

krungsri Research

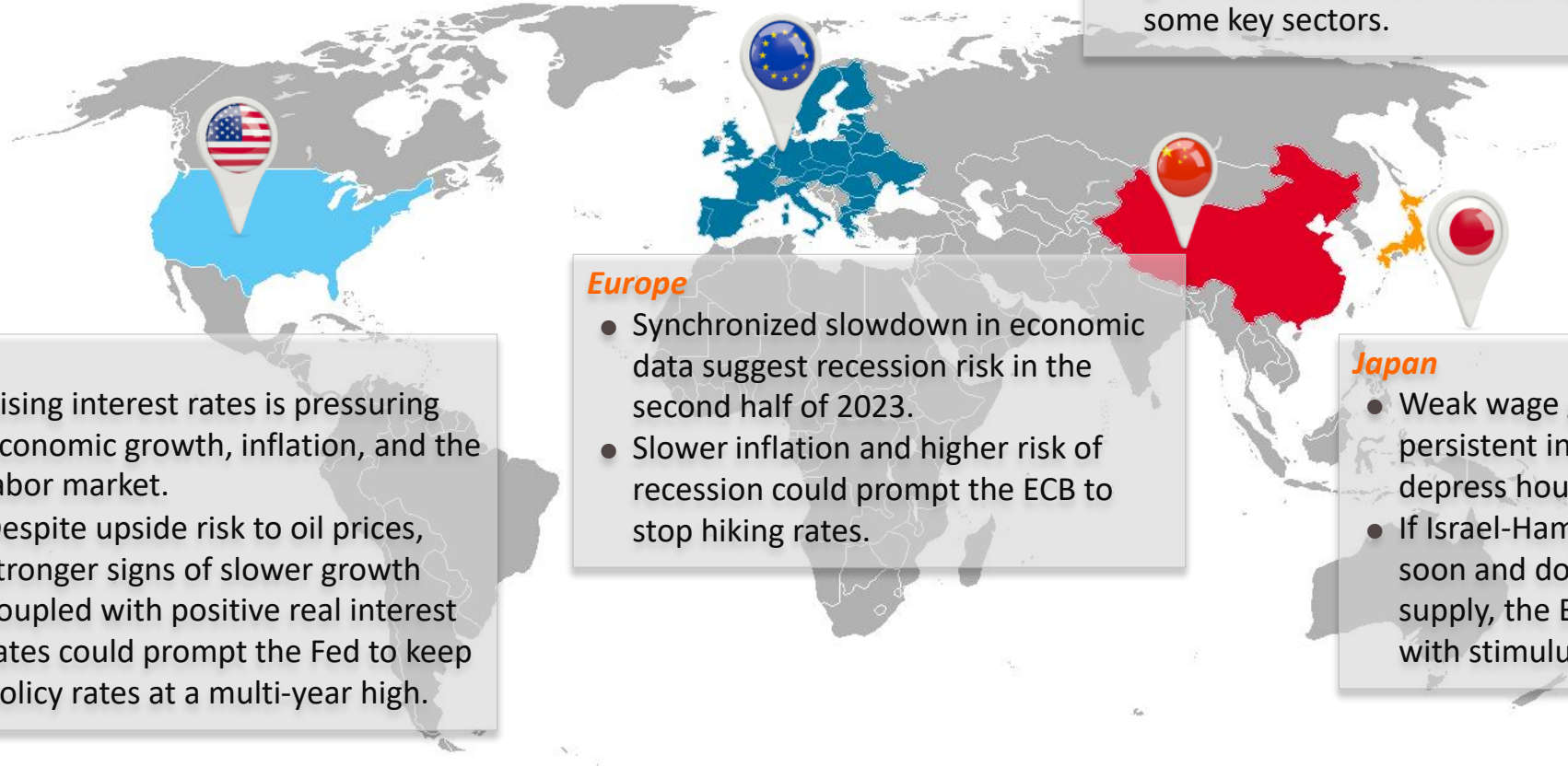
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MONTHLY ECONOMIC BULLETIN

October 2023

Krungsri Research

Global: Challenges on the path to a soft landing



China

- Domestic economy will see a partial recovery.
- Short-term policy supports and improving credit growth could drive a modest cyclical rebound in some key sectors.

US

- Rising interest rates is pressuring economic growth, inflation, and the labor market.
- Despite upside risk to oil prices, stronger signs of slower growth coupled with positive real interest rates could prompt the Fed to keep policy rates at a multi-year high.

Europe

- Synchronized slowdown in economic data suggest recession risk in the second half of 2023.
- Slower inflation and higher risk of recession could prompt the ECB to stop hiking rates.

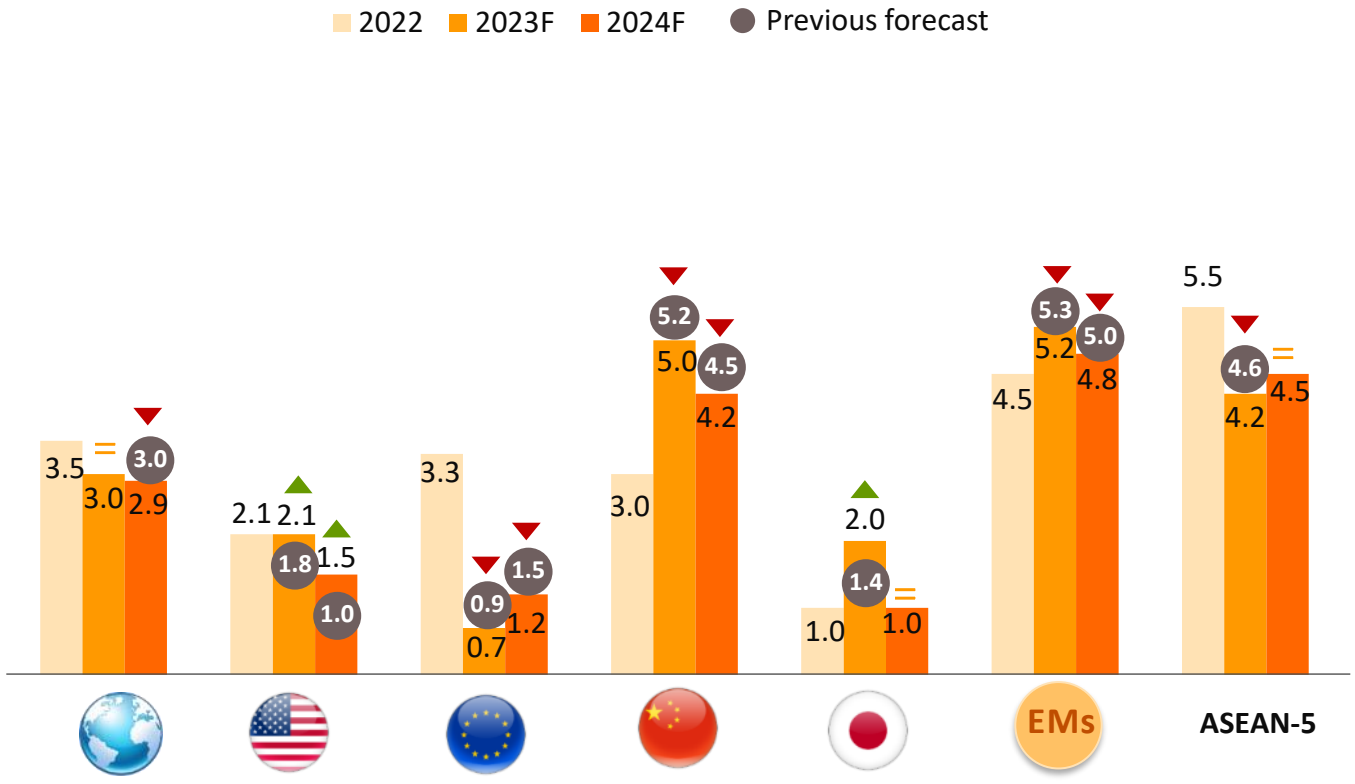
Japan

- Weak wage growth and persistent inflation continue to depress household spending.
- If Israel-Hamas war is contained soon and does not disrupt oil supply, the BOJ is likely to stick with stimulus for the time being.

IMF expects global recovery will be slow with greater regional divergence and challenges in returning to pre-pandemic output trends; policy tightening starting to bite

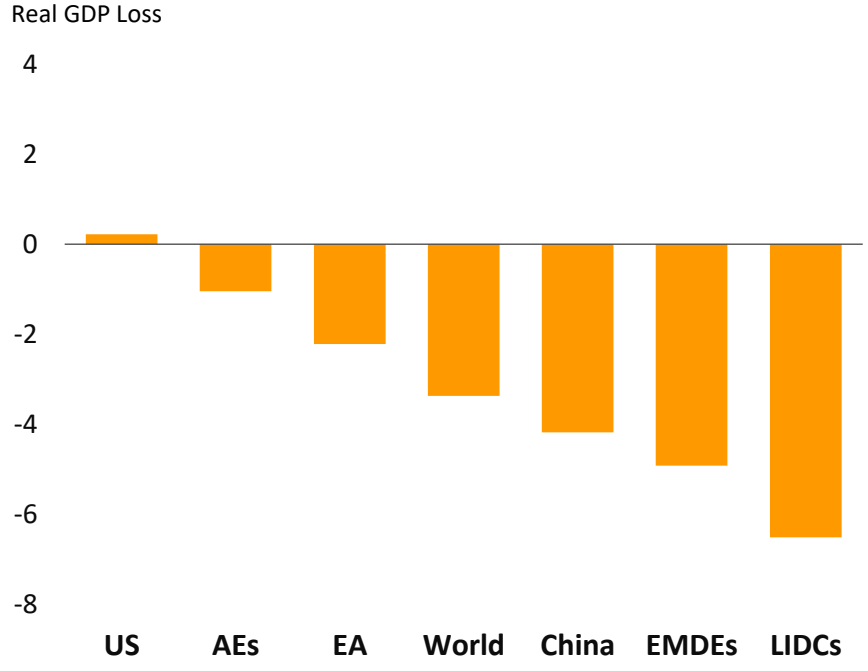
The IMF projects global economic growth will decelerate from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024, below the historical average of 3.8% over 2000-2019. Growth in advanced economies is expected to slow from 2.6% in 2022 to 1.5% in 2023 and 1.4% in 2024. Growth in emerging markets and developing economies are projected to edge down from 4.1% in 2022 to 4.0% in both 2023 and 2024. Despite signs of resilience earlier this year, economic activity is still below pre-pandemic (January 2020) projections by the IMF (see charts). Several forces are holding back recovery, including long-term consequences of the pandemic, the war in Ukraine, and increasing geoeconomic fragmentation. Other forces are cyclical, including effects of monetary policy tightening, withdrawal of fiscal support amid high debt levels, and extreme weather.

Economic growth projections for global and major economies (%)



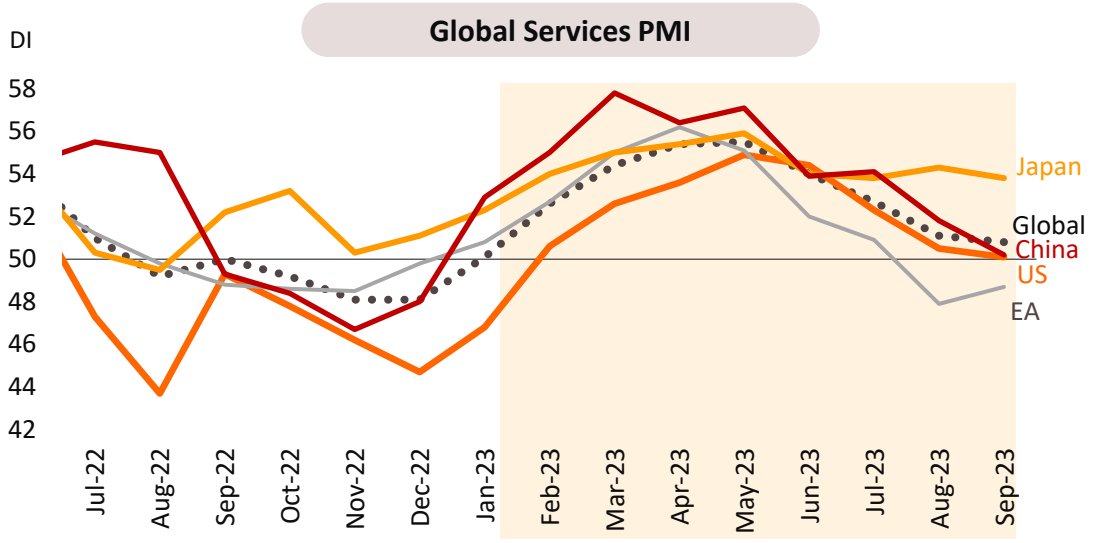
Disrupted Recovery: Scars from shocks in 2020-2022

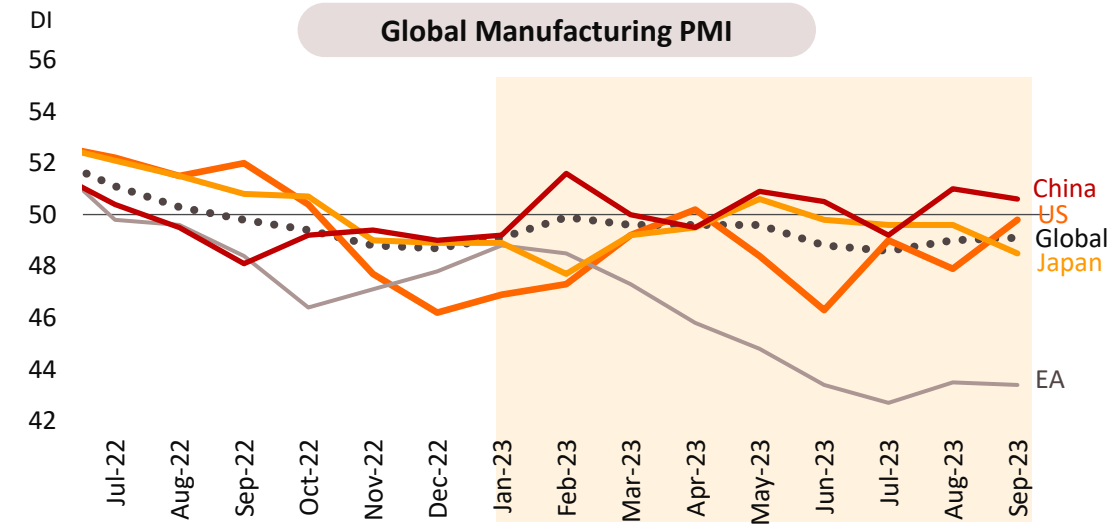
(%; deviation between 2023 and IMF's pre-pandemic projections)

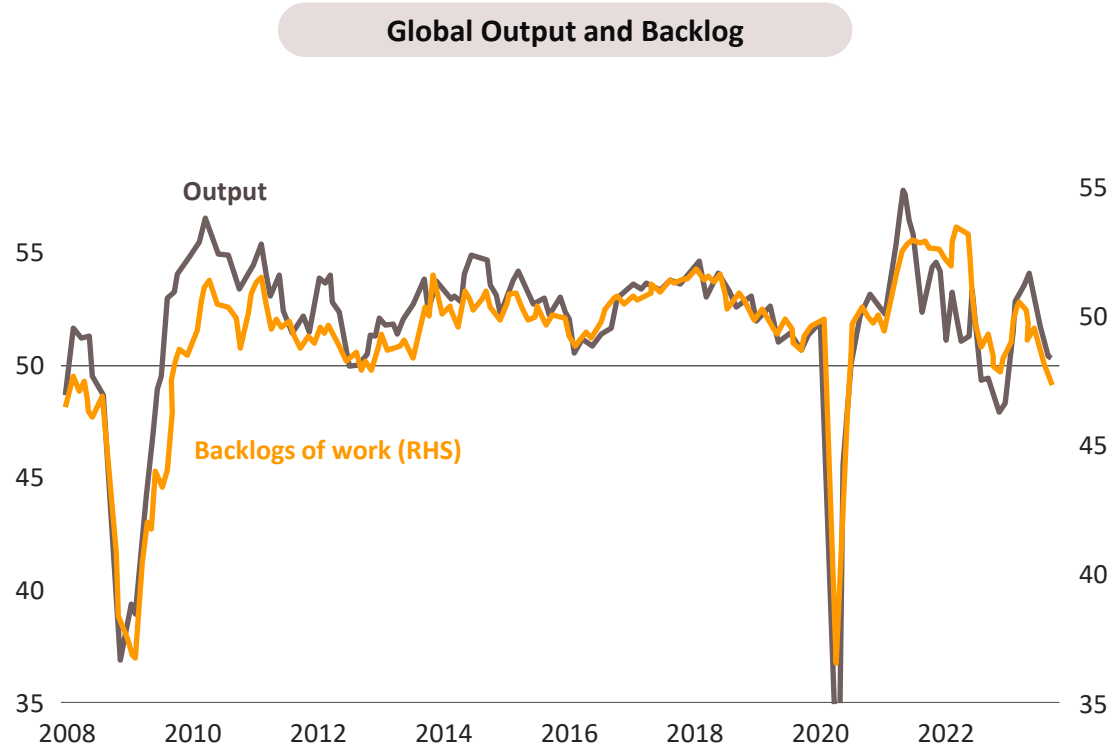


Source: IMF, World Economic Outlook (October 2023)

Global growth loses momentum after post-covid rebound; manufacturing activity stagnated at end-Q3 and backlog is at post-2009 GFC low (excl. 2020 during lockdown)





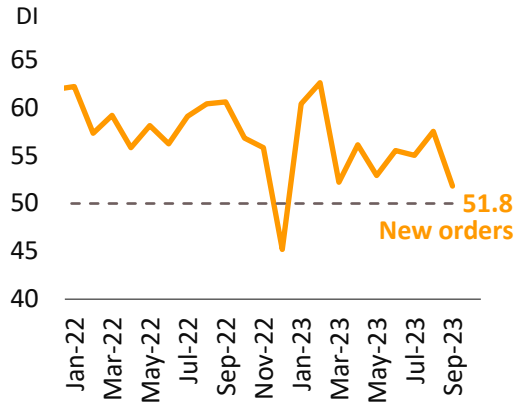


Data compiled October 2023 including PMI data to September 2023.
PMI index value of 50 = no change on prior month, covers manufacturing and services.
Source: S&P Global PMI with J.P. Morgan

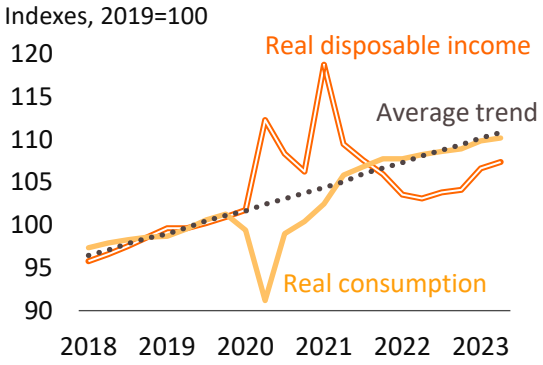
Source: S&P global, Capital Economics, Bloomberg, Krungsri Research

US: Rising interest rates are exerting pressure on economic growth, inflation, and the labor market, paving the way for maintaining multi-year-high interest rates

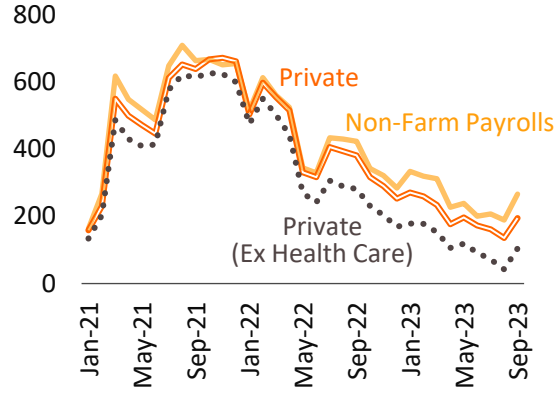
ISM Services: New Orders



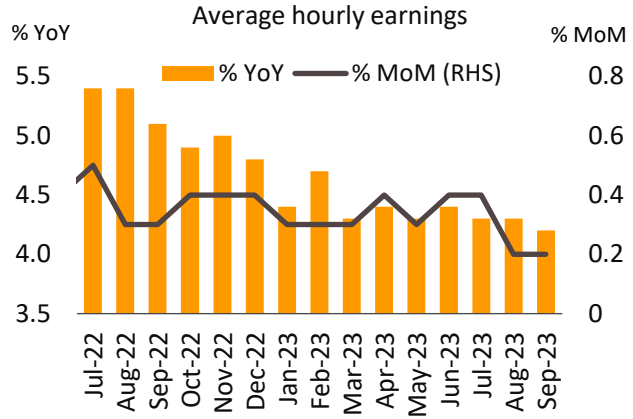
Real Personal Income



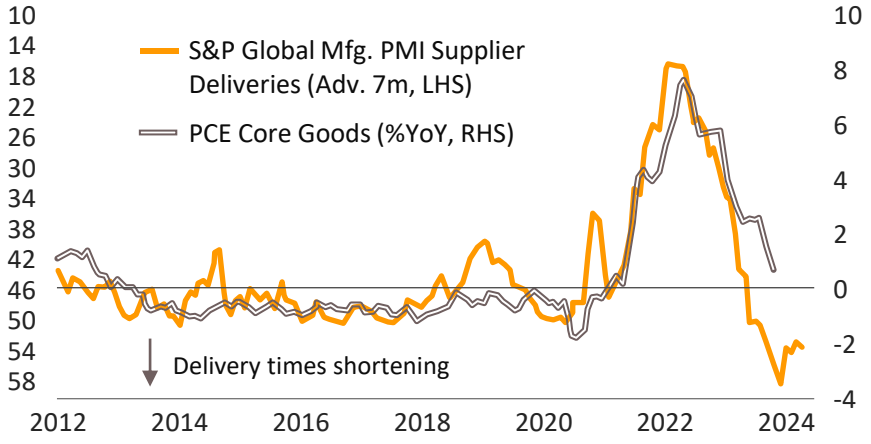
Change in Non-Farm Payrolls (000s, 3-month average)



Wage Growth: %YoY and %MoM



Core Goods Prices & Supplier Delivery Times



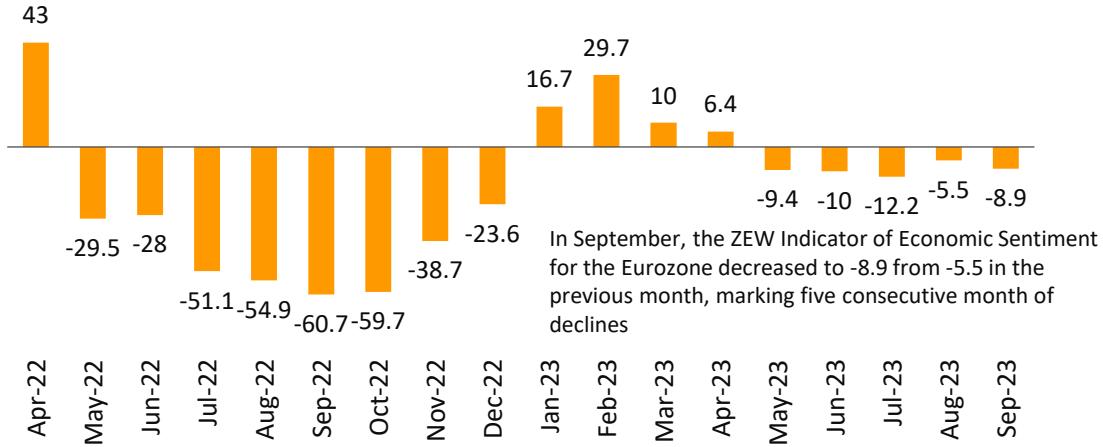
Source: ISM, BLS, Federal Reserve Bank of New York, Capital Economics, CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

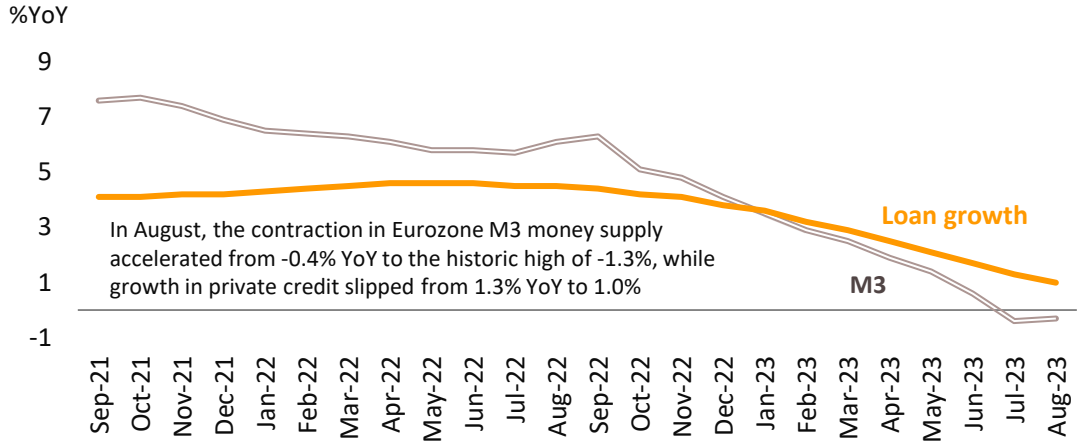
- **The Fed has reiterated interest rates will remain higher for longer but the FOMC's latest minutes said "all participants agreed that the Committee was in a position to proceed carefully". We also see several factors that suggest the Fed is likely to maintain policy interest rates to support a sustainable recovery.**
- **There are more signs of growth losing momentum. (i) The US services sector (80% of GDP)** has slowed sharply with new orders at a 9-month low in September. **(ii) Real disposable personal income** (personal income less taxes) contracted for the second consecutive month in August and personal savings rate (3.9%) is at its lowest since late-2022. **(iii) Consumer confidence** fell for the second consecutive month, while expectations for the next six months has tumbled back below the recession-threshold of 80. **(iv)** The largest US banks saw **the largest write-offs** in 3 years in 3Q23, amid rising interest rates.
- **Labor market sees a soft landing with cooling wage growth.** Despite the strong 336,000 increase in non-farm payrolls in September, **the 3-month average gain in private sector payrolls is trending down.** Unemployment rate remains at 3.8%, up from a low of 3.5% in July. And, **average hourly earnings** has only inched-up 0.2% MoM and annual growth has slowed to a 2-year low of 4.2% YoY.
- **Underlying inflation is softening despite concerns over inflation amid rising oil prices and Israel-Hamas conflict.** Excluding shelter, Core CPI rose by only 0.1% MoM or 2.0% on annual basis. Suppliers' delivery times have fallen below normal and core goods prices should continue to drop (see chart). The stronger USD has helped tame inflation as import prices fell YoY for the 8th straight month in September, by 1.7%.
- **Premised on signs of slowing growth, a weaker labor market, softening underlying inflation, and positive real interest rates (that will bite domestic activity), we see lower chance of a further rate hike. The Fed might halt the current rate-hike cycle to prevent a possible recession and keep policy rates at the decade's highs until 3Q24 to keep inflation in check.**

Eurozone: Synchronized slowdown in economic data suggest recession risk in the second half of 2023

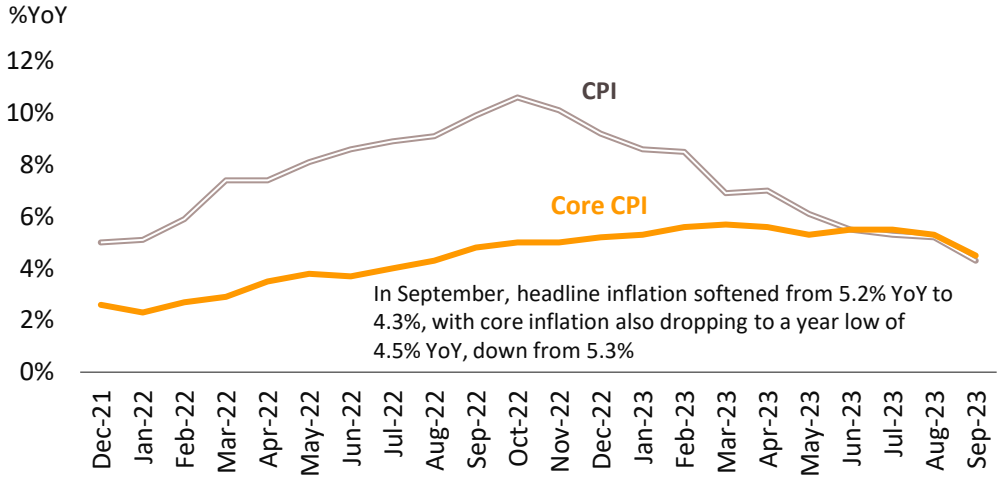
Economic Sentiment Index (ZEW)



Money Supply and Private Sector Loan Growth (%YoY)



CPI and Core CPI (%YoY)



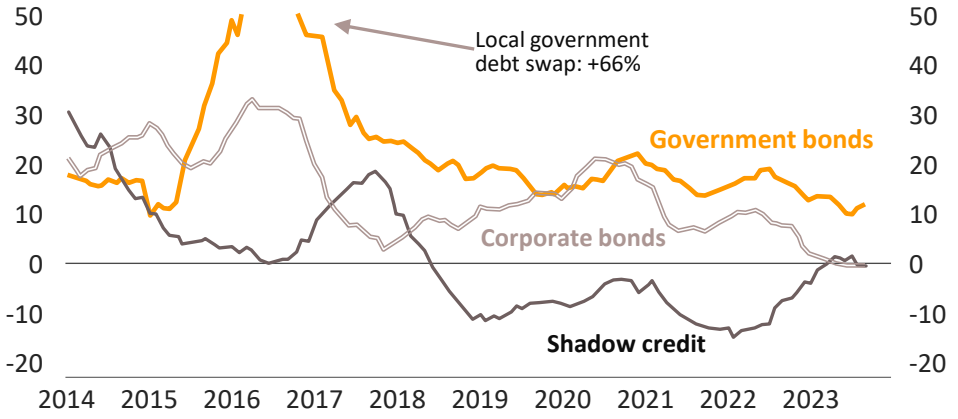
Source: ECB, CEIC, BLS, investing.com, Eurostat, Bloomberg, Krungsri Research

Krungsri Research's view

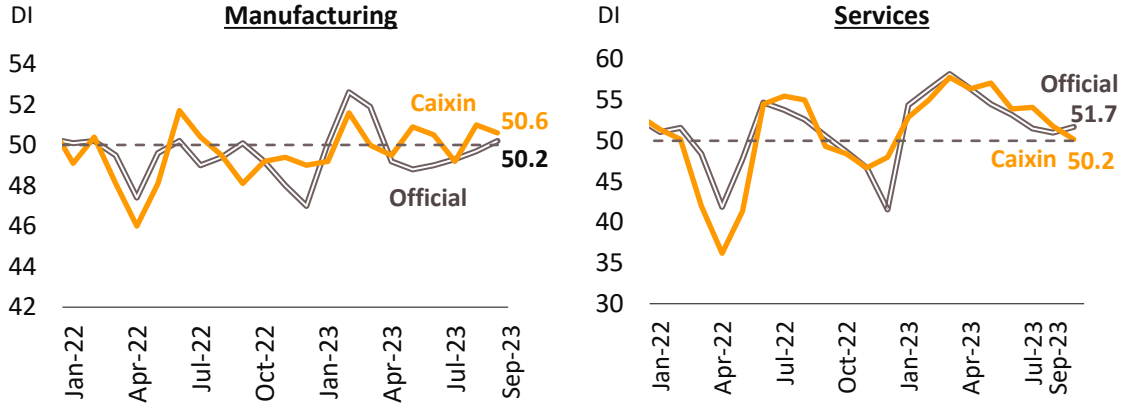
- **Data released so far suggest the eurozone economy is getting weaker and could fall into as recession in the second half of 2023.** Higher interest rates and worsening conditions in trading partners' economies will drag consumption and exports in the next quarter. And if it does lead to a recession, it will probably be a "mild recession" because of stronger-than-expected labor market conditions.
  - The IMF has revised down Eurozone growth forecast for this year by 0.2ppt to 0.7%. And it trimmed 2024 growth by 0.3ppt to 1.2%, citing tighter monetary policy and the energy crisis.
  - In September, ZEW indicator of economic sentiment marked the fifth-straight months of declines (see chart).
- **Weak money supply and credit growth is fueling downside risks**. Latest data show Eurozone's money supply and credit growth had continued to slow sharply in August in response to tighter ECB (European Central Bank) policy. The ECB has raised deposit rate to a 22-year high of 4.0% at the September meeting. Note that the weak money supply and credit growth do not determine a recession ahead, but they do suggest economic growth and inflation would continue to slow down in the next few quarters
  - In August, the contraction in Eurozone M3 money supply accelerated from -0.4% YoY to a new high of -1.3%, while private credit growth slipped from 1.3% YoY to 1.0%.
- **Slower inflation would allow the ECB to stop hiking rates**. Given expectations of a "mild recession" in the second half of this year and clear signs of slowing inflation, the ECB might end the current rate hike cycle at its October meeting and keep rates unchanged through to the first half of 2024 or until there are signs that inflation would return to its 2% target in a sustainable manner.
  - In September, Headline Inflation softened to 4.3% and Core Inflation to a year's low of 4.5% (see chart).

China: The economy will see a partial recovery as short-term policy supports and improving financial conditions may drive a modest cyclical rebound in some sectors

Aggregate Financing Outstanding (% YoY)

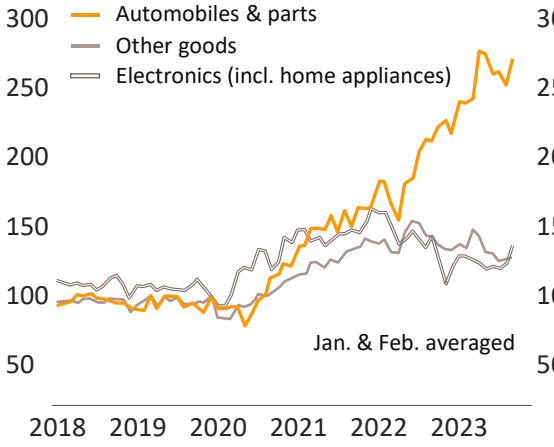


Manufacturing and Services PMI



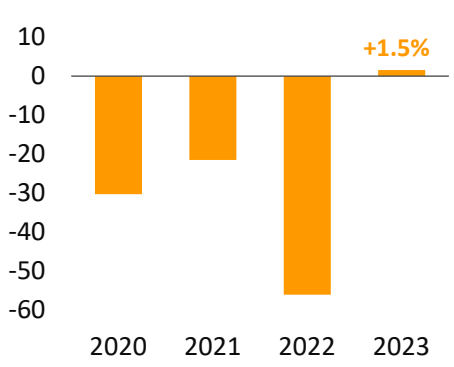
Exports by sector

(USD, Dec 2019=100, seasonally adjusted)



China Holiday Spending

(% change, compared with 2019)



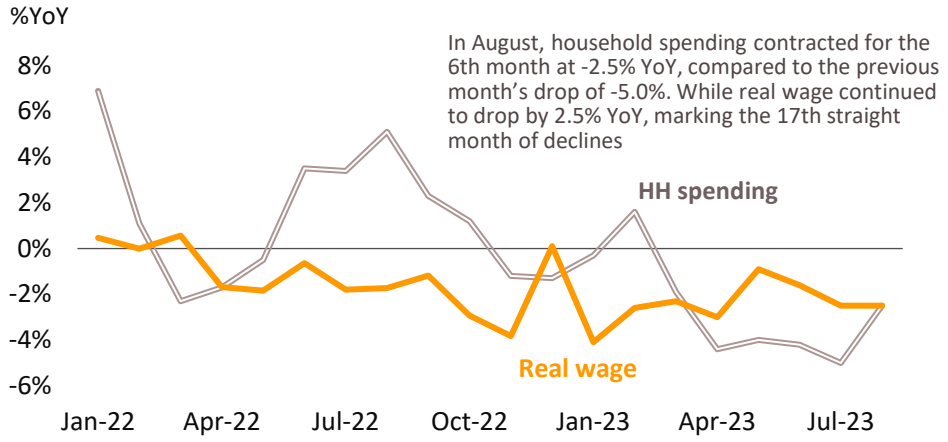
Source: NBS, S&P Global, Markit Economics, Capital Economics, CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

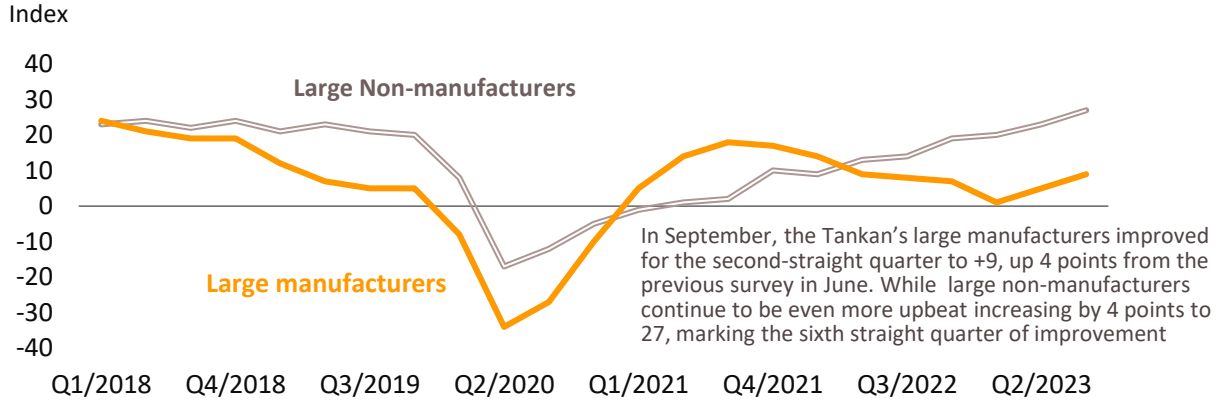
- **The recent policy supports could help to improve growth momentum in some parts of Chinese economy. (i) Authorities announced measures to support households and shore up the property sector**, including looser downpayment requirements and reductions of mortgage rates. **(ii) The PBOC has hinted to implement additional monetary support**, which may include funding for policy banks to finance infrastructure investments. **(iii)** Policymakers are considering the issuance of **at least 1 trn yuan of additional sovereign debt by year-end.**
- **There are signs of improving aggregate financing to the economy and a modest rebound in large corporates:**
  - I. **Government bond issuance has increased** before the end-September deadline and shadow credit picked up. Lending to households accelerated by the most in six months, helped by car sales and housing market.
  - II. **The official manufacturing PMI** in September returned to expansionary territory for the first time in 6 months and **official services PMI** also rose for the first time since April. Beyond this, **industrial profits** bounced back to growth of 17.2% YoY in August, the first expansion for more than a year. **Exports** contracted at a slower pace (-6.2% YoY in Sept vs -8.8% in Aug), with further improvement in exports of Chinese-made EVs.
- **Despite policy supports, growth in large parts of the economy is under pressure from factors beyond the real estate sector.**
  - I. **Small and medium firms are still struggling**, as seen by September's Caixin Services PMI showing the slowest growth in 9 months and Caixin manufacturing PMI falling in the same month.
  - II. **Spending remains weak.** During the Golden Week holiday, spending by tourists in China rose by only 1.5% from 2019 (pre-covid period) to 753bn yuan, weaker than the official expectation of 782bn yuan. Outbound travelers using Alipay's payment services amounted to only 80% of the level in 2019.
  - III. **US-China tensions are dragging on trade**, with the US warning it will tighten restrictions on the export of chips used in AI applications. **The IMF expected global growth to slow** to 2.9% in 2024 from 3% in 2023.
  - IV. The World Bank has said that **public and corporate debts are rising in China** which will limit public and private investment. The IMF also projected China's growth to slow down from 5% in 2023 to 4.2% in 2024.

Japan: If Israel-Hamas war is contained and does not disrupt oil supply, the BOJ would likely stick with stimulus for now

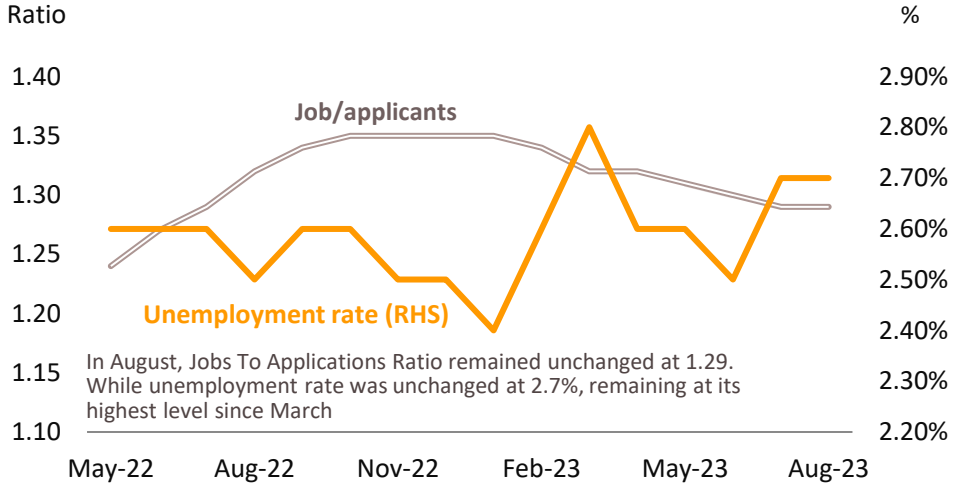
Household Spending and Real Wage Growth (%YoY)



Tankan Index



Labor market



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

Krungsri Research's view

- **Weak wage growth and persistent inflation continue to depress household spending.** August cash earnings remained flat in July, rising only 1.1% YoY compared to core consumer inflation (excluding fresh food) rate of 2.8%.This means inflation-adjusted real wage had continued to drop, by 2.5% YoY, falling for the 17th consecutive month. Looking ahead, wage growth could remain steady for several months due to slowing economic activities and a cooling job market. That would continue to dampen household spending power given risk of upward price pressure on inflation triggered by the Israel-Hamas war (real wages must register positive growth to stimulate household spending).
  - In August, household spending contracted for the 6th month, by 2.5% YoY (see chart).
- **Hamas' attack of Israel has driven up inflation risk.** Japan has imported 95% of its crude requirement from the Middle East so far in 2023, according to the Agency for Natural Resources and Energy. If the war escalates into a regional conflict, it could disrupt oil supply, which would put significant upward pressure on inflation and create uncertainty over the direction of Japan's economy and the BOJ (Bank of Japan)'s policies.
- **Despite slower demand for exports, stronger-than-expected improvement in the Tankan survey of business sentiment suggests the economy might be able to avoid a contraction in Q3**. The improvement was driven by a recovery in auto production as the semiconductor shortage eased and returning foreign tourists.
  - In September, the Tankan headline business conditions index for large manufacturers improved for the second-straight quarter (see chart). Meanwhile, large non-manufacturers are more upbeat, with the index rising for the sixth consecutive quarter, by 4 points.
- **With growth still weak and subdued, the BOJ might stick with stimulus for the time being**. The expectation is that interest rates will remain low and the BOJ will continue to control the yield curve until wage growth will keep inflation at close to 2%, which is only expected to happen in 2025. **However, the BOJ might pivot away from stimulus earlier than expected if the Israel-Hamas conflict disrupts oil supply and triggers a resurgence of inflation.**

Thailand: Obstacles and uncertainties along the path to recovery

- **The key growth drivers in the fourth quarter of 2023 will be the recovery of the tourism sector and domestic policy supports.**
- **We estimate 2023 GDP growth at 2.8%. Economic growth is expected to improve in the last quarter of the year but there are obstacles and uncertainties along the path to recovery.**
- **The Middle East conflict and Thailand's Economy:** There is limited impact on Thailand currently but that could change if unrest spreads to other countries in the Middle East or more terrorism attacks take place in the Western countries.
- Chinese tourists have started to flock into Thailand under the visa-free scheme but there is uncertainty whether this trend is sustainable. The latest shooting at a Bangkok mall could discourage foreign arrivals in Q4 but the regular peak tourist season in Thailand and visa-free entry should mitigate the impact.
- Exports started to grow again in August led by recovery in some major markets, but uncertainty loom on the horizon.
- Private investment remains volatile, contracting again in September and suggesting slow growth this year.
- Private consumption is poised to expand supported by stimulus measures that include reducing energy prices but upside would be capped by several headwinds.
- **Digital Wallet:** Demand-side analysis suggests that would boost GDP growth by 0.4-1.1 ppt and push up inflation rate by 0.005-0.015 ppt from baseline. It will boost purchasing power of low-income households but possibly only for a year.
- Digital Wallet: Supply-side analysis suggests that by sector, crops sector would be the largest contributor to GDP growth in 2024 but its forward and backward linkages are low. This scheme could be a fiscal burden and raise implicit public debt. It could boost growth temporarily but also hurt stability by increasing public debt and limiting future fiscal policy space.
- Inflation is likely to stay below the lower bound of the official 1-3% target range in the last quarter of this year.
- BOT hiked policy rate to 2.50%, citing upbeat growth outlook. **Given the latest BOT's signal and ongoing economic challenges, we expect policy rate to remain at this level next year.**

Krungsri Research Forecasts for 2023-2024

Krungsri Research Forecast		2021	2022	2023F	2024F
GDP growth	YoY (%)	1.5	2.6	2.8	3.6
Private Consumption Expenditure	YoY (%)	0.6	6.3	5.2	3.5
Government Consumption Expenditure	YoY (%)	3.7	0.2	-4.3	1.5
Private Investment	YoY (%)	3.0	5.1	2.0	3.8
Public Investment	YoY (%)	3.4	-4.9	1.1	3.7
Nominal Exports in USD (f.o.b.)*	YoY (%)	19.2	5.4	-1.5	2.5
Nominal Imports in USD (f.o.b.)*	YoY (%)	27.7	14.0	-0.6	4.5
Current Account Balance	USD, bn	-10.6	-14.7	5.5	8.5
Tourist Arrivals	Mn, persons	0.4	11.2	28.5	38
Headline Inflation	YoY (%)	1.2	6.1	1.7	2.0
Policy Interest rate (end of period)	(%)	0.50	1.25	2.50	2.50

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

Key factors in 4Q23: Growth would be driven mainly by tourism sector and domestic policy supports

Major factors affecting Thai economy	3Q23	4Q23
• Tourism to recover amid high season and visa-free scheme		
• Policy supports (lower energy cost and debt suspension in 4Q)		
• Deteriorating sentiment after Bangkok mall shooting		
• Delay in FY2024 budget bill		
• Higher borrowing costs amid high debt		
• Impact of drought (El Niño)		
• Global slowdown amid high interest rates		
• Geopolitical risk: Israel-Hamas and Russia-Ukraine crises		

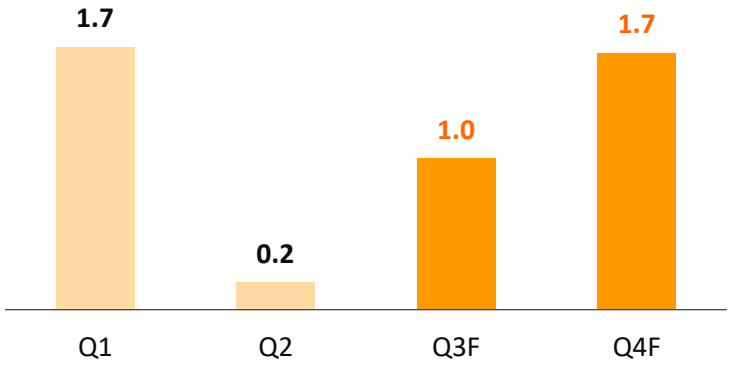


Source: Krungsri Research

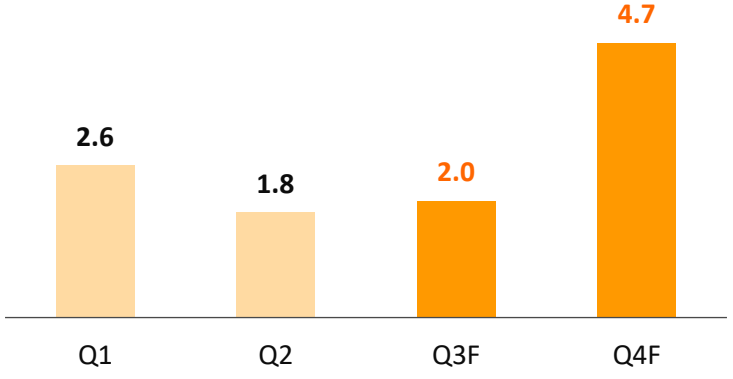
We estimate *2023 GDP growth at* 2.8%; growth should pick up in the last quarter but there are obstacles and uncertainties along the path to recovery

Our economic growth forecast is supported by recovering tourism activity and improving private consumption. Economic growth is expected to inch up from 1.8% YoY in Q2 to 2.0% in Q3 and accelerate to 4.7% in Q4 driven by rising foreign tourist arrivals, domestic policy supports, and the low-base effect last year. However, there is downside risk from domestic and external headwinds as well as growing uncertainty

2023 GDP Growth Forecast: % QoQ sa



2023 GDP Growth Forecast: % YoY



Note: Forecast by Krungsri Research
Source: NESDC, Krungsri Research

Upside and downside risks to our growth projection

Upside risks

- Clearer economic policies and additional stimulus measures
- Surprise gains in the tourism sector
- Improving employment and income following recovery in the services sector

Downside risks

- Delay in FY2024 budget bill
- Severe drought
- Higher risk of global recession given larger effects of tightening monetary policies and greater stress in the financial sector
- Weaker-than-expected growth in China
- Geopolitical tensions: Russia-Ukraine and Israel-Hamas conflicts

IMF says *Israel-Hamas war* has darkened the horizon of the world economy which was already experiencing weak growth; Bloomberg expects global growth to lose 0.1-1.0 ppt

On October 12, the General Secretary of IMF, Kristalina Georgieva, said the IMF was "very closely monitoring how the situation evolves" and how it is affecting oil markets. The IMF Director of the Middle East and Central Asia Department, Jihad Azour called the ongoing armed conflict an economic "earthquake" in a panel discussion at the annual conference, saying it will have challenging repercussions for the Middle East and the larger world economy. **Bloomberg Economics analyzed the possibly impact on global growth and inflation under three scenarios. In the first,** hostilities remain largely confined to Gaza and Israel. **In the second,** the conflict spills over to neighboring countries like Lebanon and Syria which host powerful Tehran-backed militias — essentially turning it into a proxy war between Israel and Iran. **The third** involves escalation into a direct military exchange between the two regional enemies; Bloomberg sees low probability of this panning out but it is a dangerous possibility. Soaring oil prices (to $150 a barrel) and plunging prices of risk assets would deal a substantial blow to growth and take inflation a notch higher. **It could trigger a global recession with global GDP growth falling to 1.7% in 2024. Excluding Covid and global financial crisis shocks, it would be the worst growth since 1982.**

Confined conflict or regional war?

Three scenarios for how the Israel-Hamas conflict could evolve

Confined war
Hostilities largely confined to Israel and the Palestinian territories

Proxy war
Spill-over to Lebanon and Syria, proxy war between Israel and Iran

Direct war
Military exchanges between regional enemies Israel and Iran



Source: Bloomberg Economics

IMF Research: A 10% increase in oil prices could reduce global growth by 0.15 ppt and increase inflation by 0.4 ppt.

Economic impact of war

Global growth and inflation impact of three scenarios for how the Israel-Hamas conflict could evolve

Scenario	Details	Impact on oil prices and VIX*	Impact on oil global and inflation**
Confined war	• Ground invasion of Gaza Limited broader regional conflict • Lower Iranian crude output	Oil: +$4/barrel VIX: No impact	GDP: -0.1 ppts. Inflation: +0.1 ppts.
Proxy war	• Multifront war in Gaza, West Bank, Lebanon, Syria • Unrest in wider Middle East	Oil: +$8/barrel VIX: +8 points	GDP: -0.3 ppts. Inflation: +0.2 ppts.
Direct war	• Israel and Iran in direct conflict • Unrest in wider Middle East	Oil: +$64/barrel VIX: +16 points	GDP: -1.0 ppts. Inflation: +1.2 ppts.

Source: Bloomberg Economics
*Impact calibrated based on 2014 Gaza War, 2006 Israel-Lebanon War and 1990-1991 Gulf War.
** Impact on year on year change in global GDP and inflation for 2024 estimated using Bayesian Global VAR

Bloomberg: The worst-case scenario could trigger a global recession with GDP growth falling to 1.7% in 2024. Leaving out Covid and global financial crisis shocks, it would be the worst growth since 1982.

Source: IMF, Bloomberg

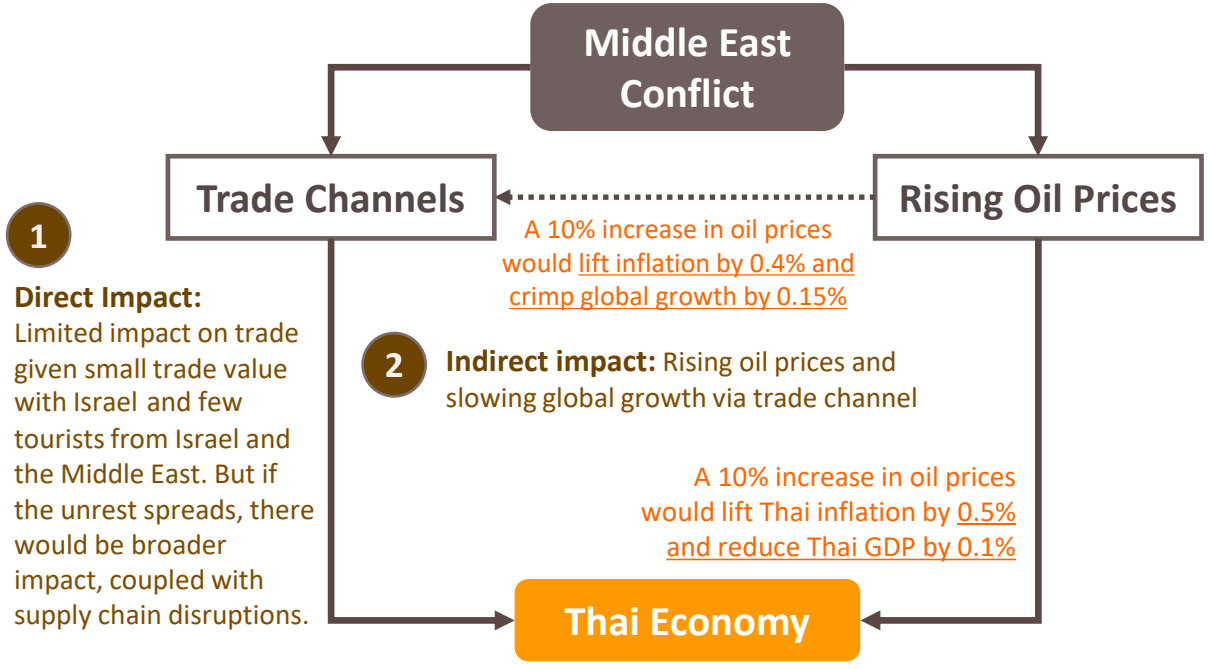
The Middle East conflict and the Thai Economy: Limited impact currently but that could change if unrest spreads to other countries in the Middle East

The conflict would hurt the Thai economy through direct channels (via trade and tourism) and indirect channels (surging oil prices, slowing global growth). Given that the Israel-Hamas conflict is "contained" currently, the primary impact would be triggered by rising oil prices.

1. **Direct impact:** Israel accounts for only 0.3% of Thailand's total exports, so **the impact on trade would be minimal. The impact on tourism would also be limited** as tourists from Israel and the Middle East account for only 0.9% and 2.3% of total foreign tourist arrivals in Thailand, respectively.
2. **Indirect impact:** Rising oil prices could hurt global growth. The unrest could affect oil production & supply and transportation within the Middle East. As a net importer of energy, Thailand will see higher inflation, which would pressure purchasing power and economic activities. In addition, slower activity in Thailand's trading partners' economies triggered by rising oil prices would have an indirect impact on Thailand's trade.

In the worse-case scenario, a "proxy war" would have significant impact on trade. Middle Eastern countries are emerging as potential export markets and are also primary sources of energy imports. Supply chains would be disrupted, which would increase shipping costs and insurance premiums, and delay the delivery of goods.

Linkages and Sensitivity of Thai Economy to unrest in the Middle East



Note: Sensitivities on global growth and inflation are referenced from the IMF, while those for Thailand's growth and inflation are based on the Bank of Thailand.

Source: MOC, MOTS, CEIC, Krungsri Research

Thailand's Exposure to the Middle East in Trade and Tourism

Thailand's trade with Middle East (Jan-Aug 2023)

Product	Value (mn USD)	% growth	% share
Total exports to Middle East	7,294	3.1	3.9
- Motor cars, parts and accessories	2,408	11.1	12.3
- Rice	434	-24.3	14.7
- Air conditioning machine and parts thereof	417	-4.8	8.6
- Woods and wood products	357	-2.1	16.4
- Rubber products	355	17.6	4.0
Total imports from Middle East	19,577	-17.5	10.0
- Crude oil	12,725	-13.5	56.3
- Natural gas	2,637	-7.1	32.2
- Finished oils	1,329	-42.1	45.1
- Chemicals	637	-9.8	5.2
- Fertilizer and pesticide	598	-36.9	27.8

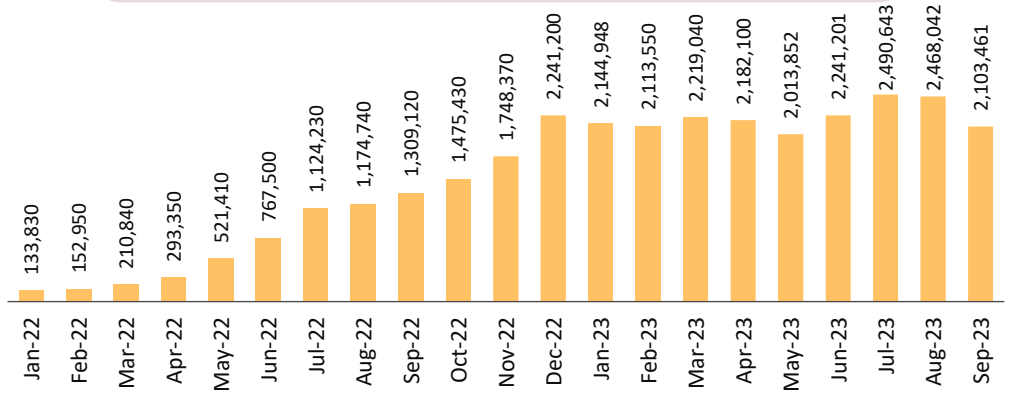
Foreign Tourist Arrivals in Thailand

	2019 mn persons	2023 (Jan- Aug) mn persons	% share	% of pre-pandemic
Total	**39.87**	**17.87**	**100**	**67.3**
Israel	0.20	0.16	0.9	127.6
Middle East	0.70	0.41	2.3	84.4

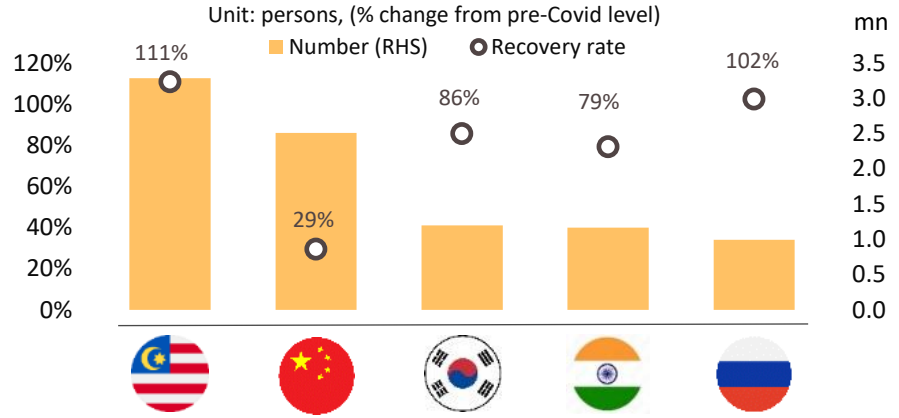
Tourism sector: Chinese tourists start to flock in under visa-free scheme but it is uncertain if this trend is sustainable

The Tourism Authority of Thailand's data show the country welcomed 2.10 mn foreign tourists in September, falling from 2.47 mn in August. **In the first nine months of this year, tourist arrivals reached 20 mn (68% of pre-Covid level) and generated THB834 bn receipts (60% of pre-Covid level).** Arrivals from Malaysia, Russia, South Korea and India reached 79-111% of pre-pandemic levels. Chinese tourists are returning slowly (29% of pre-Covid level). In the first week of visa-free entry for Chinese tourists (September 24th to October 1st), their arrivals increased by 72.5% from the previous week to 106,472. However, it dropped to 75,093 in the subsequent week, partly due to safety concerns after the shooting at a Bangkok mall on October 3rd. ***We forecast 28.5mn foreign tourists would visit Thailand this year but that implies there should be over 2.8mn arrivals per month in the last quarter compared to an average of 2.4mn in Q3.*** *The latest mall shooting has made this challenging.*

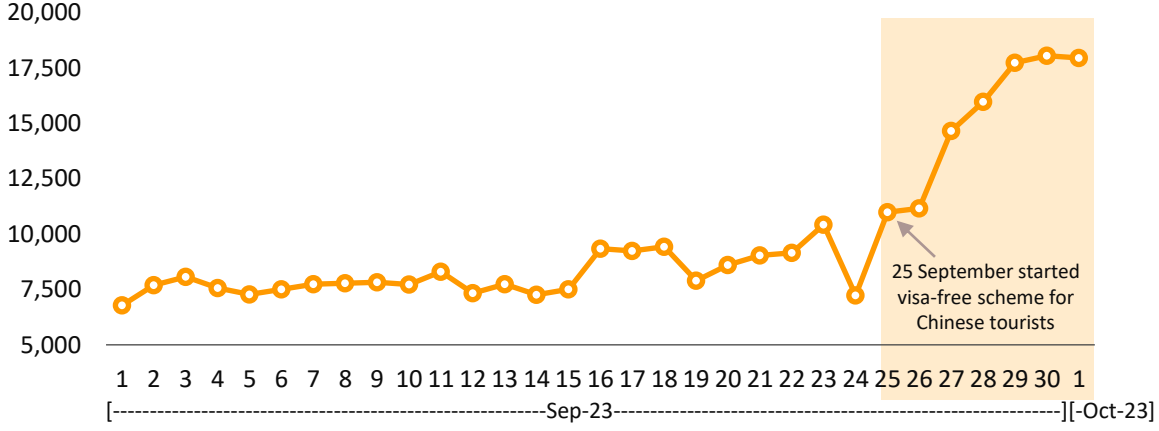
Foreign tourist arrivals reached 20.05 mn in 9M2023



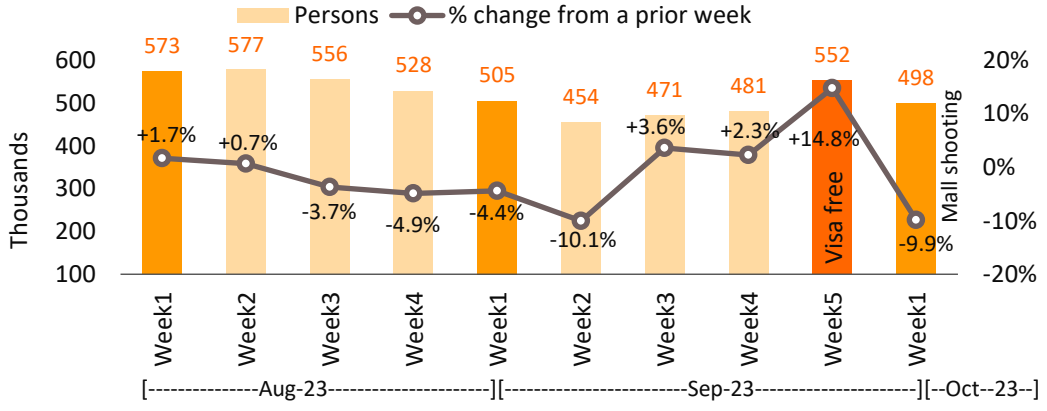
Top 5 tourist arrivals by country (Jan- Sep 2023)



Daily Chinese tourist arrivals (1 Sep – 1 Oct)



Weekly foreign tourist arrivals

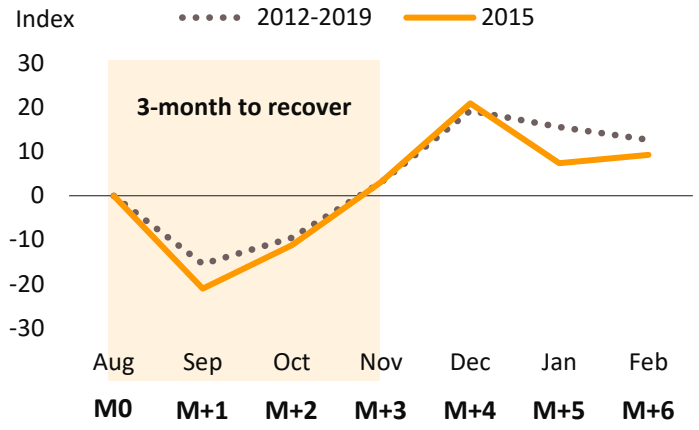


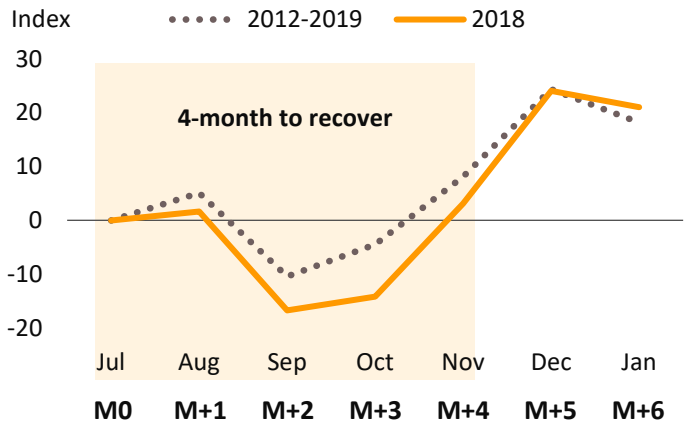
Source: MOTS, CEIC, Krungsri Research

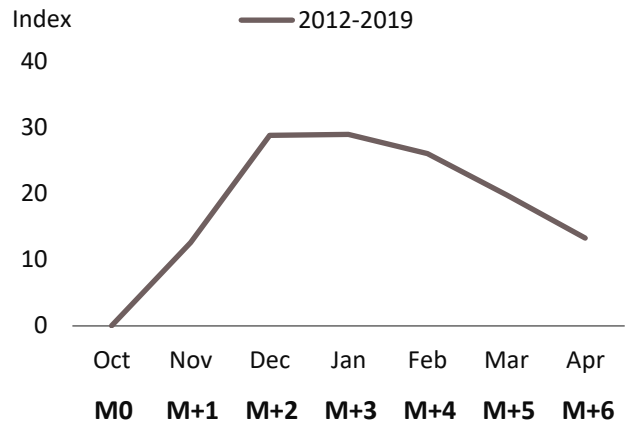
Bangkok mall shooting might deter foreign arrivals in Q4 but peak tourist season and visa-free entry will mitigate the impact

2015 bombing of Erawan shrine in Bangkok[1/] | **2018 tourist boat capsized in Phuket[2/]** | **2023 Bangkok mall shooting[3/]**

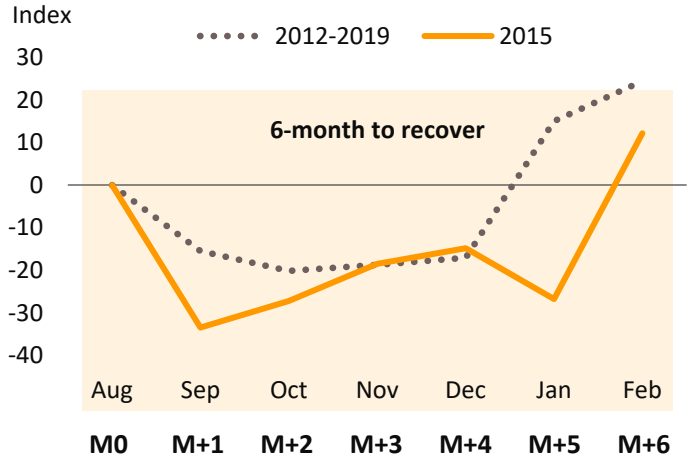
Total arrivals

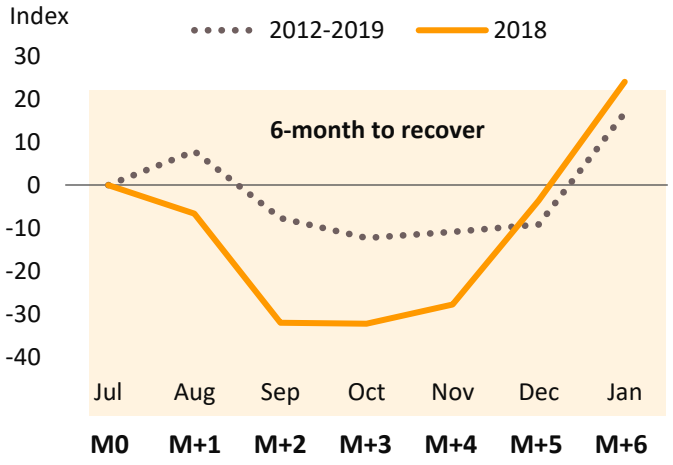


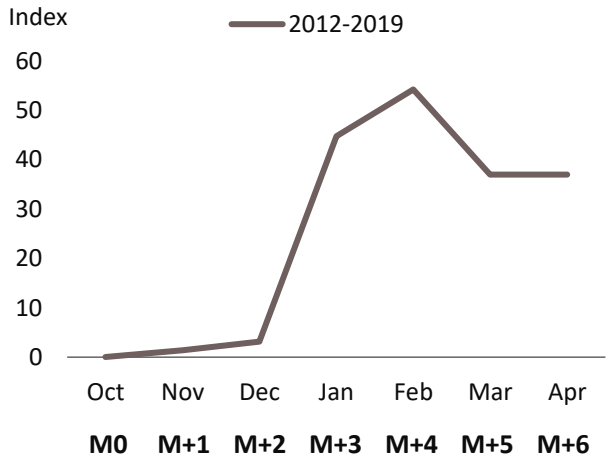




Chinese arrivals





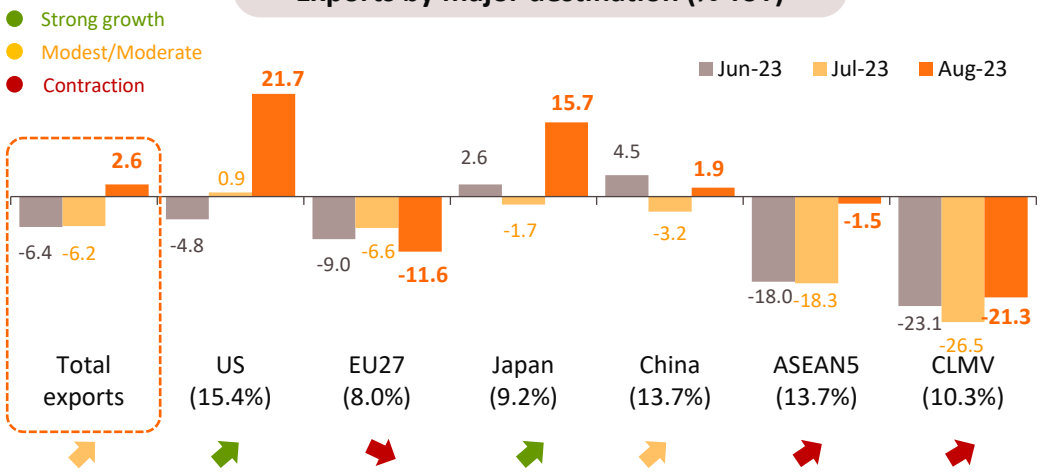


Note: 1/ On 17 August 2015, a bombing took place inside the Erawan Shrine in Bangkok, Thailand, killing 20 people and injuring 125. The dead included 6 Thais, 5 Chinese, and 9 other foreigners.
2/ On 5 July 2018, two tourist boats sank near Phuket, Thailand, during a sudden storm. 46 people died and three were missing. All of the dead and missing passengers were Chinese tourists.
3/ On 3 October 2023, a 14-year-old boy with a gun opened fire at the Siam Paragon, a luxury shopping mall in downtown Bangkok. The dead were 2 people from China and Myanmar.

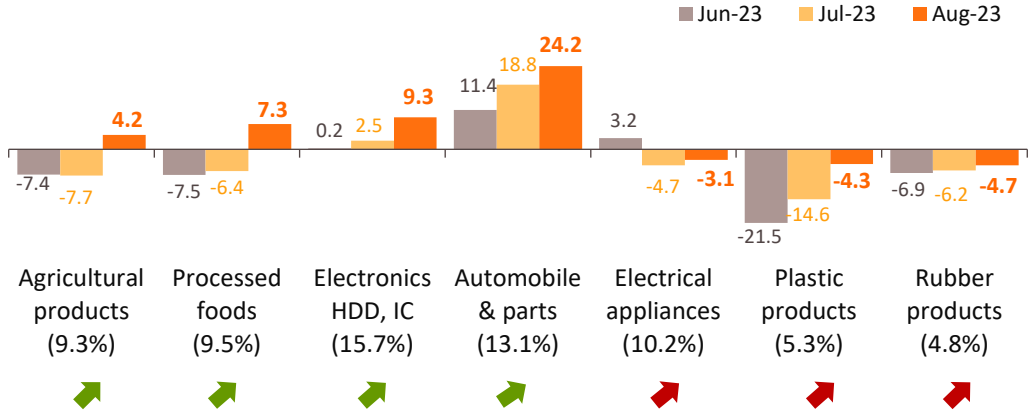
Source: MOTS, Krungsri Research

Exports: Reversed to growth again in August led by recovery in some major markets, but uncertainties loom on the horizon

Exports by major destination (% YoY)

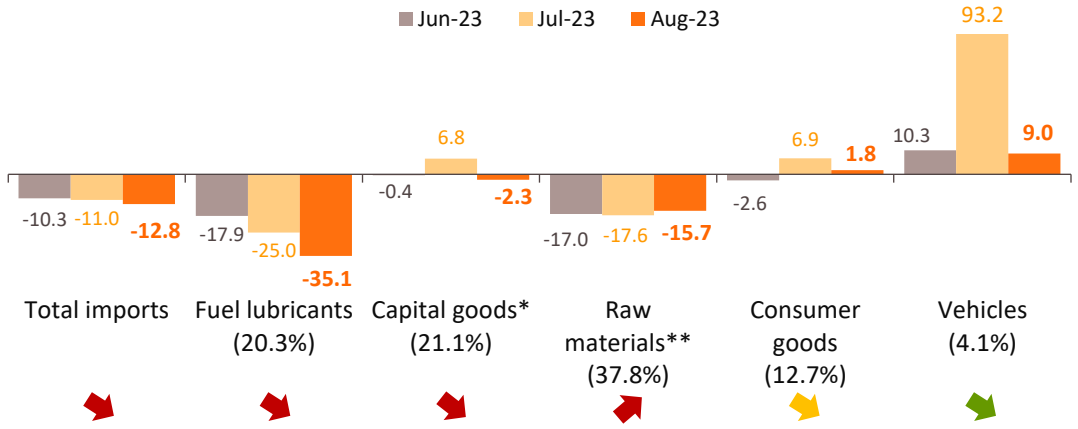


Exports by major product (% YoY)



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

Imports by major product (% YoY)



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

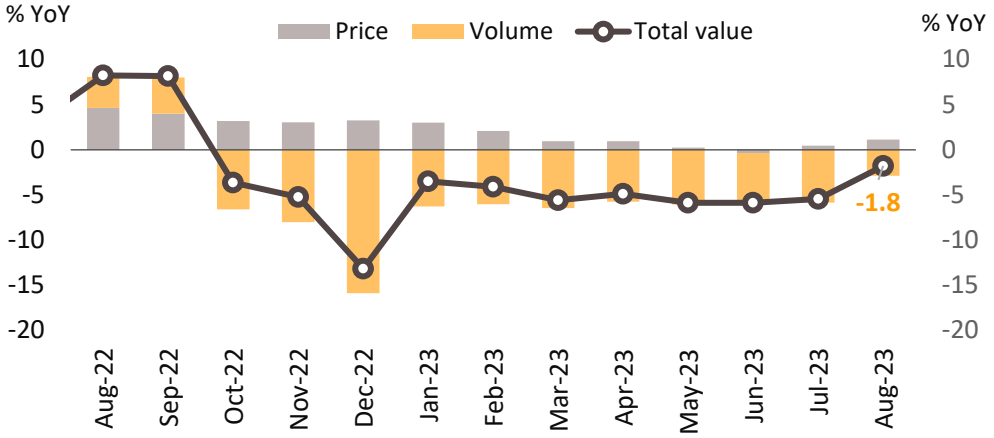
Krungsri Research's view

- **In August, Thailand's merchandise export value rose for the first time in 11 months, by 2.6% YoY to USD24.3 bn,** according to data from the Ministry of Commerce**.** Excluding oil, gold and weapons, exports grew 3.9%. Positive factors include recovery in key markets such as US, Japan, China, Australia, and India, and droughts increasing demand for food products. Additionally, demand for tourism-related products also surged. In the first 8 months of this year, Thai export value fell by 4.5%.
- **Thailand's import value fell 12.8% YoY to USD23.9 bn in August.** Imports fell in most categories except consumer products and vehicles & transportation equipment. In the first 8 months of this year, the value of imports shrank by 5.7%.
- Overall, the key export markets such as US, China, and Japan are starting to see a recovery, which is a positive sign. Additionally, new export markets have continued to expand. As we approach the last quarter of the year, the value of exports is expected to rise driven by orders for festive goods in trading partners' economies. However, lingering uncertainty in the global economy as a result of the extended period of high interest rates might slow down the production and consumption of goods (especially non-essential products). Intensifying geopolitical conflicts would also remain a significant factor in exerting pressure on exports in the next period. ***We expect exports to contract by 1.5% this year.***

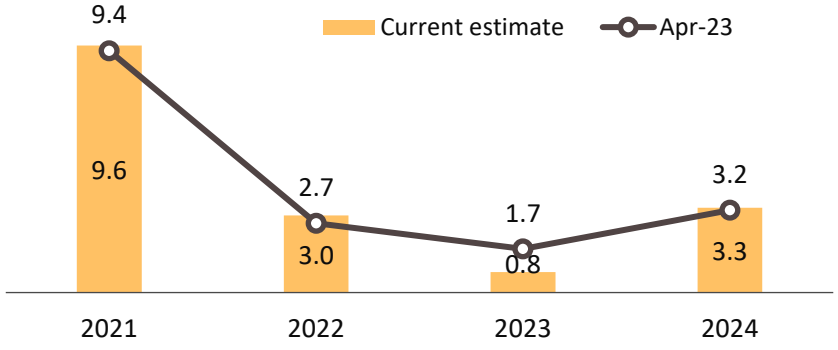
Rising prices lift Thai export value but annual trends remain negative

The Ministry of Commerce reported export value expanded for the first time in 11 months in August. However, data from the Bank of Thailand show exports had contracted for the 11th consecutive month, by 1.8% YoY, albeit the magnitude is smaller than in the previous month (-5.5%). This was due to generally higher prices for goods as export volume had continued to shrink. However, many countries in Asia are still see weak exports. Furthermore, the WTO has downgraded its forecast for global trade growth to 0.8% from its previous estimate of 1.7% and forecast global trade would expand by 3.3% in 2024, a notch higher than its previous estimate of 3.2%. Given that the Israel-Hamas conflict is "contained" currently, it is initially projected to have limited direct impact on Thai exports because Israel is Thailand's 40th largest trading partner. In the first 8 months of this year, Thailand's exports to Israel jumped 12.6% YoY to $546 million (0.3% of national export value). Imports from Israel fell 14.2% YoY to $311 million (0.2% of national import value). If the Israel-Hamas conflict is not contained soon, it could increase risks to Thailand's international trade.

Thailand's export growth



World merchandise trade volume growth (WTO data)



Thailand's trade with Israel (Jan-Aug 2023)

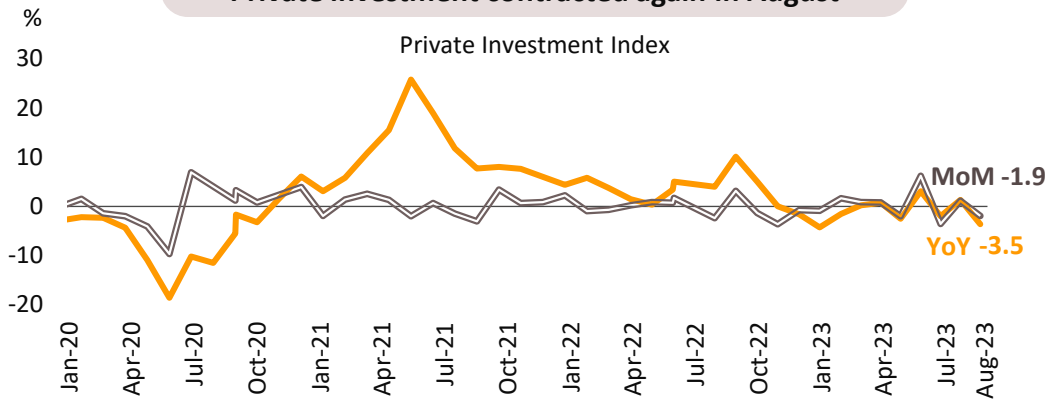
Product	Value (mn USD)	% growth	% share
Total exports to Israel	546	12.6	0.3
- Motor cars, parts and accessories	124	24.8	0.6
- Precious stones and jewellery	49	5.5	0.5
- Prepared or preserved fish, crustaceans, molluscs in airtight containers	47	-8.7	2.1
- Woods and wood products	27	77.8	1.3
- Rice	27	29.3	0.9
- Polymers of ethylene, propylene, etc in primary forms	21	32.2	0.3
- Electronic integrated circuits	16	60.3	0.2
- Machinery and parts thereof	16	5.9	0.3
Total imports from Israel	311	-14.2	0.2
- Jewellery including silver bars and gold	120	36.1	1.5
- Fertilizer and pesticide	41	-35.8	1.9
- Electrical machinery and parts	27	-29.9	0.2
- Electronic integrated circuits	22	25.2	0.2
- Fruits, vegetables, fruit and vegetable preparations	15	6.5	0.8
- Scientific, medical, testing appliances and instruments	13	-38.0	0.3
- Chemicals	11	-50.6	0.1
- Munitions used in official services	10	34.0	2.3

Source: WTO, MOC, BOT, Krungsri Research

Private investment remains volatile after contracting again in September, suggesting slow growth this year

The Private Investment Index fell 3.5% YoY in August, reversing from +1.3 in July. This was mainly due to smaller investments in machinery & equipment, which is reflected in the drop in capital goods imports and slower sales of machinery in Thailand, especially in food & beverage and tobacco sectors. However, the construction sector saw an uptick in investment. ***Looking ahead, private investment could remain volatile, influenced by the weak export sector, despite positive signs*** that include (i) Business Sentiment Index (BSI) exceeding-50 in September; (ii) Ministry of Commerce data showing 435 FDI applications in the first 8 months of 2023 with a total value of THB65.8 bn; and (iii) the BOI had approved investment incentives for 1,106 projects (+17% YoY) with a total investment value of THB288 bn (close to the same period last year).

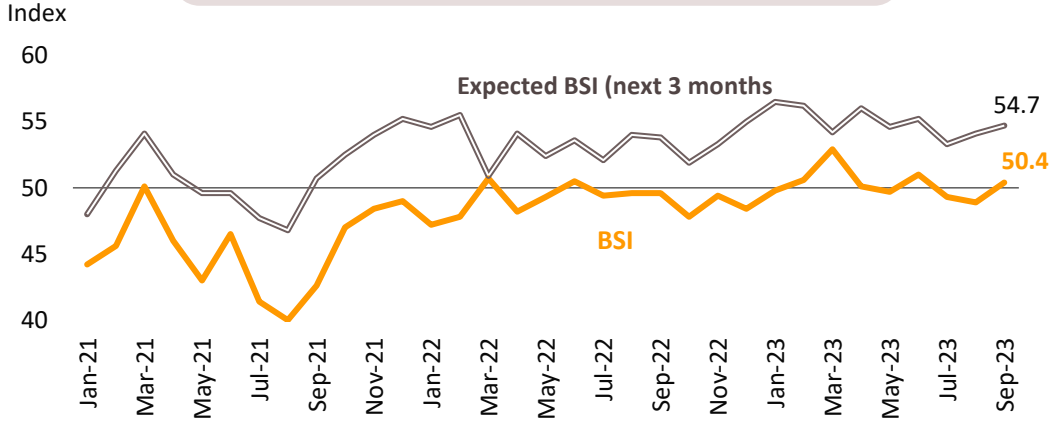
Private investment contracted again in August



Private investment by category

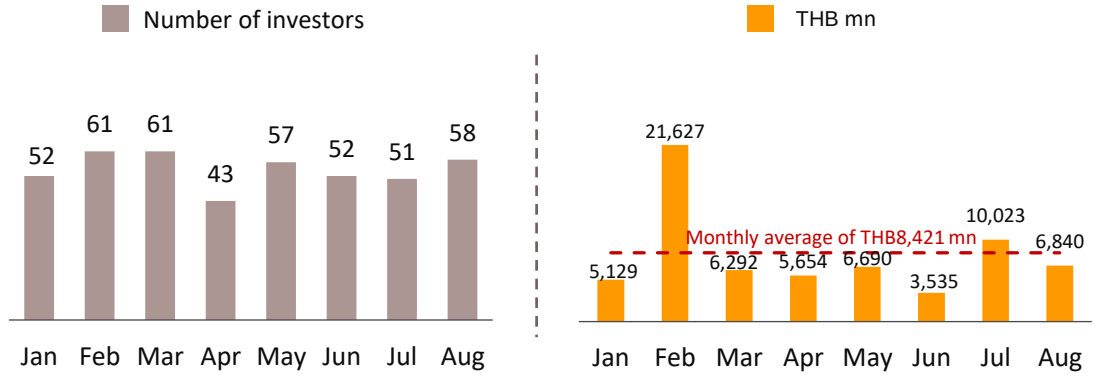
%YoY*	2021												2022												2023							
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A
Private investment																																-3.5
Construction area permitted																																+8.1
Construction material sales																																+2.5
Imports of capital goods																																-1.7
Machinery sales																																-8.0
Newly registered vehicles																																-27.5

BSI exceeded-50 for the first time in 3 months



Total foreign investment in Thailand (Jan-Aug 2023)

(reported by Commerce Ministry)

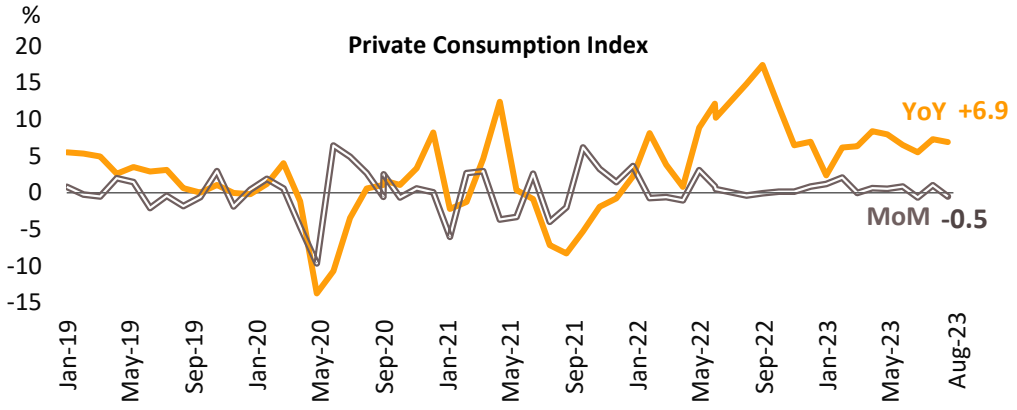


Source: BOT, MOC, Krungsri Research

Private consumption will improve driven by stimulus measures such as that to reduce energy costs, but upside would be limited by several headwinds

The Private Consumption Index rose by 6.9% YoY in August, slowing from +7.3% in July, mainly due to reduced spending on durable and semi-durable goods categories. In contrast, service spending continued to flourish, supported by the long holiday. ***For the rest of the year, private consumption is expected to benefit from rising consumer confidence, employment returning to normal levels, and measures to boost purchasing power by reducing energy costs and suspending debt repayment for farmers and small enterprises. However,*** there are challenges ahead, including high household debt, high interest rates, and the potential impact of drought on agricultural products and farm incomes.

Private consumption grew, led by services sector

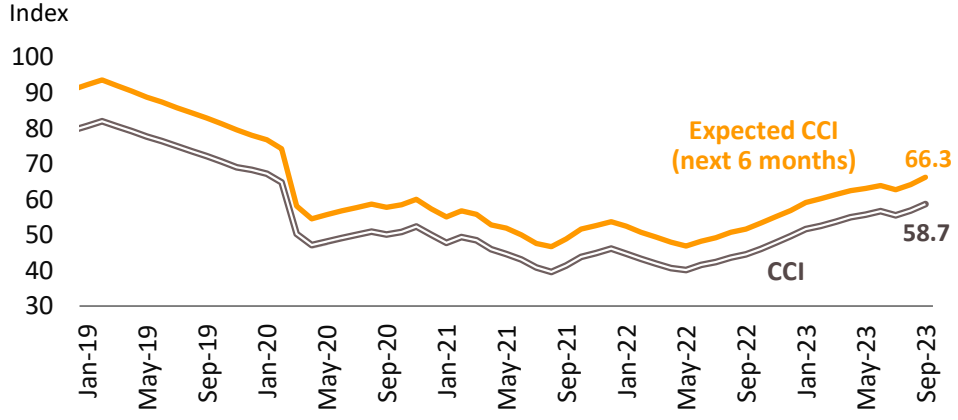


Private consumption by category

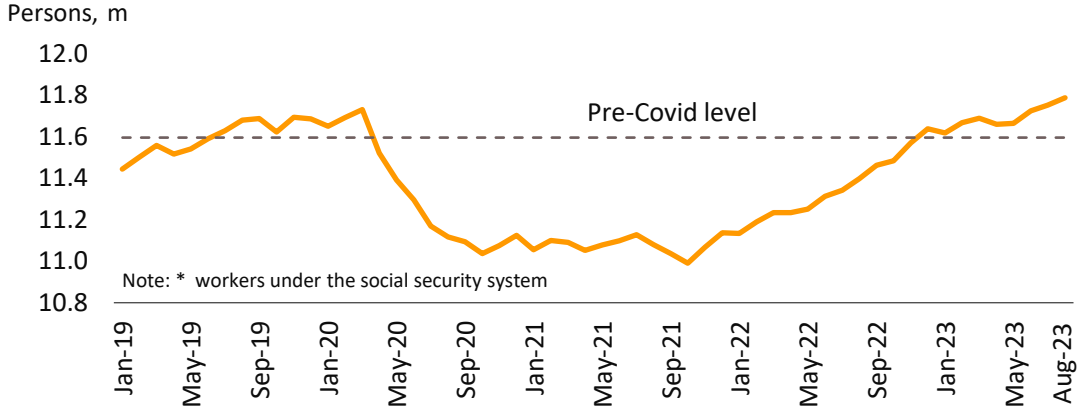
%YoY*	2021												2022												2023							
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A
Private consumption																																**+6.9**
Non-durables																																+2.2
Semi-durables																																+0.1
Durables																																-1.8
Services																																+16.6
Non-residents expenditure																																+64.3

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

CCI rose to a 42-month high in September



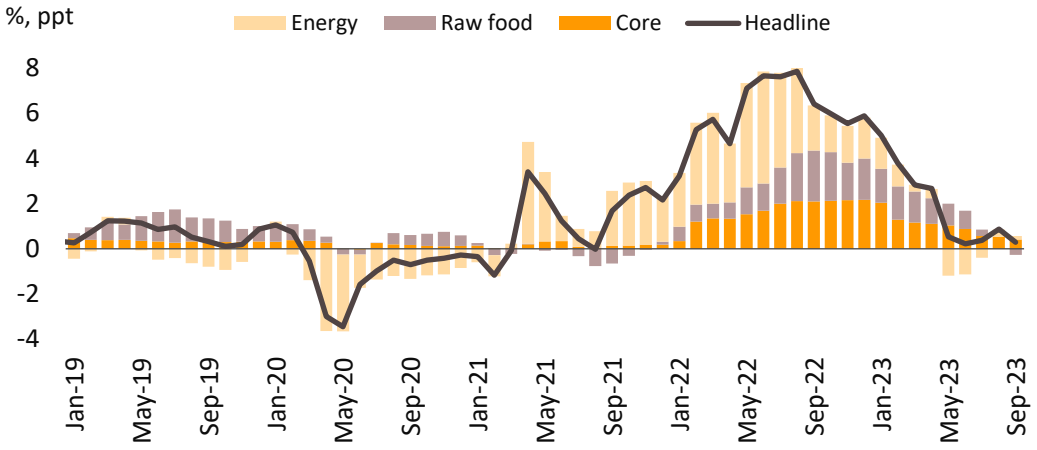
Number of employees under Section 33* is higher than pre-covid level



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

Inflation is likely to stay below the lower bound of the official 1-3% target range in the last quarter of this year; reduction in energy costs could reduce inflation by 0.2 ppt

Contributors to inflation

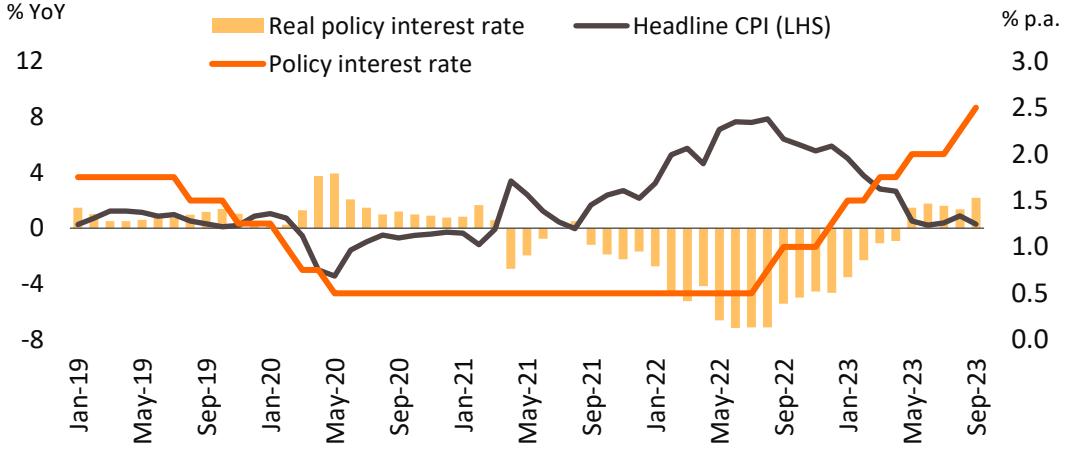


Consumer Price Index: Major categories

Consumer Price Index (% YoY)*	Weight	2021 J F M A M J J A S O N D	2022 J F M A M J J A S O N D	2023 J F M A M J J A S	
Headline CPI	**100.00%**				**0.3**
Food & beverages	41.42%				-0.1
Apparel & footwears	2.07%				0.3
Housing & furnishing	21.96%				-0.7
Medical & personal care	5.43%				1.2
Transportation & communication	23.59%				1.7
Recreation & education	4.21%				0.6
Tobacco & alcoholic beverages	1.33%				0.6
Raw food	20.91%				-1.3
Energy	14.33%				1.2
Core CPI	**64.76%**				0.6

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

Real policy interest rate has turned positive since May



Source: MOC, BOT, Krungsri Research

Krungsri Research's view

- **Headline Inflation slid from 0.88% YoY to a 3-month low of 0.30% in September, attributed to** (i) government measures to reduce energy costs, which significantly reduced its contribution to overall inflation; and (ii) the first drop in F&B prices in 2 years, especially fresh food (including pork and vegetables). Core Inflation, which excludes more-volatile food and energy items, also softened in September to 0.63% from 0.79% the month before. In the first 9 months of this year, Headline and Core inflation averaged 1.82% and 1.50%, respectively.
- Headline inflation remained below the lower bound of the official 1-3% target range for the 5th consecutive month in September. ***We expect that in the last quarter of this year, price increases will remain weak and possibly remain below the BOT's target range.*** This would be attributable to government measures to reduce energy costs for households. Specifically, Thailand will reduce electricity tariff from THB 4.45/unit to THB 3.99/unit for bills issued between September and December 2023, and cap diesel price (currently THB 31.94/liter) at THB 30/liter from 25 September to the end of the year. The government is also monitoring prices of consumer necessities. Based on these, average Headline Inflation in 2023 could drop below our 1.7% forecast.
- **We expect the measures to reduce electricity and diesel costs to lower inflation by 0.2 percentage points from the baseline this year.**

BOT hiked *policy rate to 2.50%* citing upbeat growth outlook; given its latest signal and ongoing economic challenges, it might hold policy rate next year

BOT Forecast

Key indicators		2023F		2024F	
		Previous	Latest	Previous	Latest
GDP growth	YoY (%)	3.6	2.8 ▼	3.8	4.4 ▲
Private Consumption Expenditure	YoY (%)	4.4	6.1 ▲	2.9	4.6 ▲
Government Consumption Expenditure	YoY (%)	-2.8	-3.1 ▼	1.1	1.4 ▲
Private Investment	YoY (%)	1.7	1.0 ▼	4.9	4.9 =
Public Investment	YoY (%)	2.5	1.3 ▼	6.8	4.8 ▼
Nominal Exports in USD (f.o.b.)	YoY (%)	-0.1	-1.7 ▼	3.6	4.2 ▲
Nominal Imports in USD (f.o.b.)	YoY (%)	0.7	-0.1 ▼	4.2	4.1 ▼
Current Account Balance	USD, bn	6.0	5.0 ▼	12.5	10.0 ▼
Tourist Arrivals	persons, mn	29.0	28.5 ▼	35.5	35.0 ▼
Headline Inflation	YoY (%)	2.5	1.6 ▼	2.4	2.6 ▲
Core Inflation	YoY (%)	2.0	1.4 ▼	2.0	2.0 =
Dubai crude price - period average	USD/bbl	86	83 ▼	90	85 ▼

Source: BOT (September 2023)

Krungsri Research's view

- **At its September meeting, the MPC unanimously agreed to raise policy rate by 25 bps to 2.50%.** Although it cut 2023 GDP growth forecast from 3.6% to 2.8%, it upgraded 2024 growth forecast from 3.8% to 4.4% premised on strong consumption growth. Headline Inflation forecasts for 2023 and 2024 have been revised to 1.6% and 2.6% from 2.5% and 2.4%, respectively, while Core Inflation forecasts are 1.4% (down from 2.0%) for 2023 and 2.0% for 2024. However, there is significant risk to 2024 forecasts as the current government's policies could increase demand-side pressure and El Niño could drive up food prices.
- By hiking rates to a decade's high of 2.50%, the MPC seems to be prioritizing outlook over past data and is paying more attention to introducing stimulus measures next year. After the meeting, the BOT governor signaled rate would stay at neutral level, projected growth is meeting its potential, and inflation remains within target. Additionally, *the BOT's statement noted "the current policy interest rate (is) appropriate for supporting long-term sustainable growth."* This suggests the rate hike cycle could end soon. But despite the BOT's optimism, we project more modest growth with an uneven and uncertain recovery. Risks include the slowing global economy and uncertainty over fiscal stimulus policies, but we expect inflation risks arising from fiscal expansion and cost pass-through to be limited by under-utilized resources. ***We expect the MPC to hold policy rate at 2.50% into next year;*** that is higher than the pre-pandemic average of 1.5% and close to the BOT's 2.6% inflation forecast and is considered adequate to ensure financial stability while supporting economic growth.

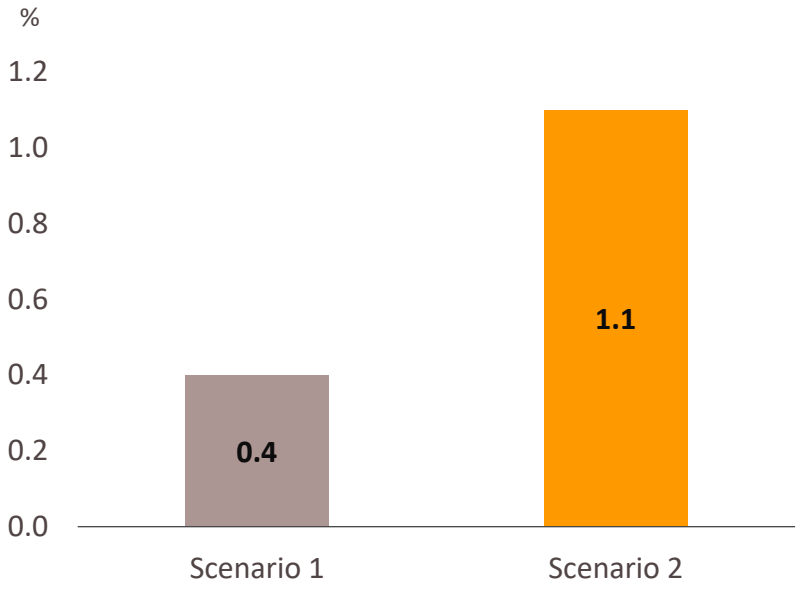
Source: BOT, Krungsri Research

Digital Wallet: Demand-side analysis suggests it would boost GDP growth by 0.4-1.1 ppt and push up inflation by 0.005-0.015 ppt from the baseline

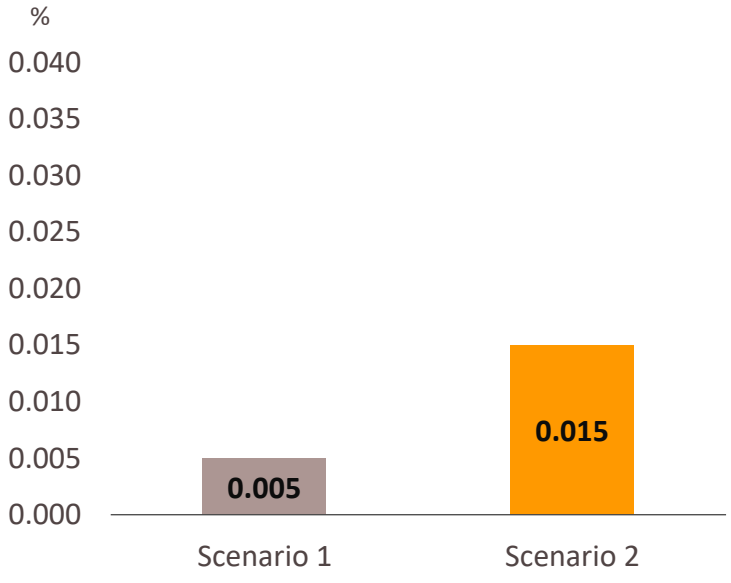
The impact of the Digital Wallet scheme 2024 GDP and inflation would depend on the debt incurred to implement that scheme. The scheme requires THB 560 bn in funding. There are limited details on how it would be financed, so we present two possible scenarios below. The most likely scenario would be a combination of Scenario 1 and 2:

- **Scenario 1**: (i) retrieve over THB 300 bn from the budget reallocation and undisbursed FY2023 budget; and (ii) increase FY2024 annual budget deficit by THB 130 bn
- **Scenario 2**: Increase off-budget expenditure under Article 28 of the Fiscal Discipline Act from 32% to 45% of the annual budget. This will involve borrowing THB400 bn from Specialized Financial Institutions (SFIs). Additionally, the government could draw from the repayment budget for SOEs (c. THB 200 bn) which is not included in the public debt calculation. The government will gradually repay the principal and interest under this scenario.

2024 Thai GDP Growth Forecast:
Estimated increment derived from Digital Wallet Scheme



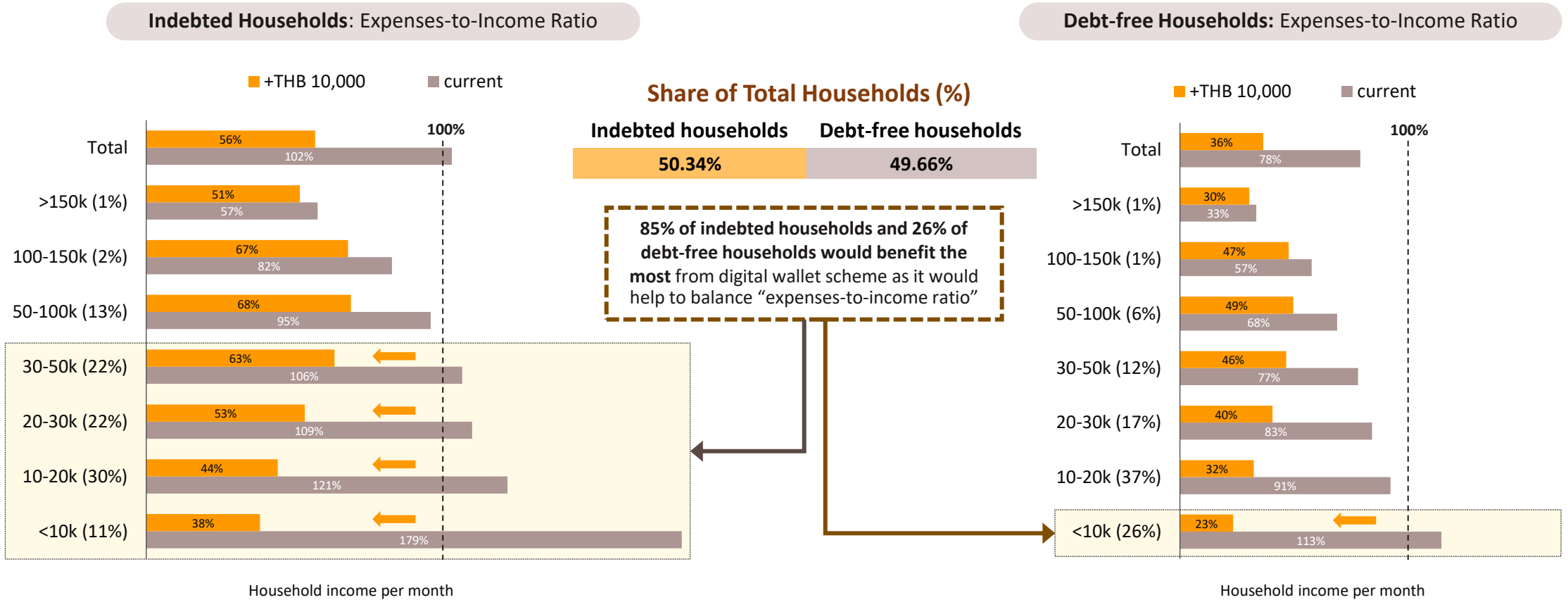
2024 Thai Inflation Forecast:
Estimated increment arising from Digital Wallet Scheme



Source: Krungsri Research

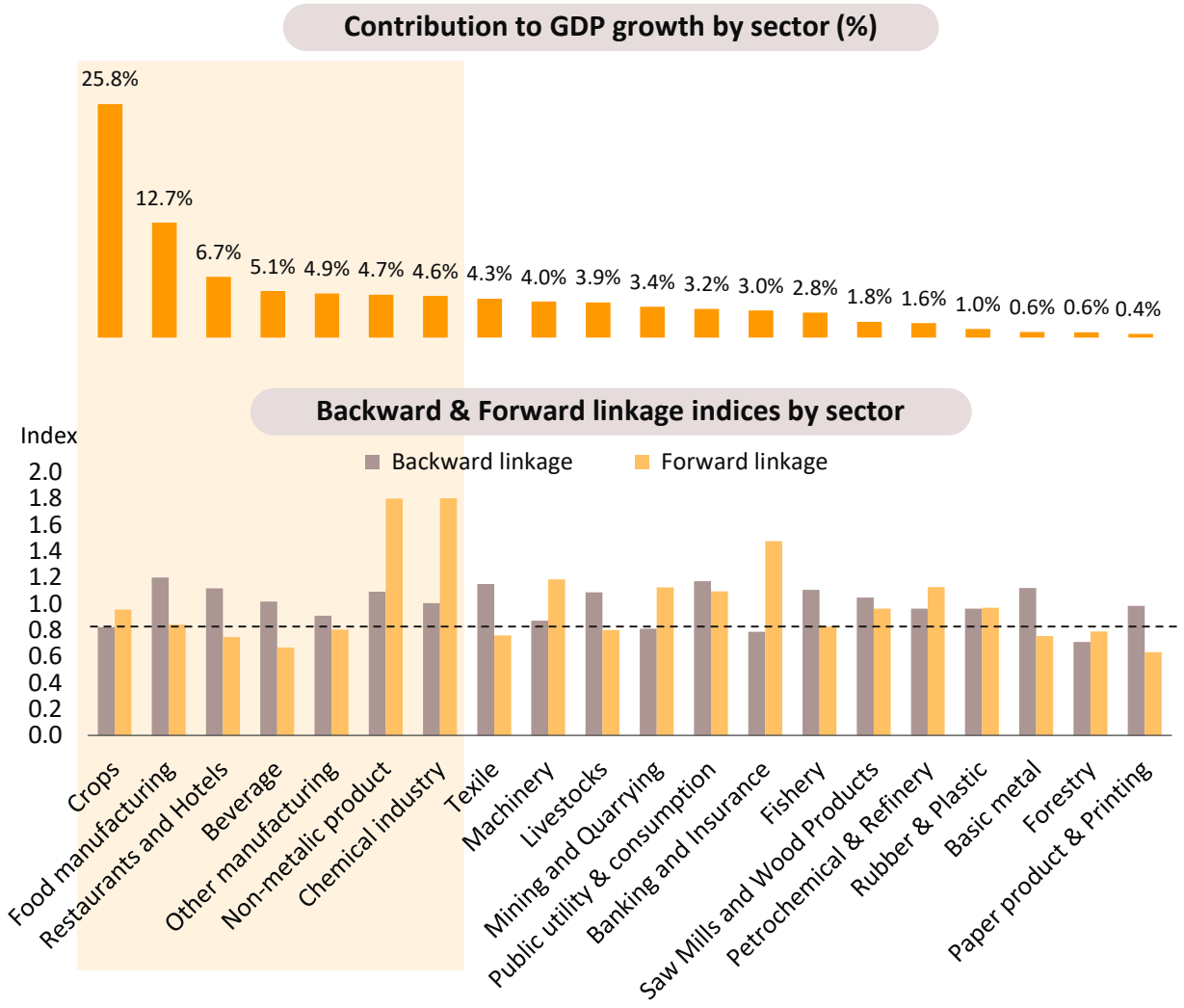
Digital Wallet can boost purchasing power of low-income households and stimulate the economy, but the effect might last only a year

NSO data suggests indebted households with monthly income below THB50,000 and debt-free households with monthly income below THB10,000 have weak purchasing power as total expenses including debt repayments exceed income. **The THB 10,000 digital wallet scheme – planned to be implemented in 2024 – would boost these household's purchasing power significantly but only for a year. It will help those under financial stress (85% of indebted households and 26% of debt-free households) by reducing their expense-to-income ratio to below 100%.** However, there would be little impact on high-income households (more than THB50,000 for indebted households) and debt-free households (monthly income above THB10,000) because these households have low marginal propensity to consume (MPC).



Source: NSO, NESDC, Krungsri Research

Digital Wallet: Supply-side analysis suggests that crops sector would be the largest contributor to GDP growth in 2024, but forward and backward linkages are low



- **Our supply-side analysis** suggests the crops sector would account for 26% of the projected increase in output or additional GDP. Contribution from the non-agricultural sector would be about 70%, led by food manufacturing (12.7%), restaurants & hotels (6.7%), beverage (5.1%), and other manufacturing categories (4.9%).
- To present a clearer picture, we looked at "backward and forward linkages" to identify the position of each sector in the supply chain. Sectors with high backward linkages would have strong connections with upstream industries. Those with high forward linkages would have significant connections with downstream industries.
- Our analysis suggests the **crops sector** would be the largest contributor to GDP growth in 2024 but its forward and backward linkages are low compared to other sectors. Meanwhile, **Food Manufacturing and Restaurants & Hotels would be the** second- and third-largest beneficiaries, respectively, but they have **stronger backward linkages to other sectors.** Those with strong forward linkages include non-metallic products and the chemical industry, but these sectors would see smaller gains from this scheme.

Notes: (*) **Forward Multiplier > Backward Multiplier**: Upstream industry
Backward Multiplier > Forward Multiplier: Downstream industry
(**) **Index > 1:** When specific sector final demand changes by one unit, total output of all sectors would change by more than one unit
Index < 1: When specific sector final demand changes by one unit, total output of all sectors would change by less than one unit

Source: NESDC and Krungsri Research

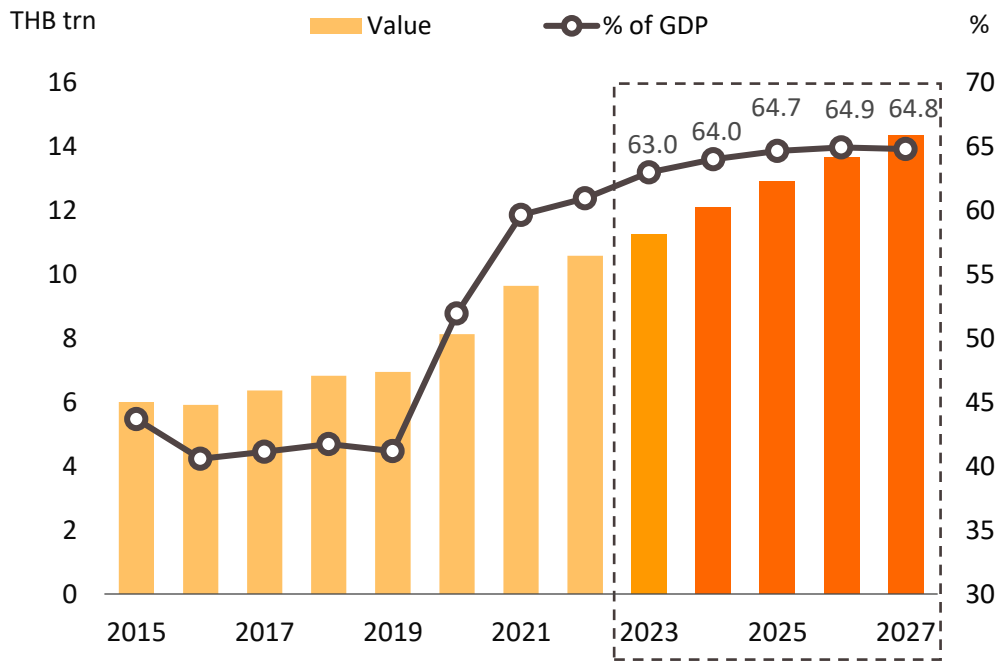
Digital Wallet could be a *fiscal burden* and raise implicit public debt to 65-66% of GDP

- **The Cabinet has approved the Medium-Term Fiscal Plan (2024-2027) with a total expenditure budget of THB 14,602 billion, THB 11,745 billion total revenue, and a borrowing plan totaling over THB 3,611 billion over four years as follows** : (i) borrowing to offset THB 2,857 billion deficit, and (ii) borrowings by the government and SOEs amounting to THB 754 billion[1/].
- **The Public Debt Management Office (PDMO) estimates public debt under the Plan would increase from 63% of GDP in 2023 to 64% in 2024 and 64.8% in 2027**. Our funding scenarios suggest funding for the Digital Wallet scheme would be repaid between 2024 and 2027, based on the following assumptions:
  - **Scenario 1:** Borrowing additional THB 130 billion would push up public debt to **64.8% of GDP in 2027**, as outlined in the 2024-2027 fiscal plan; this would serve as the baseline.
  - **Scenario 2: P**ublic debt will be unchanged is the government borrows from SFIs (quasi-fiscal expenditures), but this approach will amplify the fiscal burden when setting the budget for repayment. This could potentially elevate **implicit public debt to 65.6% of GDP by 2027.**

Medium-Term Fiscal Plan (2024-2027)

Fiscal year (THB bn)	2023	2024	2025	2026	2027
Receipts	2,490	2,787	2,899	2,985	3,074
% YoY	3.8	11.9	4.0	3.0	3.0
Expenditures	3,185	3,480	3,591	3,706	3,825
% YoY	2.7	9.3	3.2	3.2	3.2
Fiscal balance	-695	-693	-692	-721	-751
% of GDP	-3.8	-3.6	-3.4	-3.4	-3.4
Public debt	11,255	12,089	12,898	13,652	14,363
% of GDP	63.0	64.0	64.7	64.9	64.8
Nominal GDP	18,169	19,078	20,146	21,234	22,381

Thailand's public debt level under the Plan

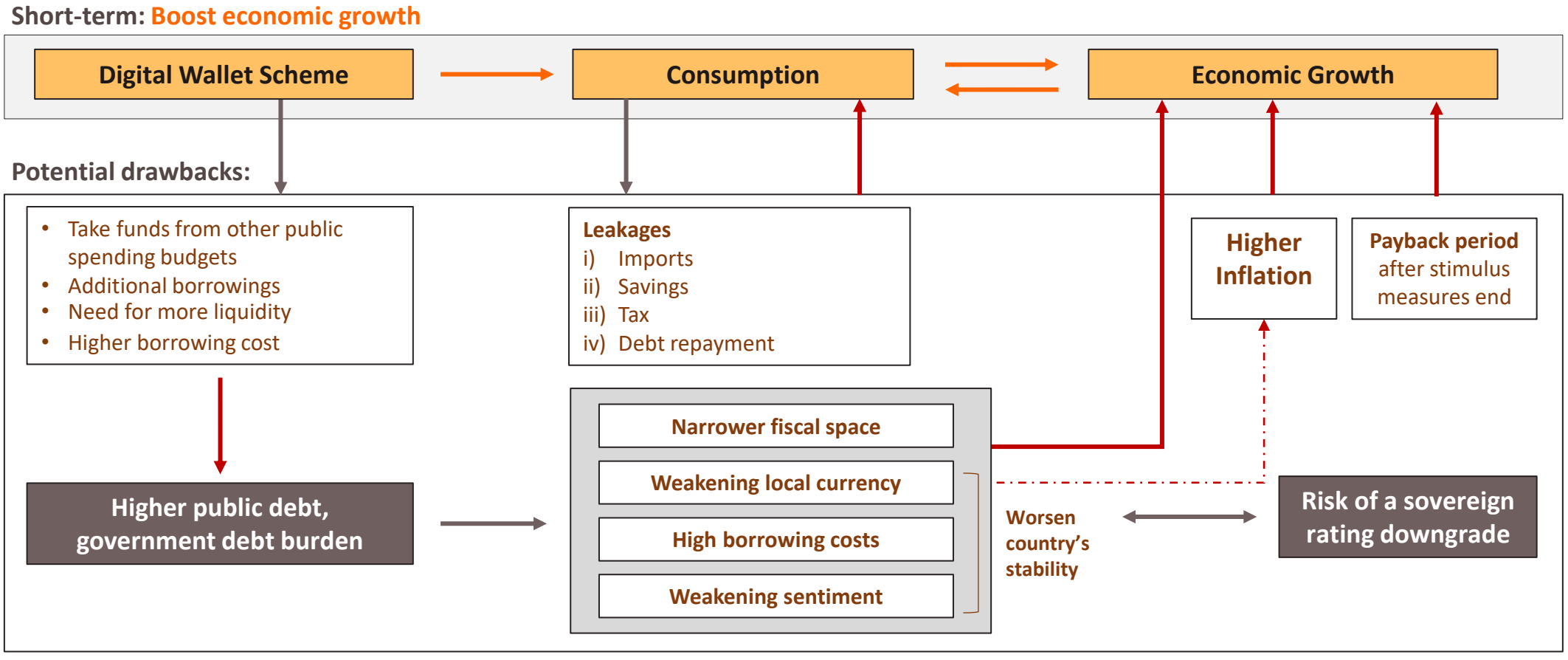


Note: 1/ The number can be broken down as follows: THB 262 billion in 2024, THB 245 billion in 2025, THB 161 billion in 2026, and THB 86 billion in 2027

Source: The cabinet, PDMO, Krungsri Research

Digital Wallet scheme would boost growth temporarily but higher public debt could raise concerns about fiscal stability

The potential risks associated with rising public debt and implicit debt burden triggered by the quasi-fiscal scheme include (i) higher borrowing costs, which could lead to 'crowding-out' effect; (ii) a narrower fiscal space, which would limit the ability to implement counter-cyclical measures and to advance growth-promoting policies; and (iii) worsen the country's stability with a weaker local currency, poor sentiment, and high borrowing costs. These could also trigger a sovereign rating downgrade.



Source: Krungsri Research

KRUNGSRI RESEARCH

Pimnara Hirankasi, Ph.D.	**Head of Research Division and Chief Economist**

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.	Acting 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
Narichaya Satafang	Analyst
Chinnakrit Ampornpannawat	Analyst
Parinya Mingsakul	Analyst

MIS and Reporting Team

Thamon Sernsuksakul	Administrator
Chirdsak Srichaiton	MIS Officer
Wongsagon Keawuttung	MIS Officer

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