

krungsri Research

A member of MUFG a global financial group

MONTHLY ECONOMIC BULLETIN

June 2022

Krungsri Research

Global: Shifting into lower gear



China

- Economic activities have bottomed out but threats of resurgent outbreaks and zero-Covid policy could cause recovery to stumble.
- Unlike the rebound in 2020, the economy this year would be weighed by series of headwinds, a fragile labor market and weaker external demand.
- Need additional policies to nurture economic recovery but China has limited room for large stimulus measures.

US

- Growth will decelerate but remain strong.
- Tight labor market, strong wage growth, and lower savings rate will continue to boost consumption, contribute to demand-pull price pressure
- Fed is shifting to a more hawkish tone with aggressive rate hikes; looming risk of an economic downturn.

Europe

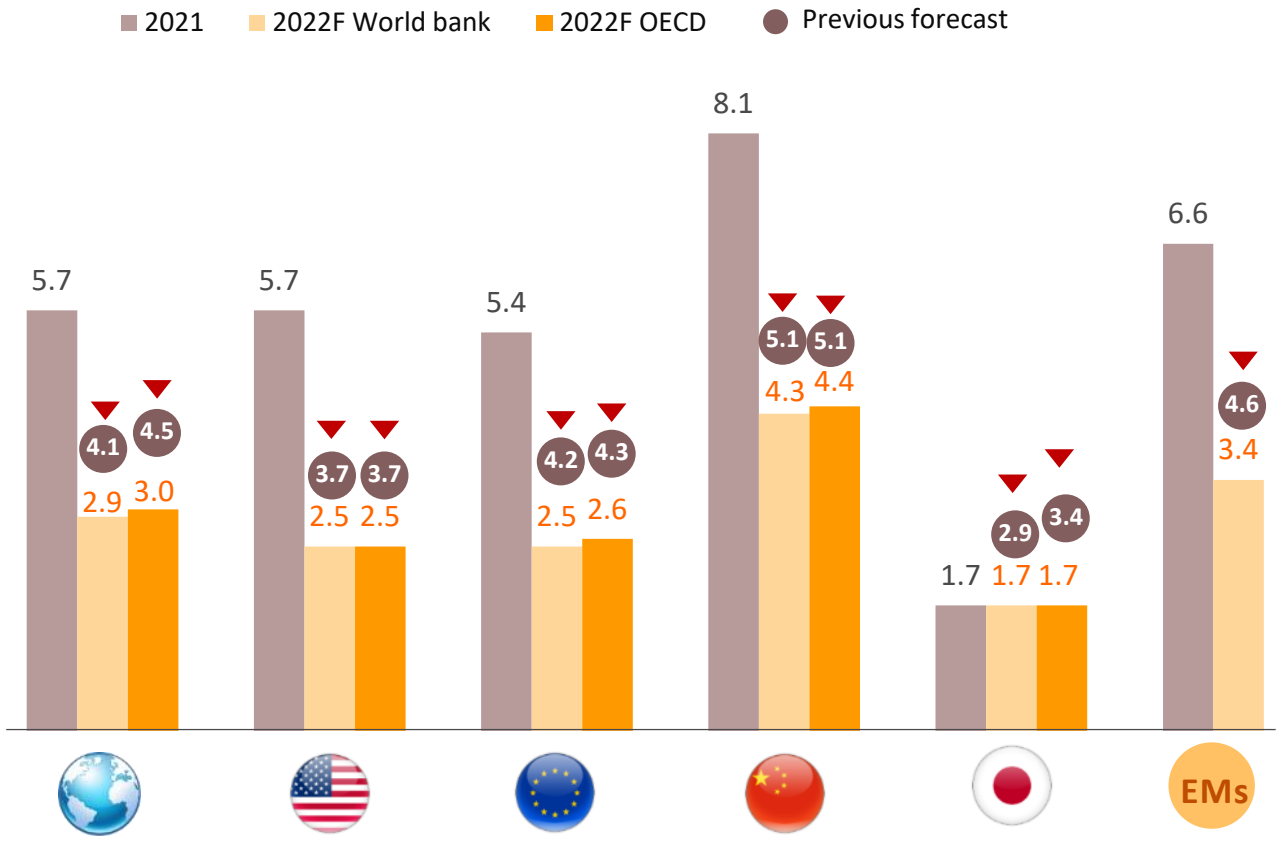
- Manufacturing growth is losing momentum amid Russia-Ukraine crisis; labor markets are improving at different speeds among key countries but are tighter than pre-Covid level.
- Tight labor market and inflation outlook suggest the ECB might start normalizing policy soon, while risks to peripheries could limit the pace of policy tightening.

Japan

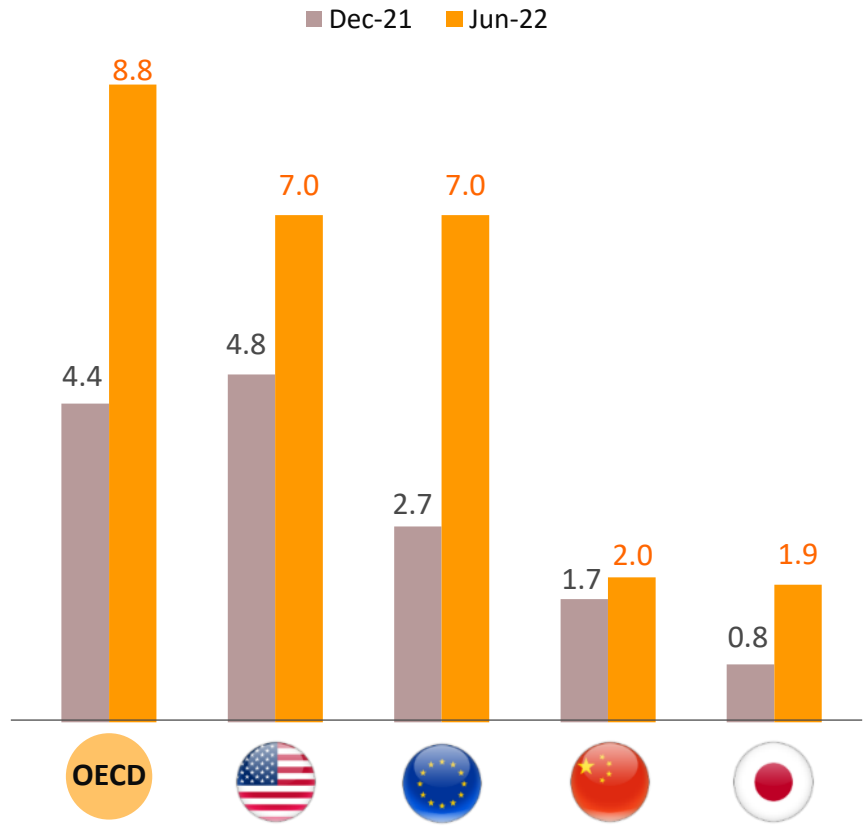
- Recovery delayed by weaker global demand, supply disruption, and stricter-than-peers border controls.
- Expect BOJ to maintain ultra-loose monetary policy to support targeted fiscal measures to sustain economic recovery.

World Bank sees higher stagflation risk amid sharp slowdown in growth; OECD blames slower recovery and higher inflationary pressures on Ukraine war

Economic growth projections for global and major economies (%)



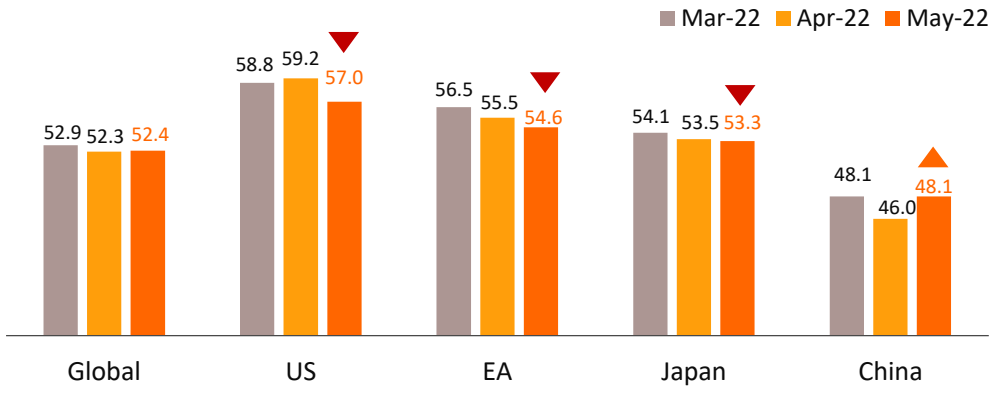
2022 Inflation forecast by OECD (%)



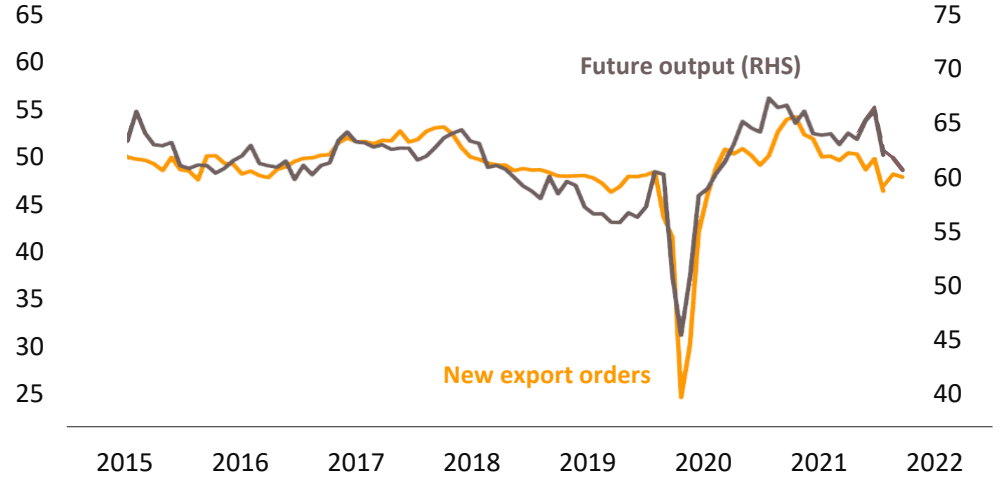
Source: World bank, OECD (June 2022), Krungsri Research

Signs of global economic slowdown with softer demand and weaker trade; high inflation will continue to dampen spending growth

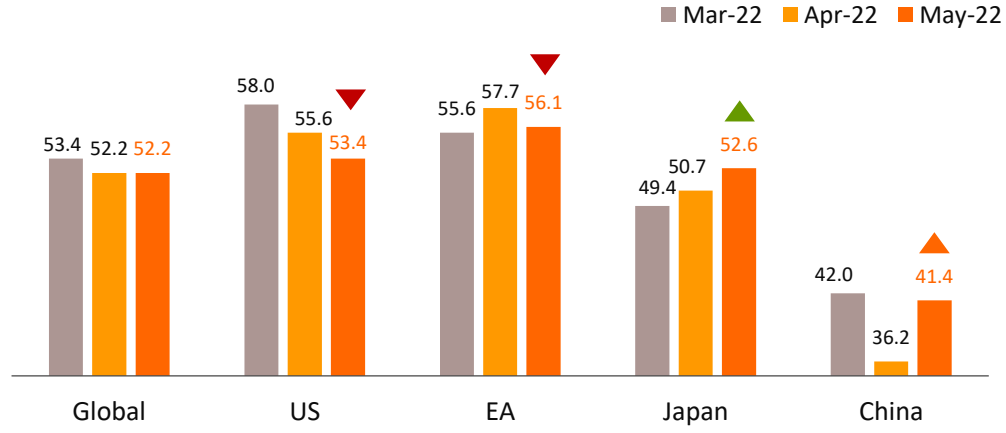
Global Manufacturing PMI



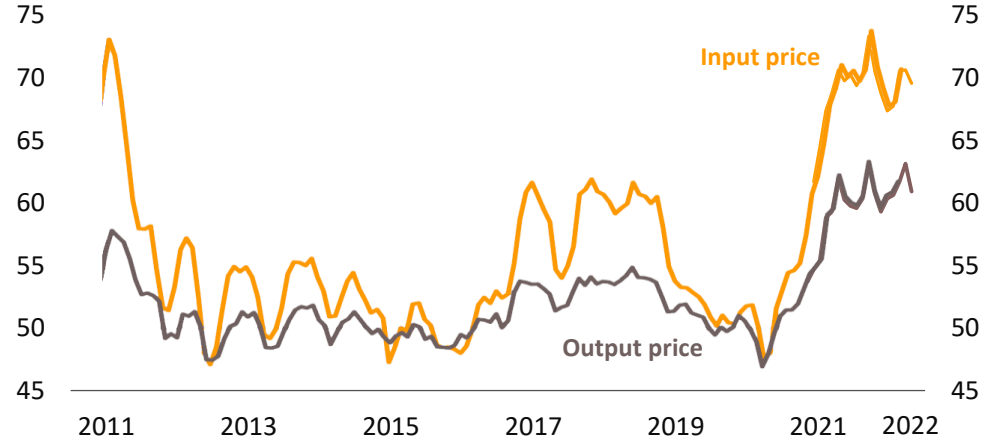
Future output and new export orders



Global Services PMI



Input and output prices

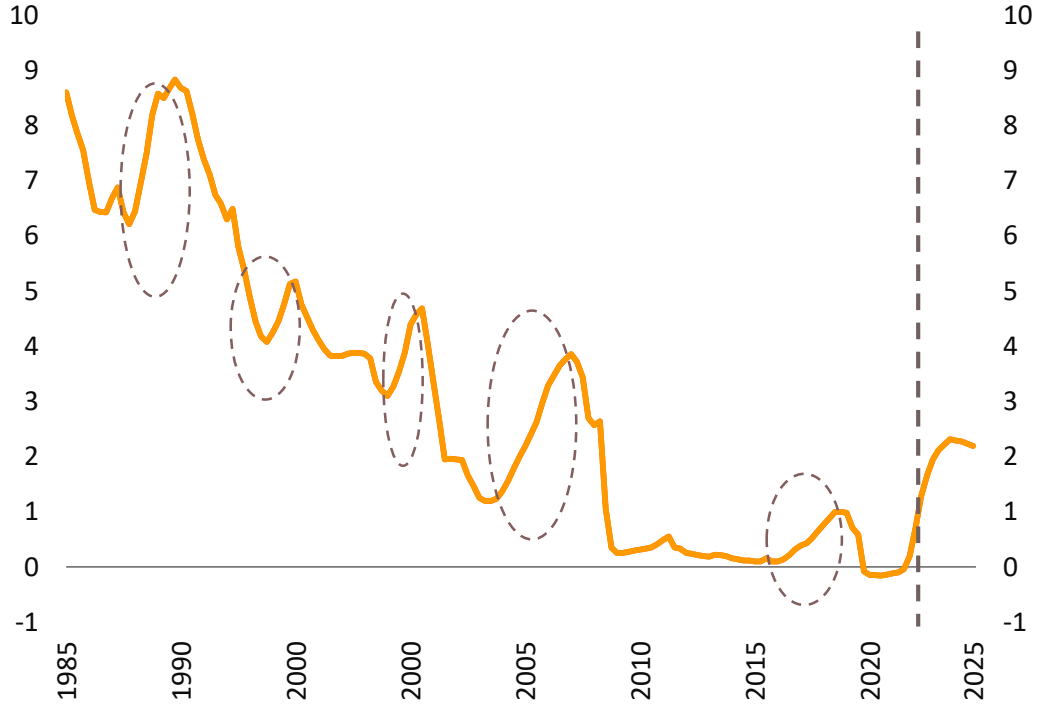


Source: IHS Markit, Bloomberg, Krungsri Research

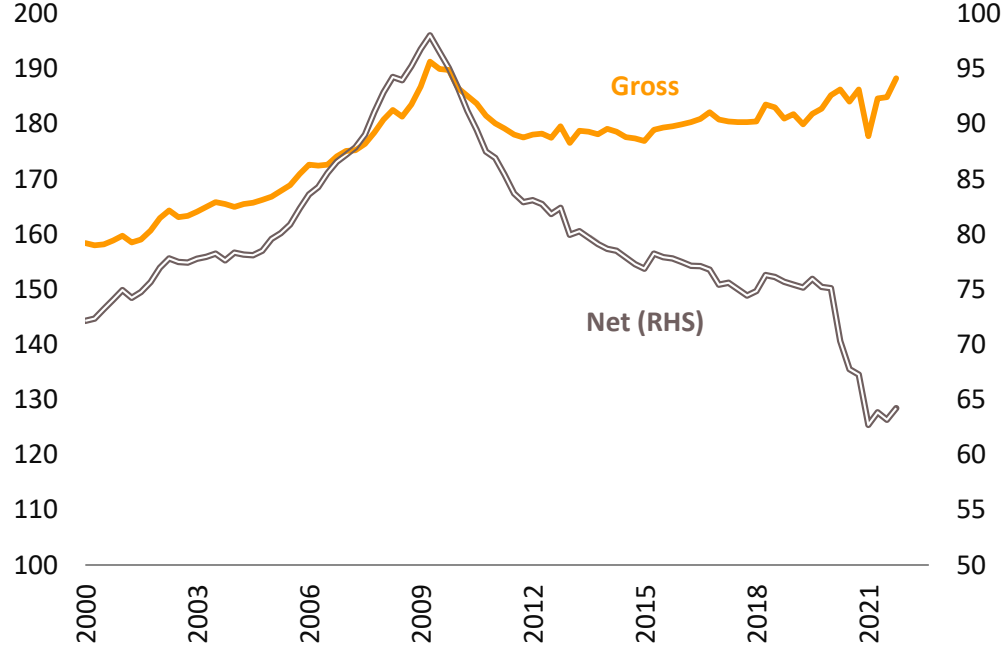
Aggressive policy tightening cycle could accelerate slowdown in global economic growth; large savings in advanced countries might help prevent a severe downturn

In an attempt to battle persistent inflation triggered by post-pandemic economic recovery, major countries are normalizing extraordinary monetary easing. **Major central banks are expected to see the most aggressive policy tightening cycles in decades, which will slow down the global economy.** Capital Economics projects the weighted average policy rate in major advanced economies will rise by 240bps within two years, sharper than the average for the past five tightening cycles. But there is one thing different from past cycles - interest rates will remain low. **There has also been a build-up of savings by firms and households.** Even though private non-financial sector debt as a share of income has risen to close to the level during the Global Financial Crisis (GFC); net of currency and deposit assets, the debt ratio has been low, which could be a cushion against economic shock or prevent a severe downturn.

Weighted average policy interest rate in advanced economies (%)



Private non-financial sector debt as a % of income in advanced economies

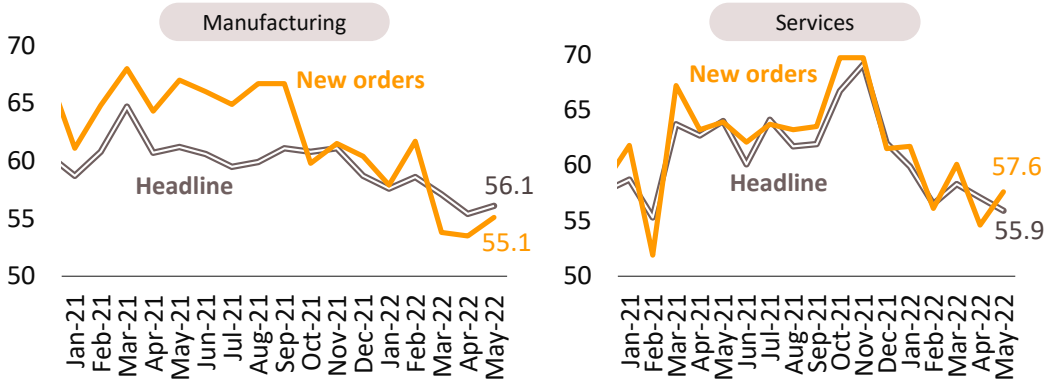


Source: Capital Economics, Krungsri Research

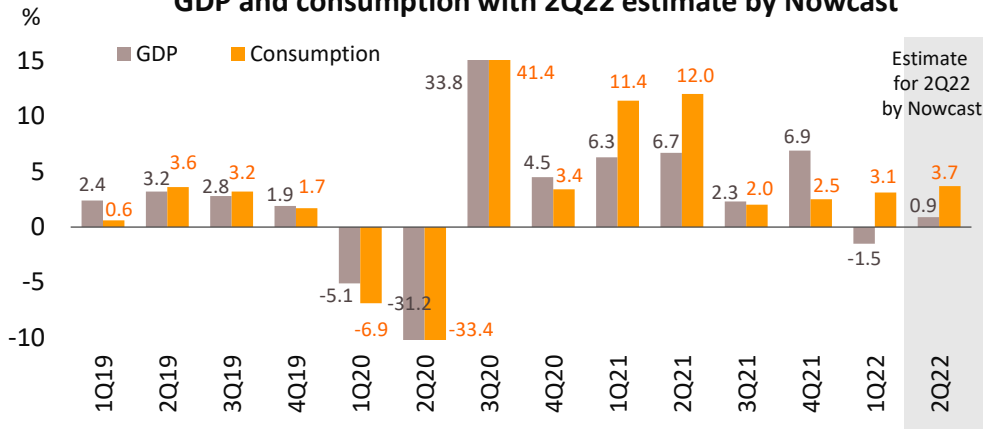
US: Growth is slowing but remains high; tight labor market, strong wage growth, and lower savings rate continue to boost consumption, and exert demand-pull price pressure

Economic growth is slowing but remains well above recession levels. While ISM Manufacturing and Services PMI data showed signs of stabilizing, they remain above-50. New orders sub-indices also reflect strong domestic demand. A running estimate of real GDP growth and components based on available economic data for the current measured quarter, called Nowcast, show that real GDP growth (seasonally adjusted annual rate) in 2Q22 might only reach 0.9% (data as of June 8) but **Personal Consumption Expenditure in the same quarter could grow by 3.7%, stronger than pre-Covid level.** Despite some easing in the hot labor market, job openings remain close to a record high in April and hourly earnings growth is high at 5.2% YoY in May, well beyond pre-Covid level. Non-farm payrolls are also better than market expectations, by 390,000 in May. Consumers have continued to spend as personal savings rate drop to a 14-year low of 4.4% in April. **The tight labor market, high wage growth, and lower savings rate are boosting consumer spending, which could contribute to rising demand-pull inflationary pressure.**

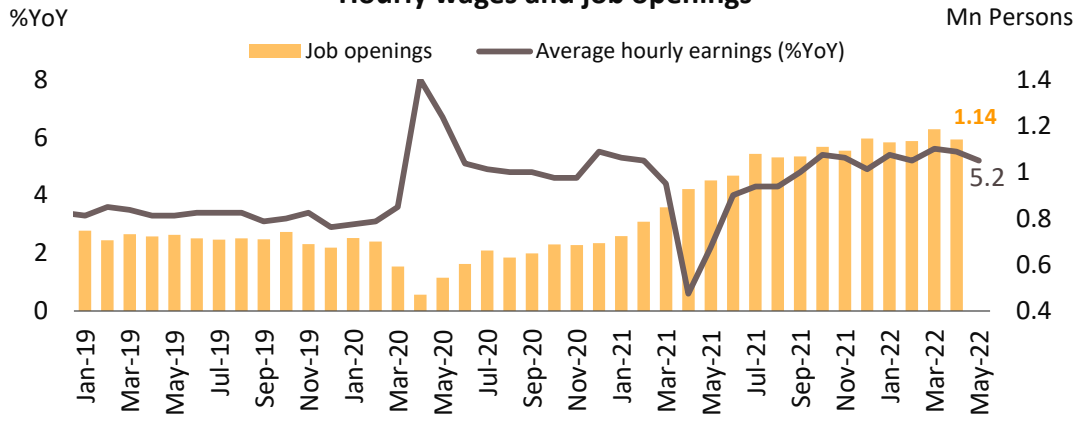
ISM PMI Surveys (DI)



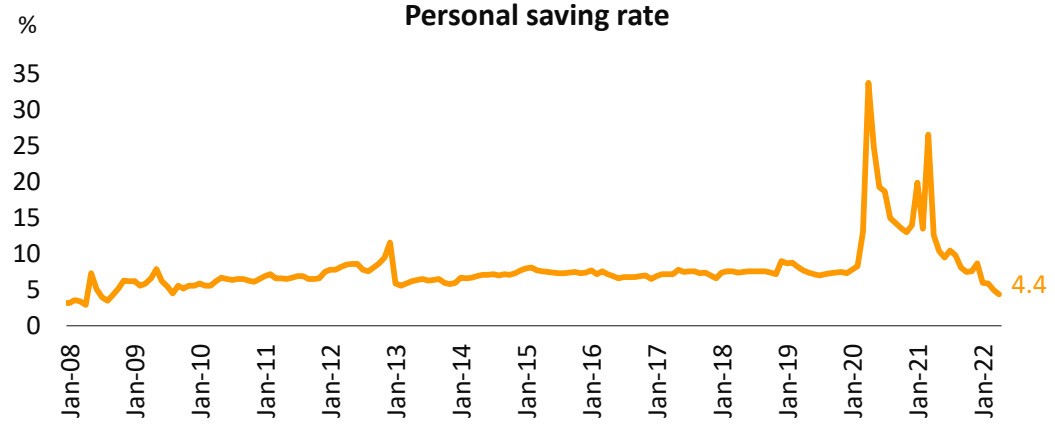
GDP and consumption with 2Q22 estimate by Nowcast



Hourly wages and job openings

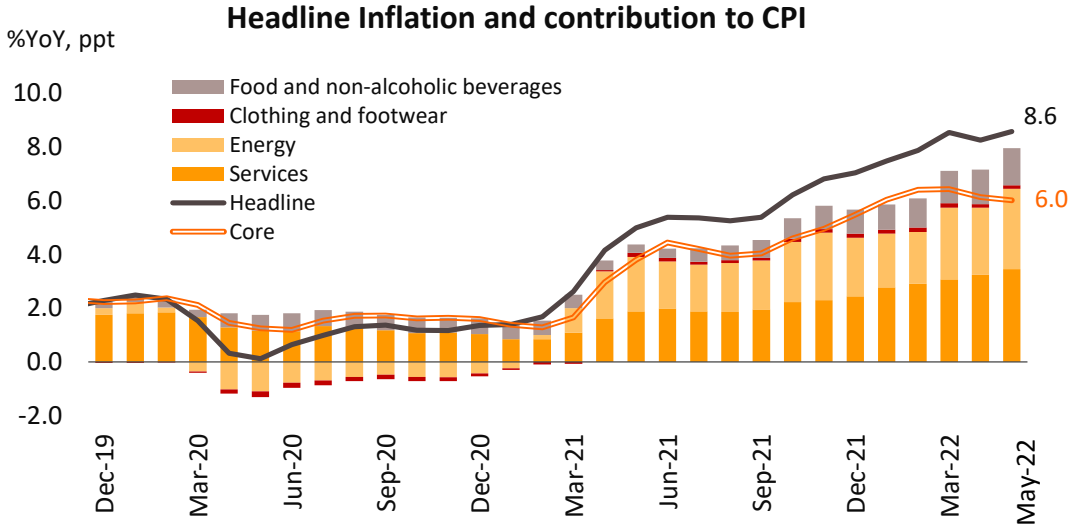


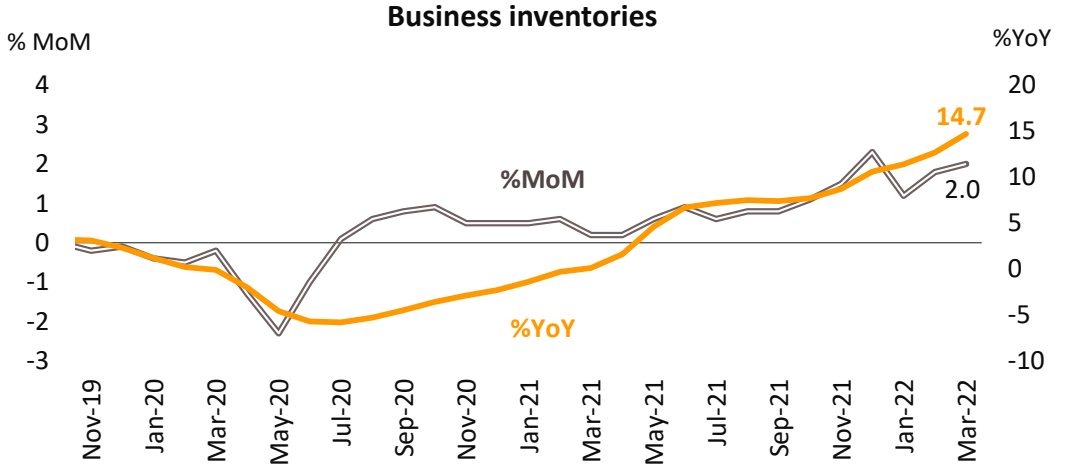
Personal saving rate

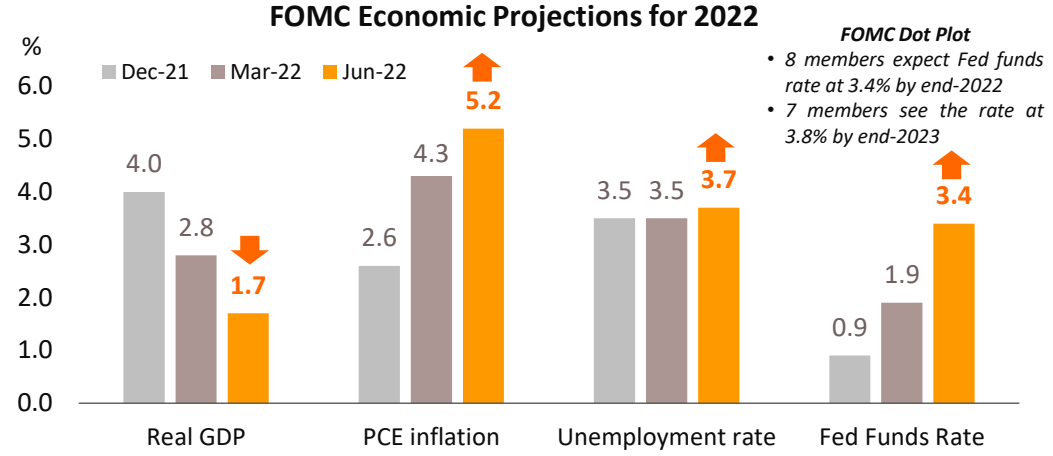


Source: ISM, Atlanta Fed, Bureau of Labor Statistics (BLS), St. Louis Fed, Bloomberg, Krungsri Research

Amid more persistent inflation, Fed is shifting to more hawkish tone with aggressive rate hikes; looming risk of an economic downturn







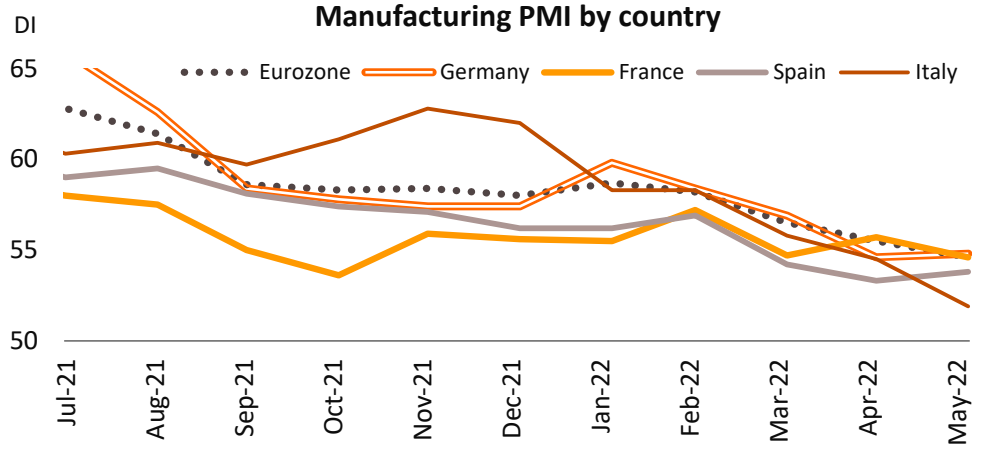
Source: BLS, Federal Reserve, Census Bureau, Bloomberg, Krungsri Research

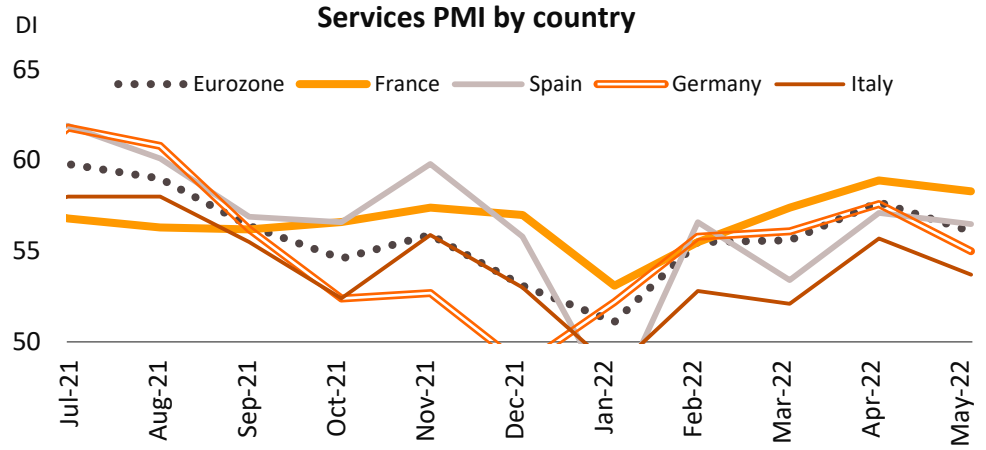
Krungsri Research's view

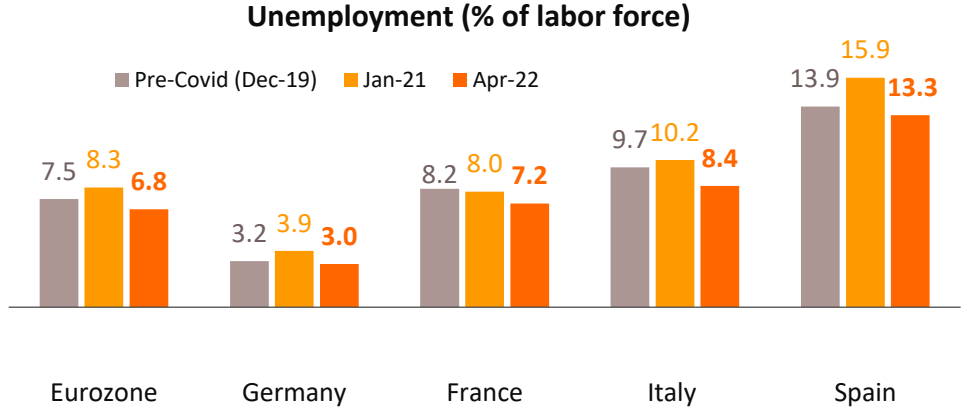
- **In response to hotter-than-expected inflation, US policy makers signaled a shift to more hawkish stance, with the dot plot showing the median interest rate at 3.4% by year-end. At the 14-15 June meeting, the FOMC raised Fed funds rate by 75bps, the biggest increase since 1994, to 1.50-1.75%.**
- **The FOMC is expected to raise the Fed funds rate by 75 bps at the July meeting** to tame persistent inflation which has risen to a 40-year high of 8.6% in May. The Fed's latest inflation projection also exceeded the long-run target of 2% for the 3-year forecast horizon, with an upward revision for 2022 inflation forecast to 5.2% from 4.3% in March estimate. The Fed funds rate is estimated to rise to 3.4% by year-end (up sharply from 1.9% in March projection) and to 3.8% by end-2023 (vs only 2.8% in March estimate), according to the Fed's quarterly dot-plot forecast for interest rates.
- **The pace of policy tightening may be scaled back from September if there are signs inflation has peaked and could soften in 4Q22** following last year's high-base effect, stabilizing energy prices, slowing economic growth, normalizing demand in services sector, some easing in the hot labor market, and rising goods inventories.
- **Although risks to growth may be capped by healthy household balance sheets, aggressive policy tightening could increase risk of an economic downturn.** In June 3-9, Wall Street economists had raised greater concerns of an economic downturn with 48% projecting a soft landing compared to 21% for a hard landing and 31% for a recession. Bloomberg Economics' model indicates risk of recession has risen from 25% in 2022 to 72% in 2023.

Eurozone: Manufacturing growth is losing momentum amid Russia-Ukraine crisis; labor market improving at different speed complicates pace of policy normalization

The extended Russia-Ukraine crisis, further sanctions and possible retaliation, suggest stronger downside risks to economic growth especially in Europe. **Due to lingering supply shortages, elevated inflation and weaker demand amid the Ukraine war, China slowdown and economic uncertainty, Eurozone's manufacturing growth is decelerating** with Manufacturing PMI falling for the fourth consecutive month in May. Orders-to-inventory ratio has deteriorated, indicating slower output growth in the coming months. The weaker manufacturing sector has also been affected by a shift in demand from goods to services such as tourism and recreation. **The services sector has rebounded from early this year but growth will plateau soon** amid high inflation. Italy posted the weakest growth among key countries in both Manufacturing and Services sectors. Italy and Spain unemployment rates remain much higher than in other major economies but **current unemployment rates in all key countries are below pre-Covid levels, suggesting less need for extraordinary monetary stimulus.**







Source: IHS Markit, Eurostat, CSIS, Bloomberg, Krungsri Research

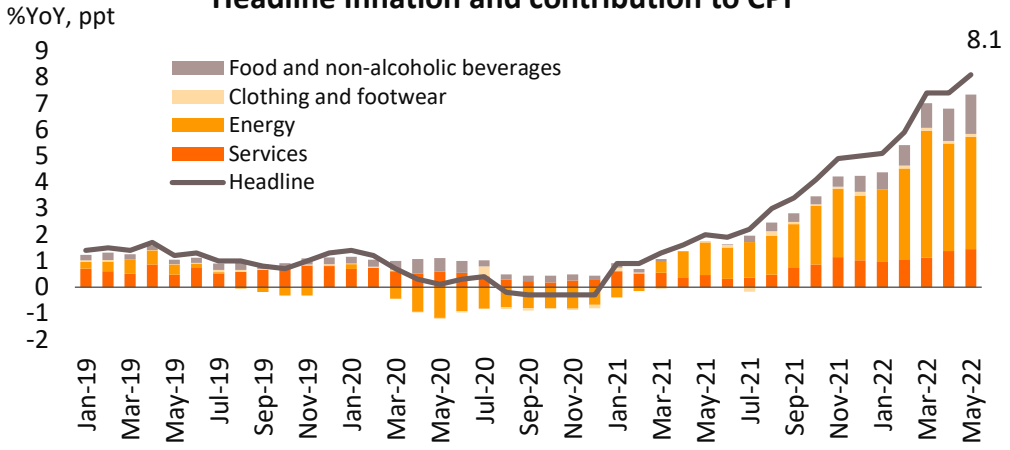
EU partial embargo on Russian oil

EU sanctions package	• On 3 June, the EU adopted a sixth package of sanctions, including a partial embargo on Russian oil. **The sanctions will ban seaborne imports of Russian crude oil from 5 Dec 2022 and ban petroleum product imports from 5 Feb 2023.** • Pipeline imports of crude oil and petroleum products will be exempt, in a compromise with EU member states such as Hungary. • EU claims the ban on seaborne imports—as well as Germany and Poland's voluntary move to halt pipeline imports—will allow it **to cut oil imports from Russia by 90%.**
Can Europe cope without Russian oil?	• In the past few months, Europe has started to import more oil from the United States, West Africa, and the Middle East. • Because there is a phase-in period before the sanctions take place, **it is possible that Russian oil exports to Europe will increase in the next six to eight months** before trade becomes illegal. • Refiners may have incentives to ramp up imports from Russia—possibly at discounted prices—to build inventories. There are some parallels to the natural gas market.

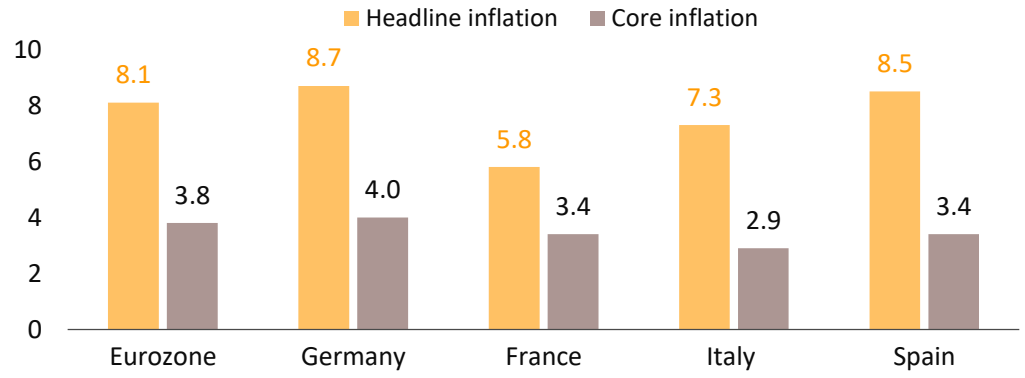
Tight labor market and inflation outlook suggest the ECB might start normalizing policy soon but risks to periphery bond markets could limit pace of monetary tightening

The tight labor market could lead to wage hikes and more upward pressure on headline inflation, which rose to a record high of 8.1% in May from 7.4% in April. The ECB recently raised inflation forecasts to 6.8% for 2022, 3.5% for 2023 and 2.1% for 2024, exceeding its 2% target for its projection horizon. **Given the ECB's stronger intention to maintain price stability, the central bank had on June 9 signaled to raise its main policy rates for the first time in more than a decade in July by 25 bps, and left open the possibility of a 50-bp hike in September. We expect a gradual move with a 25 bp hike in both September and October given lower core inflation and rising bond yields in peripheral markets.** Spreads between 10-year Italian and German government bonds, a barometer of eurozone financial stress, have widened to the highest since May 2020 amid concerns over Italy's public debt which remains high at 150% of GDP. At the emergency meeting on June 15, the ECB has pledged to act against resurgent fragmentation risks by deciding to apply flexibility in reinvesting redemptions coming due in the PEPP portfolio.

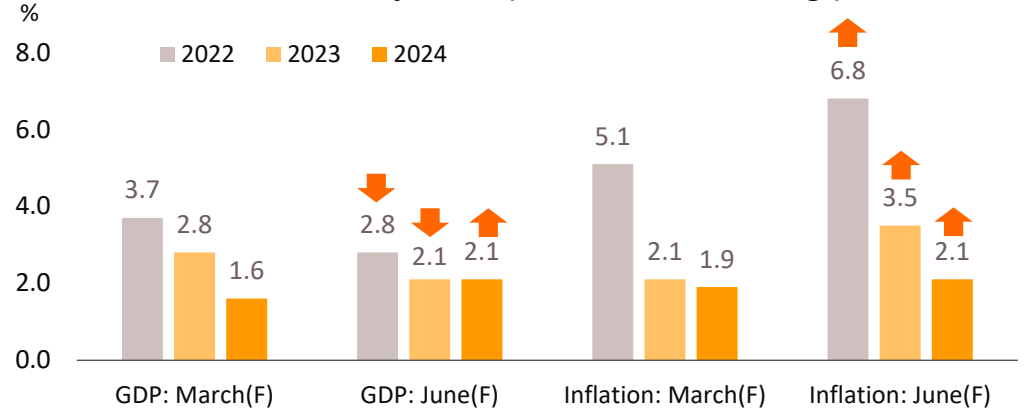
Headline Inflation and contribution to CPI



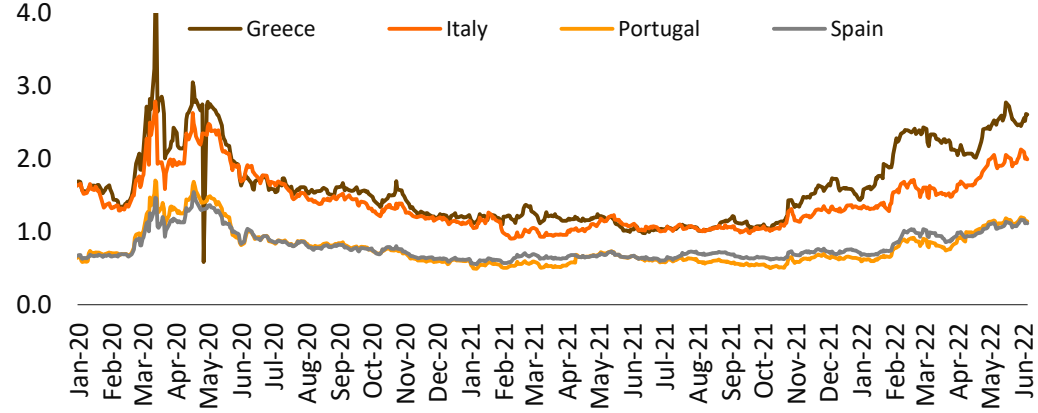
Headline and Core inflation (%)



ECB Economic Projections (March vs June meetings)



Spreads between 10-year Periphery and Germany bond yields (percentage points)

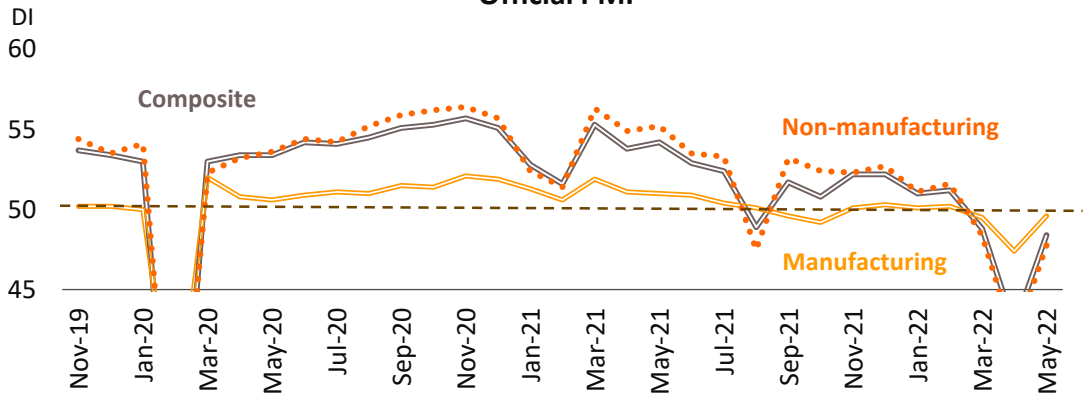


Source: EuroStat, ECB, CEIC, Bloomberg, Krungsri Research

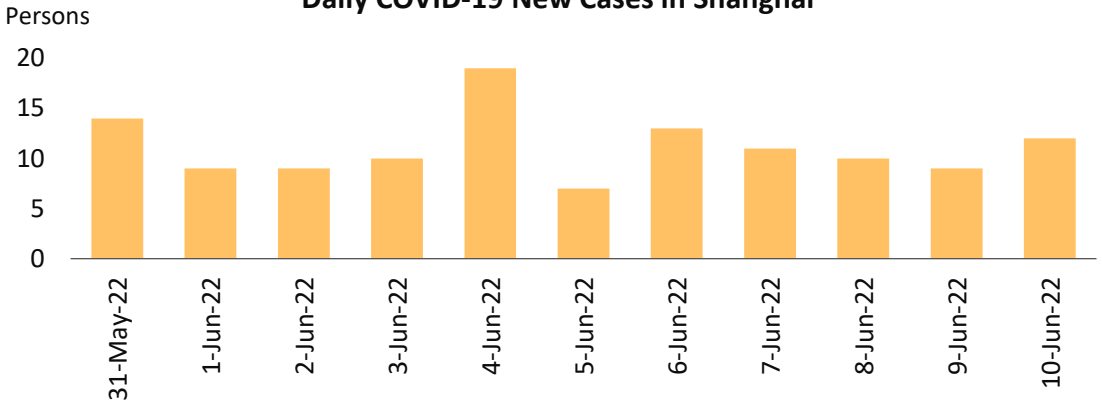
China: Economic activity has bottomed out but threats of resurgent outbreaks and extended zero-Covid policy could cause recovery to stumble

China's economy has showed signs of improvement after nationwide outbreaks subsided. Though PMI indicators for May show economic activities are recovering gradually but Manufacturing and Non-Manufacturing PMI data remain in contraction territory. Moreover, the prompt reimposition of lockdown to curb a flareup in Shanghai in mid-June suggests the zero-Covid policy could delay economic recovery. Since lifting lockdown restrictions on 1 June, there has been a spike in new cases, which prompted authorities to reimpose lockdown in 7 of 16 districts. As Shanghai contributes 3.8% of GDP and is the financial services and manufacturing hub, the recurrent lockdowns will disrupt supply chains and discourage domestic spending. High-frequency data indicate overall economic activities have bottomed out but have not returned to pre-Covid levels. **Looking ahead, lingering Covid-related factors could drag the economy intermittently.** First, outbreaks driven by Omicron variant are not yet completely under control. Second, there is slow progress in dispensing booster shots, covering only 55.2% of China's population. Also, fully-vaccinated citizens are still at risk from less-effective homegrown vaccines compared to mRNA. Third, risks from the extended zero-Covid policy would hurt economic activities going forward.

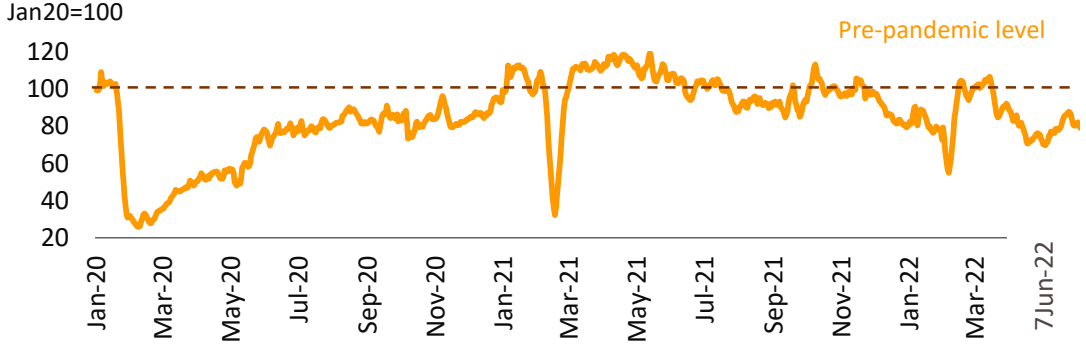
Official PMI



Daily COVID-19 New Cases in Shanghai



Daily Mobility Data



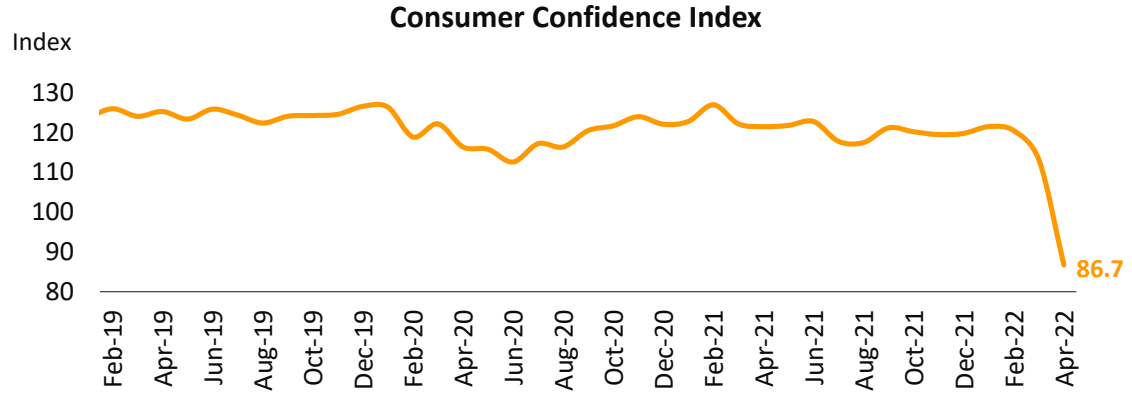
Progress of vaccination

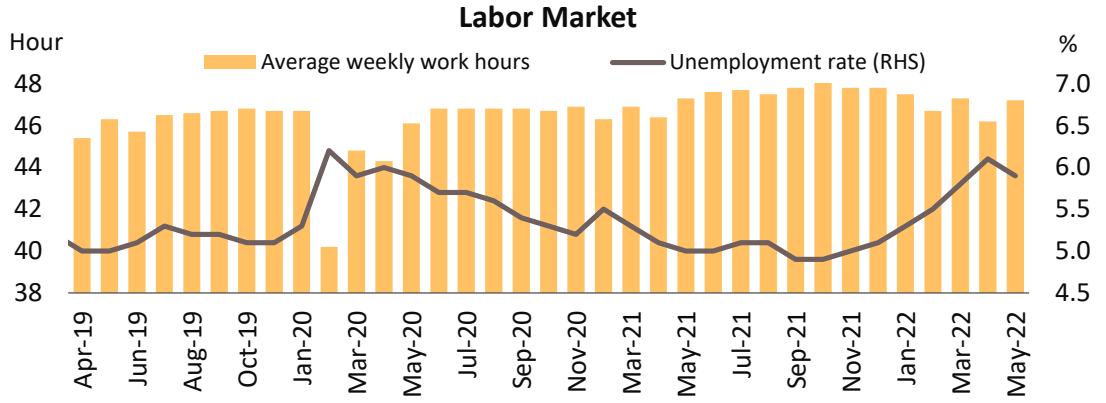
Vaccination rate (As of 4 Jun 22)	**At least one dose** 91.4% **Fully-vaccinated** 89.1% **Booster-vaccinated** 55.2%	
Efficacy rate in reducing severity & mortality rate (published on Lancet)	**Homegrown (Sinovac)** 2 Doses: 60.2% 3 Doses: 93.2%	**BioNTech mRNA** 2 Doses: 84.5% 3 Doses: 96.5%
Development of homegrown mRNA vaccine	**Abogen Biosciences, Walvax Biotechnology:** Under phase 3 clinical trials and expected to secure approval for public use by end-2022 with initial production capacity of 400 million doses per year **AIM Vaccine:** Under phase 2 clinical trials **Stemirna Therapeutics:** Under phase 2 clinical trials **CanSino Biologics:** Starting clinical trials	

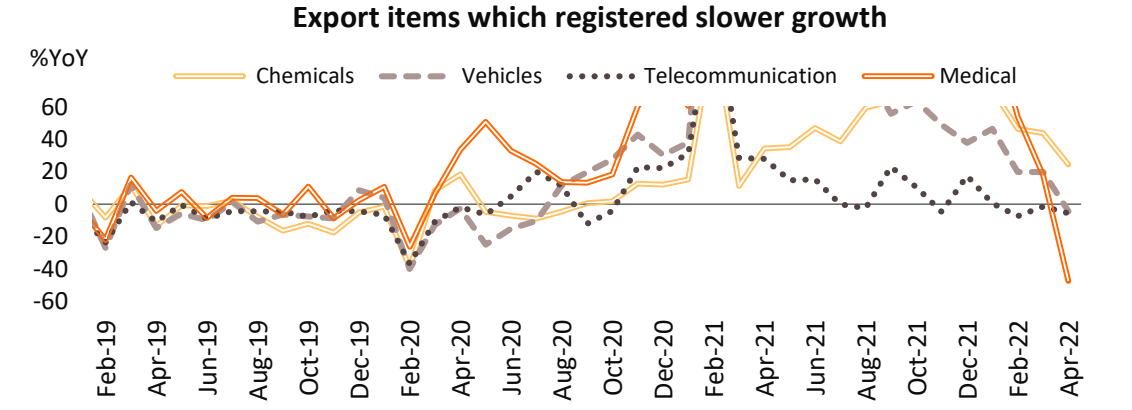
Source: National Bureau of Statistics, CEIC, Capital Economics, Bloomberg, Reuters, SCMP, Financial Times, Lancet, Krungsri Research

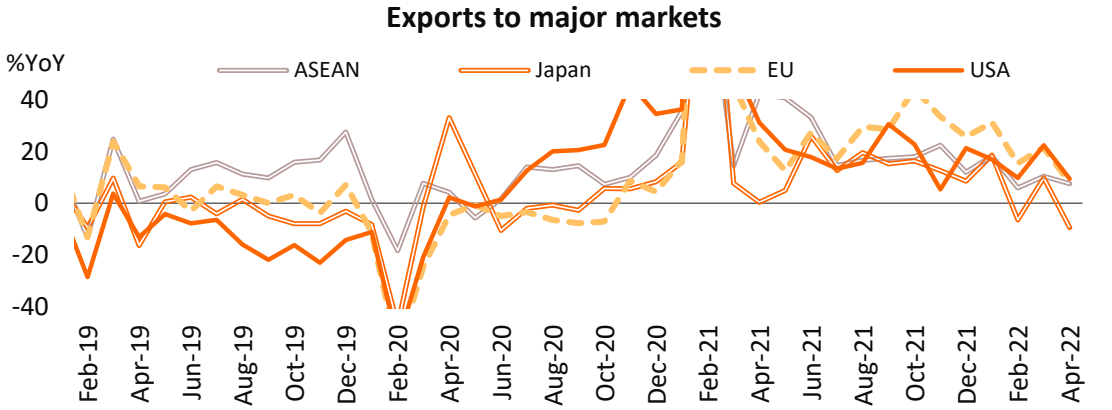
Unlike the rebound in 2020, the economy would be dampened by several headwinds, a fragile labor market and weaker external demand this year

Compared to recovery after the first wave in 2020, China's economy is likely to suffer from the longer impact of several outbreaks this year, aggravated by **a series of headwinds**, including regulatory crackdown, liquidity crunch in property sector, as well as external risks from Ukraine war and tightening policies abroad. Consumer confidence fell to a new low in April. **Confidence could improve after lifting lockdown in some cities but recovery would be affected by a weak labor market. U**nemployment rate remained high at 5.9% in May, far above pre-pandemic level in 2019. **Moreover, exports which had cushioned the impact of a weaker domestic economy in 2020 might not be much help this time.** Several export items which had benefited from the pandemic and work-at-home policy are seeing weaker demand, such as medical products, telecommunication, and vehicles. Exports to major markets have also dropped. In the next period, exports could also be threatened by the US's efforts to unite the Indo-Pacific Economic Framework (IPEF) that excludes China from a new trade bloc, while potential benefits from a review of import tariffs by President Trump's administration may not be significant as some manufacturing facilities for those products have been relocated to other ASEAN countries. **Despite anticipating a recovery following lockdown easing, the negative impact of a weak labor market, global economic slowdown, and rate hikes in major countries, coupled with fading gains from pandemic-related products and a shift in demand from goods to services could continue to pressure economic recovery in China.**







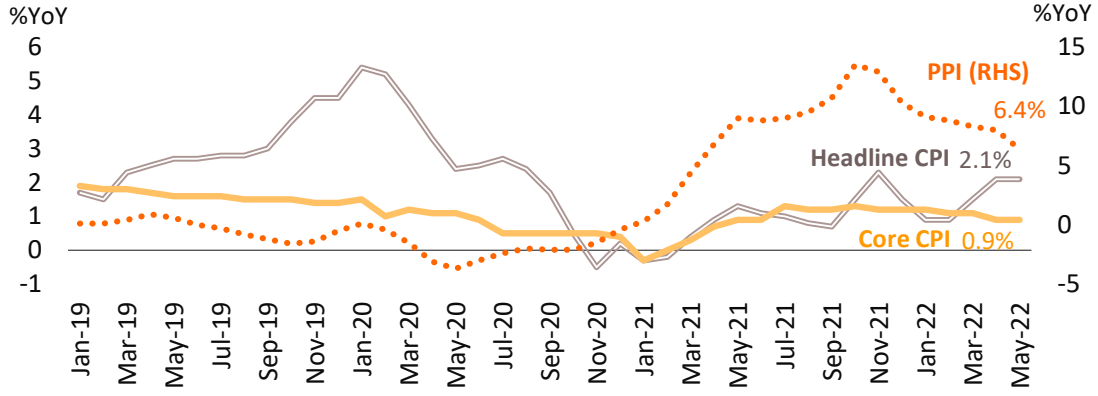


Source: National Bureau of Statistics, CEIC, Bloomberg, Capital Economics, Krungsri Research

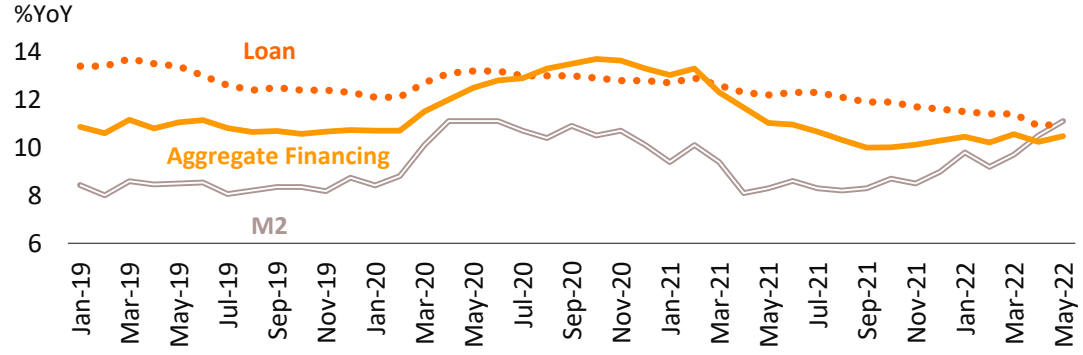
Need additional policies to nurture economic recovery but China has limited room for large stimulus measures

Low inflationary pressure compared to peers would allow China to continue to deploy accommodative fiscal and monetary measures. In May, headline inflation was steady at 2.1%, well below the target of 3% and in-line with unchanged core inflation. Producer price inflation also dropped to a year low. On May 20, the People's Bank of China (PBOC) announced it would cut 5-year Loan Prime Rate (LPR) by 15 bps to 4.45%, the biggest reduction in 3 years. The PBOC also urged commercial banks to provide more credit, reflected by easing financial conditions and surging money supply (M2). Noticeably, the expansion in loans and aggregate financing have not accelerated because authorities remain cautious of speculation and excess leverage in the property sector. Recently, authorities have stepped up stimulus measures to ease the negative impact of latest outbreaks and lockdowns in key areas, particularly Shanghai and Beijing. On May 23, the State Council announced 33 support measures, worth CNY 2.1trn (1.7% of GDP), smaller than 2020's stimulus package worth CNY 3.6trn (2.9% of GDP). Nonetheless, **there is limited room for further monetary and fiscal measures to boost economic growth as (i) greater monetary easing would lead to more policy divergence with major countries, raising concerns over fund outflows, a weaker yuan, and higher inflation; (ii) greater policy easing could heighten risks in financial and real estate sectors; and (iii) 2022 target for fiscal deficit has been lowered to 2.8% of GDP from 3.6% in 2020 and 3.2% in 2021.**

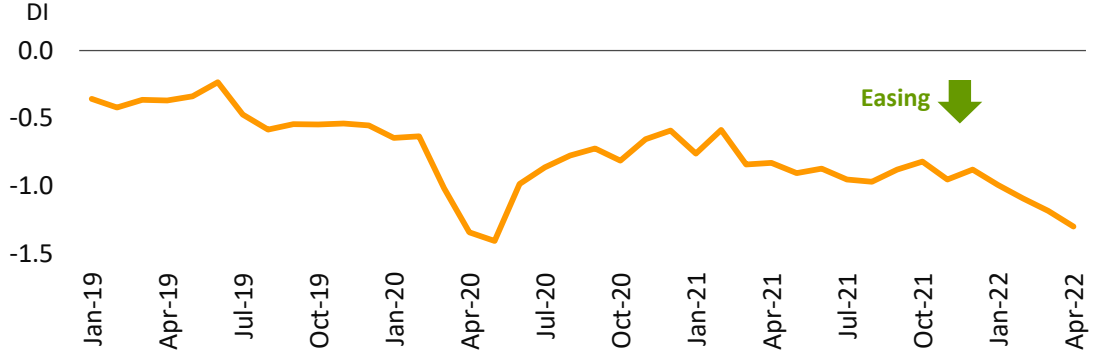
Consumer & Producer Price Indices



M2, Loans & Aggregate Financing



Financial Condition Index



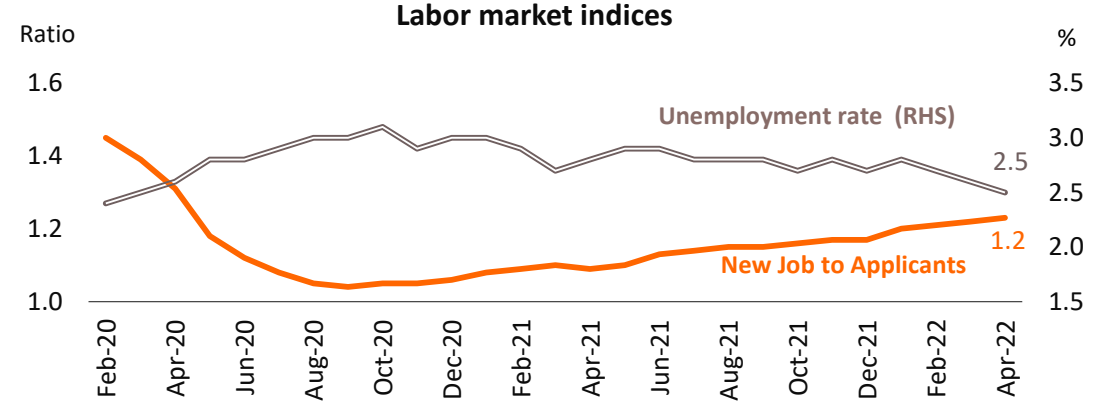
Additional fiscal & monetary measures to mitigate a sharp slowdown

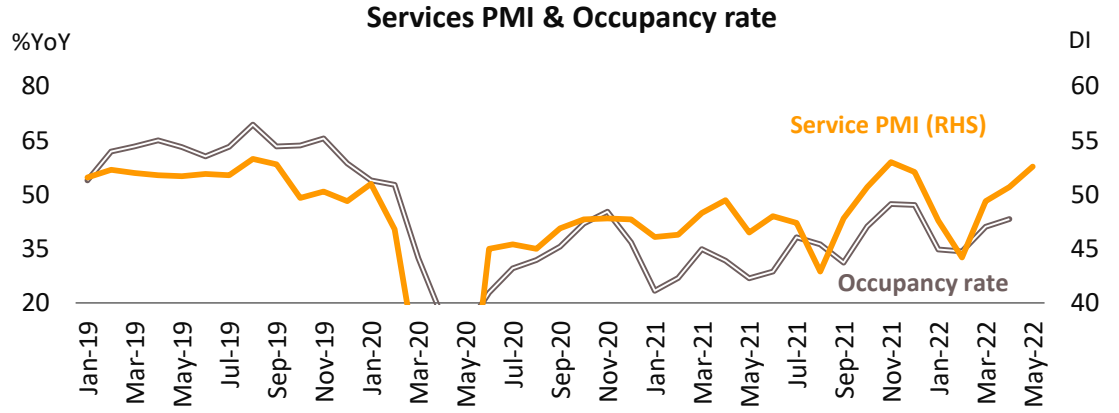
Fiscal measures	• Defer social security payments for hard-hit businesses and self-employed • Extend subsidy for employee retention and social security contribution • Increase utility & rent support as well as cut purchase tax for vehicles • Accelerate infrastructure projects and launch new round of rural road construction and renovation of public facilities • Support the issuance of railway construction bonds
Monetary measures	• Encourage banks to increase lending to SMEs • Support deferment of principal and interest loan repayments by SMEs, self-employed and households • Increase re-guarantee fund for SMEs and agricultural businesses • Lower the bar prohibiting purchase by certain homebuyers • Increase emergency loans to logistic and air transport industries

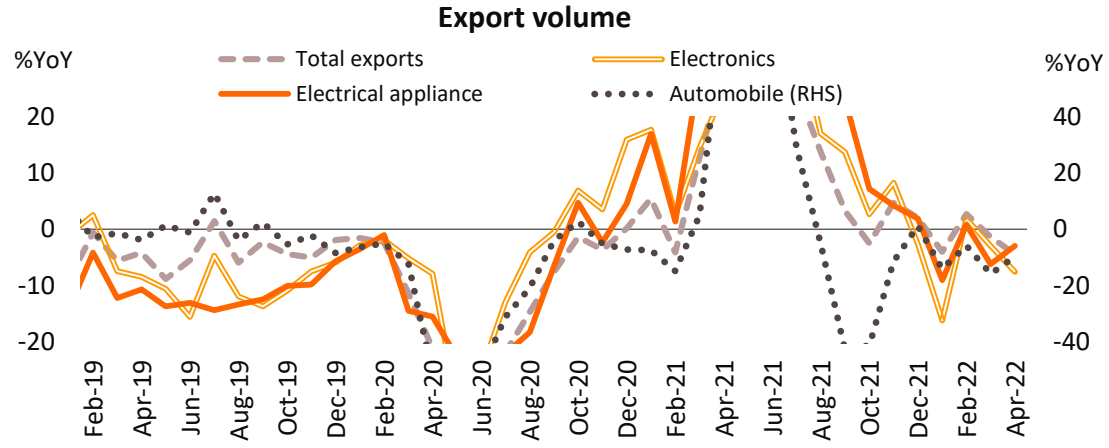
Source: National Bureau of Statistics, The People's Bank of China, CEIC, Capital Economics, Bloomberg, Krungsri Research

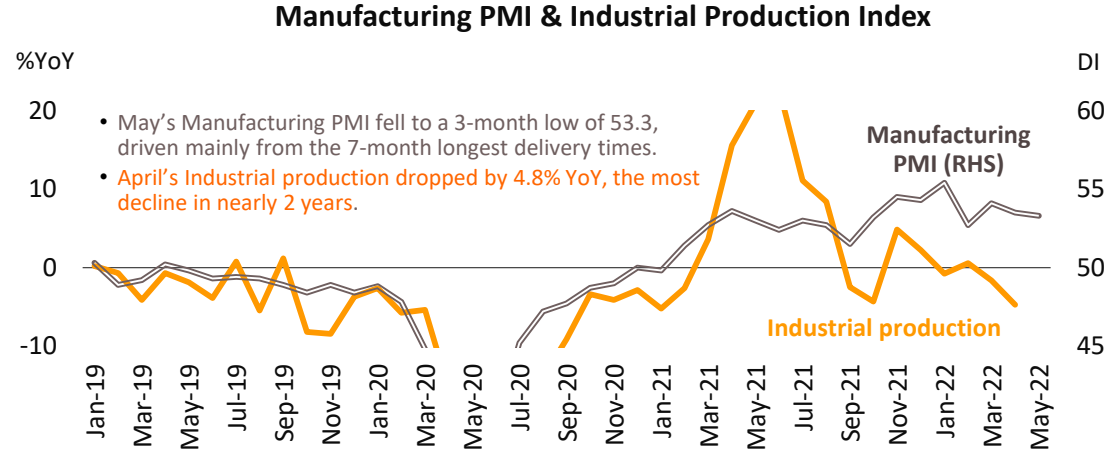
Japan: Recovery delayed by weaker global demand, supply disruption, and stricter-than-peers border controls

The Japan economy has been improving gradually mainly to the resumption of activities along with fewer Covid-19 cases and easing restrictions. The labor market has strengthened, reflected by over-2-year low unemployment rate and a 2-year high job-to-applicants ratio. The services sectors have also been improving with the relaxation of containment measures to revive retail, dining and tourism activities. This is reflected in 6-month high Services PMI for May. However, activities are still far below pre-pandemic levels, particularly hotel occupancy rate which was only 43.2% in April vs 62.6% average in 2019. **Looking ahead, there are still several headwinds that could delay economic recovery**, including (i) weakening external demand, reflected by the sharpest drop in export volume in 19 months as the Ukraine war and surging inflation dent demand abroad, (ii) supply disruption worsened by the Ukraine crisis and China's strict zero-covid policy, though some of the constraints have eased since China relaxed restrictions in some areas, and (iii) Japan's relatively stricter border controls to contain Covid cases; they reopened their borders to tourists from 10 June but only allowed guided tours and capped daily arrivals at 20,000, suggesting slow recovery in the tourism sector.







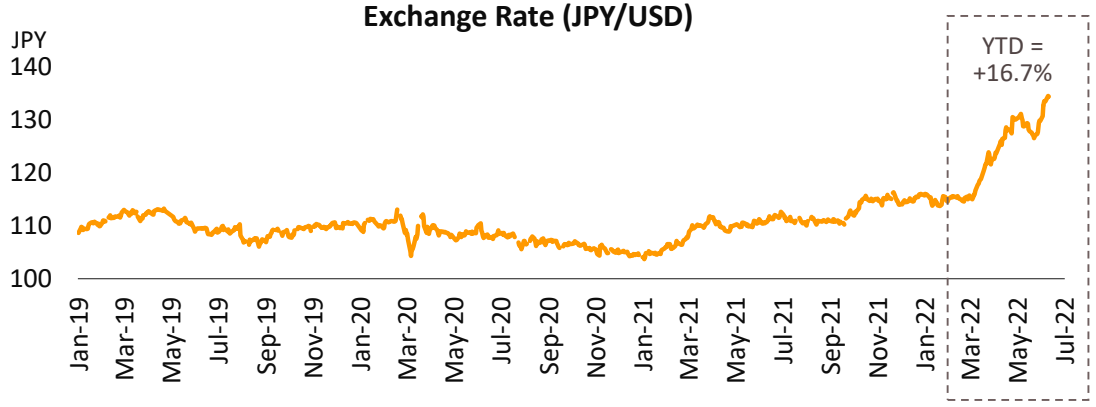


Source: Ministry of Health Labor and Welfare, Ministry of Land, Infrastructure, Transport and Tourism, Ministry of Economy Trade and Industry, CEIC, Jibun Markit, Capital Economics, Krungsri Research

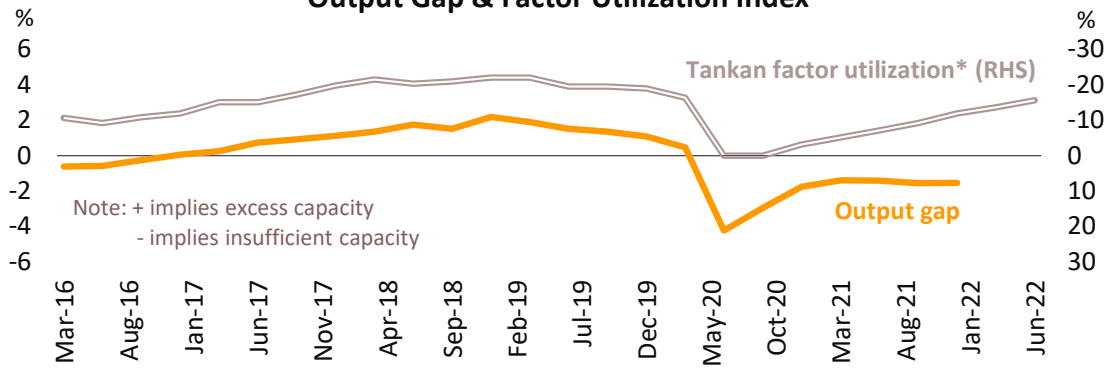
Expect BOJ to maintain ultra-loose monetary policy to support targeted fiscal measures to sustain economic recovery

There are several factors pressuring the Bank of Japan (BOJ). Policy divergence between Japan and the US has caused the Japanese yen to plunge to the weakest in 24 years against USD in mid-June. The BOJ governor said the share depreciation of the yen is undesirable and could hurt the economy. Headline inflation has risen to 2.5%, the highest since 2014. However, **the BOJ is not expected to rush to unwind monetary stimulus for the following reasons**. **First, the economic recovery is still in the early stage and** facing external headwinds. **Second, the output gap is unlikely to turn positive soon.** Output in 4Q21 was 1.5% below potential, in-line with below pre-covid Tankan factor utilization in 2Q22. **Third, higher inflation has not been broad-based** and mainly caused by a low base last April with a reduction in mobile phone fees. CPI excluding prices of fresh food and energy rose only 0.8%, implying weak demand-pull pressure. **On the fiscal front,** the parliament has passed a JPY 2.7trn extra budget (0.5% of GDP) for FY2022 on 31 May to launch an emergency economic package targeted at hard-hit businesses and vulnerable groups**. Looking ahead, existing fiscal measures are likely inadequate** as the latest supplementary budget is smaller than expected (draft total value was JPY 10trn) and much smaller than last year's supplementary budget (5.9% of GDP), **implying policy makers would need to align with monetary stimulus to support the further recovery of the Japanese economy.**

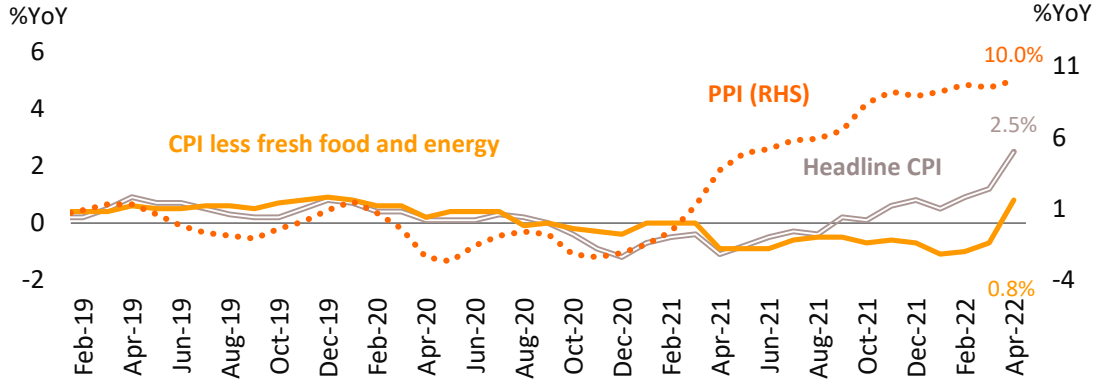
Exchange Rate (JPY/USD)



Output Gap & Factor Utilization Index



Consumer & Producer Price Indices



Economic package to ease impact of higher commodity prices and stimulate economy

Key measures	• Raise ceiling for gasoline subsidy for oil refiners from JPY 25 per liter to JPY 35 per liter • Cash handout of JPY 50,000 per child for low-income households • One-off JPY 5,000 payment for individual pensioners, excluding those who are exempted from residential taxes and had received JPY100,000 previously • Financial support to small & mid-size companies and farmers to ease the impact of soaring commodity prices
Size	JPY 2.7trn (0.5% of GDP)

Source: Bank of Japan, CECI, Reuters, Bloomberg, Kyodonews, Capital Economics, Krungsri Research

Thailand: Reopening tailwinds dampened by global headwinds and high inflation

- **Key economic events in 2H22: The Russia-Ukraine crisis** will continue to hurt global demand and supply. **China will ease lockdown** but weak growth in China would still weigh on global demand. **Inflation** would remain high and could still dampen spending. More importantly, the adverse impact of **US rate hikes** would be more visible in 2H22. The main positive factor would be **reopening effect** in Thailand and other southeast Asian countries. The government might consider **additional stimulus measures** but **reducing government subsidies c**ould push up inflation and consequently, hurt growth.
- Global economic slowdown and other headwinds could hurt **Thai exports** going forward despite reopening in ASEAN and trade diversion from Russia-Ukraine crisis.
- Starting June 1, Thailand has relaxed nationwide covid controls, including quarantine-free entry to Thailand and easing restrictions on entertainment venues. **Tourism sector** is showing signs of stronger improvement after the decision to cease quarantine requirement. That could be an economic driver for 2H22.
- **Private investment** looks set to rise moderately amid the improving services sector and slowing manufacturing growth. Delays in mega-projects implies crowding-in effect of public investment will be smaller-than-expected and could cap overall investment growth.
- **For private consumption**, easing pandemic fears is a domestic tailwind but several headwinds and high inflation could dampen household spending. Rising farm income and improving employment could support consumption but growth would be moderate due to still-weak labor market and high household debt.
- **Inflation rate would remain high at over 7% in the next few months.** Full-year inflation is projected at 6%.
- **We maintain 2022 GDP growth forecast at 2.8%** amid the upside and downside risks. Economic growth would improve gradually from a low in 2Q22 to modest growth in 4Q22.
- **Thailand's first rate hike could start at the next MPC meeting on 10 August.** However, the speed of rate hikes is likely to be gradual and will not outpace Thailand's peers since real GDP this year will be below its pre-Covid level.

Krungsri Research Forecasts for 2022

Krungsri Research Forecast		2020	2021	2022F
GDP growth	YoY (%)	-6.2	1.5	2.8
Private Consumption Expenditure	YoY (%)	-1.0	0.3	3.0
Government Consumption Expenditure	YoY (%)	1.4	3.2	-0.5
Private Investment	YoY (%)	-8.2	3.3	3.3
Public Investment	YoY (%)	5.1	3.8	3.0
Nominal Exports in USD (f.o.b.)*	YoY (%)	-6.5	18.8	6.5
Nominal Imports in USD (f.o.b.)	YoY (%)	-13.8	23.4	10.5
Current Account Balance	USD, bn	20.3	-10.6	-5.1
Tourist Arrivals	Mn, persons	6.7	0.4	5.5
Headline Inflation	YoY (%)	-0.8	1.2	6.0
Policy Interest rate (end of period)	(%)	0.50	0.50	0.75
Dubai crude price - period average	USD/bbl	41.5	69.0	102.5

* Customs-based export growth forecast: +6.0% in 2022

Source: NESDC, BOT, MOC, MOTS, Bloomberg, Krungsri Research

Key factors in 2H22: Ukraine crisis would hurt demand and supply; China slowdown and high inflation remain headwinds; US rate hikes to see more visible impact

Major factors affecting Thai economy	2Q22	2H22
● Russia-Ukraine crisis (global slowdown led by EU, supply disruption, rising commodity prices)		
● China lockdown (economic slowdown and supply disruption)		
● Surging inflation in 2Q and high inflation in 2H		
● Interest rate hikes led by the US		
● Reopening effects in Thailand and ASEAN		
● Domestic political uncertainty		
● Domestic stimulus measures		



Source: Krungsri Research

Export growth is decelerating and more diverse in terms of products and destinations

In April, merchandise exports reached USD23.5bn (+9.9%), down from a historic high of USD28.9bn in May (+19.5%). Excluding gold, export growth slowed to 8.9% from 9.5% in March. Expanding exports were driven by: (i) products that gained from rising energy and commodity prices (e.g., refined oil, chemicals, and plastic pellets); (ii) food and agricultural products given rising demand for restocking (e.g., rice, cassava products, and sugar); and (iii) products that rose along with demand for medical products (e.g. medical devices). There were strong exports to the US, the ASEAN-5, and the CLMV, **but export sales to the EU, Japan and China shrank while exports to Russia contracted sharply. Although the export sector has been boosted by reopening in ASEAN nations, April shipments to China and Europe contracted for the first time in over a year as the lockdowns in major Chinese cities, the war in Ukraine, and the sanctions on Russia took their toll on global demand and supply chains.**

Exports by major product and destination

Thailand: April export growth % YoY	World	US (15%)	EU (8%)	Janpan (9%)	China (14%)	ASEAN-5 (14%)	CLMV (10%)
Total	**+10**	**+14**	**-0.2**	**-0.3**	**-7**	**+27**	**+9**
Cars & parts (10.7%)	-9	-12	-62	-5	-57	+7	-9
Computer & parts (8.1%)	-25	+1	-31	+3	-18	-56	+43
Rubber products (5.3%)	-5	-10	-10	-8	+13	-27	+9
Plastic resin (4.2%)	+4	+18	-13	+15	+10	+4	+14
Chemical products (3.6%)	+16	+35	+42	+25	-7	-14	+20
Electronic IC (3.1%)	+15	+38	+13	+7	-13	+24	+29
Rubber (2.1%)	-9	+28	+11	-4	-43	-9	+57
Plastic products (1.7%)	+2	+24	-1	-6	-22	-9	-13
Electrical appliances (1.6%)	+5	+36	-13	+0	-38	+14	-18
Tapioca products (1.5%)	+49	+53	+30	+6	+56	+54	-3
Rice (1.3%)	+44	+55	+105	-54	+128	-36	+28

Substitution effects

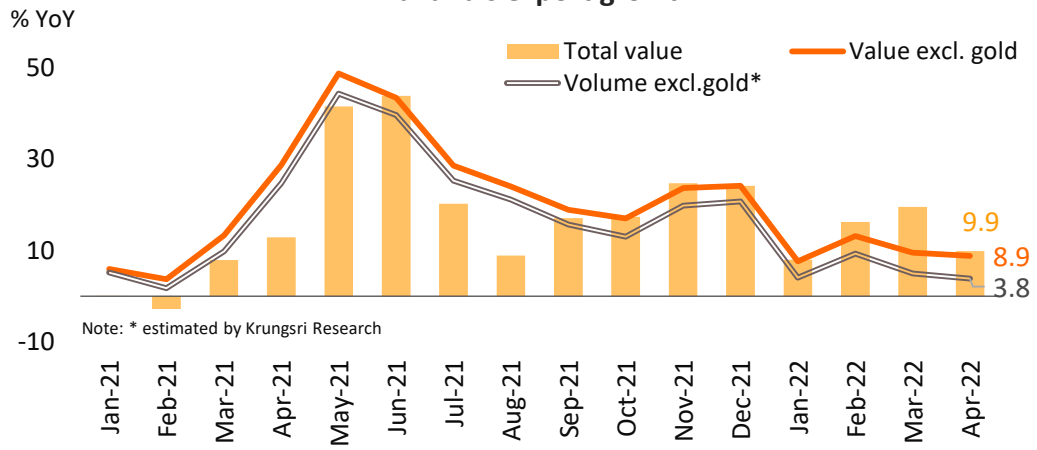
Supply disruptions hurt production and exports

Impact of Ukraine war on EU economies

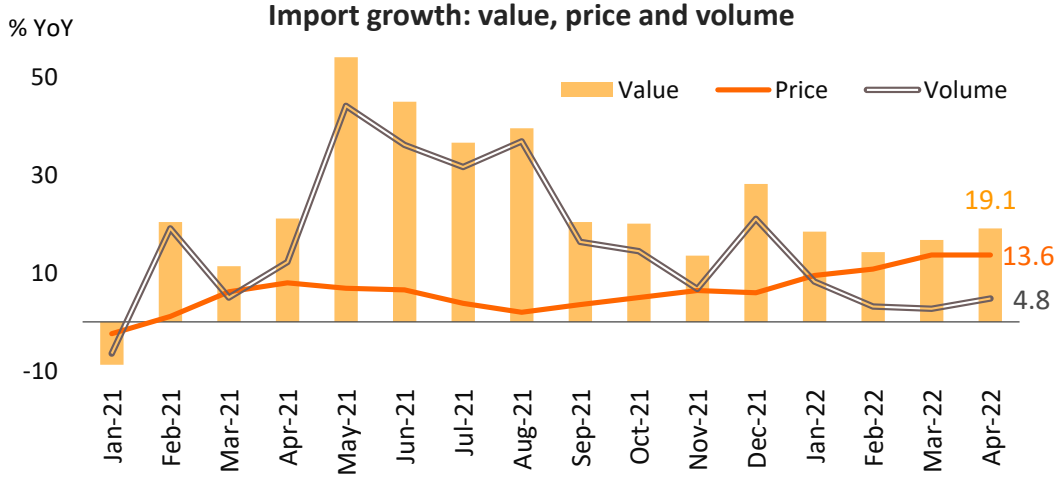
Impact of China's slowdown

Note: (% share in 2021)
Source: MOC, BOT, CEIC, Krungsri Research

Thailand's export growth



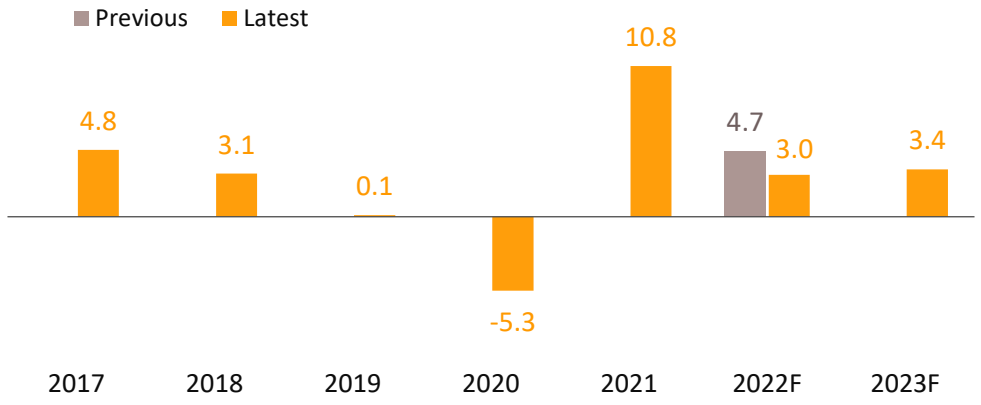
Import growth: value, price and volume



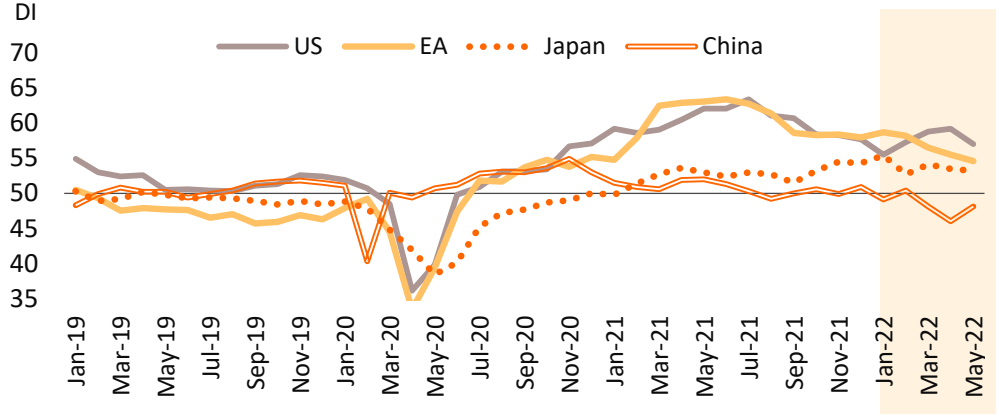
Global economic slowdown and other headwinds could hurt Thai exports despite reopening in ASEAN and trade diversion from Russia-Ukraine crisis

We expect exports to remain under pressure for the rest of 2022 premised on softer global demand for manufactured goods, lingering supply disruption, and a slower global economy. Thai export growth could slow down from +13.7% average in the first four months of this year. We expect 2022 export value to grow by 6% based on MOC data (or 6.5% based on BOT data). The World Trade Organization (WTO) has trimmed its forecast for merchandise trade volume growth for 2022 to 3.0% from 4.7%, due to uncertainty over how Ukraine conflict will pan out. There have been recent signs of decelerating manufacturing output in core countries as a result of the global economic slowdown and supply disruption.

Global trade volume (%)



Manufacturing PMI



Source: WTO, IHS Markit, Bloomberg, Krungsri Research

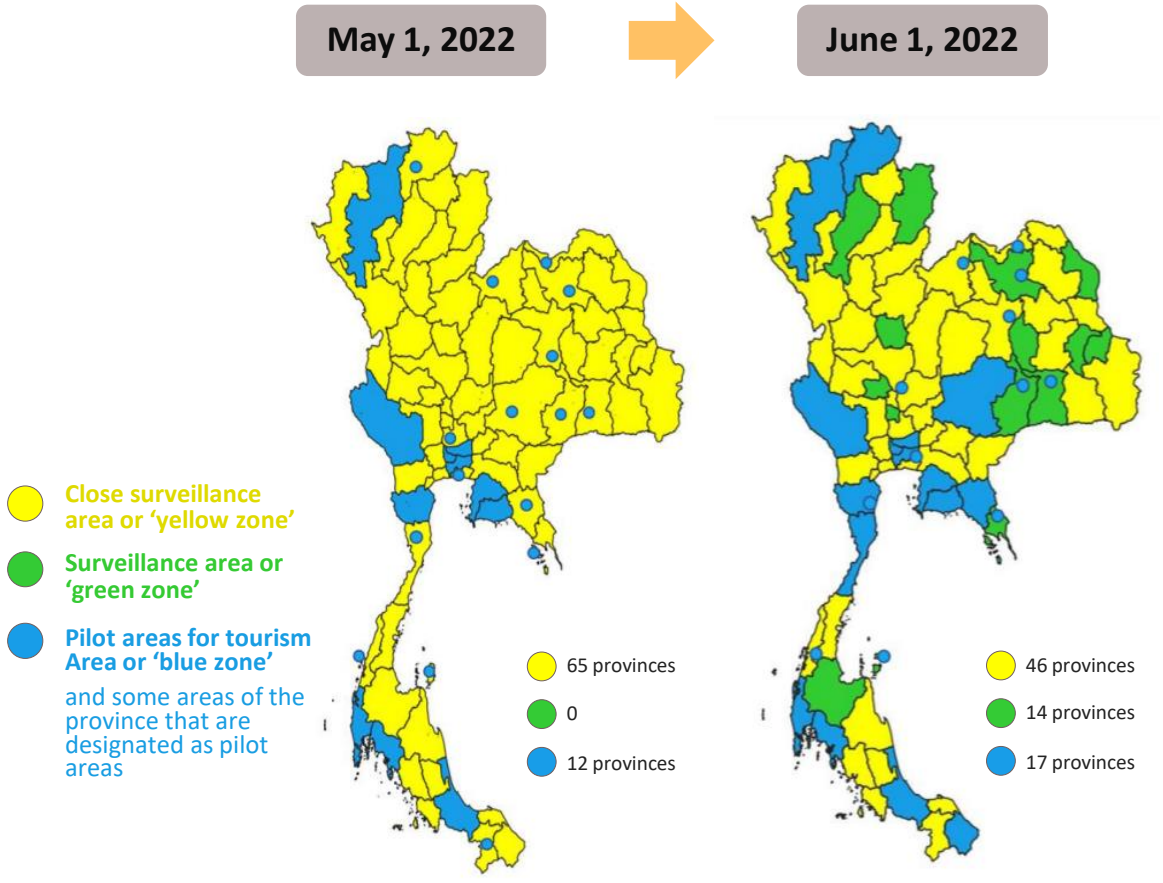
Tailwinds

- Reopening effect in ASEAN could improve regional and cross-border trade amid regional integration efforts such as RCEP
- Trade diversion and substitution effect due to Ukraine war, such as demand for agricultural and food products
- Rising demand from commodity-exporting countries
- Sign MOU for trade with Saudi Arabia (0.6% share of Thai exports in 2021)

Headwinds

- Extended Ukraine crisis is causing the global economic slowdown, particularly in Europe
- China slowdown and strict covid policy are affecting trade and supply constraints
- Unwinding of monetary stimulus and high inflation would dampen demand in key countries led by the US
- Supply disruption and higher production costs
- Fading effects of pandemic-driven trade boom with demand shifting from manufactured goods to reopening-related sectors (led by services sectors)

Reopening: Since June 1, Thailand has relaxed nationwide covid controls, including quarantine-free entry to Thailand and easing restrictions on entertainment venues



Relaxation of containment measures since 1 June 2022

- **14 provinces under Covid-19 surveillance (Green) zones and number of tourism pilot (Blue) zones would rise from 12 to 17 provinces.** Another 46 provinces will be close surveillance (Yellow) zones, down from 65, according to Centre for Covid-19 Situation Administration (CCSA).
- Registered pubs, bars, karaoke shops, massage parlors and similar venues can reopen in Blue and Green zones after securing permission from local committees for communicable diseases.

Activity Update

- Entertainment venues in Blue and Green zones can serve alcohol until midnight.
- Bangkok, Chon Buri, Phuket, and Chiang Mai are among 31 provinces under Green and Blue zones where night entertainment venues will no longer have to be categorized as restaurants to serve alcohol, although midnight closing time will remain in place.

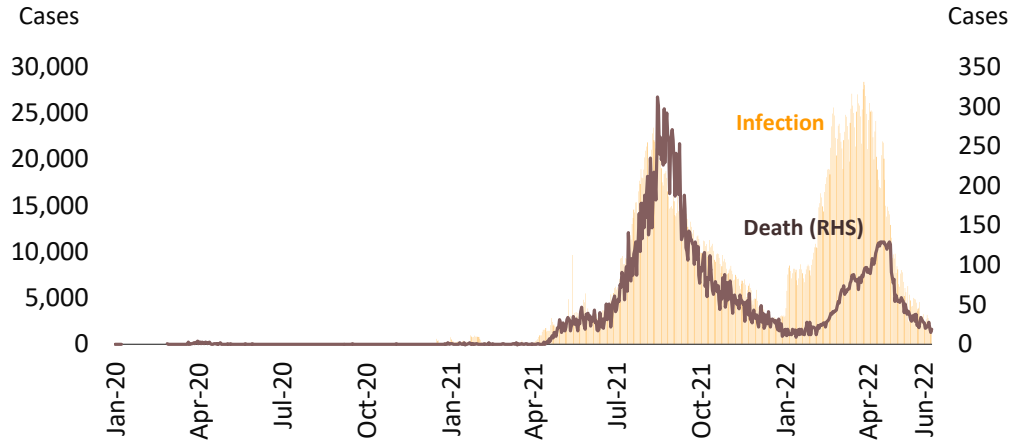
Thailand Travel Updates

- Thailand Pass is no longer required for Thai nationals but will remain a requirement for foreign travelers to Thailand from June 1, 2022.
- For unvaccinated or partly-vaccinated travelers, the 5-day Alternate Quarantine scheme will be removed from the Thailand Pass system. There is **no longer any mandatory quarantine period** for unvaccinated travelers. An unvaccinated traveler can now choose to complete a Pro-ATK or RT-PCR test 72 hours before departure from country of origin and upload the result to the Thailand Pass application. Approval will be immediate.
- For vaccinated travelers, Thailand Pass will be approved immediately after submission.

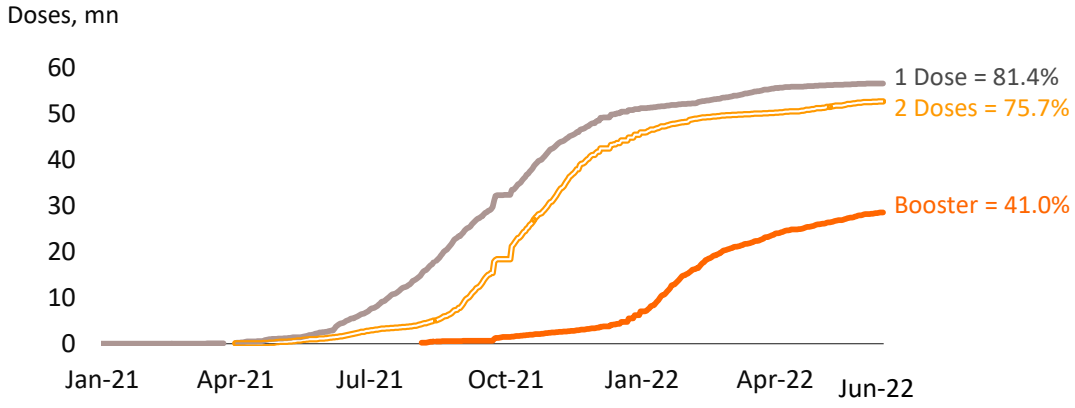
Source: CCSA, Bangkok Post, Krungsri Research

Daily covid cases continue to drop, allowing domestic economic activity to improve

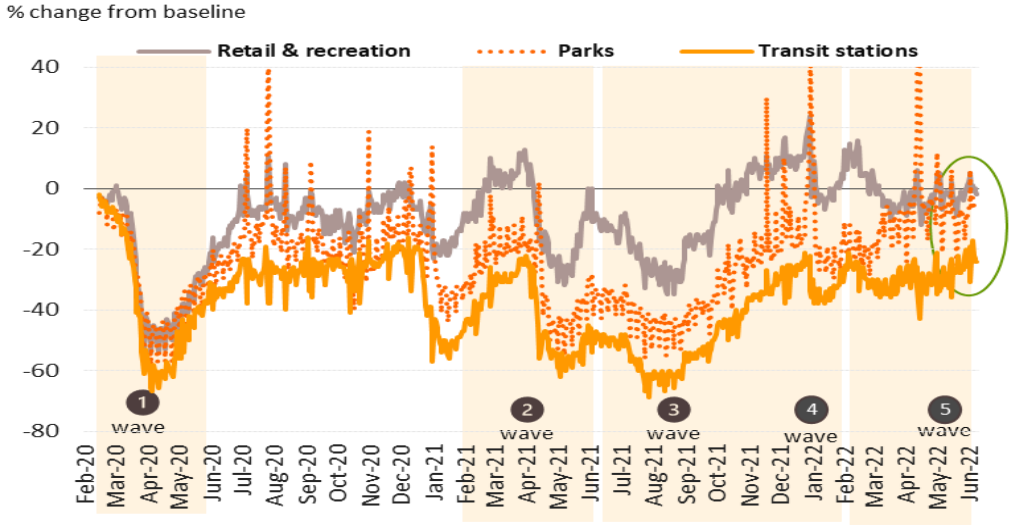
Daily cases and fatalities (as of 13 June 2022)



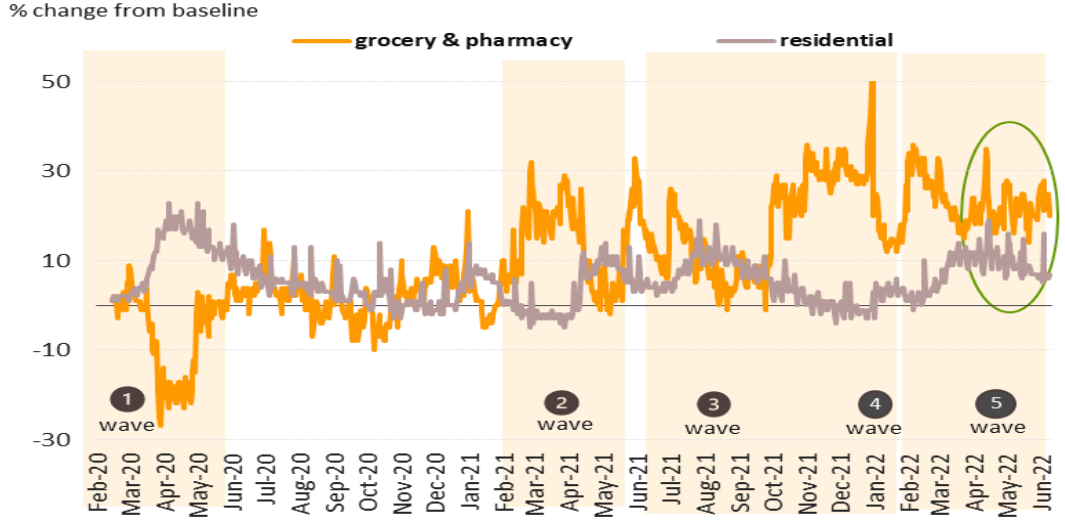
Vaccination Rate (as of 13 June 2022)



Daily Activity Indicator (as of 10 June 2022)



Daily Activity Indicator (as of 10 June 2022)

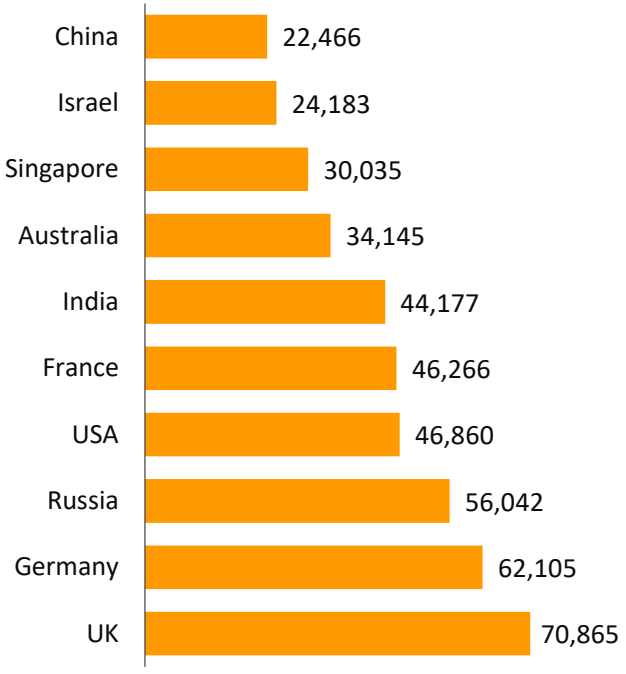


Source: MOICOVID, Google, CEIC, Krungsri Research

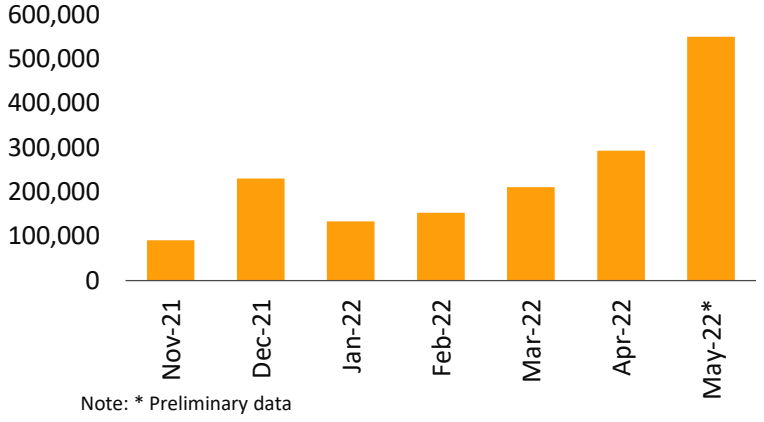
Tourism sector is likely to see stronger recovery since removing quarantine requirement on June 1, and could be an economic driver in 2H22

Since cancelling the Test & Go program on May 1, Thailand has received more than 500,000 foreign tourists or a daily average of 20,000, greater than 10,000 foreign tourist arrivals in April. Therefore, foreign tourist arrivals in the first 5 months of 2022 reached 1.35 mn. There were more tourists from the UK, Germany and Russia in January-April this year. **Looking ahead, the tourism sector is showing more positive signs since the government relaxed travel restrictions and allowed quarantine-free entry to visitors from June 1.** Registrations for Thailand Pass with health insurance (USD10,000) for foreign tourists may be canceled from July. These are expected to simplify regulations for foreign tourists. The Tourism Authority of Thailand expects foreign tourist arrivals to reach 500,000 monthly in 3Q22 and peak at 1 mn per month during high season in 4Q. For the whole year, Thailand expects to receive 7-10 mn foreign tourists and generate THB1.5 trn in tourism receipts. **Krungsri Research views foreign tourist arrivals could surpass our forecast of 5.5 mn for this year.**

Top 10 Foreign Arrivals in Jan-April 2022
(persons)

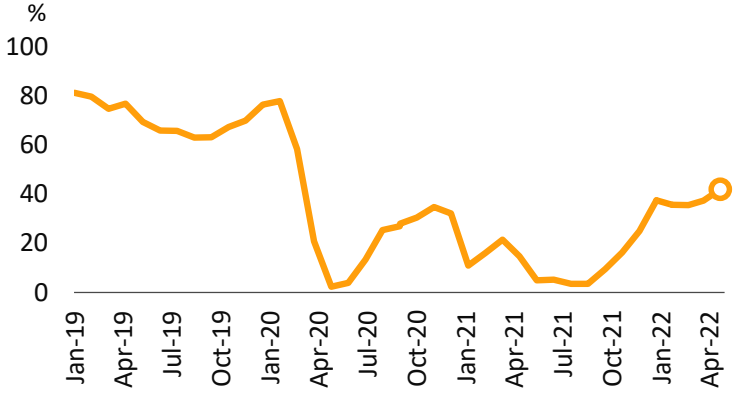


Foreign tourist arrivals (persons)



Note: * Preliminary data

Nationwide average occupancy rate



Source: MOTS, Krungsri Research

Tailwinds

- Improving covid situation and easing of entry restrictions to Thailand
- Reopening effects in key tourist markets led by Europe, the US, and India
- Better relations with Saudi Arabia; targeting 200,000 visitors form the Kingdom this year vs 30,000 in 2019
- Thailand remains a top destination for tourists around the world (a study by Visa)

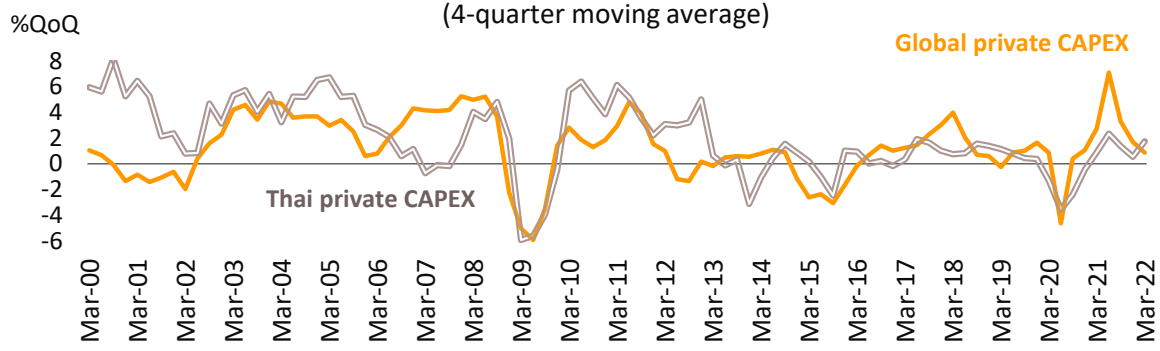
Headwinds

- China's restrictions on outbound travel
- High travel costs following rising fuel prices and higher inflation
- More competition as many countries are gradually easing entry restrictions

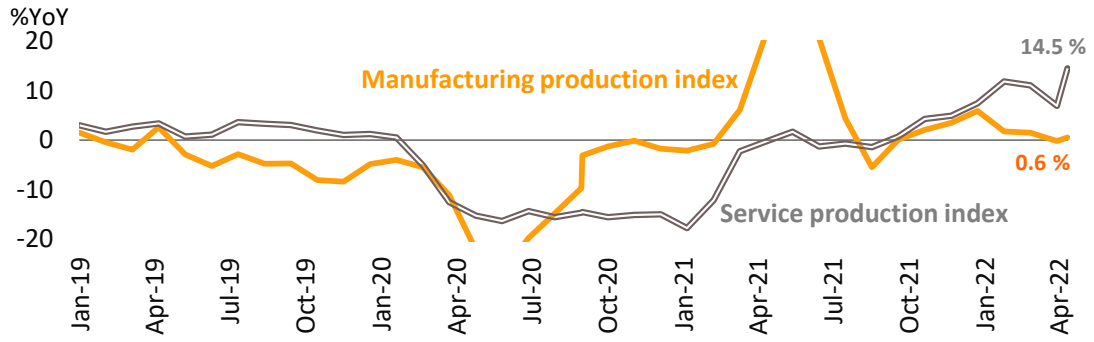
Private investment looks set to rise moderately amid improving services sector and slowing manufacturing growth; external risks are pressuring global investment cycle

Private investment is likely to expand moderately in 2H22, driven by the resumption of economic activities following the improving covid situation, despite a global downturn pressured by the Ukraine war and global supply disruption. In the services sectors, fewer *omicron* cases and reopening have helped to boost production growth to a historical high. On the other hand, manufacturing production is likely to experience sporadic growth in some sectors. Though national capacity utilization is below pre-pandemic level amid escalating external risks, some key industries are producing at above pre-pandemic levels, especially petroleum, IC & semiconductors, machinery and food & beverage. Production in some industries are approaching their pre-pandemic levels, including chemicals and electrical appliances. Expansion in the manufacturing sector would be concentrated in segments that benefit from commodity price hike and digital transformation.

Global vs Thai private CAPEX
(4-quarter moving average)

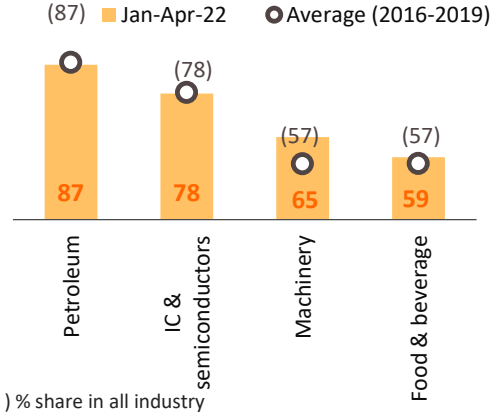


Manufacturing & Services Production Index

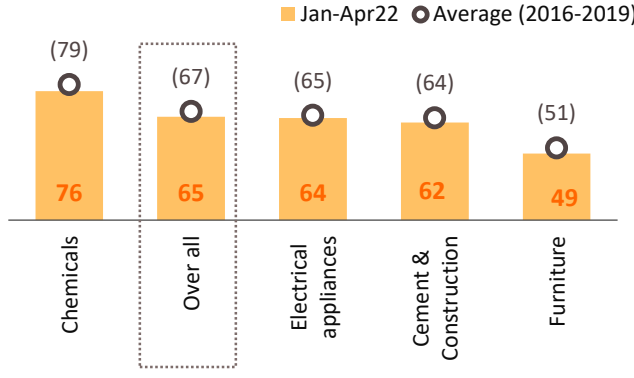


Capacity utilization by sector (Index)

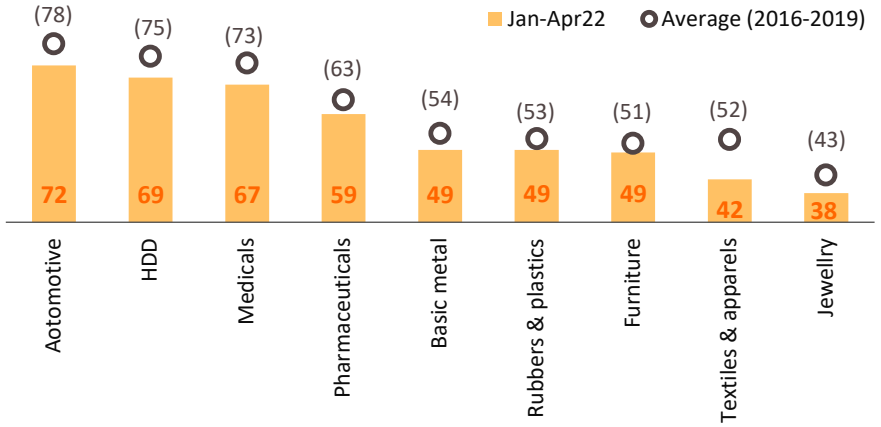
Above pre-COVID level



Approaching pre-COVID level



Below pre-COVID level

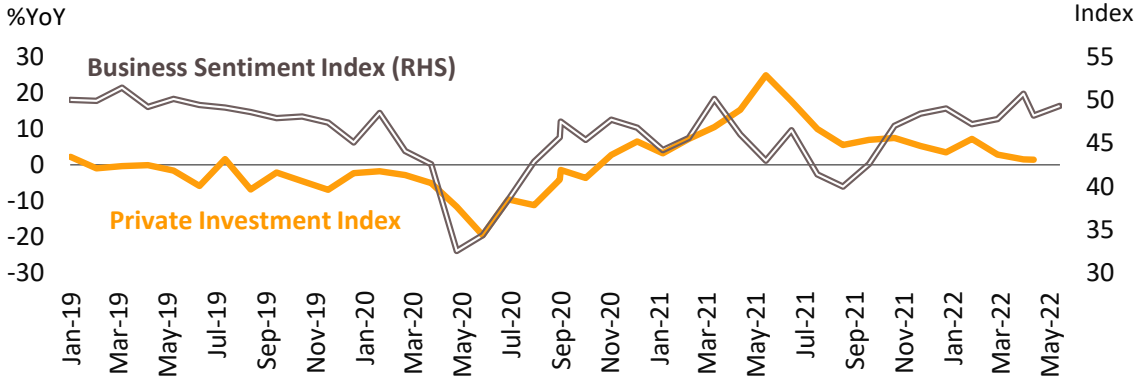


Note: ( ) % share in all industry
Source: UNSTAT, NESDC, OIE, BOT, Krungsri Research

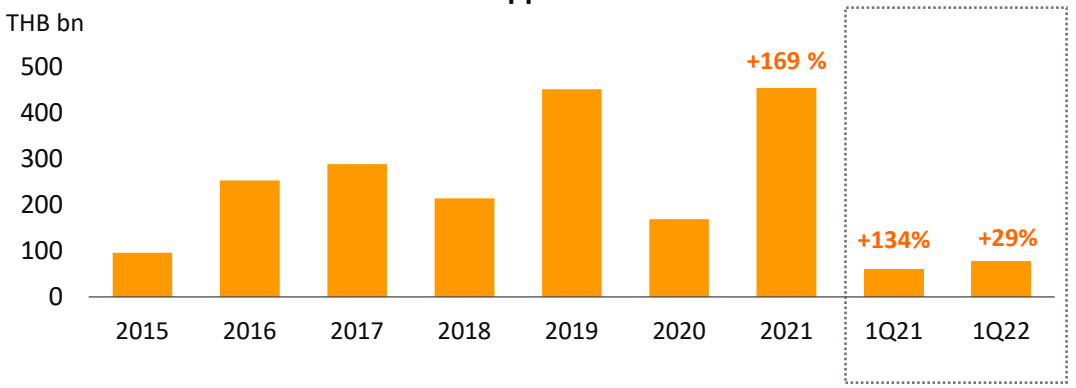
Rising inward FDI in some sectors could lift investment in the medium-term although negative factors could hurt confidence in the near-term

Business sentiment has been volatile this year due to several uncertainties, including the Ukraine crisis, China lockdowns, worsening supply disruption, as well as surging domestic inflation which has dampened purchasing power. In the longer term, investment will be driven by push inward FDI. In 1Q22, foreign direct investment rose 29.1% YoY, following 169% growth in 2021. Looking at FDI applications by category, the top three sectors in 2021 and 1Q22 industries that benefited from industrial transformation and reopening. In addition, sales and rental income in the industrial estate sector should improve by 31.7% in 1H22, especially those in the EEC area which remains a prime location. The value of applications for projects in the EEC area rose by 11.7% in 1Q22. Specifically, there was a surge in applications for projects in next-generation vehicles (mostly EV) and biotechnology to support a environment-friendly economy and health-conscious society. Expansion in the healthcare sector and transformation to a green economy would continue to encourage more investments in the long run.

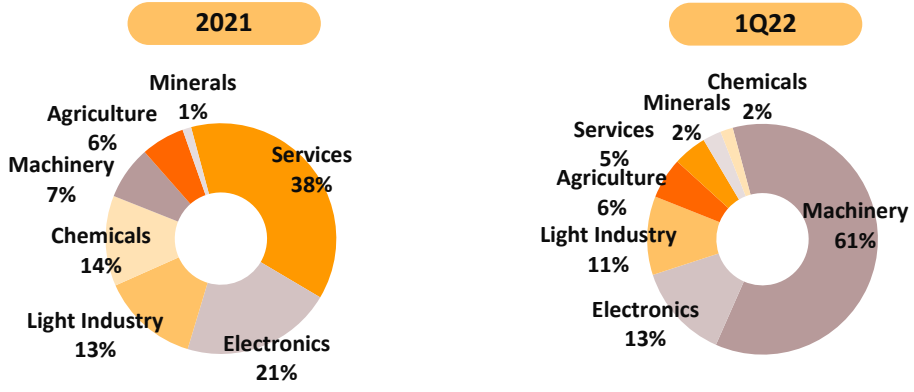
Private Investment & Business Sentiment Index



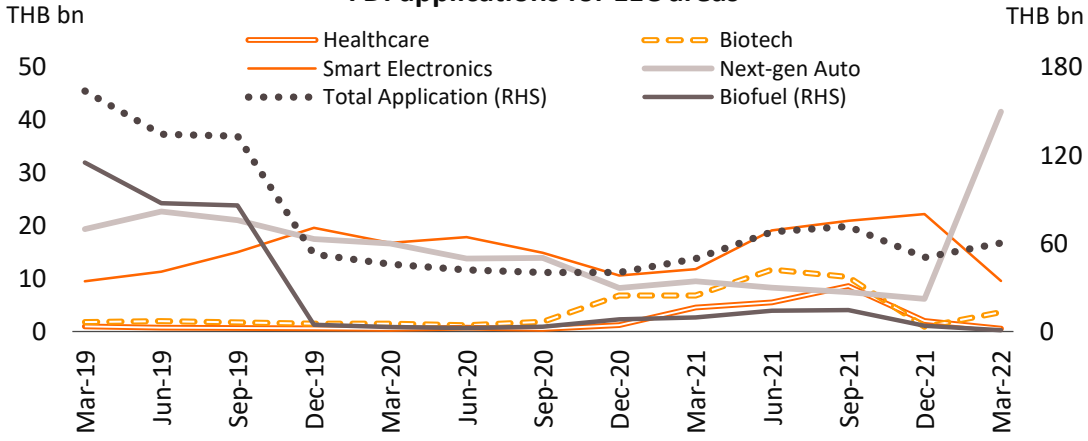
Total FDI application value



Share of FDI applications for BOI privilege



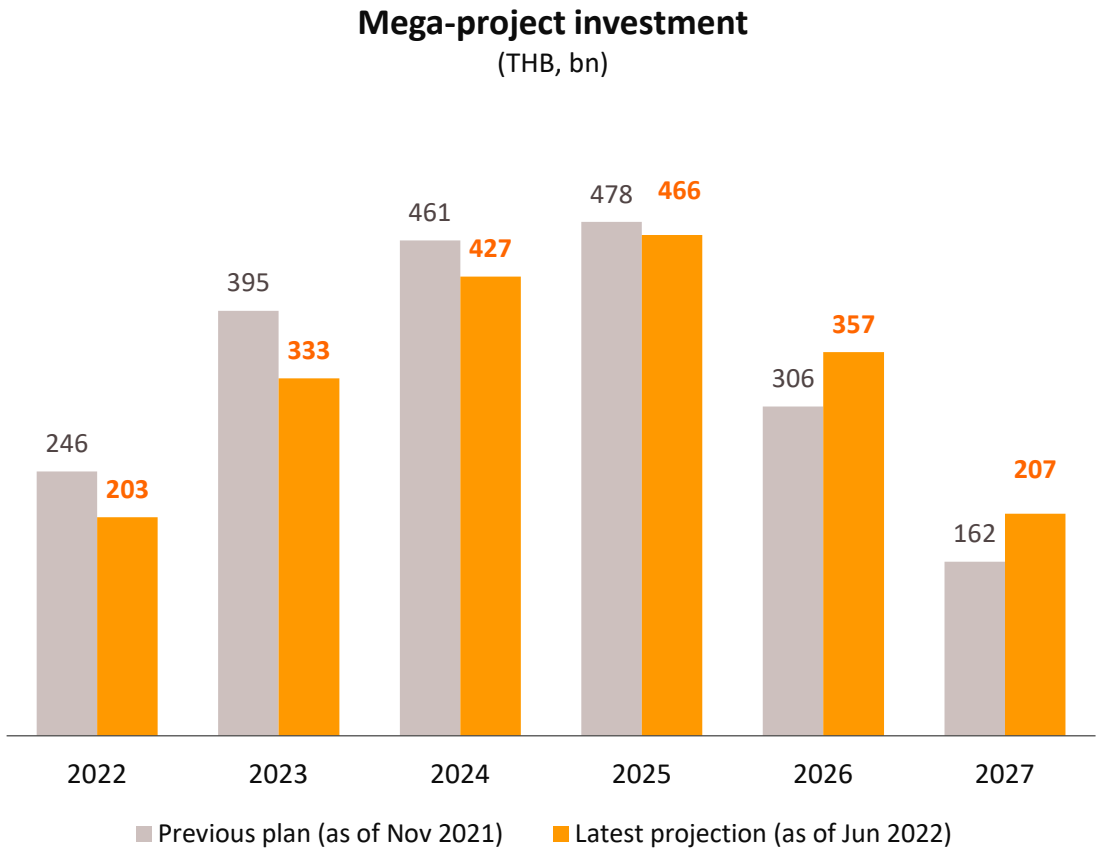
FDI applications for EEC areas



Source: BOT, BOI, EEC, Krungsri Research

Delays in mega-projects imply crowding-in effect of public investment will be smaller-than-expected, capping overall investment growth

Given the need to reallocate the budget following large expenses to combat the outbreaks, coupled with legal disputes over transparency, several mega-projects have been delayed. In 2022, investment in infrastructure projects is expected to increase by 25%, albeit at a slower pace than the 51% estimated in November 2021, due to the postponement of the MRT West Orange Line and dual-track railways. The later-than-expected start of these projects would retard crowding-in effect of public investment.



Tailwinds

- Rising investment in industrial estates and logistics to mitigate risk of supply disruption and prepare for resumption of economic activities
- Rising FDI in ASEAN to gain from greater regionalization
- Investment in energy and environment-friendly economy
- Stimulus measures targeted at grass-root economy such as local road and rural irrigation systems

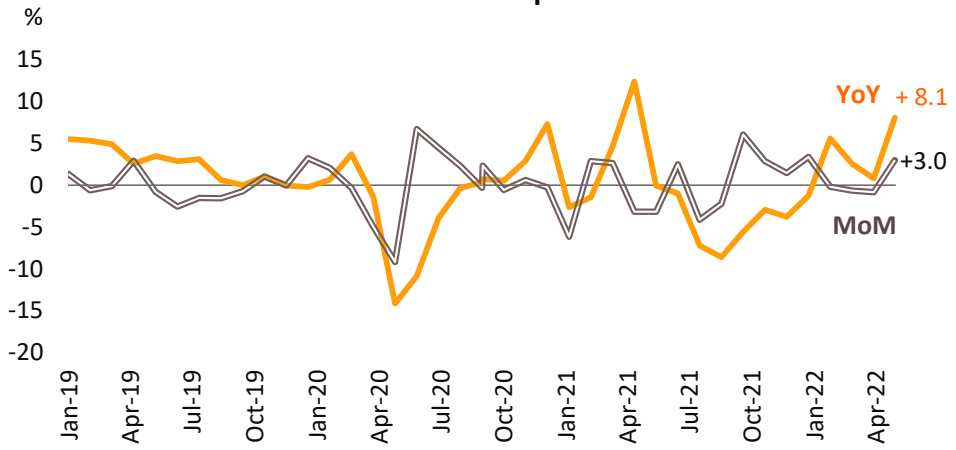
Headwinds

- Weaker global growth and slowing manufacturing sector amid Russia-Ukraine crisis, China slowdown, and fading effects of pandemic-driven trade
- Global supply disruption
- Rising production costs and higher interest rates
- Allegations of weak transparency in projects contributed to the delay in investment
- Labor shortage and worries about wage hikes
- Concerns over domestic political uncertainty

Source: MOT, EEC, Krungsri Research

Private consumption: Easing pandemic fears is a domestic tailwind but several headwinds and high inflation could dampen household spending

Private Consumption Index

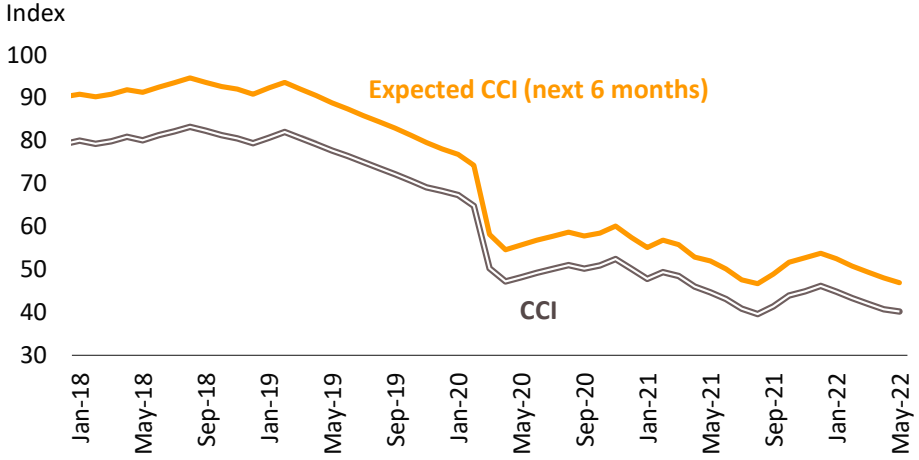


Private Consumption by category

Private consumption %YoY*	2020												2021												2022			
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A
Private consumption																												
Non-durables																												
Semi-durables																												
Durables																												
Services																												
Non-residents expenditure																												

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

Consumer Confidence Index



Krungsri Research's view

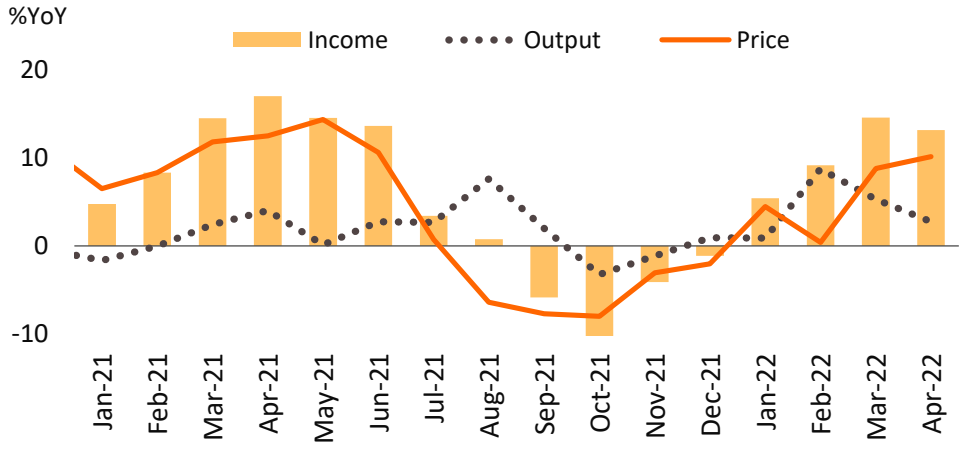
- **The Consumer Confidence Index fell for a fifth consecutive month in May to a 9-month low of** 40.2 from 40.7 in the previous month, dragged down by surging inflation and cost of living which could hurt consumption in the period ahead.
- **Private Consumption Index rose 8.1% YoY in April (vs +0.8% In March),** following a drop in new Covid-19 cases and easing of containment measures. As a result, economic activities have improved, particularly strong improvement in consumption in the services sector led by tourism. Spending on durable goods slowed down partly because a shortage of parts had delayed delivery of durable goods such as cars.

Source: BOT, UTCC, Krungsri Research

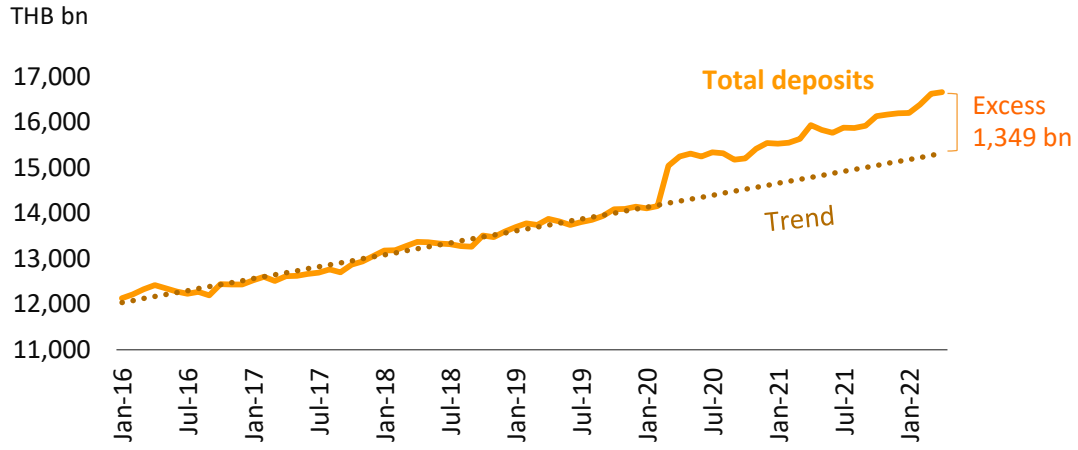
Surging farm income and improving employment might support consumption, but growth would be moderate due to still-weak labor market and high household debt

Farm income has increased sharply following a jump in farm prices and farm output. **Excess saving has surged** from THB1,060bn at end-2021 to THB1,349 bn at end-April, accounting for almost 8.2% of GDP (vs 6.5% at end-2021). Although **unemployment rate improved** to 1.53% in 1Q22 from 1.6% in 4Q21, it is still higher than pre-Covid level of 1% in 2019. In addition, quasi-unemployment remains high at 3.78 million as several businesses have reduce work hours instead of employment. **Household debt also rose to** above 90% of **GDP**, which could limit consumer spending growth.

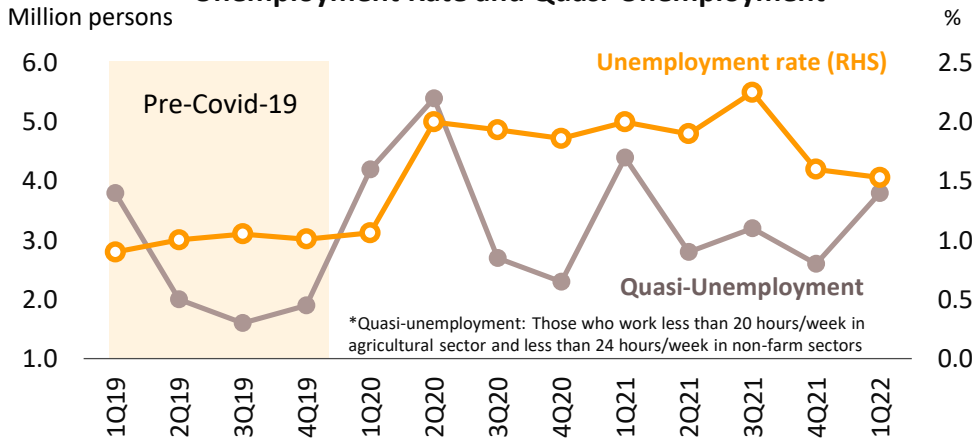
Farm income



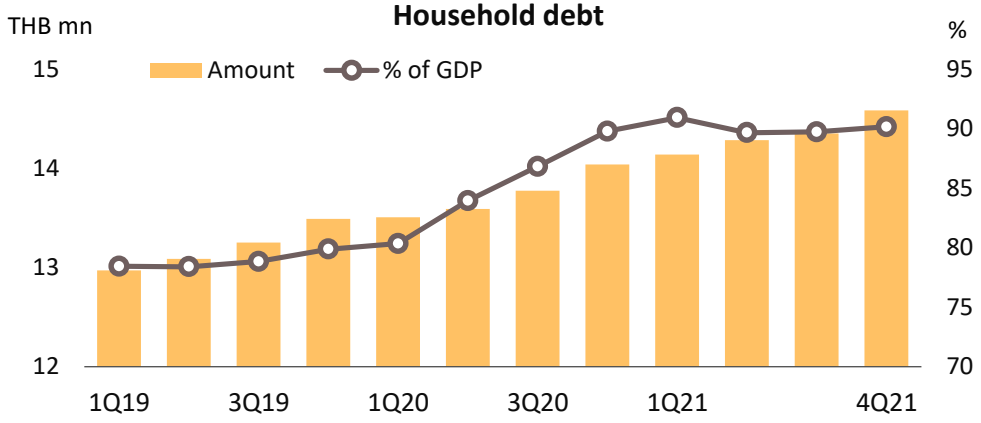
Total deposits at commercial banks



Unemployment Rate and Quasi-Unemployment*



Household debt

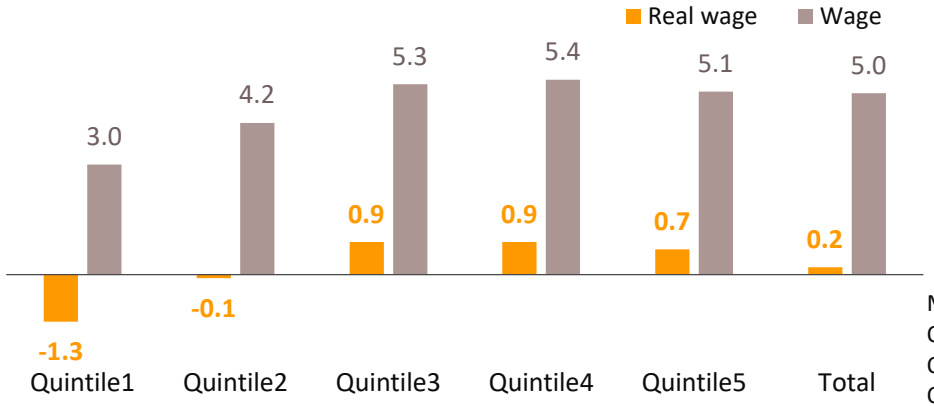


Source: OAE, NESDC, NSO, Krungsri Research

Higher income may not translate into greater consumption as surge in inflation hits real wages in both low- and high-income groups

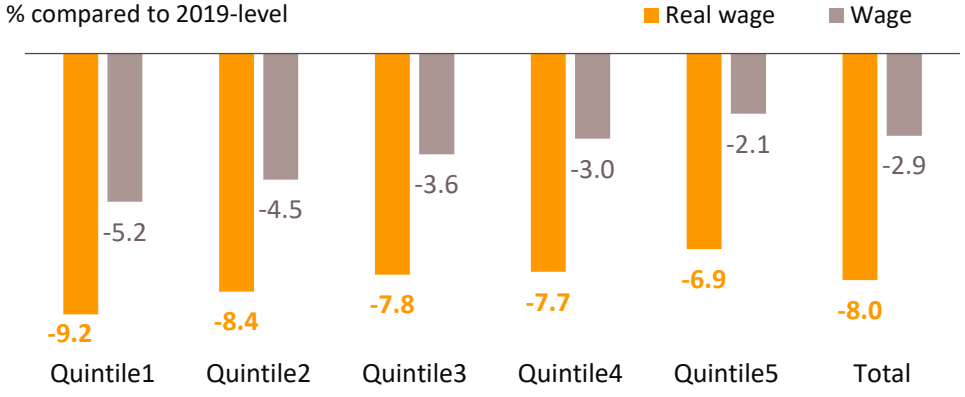
Krungsri Research analyzed real wages (wage adjusted for inflation) across households to gauge their respective purchasing power on goods and services. They concluded real wage growth in all income groups is lower than nominal wage growth. **Real wage in the lowest-income group could drop by 1.3% YoY compared to +0.7% in the highest-income group. Furthermore, real wage across households would remain below pre-Covid levels** and that for the lowest-income group would be 9.2% below pre-Covid level. **This implies weaker purchasing power especially in the poorer group, not only because of lower nominal income but also higher inflation and a different consumption basket.**

Wage and Real wage in 2022 by income group (%YoY)



Monthly income (THB)
Quintile 1: 0-9,064
Quintile 2: 9,065-14,100
Quintile 3: 14,101-21,073
Quintile 4: 21,074-34,148
Quintile 5: more than 34,149

Wage and Real wage compared to pre-Covid level



Source: MOC, Household Socio-Economic Survey, CEIC, Krungsri Research

Tailwinds

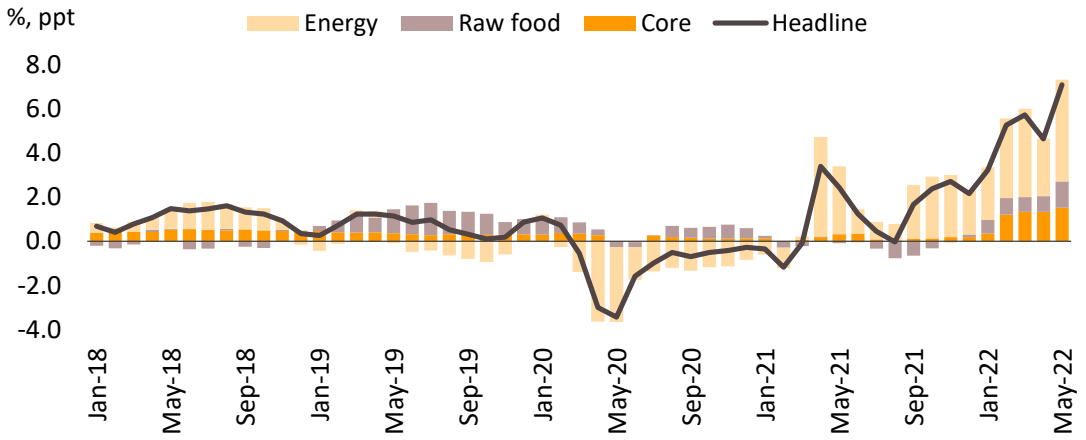
- Easing containment measures and resumption of economic activity
- Improving employment and favorable farm income
- High savings for middle- to high-income classes
- Government measures to help low-income households and vulnerable groups

Headwinds

- Surge in inflation and soaring costs of living
- Low real wage growth for high-income group and declining real wage for low-income group
- High unemployment particularly high quasi-unemployment
- High household debt
- Weak consumer confidence

Inflation to remain high at 7% in the next few months; full-year at c.6%

Contributors to inflation



Consumer Price Index: Major categories

Consumer Price Index (% YoY)*	Weight	2020												2021												2022				
		J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M
Headline CPI	**100.00%**																													
Food & beverages	40.58%																													
Apparel & footwears	2.09%																													
Housing & furnishing	22.03%																													
Medical & personal care	5.39%																													
Transportation & communication	24.38%																													
Recreation & education	4.20%																													
Tobacco & alcoholic beverages	1.33%																													
Raw food	20.46%																													
Energy	14.96%																													
Core CPI	**64.59%**																													

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

Products and services which prices are likely to increase in the next period

Products & Services	Details
Diesel	End of caps for retail diesel price at THB35/litre from end-June
NGV	End of caps for NGV price at 15.59 THB/Kg and 13.62 THB/Kg for TAXI transport from September 15
LPG	Price of a 15kg cylinder of cooking gas will rise by THB1 per kilo per month from THB363 in June to THB378 in July, THB393 in August, and THB408 in September.
Electricity	Plans to increase fuel adjustment tariff (Ft) rate by 40 satang/unit for Sep-Dec 2022 (waiting for approval)
Transportation	Fares for boat and bus services are expected to increase following a surge in retail fuel prices
Necessity goods	Producers of some necessity goods (such as cooking oil, instant noodle and detergent) are seeking approval from the Internal Trade Department to raise product prices

Source: MOC, Local press, Krungsri Research

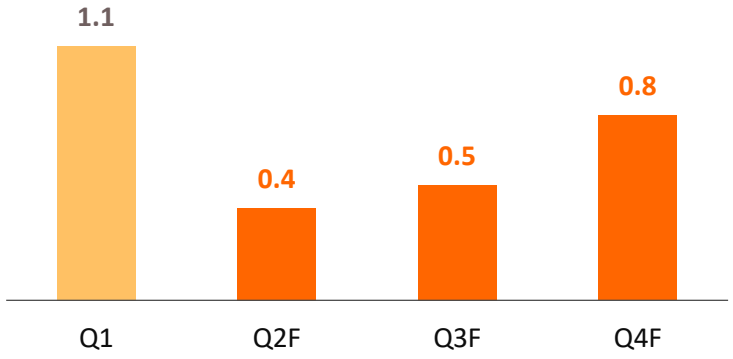
Krungsri Research's view

- **Headline inflation rose to a 13-1/2-year high of 7.1% YoY in May from 4.65% in April,** due to a combination of a low-base last year, a 36% jump in retail fuel prices, and higher prices for some food items (such as meat, duck and chicken). Smaller subsidy for cooking gas has allowed prices to rise gradually over April-June. **Core inflation** (excluding raw food and energy prices) rose to 2.28% in May from 2.0% in April. For the first five months of this year, headline and core inflation stood at 5.19% and 1.72%, respectively**.**
- **Looking forward, headline inflation would remain high at around 7% in the next few months** due to a low-base last year and higher energy costs, especially diesel fuel prices following the end of the THB 30/liter cap since April. The government would allow the ceiling price to rise gradually to THB 35/liter, which would push up transportation and production costs. Likewise, fuel tariff (Ft) on electricity bills will climb up in Sep-Dec, while higher overheads for inputs and raw materials will push up the price of consumer goods. On a wider scale, the Ukraine war and sanctions on Russia are keeping global oil and commodity prices elevated. **Premised on these, we estimate headline inflation will average 6% in 2022** (instead of 4.8%).

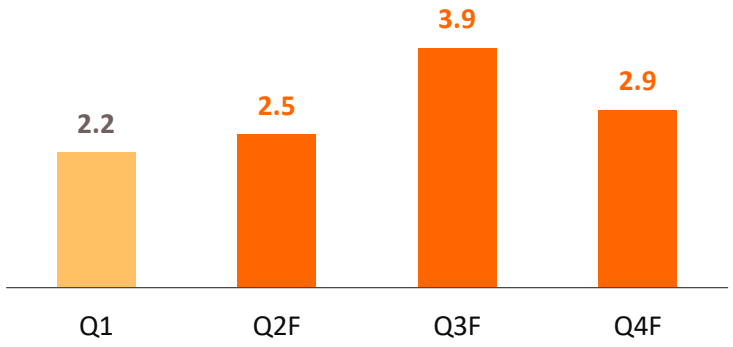
We maintain *2022 GDP growth forecast* at 2.8% amid upside and downside risks; growth could improve gradually from lows in 2Q to modest growth in 4Q22

Our economic growth forecast is supported by potential upside from reopening and resumption of economic activity, including recovering tourism activities, pent-up demand, and additional stimulus measures. However, there are downside risks from the Russia-Ukraine crisis, China slowdown, and US Fed's aggressive rate hikes. Given both upside and downside risks, we are keeping our GDP growth forecast for this year at 2.8%. Quarterly GDP growth is expected to improve from a low of 0.4% QoQ in 2Q22 to modest growth of 0.8% in 4Q22. On a year-on-year basis, last year's low base (due to Delta-driven outbreaks) could boost 3Q22 GDP growth to close to 4% before normalizing at around 3% in 4Q22.

2022 GDP Growth Forecast: % QoQ sa



2022 GDP Growth Forecast: % YoY



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

Upside and downside risks to our growth projection

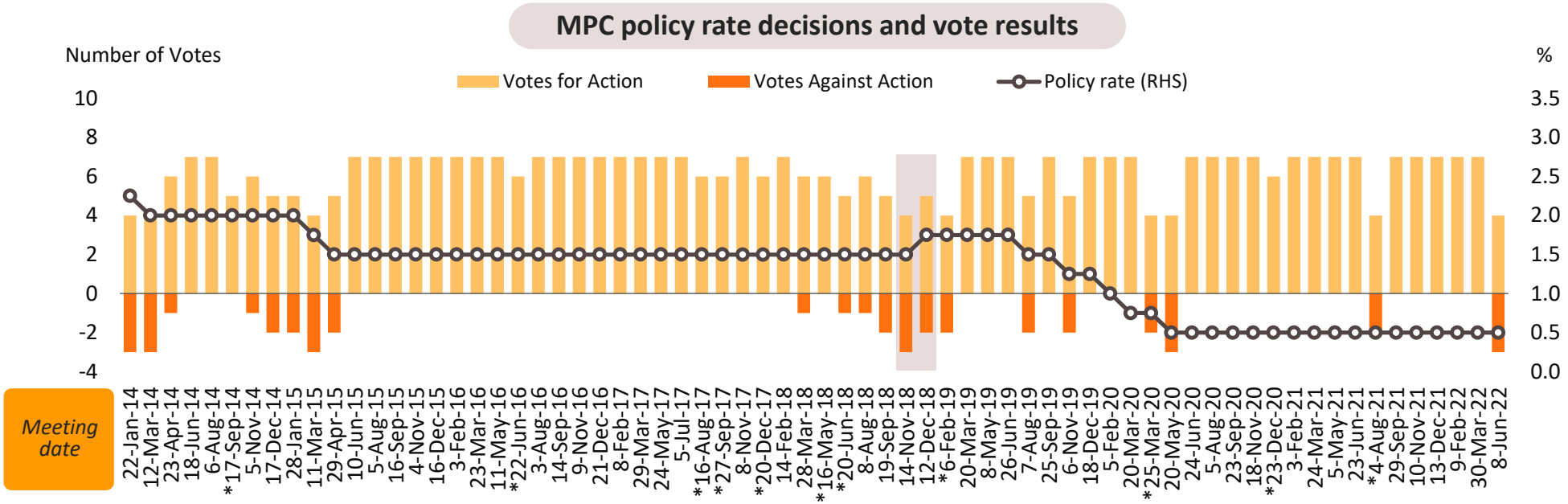
Potential gains

- Surprise gains from tourism sector
- Stronger-than-expected pent-up demand
- Additional stimulus measures
- Trade diversion or substitution effects as a result of Russia-Ukraine crisis

Downside risks

- Extended Russia-Ukraine crisis, tougher sanctions, and possible retaliation by Russia
- China extends strict Covid policy
- Higher risk from inflation
- Side effects of aggressive rate hikes in the US

MPC: First rate hike possibly at next MPC meeting in August; pace likely to be gradual



Note: * At least one MPC member was absent from the meeting

Source: Bank of Thailand (BOT), Krungsri Research

Krungsri Research's view

- At the June 8 meeting, the BOT's Monetary Policy Committee (MPC) surprised with 4-to-3 votes to keep policy rate at a record low of 0.50%, much more hawkish than the unanimous decision on the same at the March meeting. This is the same split vote as the November 2018's meeting which was followed by the first rate hike in the next meeting in December 2018.
- **We see high probability of the BOT raising rate at the next MPC meeting on 10 August given the following:**
  - (i) The MPC sees better-than-expected economic growth with an upward revision of 2022 Thai GDP growth projection to 3.3% from 3.2% in a prior forecast, citing stronger domestic demand and improving foreign tourist arrivals amid limited effects of Russia-Ukraine crisis.
  - (ii) The key concern is elevated inflation would last longer than expected. The MPC estimates inflation could exceed the upper bound of target range in 2022 driven by higher domestic energy prices and higher cost passthrough on a wider range of products. The MPC has raised its inflation forecast for this year to 6.2% from 4.9%.
  - (iii) There would be less need to keep policy rate at a record-low, reflecting the MPC's concerns of *falling behind the curve* in battling inflation.

However, the pace of rate hikes is likely to be gradual and slower than Thailand's peers because the rate hike in Thailand this year should aim at anchoring inflation expectation rather than depressing domestic demand and 2022 real GDP (or economic activity) will be below its pre-Covid level.

Source: BOT, Krungsri Research

KRUNGSRI RESEARCH

Macroeconomic Team

Sujit Chaivichayachat	Head of Macroeconomic Research Department
Chamadanai Marknual, Ph.D.	Senior Economist
Churailuk Pholsri	Senior Economist (Forecasting)
Sathit Talaengsatya	Senior Economist (Regional Economy)

Industry Team

Pimnara Hirankasi, Ph.D.	Head of Industry Research Department
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)
Puttachard Lunkam	Analyst (Hotels, Construction Contractors, Construction Materials, Industrial Estate)
Patchara Klinchuanchun	Analyst (Real Estate)
Chaiwat Sowcharoensuk	Analyst (Agriculture)
Wanna Yongpisanphob	Analyst (Automobile, Electronics & Electrical Appliances, Food & Beverages)

Intelligence Team

Pimnara Hirankasi, Ph.D.	Acting Head of Analytics and Intelligence Research Department

MIS and Reporting Team

Thamon Sernsuksakul	Administrator
Chirdsak Srichaiton	MIS Officer
Wongsagon Keawuttung	MIS Officer

Subscribe Us

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

Disclaimer

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