

krungsri Research

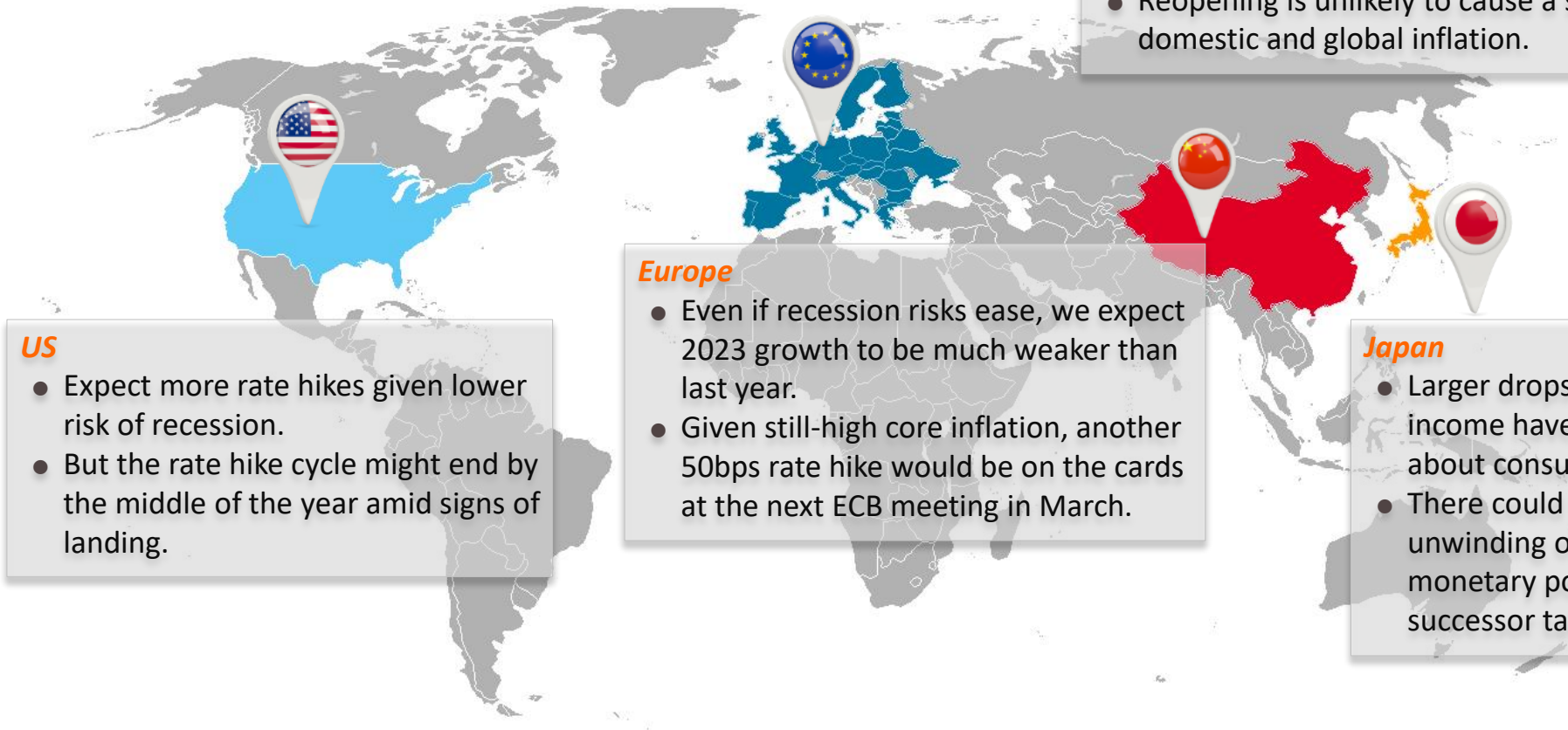
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MONTHLY ECONOMIC BULLETIN

February 2023

Krungsri Research

Global: Less gloomy outlook, but still see signs of a slowdown



China

- *Revenge spending* would be limited by *wealth effect*; production is resuming and and would ease global supply chain disruptions.
- Reopening is unlikely to cause a surge in both domestic and global inflation.

US

- Expect more rate hikes given lower risk of recession.
- But the rate hike cycle might end by the middle of the year amid signs of landing.

Europe

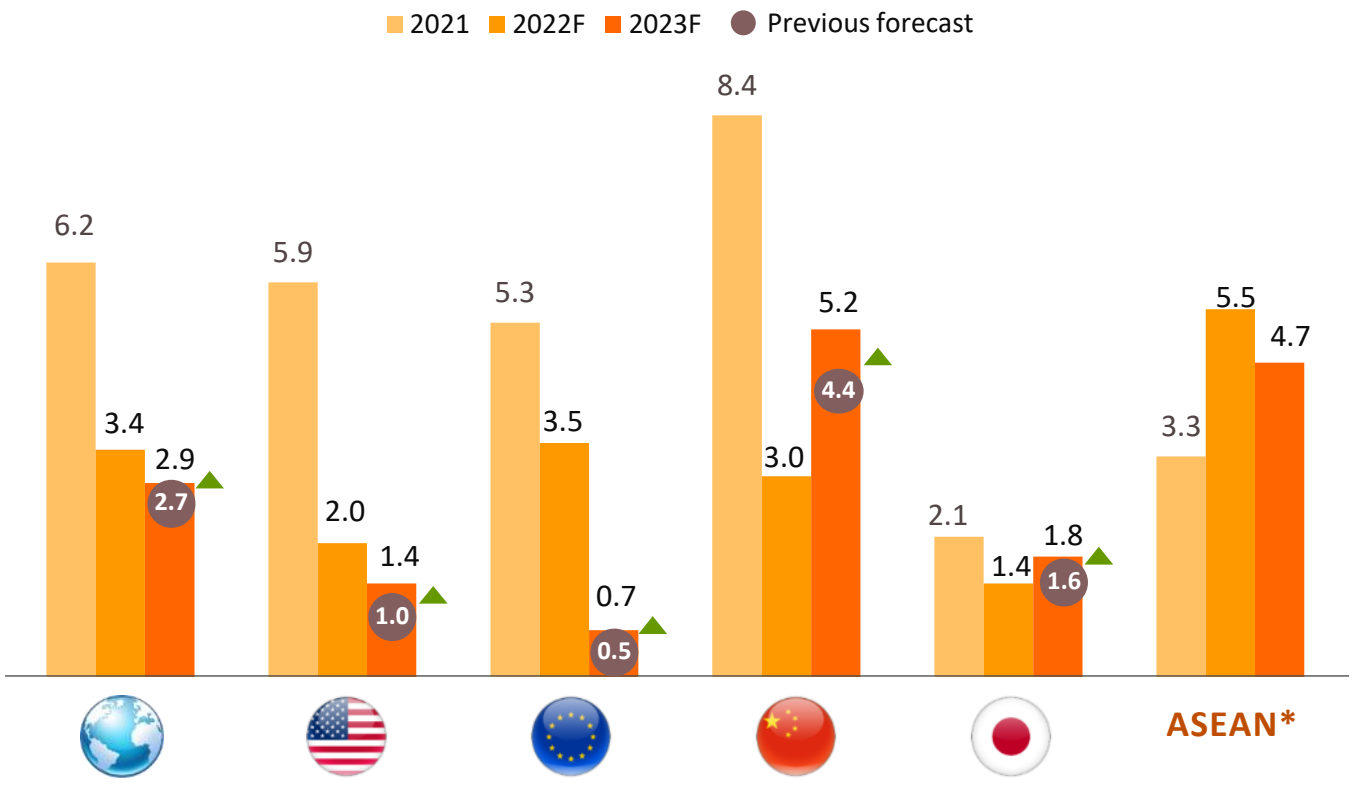
- Even if recession risks ease, we expect 2023 growth to be much weaker than last year.
- Given still-high core inflation, another 50bps rate hike would be on the cards at the next ECB meeting in March.

Japan

- Larger drops in savings and real income have raised concerns about consumption recovery.
- There could be a gradual unwinding of ultra-loose monetary policy once Kuroda's successor takes office in April.

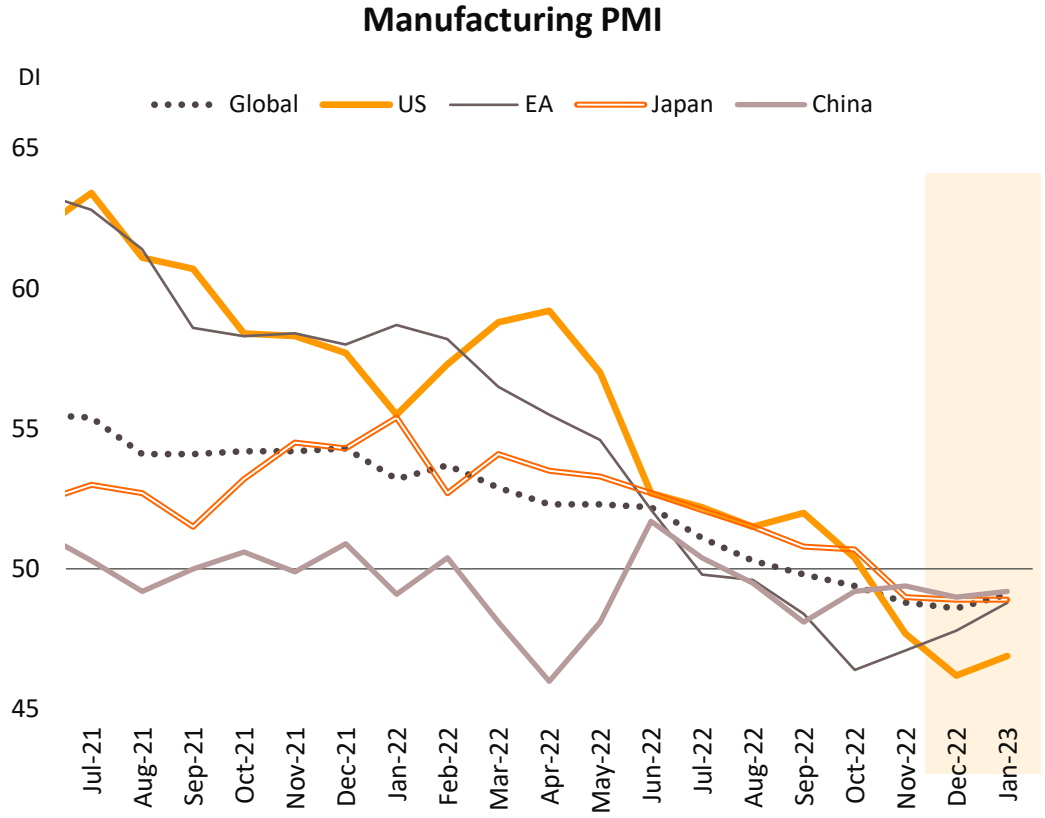
"Global economy to slow further amid signs of resilience and China re-opening; the fight against inflation is starting to pay off," the IMF said

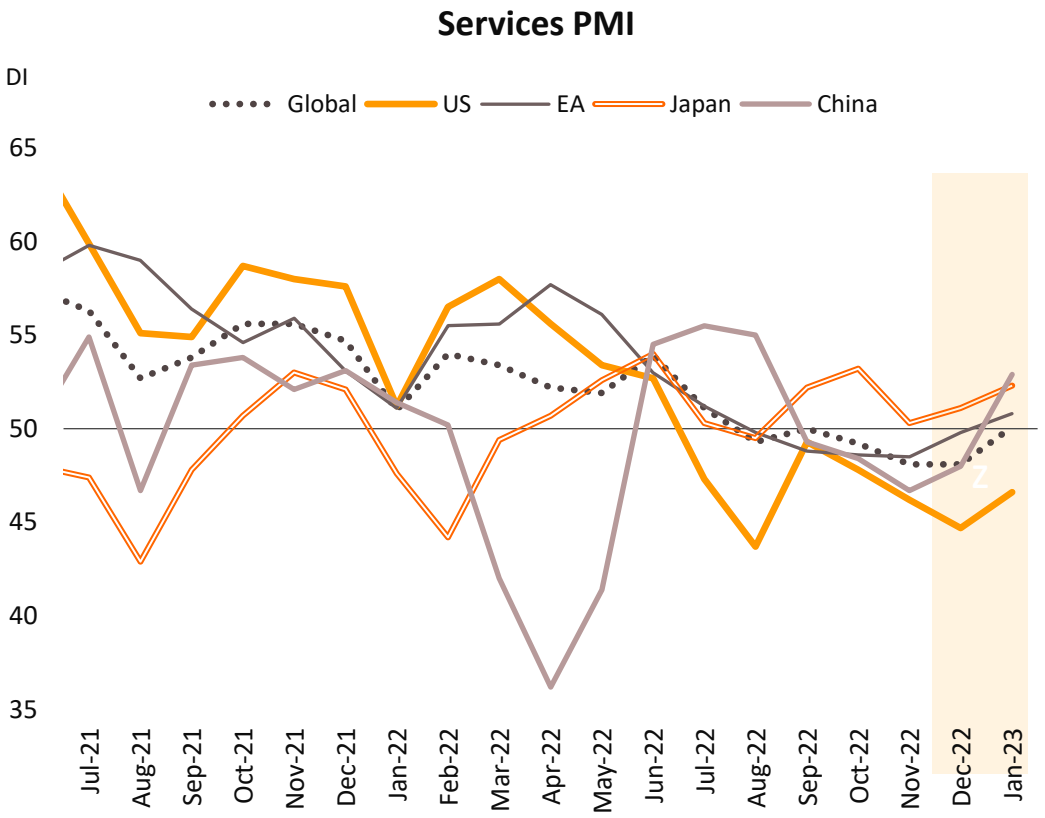
Economic growth projections for global and major economies (%)



Source: IMF (World Economic Outlook, January 2023), *ASEAN forecast by ADB (Asian Development Outlook, December 2022), Krungsri Research

China reopening would support demand for services rather than goods; easing global supply disruptions could give a temporary boost to manufacturing production

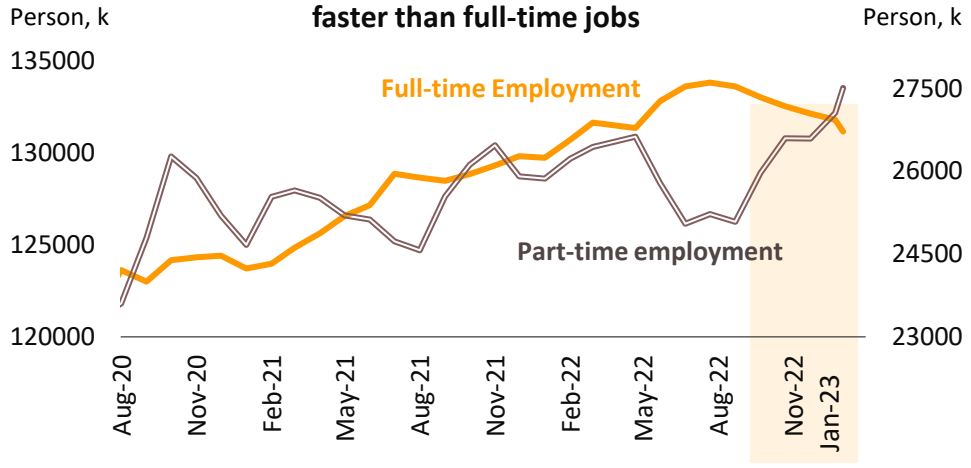




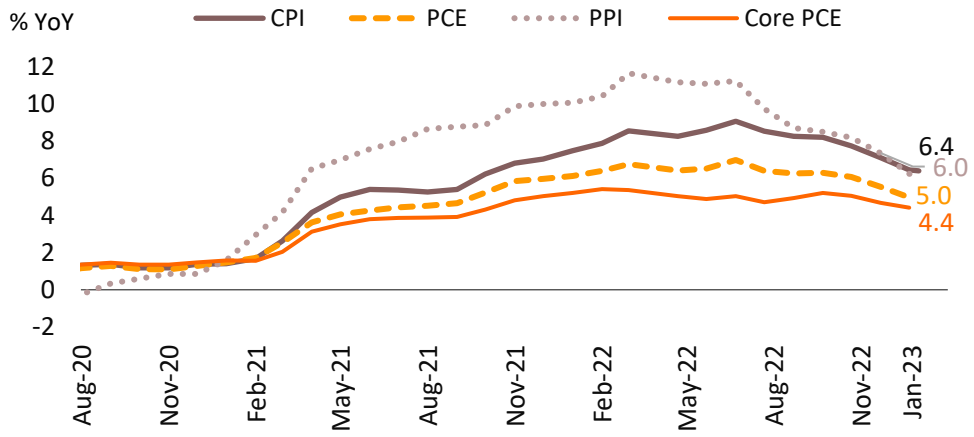
Source: Markit Economics, Bloomberg, CEIC, Krungsri Research

US: Expect more rate hikes given lower risk of recession but the rate hike cycle might end by the middle of the year amid signs of landing

Despite rising employment, part-time jobs are growing faster than full-time jobs

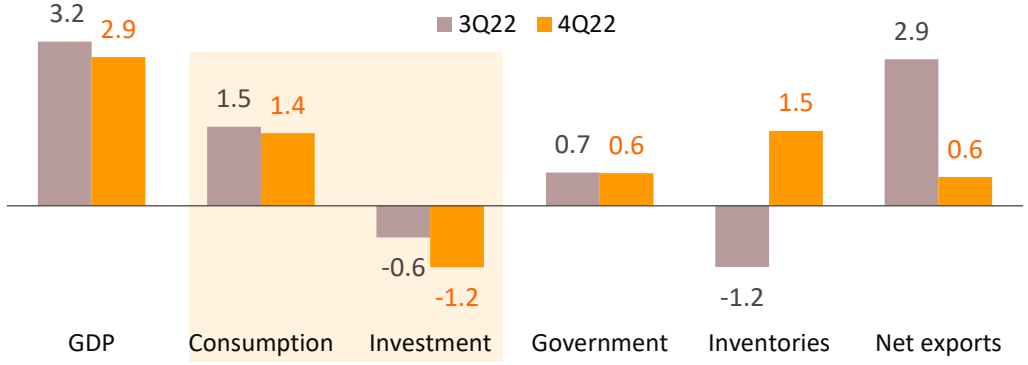


Signs of slowing inflation: CPI, PCE, Coe PCE and PPI



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

Weaker consumption and investment: 4Q22 GDP and contribution to GDP growth



Krungsri Research's view

- **Fed Chair Powell has suggested "a couple" more rate hikes" given lower risk of recession amid a surprisingly tight labor market and stronger services sector.** Latest employment indicators surprised on the upside, with non-farm payrolls rising by 517,000 in January (highest since July 2022), unemployment dropping to a 53-year low of 3.4%, and new job openings reaching 11.0m in December. ISM Services data surged to 55.2 in January from 49.2 in December.
- **However, the current rake hike cycle could end by mid-year for the following reasons:**

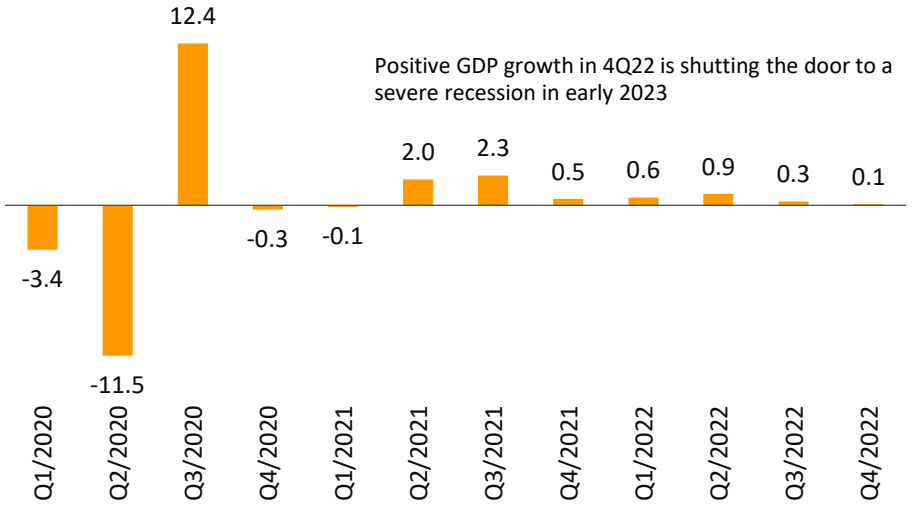
  (i) Fed Chair Powell has recently said *"the disinflation process has begun"* and that the Fed has the tools necessary to coax inflation down to the 2% target.

  (ii) Price pressure is easing. January Consumer Price Index (CPI) rose by 6.4% YoY, the smallest rise since October 2021 and core inflation eased for a 4th straight month to 5.6%, the lowest since December 2021. Core PCE price index, the Fed's preferred inflation gauge, fell to an over one-year low of 4.4% in December from 4.7% in November.

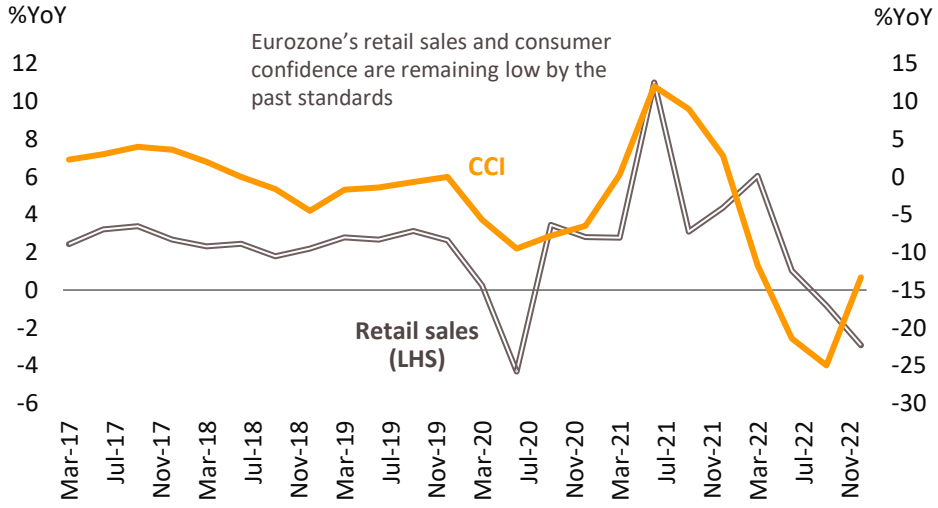
  (iii) Rate hikes are starting to have visible impact on growth: (i) sharp deceleration in consumer credit growth from 7.1% YoY in November to 2.9% in December; (ii) despite strong headline employment numbers, its components seem cautious with part-time jobs growing faster than full-time jobs; and (iii) excluding trade and inventories, 4Q22 domestic demand growth had decelerated to 0.2% from 1.1% in 3Q22. Although the IMF raised its 2023 outlook for US growth recently from 1.0% to 1.4%, that is below 2.1% for 2022 and 5.9% in 2021.
- **We expect more rate hikes in March and May to take terminal Fed funds rate to 5.00-5.25%. That would stay for the rest of 2023 to coax inflation down to the target in a sustainable manner.**

Europe: Even if recession risks ease, we expect 2023 growth to be much weaker than last year

Eurozone GDP Growth (%QoQ)

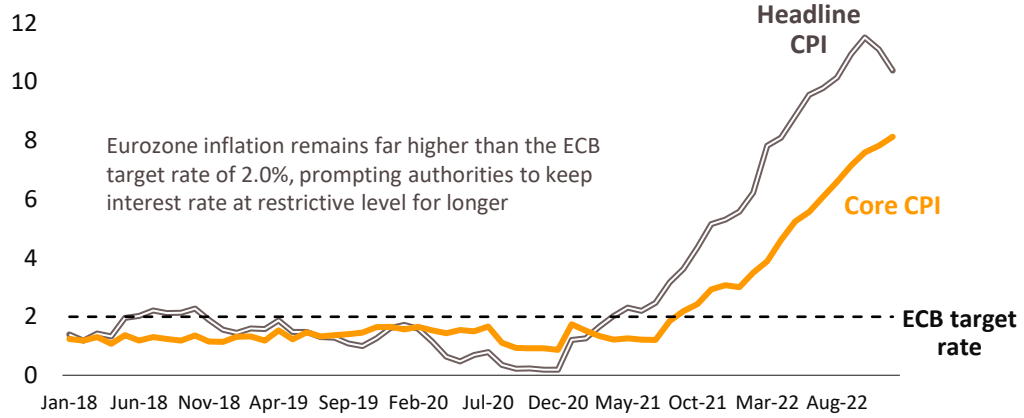


Eurozone Retail Sales & Consumer Confidence



Source: ECB, CEIC, Eurostat, Bloomberg, Krungsri Research

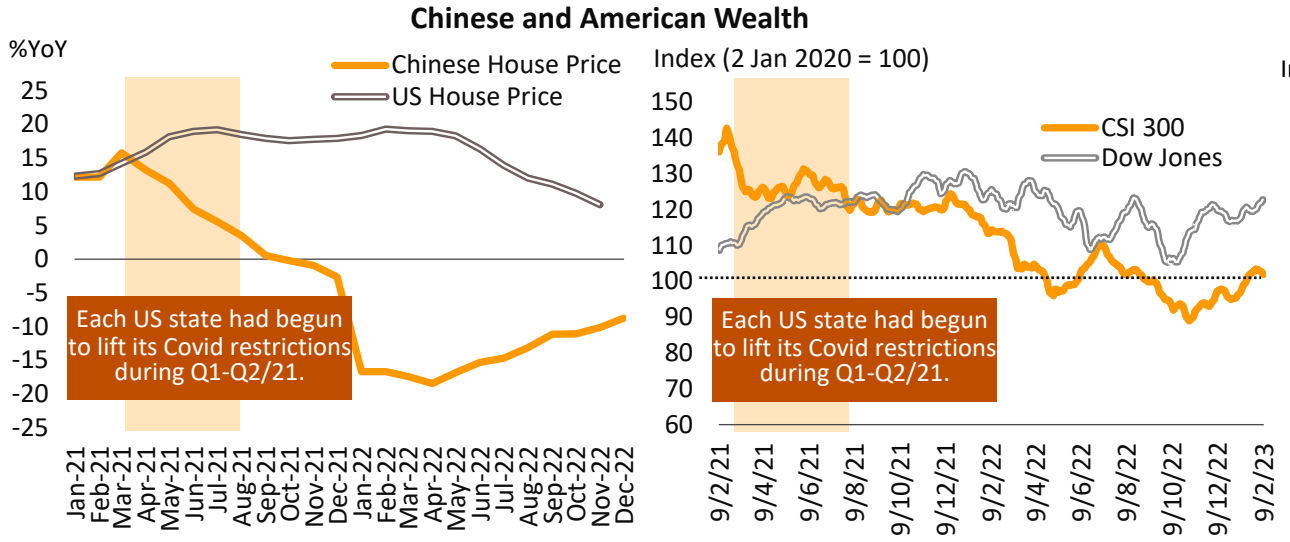
Eurozone Consumer Price Index (%YoY)

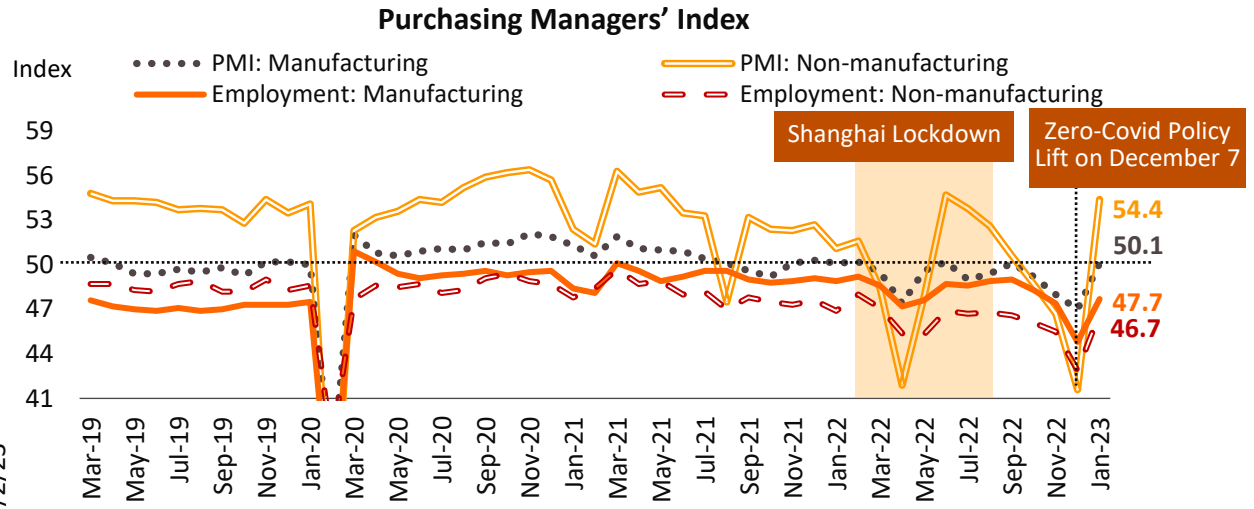


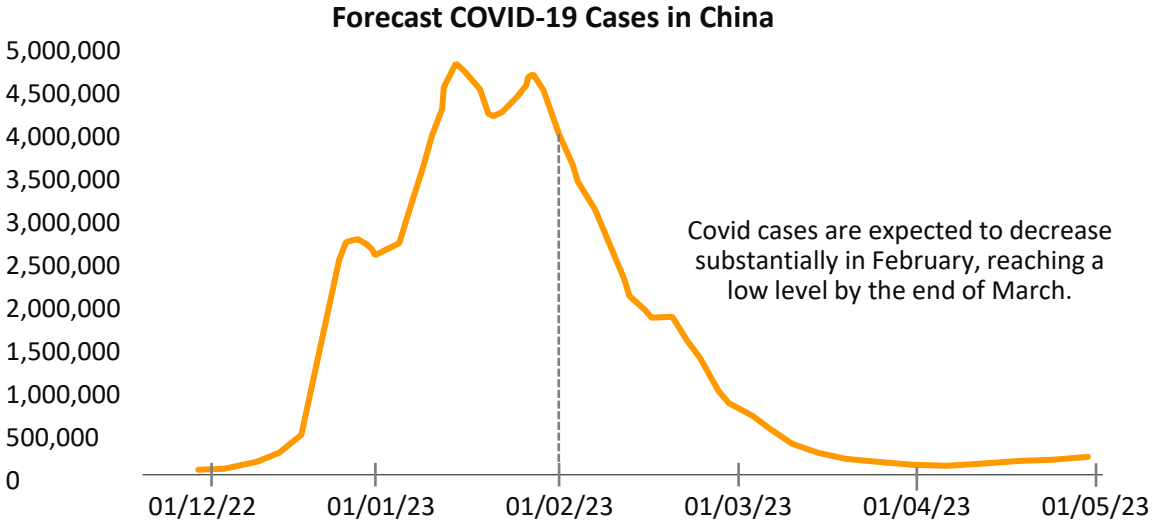
Krungsri Research's view

- Positive GDP growth in 4Q22 is shutting the door to a severe recession in early 2023 as hard data remain surprisingly resilient, with the energy crisis having a milder-than-expected impact because of a warmer winter, generous government support, and the recent drop in gas prices. **Those forces could prevent the eurozone economy from falling into a severe recession but are insufficient to trigger meaningful economic growth in 2023.** There is still a drag from tighter monetary policy in 1Q23 as stubborn underlying inflation and a tight labor market would force the ECB to continue to raise interest rates steadily to down prices to manageable levels.
- Despite improvements in recent months, indicators of private consumption - which accounted for 55% of Eurozone Nominal GDP in 2022 – continue to weaken: **consumer confidence (-11.3% YoY in January 2023) and retail sales (-2.8% YoY in December 2022) remain low compared to before.** In addition, the household savings rate has tumbled to its pre-COVID level of around 13% in 3Q22 from its peak of 25.3% in 2Q20, implying lower purchasing power. Amid fears of stagflation and interest rates still high at levels unseen since late-2008, consumption will be weak in the first half of the year.
- Headline Inflation is expected to fall sharply this year but **core inflation has yet to slow down because of**: (i) a strong labor market; and (ii) persistent wage growth and services inflation. **This would prompt authorities to keep interest rates high to fight inflation and the trade-off could be a stagnant economy on the horizon**.
- Following the 50bps increase announced at February's meeting, which took the policy rate to 2.5%, **the European Central Bank (ECB) is indicating that in their ongoing struggles to bring inflation back down to 2%, another 50bps rise will be on the cards at their next meeting in March, possibly with quantitative tightening (QT) in the middle of the year.** To fill up the pictures, we expect the ECB's policy rate to rise to a peak of 3.5% by May 2023 and stay at that level for the rest of the year.

China: Revenge spending would be limited by *wealth effect*; production is resuming and will continue to ease global supply chain disruptions







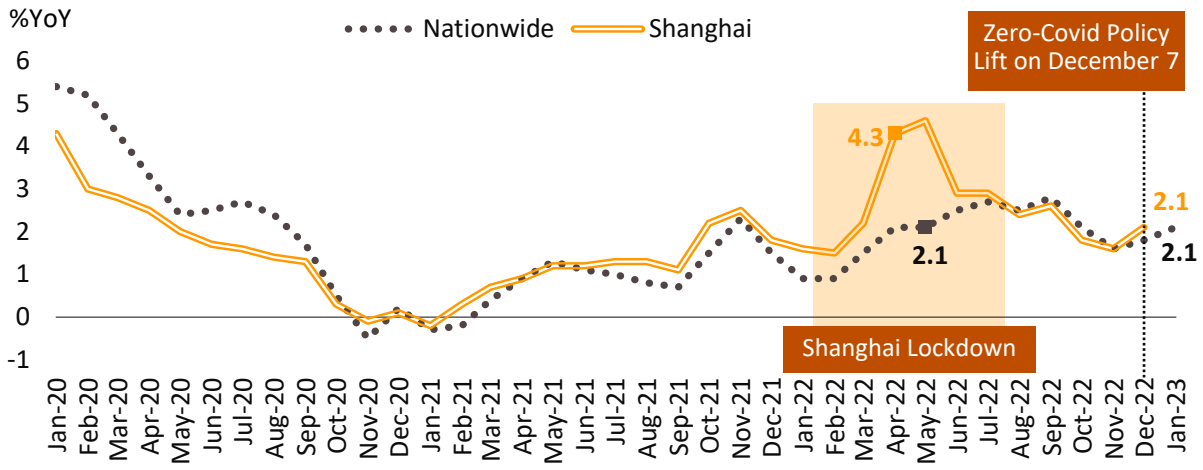
Source: National Bureau of Statistics, Capital Economics, Bloomberg, CEIC, Airfinity and Krungsri Research

Krungsri Research's view

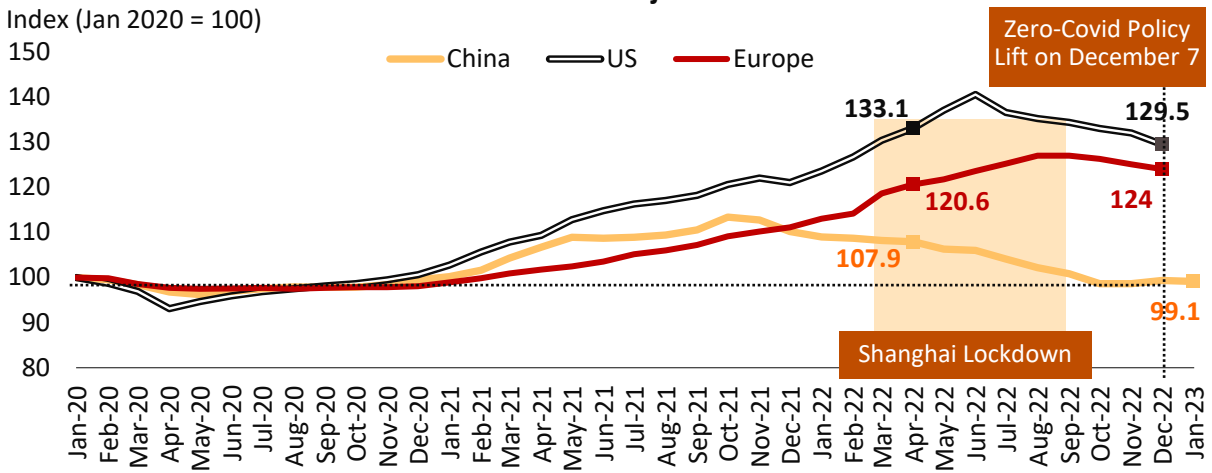
- Despite a resurgence in Covid-19 cases since China lifted its Zero-Covid policy in December, **travel between major cities has recovered**, some exceeding pre-pandemic levels. **We expect consumer spending to recover gradually in 1Q23 and accelerate in 2Q23** as new cases have dropped sharply in February. However, despite 34.3% savings rate last year and $827 billion three-year savings surplus, **the wealth effect would limit pent-up demand** (spending will be cautious as asset values drop). Unlike in the US prior to, during, and after reopening in 2021, there have not been significant improvements in China's housing prices and the stock market performance.
- **Supply-side activity has passed December lows, with a stronger-than-expected rebound in January.** Without widespread lockdowns, **we expect this to continue to improve throughout 1Q23.** Even if there are sporadic production disruptions in 1Q23, global supply chains are unlikely to be disrupted in the near-term due to high levels of finished goods inventories (20 days) and lower freight rates since the Zero-Covid policy was lifted. **Production would accelerate after 1Q23 and help to ease global supply disruptions the rest of this year**.
- Given these encouraging signs, **we expect China's economy to meet the government's 5.5% growth target for 2023**. However, **tensions between China and the US have risen again after the US spotted and shot down an alleged Chinese spy balloon flying over US airspace.** In retaliation, the US has blacklisted six Chinese companies involved in military aerospace programs. **The ongoing spat, if not resolved soon, could be a significant risk to economic recovery in China and worldwide.**

China reopening is unlikely to cause a surge in domestic inflation; impact on global inflation is more complicated depending on how demand regains ground

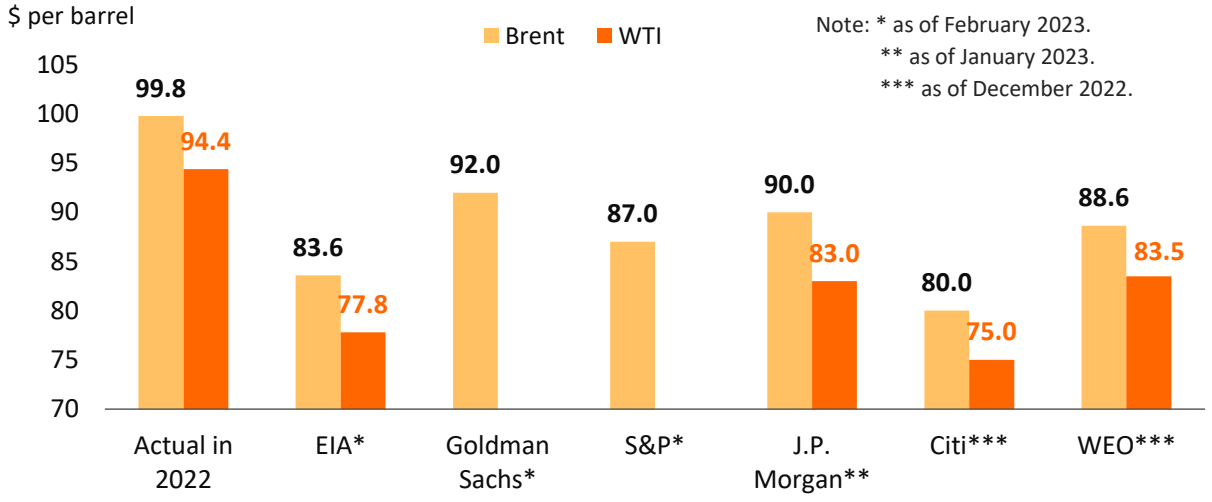
Consumer Price Index in China



Producer Price Index in Major Countries



Forecast Oil Prices in 2023



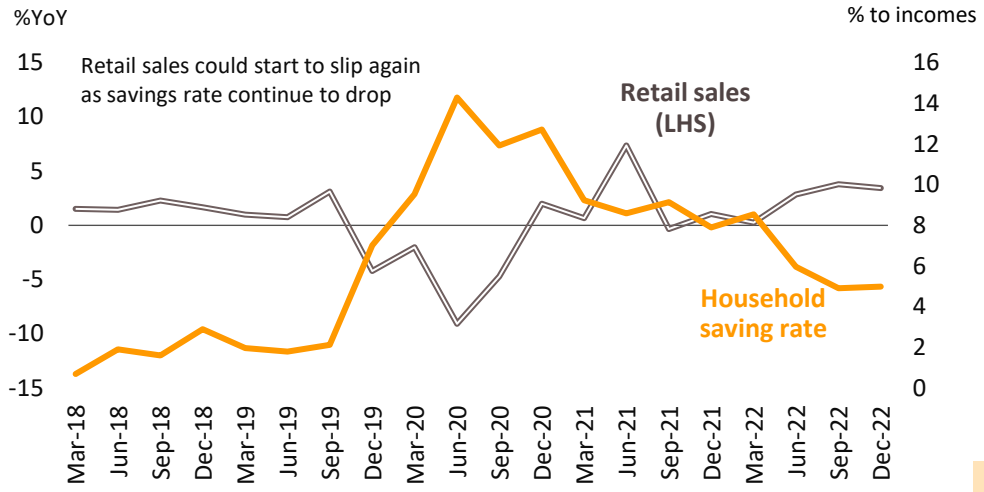
Source: National Bureau of Statistics, CEIC, Bloomberg, J.P. Morgan, Goldman Sachs, EIA, WEO and Krungsri Research

Krungsri Research's view

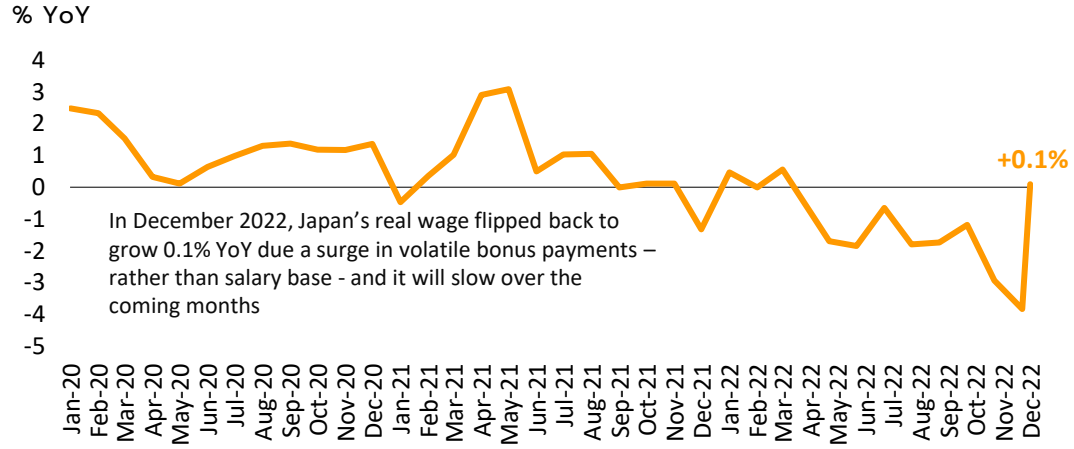
- Unlike the worst during the Shanghai lockdown in mid-2022, the supply disruptions caused by the resurgence in Covid-19 cases recently has had minimal impact on inflation in China in December and could start to ease in 1Q23 as production is normalizing in most industries. **We expect business activity in China to return to normal in 2Q23**, in time to meet rising domestic demand. This trend will continue throughout 2023, which means **China will not experience a surge in inflation this year.**
- **We expect supply-side recovery driven by China reopening to be a stronger force (than improving demand-side) to prevent a surge in global inflation** for the following reasons:
  - **Current cost of raw material in China is still significantly lower** than in the US, Europe, and during the Shanghai lockdown. There could be excess labor after Covid-19 cases peak in 1Q23.
  - **Pent-up demand in China would be mostly offset by weaker global demand** as major economies are slowing down because of tightening monetary policies.
  - **China's oil demand is projected to rise moderately** by 3.9% YoY in 2023, close to its 10-year average of 4.1%. This translates into demand for close to 16 million barrels per day. Thus, **prices are unlikely to rise substantially past 2022 levels.**
- **Despite low-to-medium risks, global inflation could surge in certain cases:** (i) an acceleration in Chinese consumption in H2 coupled with stronger-than-expected spending in the US and Europe would boost global oil demand significantly and push up oil prices beyond 2022 levels; and (ii) prolonged labor shortage if new Covid-19 cases remain high for a longer period could delay economic activity in China and extend the supply disruption to 2Q23.

Japan: Faster drop in savings and real income raise concerns about consumption

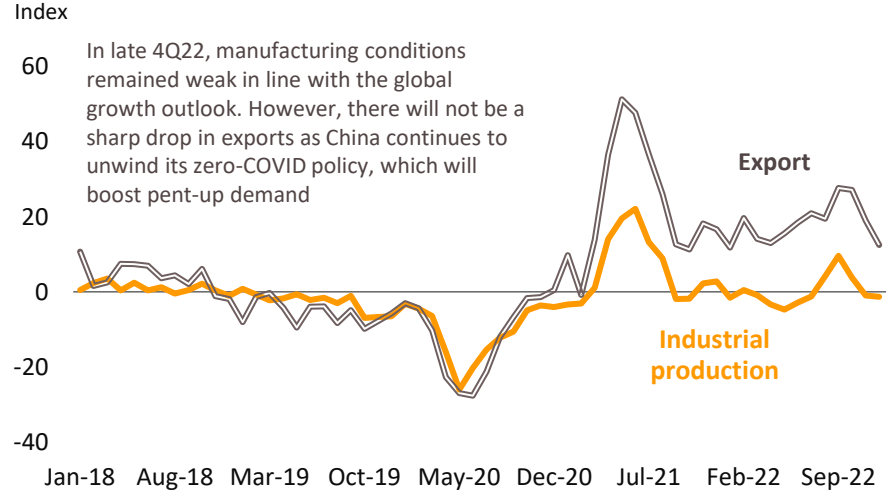
Japan's Retail Sales & Household Saving Rate



Japan's Real Wage Growth



Japan's Industrial Production & Exports



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

Krungsri Research's view

- Despite the strong rebound in retail sales (+3.44% YoY in 4Q22), **we are concerned domestic consumption could weaken in the first-half of 2023** given: (i) household savings has smaller capacity to absorb higher prices (4.9% of disposable income in 3Q22 compared to 8.7% average in 2021); (ii) firms still lack the ability to push wage hikes to pursue rising inflation, and (iii) looming stagflation would soften the labor market - from very tight last year – flagged by the first contraction in a year in the January sub-index for employment in the services sector.
- **The boost from China's reopening on Japan's tourism industry would be of little help** given still-tight COVID-19 restrictions on Chinese travelers to Japan, the opportunity cost of Japan being excluded from China's list of approved destinations for group tours, and small contribution from Chinese tourists in Japan, at only 0.5% to Japan's GDP in 2019 (pre-COVID level).
- In late 4Q22, manufacturing conditions remained weak in line with global growth. The IMF projects global GDP would grow by 2.9% in 2023, below the historical (2000-19) average of 3.8% - premised on the following negative data: industrial production, industrial inventory, and business sentiment, which suggest a further slowdown in exports and business investments ahead. However**, exports are unlikely to drop sharply as China, which accounted for 22% of Japan's exports in 2022, continues to unwind its zero-COVID policy.** That should provide a welcome boost to pent-up demand and rising exports to China would help to offset weakness in advanced economies like Europe and the US.
- Despite the government subsidizing electricity and gas costs only from February to August this year, it would reduce the burden on households. However, **power supply companies have recently applied to hike tariffs from April this year in response to soaring energy prices. That could neutralize the impact of subsidies if approved**.
- Given looming price hikes and an unstable economic environment, **we project the Bank of Japan (BOJ) will balance its monetary policy to prevent excessive acceleration in inflation while supporting economic recovery**, by gradually unwinding its ultra-loose monetary policy likely after Kuroda's successor takes office in April.

Key external factors that could influence economic direction this year

Global Economic outlook:

Less gloomy, but still see signs of a slowdown



+ China's sooner-than-expected reopening
+ Easing global supply chain disruptions
+ Easing energy crisis in Europe
+ Strong labor market in advanced economies



- Lagged effects of multi-year interest rate hikes in core countries
- Escalating US-China tensions after spy balloon spat
- Risks of a wider geopolitical tensions as war intensifies again in the Ukraine
- Lingering risk of a property crisis in China

Thailand: Cautiously optimistic about economic growth this year

- 4Q22 GDP came out much weaker-than-expected with a 1.5% QoQ sa contraction and a 1.4% YoY expansion as a rebound in tourism failed to compensate a deep contraction in exports. 2022 GDP grew only 2.6% vs our estimate of 3.2%.
- Given disappointing 4Q22 GDP numbers, there could be downside bias to growth projections for Thailand this year. Even though there could be a positive factor from China's sooner-than-expected reopening, we remain cautiously optimistic about growth in Thailand given several headwinds and risks, including more prominent effects of multi-year high interest rates in major countries and escalating geopolitical tensions. There could also be uncertainty about policy implementation in 2H23 if there is a delay in forming the new government.
- Export growth would remain weak due to the general slowdown in global demand, although China reopening would benefit some goods. Private investment shrank in December following weak exports but there are encouraging sign amid improving business sentiment.
- Since China's reopening, Chinese tourists have become the top 5 foreign tourist arrivals in Thailand in January. Higher spending by Chinese tourists will support opportunities in related industries such as Shopping & Souvenirs, Accommodation, and Food & Beverage.
- Private consumption would be supported by the recovering tourism sector, rising employment, and stimulus measures. However, consumption recovery would remain uneven.
- Both headline and core inflation were below market expectations in January amid softer energy prices.
- We expect the MPC to normalize monetary policy by raising rate by another 25bps at the next meeting on 29 March.

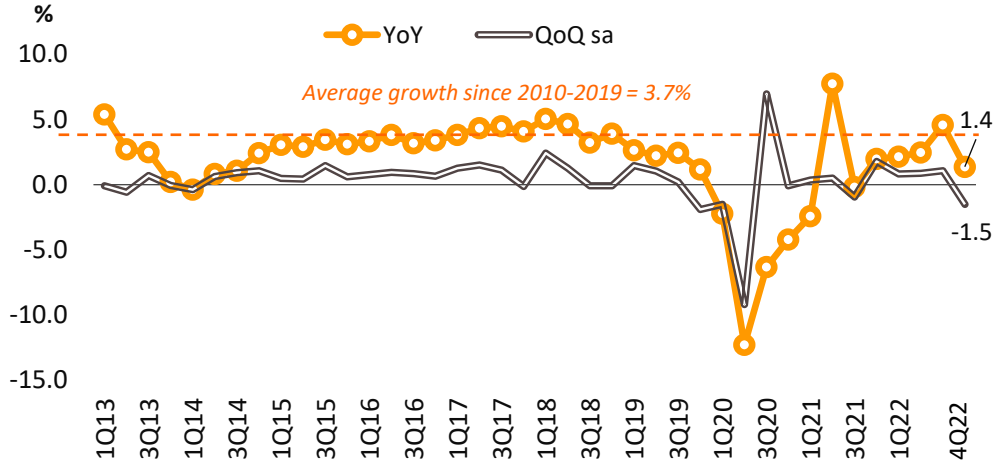
Krungsri Research Forecasts for 2023

Krungsri Research Forecast		2021	2022	2023F To be revised
GDP growth	YoY (%)	1.5	2.6	3.6
Private Consumption Expenditure	YoY (%)	0.6	6.3	3.5
Government Consumption Expenditure	YoY (%)	3.7	-0.04	0.6
Private Investment	YoY (%)	3.0	5.1	3.8
Public Investment	YoY (%)	3.4	-4.9	3.0
Nominal Exports in USD (f.o.b.)*	YoY (%)	19.2	5.5	0.5
Nominal Imports in USD (f.o.b.)*	YoY (%)	27.7	15.3	1.0
Current Account Balance	USD, bn	-10.6	-16.9	8.0
Tourist Arrivals	Mn, persons	0.4	11.1	25-28
Headline Inflation	YoY (%)	1.2	6.1	2.5
Policy Interest rate (end of period)	(%)	0.50	1.25	1.75
Dubai crude price - period average	USD/bbl	69	96	82

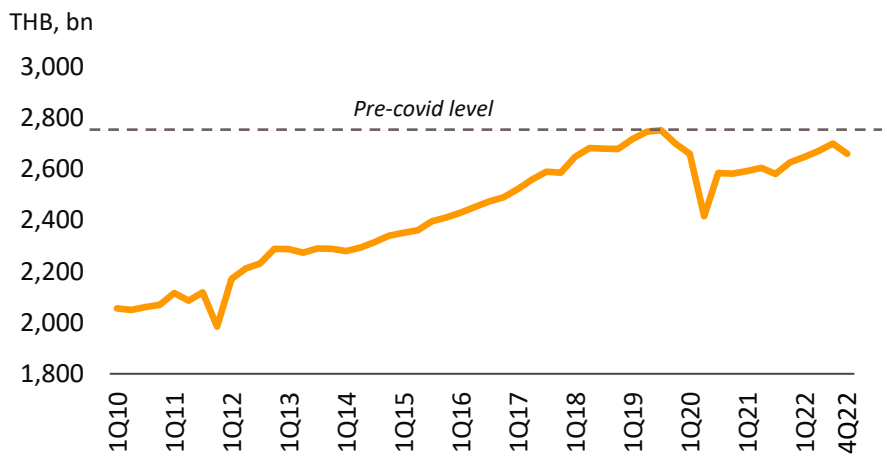
Note: * Base on BOT data; 2023 forecast as of December 2022
Source: NESDC, BOT, MOC, MOTS, Bloomberg, Krungsri Research

4Q22 GDP came out much weaker-than-expected at -1.5% QoQ sa, +1.4% YoY as a rebound in tourism failed to compensate a deep contraction in exports

Thailand's GDP growth



Real GDP (sa)

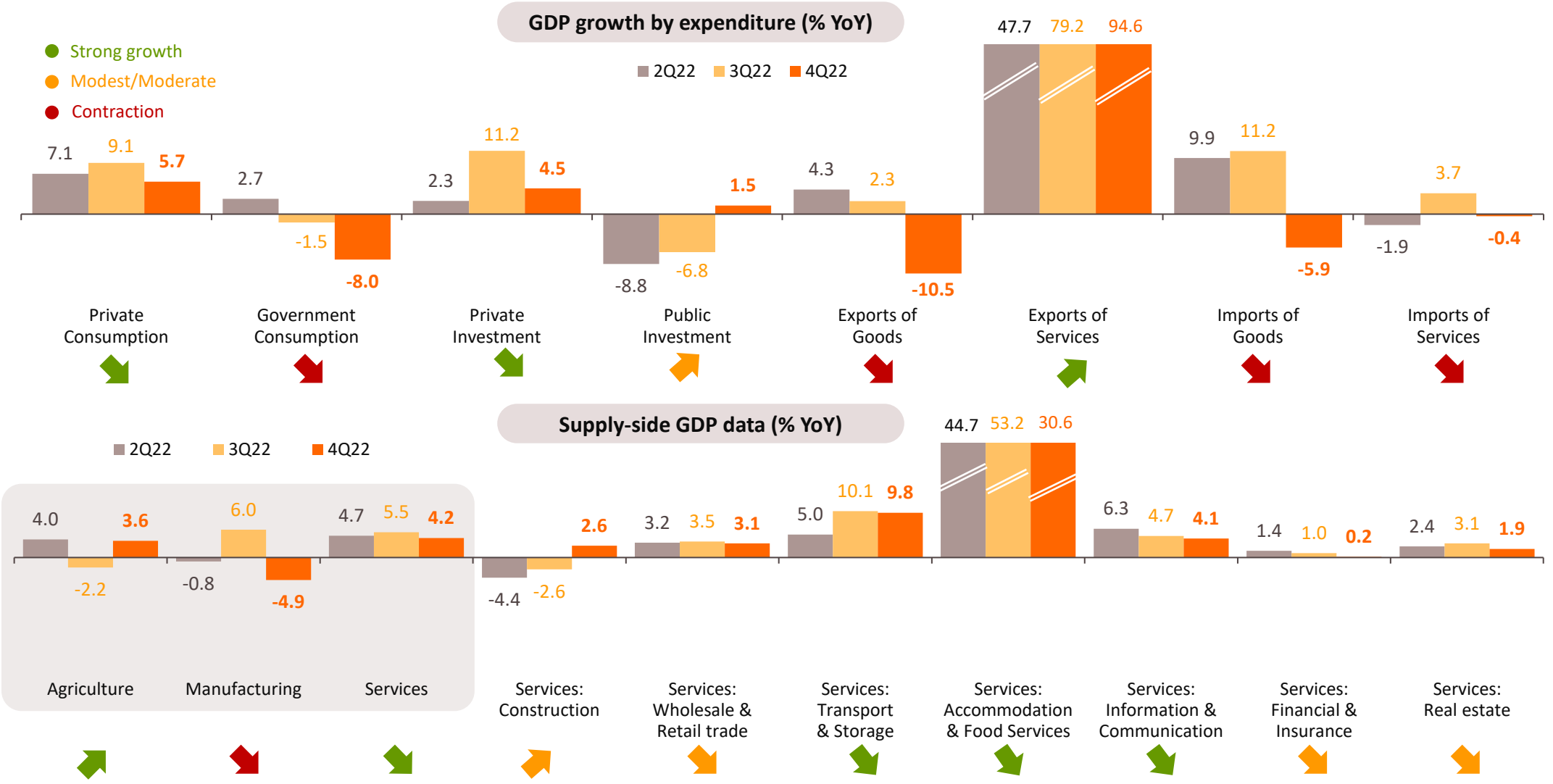


Krungsri Research's view

- **Despite reopening effects in Thailand, 4Q22 GDP growth decelerated sharply to only +1.4% YoY from +4.6% in 3Q22, led by a deeper-than-expected contraction in exports and unwinding of government stimulus.** The GDP growth in 4Q22 was much weaker than our projection (+3.7%) and consensus estimate (+3.6%) despite a stronger recovery of tourism (exports of services +94.6% in 4Q vs +79.2% in 3Q). Global economic slowdown and China's lockdown caused a sharp contraction in goods exports (-10.5% in 4Q vs +2.3% in 3Q). Private investment growth also decelerated (+4.5% vs +11.2%) amid falling exports. The government's stimulus measures had been unwinding with a contraction in government consumption (-8.0% vs -1.5%). Private consumption growth also slowed down (+5.7% vs +9.1%). When compared to the previous quarter, 4Q22 GDP growth turned to post a contraction (-1.5% QoQ sa vs +1.1% in 3Q), missing our estimate of +0.7% and consensus forecast of +0.6%).
- **On the supply side, 4Q22 GDP growth was mainly driven by agriculture (+3.6% YoY in 4Q vs -2.2% in 3Q) and services sector (+4.2% vs +5.5%),** particularly led by accommodation & food service activities (+30.6%), transportation & storage (+9.8%) and information & communication (+4.1%). However, due to a plunge in goods exports, industrial sector also contracted (-4.6% vs +4.5%).
- **2022 GDP grew only 2.6% vs our estimate of 3.2%. Given disappointing GDP numbers, there could be downside bias to growth projections for Thailand this year.** Looking ahead, the Thai economy is unlikely to face a technical recession (or a contraction for two consecutive quarters) given supportive factors from China's sooner-than-expected reopening, easing of global supply chain disruptions, additional stimulus measures (such as personal income tax deduction or Shop-Dee-Mee-Kuen and program to boost domestic tourism). We remain cautiously optimistic about growth in Thailand given several headwinds and risks, including more prominent effects of multi-year high interest rates in major countries. There could also be uncertainty about policy implementation in 2H23 if there is a delay in forming the new government. **Overall, 2023 Thai GDP is still expected to reach above pre-pandemic level and could see a stronger growth than last year.**

Source: NESDC, Krungsri Research

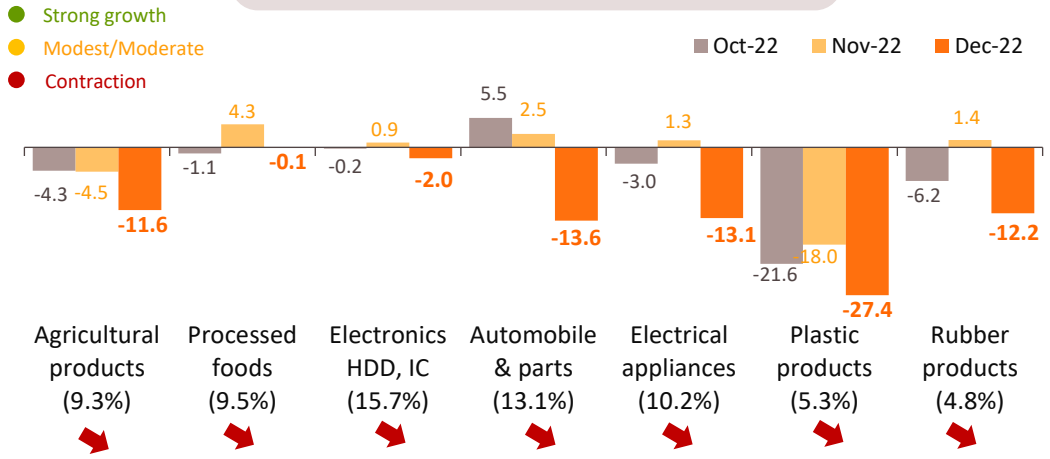
Weaker external demand and unwinding stimulus dragged 4Q growth; manufacturing contraction hit supply-side growth despite an expansion in agriculture and services



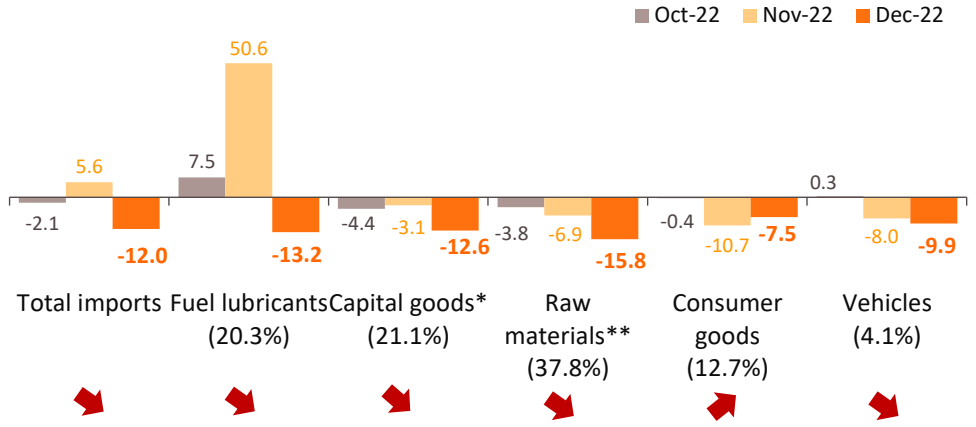
Source: NESDC, Krungsri Research

Export growth would remain weak due to the general slowdown in global demand, although China reopening would benefit some goods

Exports by major product (%YoY)

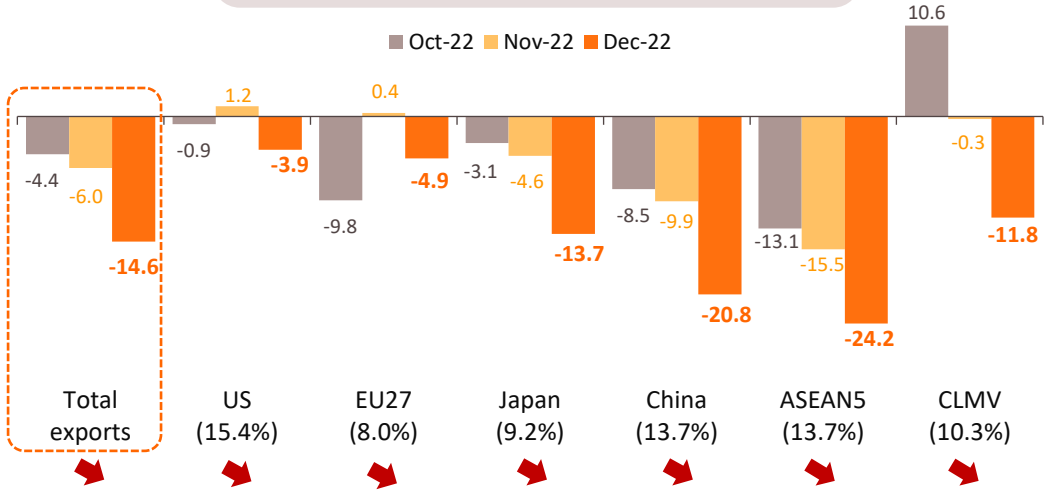


Imports by major product (%YoY)



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

Exports by major destination (%YoY)



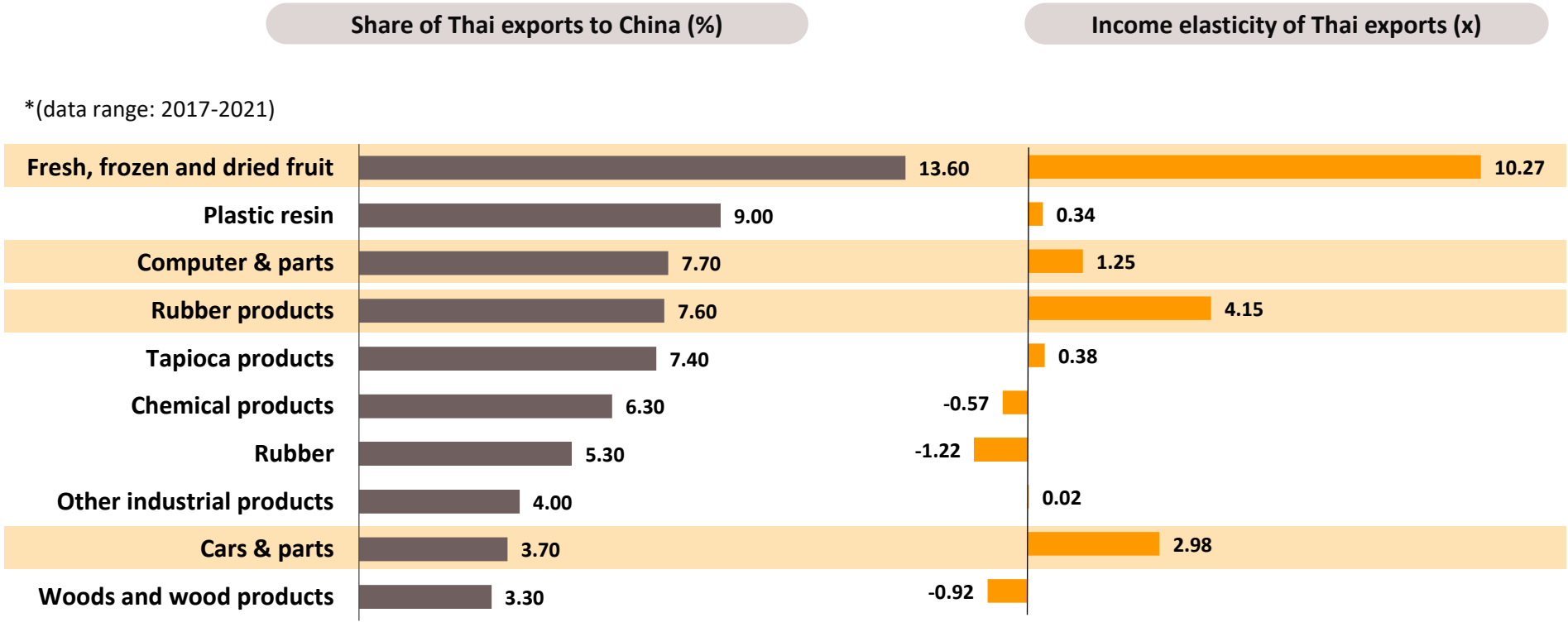
Source: MOC, Krungsri Research

Krungsri Research's view

- **In December, merchandise export value fell for the third consecutive month, by 14.6% YoY to USD21.7 bn.** (or -12.5% ex-gold & oil products). Exports fell for many industrial goods, including chemicals, plastic products, automobile & parts and electrical appliances. It was the same for agricultural goods with declines seen in rubber, cassava products, and rice. This weakness was seen in most major export markets, led by the ASEAN-5, China, Japan, EU, and the US. For 2022, export value rose to USD 287.1bn from USD 272.0bn in 2021, while growth slowed to 5.5% from 17.4%.
- Thailand's export sector has seen signs of weakness since 4Q22, in response to slowing global demand. The latest indicators also point to a soft global manufacturing sector, though this is most pronounced in the US and Eurozone. Beyond this, exports are also pressured by the strong baht which has placed Thailand at a disadvantage relative to its competitors. **We see Thai exports expanding by only 0.5% in 2023 with some support from: (i) persistent demand for non-discretionary items, such as food, and (ii) reopening of China, which will support stronger demand for some goods.**

Export of key products to China will rise, especially those with relatively-high elasticity of demand there, but gains would be limited for some items

Only four of Thailand's top 10 Thai exports to China - **Fresh, frozen and dried fruit, Rubber products, Cars & parts and Computers & parts** – registered strong elasticity (>1) to China's GDP growth. That means if pent-up demand in China returns to normal, exports of these products would gain traction. However, the projected gains in Thai exports will be limited to some sectors only.

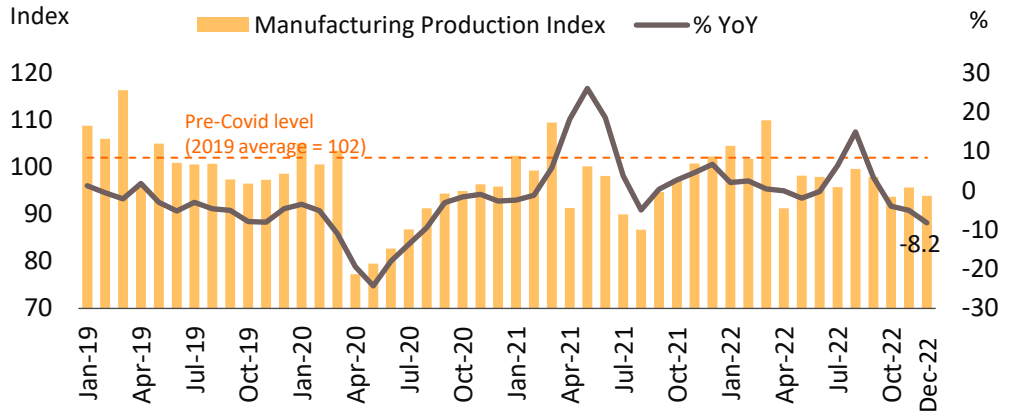


Note:* Elasticity of demand for Thai total exports to China is at 0.73
Source: MOC, Krungsri Research

Manufacturing production remained weak due to falling exports but recovering domestic activity and easing global supply disruption would mitigate the negative impact

Manufacturing production index contracted for the third month in a row, by 8.2% YoY, in line with the slowdown in external demand. Overall capacity utilization rate remained below pre-COVID level though the rate had exceeded pre-COVID level for some industries, including food & beverages and petroleum. **In 2023, manufacturing production could face headwinds from a subdued export sector, dragged by slower global trade. However, there are some positives arising from recovering domestic & tourism activity and improvements in global supply chains since China's reopening.**

Manufacturing production fell following weaker exports



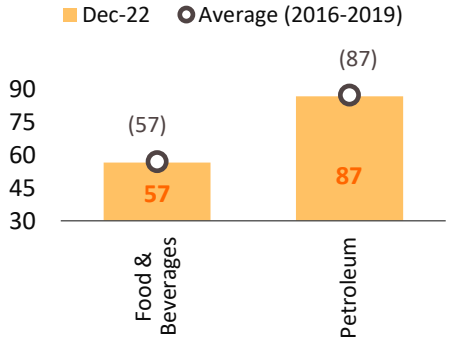
Manufacturing production growth in December the worst in 28 months

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	A	M	J	J	A	S	O	N	D
All industry	100.0%																																				**-8.2**
Food & Beverages	20.3%																																				-3.2
Automotive	13.8%																																				+1.4
Petroleum	9.5%																																				+2.1
Chemicals	9.1%																																				-17.0
Rubbers & Plastics	8.8%																																				-13.4
Cement & Construction	5.5%																																				-1.6
IC & Semiconductors	5.5%																																				-0.4
Electrical Appliances	3.8%																																				-14.9
Textiles & Apparels	3.5%																																				-23.5
HDD	3.4%																																				-39.4

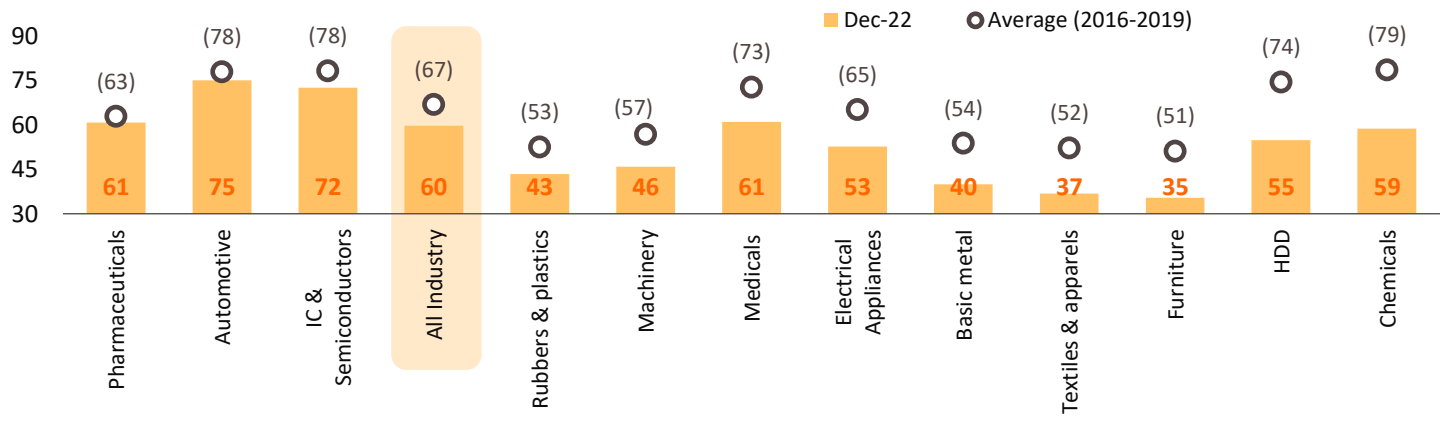
**Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum*

Capacity utilization by sector (%)

Approaching pre-COVID level



Below pre-COVID level

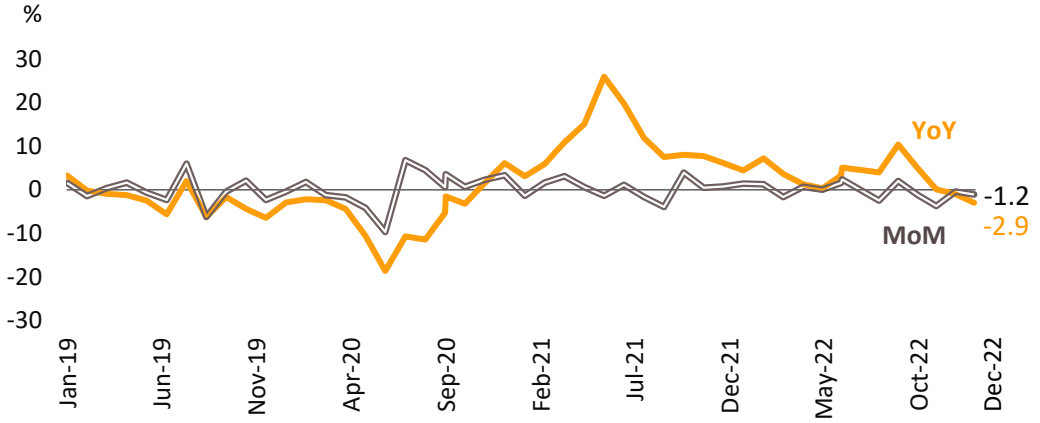


Source: OIE, Krungsri Research

Private investment shrank in December but there are encouraging signs amid improving business sentiment

Recently, private investment remained weak in line with the slowing global economy and trade, but there is improving business sentiment in the manufacturing sector. The improving Manufacturing PMI in January and stronger volume of FDI applications for BOI privileges in 2022, especially from Chinese investors, are expected to bolster private investment in the medium-term.

Private investment declined in line with industrial production

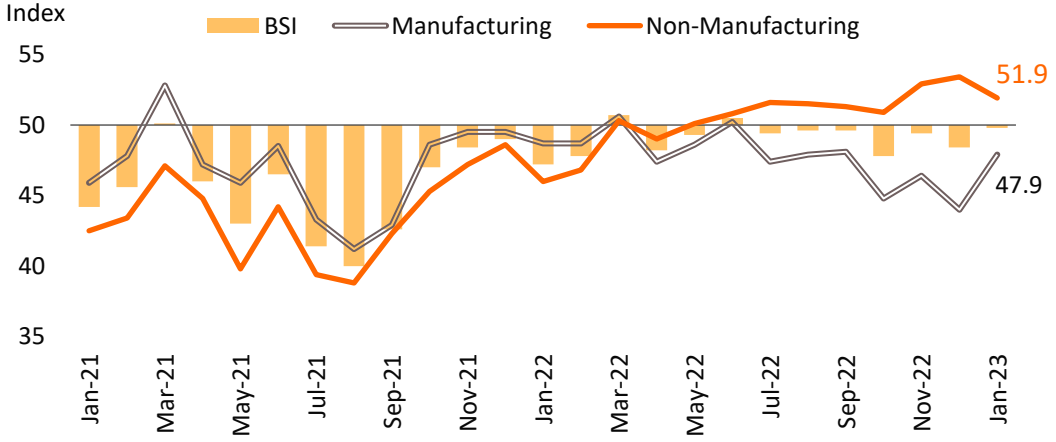


Private Investment by category

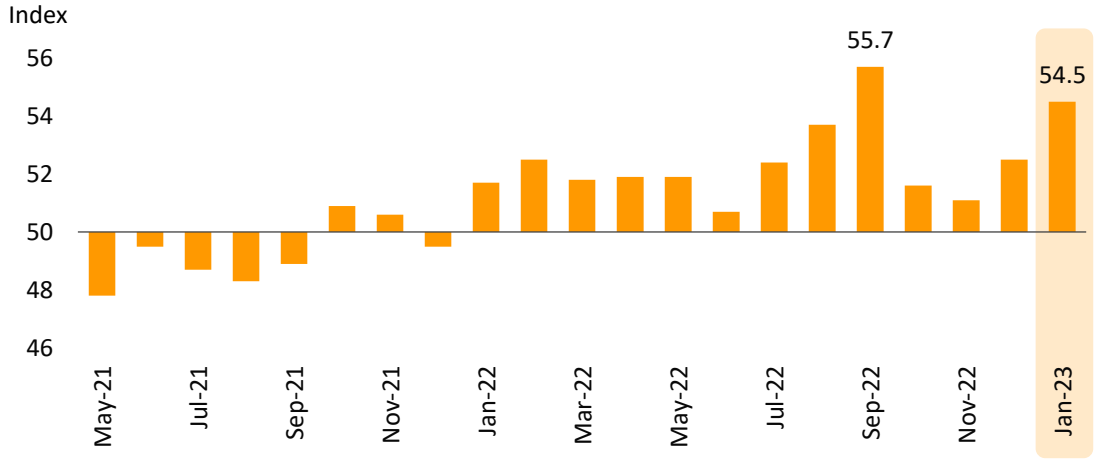
%YoY*	2020												2021												2022												
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Private investment																																				**-2.9**
Construction area permitted																																				-2.8
Construction material sales																																				-0.2
Imports of capital goods																																				-12.9
Machinery sales																																				+3.8
Newly registered vehicles																																				-8.5

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

Business Sentiment Index in the manufacturing turned to increase again in January



Manufacturing PMI rose to the second-highest on record in January

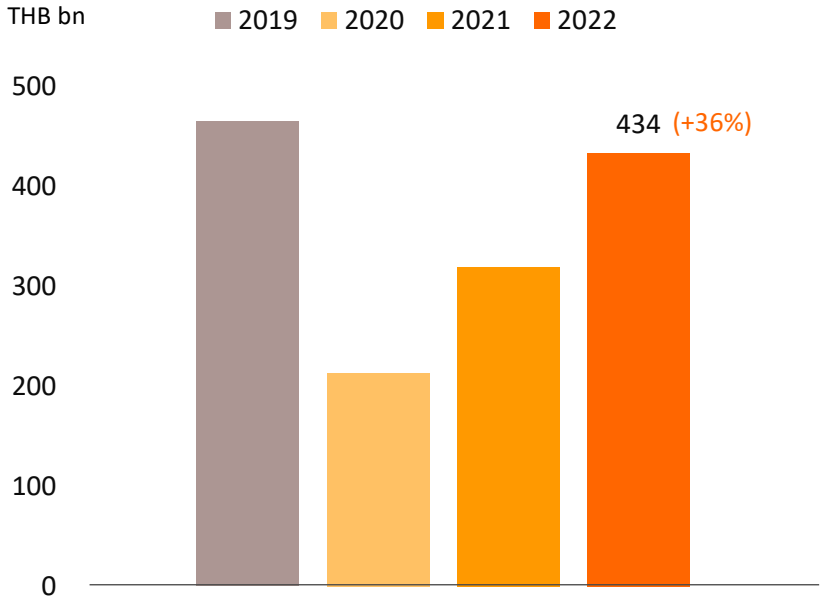


Source: BOT, S&P Global, Bloomberg, Krungsri Research

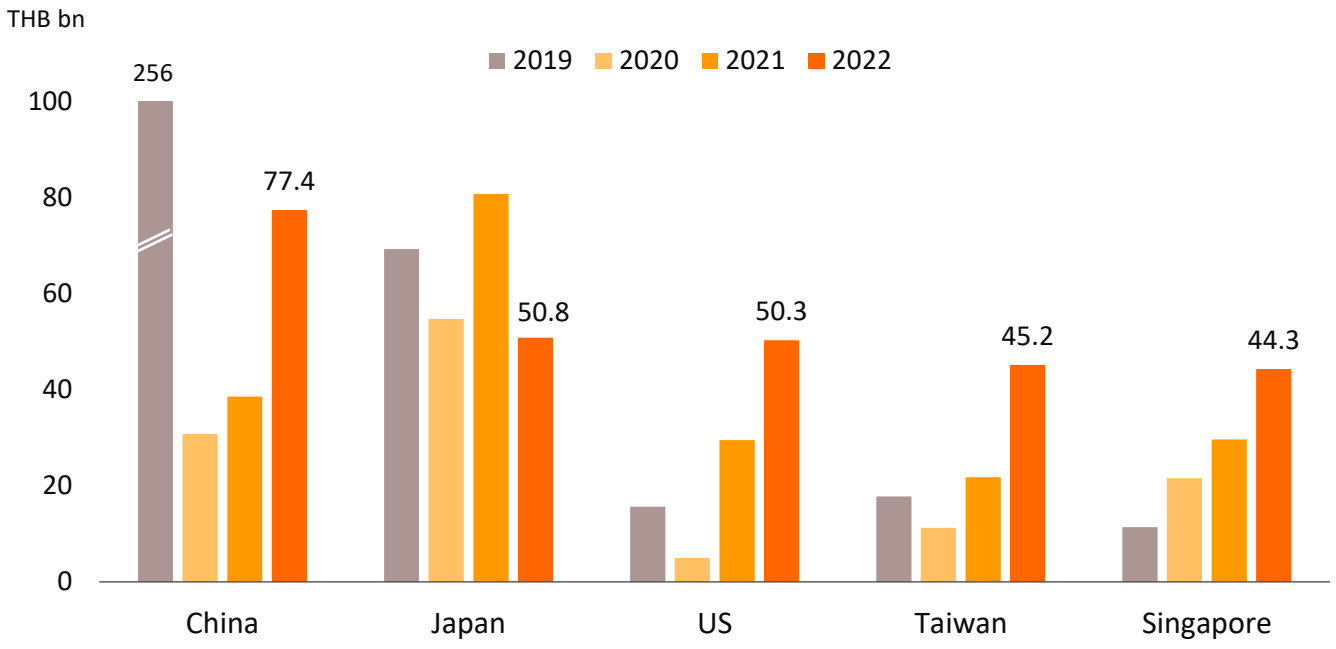
Chinese direct investment in Thailand is encouraging; they accounted for the largest share of applications for investment incentives in 2022

In 2022, Thailand's Board of Investment (BOI) reported foreign companies applied for BOI privileges valued at THB434 bn, rising 36% from a year earlier. China was the top investor in terms of investment value. The industries targeted by Chinese investors were electric vehicles (EVs), clean energy, data centers, and electronics.

Total FDI applications for BOI privileges



Top 5 sources of FDI applications for BOI privileges



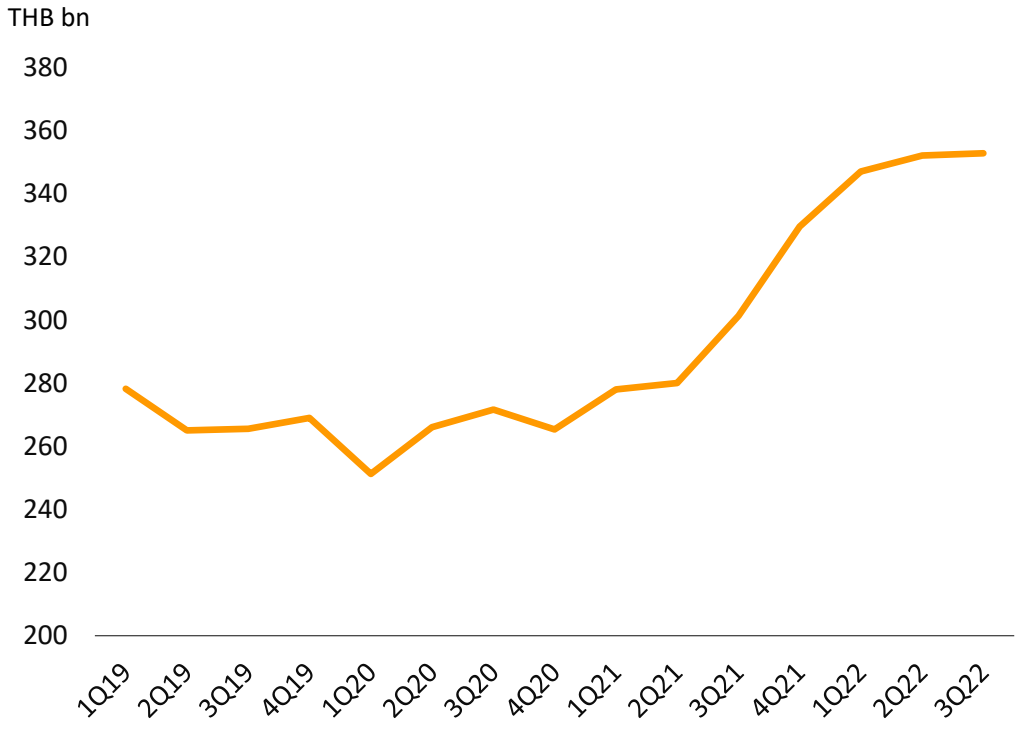
Source: BOI, Krungsri Research

FDI from China has surged despite the pandemic; this would promote the growth of key industries in Thailand in the medium-to-long term

Foreign Direct Investment (FDI) from China to Thailand will improve, especially in sectors which have been a consistent recipient of Chinese investment, such as **Rubber & plastics products, Motor vehicles, trailers & semi-trailers, Financial & insurance, and Wholesale & retail trade.**

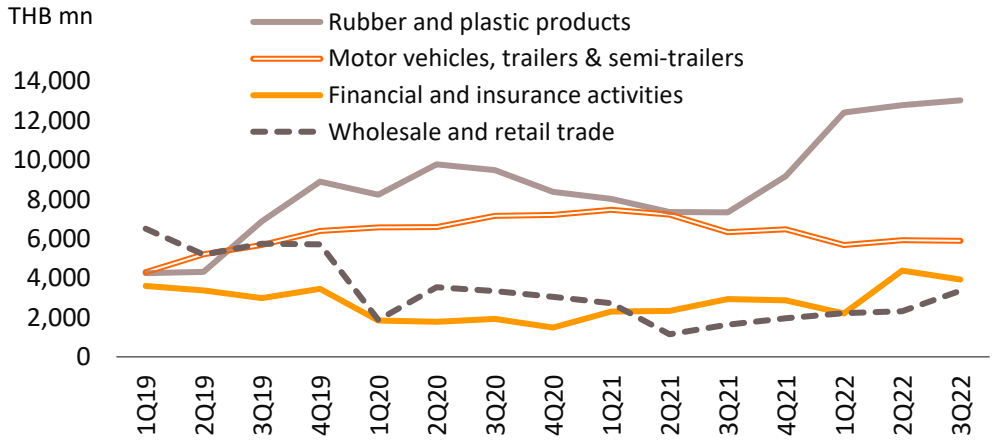
Total China FDI into Thailand

(4-Quarter rolling sum)



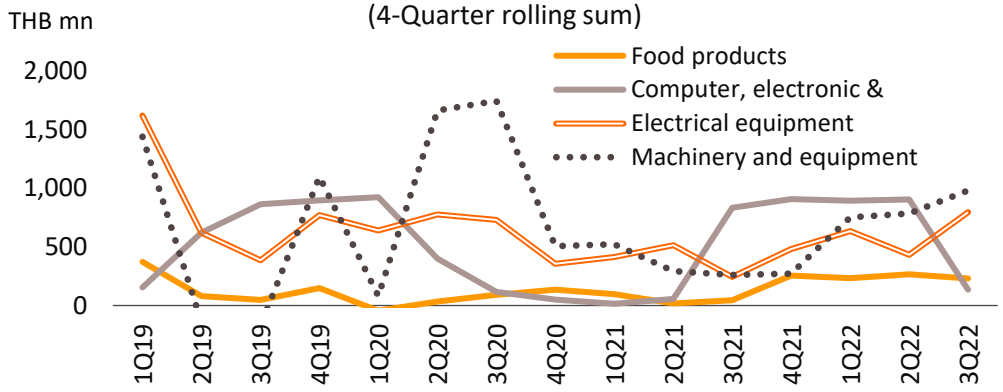
China FDI to Thailand by sector (1)

(4-Quarter rolling sum)



China FDI to Thailand by sector (2)

(4-Quarter rolling sum)

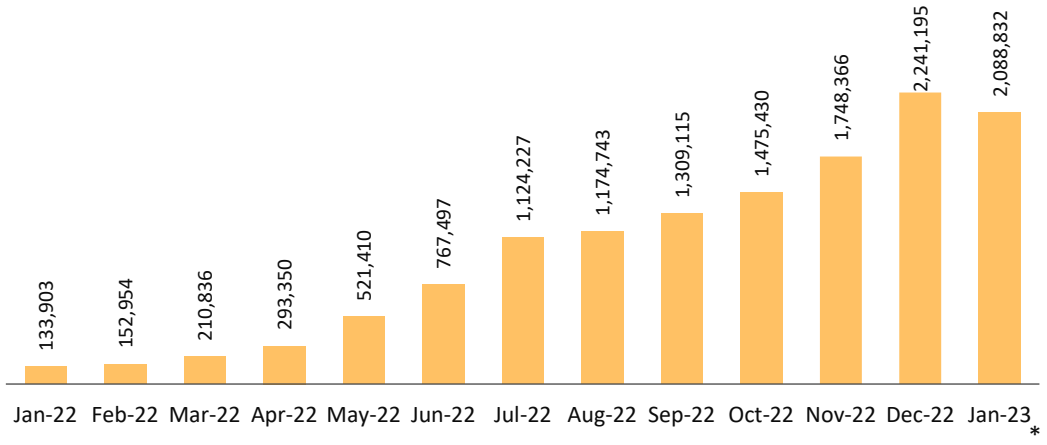


Source: BOT, Krungsri Research

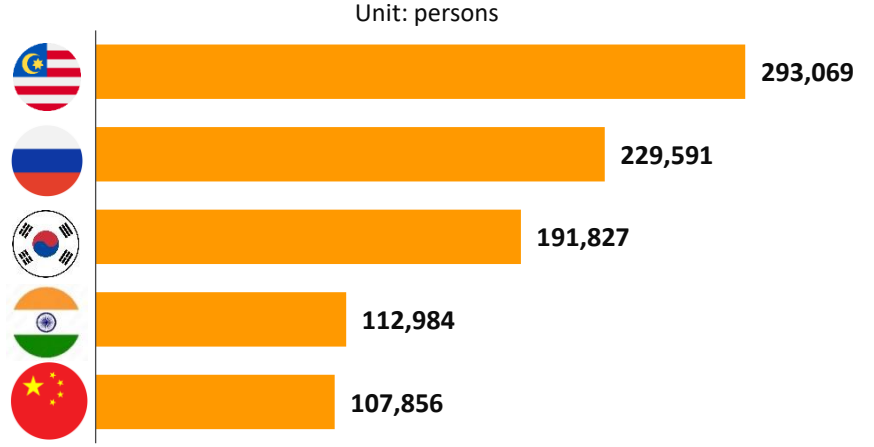
Tourism sector: Chinese tourists to Thailand has risen to the Top 5 since China reopening in early January

Since the reopening on January 8, about 110,000 Chinese tourists have traveled to Thailand (from 1 January to 4 February), compared to only 54,146 persons in December. Recently, Tourism Authority of Thailand (TAT) had revised its target for inbound Chinese tourists to 7-8 mn (from 5 mn the month before) or around 80% of pre-COVID level. **In 1Q23, TAT expects about 300,000 Chinese tourists to Thailand.**

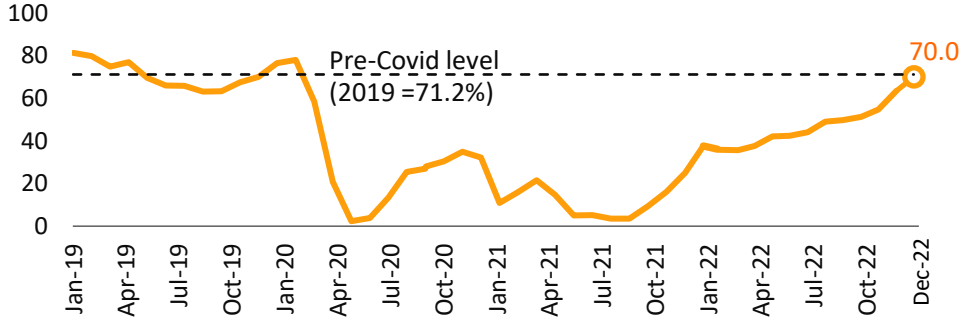
Foreign tourist arrivals in January remained high at over 2mn



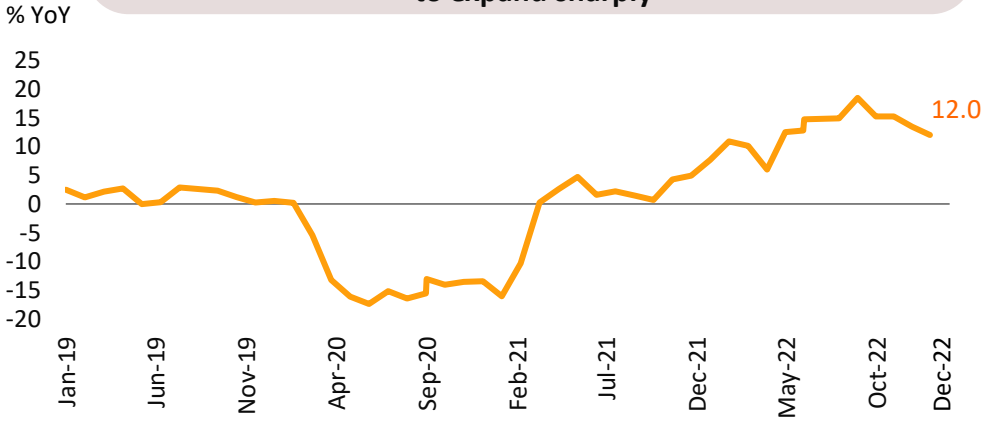
Top 5 foreign tourist arrivals by country during 1 Jan-4 Feb 2023*



National average occupancy rate rose to 70% in December, close to pre-covid level



Recovering tourism drive up Service Production Index (SPI) to expand sharply

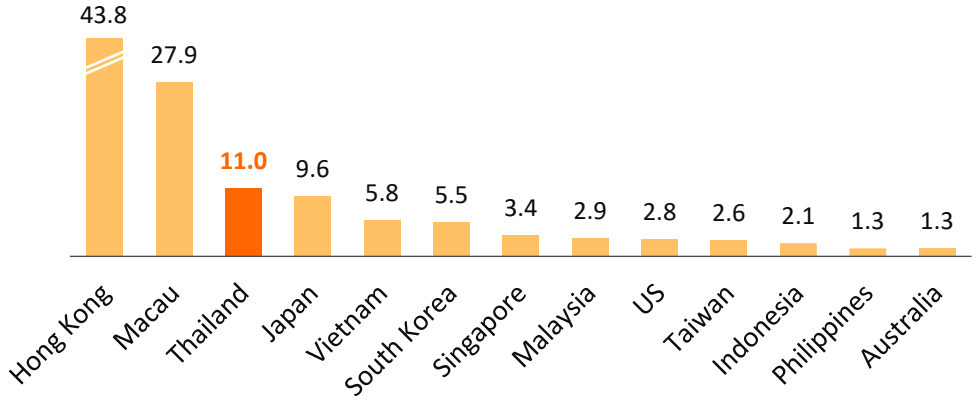


Note: * preliminary data
Source: MOTS, CEIC, Krungsri Research

In Thailand, tourism sector is dependent on Chinese tourists; they accounted for largest share of tourist arrivals and tourism receipts in 2019 (pre-pandemic)

Excluding Hong Kong and Macao, about 11 mn Chinese tourists visited Thailand in 2019 (27% of total tourist arrivals), before the Covid-19 pandemic hit. They generated THB543 bn worth of tourism receipts or 28.1% of total tourism receipts.

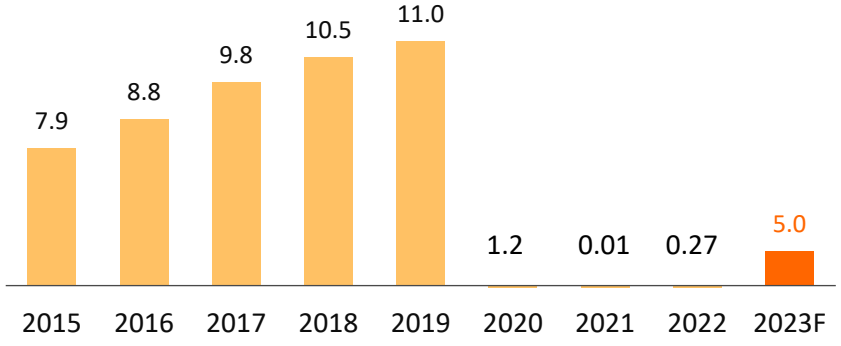
Chinese tourists in key countries, 2019 (person, mn)



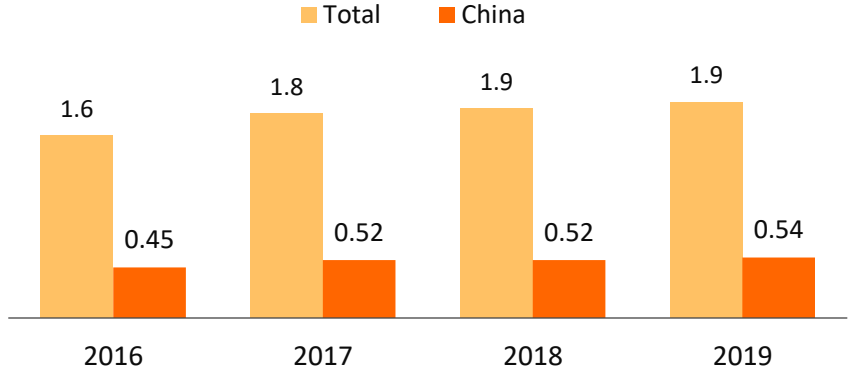
Top 5 foreign tourist arrivals in Thailand, 2019

Country	Amount (person, mn)	Length of stay (days)	Revenue (THB mn)
China	**11.0**	**7.80**	**543,707**
Malaysia	4.2	4.81	107,457
Russia	1.4	16.94	102,895
Japan	1.7	9.79	93,758
India	1.9	7.43	80,039

Chinese tourist arrivals in Thailand (person, mn)



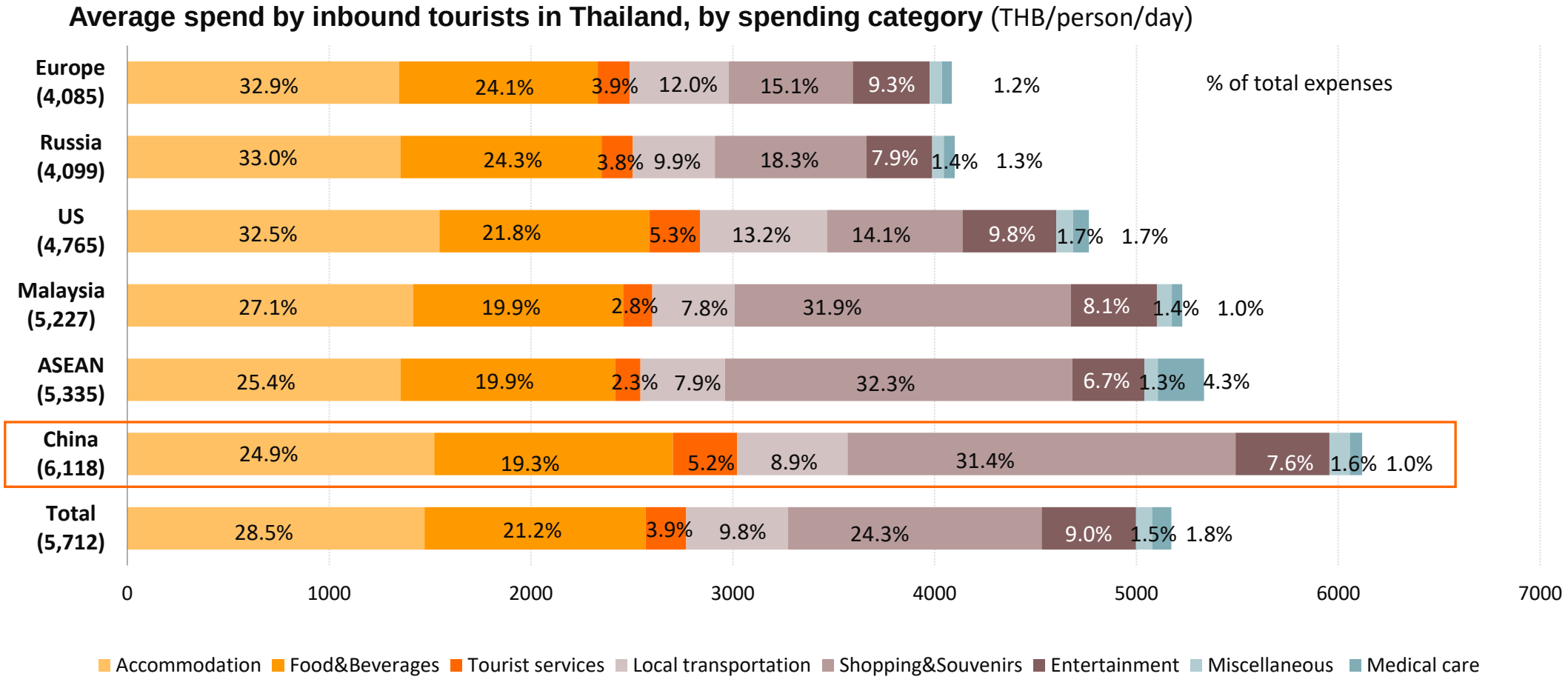
Revenue from foreign tourists (THB tn)



Note: Forecast by TAT
Source: CEIC, MOTS, Krungsri Research

Higher *spending by Chinese tourists* will provide opportunities in related industries such as Shopping & Souvenirs, Accommodation, and Food & Beverage

In 2019, foreign tourists in Thailand spent an average of 5,712 baht per person per day, led by spending on Accommodation (28.5%). Spending by Chinese tourists averaged 6,118 baht per person per day in Thailand, with the largest share spent on Shopping & Souvenirs (31%), Accommodation (25%), and Food & Beverage (19%).

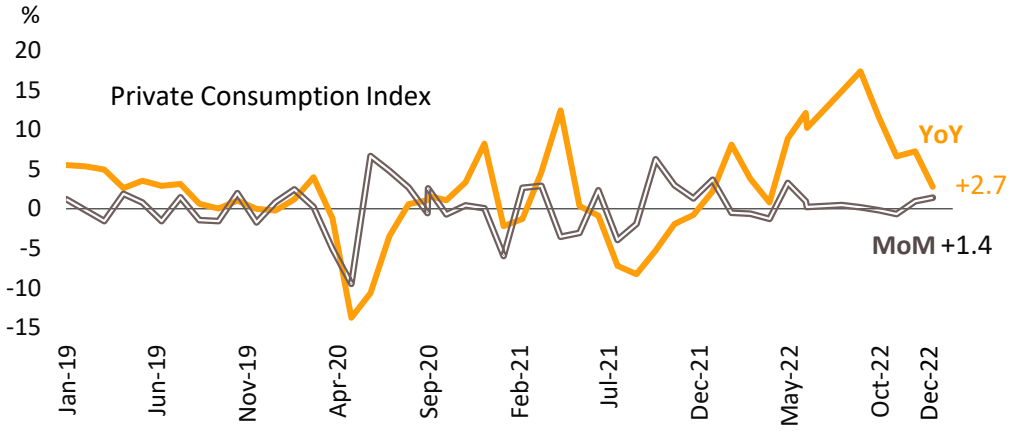


Source: NSO, Krungsri Research

Private consumption would be supported by the recovering tourism sector, rising employment, and stimulus measures

The positive effects of steadily rising consumer confidence are reflected in stronger domestic spending, which has helped to drive economic growth so far this year. Likewise, the improving outlook for the tourism industry is also supporting stronger employment in tourism and related services sectors, while the looming election will also push more funds into the economy.

Private consumption remains positive

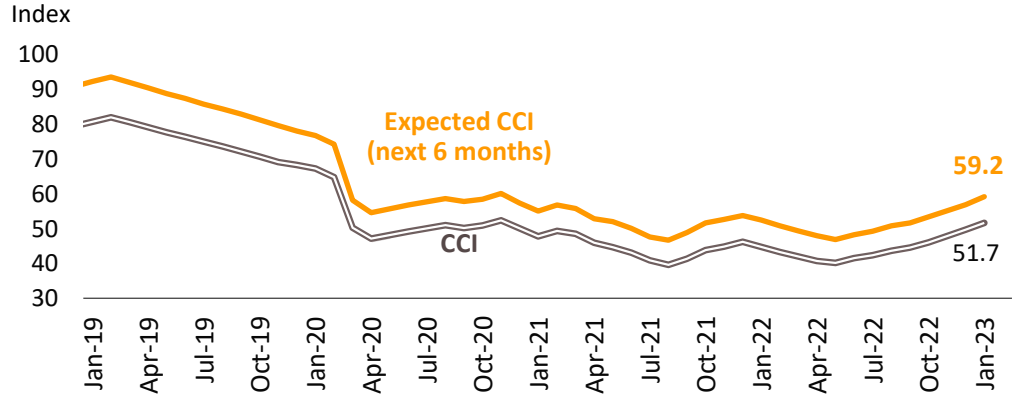


Private consumption rode in most categories except durable goods

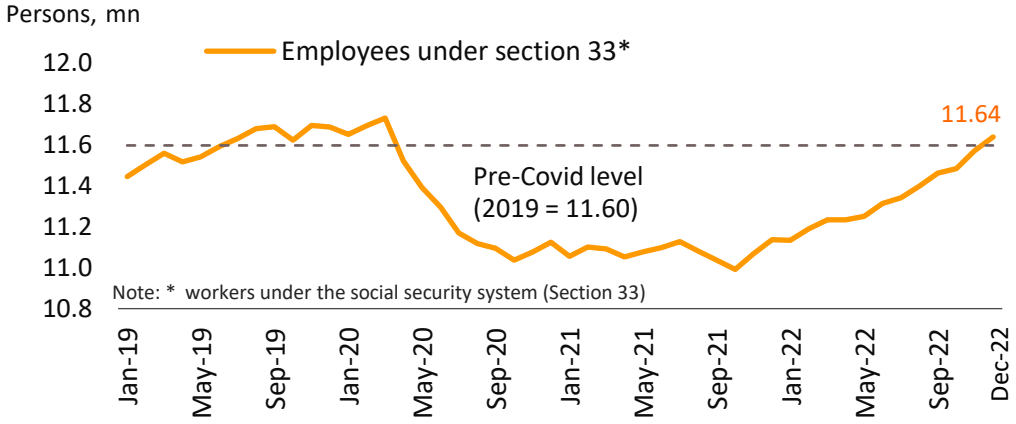
%YoY*	2020 J	F	M	A	M	J	J	A	S	O	N	D	2021 J	F	M	A	M	J	J	A	S	O	N	D	2022 J	F	M	A	M	J	J	A	S	O	N	D	
Private consumption																																					+2.7
Non-durables																																					+0.3
Semi-durables																																					+1.0
Durables																																					-5.6
Services																																					+20
Non-residents expenditure																																					+531

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

Consumer confidence hit a 26-month high in January



Employment turned back above pre-Covid level

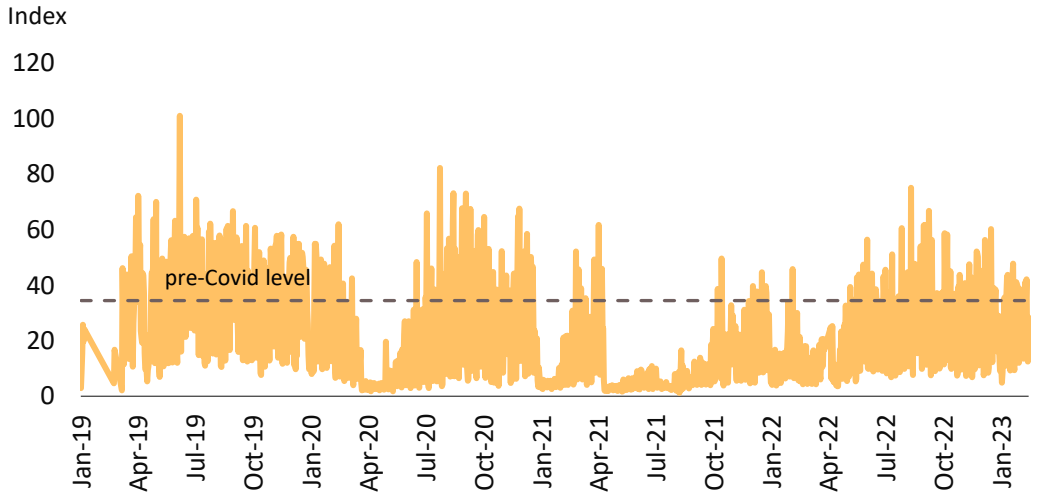


Source: BOT, UTCC, MOL, Krungsri Research

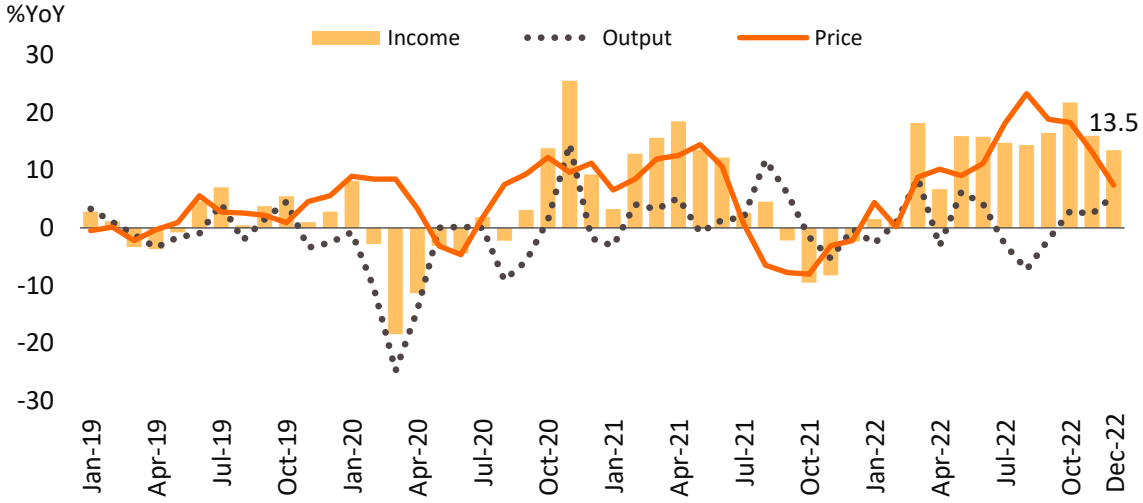
Several tailwinds to support consumption growth in 1H23 but recovery will remain uneven

Krungsri Research expects private consumption in 1H23 to be driven by (i) recovering economic activity, reflected by the Traffic Congestion Index in Bangkok from early 2023 to 13 February. That is now close to 2019 (pre-pandemic) level; (ii) rising farm income; (iii) government's stimulus measures; and (iv) more spending ahead of the upcoming general election. However, still-high household debt, higher lending rates and high cost of living are all dragging spending by the low-income group, so the recovery in consumption will remain unevenly distributed across the economy.

Traffic Congestion Index: Bangkok



Farm income grew well from both price and output in December



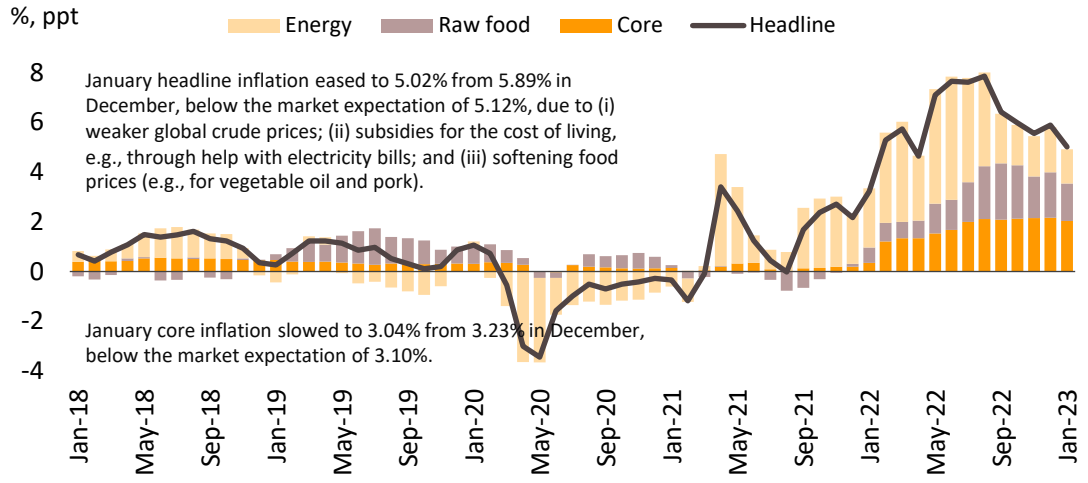
Government measures to support consumption in 1H23

Measure	Details
Welfare card holder	Additional THB200 per person in January 2023 (13.2 million; amount THB 2.644 bn)
Electricity subsidy	Keep fuel tariff (Ft) rate at 4.72 bath/unit for households during Jan-Apr 2023 bills
Domestic spending (Shop-Dee-Mee-Kuen)	Personal income tax deduction on spending on eligible goods or services worth up to THB 40,000, valid from 1 January to 15 February 2023. (It is expected to generate THB 56bn for the economy)
Domestic tourism (We travel together phase 5)	Cabinet approved THB 2 bn budget, valid from 7 March -30 April (expected to generate in THB 12.54 bn in the economy)

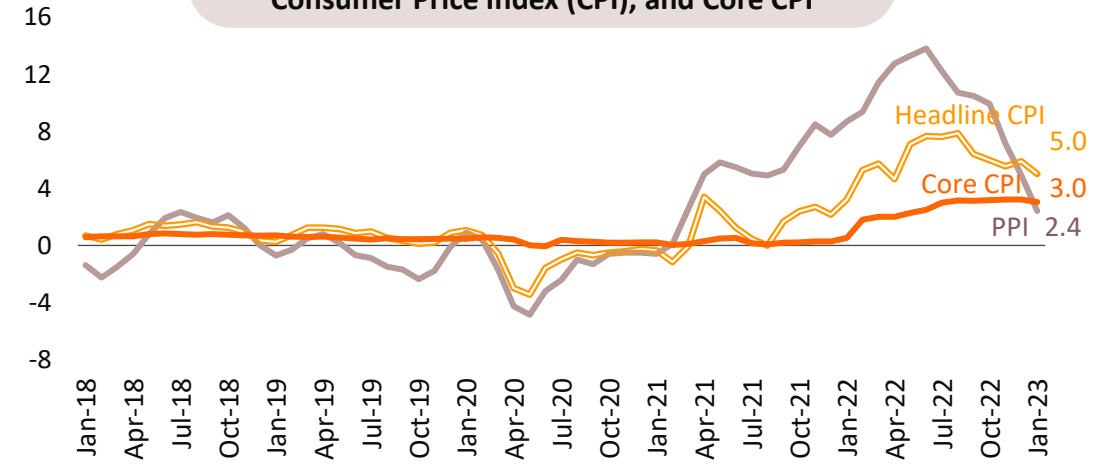
Source: OAE, CEIC, Krungsri Research

Both headline and core inflation were below market expectations in January; we expect the MPC to raise policy rate by another 25bps at the next meeting in March

Contributors to inflation



Producer Price Index (PPI), Consumer Price Index (CPI), and Core CPI



Source: MOC, Krungsri Research

Consumer Price Index: Major categories

Consumer Price Index (% YoY)*	Weight	2021 J F M A M J J A S O N D	2022 J F M A M J J A S O N D	2023 J
Headline CPI	**100.00%**			**5.0**
Food & beverages	41.63%			7.7
Apparel & footwears	2.06%			0.2
Housing & furnishing	22.17%			3.1
Medical & personal care	5.39%			1.9
Transportation & communication	23.25%			4.3
Recreation & education	4.18%			1.4
Tobacco & alcoholic beverages	1.32%			1.0
Raw food	21.25%			7.3
Energy	14.28%			11.1
Core CPI	**64.47%**			3.0

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

Krungsri Research's view

- **Inflationary pressures continue to be driven by a broad range of factors,** including rising price of cooking gas, higher domestic electricity bills (government subsidies are ending soon), and the recovering tourism industry as well as demand , which will exert greater upward pressure on the prices of goods and services. Nevertheless, we see headline inflation softening overall, partly due to last year's high base effects and the easing of earlier disruption to global supply chains.
- **We expect the MPC to raise policy rate by another 25bps at its next meeting on 29 March, to take rate to 1.75%,** where it could remain for the rest of 2023. Headline inflation is likely to fall back to target range of 1-3% in 2H23 as a result of: (i) high comparison base last year. The war in Ukraine which started in 2Q22 has triggered a surge in commodity prices; (ii) easing global supply disruptions, especially now that Chinese manufacturing would return to normal; and (iii) a fragile and patchy recovery in Thailand's despite the MPC's concerns over core inflation. In addition, Thailand's export sector would remain weak as the world economy is slowing amid more prominent impacts of rising interest rates worldwide. However, there is a possibility policy rate might exceed 1.75% if Chinese spending on goods and services is stronger-than-expected. This would provide a surprise boost to global trade and the Thai economy, which could lead to stronger inflationary pressures.

KRUNGSRI RESEARCH

Macroeconomic Team

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

Industry Team

Pimnara Hirankasi, Ph.D.	Head of Industry Research Team
Taned Mahattanalai	Senior Analyst (Digital)
Poonsuk Ninkitsaranont	Senior Analyst (Healthcare, Mobile Operators)
Piyanuch Sathapongpakdee	Senior Analyst (Transport & Logistics)
Narin Tunpaiboon	Senior Analyst (Power Generation, Modern Trade, Chemicals, Medical Devices)
Thian Thiumsak	Senior Analyst (Energy, Petrochemicals)
Puttachard Lunkam	Senior Analyst (Construction Contractors, Construction Materials, Hotels, Industrial Estate)
Patchara Klinchuanchun	Senior Analyst (Real Estate)
Chaiwat Sowcharoensuk	Senior Analyst (Agriculture)
Wanna Yongpisanphob	Analyst (Automobile, Electronics & Electrical Appliances, Food & Beverages)
Suppakorn Kornboontritos	Analyst (Agriculture)

Analytics and Intelligence Team

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

MIS and Reporting Team

Thamon Sernsuksakul	Administrator
Chirdsak Srichaiton	MIS Officer
Wongsagon Keawuttung	MIS Officer

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