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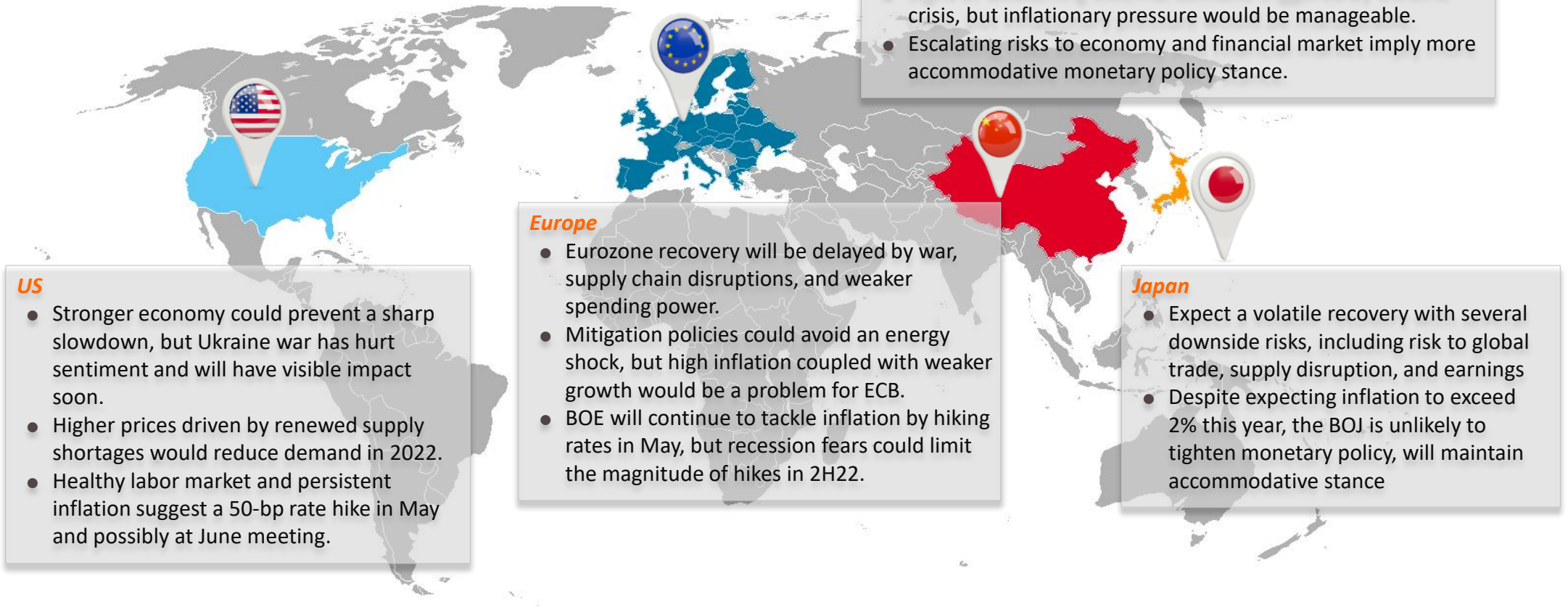
MONTHLY ECONOMIC BULLETIN

April 2022



Krungsri Research

Global: Supply disruption, inflation threat, and policy diversion



China

- Shocks from extended lockdowns following the biggest outbreak since 2020 will drag economic growth in 1H22.
- Signs of weakening external demand triggered by Ukraine crisis, but inflationary pressure would be manageable.
- Escalating risks to economy and financial market imply more accommodative monetary policy stance.

US

- Stronger economy could prevent a sharp slowdown, but Ukraine war has hurt sentiment and will have visible impact soon.
- Higher prices driven by renewed supply shortages would reduce demand in 2022.
- Healthy labor market and persistent inflation suggest a 50-bp rate hike in May and possibly at June meeting.

Europe

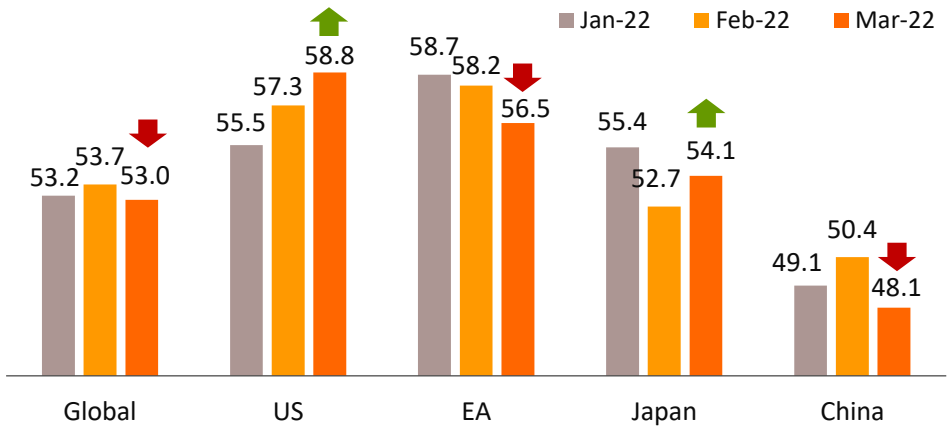
- Eurozone recovery will be delayed by war, supply chain disruptions, and weaker spending power.
- Mitigation policies could avoid an energy shock, but high inflation coupled with weaker growth would be a problem for ECB.
- BOE will continue to tackle inflation by hiking rates in May, but recession fears could limit the magnitude of hikes in 2H22.

Japan

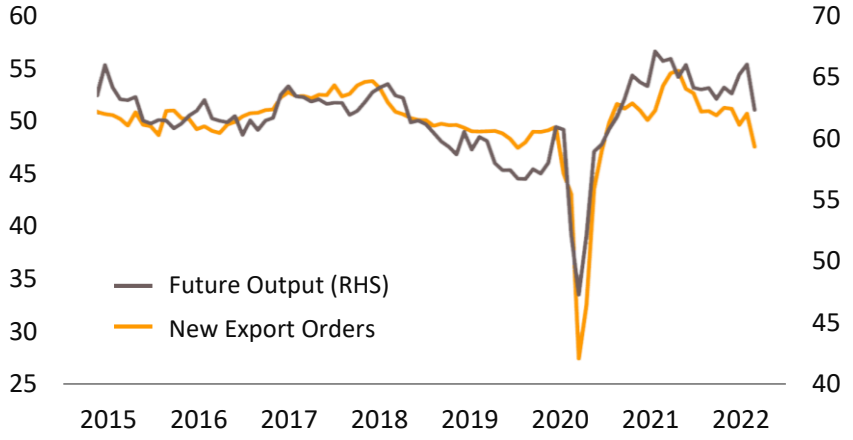
- Expect a volatile recovery with several downside risks, including risk to global trade, supply disruption, and earnings
- Despite expecting inflation to exceed 2% this year, the BOJ is unlikely to tighten monetary policy, will maintain accommodative stance

Global manufacturing activity decelerated in March; downside bias to growth outlook given weaker future output, renewed supply disruptions, and rising price pressure

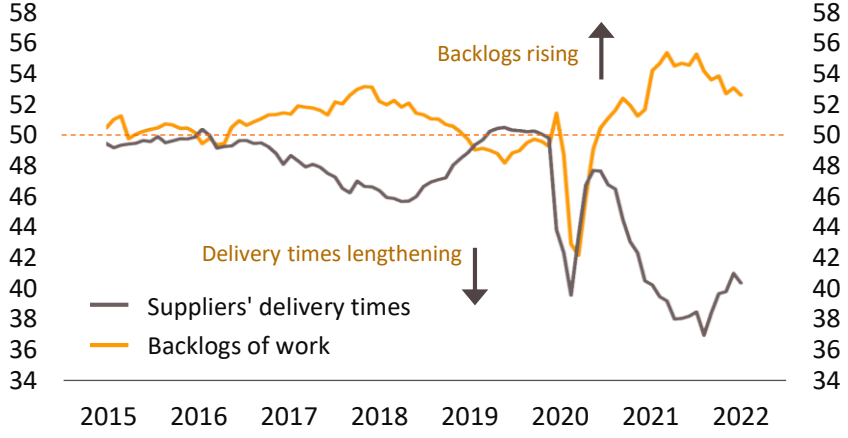
Global Manufacturing PMI



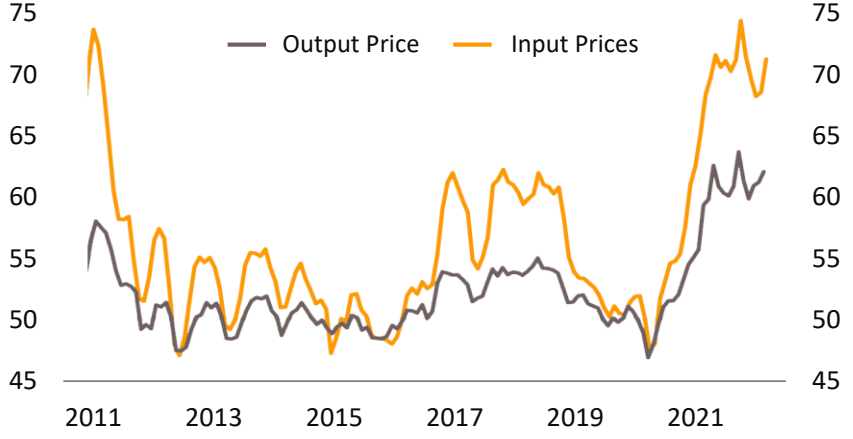
Future output and export orders



Delivery times and backlogs



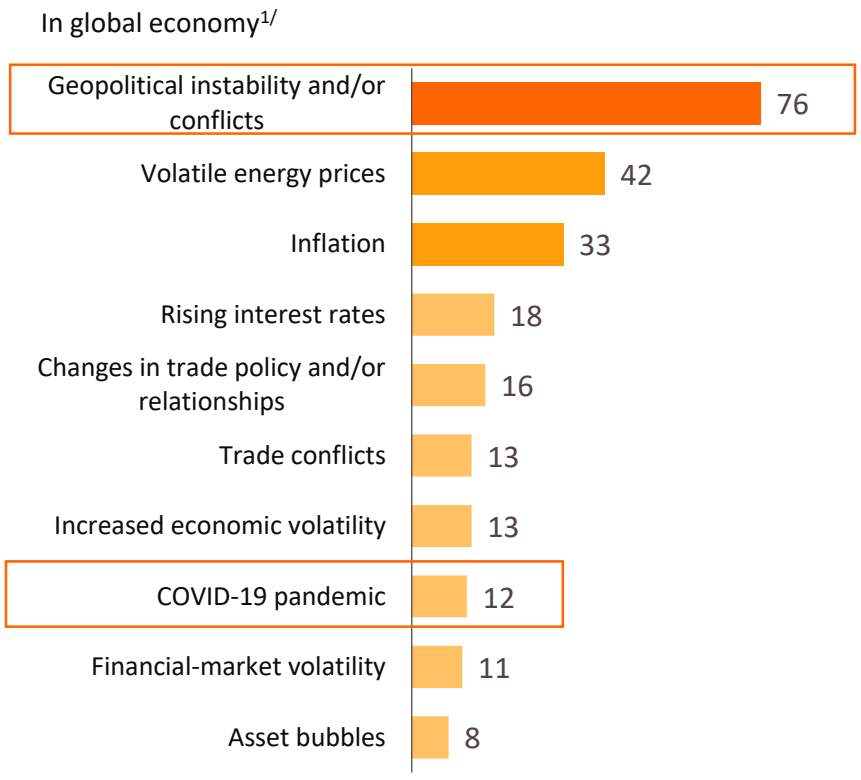
Input and output prices



Source: IHS Markit, Bloomberg, Krungsri Research

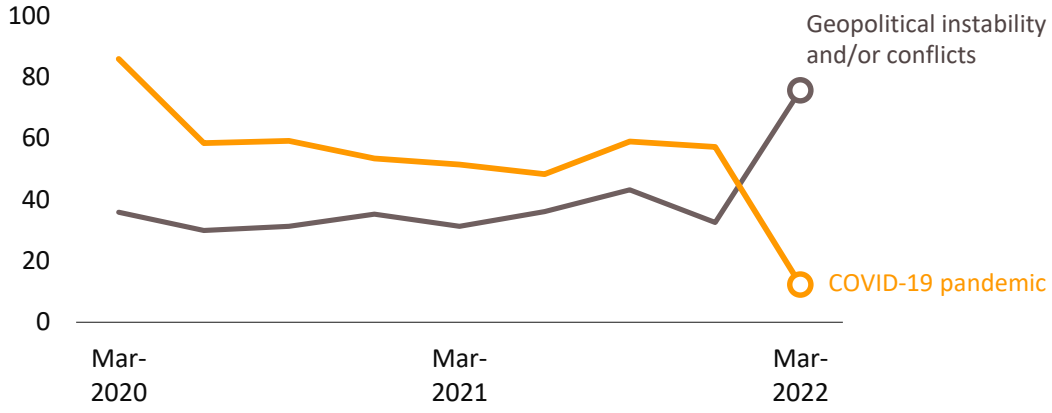
For the first time in 2 years, the pandemic has not been cited as the top risk to global growth; geopolitical conflict overshadows all other risks; sentiment is waning

Potential risk to economic growth, next 12 months, % of respondents (n = 785)

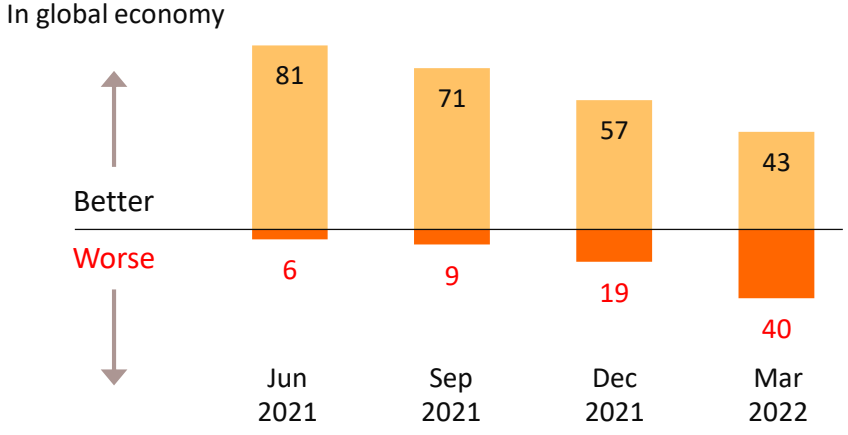


1/ Out of 17 risks that were presented as answer choices

Potential risk to global economic growth, next 12 months, % of respondents



Expected economic condition, next 6 months, % of respondents

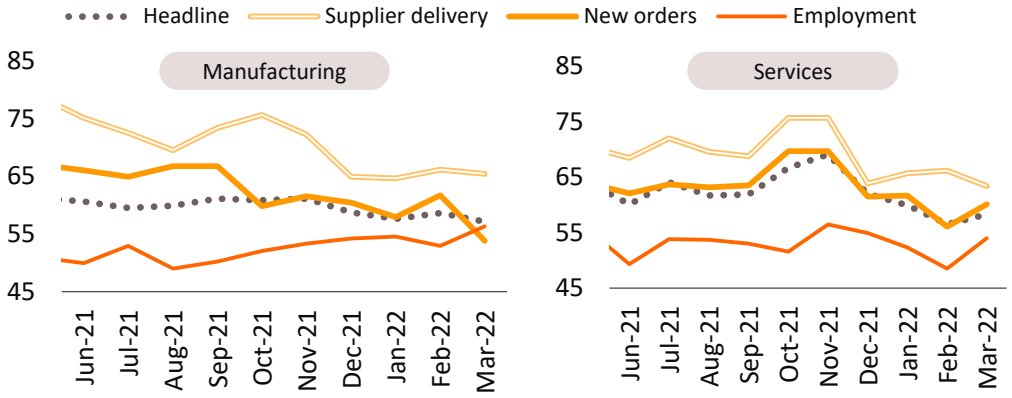


Source: McKinsey (March 2022), Krungsri Research

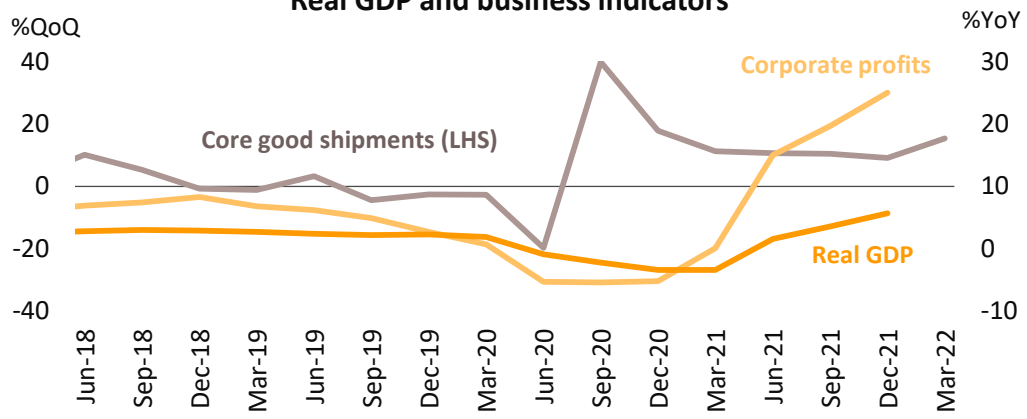
US: Stronger economy could prevent a sharp slowdown, but Ukraine war has hurt sentiment and will have visible impact soon

Manufacturing sector activity decelerated in March while Services sector expanded stronger than consensus expectations. The Russia-Ukraine war reduced new orders and worsened supply bottle-necks but rising employment prevented a contraction in the PMI. **The firm data confirms a solid performance** as corporate profits rose by double-digit percentage in 4Q21, in line with improving real GDP. **The uptick in goods shipment in early 2022 also support stronger investment ahead. We expect profits to decelerate this year but remain favorable.** On private consumption, high frequency data has yet to show significant impact from rising fuel prices on shopping, travel and dining out. And, declining Covid-19 cases is encouraging more outdoor activities. **Current consumption and business performance could prevent a sharp economic slowdown and calm fears of a recession in this year. However, the Ukraine war impacts would have visible impact in the coming months.** The Consumer Confidence Index fell in March, and especially, expectations for the next 6 months is at the lowest since 2013. Confidence would show a larger drop by mid-year. **Mounting concerns over household financials could contribute to slower spending growth in 2022.**

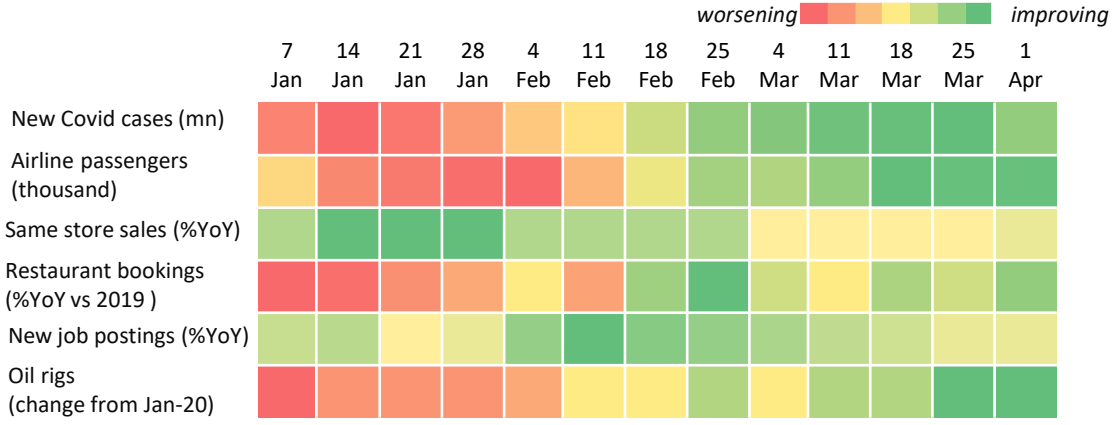
ISM PMI Surveys (DI)



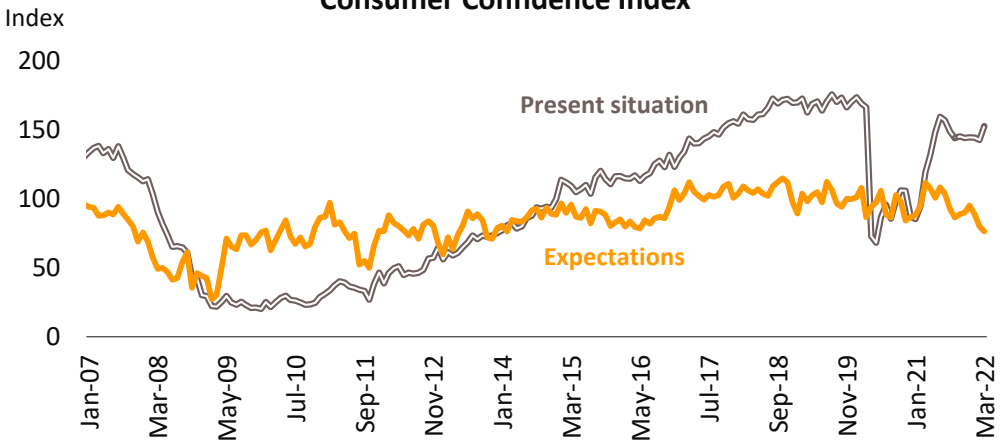
Real GDP and business indicators



High frequency data



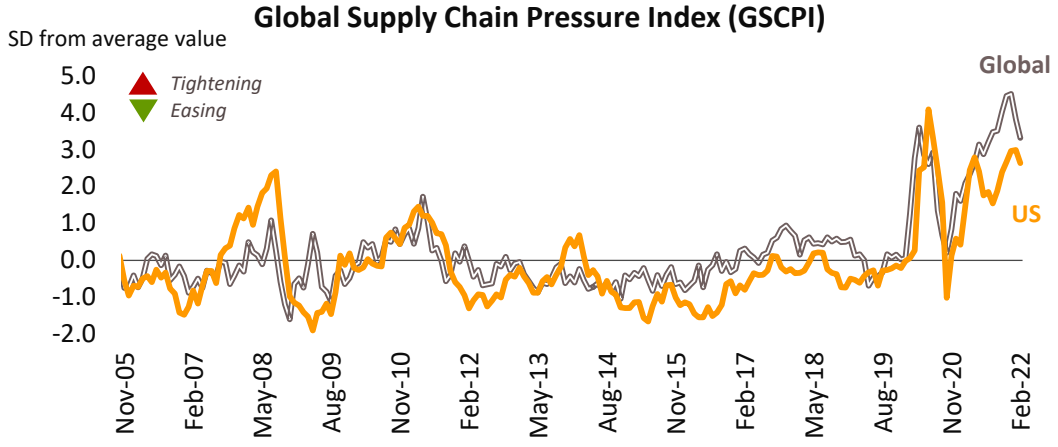
Consumer Confidence Index

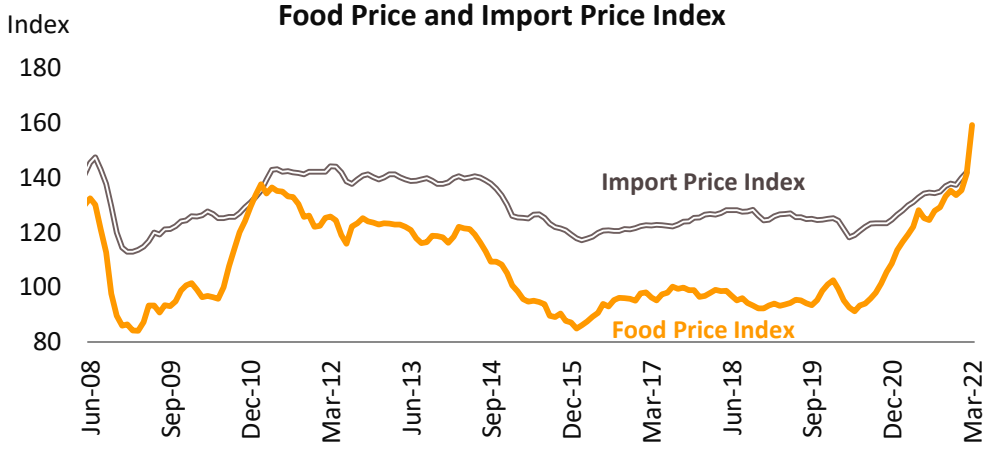


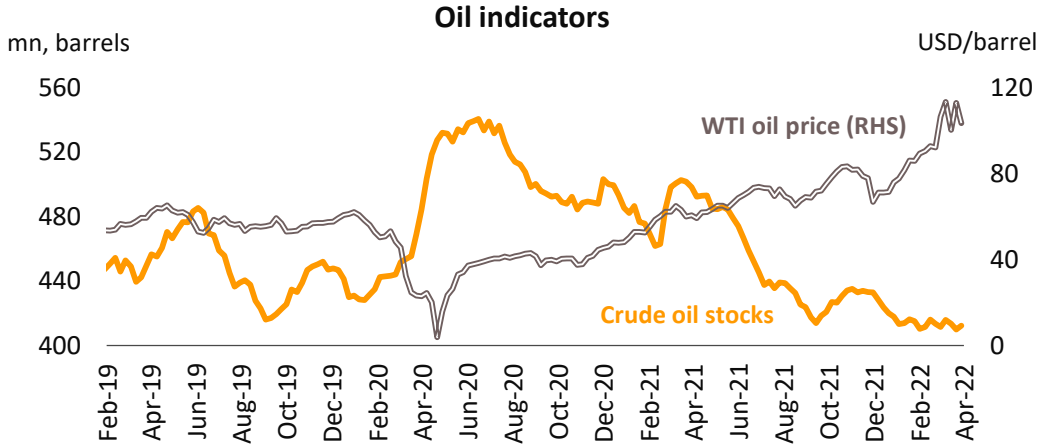
Source: ISM, Census Bureau, BEA, Johnson Redbook Service, Conference Board, Indeed, TSA, Krungsri Research

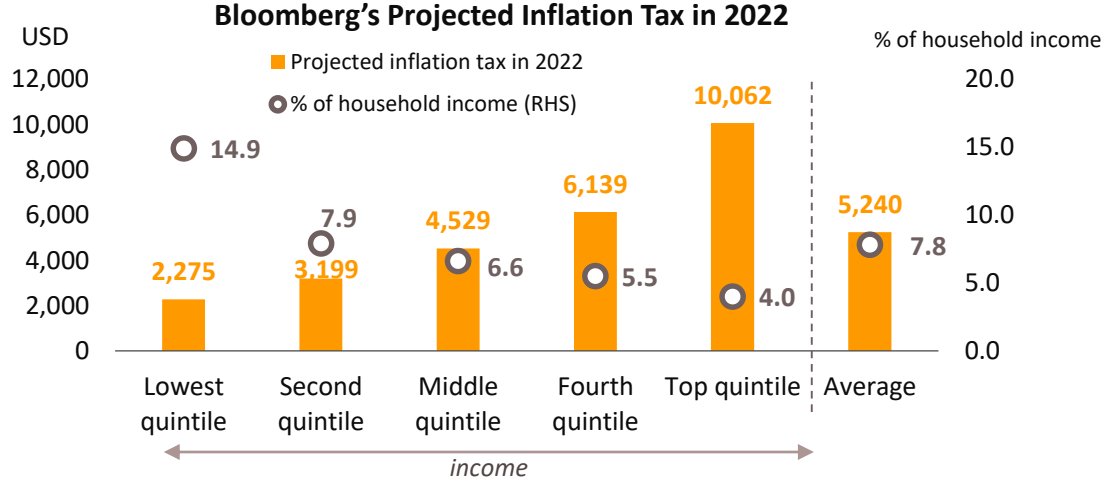
Higher prices driven by renewed supply shortages would reduce demand in 2022

Supply problems had started to ease early this year but there were bottlenecks again following the Ukraine invasion and Covid-19 lockdown in Shanghai and Shenzhen. These suggest the economy would face slower growth and higher inflation. **Oil prices jumped in the beginning of April after reports of civilian deaths near Kyiv triggered new sanctions from the West.** The US has announced more sanctions against individuals and banned new investment from Russia, which have elevated uncertainties. The US also plans to release oil from strategic reserves, at 1 million barrels per day, to curb rising fuel prices across the country. However, **Americans will have to deal with rising energy and food costs.** Food Price Index hit record-high in March and could rise further as Ukraine's agricultural industry has been destroyed. Plus, **lockdown measures in China could also pressure global supply chains** through transportation logjams and higher US import prices due to its major trade partner status. We estimate **US households would pay USD5,240 *inflation tax* this year, and the poorest group would be the worst hit. However, all households will have to face rising prices and higher cost of living, implying softer consumer demand the rest of the year.**







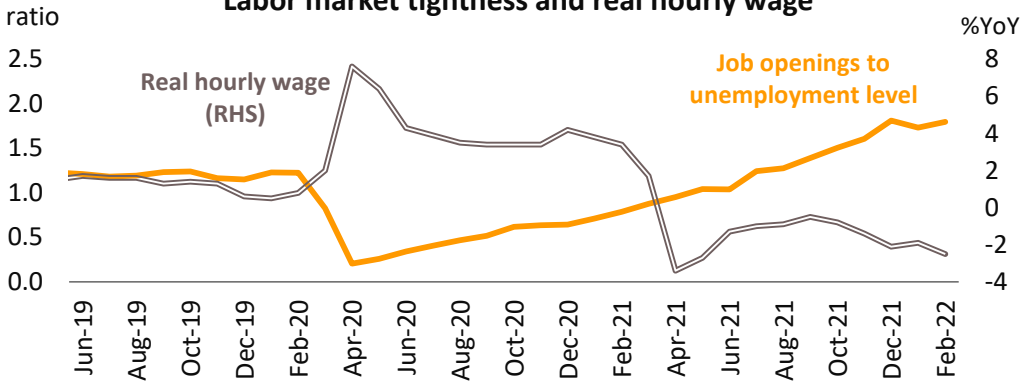


Source: New York Fed, EIA, UN, Census Bureau, Bloomberg, Krungsri Research

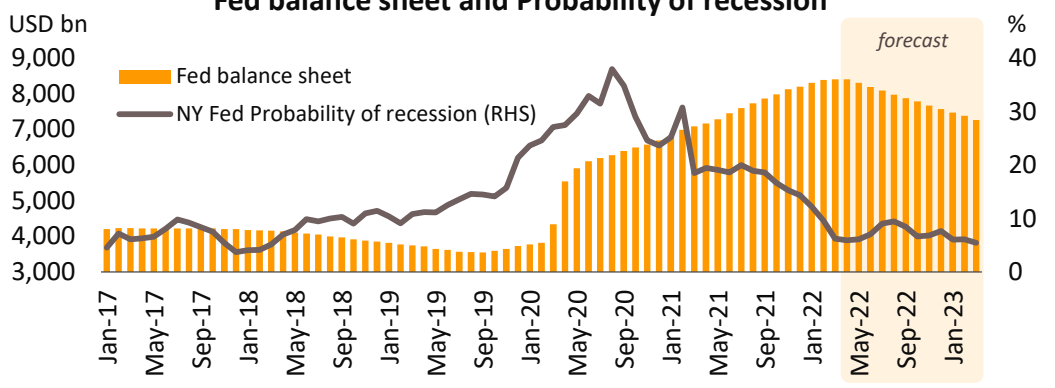
Healthy labor market and persistent inflation suggest a 50-bp rate hike in May and possibly at June meeting

US labor market added 1.7 million jobs in 1Q22, indicating the strong return of workers. **Job openings to unemployment** ratio is at a record high of 1.8, **reflecting a tight labor market. Although this could push up nominal wage and inflation, it would be a smaller problem than declining real wage.** Prices are accelerating across the board as inflation is also rising in the services sector, reflecting **demand-pull inflation. This could prompt the Fed to raise rates aggressively to allow demand to catch up with supply and reduce inflation.** The Fed's March meeting minutes **revealed they might launch a balance sheet reduction program in May at USD 95 billion a month.** The governors also signaled they were prepared to hike rates at every meeting this year. **We expect a half-point hike in May and see higher probability of a 50 bps hike in June** to combat the hottest inflation rate in four decades. Interest rates could hit 2.0-2.5% by year-end. **The hawkish tone has triggered selling in short-term bonds and an 'inverted yield curve', leading to recession fears.** Historical data does not show strong correlation between an inverted yield-curve and recession, which suggests minimal risk of a recession within the next 12 months. Sometimes, the stock market gained following negative yield spreads. **So, war and inflation will hit the economy but is unlikely to trigger a recession in 2022.**

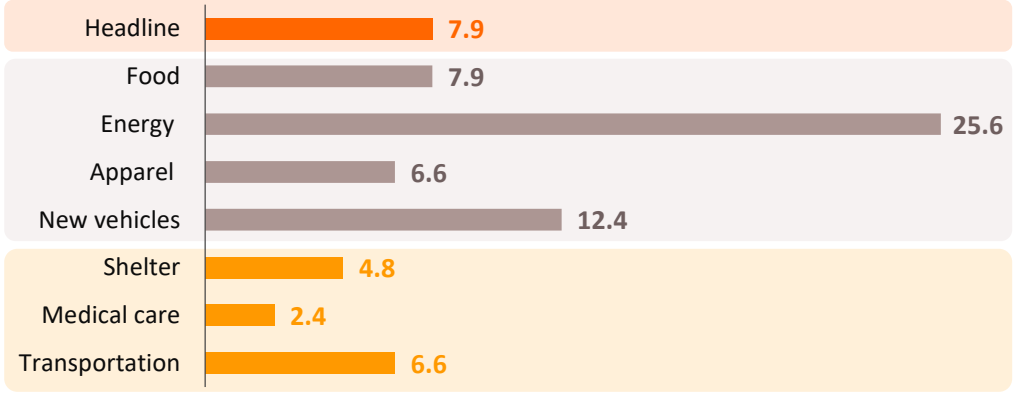
Labor market tightness and real hourly wage



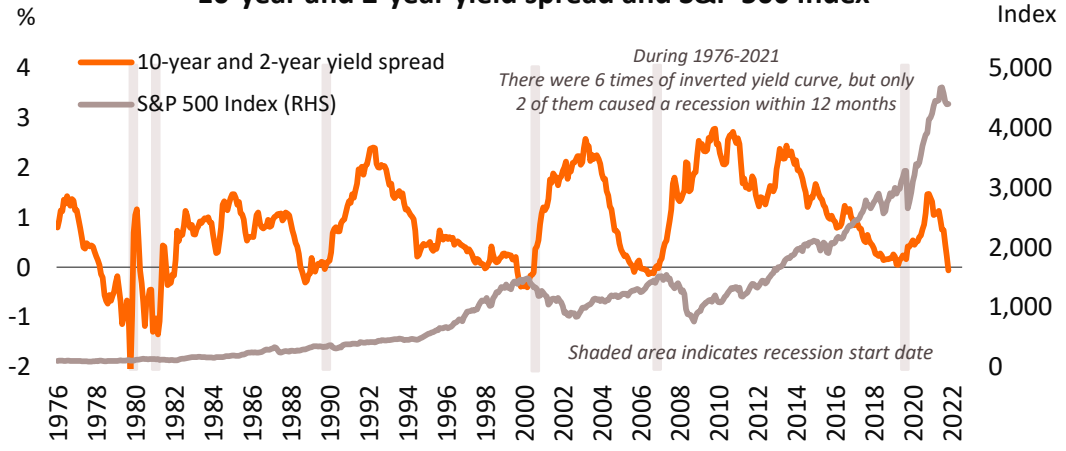
Fed balance sheet and Probability of recession



February CPI by category (% YoY)



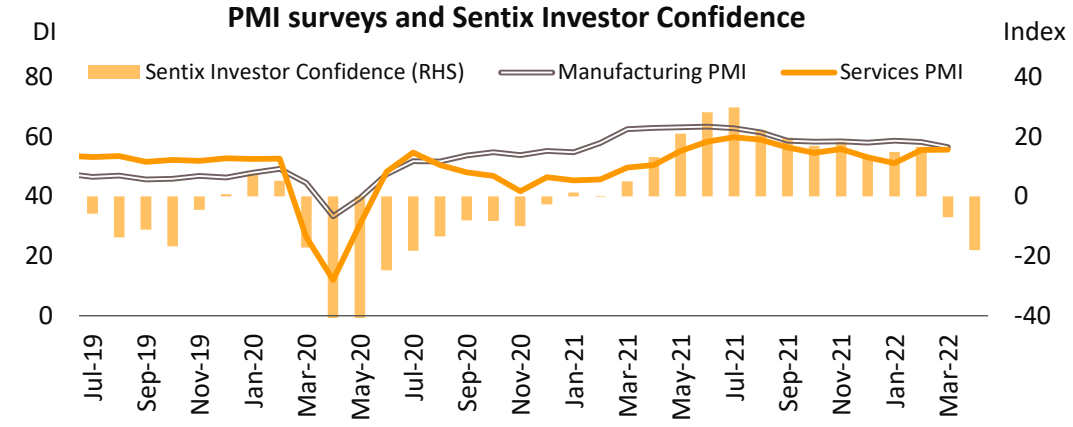
10-year and 2-year yield spread and S&P 500 Index

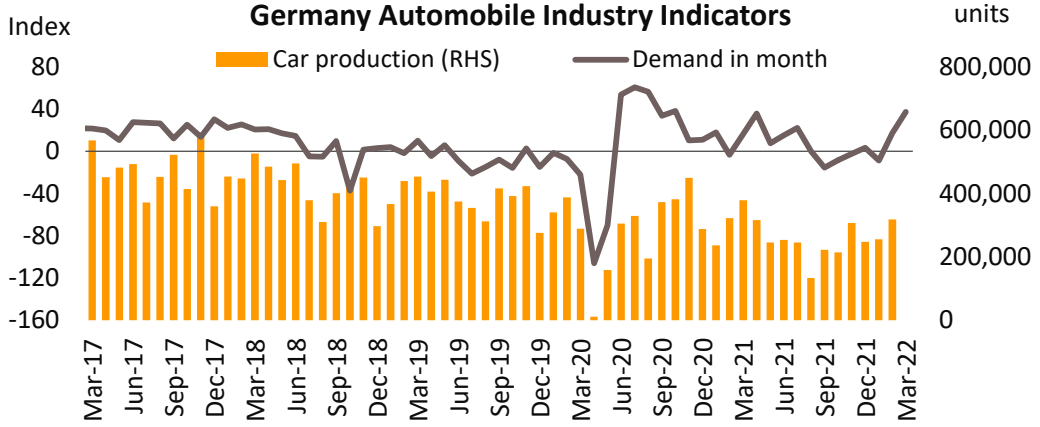


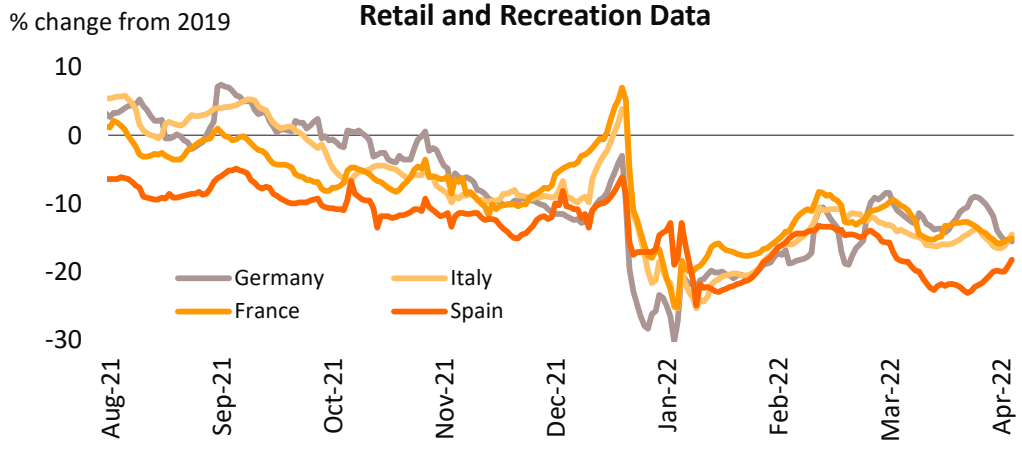
Source: Federal Reserve, New York Fed, CNBC, BLS, Bloomberg, Krungsri Research

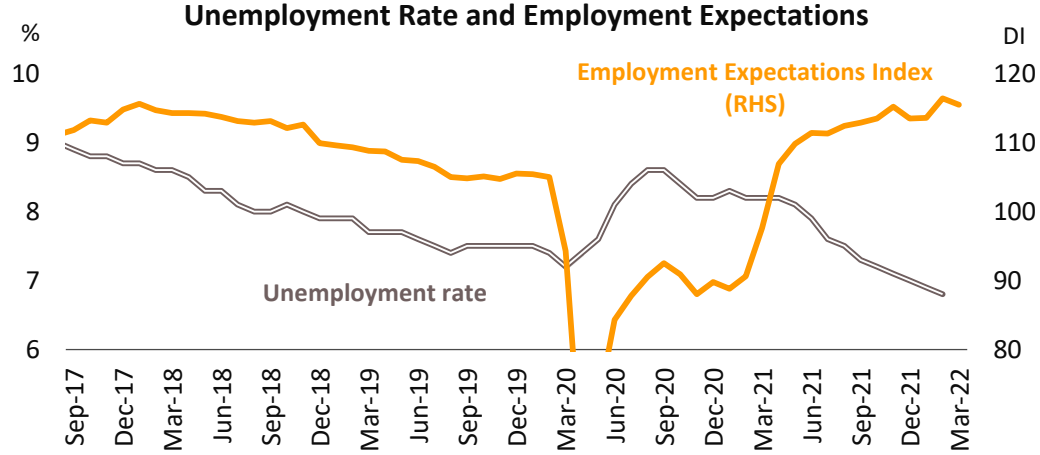
Europe: Economic recovery will be delayed by war, supply chain disruptions, and weaker spending power

The Ukraine war is threatening Eurozone economic recovery through various channels, including weaker sentiment, supply disruptions, and tempering household demand. The war has pushed investor confidence to its lowest since late-2020. **Manufacturing PMI fell in March to a 14-month low as factory orders slowed. Supply chains are being disrupted again and is hurting the economy**, especially the automobile industry in Germany which relies on intermediate inputs from Russia and Ukraine. Despite improving demand for cars, the recent bottlenecks would limit production and supply might not catch up with demand. **In the Services sector, PMI data is stable but we see signs of slower activity in 2Q22 because of more cases with *Omicron sub-variant BA.2* and weaker aggregate demand. Recreation data showed slower mobility compared to 4Q21, led by Spain.** There is uncertainty over household income, indicated by a slump in the Consumer Confidence Index (-9.4 points) in March, which could delay spending in the services and tourism sectors. The labor market has improved with unemployment rate at a record-low, but the impacts of the war and softer demand could hurt employment expectations and nudge up jobless rate in the coming months, leading to a slowdown in consumption. Given these headwinds, **the Eurozone could see slower growth in 2Q22 with economies in several countries contracting, and recovery would be delayed.**









Source: IHS Markit, Sentix, Eurostat, Google Mobility Data, European Commission, The Germany Automotive Industry, Ifo, Krungsri Research

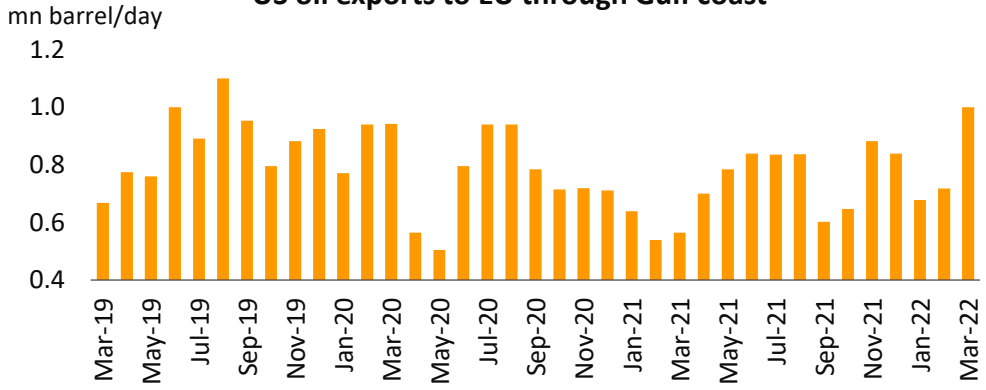
Mitigation policies could avoid an energy shock, but high inflation coupled with weaker growth would be a problem for central banks

Several countries have attempted to cushion the impact of rising energy prices through subsidies and cutting fuel tax, to prevent an economic slowdown and reduce the burden on consumers. Based on estimated output losses triggered by energy shock and the additional fund data, **these measures could alleviate energy price shocks in the major economies.** In addition, **the US has committed to supplying natural gas to Europe this year,** at least 15 billion cubic meters of LNG which accounts for half of the the EU's increasing gas import plan. The US's current oil exports to Europe has risen to 1 million barrels/day, the highest since 2019. These will help to mitigate energy supply concerns. However, **skyrocketing energy prices will still trickle down to consumers through higher inflation and could dampen spending power.** Eurozone inflation reached a new high of 7.5% in March led by higher car fuel cost and household energy bills. Uncertain gas supply from Russia could push up energy costs further. **Inflation has yet to peak. It could exceed 8% YoY in 2Q22 and push up costs for both households and businesses.** The dilemma of high inflation vs economic growth is becoming a problem for the ECB. However**, cost-push inflation in Eurozone with a weaker growth outlook would induce muted policy reaction in the near-term, in contrast with other aggressive central banks. Given the Eurozone economy is expected to start to recover from the war impact in 2H22, the ECB might gradually wind down asset purchases in 3Q and start to hike rates in December by 25 bps, followed by one more in March next year.**

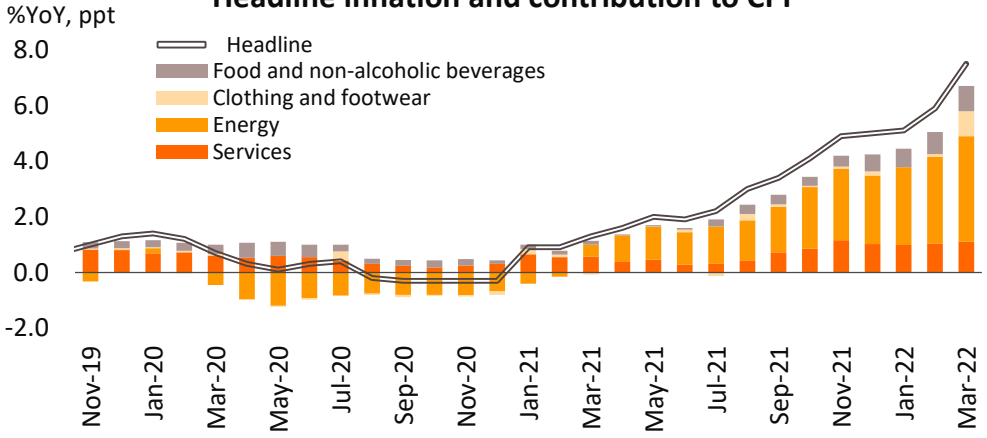
Plans to mitigate rising energy costs

Country	% of output losses	Additional fund (EUR bn)	Measures
France	0.2%	€26 bn (1.1% of GDP)	• 15 cent per litre fuel discount • Postponed tax and payroll charges for firms
Germany	0.3%	€ 15 bn (0.4%)	• Cut fuel tax for 3 months by 30 euro cents for gasoline • One-off energy tax-relief payment of €300
Spain	0.15%	€ 16 bn (1.3%)	• Cut fees for new electricity supply contracts • Soft loans and measures to cap rental increases
Italy	0.3%	€ 8.5 bn (0.5 %)	• Cut cost of fuel paid at pump by at least 0.15 euros

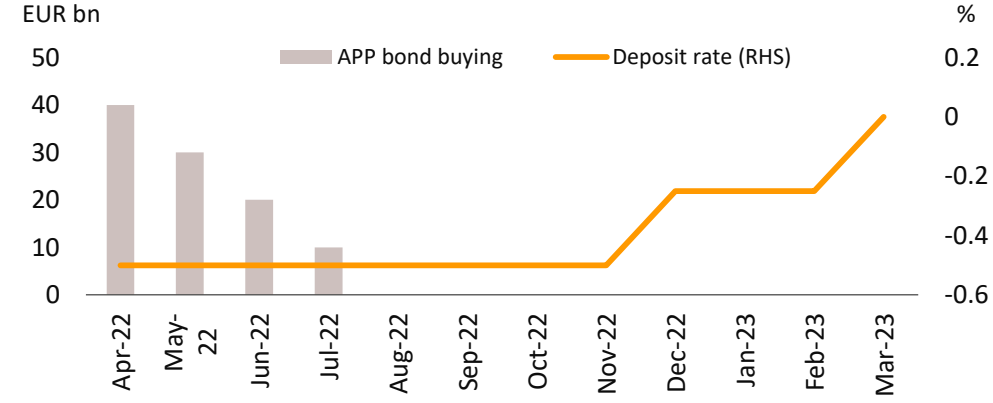
US oil exports to EU through Gulf coast



Headline inflation and contribution to CPI

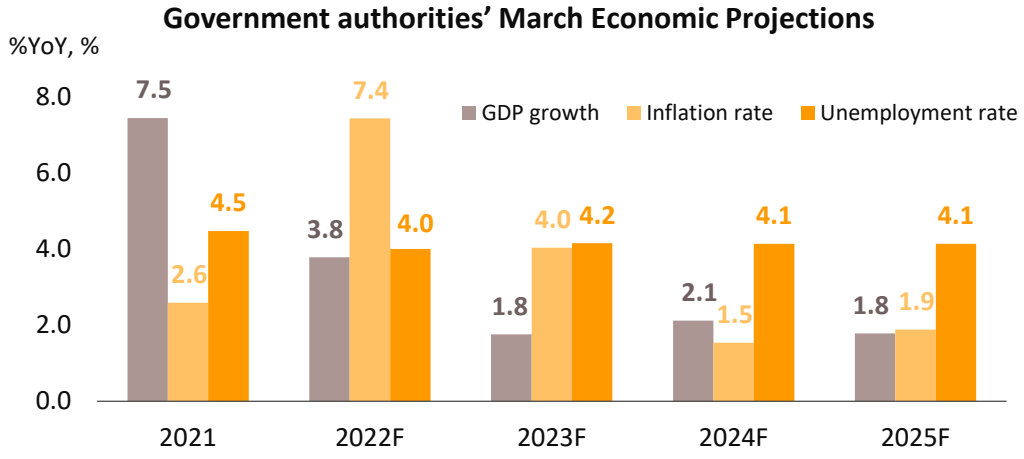


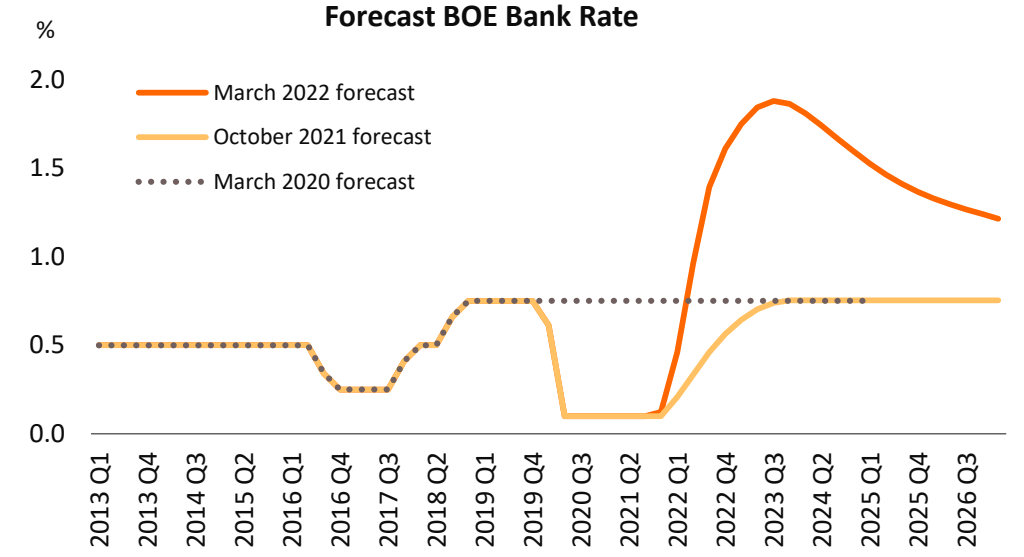
Forecast of ECB's monthly bond purchases and interest rates

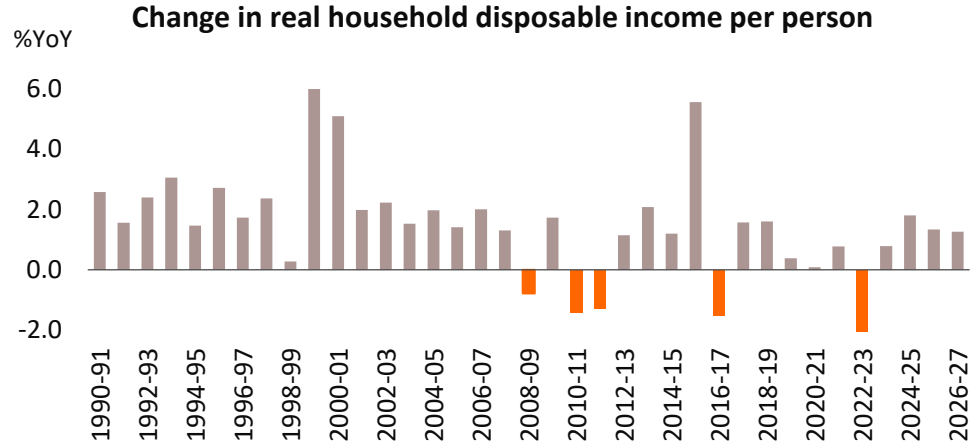


Source: Conseil d'Analyse Economique, Government authorities, Eurostat, ECB, Bloomberg, Krungsri Research

UK: BOE will continue to tackle inflation by hiking rates in May, but recession fears could limit the magnitude of hikes in 2H22







Source: ONS, BOE, OBR , Eurostat, Bloomberg, Krungsri Research

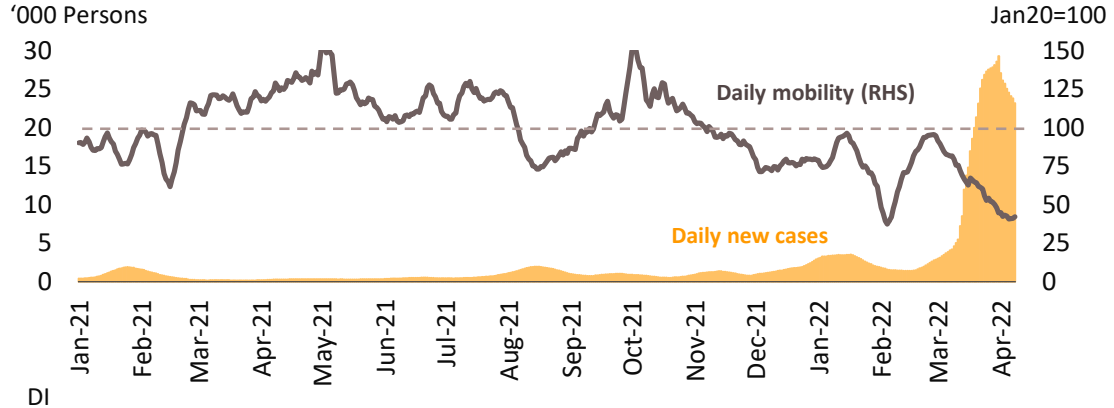
Krungsri Research's view

- **Despite few direct trade links with Russia, the UK economy will be affected by rising energy prices.** Russia accounts for just 1.0% of goods and services trade, while UK imported about 13% of total fuel from Russia, less than other European countries. **Nonetheless, any disruption to Europe's energy supply could increase wholesale prices in the UK.**
- **The UK economic activities returned to pre-Covid level in late 2021, with GDP expanding 7.4% in 2021 after a devastating 2020. But this strong performance is losing momentum due to war risks.** Based on latest forecasts, fuel cost will push up UK inflation significantly to 7.4% in 2022. This could squeeze standards of living. **Household real income is expected to drop in 2022 and might only recover in 2024. This would reduce demand, dampen consumption, and increase risk of a technical recession this year.**
- Against this backdrop, it would be tough for the BOE to manage price stability as well as economic growth. **The solid labor market and declining unemployment rate this year would allow the central bank to hike rates by 25 bps in May to ease inflation risks. However, they might deliver up to 2 hikes only in 2H22 due to concerns over recession and higher borrowing costs. Higher rate would burden any fiscal policy to support growth**. The government has already cut fuel tax and raised the chargeable income threshold, which could partly offset rising prices and reduce tax burden. But additional measures are needed to prevent the economy from contracting in 2022.

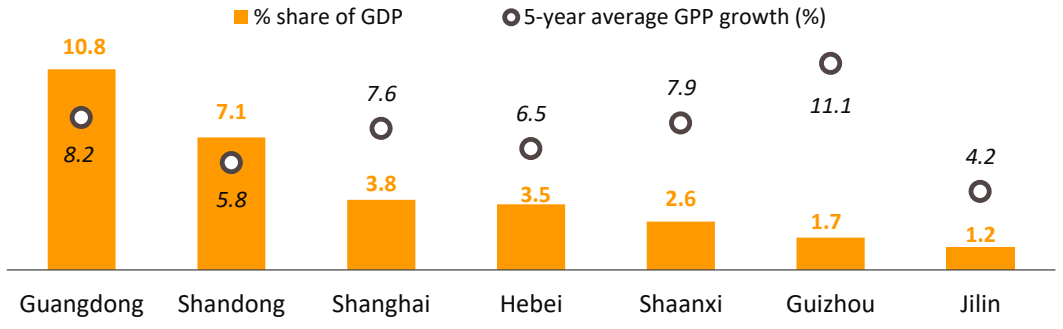
China: Shocks from extended lockdowns following the biggest outbreak since 2020 will drag economic growth in 1H22

The Chinese economy is showing signs of further slowdown in 2Q22 following recent outbreaks driven by domestic transmission of the Omicron variant and extended zero-COVID policy. Daily cases are at a record high of over 20,000 since COVID-19 erupted in 2020. The subsequent lockdowns have hurt production and consumption in several key economic areas, which together account for 30.7% of GDP, and the effects have spilled over to other parts of the country. High-frequency data indicate economic activity is at its lowest since the pandemic started in 2020. In March, the Official Composite PMI slipped to 48.8, staying under the 50-point waterline for the first time in 7 months. Both Manufacturing and Non-manufacturing PMI data has slipped into recessionary territory for the first time since February 2020. Moreover, port congestion has worsened in February after authorities stepped up intensive surveillance and epidemiological investigations to prevent imported infections, causing container throughput to drop to a one-year low. The reimposition of lockdown in Shanghai, one of the most populous mega cities and gateway to maritime trade routes, since 28th March will exacerbate supply chain disruptions globally. **Looking ahead, the extended lockdowns and lingering effects as well as Ukraine crisis are expected to nudge down growth in 1H22.**

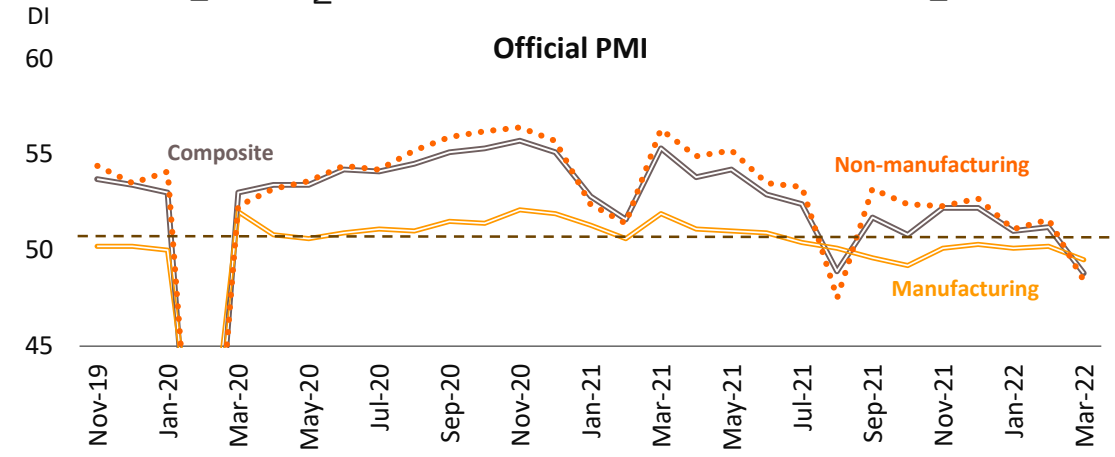
Daily new cases & Mobility data



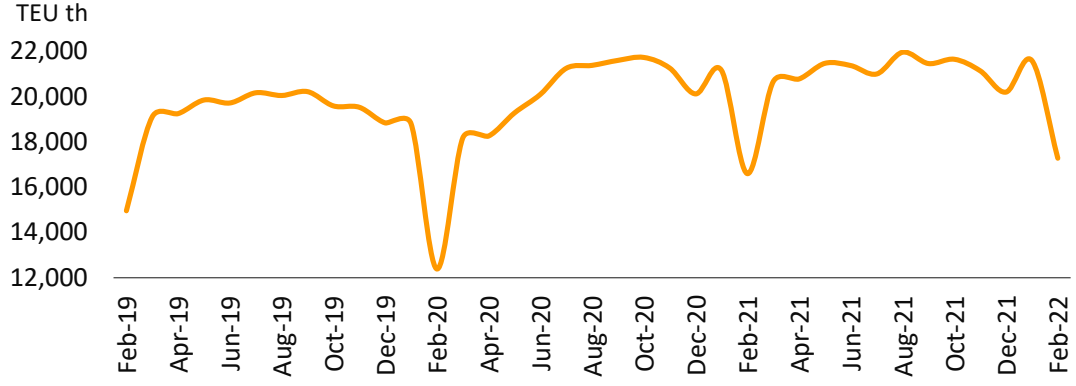
Economic contribution of areas under lockdown



Official PMI



Chinese ports container throughput

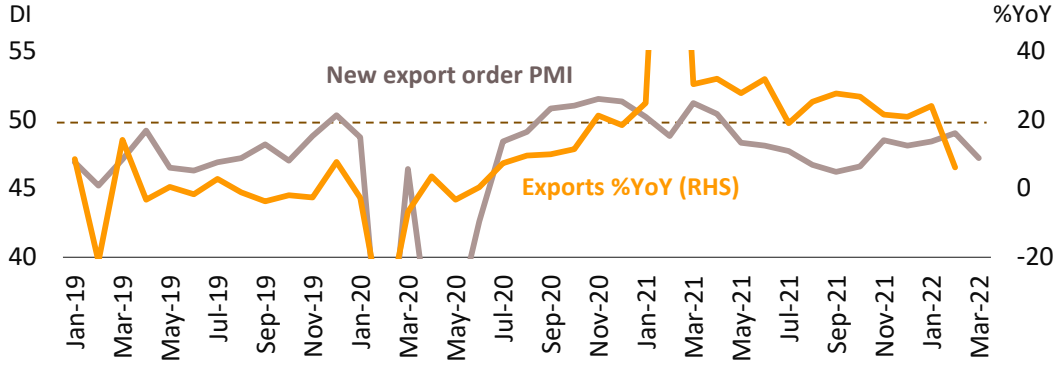


Source: National Health Commission, National Bureau of Statistics, CEIC, Reuters, Bloomberg, Capital Economics, Krungsri Research

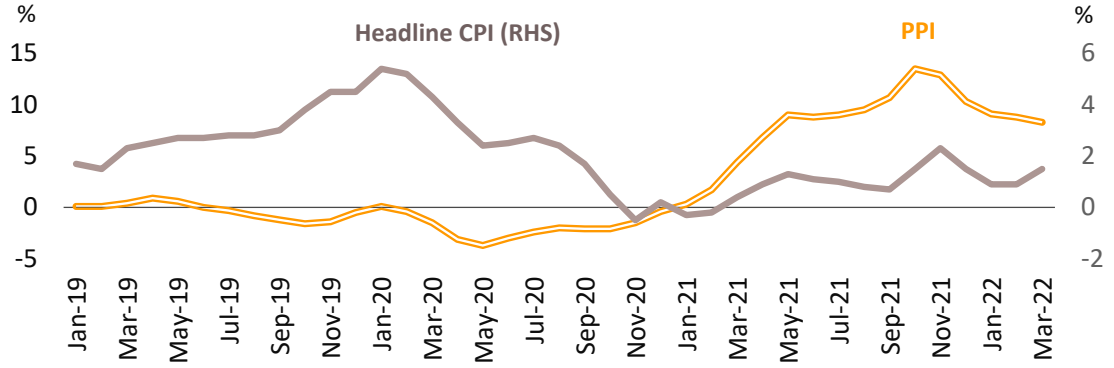
Signs of weakening external demand triggered by Ukraine crisis, impact on inflationary pressure will be manageable

The extended Russia-Ukraine war and intensifying sanctions have started to hurt China's economy. Escalating tensions, supply disruption and soaring commodity prices have weighed on the global economy and international trade, which would in turn dampen exports. The was that erupted in late-February is likely to worsen exports to key trading partners as the March New Export Order sub-index of Manufacturing PMI has dropped to the lowest level since November. In terms of price shock, CPI inflation has risen following cost pass-through for some items in the household consumption basket, especially transportation, utilities & fuel and services, though PPI inflation edged down from last year's high base. Noticeably, the rising price pressure was concentrated only in some categories, while demand-pull inflationary pressure is still subdued, which could not lead to broad-based inflation. To sustain an economy that is still experiencing weak domestic demand amid external risk factors, authorities have introduced additional fiscal measures, including stepping-up infrastructure investments, and implementation of tax and social transfer reduction measures. **Looking forward, these fiscal measures might help to mitigate a sharp slowdown but it would still be challenging for the government to meet its 5.5% GDP growth target.**

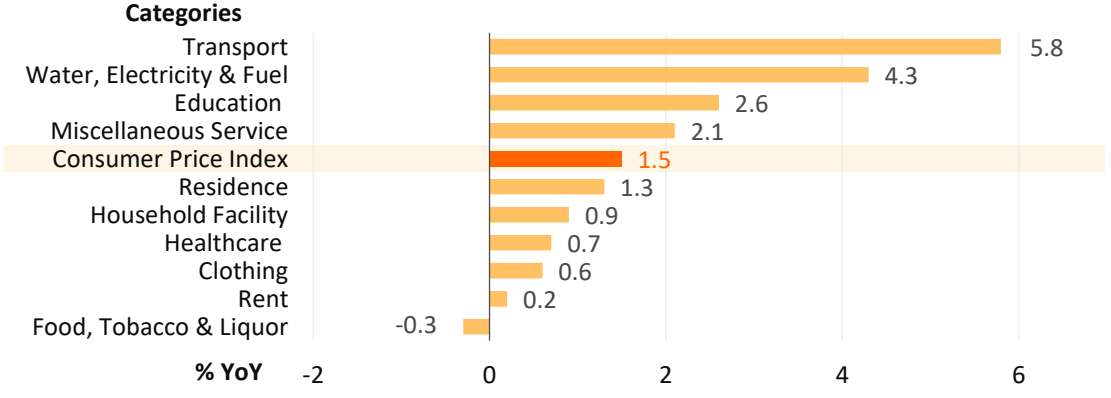
Exports & New export order sub-index



Consumer & Producer Price Indices



Consumer Price Index (as of March 2022)



Additional fiscal measures to stimulate economy

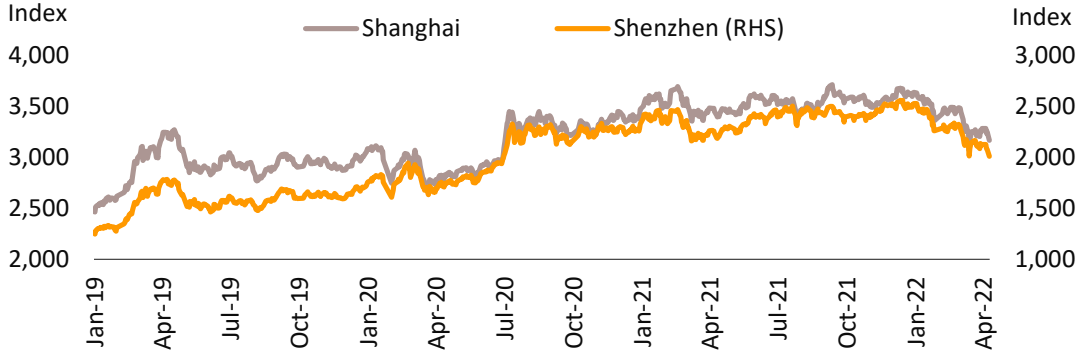
2022 Infrastructure investment ramp-up (worth CNY14.8trn)	Local governments will step up infrastructure investments in 2022, to develop urban buildings & industrial parks, transportation facilities, and low-cost housing
Tax, fee and social transfer measures (worth around CNY2.5trn), expected to start in 2Q22	**VAT exemption** Value-added tax (VAT) will be exempted for small businesses which monthly sales revenue is less than CNY150,000 yuan **Income tax reduction** Corporate income tax will be halved for businesses which annual tax payment is less than CNY 3mn **Fee cut and rent exemption** Administrative fees will be cut and SMEs' rental payment for government-owned properties will be exempted. **Pension contribution suspended** Employees' payment for retirement benefits will be postponed.

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

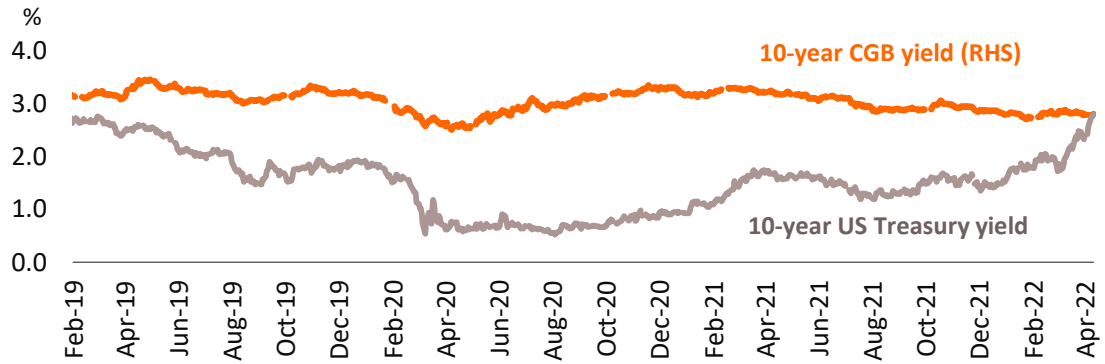
Escalating risks to economy and financial market implies more accommodative monetary policy stance

Several lingering risks have overshadowed China's economic growth and financial markets. Fears of a further economic slowdown, coupled with extended lockdown have triggered strong equity sell-off since early-March. In addition, the US-China policy divergence has caused yield spread of 10-year CGB over US Treasuries to turn negative in mid-April for the first time since June 2010, which triggered capital outflow and caused the Chinese yuan to depreciate. Meanwhile, the People's Bank of China (PBOC) has committed to implementing concrete measures that will protect against escalating risks to the economy. The central bank has urged commercial banks to provide more credit, reflected by easing financial conditions which has caused credit growth to rebound to an 8-month high of 10.6% YoY in March. On 15 April, the PBOC cut commercial banks' reserve requirement ratio (RRR) by 25 bps, effective from 25 April, after two cuts of 50 bps each in July and December 2021. Authorities have also pledged to focus on stimulus to ensure economic growth and have introduced additional measures to boost the domestic economy and promote financial stability. **We expect China to ease monetary policy further by cutting policy rate by another 20-30 bps in 2Q22. This would be a negligible move given limited room to maneuver monetary policy but it would help to avoid a sharp slowdown. However, it would still be challenging to meet the official GDP growth target of 5.5%.**

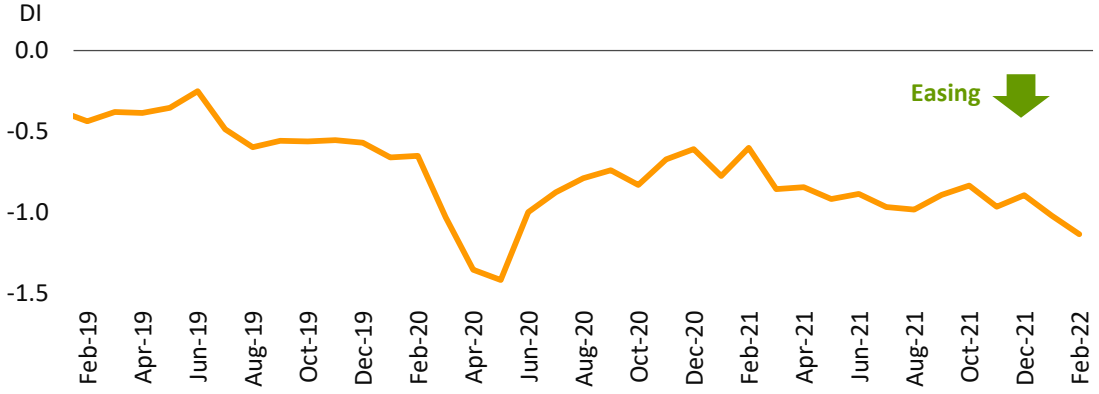
Equity indices



10-year CGB and US treasury yields



Financial Condition Index



Monetary measures to stimulate economy and mitigate economic & financial risks

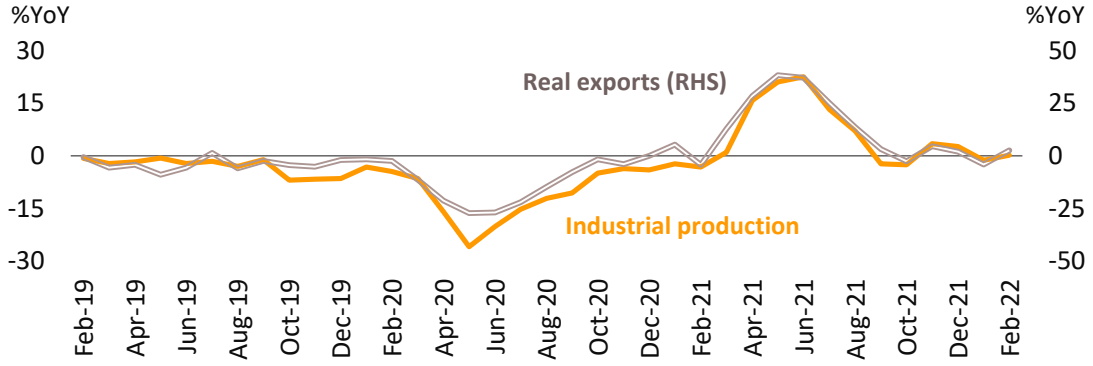
Encourage institutional investors to invest in capital market and real estate sector	Trusts, wealth management and insurance companies as well as institutional investors are urged to step up investments in stock markets and acquire Chinese real estate projects, to boost the domestic economy against several threats.
Set up "stability fund"	The People's Bank of China (PBOC) will coordinate with financial institutions to set up the "stability fund" to provide liquidity support for troubled financial firms.
Adopt a more market-friendly regulation to promote competition and curb speculation	Authorities vow to employ more "standardized, transparent and predictable" regulations and "actively introduce policies that benefit markets".
General & targeted monetary policy	- A 25-bp reduction in RRR , effective from 25 April 2022 - A possible cut in interest rate by 20-30 bps during 2Q22

Source: The People's Bank of China (PBOC), CEIC, Bloomberg, Reuters, Krungsri Research

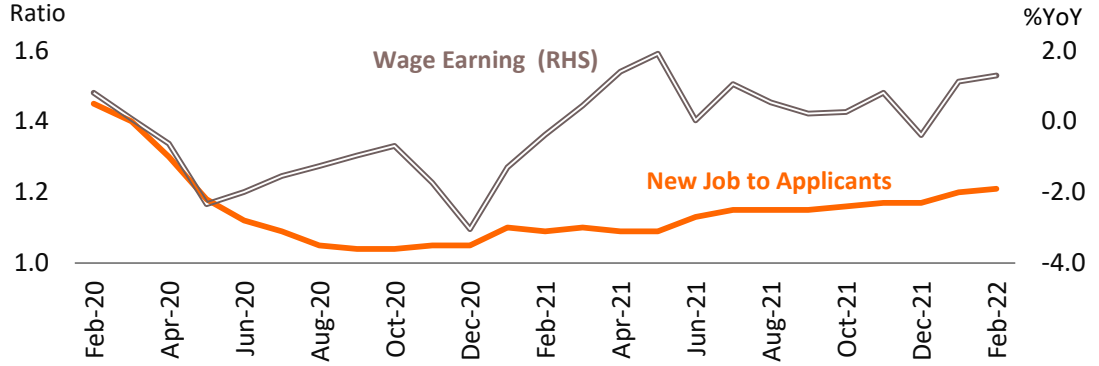
Japan: Expect a volatile recovery with several downside risks, including risk to global trade, supply disruption, and earnings

The economy has shown positive signs since daily new Covid-19 cases started to drop. In February, industrial production rebounded in line with with a mild improvement in export volume mainly due to easing supply bottlenecks and improving external demand as Covid-19 cases dropped worldwide. The resumption of domestic economic activities also helped to strengthen the labor market with more job openings and rising wages. The Composite PMI picked up in March, implying better performance in both Manufacturing and Services PMI data after the gradual removal of the quasi-state of emergency. **However, the encouraging indicators could be short-lived and the economy could be pressured by negative factors in 2Q22,** including: (i) the prolonged Ukraine war and more severe sanctions, which would slow down the global economic recovery and dampen international trade; this is reflected by a drop in the new export orders component in March PMI, (ii) worsening supply chain disruption triggered by the Russia-Ukraine conflict, and the worsening outbreak in China would exacerbate shortages and disrupt transportation, and (iii) pressure on earnings as businesses would find in increasingly difficult to pass on rising commodity costs. These concerns are reflected by a drop in Tankan business sentiment for the first time in 5 quarters, in 1Q22. **Looking ahead, economic recovery will be bumpy and trail behind that in other advanced economies. This suggests Japan would need more accommodative policies to cushion the headwinds.**

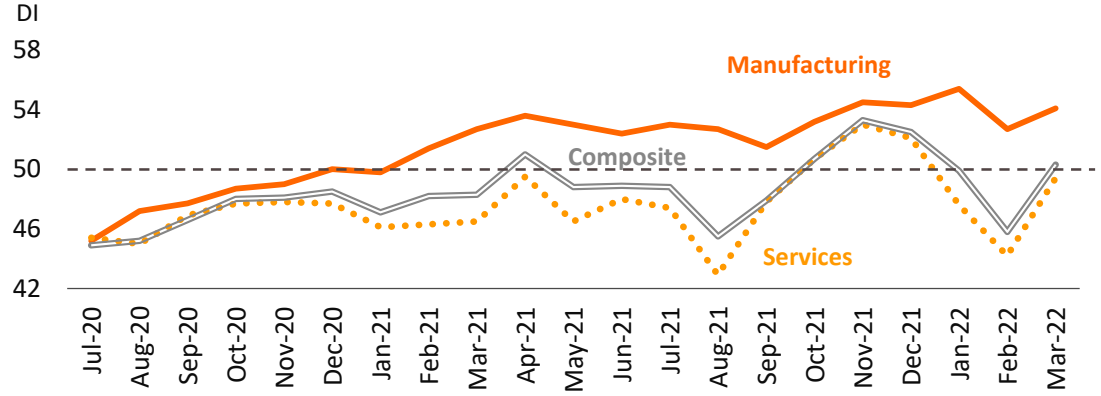
Industrial Production & Real Exports



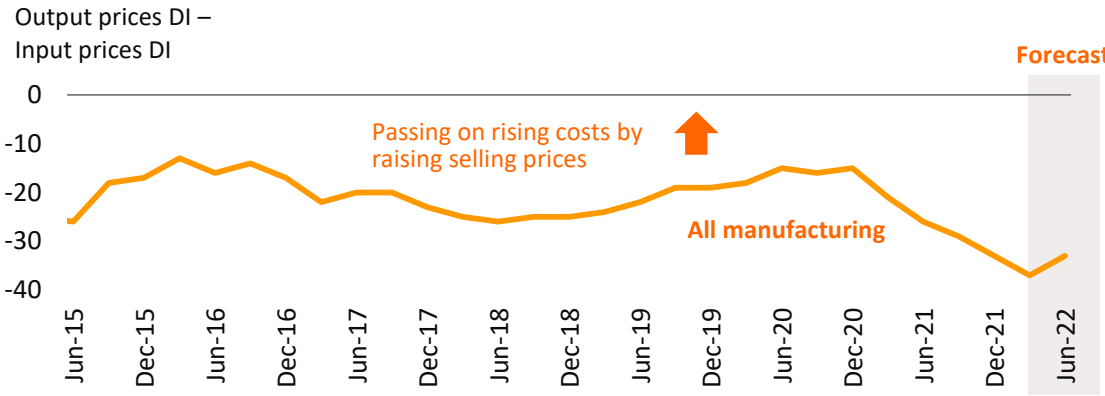
Labor market indices



Jibun PMI



Ability to pass on higher costs

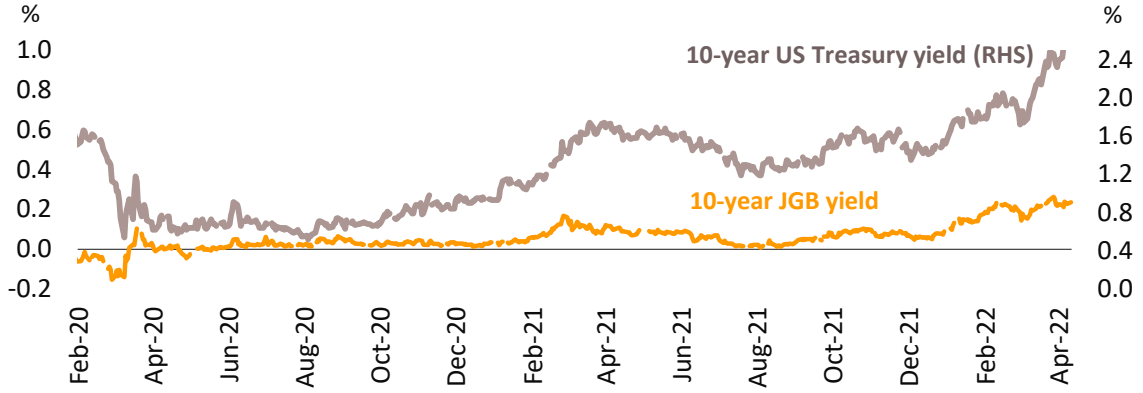


Source: Cabinet Office, Jibun Markit, Bank of Japan, CEIC, Japan Research Institute, Krungsri Research

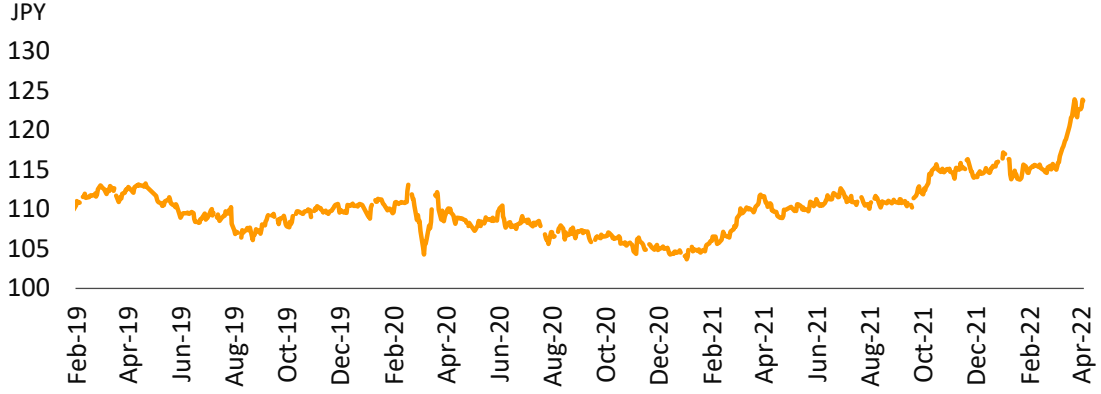
Despite expecting inflation to exceed 2% this year, the BOJ is unlikely to tighten monetary policy, will maintain accommodative stance

Apart from higher risks to global trade, supply chains and corporate earnings, the Ukraine crisis has created greater volatility in the financial sector as well as significant upward pressure on inflation. The widening interest rate differential with its US counterpart has led to a huge selloff in JGB, which led 10-year JGB yield to rise above ±0.25% target range. The widening gap between US and Japan bond yields has caused the Japanese Yen to depreciate; that will benefit exports but would have negative consequences on inflation through higher import costs. The effect of the Ukraine war has also elevated cost-push pressure on inflation. In February, headline inflation rose to 0.9%, almost at a 3-year high, due mainly to a jump in energy and food prices. Headline inflation is expected to soar above the 2.0% official target in 2Q22 when the low-base effect (reduction in cell phone fess since April 2021) starts to kick in. But despite rising risks to inflation, the BOJ is unlikely to tighten monetary policy because demand-pull pressure remains weak as inflation is currently concentrated in the food and energy categories. On the fiscal front, the government has prepared to launch extra stimulus package to alleviate the impact of rising household expenses and production cost. **Given uncertainties over the still-fragile recovery and economic activity will remain below pre-pandemic level in 1H22, Japan is likely to keep the expansionary policies to support economic recovery.**

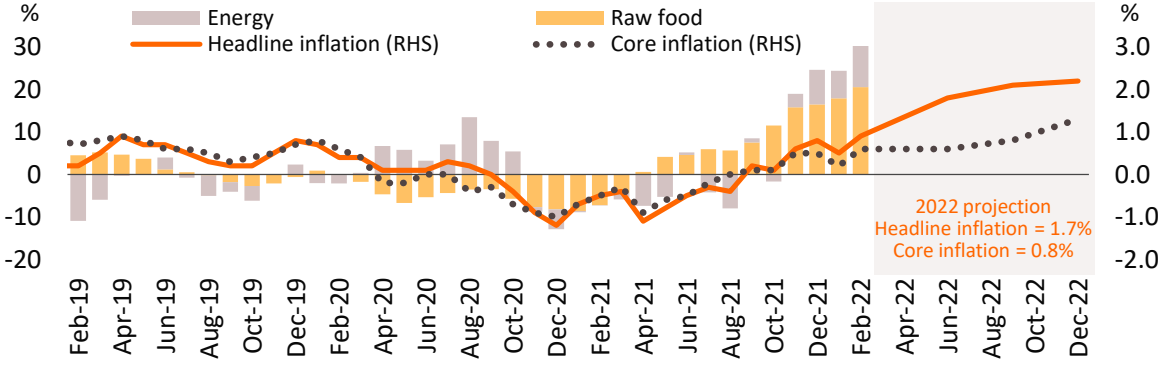
10-year JGB and US treasury yields



Exchange rate (JPY/USD)



Inflation



Fiscal measures to ease Ukraine crisis impacts and stimulate economy

Current measures	Raised maximum subsidy to JPY 25 per liter paid to oil refiners from March to end-April in order to mitigate a sharp rise in gasoline prices
Expected additional measures	**Energy tax cut:** Reintroduce "trigger clause" designed to trim taxes on gasoline when the price stays above JPY160 per liter for 3-months (on 11 April, gasoline price was JPY 169.9 per liter)
(Possible launch: May-June 2022)	**Measure to help pensioners:** One-off JPY 5,000 payment for individual pensioners, except those who are exempted from residential taxes and had received JPY100,000 previously.
(Expected Size: JPY3-5trn or 0.6-0.9% of GDP)	**New phase of cash handout program:** Relaunching cash aid for households, small enterprises and farmers

Source: Bank of Japan, CEIC, Bloomberg, Reuters, Capital Economics, Kyodonews, Asahi Shimbun, Krungsri Research

Thailand: Bracing for a surge in inflation amid an uneven recovery

- **Despite reopening effects and stimulus measures, Thailand's economic recovery is being challenged by spillover effects of the Russia-Ukraine crisis impact on global growth, international trade and tourism, and inflation risk. China's strict containment measures could disrupt global supply chains and domestic manufacturing production.**
- Domestic economic activity could see limited growth given the high number of Covid-19 cases, which could rise again after Songkran holidays. Despite rising farm income, private consumption growth could be weighed down by soaring cost of living.
- **Headline inflation rate surged to a 13-year high in March and is likely to stay above the BOT's 1-3% target range the rest of this year.** Major contributors to inflation would be rising price of food-at-home and vehicles.
- Different consumption baskets indicate uneven inflation burden across households. The low-income groups would suffer the most from soaring inflation because of high weighting of food in this group's consumption basket.
- Our analysis indicate **the lowest-income group's inflation burden this year would be about 6 times higher than last year.** However, the high-income groups would see only a moderate increase in inflation burden this year. Declining real wages in low-income households will worsen the gap in spending power.
- To assist low-income households and support economic recovery, **the government needs to pick the appropriate policies to provide a safe way forward, such as increasing employment of unskilled labor and boosting business investment through fiscal measures, which are more effective than hiking minimum wage.** A 10% rise in the minimum wage would increase real wages in only some industries but it would hit many sectors, especially labor-intensive industries. The overall impact would reduce Thai GDP growth by 2.4ppt and add 0.5ppt to inflation rate.
- Even if inflation exceeds target, the MPC is likely to maintain policy rate to support economic recovery. **We expect monetary policy to focus on managing inflation expectations.**

Krungsri Research Forecasts for 2022

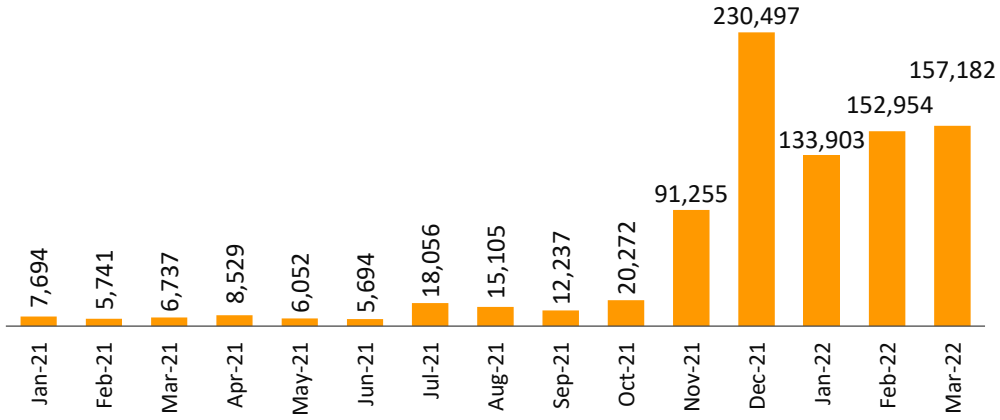
Krungsri Research Forecast		2020	2021	2022F
GDP growth	YoY (%)	-6.2	1.6	2.8
Private Consumption Expenditure	YoY (%)	-1.0	0.3	3.0
Government Consumption Expenditure	YoY (%)	1.4	3.2	-0.5
Private Investment	YoY (%)	-8.2	3.2	3.3
Public Investment	YoY (%)	5.1	3.8	3.5
Nominal Exports in USD (f.o.b.)*	YoY (%)	-6.5	18.8	2.6
Nominal Imports in USD (f.o.b.)	YoY (%)	-13.8	23.4	8.5
Current Account Balance	USD, bn	20.3	-10.6	-4.6
Tourist Arrivals	Mn, persons	6.7	0.4	5.5
Headline Inflation	YoY (%)	-0.8	1.2	4.8
Policy Interest rate (end of period)	(%)	0.50	0.50	0.50
Dubai crude price - period average	USD/bbl	42	69	98

* Customs-based export growth forecast: +2.1% in 2022

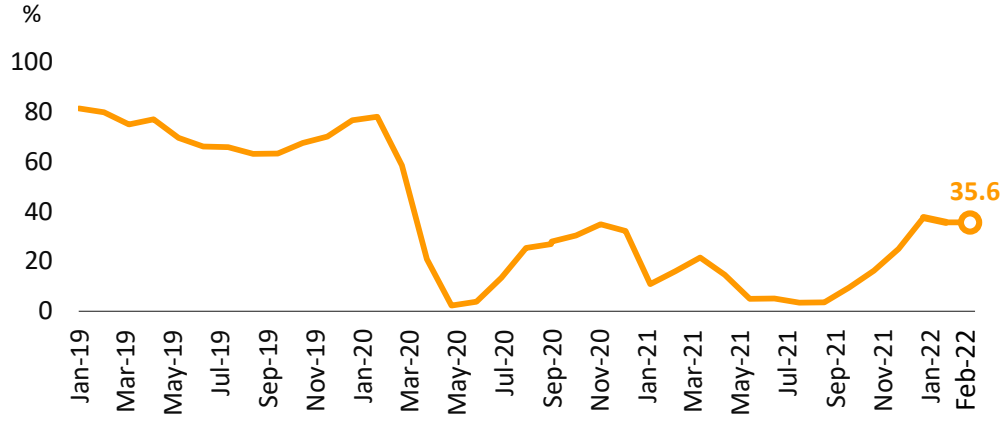
Source: NESDC, BOT, MOC, MOTS, Bloomberg, Krungsri Research

Tourism sector had been mainly supported by tourists from Europe in 1Q22, so recovery may be hurt by the Russia-Ukraine crisis

Foreign tourist arrivals (persons)



Nationwide average occupancy rate



Note: data in March 2022 (preliminary from TAT

Source: TAT, MOTS, Krungsri Research

Foreign tourist arrivals and receipts in 1Q22

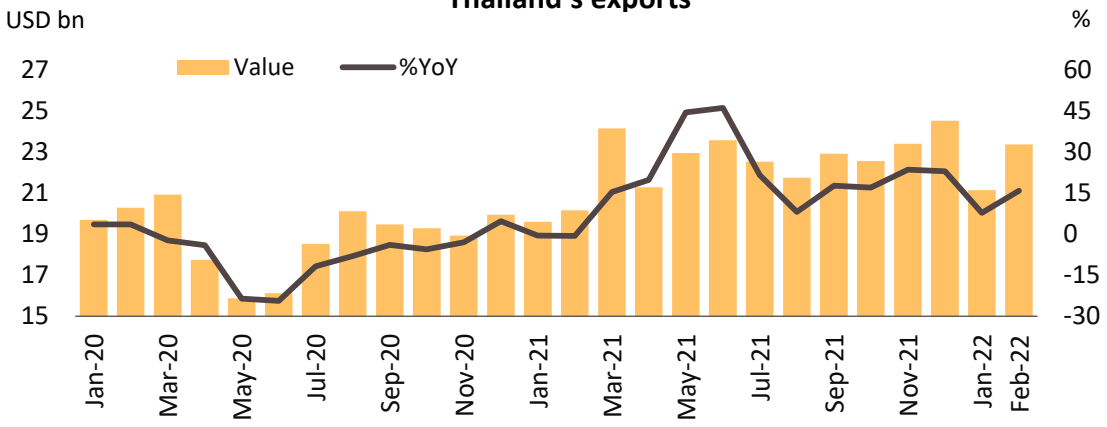
Region	Number of foreign tourist			Revenue from tourist		
	persons	% YoY	% QoQ	THB mn	% YoY	% QoQ
East Asia	85,362	+1,538	+65	4,674	+892	+56
- ASEAN	45,471	+2,778	+84	2,139	+1,526	+61
- Northeast Asia	39,891	+999	+47	2,535	+646	+52
Europe	365,888	+2,596	+24	21,894	+1,775	+14
US	33,875	+1,110	+0	2,691	+773	-10
South Asia	17,655	+3,104	+66	1,011	+1,784	+42
Ocenia	14,704	+2,578	+65	1,232	+1,794	+59
Middle East	23,069	+2,646	+8	2,361	+1,905	+15
Africa	3,486	+868	+106	309	+600	+110
Total	**444,039**	**+2,101**	**+30**	**34,173**	**+1,424**	**+19**

Krungsri Research's view

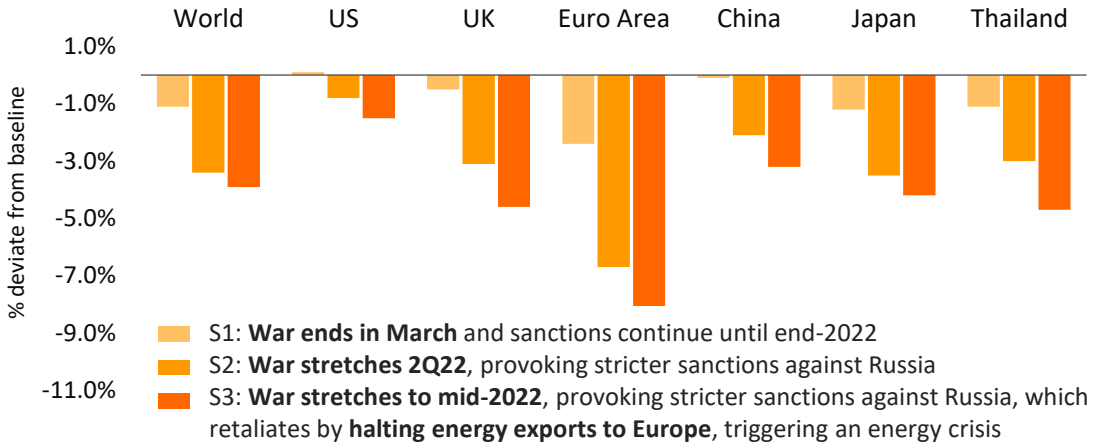
- **The Tourism Authority of Thailand estimates there were 444,039 foreign tourists in Thailand 1Q22 (+2,101% YoY) who generated** THB34,173 mn in tourism receipts (+1,424%). This was backed by easing entry restrictions for foreign tourists under the Test & Go program and holiday season in Europe. Several European countries have relaxed control measures and eased outbound travel rules and many countries in East Asia (e.g. Hong Kong, South Korea, Malaysia, Singapore and Vietnam) have reduced quarantine period for inbound travelers.
- **But the recovery in the tourism industry will be disrupted the rest of this year due to the following:** (i) the Russia-Ukraine crisis could disrupt outbound travel plans, especially from Europe, and the industry would be hit by higher energy prices and weaker global recovery; (ii) risk of new virus strains in Thailand and worldwide could prompt tighter restrictions on international travel again; and (iii) greater competition between Thailand and Asia/Southern Asia-Pacific region to grab a larger market share of foreign tourists in 2022.

Exports surged in Jan-Feb but Ukraine crisis will have visible impact soon

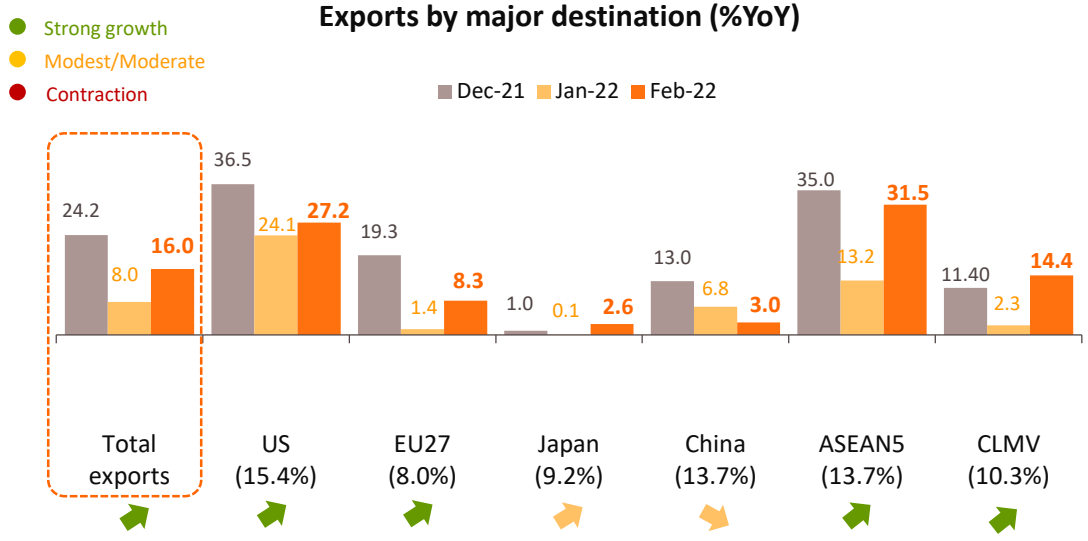
Thailand's exports



Impact of Ukraine crisis on export volumes for selected countries



Exports by major destination (%YoY)

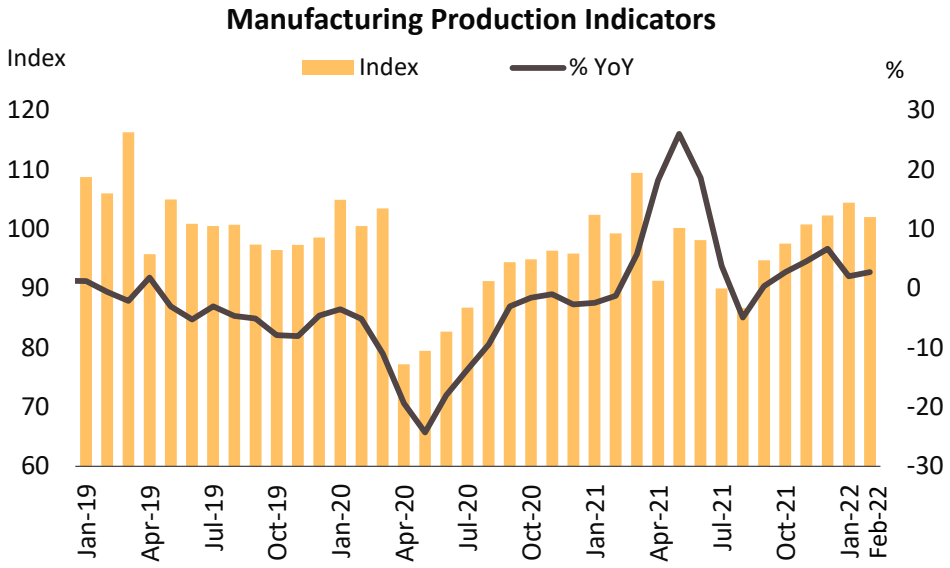


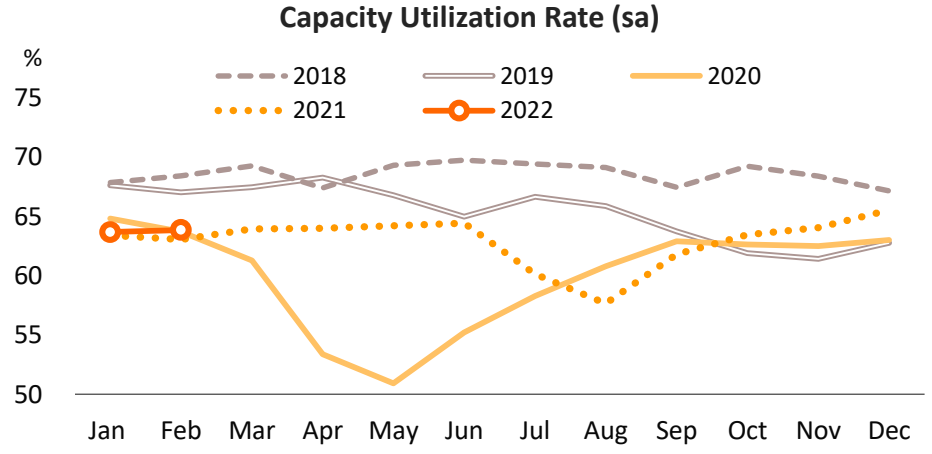
Source: BOT, MOC, Krungsri Research

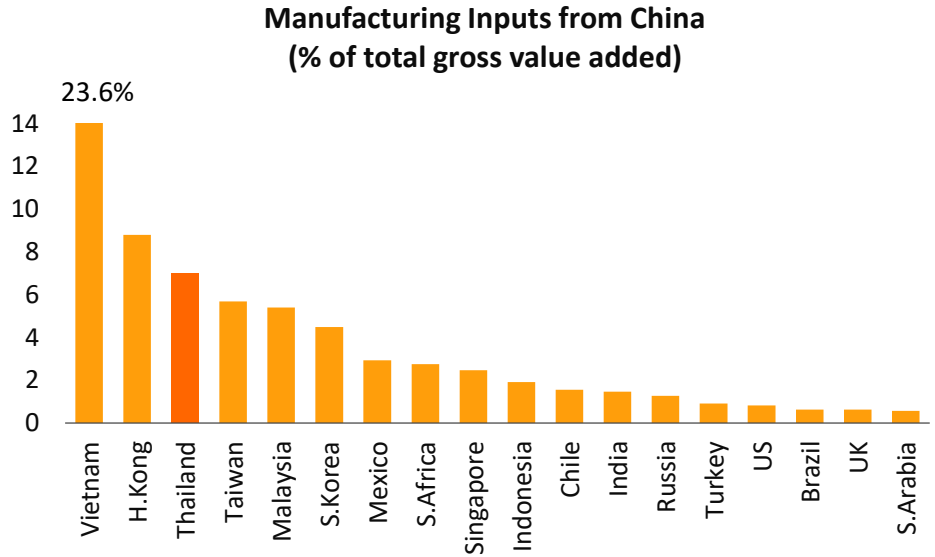
Krungsri Research's view

- **Merchandise exports grew for the 12th consecutive month in February, by 16.0% YoY to USD 23.4bn** compared to USD 21.2bn (+7.9% YoY) in January, driven by recovery at trading partners' economies. By destination, exports to ASEAN, the US and the EU grew at a faster rate while that to Japan and China continued to expand. In 2M2022, Thailand's exports booked strong growth.
- However, growth could be undermined by the Ukraine crisis. There will be limited direct impact on Thai exports but the indirect impacts could be significant because: (i) higher energy and commodity prices will push up manufacturing and transport costs; (ii) Russia's position as a major supplier of raw materials; sanctions against the country could affect a lot of industrial supply chains; and (iii) the war would hurt incomes and economic growth worldwide, especially in Europe which is one of Thailand's major export markets. **Hence, Thai exports could slow down the rest of the year. Full-year export growth is expected at only 2.6%.**

Manufacturing sector could weaken in anticipation of slower exports coupled with downside risk from supply chain disruption as a result of China's lockdown







Source: OIE, Capital Economics, Krungsri Research

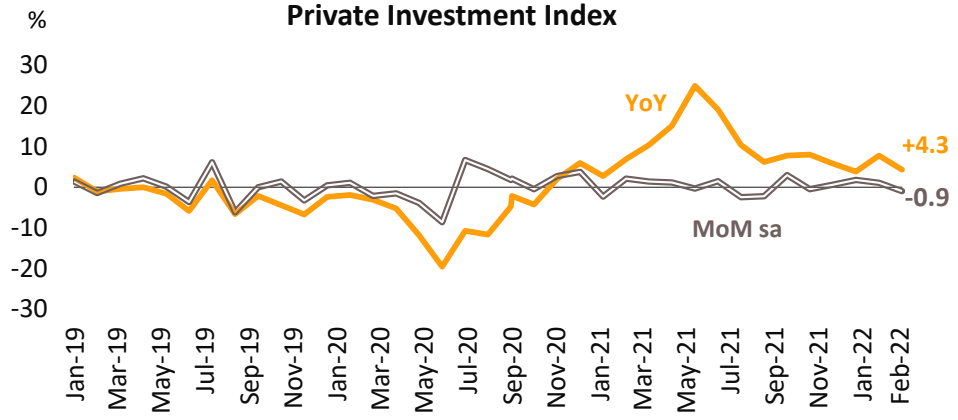
Krungsri Research's view

- **In February, manufacturing production grew 2.8% YoY, close to 2.0% in January.** Production of food and beverages, and in the petroleum segments, rose following rising domestic demand after containment measures eased. Also, production of IC and semiconductors increased amid rising global demand despite a global chip shortage. Capacity Utilization (sa) inched-up to 63.9% in February from 63.7% in January but is still below 4Q21 average of 64.3% .
- **Looking ahead, manufacturing production could be weighed down by a slowdown in exports in the wake of the Russia-Ukraine crisis and potential supply chain disruption as of result of recent lockdowns in China to contain the Covid-19 outbreak. Thailand ranks the third in terms of dependence on manufacturing inputs from China (7% of total gross value add), behind Vietnam (24%) and Hong Kong (9%).**

Private investment will recover slowly amid fears of the impact of the Russia-Ukraine crisis

Private Investment Index (PCI) grew 4.3% YoY in February, down from 7.8% in January, mainly due to a drop in capital goods imports. Construction investment was stable. In addition, the BoI reported a 6% YoY drop in investment applications to THB110 bn in 1Q22 although the number of applications rose 1% YoY to 378 projects. Business Sentiment Index (BSI) for 3-months ahead tumbled to near-50 in March because of concerns the prolonged fighting in Ukraine and sanctions against Russia would push up production costs, creating uncertainty over the business outlook. **Looking ahead, private investment growth could be weighed down by slower export growth and weaker business sentiment.**

Private Investment Index

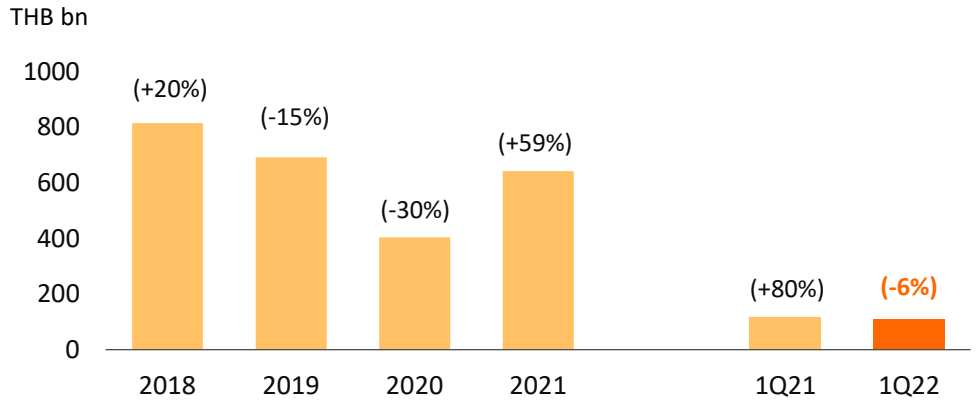


Private investment by category

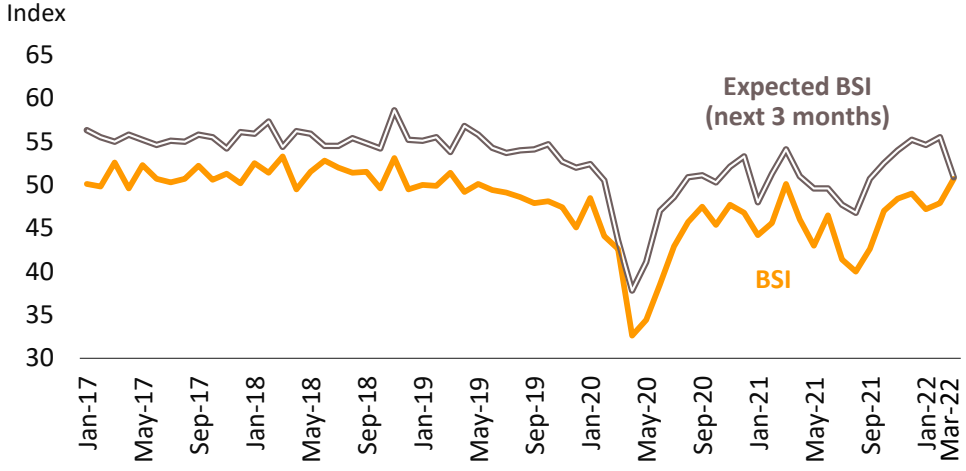
%YoY*	2020												2021												2022	
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F
Private investment																										
Construction area permitted																										
Construction material sales																										
Imports of capital goods																										
Machinery sales																										
Newly registered vehicles																										

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

Net Applications for BOI privileges



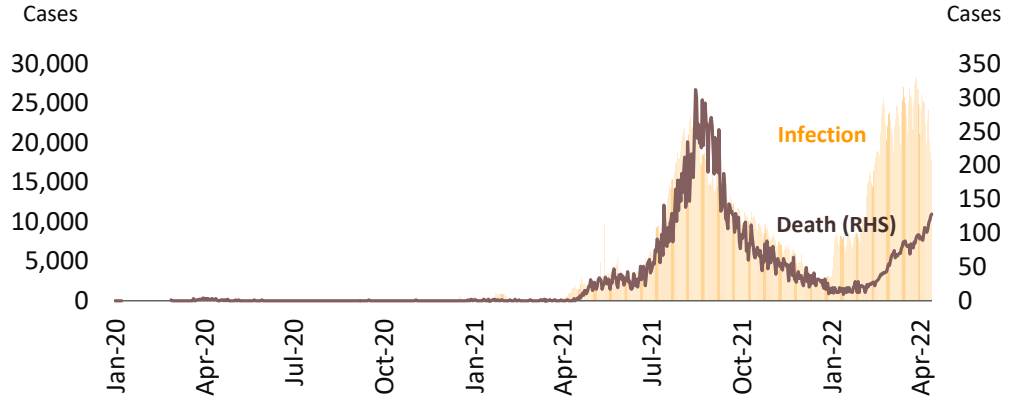
Business Sentiment Index



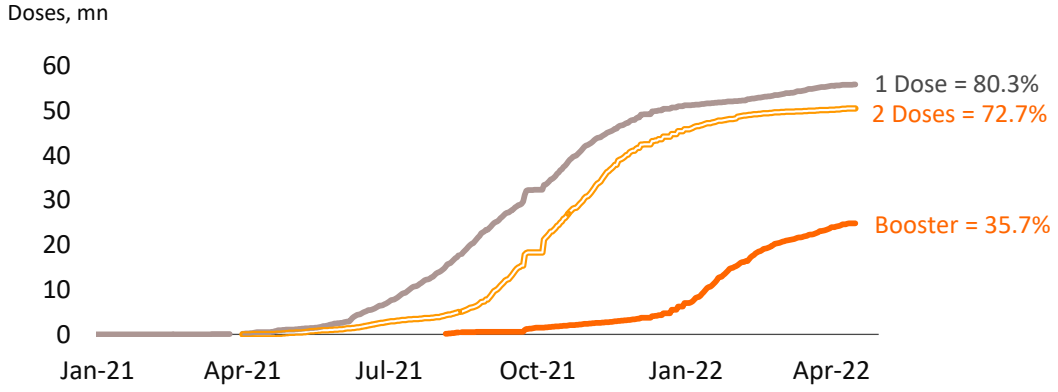
Source: BOT, BOI, Krungsri Research

Domestic economic activity could be pressured by high number of Covid-19 cases, which could increase after the Songkran festival

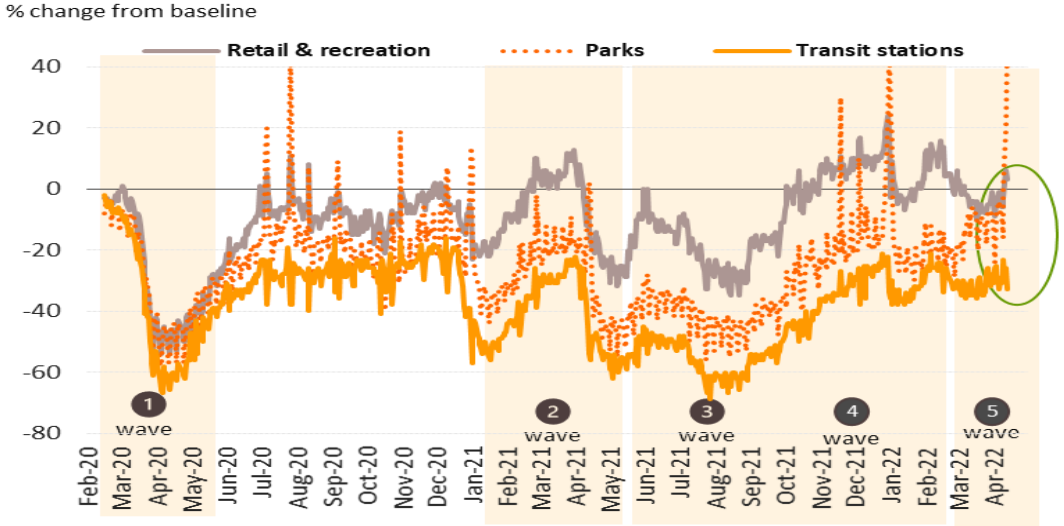
Daily Infections and fatalities (as of 16 April 2022)



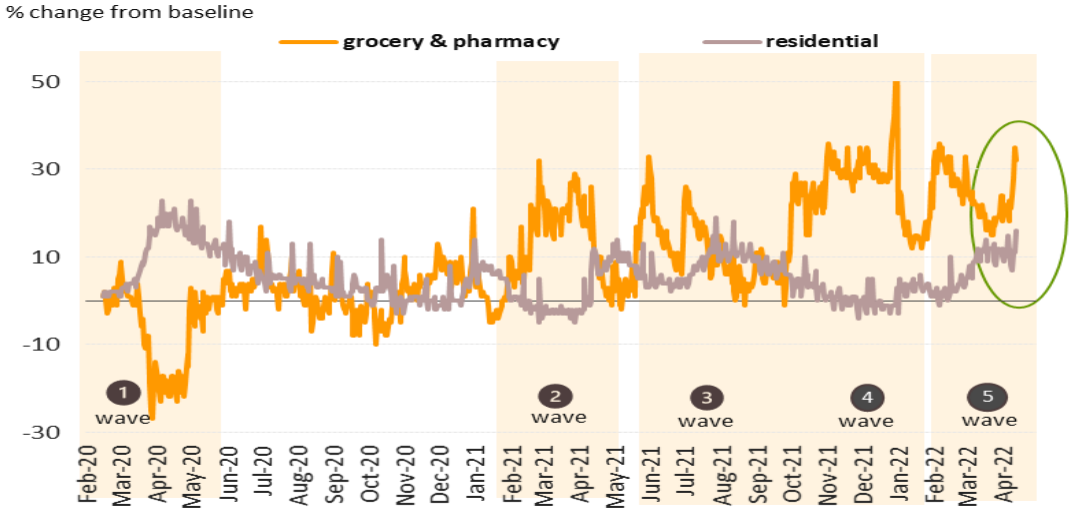
Vaccination Rate (as of 16 April 2022)



Daily Activity Indicator (as of 13 April 2022)



Daily Activity Indicator (as of 13 April 2022)

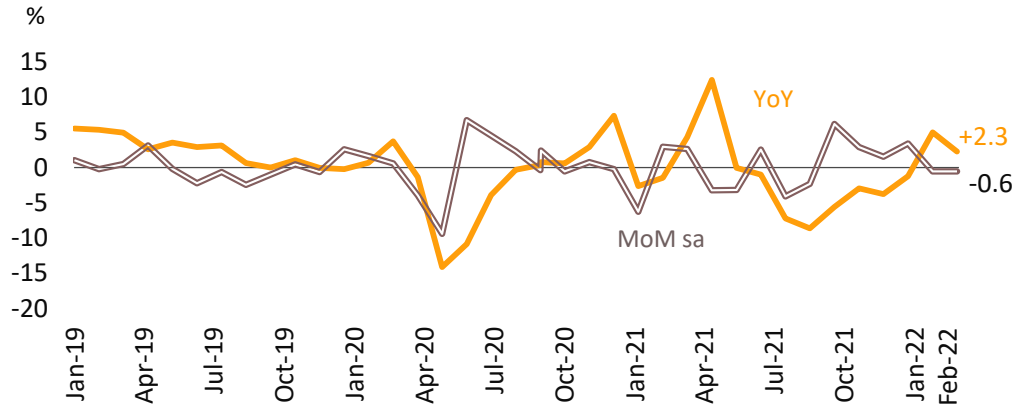


Source: MOICOVID, Google, CEIC, Krungsri Research

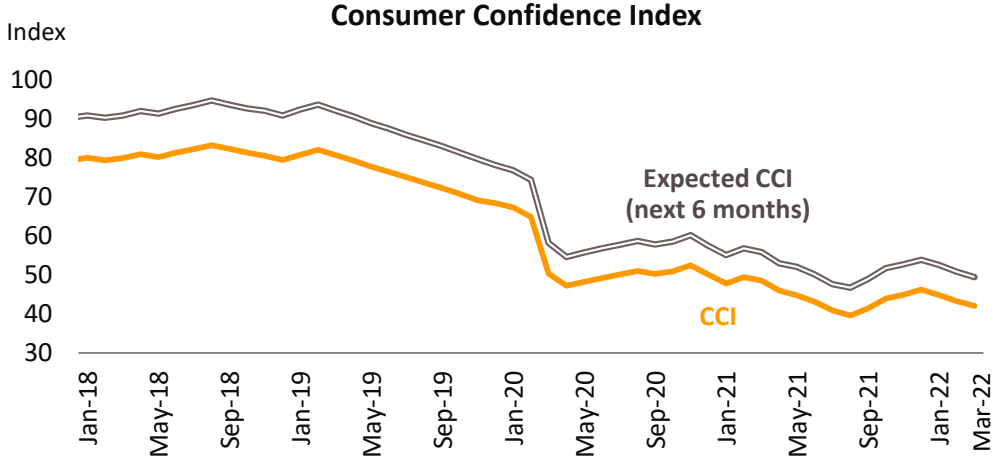
Private consumption undermined by soaring cost of living despite higher farm income

Private Consumption Index (PCI) rose 2.3% YoY in February, slowing down from 5.0% in January. Meanwhile, Phase 4 of the Co-payment program will expire at end-April, and farm income and private consumption growth would be pressured by the rising number of daily Covid-19 cases and prices of energy and food are rising. These could dampen confidence and undermine purchasing power ahead. The government has launched relief measures to ease the impact of higher cost of living, including subsidies for welfare card holders, freezing energy prices, and reducing social security contributions temporarily. However, these measures are worth THB80bn and account for only 0.4% of GDP.

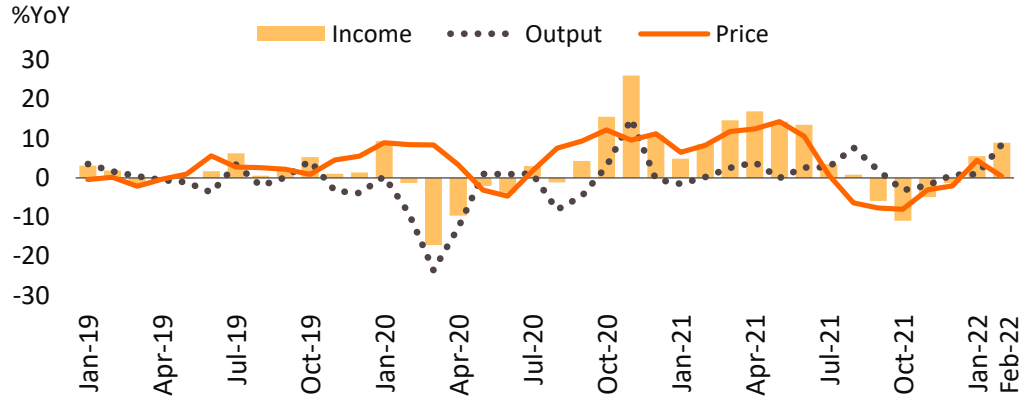
Private Consumption Index



Consumer Confidence Index



Farm income

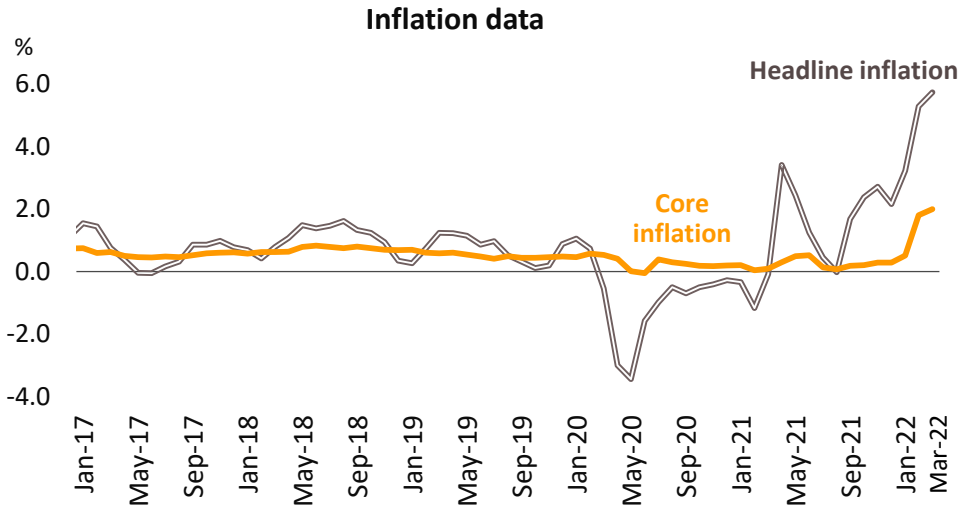


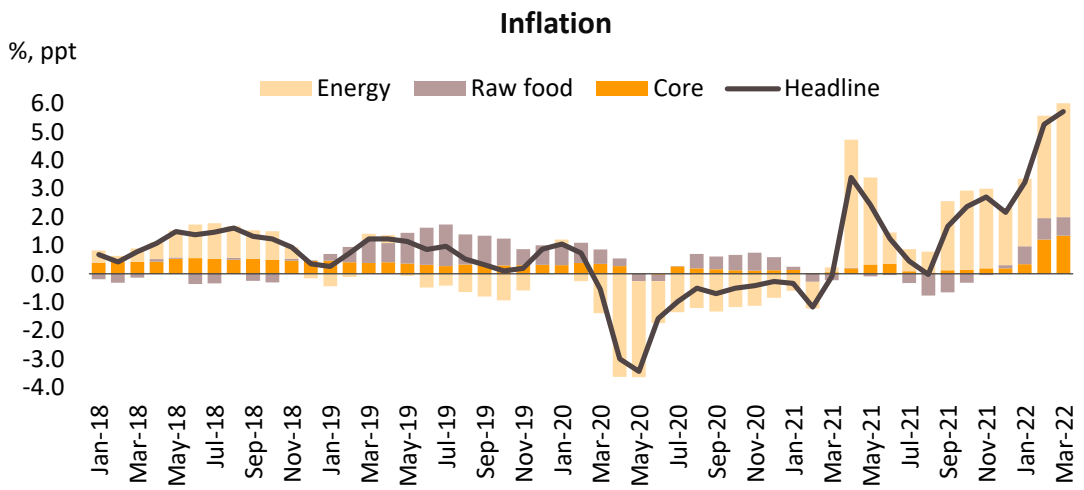
Measures to ease impact of rising energy prices

1. Increase state subsidy for cooking gas for 3.6m state welfare cardholders from THB45 to THB100.
2. Provide THB100 discount per month to vendors and hawkers who hold welfare cards (5,500 persons).
3. Reduce gasohol cost by THB250 per month for motorcycle riders who are registered with the Department of Land Transport (157,000 persons).
4. Maintain retail price of NGV at THB15.59 /kilogram.
5. Help metered taxi drivers under the Lom Hai Jai Diow Gun (Breathe Together) project to buy NGV at THB13.62/kilogram.
6. Help those who use less than 300 units of electricity per month by reducing fuel tariff (FT) by THB0.22 per unit from May to August.
7. Freeze retail price of diesel at THB30/liter until the end of April. After that, the government will subsidize half of any further increases.
8. Control the price of cooking gas between April and June by using the Oil Fuel Fund to reduce the impact of any hikes.
9. Reduce rate of social security contributions for both employers and employees under Section 33 of the Social Security Act from 5% to 1%
10. Reduce social security contribution rate for those insured under Section 39 of the Act from 9% to 1.9%, and for those insured under Section 40 to an amount ranging from THB42 to THB180 per month.

Source: BOT, Office of Agricultural Economics, University of the Thai Chamber of Commerce (UTCC), Krungsri Research

Inflation rate soared to 13-year high in March and could stay above the BOT's target range throughout this year





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
Headline CPI	**100.00%**																											
Food & beverages	40.46%																											
Apparel & footwears	2.12%																											
Housing & furnishing	22.22%																											
Medical & personal care	5.46%																											
Transportation & communication	24.13%																											
Recreation & education	4.26%																											
Tobacco & alcoholic beverages	1.36%																											
Raw food	20.12%																											
Energy	14.37%																											
Core CPI	**65.70%**																											

Source: MOC, Krungsri Research

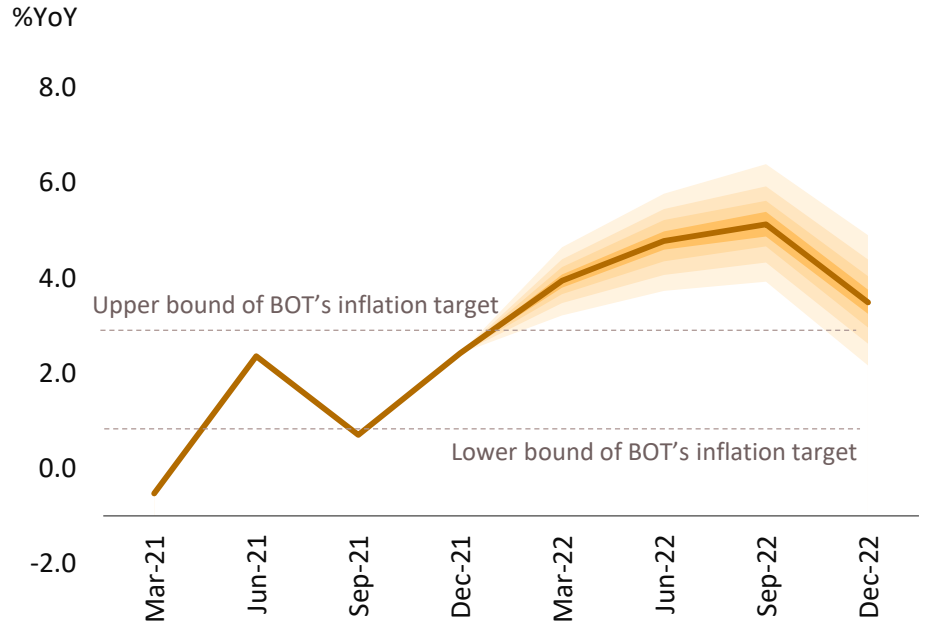
Krungsri Research's view

- **In March, headline inflation surged to a 13-year high of 5.73% YoY** from 5.28% in February, due mainly to rising global energy prices triggered by the Russia-Ukraine crisis. Domestic retail oil prices jumped 31.43% YoY. Food prices also increased, led by eggs, fresh vegetables, and ingredients. **Core inflation** (excluding raw food and energy components) **rose to a 10-year high of 2.0% YoY in February** vs 1.80% in February. In 1Q22, headline and core inflation stood at 4.75% and 1.43%, respectively**.**
- **Headline inflation is likely to stay above the BOT's target range of 1-3% the rest of this year**, driven by high prices of fuel and other consumer goods amid rising production costs. However, inflation may be capped by government measures to (i) control prices of consumer goods and other necessities, and (ii) subsidizing costs of energy and public utilities.

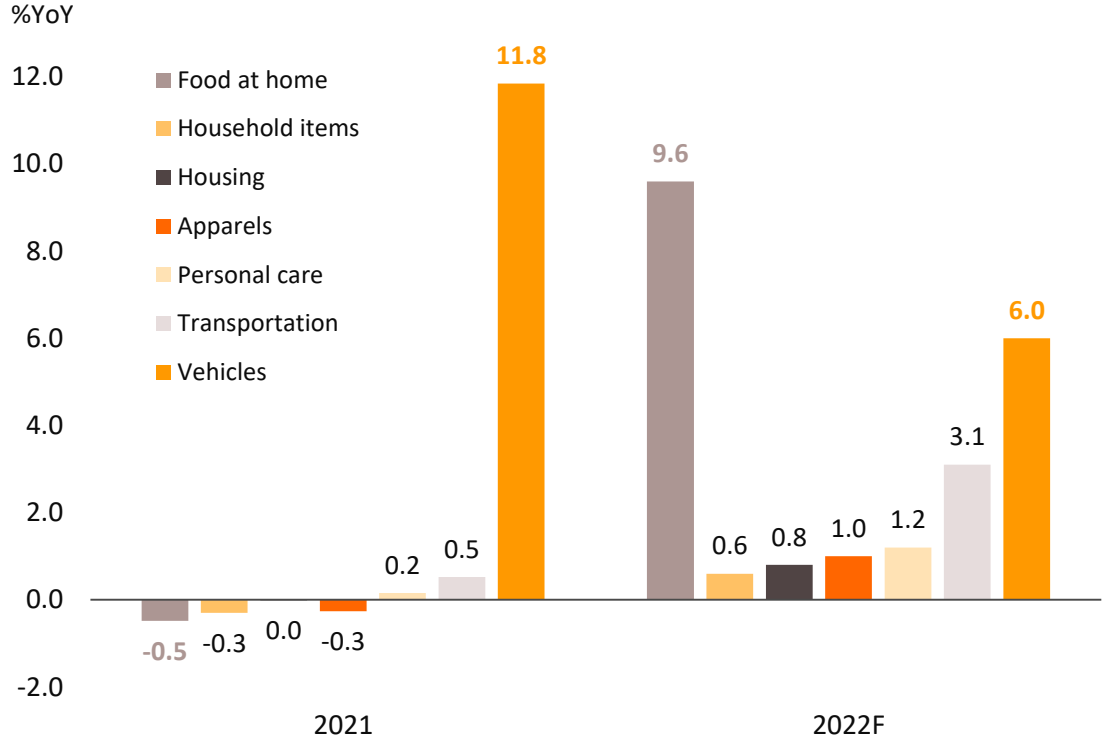
Major contributors to inflation this year would be prices of food-at-home and vehicles

We now expect inflation to exceed 4% this year given pressure from more expensive vehicles and higher household food bills. Inflation would also be driven by the surge in oil prices following Russia's invasion of Ukraine. Crude price is expected to stay high at c.USD 100 per barrel and push up manufacturing and transportation costs. This will keep inflation above the central bank's target band. Inflation might only start to cool down in 4Q22.

Inflation forecast*



Inflation forecast by category



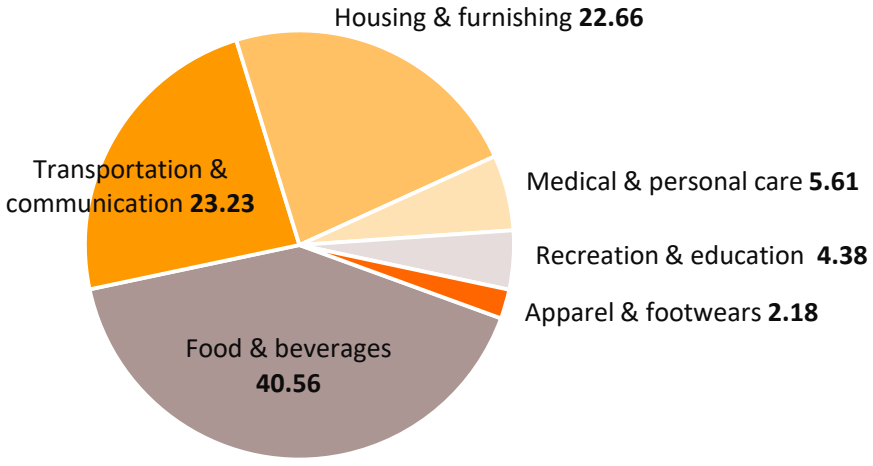
*Impacts from government intervention are excluded from inflation forecast

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

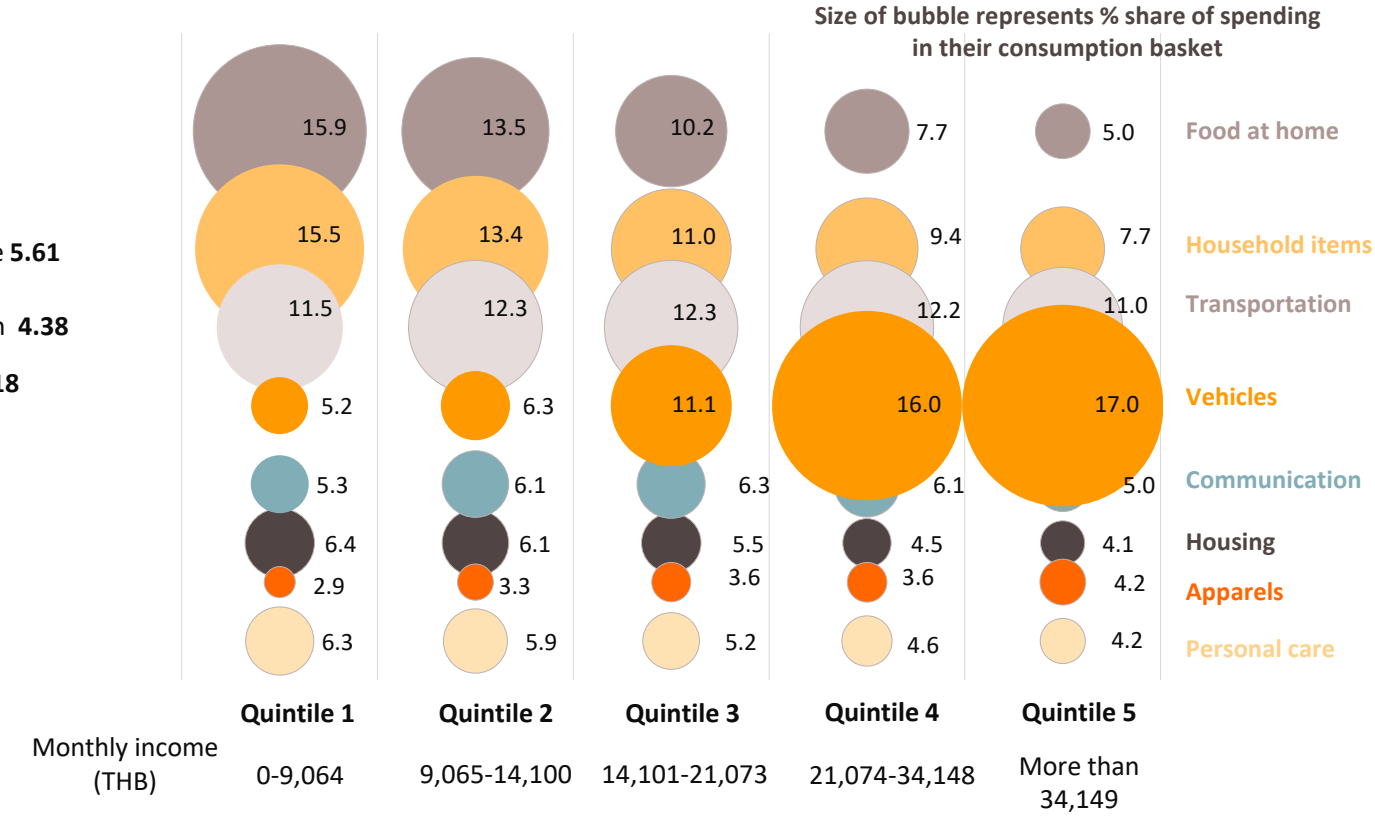
Different consumption baskets indicate uneven inflation burden across households; low-income group would be worst-hit by rising food prices

Households in different income groups would experience varying degrees of impact from higher cost of living due to different weightings in their consumption baskets. To analyze consumption expenditure by category, we classified households into 5 quintiles based on income level. We found **the largest expenditure category for the lowest-income group was food-at-home (15.9% of their total spending), followed by household items (15.5%) and transportation (11.5%). In contrast, the highest-income group's spending was led by vehicles (17.0%) while spending on food-at-home was only 5.0% in their consumption basket. This suggests the low- to medium-income groups would be worst-hit by rising inflation this year because of rising food prices.**

Weightings in Headline CPI calculation



Consumption basket by quintile

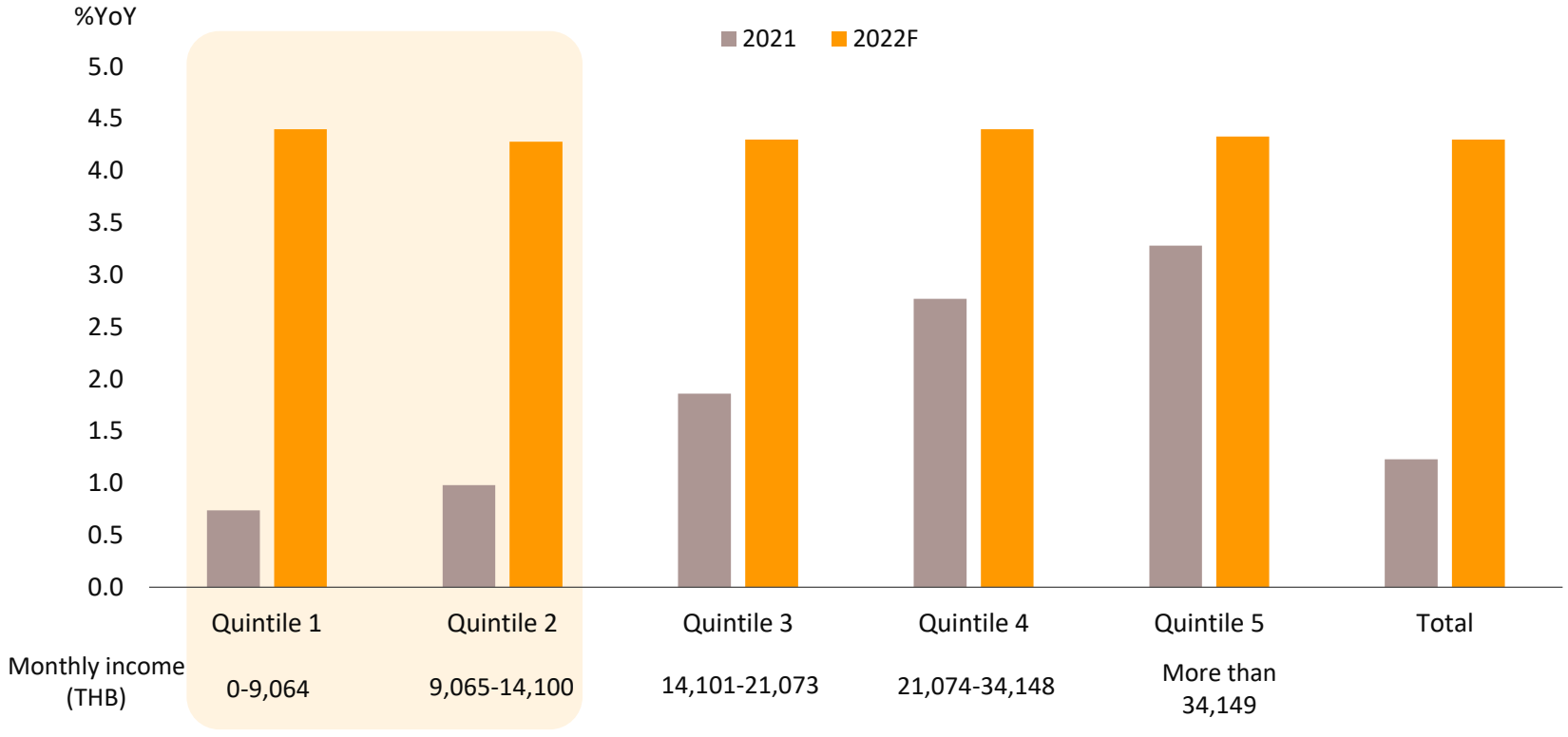


Source: MOC, Household Socio-Economic Survey, CEIC, Krungsri Research

Low-income group's *inflation burden* this year would be 6 times higher than last year; all households will experience higher inflation

Based on the different consumption baskets, Krungsri Research estimates effective inflation in **the lowest-income group (Quintile 1) will exceed 4% in 2022,** compared to just 0.7% in 2021. **This means low-income households' inflation burden this year will be around six times higher than a year earlier**. For high-income earners (Quintile 5), effective inflation would also exceed 4% this year but the YoY increment would be mild given 3.3% inflation last year. This indicates all households will have to deal with the effects of higher inflation on income and expenditure and low-income groups will suffer the most with larger jump in their inflation burden this year.

Inflation by income group

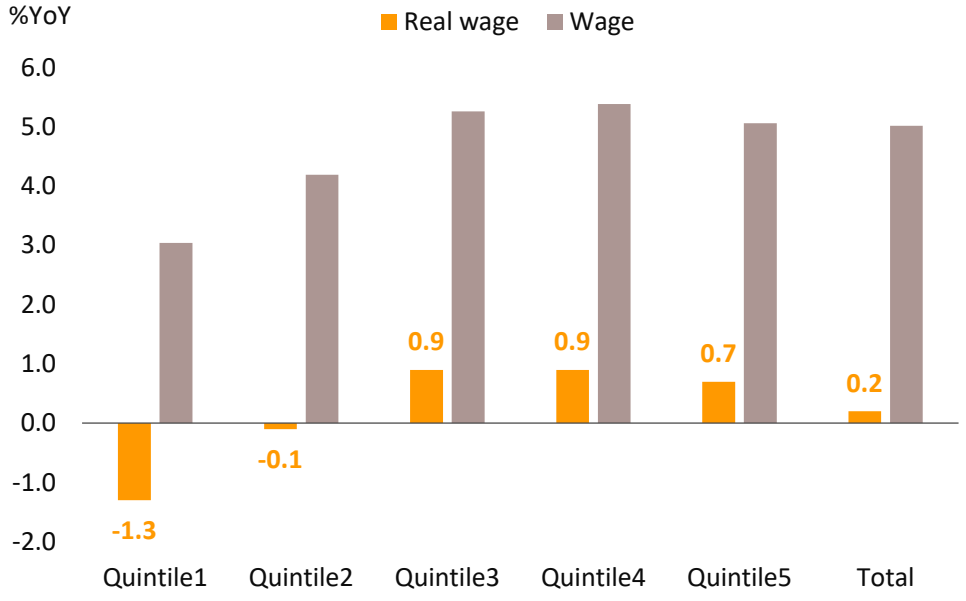


Source: MOC, BOT, CEIC, Krungsri Research

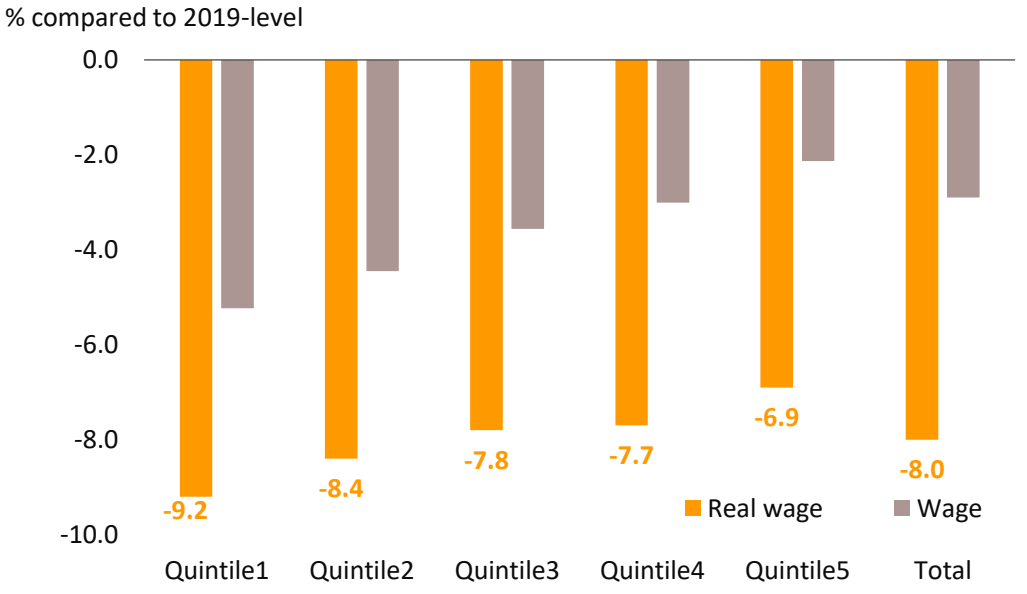
Declining real wages for low-income households will worsen the gap in spending power; wages across income groups are expected to stay below pre-crisis levels in 2022

Krungsri Research analyzed real wage (wage adjusted for inflation) across households to gauge their respective purchasing power on goods and services. The conclusion is that real wage growth in all income groups are lower than nominal wage growth. **Real wage in the lowest-income group could decline 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, caused by not only lower nominal income but also higher inflation and a different consumption basket.**

Wage and Real wage in 2022 by income group



Wage and Real wage compared to pre-Covid level

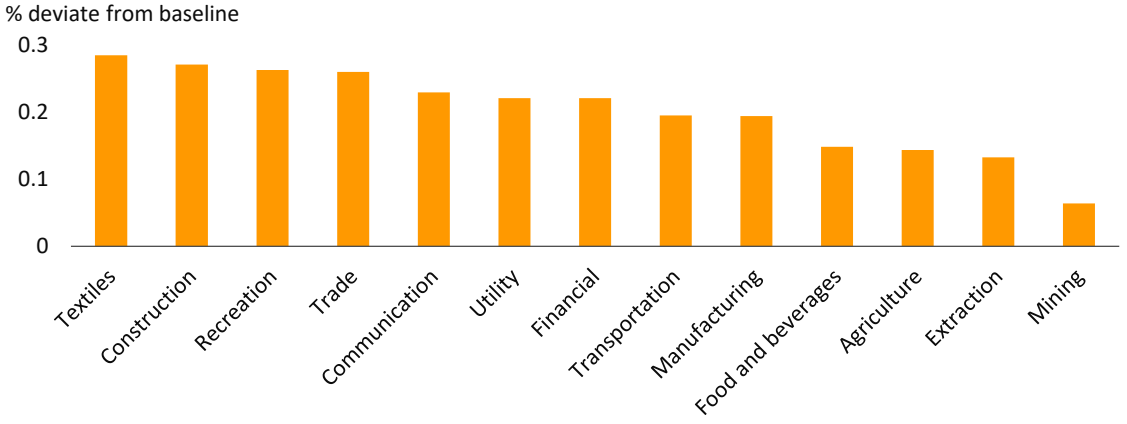


Monthly income (THB)
Quintile 1: 0-9,064
Quintile 2: 9,065-14,100
Quintile 3: 14,101-21,073
Quintile 4: 21,074-34,148
Quintile 5: more than 34,149

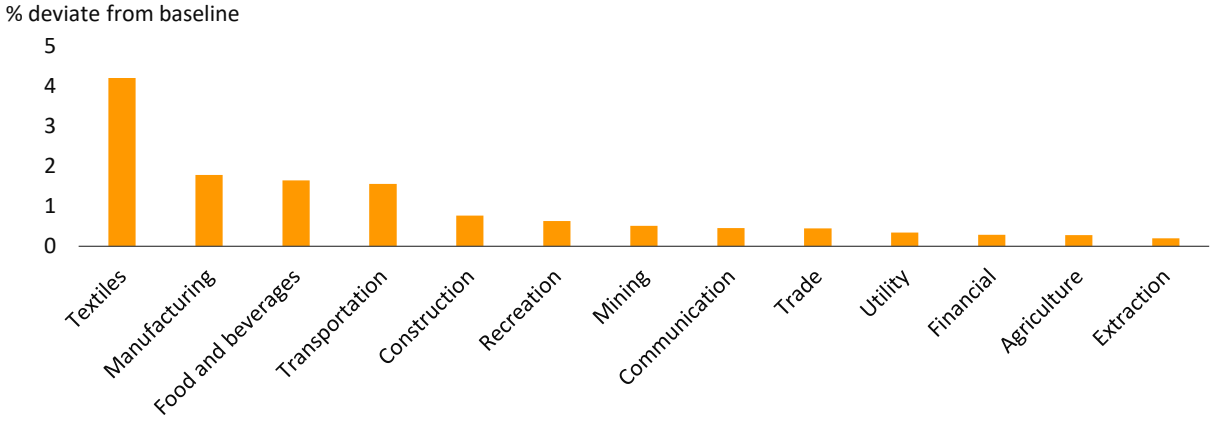
Source: MOC, Household Socio-Economic Survey, CEIC, Krungsri Research

Picking *appropriate policies* such as increasing employment and boosting business investment would be more effective than hiking minimum wage

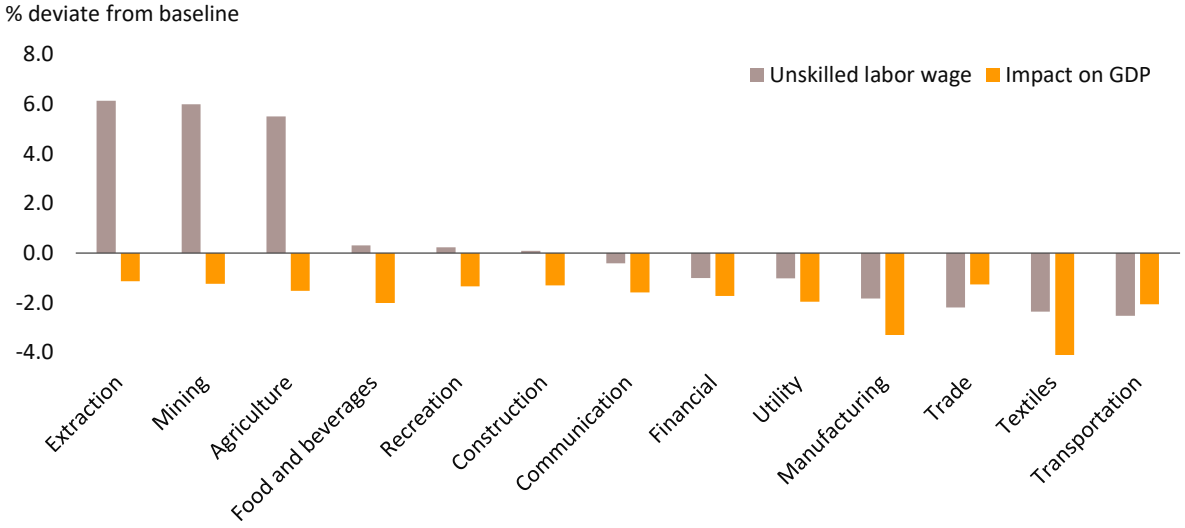
Increasing employment of unskilled labor: Impact on wage by sector



Boosting business investment: Impact on real wage by sector



Minimum wage hike: Impact on real wage and GDP



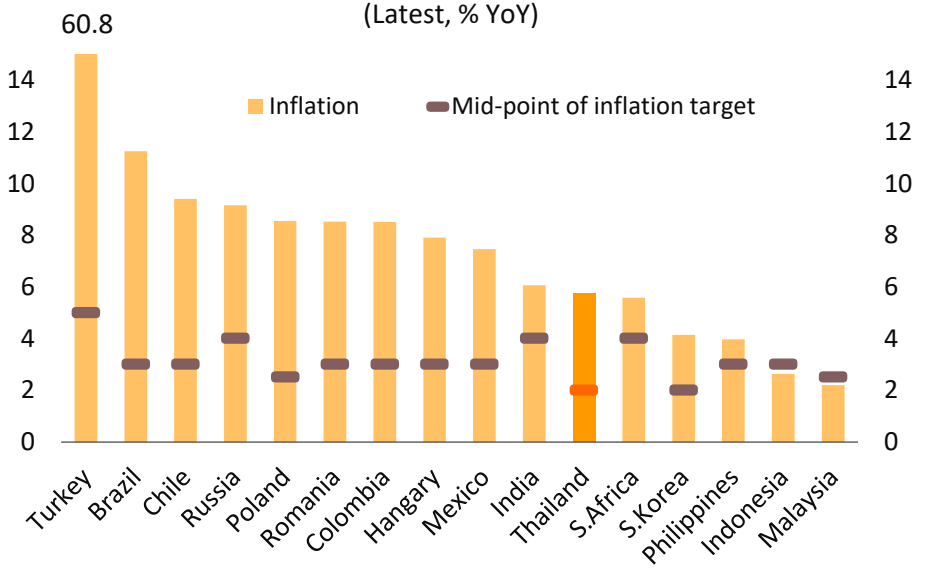
Source: GTAP, calculated by Krungsri Research

Krungsri Research's view

- Krungsri Research used a Computable General Equilibrium (CGE) model to assess the economic impact of possible fiscal measures to assist low-income and unskilled labor.
- **A 1% rise in employment of unskilled labors** would increase wages in all industries, led by Textile (+0.28%), Construction (+0.27%), Tourism (+0.26%). This policy would add 0.2% to Thai GDP.
- **Fiscal measures to boost business investment by 10%** would raise incomes for workers in many industries, led by Textile (+4.2%), Manufacturing (+1.8%), and Food & Beverage (+1.6%). Manufacturing industry will add 0.4% to Thai GDP, compared to 0.02% from Transport industry, and 0.01% from Food & Beverage.
- **A 10% rise in the minimum wage** would increase real wages in some industries, including Oil & Gas extraction, Mining, Agriculture, Food & Beverage, Tourism, and Construction. However, this policy would hit many sectors, especially labor-intensive industries (transport, textiles, trade, manufacturing). The overall impact would reduce Thai GDP growth by 2.4ppt and add 0.5ppt to inflation rate.
- The most effective option would be policies to encourage business investment and increase employment. The minimum wage hike would reduce real wages in many industries, raise production costs and add risks to already-high inflation. This would exacerbate the negative consequences on the Thai economy.

Even if inflation exceeds target, MPC is likely to maintain *policy rate* to support economic recovery; monetary policy should be aimed at managing inflation expectations

Inflation and mid-point of inflation targets
(Latest, % YoY)



BOT Economic Forecast

Key indicators		2021	2022F	
			Previous	Latest
GDP growth	YoY (%)	1.6	3.4	3.2 ▼
Private Consumption Expenditure	YoY (%)	0.3	5.6	4.3 ▼
Government Consumption Expenditure	YoY (%)	3.2	-0.3	-0.7 ▼
Private Investment	YoY (%)	3.2	5.4	4.7 ▼
Public Investment	YoY (%)	3.8	3.6	4.2 ▲
Nominal Exports in USD (f.o.b.)	YoY (%)	18.8	3.5	7.0 ▲
Nominal Imports in USD (f.o.b.)	YoY (%)	23.4	4.8	11.6 ▼
Current Account Balance	USD, bn	-10.9	1.5	-6.0 ▼
Tourist Arrivals	persons, mn	0.4	5.6	5.6 =
Headline Inflation	YoY (%)	1.2	1.7	4.9 ▲
Core Inflation	YoY (%)	0.2	0.4	2.0 ▲
Dubai crude price - period average	USD/bbl	69.4	68.3	100.0 ▲

Source: BOT (March 2022)

Krungsri Research's view

MPC voted unanimously to leave policy rate unchanged

- At the last meeting on 30 March 2022, the BOT's Monetary Policy Committee (MPC) voted unanimously to keep policy rate at a record low of 0.50% to support overall economic growth.

Despite a spike in inflation, MPC is likely to hold rate this year to support a sustainable economic recovery

- Even as headline inflation is expected to breach the BOT's target in 2Q-3Q 2022, we expect the MPC to keep an accommodative stance to support growth and sustainable recovery for the following reasons:
  (i)"*The Committee judges that the rise in inflation has been mainly due to cost-push factors. Meanwhile, demand-pull inflationary pressures remain subdued in line with a slow recovery of income*" . In addition, there is no sign of a broad-based increase in domestic prices while rising prices have been concentrated in the energy and food categories.
  (ii) The MPC assessed that "*inflation is projected to decrease and return to the target range in 2023 owing in part to the assessment that the rise in energy prices would not persist.*".
  (iii) The MPC said that "*medium-term inflation expectations remain anchored within the target range*."

The MPC assessed that the increase in inflation would be temporary and that Thailand's economic recovery remains weak. Based on the BOT's GDP growth forecast of 3.2%, Thai economic activity (or GDP) will not reach pre-pandemic level until the end of this year or the beginning of next year. The latest statement also reiterated that "*the Committee continues to put emphasis on supporting the economic recovery*". This suggests the MPC is likely to maintain policy rate at a record low of 0.50% this year.

Source: CEIC, BOT, Krungsri Research

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