krungsri
Research

A member of MUFG
a global financial group

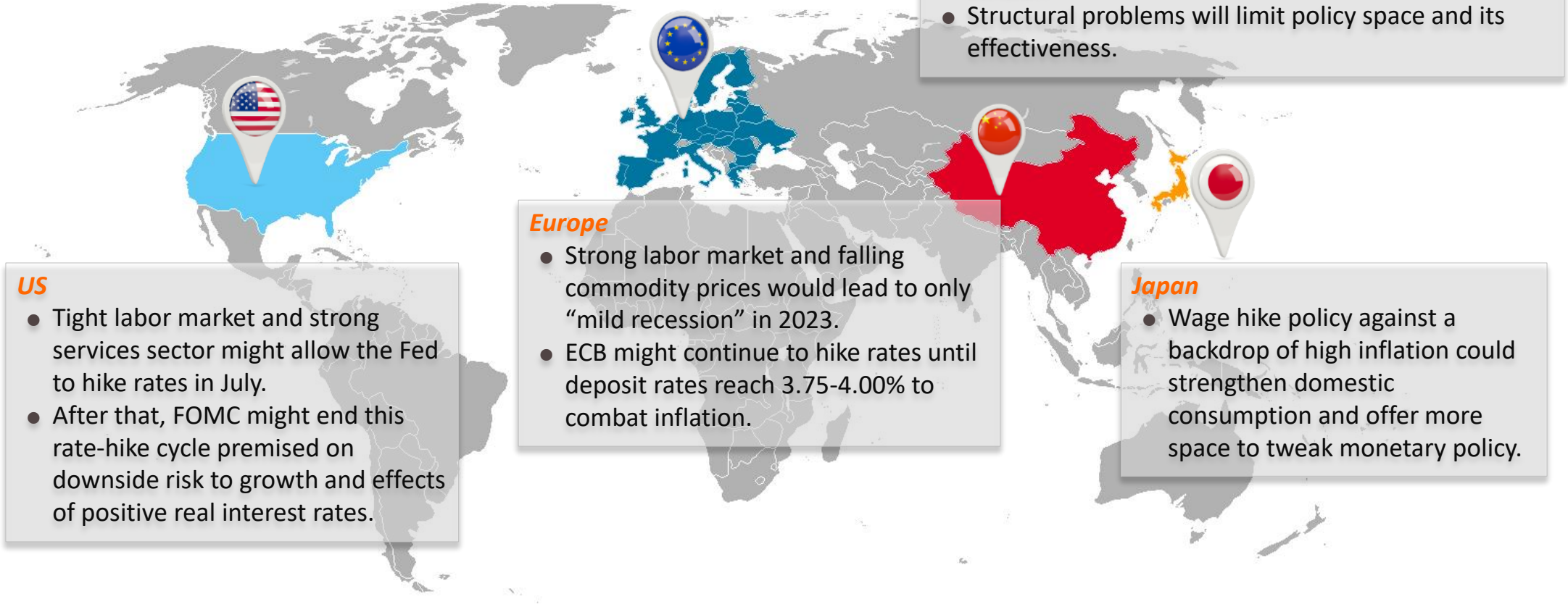
MONTHLY ECONOMIC BULLETIN

July 2023



Krungsri Research

Global: Lower risk of recession but economy could slow down ahead



China

- Growth is slowing down amid fading reopening tailwinds, weak global demand, and US-China tension
- Structural problems will limit policy space and its effectiveness.

US

- Tight labor market and strong services sector might allow the Fed to hike rates in July.
- After that, FOMC might end this rate-hike cycle premised on downside risk to growth and effects of positive real interest rates.

Europe

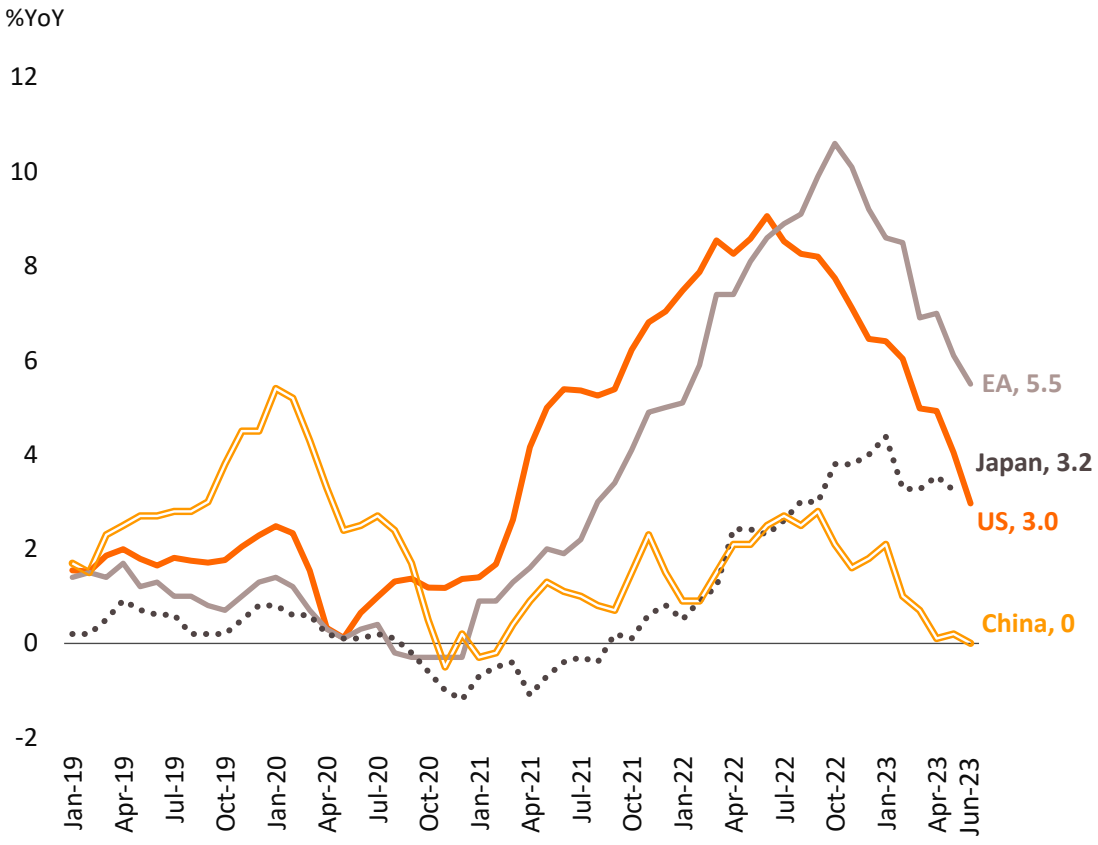
- Strong labor market and falling commodity prices would lead to only "mild recession" in 2023.
- ECB might continue to hike rates until deposit rates reach 3.75-4.00% to combat inflation.

Japan

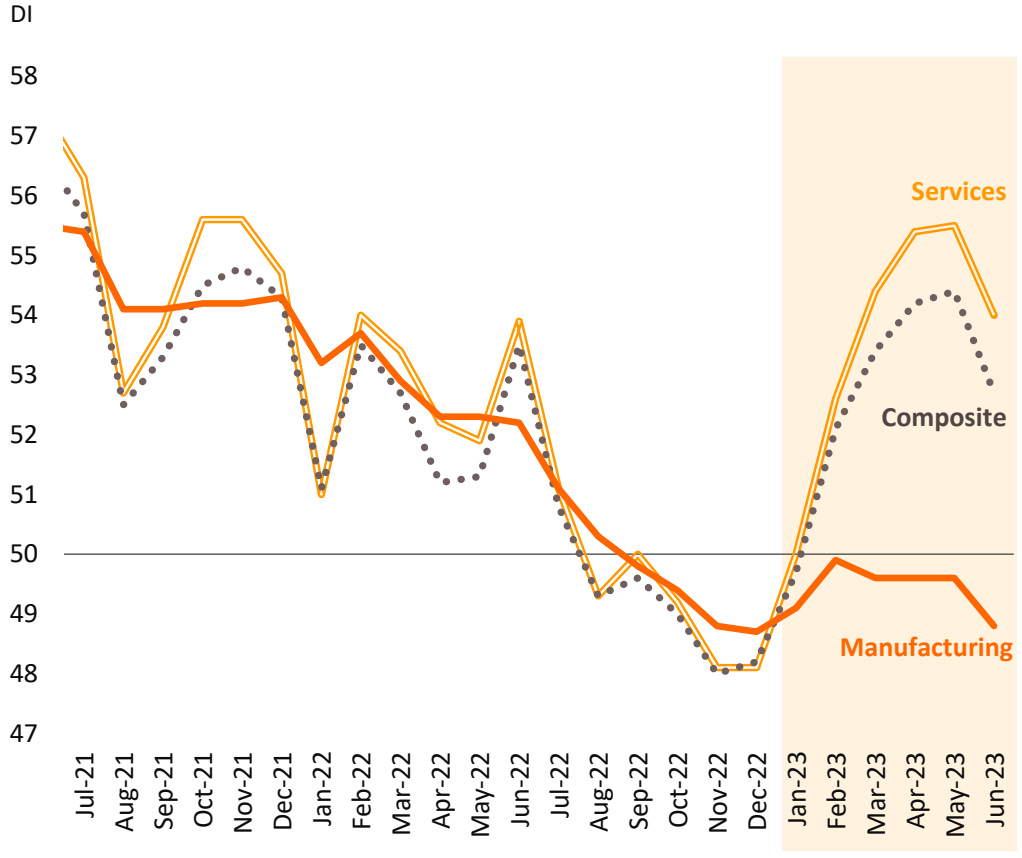
- Wage hike policy against a backdrop of high inflation could strengthen domestic consumption and offer more space to tweak monetary policy.

Good news is softening inflation in response to multi-year high interest rates in key countries but policy moves and fading reopening tailwinds could dampen economic growth ahead

Inflation in major countries



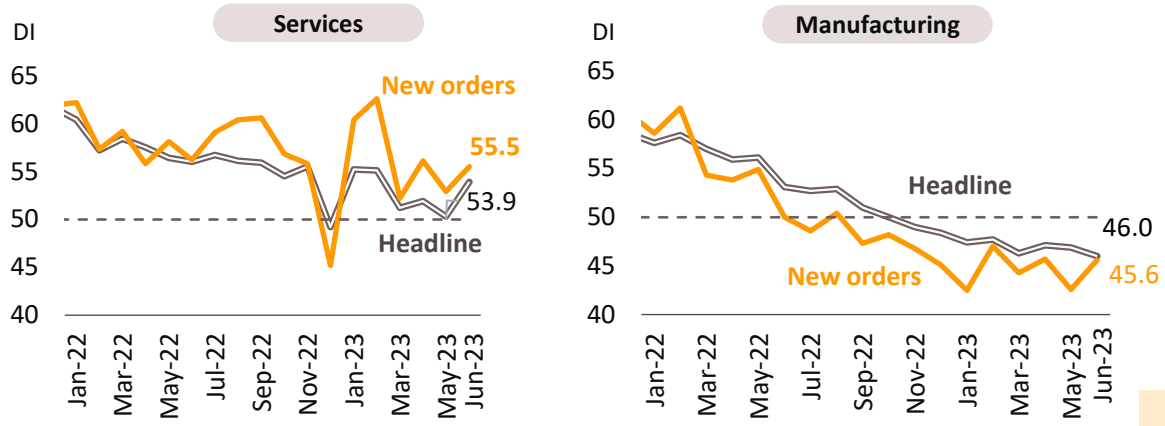
Global PMI



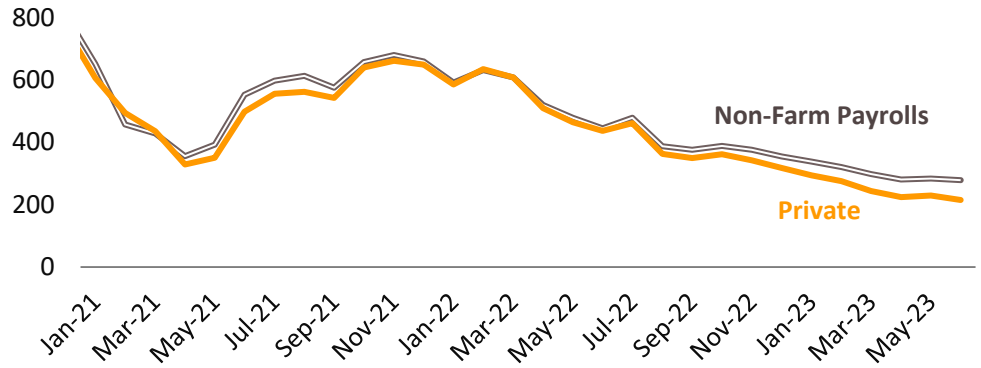
Source: S&P Global, Federal Reserve Bank of New York, major central banks, CEIC, Bloomberg, Krungsri Research

US: FOMC might end this rate-hike cycle possibly after another hike in July premised on signs of disinflation, downside risk to growth, and effects of positive real interest rates

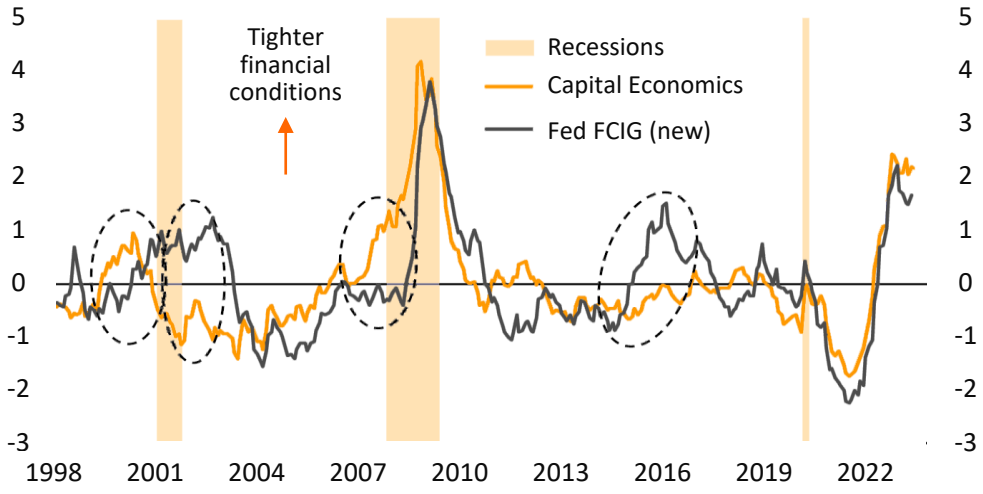
ISM Services and Manufacturing PMI



Change in Non-Farm Payrolls (000s, 6-month average)



US Financial Conditions Indices



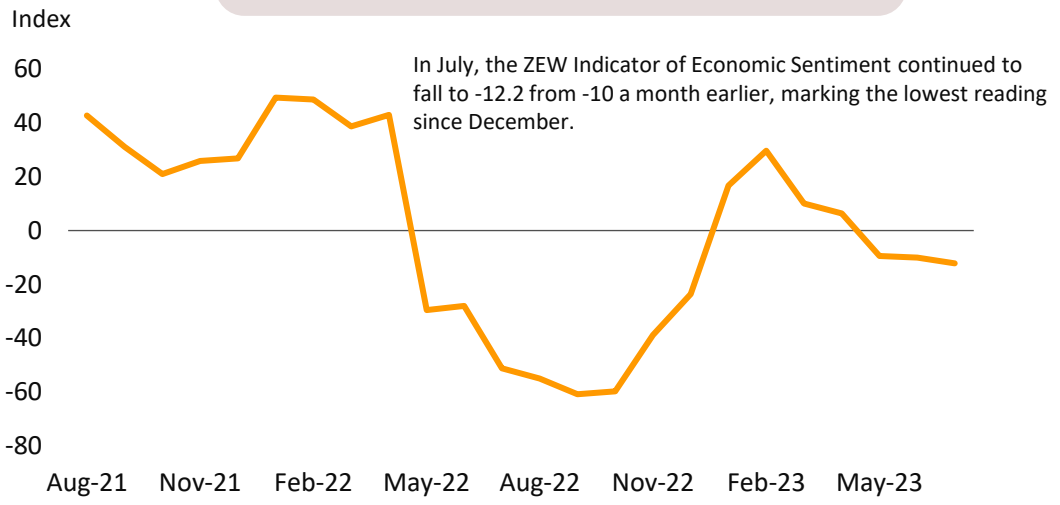
Source: ISM, Bureau of Labor Statistics (BLS), Federal Reserve, Capital Economics, CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

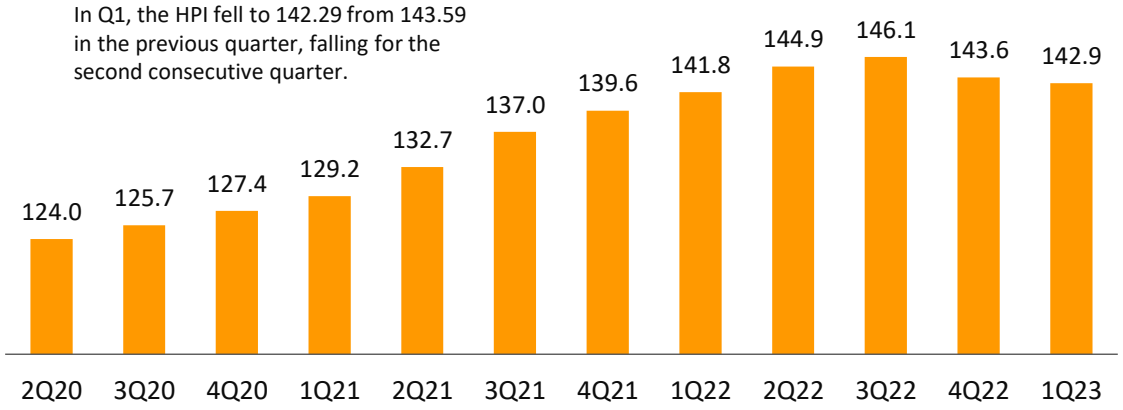
- **Most Fed officials project two more rate hikes this year amid concerns over sticky inflation. The Fed might hike rates at the July 26 meeting, by 25 bps to 5.25-5.50% to combat inflation, premised on the following: (i) tight labor market and high wage** with low unemployment rate (3.6% in June), still-high average hourly earnings (+4.4% YoY) and job openings which remain well above pre-pandemic level; **(ii) growth in services sector** with the ISM Services PMI marking the strongest growth in 4 months in June; and **(iii) resilient banking sector** with all 23 of the US biggest banks passing the stress test.
- **However, policy moves this year could be less hawkish than the Fed's projection and the Fed might end this rate hike cycle after possibly hiking rates in July due to the following factors:**
  - **(i) Signs of shift towards disinflation:** Consumer Price Index (CPI) rose only 0.2% MoM in June and core CPI inched up 0.2%, the smallest rise since August 2021. Headline and core inflation softened to 3% and 4.8% YoY, the lowest since March and October 2021, respectively.
  - **(ii) Downside risk to growth:** Despite growth in the services sector, **factory activity** shrank by the largest magnitude in nearly 3 years in June. **The Logistics Manager's Index** hit a new low in June. **Non-farm payrolls** grew by an average of only 278K per month in 1H23 vs 399K per month in 2022. **Personal spending** only inched-up 0.1% in May and 1Q23 **corporate profits** fell 5.9%, marking the sharpest drop since 4Q20.
  - **(iii) Impending full-effects of multi-year-high interest rates: Financial conditions** are close to the tightest since the Global Financial Crisis, which could hit economic activity ahead. **Consumer credit** posted the smallest monthly gain since November 2020. Despite the resilient banking sector, the Stress Test showed **many mid-size banks** experienced steeper losses and took bigger hits to their capital ratios compared to the average across all 23 banks. High interest rates could add risks to banks.
- **Premised on the above and real policy rate reversing to positive, we expect only one more rate hike in July and the Fed to hold rates the rest of this year to prevent a sharp slowdown in the US.**

Euro-zone: Strong labor market and falling commodity prices could lead to only "mild recession" in 2023

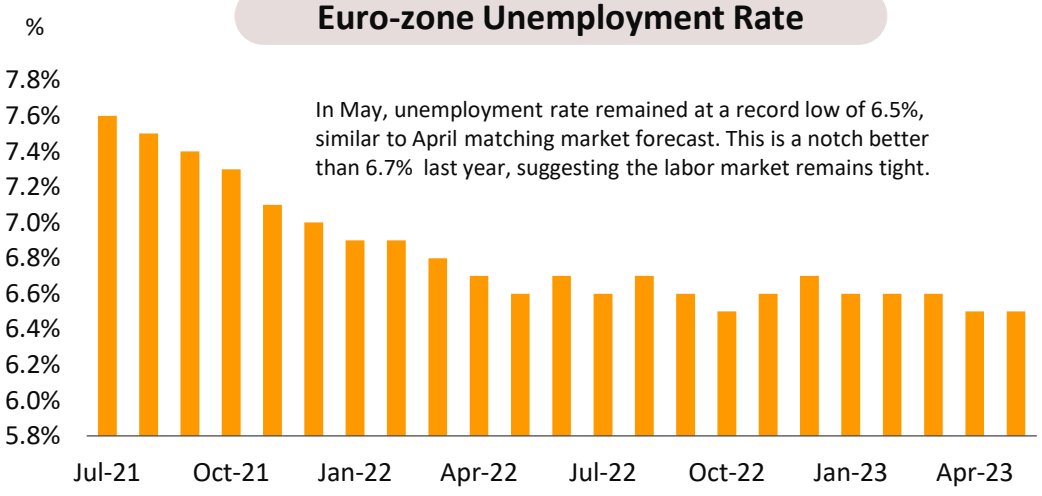
ZEW Indicator of Economic Sentiment



Euro-zone Housing Price Index



Euro-zone Unemployment Rate



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

Krungsri Research's view

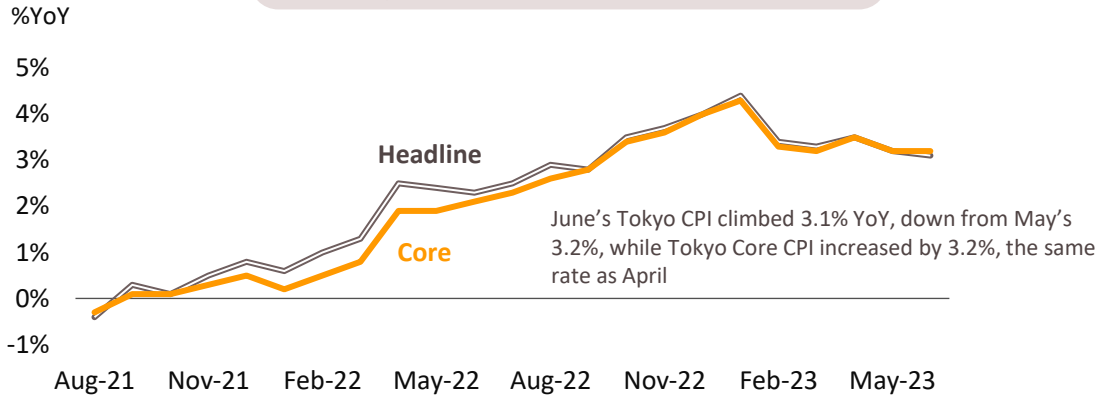
- **Eurozone GDP is projected to contract again in Q2** as tighter financial conditions and rising interest rates have dragged consumption and private sector investment, and the slower housing market will reduce construction activity.
  - In June, **the Eurozone Composite PMI slipped to a 5-month low of 50.3. Within this, the Services PMI fell to 52.4 and Manufacturing PMI dropped to 43.6, marking the 11th month of declines and a 3-year low**.
  - In July, **the ZEW Indicator of Economic Sentiment continued to drop to -12.2**, the lowest reading since December last year.
  - In Q1, **the Housing Price Index (HPI)** marked the 2nd straight quarter of decline.
- **However, we expect cheaper energy prices and still-strong labor market to mitigate the downside risk**.
  - In May, unemployment rate stood at a record low of 6.5%. This is better than last year (6.7%), which implies the labor market remains tight and is supporting wage and income.
- **Despite the steep drop in headline inflation, core inflation remains strong** due to the tight labor market. Meanwhile, the full effects of monetary policy tightening have yet to be felt. Against this backdrop and signals by the central bank at its latest meeting, **we expect the ECB to continue to hike rates until its deposit rate reaches 3.75-4.00%** from 3.50% currently, to try to stabilize prices and pull mid-term inflation rates back to its 2% target.
  - In June, headline inflation slowed to 5.5% YoY from 6.1% a month earlier. It is the slowest since January 2022. Meanwhile, core inflation rose for the first time in three months, marking 5.4% vs 5.3% the previous month.

Japan: Wage hike policy against backdrop of high inflation could strengthen domestic consumption and space to tweak monetary policy

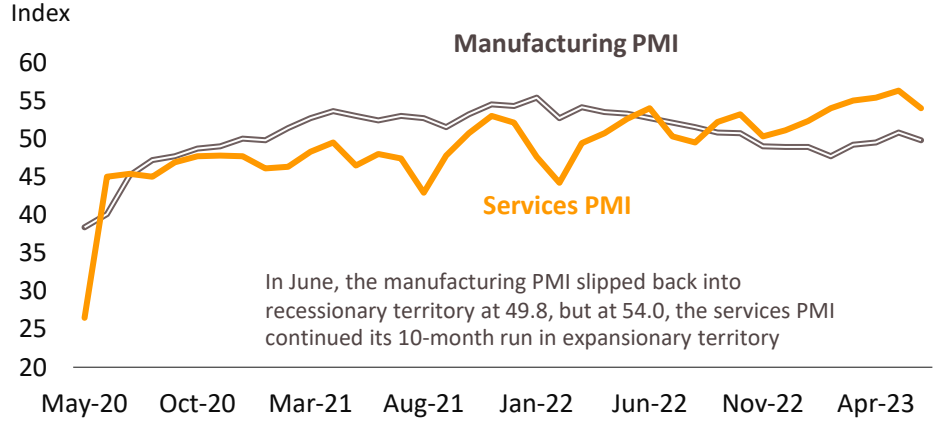
Japan Real Wage Growth



Japan Consumer Price Index



Japan Purchasing Manager Index



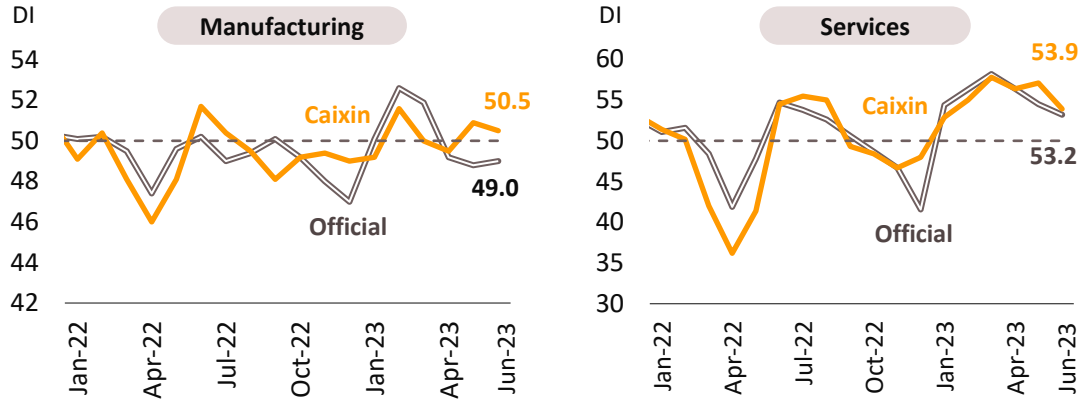
Source: Japan's Cabinet Office, BOJ, CEIC, investing.com, Bloomberg, Krungsri Research

Krungsri Research's view

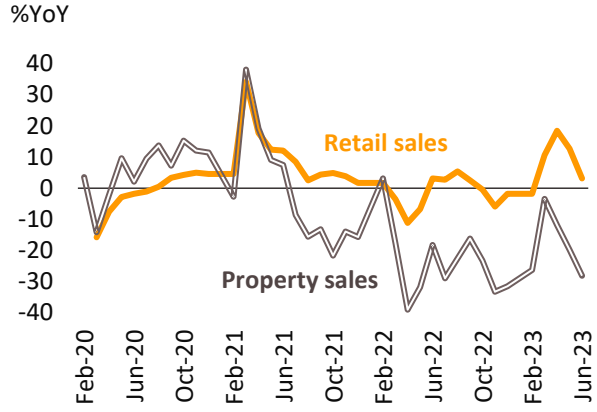
- **Modest wage increases to offset persistent inflation continued to depress worker's real wage,** which dropped 1.2% in May, marking the 14th straight month of decline. **However, a survey by Rengo - Japan's umbrella trade union group – suggests Japanese firms offered an average pay hike of 3.58% for 2023, the biggest rise in three decades**, to workers at small and medium enterprises (SMEs) or those with unions of 300 or fewer members. This is expected to lift real wages to positive territory and revive domestic consumption going forward.
  - Tokyo CPI climbed 3.1% YoY, in June down from May's 3.2%, while Tokyo Core CPI rose by 3.2%, the same rate as April.
  - In May, household spending fell 4.0% YoY, down for a third month and falling faster than the median market forecast of a 2.4% decline.
- **Risk of recession in Japan is declining,** helped by the return of inbound tourists, maintaining ultra-easing monetary policy, and rising wages which would help the service sector to continue to recover in the second-half of the year. **However, worsening economic conditions and high interest rates at Japan's trading partners remain major headwinds for Japan's economy and are likely to drag growth especially in the export sector**.
  - In June, **Manufacturing PMI slipped back into recession territory** at 49.8, but Services PMI remained in expansion territory for the 10th consecutive month, at 54.0.
- On the monetary policy front, latest **wage hike might add fuel to the debate over when the BOJ will unwind its ultra-loose monetary stimulus** (BOJ Governor Kazuo Ueda wants wages to rise to a level that would keep price growth sustainable at close to the 2% target before unwinding). Thus, **we expect the BOJ to be more open to a policy tweak in the second half of the year to reduce pressure in the bond market and to support the yen**. However, to avoid deflation, any moves in that direction would have to be gradual.

China: Growth is losing steam amid fading reopening tailwinds, weak global demand, and US-China tension; structural problems would limit policy space and effectiveness

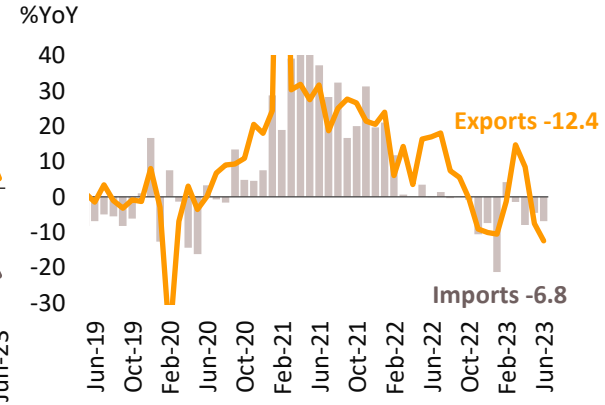
Manufacturing and Services PMI



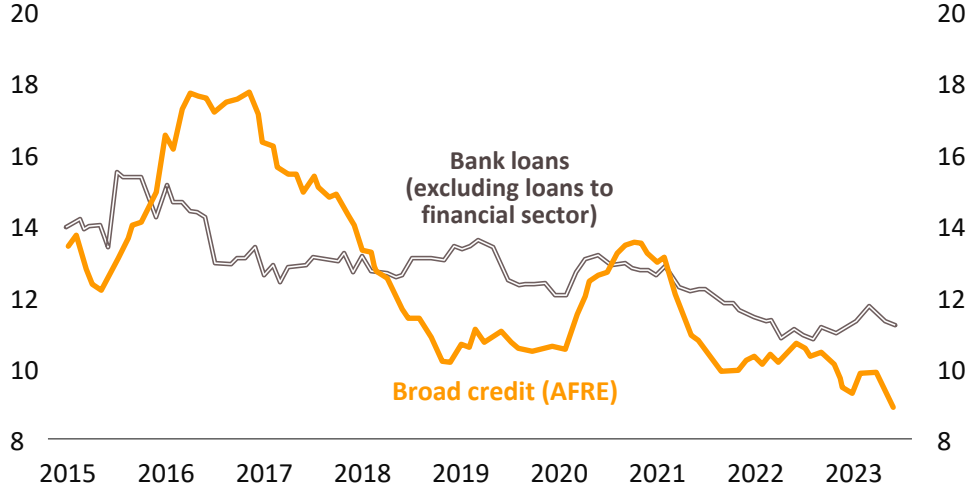
Retail Sales and Property Sales



Exports and Imports



Growth of Outstanding Credit (% YoY)



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

Krungsri Research's view

- **China growth is slowing amid fading reopening effects, coupled with weaker overseas demand and US-China tension. However, this could also have severe repercussions on countries with strong economic or trade connections with China.**

  (i) **Slowing growth momentum, especially in the services sector, which is at its weakest since reopening.** Private-sector measures of the Services PMI slipped from 57.1 to 53.9 in June on weaker new orders and business activity. These mirrored official data. **Other signs of weaker domestic activity** include slower imports (-6.8% YoY in June vs -4.5% in May), retail sales (+3.1% YoY in June vs +12.7% in May), fixed asset investment (+3.8%% in 1H23 vs +4.0% during May-June), and property sales (-28.1%, the largest drop this year, vs -19.7%). **Headline and core inflation marked** over-2-year low of 0.2% YoY and 0.4%, respectively, in June.

  (iii) Exports slumped 12.4% YoY in June, the sharpest fall since February 2020 and worse than May's 7.5% contraction. Overseas markets also performed badly with exports to the US, the EU, and the ASEAN zone falling by 23.7%, 12.9% and 16.9%, respectively. However, exports to Russia bucked the trend to jump 90.9%. For 1H23, exports slipped 3.2%.

  (iv) China-US tension also worsened recently following the 3 July announcement by China's Ministry of Commerce that from 1 August, exporters of gallium and germanium would require a permit. These minerals are widely in the production of chips, EVs and telecoms equipment. The US has responded by preparing to block Chinese access to US-based cloud-computing services..

- **Despite China cutting interest rates in June, growth of total social financing (broad measure of credit and liquidity in the economy) hit a record low of 9.0% YoY in the month. Policy space for new stimulus measures and their effectiveness will be limited because they could risk amplifying existing problems associated with excess supply in the real estate and other industries, and high debt levels at local governments and the resulting impact on the financial system.**

Thailand: Lingering uncertainty over government formation

- In 2H23, the economy will face greater uncertainty over when the next government would be formed and who will lead. On 13 July, Pita Limjaroenrat, the Move Forward candidate for PM, failed to secure majority votes to be appointed prime minister of Thailand. It is unclear whether he will succeed in the next round of voting or who will become the next PM.
- Based on the assumption that the cabinet would be in place by August, the Budget Bureau expects FY2024 Budget Bill to be delayed by 6 months or take effect in late March 2024.
- In addition to domestic political risk, the lingering risk of drought could start to hit farm output in 2H23. The impact would be limited this year but the effects are expected to worsen in 2024.
- Tourism sector will remain a key economic driver. 1H23 foreign tourist arrivals reached almost 13 mn and full-year arrivals could exceed our forecast of 27 mn premised on a peaceful political transition.
- Private consumption would continue to grow on the back of lower unemployment but growth would be capped by still-low income, still-high debt, higher interest rates, and drought impact. Latest data show household debt at 90.6% of GDP in 1Q23 with 85% of indebted households classified as “fragile”.
- Private investment showed positive signs in 1H23 given improving sentiment in the manufacturing and services sectors and improving FDI, but there is lingering headwind from the domestic political scene.
- Thai export value contracted less than expected in May as shipments of industrial products expanded for the first time in 8 months, led by a few sectors. Outlook is clouded by weak global production and Asia exports, but specific factors could boost some categories of Thai export products.
- Headline inflation slipped to only 0.2% in June and full-year average is expected to hit 1.9%. The MPC might raise policy rate once more, to 2.25% in August, but that could be the last hike in this cycle.

Krungsri Research Forecasts for 2023

Krungsri Research Forecast		2021	2022	2023F
GDP growth	YoY (%)	1.5	2.6	3.3
Private Consumption Expenditure	YoY (%)	0.6	6.3	3.3
Government Consumption Expenditure	YoY (%)	3.7	0.2	-1.0
Private Investment	YoY (%)	3.0	5.1	2.7
Public Investment	YoY (%)	3.4	-4.9	1.5
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	11.2	27
Headline Inflation	YoY (%)	1.2	6.1	1.9
Policy Interest rate (end of period)	(%)	0.50	1.25	2.25
Dubai crude price - period average	USD/bbl	69	96	82

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

Rising uncertainty over *government formation* (and the next PM) amid several threats that could reshape the coalition government

***Formular #1: MFP (leader), PTP, and other parties form next government**

Next government (**312 seats**)

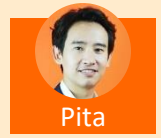
MFP 151 seats — **MFP is leader of a coalition** + PTP 141 seats + Other parties 20 seats

#1 Low probability: Pita has failed to win Senate support in first round of PM election

Scenario for the formation of the next coalition government

- **MFP (secured the most house seats and lead to form a coalition government) and PTP reach an agreement** – subject to Pita Limjaroenrat **securing sufficient** support from the Senate to become Thailand's 30th prime minister.

- **Candidates for next PM:**



***Formular #2: PTP (leader), MFP, and other parties form next government**

Next government (**312 seats**)

PTP 141 seats — **PTP is leader of a coalition** + MFP 151 seats + Other parties 20 seats

#2 Low to medium probability: PTP candidate for PM need support from Senate

Scenario for the formation of the next coalition government

- If Article 112 of the monarchy or organic laws on the election of MP – Section 42 (3) and *Section 151 – which led to many senators voting against Mr. Pita for prime minister post or disqualifying him as MP – **PTP with the second most house seats would take the lead to form the next government with one of its two prime ministerial candidates appointed as the next prime minister**.

- **Candidates for next PM:**



***Formular #3: PTP and other parties form next government**

Next government

PTP 141 seats + Other parties

#3 Medium probability: Senate might not support PTP if MFP remains a coalition partner

Scenario for the formation of the next coalition government

- If MFP is unable to form the next government as PM candidate Mr. Pita Limjaroenrat failed to win Senate support, **PTP might join hands with other parties that were part of the former government to form a coalition**. If this triggers widespread public fury, it could lead to street protests which will hurt confidence.
- There is rising probability of Formular #3 panning out after Mr. Pita failed to get sufficient Senate support in the first round of PM election. To secure the sufficient votes from the Senate, MFP might have to step aside as opposition party and let Pheu Thai take the lead in forming the next government.

- **Candidates for next PM:**



Notes: Violating Section 151 is a criminal offence, and a final ruling may take about a year. Under Section 151, those who apply to run in an election while knowing they are not qualified or prohibited from doing so are liable to a prison term of 1-20 years and a fine of 20,000-200,000 baht. They are also banned from running in an election for 20 years.

Source: Local Press, Krungsri Research

Political timeline: Expect next government to be formed by August but there could be delays in approving and implementing FY2024 budget bill

There is only two months before the start of 2024 fiscal year (starting October 1, 2023), which suggests possible delay in approving and implementing the FY2024 budget bill. In the 2019 election, the government was formed in early July but the FY2020 budget bill (which should start on October 1, 2019) was delayed by 3-4 months and only approved in January 2020.

Election timeline and budget bill approval: 2023 vs 2019

2023 Election

Mar'23 | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan'24

FY 2024

1. **14 May: General election**
2. **19 Jun:** Election results certified (within 60 days after election)
   3 Jul: First parliament sitting and appointment of President of the Parliament (within 15 days after election results are certified)
3. **Since 13 Jul:** Election of new PM
   Aug: New cabinet is appointed
4. ? With only two months to approve the FY2024 budget bill, which is scheduled start on 1 October 2023, there is **risk of a delay** in approving and implementing the budget

2019 Election

Mar'19 | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan'20

FY 2020

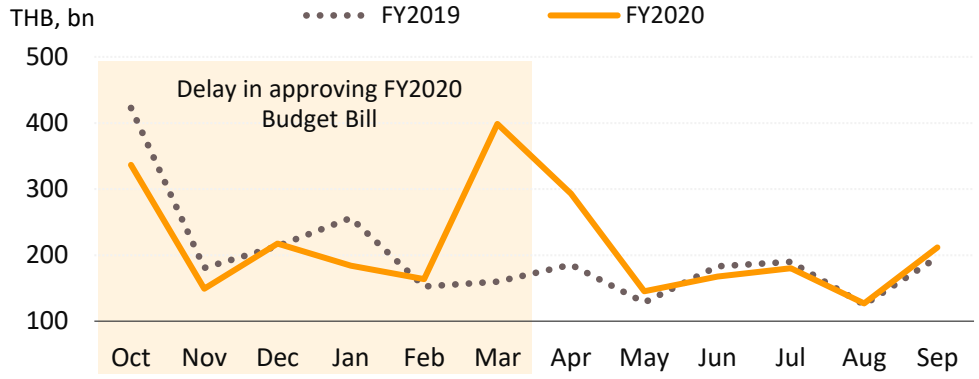
1. **24 Mar: General election**
2. **9 May:** Election results are certified
   24 May: First parliament sitting and appointment of President of the Parliament
3. **5 Jun:** New PM is elected
   10 Jul: New cabinet is appointed
4. In 2019, the new government took more than two months to approve FY2020 budget bill, and it was only implemented in Jan 2020 after **a delay of 3-4 months**.

Source: Local Press, Krungsri Research

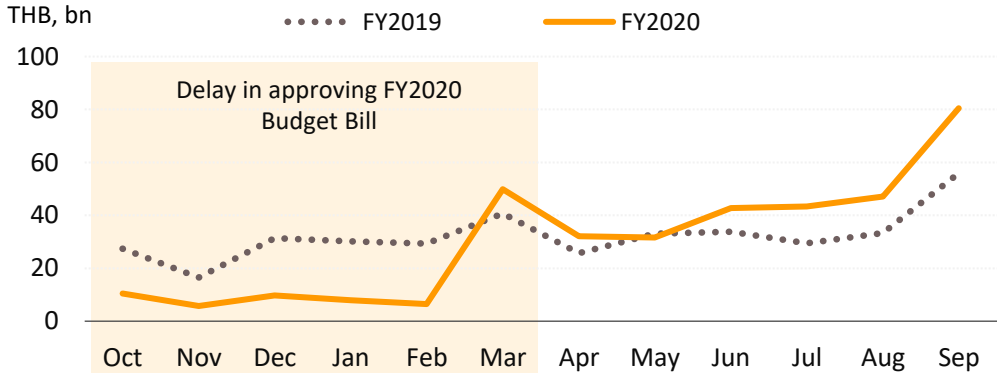
Budget Bureau expects FY2024 Budget Bill to be delayed by 6 months or take effect in late March 2024 if the new government is formed in August

Mr.Chalermphol Pensoot, Budget Bureau director, said the bureau has yet to adjust the timeline for the Budget Bill for fiscal year 2024, which was originally planned to align with the prime minister selection process in July. The expectation was for the new PM and cabinet to assume duties in August. The Budget Bureau will start the process of preparing the FY2024 budget in August, starting with proposing the budget calendar to the Cabinet for consideration in the 2nd week of August. However, he said the Bill might only come into effect in March 2024 or be delayed beyond the regular budget timeline by 6 months. The next fiscal year will start on 1 October 2023. **Based on data on the previous election in March 2019, the preparation of the FY2020 Budget Bill was delayed and had an impact on budget disbursement, particularly the capital budget or public investment, in the first 2 quarters of the fiscal year. However, once it took effect, disbursements had accelerated.**

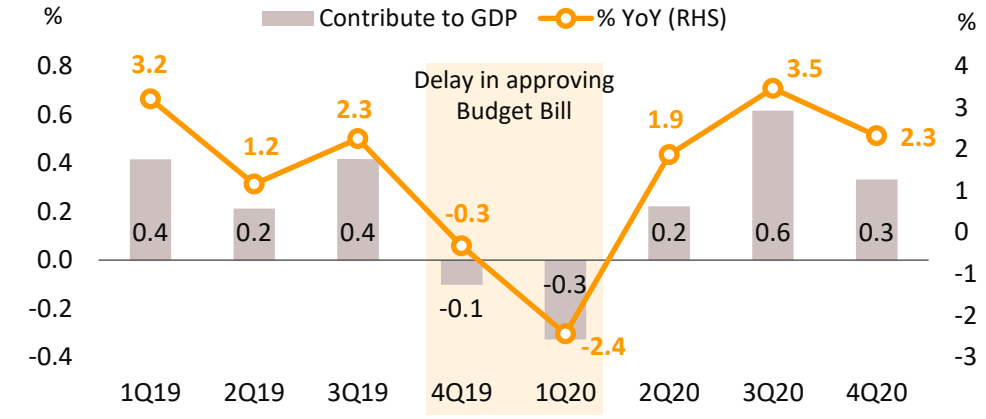
Budget disbursement after election in March 2019



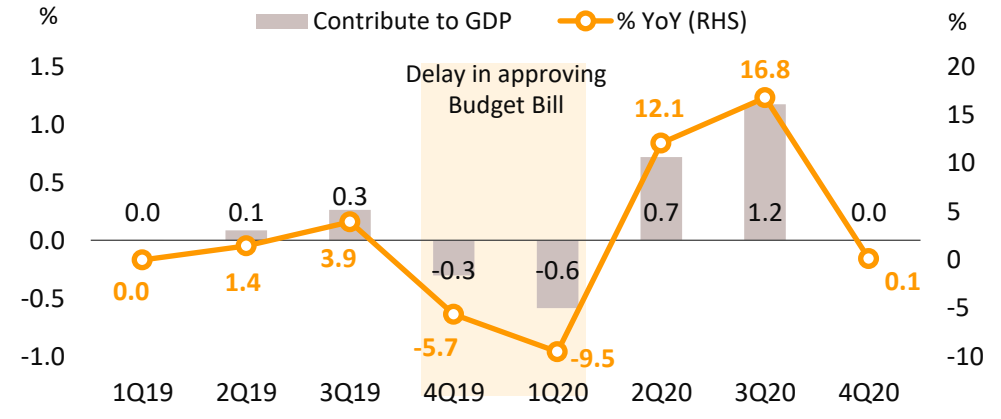
Capital budget disbursement after election in March 2019



Public consumption and contribution to GDP growth after 2019 election



Public investment and contribution to GDP growth after 2019 election

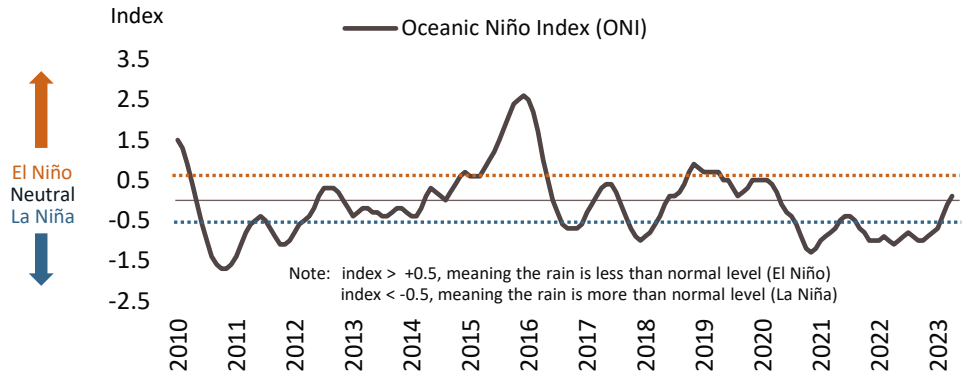


Source: MOF, NESDC, Krungsri Research

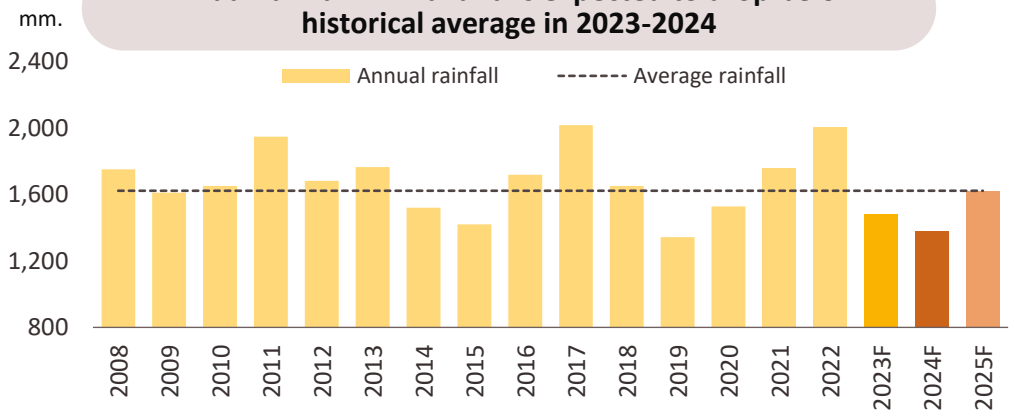
Impending drought might start to hit farm output in 2H23; impact would be limited this year but is expected to worsen in 2024

The emergence of El Niño conditions have started to impact the climate in Thailand but the full effect is likely to manifest in 2024 and 2025 as the country experiences higher temperatures resulting from the delayed onset of seasonal rains and cause below-average precipitation across the country. In 2023, the effects would be most visible on output of crops that are sensitive to water shortages, such as off-season rice and cassava. In 2024 and 2025, the negative impact will expand to include other major crops, including sugarcane, corn, fruits, and forestry goods; though in some cases, the effects will be felt more strongly by downstream industries than upstream suppliers. ***In our baseline case, overall drought-related losses are expected to amount to THB 50 billion or 0.29% of GDP; it could*** reach THB 78 billion or 0.45% of GDP if the drought is more severe than expected. *(According to Research Intelligence: Impending drought: Impacts on agriculture and related industries)*

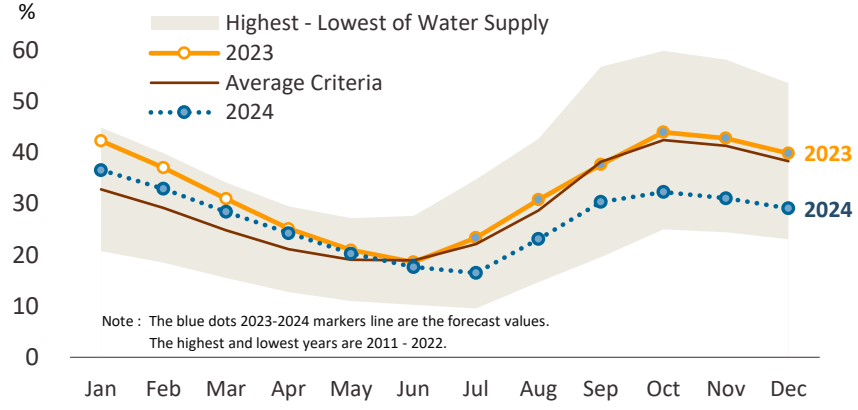
Oceanic indices show signs of El Nino



Annual rainfall in Thailand is expected to drop below historical average in 2023-2024



% Usable water supply of Thailand could fall below historical average in 2H24



Projection of drought-induced economic losses

In 2023, Scenario of Drought Risk	Best Case Rainfall Drop 5-7%	Base Case Rainfall Drop 8-10%	Worst Case Rainfall Drop 10-15%
Economic loss (Million Baht)	**14,736**	**18,241**	**22,522**
As percent of GDP	**0.08**	**0.11**	**0.13**

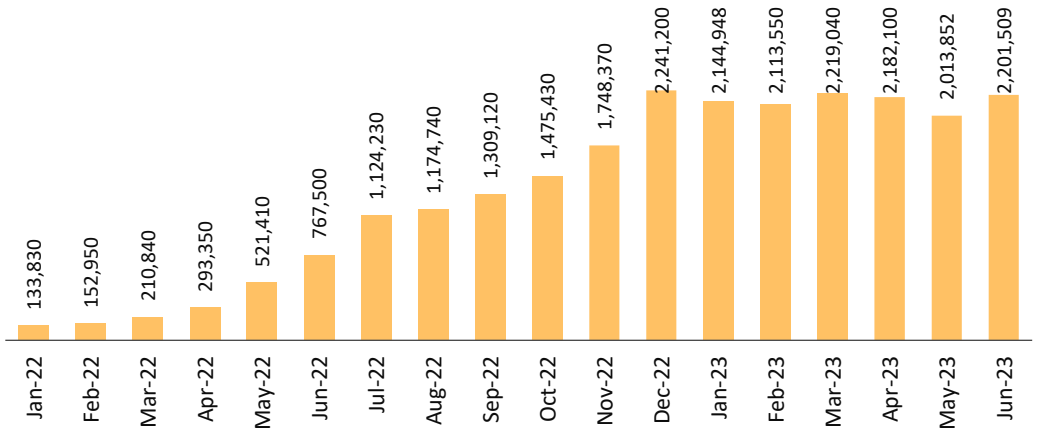
Scenario of Drought Risk	Best Case Rainfall Drop 5-7%	Base Case Rainfall Drop 10-12%	Worst Case Rainfall Drop 15-20%
Likelihood in 2024	High	Medium	Low
Likelihood in 2025	Low	Medium	High
Economic loss (Million Baht)	**22,077**	**50,174**	**77,837**
As percent of GDP	**0.13**	**0.29**	**0.45**

Source: National Oceanic and Atmospheric Administration, Thaiwater, Thailand Meteorological Department, Krungsri Research

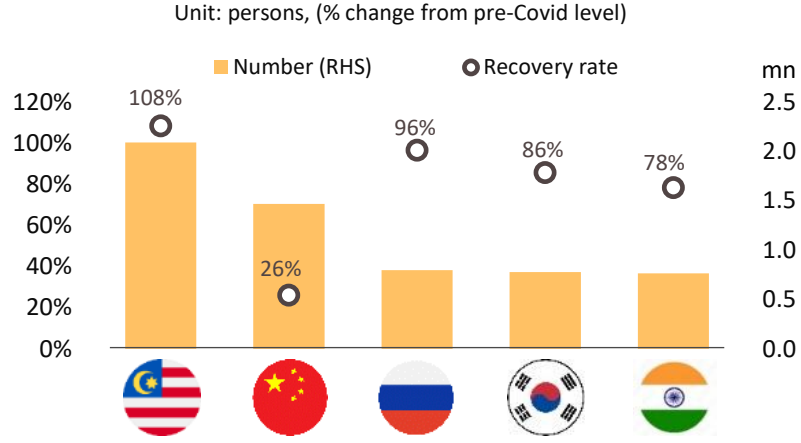
Tourism sector remains a key economic growth driver with 1H23 foreign tourist arrivals at 13 mn; full-year arrivals could beat our 27 mn forecast given a peaceful political transition

The Tourism Authority of Thailand's data show the country welcomed 2.20 mn foreign tourists in June, up from 2.01 mn in May. In the first half of this year, tourist arrivals reached 12.87 mn or 65% of pre-Covid level (2019). Arrivals from Malaysia, Russia, South Korea and India reached 78-110% of pre-pandemic levels. Chinese tourists are returning slowly (26% of pre-Covid level). For the rest of this year, we expect more Chinese tourists following more slots for Chinese airlines, from 150 flights per week to over 400 starting in September. ***The number of inbound tourists in 1H23 was better-than-expectations and will rise in 2H23, particularly from China. And, Q4 is peak tourist season in Thailand. Hence, full-year tourist arrivals could beat our 27 mn estimate if there is peaceful political transition in the country.***

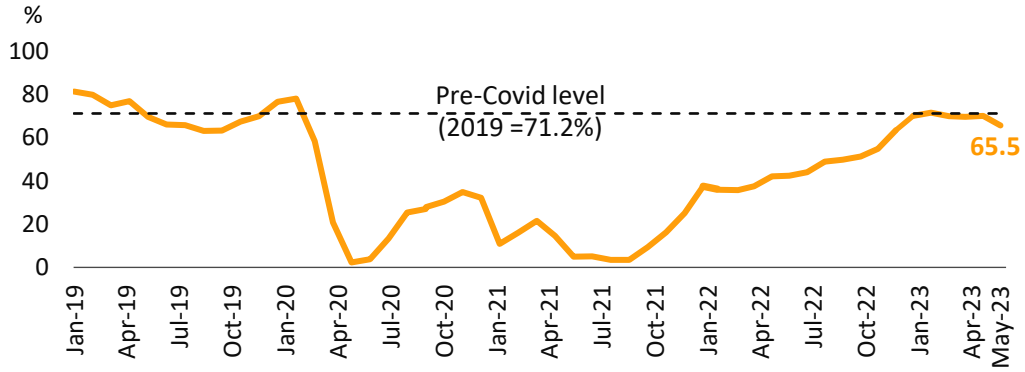
Foreign tourist arrivals reached 12.87 mn in 1H23



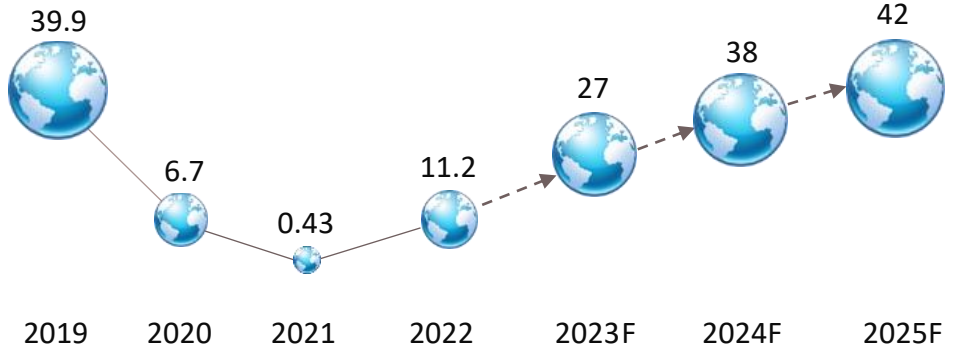
Top 5 foreign tourist arrivals by country during 1 Jan-30 Jun 2023



National average occupancy rate is close to pre-Covid level



Forecast for foreign tourist arrivals (mn persons)

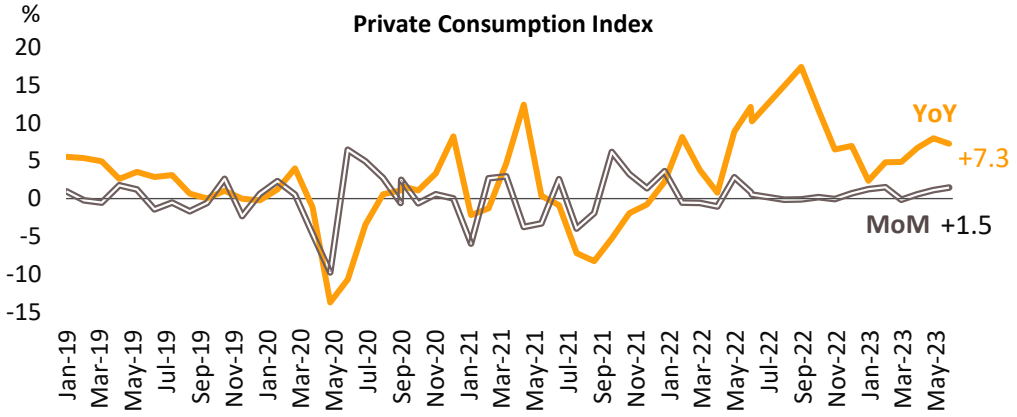


Source: MOTS, CEIC, Krungsri Research

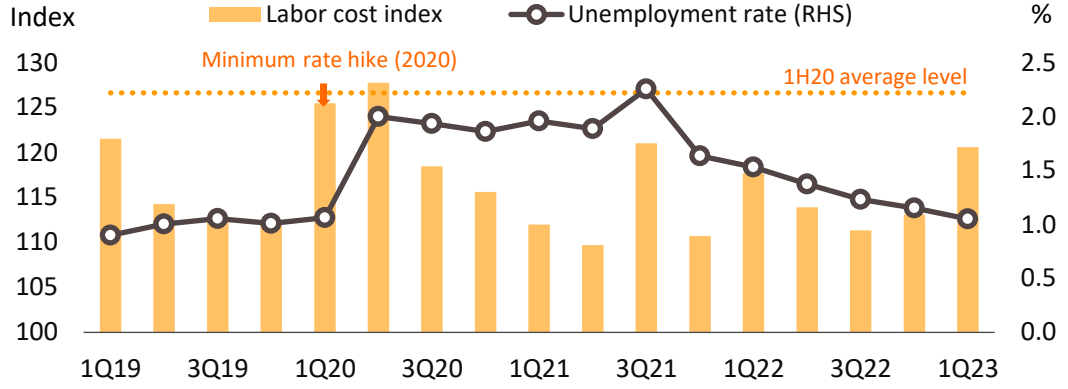
Private consumption will continue to grow amid lower unemployment but growth would be capped by still-low income, still-high debt, higher interest rates, and drought impact

Private Consumption Index rose 7.3% YoY in May. There was improvement in most categories driven by recovering tourism activity, a growing services sector ((which reduced unemployment rate to pre-pandemic level and pushed up labor cost index to its highest since 2Q20), improving confidence, and economic activity during the May general election. ***For the rest of the year, recovering tourism activity and easing inflationary pressure following lower fuel prices would continue to foster consumption. However, rising interest rates, still-low labor wage (below 1H20 average), and slowing farm income growth (due to drought impact and lower agricultural product prices) could make fragile households more vulnerability, especially the low- and middle-income groups.***

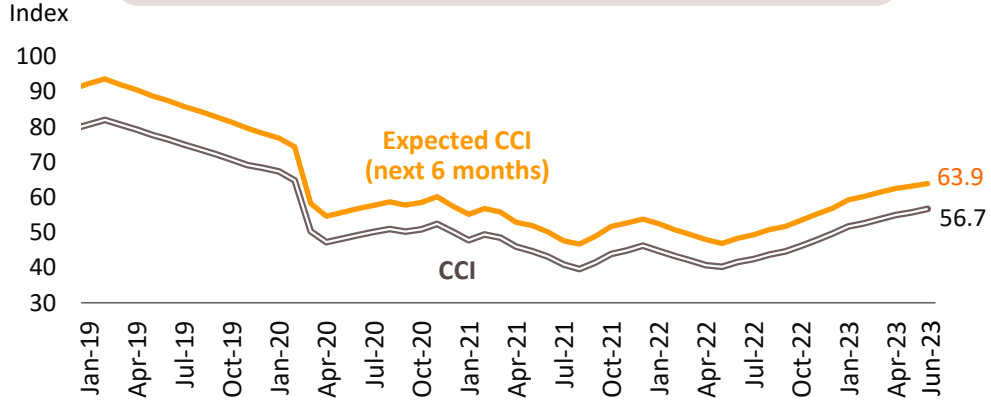
Private consumption rebounded from the previous month



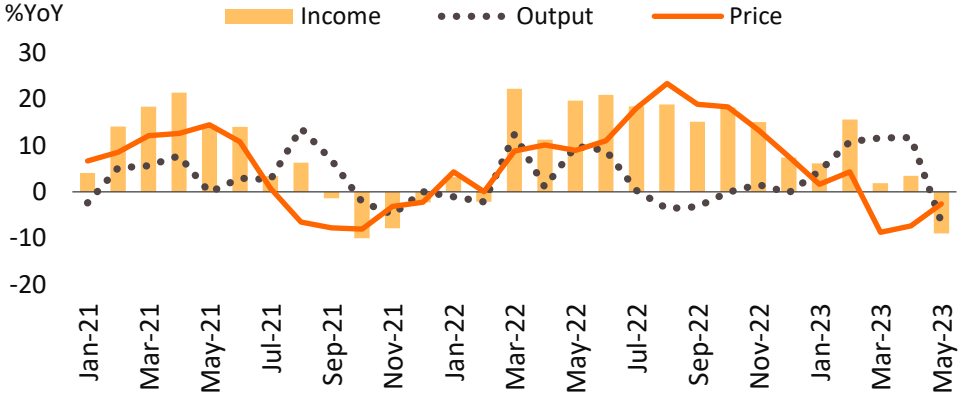
Labor cost index and unemployment rate



Consumer confidence hit a 40-month high in June



Farm income grew along with higher output in 5M23

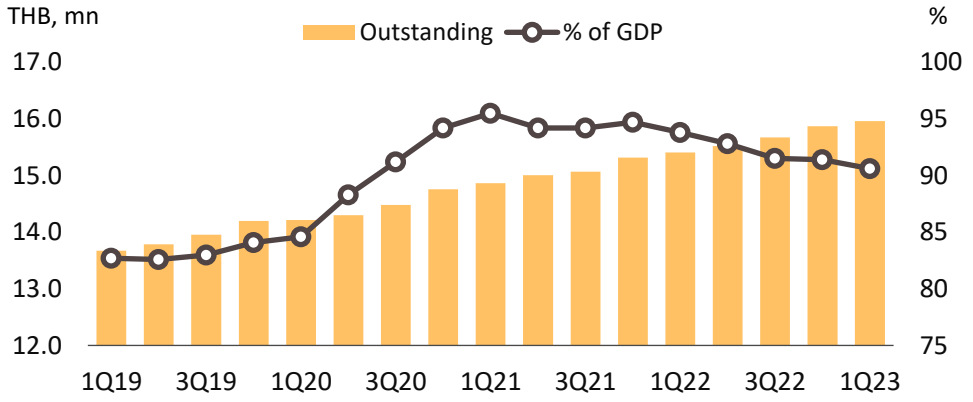


Source: BOT, UTCC, NSO, OAE, CEIC, Krungsri Research

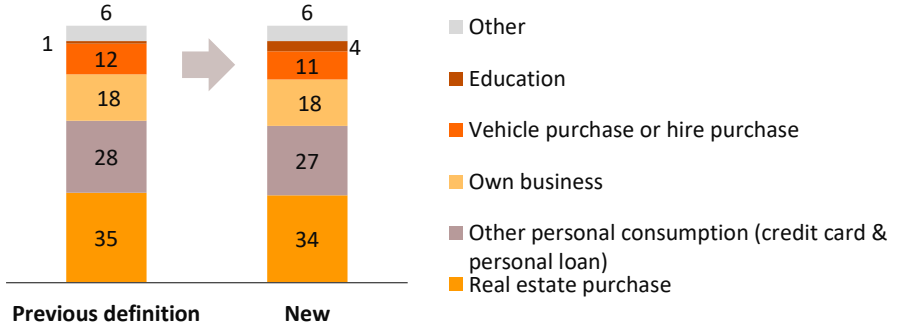
Household debt stood at 90.6% of GDP in 1Q23, while 85% of indebted households are classified as “fragile” group

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 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, which are mostly real estate loans (34% of total debt), followed by credit card & personal loan (27%) and own business loans (18%). Based on NSO data, 85% of indebted households (earnings below THB 50,000/month) are in a situation where their monthly outgoings (including debt repayments) are greater than their monthly income. Those households will find it difficult to increase future spending or secure borrowings. And their problem would be made worse by the current rate hike cycle.

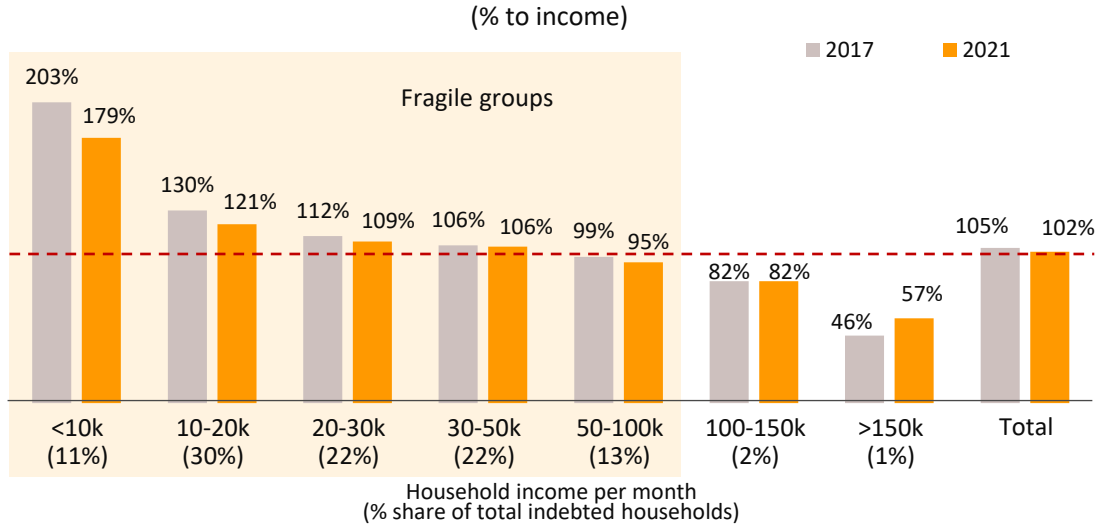
Household debt remains high at 90.6% of GDP in 1Q23



Structure of household debt (%)



Total expenses (including debt repayment) to income ratio of indebted households



BOT’s guidelines to restructure household debt

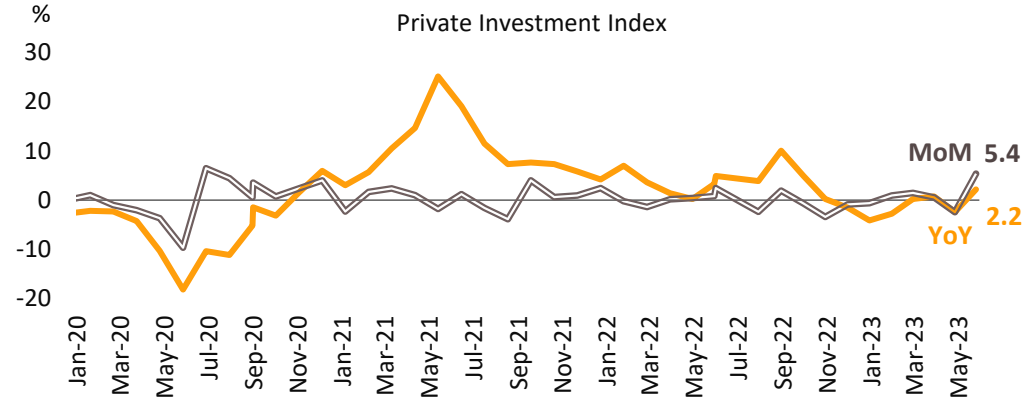
(i) Responsible lending (RP)
(ii) Risk-based pricing (RBP), which will set interest rates according to risk
(iii) Macro prudential policy (MaPP) to ensure credit is only extended in accordance with the ability of the borrowers to repay these debts, thus restricting excessive growth in indebtedness.

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

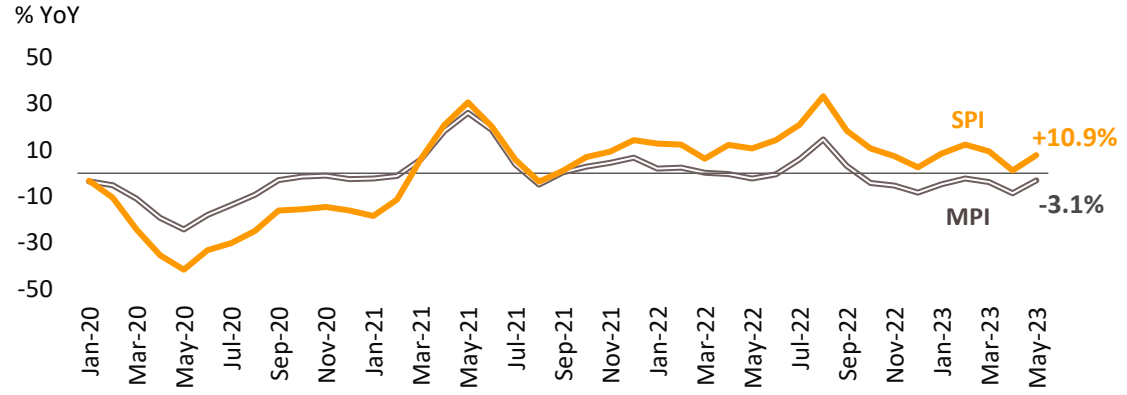
Private investment: Positive signs from improving sentiment in the manufacturing and services sectors and rising FDI, but there is lingering headwind from domestic political uncertainty

Private Investment Index rose 2.2% YoY in May mainly due to specific factors, especially imports of airplanes. The Business Sentiment Index (BSI) improved to 51.0 in Jun from 49.7 in May led by expansion in manufacturing and non-manufacturing BSI (above-50). This is in line with the improving Service Production Index (SPI) and smaller contraction in the Manufacturing Production Index (MPI). ***For the rest of this year, we expect private investment to be stable as investors might delay investment decisions pending clarity on the formation of the next government and their economic policies.*** However, there are still positive signs for medium-term investment premised on rising number of foreign direct investment applications, by 33% YoY to 507 projects in 1H23 with a total investment value of THB304 bn (+141%), led by China, Singapore, and Japan.

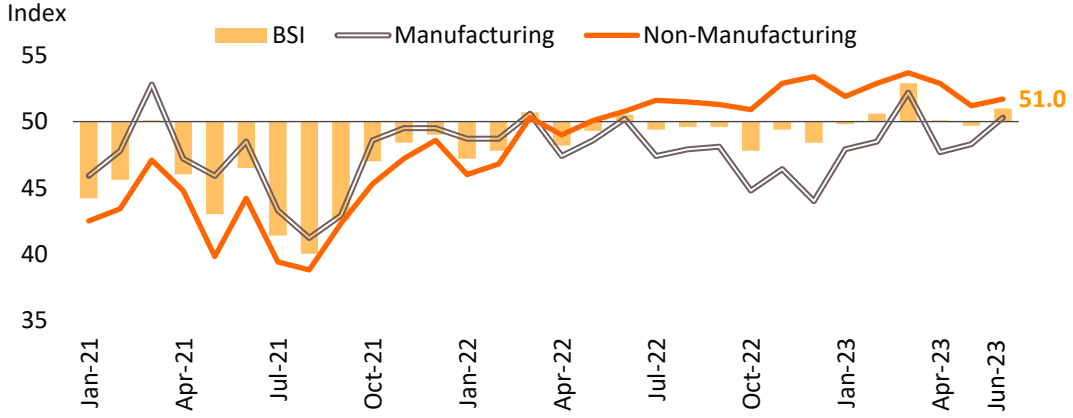
Private investment picked up driven by specific factors



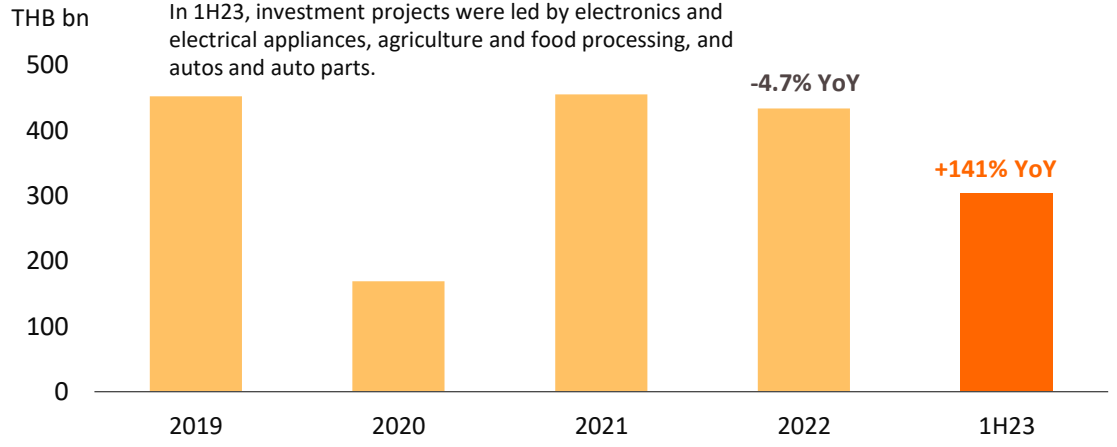
Manufacturing Production Index and Service Production Index



Business Sentiment Index exceeded-50 again in June



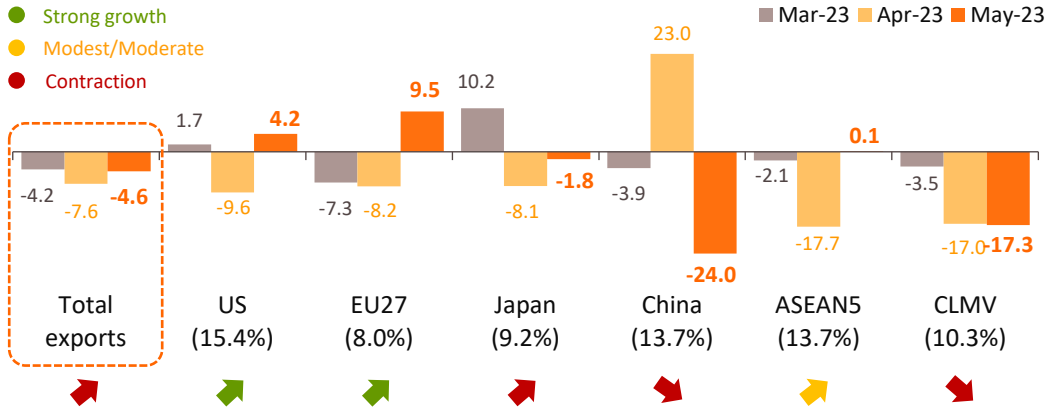
FDI applications for BOI investment incentives



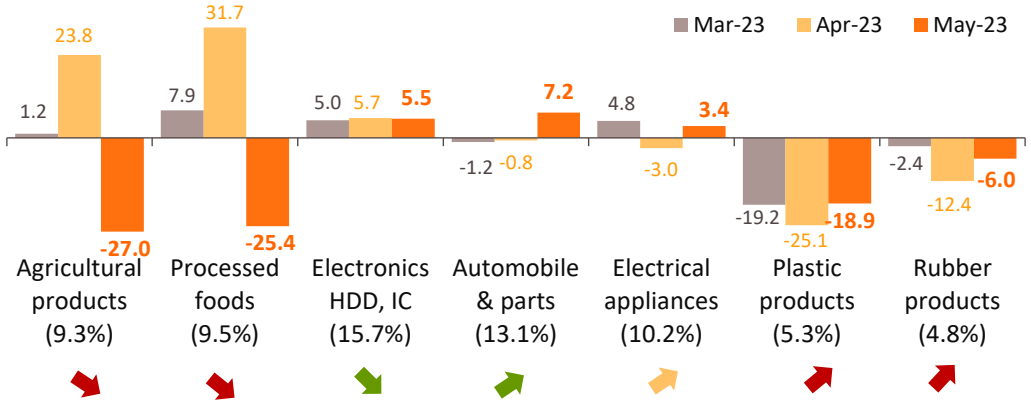
Source: BOT, OIE, BOI, Krungsri Research

Exports: May export value fell less than expected as shipments of industrial products expanded for the first time in 8 months led by a few product categories

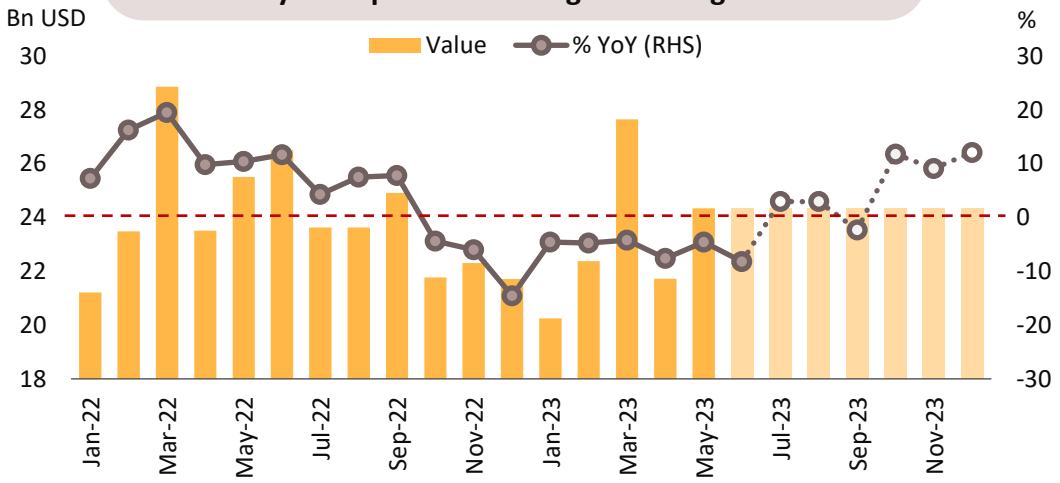
Exports by major destination (%YoY)



Exports by major product (%YoY)



If monthly export value is stable the rest of this year, full-year exports would register zero growth



Krungsri Research's view

- **In May Thailand's merchandise export value fell for the eighth consecutive month, by 4.6% YoY to USD24.3 bn.** This was better than the 8% contraction expected by the market and following a 7.6% decline in April. Exports from the real sector (excluding gold, oil-related products, and weaponry) decreased by 1.4%. Exports to major markets improved, led by exports to US, EU , Japan, and ASEAN5. Exports to China started to decline again. By sector, exports of industrial goods grew for the first time in 8 months by 1.5%, but agricultural and agro-industrial goods contracted for the first time in 4 months by 16.3%. In the first five months of 2023, Thai exports fell 5.1% while exports of the real sectors fell by 2.1%.
- **If, through the rest of 2023, exports continue to generate an equivalent monthly income as May, Thai exports will return to growth of 1% in Q3 and will then expand by more than 10% in Q4, though this would partly be a result of the low base last year when China imposed lockdown. In this case, overall 2023 exports would see zero growth.**
- **However, the export sector continues to face challenges arising from uncertainty around the world economy and the impacts of tighter monetary policy, and from slowing manufacturing sectors in key overseas markets, which with PMIs below 50, are now in contractionary territory. This will be mitigated by the positive impacts resulting from the easing of supply-chain bottlenecks, falling freight rates, and strong demand for food as countries try to build food security. We are therefore maintaining our export forecast of only 0.5% growth in 2023.**

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

Outlook clouded by weak global production and Asia exports, though specific factors could boost export of some product categories

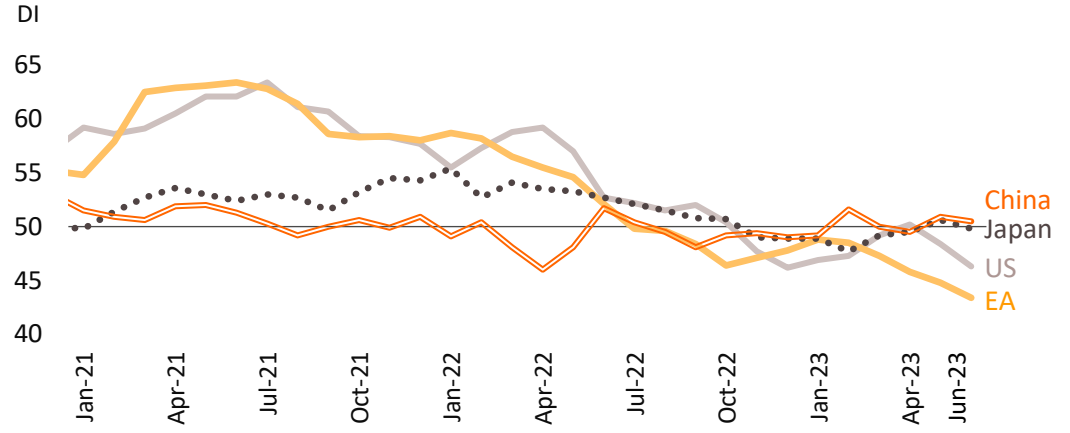
In the first five months of this year, Thai exports contracted 5.1% YoY led by a 5.4% decline in orders for industrial products such as computers & parts, oil-related products, and 1.3% decline in agricultural & agro-industrial products such as rubber and tapioca products. China reopening and easing chip shortage helped to boost exports of cars & parts, fresh-frozen & dried fruit, and electrical appliances. However, Thailand's exports remain fragile given signs of weaker manufacturing activity in major countries and slower exports in key Asian countries.

Thai exports by major product and destination

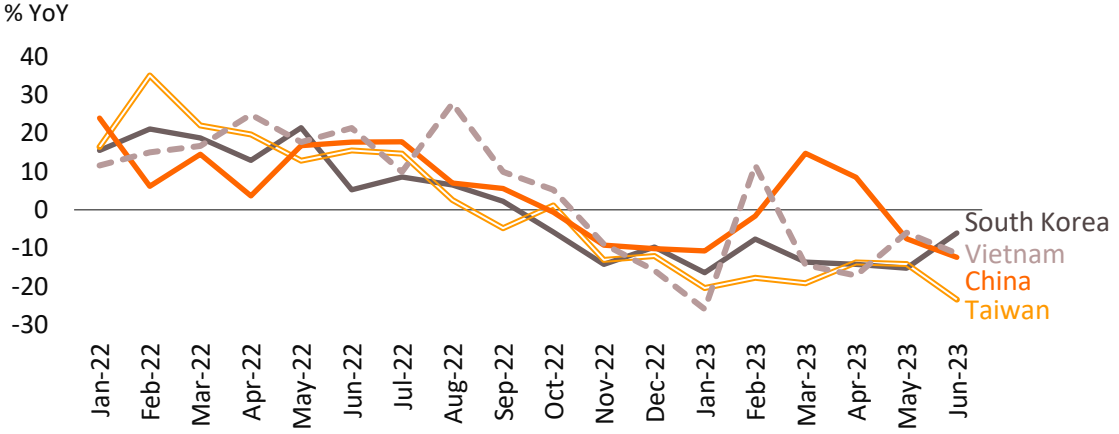
Thailand: Jan-May's export growth (% YoY)	World	US (17%)	EU (8%)	Japan (9%)	China (12%)	ASEAN-5 (14%)	CLMV (11%)
Total	**-5.1**	**-3.3**	**+0.8**	**-2.0**	**-5.5**	**-4.9**	**-10.9**
Cars & parts (9.8%)	+5	-11	+51	+10	-45	+22	+12
Computer & parts (7.2%)	-14	-10	-9	-15	-49	+33	+10
Rubber products (4.8%)	-6	-21	-13.9	+2.2	+10	-7	-21
Plastic resin (3.7%)	-25	-15	-9.6	-8	-29	-32	-35
Chemical products (3.3%)	-19	-26	-23	-4	-25	-18	-20
Electronic IC (3.3%)	+0	+13	+21	+21	+8	-8	+50
Fresh, frozen & dried fruit (2.0%)	+20.6	+18	+10	-20	+26	-5	-25
Rubber (1.8%)	-38	-40	-49	-34	-17	-58	-32
Electrical appliances (1.7%)	+15	+21	+0	+12	-12	+6	+12
Plastic products (1.6%)	-16	-25	-14	-6	-19	-17	-8
Tapioca products (1.5%)	-19	-16	-24	-6	-21	-38	+9
Rice (1.4%)	+31	-7	+8	+57	-30	+288	+11
Preserved fish, crustaceans (1.3%)	-9	-26	-13	+5.0	+61	+16	+11
Sugar (1.1%)	+28	-35	-	+31	-71	+45	-3

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

Manufacturing PMI in core countries are softening

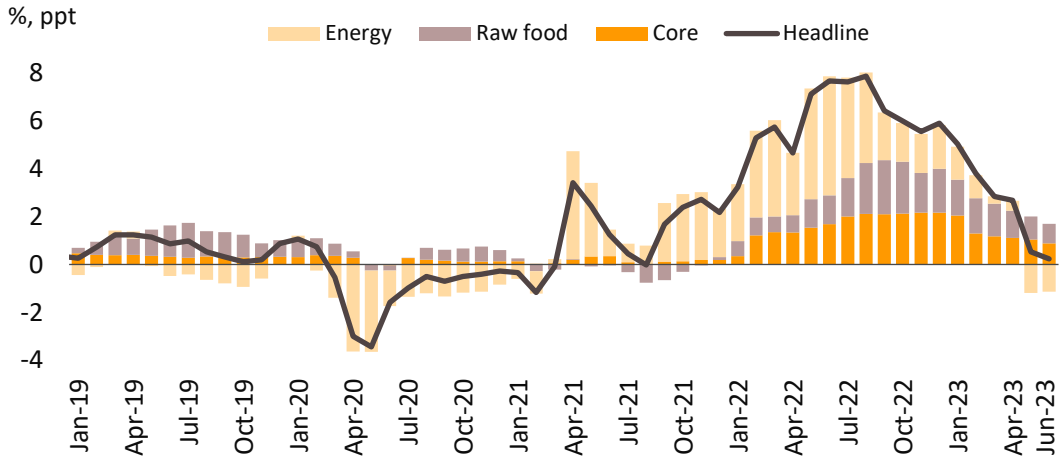


Exports of major Asian countries remained weak in June

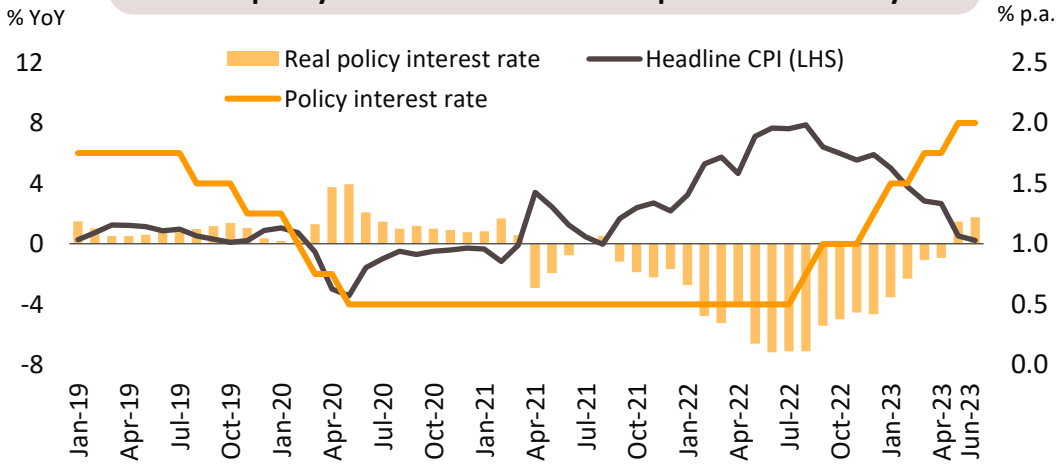


Headline inflation slipped to only 0.2% in June with full-year average expected at 1.9%; *MPC* might raise policy rate to 2.25% in August but that could be the last hike in this cycle

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
Headline CPI	**100.00%**			**0.2**
Food & beverages	41.71%			3.4
Apparel & footwears	2.08%			0.5
Housing & furnishing	22.26%			2.0
Medical & personal care	5.43%			1.8
Transportation & communication	22.98%			-6.9
Recreation & education	4.21%			0.7
Tobacco & alcoholic beverages	1.33%			0.6
Raw food	21.17%			3.9
Energy	13.98%			-9.1
Core CPI	**64.85%**			1.3

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

Krungsri Research's view

- **Headline inflation softened for the 6th month running in June, slipping from 0.53% YoY in May to a 22-month low of 0.23%.** This was due to a combination of last year's low base, lower global crude prices that had fed through to a 16.0% drop in domestic pump prices, and lower prices for pork, vegetable oil, and food preparation equipment. Core inflation, which excludes prices of raw food and energy, also fell from 1.55% to 1.32% in June. So, for the first half of 2023 (Jan-Jun), headline and core inflation averaged 2.49% and 1.87%, respectively.
- June headline inflation fell below the BOT's target range of 1-3% for the 2nd month, and inflation is now expected to average 1.0-1.5% in the second half of 2023. This would be partly attributable to lower fuel prices than a year ago. We expect the approaching drought to have limited impact on the economy this year but would worsen in 2024. On this note, ***we trimmed our 2023 inflation forecast from 2.5% to 1.9%.***
- Real interest rate has turned positive since May and is reducing pressure on the BOT to tighten monetary policy further. Nevertheless, Piti Disayatat, assistant governor of MPC, said ***"the fall in headline inflation was already largely anticipated given base effect from the high levels of last year. This should not have a big implication on monetary policy, as the medium-term outlook for inflation and the economy remains intact. Monetary policy also takes effect with a lag, so we still need to be vigilant that the return to low inflation level is sustainable and supportive of continuous recovery."*** **This suggests the MPC might raise policy rate once more at its 2 August meeting to take the rate to 2.25%. This would expand the policy space available to the authorities to tweak rates to address future risks.**

KRUNGSRI RESEARCH

Macroeconomic Team

Sujit Chaivichayachat	Head of Macroeconomic Research Team
Wanicha Direkudomsak	Senior Economist
Churailuk Pholsri	Senior Economist (Forecasting)
Thansin Klinthanom	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)
Prapan Leenoi	Analyst (ESG)
Supawat Choksawatpaisan	Analyst (Automobile, Electronics & Electrical Appliances)
Suppakorn Kornboontritos	Analyst (Agriculture , Food & Beverages)

Analytics and Intelligence Team

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

MIS and Reporting Team

Thamon Sernsuksakul	Administrator
Chirdsak Srichaiton	MIS Officer
Wongsagon Keawuttung	MIS Officer



Subscribe Us

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

Disclaimer

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