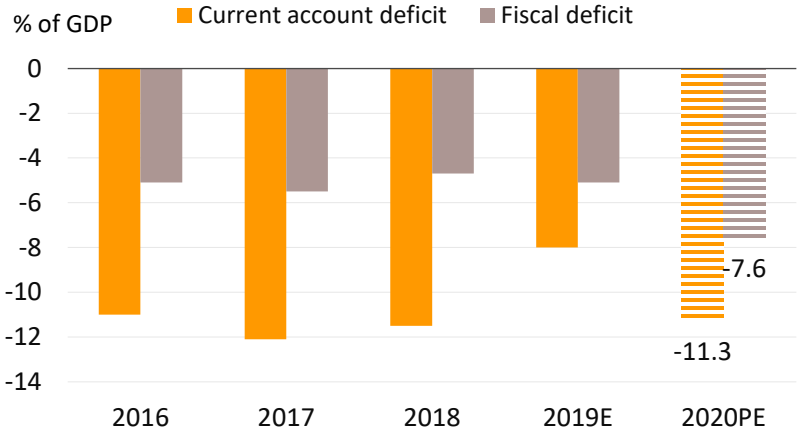
Laos' GDP growth



Laos' public debt and external debt



Laos' twin deficits



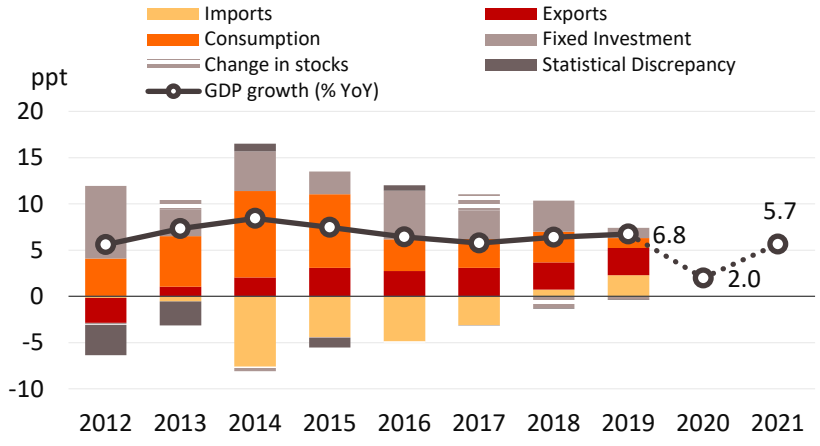
Note: * Data from World Bank; PE: primary estimated by World Bank; P: projection
Source: IMF, World Bank, CEIC, Krungsri Research

Krungsri Research's view

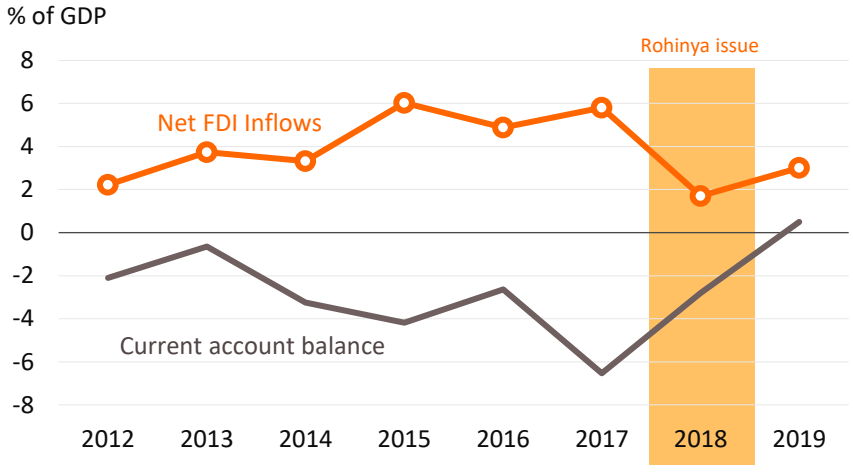
- Laos has set its annual growth target at 4% under the five-year socio-economic plan (2021–2025), according to Prime Minister Thongloun Sisoulith at the 11th Party Congress held on 14 January 2021. The country also targets to increase its foreign exchange reserves 3 months of imports, to meet international standards.
- **The 4% p.a. growth target is achievable but far below its long-term average growth of 6.9%, reflecting slower growth prospects.** Though Laos has reported only 50 COVID-19 cases – the fewest in ASEAN – the economy has been severely hit by the pandemic because it relies heavily on external demand. This include exports (34% of GDP), FDI (7.4% of GDP) and tourism receipts (5% of GDP). Industry and tourism sectors account for up to 40% of total employment.
- **In 2021, we expect economic growth to turn positive but weaker than IMF's forecast of +5.6%. This is premised on the weak outlook for the tourism industry and still-weak domestic demand in Thailand** – its largest export market. However, Laos would continue to attract investment from China – its largest source of FDI at a third of total FDI inflows – especially in infrastructure projects, which Laos' government aims to accelerate to improve the country competitiveness by 2025.
- In addition, **external stability remains a major concern for Laos.** Low export and tourism revenues would further dampen the country's large twin deficits – current account deficit and budget deficit. Foreign reserves are likely to remain low. We expect the Lao kip to weaken further, which would increase its vulnerability to debt stability as public and external debts remain high.

Myanmar military declares one-year state of emergency, creating concerns over investments and trade

Myanmar: Contribution to real GDP growth (%)

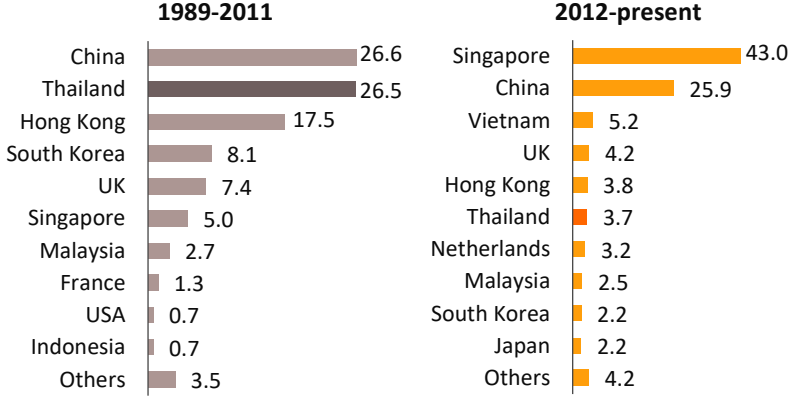


Myanmar: Net FDI inflows and current account balance



Major sources of FDI in Myanmar (1989-2011 vs. 2012 to present)

Unit: % of total FDI



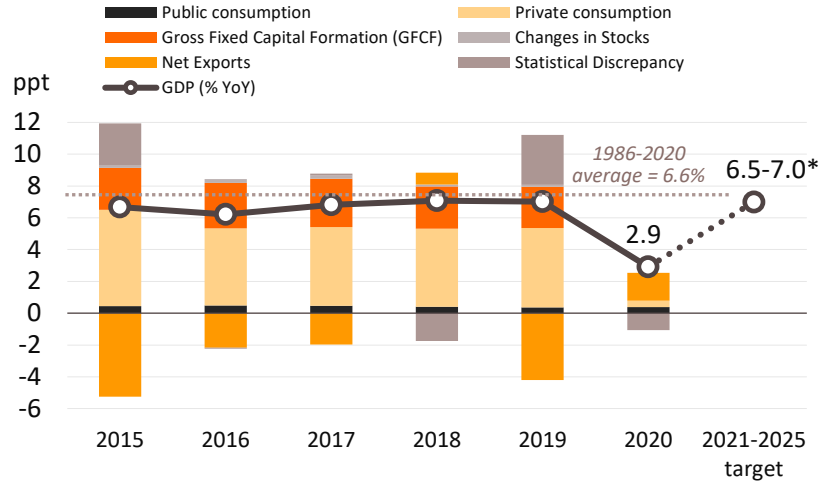
Source: CEIC, Krungsri Research

Krungsri Research's view

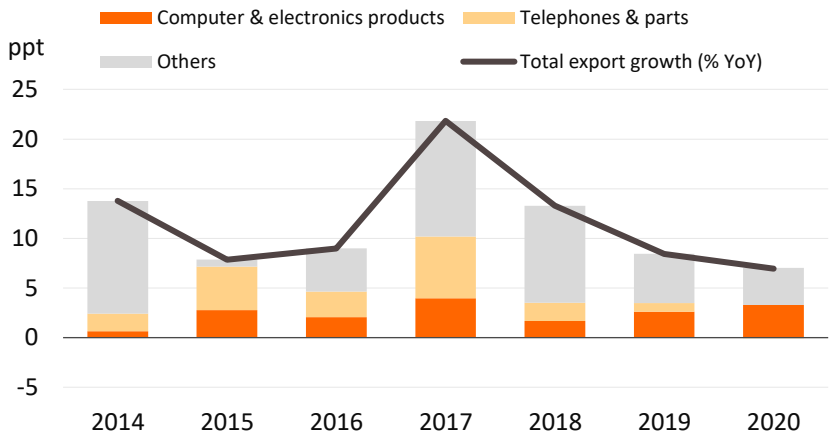
- On Monday, 1 Feb, the Myanmar Army (or Tatmadaw) declared a one-year state of emergency after seizing power from the civilian government led by the National League for Democracy (NLD) Party that is headed by Daw Aung San Suu Kyi, the country's de facto leader. There will be a transition of power to Senior General Min Aung Hlaing, the Army's commander-in-chief.
- Since Myanmar opened its economy in 2012, the external sector has been contribution more to its GDP. **Our analysis suggests the coup would immediately hurt Myanmar's economy in several ways: (i) weakening confidence and a pause in foreign direct investment (FDI) inflows** given fears of political turmoil. During the heavily-politicized Rohingya issue in 2018, FDI net inflows to Myanmar tumbled to 1.7% of GDP from 5.8% in the previous year; **(ii) risk of the West and international development partners suspending both financial and non-financial aid.** Myanmar could face political and economic sanctions from the West, especially the US (it recently imposed sanctions on leaders of Myanmar's military) and the European Union (EU); **(iii) dampen fragile domestic consumption and drag economic recovery; and (iv) temporarily derail, or halt, economic and institutional reforms in the near-term,** despite assurance from the commander-in-chief that they would proceed with projects initiated under the previous government.
- However, **unlike other countries, China's role in Myanmar is likely to remain unchanged. It is worth noting that China continued to account for a quarter of total FDI inflows to Myanmar before and after it opened its economy.** This reflects stable relations between the countries. Furthermore, given several existing mega-projects and the recent visit by China's Foreign Minister Wang Yi, China is in a position to support Myanmar should it face economic and political sanctions from the West.

Vietnam targets 6.5%-7.0% annual GDP growth over 2021-25; this would encourage further reforms and privatization

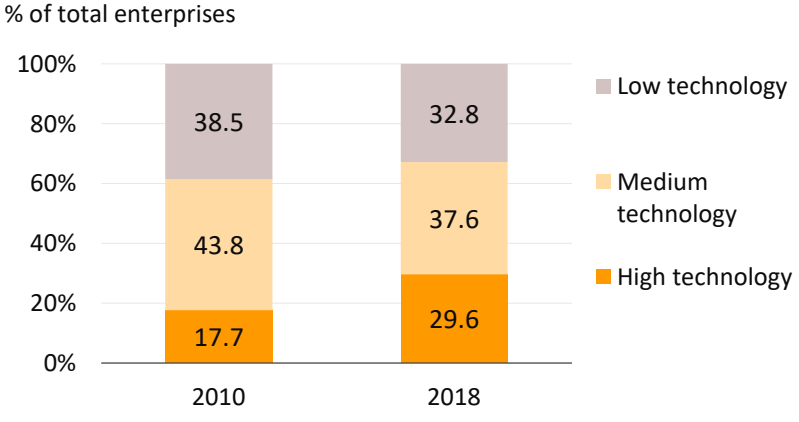
Vietnam: Contribution to GDP: Expenditure side



Vietnam: Contribution to exports growth



Vietnam: Number of manufacturing enterprises, classified by level of technology employed



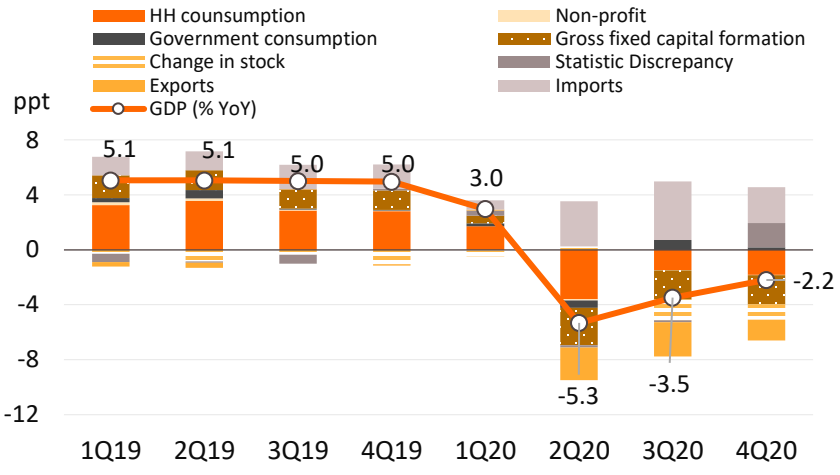
Note: * Vietnam's official target.
Source: IMF, General Statistics Office, CEIC, Krungsri Research

Krungsri Research's view

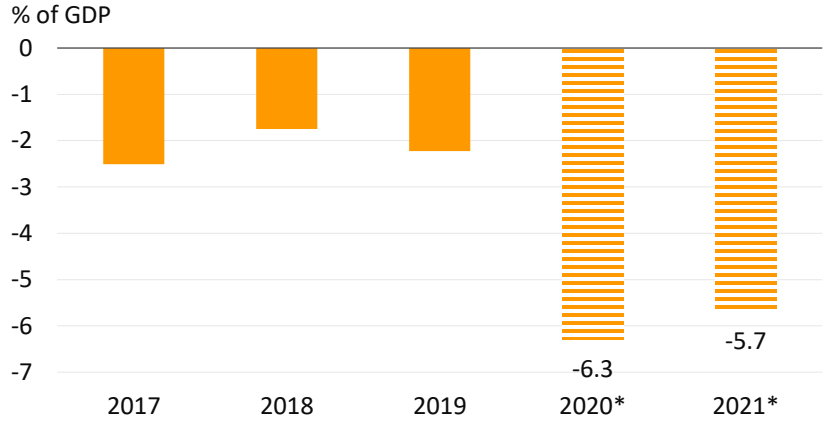
- Vietnam's National Party Congress recently approved its five-year socio-economic plan for 2021-2025. The government is targeting 6.5%-7.0% annual growth, giving priority to "quality" FDI into high-tech industries instead of "quantity" in labor-intensive sectors. This is not a new policy but **it is worth noting that the country continues to pursue its economic strategy to move towards "*Industry 4.0*" and "*Make in Vietnam*" policies which were first launched in 2019**.
- Indeed, the number of high-tech manufacturing enterprises in Vietnam has risen from 17.7% of total enterprises in 2010 to 29.6% in 2018. The high-tech industries – e.g. computer, electronics, and telephones – are also major contributors to national exports. Vietnam has also accelerated its economic reforms, investment reforms, and privatization of state-owned enterprises, from agro-processing to high-tech sectors, to attract FDI. This will improve productivity in the future.
- Hence, **we are optimistic Vietnam would be able to attract more FDI into high-tech industries**, which would in-turn, promote export growth. This would be **driven by (i) strengthening its domestic supply chain, and (ii) greater comparative advantage with several new FTAs** – led by CPTPP, EVFTA, and RCEP. This would support the country's 6.5%-7.0% annual GDP growth target over the next five years, and align with the 6.6% p.a. average growth registered since it opened its economy in 1986.

Indonesia's 2020 GDP falls 2.1%; recovery will continue given supportive policies and progress in vaccination

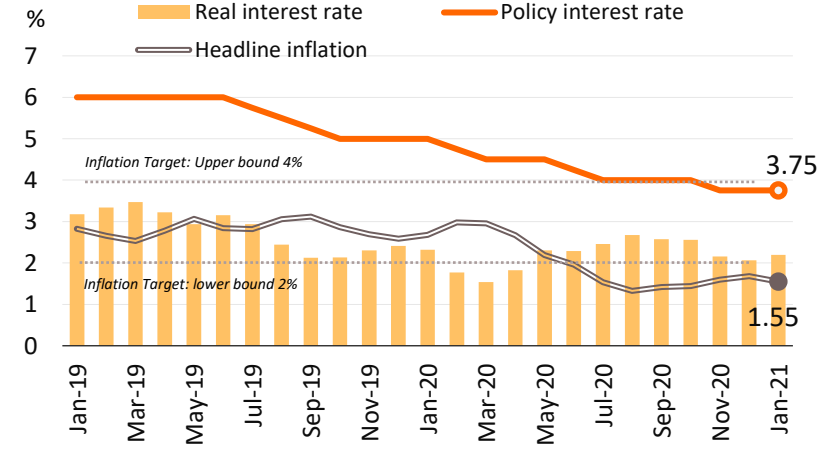
Indonesia: Contribution to GDP: Expenditure side



Indonesia: Budget deficit



Indonesia's policy interest rate and inflation



Note: * 2020 and 2021 is based on government estimates.

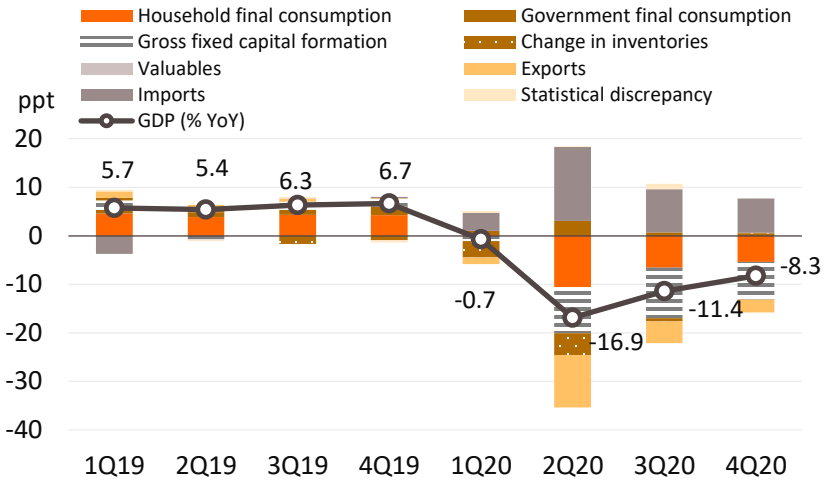
Source: Central Bureau of Statistics, Bank Indonesia, CEIC, Krungsri Research

Krungsri Research's view

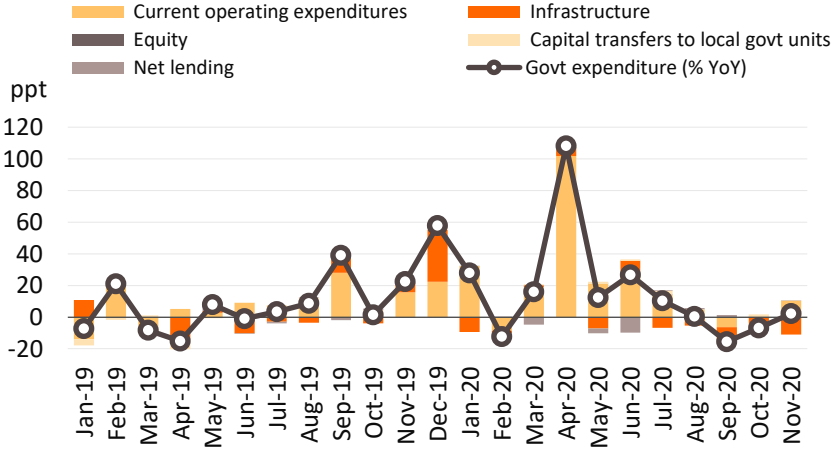
- Indonesia's GDP contracted by 2.2% YoY in 4Q20 (vs -3.5% in 3Q20), as exports and investment improved slightly (-7.2% and -6.2% YoY in 4Q20 vs -11.7% and -6.5% in 3Q20, respectively). For full-year 2020, GDP fell by 2.1%, near the low-end of government forecast of -1.7% to -2.2%.
- In 2021, we expect **household consumption – the country's largest economic driver at 57% of GDP – to improve but remain weak** as the number of COVID-19 cases there has surged to over 1.2 million. However, **2021 economic growth would meet the government's target of 4.5%-5.5%, encouraged by further supportive fiscal and accommodative monetary policies. The government plans to scale up stimulus by 66%, to IDR619trn (USD44.2bn, 4.4% of GDP) in 2021 from IDR372.3trn approved in late-2020.** That will include tax breaks, cash subsidies, and free vaccination. Also, Bank Indonesia (BI) could directly buy up to 25% of government debt under the "burden-sharing" program through 2022. **We maintain that BI still has room to cut policy interest rate by 50bps in 1H21 to support growth** given benign inflation and an improved current account balance – the latter expected to be a surplus in 2020, the first surplus in a decade. In addition, Indonesia has started its vaccination program in mid-January to vaccinate up to 800,000 residents; this would boost herd immunity as well as improve consumer and investor confidence as economic activities should return to normal soon.

Philippines 2020 growth is the worst in ASEAN; recovery will be slow given weak demand and limited stimulus

Philippines: Contribution to GDP: Expenditure side

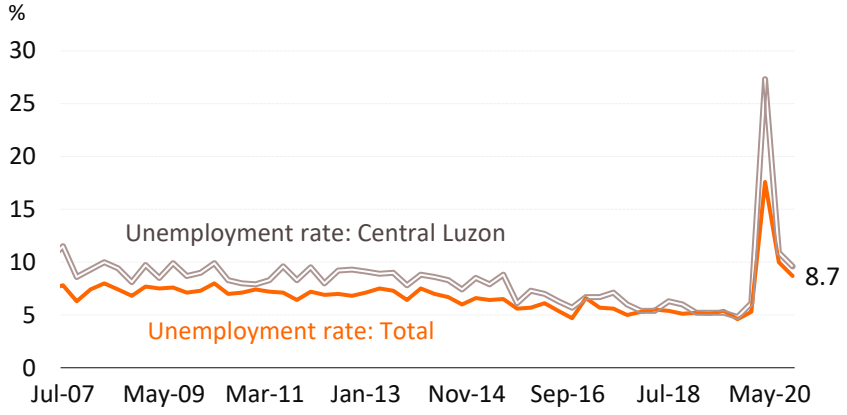


Philippines: Contribution to government expenditure growth



Source: Bangko Sentral ng Pilipinas, Philippine Statistics Authority, Department of Budget and Management, CEIC, Krungsri Research

Philippines: Unemployment rate



Krungsri Research's view

- Philippines' GDP fell by 8.3% YoY in 4Q20 and 9.5% for full-year 2020, the steepest contraction among ASEAN countries. The economy was dragged by both domestic and external demand amid slow disbursement of government spending.
- **We expect household consumption to improve but remain weak.** Despite supportive factors, including easing lockdown restrictions, improving remittances, and the proposed stimulus package (Bayanihan 3 PHP420bn or 2.4% of GDP), consumption growth would be limited by high unemployment rate of 8.7% - higher than during the 2008 global financial crisis – and a conservative fiscal stance.
- **The business sector would see a moderate recovery** given slow disbursement of funds for infrastructure projects and small government supports at only 0.2% of GDP under the CREATE bill. That includes reducing corporate tax from 30% to 20% for small businesses, and to 25% for large companies.
- Meanwhile, inflation has risen to its highest since February 2019, at 4.2% in January 2021, breaching the Bangko Sentral ng Pilipinas (BSP) target of 3±1%. This limits room for more easing. However, given still-weak domestic demand and a temporary rise in inflation, **the BSP might cut policy rates by 25bps in 1H21 to support economic recovery.**
- Premised on weak domestic demand and limited fiscal and monetary policy supports, we expect **Philippines' economy to grow slower than its official target of 6.5%-7.5% in 2021.**

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