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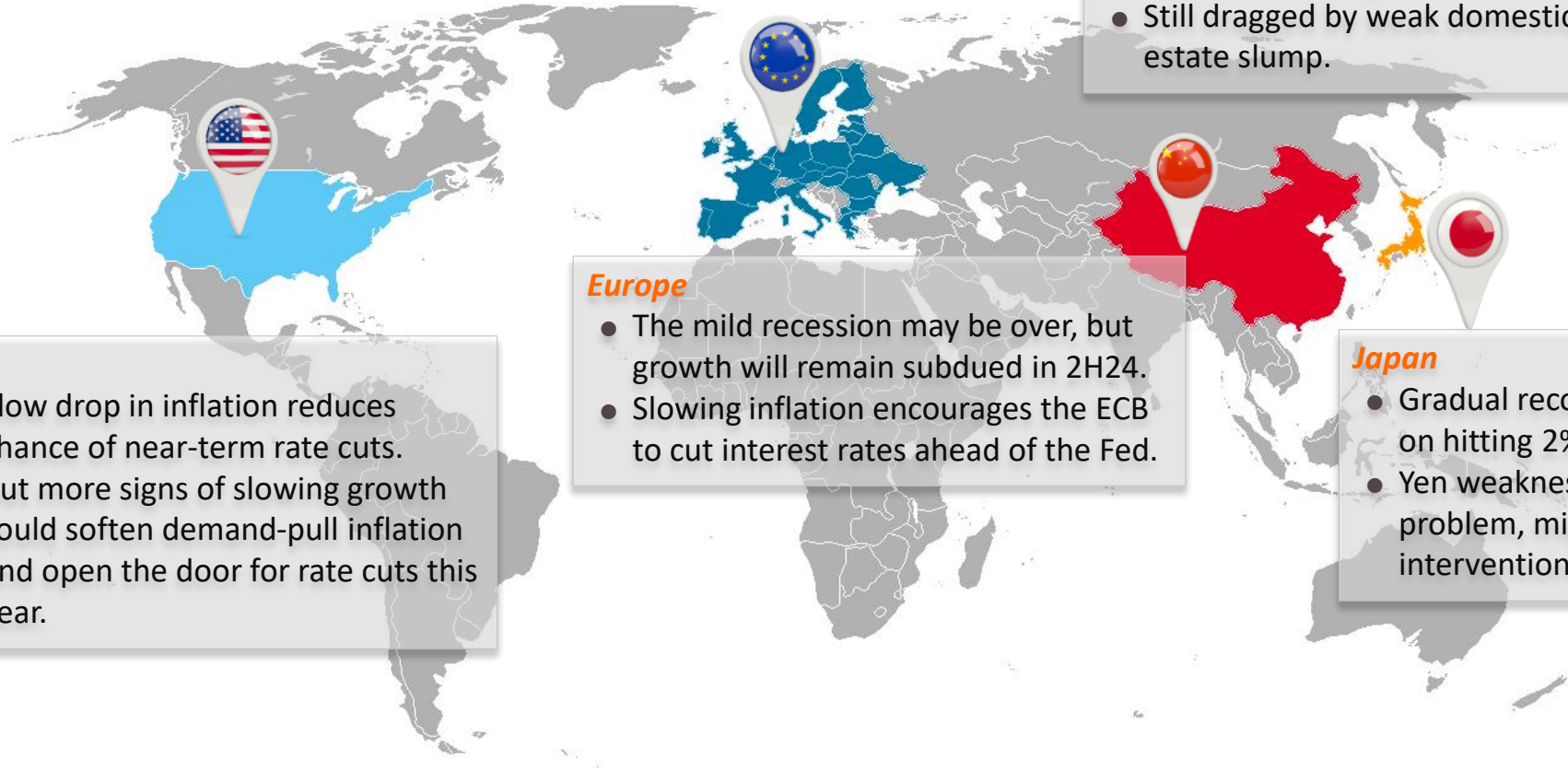
MONTHLY ECONOMIC BULLETIN

May 2024



Krungsri Research

Global: G3 economy is sailing ahead while China is adjusting its sails



China
- Manufacturing activity is improving but remains exposed to rising trade tensions.
- Still dragged by weak domestic demand and the real estate slump.

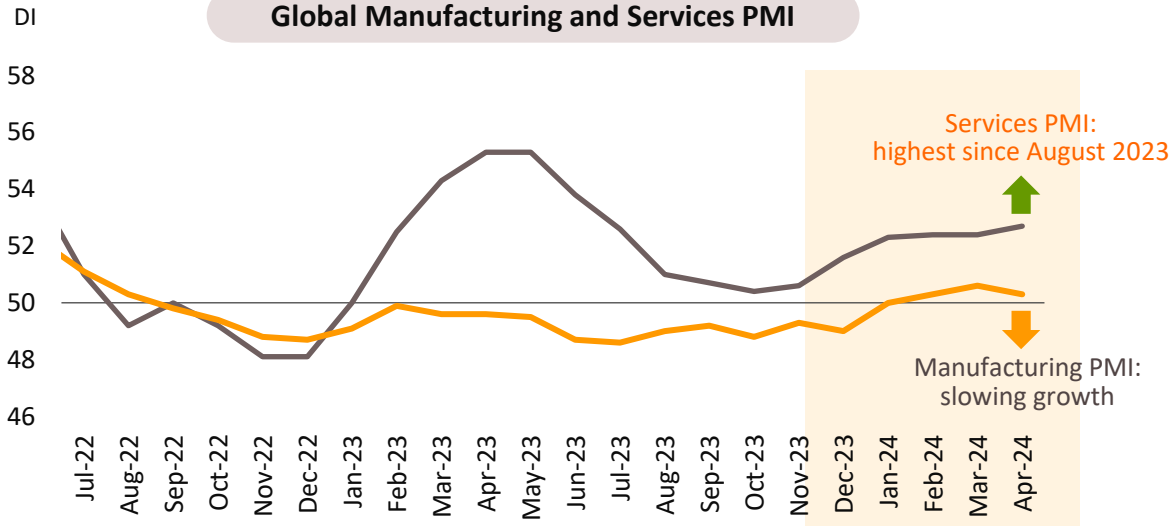
Europe
- The mild recession may be over, but growth will remain subdued in 2H24.
- Slowing inflation encourages the ECB to cut interest rates ahead of the Fed.

US
- Slow drop in inflation reduces chance of near-term rate cuts.
- But more signs of slowing growth could soften demand-pull inflation and open the door for rate cuts this year.

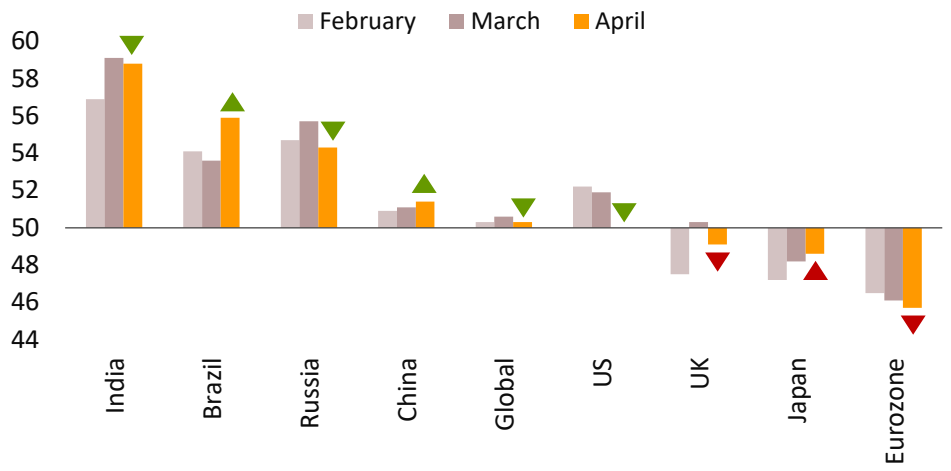
Japan
- Gradual recovery with conviction on hitting 2% inflation goal.
- Yen weakness has become a problem, might need intervention.

Global growth improves slowly led by services activity; manufacturing sector sees mild slowdown although new orders are rising in EMs; input prices increase modestly

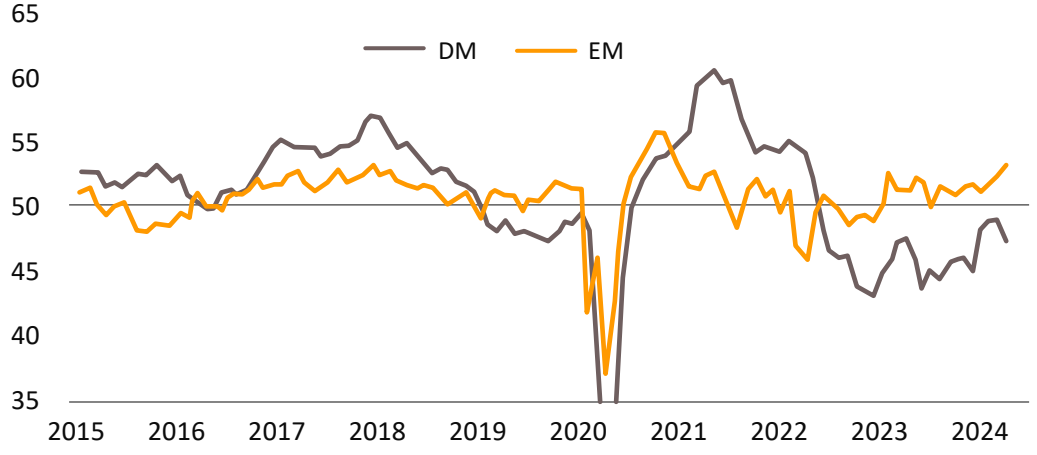
Global Manufacturing and Services PMI



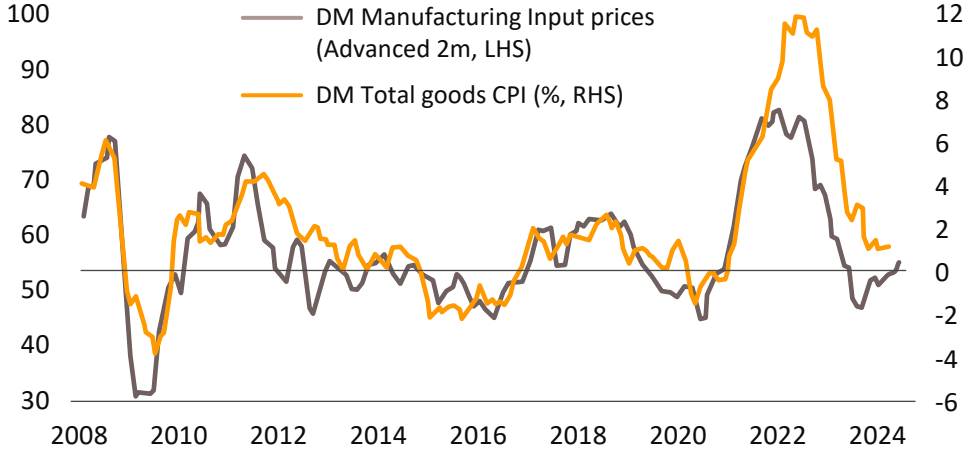
Major Countries' Manufacturing PMI



Manufacturing PMIs: New Orders



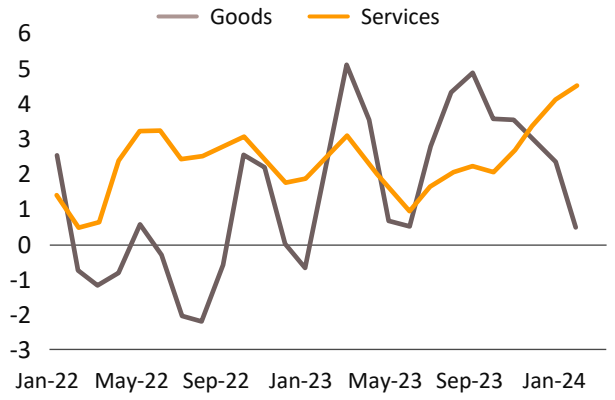
Developed countries: Input Price PMI and Goods inflation



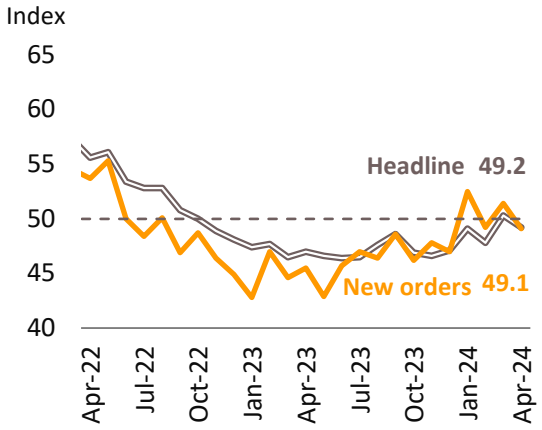
Source: S&P global, JP Morgan, New York Fed, Capital Economics, Bloomberg, Krungsri Research

US: Sticky price pressure reduces chance of near-term rate cuts, but more signs of slowing growth could soften demand-pull inflation and open door for rate cuts this year

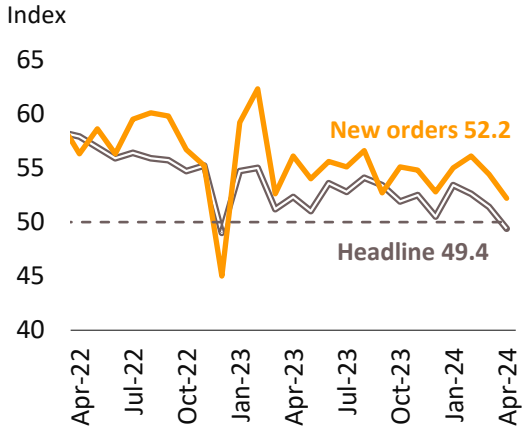
Real Consumption (%3m/3m Annualized)



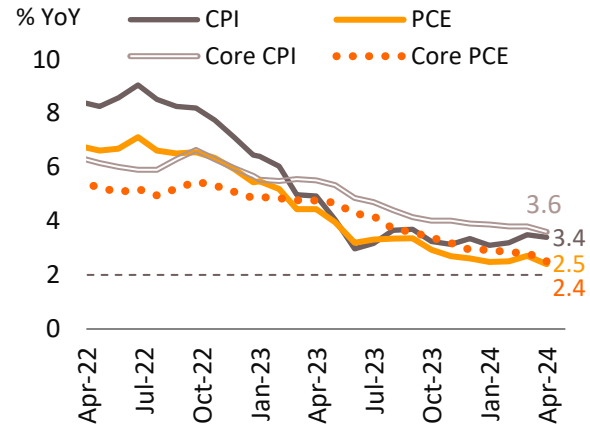
ISM Manufacturing PMI



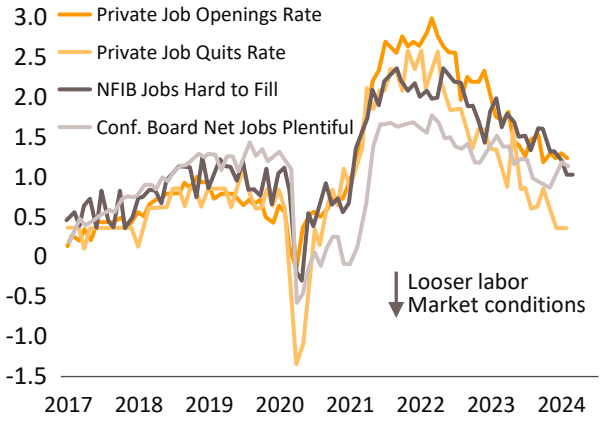
ISM Services PMI



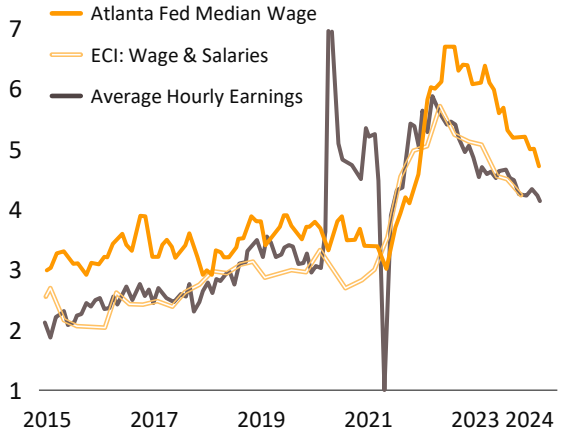
CPI, Core CPI, PCE, and Core PCE



Labor Market Slack Measures (Z Scores)



Wage Growth: %YoY



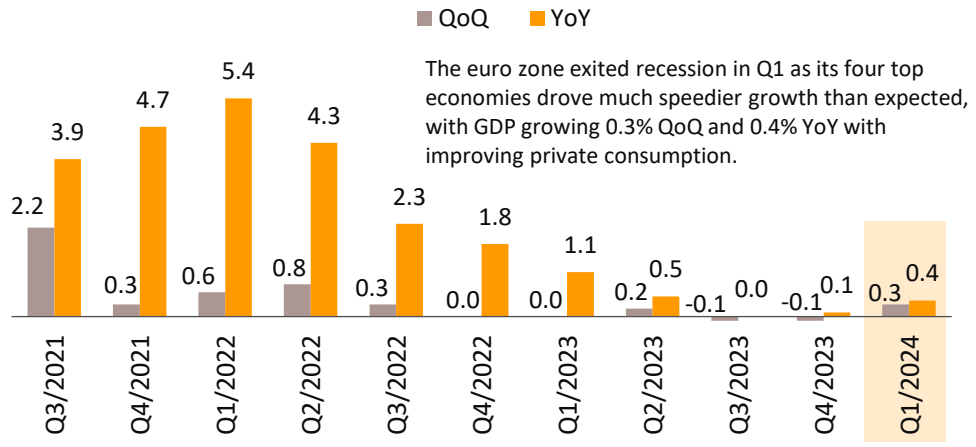
Source: ISM, BLS, Capital Economics, CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

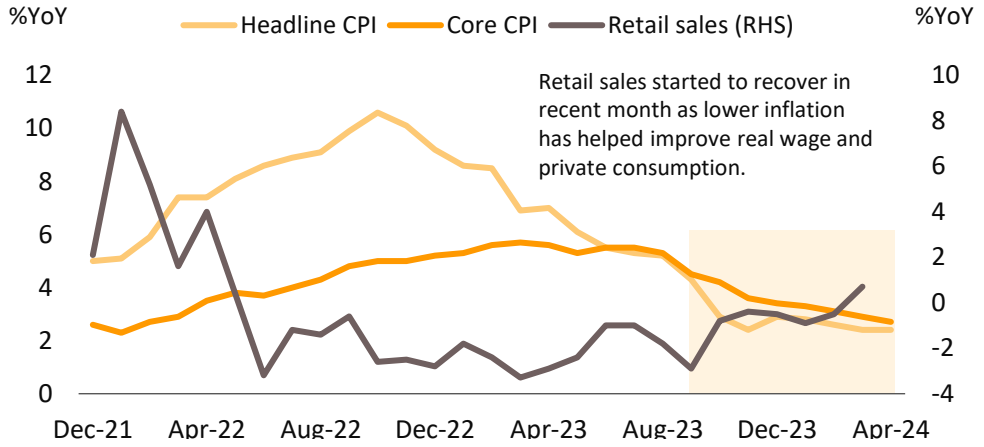
- **The Fed decided to hold benchmark rates at 5.25-5.50% in May, signaling no rate hike this year. However, the slow easing of price pressure could take the Fed longer to bring inflation to the 2% target or reduce chance of rate cuts in the next few months.**
  - **Still-sticky price pressure despite some softening: Headline inflation** eased only slightly to 3.4% YoY in April from a 6-month high of 3.5% in March. **Core rate** softened to a 3-year low of 3.6% from 3.8%. **The trimmed mean PCE price index**, a key gauge of underlying inflationary pressure, was at 2.9% MoM annualized in March, lower than in January and February, but higher than any month in 4Q23. The headline producer price inflation was steady at 2.2% in April and core rate rose to 2.4% from 2.1%.
- **Given signs of losing growth momentum, the Fed might move to cut rates this year.**
  - **Weaker growth:** 1Q24 GDP growth weakened to 1.6% QoQ annualized from 2.5% in 4Q23.
  - **Slowing private consumption**: Despite stronger spending on services in Q1, there are signs of a slowdown with April Services PMI falling to a 5-month low, consumer confidence index dropping to its lowest since August 2022, and retail sales posting zero month-on-month growth.
  - **Looser labor market conditions:** Job openings fell to a 3-year low of 8.48m, growth in non-farm payrolls slowed from 315k in the prior month to 175k, and unemployment rate rose by 0.1% to 3.9%. Key measures of wage growth were also the slowest since the pandemic.
- **Looking ahead, there are signs of policy easing after the Fed announced plans to slow the pace of Quantitative Tightening (QT), starting in June. The lagged effect of tight monetary policy could drag economic growth to below its potential level and affect the labor market, which would ease both wage growth and demand-pull inflation. To prevent a sharp economic slowdown, the Fed might make its first rate- cut in September and the Fed Funds rate could drop to 4.50-4.75% by year-end.**

Eurozone: Slowing inflation encourages the ECB to cut interest rates ahead of US Fed

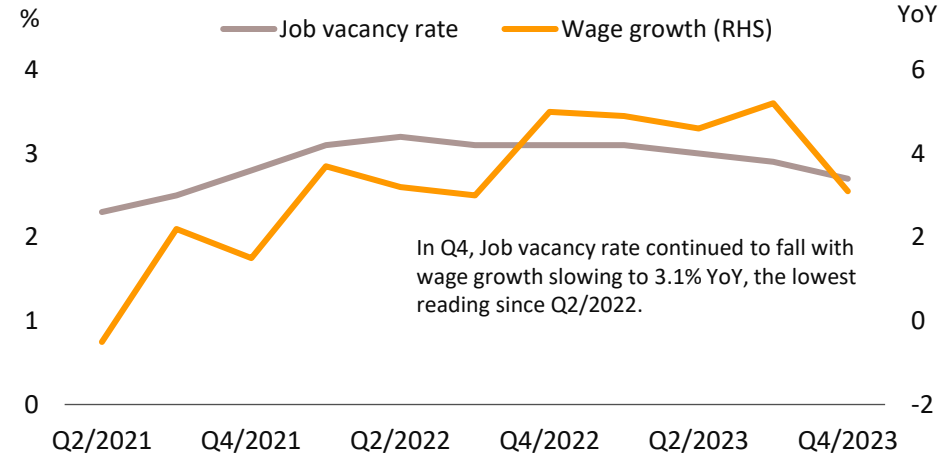
GDP Growth (%)



Retail Sales and Inflation Rate



Job Vacancy Rate and Wage Growth



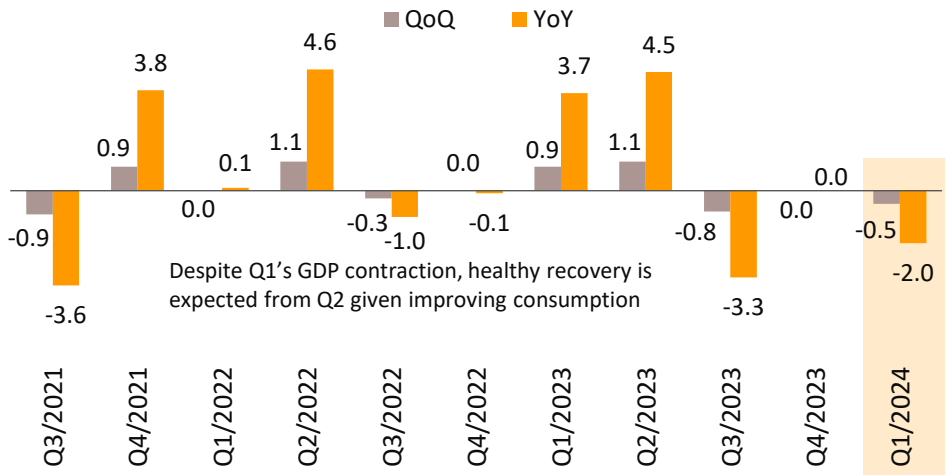
Source: ECB, CEIC, investing.com, Eurostat, Bloomberg, Krungsri Research

Krungsri Research's view

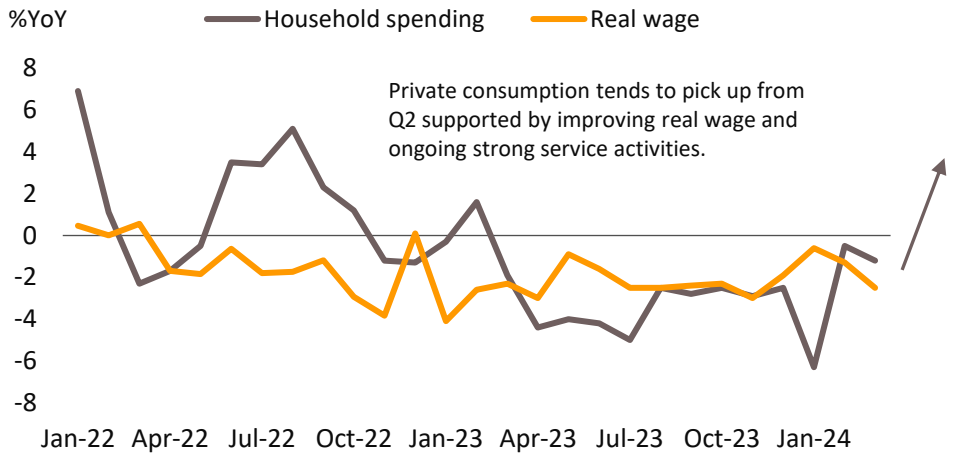
- **Economic recovery gained momentum in Q1, suggesting the mild recession is over; however, growth will remain subdued in 1H24.** Eurozone Q1 GDP reversed to post positive growth after a technical recession, largely led by increases in Germany and France (+0.2% QoQ each), Italy (+0.3%), and Spain (+0.7%). This is in line with: (i) the Composite PMI being in expansion zone for the second month, backed by services activities which marked the strongest growth in nearly a year; and (ii) inflation potentially dropping from 2.7% currently towards the long-term target of 2.0% in 2H24, which would help to lift real income and lead to a mild recovery in household consumption and business sentiment. In April, the ZEW Economic Sentiment Index rose to the highest since February 2022. **However, there is unlikely to be a meaningful recovery in 1H24** given: (i) still-contracting manufacturing activity; (ii) tighter fiscal policy; and (iii) continued weak credit demand from households and NFC.
- **Although unemployment rate remains low, the job vacancy rate continued to drop in Q4 suggesting the labor market is more balanced.** Given the still-soft labor market amid cooling inflation, workers will be less willing to ask for large nominal pay increases, and this will further undercut pressure from wage-push inflation in 2024. Given slowing wage growth and lower oil prices, we expect underlying inflation to fall towards 2% in H2 and encourage the ECB to cut interest rates ahead of the FED.
  - In Q4, Job Vacancy Rate fell to 2.7% from 2.9% in the previous quarter, marking the lowest reading in 9 quarters.
- Given the combined impact of these factors and still-slow growth throughout 1H24, we maintain that **the European Central Bank (ECB) would announce the first rate cut in June,** with the ECB's deposit rate expected to fall from 4.00% to 3.25% by the end of 2024.

Japan: Gradual recovery with conviction on hitting inflation goal of 2%; yen weakness has become a problem suspecting the need of intervention

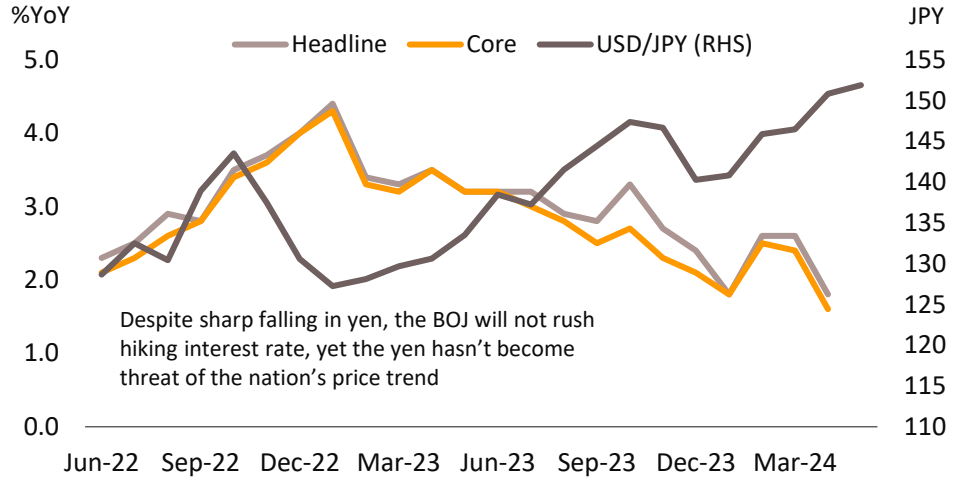
GDP Growth (%)



Real Wage Growth and Household Spending



Tokyo Consumer Price Index and JPY



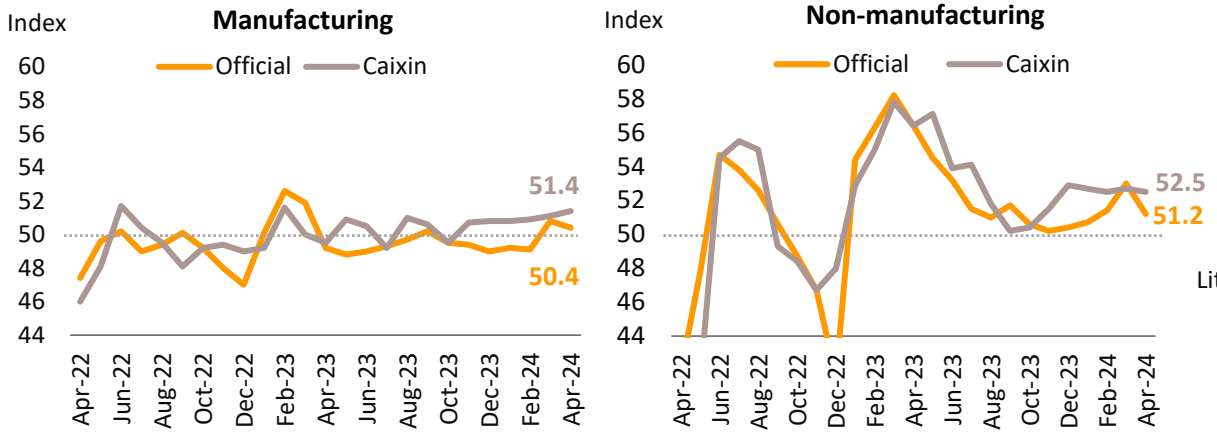
Source: Bank of Japan, CEIC, Investing.com, Krungsri Research

Krungsri Research's view

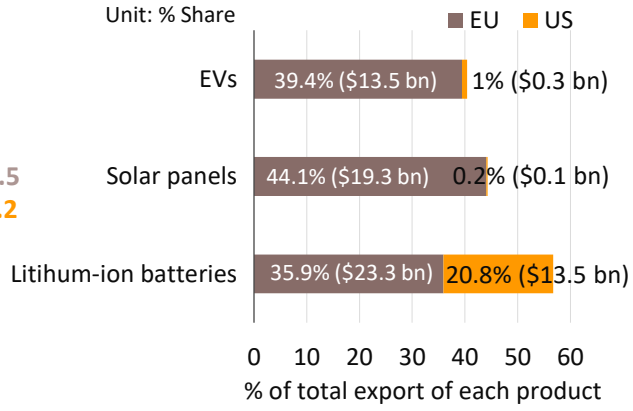
- **Following stagnation in the prior quarter, Japan's GDP shrank 2% YoY and 0.5% QoQ in Q1, with consumption marking the steepest fall in 3 quarters as consumers reduced spending amid sluggish wage growth.** Economic growth would likely remain subdued in the 1H24. But looking ahead, the latest indicators suggest growth would pick-up gradually from Q2 onwards with inflation moving towards 2% target, supported by (i) improving consumption following the highest wage increase in three-decades; (ii) strong services activity; and (iii) ongoing monetary policy support.
- **With the yen still weak, the BOJ has promised to adjust monetary policy direction if things get worse.** On May 7, the BOJ governor Kazuo Ueda warned that continued one-way move of the yen could increase uncertainties and hurt Japan's economy through rising inflation. This suggests the need for intervention if the yen becomes a threat to the nation's economy. However, we do not expect aggressive rate hikes until there is visible impact of the yen's weakness on Japan's economy.
  - Tokyo CPI dropped to 1.8% YoY in April from 2.6% in March. Tokyo Core CPI fell sharply to 1.6%, the lowest since March 2022.
- **To conclude, an aggressive rate hike remains off the table in 2024 but the next BOJ move would be a hike, depending on the matter of time.** We see the BOJ keeping monetary policy accommodative until the impacts of the recent round of wage rises and recovery in the economy feed through into an extended strengthening of inflation that brings this back to the 2% target.

China: Manufacturing shows improvement but remains exposed to risks from rising trade tensions; weak domestic demand and the real estate slump continue to drag on

Purchasing Managers' Index (PMI)



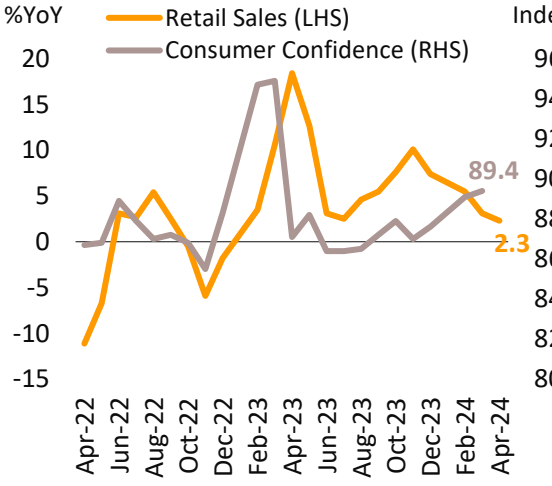
China's Exports to US & EU in 2023



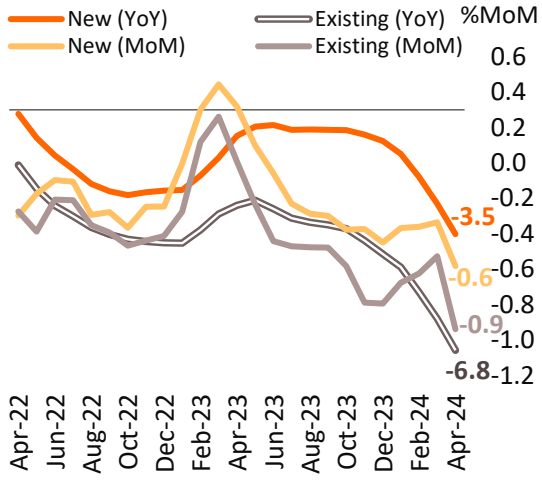
Proposed US Tariff Hikes on Chinese products

Product		Tariffs		Effective year
		Current	New	
EVs		27.5%	102.5%	2024
Solar panels		25%	50%	2024
Lithium-ion batteries	EVs	7.5%	25%	2024
	Non-EVs	7.5%	25%	2026
Semiconductor		25%	50%	2025

Retail Sales and Consumer Confidence



Residential Home Price Index



Source: National Bureau of Statistics, CEIC, Bloomberg, Nikkei Asia, General Administration of Customs and Krungsri Research

Krungsri Research's view

- **Manufacturing is recovering but remains fragile.** The official Manufacturing PMI was in expansion zone for the 2nd straight month but edged down from 50.8 in March to 50.4 in April. Meanwhile, the services sector continued to play a crucial role in driving the economy. **We expect manufacturing and services to continue to expand and drive growth in the near future,** thanks partly to the government's trade-in program for electrical appliances and industrial equipment and improving foreign demand in some sectors.
- **Rising trade tensions could pose some risk to exports and manufacturing later this year**. The US plans to hike tariffs on China's key industries, especially EVs, solar cells, and lithium-ion batteries, during 2024-2026. Meanwhile, the EU signaled it would utilize all measures against heavily-subsidized Chinese goods, especially EVs, and expanded its anti-subsidy probe to medical devices following solar panels and EVs. **However, the immediate impact of US tariffs on EVs and solar panels would be limited compared to the potential impact from EU,** because the share of these goods exported to the US is small relative to their total exports.
- **Domestic demand remains weak, and growth would be limited in 2024 despite the positive effects of the trade-in program.** 1Q24 survey revealed that nearly 62% of respondents aim to increase their savings. During the five-day labor holiday in early May, spending per capita was 11.5% below the same period in 2019 as more tourists visited lower-tier cities. Moreover, consumer confidence remains 28% lower than in 2019.
- **Real estate slump continues to weigh on the economy.** In April, the top 100 developers' sales of new homes fell for the 11th straight month by 44.9% YoY. New and existing home prices still show no signs of recovery. The government signaled that it would cut the policy rate and RRR again later this year, and it announced the refinancing fund for selected state-owned enterprises to purchase excess housing supply. These could help to improve developers' liquidity. **However, we still expect house sales and prices to drop throughout 2024.**

Thailand: Sailing with the wind; structural problems to drag cyclical tailwinds

- **The Thai economy has escaped a technical recession after recording a contraction of 0.4% QoQ in 4Q23. In 1Q24, Thai GDP grew better than expected at +1.5% YoY and +1.1% QoQ sa.,** mainly encouraged by (i) stronger tourism sector which boosted private consumption (+6.9%) and exports of services (+24.8%); (ii) tax refund scheme called Easy-E-Receipt program; and (iii) an expansion in industrial plant construction.
- **The economy should continue to see a cyclical recovery the rest of this year** with further growth in the tourism sector and accelerating disbursement of public spending from 2Q24, particularly capital expenditures (after a 7-month delay in the budget bill). These would be tailwinds to drive the growth of domestic economic activity.
- **However, we are reviewing our economic forecasts to reflect both the unexpected 1Q24 GDP growth and the coming headwinds.** Also, structural problems like lower competitiveness and high household debt, are increasingly capping Thai exports, private investment, and household consumption amid weaker business and consumer confidence. The drought impact will also pressure farm output and income.
- **Headline inflation** reversed to positive territory in April and is inching towards the target range later this year, but the annual average is expected to stay below 1%.
- **For the interest rate outlook, 1Q24 GDP data (close to the BOT's estimate) and recent developments suggest the MPC could take rate cuts off the table:** (i) the BOT has affirmed its view, seeing no significant change from recalibrating the neutral rate despite the slower growth trend; (ii) signs of improving GDP growth from Q2 onwards should support the BOT's outlook-dependent stance; (iii) inflation is likely to rise towards the official target in 2H24, and (iv) the recent lending rate cuts by commercial banks for vulnerable clients align with the BOT's intention to help targeted groups, and hence, reduce the need for broad-based interest rate reduction.

Thailand: 1Q24 GDP grew better than expected at +1.5% YoY, +1.1% QoQ, boosted by stronger tourism sector and tax refund program; overall growth was not broad-based

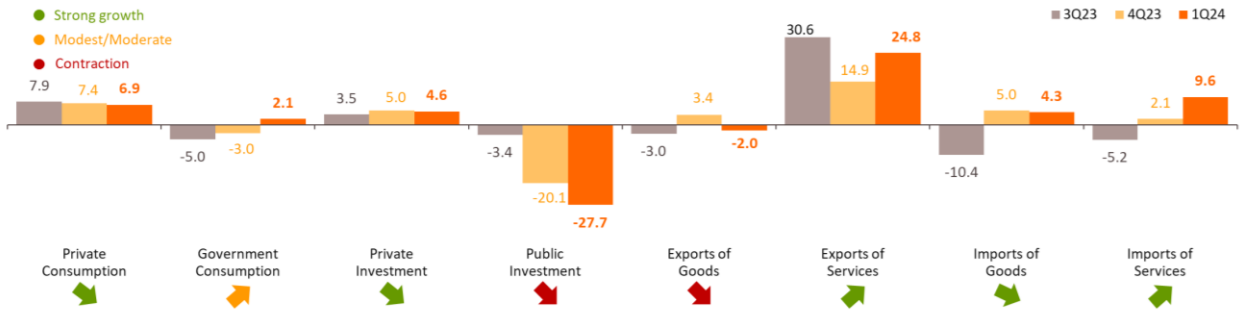
Key growth drivers in 1Q24:

- Stronger tourism sector, boosting private consumption (+6.9% YoY) and exports of services (+24.8%)
- Tax refund called Easy-E-Receipt program
- Expansion in industrial plant construction
- Changes in inventories (+7.7%)

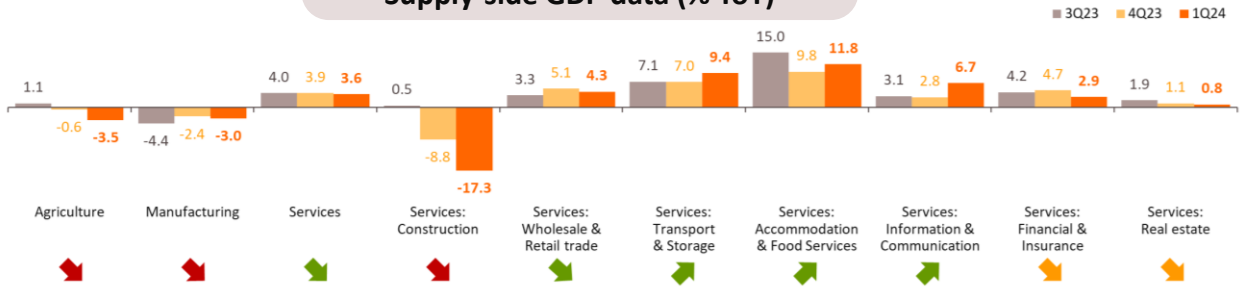
Negative YoY growth in 1Q24:

- **Demand side:** Shrinking public investment (-27.7%), public consumption (-2.1%), and export of goods (-2.0%)
- **Supply side:** Shrinking agriculture (-3.5%), manufacturing production (-3.0%), and construction (-17.3%)

GDP growth by expenditure (% YoY)

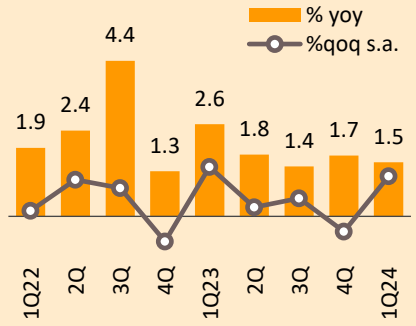


Supply-side GDP data (% YoY)



Source: NESDC, Krungsri Research

Thai GDP growth (%)



	% YoY		% QoQ sa	
	4Q23	1Q24	4Q23	1Q24
GDP	**1.7**	**1.5**	**-0.4**	**1.1**
Private consumption	7.4	6.9	0.2	1.2
Public consumption	-3.0	-2.1	0.6	-0.1
Private investment	5.0	4.6	-1.1	0.4
Public investment	-20.1	-27.7	-12.7	-9.3
Export of goods	3.4	-2.0	0.2	-2.0
Export of services	14.9	24.8	-2.2	14.9
Import of goods	5.0	4.3	1.2	5.2
Import of services	2.1	9.6	5.5	7.9

Krungsri Research's view

- **The Thai economy has escaped a technical recession after recording a contraction of 0.4% QoQ in 4Q23.** In 1Q24, Thai GDP grew better than expected by +1.5% YoY and +1.1% QoQ sa., mainly encouraged by (i) stronger tourism sector which boosted private consumption (+6.9%) and exports of services (+24.8%); (ii) tax refund scheme called Easy-E-Receipt program; and (iii) an expansion in industrial plant construction.
- However**, 1Q24 GDP growth remained weak** (compared to +1.9% in 2023 and +2.5% in 2022) **and was not broad-based** due to a contraction in key components, including exports of goods (-2%), public investment (-27.7%), public consumption (-2.1%) and consumer spending on durable goods (-6.8%).
- On the supply side, despite an expansion in most of service sectors (+3.6%), **the negative growth was seen in other key sectors**, including manufacturing production (-3.0%, the 6th consecutive quarter of contraction), agriculture (-3.5%), and construction (-17.8%).
- **The NESDC has revised down its 2024 GDP growth forecast** to 2.5% median (a range of 2.0-3.0%) from 2.7% median (a range of 2.2-3.2%) in its previous forecast, mainly due to a downward revision of private investment, goods exports, and trade balance.
- **In our view, the Thai economy should see a cyclical recovery** with GDP growth likely to improve from 1Q24, supported by an approval of the budget bill in late April (which would boost public spending), and further growth in the tourism sector. **We are reviewing our economic forecasts** to reflect both the unexpected 1Q24 GDP growth and the coming headwinds, such as impacts of structural problems and drought.
- **The Q1 GDP data (close to the BOT's estimate) and recent developments suggest the MPC could take rate cuts off the table.**

Krungsri Research Forecasts for 2024

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

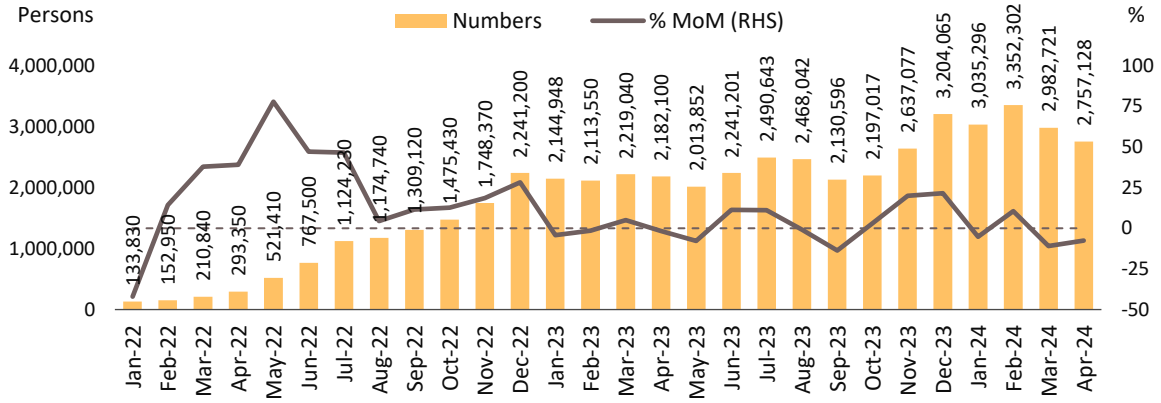
** 2024 projection excluding Digital Wallet Scheme

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

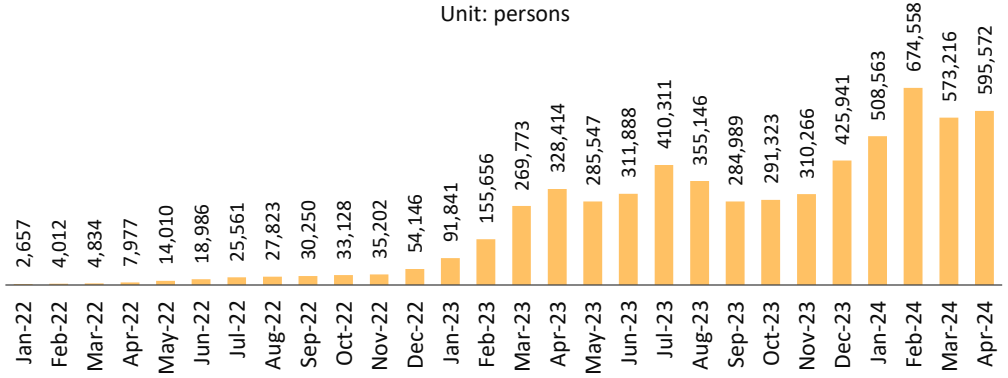
Tourism sector continues to be supported by a cyclical rebound; despite low season in Q2, it is doing better than last year, partly supported by the visa-free program

Thailand welcomed 2.76 million foreign tourists in April, slowing down for the second consecutive month despite the Songkran festival. **In the first four months of this year, tourist arrivals reached 12.13 million (87% of pre-Covid level vs 71% in 2023) and generated THB584 bn receipts (88% of pre-Covid level vs 63% in 2023)** led by Chinese tourists, which made up the largest group but was still only 59% of pre-Covid level. Tourists from Malaysia, Russia, South Korea, and India surged to 104-126% of pre-pandemic levels. In Q2, which marks the low season, tourist arrivals are normally smaller than the previous quarter. To support the ongoing recovery in the tourism sector, the government has extended visa-free program to nationals of Russia, India, and Taiwan, and granted permanent exemptions to tourists from China and Kazakhstan.

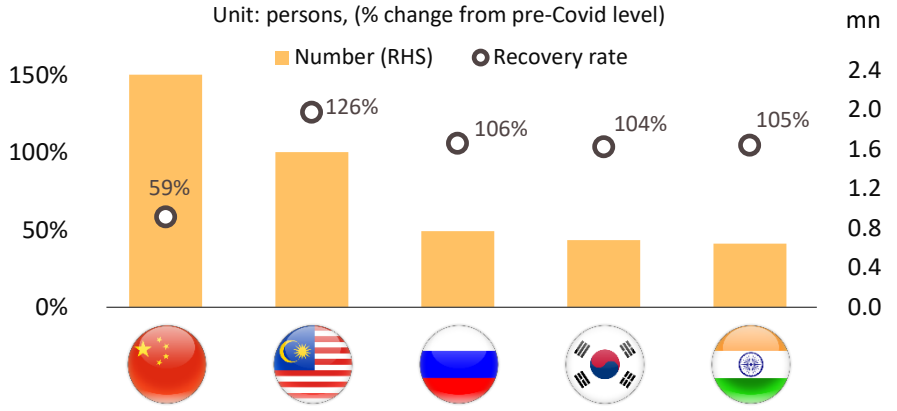
Foreign tourist arrivals reached 12.1 million in 4M24



China leads in tourist arrivals to Thailand



Top 5 tourist arrivals by country in 4M24 (Jan-Apr)



Visa-Free Scheme

Country	Details
China, Kazakhstan	Permanent VISA-exemption, stays up to 30 days
Russia	VISA-exemption scheme and stays up to 60 days (effective 1 May'24-31 Oct'24)
India, Taiwan	VISA exemption scheme and stays up to 30 days, extended by 6 months (effective 11 May'24- 11 Nov'24)

Source: MOTS, CEIC, Krungsri Research

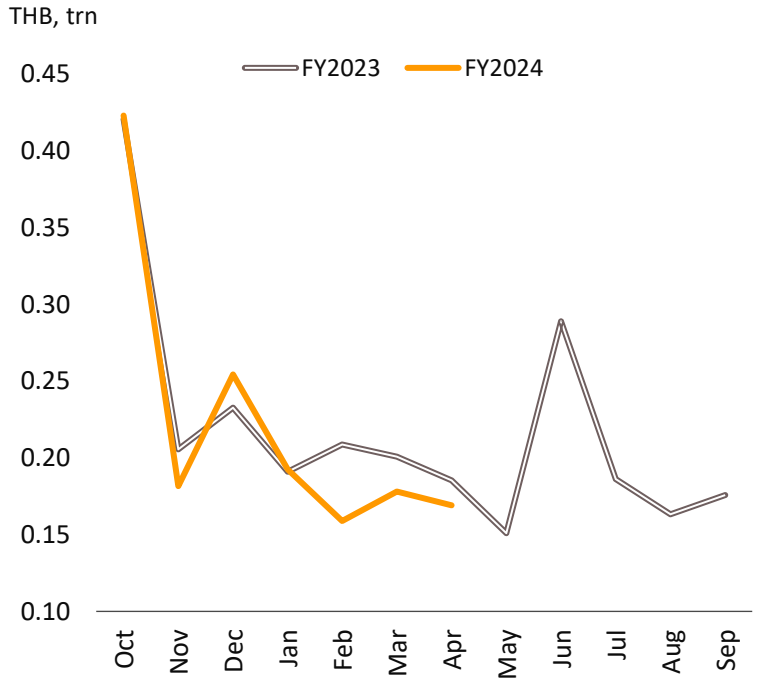
Public investment will be a key tailwind to drive the economy from Q2 onwards after FY2024 Budget Act comes into effect in late-April

The FY2024 Budget Act took effect in late-April. That suggests budget disbursements, particularly for public investment, would accelerate the rest of this year. Data from the Ministry of Finance show that in the first seven months of FY2024 (October 2023 to April 2024), spending of the current budget reached THB 1.56trn or 56% of the annual current budget, down 5.3% YoY. For the capital budget, only THB 0.116trn has been disbursed for public projects in the first seven months of FY2024, or just 13.8% of the annual capital budget, down 60.4% YoY. **Hence, during the remaining 5 months of FY2024 (May to September 2024), the NESDC expects disbursements, especially from the investment budget, to accelerate and inject THB510 bn into the economy.** In addition, the government has set the preliminary FY2025 capital budget at over THB900 bn and would start disbursements this October (the first month of FY2025).

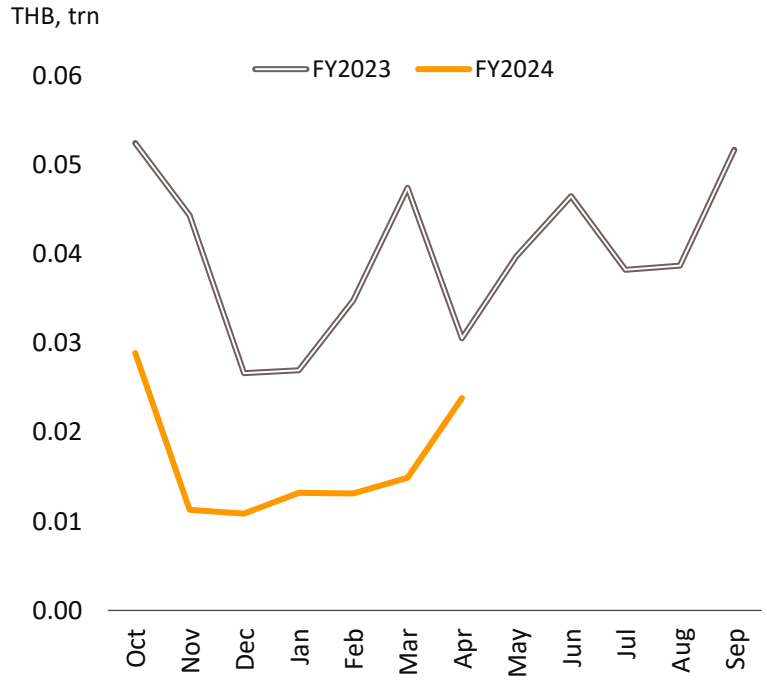
Fiscal plan

Fiscal year (THB, bn)	2023	2024	2025*
Expenditures	3,185	3,480	3,752
% YoY	2.7	9.3	7.8
- Current	2,402	2,533	2,705
% YoY	1.2	5.4	6.5
- Capital	689	718	908
% YoY	12.7	4.1	27.9
Fiscal balance	-695	-693	-865
% of GDP	-3.8	-3.6	-4.4

Current expenditure disbursement



Capital expenditure disbursement



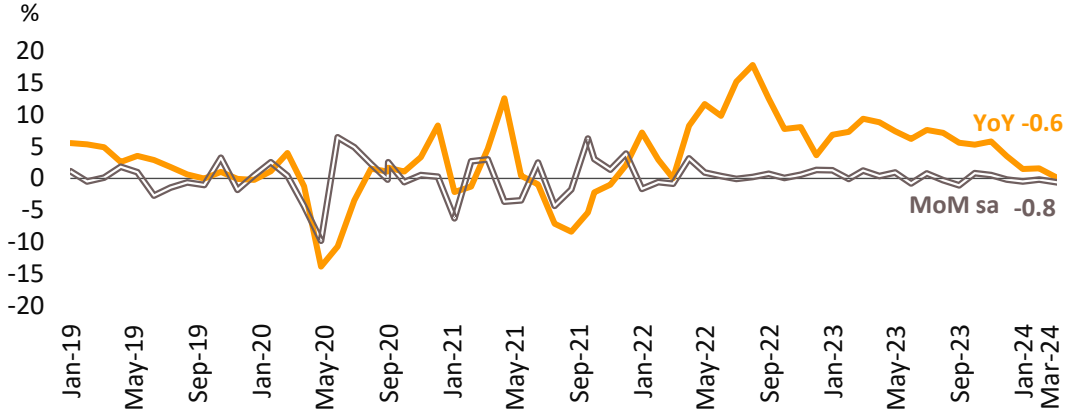
Note: * preliminary from the cabinet (approved as of April 18, 2024)

Source: MOF, the cabinet, Krungsri Research

Private consumption showing slower growth after expiry of stimulus measures

Private consumption index fell in March (-0.6% YoY and -0.8% mom sa). Spending on non-durable goods fell after the tax refund program - Easy-E-Receipt - expired. Spending on durable goods also fell, especially in passenger cars. Consumption was also pressured by the drought impact which hit farm output and income as well as high household debt. ***But recently, commercial banks reduced lending rates for 6 months to help vulnerable groups and the government extended measures to ease living expenses, especially energy costs.*** These efforts will support purchasing power in some consumer segments.

Private consumption fell from previous month

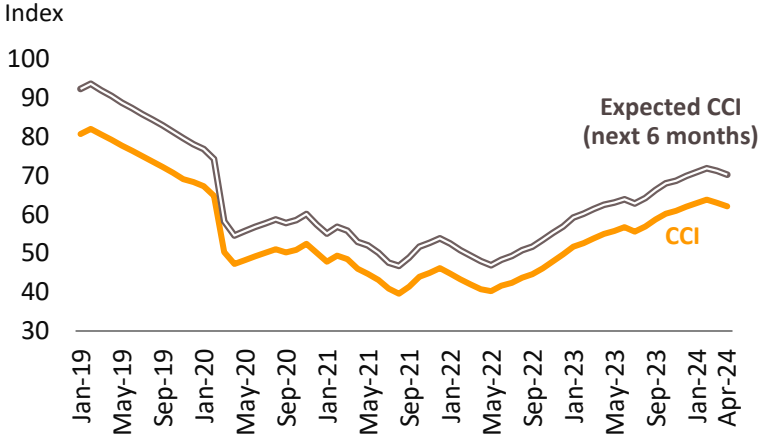


Private consumption by category

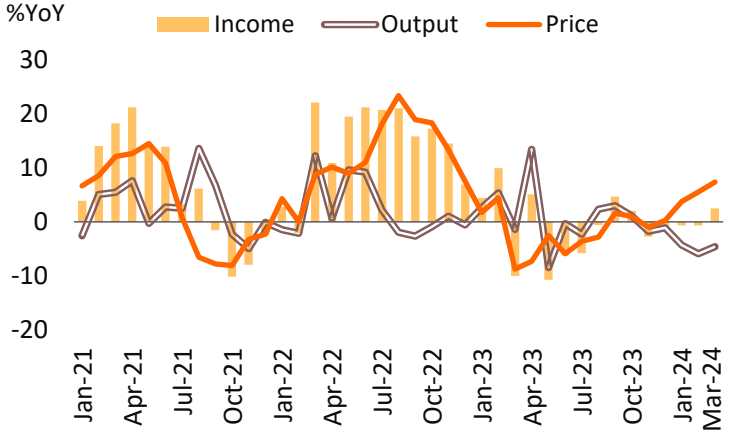
%YoY*	2021												2022												2023												2024		
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M
Private consumption																																							-0.6
Non-durables																																							2.7
Semi-durables																																							-1.9
Durables																																							-15.0
Services																																							5.9
Non-residents expenditure																																							57.6

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

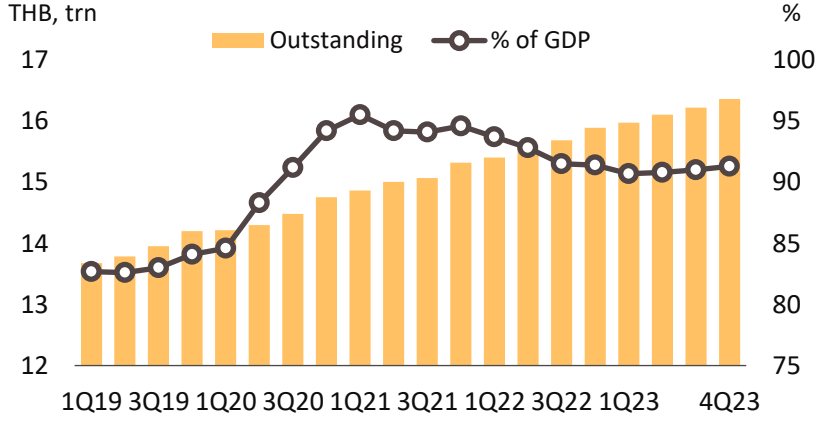
Consumer confidence fell for the second consecutive month



Farm income would be dragged by drought impact



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

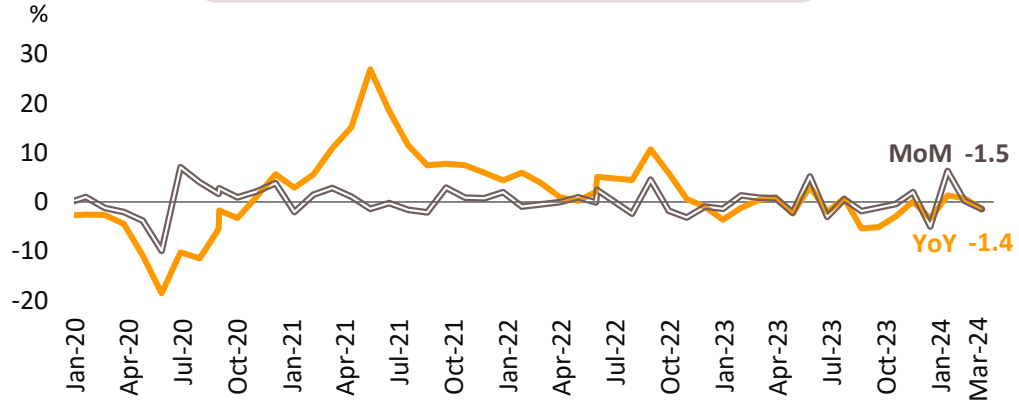


Source: CEIC, BOT, University of the Thai Chamber of Commerce (UTCC), Krungsri Research

Private investment in some sectors will benefit from a rebound in public investment but overall growth could be impeded by weak manufacturing sector and exports

Investment continued to show signs of weakness, reflected by (i) the April Business Sentiment Index dropping to the lowest level in 27 months or since February 2022; (ii) the Private Investment Index falling in March (-1.4 YoY and -1.5% mom sa), with weaker investment in machinery & equipment and in construction; (iii) the Manufacturing Production Index has continued to contract for more than a year and Capacity Utilization rate is below 60%. **However, public investment is expected to accelerate, leading to crowding-in effect of private investment in some segments in the next period. In addition, the latest BOI data indicate private investment would recover in the medium term.**

Private Investment Index fell in March

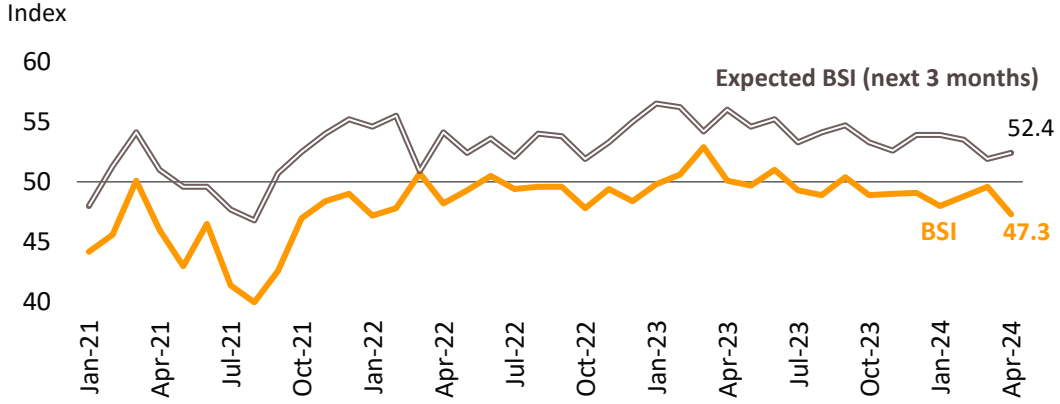


Private Investment by category

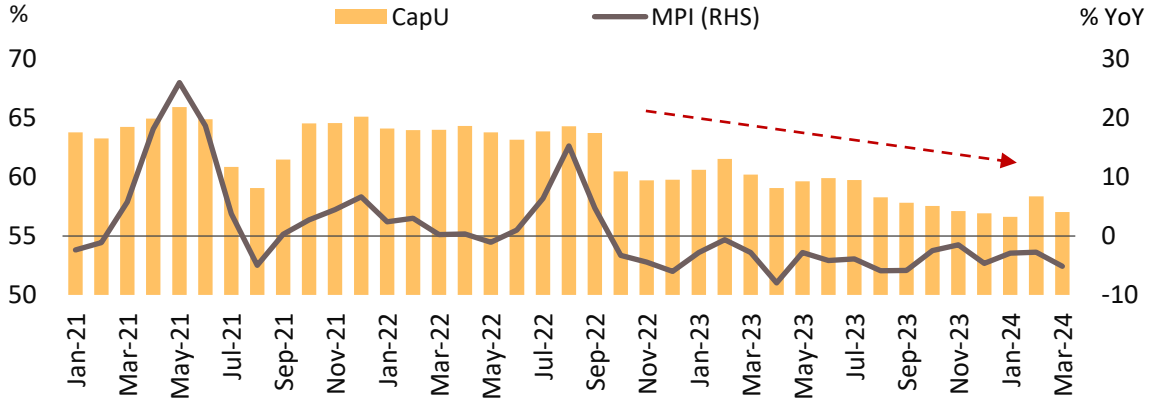
%YoY*	2021												2022												2023												2024		
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M
Private investment																																					-1.4		
Construction area permitted																																					15.0		
Construction material sales																																					-13.2		
Imports of capital goods																																					16.5		
Machinery sales																																					-8.8		
Newly registered vehicles																																					-28.9		

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

Business Sentiment Index fell to lowest since February 2022



Manufacturing Production Index and Capacity Utilization Rate

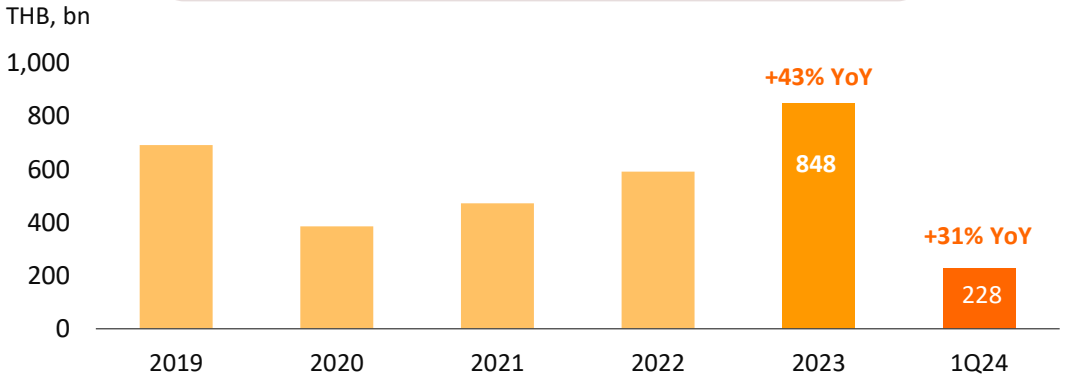


Source: BOT, OIE, CEIC, Krungsri Research

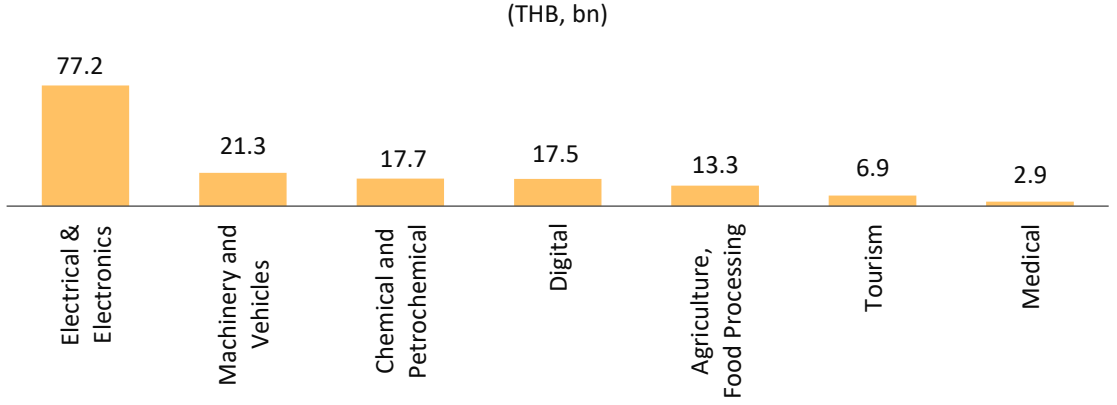
Applications for BOI incentives surged by over 30% in Q1, potentially signaling a boost in investments for some key sectors in the medium-term

In the first quarter of this year, the Board of Investment (BOI) received applications for investment incentives for 724 projects (+94% YoY) with a total investment value of THB228.21 bn (+31% YoY). The three industries with the highest investments were **Electrical & Electronics, Machinery & Vehicle and Chemical & Petrochemical.** Foreign direct investment (FDI) applications for BOI incentives rose by 130% to 460 projects valued at THB169 bn (+16%), led by Singapore, China and Hong Kong. The value of Singapore's investment has risen due to significant investments by Singaporean businesses with Chinese parent companies in printed circuit board (PCB) manufacturing. **Meanwhile, the BOI has approved 647 projects with a total investment value of THB 256.93 bn (+107% YoY).** This is a promising sign for domestic investment in key industrial sectors over the next 1-2 years.

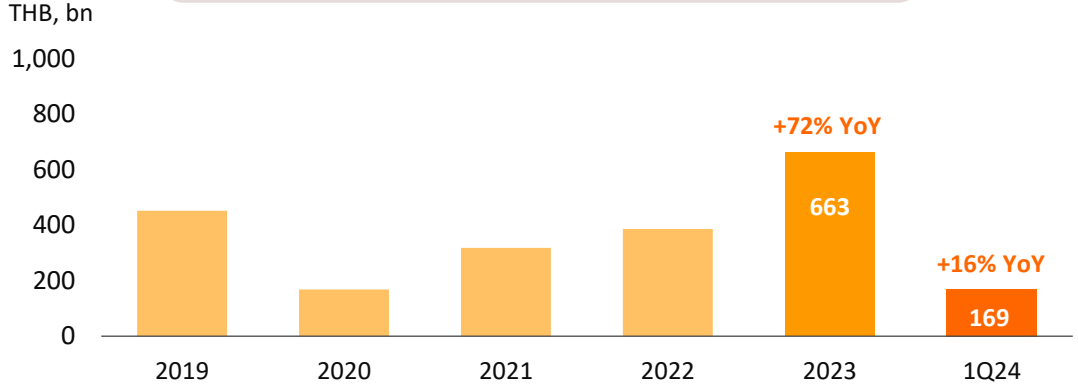
Total Applications for BOI Investment Incentives



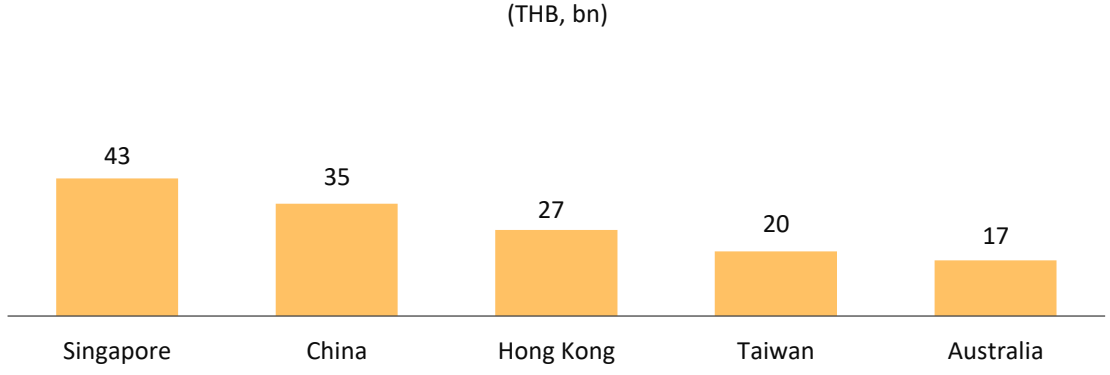
Applications for BOI Investment Incentives by sector



Total FDI Applications for BOI Investment Incentives



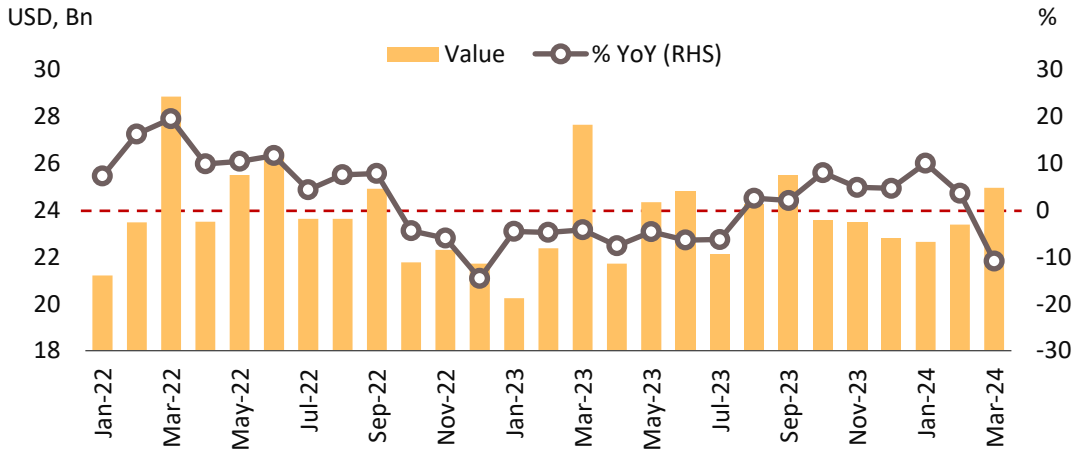
FDI Applications for BOI Investment Incentives by country



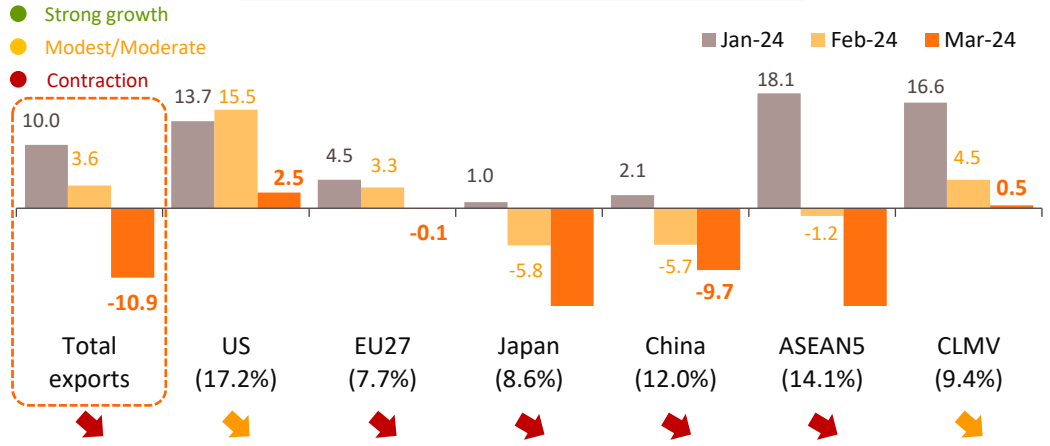
Source: BOI, Krungsri Research

Exports shrank in the first quarter; full-year growth might be below our 2.5% expectation

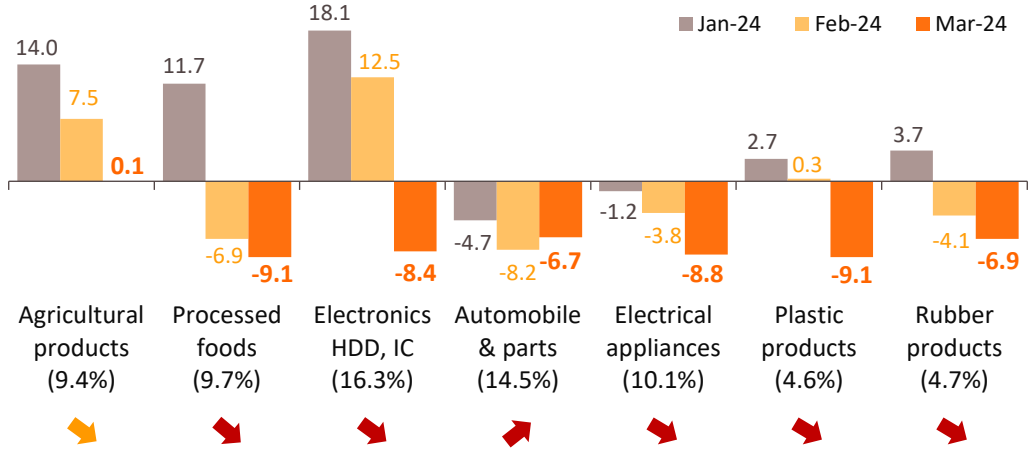
Exports



Exports by major destination (%YoY)



Exports by major product (%YoY)



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

Krungsri Research's view

- **In March, merchandise export value turned to contract for the first time in 8 months, falling 10.9% YoY to USD 24.96 billion.** Excluding oil, gold & weapons, exports shrank 5.6%, partly due to the high comparison base. Additionally, volatile weather conditions have delayed supply of agricultural products to the market. And, exports of major industrial products continued to contract, such as autos, parts & equipment (-12.4%) and integrated circuit boards (-18.2%), However, export of some products continued to expand, including computers, equipment & components (+8.7%), rice (+30.6%), and rubber (+36.9%). By destination, exports to the most important markets shrank, including to ASEAN5 (-26.1%), Japan (-19.3%), China (-9.7%), and the EU (-0.1%). Exports to the US and CLMV expanded by 2.5% and 0.5%, respectively. For the first quarter of this year, the value of Thai exports edged down 0.2%.
- **The outlook for exports for the rest of the year remains fragile due to structural problems in Thailand's manufacturing sector,** as reflected in April Manufacturing PMI, which fell from the previous month and remained in contraction territory (below-50) for the 9th consecutive month. That contrasts with Global Manufacturing and ASEAN PMI data, both of which are in expansion territory (above-50). **This raises risk that Thai exports could grow slower than our 2.5% expectation. For export growth to reach 2.5% in** 2024, exports in the remaining nine months of 2024 must average USD24.5 bn per month, higher than 1Q24 monthly average of USD23.7 bn.

Positive growth in some export products amid weak industrial production; structural headwinds undermine growth in major industries

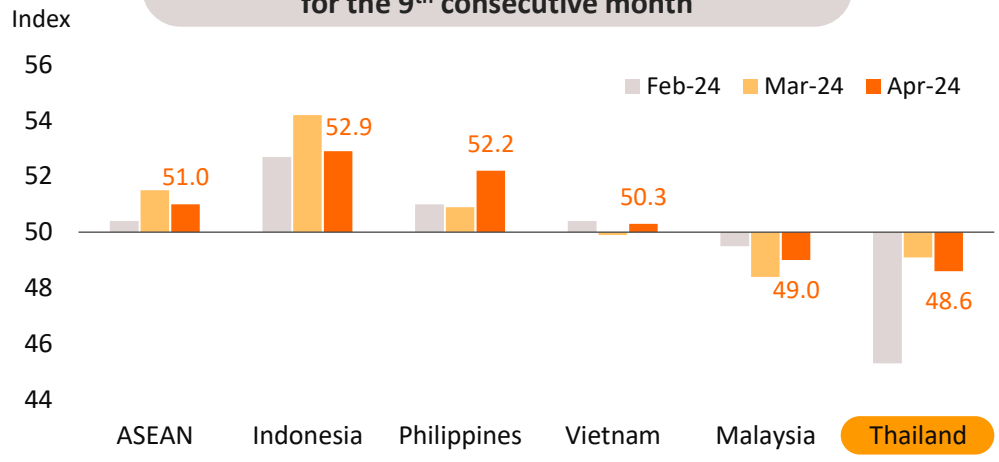
In the first quarter of this year, Thai exports fell by 0.2% YoY due to a 6.0% drop in agro-industrial product exports (including rubber products, tapioca products and sugar) and a 0.3% drop in industrial product exports (including cars & parts, electronic IC, chemical products and plastic resin). Exports of agricultural products (including rice and rubber) expanded by 6.8%. However, Thai exports are still concentrated in low value-added products. There are negative signals from still-weak Thailand's Manufacturing PMI data and Manufacturing Production Index which has contracted for more than a year. This reflects structural problems in Thai exports.

Thai exports by major product and destination

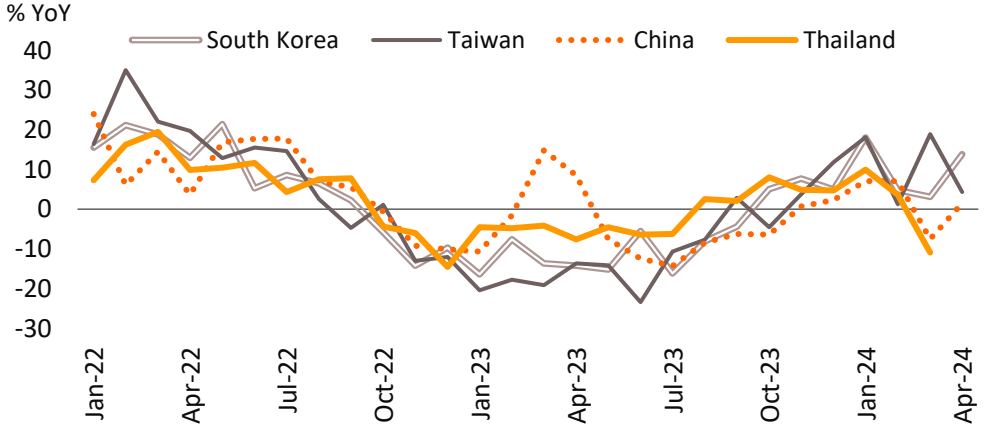
Thailand: Jan-Mar's export growth (% YoY)	World	US (17%)	EU (8%)	Japan (9%)	China (12%)	ASEAN-5 (14%)	CLMV (9%)
Total	**-0.2**	**+9.9**	**+0.4**	**-9.0**	**-5.1**	**-5.2**	**+6.5**
Cars & parts (10.9%)	-7.9	+17.3	-9.8	+0.3	-14	-28.6	-48
Computer & parts (6.3%)	+8.7	+15.5	+19.5	-18	+27	-33.3	-3.0
Rubber products (4.7%)	-2.8	+24.1	-1.6	+2.0	-35	-11.5	+5
Electronic IC (3.4%)	-11	-39.0	-16.3	-0.4	+1.1	-12.0	-20
Plastic resin (3.1%)	-6.1	+26.8	-19.2	-12.3	-6	-7.6	-3.7
Chemical products (2.8%)	-9.1	-12.7	-27.2	-14.5	-16	-11	-7.4
Fresh, frozen & dried fruit (2.0%)	-16.0	-8.4	+32.4	+15.6	-24	+3	+73
Electrical appliances (1.9%)	-4	-2.7	-4.2	+2.7	+39	-12	-22
Rice (1.8%)	+43	+25.8	+11.6	-11.0	-20	+252	+36
Plastic products (1.5%)	+6	+40.5	+0.7	-9.9	+5	-2.4	-1
Rubber (1.3%)	+25	+68.1	+56	+23.1	+6	+20	+100
Tapioca products (1.3%)	-21	+6.8	-17.0	+10.7	-39	+79	-0.6
Preserved fish, crustaceans (1.2%)	+5	+4.4	+18.9	-14.0	-40	+0.1	-1.1
Sugar (1.2%)	-36	-100	-55	-11.8	+33	-51	+48

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

Thailand Manufacturing PMI was below-50 for the 9th consecutive month



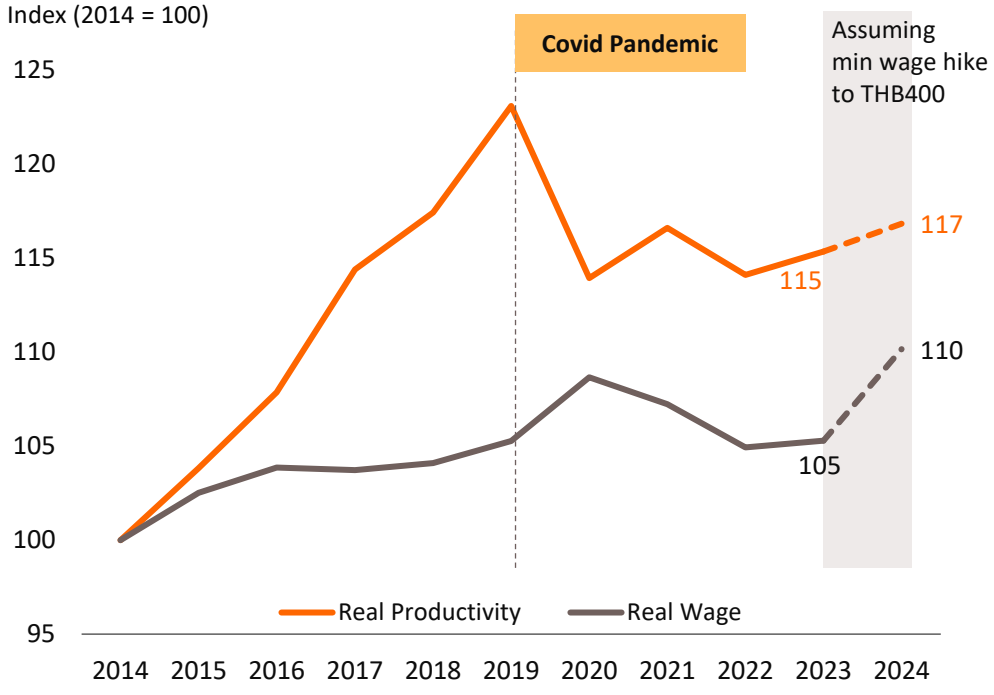
Exports of major Asian countries continued to grow in April



Jump in *minimum wage* would narrow the *productivity-wage gap* significantly, making it more challenging for firms to improve performance

The hike in daily minimum wage to THB400 nationwide would translate to 1% p.a. compounded growth in average real wage over the last 10 years, compared to only 0.6% without the latest wage hike. And, productivity-wage gap would narrow significantly to 0.6% from 1%. And post-pandemic, the minimum wage hike could also cause **productivity-wage gap to narrow to -2.0% compared to -1.6% without.** This suggests many firms will suffer from the wage hike, especially the manufacturing sectors which already register a negative gap such as textile & apparel, electronics, rubber & plastics, food & beverages and vehicles & transport equipment.

Average Real Wage and Productivity Indices



CAGR	Latest 10 years		Pre-covid	After covid	
	2014-2023	With min wage hike to THB400 in 2024	2014-2019	2019-2023	With min wage hike to THB400 in 2024
Labor Productivity	**1.6%**	**1.6%**	**4.2%**	**-1.6%**	**-1.0%**
Real Wage	0.6%	1%	1%	0.005%	0.9%
Gap	**1%**	**0.6%**	**3.2%**	**-1.6%**	**-2.0%**

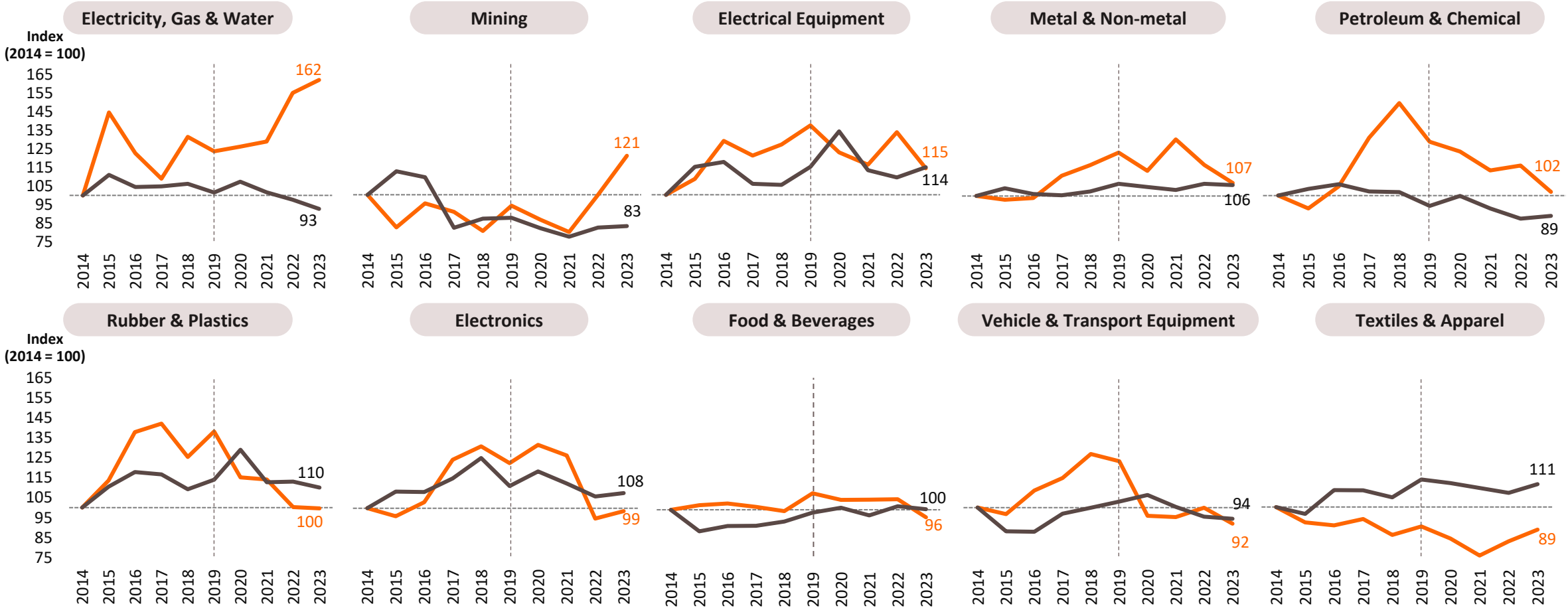
Assumption for 2024

- Real GDP = 2.7%, CPI = 1%, Employment = 1.7% (CAGR: 2020-2024)
- Daily minimum wage hike to THB400 for employed persons with the current wage (2023) of less than THB400
- Wage increase of 1% for employed persons with the current wage of at least THB400 a day.

Source: NSO, NESDC, ILO and Krungsri Research

Industry: Current productivity-wage gap in most industries close to zero, indicating risks of higher costs, except for electricity, gas & water

Prior to the pandemic, labor productivity in most sectors, except textiles & apparel, grew faster than real wages. However, only electricity, gas & water can maintain pre-covid trends, with the gap growing wider. Meanwhile, vehicle & transport equipment and electronics experienced a drop in labor productivity, indicating they are still being dragged by negative factors post-covid. These suggests stronger need for technological transformation, such as digital adoption and automation, in major industries in Thailand.

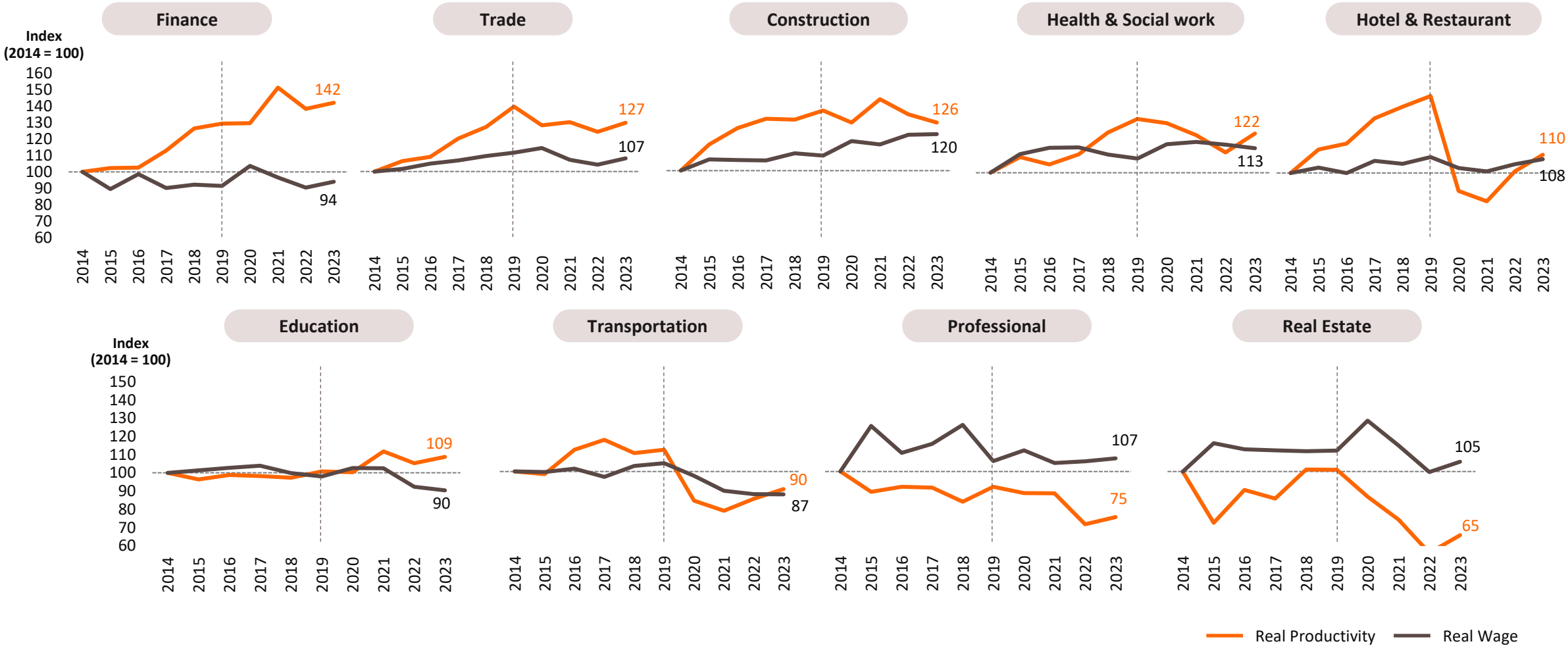


Note: Industry includes mining, electricity, gas & water and manufacturing (food & beverages, textiles & apparel, petroleum & chemicals, rubber & plastics, metal & non-metal, electronics, electrical equipment, vehicle & transport equipment, and other manufacturing not specifically mentioned in this study).

Source: NSO, NESDC and Krungsri Research

Services: Productivity-wage gap remains positive in several services sectors but most show smaller gaps

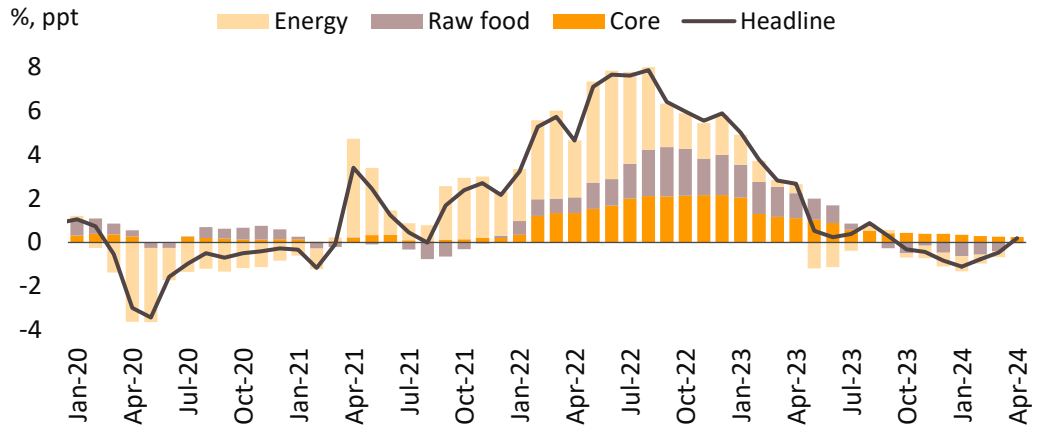
Most services sectors have recorded positive productivity-wage gaps post-pandemic, with **finance** having the largest positive gap. Meanwhile, productivity growth in **hotel & restaurant, health & social work, and transportation** show signs of improvement, outpacing the steady change in real wages. Given this constant change in real wages, the positive gaps are expected to widen. However, large negative gaps persist in **real estate and professional sectors** with no clear signs of recovery.



Source: NSO, NESDC and Krungsri Research

Headline inflation reversed to positive territory in April and is inching forward to meet the target range later this year, but full-year average is expected to stay below 1%

Contributors to inflation



Consumer Price Index: Major categories

Consumer Price Index (% YoY)*	Weight	2022 J	F	M	A	M	J	J	A	S	O	N	D	2023 J	F	M	A	M	J	J	A	S	O	N	D	2024 J	F	M	A
Headline CPI	**100%**																												0.19
Food & beverages	41.4%																												0.28
Apparel & footwears	2.1%																												-0.17
Housing & furnishing	22.2%																												-0.84
Medical & personal care	5.5%																												0.45
Transportation & communication	23.3%																												0.87
Recreation & education	4.2%																												0.43
Tobacco & alcoholic beverages	1.4%																												1.41
Raw food	20.6%																												-0.20
Energy	14.1%																												-0.09
Core CPI	**65.4%**																												0.37

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

Energy subsidies had helped to cap inflation

Subsidy policy	Details	Effective
Electricity fee	3.99 baht/unit for households that use electricity less than 300 units per month.	May- Aug'24
Diesel price	Capped 33 baht/liter	20 Apr-31 Jul'24
LPG cooking gas	Maintain 423 baht per 15-kg cylinder	1Apr – Jun'24

Source: MOC, the cabinet, Krungsri Research

Krungsri Research's view

- **In April, headline inflation turned positive for the first time in 7 months, by 0.19% YoY.** This is attributed to: (i) rising global oil prices and smaller subsidy for diesel price; and (ii) drought impact on farm yields, which has pushed up prices of fresh fruit and vegetables. Core inflation (which excludes raw food and energy prices) is unchanged at 0.37% YoY. For the first four months of the year, headline and core inflation averaged -0.55% and 0.42%, respectively.
- **Headline inflation could return to 1-3% target range later in the year** with the withdrawal of diesel price subsidy and rising cost of agricultural goods as a result of the current heatwave. Price levels may be further pressured in Q4 with the government's plan to raise daily minimum wage to THB400 nationwide. However, inflation will likely average less than 1% for full-year 2024 due to: (i) slow growth in domestic demand; (ii) difficulty in passing higher costs onto consumers; and (iii) continuation of some subsidy measures to help consumers with elevated energy costs.

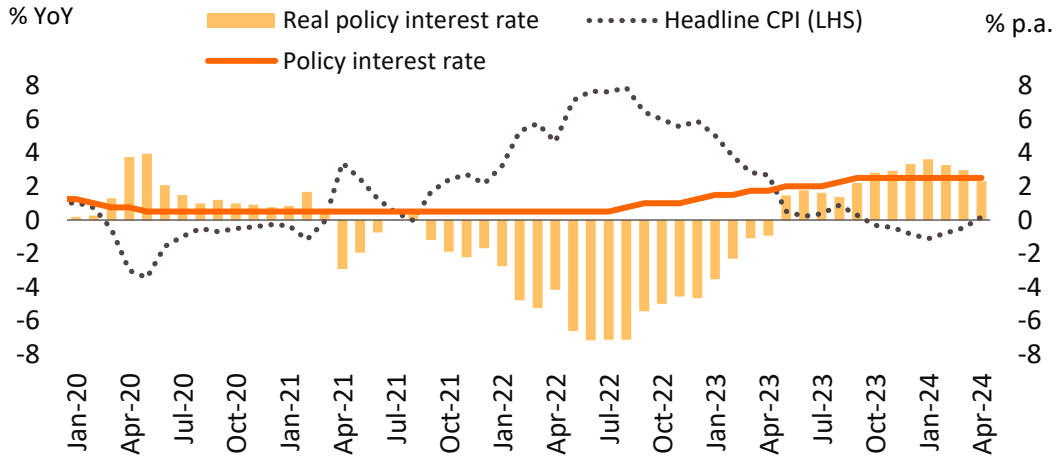
1Q24 GDP data (close to the BOT's estimate) and recent developments suggest that the MPC could take rate cuts off the table

Commercial banks cut MRR by 0.25% to help vulnerable groups

Bank	Details	Effective for 6 months
BBL	Reduce MRR for individual customers and SMEs in vulnerable groups.	Started 29 April
KTB	Reduce interest on MRR, MLR and MOR loans for (i) Personal customers who are under assistance measures (ii) House loan, credit limiit not exceeding THB 2 mn and (iii) SMEs, credit limit not exceeding THB10 mn, income not more than THB 2 mn per month	Started 16 May
KBANK	• House loan (not more than THB2 mn) with monthly income not more than THB30,000 • SMEs, credit limit not exceeding THB 2 mn, sales not exceeding THB 200,000 per month.	Started 16 May
SCB	• Individual, home loans and My Home My Cash, credit limit not exceeding THB2 mn • SMEs, credit limit not exceeding THB2 mn	Started 16 May
BAY	• House loan (not more than THB2 mn) with monthly income not more than THB30,000 • SMEs, credit limit not exceeding THB 2 mn, sales not exceeding THB 200,000 per month	Started 16 May
TTB	• House loan (not more than THB2 mn) with monthly income not more than THB30,000 • SMEs, credit limit not exceeding THB5 mn, sales not exceeding THB30 mn per year	Started 16 May

Source: Local press, BOT, MOC, Krungsri Research

Real policy interest rate



Krungsri Research's view

- **1Q24 GDP data (close to the BOT's estimate) and recent developments suggest that the MPC might take rate cuts off the table:**
  i. the BOT has affirmed its view, seeing no significant change from recalibrating the neutral rate despite the slower growth trend;
  ii. signs of improving GDP growth from Q2 onwards should support the BOT's outlook-dependent stance;
  iii. inflation is likely to rise towards the official target in 2H24; and
  iv. the recent lending rate cuts by commercial banks for vulnerable clients align with the BOT's intention to help targeted groups, and hence, reduce the need for broad-based interest rate reduction.

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