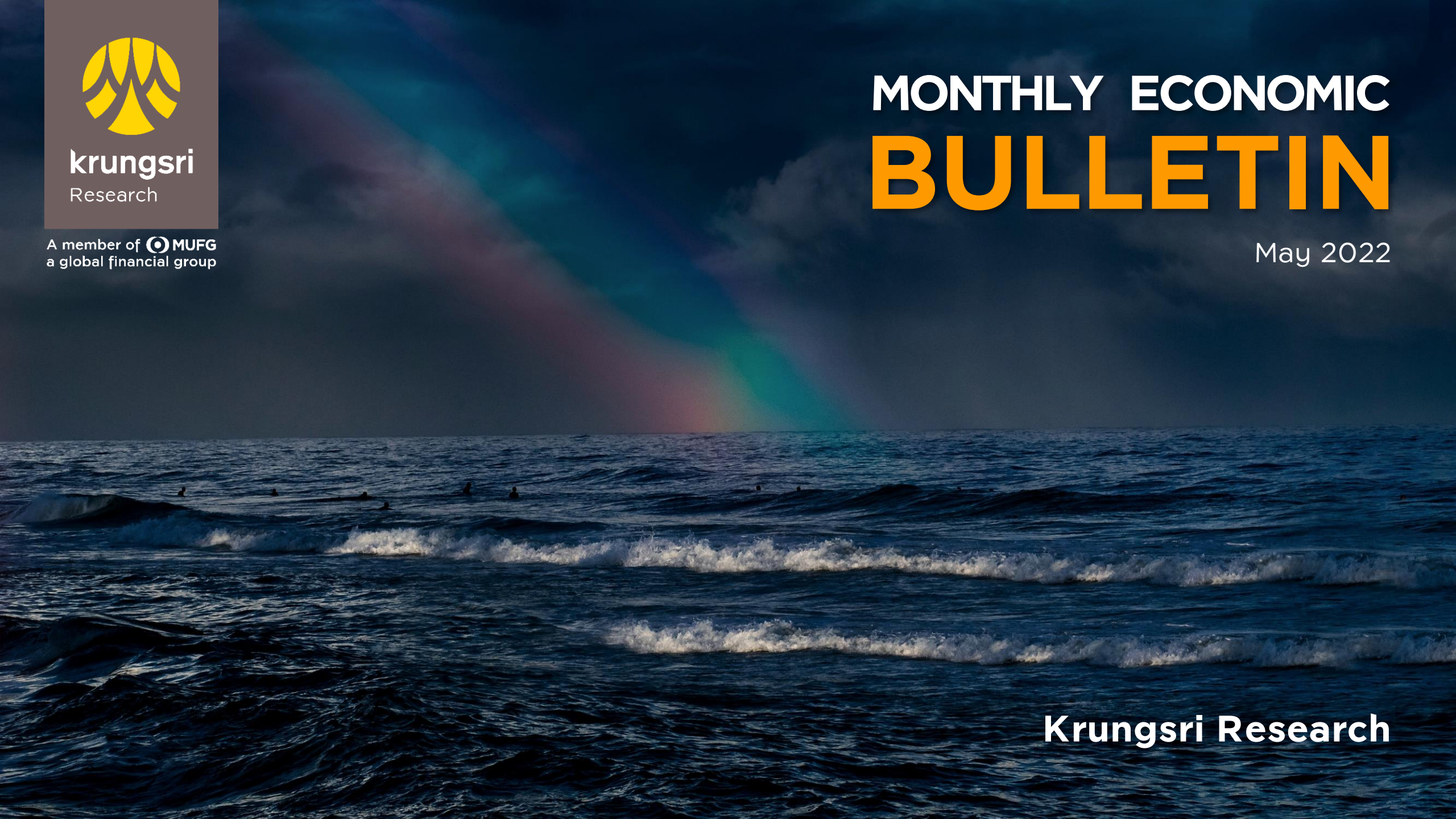
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MONTHLY ECONOMIC BULLETIN

May 2022



Krungsri Research

Global: Multi-speed economy



China

- Downside risks from strict lockdown measures and Ukraine war could drag growth further in Q2.
- Weaker domestic and external demand, supply disruption, and delayed booster vaccinations would hinder economic expansion and challenge growth ambition.
- Expect to step up fiscal and monetary stimulus measures; limited policy space could make it challenging to prevent a further slowdown.

US

- Economy shrank in 1Q22 due to supply disruptions and unwinding of stimulus; not a sign of impending recession.
- Strong domestic spending suggests economy will expand this year, but at a slower pace.
- Fed to keep current pace of policy tightening to fight inflation; more aggressive move could increase risk of a hard landing.

Europe

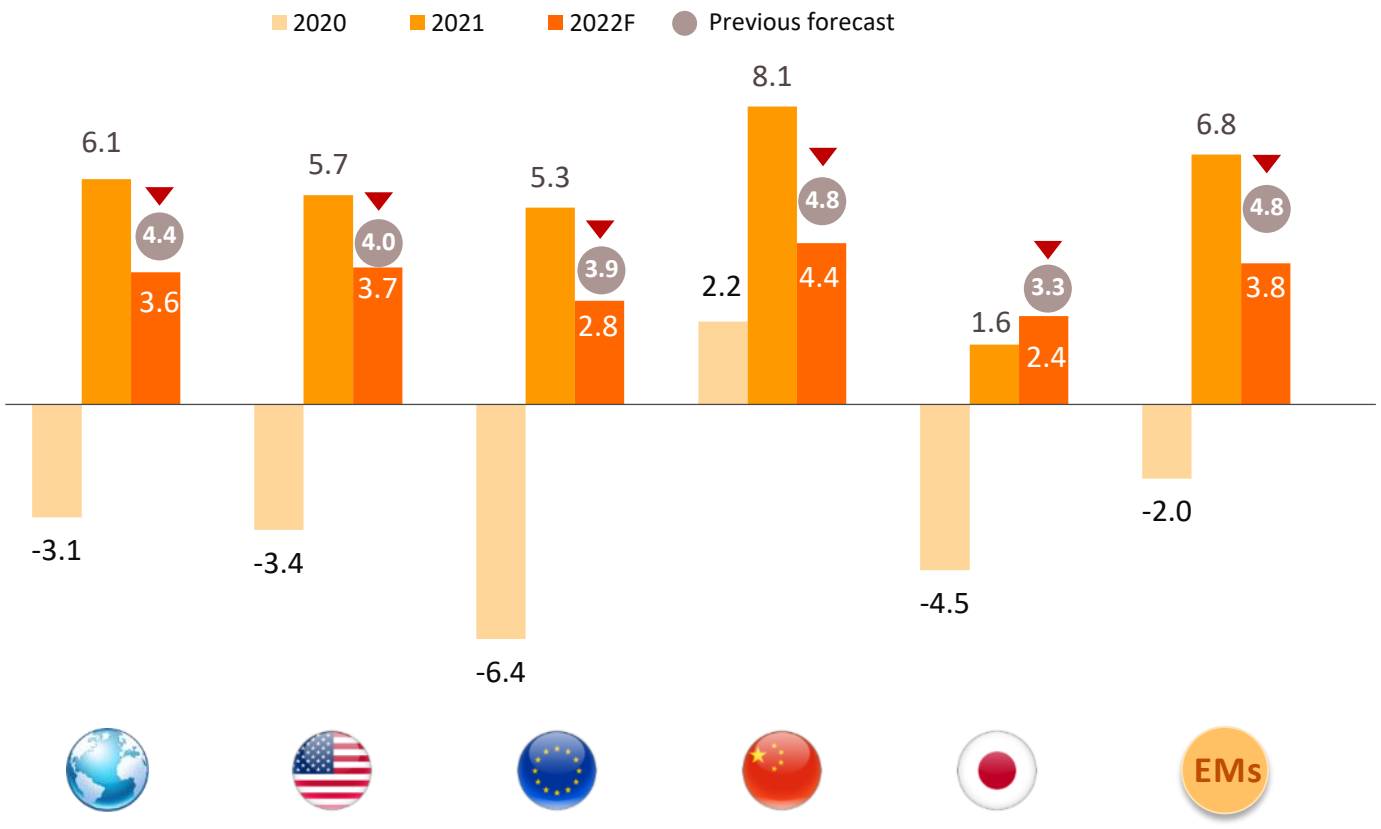
- Eurozone economy may face a growth shock, triggered by Ukraine war, China lockdown, and risk of an energy crisis.
- Despite weaker growth, concerns over persistent high inflation could prompt the ECB to start hiking rates from July and gradually normalize policy.
- BOE sees UK inflation rising to 10%; might proceed with rate hike cycle but with a more dovish stance amid risk of a looming recession.

Japan

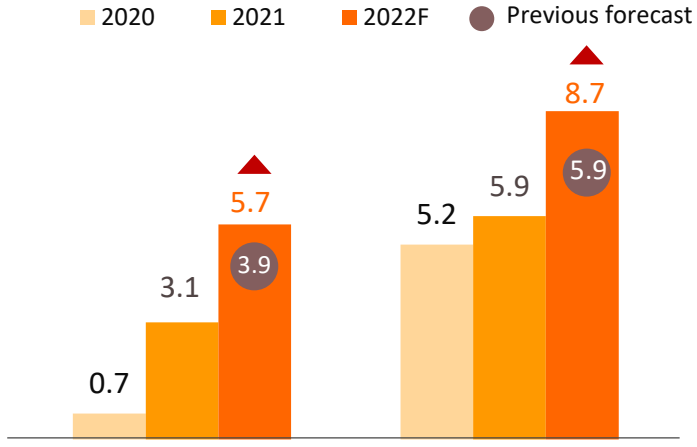
- External uncertainties including Ukraine war and China lockdown could delay recovery despite easing restrictions and reopening.
- Given that rising inflation is not broad-based and the weaker yen would benefit exports, the BOJ is expected to pursue ultra-loose monetary policy.

IMF trimmed 2022 global growth forecast because of Ukraine war, but raised inflation outlook due to soaring commodity prices and supply-demand imbalances

Economic growth projections for global and major economies (%)



Inflation growth projections (%)



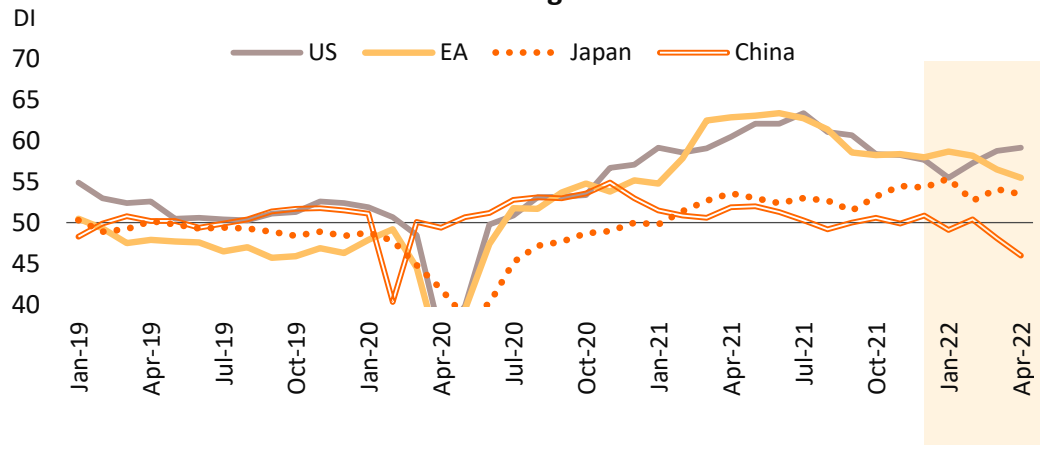
Advanced Economies

Emerging Market and Developing Economies

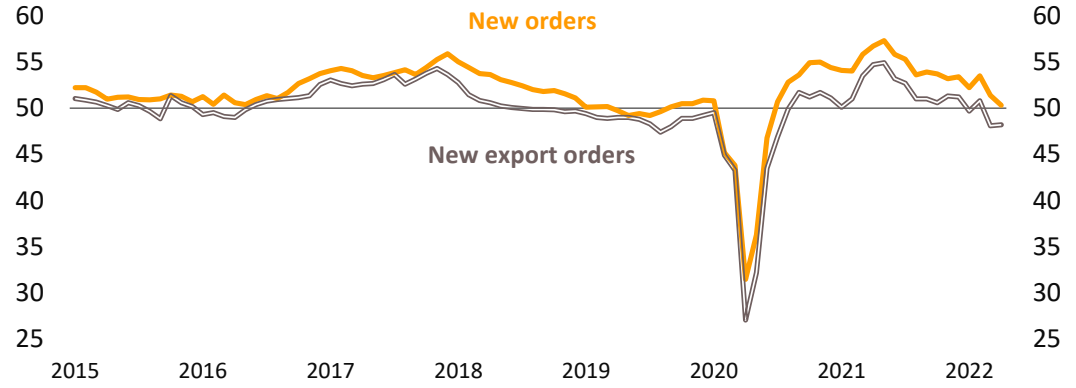
Source: IMF, World Economic Outlook (April 2022)

Global economic growth is at its weakest since June 2020, amid slowing manufacturing activity, downturn in China, and rising inflationary pressure

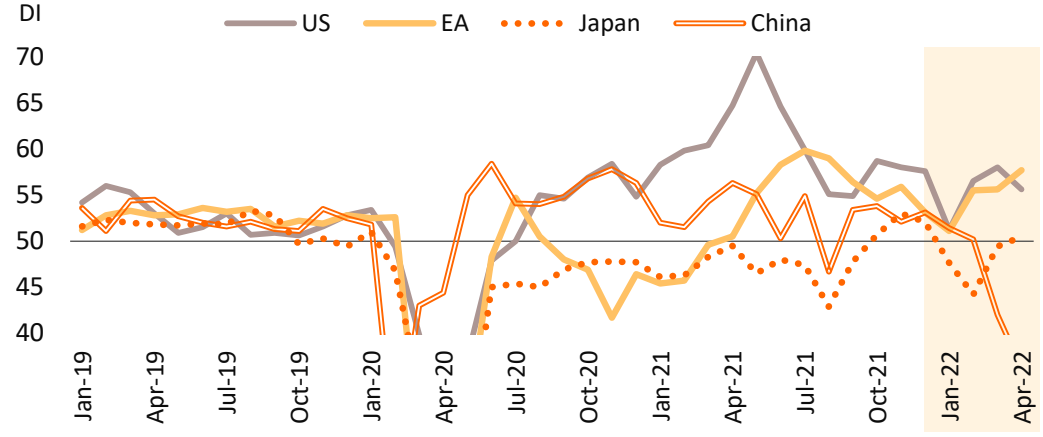
Manufacturing PMI



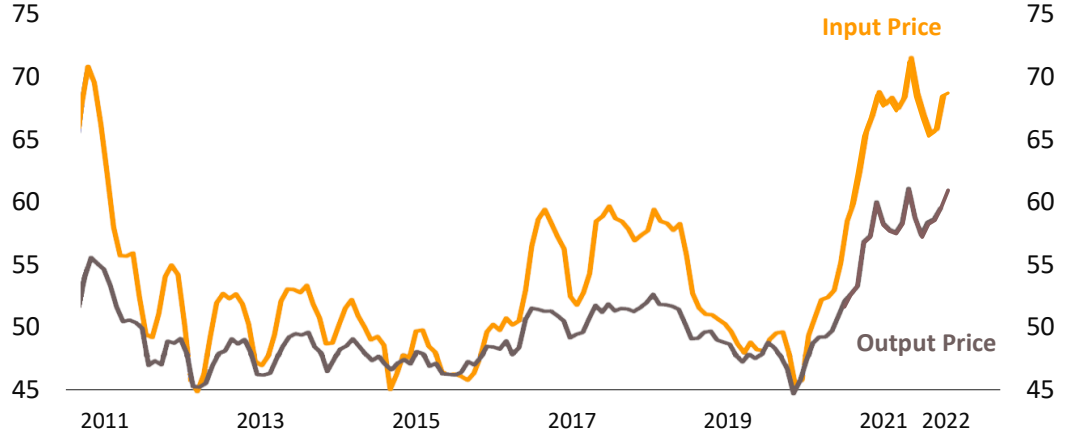
New Orders and New Export Orders



Services PMI



Input and Output Prices

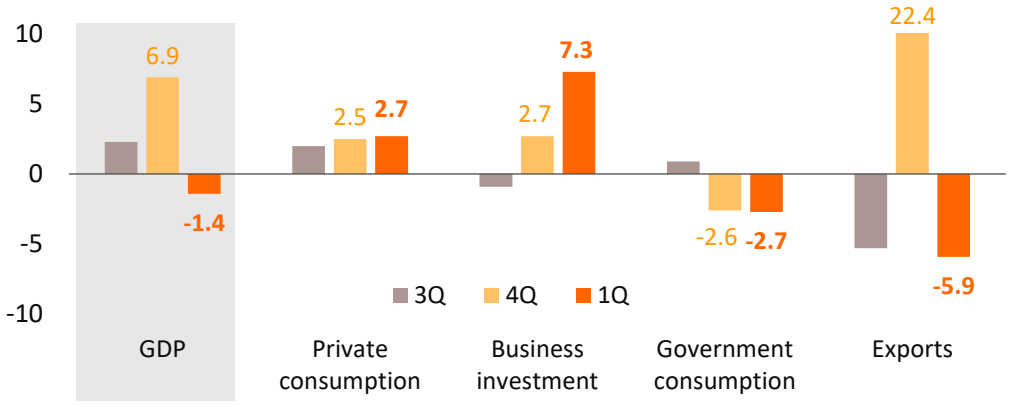


Source: IHS Markit, New York Fed, Bloomberg, Krungsri Research

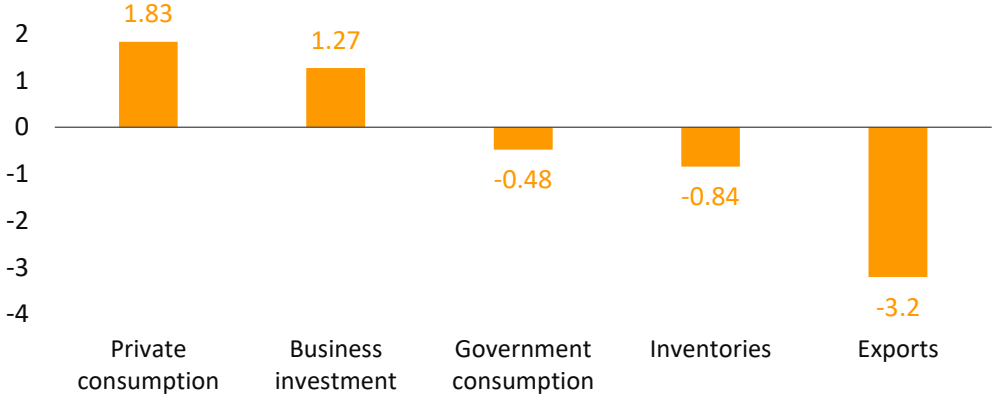
US: Economy shrank in Q1 due to supply disruptions and unwinding of stimulus; not a sign of impending recession

The negative GDP growth in 1Q22 in the US was mainly due to supply disruptions, not a sign of recession. 1Q22 GDP fell by 1.4%, triggered by (i) a wider trade deficit with surging imports and falling exports due to pandemic-related supply-chain constraints; (ii) slower inventory restocking; and (iii) fading impact of government stimulus spending to address the pandemic. In April, **ISM Manufacturing PMI** dropped for a second straight month to its lowest since July 2020, amid supply disruptions and labor shortage. ISM Services PMI remained strong but growth slowed down in April as a result of high inflation, high material costs, capacity constraints and logistical challenges. For **consumer confidence, the Present Situation Index edged down but remains high,** with stronger intention to buy big-ticket items like automobiles and appliances. The Consumer Expectation Index had stopped falling amid high oil prices and the war in Ukraine. **Despite a potential slowdown in economic activity due to supply constraints and other headwinds, several economic indicators suggest domestic spending would continue to expand in 2Q22.**

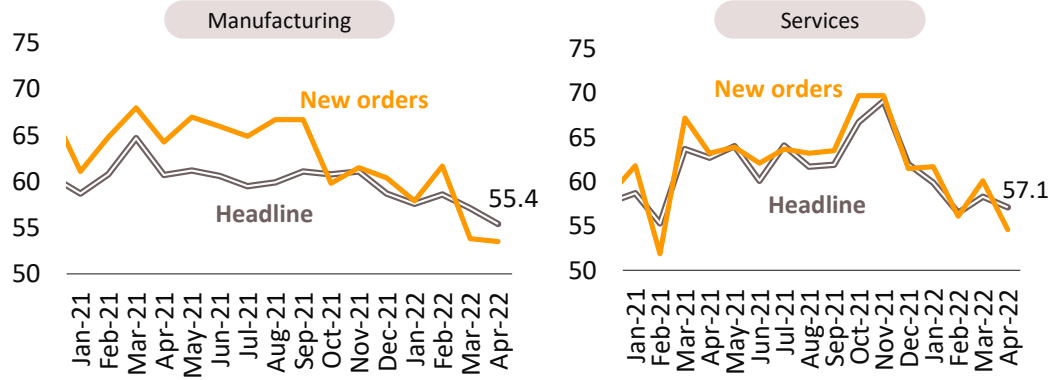
GDP Growth in 1Q22 (%QoQ saar)



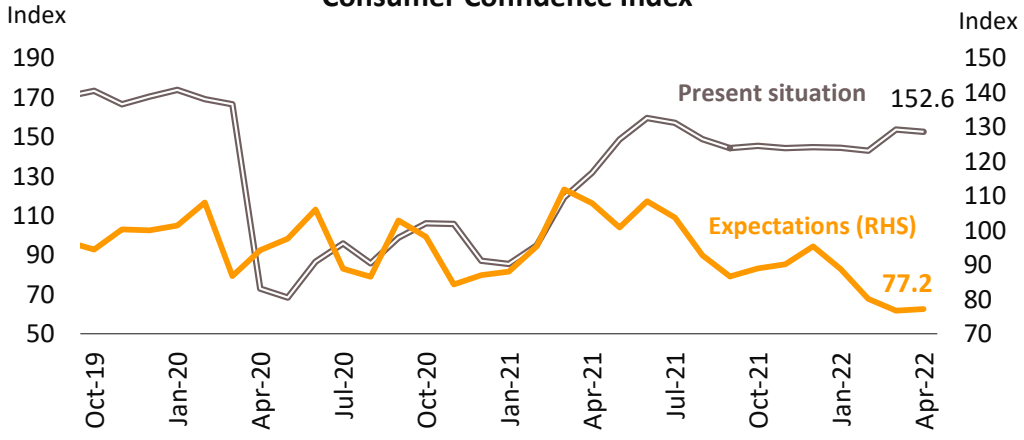
Contribution to 1Q22 GDP growth (percentage points)



ISM PMI Surveys (DI)



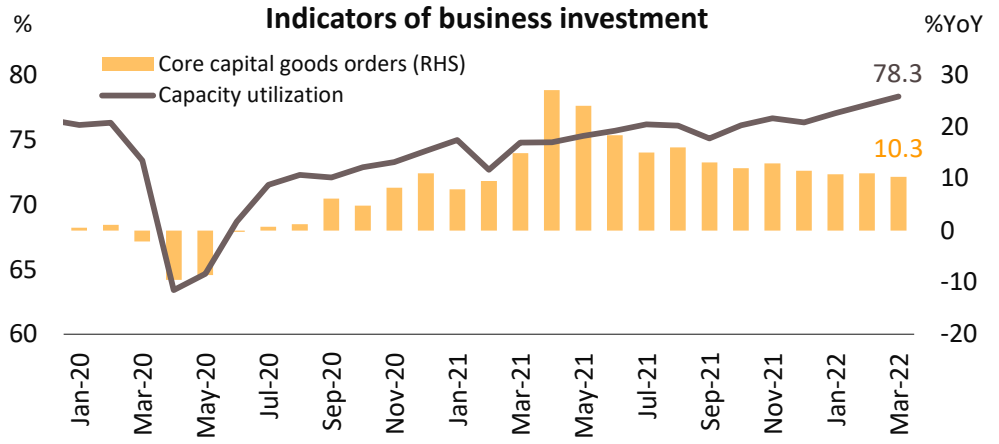
Consumer Confidence Index

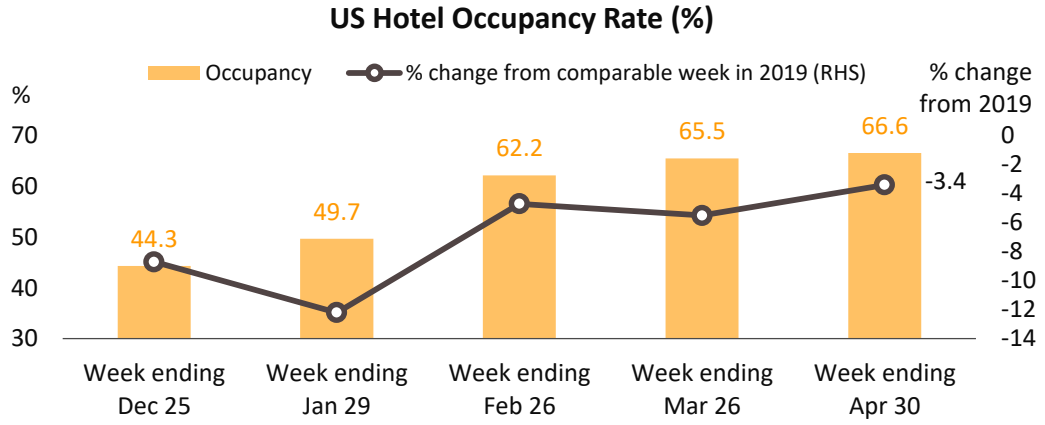


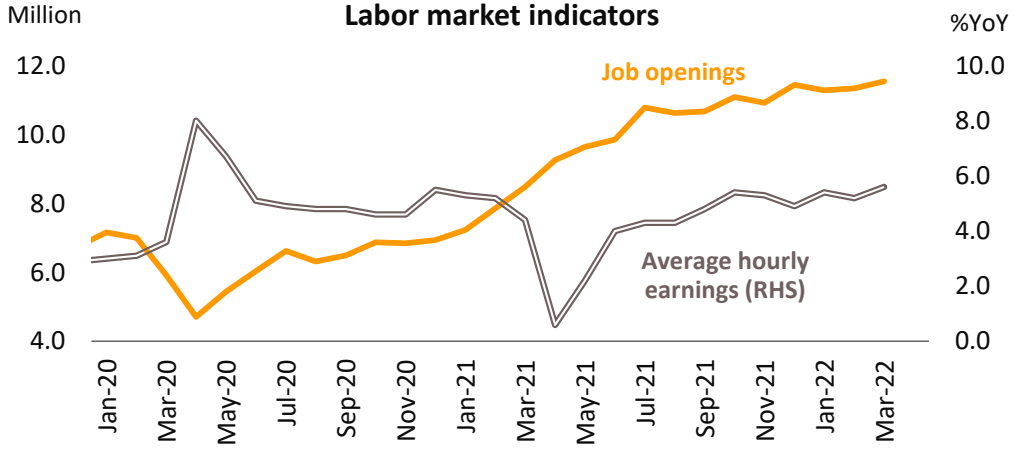
Source: BEA, ISM, Conference Board, Bloomberg, Krungsri Research

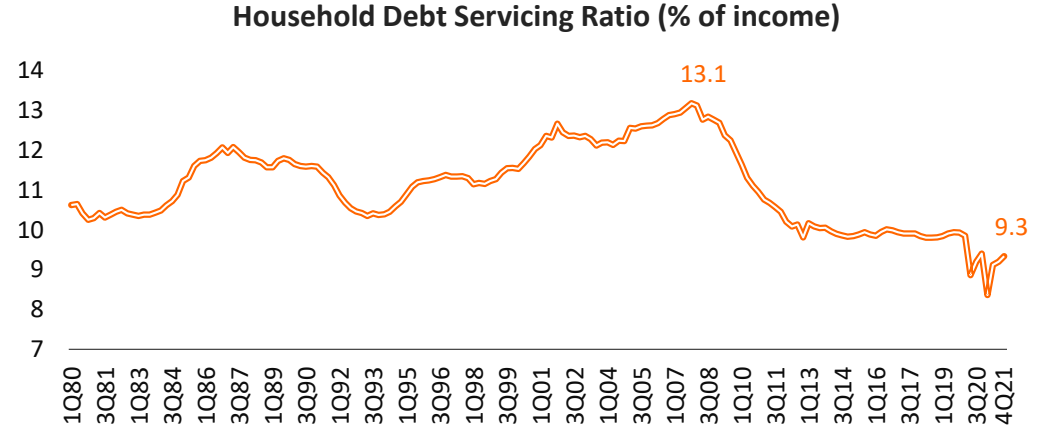
Strong consumer and business spending suggest US economy will expand this year, but at a slower pace

The domestic economy remains resilient with strong growth of consumer and business spending. Business investment had surged, reflected by (i) a 10% YoY increase in Core Capital Goods New Orders (non-defense capital goods used in the production of goods or services, excluding aircraft) in March, and (ii) a rise in Capacity Utilization rate to 78.3%, the highest since January 2019. **Consumers are spending more on services following** fewer Covid-19 cases and lifting of pandemic restrictions**. Travel is a key driver. US hotel occupancy continued to rise to 66.6%** for the week ended April 30, only 3.4% below pre-Covid level. About 2.1 mn people passed through airport checkpoints in late April, up from 1.4 mn three months earlier. **The strengthening labor market and rising wages suggest consumer spending would continue to improve**. **Household balance sheets are strong**. Buffered by pandemic savings, Household Debt Servicing Ratio (repayment/income) is the lowest in 40 years, which means households would be able to weather high costs by either dipping into savings or expanding borrowing.





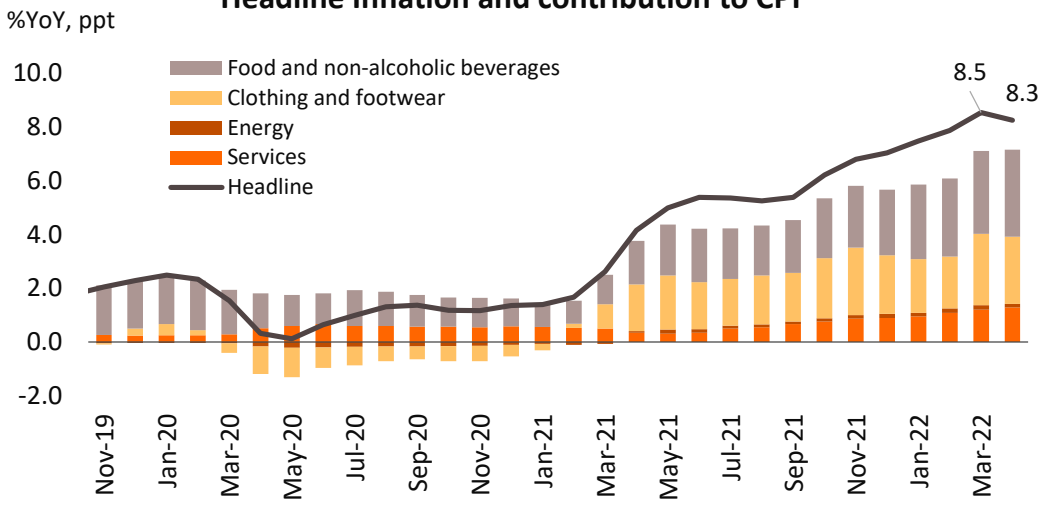




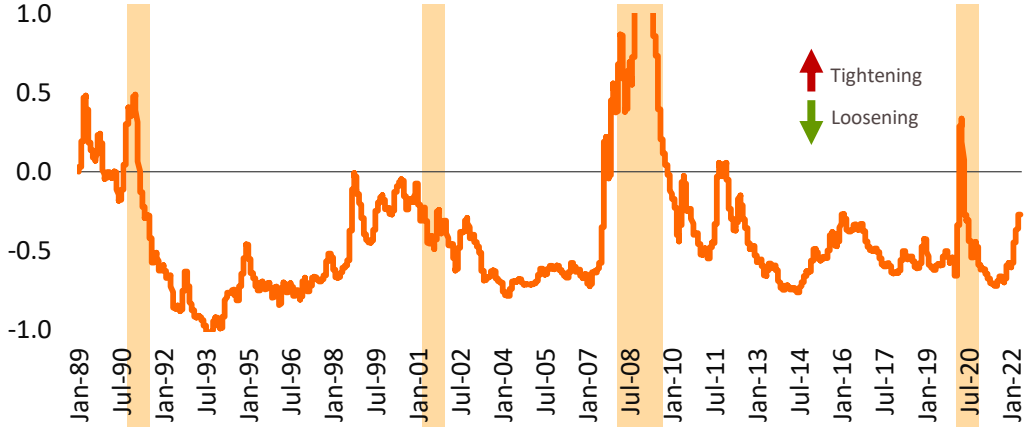
Source: Federal Reserve, Census Bureau, STR, Transportation Security Administration, BLS, Bloomberg, Krungsri Research

Robust domestic spending and high inflation risks suggest Fed would keep pace of policy tightening; more aggressive move could increase risk of a hard landing

Headline Inflation and contribution to CPI



Financial Conditions Index



Source: BLS, Federal Reserve, Bloomberg, Krungsri Research

Highlights of FOMC meeting on 3-4 May

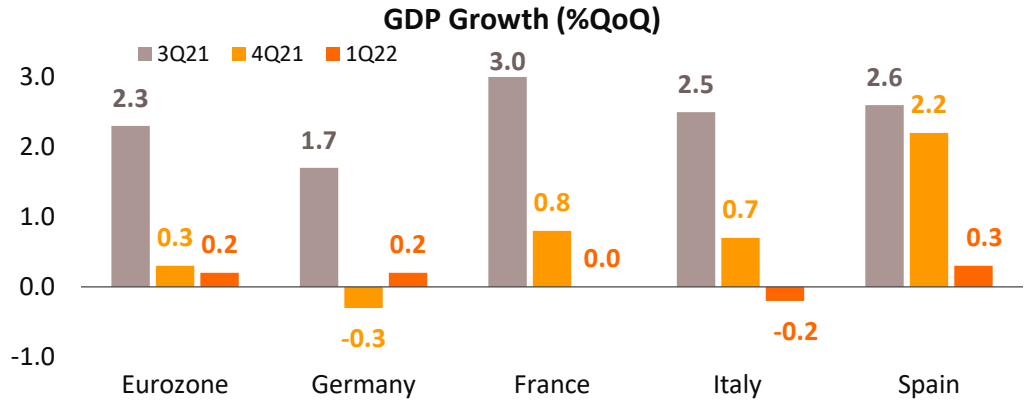
Key issues	Policy move, comments and forward guidance
Current policy move in-line with market expectations	• **FOMC raised rates by 50 bps** to 0.75-1.0%, the biggest hike since 2000, to fight 40-year high inflation (at 8.5% in March and 8.3% in April). • **To trim balance sheet from** 1 June with an initial monthly cap of $47.5 bn ($30bm UST, $17.5bn MBS), and increasing to $95 bn per month ($60bn UST, $35bn MBS) after three months.
Very strong growth with much-too-high inflation	• Powell said ***"Inflation is much too high*** *and we understand the hardship it is causing. We're moving expeditiously to bring it back down".* • ***"The American economy is very strong*** *and well-positioned to handle tighter monetary policy,"* He foresees a *"soft or softish"* landing for the economy.
Hawkish stance, but not too aggressive	• Powell said there's a *"broad sense"* on the committee that **50-bps rate hikes should be on the table at the next *"couple"* of meetings.** • He said the FOMC is not actively considering a 75-bps hike.

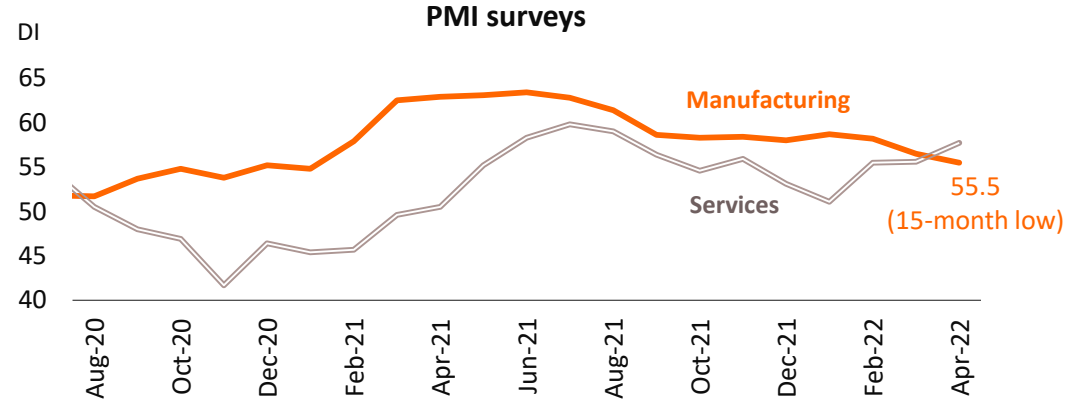
Krungsri Research's view

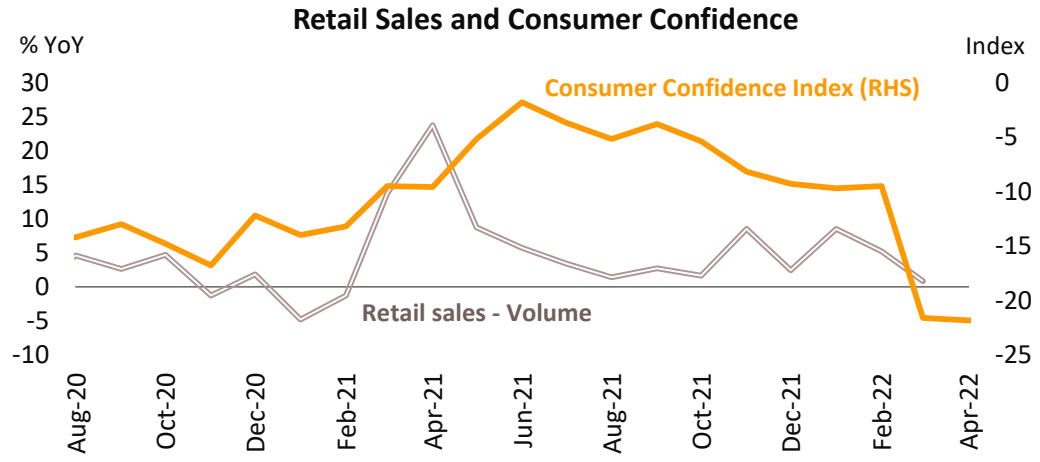
- **At the meeting on 3-4 May, the FOMC was hawkish and raised Fed funds rate by 50bps, the biggest hike in two decades. We expect 50-bps rate hikes in the next two meetings, but more aggressive move could increase risk of a hard landing for the economy.**
- The Fed is expected to maintain current pace of policy tightening to curb inflation, which is expected to remain high. US price pressure is more broad-based, including a surge in services inflation, as demand had picked up faster than supply. A tight labor market also drove services price higher**. We expect the Fed to raise rates by 50-bps each at the June and July meetings. After that, tightening would be slower with a 25-bps hike each at the remaining 3 meetings this year** as inflation is likely to soften markedly from a 4-decade high, albeit still exceed 2% target. Risks to growth would be capped by a robust labor market and healthy household balance sheets.
- **The US central bank is unlikely to take a more hawkish stance as more aggressive rate hikes could increase risk of a hard landing.** Financial Conditions have started to tighten since mid-April, to close to the tightest level since 2016, excluding 2020 (covid shock). Faster rate hikes could also tighten Financial Conditions, and the impact could spill over to the credit market, dampen sentiment, drag down domestic spending, and heighten risk of recession.

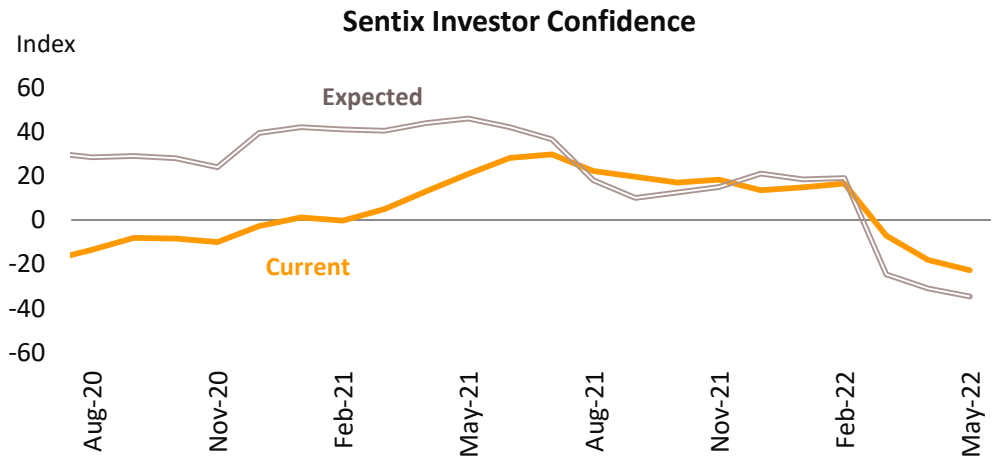
Eurozone: Economy could face a growth shock because of Ukraine war, China lockdowns, and risk of an energy crisis

Despite Eurozone recording positive growth in 1Q22, it decelerated to only 0.2% qoq sa driven by weakness in Germany and Spain, stagnation in France, and a contraction in Italy. **Eurozone economy could experience stagnation in 2Q22 given greater negative impact from the Ukraine war and extended lockdowns in China which have worsened supply-side issues.** Manufacturing PMI hit a 15-month low in April but Services PMI rose following the lifting of Covid-19 restrictions**. Surging energy prices are also dampening consumer and business confidence. Soaring inflation is affecting households' real income and business profit margins.** March retail sales volume saw the weakest growth since February 2021 and April Consumer Confidence Index dropped to its lowest in two years. In May, Sentix Investor Confidence continued to decline to an almost two-year low and the Expectation Index is at its lowest since December 2008. And **given energy embargo risks, the growth shock would be worse.** Russia's energy firm Gazprom has halted gas flows to two EU nations for not paying for the commodity in rubles. The move sparked fears Russia would also stop supplying gas to other countries. There is rising pressure on Europe as Russia has imposed sanctions on Gazprom Germania, the former Germany-based unit of Russian gas producer Gazprom, a day after Ukraine stopped a major gas transit route.





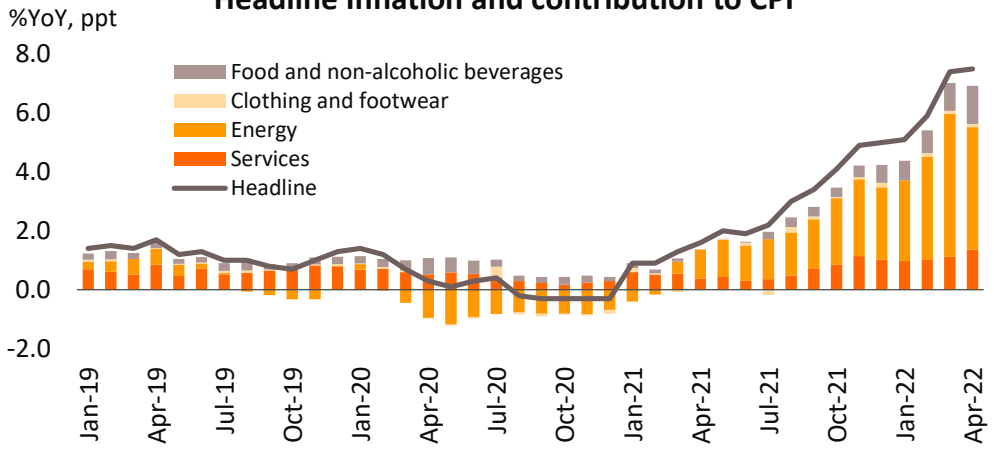




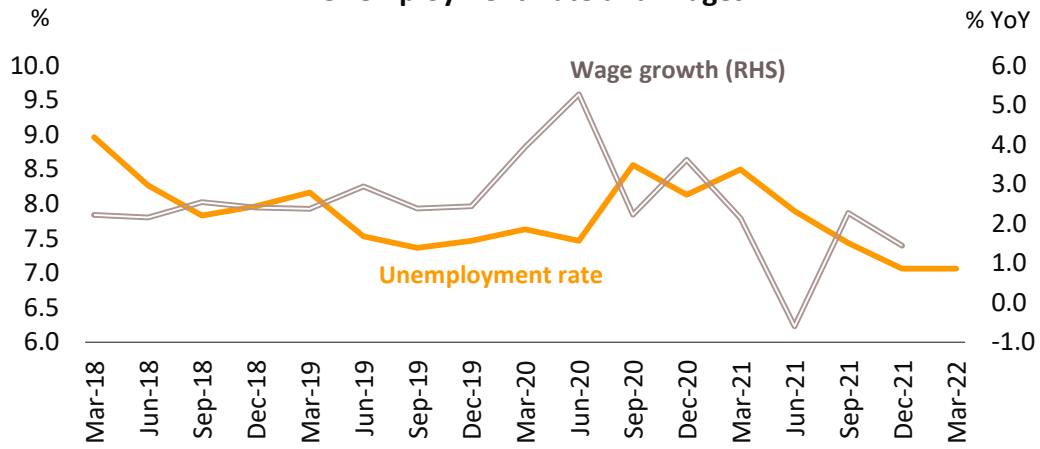
Source: EuroStat, IHS Markit, European Commission, Sentix, Krungsri Research

Despite ripple effect of Ukraine crisis and China lockdowns, rising concerns over persistent high inflation could prompt ECB to hike rates in July and gradually normalize policy

Headline Inflation and contribution to CPI



Unemployment Rate and Wages



ECB Governing Council: Doves vs Hawks

Doves			Neutral				Hawks	
				Lagarde*				
Panetta	Lane	Simkus	Rehn	Villeroy*	Elderson*	Schnabel	Nagel*	Holzmann
De Cos	Visco		Makhlouf	Kazimir		Guindos*	Knot	
Stoumaras			Centeno*			Kazaks*	Wunsch*	
Herodotou							Muller	
							Vasle	

Note: *Lagarde and ECB officials who signaled July as rate liftoff

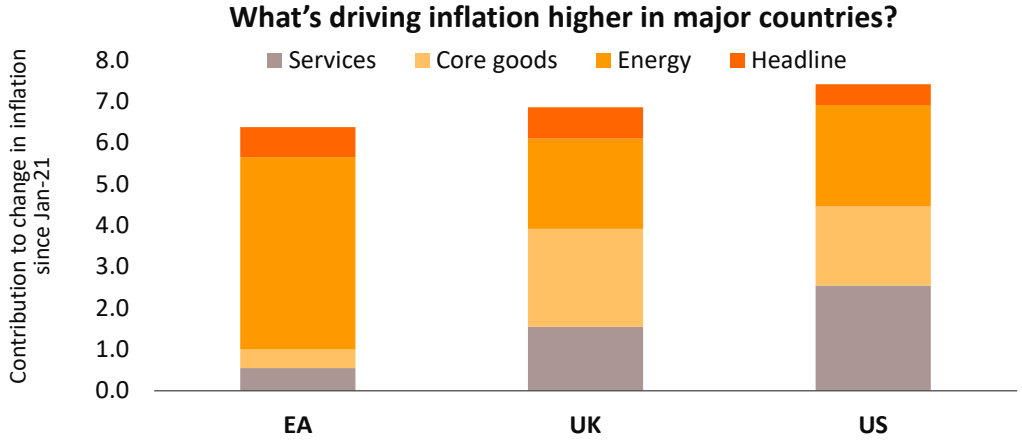
Source: EuroStat, European Commission, CEIC, Bloomberg, Krungsri Research

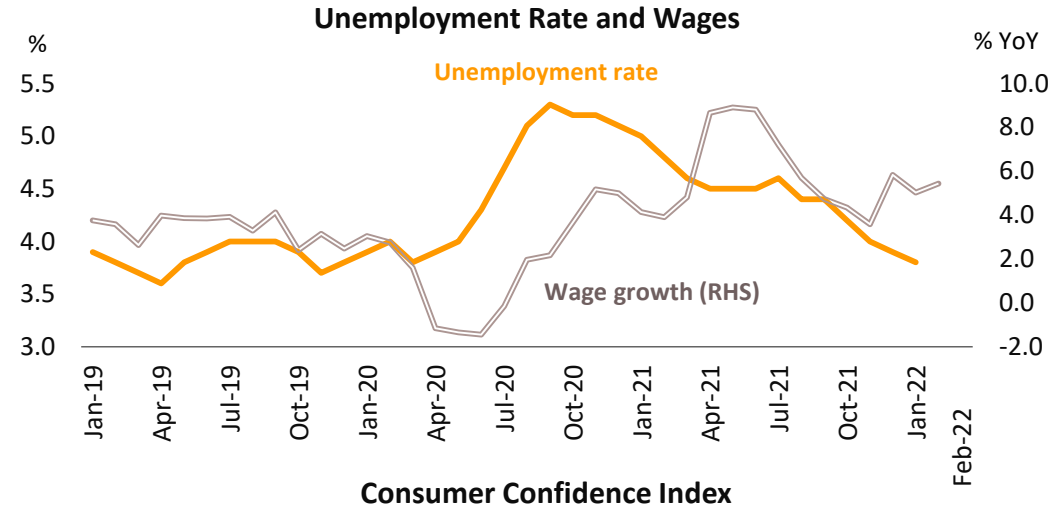
Krungsri Research's view

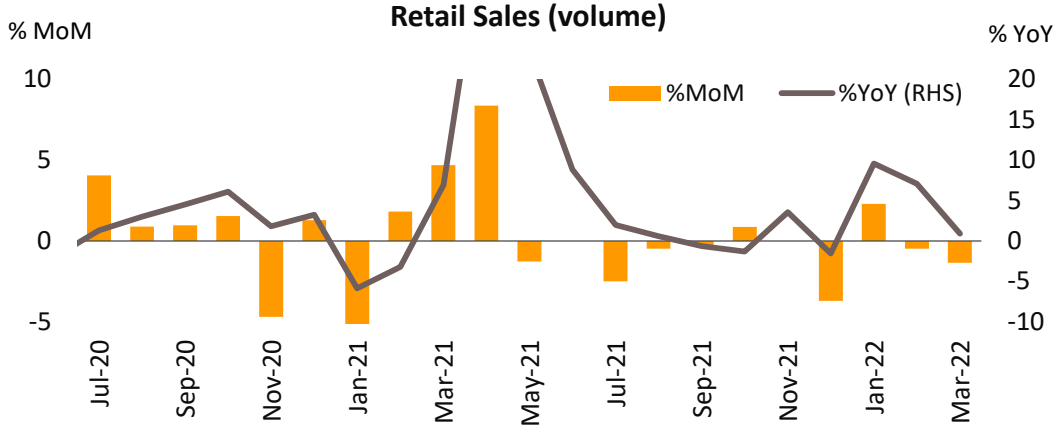
- **Rising concerns over price stability could prompt the ECB to hike rates in July** as inflation has surged and will remain high in the coming months. Inflation in Eurozone has hit record high for the sixth consecutive month, at 7.5% in April.
- ECB President Christine Lagarde has joined seven ECB officials to signal the first rate hike in July. They not only remain at the hawkish end of the ECB spectrometer but are also in moderate and neutral, implying high probability of rates lifting off in July.
- **Despite risk of a growth shock triggered by the Ukraine war, the Eurozone labor market has continued to improve** with unemployment rate hitting a new low of 6.8% in March, implying the economy is recovering from the pandemic and there is less need for negative interest rates.
- **However, the ECB would raise rates later than other advanced countries and the pace would be gradual** given vague signs of strong second-round effect on inflation as (i) rising price pressure is not broad-based, largely triggered by a jump in energy prices; (ii) wage growth remains weak; and (iii) the economic impact of high inflation and supply constraints will be more visible over the next few months.

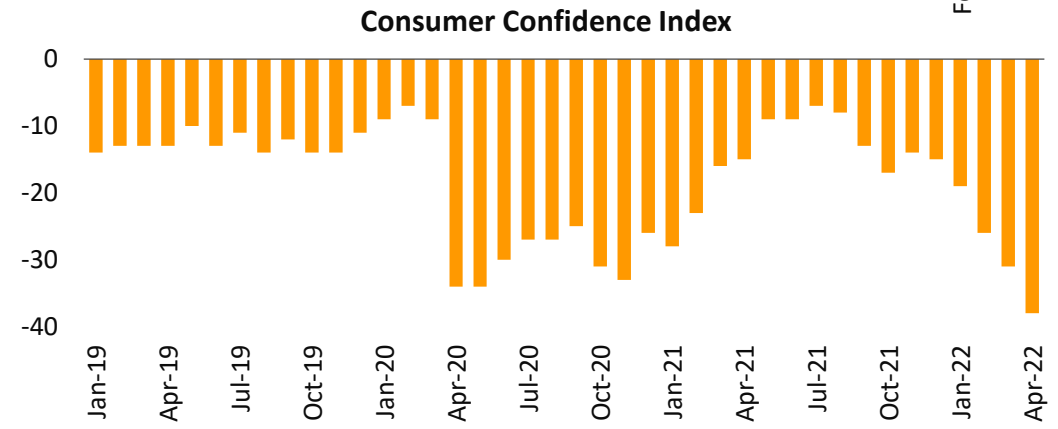
UK: BOE raises rates to 13-year high, sees inflation rising to 10%; will proceed with rate hike cycle but at a more dovish pace amid looming risk of a recession

At the meeting on 5 May, the Bank of England (BOE) voted 6-to-3 to raise base interest rate for the fourth consecutive meeting, by 25 bps to 1%, the highest since 2009. The minority preferred to hike rates by 50bps. **The BOE is expected to continue to normalize policy to curb risk of persistent inflation from a tightening labor market**. While unemployment rate fell to 3.8% in February, the lowest since the pandemic, inflation hit a 30-year high of 7% in March. The BOE expected inflation to rise to 10% this year. **However, we expect the pace of rate hikes to be slower, possibly delivering up to 2 hikes only in 2H22 given slow inflation in the services sector (relative to the US) and looming risk of a recession. Recent indicators suggests a deteriorating growth outlook.** UK GDP contracted by 0.1% in March, compared to 0% in February. Retail sales volume dropped for the second straight month in March and Consumer Confidence Index plunged to a near record low in April. **The BOE also expects UK GDP to shrink in 4Q22**, partly reflecting the projected large hike in household energy bills in October. The BOE projects 2023 economic growth would turn to negative 0.25% (vs previous forecast of +1.25%).







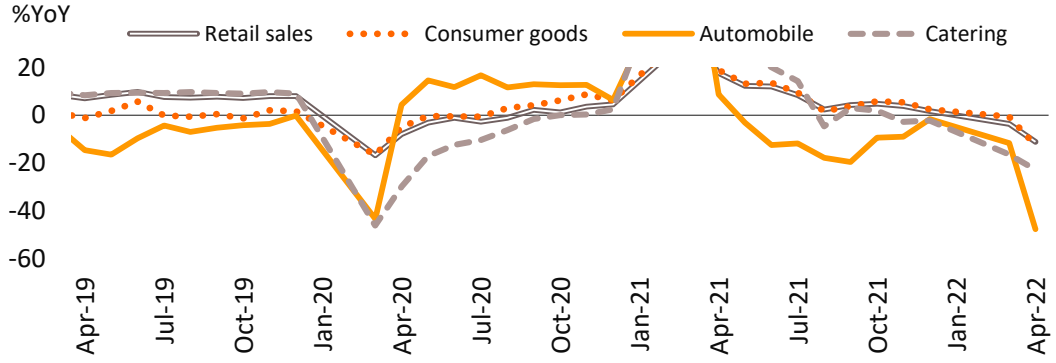


Source: BOE, Bloomberg, ONS, CEIC, Krungsri Research

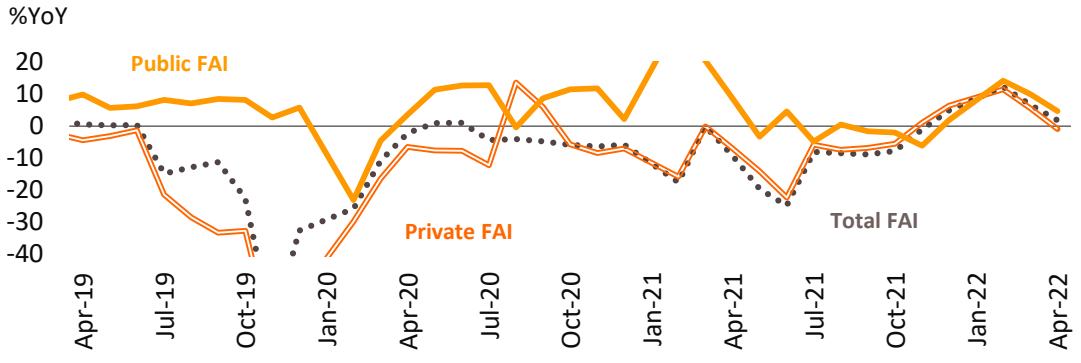
China: Downside risks from strict lockdown measures and Ukraine war could drag growth further in Q2

The major economic growth drivers have showed signs of weakening since the beginning of this year. The outbreaks and following lockdowns in parts of Shanghai since mid-March and tighter restrictions in Beijing during April to contain cases have continued to dampen expenditure. April's retail sales dropped for the second straight month, as spending on consumer goods, automobile and catering services slumped. Fixed asset investment growth slipped to 1.8% YoY in April from 6.6% in March, driven mainly by a contraction private investment for the first time in 5 months, while public investment slowed down further, due to disrupted manpower from stringent restrictions. On the external front, export growth slowed to 3.9% in April, its weakest since June 2020, which underlines weaker global demand and worsening supply chain disruption triggered by the extended Russia-Ukraine war and domestic lockdowns. **Looking at 2Q22, economic growth would be dampened further** by the following: (i) possibly extended lockdowns in China, which would disrupt supply and economic activity, (ii) prolonged Ukraine war and intensifying sanctions against Russia, which could weigh on exports, and (iii) combined effects of lockdowns and war could pressure economic activities and weaken the labor market, indicated by a more than 2-year high of 6.1% unemployment rate in April, which would further deteriorate household purchasing power.

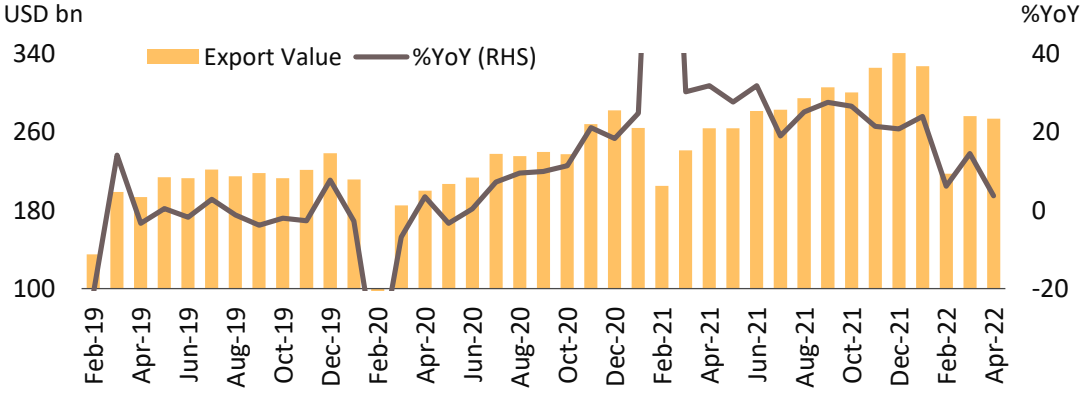
Retail Sales



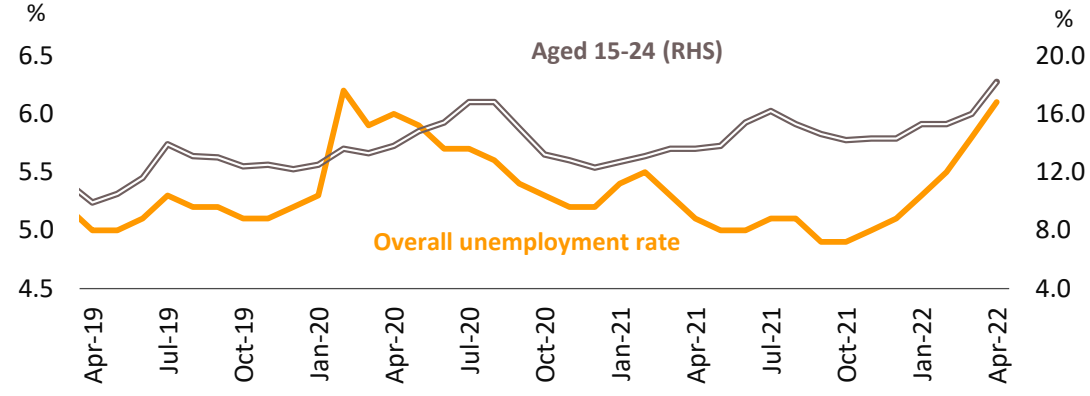
Fixed Asset Investment



Exports



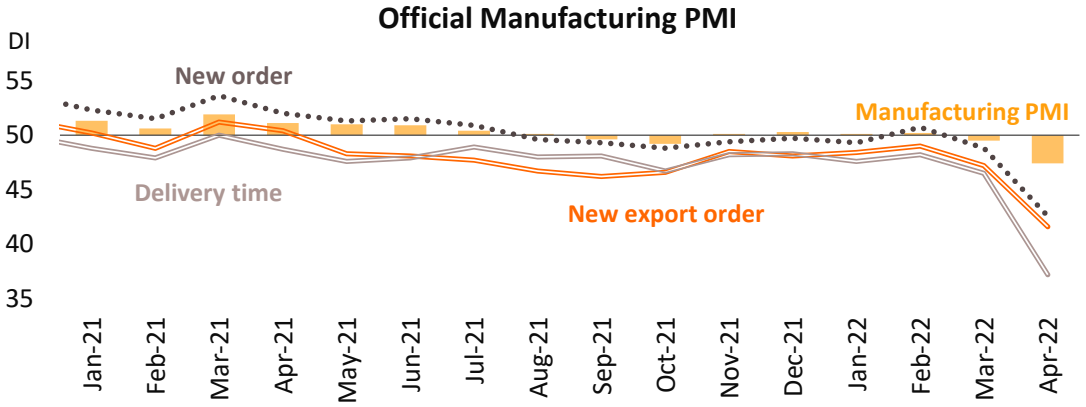
Unemployment Rate

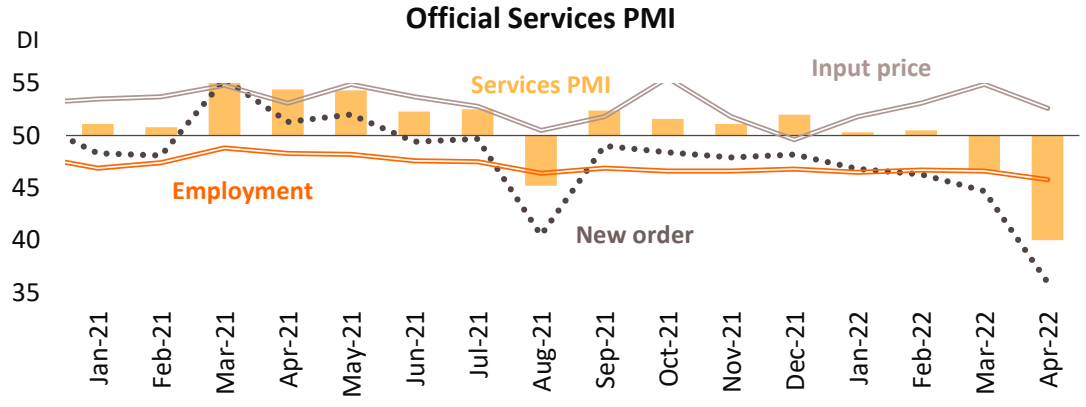


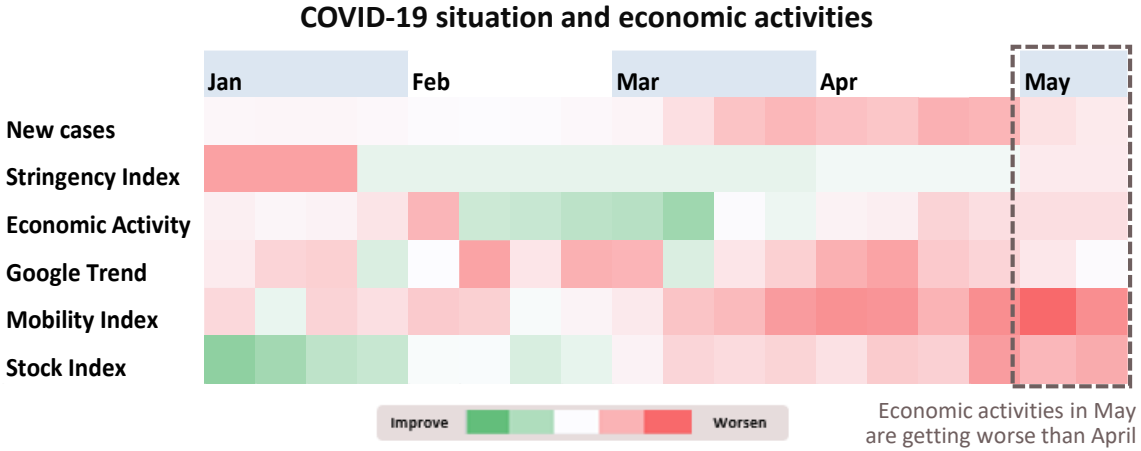
Source: National Bureau of Statistics, CEIC, Capital Economics, Bloomberg, Reuters, Krungsri Research

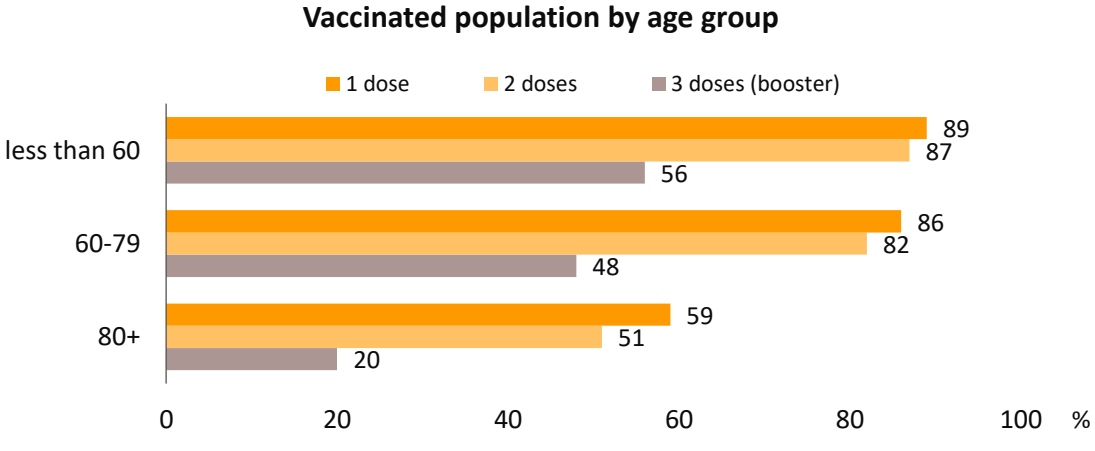
Weaker domestic and external demand, supply disruptions, and delayed booster vaccinations could hinder economic expansion and challenge growth ambition

Recent economic indicators show China's economy has continued to lose momentum. In April, the Composite PMI slipped to 42.7, the lowest since February 2020, led by a contraction in PMI data for Manufacturing (47.4) and Services (40.0) for the second month. This mostly reflected the impact of China's zero-COVID policy in major areas, especially Shanghai, and exacerbated by the Ukraine war. High-frequency data, which mirror the effect of the lockdown in Beijing since the last week of April, indicates greater economic impact of containment measures although the number of daily cases are trending down. **Overall, China's economy growth for the rest of the year would be dragged by several obstacles,** including, (i) simultaneous slowdown in domestic and external demand, reflected by the PMI sub-indices for new orders and new export orders, which have dropped to their lowest since 2020, (ii) supply chain disruptions triggered by China lockdown and the Russia-Ukraine conflict has led to a sharp drop in delivery time sub-index within the Manufacturing PMI to its worst in more than 2 years, and (iii) delays in vaccinating vulnerable people with booster shots, especially the elderly. In March, only half of Chinese residents aged 80 and above had been fully-vaccinated and just one-fifth of these have received a booster shot. **In all, the economy is expected to experience a further slowdown and it would be difficult to meet its 5.5% official growth target for 2022.**







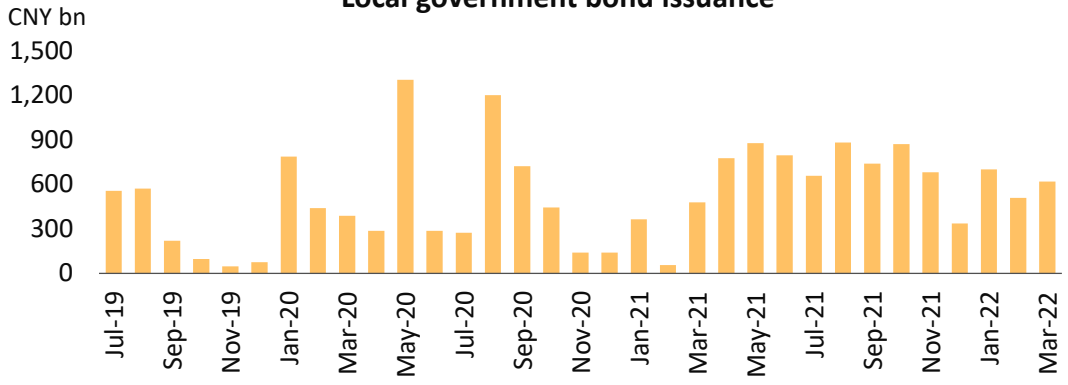


Source: National Bureau of Statistics, National Health Commission, Oxford Stringency Index, Yi Cai Global, Google, CEIC, Bloomberg, Capital Economics, Krungsri Research

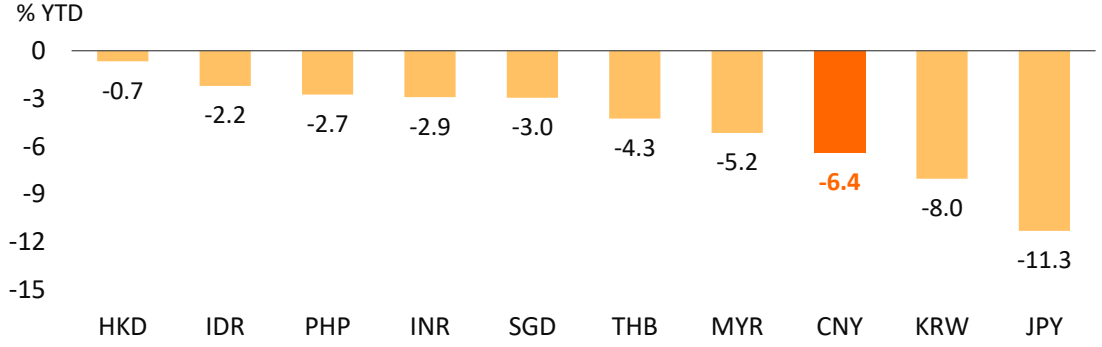
Expect to step up fiscal and monetary stimulus measures but limited policy space could make it challenging to prevent a further slowdown

To mitigate a sharp economic slowdown, authorities need to employ more accommodative measures against escalating risks. On the fiscal front, local government bond issuance in the first 3 months of 2022 was more than the same period last year and the government has pledged to step up infrastructure investment. In terms of monetary policy, the People's Bank of China (PBOC) announced on 15 May to cut interest rates for mortgage loans for first-home buyers by 20 bps to 4.4%. In fact, the PBOC has limited room to cut interest rates due mainly to capital outflows following rate hikes by other major central banks. In early-May, the yuan hit an 18-month low and had depreciated against the US dollar by 6.4% YTD. On the inflation front, headline inflation rose to 2.1% in April, the highest in 4 months, but rising prices were uneven and concentrated in food and energy categories. Looking forward, there is still some space for accommodative monetary policy supported by still-low core inflation and decelerating growth in the Producer Price Index which suggest weak demand-pull pressure and easing production costs. **Monetary easing in the next period is expected to be targeted and structural instead of a broad-based interest rate reduction as indicated by the recent PBOC's measures to ease the adverse impacts particularly on vulnerable groups. Given limited policy space due to risk of capital outflow and risk to economic stability, additional fiscal and monetary measures might not be able to prevent an economic slowdown.**

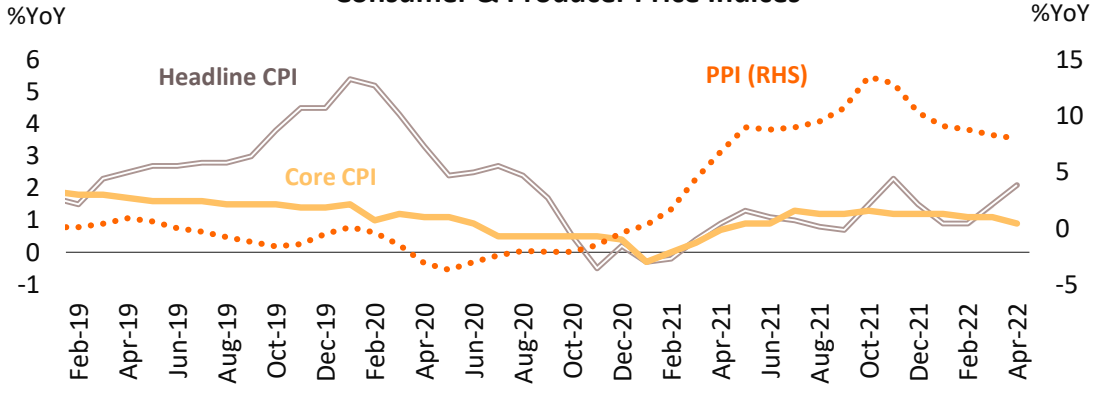
Local government bond issuance



Currency performance (as of 13 May 2022)



Consumer & Producer Price Indices



Recent financial measures to mitigate hard landing and stimulate economy

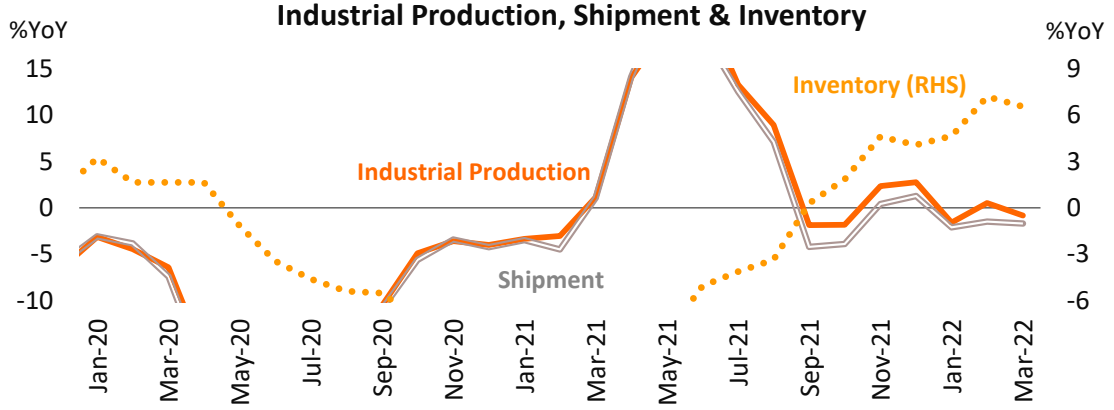
Step-up relending facilities targeted for hard-hit vulnerable groups	The PBOC announced additional CNY 300bn for the relending program to provide lower interest rate (< MLF) for commercial banks but targeted at specific customers, especially farmers, small firms, logistic businesses, energy-related enterprises, tourism sectors, and projects that could reduce poverty risk or help vulnerable groups hit by the pandemic.
Strengthen value of Chinese yuan	The PBOC cut banks' required foreign reserves by 1 ppt to 8% to curb a sharp weakening of the yuan against US dollar.
Additional fund for real estate & infrastructure investment	Utilize real estate investment trust (REITs) products to ease liquidity crunch in troubled property developers and promote infrastructure projects.
Interest rate exemption	Exempt some interest payments on college graduates' student loans.

Source: National Bureau of Statistics, The People's Bank of China, CEIC, Capital Economics, Bloomberg, Reuters, Krungsri Research

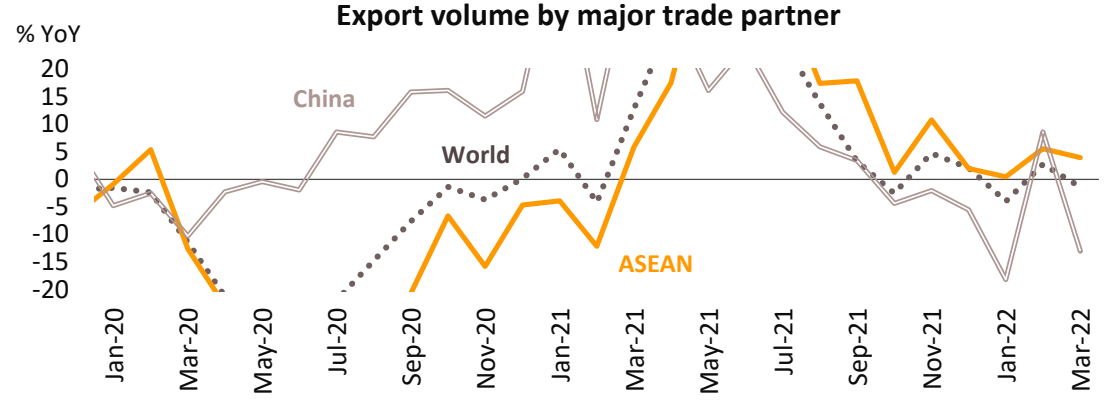
Japan: External uncertainties including Ukraine war and China lockdown could delay recovery despite easing restrictions and reopening

Japan has resumed economic activity following easing omicron fears but the negative impact of the Ukraine war and China lockdown have started to kick-in. Industrial production fell 0.8% YoY in March (vs +0.5% in Feb) because of supply chain disruption. Export volume to China, the largest market at 23% of total exports, shrank partly due to the latest lockdowns there. Manufacturing PMI dropped in April. **However, there were several positive factors to cushion the negative external impact.** First, easing containment measures have helped economic activity to resume, reflected in high-frequency data in May. In April, Services PMI returned to expansion territory for the first time in 4 months and consumer confidence inched-up for the first time in 6 months. Second, the reopening to foreign travelers from June will support recovery in the tourism sector despite arrivals being capped at 300,000 a month (vs pre-pandemic average of 2.6 mn per month). Third, the labor market has rebounded with unemployment rate falling to a 1-year low of 2.6% in March. In addition, new JPY6.2trn stimulus package funded by reserves under the FY2022 budget, equivalent to 1.2% of GDP, would mitigate the negative impact of rising energy prices and boost domestic demand in 2Q-3Q. **However, economic recovery would be delayed by several risks mentioned above, suggesting a need for more accommodative measures.**

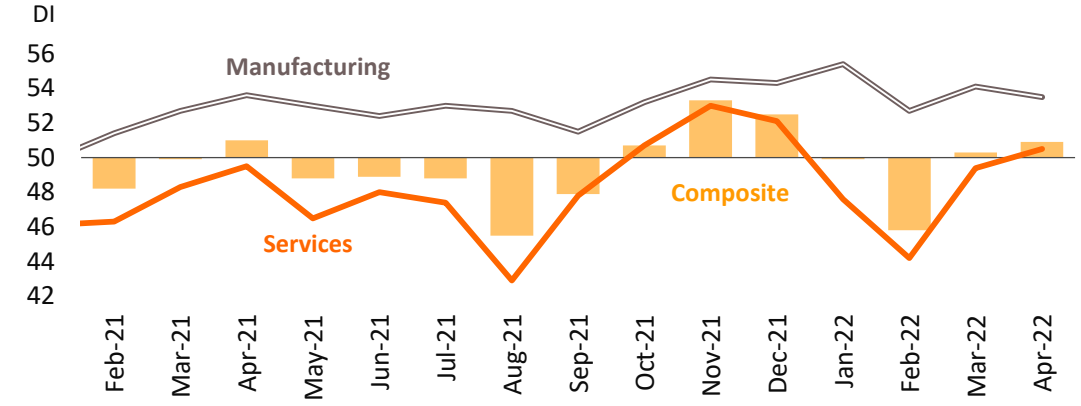
Industrial Production, Shipment & Inventory



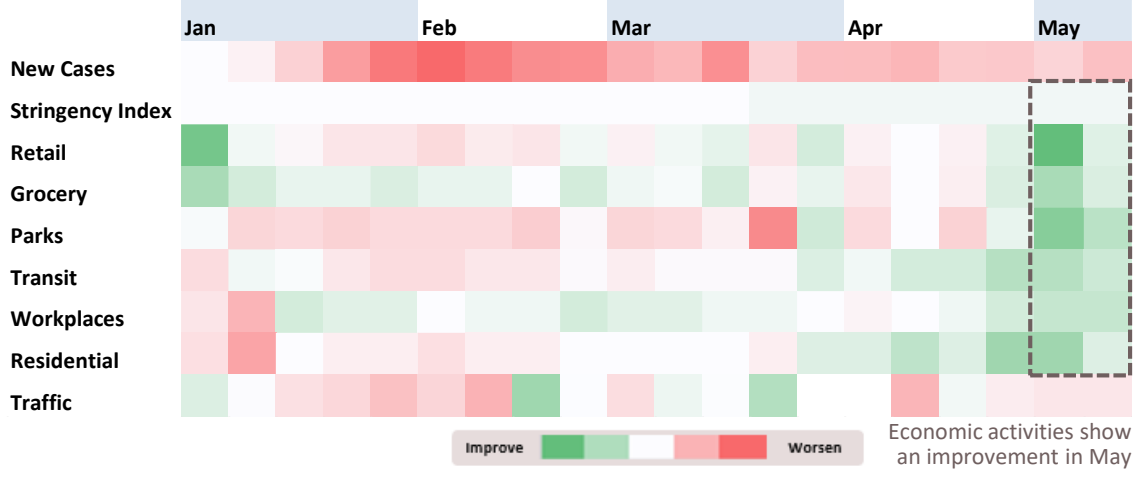
Export volume by major trade partner



Jibun PMI



COVID-19 Situation and Economic Activities



Economic activities show an improvement in May

Source: CEIC, Jibun Markit, Ministry of Health Labour and Welfare, Google Mobility, Oxford Stringency Index, Krungsri Research

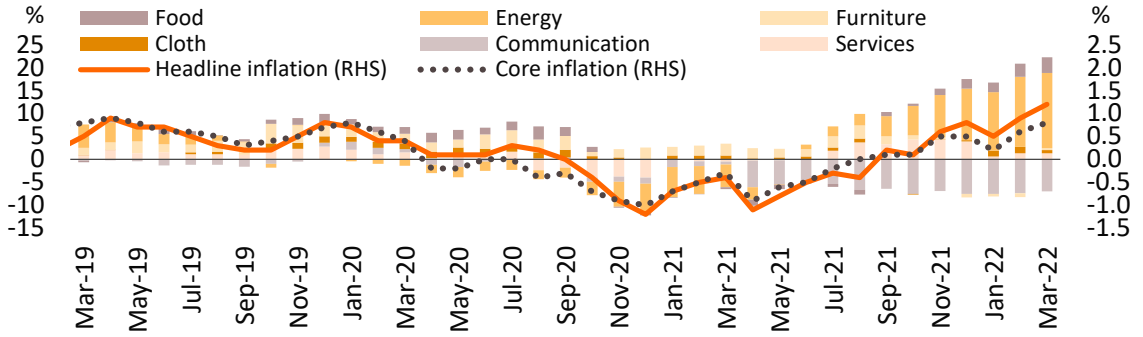
Given that rising inflation is not broad-based and the weaker yen would benefit exports, the BOJ is expected to pursue ultra-loose monetary policy

Although inflation in Japan continues to rise and the yen has weakened sharply, the Bank of Japan (BOJ) is unlikely to rush to adjust monetary policy, for the following reasons. (i) Recovery is still fragile, reflected by lower industrial production and exports because of external factors. The BOJ also revised down its 2022 GDP growth projection to +2.9% from +3.8%. (ii) Rising inflation is not broad-based, mostly due to higher energy prices. In addition, the increment from April onwards would be driven by the low-base effect due to reductions in mobile-phone service fees since April 2021. There is weak demand-pull inflationary pressure with softening real wages. The BOJ projects inflation would drop from 1.9% projected for 2022 to 1.1% in 2023 and 2024. (iii) The weaker yen is expected to drive up exports and economic growth. Based on a BOJ study, a 10% depreciation of the yen would raise exports by 2.0-3.0 ppt and lift GDP growth by 0.7-0.8 ppt. Although a weaker yen could lead to higher inflation, fiscal measures, including subsidies and a reduction in energy tax, would help to mitigate the impact. Meanwhile, although 10-year JGB yield has exceeded the official ceiling of 0.25%, **the BOJ is unlikely to tweak policy by widening the tolerance band and would thus wait for a more sustainable recovery, especially reopening effects on the tourism sector. Policy interest rates would be kept at record lows as inflation is projected to stay below target over the next two years.**

Bank of Japan's economic outlook

	GDP growth		Core inflation	
	Projection as of			
	Apr 22	Jan 22	Apr 22	Jan 22
2022	↓ 2.9%	3.8%	↑ 1.9%	1.1%
2023	↑ 1.9%	1.1%	= 1.1%	1.1%
2024	1.1%	-	1.1%	-

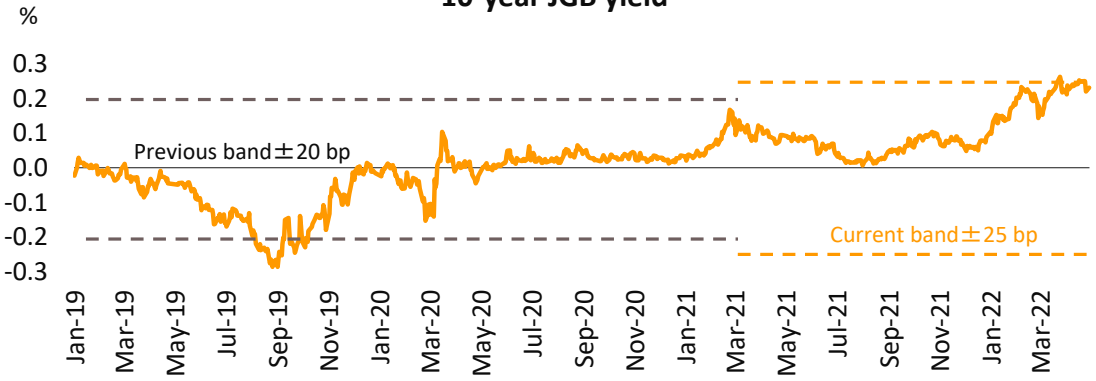
Inflation



Exchange rate (JPY/USD)



10-year JGB yield



Source: Bank of Japan, CECI, Reuters, Bloomberg, Capital Economics, Krungsri Research

Thailand: Divergent growth across key drivers amid external headwinds

- **Thailand has started to allow quarantine-free entry to fully-vaccinated foreign tourists on expectations a recovery in the tourism sector would drive overall economic growth.** While services sector looks set to recover, manufacturing growth is slowing down following external headwinds. On demand side, reopening effects in general should release pent-up demand by middle- to upper-income classes but high inflation would eat into consumers' real income and businesses' profit margin. Path of economic recovery will remain uneven with divergent growth across key drivers.

- **1Q22 GDP growth improved to +2.2% YoY in 1Q22 from +1.8% in 4Q21,** led by tourism, exports and private consumption amid easing restrictions and stimulus measures. The GDP growth in 1Q22 was slightly better than our projection (+1.7%) and consensus estimate (+2.1%). **However, we have maintained our GDP growth forecast of 2.8% this year given negative impacts of Ukraine crisis and China's extended lockdowns. Also, surging domestic inflation, reducing government subsidies and unwinding of stimulus measures all may dampen growth of domestic spending ahead.**

- **Thai exports** surged in 1Q, which could lift our full-year growth forecast but we expect exports to slow down the rest of this year. Global economic slowdown and supply chain disruption are starting to show in trade data, could hurt Thai exports going forward. Manufacturing could be hurt by global slowdown and lingering supply chain disruptions; consumer demand will shift from goods to services.

- **Tourism sector** is improving with the removal of Test & Go program but there could be stronger competition in the region. Following easing Covid-19 cases after the long Songkran holiday, Thailand has downgraded Covid-19 alert level from 4 to 3 effective May 9, allowing more economic activities to resume. **Large excess savings** since pandemic mostly parked in savings accounts, reflecting middle- and upper-income groups are prepared to spend.

- **For private spending,** easing pandemic fears is a domestic tailwind but several external headwinds and high inflation could dampen consumer and business spending.

- **Inflation rate** is expected to rise again in May after easing in April. Given still-high energy prices and smaller-than-expected government subsidies, 2022 annual inflation could exceed our 4.8% forecast.

- **Thailand is less vulnerable to external shocks than peers, allowing the MPC to maintain low policy rate this year to support economic activity which remain weaker than peers.**

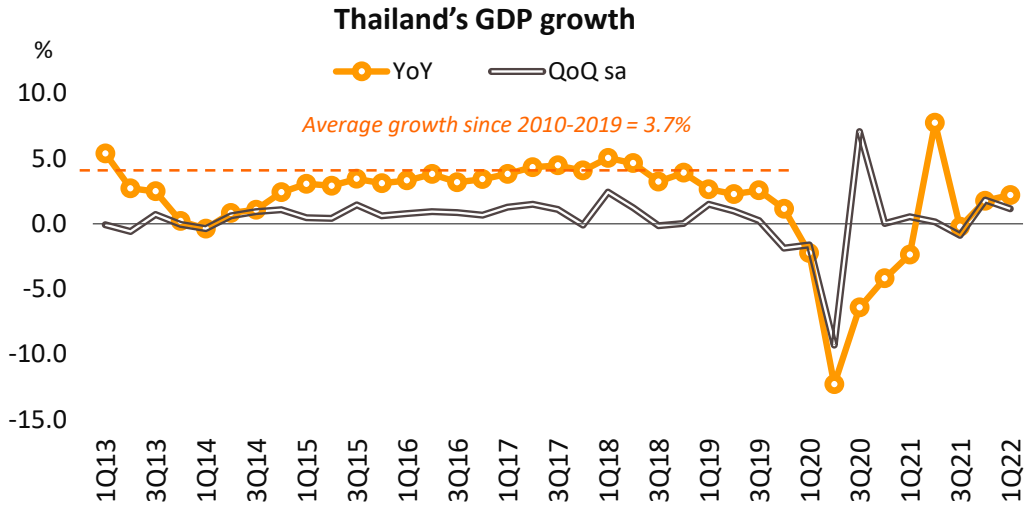
Krungsri Research Forecasts for 2022

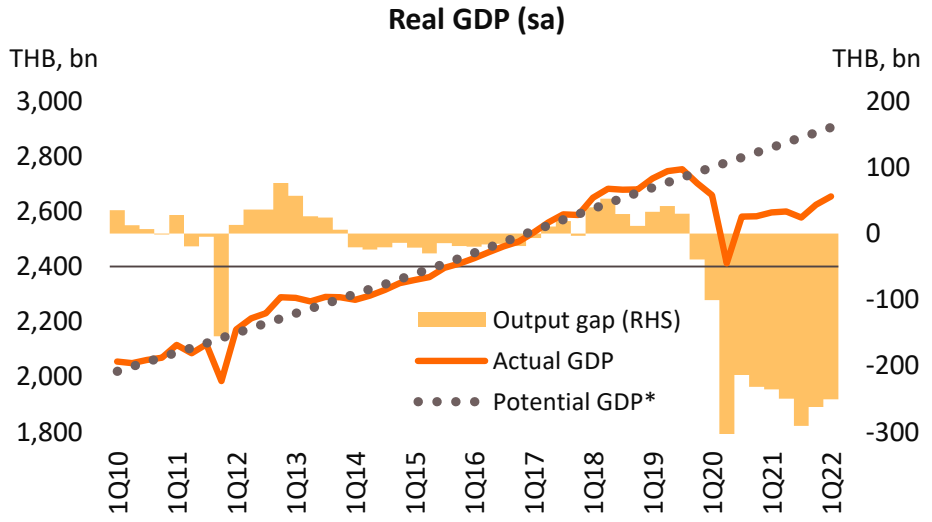
Krungsri Research Forecast		2020	2021	2022F
GDP growth	YoY (%)	-6.2	1.5	2.8
Private Consumption Expenditure	YoY (%)	-1.0	0.3	3.0
Government Consumption Expenditure	YoY (%)	1.4	3.2	-0.5
Private Investment	YoY (%)	-8.2	3.3	3.3
Public Investment	YoY (%)	5.1	3.8	3.5
Nominal Exports in USD (f.o.b.)*	YoY (%)	-6.5	18.8	2.6
Nominal Imports in USD (f.o.b.)	YoY (%)	-13.8	23.4	8.5
Current Account Balance	USD, bn	20.3	-10.6	-4.6
Tourist Arrivals	Mn, persons	6.7	0.4	5.5
Headline Inflation	YoY (%)	-0.8	1.2	4.8
Policy Interest rate (end of period)	(%)	0.50	0.50	0.50
Dubai crude price - period average	USD/bbl	42	69	98

* Customs-based export growth forecast: +2.1% in 2022

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

1Q22 GDP grew slightly better than expected by +1.1% QoQ sa, +2.2% YoY but our full-year growth forecast maintained at 2.8% given rising downside risk the rest of this year



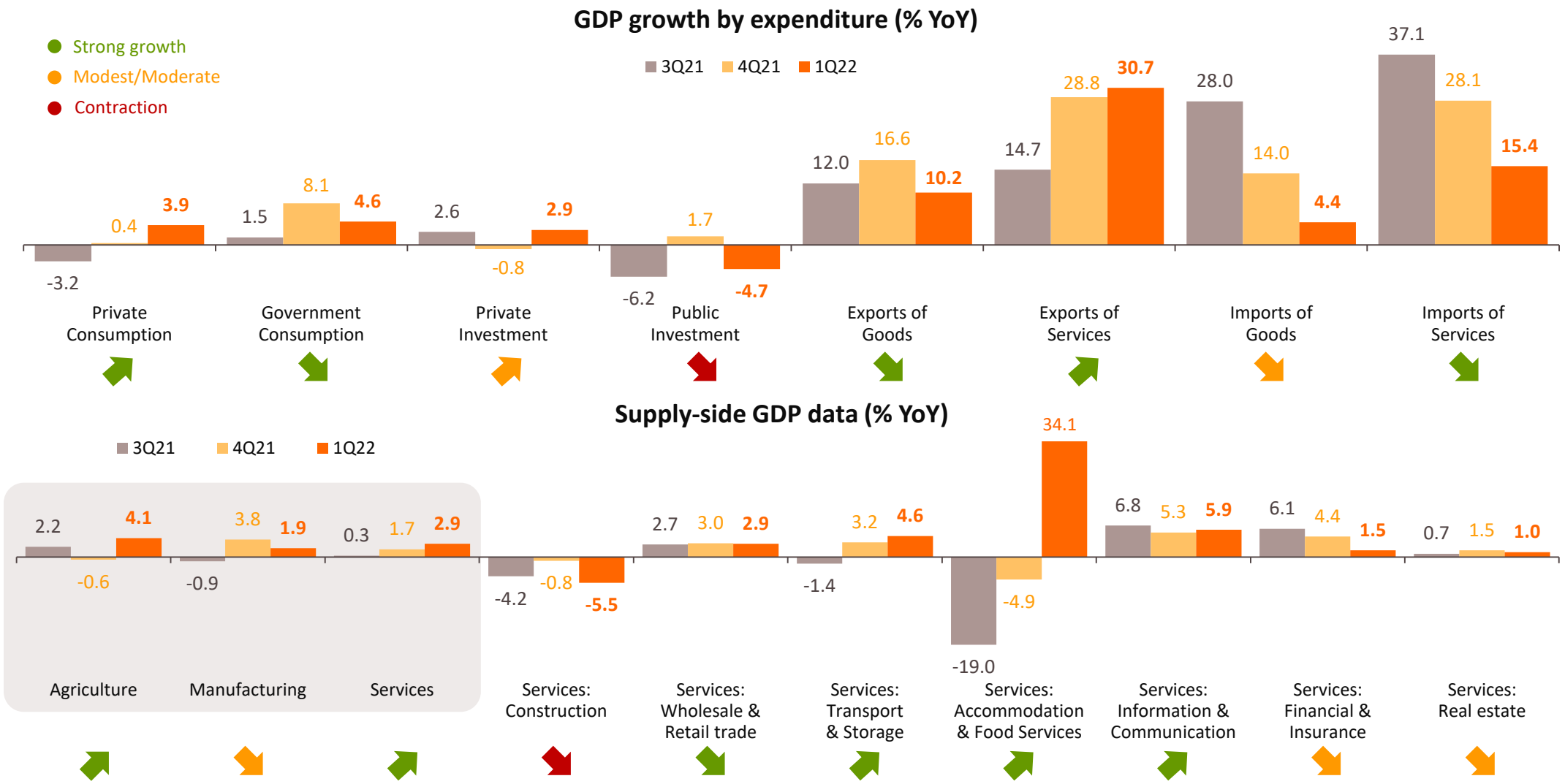


Krungsri Research's view

- **Thai GDP growth improved to +2.2% YoY in 1Q22 from +1.8% in 4Q21, led by tourism, exports and private consumption amid easing restrictions and stimulus measures.** The GDP growth in 1Q22 was better than our projection (+1.7%) and consensus estimate (+2.0%), thanks to a further recovery of tourism (exports of services +30.7% in 1Q vs +28.8% in 4Q), a continued expansion of goods exports (+10.2% vs +16.6%) and an acceleration in private consumption growth (+3.9% in 1Q vs +0.4% 4Q). The stimulus measures such as the *"50-50 Co-payment"* scheme and *"We Travel Together"* campaign could be a temporary boost to consumption growth. Private investment growth improved (+2.9% vs +0.8%), led by investment in machinery and equipment, but investment in construction still contracted.
- When compared to the previous quarter, GDP growth slowed from +1.8% QoQ sa in 4Q to +1.1% in 1Q, close to our estimate of +0.8% and consensus forecast of +0.9%).
- **On the supply side, 1Q22 GDP growth was mainly driven by agriculture (+4.1% vs -0.6%) and services sector (+2.9% vs +1.7%),** particularly led by accommodation and food service activities (+34.1%), information and communication (+5.9%), transportation and storage (+4.6%). Meanwhile, industrial sector slowed down (+0.5% vs +2.6%).
- **Looking ahead, despite the upbeat 1Q GDP data and faster-than-expected reopening, we have maintained our GDP growth forecast of 2.8% this year given external risks and other headwinds,** including (i) negative impacts of Ukraine crisis on external demand, supply disruption and domestic inflation; (ii) China's extended lockdowns which could hurt Thailand's trade and worsen supply disruptions; and (iii) surging inflation, reducing government subsidies (such as for diesel oil and cooking gas) and unwinding of stimulus measures, all of which may dampen growth of domestic spending ahead.

Note: * data for calculating potential GDP as of 1Q20
Source: NESDC, Krungsri Research

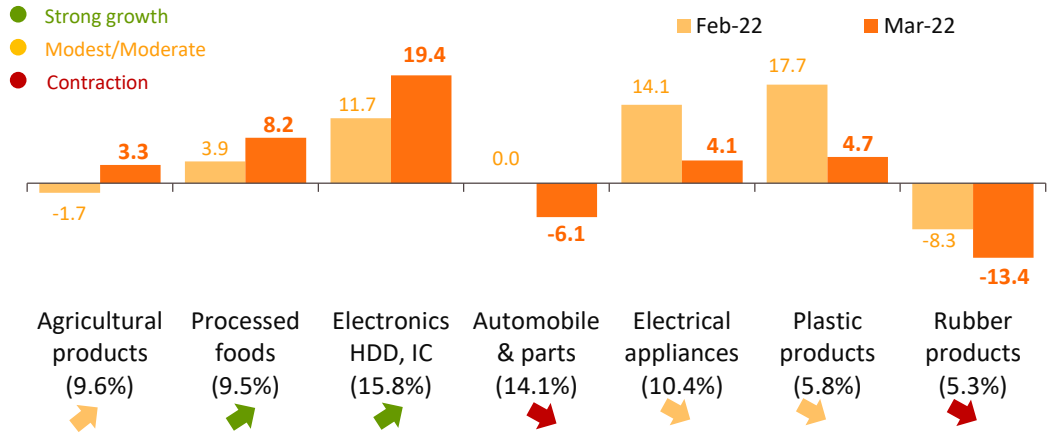
Major drivers for 1Q GDP were improving tourism, growing exports, and a temporary boost on consumption; slowing manufacturing sector limits supply-side growth



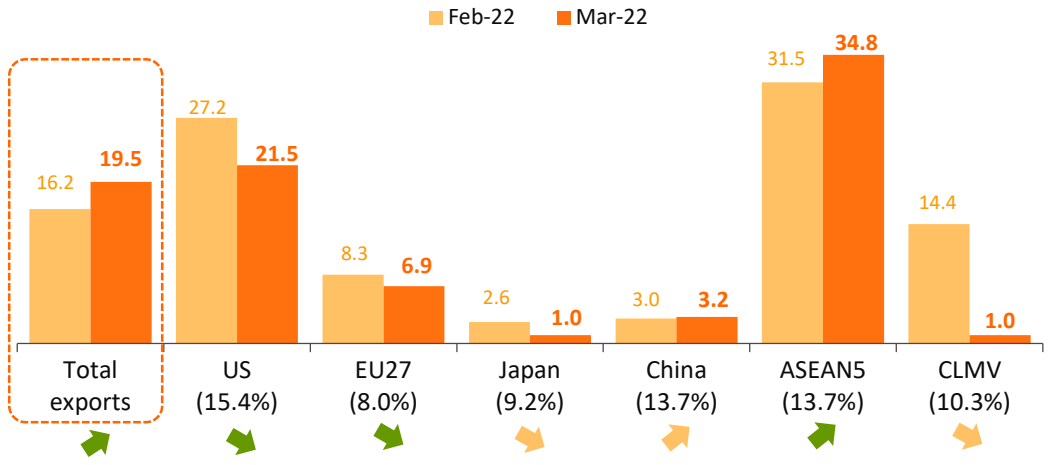
Source: NESDC, Krungsri Research

Exports surged in 1Q, which could lift our full-year growth forecast but we expect exports to slow down the rest of this year

Exports by major product (%YoY)

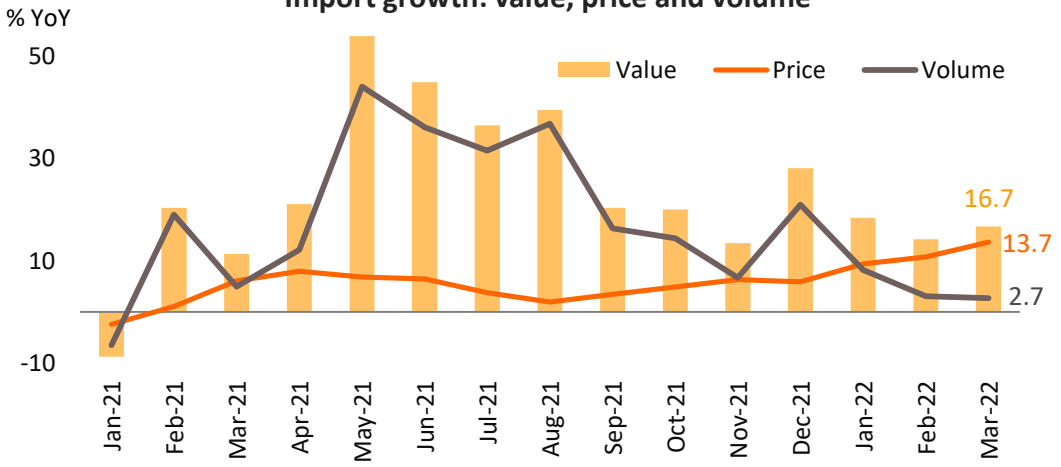


Exports by major destination (%YoY)



Note: ( ) share in 2021
Source: MOC, BOT, Krungsri Research

Import growth: value, price and volume



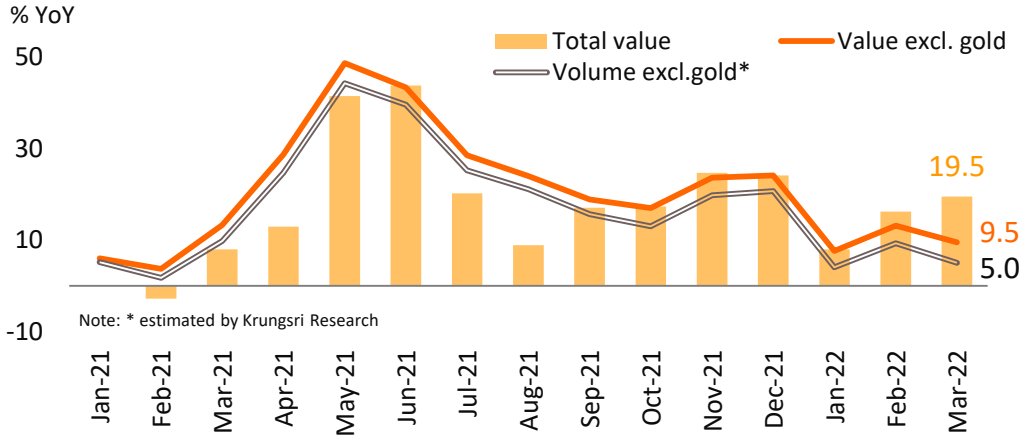
Krungsri Research's view

- **Merchandise export value hit a new high of USD 28.9bn in March, growing 19.5% YoY.** There was strong growth in: (i) goods that benefited from the surge in energy and commodity prices (e.g., refined oil products, chemicals, and plastics); (ii) food and agricultural products (e.g., rice, cassava products, and sugar); and (iii) gold (+1,047%). However, exports to the EU slowed down and those to China, Japan and CLMV were anemic. And as expected, exports to Russia and Ukraine tumbled by 73% and 78%, respectively. Although import value saw double-digit growth, import volume rose only 2.7%, implying weak demand for consumer goods and raw materials (for production and exports).
- Exports jumped 14.9% YoY in 1Q22, which could cause 2022 export growth to exceed our forecast. That could be supported by a weaker Thai baht and reopening in some countries. **But looking ahead, we expect Thai export growth to decelerate, given**: (i) potential slowdown in the global economy as a result of the extended Russia-Ukraine conflict; (ii) sanctions on Russia would hurt supply chains in several industries as Russia is a large exporter of major raw materials; (iii) rising production and transportation costs in line with surging energy and commodity prices; and (iv) city-wide lockdowns in China would worsen supply disruption and dampen demand for goods.

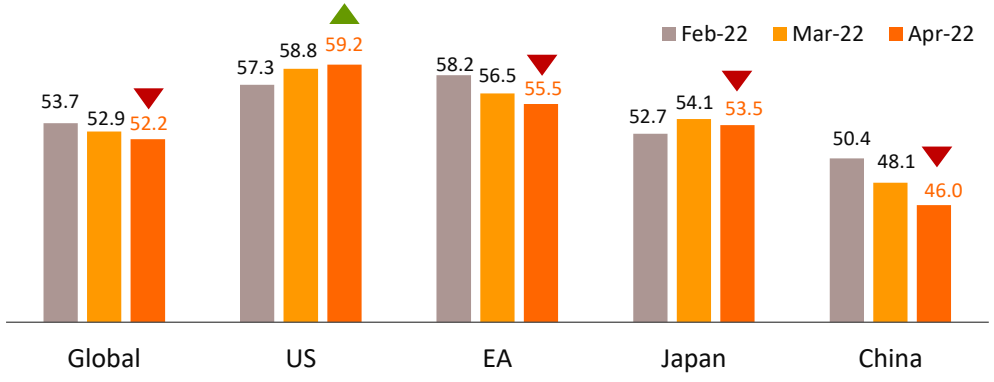
Global economic slowdown and supply chain disruption are starting to show in trade data, could hurt Thai exports going forward

Total export value surged nearly 20% YoY, partly boosted by gold exports. Without gold, March export value grew only 9.5%. **Excluding gold and price effect, exports grew only 5.0% in March, reflecting weaker export volume.** The marked slowdown in Thai exports to China and Europe as well as the contraction of automobile exports (as a result of supply chain disruption) reflect the spillover effects from an economic slowdown in China and the Ukraine crisis. Global Manufacturing PMI slowed down in April with weaker growth in key trading partners, including Eurozone, China and Japan. We expect Thailand's international trade data to weaken further because of the extended Russia-Ukraine conflict and lockdowns since March and stricter containment measures since late-April in China hurting its economy.

Thailand's export growth



Global Manufacturing PMI



Source: TS Lombard, Markit, Bloomberg, CEIC, MOC, Krungsri Research

Impact of global slowdown and supply chain disruption

Thailand: March export growth; % YoY	World	ASEAN (24%)	China (11%)	US (15%)	Janpan (8%)	EU (9%)
Total	+20	+19	+3	+22	+1	+8
Machinery (17%)	+20	+2	+80	+59	+1	-10
Electrical (14%)	+7	+10	-10	+27	-1	+2
Vehicle (11%)	-10	+6	-43	-16	-28	-29
Rubber (6%)	-11	-3	-17	-15	-24	+0
Plastic (5%)	+5	+8	+0	+2	+6	+13

Note: (% share of total export)

Supply disruptions hurt production and exports

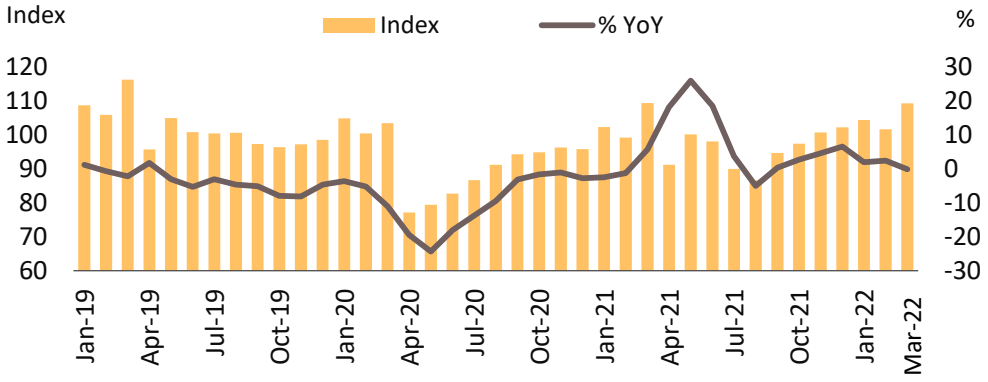
Impact of China's slowdown

Impact of Ukraine war on EU economies

Manufacturing could be hurt by global slowdown and lingering supply chain disruptions; consumer demand will shift from goods to services

Capacity utilization rate in the manufacturing sector is slightly above pre-COVID level, led by Chemicals, HDD, IC & Semiconductors, Electrical Appliances, and Machinery. Utilization rates in Automobile, Pharmaceutical and basic metal industries are close to pre-COVID level. **However, the global economic slowdown and lingering supply chain disruption would drag recovery in the manufacturing sector.** The Manufacturing Production Index (MPI) contracted for the first time in 7 months in March, by 0.1% YoY. Some manufacturing industries have been hit by components shortage, such as Electrical Appliances and IC & Semiconductors. **In addition, following the relaxation of Covid-19 measures, consumer demand will shift from manufactured goods to services such as travel and recreation.**

Manufacturing Production Index

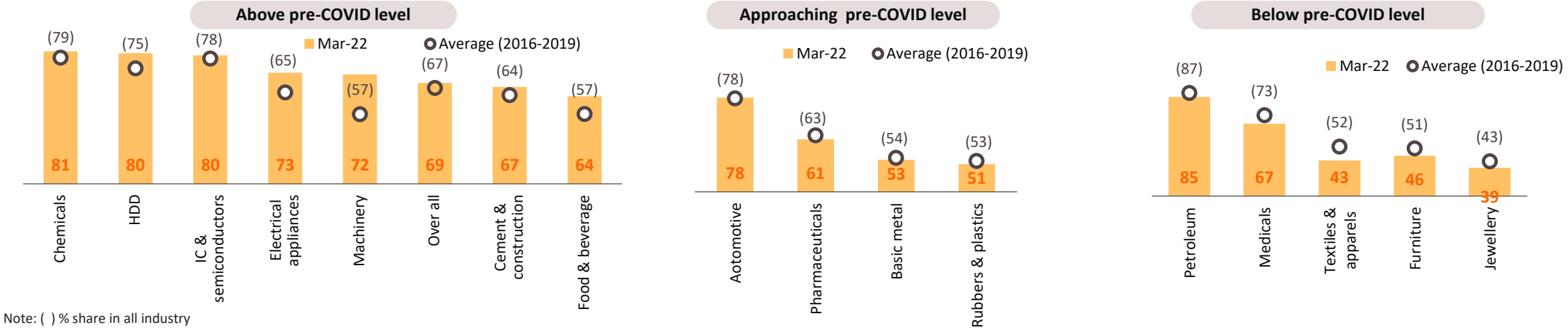


Manufacturing Production Index by sector

Manufacturing Production (%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
All industry	100.0%			
Food & Beverages	20.3%			
Automotive	13.8%			
Petroleum	9.5%			
Chemicals	9.1%			
Rubbers & Plastics	8.8%			
Cement & Construction	5.5%			
IC & Semiconductors	5.5%			
Electrical Appliances	3.8%			
Textiles & Apparels	3.5%			
HDD	3.4%			

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

Capacity utilization by sector (Index)

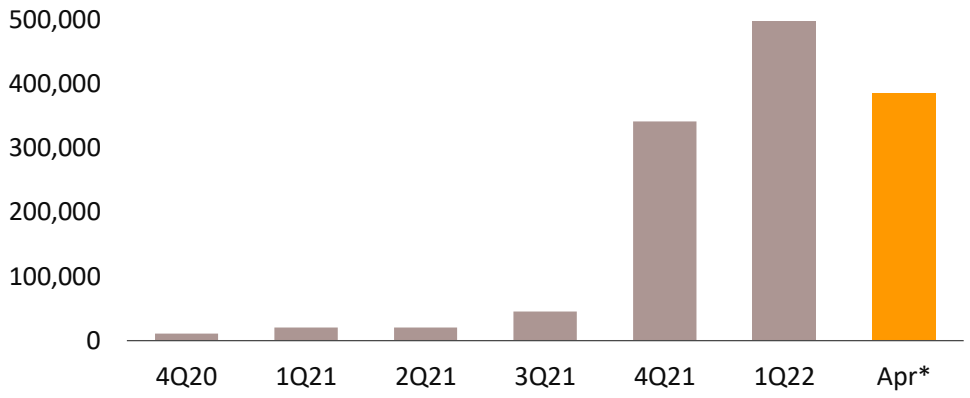


Note: ( ) % share in all industry

Source: OIE, Krungsri Research

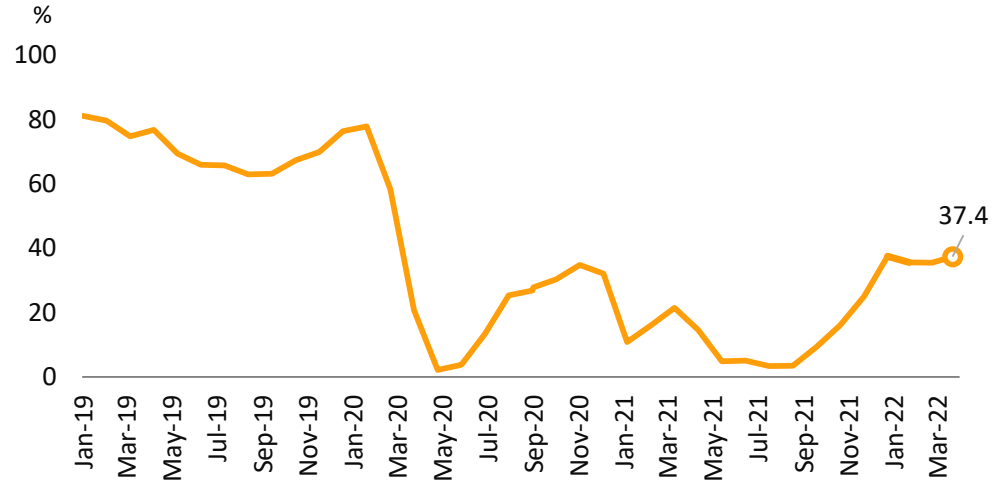
Tourism sector is improving with removal of Test & Go program but there could be stronger competition in the region

Foreign tourist arrivals (persons)



Note: * Preliminary data from foreign passengers travel through airports

Nationwide average occupancy rate



Travel restriction policy

Country/Region	Thailand	Singapore	Malaysia	Indonesia	Vietnam	Philippines	S.Korea	China	Taiwan	Japan
Tourist entry	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No 2/
Test before departure	No	No	No	Yes	Yes	Yes	Yes	N/A	N/A	N/A
Mask-wearing requirement	Yes	No 1/	No 1/	Yes	Yes	Yes	Yes	N/A	N/A	N/A

Note: 1/ Outside only, N/A denotes 'Not applicable'
' 2/ Japan plans to reopen for tourist on 1 June under some restrictions

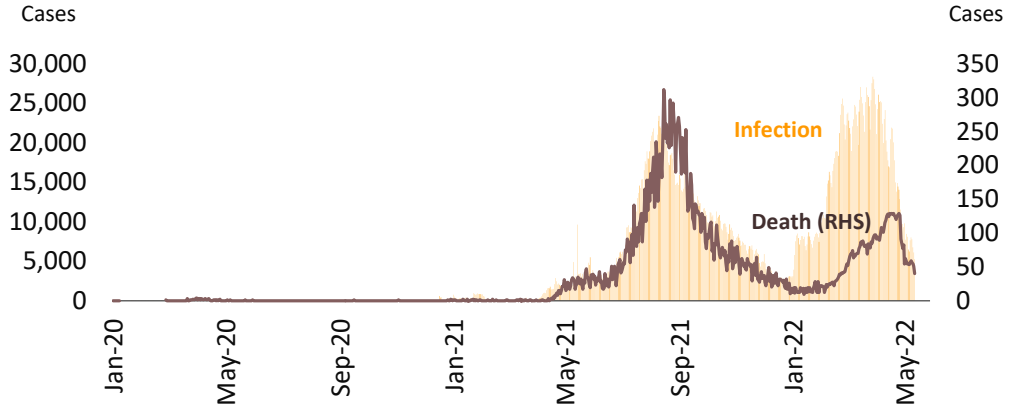
Source: Nikkei Asia Research, MOTS, Krungsri Research

Krungsri Research's view

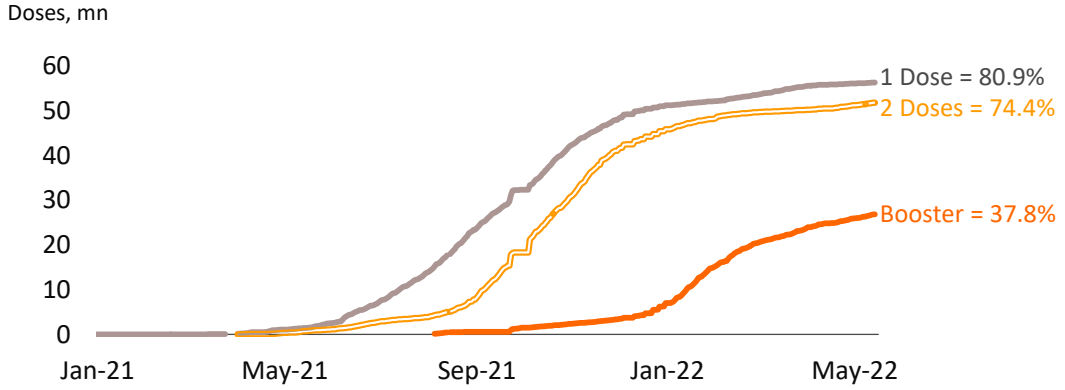
- **In 1Q22, there were 497,693 foreign tourist arrivals in Thailand,** more than 427,869 in the whole of 2021. Tourist arrivals continued to improve in April thanks to the Test&Go program. In addition, the removal of the Test &Go program effective 1 May (dropping PCR test on arrival and other requirements) would attract more foreign tourists. Occupancy rate has been rising following the recovery in domestic and international tourism. And, the extension of *"We Travel Together"* Phase 4 program to the end of September would benefit domestic tourism.
- **Thailand has started to allow quarantine-free entry to fully-vaccinated foreign tourists, in line with other countries in the region on expectations a recovery in the tourism sector would drive economic growth.** However, there will be stronger competition from tourism markets in the region. In addition, recovery could be limited by uncertainty over the return of Chinese tourists, Thailand's main market, due to China's strict containment measures. Finally, the Russia-Ukraine conflict has pushed up energy prices and could drag global economic growth, creating headwinds for Thailand's tourism industry.

Following easing *Covid-19 cases* after Songkarn festival, Thailand has downgraded Covid-19 alert level from 4 to 3 effective May 9, allowing more economic activities to resume

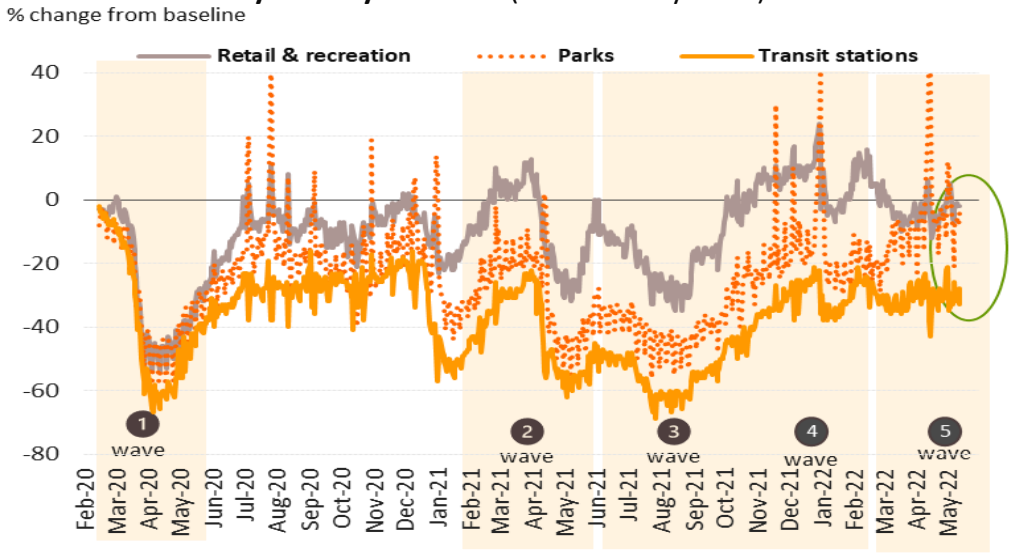
Daily Infections and fatalities (as of 15 May 2022)



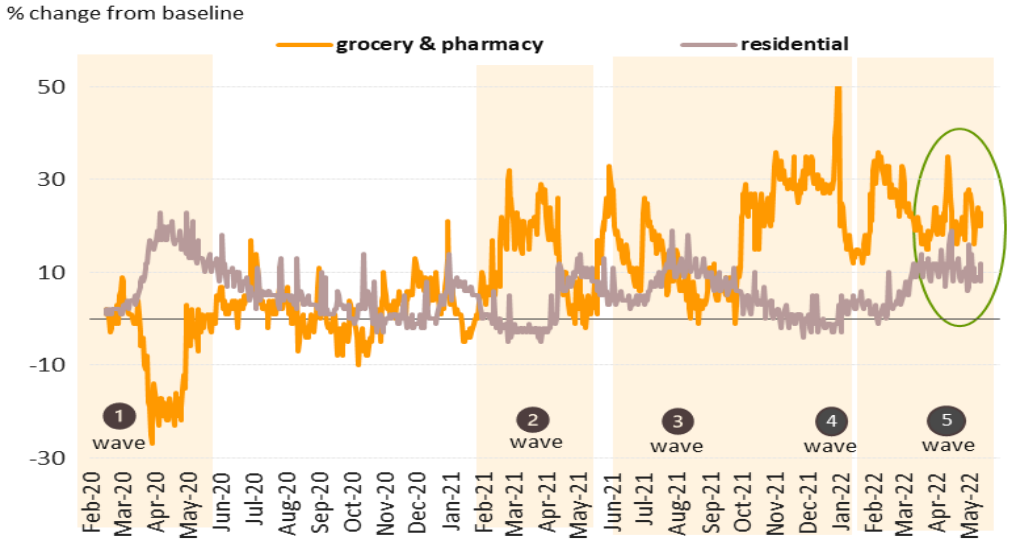
Vaccination Rate (as of 15 May 2022)



Daily Activity Indicator (as of 13 May 2022)



Daily Activity Indicator (as of 13 May 2022)

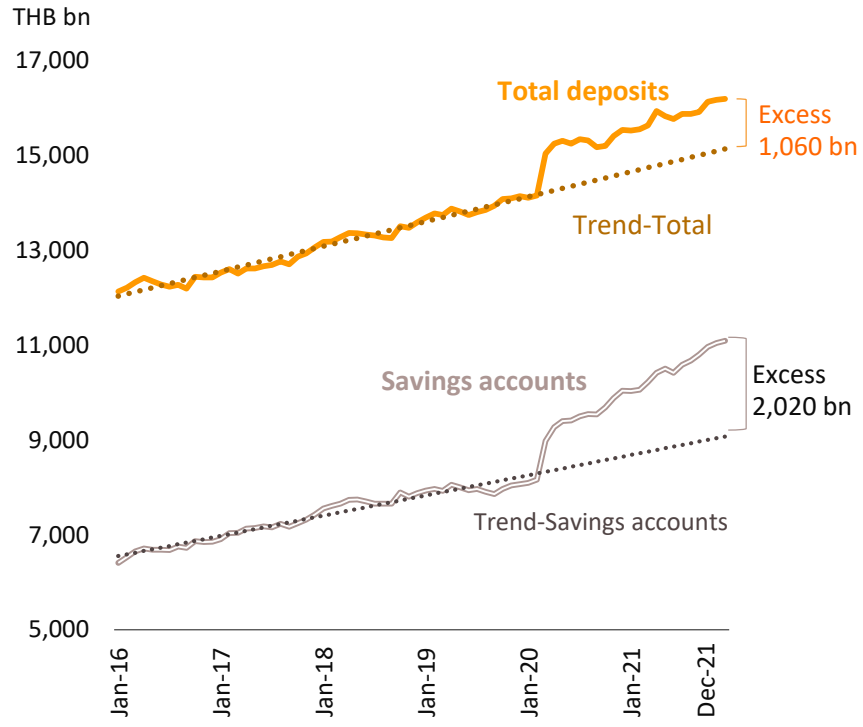


Source: MOICOVID, Google, CEIC, Krungsri Research

Large *excess savings* since pandemic mostly parked in savings accounts, reflecting middle- and upper-income groups are prepared to spend

Excess savings (defined as the differential between actual savings and its trend) has surged to THB1060 bn at end-2021, accounting for almost 6.5% of GDP. Excess savings has risen 14% from THB928 bn at the end of 2020, compared to trend of only +3.6% total deposits growth. By type of account (including demand deposits, savings deposits, and time deposits), savings accounts registered THB2,020 bn excess savings, led by accounts with THB1-10mn each which accounted for 34% of total excess savings in savings account. This not only indicates precautionary savings but also means the middle- and upper-income groups are prepared to spend. **When the pandemic ends or the government introduces stimulus measures for these groups, their large excess savings would drive domestic spending.**

Total deposits at commercial banks



Excess savings (differential between actual deposits and trend)

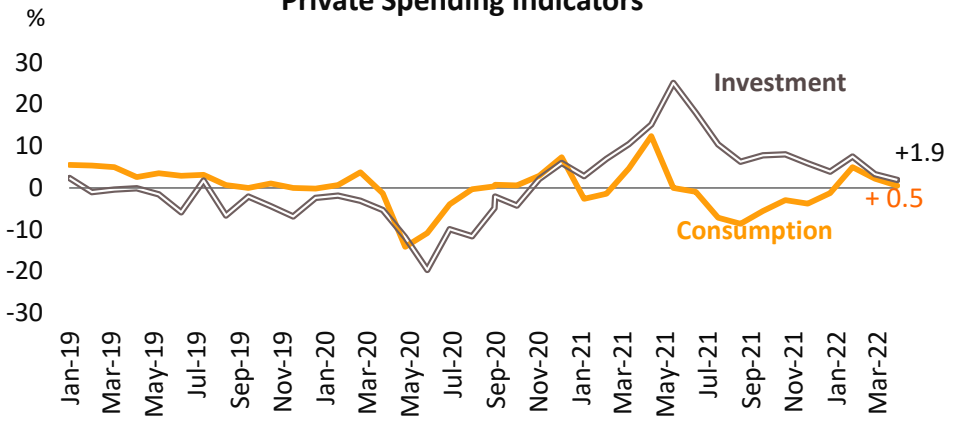
Deposits per account (Baht)	Total deposits		Savings deposits	
	Amount THB bn	% growth between actual deposits and trend	Amount THB bn	% growth between actual deposits and trend
<= 50,000	22.3	5.1	23.4	6.0
> 50,000-100,000	19.7	6.7	21.6	8.5
> 100,000-200,000	31.1	6.8	31.8	8.1
> 200,000-500,000	64.1	6.7	63.7	8.1
> 500,000-1,000,000	72.4	7.1	84.1	10.8
> 1-10 mn	493.6	13.2	769.6	33.3
> 10-25 mn	84.7	6.0	191.3	25.6
> 25-50 mn	67.9	6.7	129.3	24.4
> 50-100 mn	58.3	6.0	119.7	25.5
> 100-200 mn	28.0	3.0	82.4	18.6
> 200-500 mn	19.2	1.7	76.9	13.5
> 500 mn	98.7	3.6	426.5	30.5
Total	**1059.8**	**7.0**	**2020.2**	**22.3**

Note: as of 31 December 2021

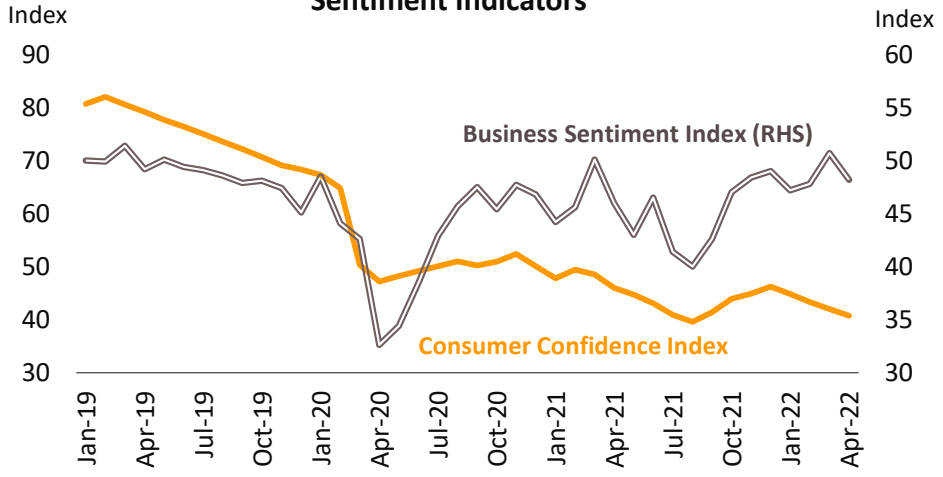
Source: BOT, Krungsri Research

Private spending: Easing pandemic fear is a domestic tailwind but several external headwinds and high inflation could dampen consumer and business spending

Private Spending Indicators



Sentiment Indicators



Source: BOT, UTCC, Krungsri Research

Private Spending by category

Private spending %YoY*	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
Private consumption																											
Non-durables																											
Semi-durables																											
Durables																											
Services																											
Non-residents expenditure																											
Private investment																											
Construction area permitted																											
Construction material sales																											
Imports of capital goods																											
Machinery sales																											
Newly registered vehicles																											

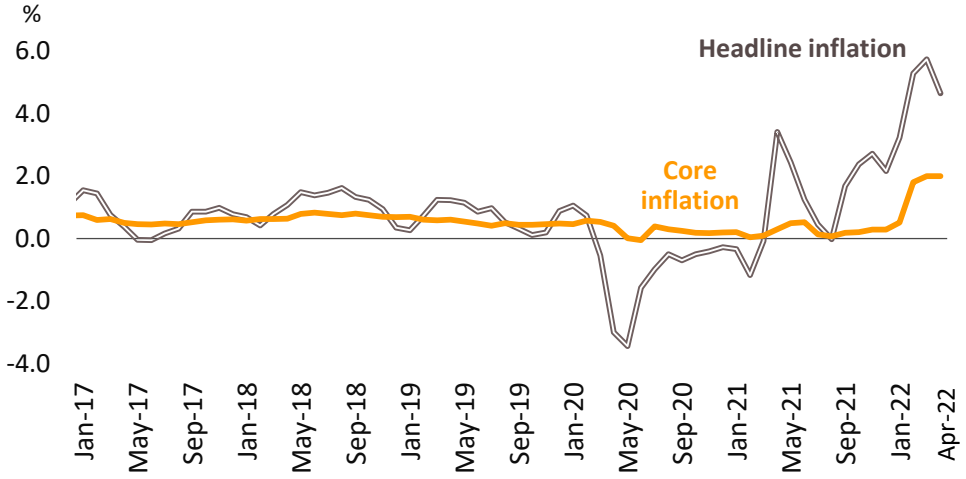
**Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum*

Krungsri Research's view

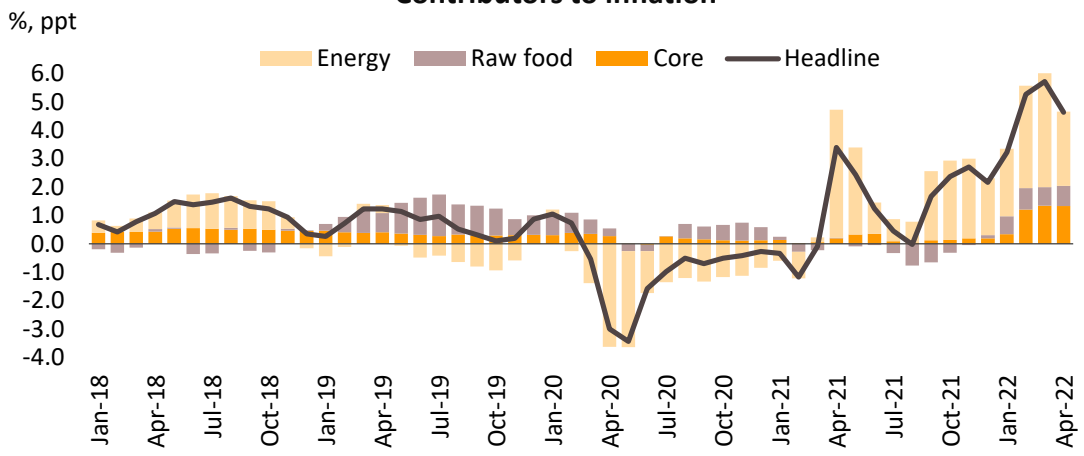
- Although Covid-19 cases have eased since the Songkarn Festival, surging production costs and cost of living have hurt business sentiment and consumer confidence. In April, the Business Sentiment Index fell below-50 again and the Consumer Confidence Index hit a 8-month low.
- **Private consumption index only inched-up 0.5% YoY in March** (vs +2.2% In February) because of *omicron* and higher cost of living following a jump in energy and food prices. Covid-19 cases have eased in 2Q22 but prices of energy and other commodities remain high; there was a hike in diesel and fuel prices after Thailand reduced subsidies. This would hurt purchasing power**.**
- **Private Investment index grew only 1.9% YoY in March (vs +3.3% in February)** as domestic demand recovery remained weak and construction material prices had surged. Looking ahead, business investment could be dampened by the global economic slowdown, high production costs, and the worsening supply chain disruption since the Ukraine crisis and China lockdowns.

Inflation rate eased in April but is expected to rise again in May given higher energy prices and smaller government subsidies

Headline and Core inflation



Contributors to inflation



Consumer Price Index: Major categories

Consumer Price Index (% YoY)*	Weight	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
Headline CPI	**100.00%**																												
Food & beverages	40.46%																												
Apparel & footwears	2.12%																												
Housing & furnishing	22.22%																												
Medical & personal care	5.46%																												
Transportation & communication	24.13%																												
Recreation & education	4.26%																												
Tobacco & alcoholic beverages	1.36%																												
Raw food	20.12%																												
Energy	14.37%																												
Core CPI	**65.70%**																												

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

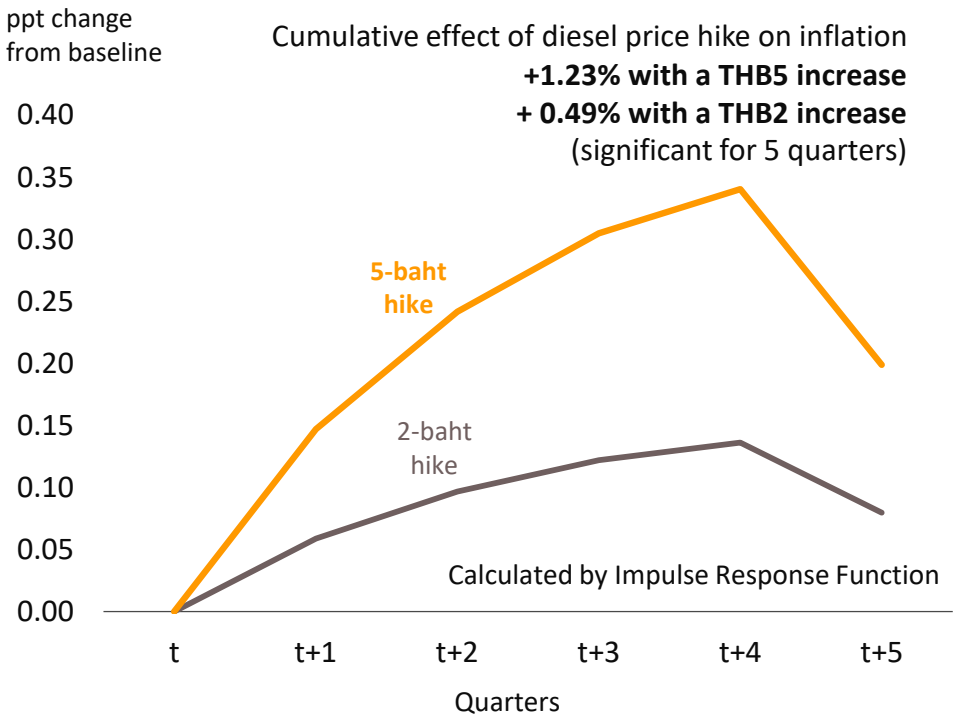
Source: MOC, Krungsri Research

Krungsri Research's view

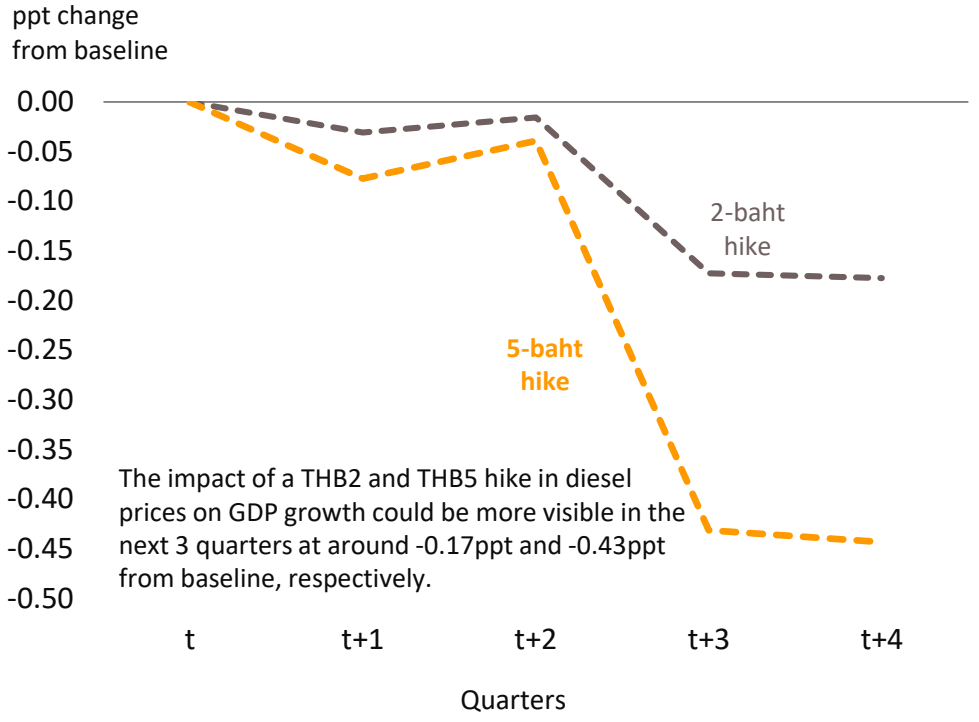
- **Headline inflation eased to 4.65% YoY in April from a 13-year high of 5.73% in March,** due to a combination of a high-base last year and falling prices for some goods including rice, flour, and apparel & footwear. However, retail fuel prices surged 29.74% YoY and the reduction in subsidies for cooking gas is allowing prices to rise gradually over April-June. **At 2.0%, core inflation** (excluding raw food and energy prices) remained steady vs near-10-year high a month earlier. In the first four months of this year, headline and core inflation stood at 4.71% and 1.58%, respectively**.**
- **Inflation would rise again in May due to higher energy costs,** especially diesel fuel following the end of the THB 30/liter cap on the price. The government would allow the ceiling price to to rise gradually to THB 35/liter, which would affect transportation and production costs. Likewise, the price of cooking gas and fuel tariff (Ft) charged on electricity bills will climb up in May-August, while higher overheads for inputs and raw materials will push up the price of consumer goods. On a wider scale, the Ukraine war and sanctions on Russia are keeping global oil and commodity prices elevated. Hence, **2022 annual inflation could exceed our 4.8% forecast.**

Impact of diesel price hike: A 2-baht and 5-baht hike in domestic diesel prices would lift headline inflation (from baseline) by 0.49 and 1.23 ppt, respectively

Diesel price hike: Impact on Inflation



Diesel price hike: Impact on GDP growth



Note: Based on historical data, effect of diesel price hike on GDP growth is insignificant as it could be cushioned by subsidy measures and stimulus measures in the past.

Source: EPPO, CEIC, Krungsri Research

To curb high inflation amid the economic recovery, central banks have started to raise policy rates but at different pace depending on risks to growth and stability

Monetary policy stance remains divergent in major countries depending on pace of economic recovery and inflation risk

FOMC will continue with policy tightening to curb persistent inflation, possibly a 50-bp hike at the next 2 meetings.

ECB may start hiking rates from July and gradually normalize policy amid growing concerns over high inflation.

BOE might proceed with rate hike cycle but with a more dovish stance amid risk of a looming recession

BOJ would maintain policy rates at record lows as inflation is not broad-based and economic recovery remains weak

PBOC pledged to step-up policy support to address a slowing economy

Rising US yields and stronger US dollar have prompted capital outflows from emerging markets but they have started to raise rates to slow outflows and fight inflation.

May 11: **Malaysia** +25bps to 2.00% (1st hike since July 2020)

May 5: **UK** +25bps to 1.00% (3rd time in 2022)

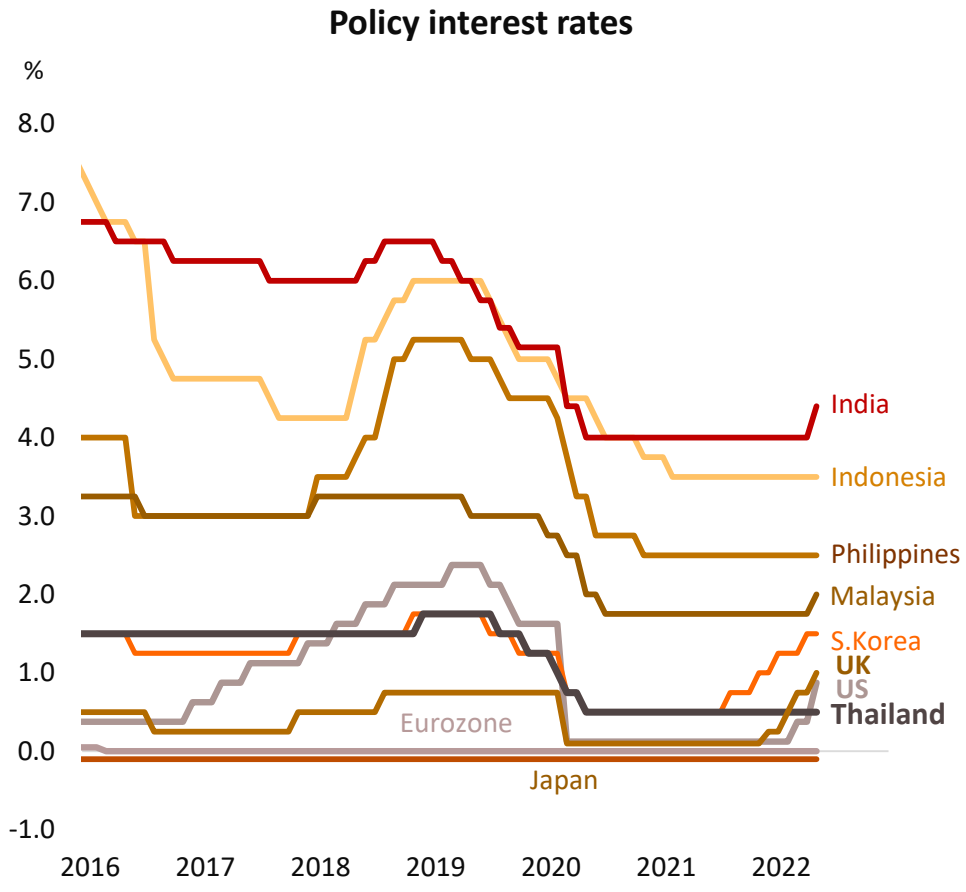
May 4: **India** +40bps to 4.40% (1st hike since May 2020)

May 4: **US** +50bps to 0.75-1.00% (2nd time in 2022)

May 3: **Australia** +10bps to 0.35% (1st hike since Nov 2010)

Apr 13: **Singapore** tightened policy (3rd time in 6 months)

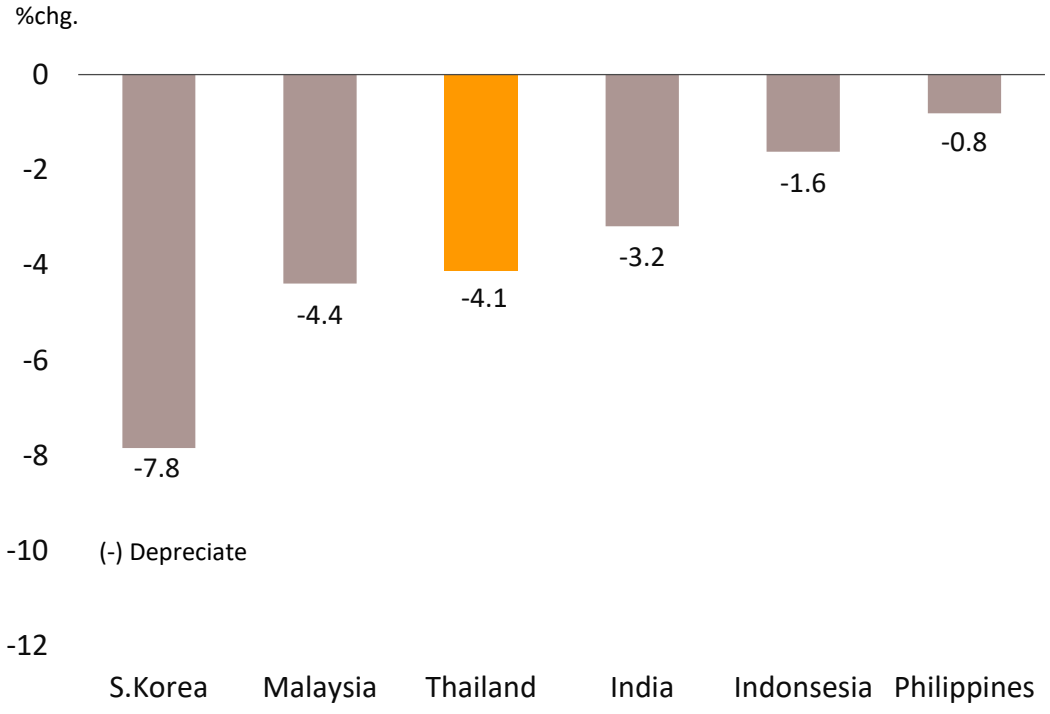
Apr 13: **South Korea** +25bps to 1.50% (2nd time in 2022)



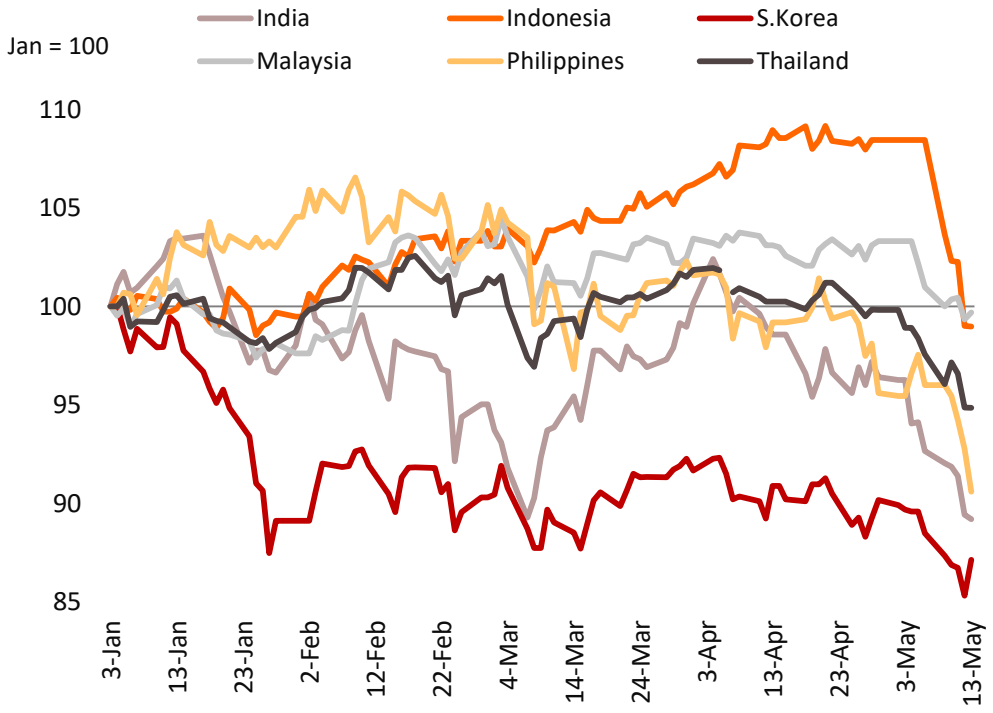
Source: Central banks, CEIC, Krungsri Research

Asian currencies continued to weaken against USD and stock indices have dropped in response to Fed's aggressive rate hikes and fears of fund outflows

Foreign exchange (% change from end-2021, as of May 13)



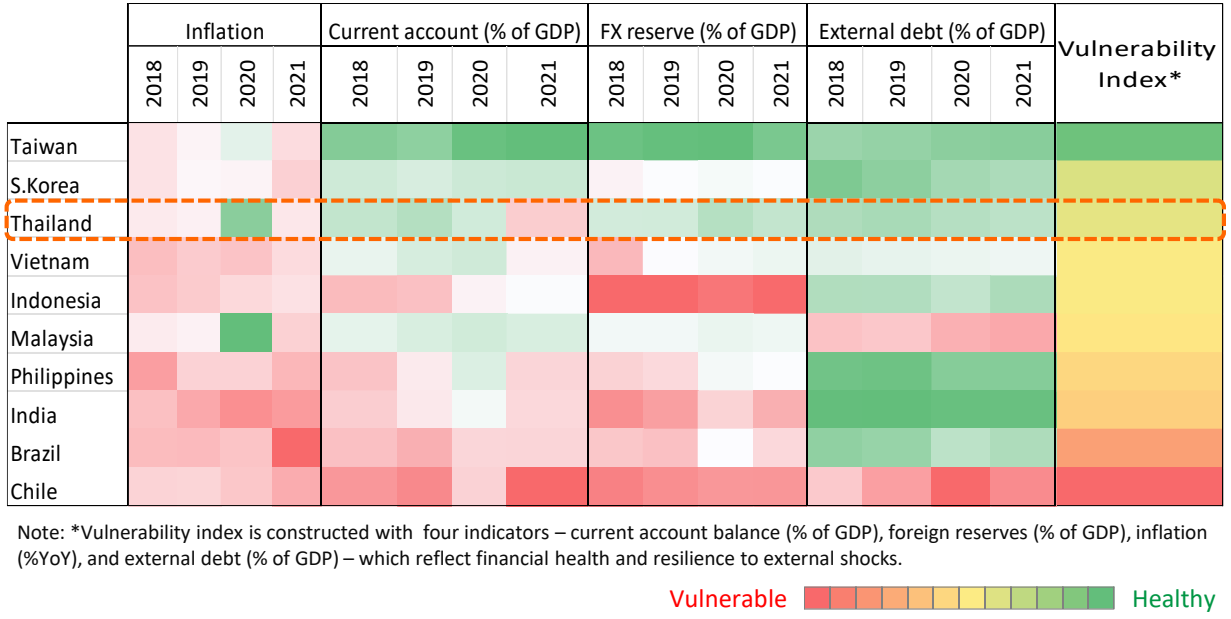
Stock market indices



Source: CEIC, Krungsri Research

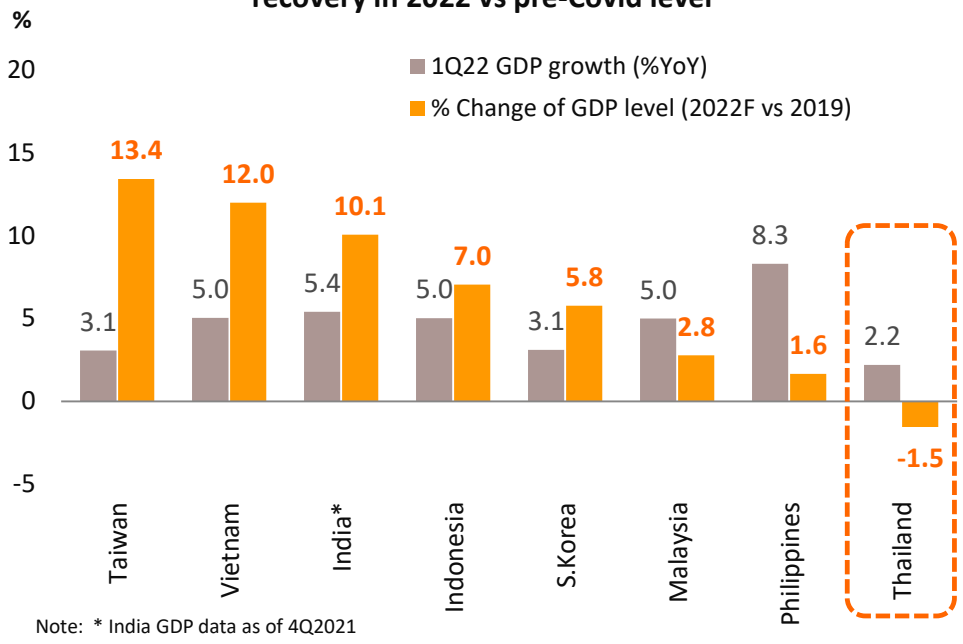
MPC: Thailand is less vulnerable to external shocks than peers, allowing MPC to maintain low policy rate this year to support economic activity which remains weaker than peers

Vulnerability index



Note: *Vulnerability index is constructed with four indicators – current account balance (% of GDP), foreign reserves (% of GDP), inflation (%YoY), and external debt (% of GDP) – which reflect financial health and resilience to external shocks.

GDP growth in neighboring economies in 1Q22 and recovery in 2022 vs pre-Covid level



Note: * India GDP data as of 4Q2021

Krungsri Research's view

- **Several factors are asserting more pressure on the BOT's next policy move, as (i) inflation in Thailand** has surged to multi-year high and is expected to exceed the BOT's target for this year; (ii) **in response to the US Fed's aggressive rate hikes**, Thailand's neighbors are likely to raise benchmark interest rates to prevent fund outflows and support the local currencies; and (iii) **economic activity has been improving** since reopening.
- **However, we expect the Thai MPC is in no hurry to raise policy rate this year for the following reasons.**
  - **First, the rise in headline inflation is not broad-based,** with only mild signs of rising price pressure in the services sector as demand-pull inflation remains weak amid the sluggish labor market.
  - **Second, Thailand is less vulnerable to external shocks than peers,** ranking third in terms of external stability after Taiwan and Korea. This would ease fears of fund outflows and leave room for the BOT to focus on economic growth rather than economic stability.
  - **Last but not least, Thailand's recovery remains fragile and economic activity this year would be weaker than peers.** Activity is still below pre-pandemic level. Thailand's 1Q22 GDP grew only 2.2% YoY, weaker than most economies in the region. In addition, for the whole of 2022 (based on the IMF's GDP projection), economic activity (real GDP) in Thailand will be 1.5% below pre-Covid level while peers are expected to register activity that is 1.6-13.4% higher than pre-pandemic levels. So, despite peer pressure on policy rate hikes, Thailand's weak economic recovery relative to peers would have a strong influence on the MPC's next policy move. For Thailand, rate hikes this year are unlikely to tame cost-push inflation and could even hurt the still-fragile economic recovery.

Source: IMF, CEIC, Krungsri Research

KRUNGSRI RESEARCH

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