

krungsri Research

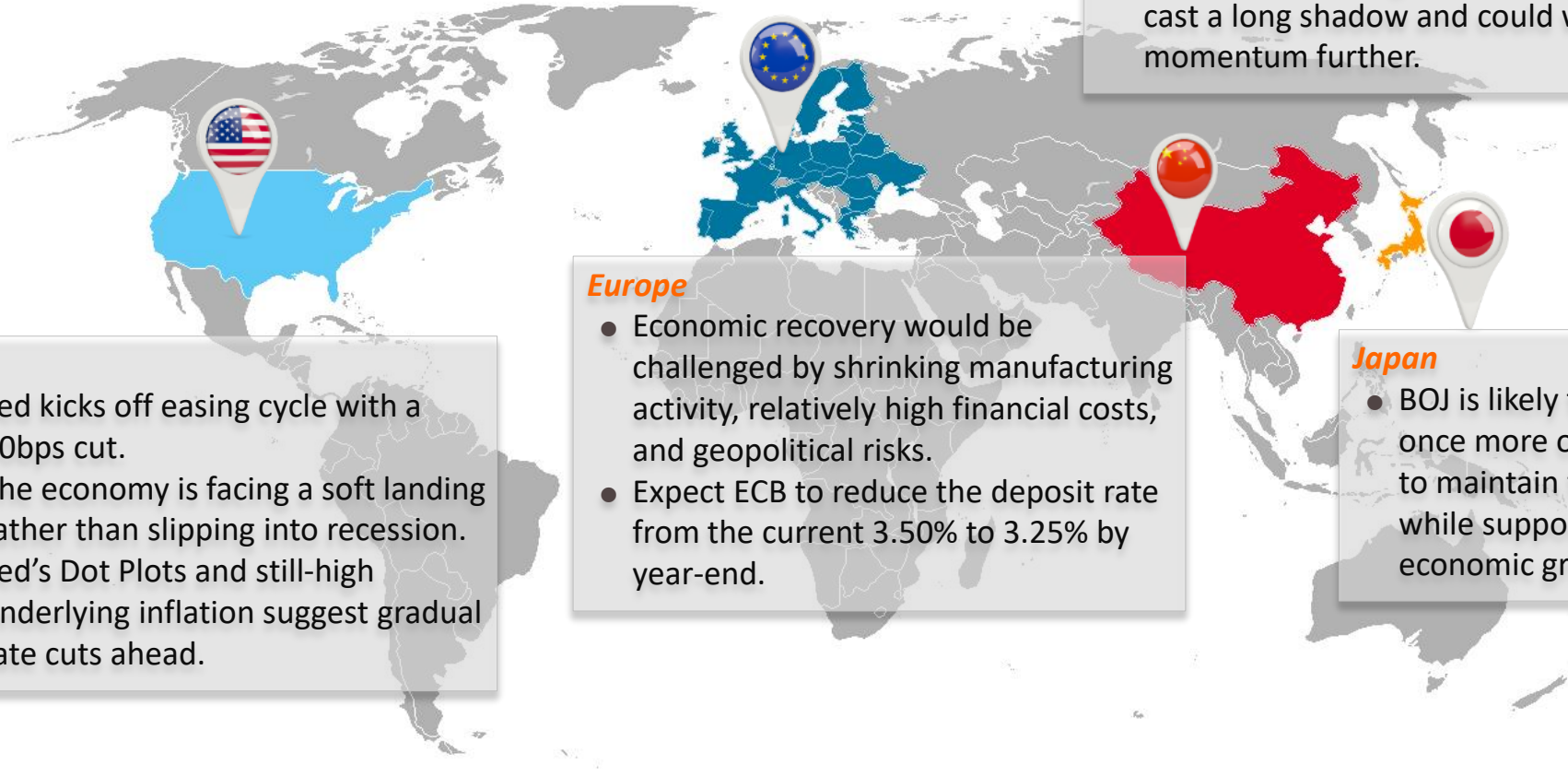
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MONTHLY ECONOMIC BULLETIN

September 2024

Krungsri Research

Global: Rate cuts take center stage as economic data start to slow down



China

- Major economic engines are losing steam.
- Structural challenges and external risks continue to cast a long shadow and could weaken growth momentum further.

US

- Fed kicks off easing cycle with a 50bps cut.
- The economy is facing a soft landing rather than slipping into recession.
- Fed's Dot Plots and still-high underlying inflation suggest gradual rate cuts ahead.

Europe

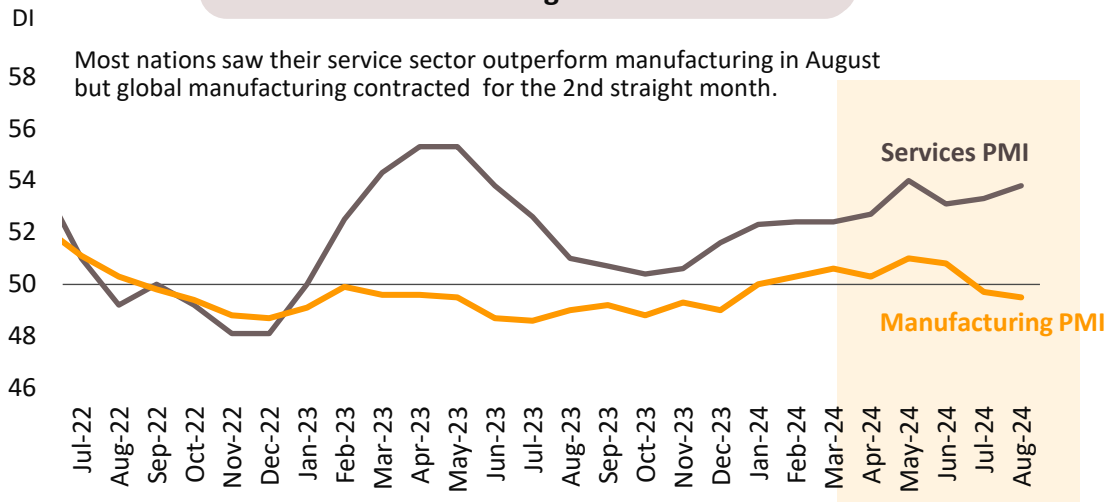
- Economic recovery would be challenged by shrinking manufacturing activity, relatively high financial costs, and geopolitical risks.
- Expect ECB to reduce the deposit rate from the current 3.50% to 3.25% by year-end.

Japan

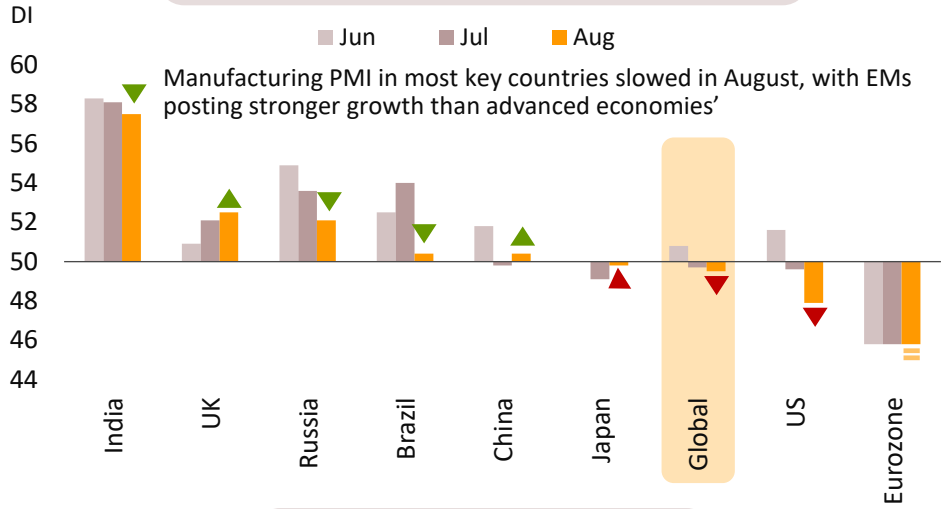
- BOJ is likely to raise interest rates once more over the rest of this year to maintain financial market stability while supporting continued economic growth.

More uneven growth across regions and sectors; global manufacturing at an 8-month low with a drop in new orders; easing inflation would prompt policy easing

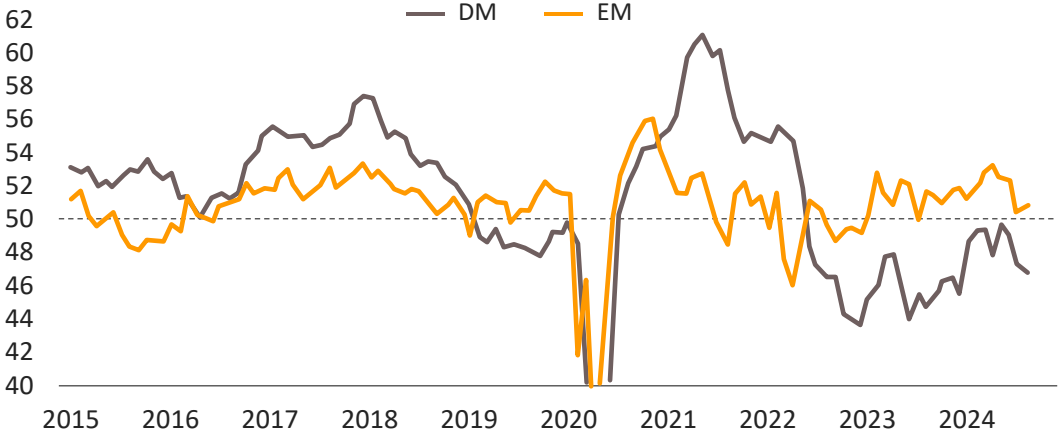
Global Manufacturing and Services PMI



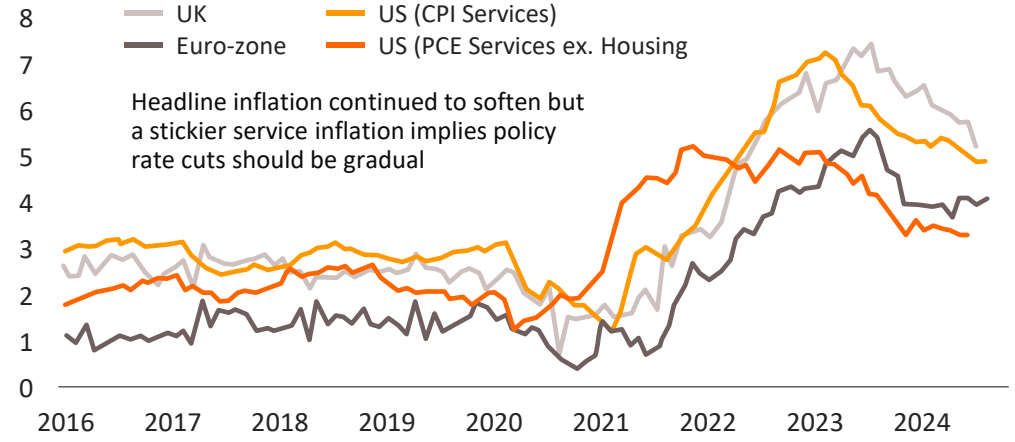
Major Countries' Manufacturing PMI



Manufacturing PMIs: New Orders



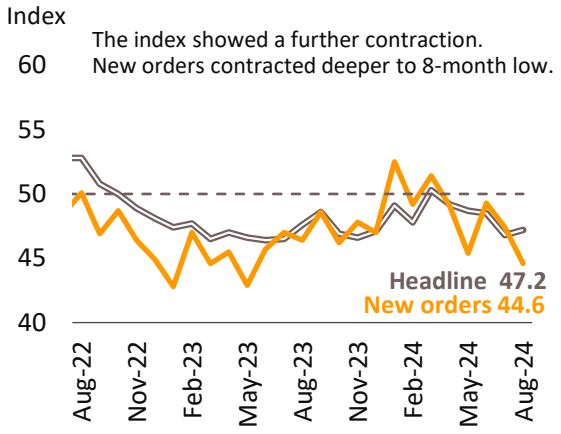
CPI Services Inflation (%)



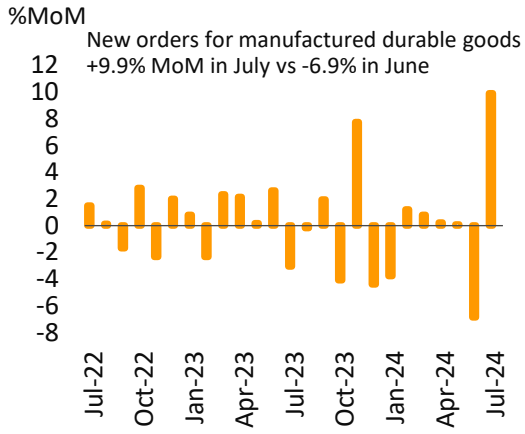
Source: S&P Global, Capital Economics (CE), CEIC, Bloomberg, Krungsri Research

US: Fed kicks off easing cycle with a 50bps cut; Economy is facing a soft landing rather than slipping into recession; Still-high underlying inflation suggest gradual rate cuts ahead

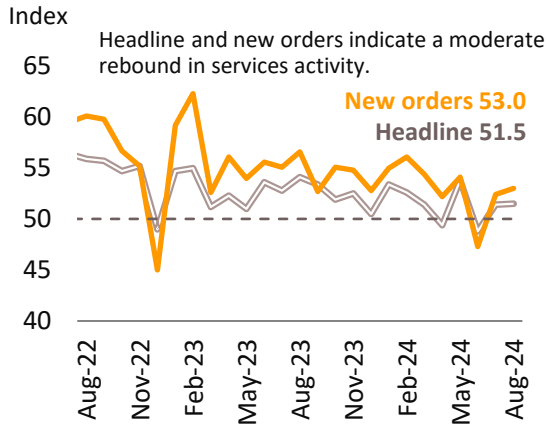
ISM Manufacturing PMI



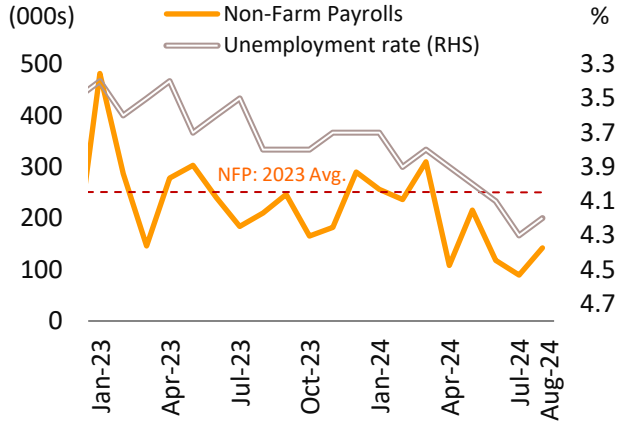
Durable Goods Orders



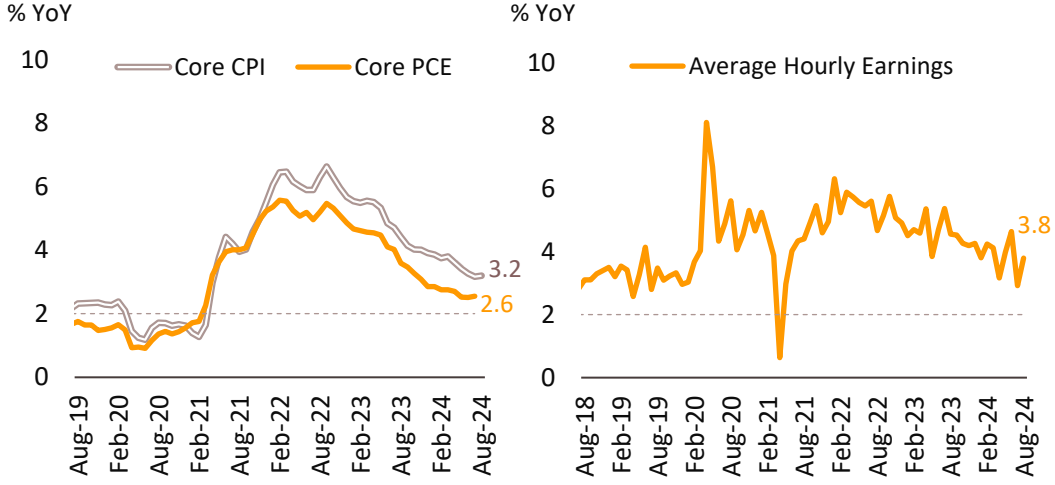
ISM Services PMI



Payrolls and Unemployment



Core CPI, Core PCE and Average Hourly Earnings



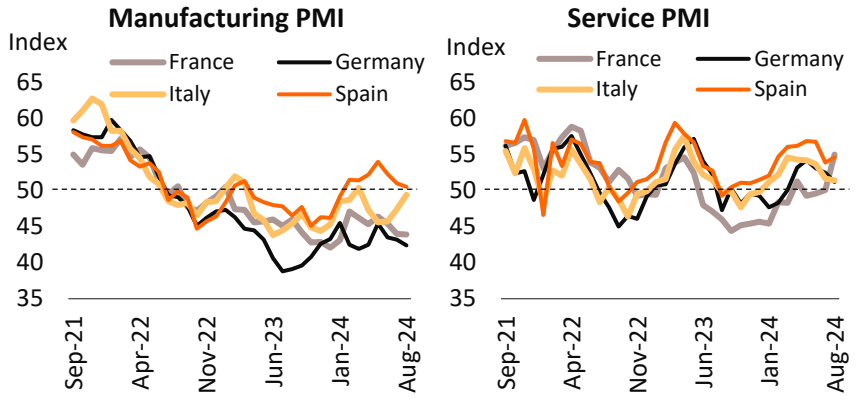
Source: ISM, BLS, CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

- **Still-weakening growth momentum, a cooling labor market, and softening inflation coupled with the greater impact of elevated interest rates, would prompt the Fed to unwind restrictive monetary policy.**
  - **Subdued factory activity has raised concerns about the health of the economy.** The ISM Manufacturing PMI showed factory activity contracted for a fifth consecutive month in August with a fall in New Orders.
  - **Lingering concerns about the fragile labor market.** August jobs report showed 142K new jobs vs 161K expectations. That is also below the average monthly gain of 202K over the prior 12 months. Job openings fell by 237K to 7.673 mn in July, the lowest since January 2021.
  - **Softening inflation will allow the Fed to dial back policy tightening.** Headline inflation softened to 2.5% YoY in August from 2.9% in July. Producer price inflation also eased to 1.7% from 2.1%.
- **However, the US economy is experiencing a soft landing rather than slipping into a recession, due to:**
  - **Services activity, which accounts for more than two-thirds of national GDP, has extended its positive momentum:** August ISM Services PMI beat forecasts to reach a 3-month high with a rise in new orders.
  - **New orders for manufactured durable goods** surged 9.9% MoM in July, the strongest since May 2020 and beat market expectations. That is helping to ease concerns over shrinking manufacturing activity.
  - **Personal spending grew** 0.5% MoM in July, following +0.3% in June. Real consumption rose by 0.4%. Personal income rose 0.3% against +0.2% in June and beat the market forecast of a 0.2% rise.
- **The FOMC reduced its benchmark policy rate for the first time in 4 years by 50 bps to the 4.75%-5.00% range. The Fed's latest Dot Plot, a soft-landing for the economy and still-high underlying inflation (with core inflation steady at above 3% and wage growth rebounding to 3.8%) suggest the central bank to cut rates gradually. We now expect two more 25bps rate cuts by the end of this year.**

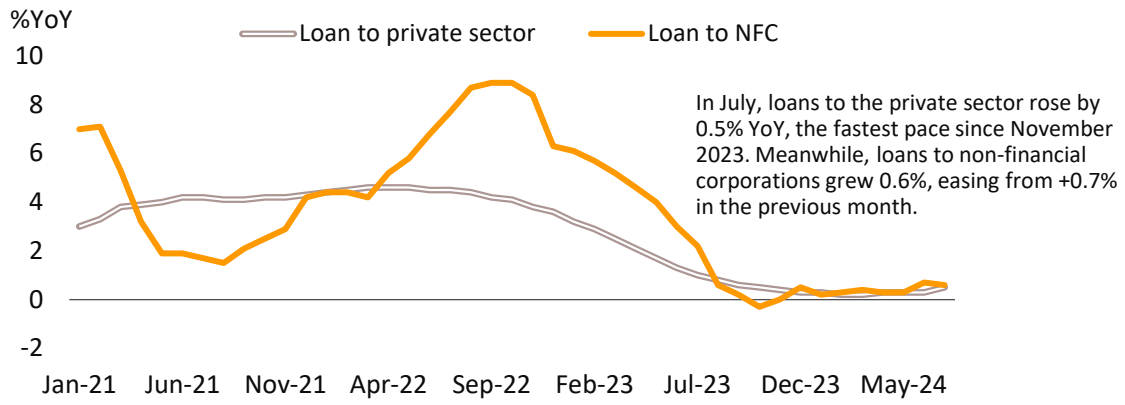
Eurozone: Economy is recovering but shrinking manufacturing activity, relatively high financial costs, and geopolitical risks, would remain a challenge to growth

PMI Index by Countries



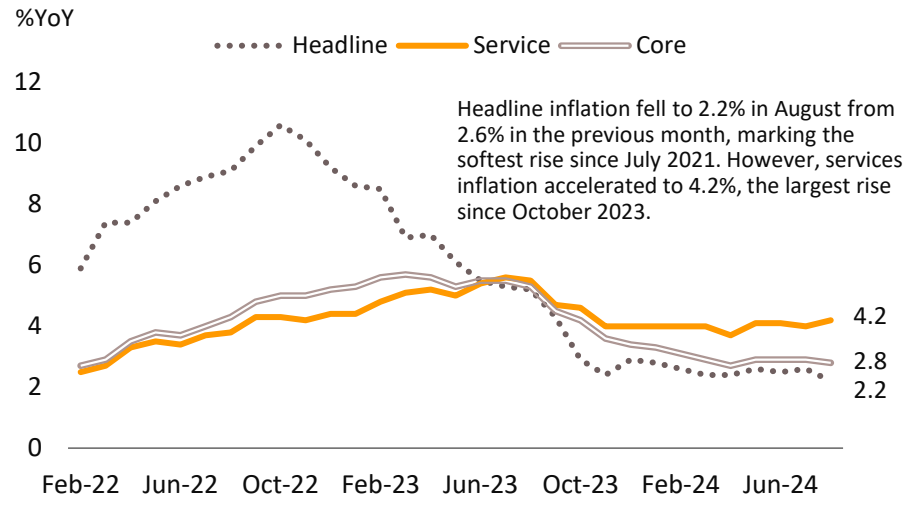
Following the end of the Olympics, growth in the services sector should be stable due to still-high interest rates and living costs. Meanwhile, the manufacturing sector would continue to contract and rein in economic growth going forward.

Loan Growth



In July, loans to the private sector rose by 0.5% YoY, the fastest pace since November 2023. Meanwhile, loans to non-financial corporations grew 0.6%, easing from +0.7% in the previous month.

Harmonised Index of Consumer Prices (HICP)



Headline inflation fell to 2.2% in August from 2.6% in the previous month, marking the softest rise since July 2021. However, services inflation accelerated to 4.2%, the largest rise since October 2023.

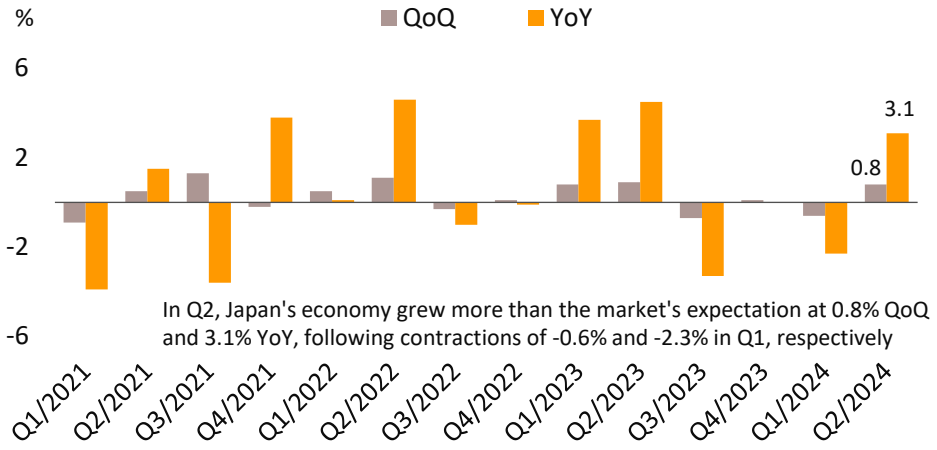
Source: ECB, CEIC, investing.com, Eurostat, Bloomberg, Krungsri Research

Krungsri Research's view

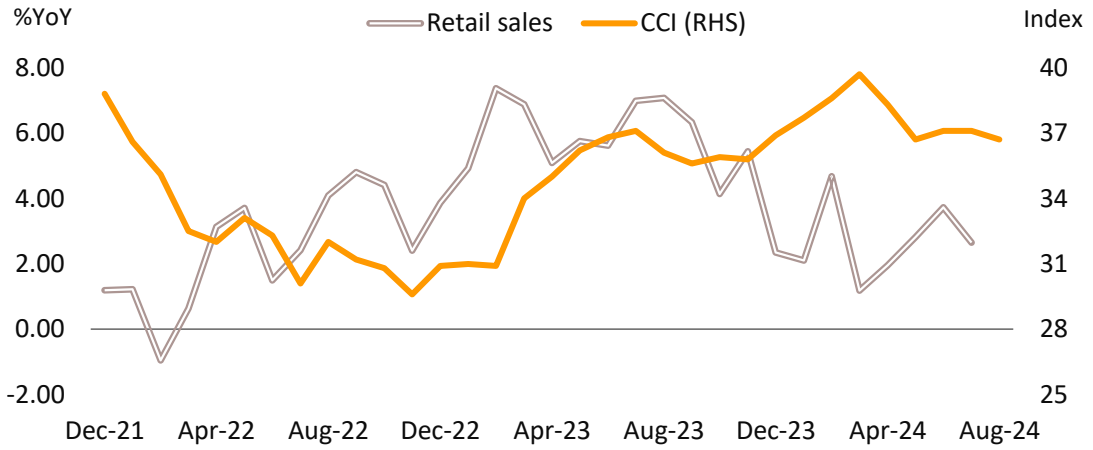
- **Economic recovery remains fragile in Eurozone.** The economy has improved recently, led by the services sector partly due to the boost from hosting the Olympics in France in August. However, recovery remains slow due to several factors, including weak exports, uneven recovery across countries, less supportive fiscal policies, slower labor market in some countries (with falling employment and slower wage growth). There are several lingering risks, including political uncertainty in Europe, trade tensions with China, and US policy direction following the US presidential election in November.
- **High financial costs remain a challenge to the recovery.** In response to still-high interest rates, **households** are likely to save more rather than spend, which could reflect a lack of confidence in the economy. Meanwhile, Eurozone **businesses** are starting to face challenges, as declining profits lead to slower investment and business expansion. This is in line with the continued contraction of the Manufacturing PMI, which could slow down the labor market further and rein in consumption, investment, and economic growth in the future.
- **The ECB cut the deposit rate by 25bps to 3.50% and the refinancing rate by 60bps to 3.65% at Sep meeting.** The latest statement suggests future monetary policy decisions would be data-driven and without a pre-set direction. The ECB has also downgraded its Eurozone growth projections, estimating 0.8% growth for 2024 (instead of 0.9%), 1.3% for 2025 (instead of 1.4%), and 1.5% for 2026 (instead of 1.6%), and predicts inflation would continue to ease.
- Loan growth has slowed significantly since the ECB started to raise interest rates but has recovered slightly in recent months possibly because of the rate cuts. **However, lending rates remain high compared to historical data, and loan growth is expected to be gradual and limited**. Given that headline inflation had slowed to 2.2% in August and there is diverging growth among major Eurozone economies (In 2Q24, Spain's GDP grew 2.9% YoY, France's +1.1%, Italy's +0.9%, Germany's 0%), **the ECB might cut interest rates again this year. That would take the benchmark deposit rate from 3.50% currently to 3.25% by the end of 2024.**

Japan: BOJ might raise interest rates once more the rest of this year to maintain financial market stability while supporting continued economic growth

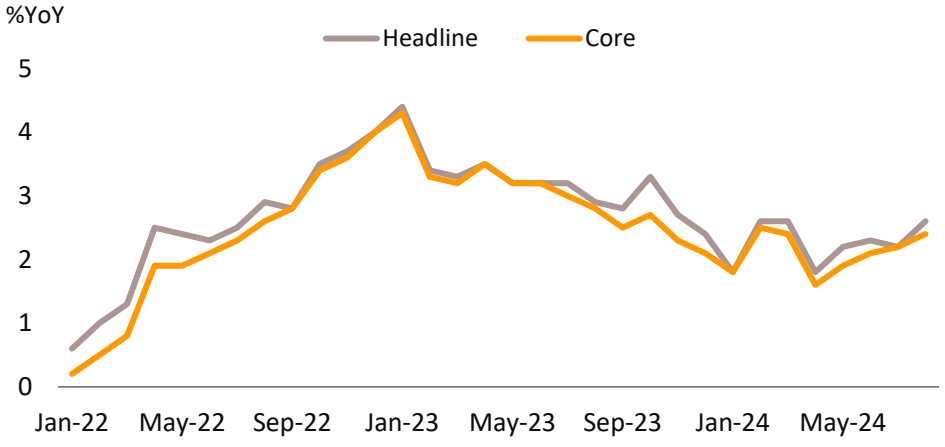
GDP Growth



Retail Sales and Consumer Confidence



Tokyo Consumer Price Index (CPI)



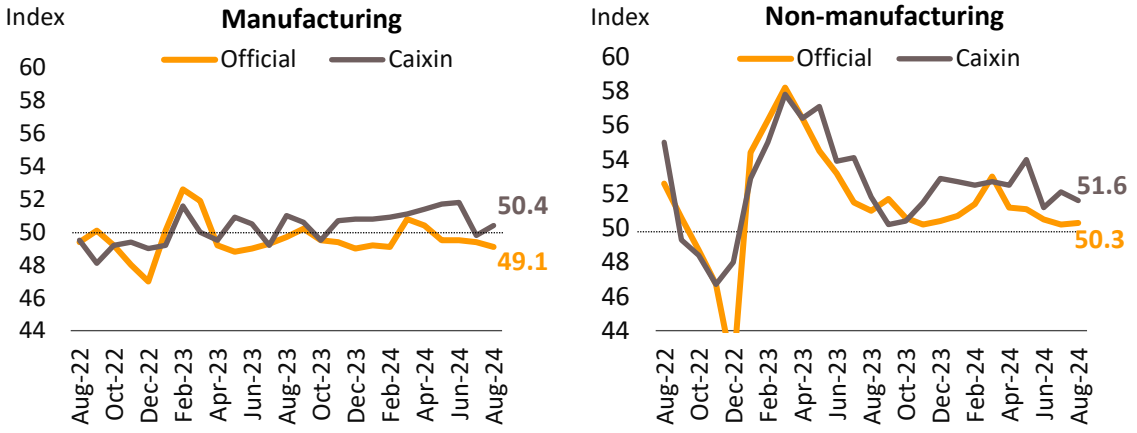
Source: Bank of Japan, CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

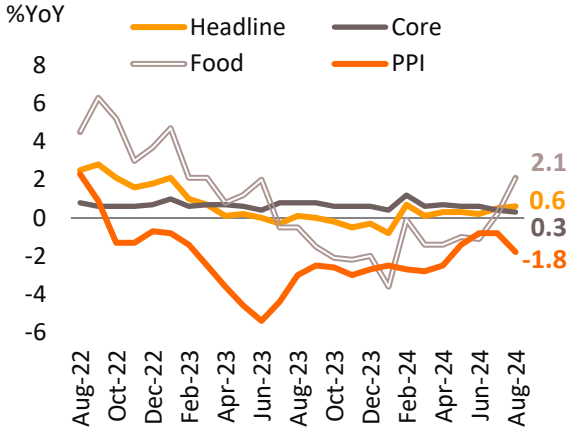
- **Japan's economy is showing signs of bottoming out and will recover gradually.** We expect Japan's economy to continue to expand, driven by: (i) gradual recovery of consumer spending triggered by real wage growth and improving confidence, as well as continued recovery in the services sector; and (ii) larger investment in fixed assets (capex) supported by infrastructure demands and restructuring of global supply chains. However, recovery would remain slow and uncertain as manufacturing activity continues to shrink and exports remain challenging, given slowing economies at its major trading partners like China and the US, and the risk of escalating trade wars.
- **Japan's inflation has hit a 6-month high**, mainly due to rising energy prices and higher wages. However, inflation would see limited upside from here because of the following: (i) Japan's economy would continue to register below-trend growth due to the weak manufacturing sector and exports, and the risk of escalating trade wars; (ii) the government resuming subsidy for household utility bills in September; and (iii) lower import costs due to the stronger yen.
  - In August, Tokyo CPI rose 2.6% YoY, beating market expectations and July's +2.2%. Core Tokyo CPI rose 2.4%, accelerating from +2.2% in July.
- **Given the volatile financial market and concerns over economic risks, the BOJ might raise interest rates just once more for the rest of this year**. Although BOJ policymakers signaled that they are ready to raise interest rates if inflation is on track, the policy rate is unlikely to exceed 0.5% by the end of 2024 against 0.25% currently, to maintain financial market stability while supporting continued economic growth. However, several events could influence the direction of Japan's economy and monetary policy, including the severity of the US economic slowdown in the future.

China: Major economic engines are losing steam while structural challenges and external risks continue to cast a long shadow, which could continue to rein in growth

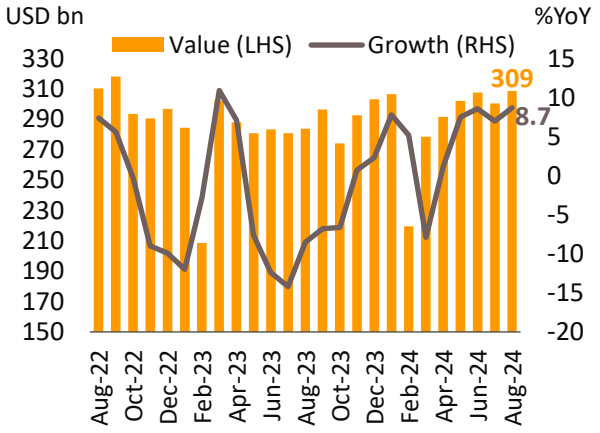
Purchasing Managers' Index (PMI)



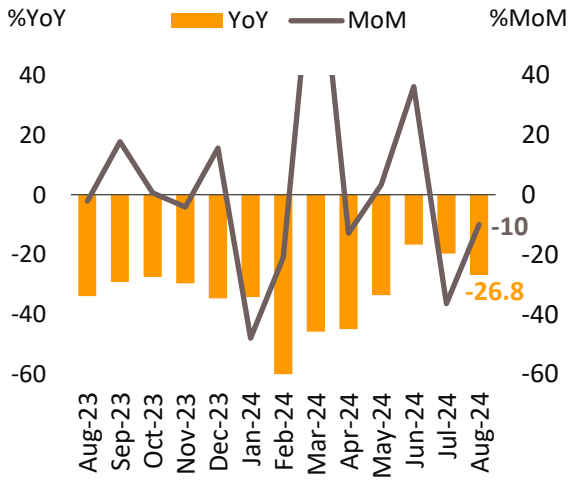
Consumer and Producer Price Index



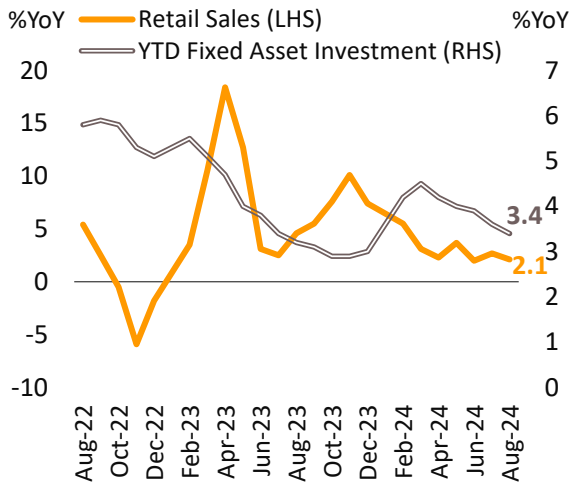
Exports



New Home Sales by Top 100 Developers



Retail Sales and Fixed Asset Investment



Source: NBS, CEIC, Bloomberg, Nikkei Asia, Reuters, China Real Estate Information Corp. and Krungsri Research

Krungsri Research's view

- **More visible signs of a broader economic slowdown.** The positive signs are fading in the services sector, the manufacturing sector remains fragile, and inflation remains subdued. Excess supply will continue to be a drag, and domestic demand is unlikely to improve soon due to the diminishing wealth effect and still-weak labor market. There could be support from robust exports since 2Q24, but **the headwinds and structural weakness would cap growth for the rest of this year.**
- **Intensifying trade tensions.** Canada will impose 100% tariff on Chinese EVs starting October 1 and 25% tariff on steel and aluminum products from October 15. The EU will vote on September 25 for up to 45% tariffs on Chinese EVs, while the US plans to enforce 100% tariffs on EVs, 50% on solar cells, and 25% on steel, aluminum, and EV batteries on September 27. **Despite the targeted tariffs, these hikes might slow down exports to some extent and pressure already-weakening overall growth.**
- **Real estate slump persists.** New home sales by the top 100 developers saw a larger drop in August, despite stimulus efforts. The key challenges remain oversupply, weak sentiment, and developers' financial risks. Meanwhile, the government is considering cutting interest rates on existing mortgages by a total of up to 80bps over two rounds, allowing borrowers to refinance current home loans of at least USD5.4trn. **This might offer some relief, but new home sales are expected to remain in contraction through 2H24. Home prices are unlikely to bottom out soon.**
- **Previous stimulus measures have proven insufficient.** Retail sales and fixed asset investment continued to slow down in August. The PBOC recently signaled it might cut borrowing costs to boost consumption and investment, but the impact would be limited given structural challenges. **China needs to introduce more stimulus soon or consumption, investment, and the labor market would continue to slow down. China seems unlikely to achieve its growth target of around 5% this year.**

Thailand: Stimulus spark hope, floods cast shadows

- **Krungsri Research is keeping the 2024 GDP growth forecast at 2.4%. Gains from the government's cash transfer program to the vulnerable group could be largely offset by the impact of the flood throughout the country.**
- **The current government may introduce some adjustments to the actual policy implementations.** One example is the planned revisions to the Digital Wallet scheme. For the program Phase 1, they will make the cash transfer to vulnerable groups by the end of September, which would boost consumption and the overall economy in Q4. Details of Phase 2 are still pending. **Public spending would normalize** after the FY2025 budget bill proceeds as scheduled.
- **Flood impact** could dampen growth later this year. However, we estimate that the losses would be less severe than that caused by the 2011 Great Flood.
- **Despite strong exports in July,** there are lingering headwinds from slowing economies in major countries and structural problems in Thailand. Full-year export growth will remain low. The recovery in the electronics sector and growing agricultural exports will drive overall export growth, but exports of key industrial products will continue to drop.
- **The tourism sector showed positive signs** with a rising number of Chinese tourists ahead of the high season. Total foreign visitor arrivals are expected to reach 35.6 mn this year.
- **Headline inflation** eased to a 4-month low in August but would likely bounce back to the BOT's target range in Q4.
- **MPC** is expected to keep policy rate unchanged this year, but rate cuts are possible in 2025.

Krungsri Research Forecasts: We maintain 2024 GDP growth at 2.4%; gains triggered by digital wallet Phase 1 would be largely offset by flood impact

Krungsri Research Forecast		2022	2023	1H24	2024F**		
					Previous	Latest	
GDP growth	YoY (%)	2.5	1.9	1.9	2.4	2.4	=
Private Consumption Expenditure	YoY (%)	6.2	7.1	5.4	3.4	4.1	▲
Government Consumption Expenditure	YoY (%)	0.1	-4.6	-0.9	1.5	1.5	=
Private Investment	YoY (%)	4.7	3.2	-0.9	3.0	0.2	▼
Public Investment	YoY (%)	-3.9	-4.6	-16.7	-1.1	-1.1	=
Nominal Exports in USD (f.o.b.)*	YoY (%)	5.4	-1.5	1.7	1.8	1.8	=
Nominal Imports in USD (f.o.b.)*	YoY (%)	14.0	-3.8	2.3	4.2	3.5	▼
Current Account Balance	USD, bn	-15.7	9.6	5.2	6.5	10.3	▲
Tourist Arrivals	Mn, persons	11.1	28.2	17.5	35.6	35.6	=
Headline Inflation	YoY (%)	6.1	1.2	0.0	0.7	0.7	=
Policy Interest rate (end of period)	(%)	1.25	2.50	2.50	2.50	2.50	=
Dubai crude price - period average	USD/bbl	96	82	83	85	85	=

Gains from cash transfer worth THB145 bn to vulnerable group could be largely offset by flood impact

Better-than-expected 1H growth supported by tourism recovery and stimulus for consumption and tourism; growth tends to slow in 2H

Investment contraction in 2Q amid political uncertainty; Recovery will slow amid deteriorated sentiment, political transition, and structural problem in manufacturing

Weaker-than-expected imports due to contracted private investment

Wider trade surplus, supported by weaker import growth

Note: * Based on BOT data, ** 2024 projection including gains from digital wallet phase I (direct cash transfers for vulnerable people) which could be largely offset by flood impacts
Source: NESDC, BOT, MOC, MOTS, Bloomberg, Krungsri Research

New government's policies: Adjustment to digital wallet program Phase 1 (cash transfers to vulnerable groups) by end-September would boost the economy in Q4

On Sep 12-13, the new government presented its policy framework to the parliament. It included (i) proceeding with 10 urgent policies from the previous administration, including adjusting the THB10,000 digital wallet program Phase 1 to cash transfers to over 14 mn vulnerable individuals (details of Phase 2 are pending); (ii) medium-to-long term policies focusing on restructuring the economy (industry transformation) and developing new growth engines to lay a strong foundation for Thailand's economic growth. However, successful implementation will be dependent on: (i) clear and effective planning, and careful ordering of policies according to importance and impact; (ii) balancing the need to allocate sufficient funding with maintaining fiscal discipline; (iii) using technology to enhance government administration and to improve public access; (iv) developing partnerships with the private sector and civil society; and (v) ongoing monitoring and evaluation of implementation, and adjusting policies to keep up with evolving dynamics.

Short-term: 10 urgent policies to stimulate spending to revive the economy and accelerate resolutions to urgent issues of public concern

1. **Comprehensive debt restructuring,** targeting home and car loans, and assistance to debtors in mainstream and non-mainstream systems.
2. **Safeguards for SMEs** against unfair foreign competition, especially in online trading platforms.
3. **Measures to lower utility and energy prices**
4. **Create new revenue streams** by bringing informal and underground economies into the tax system.
5. **Maintain economic stimulus measures to spur confidence and consumption** through the digital wallet scheme and wider opportunities to access funds to develop communities and create jobs.
6. **Upgrade and modernize farming practices** using technology and reviving the 'Thai Kitchen to the World' project.
7. **Promoting tourism** by overhauling the visa application and approval process, building more tourist attractions such as entertainment complexes, and hosting world-class sporting competitions.
8. **Full-scale and swift eradication of narcotics problems**
9. **Effective combating of online transnational and domestic crimes.**
10. **Enhance and develop welfare programs and promote equal access to welfare and economic opportunities** especially for vulnerable groups such as the disabled, elderly, ethnic minorities, and stateless individuals.

Medium & Long term: Enhance competitiveness by laying the foundation for future development, comprising:

Creating opportunities to expand existing industries

- Promote the transition from combustion engine automotive industry to future vehicles (HEVs, PHEVs, BEVs, and FCEVs)
- Promote and develop local talents to support a creative culture to promote soft power

Promoting future industries

- Promote the green economy (Green Economy or Eco-friendly Economy)
- Develop the digital economy (Digital Economy)
- Focus on developing healthcare (Care and Wellness Economy) and medical services (Medical economy)
- Aim to make Thailand a global financial hub (Financial Hub)

Developing structures to expand opportunities

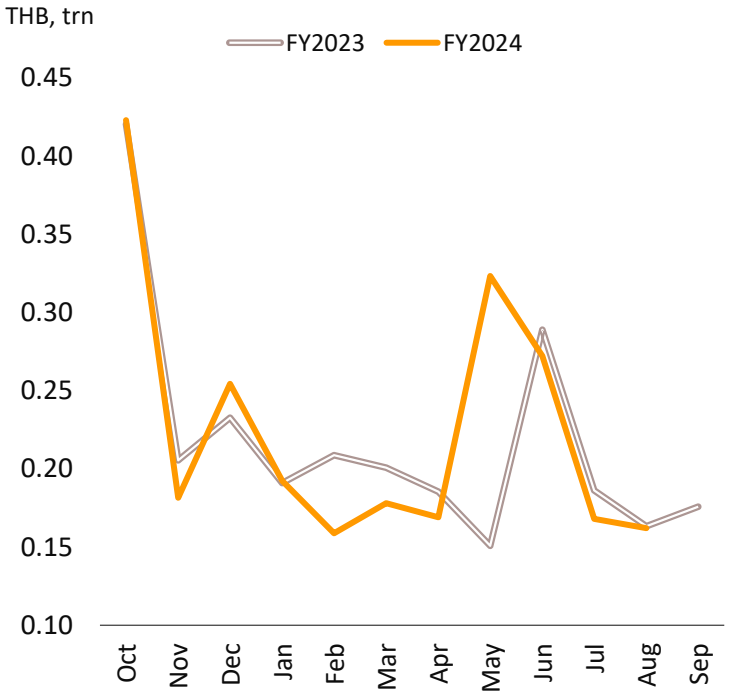
- Developing research and innovation infrastructure
- Proceeding with investments to develop large-scale transportation infrastructure (Mega Projects)
- Accelerating the development of quality public utilities
- Developing digital technology infrastructure
- Major changes to tax structure to prioritize income distribution
- Increase efficiency in state land management

Source: The Bangkok Post, Krungsri Research

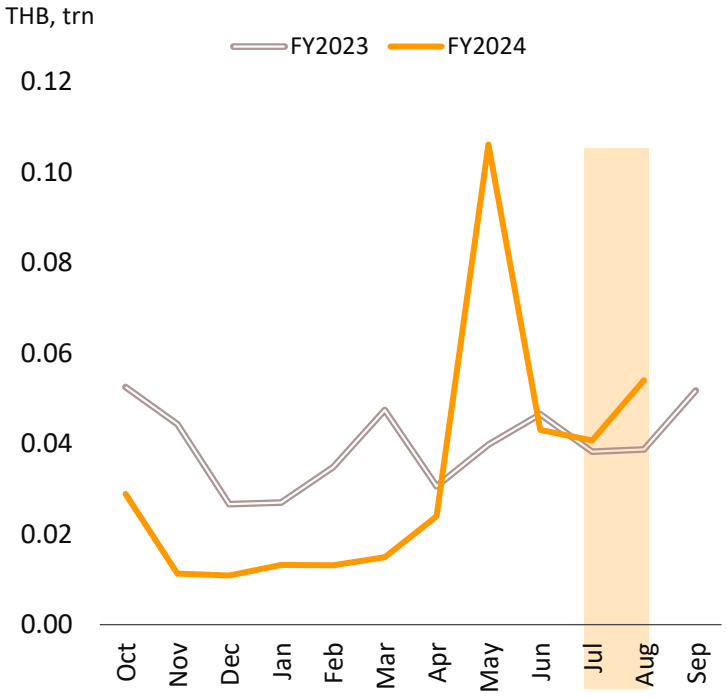
Public spending should normalize after the FY2025 budget bill proceeds as scheduled

According to preliminary data from the Ministry of Finance, budget disbursement had dropped -0.8% YoY in August while capital budget disbursement had surged 39.4%. In the first 11 months of FY2024 (October 2023 to August 2024), disbursements of the current budget reached THB 2.48 trn or 90% of the annual budget, rising 2.0% YoY. For the capital budget, the government has disbursed THB 0.36 trn or only 50% of the annual budget, falling -15.6% YoY. **However, the timely enactment of the FY2025 Budget Act, with an allocation of THB 3.75 trn (+4.2% YoY), is expected to support public expenditure. Notably, the THB 0.91 trn capital budget (+26.5%) is expected to help public investment recover following slow spending in 2024 and stimulate related private sector investments.**

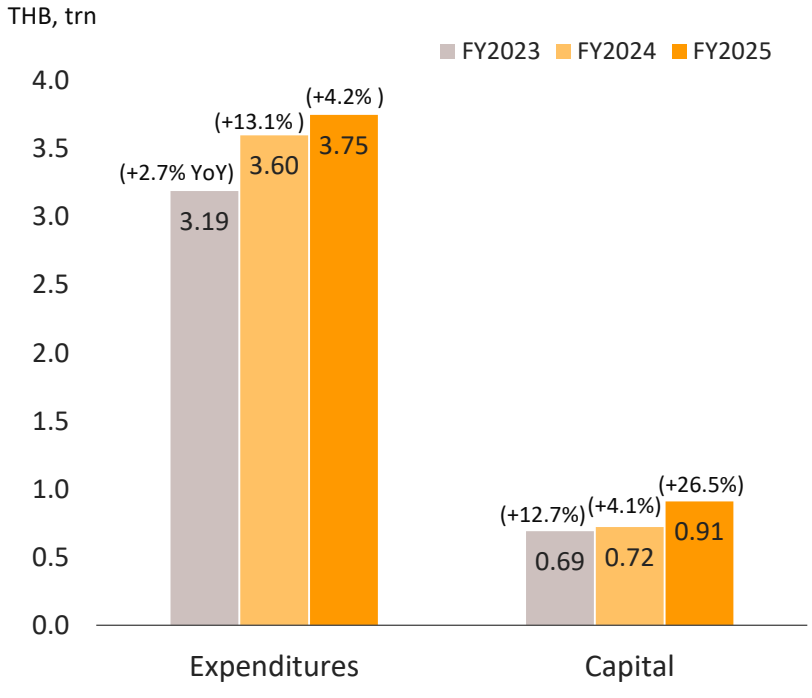
Current expenditure disbursement



Capital expenditure disbursement



Fiscal plan

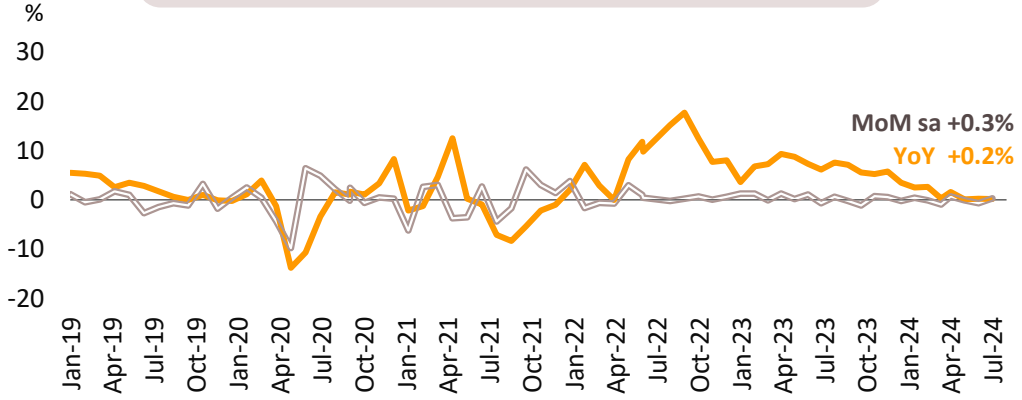


Source: MOF, Krungsri Research

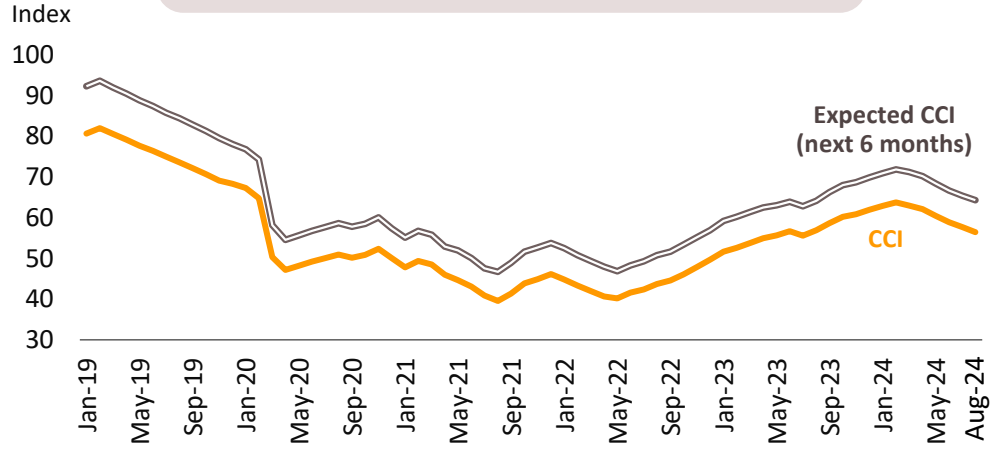
Private consumption stagnated in Q3 but could improve in Q4 following cash disbursement under cash transfer program to 14.5 mn vulnerable individuals

The Consumer Confidence Index fell for the sixth consecutive month in August, to a 13-month low. That suggests private consumption would slow down in Q3. This is consistent with Private Consumption Index which remained flat in July (+0.2% YoY and +0.3% MoM sa), as stronger spending on services and non-durable goods was offset by weaker spending on durable goods, particularly vehicle sales. In Q4, private consumption is expected to receive a boost from the digital wallet program; the government would disburse the FY2024 budget to 14.5 mn vulnerable individuals starting late September under the digital wallet Phase 1. Phase 2 details are pending. However, consumption growth would continue to be capped by high household debt and flood impact on farm incomes.

Private Consumption Index remained flat in July



Consumer confidence fell to a 13-month low



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

Private consumption by category

%YoY*	2021												2022												2023												2024						
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J
Private consumption																																											0.2
Non-durables																																										1.5
Semi-durables																																										1.0
Durables																																										-7.0
Services																																										5.7
Non-residents expenditure																																										61.6

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

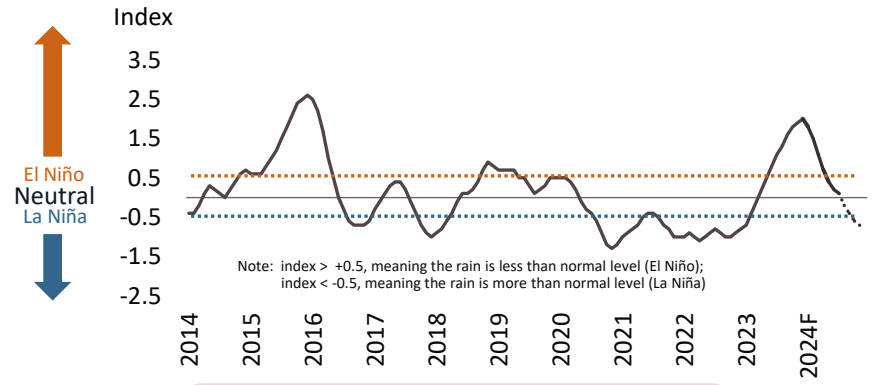
Digital Wallet Scheme

	Target group	Remarks
Phase I	Transfer THB10,000 credit each to 14.5 million vulnerable individuals (welfare card holders and disabled persons).	• Start in late September, no conditions for spending. • Impact on GDP : +0.2% to +0.3% in 2024 : +0.05% to + 0.09% in 2025
Phase II (Tentative)	About 30 mn individuals registered via Thangrath App.	Pending details on funding source and distribution and subject to change.

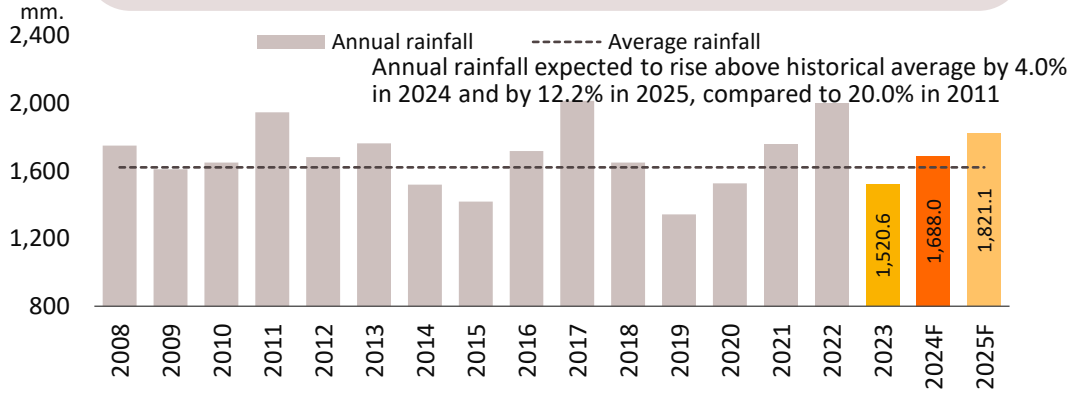
Flood impact: Expect to be less severe than 2011 Great Flood, with losses estimated at 0.2-0.3% of GDP

In 2H24, which is the rainy season in Thailand, there is a risk of severe flooding in some parts of the country. Key indicators, such as the ONI index dropping to neutral and trending towards La Niña conditions, suggest above-average rainfall. However, damages from the flood this year would be less severe than that caused by the 2011 Great Flood, for which the World Bank estimated total damage at THB 1.44 trn. This is attributed to projected relatively less rainfall and increased water retention capacity in large and medium-sized dams, compared to 2011. Additionally, improving water management (e.g., early warning system, maintenance, and funding) and better private-sector flood defenses, particularly in industrial estates, will mitigate the flood impact. **In the baseline case, we expect 8.6 mn rai of farming land to be affected by floods in 2024 with asset losses at THB 3.1 bn and agricultural losses of THB 43.4 bn. That would be THB46.5 bn in total losses, which account for 0.27% of GDP. In the worst case, the losses are estimated at 0.34% of GDP.**

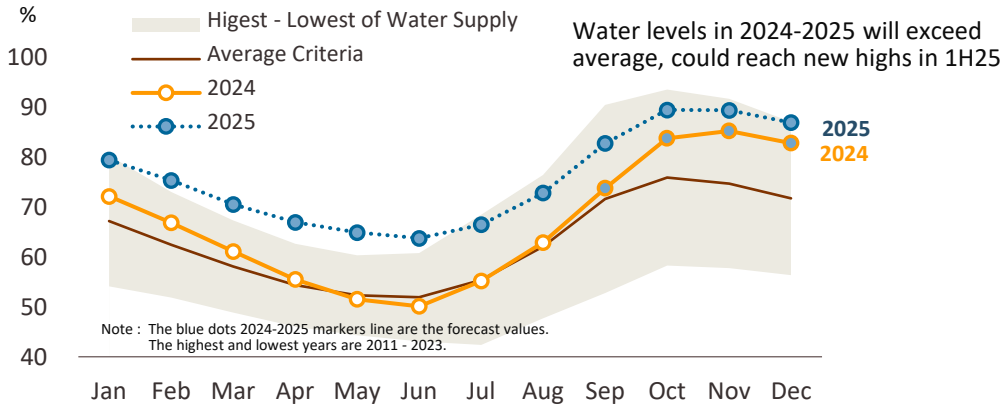
ONI indices suggest El Niño conditions would turn Neutral in mid-2024, and higher risk of La Niña ahead



Annual rainfall is expected to hit new highs in 2024 and 2025 but stay below 2011 (Great Flood) level



Water supply stats in Thailand



Projected economic losses due to latest flooding

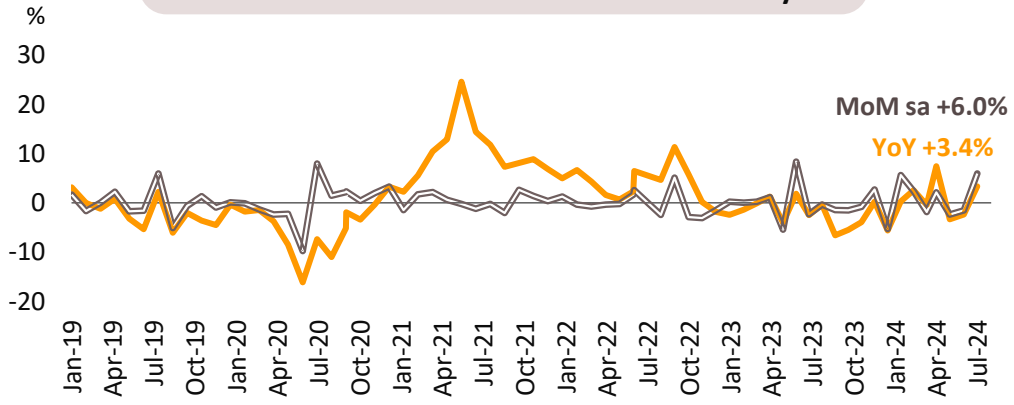
Flood impact forecast for 2024	9 August - 7 September	Best Case	Base Case	Worst Case
Assumptions of Affected Areas	1.4 Mn. Rai	6.2 Mn. Rai	8.6 Mn. Rai	11.0 Mn. Rai
Probability		20%	50%	30%
Asset Loss (Million Baht)	490	2,200	3,100	4,000
Agriculture Loss (Million Baht)	6,900	31,200	43,400	55,500
Total Loss (Million Baht)	7,390	33,400	46,500	59,500
As percent of GDP (Current Price)	0.043%	0.19%	0.27%	0.34%

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

Private investment has improved but sentiment remained weak in August pending clarity on the new government's policies

The Private Investment Index rebounded in July (+3.4% YoY and +6.0% MoM sa) driven by stronger capital goods imports and machinery sales. However, we remain cautious about whether the recovery is sustainable because other investment indicators remain weak, including (i) the Business Sentiment Index (BSI) improved slightly in August but has been below 50 for 11 consecutive months, and (ii) Production indicators remain weak, including the Manufacturing Production Index (+1.8% YoY) and Capacity Utilization (60.3% vs 66.6% pre-Covid). **Krungsri Research recently revised projected private investment growth for this year from 3.0% to only 0.2%,** owing to a significant contraction in investment in the second quarter. Domestic politics might also have a strong influence and encourage investors to delay investment decisions pending greater clarity on the economic policies of the new government.

Private Investment Index accelerated in July

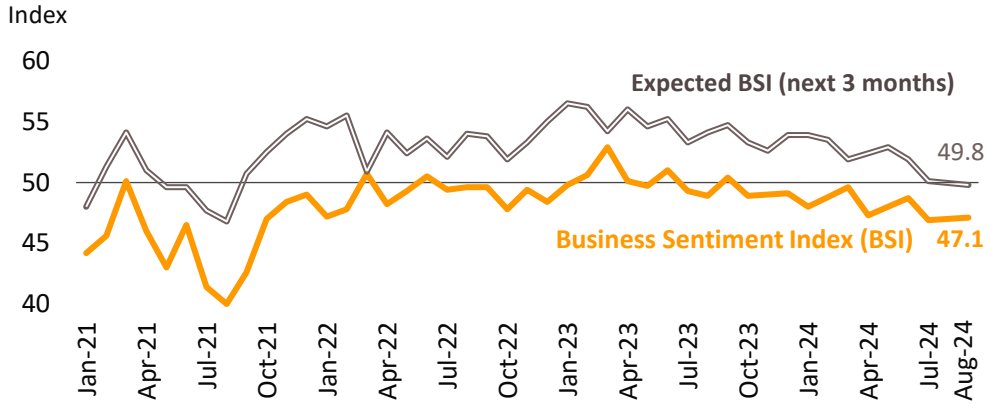


Private investment by category

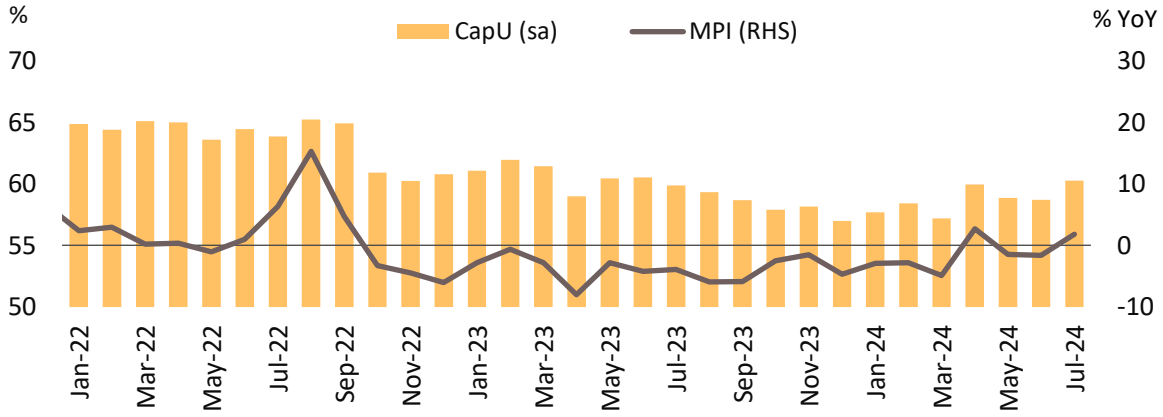
%YoY*	2021												2022												2023												2024						
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J
Private investment																																											3.4
Construction area permitted																																										-3.6
Construction material sales																																										-9.1
Imports of capital goods																																										9.6
Machinery sales																																										7.6
Newly registered vehicles																																										-12.0

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

BSI improved in August but stayed below-50 for the 11th month



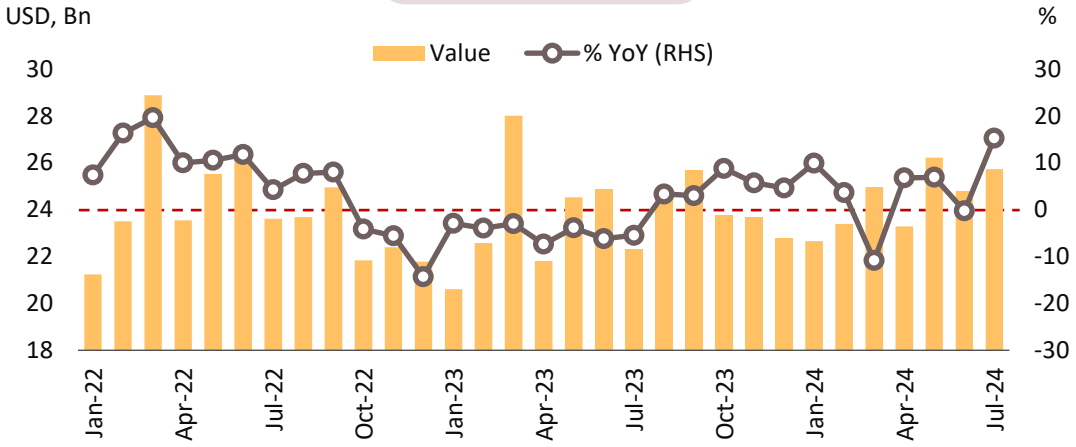
Manufacturing Production Index and Capacity Utilization Rate



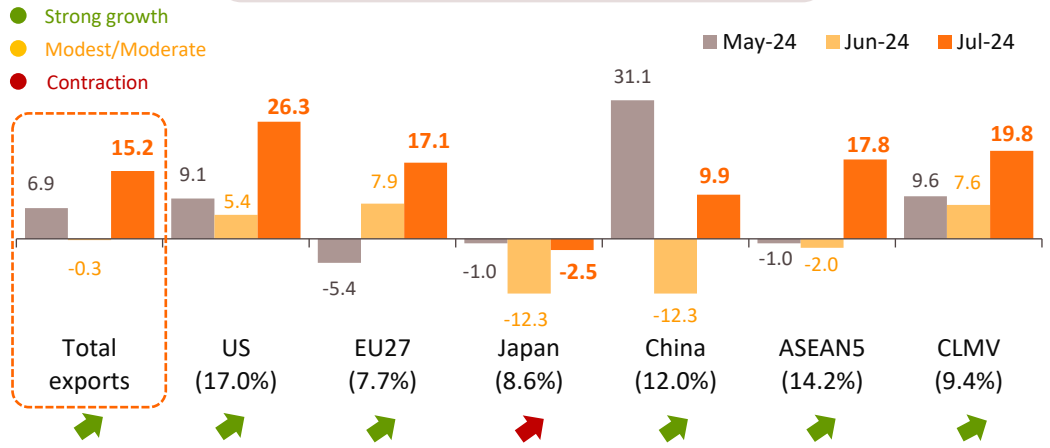
Source: BOT, OIE, CEIC, Krungsri Research

Despite strong *exports in July,* there are headwinds from slowing major economies and domestic structural problems; expect full-year export growth to remain weak

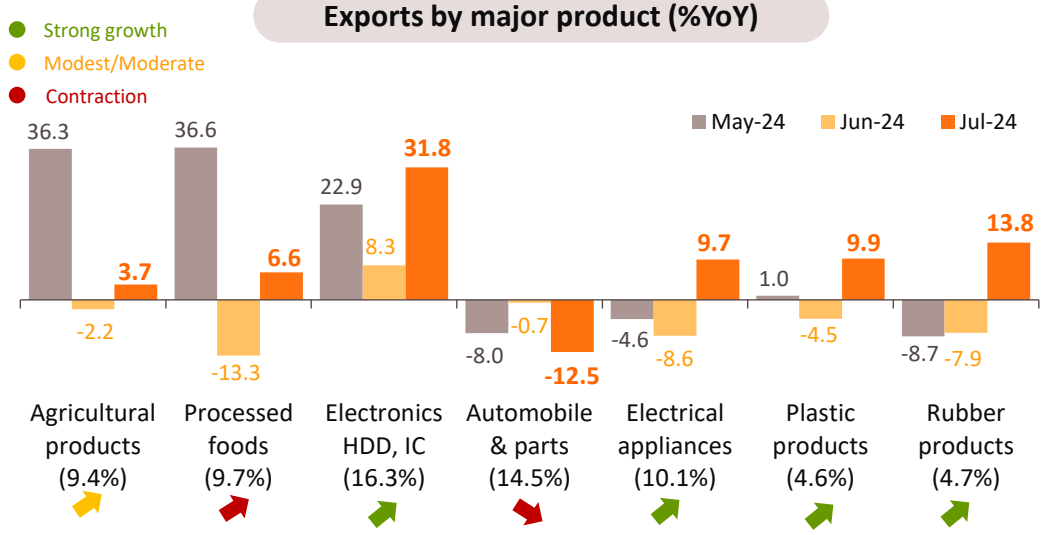
Exports



Exports by major destination (%YoY)



Exports by major product (%YoY)



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

Krungsri Research's view

- **In July, merchandise export value jumped 15.2% YoY to USD25.7bn,** improving significantly from -0.3% and USD 24.8bn in June. Excluding gold and oil, exports grew by only 9.3%. Product categories that registered strong growth included computers and parts, chemicals, air conditioners & parts, rubber, rice, and rubber products. However, exports contracted for autos, parts & equipment, integrated circuit boards, sugar, and fresh, chilled, frozen & dried fruit. Exports to the US, the EU, China, and the ASEAN-5 nations grew, while those to Japan continued to contract. **In the first 7 months of this year, total export value grew 3.8% YoY.**
- In July, export value rose at its fastest rate since March 2022, partly due to a more than 4-fold jump in the value of gold exports relative to a year earlier. Exports also benefited from a combination of developments in digital technology which drove a recovery in global demand for electronic goods, and concerns about delays in international shipping had brought forward some exports.
- **However, several challenges could cloud the outlook for the export sector in the rest of 2024.** They include: (i) slowing economies in major markets such as the US and China; (ii) geopolitical tensions; (iii) rising trade tensions and oversupply of goods in China, which is pushing Chinese manufacturers to export those goods, including to Thailand, with a knock-on effect on domestic production; and (iv) structural problems and weak competitiveness in some industries in Thailand.

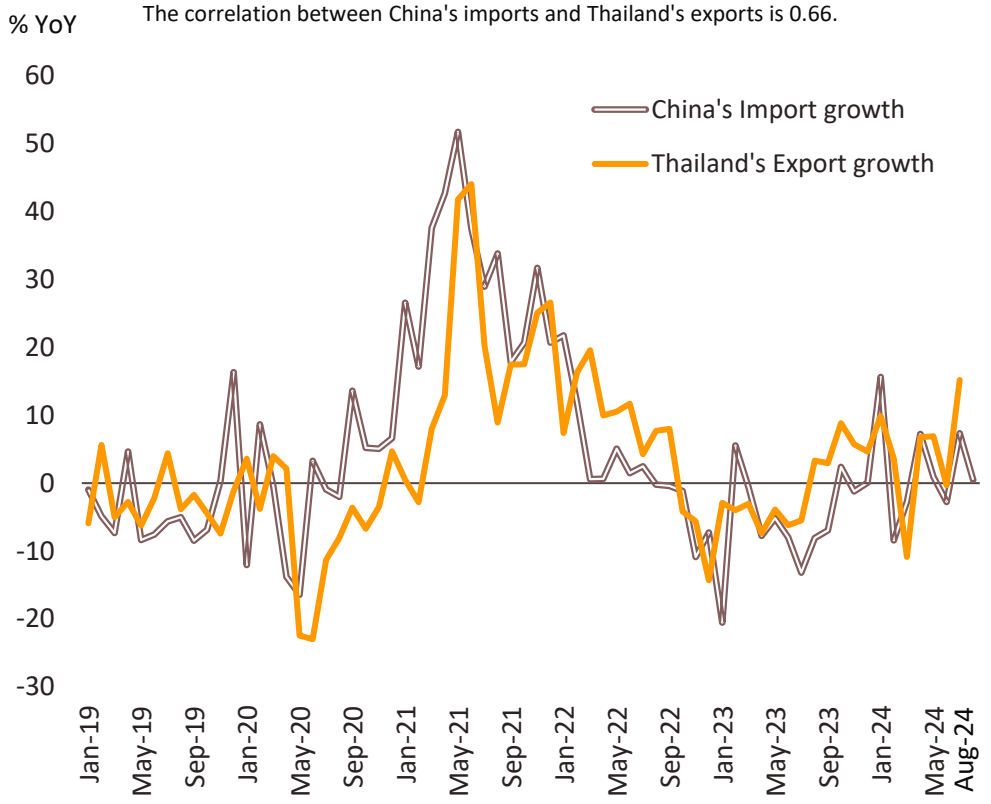
Recovering electronics sector and agricultural exports to drive overall export growth, but exports of key industrial products continue to drop

In the first 7 months of this year, Thai exports grew 3.8% YoY led by agricultural products which expanded by 7.1% (including rice and rubber), agricultural industrial products (rubber products, cassava products, and sugar) which expanded slightly by 0.4%, and industrial products (computers and components, plastic products) which expanded by 3.8%. However, exports of some important industrial goods continued to contract, including cars & parts, electrical appliances, and integrated circuit boards. In addition, slower imports by China might hurt Thai exports because there is a strong positive correlation (+0.7) between the two.

Thai exports by major product and destination

Thailand: Jan-Jul's export growth (% YoY)	World	US (17%)	EU (8%)	Japan (9%)	China (12%)	ASEAN-5 (14%)	CLMV (9%)
Total	**+3.8**	**+13.3**	**+3.2**	**-6.9**	**+0.3**	**-0.0**	**+8.6**
Cars & parts (10.9%)	-2.3	+26.8	-4.9	-2.1	+2.4	-16.8	-19.6
Computer & parts (6.3%)	+29.7	+40.9	+50.9	-4.1	+48	-16.3	+20.1
Rubber products (4.7%)	-1.6	+8.0	+4.4	-5.7	-23	-0.03	+7.3
Electronic IC (3.4%)	-12.4	-40.1	-21.3	-1.1	-9.9	-11.3	-16.2
Plastic resin (3.1%)	-2.6	+30.2	+15.3	-6.8	-9.0	+6.7	+0.1
Chemical products (2.8%)	-1.2	-8.8	+3.5	-13.4	-1.9	-2.6	-2.2
Fresh, frozen & dried fruit (2.0%)	-8.7	+18.0	+21.0	+13.4	-10.6	-17.2	+69.4
Electrical appliances (1.9%)	-4.5	-10.9	-4.3	+3.6	+19.7	-7.4	-8.7
Rice (1.8%)	+43.7	+26.3	+10.2	+19.6	-8.4	+102	+4.5
Plastic products (1.5%)	+7.7	+37.9	+11.5	-5.4	+5.8	+6.4	-4.0
Rubber (1.3%)	+34.2	+49.1	+45	+44.2	+17.2	+36.0	+160
Tapioca products (1.3%)	-15.3	+21.8	+2.7	+0.2	-32	+72.3	-8.9
Preserved fish, crustaceans (1.2%)	+6.7	-0.1	+21.0	-12.9	-24	-6.5	-4.5
Sugar (1.2%)	-37.7	-44.5	-66.5	+29.7	+17.3	-60.0	+42.0

Slower imports by China could hurt Thai exports

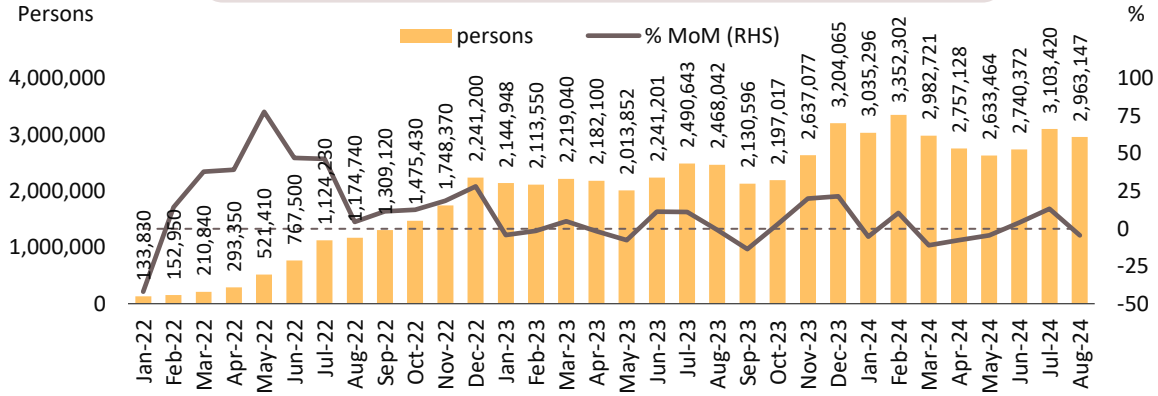


Note: (% share in 2023)
Source: MOC, CEIC, Krungsri Research

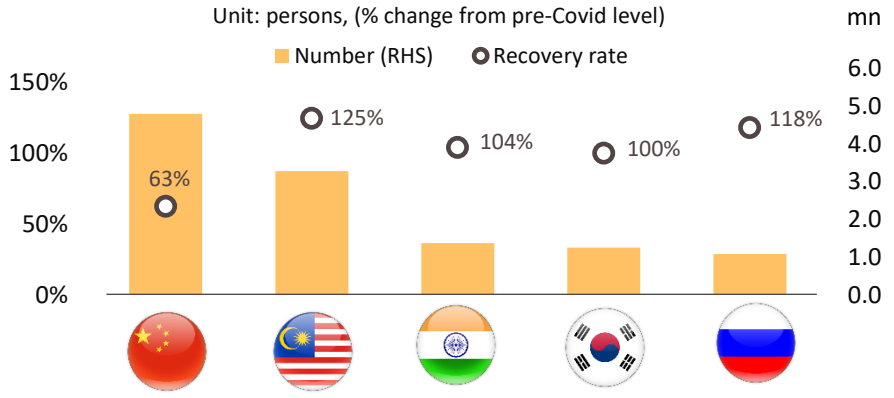
Tourism sector remains strong with more Chinese tourists ahead of the high season; total foreign tourist arrivals is projected to reach 35.6 mn this year

Thailand welcomed 2.96 mn foreign tourists in August, slightly down from 3.1mn in July due to the end of the peak travel season for long-haul markets and the conclusion of holiday travel in India. However, tourism continued to be supported by the visa-free program and Chinese tourists. **In the first 8 months of this year, tourist arrivals reached 23.6 mn (89% of pre-Covid level vs 71% in 2023) and generated THB 1,111bn receipts (89% of pre-Covid level vs 63% in 2023)** led by Chinese tourists that made up the largest group; however, they are only 63% of the pre-Covid level. Arrivals from Malaysia, India, South Korea, and Russia have recovered to 100-125% of pre-Covid levels. In the last 4 months of the year, arrivals are projected to average 3 mn per month, driven by the visa-free program for 93 countries, the Golden Week holidays in China in early October, and peak tourist season in Thailand in Q4.

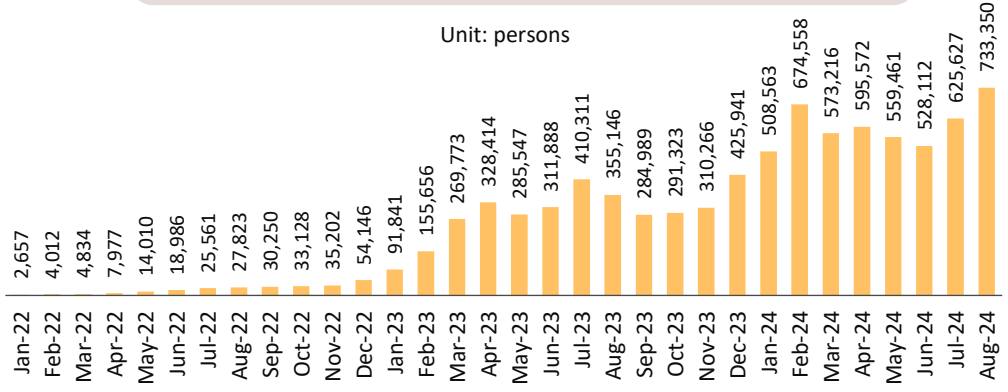
Foreign tourist arrivals reached 23.6 million in 8M24



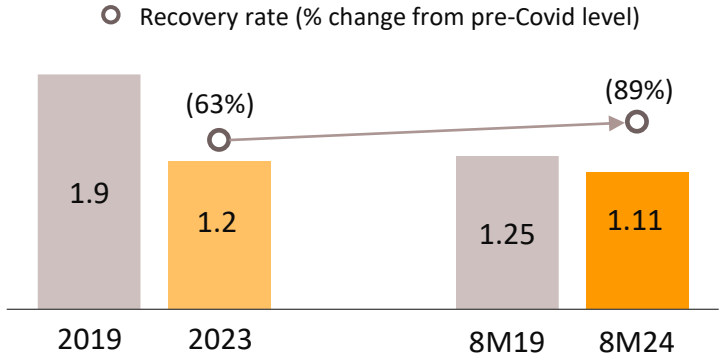
Top 5 tourist arrivals by country in 8M24 (Jan-Aug)



Rising number of Chinese tourists in the next period



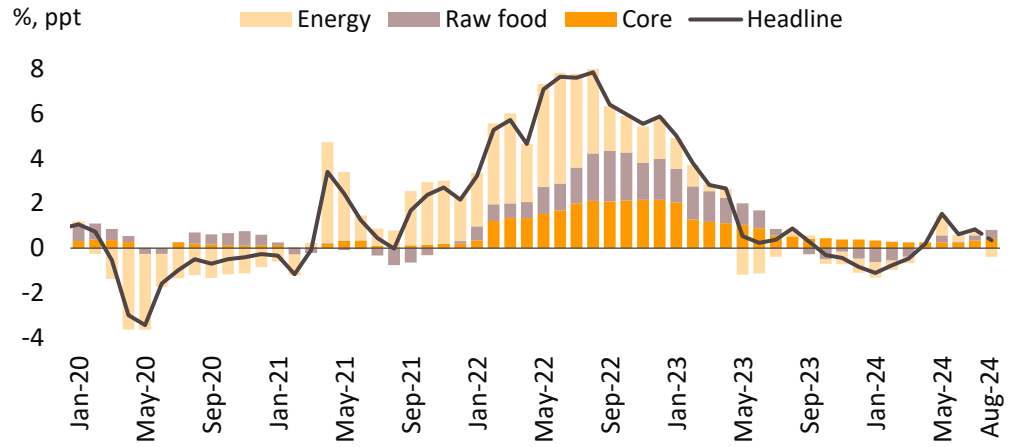
Foreign tourist receipt (THB, trn)



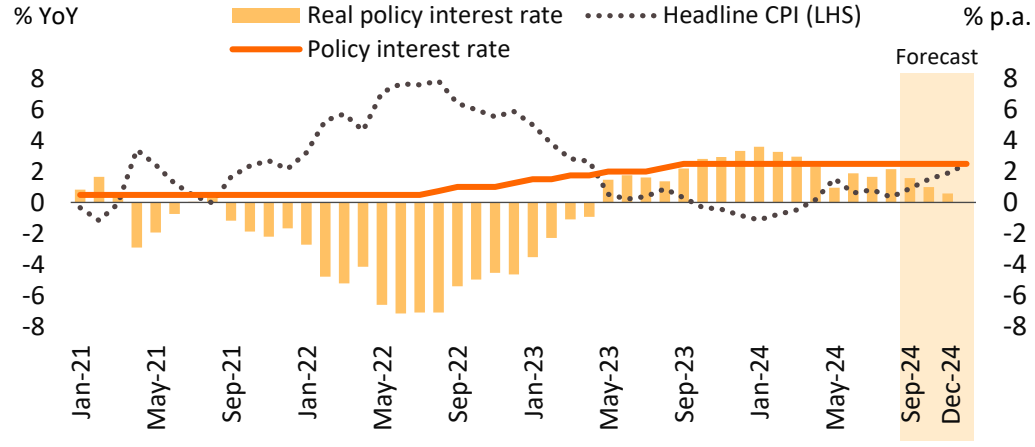
Source: MOTS, CEIC, Krungsri Research

Headline inflation eased to a 4-month low in August, but should return to target range in Q4; MPC might keep *policy rate* unchanged this year but cut rates in 2025

Contributors to inflation



Real policy interest rate



Source: MOC, BOT, Krungsri Research

Consumer Price Index: Major categories

Consumer Price Index (% YoY)*	Weight	2022 J F M A M J J A S O N D	2023 J F M A M J J A S O N D	2024 J F M A M J J A
Headline CPI	**100%**			0.35
Food & beverages	41.9%			1.83
Apparel & footwears	2.0%			-0.59
Housing & furnishing	21.9%			-0.90
Medical & personal care	5.4%			-0.03
Transportation & communication	23.2%			-1.01
Recreation & education	4.2%			0.62
Tobacco & alcoholic beverages	1.3%			1.57
Raw food	21.3%			1.93
Energy	14.2%			-3.10
Core CPI	**64.7%**			0.62

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

Krungsri Research's view

- **Headline inflation softened from 0.83% YoY in July to 0.35% in August driven by** lower accommodation and energy prices (i.e., for gasohol and electricity) that fed through to a 0.68% drop in non-food and beverage prices. However, farm output was reduced by heavy rain and flooding in some areas which pushed up the price of fresh fruit and vegetables; that translated to a 1.83% rise in overall prices for food and non-alcoholic drinks. Core inflation, which excludes prices for raw food and energy, accelerated from 0.52% in July to 0.62% in August. **In the first 8 months of this year, headline and core inflation rates averaged 0.15% and 0.44%, respectively.**
- Headline inflation softened to a 4-month low in August but **could rise slowly towards the BOT's 1-3% target range in the last quarter of the year.** This would be partly attributable to the low base last year when diesel price was capped at THB30/liter against THB33/liter currently. In addition, flooding in key areas will push up prices of some agricultural products and geopolitical stresses will continue to affect commodity prices.
- **Direction of interest rates. We expect the MPC to keep the policy rate at 2.50% for the rest of this year, premised on** the following: (i) ongoing economic recovery with GDP growth improving in 4Q24; (ii) new government's policy to boost domestic spending by executing the digital wallet Phase 1 (cash transfer); and (iii) inflation rising to the BOT's target range by end-2024. **However, we now expect the MPC to cut the policy rate twice in 1H25, by 25 bps each,** owing to (i) tightening financial conditions, as rising NPLs would hurt the real economy; (ii) fading gains from the government's cash transfer program; and (iii) possible rate cuts by the US Fed (and narrowing interest rate gap between the US and Thailand) and peer pressure on the MPC to ease monetary policy. **Premise on the above, we expect Thailand's policy rate to drop to 2.00% by the end of 2025.**

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