

krungsri Research

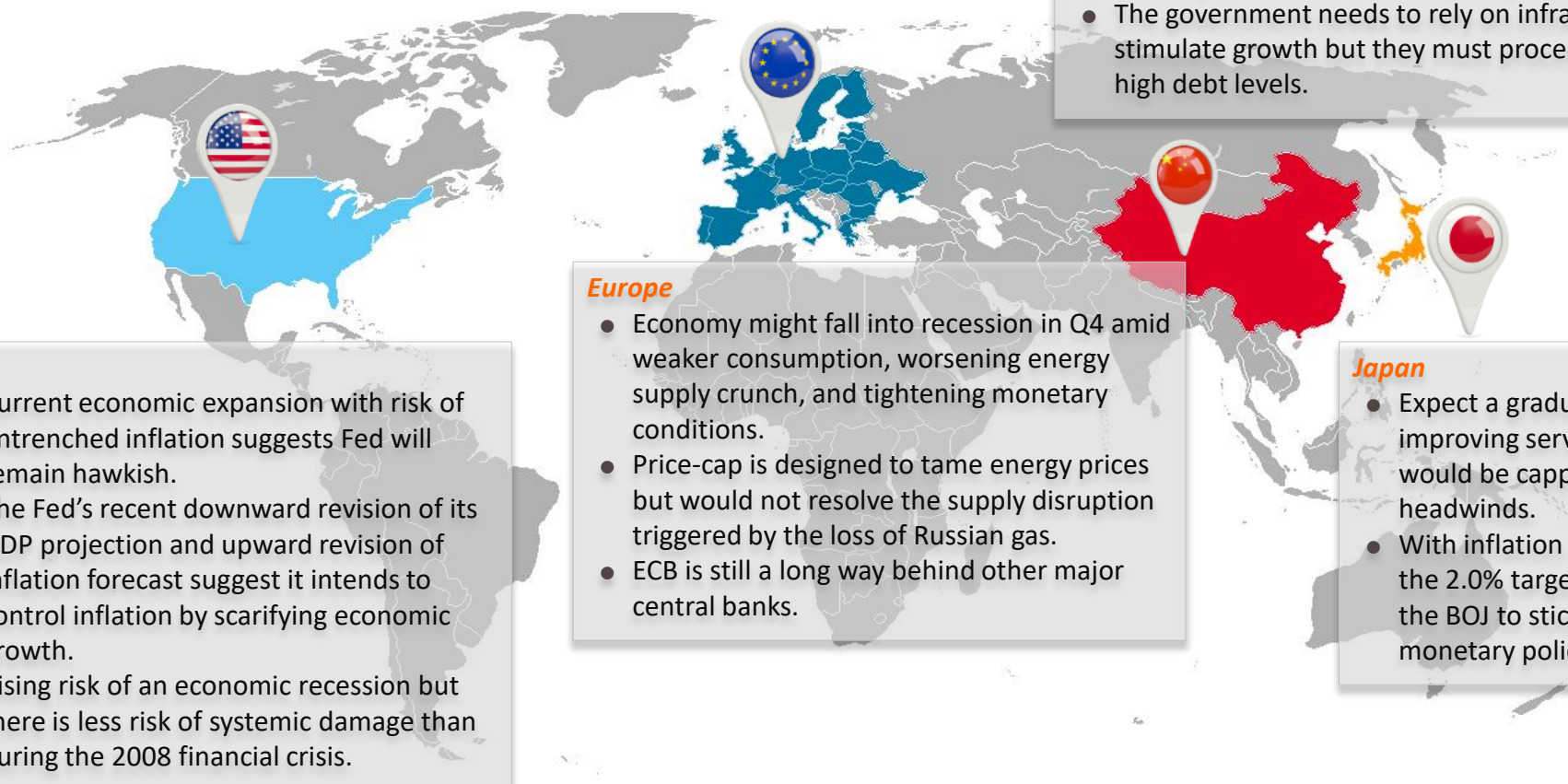
A member of MUFG a global financial group

MONTHLY ECONOMIC BULLETIN

October 2022

Krungsri Research

Global: Bigger challenges ahead



China

- Challenging to boost growth in a fragile economy given zero-Covid policy, weakening economic drivers, and latest technology restrictions.
- Unlikely to relax zero-Covid policy before Q2/2023.
- The government needs to rely on infrastructure spending to stimulate growth but they must proceed with caution due to high debt levels.

US

- Current economic expansion with risk of entrenched inflation suggests Fed will remain hawkish.
- The Fed's recent downward revision of its GDP projection and upward revision of inflation forecast suggest it intends to control inflation by scarifying economic growth.
- Rising risk of an economic recession but there is less risk of systemic damage than during the 2008 financial crisis.

Europe

- Economy might fall into recession in Q4 amid weaker consumption, worsening energy supply crunch, and tightening monetary conditions.
- Price-cap is designed to tame energy prices but would not resolve the supply disruption triggered by the loss of Russian gas.
- ECB is still a long way behind other major central banks.

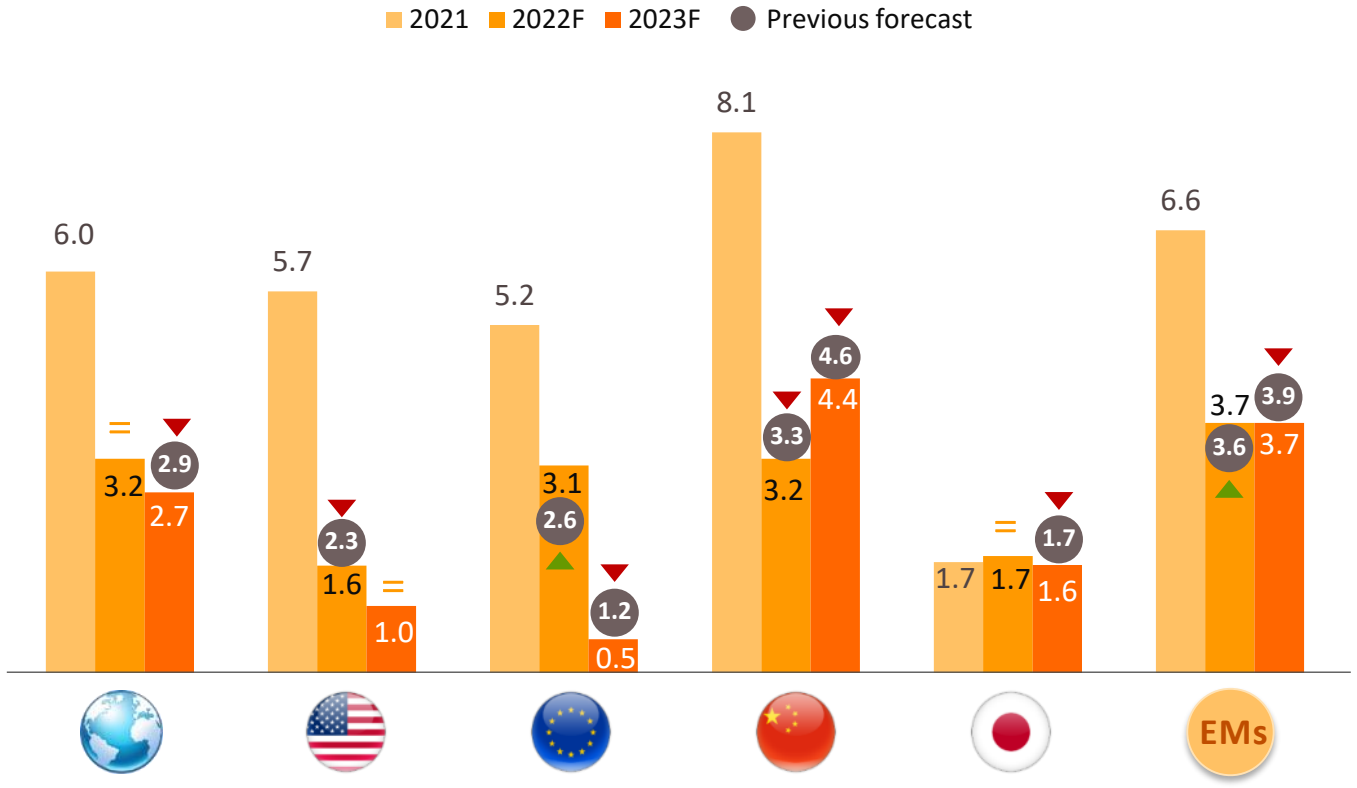
Japan

- Expect a gradual recovery with an improving services sector, but growth would be capped by intensifying global headwinds.
- With inflation set to fall back below the 2.0% target next year, we expect the BOJ to stick to its ultra-loose monetary policy.

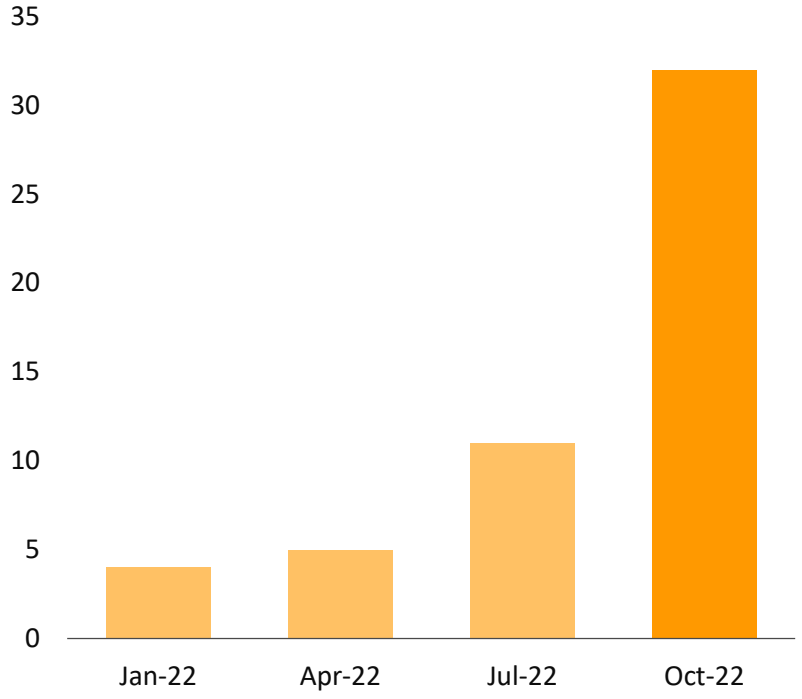
IMF sees big challenges for the global economy, shaped by lingering effects of the Russian-Ukraine war, a cost-of-living crisis, and economic slowdown in China

The IMF projects global growth will slow down from 3.2% in 2022 to 2.7% in 2023 (0.2 percentage points below July forecast). There is a 25% probability that 2023 growth could fall below 2%. More than a third of the global economy will contract this year or next. Downside risks remain elevated.

Economic growth projections for global and major economies (%)

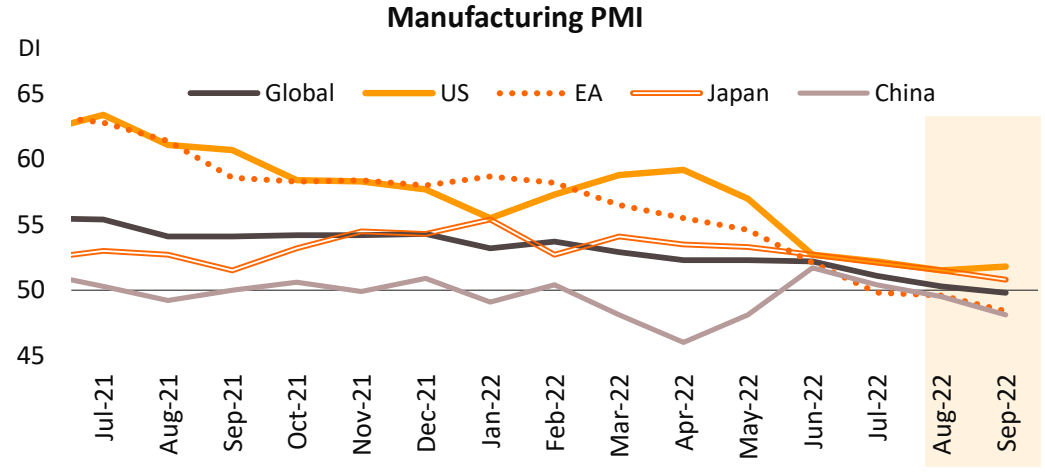


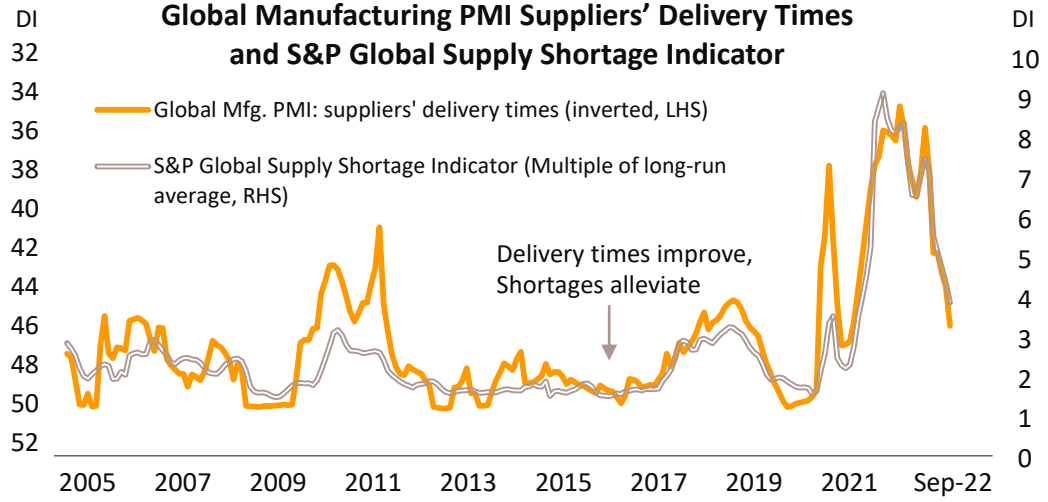
Countries in contraction territory as a share of global GDP, 2022-2023 (%)

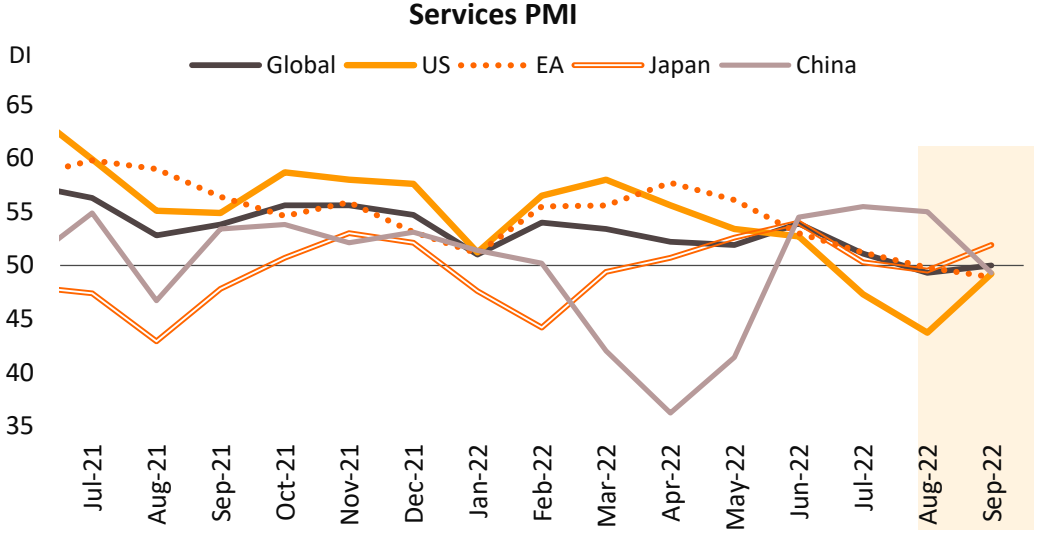


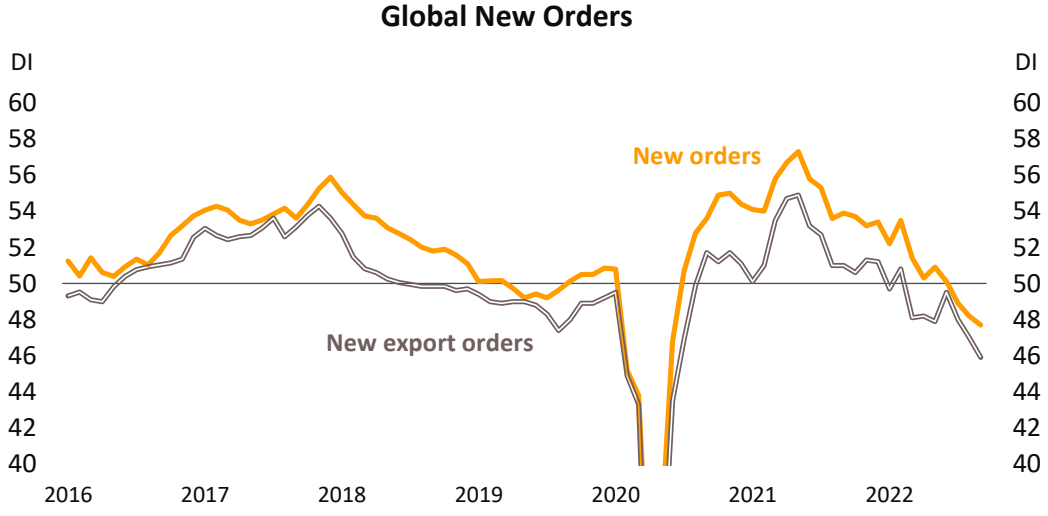
Source: IMF, World Economic Outlook (October 2022)

Global manufacturing activity has dropped to contraction zone despite easing supply disruption; weaker orders suggests trade flows will continue to slow down





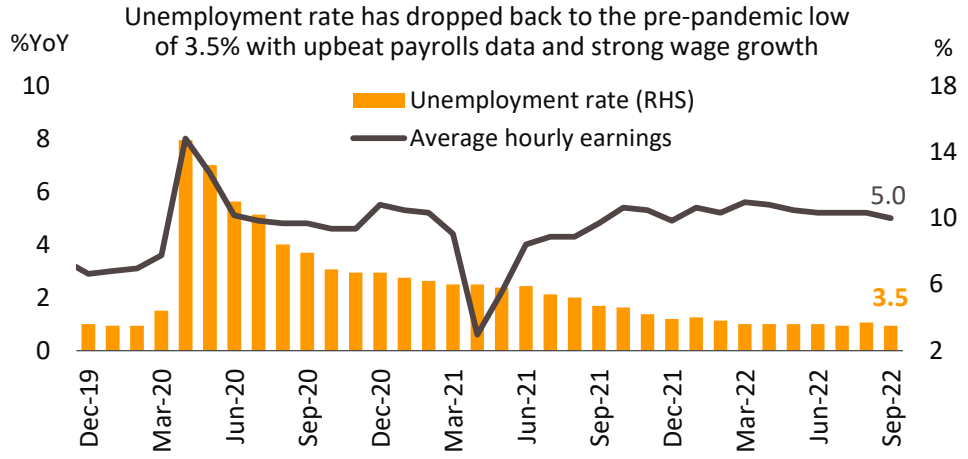




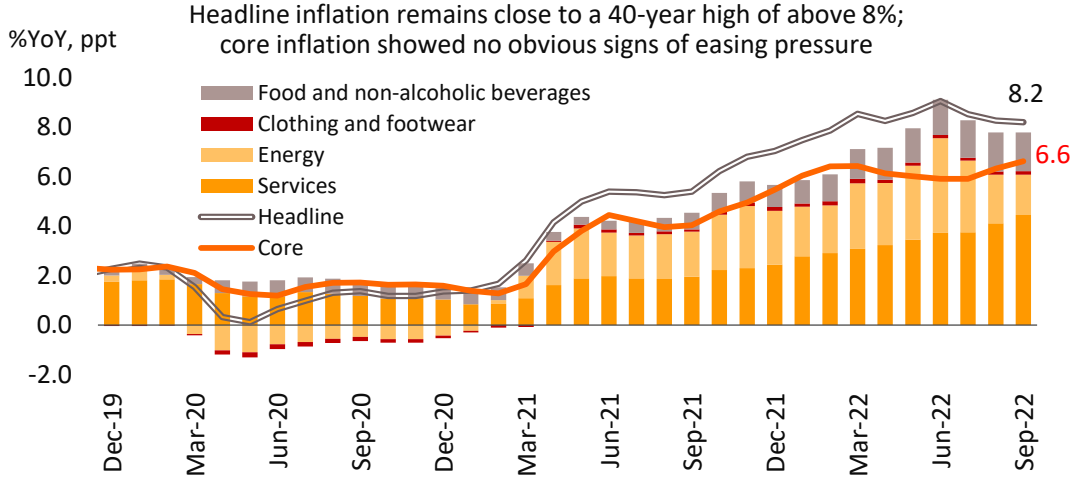
Source: Markit Economics, Bloomberg, CEIC, Krungsri Research

US: Current economic expansion with risk of entrenched inflation suggests Fed will remain hawkish, which raises fears of a recession in the period ahead

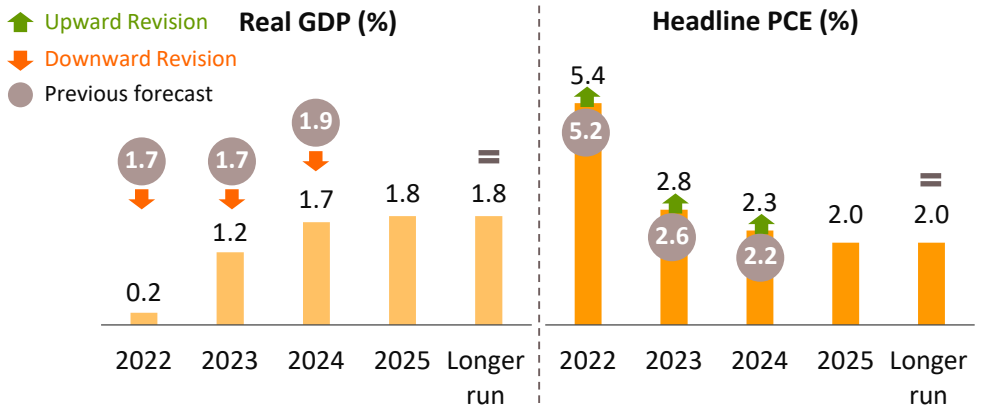
Unemployment Rate and Average hourly earnings



Headline Inflation and contribution to CPI



FOMC economic projections



Source: Bureau of Labor Statistics (BLS), Federal Reserve, Bloomberg, Krungsri Research

Krungsri Research's view

- After the 75-bp rate hike to 3.0-3.25% in September, **the FOMC is expected to maintain its restrictive policy for following reasons:**

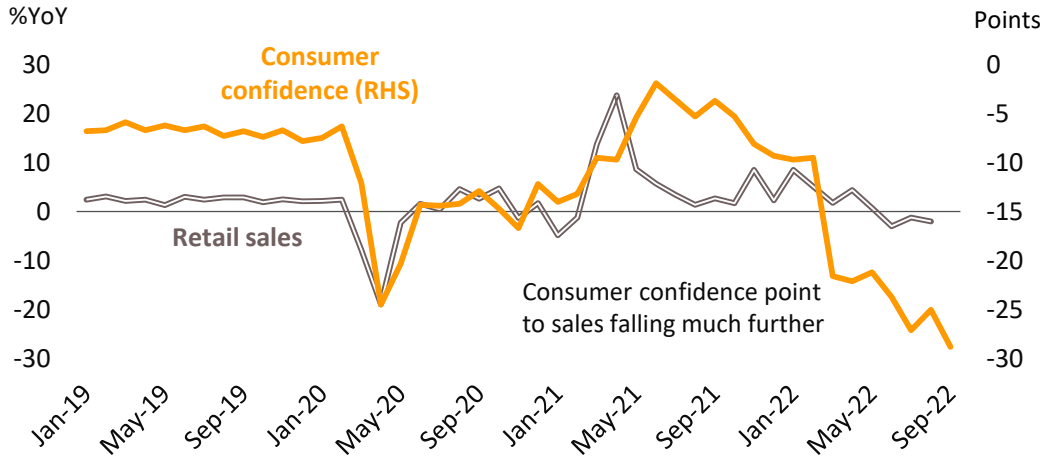
  (i) **Current economic expansion with a robust labor market** (upbeat jobs data);

  (ii) **risk of entrenched inflation remains high** with Consumer Price Index (CPI) staying above 8% for the seventh straight month in September, Core CPI rising to 6.6% and one- and three-year forward inflation expectation still above the 2% target at 5.4% and 2.9%, respectively;

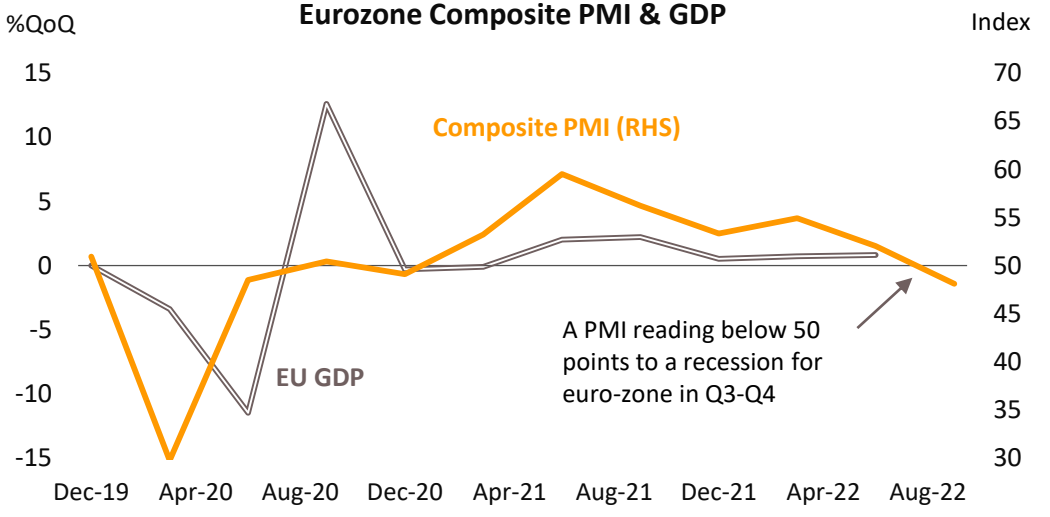
  (iii) **The Fed's recent downward revision of GDP growth projection and upward revision of inflation forecast for 2022-2024 suggest it intends to control inflation** by scarifying economic growth.
- The Fed's Dot Plot shows a steeper path for Fed Funds Rate than at the previous meeting. The median participant sees rates ending the year at 4.4%, **implying a fourth consecutive 75bp hike is likely in November and another 50bp hike in December.** The median FOMC members revised up 2023 terminal rate to 4.6% (compared to 3.8% in the prior meeting).
- Risk of economic recession is rising but **risks of financial turmoil or systemic damage is lower than during the 2008 financial crisis,** given a healthier banking system with higher capital (Tier 1 capital ratio 13.6% currently vs 10.1% in 2008), smaller share of short-term funding (4.2% of assets vs 21.0%), higher liquidity (loan-to-deposit ratio 0.6% vs 1.1%), and record low delinquency rate for consumer loans (below 2%). Nonetheless, a sharp increase in interest rates coupled with a volatile financial market could hurt sentiment and consumer spending and reduce business investment in the periods ahead.

Europe: Might fall into recession in Q4 amid weaker consumption, worsening energy supply crunch, and tightening monetary conditions

Eurozone Consumer Confidence Index & Retail Sales

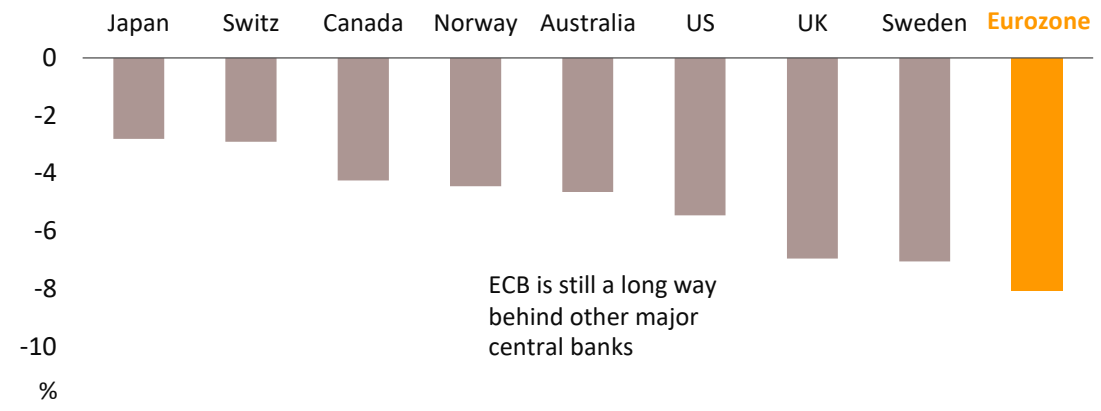


Eurozone Composite PMI & GDP



Source: ECB, Eurostat, Bloomberg, Krungsri Research

Real Interest Rate (Policy Rate minus Headline CPI, %)



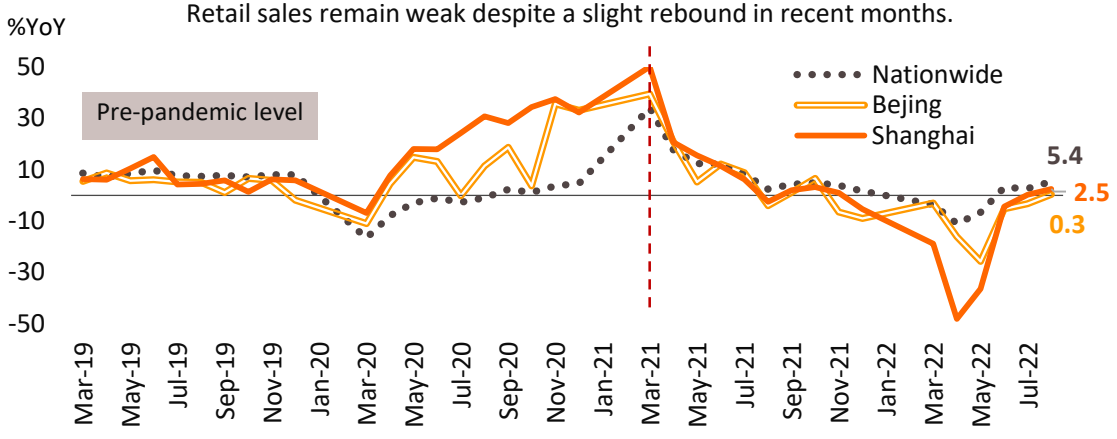
Krungsri Research's view

- Russia's move to halt gas supply to Europe will intensify the energy crisis in Eurozone this winter with longer price pressures, factory shutdowns, and weak household consumption. Electricity wholesale price in Europe had risen by almost 400% YoY in August. Even though the Eurozone managed to refill 85% of its gas storage capacity by importing more LNG from other countries, **that is just enough for them to get through this winter. At full storage, it can last for about three months**.
- The surge in underlying prices have dampened consumer confidence and retail sales since Russia invaded Ukraine in early 2022. Wage growth (+4.1% YoY in Q2/22) is expected to fall even further behind Q4 inflation (+9.6% YoY consensus forecast). **Composite PMI readings for all large eurozone economies have dropped for the fifth consecutive month, with Germany registering the sharpest decline**.
- EU leaders continue to struggle to get unanimous support for the "gas price-cap" plan. Germany fears the cap could compromise supply security and dampen incentives to reduce gas consumption. Moreover, the price-cap is designed to tame energy prices in Europe **and would not resolve the supply disruption triggered by the loss of Russian gas**.
- The ECB is still a long way behind other major central banks as **eurozone's real interest rates remain in deeper negative territory than most comparable countries**. Hence, we expect the ECB to remain aggressive with rate hikes. We expect as 75bp hike in October and a 50bp hike in December to take deposit rate to 2.00% by the end of this year.

China: Challenging to boost growth in a fragile economy given zero-Covid policy, weakening economic drivers, and latest technology restrictions

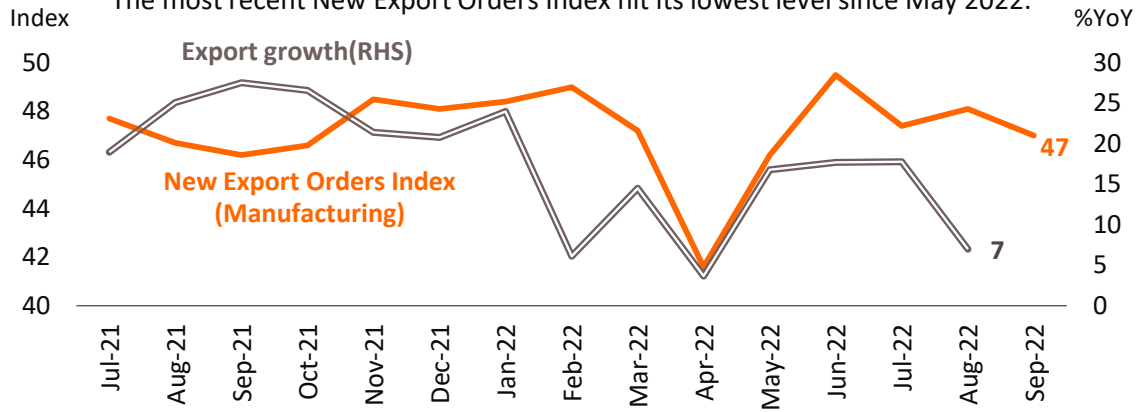
Retail Sales Growth

Retail sales remain weak despite a slight rebound in recent months.



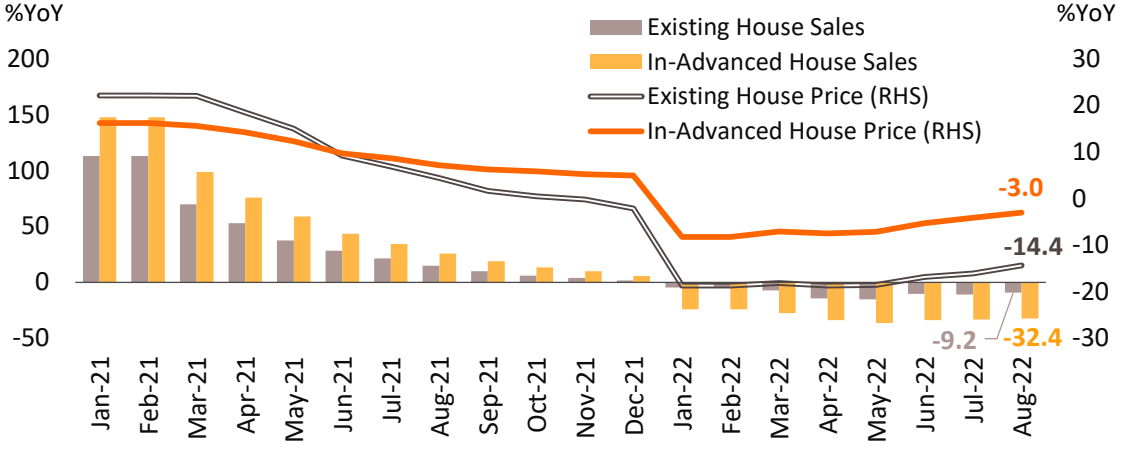
New Export Orders Index and Export Growth

Export growth tends to decline further due to weak global demand.
The most recent New Export Orders Index hit its lowest level since May 2022.



Residential Property Prices and YTD Sales Growth

The housing market has been in decline since January 2022, with no clear signs of recovery.

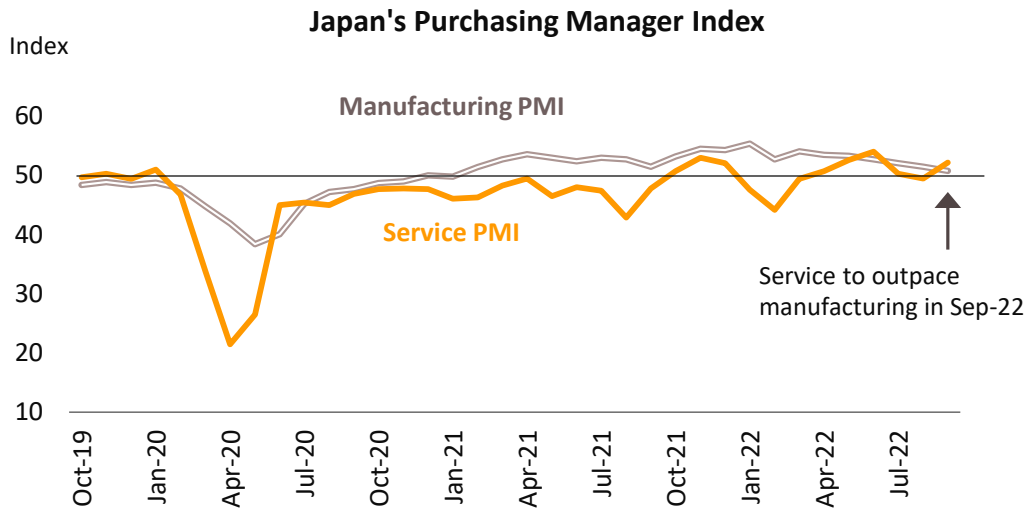


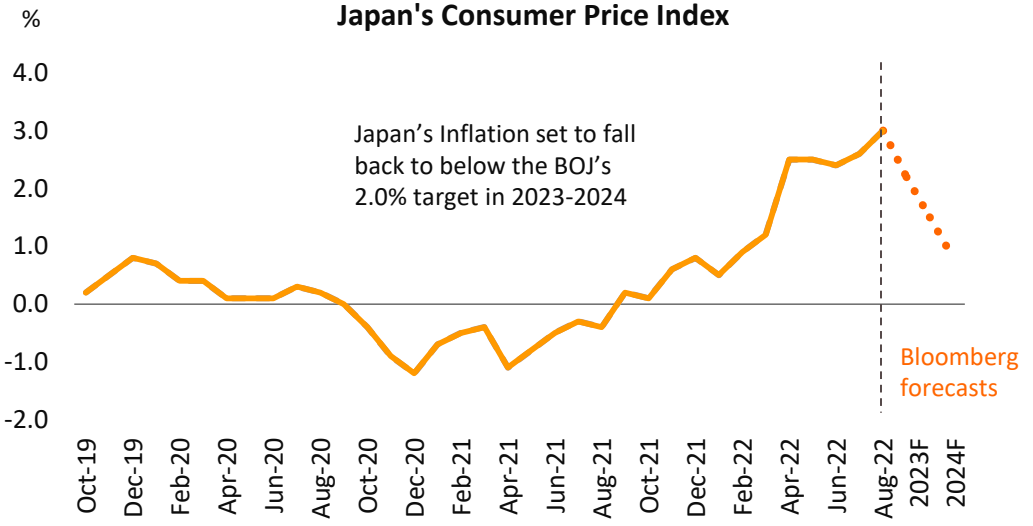
Source: National Bureau of Statistics, PBOC, NIFD, CEIC, Bloomberg, Reuters, Krungsri Research

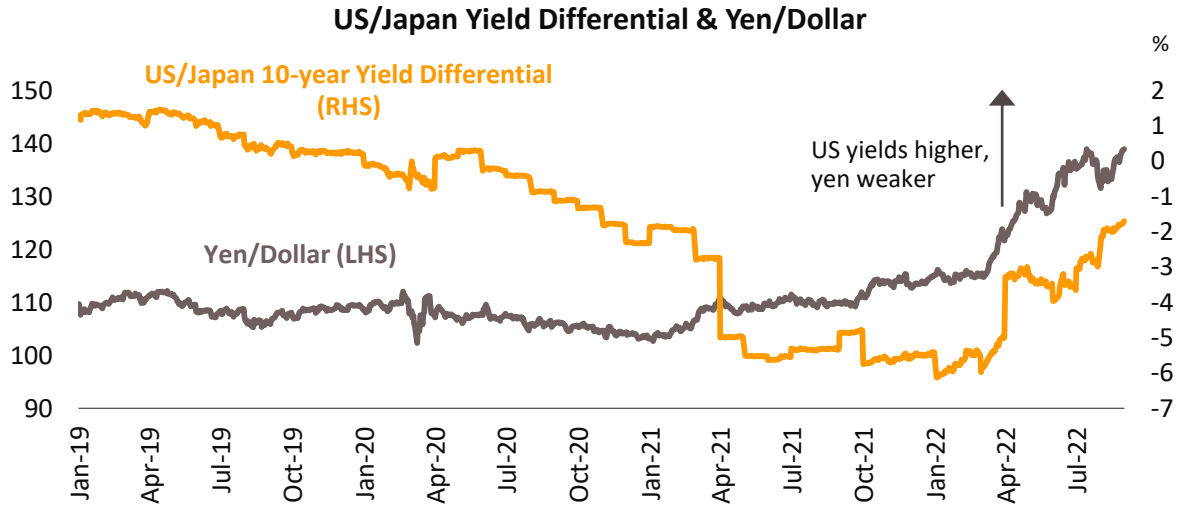
Krungsri Research's view

- **The Zero-Covid policy is unlikely to be relaxed before Q2/2023** because of low booster vaccination rate among senior citizens, at 67.8% in August, the use of less-effective vaccines, high risk of infection during winter, and **lack of a major public health policy shift signaled by President Xi Jinping's speech at the 20th National Congress of the Chinese Communist Party.**
- **The main economic engines are losing steam:** (i) Despite rebounding recently, **domestic consumption will remain weak** due to low consumer confidence, sporadic lockdowns, and an increase in savings (1.7 times greater in first eight months of 2022 than in 2021). Recent stimulus efforts, such as **consumer vouchers, are unlikely to have a significant impact** as they account for less than 0.1% of major cities' GDP; **(ii) China is unlikely to see a surge in private investment** due to the Zero-Covid policy, sluggish domestic demand, the property slump, and slower export growth. **Some major firms** such as Apple and Amazon **have been relocating parts of their production away from China** to avoid further supply chain disruptions.
- **US' recent restriction on semiconductor exports** effective October 7 prohibit US entities from exporting high-technology chipsets, machines, and related equipment to China. These policies will **hurt China's competitiveness in the semiconductor sector and, in turn, private investment and exports.**
- Following the latest real estate slump, **the government needs to rely heavily on infrastructure spending to stimulate economic growth**. The government has injected over 1 trillion yuan into policy banks since June. However, **they must proceed with caution** as government debt is rising (49.5% of GDP as of June) and non-financial sector debt remains high (161.3% of GDP as of June).

Japan: Expect a gradual recovery with an improving services sector but growth would be capped by intensifying global headwinds







Source: Japan's Cabinet Office, BOJ, Bloomberg, Krungsri Research

Krungsri Research's view

- **We expect Japan's economy to recover in the coming months backed by an improving tourism industry and pent-up demand.** However, recovery would be gradual as its economic indicators are still giving mixed signals: (i) mobility data has returned to pre-COVID level but consumer confidence is weaker as inflation continues to surge, (ii) Services PMI has reversed to expansion territory but Manufacturing activity has fallen for six consecutive months dragged by rising inflation and a weaker yen, and (iii) household savings remains high but people are spending less.
- **Service sectors will continue to improve in Q4** driven by reopening tailwinds. Japan has reopened borders to tourists since October and hopes for an influx of travelers enticed by a weak yen. However, Japan's exports is expected to loss momentum in Q4 and remain subdued in 2023 due to shrinking external demand and rising geopolitical risks and tensions between major countries.
- **Government intervention to support yen might not be effective as fundamentals are moving against the currency**. The yen has lost about one-fifth of its value against the US dollar this year despite the Japanese government spending almost $20bn of its reserve to prop it up, saying the intervention would have little effect as long as the interest rate differential between the BOJ and the Fed continue to widen. Japan is now the only country in the world with a negative interest rate.
- With inflation set to fall back below the BOJ's 2.0% target next year and rising risk of a global recession, we expect the **BOJ to stick to its ultra-loose monetary policy in the near future to prevent a recession in the country and to maintain price stability by keeping inflation at 2.0%**.

Thailand: Overall economic activity has almost returned to pre-pandemic level but recovery is fragile and uneven across sectors

- **Thailand's overall economic activity has been ramping-up towards pre-covid level** driven by reopening tailwinds and unleashing of pent-up demand after a period of global restrictions since the COVID-19 pandemic started in 2020.
- On the demand side, key economic drivers, except tourism, has exceed pre-covid levels but exports could lose momentum amid the global slowdown. On the supply side, overall business activity is approaching pre-covid level.
- **However, recovery is uneven across sectors,** influenced by legacy covid crisis impact and spillover effects of external headwinds. Recovery in the manufacturing sector currently ranges between 22% above and 25% below pre-covid level. The range is wider in the services sector at between 27% above and 57% below pre-pandemic level.
  - *Automotive* and *Rubbers & Plastics* industries are registering stronger output and healthy financials.
  - But most manufacturing industries are still weaker than pre-covid levels, with lower profitability or higher debt burden.
  - *Textile & Apparels* and *Chemicals* industries are experiencing both weaker output and worsening financial health.
- **Recovery in the services sector is likely to outpace that in the manufacturing sector, driven by reopening tailwinds.**
  - Many service industries benefited from the relaxing of restrictions, recovering tourism activity and rising pent-up demand, including *Wholesale & Retail Trade, Transportation & Storage, Information & Communication*, and *Professional, Scientific & Technical*.
  - Despite stronger momentum, *Accommodation & Food Service industry* and *Real Estate Activities* remain vulnerable to shocks due to weak financial health, which could be pressured by rising material costs and interest rate tightening cycle.
- **The fragile and uneven recovery in Thailand suggests domestic rate hikes should be gradual to continue to nurture overall economic growth.**

Krungsri Research Forecasts for 2022-23

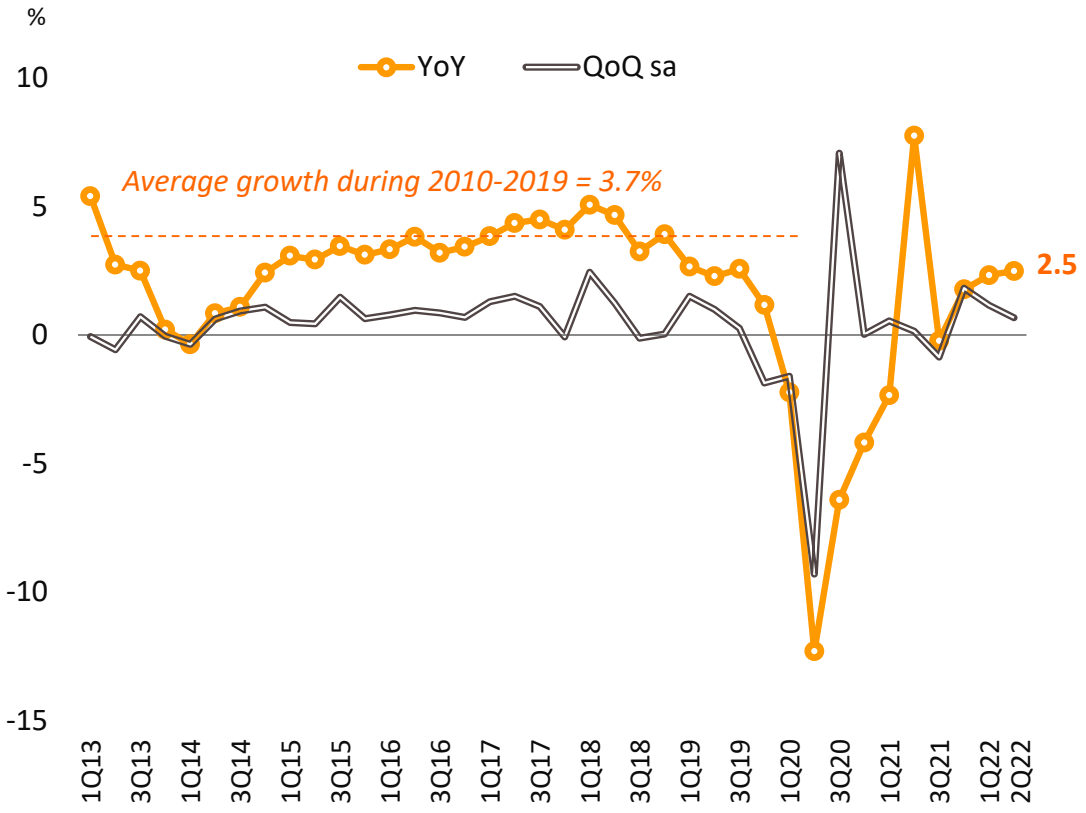
Krungsri Research Forecast		2020	2021	2022F	2023F
GDP growth	YoY (%)	-6.2	1.5	3.1	3.6
Private Consumption Expenditure	YoY (%)	-1.0	0.3	4.7	3.4
Government Consumption Expenditure	YoY (%)	1.4	3.2	-0.5	0.6
Private Investment	YoY (%)	-8.2	3.3	2.8	3.8
Public Investment	YoY (%)	5.1	3.8	0.2	3.0
Nominal Exports in USD (f.o.b.)*	YoY (%)	-6.5	19.2	7.5	3.5
Nominal Imports in USD (f.o.b.)*	YoY (%)	-13.8	23.9	17.0	6.0
Current Account Balance	USD, bn	20.3	-11.0	-16.5	6.0
Tourist Arrivals	Mn, persons	6.7	0.4	10.4	22.7
Headline Inflation	YoY (%)	-0.8	1.2	6.1	2.5
Policy Interest rate (end of period)	(%)	0.50	0.50	1.25	1.75
Dubai crude price - period average	USD/bbl	41.5	69.0	98.0	82.0

Note: * Base on BOT data

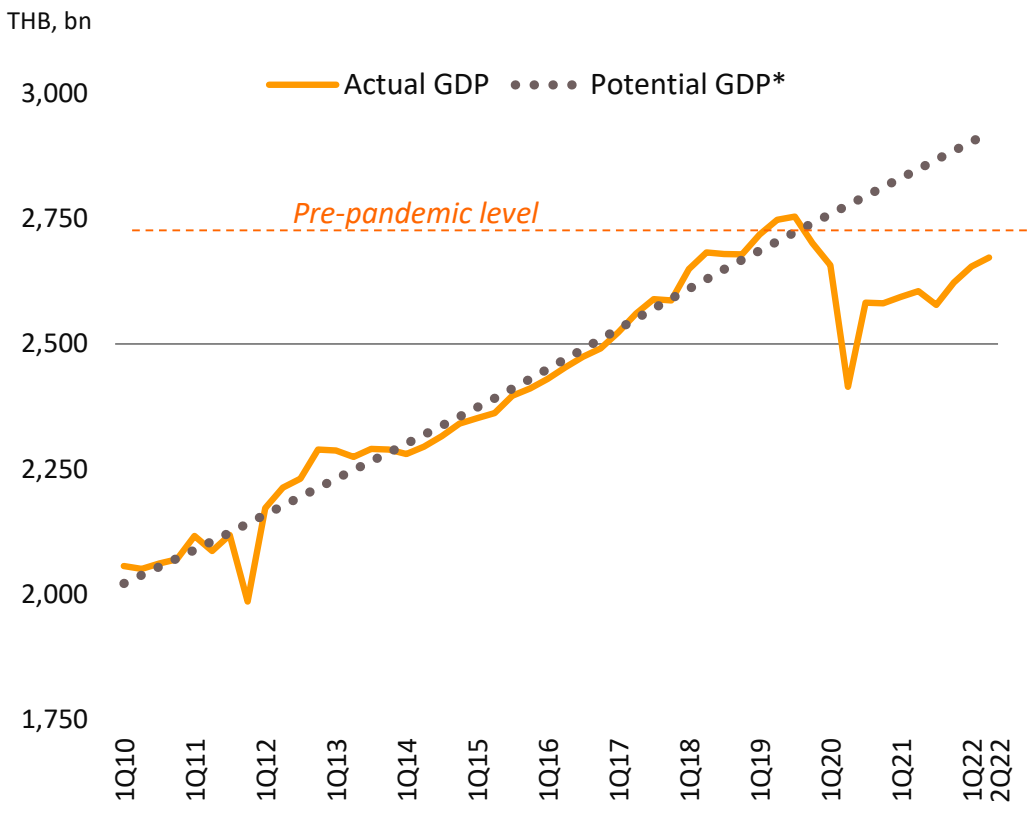
Source: NESDC, BOT, MOC, MOTS, Bloomberg, Krungsri Research

Economic recovery in Thailand: Economic activity (reflected by GDP) is projected to return to pre-Covid level late this year or early next year

Thailand's GDP growth



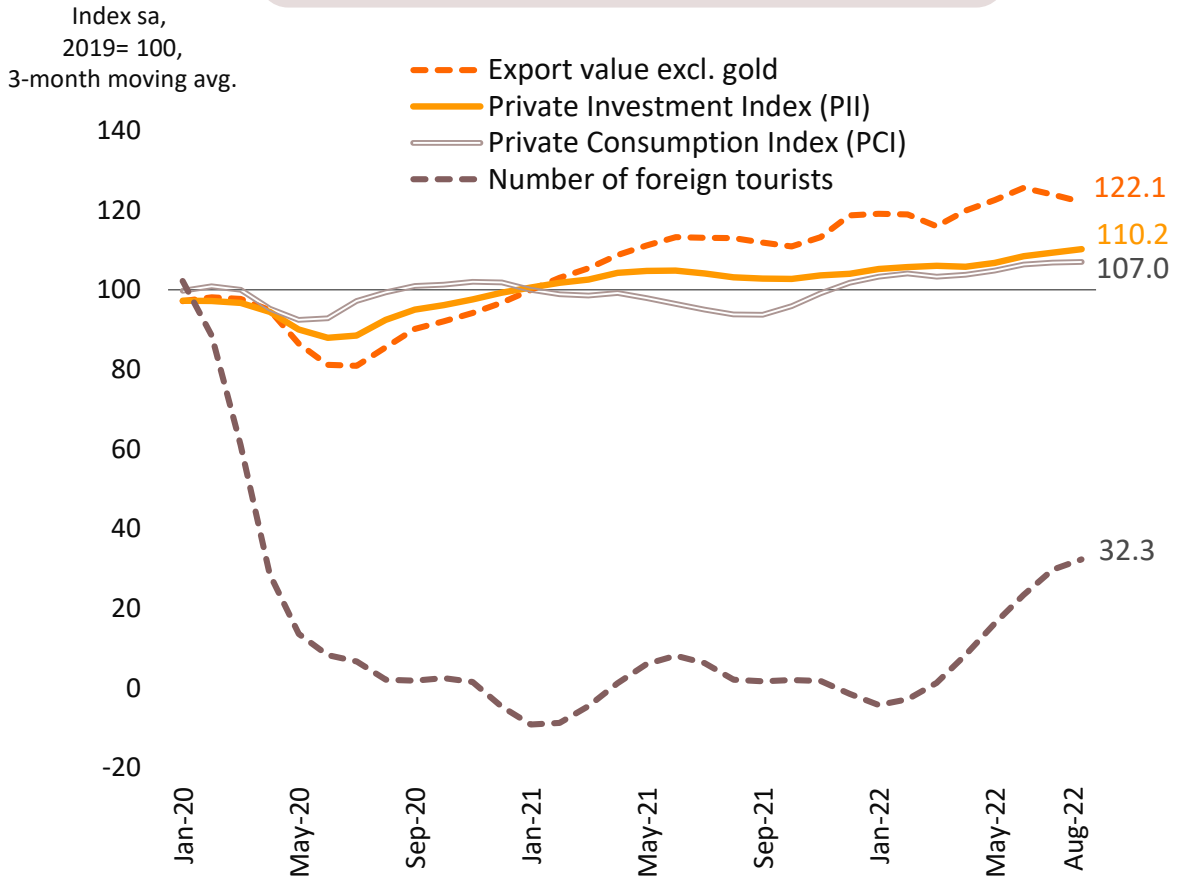
Real GDP (sa)



Source: NESDC, Krungsri Research

Demand side: Key economic drivers, except tourism, have exceeded pre-Covid levels but exports could lose momentum amid the global slowdown

Thailand's key indicators: Demand side

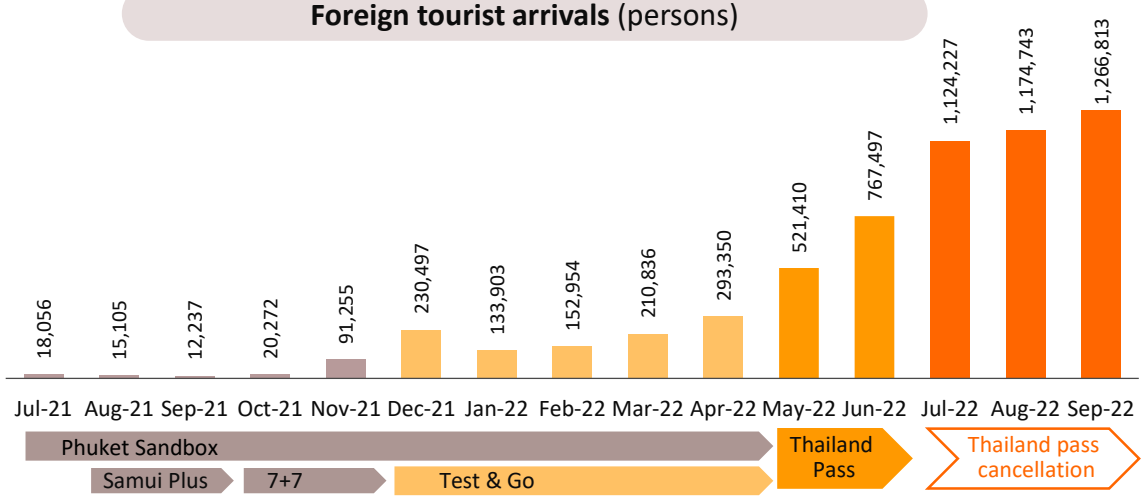


Recovery in demand side		
	Recovery pace (% of pre-covid level)	**Momentum**
Consumption (PCI)	+7% above pre-covid level	Steady
Investment (PII)	+10% above pre-covid level	Steady
Exports of goods excluding gold	+22% above pre-covid level	Weaker
Foreign tourist arrivals	-68% below pre-covid level	Stronger

Source: BOT, CEIC, Krungsri Research

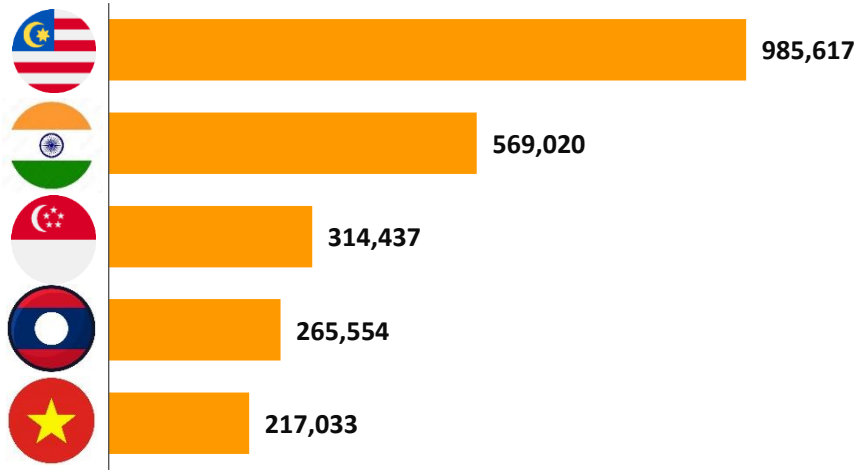
Tourism sector continued to recover following the removal of most Covid-19 measures and restrictions since 4Q22 worldwide, including Thailand

Foreign tourist arrivals (persons)



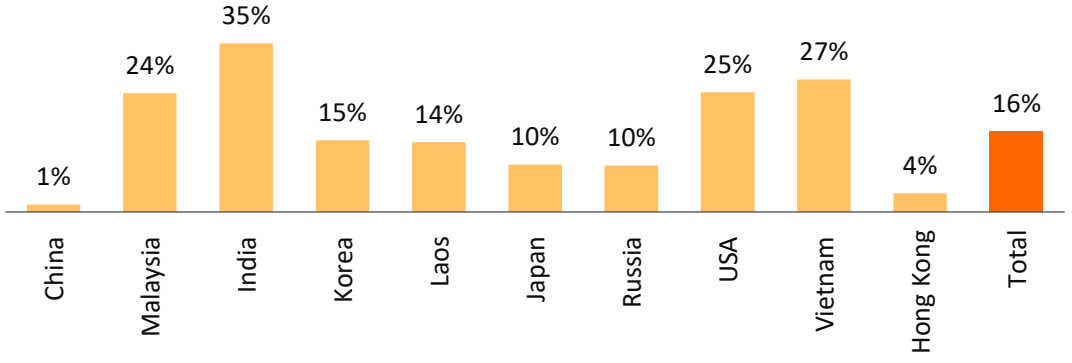
Top 5 tourist arrivals by country during January-September*

Unit: persons



Recovery rate of international arrivals (Jan-Aug 2022)

Unit: % change from pre-Covid level based on 2019 ranking



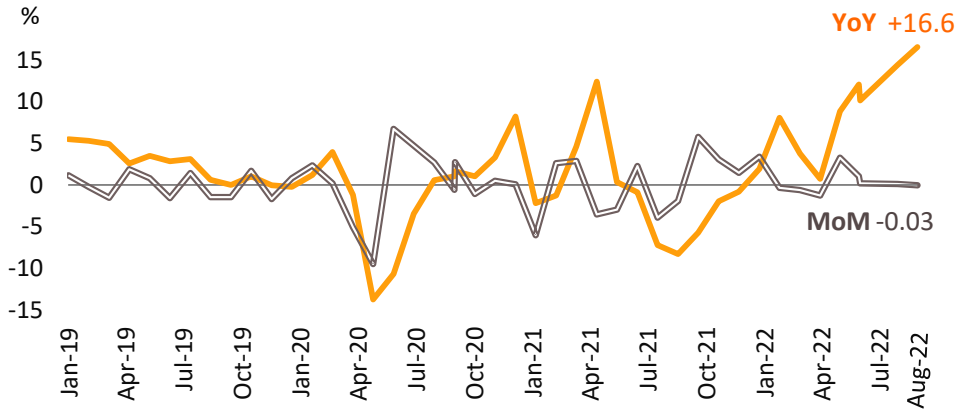
Note: *Preliminary data
Source: MOTS, CEIC, Krungsri Research

Krungsri Research's view

- **September preliminary data indicated foreign tourist arrivals to Thailand reached 1.27 mn,** up from 1.17 mn in August as COVID-19 cases in Thailand and other countries remained low and countries continued to relax international travel restrictions. **In the first 9 months of 2022, there were 5.7 mn foreign tourist arrivals who generated THB0.22 mn receipts l**ed by tourists from Malaysia, followed by India, Singapore, Laos and Vietnam.
- Tourism sector has shown signs of further recovery. Since early October, most countries, including Thailand, have removed control measures and travel restrictions to lure inbound tourists in 4Q22. **Foreign tourist arrivals in Thailand is expected to reach 10.4 mn in 2022 and 22.7 mn in 2023.** However, there are lingering negative factors: (i) concerns over a global economic slowdown given tightening monetary policies to contain inflation; (ii) the prolonged Russia-Ukraine conflict, which will push up energy prices; and (iii) intensifying competition to attract foreign tourists, especially within Asia.

Despite higher cost of living, *private consumption* is stable following easing of Covid-19 restrictions, gradual recovery in tourism activity and stimulus measures

Private Consumption Index



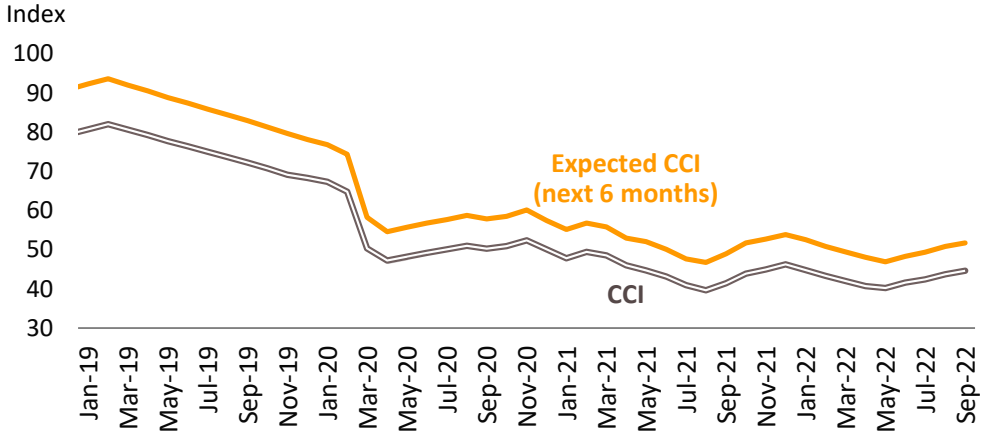
Private Consumption by category

(% change from pre-pandemic level)

Index (sa), 2019=100	2020												2021												2022							
	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																																+7.0
Non-durables																																-4.0
Semi-durables																																+1.7
Durables																																+2.7
Services																																-3.3
Non-residents expenditure																																-68.6

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

Consumer Confidence Index



Source: BOT, UTCC, Krungsri Research

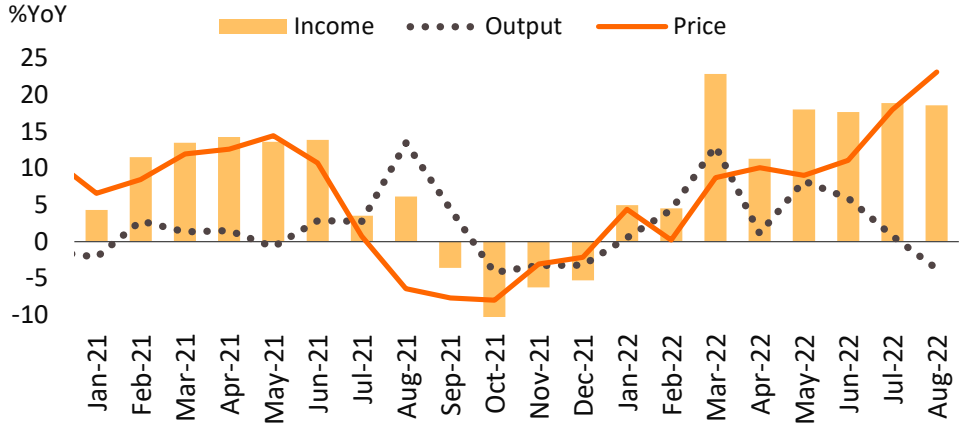
Krungsri Research's view

- **In August, private consumption index rose 16.6% YoY but was stable on monthly basis.** The recovery in private consumption is not broad-based as indicators for non-durable goods, services and non-residents' expenditures are worse than pre-pandemic levels but demand for semi-durables and durables have recovered.
- Despite headwinds from higher cost of living due to surging energy prices, private consumption was supported by (i) improved consumer confidence with the improving COVID-19 situation. Since 1 October, the government has revoked pandemic measures and restrictions. These could facilitate domestic and international travel and tourism activities; (ii) subsidy measures for vulnerable households and social welfare cardholders (THB6.2 bn); and (iii) the Co-payment scheme (half-half payment) in September and October (THB21.2 bn). **We expect private consumption to improve by 4.7% in 2022 against 0.3% in 2021.**

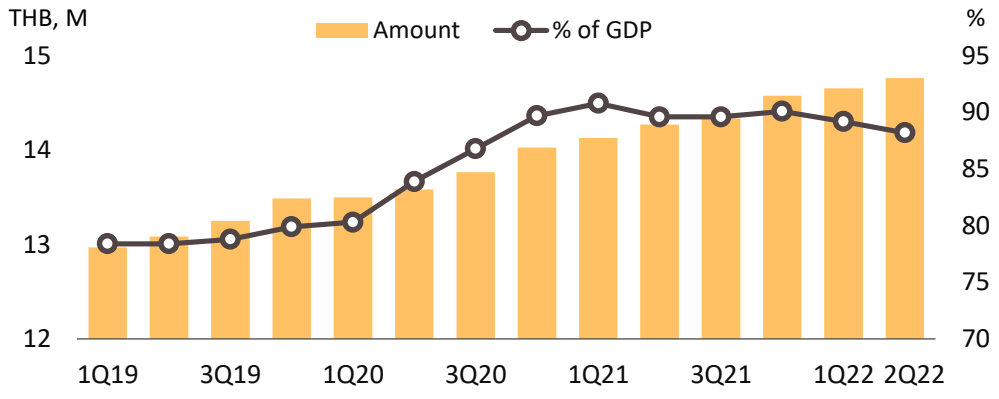
High farm income and recovering labor market would support consumption but high household debt and rising interest rates could continue to limit spending growth

Farm income surged more than 18% YoY for the second consecutive month. Labor market also recovered, reflected by the number of insured under Section 33 which continued to rise, albeit still below pre-pandemic level. However, the high cost of living, volatile energy prices, high household debt (more than 88% of GDP in 2022), and rising interest rates could affect debt repayment ability. These would cap consumer spending growth in the next period.

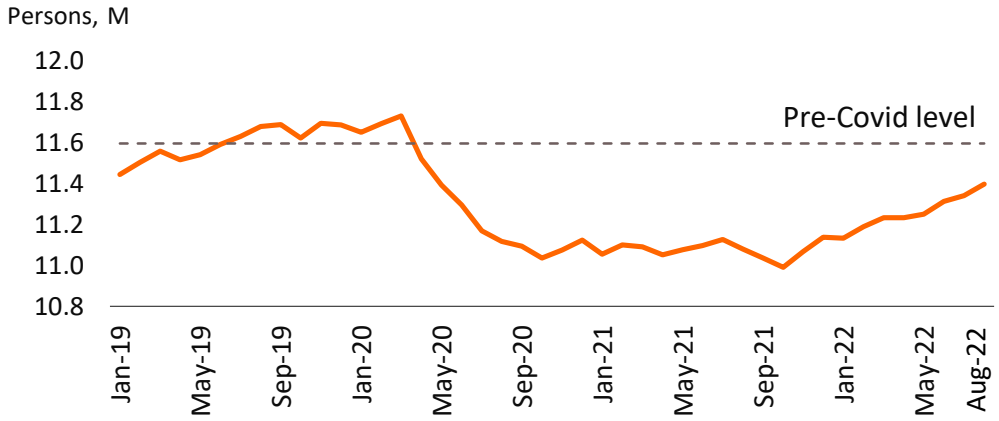
Farm income



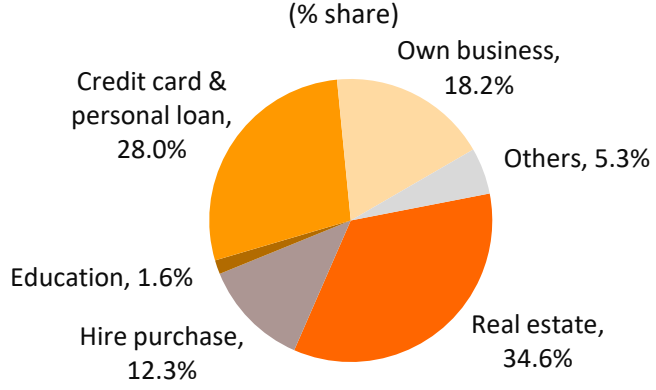
Household debt



Employees under Section 33*



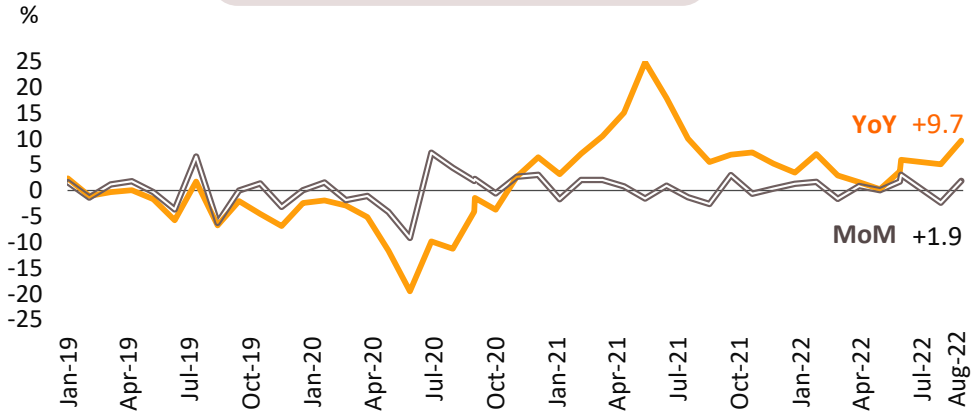
Loans to Household classified by Purpose in 2Q2022



Note: * workers under the social security system
Source: OAE, MOL, BOT, Krungsri Research

Private investment recovering gradually amid pressure from rising costs, weak sentiment and export slowdown

Private Investment Index



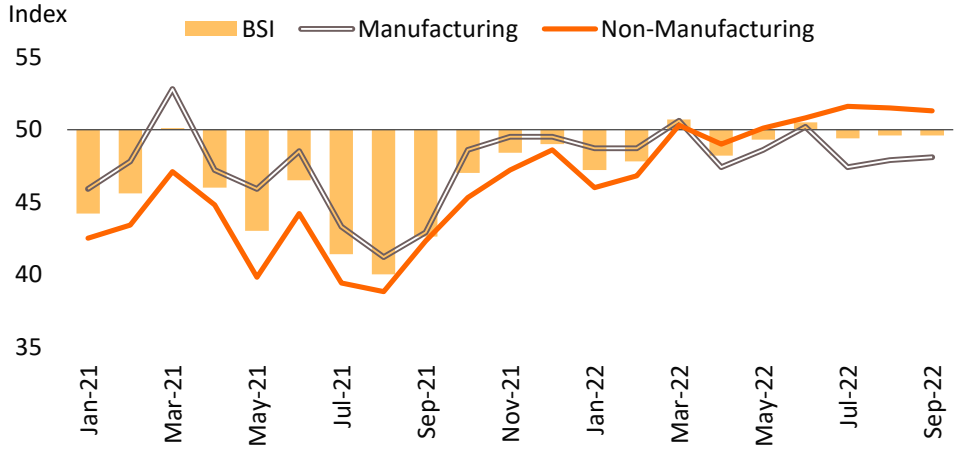
Private Investment by category

(% change from pre-pandemic level)

Index (sa), 2019=100	2020												2021												2022							
	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																																+10.5
Construction material sales																																-0.8
Imports of capital goods																																+9.0
Machinery sales																																+24.1
Newly registered vehicles																																+1.4

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

Business Sentiment Index



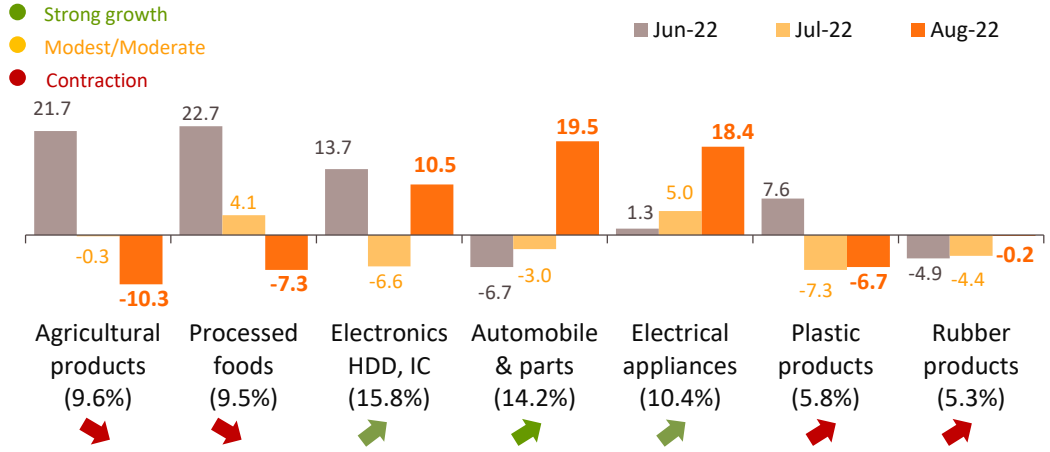
Source: BOT, Krungsri Research

Krungsri Research's view

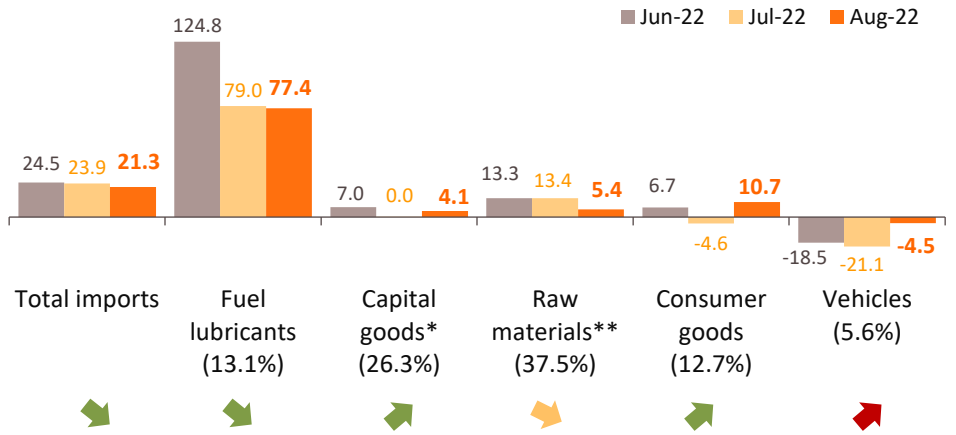
- **In August, the Private Investment Index rose 9.7% YoY and 1.9% MoM.** Private investment has been recovering gradually and the index suggests it has reached pre-pandemic level. There has been improvements in most components including machinery sales, imports of capital goods, and new vehicle registrations (above pre-Covid level for the first time in August). The exception was sales of construction material which is slightly below pre-pandemic level.
- **Business Sentiment Index (BSI) for September was stable at 49.6 and remained below-50 for the third consecutive month**, due to concerns over rising input costs, especially by manufacturers. However, sentiment in the non-manufacturing sector improved and exceeded-50 for the fifth straight month, in line with improving economic activity since reopening in May this year. Rising costs triggered by volatile energy prices, a hike in minimum wage, and upward trend in interest rates could hurt private investment. Private investment is expected to grow 2.8% this year vs 3.3% in 2021.

Exports might lose momentum given the slowdown in major trading partners' economies

Exports by major product (%YoY)



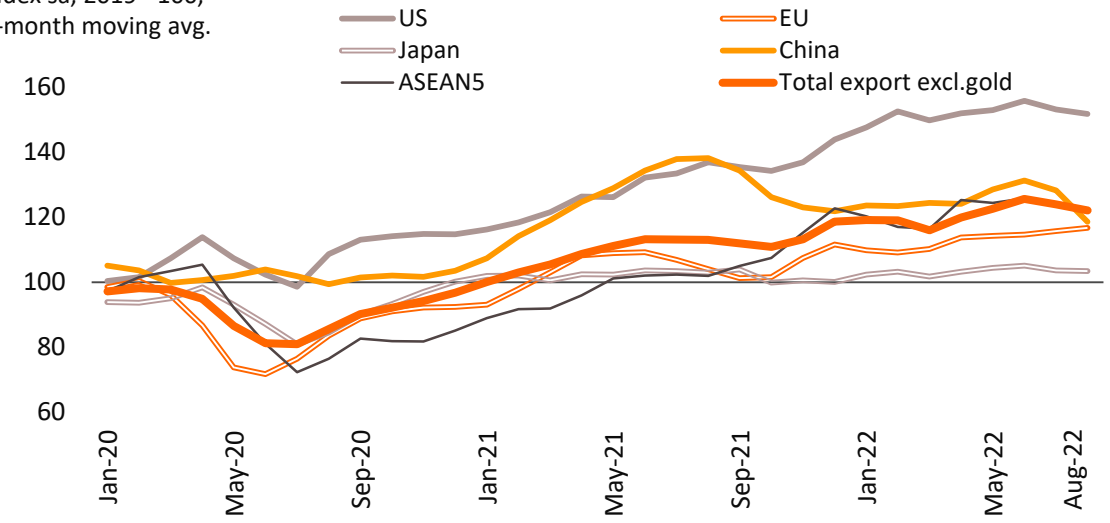
Imports by major product (%YoY)



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

Exports by destination

Index sa, 2019= 100, 3-month moving avg.



Source: MOC, Krungsri Research

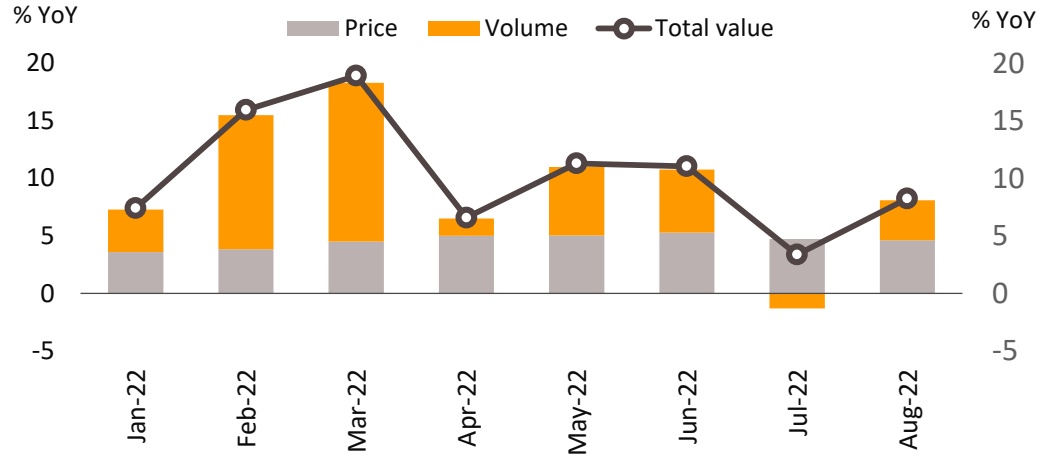
Krungsri Research's view

- **August export value was close to July's at USD23.6 bn,** falling from USD26.6bn in June and a peak of USD28.7 bn in March. Thai export growth slowed to single-digit rate for the second straight month, at 7.5% YoY after posting 12.7% in 1H22. Exports of agro-industrial products were strong, including chilled & frozen chicken and sugar. Exports of automobile & parts rebounded for the first time in 8 months. **By destination**, exports to CLMV countries continued to grow. Shipments to major markets improved, except to China where it contracted for the third straight month in line with the slowing economy and impact of strict containment measures in China.
- **Thai exports could lose momentum given the slowdown in major trading partners' economies amid the several headwinds:** (i) weak global purchasing power due to higher cost of living, with a possible slowdown in developed economies given policy tightening by central banks to contain inflation; (ii) sluggish demand from China which economy has slowed down and is facing a property market crisis; and (iii) energy crisis in Europe which have pushed up production costs.

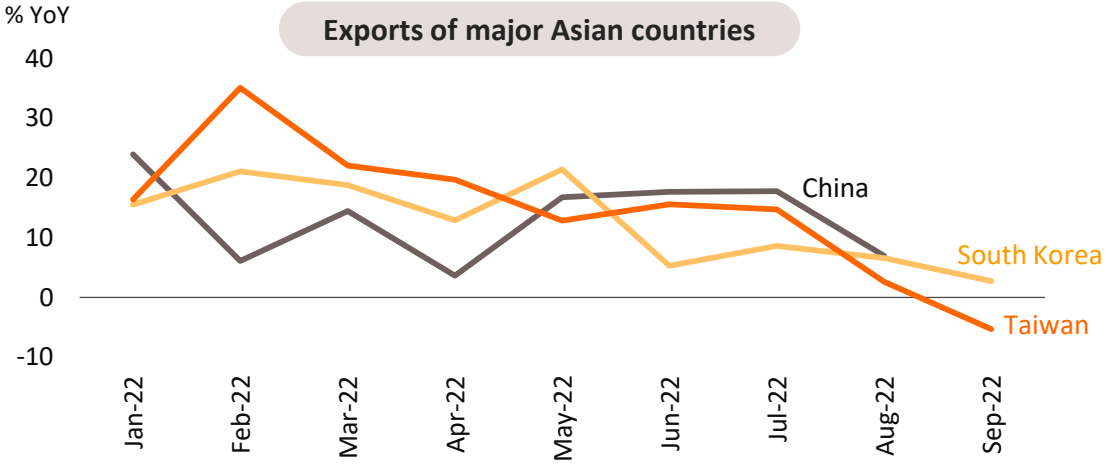
More signs of slower exports by major Asian countries amid weaker global demand

In August, Thailand's export volume rebounded along with the easing supply chain disruptions, reflected by car & parts exports which booked positive growth for the first time in 8 months. However, there are negative signals including further deceleration of Asian exports amid a slowdown in the global economy and weaker demand from China. South Korea's exports tumbled 20.2% YoY in 1-10 October. Taiwan's exports fell 5.3% in September, posting negative growth for the first time in more than two years.

Thailand's export growth



Exports of major Asian countries



Source: MOC, BOT, CEIC, Krungsri Research

Exports by major product and destination

Thailand: August's export growth (% YoY)	World	US (15%)	EU (8%)	Japan (9%)	China (14%)	ASEAN-5 (14%	CLMV (10%)
Total	**+7.5**	**+16.3**	**+19.0**	**+6.6**	**-20.1**	**+5.8**	**+41.1**
Cars & parts (10.7%)	+22.5	+2	-2	+13	-51	+41	+49
Computer & parts (8.1%)	+0.03	+14	+52	+23	-16	-12	+28
Rubber products (5.3%)	-0.2	-13	-11	-2	+28	+21	+36
Plastic resin (4.2%)	-13	-46	-17	-8	-16	-6	-0.3
Chemical products (3.6%)	-8	+25	+15	-38	-20	-25	+29.6
Electronic IC (3.1%)	+25	+44	+26	+22	+13	+40	+175
Fresh, frozen & dried fruit (2.2%)	-64	-27	-23	-35	-67	-6	-73
Rubber (2.1%)	-3	-12	+14	-3	-17	-22	+3
Plastic products (1.7%)	+12.8	+59	+7	+5	-14	+14	+5.88
Electrical appliances (1.6%)	+26	+60	-2	+8	-18	+41	+42
Tapioca products (1.5%)	+2	+18	-2	-0	-6	+80	+3
Preserved fish, crustaceans (1.3%)	+19	+14	-7	+14	-19	+29	-23
Sugar (1.2%)	+173	+38	-	-84	+260	+250	+89
Rice (1.3%)	+15	+11	+50	-22	-14	-9	-34

Substitution effects

Supply disruptions easing

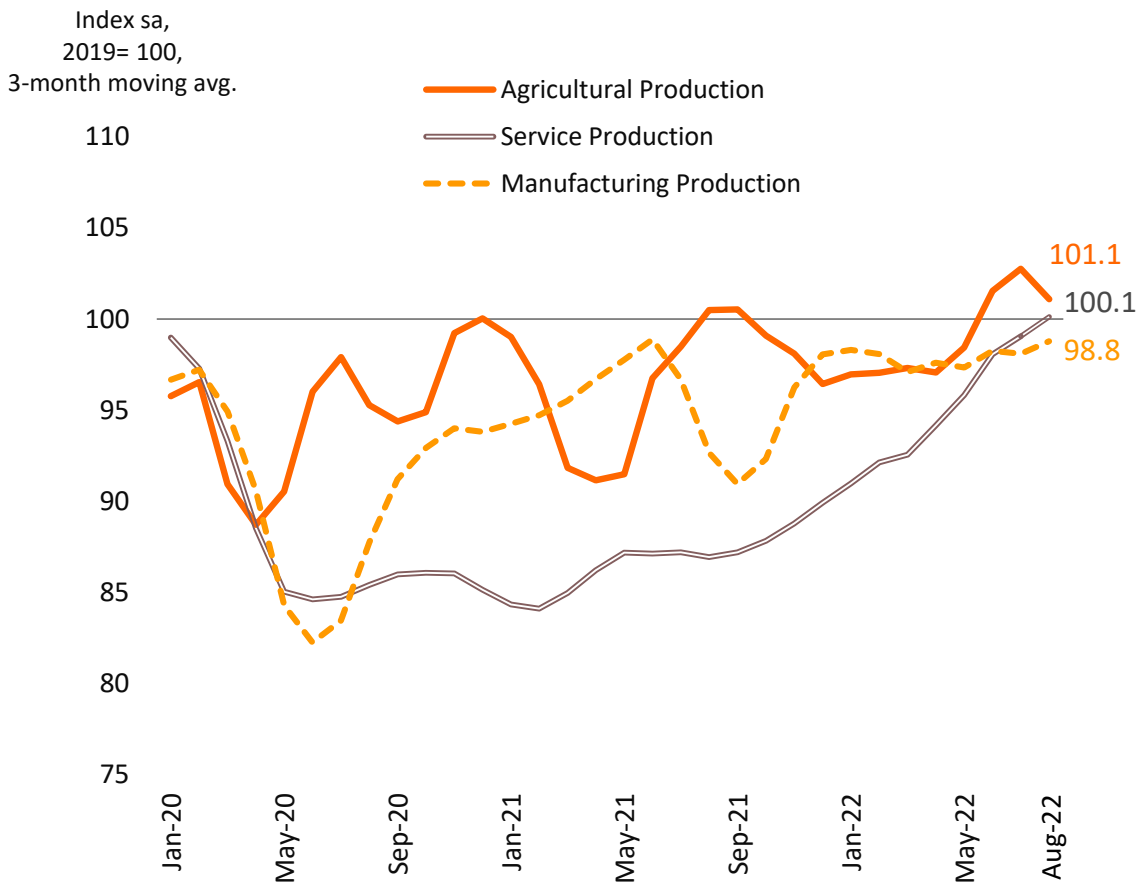
China's slowdown from zero Covid policy

Reopening benefit

Note: (% share in 2021)

Supply side: Overall business activity is approaching pre-covid level; Services sector has expanded faster than Manufacturing sector since relaxing restrictions

Thailand's key indicators: Supply side



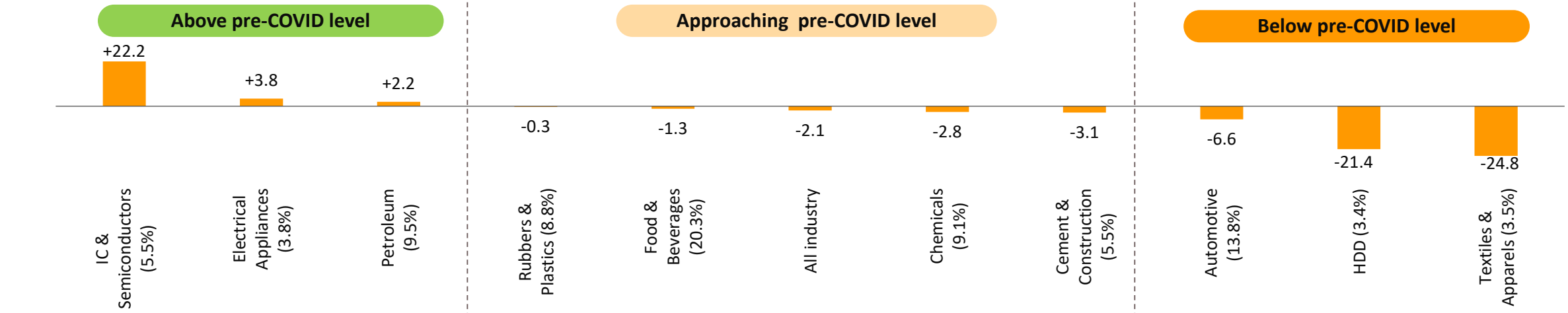
Recovery in the supply side		
	Recovery pace (% of pre-covid level)	**Momentum**
Agriculture	+1.1% above pre-covid level	Stronger
Manufacturing	-1.2% below pre-covid level	Steady
Services	+0.1% above pre-covid level	Stronger

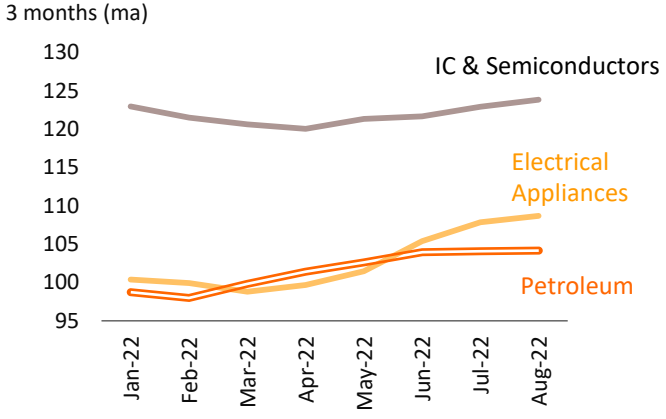
Source: BOT, CEIC, Krungsri Research

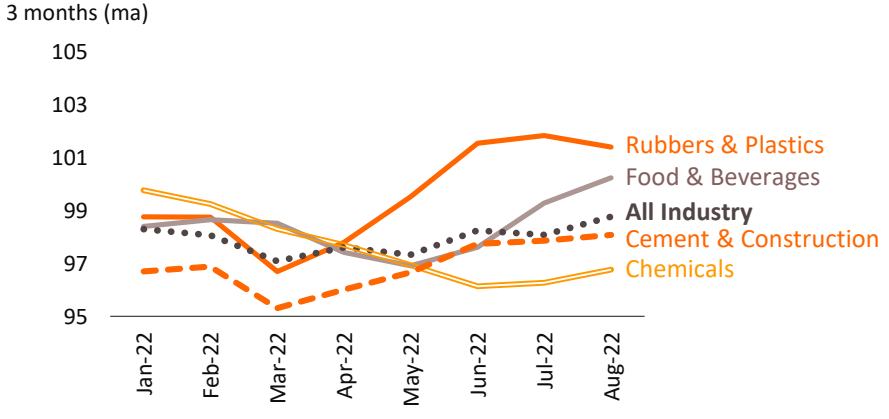
Manufacturing production: Most sectors remain weaker than pre-covid levels

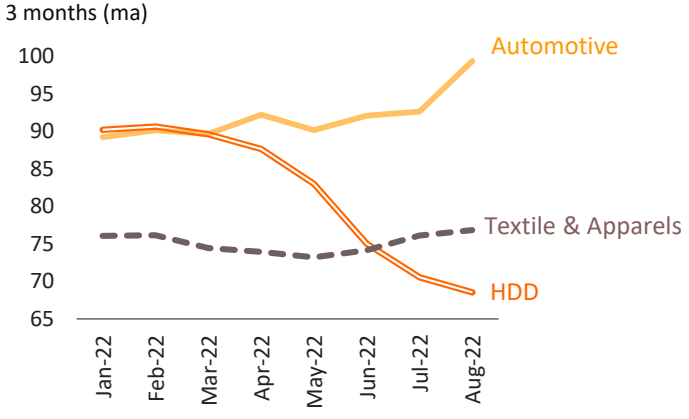
Manufacturing Production Index (MPI) for the first 8 months of this year rose 2.7% YoY. Industries which have recovered past pre-pandemic levels and are showing stronger momentum include electrical appliances and petroleum amid ASEAN reopening and improving tourism activity. Industries which production have exceeded pre-pandemic levels and are stable include IC & Semiconductor as upside is capped by supply disruption. Industries which production remain below pre-pandemic levels but are showing stronger momentum include Rubbers & Plastics, Automotive, Cement & Construction and Food & Beverages given improving domestic demand and recovering tourism activity. Industries which production remain below pre-pandemic levels and continue to register weak momentum include Textiles & Apparels, Chemicals and HDD, because of slowing global demand.

Manufacturing Production Index (MPI) by sector
(% change from pre-COVID; 2019 =100)





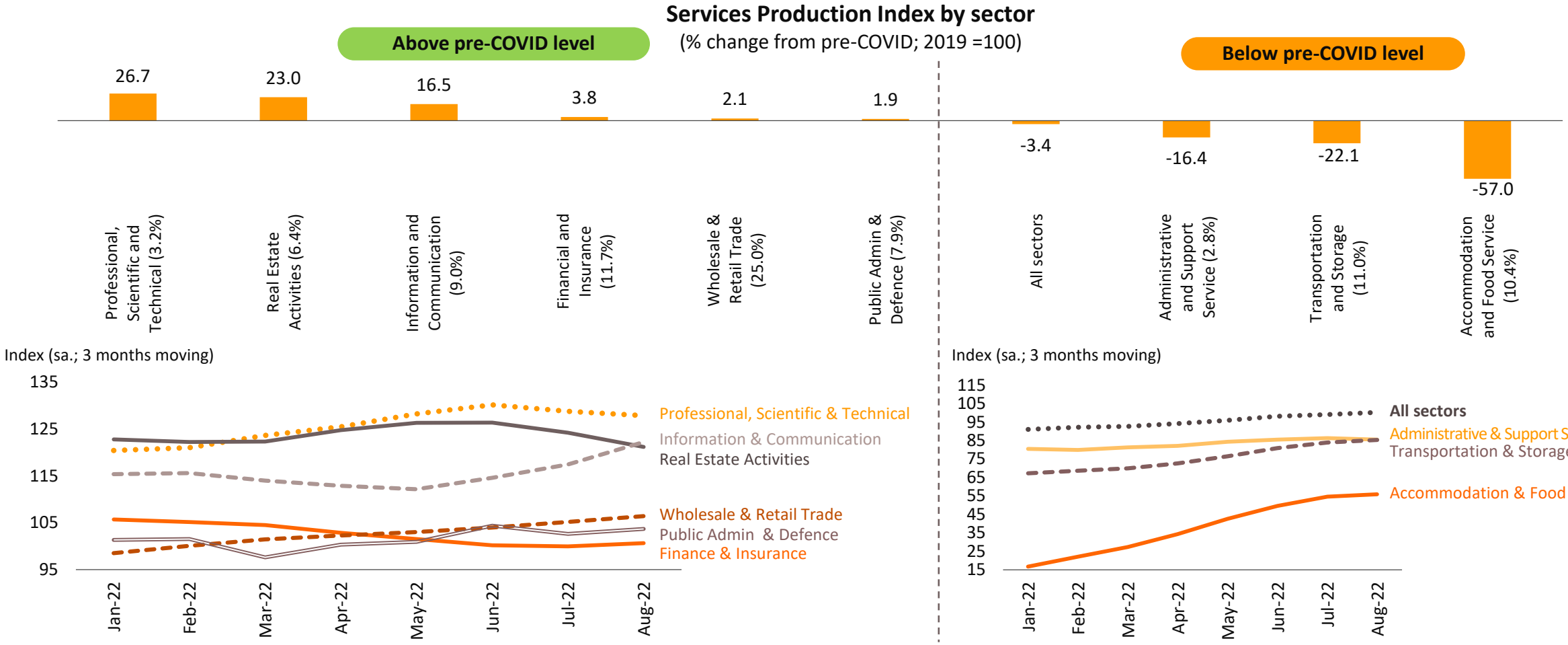




Note: (% share)
Source: OIE, CEIC, Krungsri Research

Services sector has recovered substantially this year but activity in some key segments remain far below pre-Covid levels

The Service Production Index (SPI) for the first 8 months of this year expanded sharply by 12.1% YoY with tailwinds from reopening and relaxation of containment measures. Production in many service segments has recovered past pre-pandemic levels and are registering stronger momentum, led by Wholesale & Retail Trade, Real Estate Activities and Information & Communication. Segments which activity remain weaker than pre-covid levels but are improving include Accommodation & Food Service and Transportation & Storage, supported by improving tourism and domestic activities with the removal of most pandemic restrictions. Indices for Accommodation & Food Service and Transportation & Storage are 22.1% and 57.0% below pre-pandemic level, respectively.



Note: (% share)

Source: BOT, CEIC, Krungsri Research

Services sector is recovering stronger than manufacturing, but key sectors are still fragile

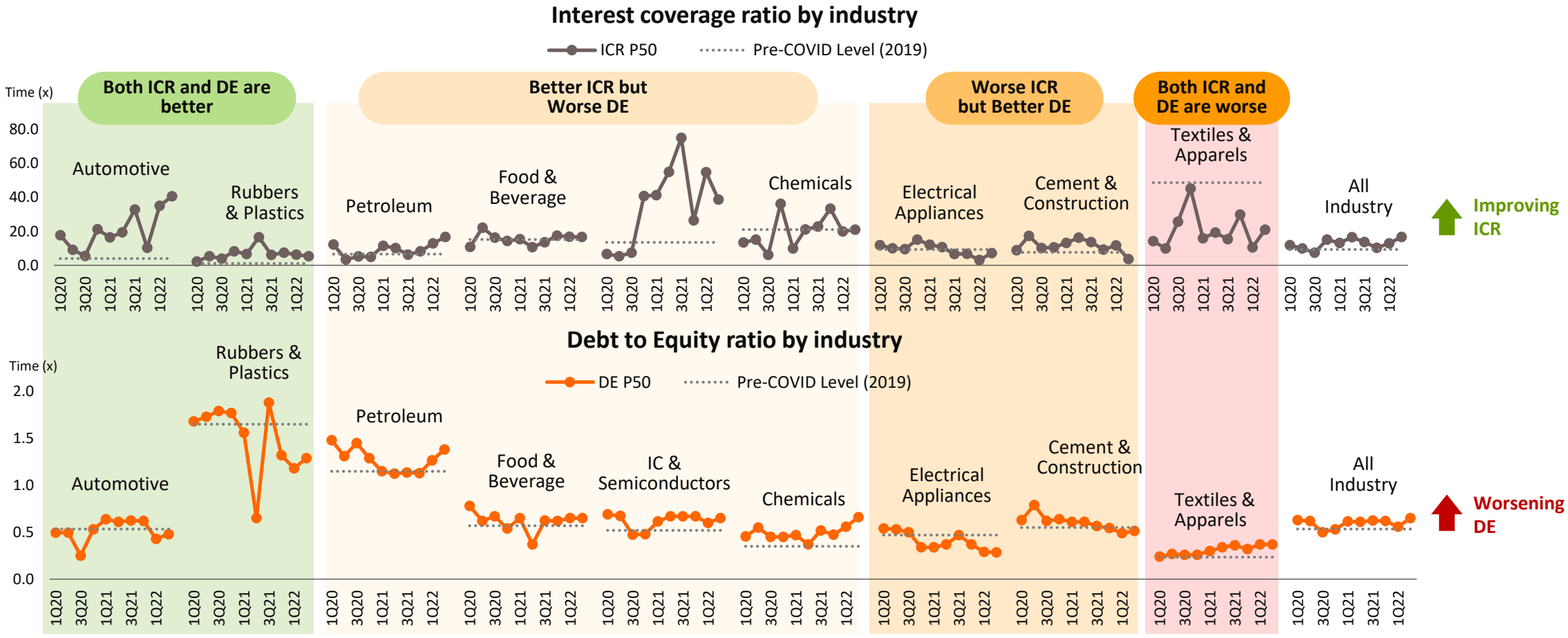
Manufacturing industries which have recovered past pre-Covid levels and are registering strong growth account for 13.8% of total manufacturing production. **Services industries** in the same classification account for 51.5% of total services production. Manufacturing and services industries which remain weaker than pre-pandemic levels but are registering improvements account for 48.4% of total manufacturing production and 24.2% of total services production, respectively. **These industries have growth potential but recovery remain fragile**, especially *Accommodation* and *Transportation*.

Output and momentum	Manufacturing Industries indicated by MPI	Services Industries indicated by SPI
Above pre-Covid level and strong growth momentum	• Electrical Appliances (3.8% share*) • Petroleum (9.5%)	• Professional, Scientific & Technical (3.2% share**) • Wholesale & Retail Trade (25.0%) • Real Estate Activities (6.4%) • Information & Communication (9.0%) • Public Admin. & Defence (7.9%)
Above pre-Covid level with steady momentum	• IC & Semiconductors (5.5%)	• Financial and Insurance (11.7%)
Below pre-Covid level but strong growth momentum	• Rubbers & Plastics (8.8%) • Automotive (13.8%) • Cement & Construction (5.5%) • Food & Beverage (20.3%)	• Accommodation & Food Service (10.4%) • Transportation & Storage (11.0%) • Administrative & Support Services (2.8%)
Below pre-Covid level and weaker momentum	• Textiles & Apparels (3.5%) • Chemicals (9.1%) • HDD (3.4%)	

Note: (* % share in manufacturing production; ** % share in service production)
Source: Krungsri Research

Manufacturing sector financial health: Uneven recovery, concerns over high debt burden and weaker external demand

Thanks to Thailand's recovering economy and the low-base last year, most manufacturing industries are registering better Interest Coverage Ratio (ICR), implying corporate profits are rising and they are meeting their debt obligations. The exceptions are *Cement & Construction* and *Textile & Apparels* which continue to be pressured by weak demand and higher cost of living. However, most of their balance sheets have not improved, especially *Chemicals* industry, with Debt-to-Equity (DE) ratios yet to reach pre-Covid (2019) levels, implying risks from a global economic slowdown and interest rate hike cycle. Industries which saw improvements in Interest Coverage Ratio and Debt-to-Equity ratio are *Automotive* and *Rubber & Plastics* given improving chip supply and healthy demand for rubber products.

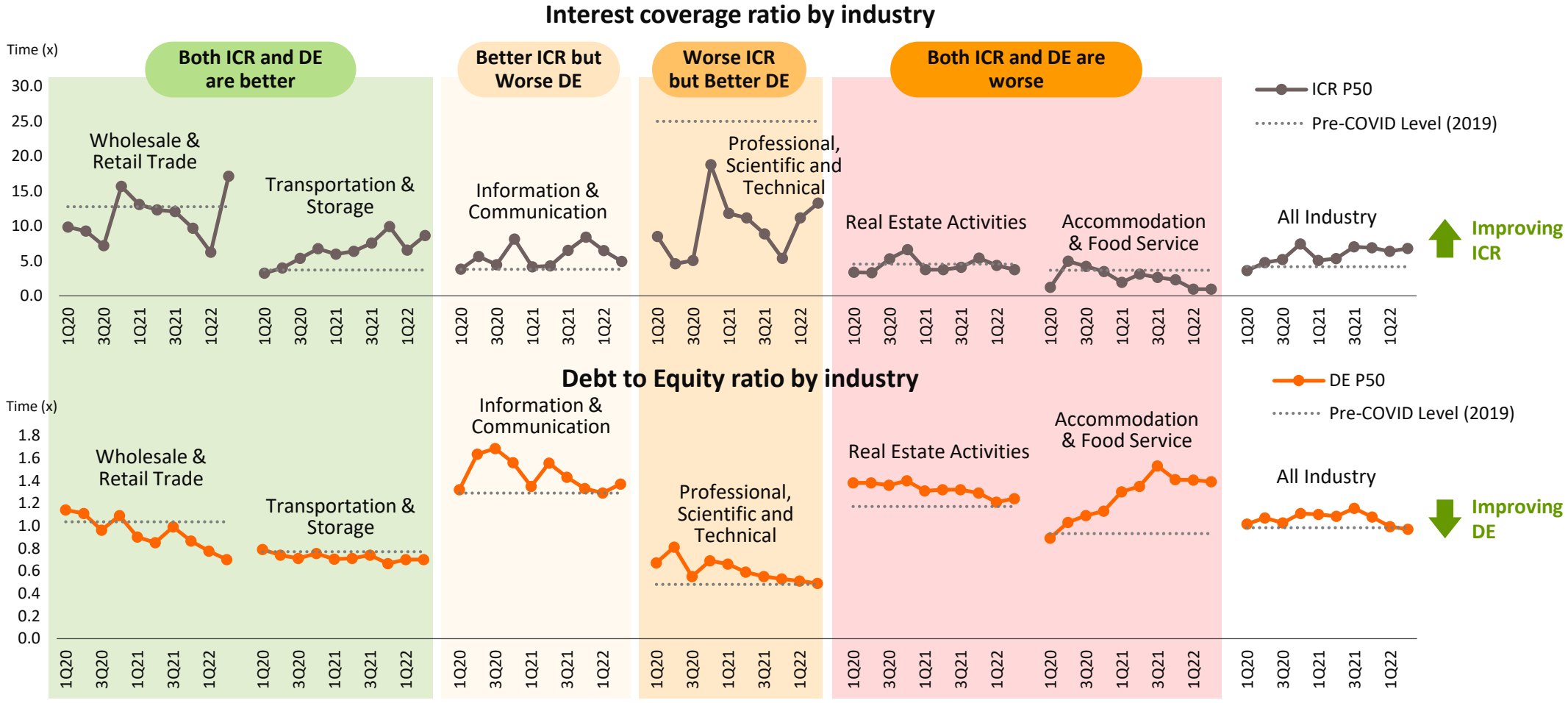


Note*: 50th percentile

Source: Stock Exchange of Thailand; calculation by Krungsri Research

Services sector financial health: Gaining momentum amid reopening tailwinds but remain weak in Accommodation and Real Estate industries

We have seen broad-based recovery in industries which have benefited substantially from reopening tailwinds and rising pent-up demand, such as *Wholesale & Retail Trade, Transportation & Storage, Information & Communication*, and *Professional, Scientific & Technical.* The exceptions were *Accommodation & Food Service* and *Real Estate* industries which continue to be pressured by rising material costs and the interest rate tightening cycle. Despite the strong recovery in tourism activity – albeit still far below pre-Covid level - we spot red flags in *Accommodation & Food Service* with their high debt leverage and worsening interest coverage ratios, implying the financial health of businesses in this industry remain fragile and vulnerable to future shocks.

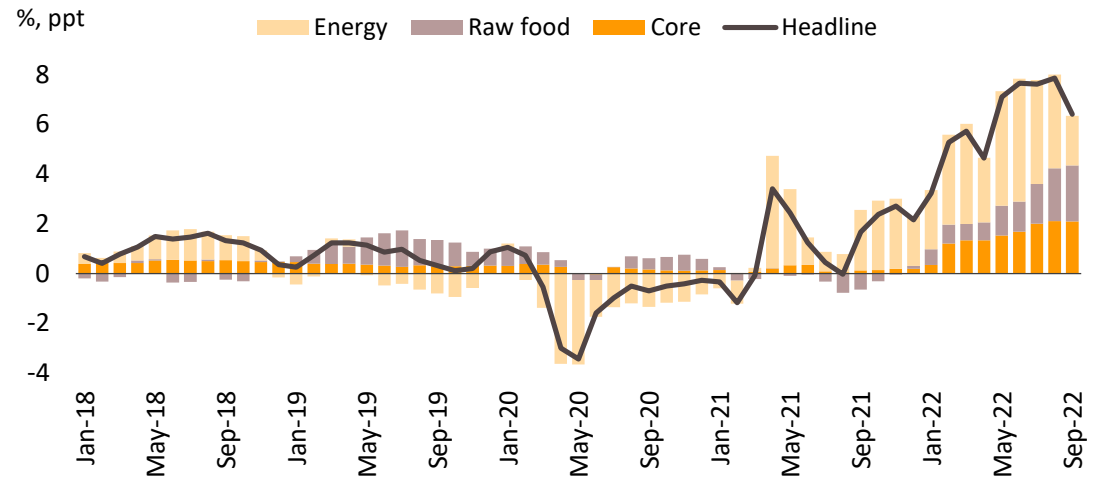


Note*: 50th percentile

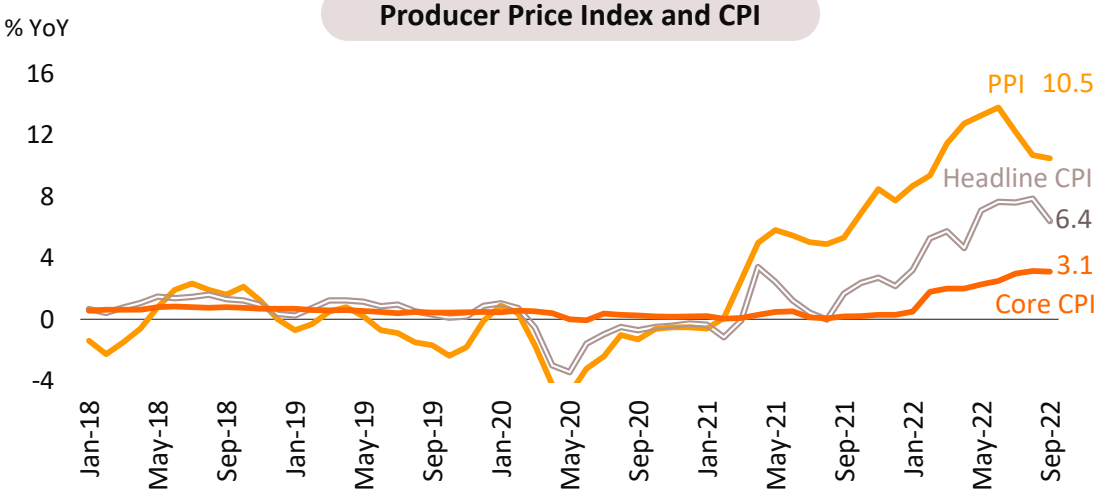
Source: Stock Exchange of Thailand; calculation by Krungsri Research

Headline inflation starts to ease in Q4 but still pressured by volatile global crude prices

Contributors to inflation



Producer Price Index and CPI



Consumer Price Index: Major categories

Consumer Price Index (% YoY)*	Weight	2020 J F M A M J J A S O N D	2021 J F M A M J J A S O N D	2022 J F M A M J J A S
Headline CPI	**100.00%**			
Food & beverages	41.01%			
Apparel & footwears	2.08%			
Housing & furnishing	21.93%			
Medical & personal care	5.36%			
Transportation & communication	24.08%			
Recreation & education	4.20%			
Tobacco & alcoholic beverages	1.33%			
Raw food	20.71%			
Energy	14.71%			
Core CPI	**64.58%**			

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

Krungsri Research's view

- **Headline inflation reached 6.41% YoY in September**, easing from a 14-year high of 7.86% in August. That was led by lower fuel prices in line with global crude prices. However, prices of other energy-related goods continued to rise, including cooking gas and electricity tariff. In addition, price of fresh vegetables surged because of flooding in cultivation areas and higher demand during the Vegetarian Festival. Core inflation (excluding raw foods and energy prices) reached 3.12%, exceeding 3% for the second month in a row but was notch below 3.15% in August. **For the first 9 months of 2022, headline and core inflation stood at 6.17% and 2.26%, respectively.**
- **For the rest of the year, headline inflation would ease further after peaking in August due to** (i) a high base in the same period last year; (ii) falling global food prices; and (iii) additional subsidy measures to reduce cost of living in late-2022. However, domestic demand improved given almost-full reopening, recovering tourism activity, and strong farm income. In addition, volatile global energy prices following the prolonged Russia and Ukraine war and higher raw materials costs as a result of the weaker baht would limit downside to inflation.

Source: MOC, Krungsri Research

Fragile and uneven recovery in Thailand suggests *domestic rate hikes* should be gradual to continue to nurture overall economic growth

BOT's forecast of key economic indicators

Key indicators		2022F		2023F	
		Previous	Latest	Previous	Latest
GDP growth	YoY (%)	3.3	3.3 =	4.2	3.8 ▼
Private Consumption Expenditure	YoY (%)	4.9	5.6 ▲	3.6	3.3 ▼
Government Consumption Expenditure	YoY (%)	-1.9	-2.2 ▼	-0.5	-1.1 ▼
Private Investment	YoY (%)	5.4	3.3 ▼	4.5	3.9 ▼
Public Investment	YoY (%)	3.5	1.7 ▼	3.4	2.3 ▼
Nominal Exports in USD (f.o.b.)	YoY (%)	7.9	8.2 ▲	2.1	1.1 ▼
Nominal Imports in USD (f.o.b.)	YoY (%)	13.8	16.8 ▲	3.5	1.8 ▼
Current Account Balance	USD, bn	-8.0	-14.4 ▼	5.0	3.8 ▼
Tourist Arrivals	persons, mn	6.0	9.5 ▲	19.0	21.0 ▲
Headline Inflation	YoY (%)	6.2	6.3 ▲	2.5	2.6 ▲
Core Inflation	YoY (%)	2.2	2.6 ▲	2.0	2.4 ▲
Dubai crude price - period average	USD/bbl	105	102 ▼	105	100 ▼

Source: BOT (September 2022)

Krungsri Research's view

- At the September 28 meeting, the MPC unanimously voted to raise policy rate by 25 bps to 1.00% to continue to support an economic recovery amid global risks. Meanwhile, the BOT maintained its 2022 economic growth projection at 3.3% and trimmed 2023 growth forecast to 3.8% from 4.2%, to reflect risks from a global slowdown next year.
- The central bank should continue with policy normalization as the MPC has assessed that *"the Thai economic recovery has continued to gain traction, driven mainly by tourism and private consumption. Headline inflation remains at a high level as cost pass-through has increased in the recent period…"* However, recovery in some industries remain fragile; specifically vulnerable groups like SMEs have yet to recover fully and low-income households are still sensitive to the rising cost of living.
- The MPC is unlikely to take an aggressive stance on policy rate hikes given the fragile economic recovery coupled with the committee's view on exchange rates, citing the rapid depreciation of the baht was mainly due to the USD strength and not because of a change in the fundamentals of the Thai economy. The committee judged that the baht weakness is not at a level that could derail overall economic growth and inflation outlook. In addition, the BOT also expects inflation in Thailand to start to drop later this year and return to the target range in 2023.
- Therefore, we expect Thai policy rate to normalize gradually and in a measured manner to a level that can support sustainable growth. In the near future, Thailand's economic recovery would remain uneven across sectors because of legacy covid crisis impact and spillover effect of external headwinds. **In our view, despite the rapid depreciation of the baht and high inflation, the preliminary signs of economic recovery suggest the MPC would raise policy rate by 25 bps at the next meeting on 30 November to maintain price stability and support economic recovery. When Thailand's economic activity reaches pre-covid level, estimate by late this year or early next year, the MPC might raise policy rate further by 25bps each at its two meetings in 1Q23 to 1.75%.**

KRUNGSRI RESEARCH

Macroeconomic Team

Sujit Chaivichayachat	Head of Macroeconomic Research Department
Churailuk Pholsri	Senior Economist (Forecasting)
Sathit Talaengsatya	Senior Economist (Regional Economy)
Thansin Klinthanom	Economist
Supasyn Itthiphatwong	Economist

Industry Team

Pimnara Hirankasi, Ph.D.	Head of Industry Research Department
Taned Mahattanalai	Senior Analyst (Digital)
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	Analyst (Hotels, Construction Contractors, Construction Materials, Industrial Estate)
Patchara Klinchuanchun	Analyst (Real Estate)
Chaiwat Sowcharoensuk	Analyst (Agriculture)
Wanna Yongpisanphob	Analyst (Automobile, Electronics & Electrical Appliances, Food & Beverages)
Suppakorn Kornboontritos	Analyst (Agriculture)

Intelligence Team

Pimnara Hirankasi, Ph.D.	Acting Head of Analytics and Intelligence Research Department
Nathanon Ratanathamwat	Senior Analyst
Chinnakrit Ampornpannawat	Analyst
Parinya Mingsakul	Analyst

MIS and Reporting Team

Thamon Sernsuksakul	Administrator
Chirdsak Srichaiton	MIS Officer
Wongsagon Keawuttung	MIS Officer

Subscribe Us

For research subscription, contact ***krungsri.research@krungsri.com***

Disclaimer

All material presented in this report, unless specifically indicated otherwise, is under copyright to Krungsri Research. None of the material, nor its content, nor any copy of it, may be altered in anyway, or copied to any other party, without the prior express written permission of Krungsri Research. This document is based on public information believed to be reliable. Nevertheless, Krungsri Research would not affirm the accuracy and completeness of this information. We accept no liability whatsoever for any direct or consequential loss arising from any use of this document or its content. Information, opinions and estimates contained in this report are our own, which are not necessarily the opinions of Bank of Ayudhya Public Company Limited and its affiliates. It reflects a judgment at its original date of publication by Krungsri Research and are subject to change without notice.