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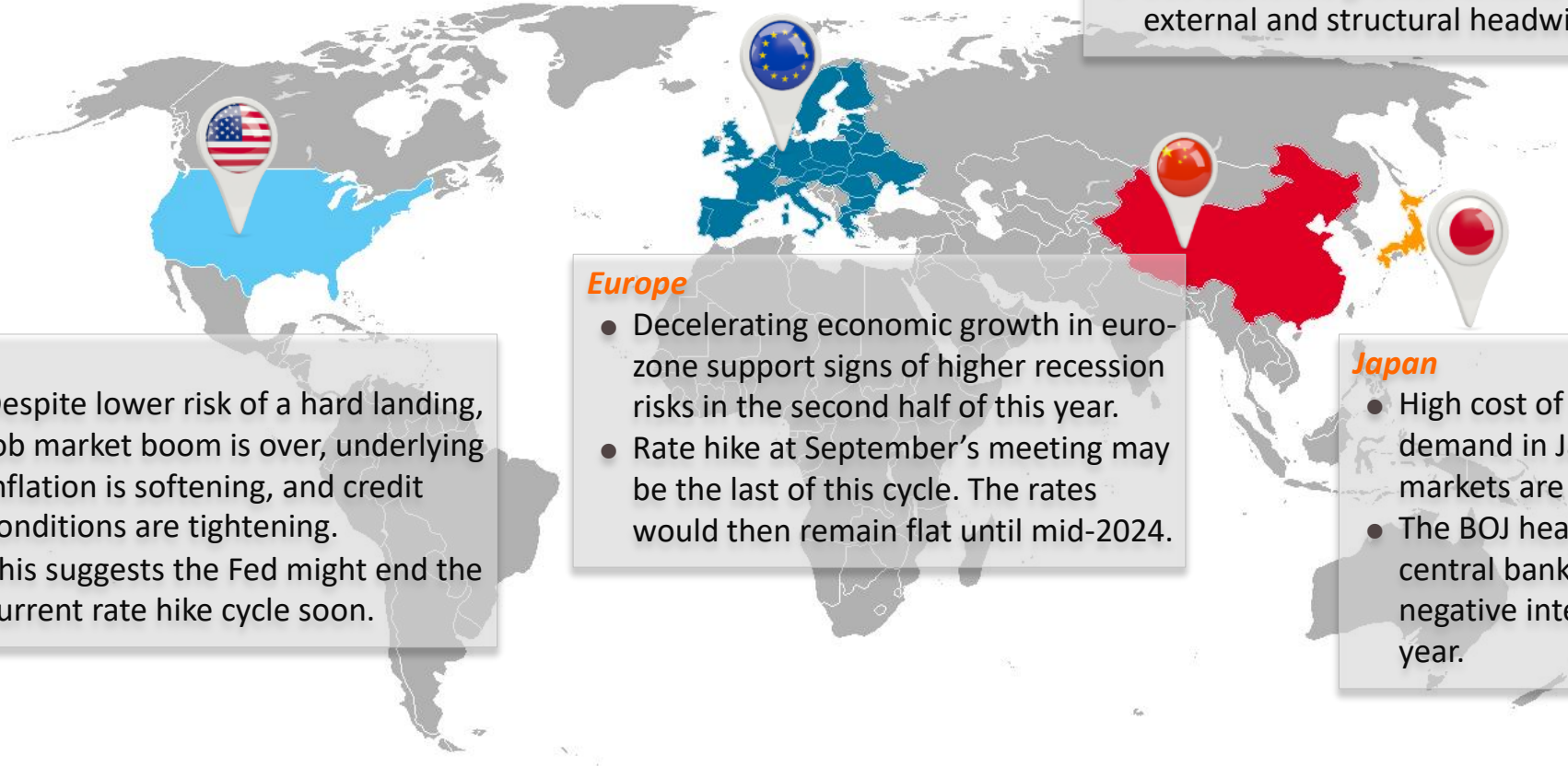
MONTHLY ECONOMIC BULLETIN

September 2023



Krungsri Research

Global: High uncertainty despite hopes for a soft-landing



China

- Downward pressure on manufacturing and property sector should ease with latest policy supports.
- But economic growth remains weak given domestic, external and structural headwinds.

US

- Despite lower risk of a hard landing, job market boom is over, underlying inflation is softening, and credit conditions are tightening.
- This suggests the Fed might end the current rate hike cycle soon.

Europe

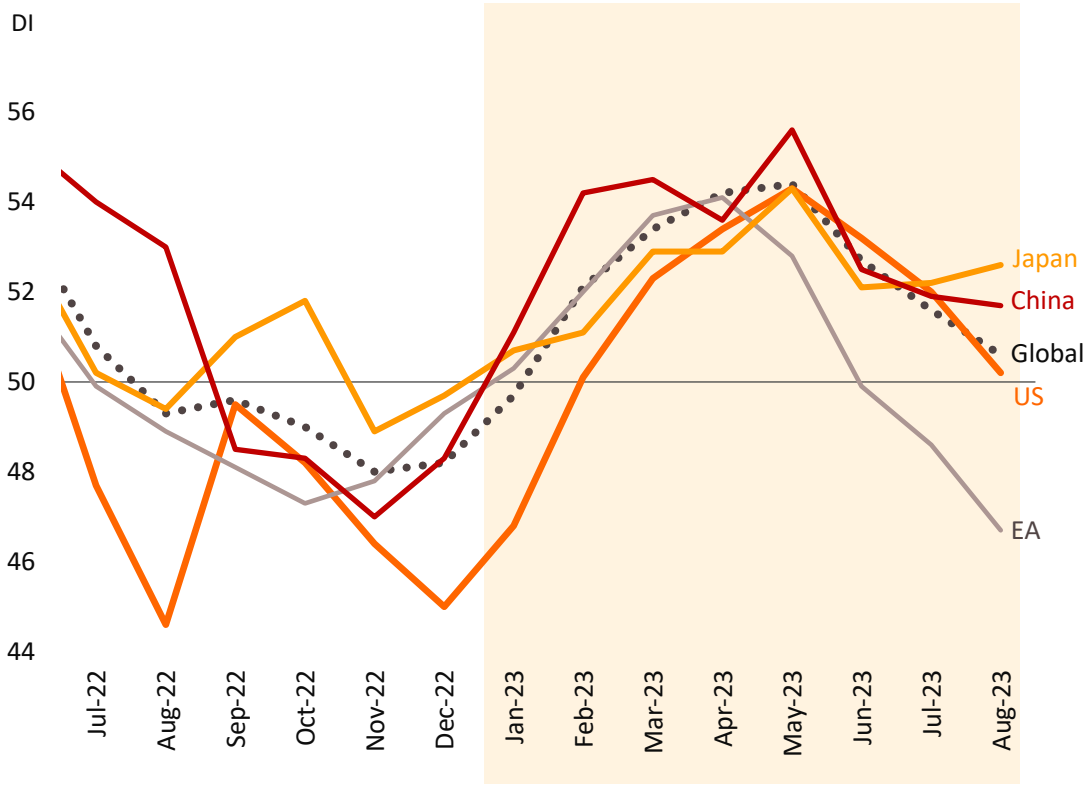
- Decelerating economic growth in euro-zone support signs of higher recession risks in the second half of this year.
- Rate hike at September's meeting may be the last of this cycle. The rates would then remain flat until mid-2024.

Japan

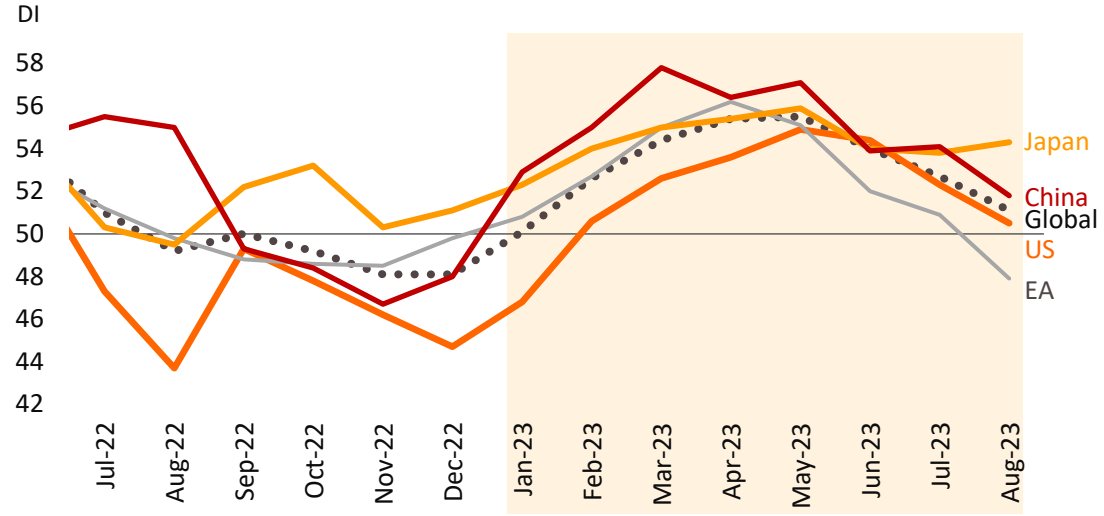
- High cost of living and weak demand in Japan's major export markets are dragging growth.
- The BOJ head has signaled the central bank might end the negative interest rate policy next year.

Post-lockdown recovery is running out of steam; Eurozone's services industry has reversed to contraction territory; China's services activity expanded at its slowest rate in 8 months

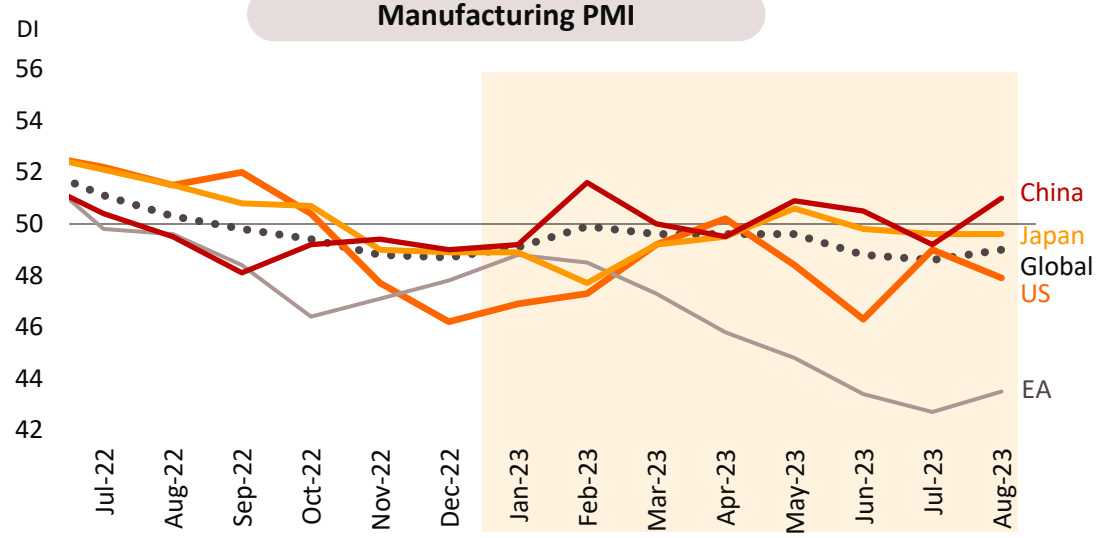
Composite PMI



Services PMI



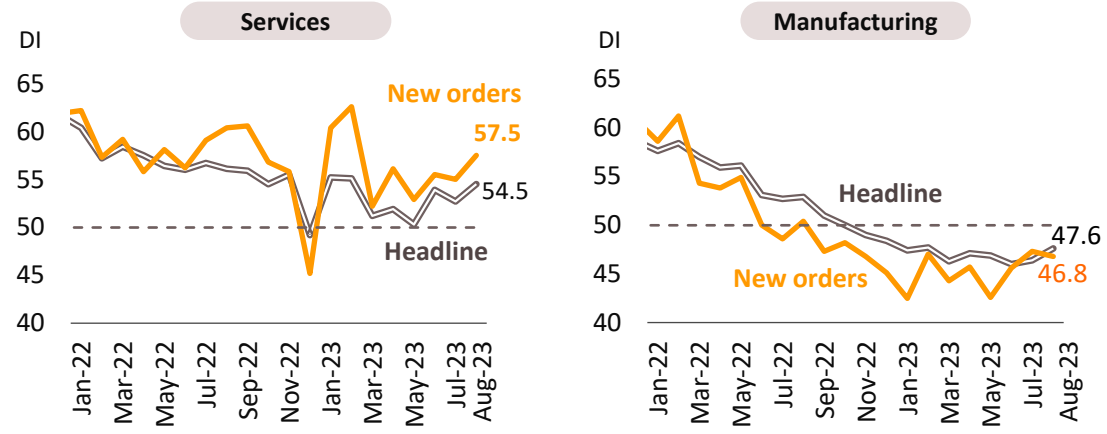
Manufacturing PMI



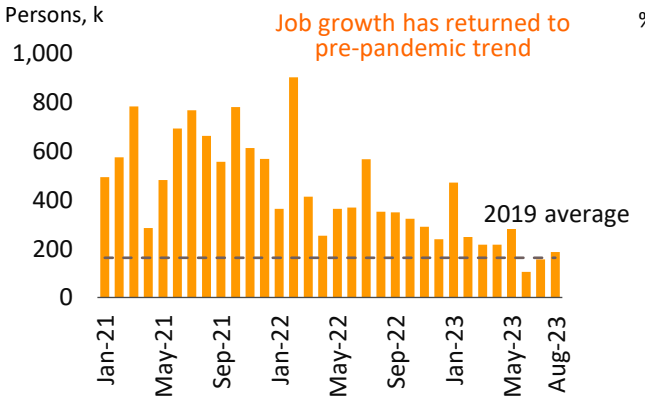
Source: S&P global, Bloomberg, Krungsri Research

US: Despite lower risk of a hard landing, job market boom is over, underlying inflation is softening, credit conditions are tightening, suggesting the Fed might end rate-hike cycle

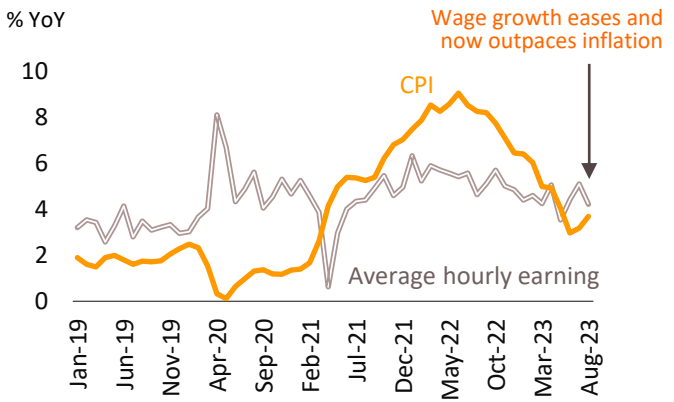
ISM Services and Manufacturing PMI



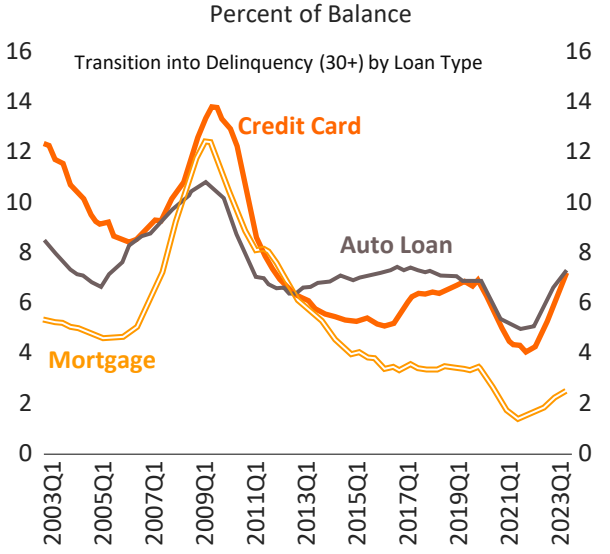
Non-farm payrolls (change from a month earlier)



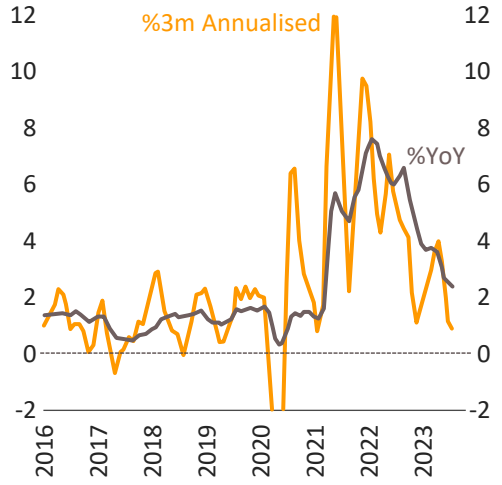
Wages and Consumer Price Index (% change from a year earlier)



Car loan and credit card delinquencies (%)



Core CPI Less Shelter



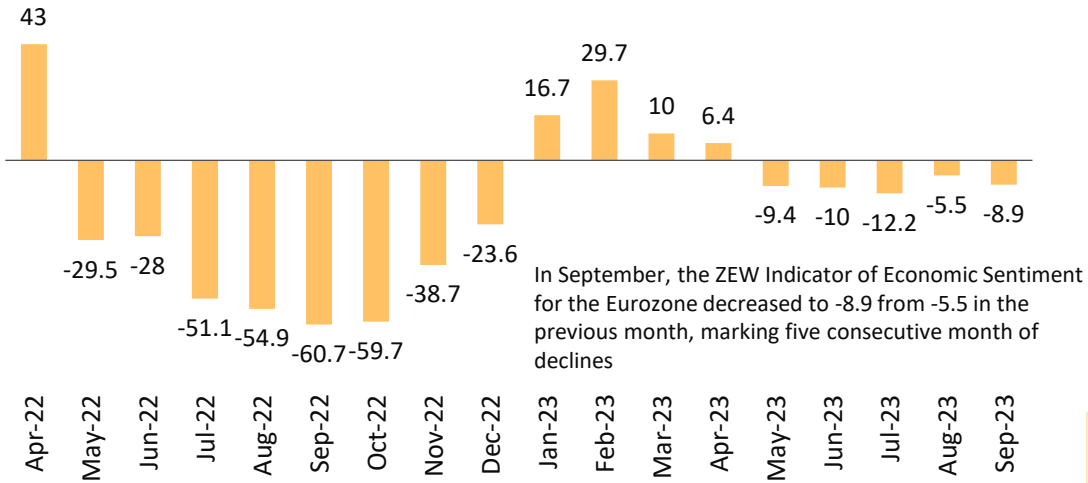
Source: BLS, Federal Reserve Bank of New York, WSJ, Capital Economics, CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

- **Fed Chair Powell's speech at the annual central bank meeting at Jackson Hole has increased the probability of 'higher rates for longer'**. However, given signs of a cooling labor market and softening underlying inflation, the Fed might choose to be cautious and take moves to avoid a recession.
- **To avoid a hard landing, the Fed is unlikely to raise policy rate further, supported by the following:**
  - I. **Normalizing labor market:** Job Openings fell to its lowest since April 2021, at 8.827m in July. In August, unemployment rate rose to 3.8%, its highest since February 2022, and average hourly earnings rose by only 0.2% MoM, the smallest rise since February 2022. Wage growth has eased and now outpaced inflation. The Fed's survey of Consumer Expectations also shows job loss expectations have surged to its highest since April 2021.
  - II. **Headwinds for spending growth:** Perception of credit access deteriorated in August, with the share of households reporting it is harder to obtain credit than one year ago hitting a new high since the series started. Also, delinquencies in credit card and auto loans have jumped back to 2019 levels and doubled since the lows in 2021. Given multi-year high interest rates, elevated carrying costs will soon eat into savings and spending.
  - III. **Downward pressure on underlying inflation:** Core inflation eased to 4.3% YoY in August from 4.7% in July. Excluding shelter, core inflation was only 2.2% YoY in August and the 3-month annualized rate just 0.8%. Weaker growth and cooling labor market would put downward pressure on inflation.
- **Given the normalizing labor market, slowing economic growth, cooling demand-pull price pressures, and intention to prevent a hard-landing, the Fed might halt the current rate-hike cycle. They might keep policy rates high for an extended period, or until there are clearer signs that inflation would return to its 2% target in a sustainable manner.**

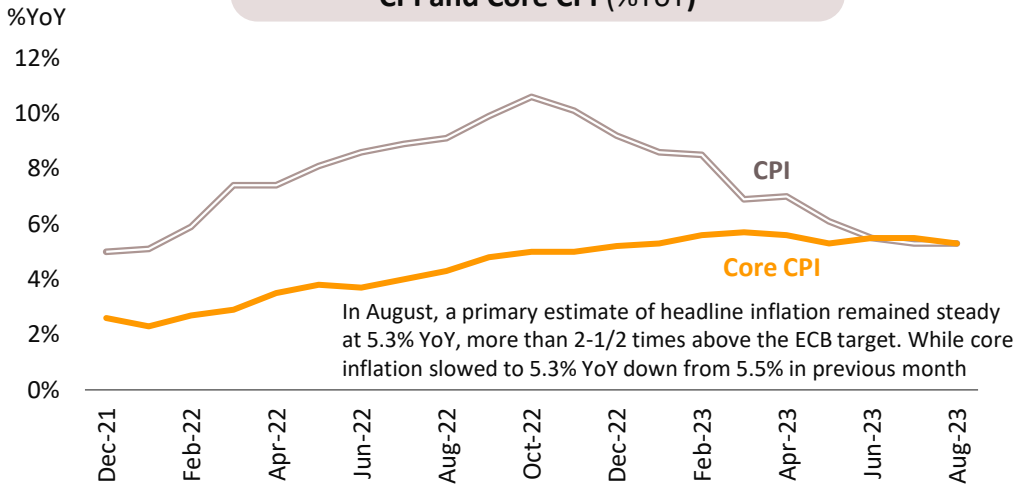
Eurozone: Decelerating economic growth in Eurozone adds to signs of rising recession risks in the second half of this year

Economic Sentiment Index (ZEW)



In September, the ZEW Indicator of Economic Sentiment for the Eurozone decreased to -8.9 from -5.5 in the previous month, marking five consecutive month of declines

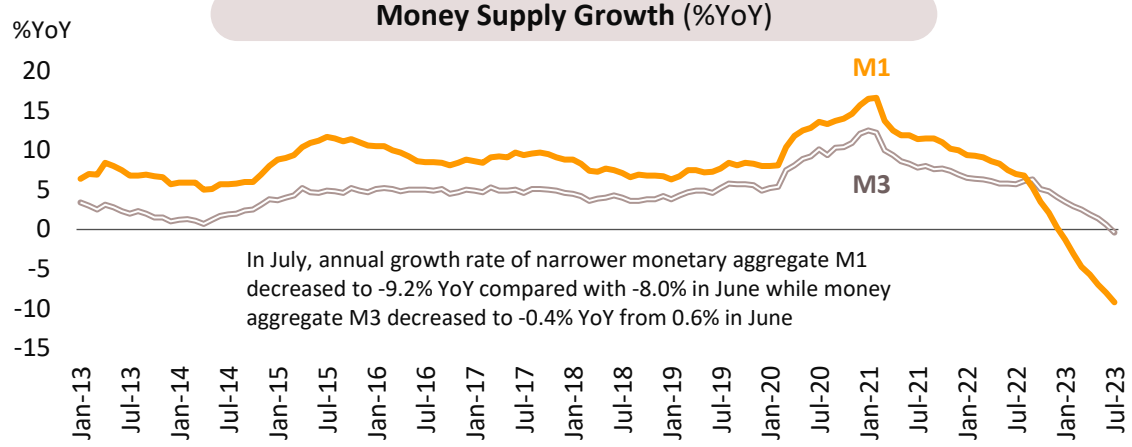
CPI and Core CPI (%YoY)



In August, a primary estimate of headline inflation remained steady at 5.3% YoY, more than 2-1/2 times above the ECB target. While core inflation slowed to 5.3% YoY down from 5.5% in previous month

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

Money Supply Growth (%YoY)



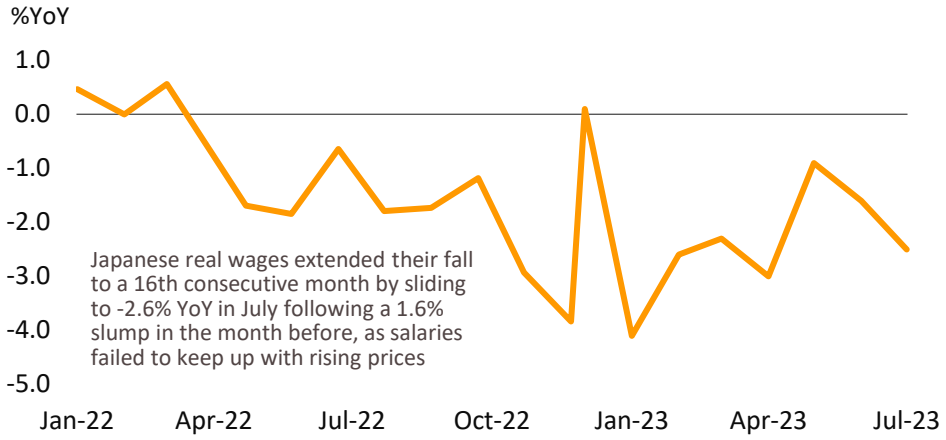
In July, annual growth rate of narrower monetary aggregate M1 decreased to -9.2% YoY compared with -8.0% in June while money aggregate M3 decreased to -0.4% YoY from 0.6% in June

Krungsri Research's view

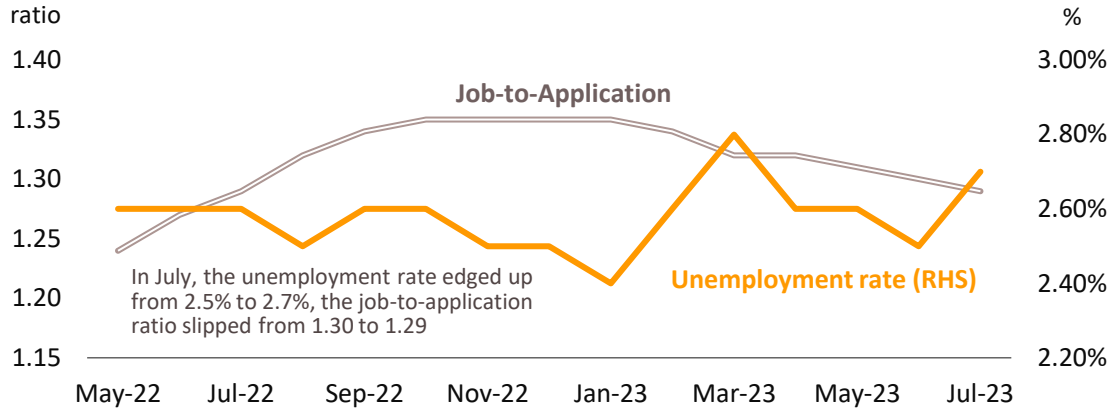
- **The combination of high interest rates and inflation continued to drag the eurozone economy towards a contraction in Q3.** That is visible in the latest data: (i) the sharpest contraction in Composite PMI in August since November 2020; (ii) retail sales falling for 10th consecutive month in July; (iii) Economic Sentiment Index (ZEW) falling for the 5th consecutive month in September; (iv) August 2023 registered first drop in Consumer Confidence Index since September 2022. The second reading for Q2 GDP growth had been revised down to 0.1% QoQ from 0.3%. **With more data suggesting contractions in economic activities, there is higher risk of Eurozone falling into a recession in 2H23.**
- **The effects of tighter monetary policies will continue to depress credit and money growth, which reinforce the picture of an economic slowdown in the coming quarter**. The most visible signs are: (i) shifting out of money deposits; (ii) quantitative tightening; and (iii) weak demand for and provision of credit, money supply - which is considered a measure of economic activity - continued to shrink in July with narrow money (M1) contracting by a record 9.2% YoY while broad money (M3) fell by 0.4% YoY**. The latest data suggests economic growth will remain very weak and continue to drag consumption and investment expenditure in the coming quarter**.
- **Further slowdown in economic activities could weaken employment and drag inflation**. Historical data suggest the labor market is a trailing indicator of economic activity. **On this note, we expect a downturn in both employment and wage growth soon** following weaker output and money supply growth. This suggests inflation would continue to fall and the ECB would not need to raise interest rates further.
- **The rate hike at September's meeting may be the last of this cycle.** To tackle stubbornly high inflation, the ECB has raised its key policy rate to a record high of 4.00% and signaled that the current cycle of rate hikes was near its end as rates have already reached the level that will make a substantial contribution to the timely return of inflation to the target. So, we maintained our views that the ECB may end the current rate-hike cycle and then keep the rates unchanged until mid-2024.

Japan: Growth is dragged by higher cost of living and weak demand in export markets; BOJ head signals chance of ending negative interest rate policy

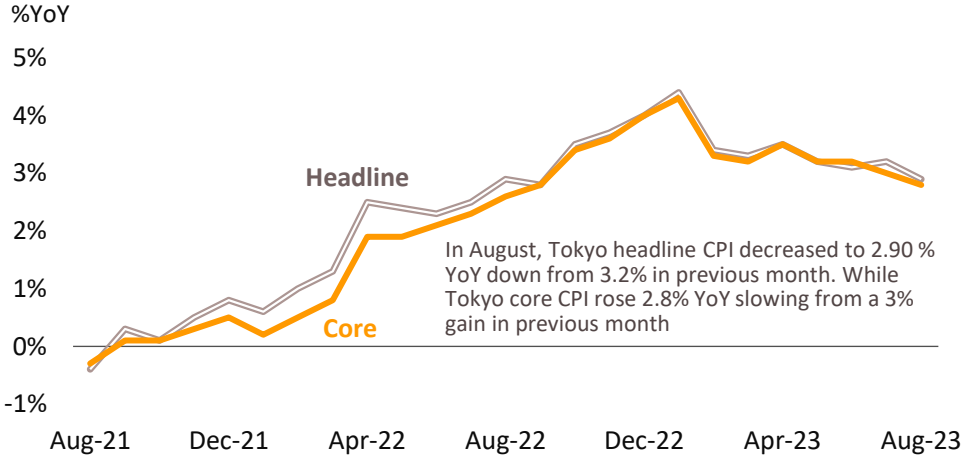
Real Wage Growth (%YoY)



Job-to-Application Ratio & Unemployment Rate



Tokyo CPI Index (%YoY)



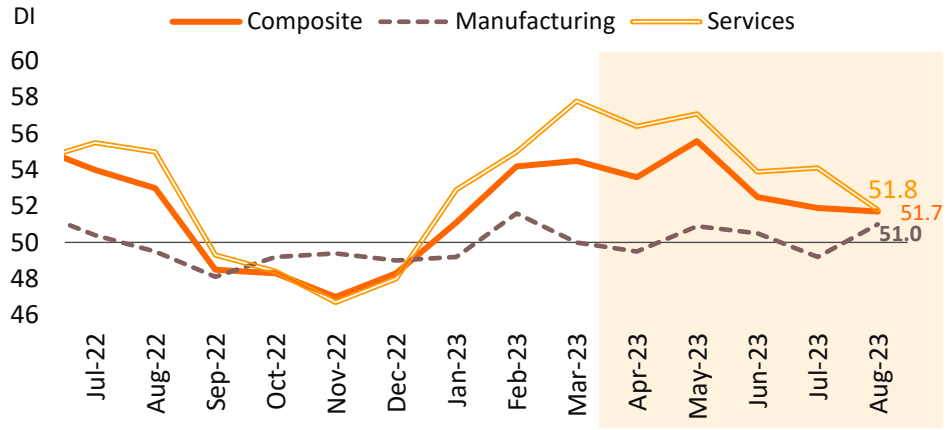
Source: Japan's Cabinet Office, BOJ, CEIC, investing.com, Bloomberg, Krungsri Research

Krungsri Research's view

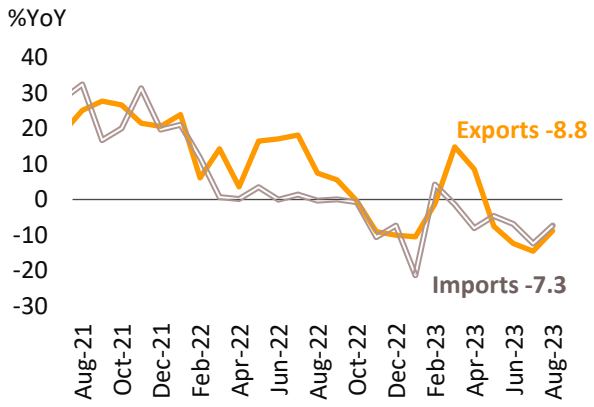
- **Absence of wage hike coupled with high inflation continued to depress household's spending in Q3**. High inflation has outpaced wage growth in the past 15 months, suggesting weaker household spending and the need to implement large wage hikes as agreed in this year's spring wage negotiations. **However, we do not expect outright private consumption to fall in the second half of the year** given improving consumer confidence, still-high household savings rate (1.6% in Q1 vs pre-pandemic average of 1%), and recovering foreign tourist arrivals (2.3 million in July, or 85% of pre-pandemic level). And, there is accommodative monetary policy to help reduce risk of a recession in Japan for the rest of this year.
- **To help ease cost of living pressure, the government plans to extend energy subsidies to year-end**. In addition, the labor market seems to be slowing: (i) Job-to-application ratio is falling; (ii) higher unemployment rate; and (iii) decelerating annual growth rate of hours worked. These suggest **wage growth would likely moderate the rest of this year as inflation ease and workers would not push as hard for a big pay rise.**
- **Japan's exports are strongly driven by overseas demand, so exports might continue to contract amid weakening demand in key markets such as China and Western countries.** In July, Japan recorded the first monthly decline in exports in more than 2 years, at -0.3% YoY. By destination, exports to China, which accounted for 20% of Japan's exports, fell 13.4% YoY in July. Exports to Asia (50% of exports) tumbled 37% YoY. Although higher exports to Western countries helped to offset weaker exports to China, we do not expect this picture to last long given the series of negative economic data in the US and Eurozone recently.
- **Inflation has exceeded the central bank's 2% target for more than a year, lifting market expectations the BOJ will soon end its negative interest rate policy.** BOJ governor Kazuo Ueda said the central bank could have enough data by year-end to determine whether it would end the negative rate policy, notably if inflation would meet its 2% target**. To ensure wage growth and that inflation would be sustainable at close to 2%, we expect the BOJ to keep its short-term policy rate at -0.1% until year-end, and to exit the negative interest rate policy next year.**

China: Easing downward pressure on manufacturing and property sectors after latest policy supports but economic growth remains weak amid domestic and external headwinds

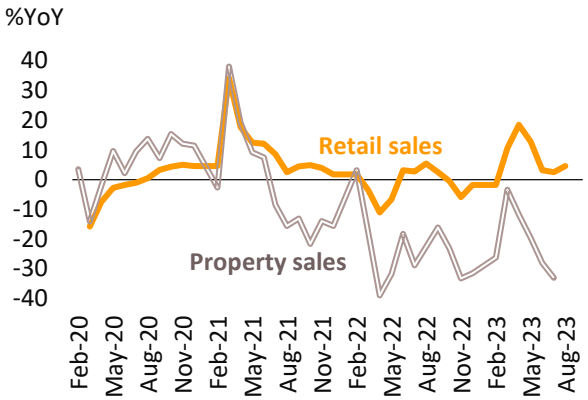
Caixin: Composite, Manufacturing and Services PMI



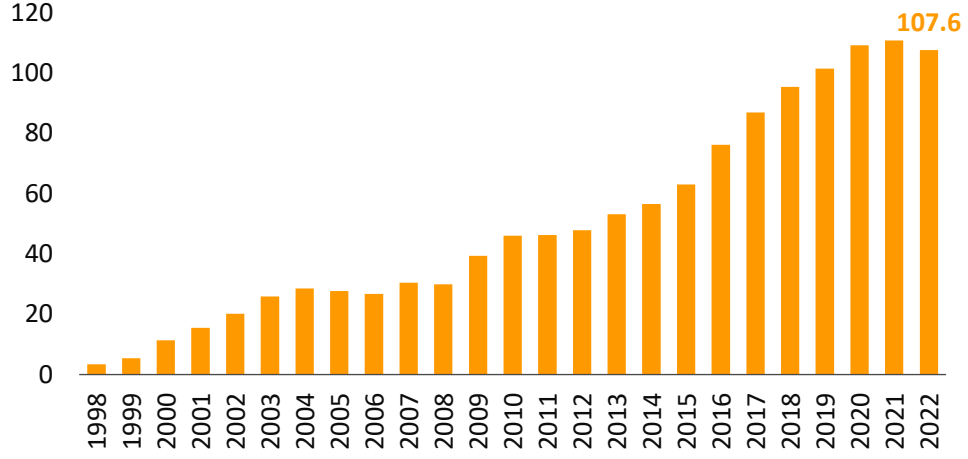
Exports and Imports



Retail Sales and Property Sales



Consumer loans (% of disposable income)



Source: S&P Global, Markit Economics, WSJ, CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

- **China has introduced policy supports since June to improve liquidity, support domestic economic activity and help the real estate sector. There are signs of easing downward pressure in some sectors, but overall economic momentum remains weak against a backdrop of domestic, external and structural headwinds.**
  - I. **Recent policy supports** include cutting interest rates by 10-15 bps, measures to promote fair market access and boost consumption (including sale of 'new energy vehicles'), cutting stamp duty on securities transactions, easing restrictions on first-time homebuyers, and reducing down payments for homebuyers.
  - II. **Signs of easing downward pressure on some sectors:** The official Manufacturing PMI had risen from 49.3 in July to 49.7 in August and Caixin Manufacturing PMI had climbed from 49.2 to 51.0. There is easing downward pressure on construction activity after authorities introduced measures to reduce risk in the property sector. In addition, China's strong competitiveness in key industries such as green and technology segments, could help mitigate risk to overall economic growth.
- **Nonetheless, economic momentum would remain weak as China is still exposed to risks from a weak global outlook, slowing services sector, high debts, and ongoing problems in its real estate market.**
  - I. **Weak global outlook:** Exports contracted for the 4th straight month in August (-8.8% YoY).
  - II. **Softening post-covid recovery:** Caixin Services PMI expanded at the slowest rate in 8 months in August and the Composite PMI slipped to its weakest since China's reopening in January.
  - III. **Limited purchasing power:** Household debt, especially mortgage, has risen sharply over the past decade to above 100% of disposable income. Inflation was low at 0.1% in August, albeit rising from -0.3% in July.
  - IV. **Ongoing crisis in China's property sector:** Bloomberg reported that of the 50 most dollar-indebted Chinese developers, 34 (68% share) have defaulted and the remaining 16 (32%) have USD1.48 bn in combined bond debts due September, adding to liquidity risk in the sector.

Thailand: Light and uncertainty at the end of the tunnel

- We trimmed 2023 GDP growth forecast to 2.8% from 3.3% in response to weaker-than-expected 2Q23 GDP data, weak exports, and drought impact.
- The government plans to stimulate the economy in near-term by lowering energy costs, boosting tourism activity, and restructuring farming debts. The digital wallet scheme to boost consumption could start in 1Q24 but the fiscal multiplier of this scheme might be less than 1.
- To stimulate tourism activity, the government has proposed visa-free scheme for nationals from selected countries, including China, during high season from September 25 this year to end-February next year.
- Private consumption continues to receive support from the improving services sector, government policy supports, and improving confidence, but growth could be limited by high household debts and drought impact.
- Private investment will improve as better clarity in the domestic political scene would boost investor confidence. However, upside could be curbed by weak external demand.
- Thai exports shrank for the 10th consecutive month in July. We trimmed full-year export growth forecast from +0.5% to -1.5%.
- Cooling core inflation could provide room for the MPC to hold policy rate steady at 2.25% at the September meeting.

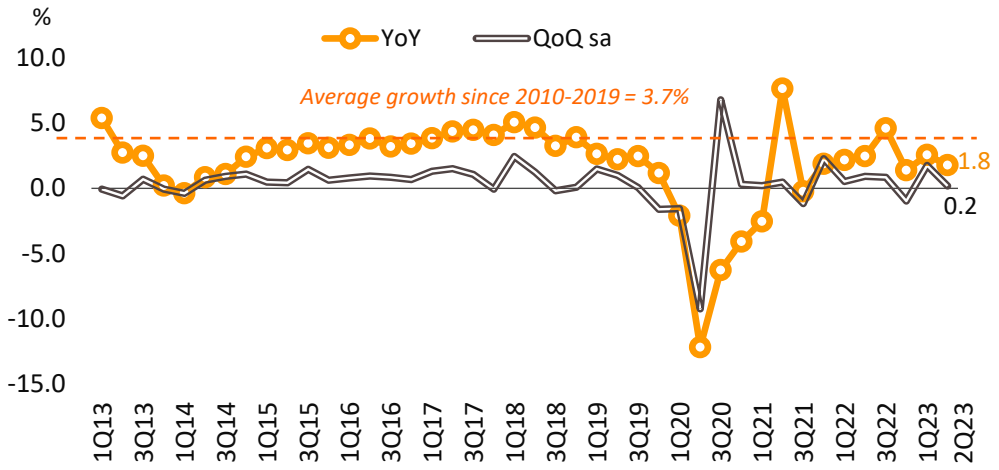
Krungsri Research Forecasts for 2023-2024

Krungsri Research Forecast		2021	2022	1H23 Actual	2023F Previous	2023F Latest	2024F
GDP growth	YoY (%)	1.5	2.6	2.2	3.3	2.8 ▼	3.6
Private Consumption Expenditure	YoY (%)	0.6	6.3	6.8	3.3	5.2 ▲	3.5
Government Consumption Expenditure	YoY (%)	3.7	0.2	-5.3	-1.0	-4.3 ▼	1.5
Private Investment	YoY (%)	3.0	5.1	1.8	2.7	2.0 ▼	3.8
Public Investment	YoY (%)	3.4	-4.9	1.9	1.5	1.1 ▼	3.7
Nominal Exports in USD (f.o.b.)*	YoY (%)	19.2	5.4	-5.1	0.5	-1.5 ▼	2.5
Nominal Imports in USD (f.o.b.)*	YoY (%)	27.7	14.0	-1.7	1.0	-0.6 ▼	4.5
Current Account Balance	USD, bn	-10.6	-14.7	1.6	8.0	5.5 ▼	8.5
Tourist Arrivals	Mn, persons	0.4	11.2	12.9	27	28.5 ▲	38
Headline Inflation	YoY (%)	1.2	6.1	2.5	1.9	1.7 ▼	2.0
Policy Interest rate (end of period)	(%)	0.50	1.25	2.00	2.25	2.25 =	2.25
Dubai crude price - period average	USD/bbl	69	96	79	82	81 ▼	76

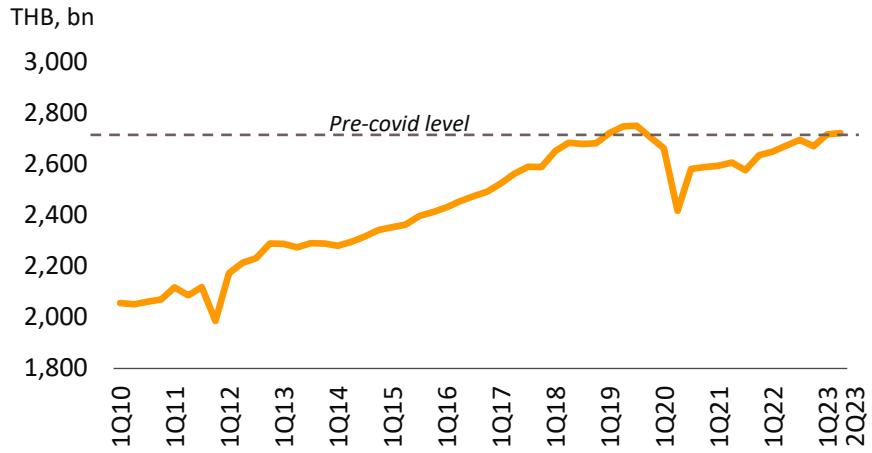
Note: * base on BOT data
Source: NESDC, BOT, MOC, MOTS, Bloomberg, Krungsri Research

2Q23 GDP grew only 0.2% QoQ sa and 1.8% YoY due to weak exports, falling public spending, and slowing investment; overall growth bolstered by tourism and consumption

Thailand's GDP growth



Real GDP (sa)

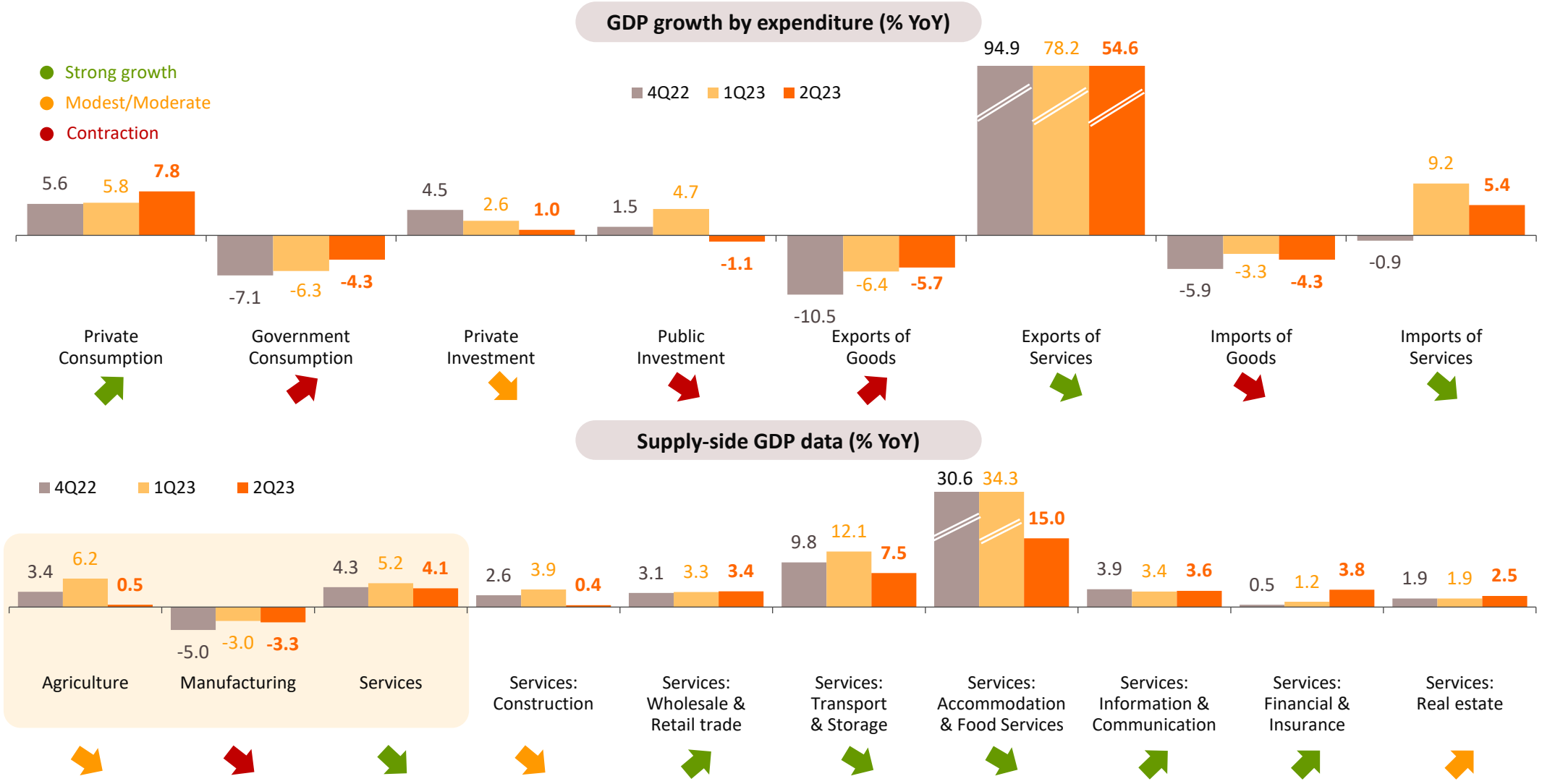


Krungsri Research's view

- **In 2Q23, the Thai economy grew by only +1.8% YoY**, missing our and consensus forecasts of +2.7% and +3.1%, respectively, and slowing down from +2.6% in 1Q23. The disappointing growth, attributed to (i) a contraction in government expenditures partly due to the high base last year (large spending on public health and Covid-19 policy in 2022); (ii) a contraction in merchandise exports; and (iii) slower-than-expected investments amid domestic political uncertainty after the election in May. However, private consumption continued to expand, and exports of services grew sharply supported by the rising number of foreign tourist arrivals. In the first half of 2023, the Thai economy grew by only +2.2% YoY vs our projection of +2.7%.
- **Looking at supply-side data, 2Q23 GDP growth was driven by the services sector (+4.1% YoY vs +5.2% in 1Q23),** led by accommodation & food service activities (+15.0%), transportation & storage (+7.5%) and financial & insurance (+3.8%). However, growth in agricultural sector slowed down to only +0.5% and manufacturing production continued to contract (-3.3%).
- **For 2H23, we expect Thailand's economic growth to recover, driven by** (i) tourism sector, especially during peak tourist season in 4Q23, (ii) successful implementation of new economic policies, which would improve investor sentiment and encourage domestic spending, and (iii) the low base last year (China's lockdown in 4Q22 had affected global demand and supply chains) which would effectively lift year-on-year growth in 4Q23. However, economic growth could be capped by weak exports, delayed Budget Bill, drought impact, and higher borrowing costs (high household debt).
- **We trimmed 2023 GDP growth forecast to 2.8% from 3.3% after adjusting for weaker-than-expected 2Q23 GDP data.** We cut 2023 growth forecasts for goods exports, public spending and investment, to reflect weaker performance in 2Q23. However, we raised private consumption to reflect the encouraging data in 2Q23 triggered by stimulus measures and higher spending during the election campaign.

Source: NESDC, Krungsri Research

Weaker exports and public spending dragged 2Q GDP growth, manufacturing continued to contract and agriculture sector slowed; however, services sector posted strong recovery



Source: NESDC, Krungsri Research

Current government's policies: Plans to stimulate the economy in the near-term; fiscal multiplier of digital wallet scheme could be less than 1

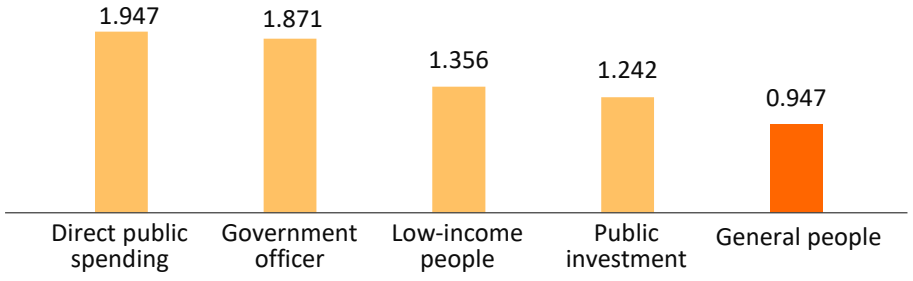
The government has tabled a policy statement for discussion at parliament. It comprises (i) Short-term framework, and (ii) Medium-term and Long-term framework. One of its top priority is the digital wallet (10,000 baht per citizen aged 16 years and over to be spent within 6 months (total budget THB560 bn). The impact on the broader economy is dependent on how much is reinvested. ***A research by the Parliamentary Budget Office (PBO) in 2021 found relatively lower fiscal multiplier of 0.947 for transfer payments to the general public***, compared to multipliers for other public spending activity, including direct government spending (1.947), government officers' wages (1.871), transfers to low-income earners (1.356), and public investment (1.242).

Short-term: stimulate spending to revive the economy and accelerate resolutions to urgent issues of public concern

5 urgent policies

1. **10,000-baht digital wallet scheme** for all Thai nationals aged 16 and older (worth totaling THB560 bn)
2. **Managing debts in critical economic segments** - *3- year debt moratorium for farmers, SMEs*
3. **Reduce electricity and fuel costs**
   - *Reduce electricity price from 4.45 baht/unit to 3.99 baht/unit (effective Sep-Dec 2023)*
   - *Cut diesel price to below THB30/liter (effective Sep 20 to Dec 31, 2023)*
4. **Generate greater tourism receipts** - *visa-free scheme for tourists from China and Kazakhstan (effective Sep 25 to Feb 29 next year)*
5. Amend Constitution to promote democracy in Thailand but not touch on monarchy.

Fiscal multipliers of government spending by type



Source: Local press, PBO, Krungsri Research

Medium-term & Long-term: consists of three main aspects: (i) Create income for the people, (ii) Generate opportunities, and (iii) Improve quality of life

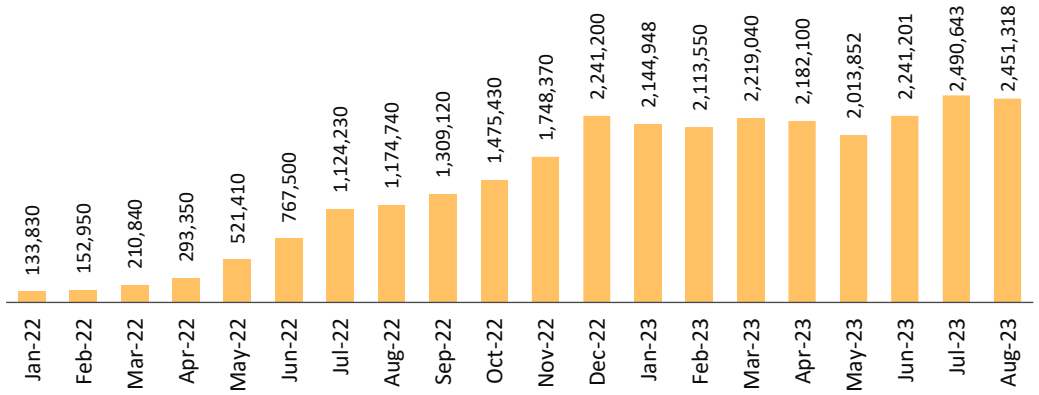
The important policies include:

- 1-family 1-soft power skill
- Generate income in the agricultural sector, increase productivity
- Promote the development of new industries such as digital economy, high technology industry, and green industry
- Develop and expand special economic zones and economic corridors in all 4 regions
- Infrastructure investment
- Accelerate negotiations to develop the framework for international trade cooperation (FTA)
- Upgrade policy of 30-baht to cure all diseases
- Health - identify root cause of PM2.5
- Ensure Thailand has a "powerful" passport that is accepted worldwide with minimal restrictions
- Promote LGBTQ rights
- Army Development policy - reform to replace conscription with voluntary recruitment

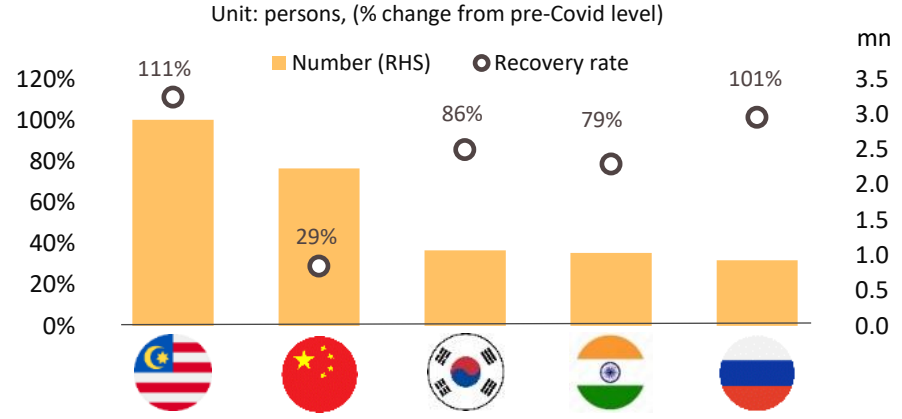
Tourism sector: Government proposes visa-free scheme for tourists from China during peak season; slowing tourism receipts remain a concern

The Tourism Authority of Thailand's data show the country welcomed 2.45 mn foreign tourists in August, slowing slightly from 2.49 mn in July. The average number of tourists per week in August was 0.53 mn (vs 0.56 mn in July). **In the first eight months of this year, tourist arrivals reached 17.86 mn (67% of pre-Covid/2019 level) and generated THB755 bn receipts (61% of pre-Covid level).** Arrivals from Malaysia, Russia, South Korea and India reached 79-111% of pre-pandemic levels. Chinese tourists are returning slowly (29% of pre-Covid level). The current government wants to stimulate more tourism activity. It has recently proposed visa-free scheme for Chinese tourists during peak season (applicable from September 25, 2023 – February 29, 2024). This would help to meet the TAT's target of 5 million tourist arrivals for 2023 against 2.23 million in the first 8 months of this year. However, weak tourism receipts and the economic slowdown in China could limit gains in the sector. So far this year, tourism receipts averaged THB 42,000 per person compared to THB 47,000 in 2019 (pre-Covid).

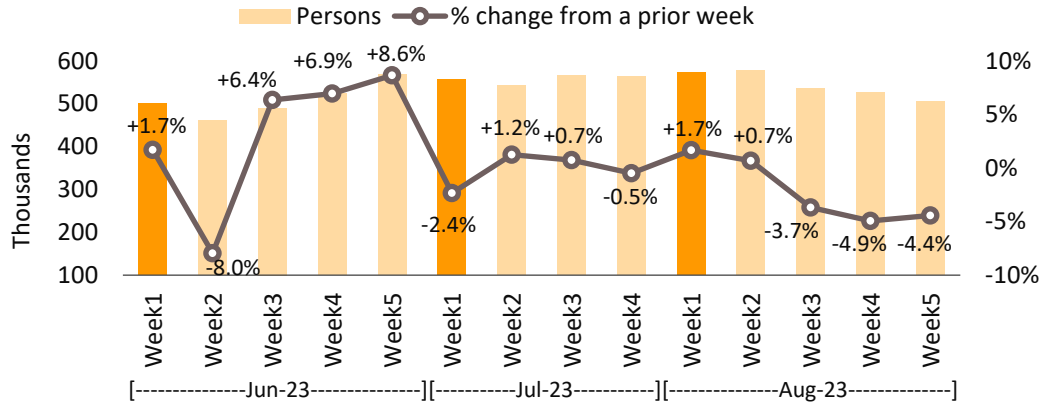
Foreign tourist arrivals reached 17.86 mn in 8M2023



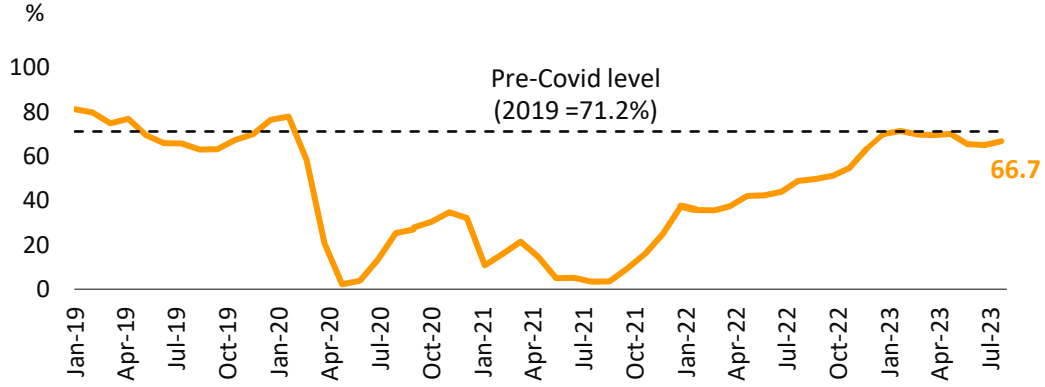
Top 5 tourist arrivals by country (1 Jan-31 Aug 2023)



Weekly foreign tourist arrivals



National average occupancy rate has increased slightly

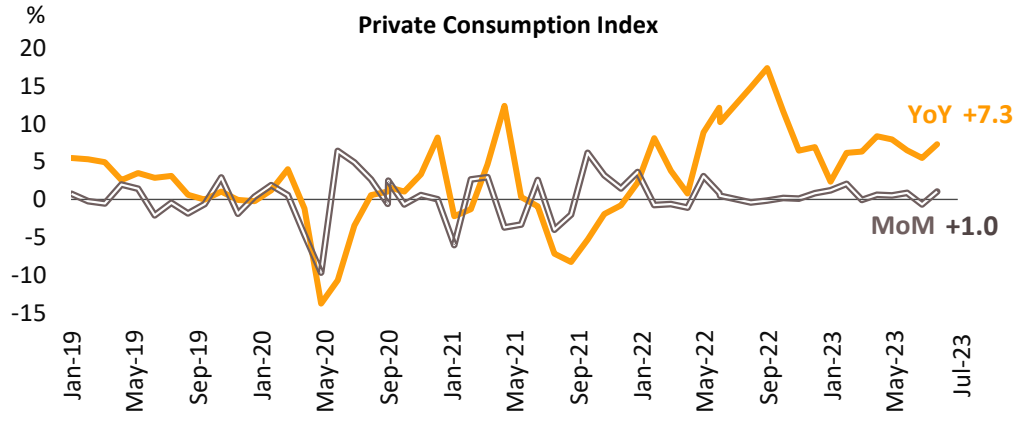


Source: MOTS, CEIC, Krungsri Research

Private consumption continues to be supported by accelerating services sector and improving confidence, but growth might be limited by high household debt and drought impact

The Private Consumption Index rose 7.3% YoY in July, accelerating from +5.5% in June, driven by spending in the services category which was temporarily supported by the long holiday period. In the next period, there are positive factors including recovering consumer confidence and stimulus measures to relieve the burden of rising cost of living (such as reducing electricity cost and diesel fuel price), but private consumption would still face headwinds from high household debt, elevated borrowing costs, and the drought hurting farming income.

Private consumption improved from the previous month

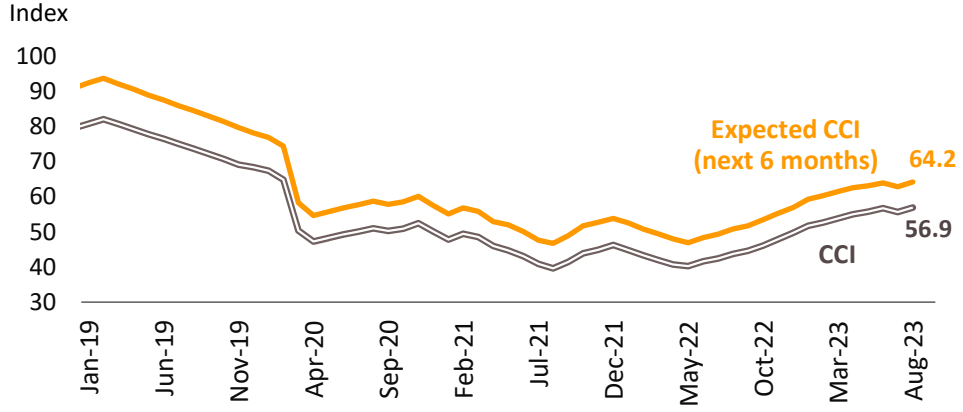


Private consumption by category

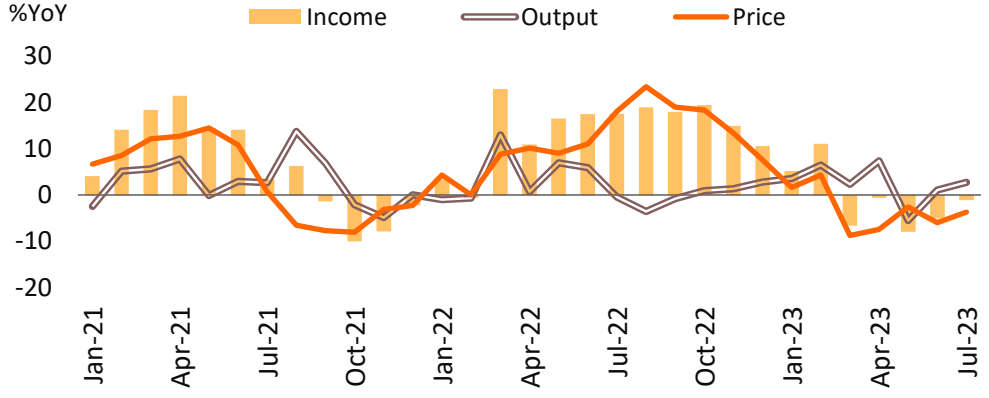
%YoY*	2021 J	F	M	A	M	J	J	A	S	O	N	D	2022 J	F	M	A	M	J	J	A	S	O	N	D	2023 J	F	M	A	M	J	J
Private consumption																															**+7.3**
Non-durables																															+2.0
Semi-durables																															+0.2
Durables																															+2.9
Services																															+17.8
Non-residents expenditure																															+83.7

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

Consumer Confidence Index rose slightly in August



Farm income would be dragged by drought impact

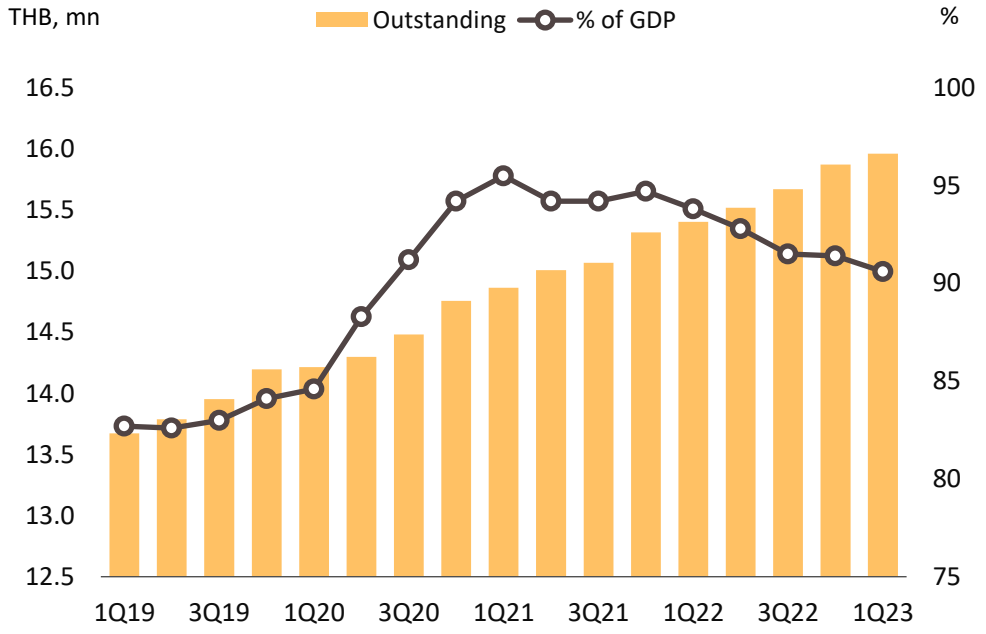


Source: BOT, UTCC, OAE, CEIC, Krungsri Research

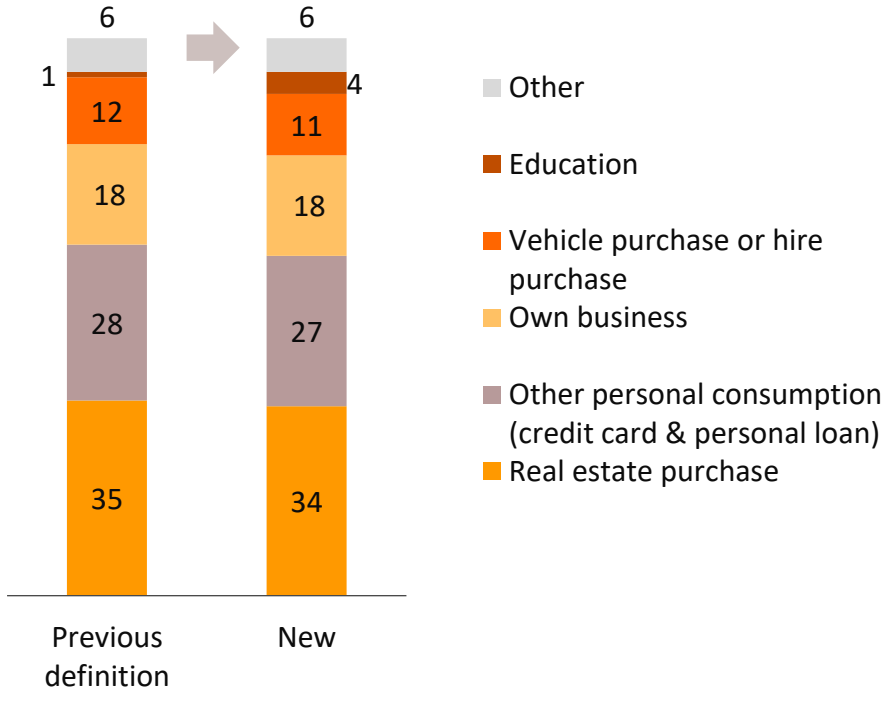
Household debt remained high at 90.6% of GDP in 1Q23, despite falling from a peak of 95%

The BOT has redefined and broadened its definition of indebted households to include additional lenders[1/], which pushed up total debt owed by Thai households to THB 16trn in 1Q23, or 90.6% of GDP vs 86.3% under the previous definition. However, it is below that registered in 4Q22 at 91.4% of GDP (87.0% pre-adjustment). However, the structure of household debt classified by purpose remained close to pre-adjustment level; they are mostly real estate loans (34% of total debt), followed by credit card & personal loan (27%) and own business loans (18%).

Household debt remains high at 90.6% of GDP in 1Q23



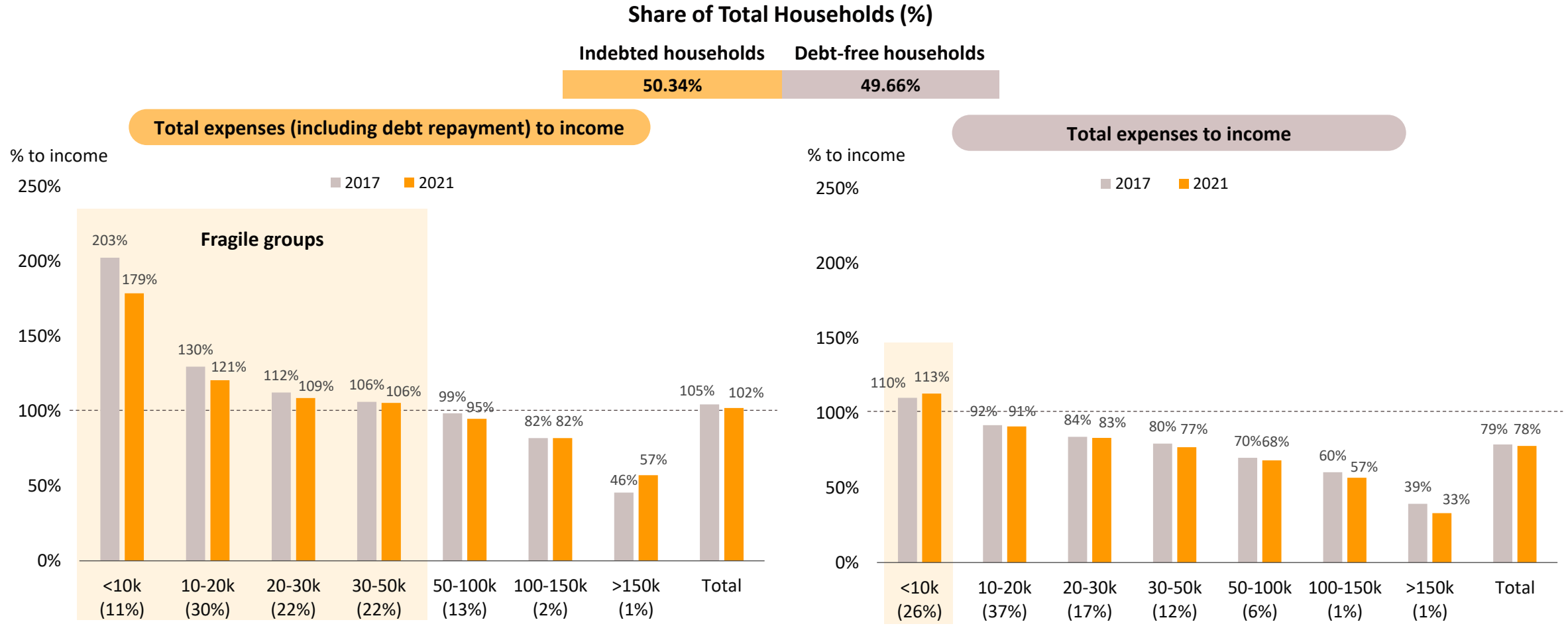
Structure of household debt (%)



Note: 1/ additional lenders = (i) the Student Loan Fund; (ii) National Housing Authority; (iii) Pico Finance; and (iv) non-savings cooperatives
Source: BOT, NSO, Krungsri Research

85% of indebted households and 26% of debt-free households have *weak purchasing power*

We measured the borrowing capacity of several household groups in Thailand by looking at income, expenses, and debt repayment. The result suggests indebted households with monthly income below THB50,000 and debt-free households with monthly income below THB10,000 have weak borrowing power as total expenses including debt repayments exceed their income. They account for 85% of indebted households and 26% of debt-free households. However, households with high monthly income (more than THB50,000 for indebted households) and debt-free households (except those with monthly income below THB10,000) have room to borrow more.

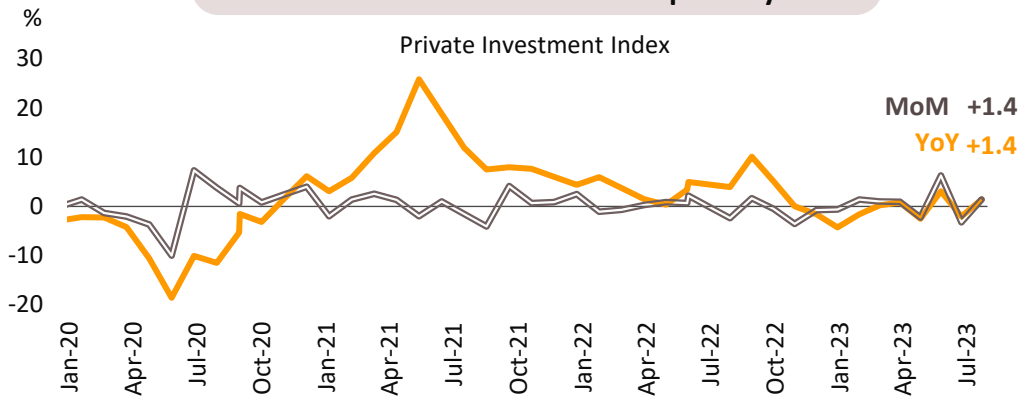


Source: BOT, NSO, Krungsri Research

Private investment show signs of improvement as clarity in domestic politics lift investor sentiment, but upside could be curbed by weak external demand

The Private Investment Index rose 1.4% YoY in July, led by investments in the construction sector. The Business Sentiment Index (BSI) dropped to an 8-month low of 48.9 in August from 49.3 in July, but the expected BSI (next 3 months) improved to 54.1 from 53.3 in July, following the formation of the new government. Furthermore, latest data by the Commerce Ministry show the total applications for registration by foreign investors had increased to THB10.02 bn in July from THB3.54 bn in June and is higher than the average of THB8.16 bn per month in the first half of this year. In the first 7 months of 2023, the number of such applications reached 377 with a total value of THB 58.95 bn. The top 5 foreign investors were from Japan, US, Singapore, China and Germany. However, investment in export-related sectors could remain weak amid the global economic slowdown.

Private investment inched-up in July

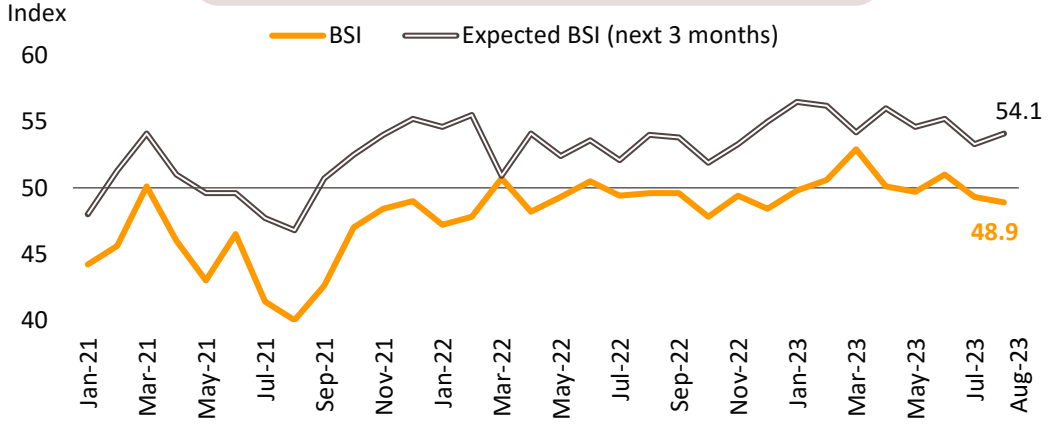


Private investment by category

%YoY*	2021												2022												2023							
	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	
Private investment																																**+1.4**
Construction area permitted																																+9.4
Construction material sales																																+1.9
Imports of capital goods																																+10.1
Machinery sales																																-4.8
Newly registered vehicles																																-10.5

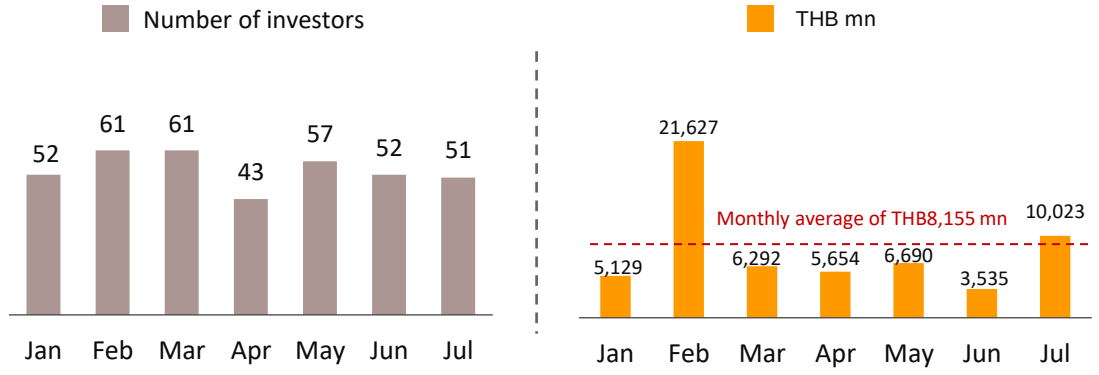
**Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum*

Expected BSI show signs of improvement



Total foreign investments in Thailand (Jan-Jul 2023)

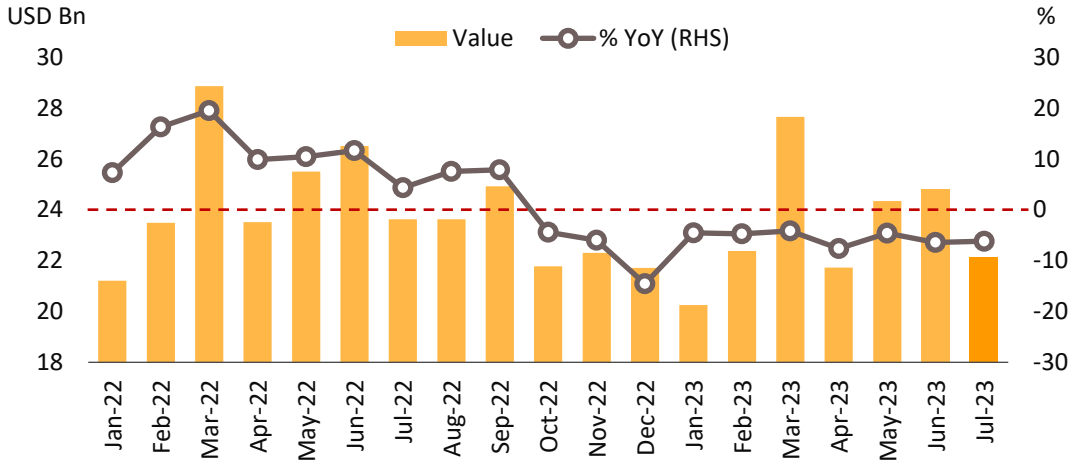
(reported by Commerce Ministry)



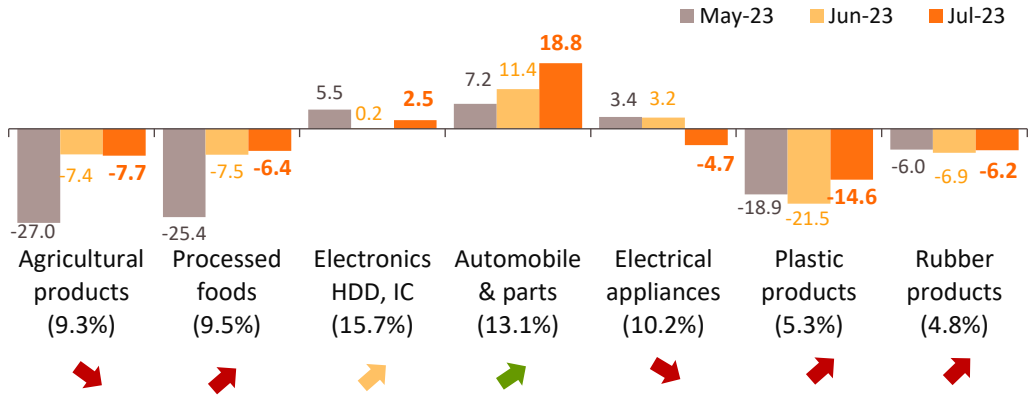
Source: BOT, MOC, Krungsri Research

Exports: Contracts for 10th consecutive month in July; we trimmed full-year 2023 export growth forecast from +0.5% to -1.5%

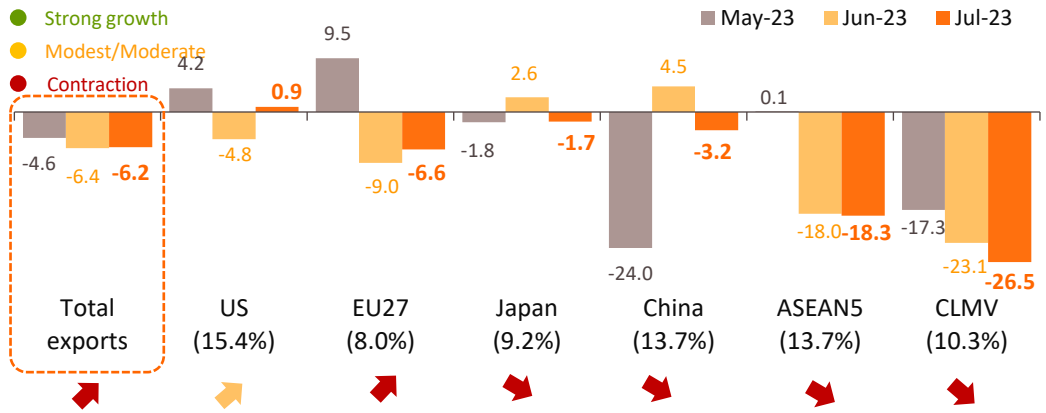
Exports



Exports by major product (%YoY)



Exports by major destination (%YoY)



Krungsri Research's view

- **In July, Thailand's merchandise export value fell for the 10th consecutive month, by 6.2% YoY to USD22.1 bn.** This was much worse than market expectation of -0.8%. Excluding oil, gold and weapons, exports fell by only 2.0%. Exports to most of the major overseas destinations declined, including those to China, Japan, the EU, the ASEAN-5, and CLMV countries. Exports to the US reversed to a minor gain after dropping a month earlier. Exports of agricultural and agro-processing goods contracted for the 3rd month, by -7.7%, while exports of industrial goods also fell again, by 3.4%. **For the first 7 months of the year, Thai export value fell by 5.5%.**
- July export value dropped by more than 10% compared to June (USD 24.8bn) and missed the monthly average in 1H23 of USD 23.5bn. This is attributed to weaker global trade and the visible impact of still-tight monetary policies in major economies. Moreover, Thailand's major trade partner China is suffering from a slowing economy as reopening gains peter out and the ongoing real estate crisis would drag spending. For the rest of the year, the export sector is likely to remain fragile and a reversal to growth in Q4 would be heavily influenced by 4Q22 data (when China was in lockdown). ***Hence, we cut 2023 export growth forecast and now forecast 1.5% contraction instead of 0.5% growth.***

Note: (% share in 2022)
Source: MOC, Krungsri Research

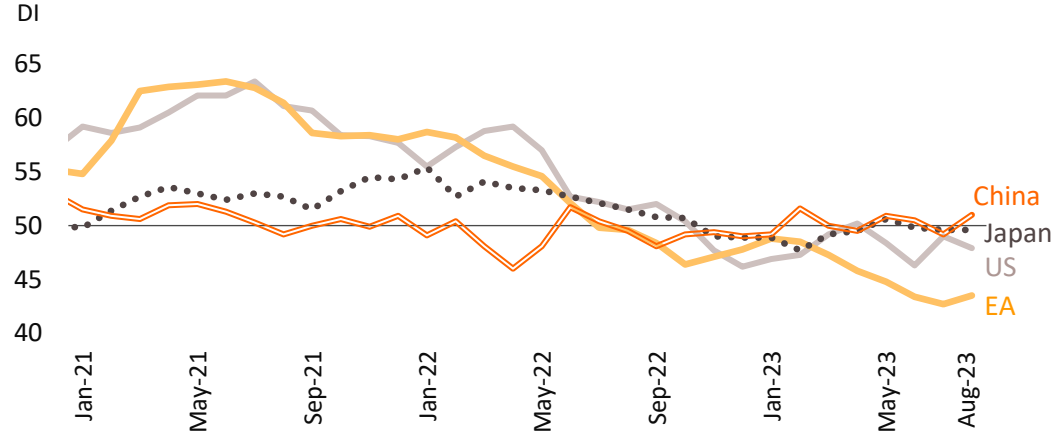
Thailand's exports remain vulnerable amid weakness in production sectors in core countries

In the first seven months of this year, Thai exports contracted by 5.5% YoY led by a 5.0% decline in orders for industrial products such as computers & parts and plastic resin, and a 3.7% decline in agricultural & agro-industrial products such as rubber and tapioca products. For the rest of this year, exports will still face pressure from a slowdown in global demand, as reflected by slowing manufacturing activity (data suggests contraction) in major countries (except China). Exports of major exporting countries in Asia remain weak. However, some Thai exports might be supported by product-specific factors and rising concerns over food security, such as automobiles, electrical appliances, rice, and sugar.

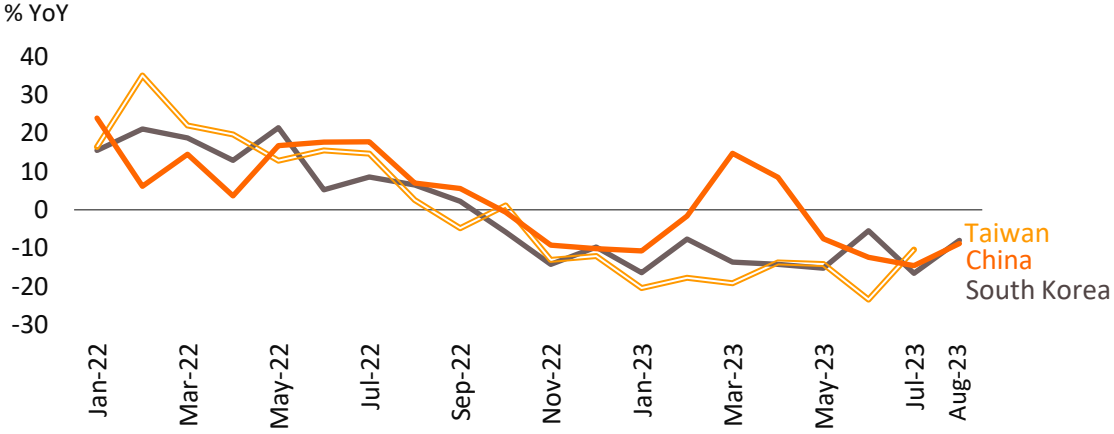
Thai exports by major product and destination

Thailand: Jan-Jul's export growth (% YoY)	World	US (17%)	EU (8%)	Japan (9%)	China (12%)	ASEAN-5 (14%)	CLMV (11%)
Total	**-5.5**	**-3.0**	**-1.0**	**-1.3**	**-3.7**	**-9.1**	**-15.2**
Cars & parts (9.8%)	+8	-9	+43	+8	-43	+24	+3
Computer & parts (7.2%)	-16	-16	-16	-15	-45	+21	+12
Rubber products (4.8%)	-6	-15	-12	-0.4	-1	-7	-22
Plastic resin (3.7%)	-23	-22	-16.1	-9	-25	-29	-34
Chemical products (3.3%)	-20	-20	-28	-5	-21	-21	-20
Electronic IC (3.3%)	+2	+7	+23	+19	+10	-8	+9
Fresh, frozen & dried fruit (2.0%)	+16.8	+18	+6	-15	+21	-8	-31
Rubber (1.8%)	-39	-40	-50	-36	-17	-57	-26
Electrical appliances (1.7%)	+16	+23	+1	+16	-2	+2	+4
Plastic products (1.6%)	-16	-24	-16	-7	-15	-16	-8
Tapioca products (1.5%)	-18	-24	-27	-8	-18	-39	+13
Rice (1.4%)	+21	-1	-2	+35	-22	+273	+25
Preserved fish, crustaceans (1.3%)	-11	-23	-14	+2.2	+51	+14	+8
Sugar (1.1%)	+18	+27	+739	-2	-59	+35	-3

Manufacturing PMI in core countries remained weak



Exports of major Asian countries continued to contract in July

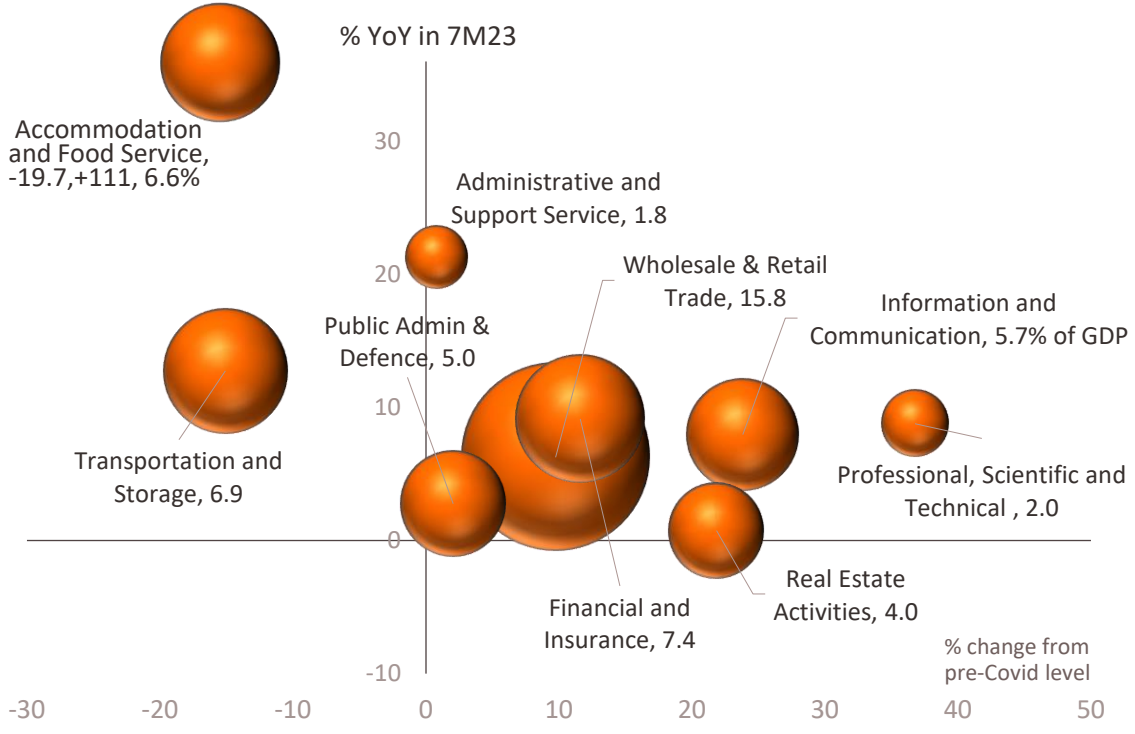


Note: (% share in 2022)
Source: MOC, S&P Global, Markit Economics, CEIC, Bloomberg, Krungsri Research

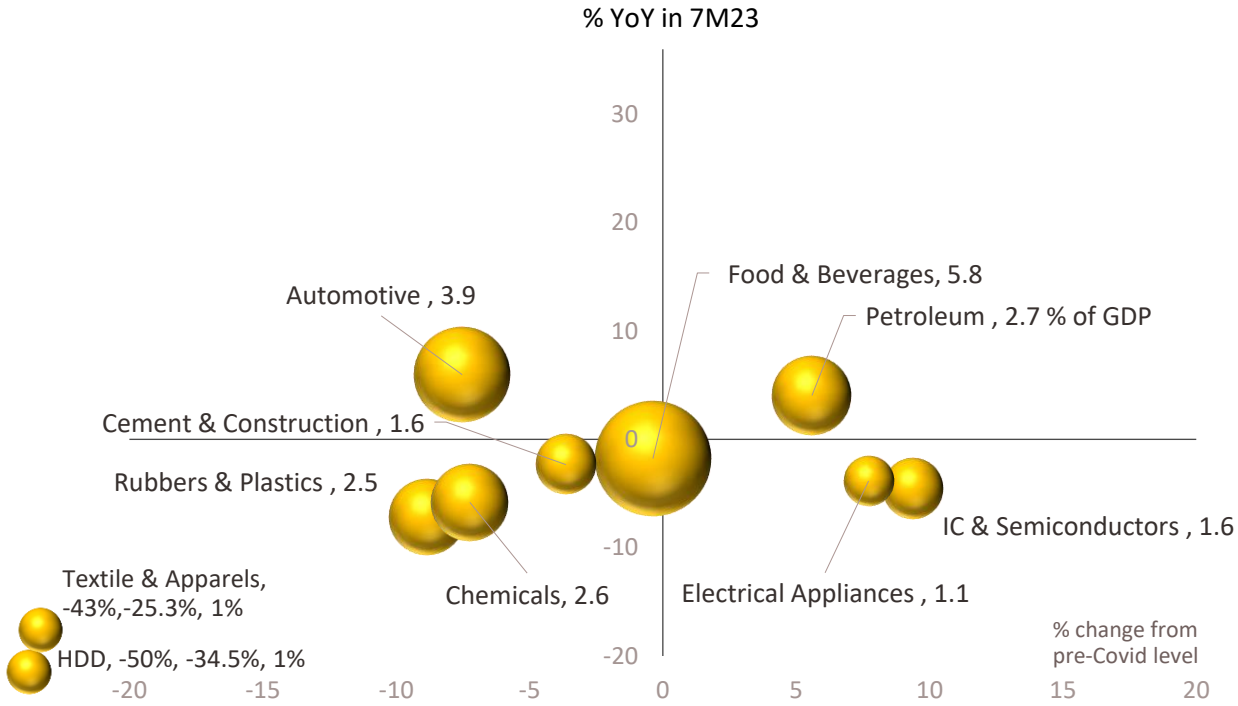
Supply side: Services sector show stronger and broader-base recovery but manufacturing remains fragile

- In the services sector, most categories have recovered **above pre-Covid levels and registered positive year-on-year growth**, including Information & Communication (24% above pre-covid level, +8% YoY), Professional Scientific & Technical (37%, +9%), Financial and Insurance (12%, +9%), Wholesale & Retail Trade (10%, +6%), Public Admin & Defense (2%, +3%) and Administrative & Support Services (1%, +21%). Output of those categories accounted for **a combined 37.6% of GDP.** Manufacturing industry that is in the same classification include Petroleum (2.7% of GDP).
- Manufacturing and services industries that have **recovered above pre-Covid levels but registered negative growth** include IC & Semiconductors (1.6% of GDP) and Real Estate Activities (4.0%).
- Manufacturing and services industries that **remained weaker than pre-pandemic levels but registered improvements** include Automotive (3.9% of GDP), Accommodation & Food Service (6.6%), Transportation & Storage (6.9%).
- Manufacturing industries that **remained weaker than pre-covid levels and registered negative growth** include Electrical Appliance, Food & Beverages, Cement & Construction, Rubber & Plastic, Chemicals, HDD and Textile & Apparel. Output of those industries account for **a combined 15.5% of GDP.**

Service Production Index (SPI): 55.1% share of GDP
(unit: % change from pre-covid level, %YoY growth, %share of GDP)



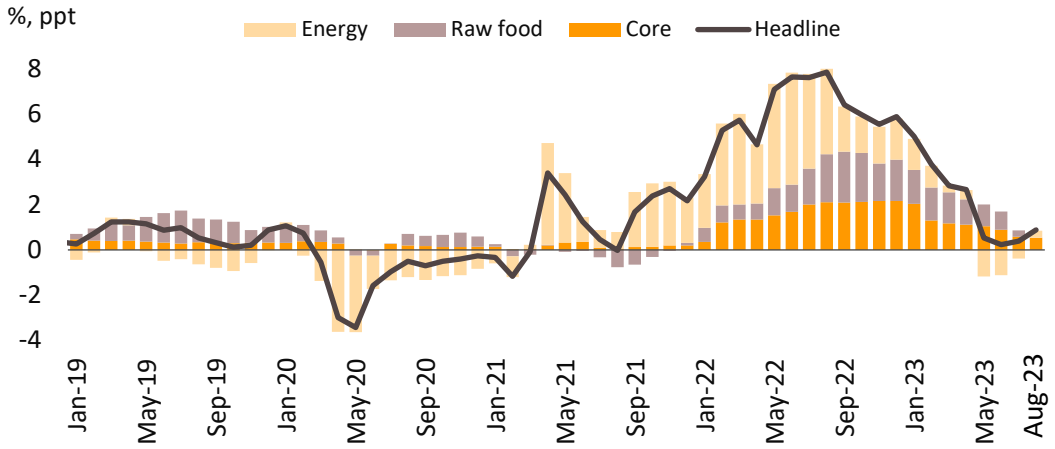
Manufacturing Production Index (MPI): 23.6% of GDP
(unit: % change from pre-covid level, %YoY growth, % share of GDP)



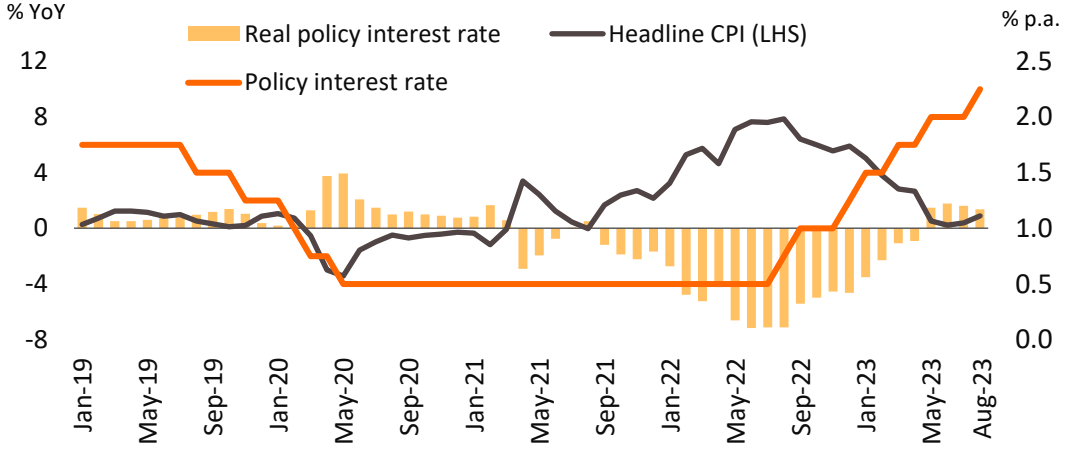
Note: Size of bubble represents % share of GDP
Source: FTI, BOT, NESDC, Krungsri Research

Cooling core inflation may provide space for MPC to hold policy rate at 2.25% at September meeting

Contributors to inflation



Real policy interest rate has turned positive since May



Source: MOC, BOT, 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 F M A M J J A	
Headline CPI	**100.00%**				**0.9**
Food & beverages	41.34%				0.7
Apparel & footwears	2.06%				0.3
Housing & furnishing	22.16%				1.8
Medical & personal care	5.41%				1.4
Transportation & communication	23.52%				0.3
Recreation & education	4.19%				0.6
Tobacco & alcoholic beverages	1.32%				0.5
Raw food	20.90%				0.0
Energy	14.55%				2.6
Core CPI	**64.55%**				0.8

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

Krungsri Research's view

- **Headline inflation rose from 0.38% in July to 0.88% YoY in August, influenced by** higher domestic retail oil prices and higher prices for some food items including white rice, glutinous rice, eggs, and fresh fruit and vegetables. Core inflation (which excludes more volatile food and energy prices) slipped from 0.86% to 0.79%. For the first 8 months of the year (January to August), headline and core inflation averaged 2.01% and 1.61%, respectively.
- ***Inflation is expected to pick up the rest of 2023, premised on:*** (i) OPEC's 1m bbl/day output cut and Russia trimming crude exports by 0.3m bbl/day up to end-2023. This would increase price volatility in global markets; and (ii) inflationary effects of El Niño on prices of agricultural goods. However, this will be offset by deflationary pressures, especially government programs to help ease cost of living that would include reducing power tariffs and retail price of diesel fuel, and moves to control the price of cooking gas. Overall, we see headline inflation averaging 1.7% in 2023.
- With inflation now below the Bank of Thailand's 1-3% target for 4 months running, soft core inflation reflecting slowing consumer spending, and the economic growth underperforming its long-term potential, ***the Monetary Policy Committee (MPC) might halt the rate hike cycle at its 27 September meeting, and hold policy rate at 2.25%.***

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