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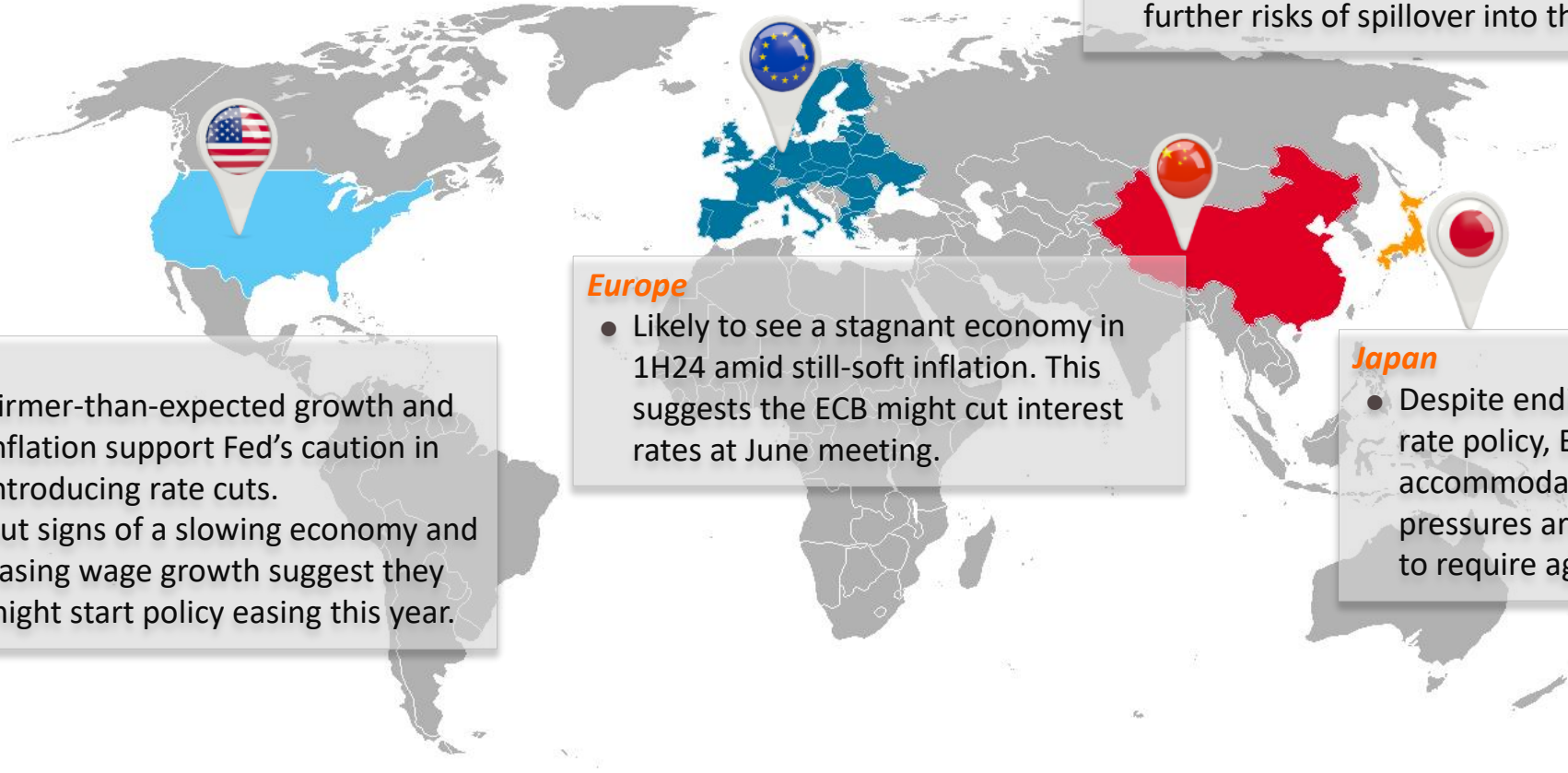
MONTHLY ECONOMIC BULLETIN

April 2024



Krungsri Research

Global: Marginal and Cautious Improvement



China

- Economy reveals glimpses of sunshine, but the real estate sector continues to cast shadows, posing further risks of spillover into the financial sector.

US

- Firmer-than-expected growth and inflation support Fed's caution in introducing rate cuts.
- But signs of a slowing economy and easing wage growth suggest they might start policy easing this year.

Europe

- Likely to see a stagnant economy in 1H24 amid still-soft inflation. This suggests the ECB might cut interest rates at June meeting.

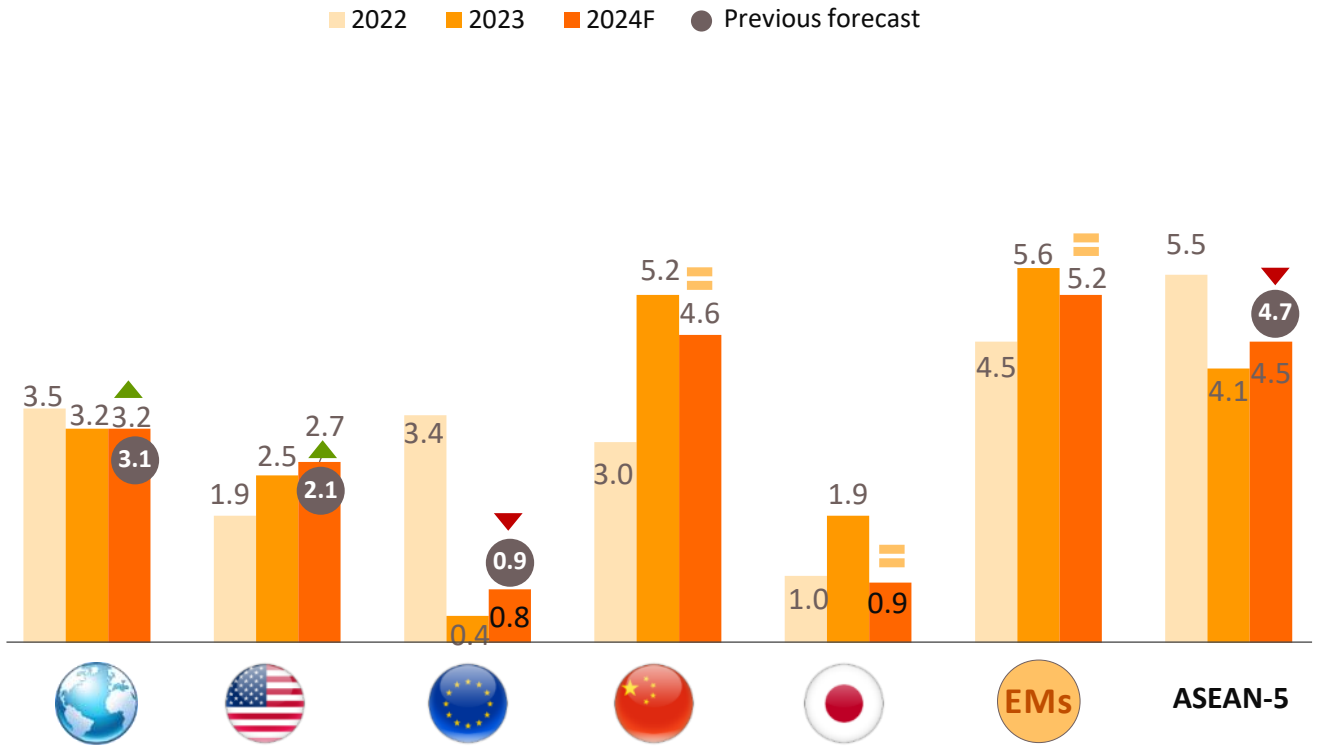
Japan

- Despite ending negative interest-rate policy, BOJ should keep an accommodative stance as price pressures are not strong enough to require aggressive rate hikes.

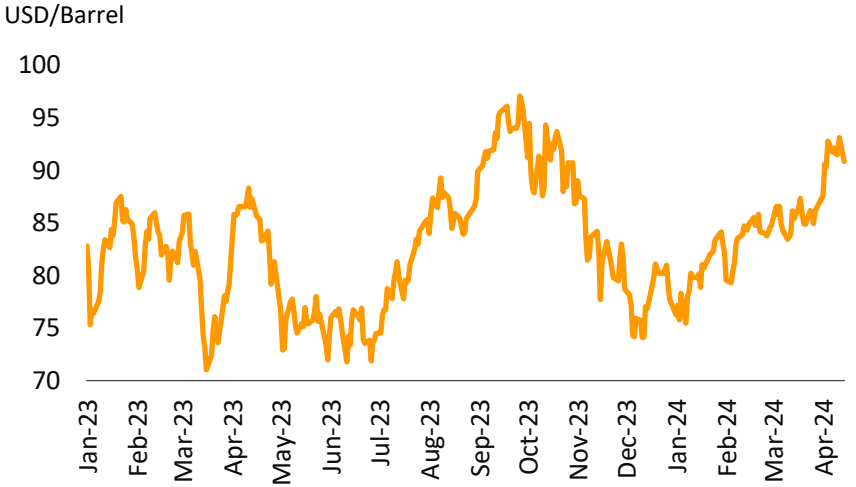
IMF inched up 2024 *global growth forecast* to 3.2%, still below historical average, while warning a cautious outlook amid inflation concern and geopolitical risk

The IMF has slightly revised up 2024 global economic growth projection by 0.1 percentage point to 3.2%, reflecting upgrades for the US and some large emerging markets. The latest 2024 global growth forecast is the same pace as in 2023 but remains below the historical (2000-2019) annual average of 3.8%, owing to near-term factors, such as still-high borrowing costs and withdrawal of fiscal support, and longer-term effects from the Covid-19 pandemic and Russia's invasion of Ukraine; weak growth in productivity; and increasing geoeconomic fragmentation. **In addition, the IMF's latest forecast of global growth five years from now – at 3.1% -- is at its lowest in decades. Downside risks could stem from rising geopolitical tensions,** high interest rates, China's troubled property sector, high government debt and intensifying geoeconomic fragmentation.

Economic growth projections for global and major economies (%)



Crude oil price

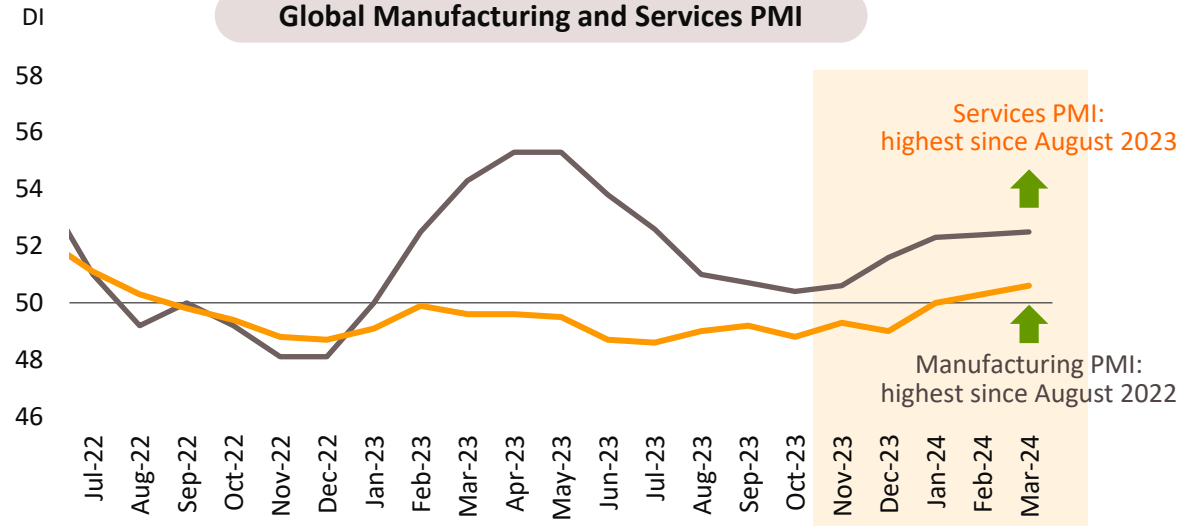


- Recently, the drone attacks by Iran on Israel have increased geopolitical tension. The strike have been interpreted as calibrated by Iran to avoid a substantial escalation and the risk that the Gulf states get dragged into any conflict involving Iran has diminished significantly over the past five years.
- However, rising geopolitical tension remains a key risk for the world economy. There is fear that this might escalate into a broader regional conflict and have a significant impact on energy markets. A rise in oil prices could complicate central banks' efforts to tame inflation risk and energy markets would still be the key transmission mechanism from escalating tensions to the rest of the global economy.

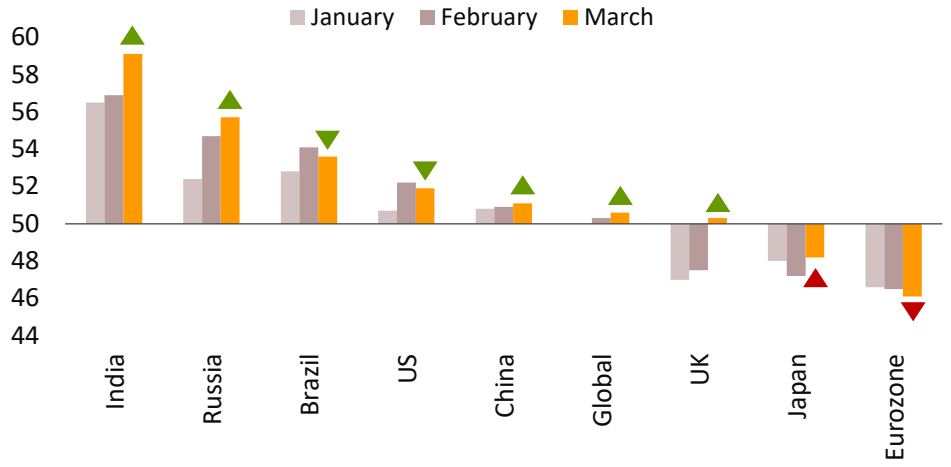
Source: IMF, World Economic Outlook (April 2024), Capital Economics, Energy Information Administration, CEIC, Krungsri Research

Global manufacturing and services activities to pick up in the near team supported by favorable supply conditions and higher real income; disinflation trend slows down

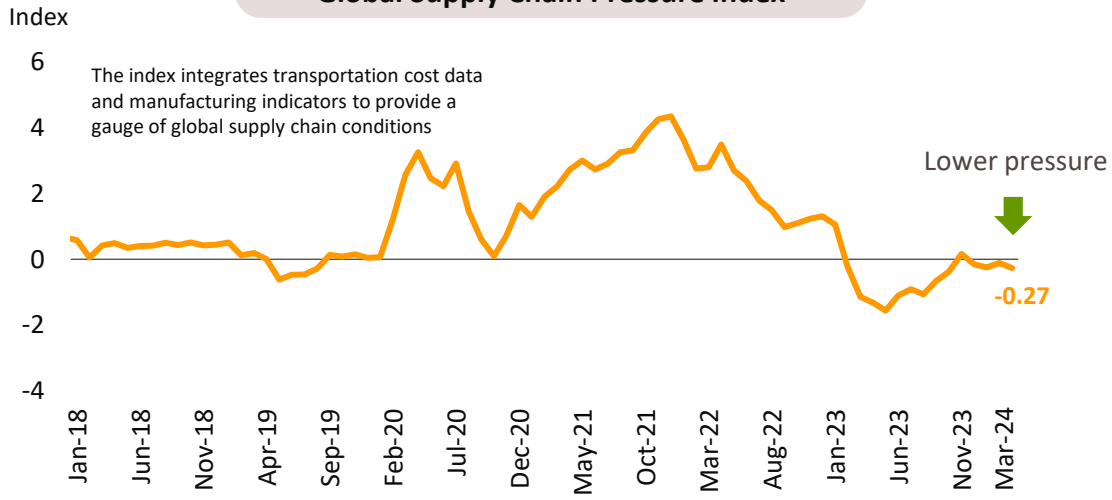
Global Manufacturing and Services PMI



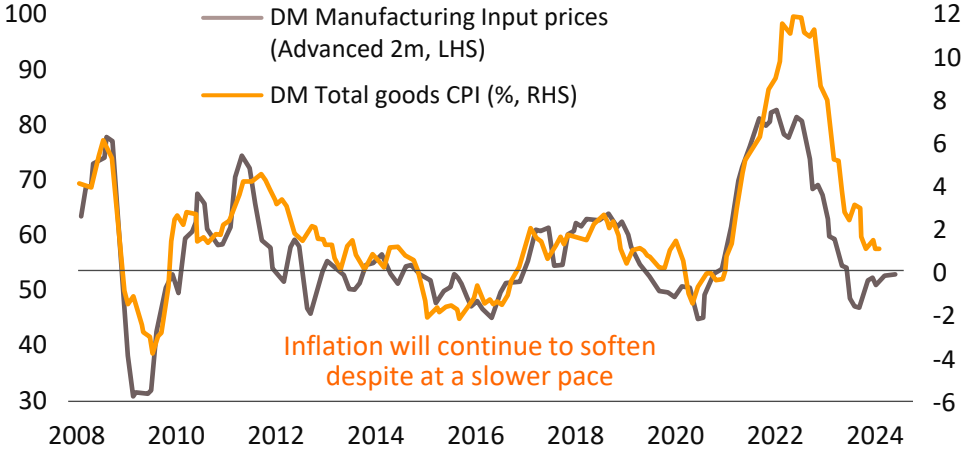
Major Countries' Manufacturing PMI



Global Supply Chain Pressure Index



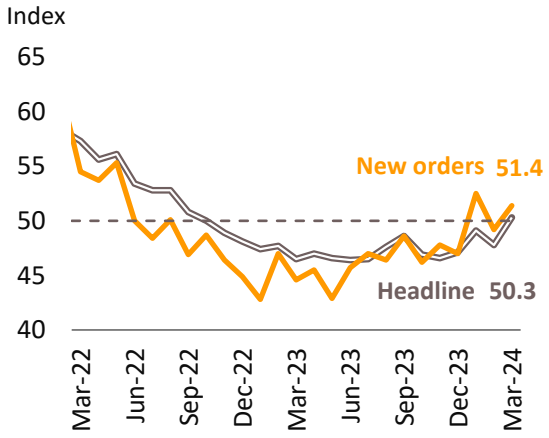
Developed countries: Input Price PMI and Goods inflation



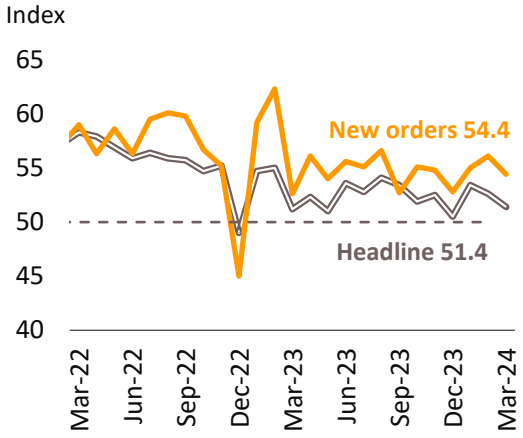
Source: S&P global, JP Morgan, New York Fed, Capital Economics, Bloomberg, Krungsri Research

US: Firmer-than-expected growth and inflation keeps Fed cautious in introducing rate cuts, but a slower economy and easing wage growth suggest policy easing this year

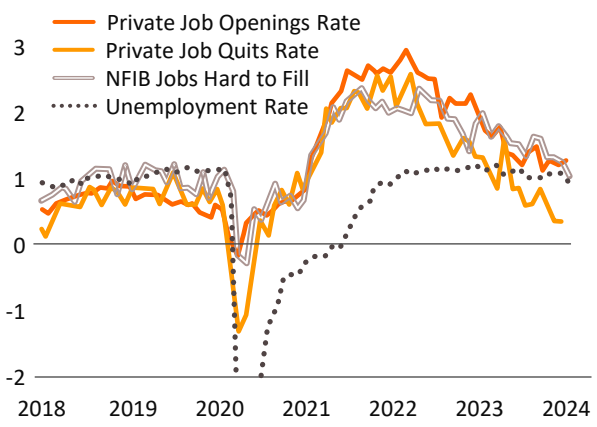
ISM Manufacturing PMI



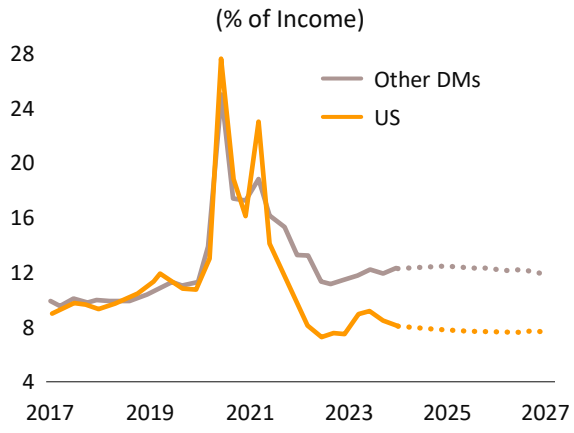
ISM Services PMI



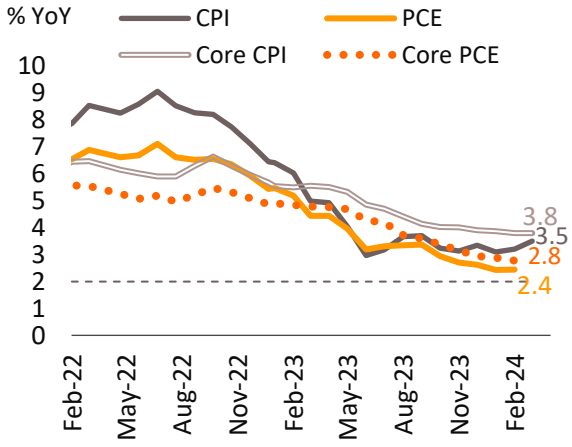
Labor Market Slack Measures (Z Scores)



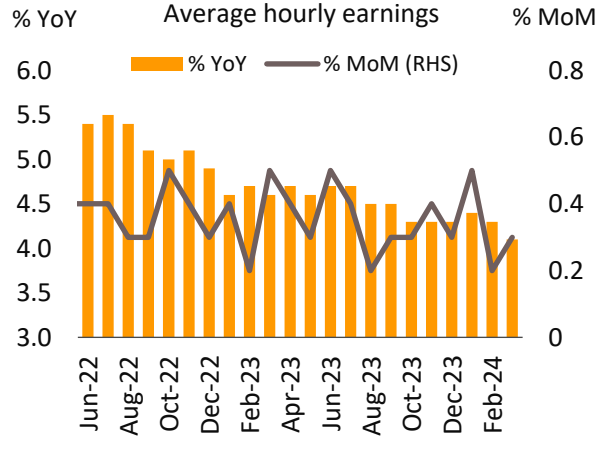
Household Gross Saving Rates



CPI, Core CPI, PCE, and Core PCE



Wage Growth: %YoY and %MoM



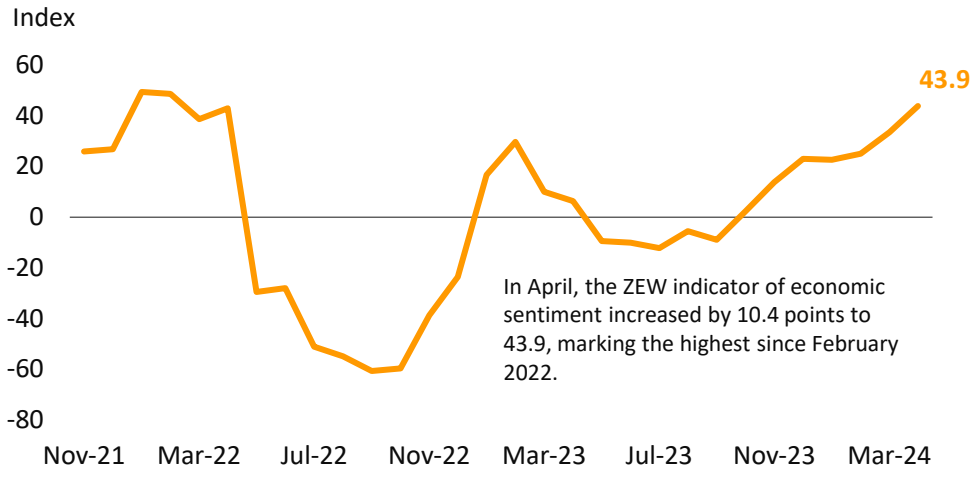
Source: ISM, BLS, Capital Economics, CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

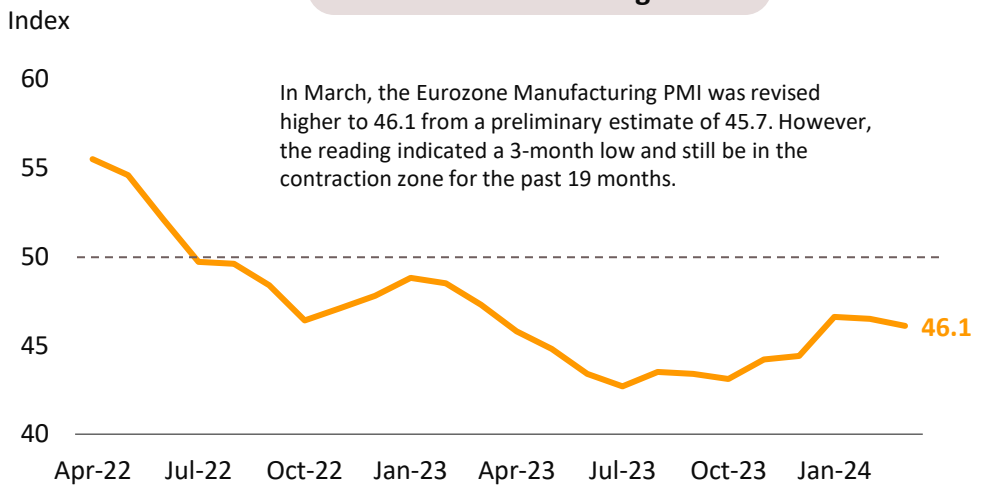
- **Strong labor market and concerns over sticky inflation reduce chance of a June rate cut.**
  - **The economy added 303k jobs in March, better than 200k market expectation.** Unemployment rate fell to 3.8% from 3.9% in February. However, the strength is mainly supported by only two sectors—private education & healthcare and leisure & hospitality. Surging immigration is a major boost in the labor market.
  - **Lingering inflation concerns.** Inflation rose to 3.5% YoY in March from 3.2% in February, driven by rising costs for shelter and gasoline, which contributed over half the monthly increase in the index. Producer Price Index rose 2.1%, the biggest gain since April 2023.
- **However, a slowing economy and disinflation trend still support rate cuts in 2H24.**
  - Although manufacturing activity (11% of GDP) reversed to expand in March, **the services sector** (over 70% of GDP) signaled slowing growth for the second consecutive month.
  - **Household savings**-to-income ratio has fallen below pre-pandemic level.
  - **Strong job growth was supported by a surge in immigration, so that is unlikely to push up wages and inflation.** Most measures of **labor market slack** are returning to pre-pandemic levels with **quit rate** falling below pre-pandemic level, suggesting wage growth could slow down. **Average hourly earnings** grew by only 4.1% YoY in March, the smallest gain since June 2021. **The measure of price paid by services businesses** plunged to a 4-year low in March.
- **Slower services activity, falling household savings, and easing wage growth are opening the door for the Fed to cut rates in 2H24. We expect Fed Funds rate to fall to 4.25-4.50% by end-2024, which still implies a restrictive monetary policy, due to positive real interest rates.**

Eurozone: Economy could stagnate in 1H24 amid softer inflation, suggesting the ECB might cut interest rates at June meeting

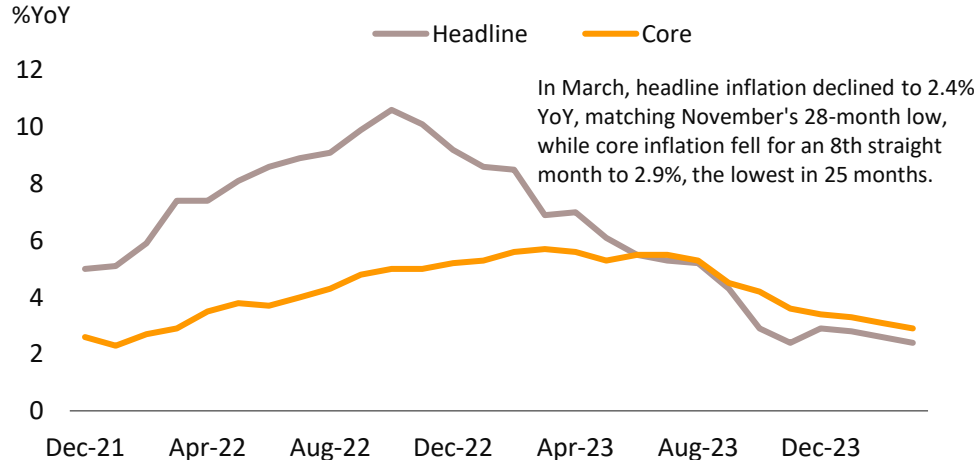
ZEW Economic Sentiment Index



HCOB Manufacturing PMI



Consumer Price Index



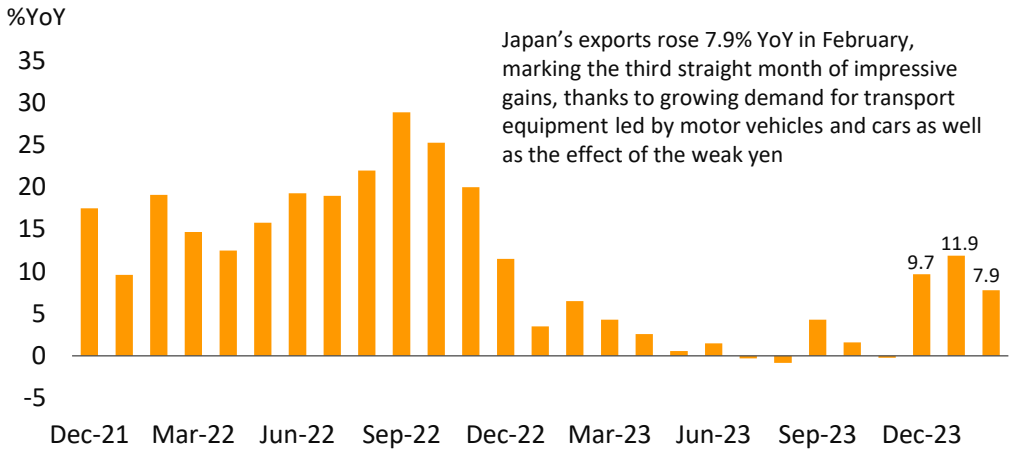
Source: ECB, CEIC, BLS, investing.com, Eurostat, Bloomberg, Krungsri Research

Krungsri Research's view

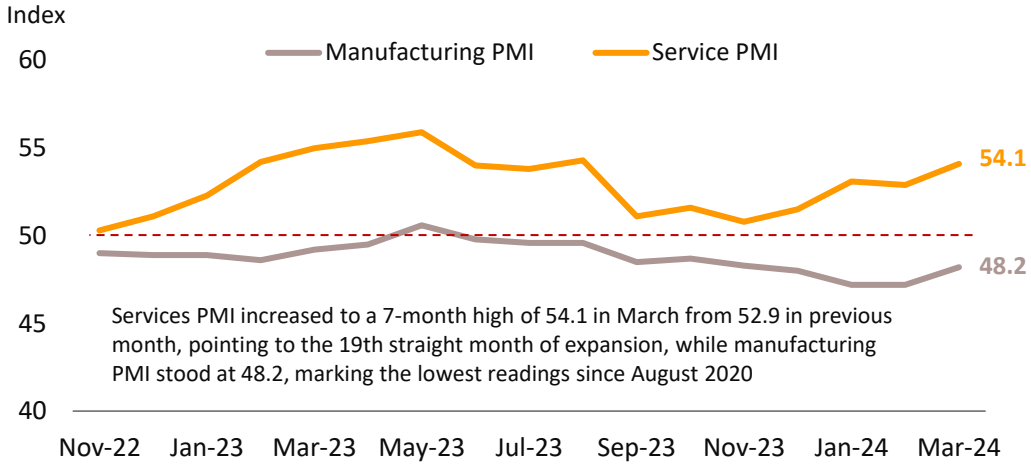
- **Latest Eurozone economic indicators are pointing to a technical recovery**: (i) ZEW Indicator of Economic Sentiment marked the highest level since February 2022; (ii) Services PMI has improved for 2 months; and (iii) still-tight labor market conditions with unemployment rate at a record low of 6.5%. These will help the Eurozone to offset most of the headwinds from higher interest rates and reduce risk of a recession this year.
- **However, Eurozone economy is unlikely to see a meaningful recovery in 1H24** despite softening inflation, favorable supply chain conditions, and a technical rebound in global export and manufacturing activities recently. This is because of the following: (i) Manufacturing PMI has been in contraction zone for the last 19 months; (ii) continued weak demand for credit from both households and NFCs* because of drag from recent monetary policy tightening amid low industrial capacity utilization; (iii) slowdown in housing market would cap construction spending later in the year; (iv) still-low consumer confidence amid high interest rates would suppress consumption growth, and (v) unwinding fiscal policy to reduce the budget deficit, after the government no longer needs to address the energy crisis.
- According to minutes of the bank's March 6-7 meeting released on April 4**, the European Central Bank (ECB) is increasingly confident inflation would head back to its 2% target and support a decision to reduce borrowing costs (now at record highs)**. Coupled with near-zero growth for the Eurozone economy this year, **we maintain that the ECB would start to cut rates at the June meeting**. Apart of that, the ECB plans to end reinvestments under the PEPP and might start selling assets next year to reduce excess liquidity and to recover some policy space for the future.

Japan: Despite ending negative interest-rate policy, BOJ should keep accommodative stance as price pressures are not strong enough to require aggressive rate hikes

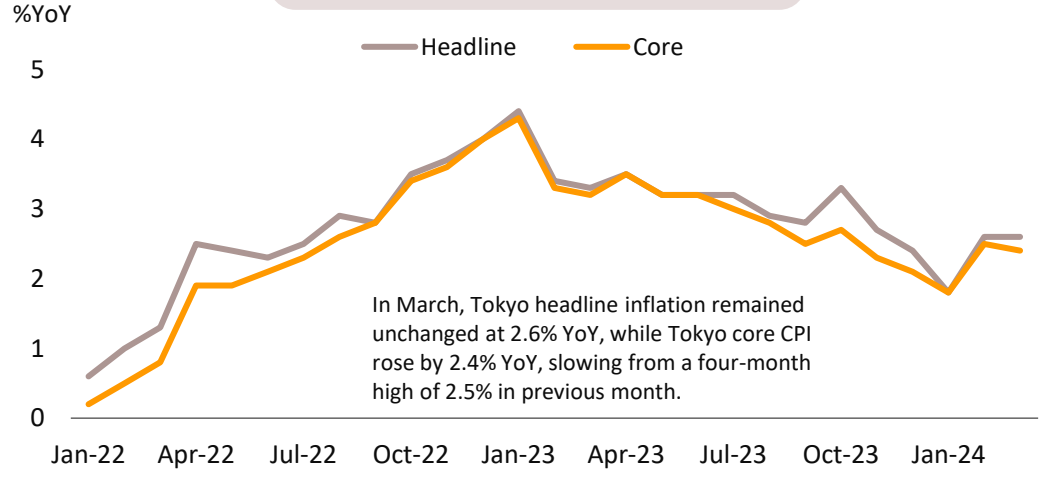
Export growth



Purchasing Managers' Index (PMI)



Tokyo Consumer Price Index



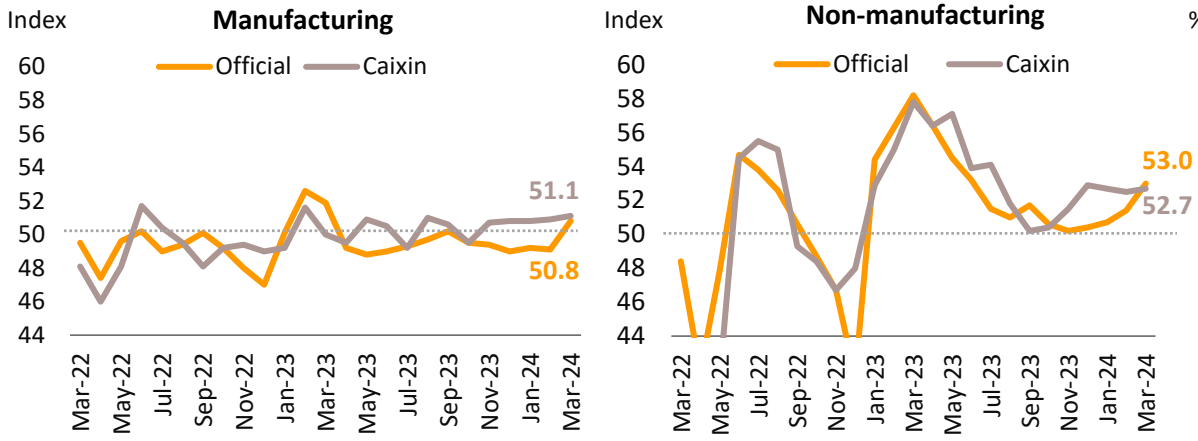
Source: ECB, CEIC, BLS, investing.com, Eurostat, Bloomberg, Krungsri Research

Krungsri Research's view

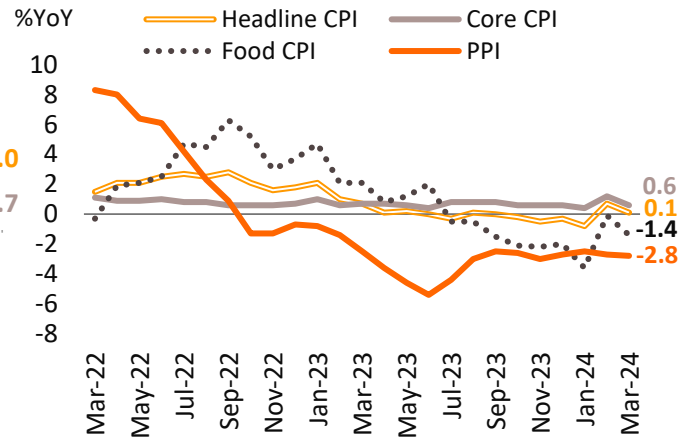
- **Key economic data continued to strengthen, suggesting the worst is over.** This include a surge in exports in the last 3 months, backed by accelerated spending overseas, solid demand for tourism extending the upswing in service activity and improving business and consumer sentiment, and still-accommodative monetary policy stance to continue to support economic recovery.
  - In February, exports rose 7.9% YoY following 11.9% growth in the previous month, marking the third straight month of impressive gains.
  - By value, exports increased to JPY8.25 trn in February from JPY7.33 trn in the previous month and from JPY6.55 trn in the same period last year, after reaching a new high of JPY9.64 trn in December.
- **Private consumption remains a weak spot in Japan's economy, but we expect that to improve from Q2 onwards** following promising wage gains after Japan's biggest companies agreed to raise wages by 5.25% for 2024, the largest pay hike in 30 years. That should take real wage growth to positive territory by mid-2024 amid slower inflation. All in, Japan's economy could register modest growth in the second-half of this year.
- In response to a possible strengthening of the wage-inflation cycle, the BOJ (Bank of Japan) finally ended its negative interest rate regime with the first interest rate hike, as well as ended control over 10-year bond yields at the March meeting. **However, it might not end the accommodative stance as price pressures are not strong enough to require aggressive rate hikes. Thus, we expect the BOJ to keep its accommodative policy stance now,** to maintain 2% inflation rate. That suggests slow pace of rate hikes for the rest of the year.

China: Economy reveals glimpses of sunshine but real estate continues to cast shadows, posing further risks of spillover into the financial sector

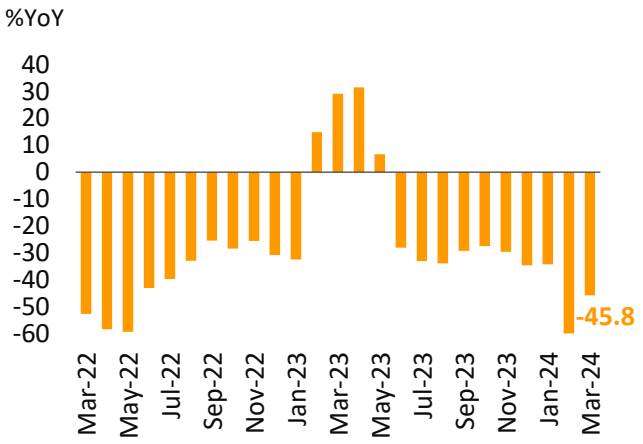
Purchasing Managers' Index (PMI)



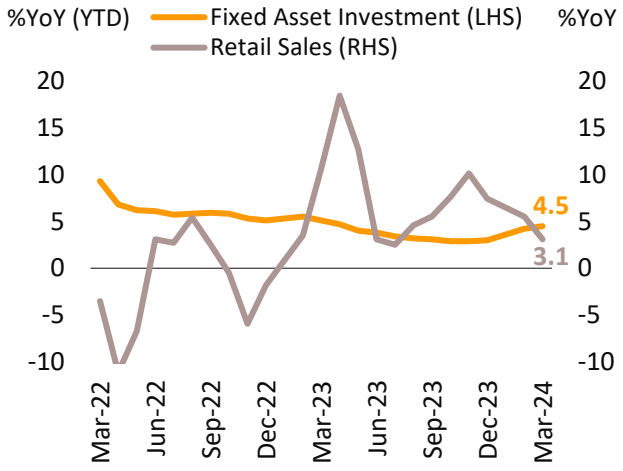
Consumer and Producer Price Indices



New Home Sales by Top 100 Developers



Fixed Asset Investment and Retail Sales



Bad Loans in Big Banks

Big-four State-owned Banks	Bad Loans Growth in 2023	
	Property Developers	Construction-related Firms
CCB	+43.3%	+22%
ABC	+1.3%	+16.2%
ICBC	-8%	+87.4%
BOC	-13.9%	+51.3%
Total	**+2.1%**	**+38.4%**

Source: National Bureau of Statistics, CEIC, Bloomberg, Nikkei Asia, Reuters, China Real Estate Information Corp., Fitch Ratings and Krungsri Research

Krungsri Research's view

- **Some economic sectors are showing signs of improvement.** The official Manufacturing PMI climbed to the expansion zone for the first time since September, thanks partly to stimulus measures and foreign demand in some sectors. Fixed asset investment growth in 1Q24 also beat expectations, affirming signs of a rebound in manufacturing activity. Meanwhile, the services sector remained the key growth driver in 1Q24. With these positive factors, GDP growth increased to 5.3% in 1Q24 from 5.2% in 4Q23, exceeding expectations. **Looking ahead, manufacturing and services activity should continue to expand and help drive GDP growth in 2Q24.** However, domestic demand is likely to remain fragile, and the real estate sector will remain a drag.
- **Concerns over deflationary pressure remain.** Headline inflation fell to 0.1% YoY in March from 0.7% in February, reflecting a short-lived momentum after the Lunar New Year. We expect inflation to remain low due to oversupply, aggressive price cuts, and weak consumer confidence. Meanwhile, the Producer Price Index (PPI) fell for the 18th straight month, reflecting excess capacity in some sectors (e.g. construction material).
- **Real estate activity remains weak.** In March, sales of new homes by the top 100 developers dropped by 45.8% YoY. Country Garden, a major developer, recently failed to make interest payments worth USD 13.3mn due on March 12. Vanke's credit rating was downgraded after its contracted sales fell 53% in February. **And, the real estate crisis is increasing risks to the financial sector.** In 2023, the 'big four' state-owned banks reported 2.1% and 38.4% increases in bad loans to property developers and construction-related companies.
- **Fitch Ratings revised its outlook on China's credit rating from *stable* to *negative,*** citing uncertain prospects amid a transition from the property-led growth. And, with more fiscal policies, public debt would continue to rise. This reflects growing financial risks that could continue to pressure the economy for the coming years.

Thailand: A growing but cautious hope for economic recovery

- **Tourism sector remains the major hope to drive further economic expansion** though the sector's growth could slow down with the low season in 2Q24. Foreign tourist arrivals and tourism revenues reached 87-88% of pre-pandemic level in 1Q24.
- **There is a growing but cautious hope that approval of FY2024 budget bill and progress in stimulus programs would create new forces to encourage greater public and private spending later this year.** Details on funding of the THB 500bn Digital Wallet program were recently provided, which looks set to be rolled out from 4Q24. Although there are clearer details on funding for this program, there are still hurdles and uncertainties ahead.
- Regarding economic impact, the government expects the scheme to boost economic growth by 1.2-1.8%. However, **Krungsri Research expects a more cautious estimate of 0.5-1.1% of GDP for the whole scheme.** On the fiscal stability front, the revised financing plan is expected to widen the national budget deficit to 4.42% of GDP in FY2025**. It is set to increase public debt to a record high of 66.93% of GDP by end-FY2025, which brings it closer to 70% ceiling. This could raise concerns over Thailand's fiscal sustainability.**
- **Digital Wallet program raises hopes of stronger private spending in 4Q24, but consumption will remain cautious** given (i) uncertainty over the impact of this program; (ii) payback effects in 2Q24 after the tax rebate program ended in February; (iii) shrinking farm income; and (iv) high debt burden, as household debt had reached 91.3% of GDP in 4Q23.
- **Despite hopes for a rebound in public investment and stronger FDI**, private investment could be constrained by weak exports.
- **Export recovery remains fragile** amid structural problems such as weaker competitiveness of several Thai industries, and growth in Thai exports has been limited to low-value-added products. **In addition, many manufacturing sectors are seeing a negative labor productivity-wage gap**, posing risks to profitability, growth, and investment. They need digital transformation and/or automation to improve efficiency and productivity.
- **In terms of monetary policy, the MPC voted 5:2 to maintain policy rates with more hawkish comments at its 10 April meeting.** However, we expect two rate cuts this year amid uncertainties over the Thai economy, positive real interest rates, the potential for the Fed to ease monetary policy, and a slower growth trend.

Krungsri Research Forecasts for 2024

Krungsri Research Forecast		2022	2023	2024F** Latest
GDP growth	YoY (%)	2.5	1.9	2.7
Private Consumption Expenditure	YoY (%)	6.2	7.1	3.1
Government Consumption Expenditure	YoY (%)	0.1	-4.6	1.5
Private Investment	YoY (%)	4.7	3.2	3.3
Public Investment	YoY (%)	-3.9	-4.6	2.4
Nominal Exports in USD (f.o.b.)*	YoY (%)	5.4	-1.7	2.5
Nominal Imports in USD (f.o.b.)*	YoY (%)	14.0	-3.1	4.2
Current Account Balance	USD, bn	-15.7	6.6	7.8
Tourist Arrivals	Mn, persons	11.1	28.2	35.6
Headline Inflation	YoY (%)	6.1	1.2	1.1
Dubai crude price - period average	USD/bbl	96	82	87

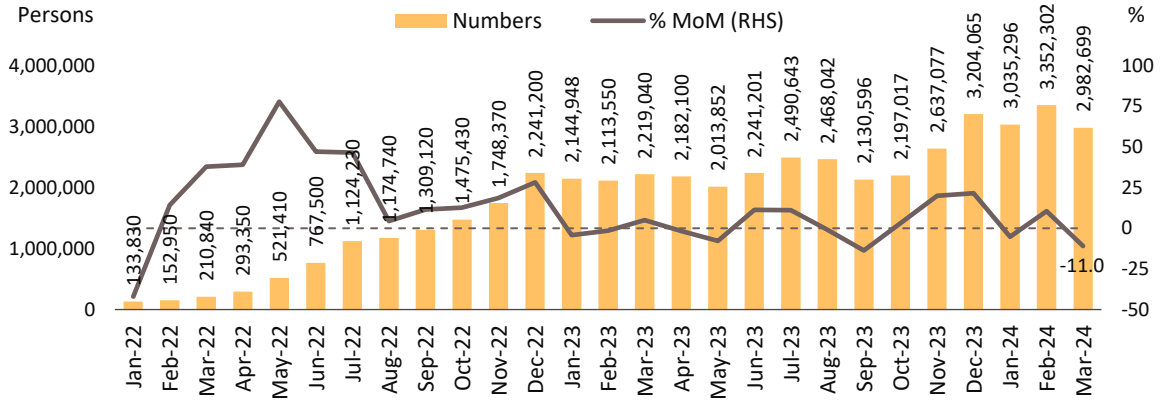
** 2024 projection excluding Digital Wallet Scheme

Note: * Based on BOT data
Source: NESDC, BOT, MOC, MOTS, Bloomberg, Krungsri Research

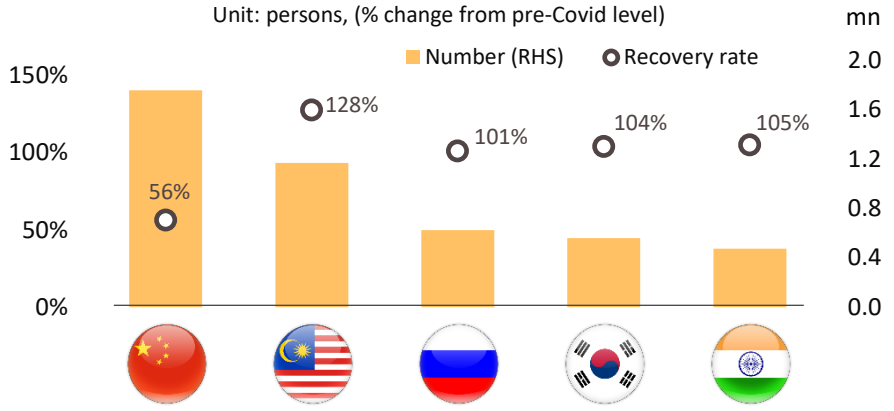
Tourism sector remains the major hope to drive economic recovery but the sector's growth could slow during low season in 2Q24; tourist arrivals reached 87% of pre-pandemic level in 1Q24

In March, Thailand welcomed 2.98 million foreign tourists, falling below 3 million for the first time in four months after the Chinese New Year festival ended in February. **In the first quarter of this year, tourist arrivals reached 9.37 million (87% of pre-Covid level) and generated THB455 bn receipts (88% of pre-Covid level vs 63% in 2023),** led by Chinese tourists, which made up the largest group but was still only 56% of pre-Covid level. Tourists from Malaysia, Russia, South Korea, and India surged to 101-128% of pre-pandemic levels. While arrivals could see a mild drop in the second quarter due to low season, there is support from Songkran Festival in April which is expected to draw tourists from ASEAN countries. **We are keeping our forecast for foreign tourist arrivals to reach 35.6 million in 2024.**

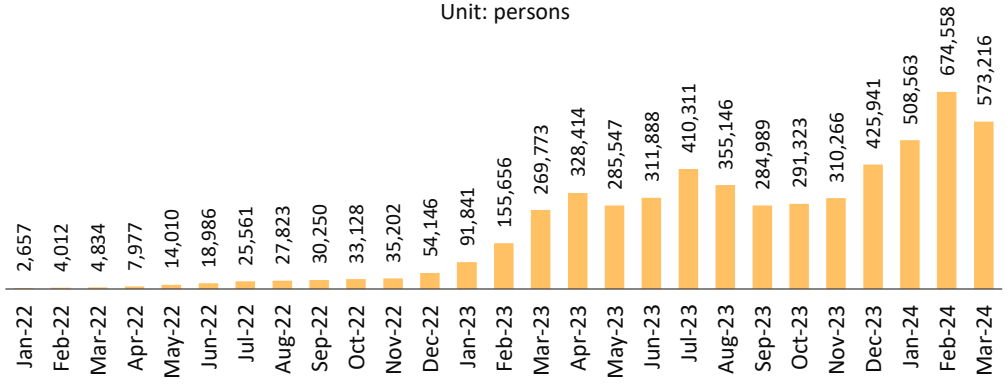
Foreign tourist arrivals reached 9.4 million in 1Q24



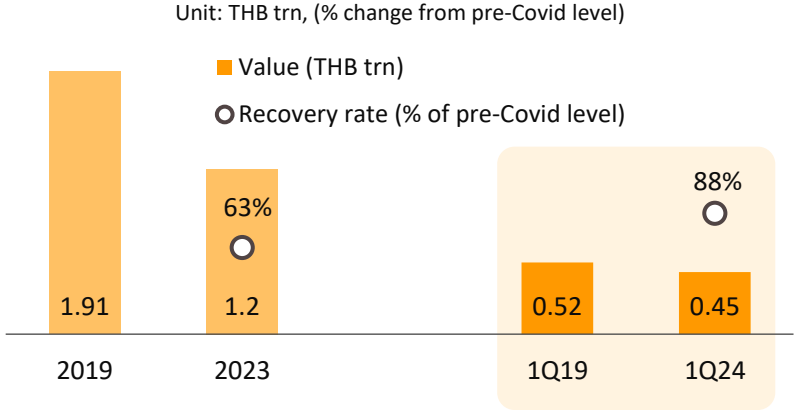
Top 5 tourist arrivals by country in 1Q24 (Jan-Mar)



China leads in tourist arrivals to Thailand



Receipt from foreign tourist arrivals



Source: MOTS, CEIC, Krungsri Research

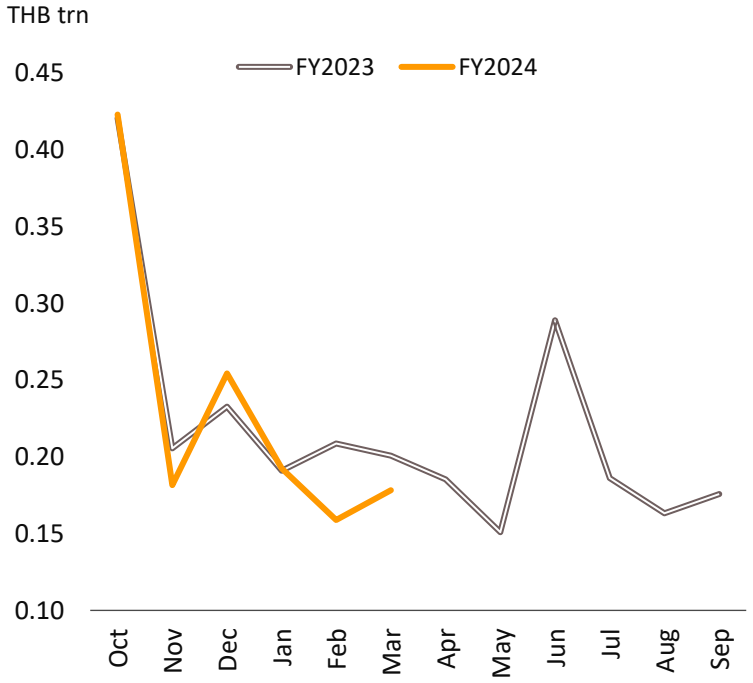
Public investment is expected to accelerate this year and lead to crowding-in effect on the economy

Data from the Ministry of Finance on budget disbursements show that in the first half of 2024 fiscal year (October 2023 to March 2024), spending of the current budget reached THB 1.39trn or 55% of the year's total current budget. This is 4.8% lower than the previous fiscal year. For the capital budget, only THB 0.092trn has been earmarked for public investments, or 13.8% of the total capital budget vs 60.4% in the previous fiscal year. However, FY2024 budget bill would be passed in April, which means disbursements, especially for public projects, will rise the rest of this year. The crowding-in effect from private-sector investment should then help to improve economic growth.

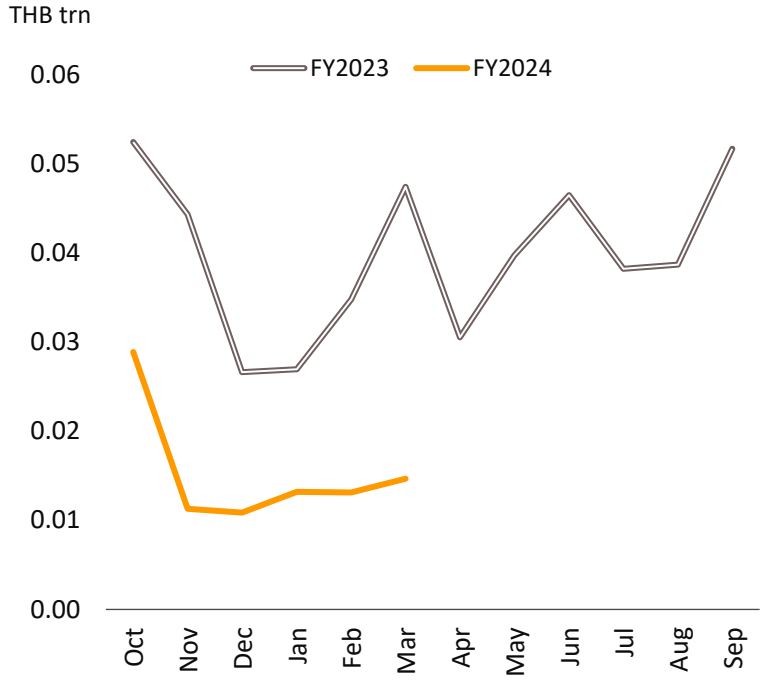
Fiscal plan

Fiscal year (THB bn)	2023	2024	2025*
Expenditures	3,185	3,480	3,752
% YoY	2.7	9.3	7.8
-Current	2,402	2,533	n.a.
% YoY	1.2	5.4	n.a
- Capital	689	718	n.a
% YoY	12.7	4.1	n.a.
Fiscal balance	-695	-693	-865
% of GDP	-3.8	-3.6	-4.4

Current expenditure disbursement



Capital expenditure disbursement



Note: * preliminary from the cabinet (approved as of April 2, 2024)

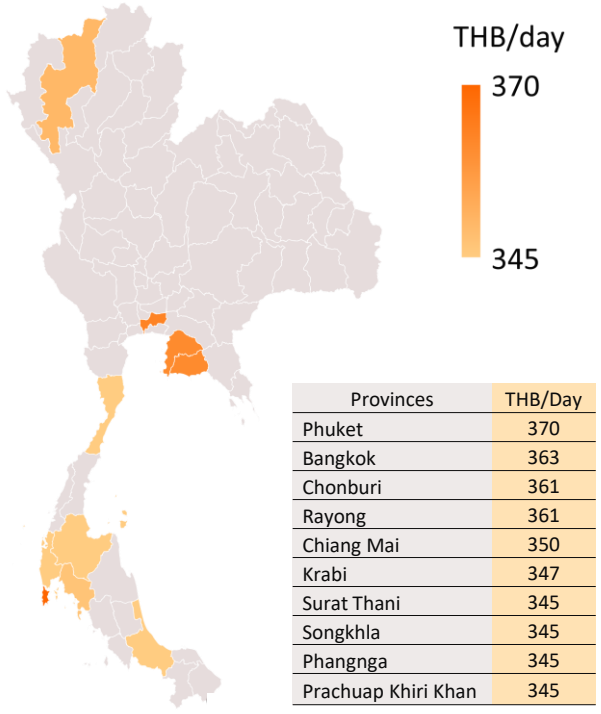
Source: MOF, the cabinet, Krungsri Research

Government recently announced a second minimum wage hike, a program to stimulate real estate sector, and clarified funding sources for Digital Wallet program

There is a growing but cautious hope that approval for FY2024 budget bill and progress in stimulus programs would create new forces to encourage greater public and private spending later this year.

2nd Minimum Wage Hike

On 26 March, the National Wage Committee approved a new round of minimum wage hike to 400 baht/day for hotel & accommodation businesses with at least 4-star rating in selected areas in 10 provinces, effective April 13.



Provinces	THB/Day
Phuket	370
Bangkok	363
Chonburi	361
Rayong	361
Chiang Mai	350
Krabi	347
Surat Thani	345
Songkhla	345
Phangnga	345
Prachuap Khiri Khan	345

Stimulus for Property Sector

1. Reduce transfer fee from 2% to 0.01% of transaction value, and slash mortgage registration fee from 1% to 0.01% of transaction value for property value not exceeding 7 million baht (effective upon publication in Royal Gazette, ending on Dec 31, 2024)
2. Tax deduction is 10,000 baht for every 1 million baht of construction costs paid, up to 100,000 baht, for construction of one house in the tax year the construction is completed. The contract must be initiated and construction start between April 9, 2024 and Dec 31, 2025.
3. BOI housing project: promote residential projects for low-income earners. Corporate income tax exemption for a period of 3 years, up to 100 percent of investment (excluding cost of land and working capital) to build housing for low-income earners. Must apply for incentive before last business day of 2025.
4. Real estate loan project through Government Savings Bank and Government Housing Bank, total credit limit 50 billion baht.

The government expects Thai GDP to increase by 1.7-1.8%. However, those measures may just help release existing housing supplies rather than boosting new investment. Thus, the positive effects on economic growth would be limited.

THB 10,000 Digital Wallet Scheme

Source of funds:

1. THB175.0 bn from FY2024 Budget
2. THB152.7 bn from FY2025 Budget
3. THB172.3 bn from Bank for Agriculture and Agricultural Cooperatives (BAAC) Financing

Target 50 million recipients: Thai citizens aged 16 and older who earn less than THB840,000 per tax year and have less than 500,000 baht in their total bank accounts.

Condition: The money can be spent in small shops designated by the Ministry of Commerce within a specific district.

Timeline: Recipients may start spending in 4Q24.

Source: MOF, Thailand Cabinet, Krungsri Research

Digital Wallet: PM revealed a change in funding sources worth THB500bn, but pending final details

Initially, the government had planned to pass a special loan bill to fund the digital wallet scheme, though the rollout has run delay due to legal hurdles. **On April 10th, details on funding of the program were provided. The scale remains unchanged at THB 500 bn, which is scheduled to be implemented in 4Q24.**

- The cash handouts will be given to individuals over the age of 16 (with some criteria), with the funds to be spent on goods at small shops, within a specific timeframe and a designated area.
- On the funding front, there is no longer a need for a borrowing bill that requires approval by parliament, as funding is now mainly on the budget. Though this reduces the uncertainty around the funding, there are details and interpretations, particularly off-budget spending through the state agricultural bank (BAAC), still need further clarification.

Regarding economic impact, this scheme aims to stimulate private consumption. **The government expects the program to boost economic growth by 1.2-1.8%. However**, **Krungsri Research expects a more cautious estimate of 0.5-1.1% of GDP for the whole scheme, reflecting the uncertainties surrounding off-budget spending and net economic impact of budget allocation. The scheme comes at a cost to fiscal stability**. The revised financing plan is expected to widen the national budget deficit to 4.42% of GDP in FY2025, the largest deficit in Thailand's history**. It is set to push public debt to a record high of 66.93% of GDP by end-FY2025, which brings it closer to 70% ceiling.** This could raise concerns over Thailand's fiscal sustainability and potential economic risks.

Update on Digital Wallet Scheme

	Latest scheme	Hurdles and Uncertainties
Sources of funds	**Previous: Loan bill worth an estimated THB500 bn** **Latest: Scale is same but financed by:** **(i) FY2024 budget:** THB175.0 bn **(ii) FY2025 budget:** THB152.7 bn **(iii) Off-budget spending through the Bank for Agriculture and Agricultural Cooperatives (BAAC):** THB172.3 bn	**(i) FY2024 Budget:** Uncertainty surrounding allocation of funds from the approved budget could initiate a new parliamentary process. **(ii) FY2025 Budget:** Bill is being drafted, with concerns over rising public debt and effectiveness of this program. **(iii) Borrowing from BAAC:** This is below the Article 28 limit. While not showing up in public debt, legal challenges include the interpretation of how the funds from BAAC would be utilized and the government's repayment plan.
Target group/ total cost	**Proposed eligibility criteria:** Thai citizens aged 16 and older who earn less than THB 840,000 a tax year and have less than THB500,000 in their total bank accounts. That would cover **50mn** persons, costing **THB500bn**	• Concerns over effectiveness and necessity for the scheme to be available to all 50mn potentially eligible persons • Suggestion from economists to provide liquidity to targeted groups to reduce cost of this scheme.

Source: Local Media, The Cabinet, Krungsri Research

Digital Wallet raises *hopes of stronger private spending* in 4Q24, but consumption will remain cautious given lingering uncertainty over the program and its effectiveness

Update on Digital Wallet Scheme (cont.)

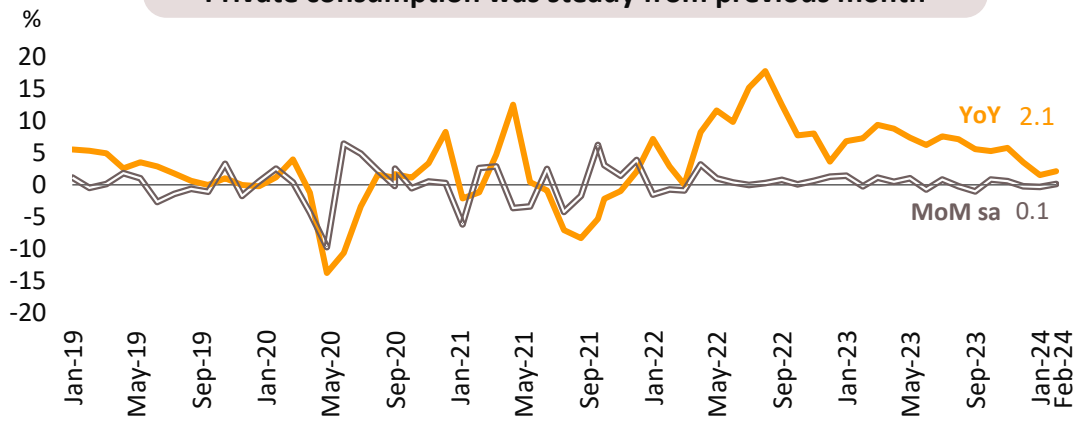
	Latest scheme	Hurdles and Uncertainties
Where to spend? How to spend?	• Expand spending **to "within the district"** of registered address. • Recipients can spend in **small-sized** retailers and the retailers can use it to pay suppliers **without limitations.** • **The handout will use "Super App" instead of G-Wallet (Paotang).**	• **There may be limitations for small-size merchants to participate in the scheme.** • Only tax-registered stores will be eligible to receive cash payouts following the second-round transactions. • Stores need to wait for Ministry of Commerce's final definition of "small-sized store" before they can register to participate. • **There are concerns regarding sufficient technical capability to develop and ensure that the Super App is able to support 50 mn individual users.**
Timeframe	• Eligible recipients and stores will be able to register for the scheme in 3Q24. • The handout is expected to be launched in 4Q24 and redemption period is 6 months after launch.	• Unlikely to introduce big-sized stimulus program in the next 6 months. • Uncertainty over start date due to (i) legal challenges in funding, and (ii) the readiness of the Super App
Condition	The handout can be used to buy food and consumer goods only. It cannot be used to buy goods online, cigarettes, liquor, cash vouchers, diamonds, gems or gold, and cannot be used to pay off debts or pay for water or electricity bills, fuel, natural gas or tuition fees.	• There are concerns that these target "small-sized retailers" might not benefit much from this program and hesitate to participate due to some limitations: (i) unclear definition for "small-sized" stores (ii) they might not be in the tax system, and (iii) they might not have sufficient cash flow during the eligible period, as they will be able to cash it out only after second-round transactions. • The program would likely benefit big firms running small convenience stores.

Source: Local Media, The Cabinet, Krungsri Research

Private consumption: Be wary of payback effects after near-term stimulus measures end and shrinking farm income along with anticipated smaller output

In February, private consumption grew 2.1% YoY, and when adjusting for seasonal factors, it recorded near-zero month-on-month growth. Spending on services and non-durable goods was partly supported by government measures, including subsidies for energy costs and a tax rebate program. Meanwhile, spending on durable goods fell, especially in passenger car category. Consumption was also pressured as farm income in the first 2 months of this year continued to contract mainly due to smaller farm output, as farm prices have risen. **In the next period, consumption would be bolstered by (i) recovering tourism activity, and (ii) second round of minimum wage hike to 400 baht per day for selected groups in 10 provinces. Meanwhile, there are headwinds from (i) potentially weaker farm incomes due to lower agricultural output, (ii) weaker confidence, and (ii) high household debt level (91.3% of GDP at end 2023).**

Private consumption was steady from previous month

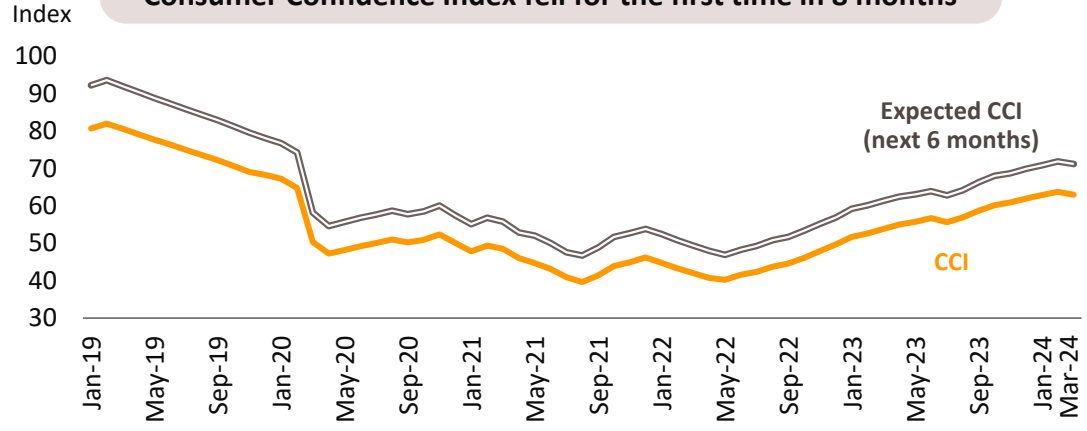


Private Consumption by category

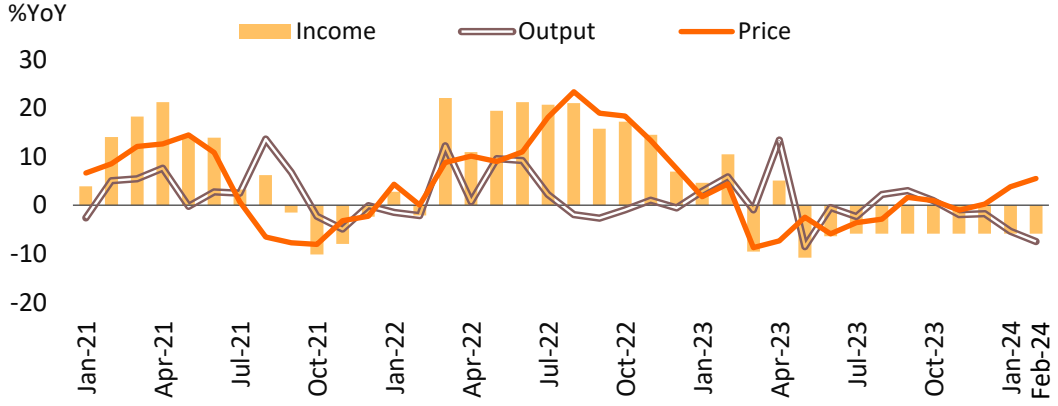
%YoY*	2021												2022												2023												2024	
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F
Private consumption																																					2.1	
Non-durables																																					7.3	
Semi-durables																																					2.7	
Durables																																					-10.5	
Services																																					8.6	
Non-residents expenditure																																					66.6	

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

Consumer Confidence Index fell for the first time in 8 months



Farm income would be dragged by drought impact

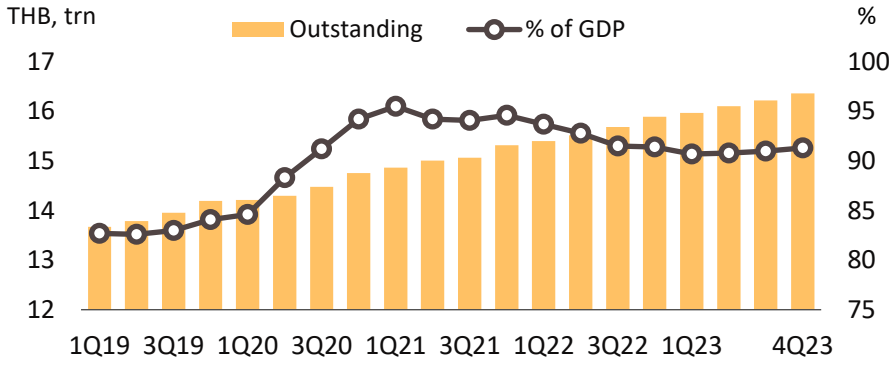


Source: CEIC, BOT, University of the Thai Chamber of Commerce (UTCC), Krungsri Research

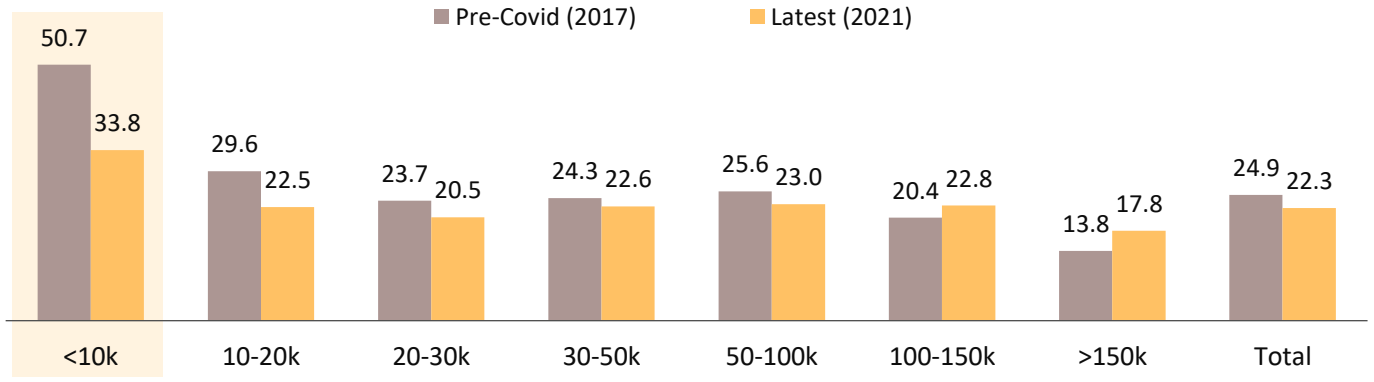
Thai household debt surged to 91.3% of GDP in 4Q23; high debt level, high DSCR, and deteriorating loan quality suggest looming threat to economic growth

Thailand's household debt remained high at 91.3% of GDP in 4Q23, despite falling slowly from the peak of 95.5% in 1Q21. Loans for consumption, particularly credit card and personal loans (+9.5% YoY) and real estate purchases (+4.3% YoY) led the increase. The Debt-Service Coverage Ratio (DSCR) has improved from pre-Covid period but the **low-income group (especially those with monthly income below THB 10,000) continued to struggle to repay debts.** In terms of debt quality, non-performing loans (NPLs) at Thai commercial banks' stood at THB 492.8 billion in 4Q23, accounting for 2.66% of total loans compared to 2.9% at end-2019. **NPLs for consumer loans, particularly auto loans, increased from 1.86% of total loans at end-2019 to 2.13% at end-4Q23, and is likely to rise further given the surge in the ratio of auto loans with a significant increase in credit risk (SICR or stage 2) since pre-Covid period to 14.3% of total loan at end-4Q23.**

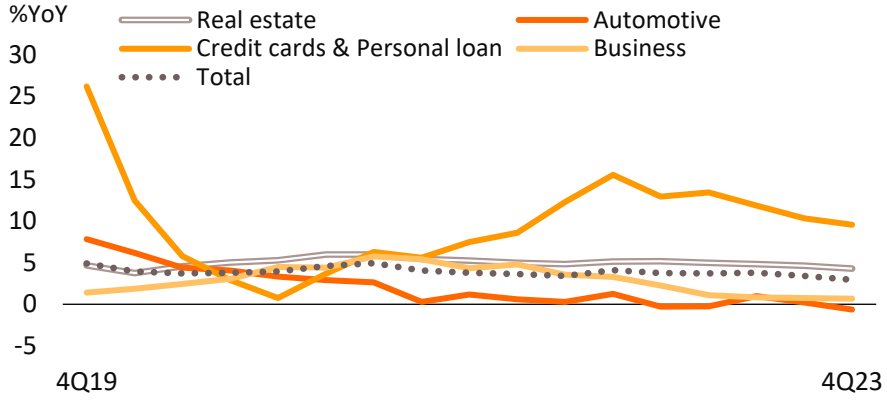
Household debt remains high at 91.3% of GDP in 4Q23



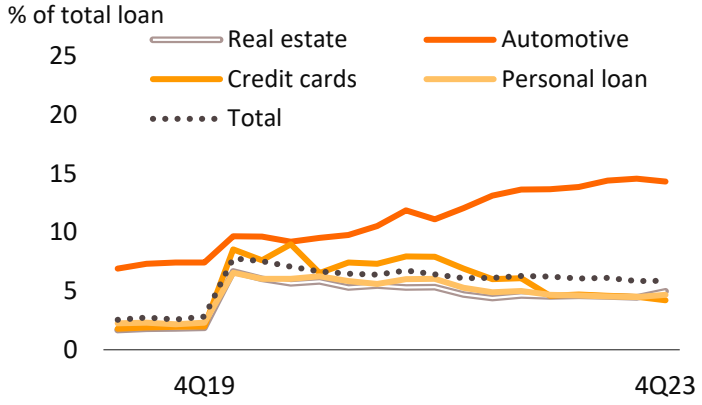
Debt-service coverage ratio (DSCR) by income range (%)



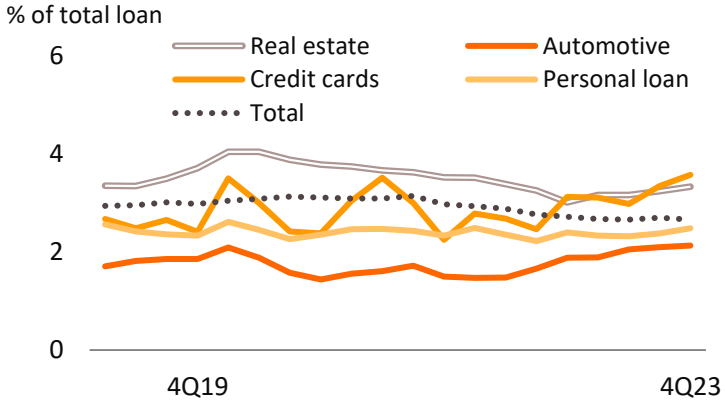
Household debt growth by portfolio



Stage 2 Consumer Loans



NPL (Stage 3) - Consumer Loans

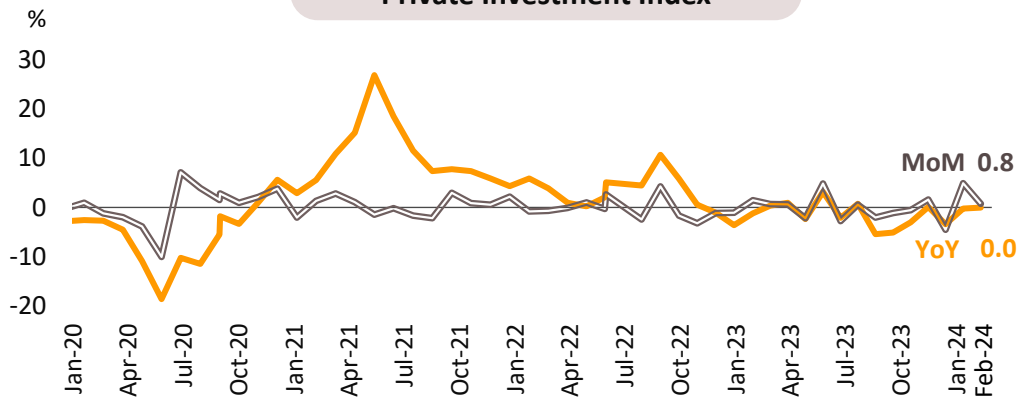


Source: BOT, NSO, and Krungsri Research

Despite hopes for a rebound in public investment and stronger FDI, *private investment growth* could be limited by weak exports

Private investment was flat YoY in February, but after adjusting for seasonality, it improved by 0.8% MoM due to stronger investment in machinery & equipment following imports of capital goods. Private investment remained weak following the recent drop in business sentiment, but there are still positive signs: (i) Ministry of Commerce data show 54 FDI applications in January 2024 with a total investment value of THB7,171 mn (+39.8% YoY), and (ii) expect public sector investment to accelerate this year and lead to crowding-in effect of private investment in the next period. In addition, latest measures to stimulate the economy through the real estate sector and related sectors along the supply chains could encourage greater domestic investment.

Private Investment Index

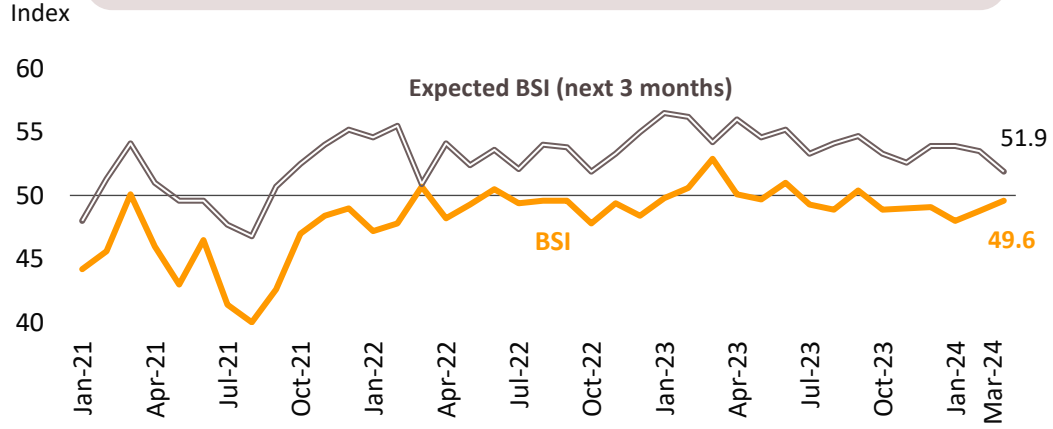


Private Investment by category

%YoY*	2021												2022												2023												2024	
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F
Private investment																																					0.0	
Construction area permitted																																					9.2	
Construction material sales																																					-4.6	
Imports of capital goods																																					28.0	
Machinery sales																																					-11.3	
Newly registered vehicles																																					-25.9	

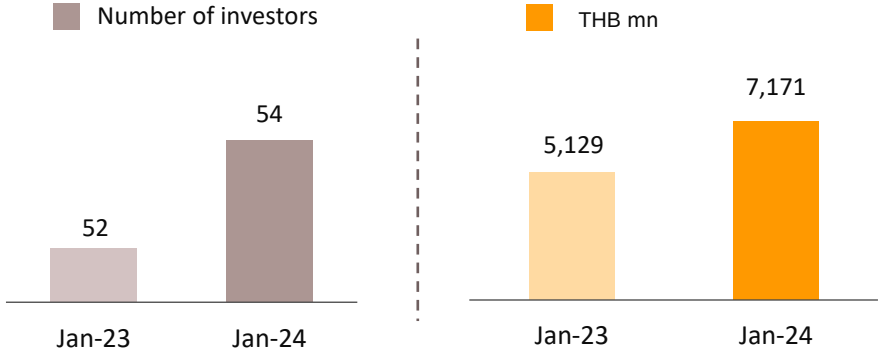
**Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum*

Business Sentiment Index was below-50 for 6th month in a row



Total foreign investments in Thailand (Jan 2024)

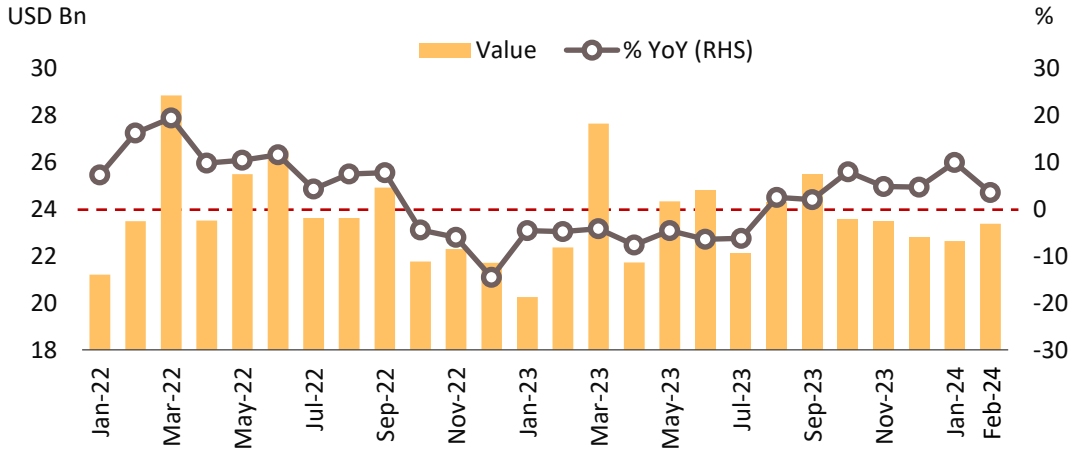
(reported by Commerce Ministry)



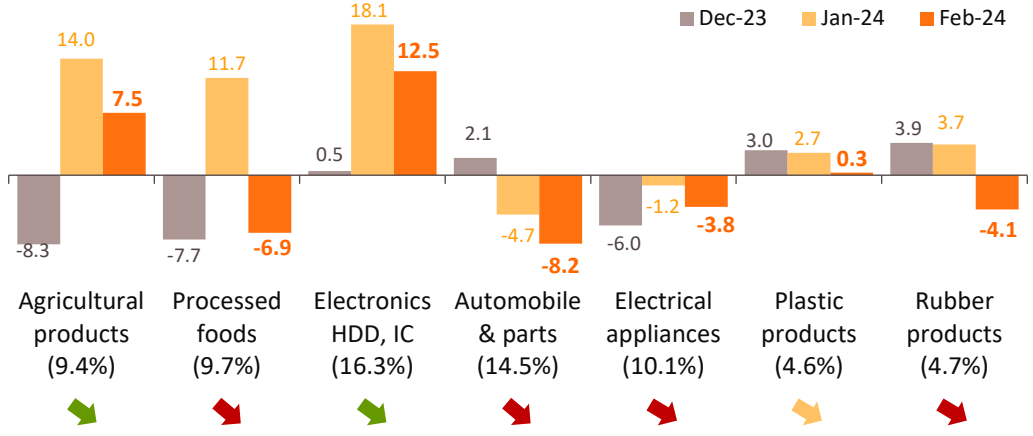
Source: BOT, MOC, CEIC, Krungsri Research

Export recovery remains fragile amid structural problems, including weaker competitiveness in several Thai industries

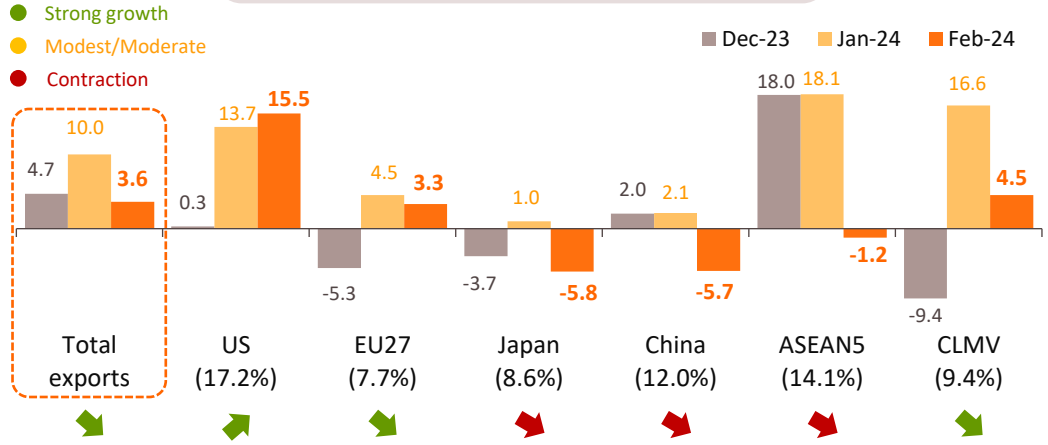
Exports



Exports by major product (%YoY)



Exports by major destination (%YoY)



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

Krungsri Research's view

- **In February, merchandise export value expanded for the seventh straight month, by 3.6% YoY to USD23.6 bn.** Excluding oil, gold & weapons, exports rose 2.3%, led by rice (+53.6%), rubber (31.7%), computers & computer equipment (+24.9%), iron, steel & related products (+18.0%). However, exports fell for some goods, such as autos, parts & equipment (-5.6%), integrated circuit boards (-13.2%), fresh, chilled, frozen & dried fruit (-24.2%), and sugar (-34.9%). By destination, exports increased to the US, the EU, and the CLMV countries, though they shrank to Japan, China, and the ASEAN-5. In the first 2 months of this year, Thai export value rose by 6.7%.
- Although Thai exports continued to grow, export value averaged only USD 23.0bn a month in 2M24, compared to 2023 average of USD 23.7bn. Moreover, export value hit USD 28bn in March last year, so growth could turn negative in March this year. Exports also continued to be hurt by structural issues in the Thai manufacturing sector that kept March Manufacturing PMI in contraction territory (below-50) for the 7th month, even though ASEAN and Global Manufacturing PMI data moved above-50 into expansion zone. This sub-par performance reflects weaker competitiveness in parts of the manufacturing sector and the inability of Thai industries to respond effectively to changes in global demand. **The outlook for Thai exports will remain fragile throughout 2024 with growth likely to remain at an only 2.5%.**

Thai export growth has been concentrated in low-value-added products, pressured by a weak manufacturing sector

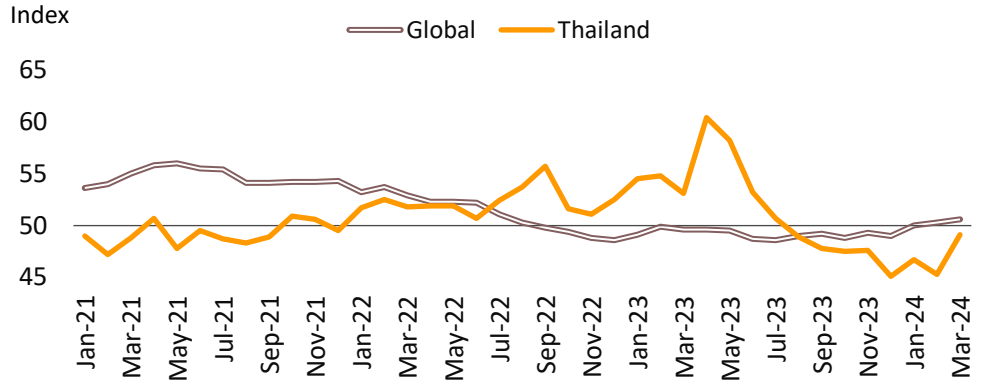
In the first two months of this year, Thai exports rose by 6.7% YoY led by a 10.7% increase in orders for agricultural products (including rice and rubber) and a 7.7% increase in industrial product (including computers & parts), but was capped by a 3.5% decline in exports of agro-industrial products (including rubber products and tapioca products). However, despite a stronger export sector in many Asian countries due to improving global manufacturing trends, rising demand for electronic products, and easing disruptions to global supply chains, Thai exports have been concentrated in low-value-added products. Thailand's manufacturing sector remains weak compared to global production trends. This could reflect structural problems in Thai exports.

Thai exports by major product and destination

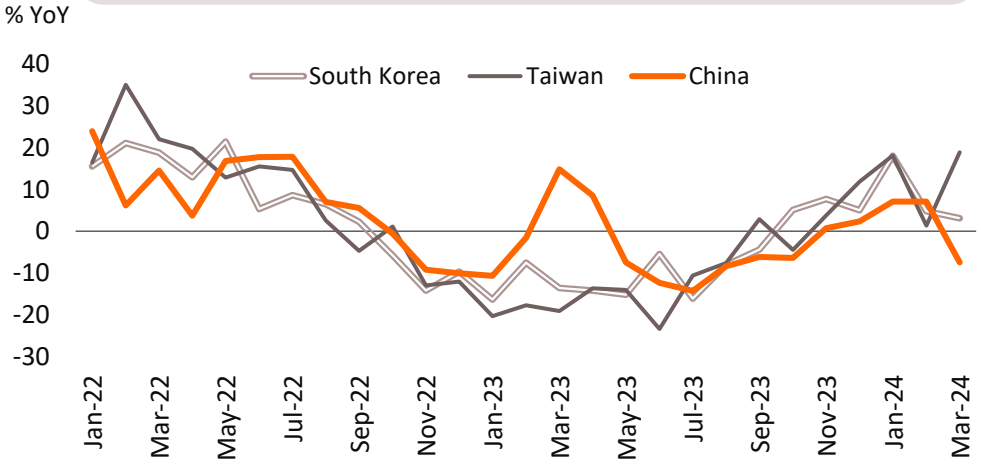
Thailand: Jan-Feb's export growth (% YoY)	World	US (17%)	EU (8%)	Japan (9%)	China (12%)	ASEAN-5 (14%)	CLMV (9%)
Total	**+6.7**	**+14.6**	**+2.6**	**-2.5**	**-2.0**	**+8.3**	**+10.1**
Cars & parts (10.9%)	-5	+13	+16	-2	-9	-25	-47
Computer & parts (6.3%)	+28	+54	+25	-15	+27	-20	+15
Rubber products (4.7%)	-0.4	+26	-6	+7.5	-31	-7	+10
Electronic IC (3.4%)	-8	-40	-13	+5	-0.1	-9	-4
Plastic resin (3.1%)	-2	+29	-11.5	-12	-4	+8	+2
Chemical products (2.8%)	-8	-9	-25	-5	-14	-13	-5
Fresh, frozen & dried fruit (2.0%)	+2.2	+7	+42	+25	-1	+6	+12
Electrical appliances (1.9%)	+3	-2	-0.2	-3	+47	-5	+7
Rice (1.8%)	+49	+29	+15	-35	-16	+234	+65
Plastic products (1.5%)	+8	+38	-1	-6	+11	+2	+5
Rubber (1.3%)	+19	+27	+64	+32	-3	+14	+102
Tapioca products (1.3%)	-23	-12	+0.0	+18	-48	+101	+7
Preserved fish, crustaceans (1.2%)	+6	-4	+25	-2.3	-39	+2	+6
Sugar (1.2%)	-28	-100	-84	+34	-17	-35	+37

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

Global and Thailand Manufacturing PMI



Exports of major Asian countries continued to grow in 1Q24



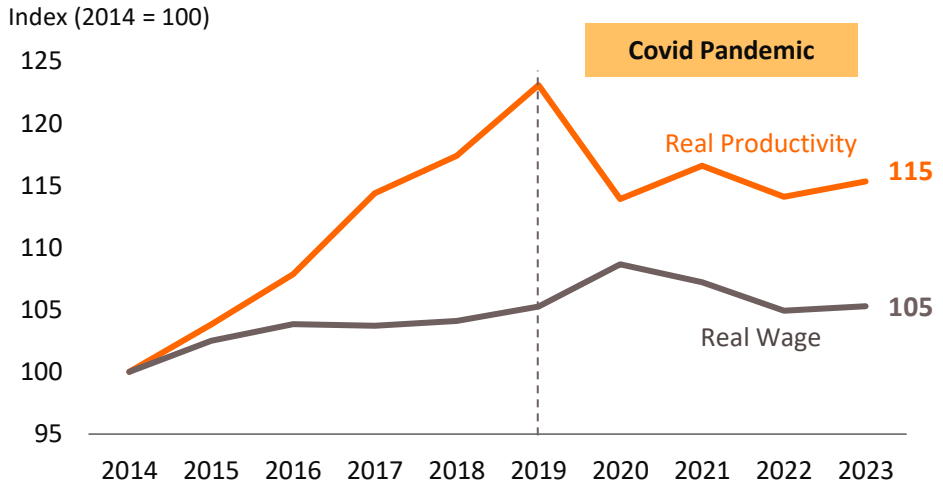
Productivity-wage gap has narrowed after pandemic, making it more challenging for firms to lift performance despite recent improvements

Prior to the pandemic, average labor productivity had increased by 4.2%, in stark contrast to only 1% growth in average real wages. The widening productivity-wage gap partly reflects gains from increased efficiency in production, which could lead to higher profitability. But since the pandemic, nationwide labor productivity growth has tumbled to -1.6%, while real wage growth is near-zero. This suggests **a much narrower productivity-wage gap, at -1.6% compared to 3.2% pre-Covid.** The sluggish growth in real wage could also be mirrored by the mild differences in inflation rate and minimum wage growth during 2014-2023.

What is Labor Productivity and Why does it matter?

Key Terms	Explanation
Labor Productivity	• **Labor productivity** refers to the amount of output per unit of labor input. In this analysis, output is measured using the real GDP of the entire economy or specific sectors*. • **Labor productivity growth** can be achieved through improved labor skills, technological advancements, or better utilization of other inputs such as physical capital and human capital. • **Improving labor productivity** means producing more with the same or fewer labors, resulting in higher production efficiency.
Real Wage	• **Real wage** refers to the actual (nominal) compensation that has been adjusted for inflation. Thus, its growth reflects the actual increase or decrease in worker's purchasing power over time, emphasizing changes in workers' standard of living.
Labor Productivity-Wage Growth Gap	• **The positive gap** indicates that the value of one unit of workers' outputs is increasing faster than their earnings, resulting in lower labor costs and higher profitability for firms. • **The negative gap** indicates that the value of one unit of workers' outputs is being outpaced by their earnings, thereby imposing relatively higher costs on firms.

Average Real Wage and Productivity Growth Index



CAGR	2014-2023	Pre-covid	After covid
Labor Productivity	1.6%	4.2%	-1.6%
Real Wage	0.6%	1%	0.005%
Gap	**1%**	**3.2%**	**-1.6%**

Note: * the 2023 sub-manufacturing GDP is estimated by integrating the 2023 manufacturing GDP value with the 2022 sub-manufacturing structure.
Source: NSO, NESDC, ILO, Krungsri Research

Most manufacturing sectors are seeing negative labor productivity-wage gap, posing risks to their profitability, growth, and investment

Several services sectors could benefit from the positive productivity-wage gap in the near-term as real wages have increased relatively slowly. Meanwhile, the longer outlook of productivity-wage gap depends on firms' ability to maintain production (or productivity) with rising wages. **Most manufacturing sectors show signs of vulnerability** as their labor productivity has declined and real wages have risen steadily. If productivity continues to drop, the productivity-wage gap would likely remain negative, implying higher costs or lower profits for businesses in many manufacturing sectors.

⊕ Strongly Positive ⊖ Strongly Negative ≈ Steady

⊕ Positive ⊖ Negative

Upward Trend

Sector	Labor Productivity-wage Gap		
	Past Decade	Current (2023)	Momentum
Electricity, Gas & Water	⊕	⊕	⊕
Finance	⊕	⊕	⊕
Trade	⊕	⊕	⊕
Education	⊕	⊕	⊕
Petroleum & Chemicals	⊕	⊕	≈ *
Health & Social Work	⊕	⊕	⊕
Construction	⊕	⊕	≈ *
Hotel & Restaurant	⊕	⊕	⊕

Mixed Trend

Sector	Labor Productivity-wage Gap		
	Past Decade	Current (2023)	Momentum
Mining	⊕	⊕	⊖ ***
Transportation	⊖	⊕	≈
Agriculture	⊕	⊕	⊖ ****
Metal & Non-Metal	⊕	≈	⊖
Electrical Equipment	⊕	⊖	≈ **

Downward Trend

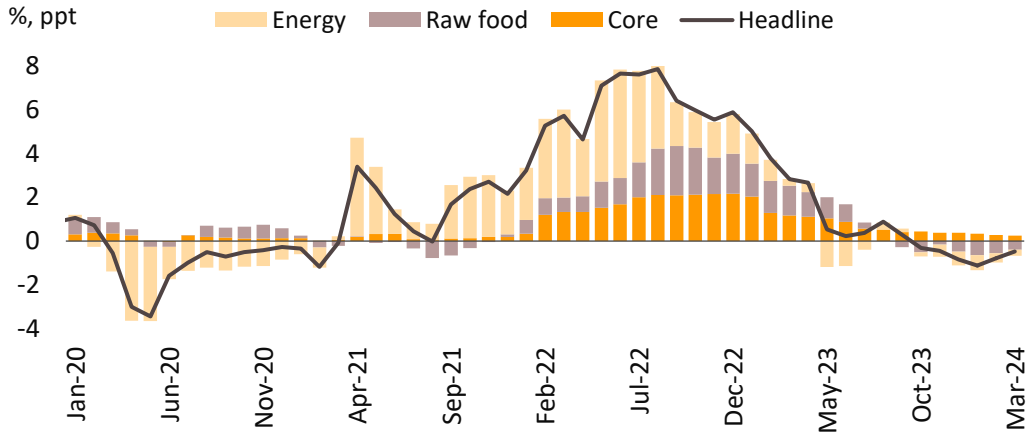
Sector	Labor Productivity-wage Gap		
	Past Decade	Current (2023)	Momentum
Real Estate	⊖	⊖	⊖
Professional	⊖	⊖	⊖
Textiles & Apparel	⊖	⊖	⊖
Electronics	⊖	⊖	⊖
Rubber & Plastics	⊖	⊖	⊖
Food & Beverages	⊖	⊖	≈
Vehicle & Transport Equipment	⊖	⊖	≈

Note: * could remain positive but with a smaller gap
** a positive trend is possible when it recovers from the pandemic slump
*** value-added loss continues
**** a negative trend is possible if wage accelerates

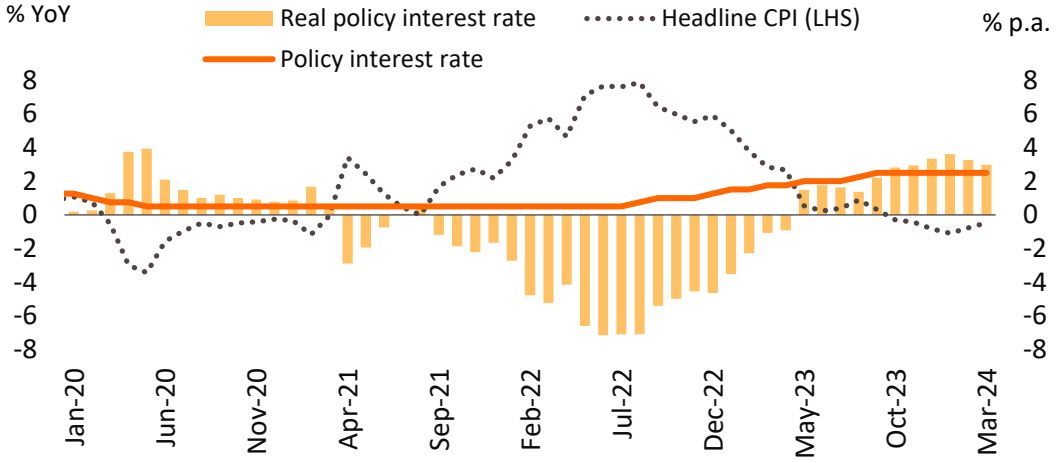
Source: NSO, NESDC, ILO, Krungsri Research

Headline inflation could return to positive territory in Q2 while *core inflation* would soften, reflecting weaker domestic demand

Contributors to inflation



Real policy interest rate



Source: MOC, BOT, Krungsri Research

Consumer Price Index: Major categories

Consumer Price Index (% YoY)*	Weight	2022 J	F	M	A	M	J	J	A	S	O	N	D	2023 J	F	M	A	M	J	J	A	S	O	N	D	2024 J	F	M
Headline CPI	**100%**																									-0.47	
Food & beverages	41.7%																									-0.57	
Apparel & footwears	2.1%																									-0.09	
Housing & furnishing	22.3%																									-0.87	
Medical & personal care	5.5%																									0.31	
Transportation & communication	22.9%																									-0.41	
Recreation & education	4.3%																									0.48	
Tobacco & alcoholic beverages	1.4%																									1.45	
Raw food	20.8%																									-1.91	
Energy	13.6%																									-2.25	
Core CPI	**65.5%**																									0.37	

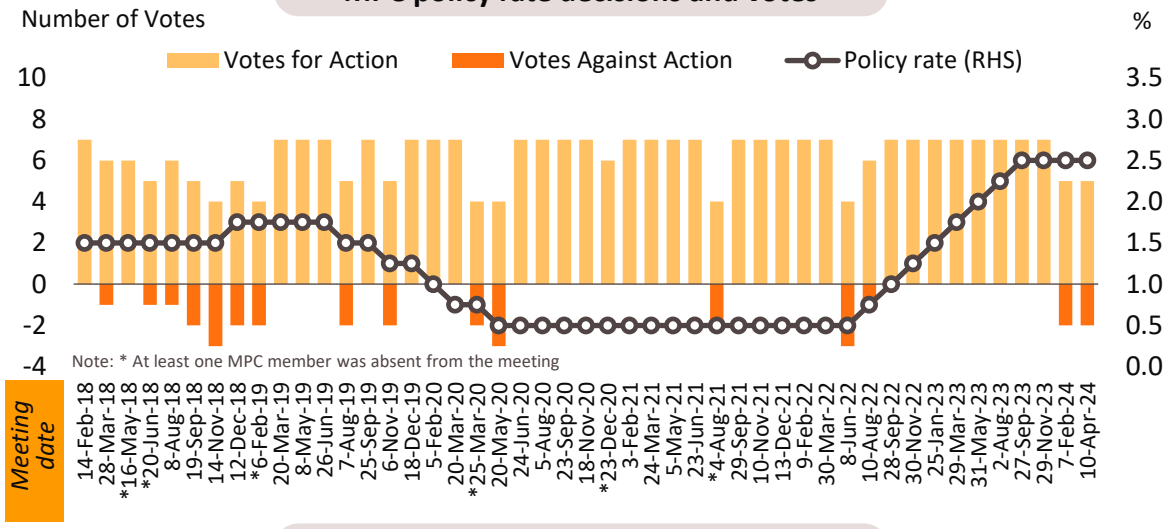
** Red > 0%, Green < 0% / Darker colors indicate stronger momentum*

Krungsri Research's view

- **In March, headline inflation contracted for the 6th consecutive month, by 0.47% YoY, although the contraction is smaller** than in January (-1.11%) and February (-0.77%). Prices have fallen due to: (i) ongoing government subsidies to ease the cost of living, specifically for diesel and electricity, prices for which are now lower than in the same period last year; and (ii) larger supply of fresh meat and vegetables, which pushed down prices. Core inflation, which excludes raw food and energy prices, also softened to 0.37% in March from 0.43% in February. For 1Q24, headline and core inflation averaged -0.79% and 0.44%, respectively.
- **We expect inflation to turn positive again in Q2, driven by:** (i) rising global oil prices; (ii) a possible reduction in domestic subsidies for diesel; and (iii) a weaker baht, which will increase cost of imports. Inflationary pressure will remain limited, given the current weak domestic economy and demand, the latter reflected in the 0.1% MoM drop in the latest core Consumer Price Index.

MPC might deliver two rate cuts this year amid uncertainty over Thai economy, positive real interest rates, the Fed possibly easing monetary policy in 2H24, and slower growth trend.

MPC policy rate decisions and votes



BOT projections for 2024-2025

BOT Economic Projection		2023	2024F	2025F
GDP growth	YoY (%)	1.9	2.6	3.0
Private Consumption Expenditure	YoY (%)	7.1	3.5	2.9
Government Consumption Expenditure	YoY (%)	-4.6	1.8	3.3
Private Investment	YoY (%)	3.2	3.3	3.2
Public Investment	YoY (%)	-4.6	1.0	5.0
Nominal Exports in USD (f.o.b.)	YoY (%)	-1.7	2.0	2.8
Nominal Imports in USD (f.o.b.)	YoY (%)	-3.1	2.5	3.0
Current Account Balance	USD, bn	7.0	13.0	17.5
Tourist Arrivals	persons, m	28.2	35.5	39.5
Headline Inflation	YoY (%)	1.2	0.6	1.3
Core Inflation	YoY (%)	1.3	0.6	0.9

Source: Bank of Thailand (BOT), Krungsri Research

Krungsri Research's view

- **At the meeting on April 10, the MPC voted to hold the policy interest rate at 2.5% with two dissenting votes.** The MPC projects economic growth would hit 2.6% in 2024 compared to the previous estimate of 2.5-3.0%, with downward revisions to headline and core inflation to 0.6% for 2024, attributed to lower prices for some raw food items and energy prices.
- **The Committee has been advocating that the BOT is "outlook dependent" and not "data dependent."** They considered the continued recovery in tourism activity and accelerating fiscal spending and stimulus as key economic drivers the rest of this year. Therefore, there is little incentive for the BOT to cut rates at this meeting, mirroring the situation in February with 2 dissenting votes, **opting for a "wait-and-watch" approach.**
- **That said, Krungsri Research maintains the case for easing, given uncertainty over the Thai economy, positive real interest rates, the Fed potentially easing monetary policy, and slower growth.**
- **From a cyclical perspective, economic uncertainty is high,** particularly in terms of exports, government budget disbursement, and stimulus measures. Meanwhile, raising real interest rates to positive territory indicates monetary policy is already restrictive. In addition, external conditions could become more favorable for the MPC to cut rates, given rising expectations for the Fed to start policy easing in the second half of this year.
- **Regarding the medium-term backdrop, the post-covid sluggish growth trend below 3% likely reflects lower potential growth,** which could warrant lowering the policy rate to reflect a recalibrated MPC's neutral stance. We see that the expected rate cuts could be a few moves, instead of an extended easing cycle, to be consistent with the BOT's cyclical economic assessment and its macro-financial stability mandate
- **Hence, we expect the BOT to deliver two rate cuts from mid-year onwards to 2.0% at end-2024 or when the timing of the Fed's policy easing and further softness in the economic data (after the release of 1Q24 GDP data in May) are confirmed.** As the BOT is open to recalibrating their neutral stance, continued weak economic data would likely lead to rate cuts, to reflect the fact that structural issues are affecting the cyclical outlook and reducing potential growth.

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