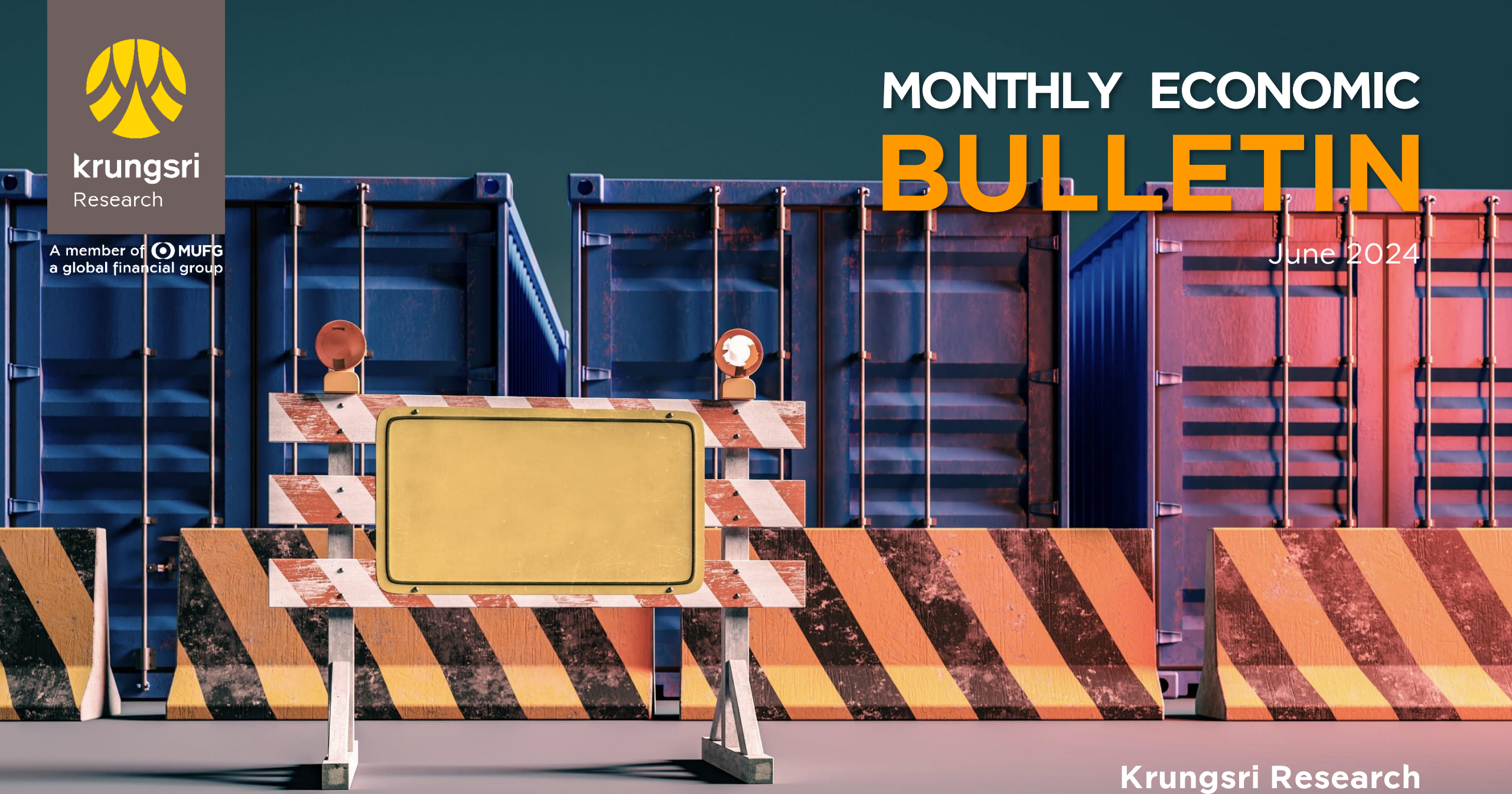
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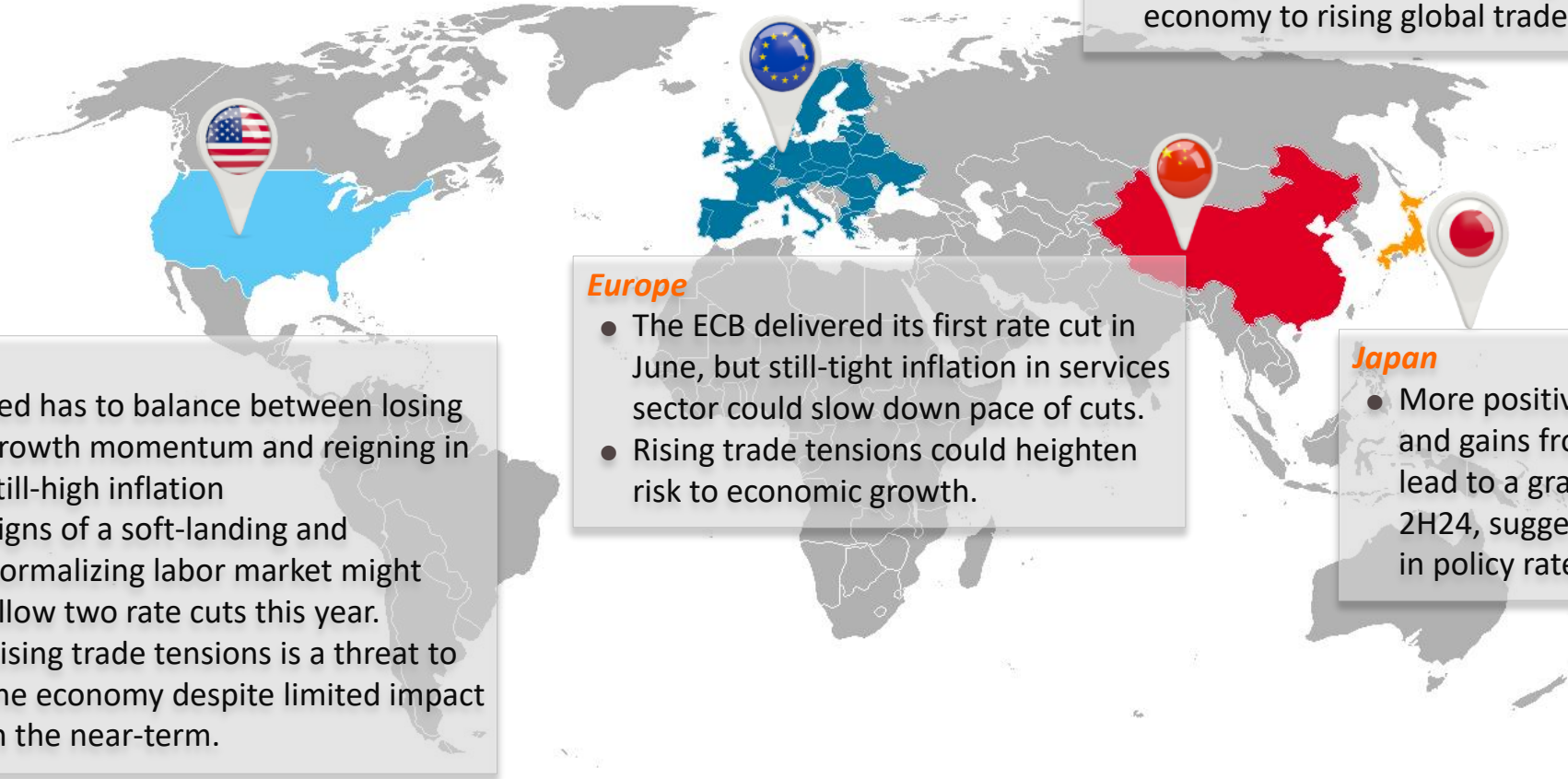
MONTHLY ECONOMIC BULLETIN

June 2024



Krungsri Research

Global: New wave of trade protectionism could cap global growth



China

- Economy is improving.
- But export-led manufacturing could expose the economy to rising global trade protectionism.

US

- Fed has to balance between losing growth momentum and reigning in still-high inflation
- Signs of a soft-landing and normalizing labor market might allow two rate cuts this year.
- Rising trade tensions is a threat to the economy despite limited impact in the near-term.

Europe

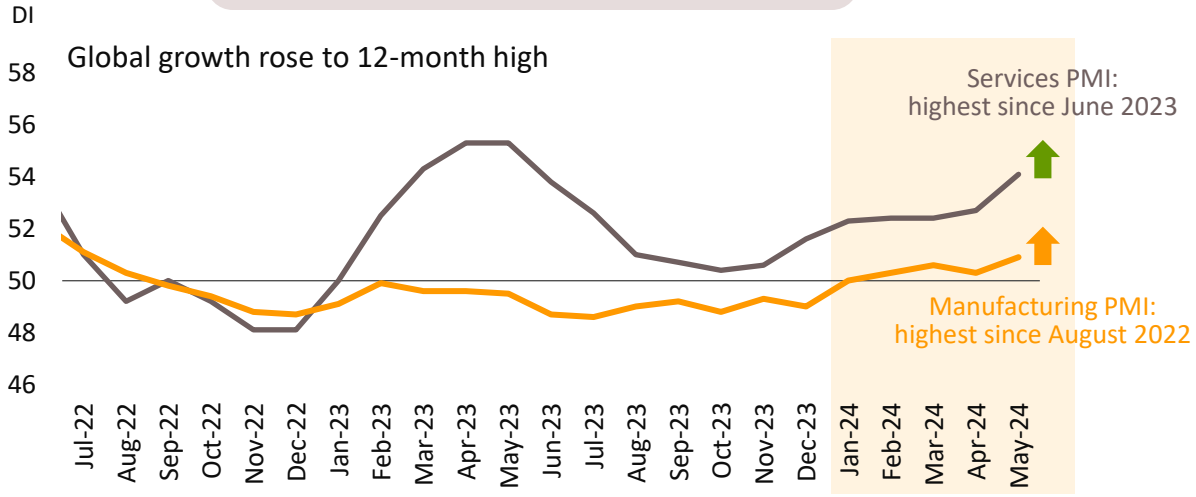
- The ECB delivered its first rate cut in June, but still-tight inflation in services sector could slow down pace of cuts.
- Rising trade tensions could heighten risk to economic growth.

Japan

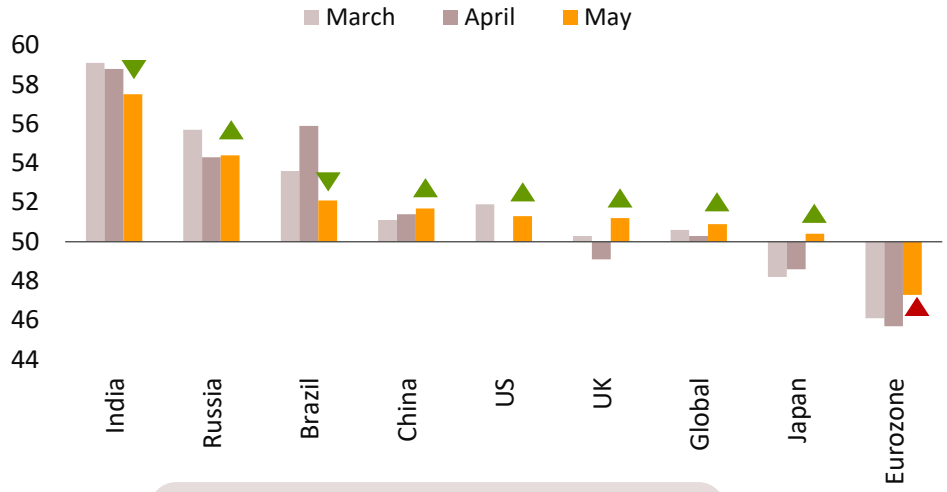
- More positive economic data and gains from wage hike could lead to a gradual recovery in 2H24, suggesting a mild increase in policy rates.

Global growth is recovering but momentum might be capped by still-restrictive monetary policies, fading fiscal stimulus, and rising trade tensions

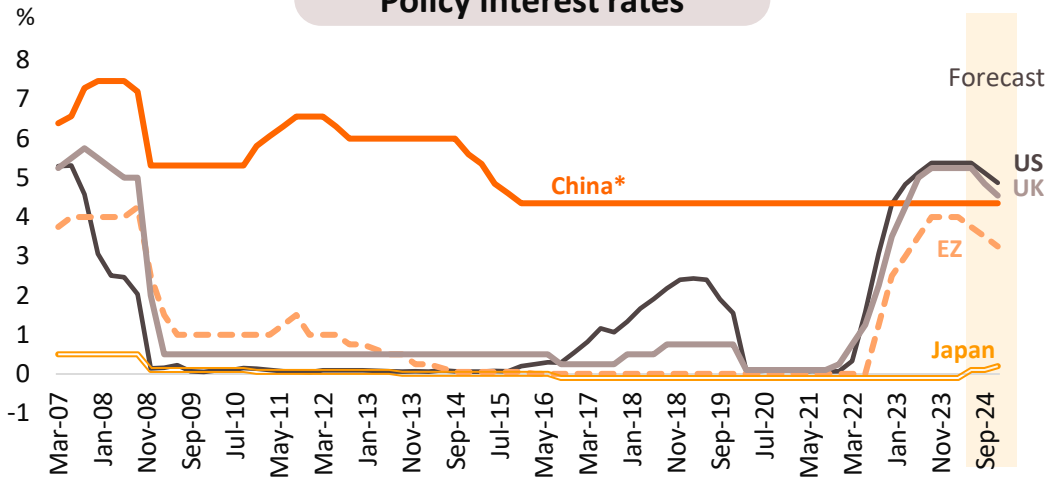
Global Manufacturing and Services PMI



Major Countries' Manufacturing PMI

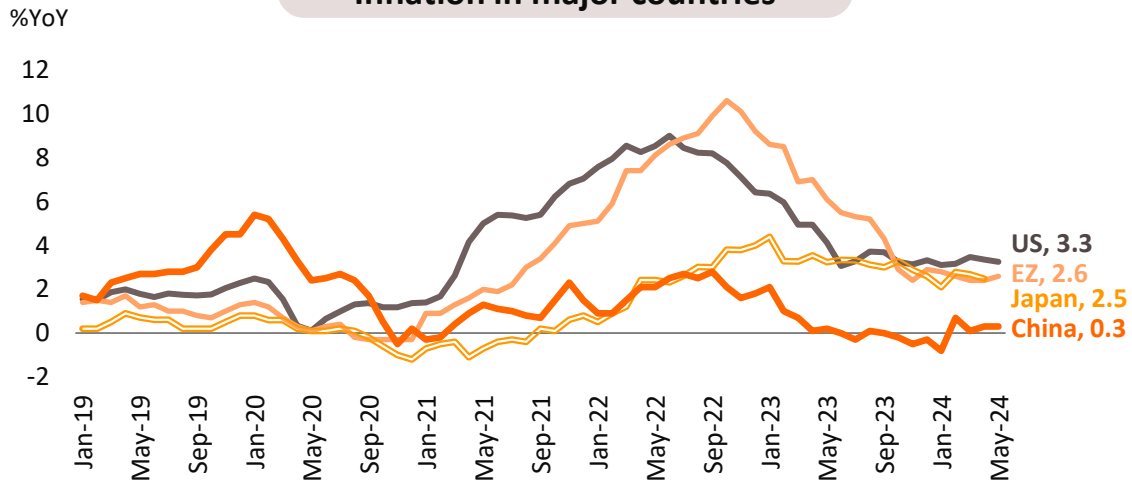


Policy interest rates



Note: *1-year best lending rate

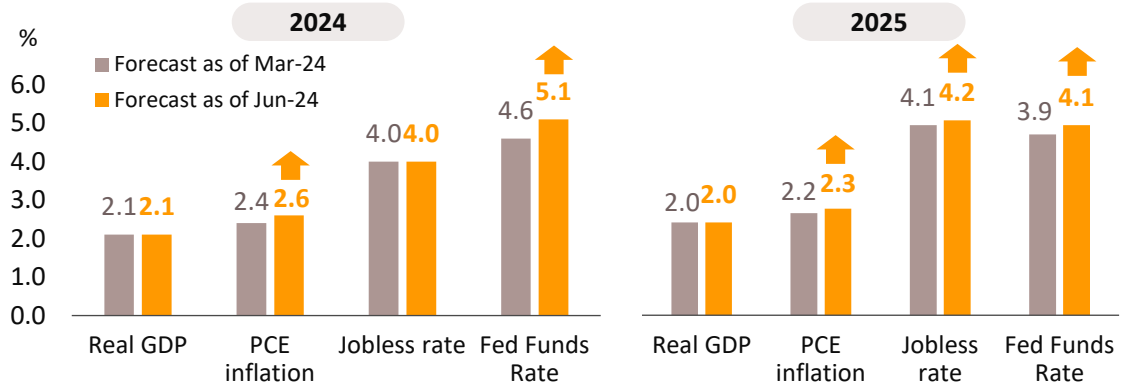
Inflation in major countries



Source: S&P Global, major central banks, CEIC, Bloomberg, Krungsri Research

US: Fed has to balance between losing growth momentum and reining-in still-high inflation; a soft landing and normalizing labor market might allow two rate cuts this year

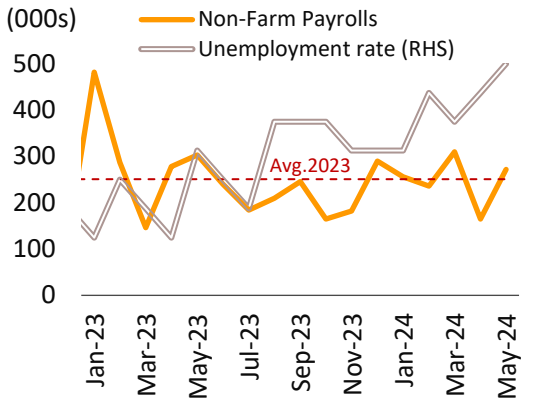
FOMC Economic Projections for…



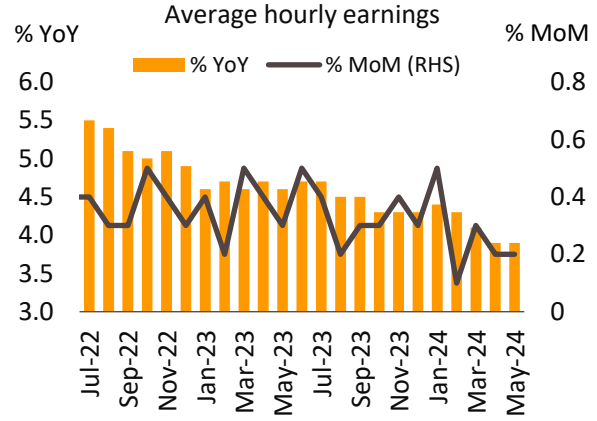
FOMC Dot Plot: *7 out of 19 members expect one rate cut to 5.0-5.25% by end-2024, 8 members see two cuts; 4 members expect no rate cut.*

FOMC Dot Plot: *13 out of 19 members expect the rate to fall to 4.00-4.25% or lower by end-2025; 5 members see the rate to fall to 4.25-5.00%; one member expects no rate cut.*

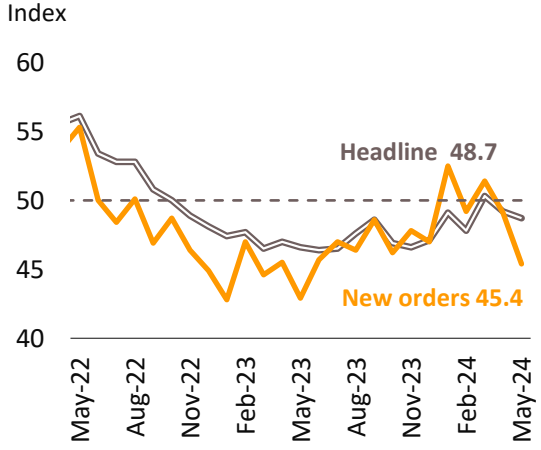
Payrolls and Unemployment



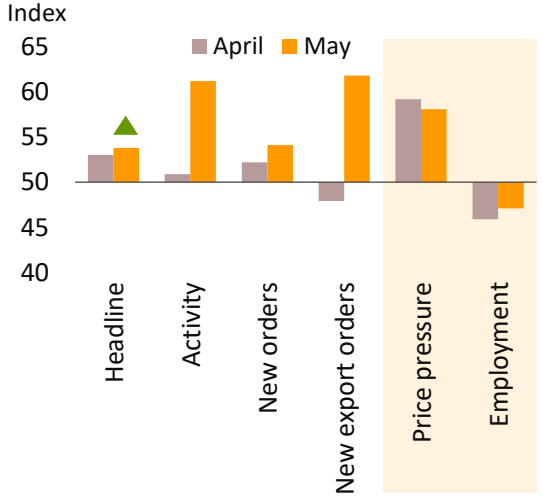
Wage Growth: %YoY and %MoM



ISM Manufacturing PMI



ISM Services PMI



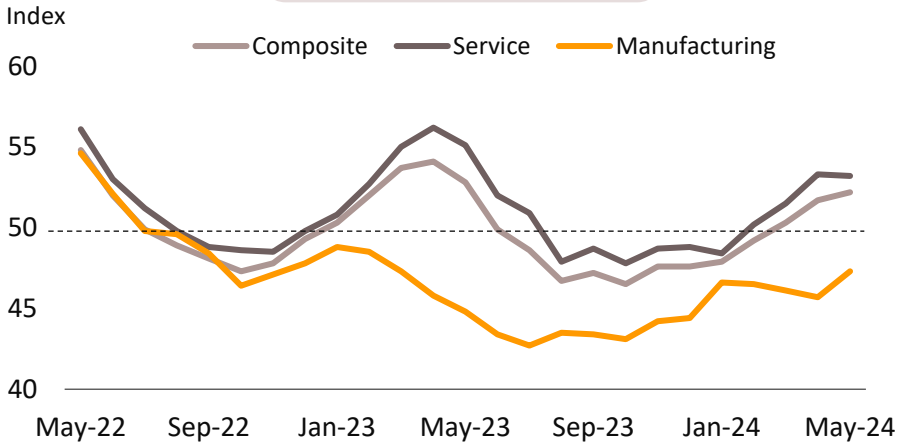
Source: ISM, BLS, Capital Economics, CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

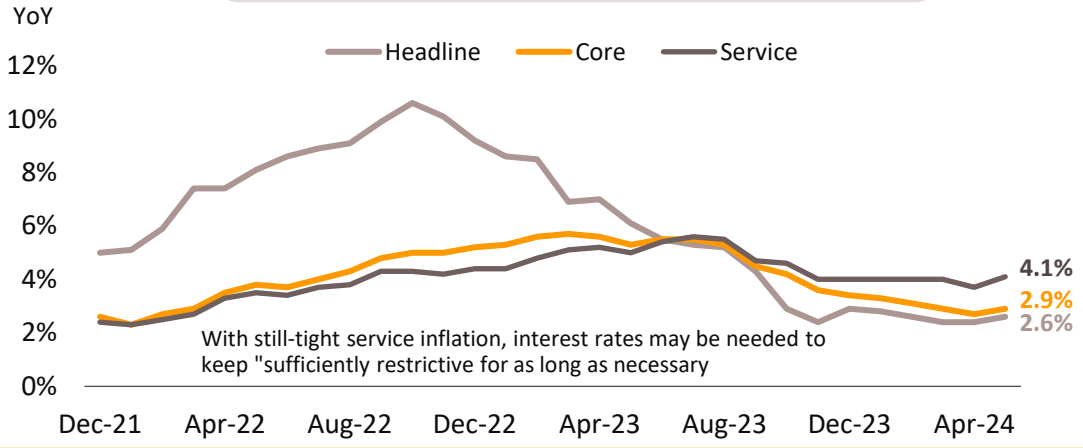
- **The FOMC voted to keep benchmark rates at 5.25-5.50% at the June 11-12 meeting, signaling rate cuts this year. The Fed remains concerned inflation is high despite signs of easing price pressure.**
  - Following the Fed's projection of higher inflation, **15 out of 19 Fed officials anticipated a rate cut this year.** Eight officials expected two rate cuts and seven expected just one.
  - **However, there are signs of easing inflation. The Consumer Price Index (CPI)** rose 3.3% YoY in May, slowing from 3.4% in April. **Core CPI** rose 3.4%, the slowest pace in 3 years and easing from 3.6% in April. And, **headline and core PCE inflation** were steady at 2.7% and 2.8% in April, respectively. Inflation expectations for the year ahead also dropped to 3.2% in May.
- **Amid the Fed's inflation concerns, we now expect two rate cuts this year with the first in September. Key economic indicators could discourage a hawkish stance and prompt Fed to ease policy this year.**
  - **Softer economic growth, weaker consumption, and shrinking manufacturing: GDP growth** slowed to an annualized 1.3% in 1Q24 from 3.4% in 4Q23. In April, **personal spending growth** decelerated to +0.2% MoM from +0.7% in March. Real consumption also contracted by 0.1% MoM. **The ISM Manufacturing PMI** surprised with a larger contraction in May.
  - **Healthy labor market with signs of normalization:** Non-farm payrolls increased by a healthy 272K in May. However, unemployment rate rose to 4% and wage growth is trending down. **Services sector employment index** continued to contract in May, and April job openings is at its lowest since February 2021.
- **Rising trade tensions is a threat to the economy, despite limited impact in the near-term.** The US has announced another round of tariff hikes on USD18bn worth of Chinese goods, including EVs. The immediate impact would be small as these imports account for only 0.1% of GDP amid diversified markets in most targeted products. However, the US could face a backlash in manufacturing and trade if China retaliates by targeting US products for which China is a major export destination.

Eurozone: ECB delivered its first rate cut in June, but still-tight inflation in services sector could slow down pace of cuts; rising trade tensions could heighten risk to economic growth

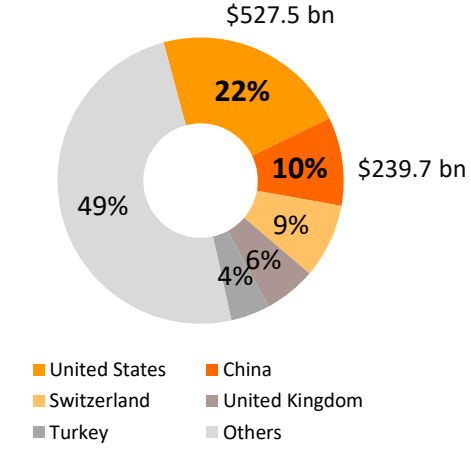
HCOB PMI Index



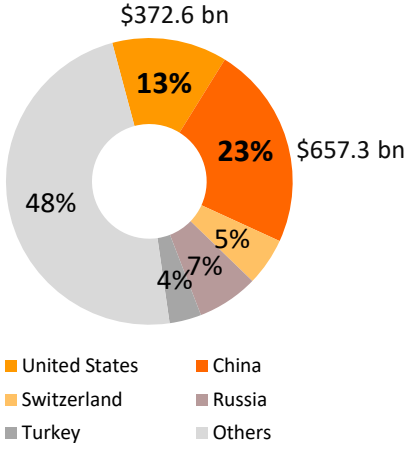
Harmonized Index of Consumer Prices (HICP)



EU export shares in 2022



EU import shares in 2022



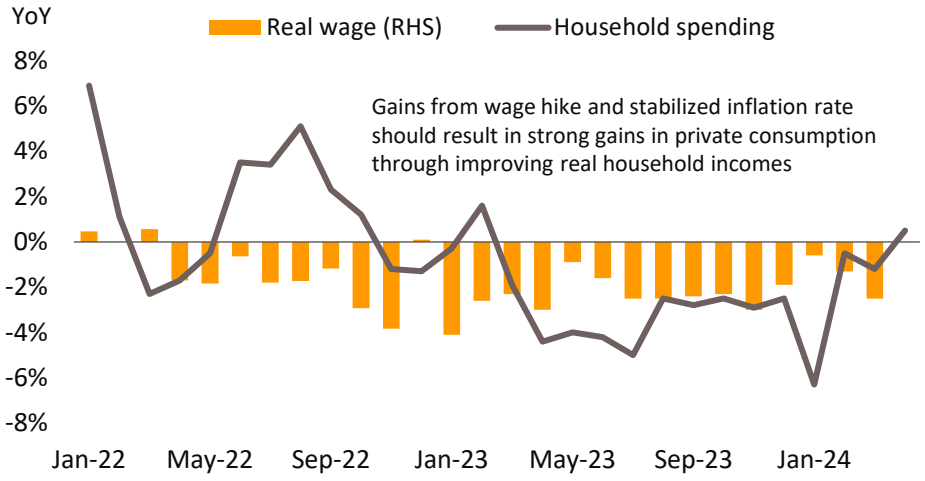
Source: ECB, World Bank, CEIC, investing.com, Eurostat, Bloomberg, Krungsri Research

Krungsri Research's view

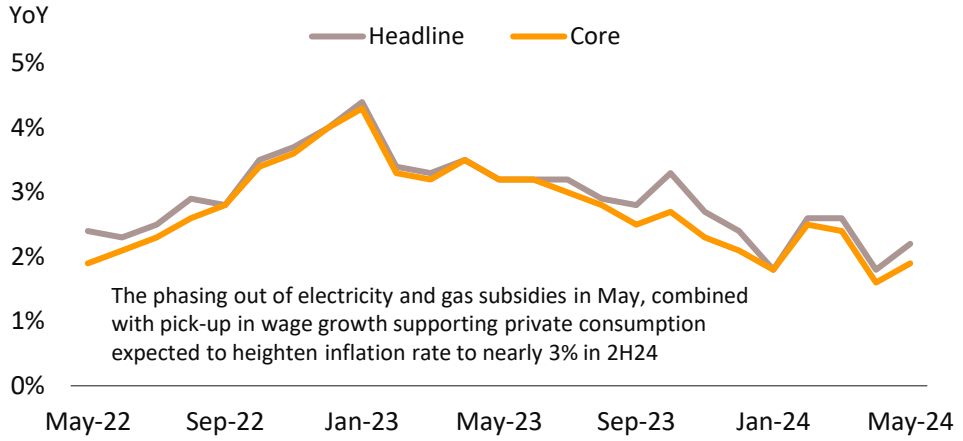
- **Despite subdued growth, improving economic backdrop in 1Q24 suggests mild recession has ended and economy would recover in 2H24**. The Composite PMI rose for the fifth consecutive month to an 11-month high of 52.2 in May driven by both manufacturing and services sectors, with easing price pressure. Meanwhile, the ZEW Indicator of Economic Sentiment hit a 27-month high in May and retail sales marked the first growth in May (since September 2022).
- **As expected, the ECB cut key deposit rate from a historical high of 4.00% to 3.75% at its June's meeting, citing inflation outlook had improved "markedly".** Given still-tight inflation in the services sector (4.1% YoY in May) and stronger wage growth (4.7% YoY in 1Q24), the ECB might have to keep rate "sufficiently restrictive for as long as necessary" to bring inflation down to its 2% target. We are sticking to our projection for ECB's deposit rate to drop to 3.25% by the end of this year.
  - The ECB now projects eurozone economy would expand by 0.9% in 2024 (instead of +0.6%), 1.4% in 2025 (instead of +1.5%), and 1.6% in 2026 (unchanged).
  - It expects inflation to remain above its 2% target "well into next year", and average 2.5% in 2024 and 2.2% in 2025.
- **Renewed trade tension could heighten risk to the eurozone economy by crimping exports and production, and raise cost of imports.** To protect local producers from *alleged* cheap imports from China, **the EU will impose tariffs of up to 27-48% (vs 10% currently) on Chinese EVs starting next month.** This will escalate trade tensions between the two parties, especially if China retaliates with similar measures on imports from the EU. In addition, Trump has proposed universal 10% tariff on all imports and 60% on imports from China; is he is re-elected, trade tensions could worsen next year.
  - The US was the EU's largest export destination (USD527.5bn, 22% share) and second largest source of imports (USD372.6bn, 13% share). That is equivalent to 3.1% and 2.2% of EU GDP in 2022.
  - China was the EU's largest source of imports (USD657.3bn, 23% share) and the second largest export destination (USD239.7bn, 10% share). That is equivalent to 3.9% and 1.4% of EU GDP in 2022.

Japan: Improving economic data and wage hike gains point to a gradual recovery in 2H24, suggesting BOJ might raise policy interest rates slightly

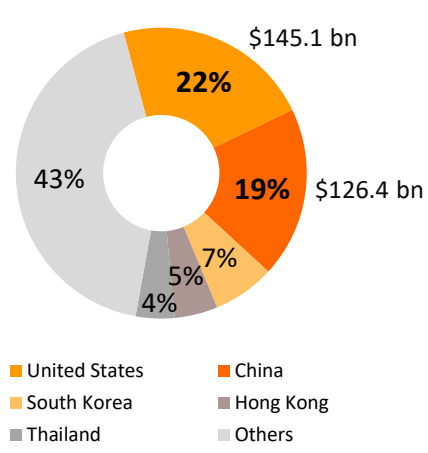
Real Wage Growth and Household Spendings



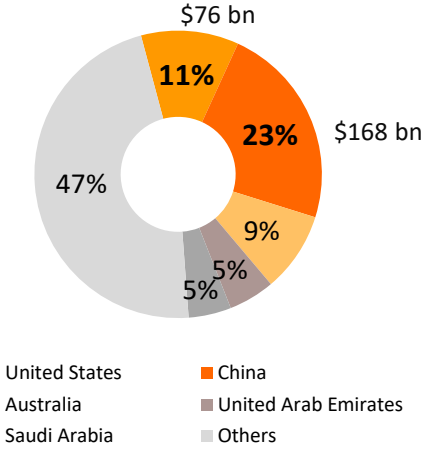
Tokyo Consumer Price Index



Japan export shares in 2023



Japan import shares in 2023



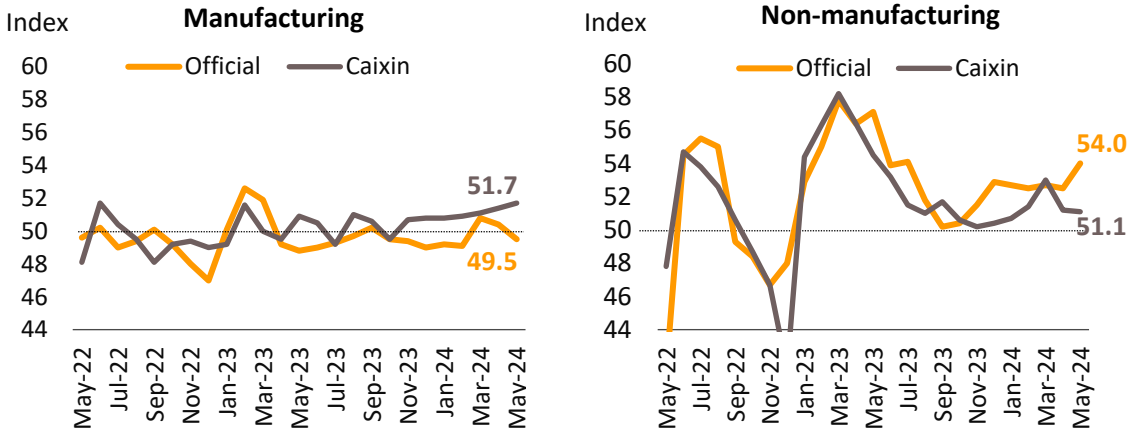
Source: Bank of Japan, International trade, CEIC, Investing.com, Bloomberg, Krungsri Research

Krungsri Research's view

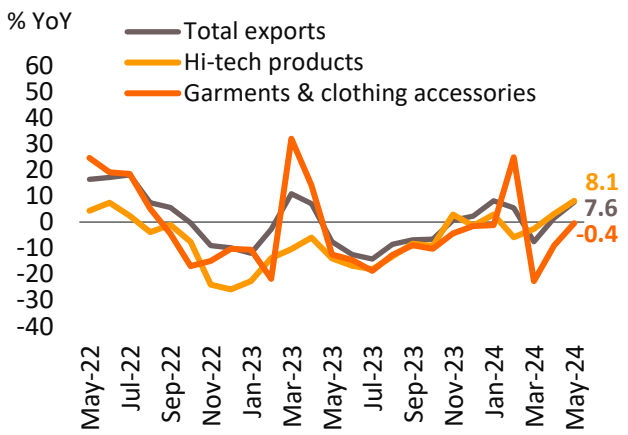
- **Japan's economic growth could accelerate in 2H24.** National GDP would remain subdued following a contraction in 1Q24, but broader economic indicators suggest growth would pick-up gradually: (i) Manufacturing PMI expanded in May; (ii) Leading Economic Index (LEI) is at its highest since August 2022; and (iii) export growth accelerated to 8.3% YoY in April. In 2H24, the major economic growth drivers would be gains from latest round of wage hikes, still-strong tourism sector, and stable inflation, which should increase real household income.
- **Expiry of power & gas subsidies and wage hike could push up inflation to near-3% in 2H24**. The subsidies expired in May, while the latest wage hike is the highest in three decades. These could push up inflation and prompt the BOJ to raise rates this year, even as other major central banks - ECB, RBNZ, and BOC – are starting to cut rates.
- **Despite rising concerns over a weak yen, BOJ is unlikely to hike rates aggressively.** (i) The weaker yen would have only a mild impact on the economy; (ii) the BOJ might reduce bond purchases from JPY6trn (USD 38.6bn) per month, likely at its June meeting, which would help to tighten monetary policy. Overall, given signs of rising inflation and improving economic growth in 2H24, we expect the BOJ to hike policy rate by only between 0.10-0.15% to 0.20-0.25% this year.
- **US 2024 presidential election could influence direction of trade tariffs, cloud outlook for global trade and Japan exports from 2024. Trump has proposed** (i) 10% universal baseline tariff on all imports in the US; and (ii) 60% tariff on imports from China. The US is Japan's largest export market at 22% of Japan's total exports, and 3.4% of GDP in 2023. Additionally, rising trade tension and possible retaliatory measures could lead to another wave of cheap Chinese goods flooding global markets and hurting Japanese manufacturers in some sectors.

China: Overall economy is improving but export-led manufacturing could expose the economy to risk of stronger trade protectionism

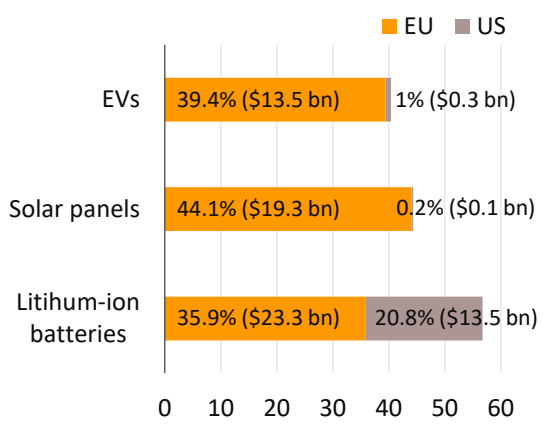
Purchasing Managers' Index (PMI)



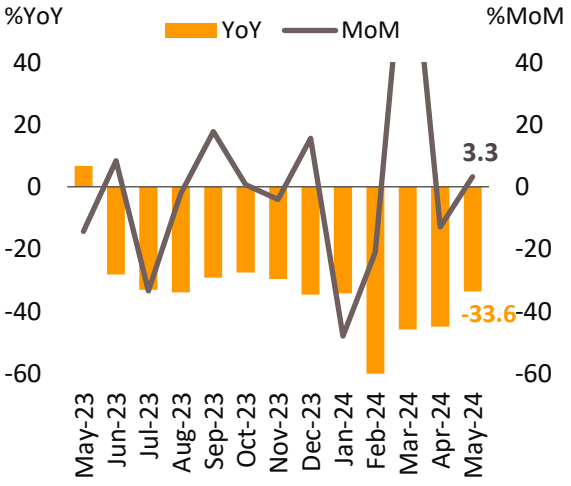
China's Exports



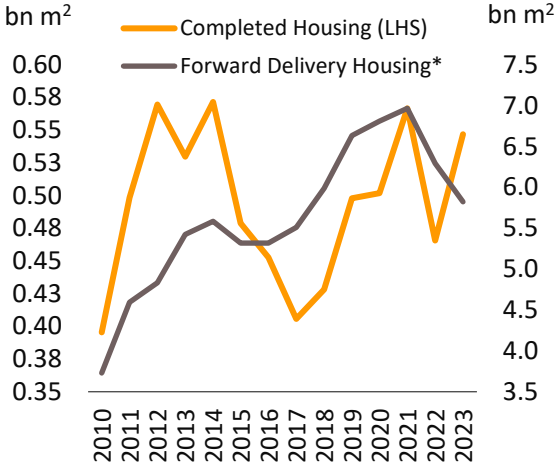
China's Exports to US & EU in 2023



New Home Sales by Top 100 Developers



Excess Residential Housing Supply



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

Note: * Forward delivery housing refers to the construction area of commodity housing that has signed the sales contracts and being built but not yet completed and delivered.

Krungsri Research's view

- **The services sector continued to grow, but manufacturing recovery remained fragile.** Differences in Manufacturing PMI between two sources reflect a limited recovery despite the government's trade-in program. This also highlights excess supply and vulnerability to trade tensions, as some manufacturers turn to foreign markets to offset weak domestic demand. **We expect manufacturing and services to continue to drive growth in 2H24 but manufacturing growth might not be sustainable when** effects of stimulus measures fade, and higher tariffs are imposed on export goods.
- **Exports show improvement, but growing reliance on foreign markets exposes the economy to long-term risks from rising trade protectionism.** Exports grew 7.6% YoY in May vs +1.5% in 1Q24, beating +5.6% expectations. Meanwhile, the Chinese EV industry could be affected by the EU's proposed tariffs of up to 27-48% (vs 10% currently) as the EU is a major export market for China. And, unless the US extends the waiver period for solar cells imported from ASEAN region, Chinese investors in ASEAN could be subject to duties of more than 200%. Turkey, Mexico, Chile and Brazil are also considering increasing tariffs on Chinese products, including conventional cars, EVs, and steel.
- **Real estate sector continues to weigh on the economy but shows some improvement.** New home sales by the top 100 developers contracted by a smaller magnitude. Meanwhile, the government has introduced more stimulus measures: (i) USD41.5bn in soft loans for state-owned enterprises to buy excess supply, (ii) cuts in down payment ratios for first- and second-home buyers, and (iii) a halt on selling land usage rights to developers with large inventories. **With these measures, we expect new home sales to improve in 2H24 but remain in the contraction zone due to still-large excess supply (an estimated 2-3 years to clear for Tier-1 cities) and generally weak consumer confidence.**

Special Notes: Impact of tariff hikes on Thailand's economy

I. Biden's tariff hikes in 2024

- On May 14, the US government raised tariffs on USD18 bn in Chinese imports across a handful of sectors. The decision was made after the mandatory four-year review of tariffs imposed by former President Donald Trump in 2018 under Section 301.
- US: The immediate impact on production cost is likely to be small as import structure for most targeted products is more diversified. The US could face a backlash in its trade and manufacturing sectors if China retaliates by targeting the most popular US products imported by China.
- China: With most of the targeted products accounting for a modest share of exports to the US, the immediate impact would be limited. However, it could get worse with additional tariffs by US allies and tariffs imposed on Chinese production bases.
- Thailand: There would be limited indirect impact from the latest US tariff hikes. Thailand could face more imports from China as the latter might dump tariffed goods at cheaper prices. The impact could worsen if the US increases tariffs on Thailand's key export sectors.

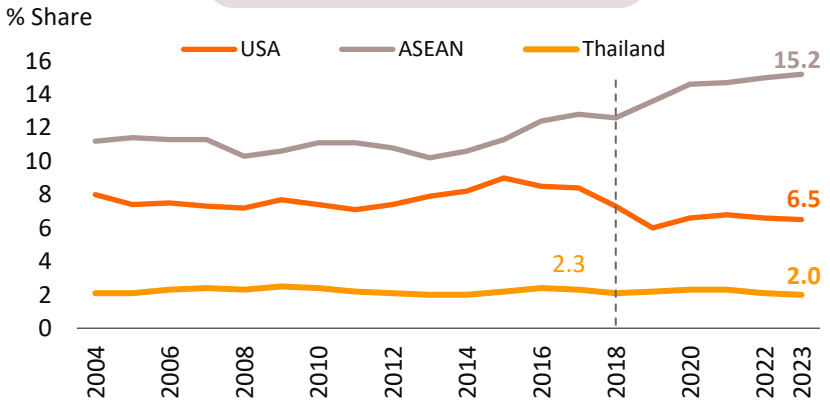
II. Trump's tariffs and implications

- Donald Trump recently proposed up to 60% tariffs on all imports from China and 10% universal baseline tariff across the board. This could lead to retaliatory measures by China and new trade tensions between China and other countries, which would accelerate global trade fragmentation.
- Escalating trade tensions and possible retaliatory measures would lead to (i) a sharp drop in trade flows and manufacturing activities in the US and China, leading to weaker global growth; and (ii) risk-off sentiment in global financial markets. We expect supply chains to continue to relocate as foreign firms reconsider China's position in their supply chains. Chinese firms are also increasingly relocating production outside China.
- These could hurt Thailand's exports and incoming investment, premised on slower global growth, more protectionist measures, and the influx of cheap Chinese products. However, Thailand might benefit from trade diversion and relocation of supply chains to the country, which could encourage domestic investment in related sectors.

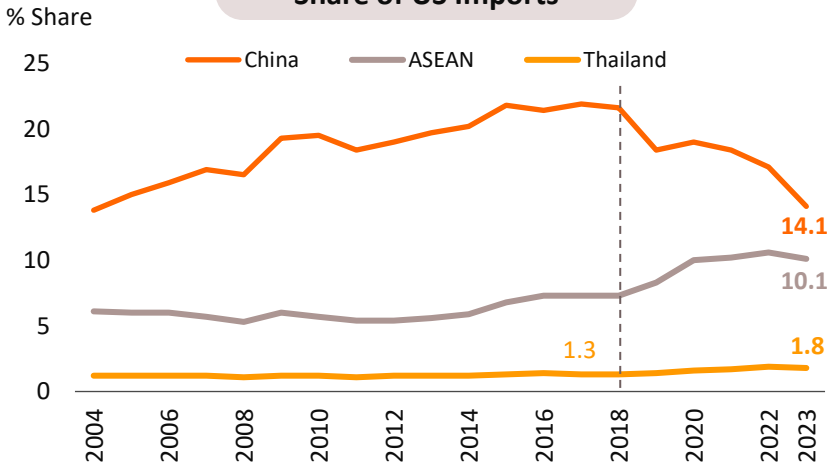
ASEAN and Thai exports to US have gained market share since the trade war

Since 2018, ASEAN has been benefiting from changing trade flow dynamics. Indeed, ASEAN exports to China and the US have increased, while share of Chines imports in the US has tumbled. For Thailand, exports to the US rose from 11.1% of total Thai exports in 2018 to 16.8% in 2023, while Thai exports to China remained stable at 11.9%, suggesting the trade war has led to US importing more goods from other countries, including Thailand. In addition, Thailand's key export products to the US gained market share, which helped to offset declining exports to China, including computer and electronics (CEQ), wood products (WOD), electronic machinery (ELQ), machinery & equipment (MEQ), and motor vehicles (MTR). **To conclude, the escalating US-China trade tensions would damage the global economy through greater protectionist actions, though that could create opportunities for Thai exports in selected products**.

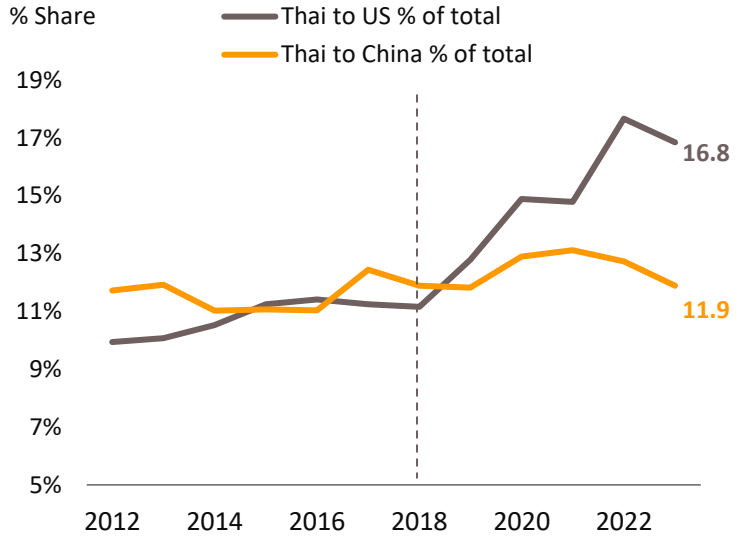
Share of Chinese Imports



Share of US Imports



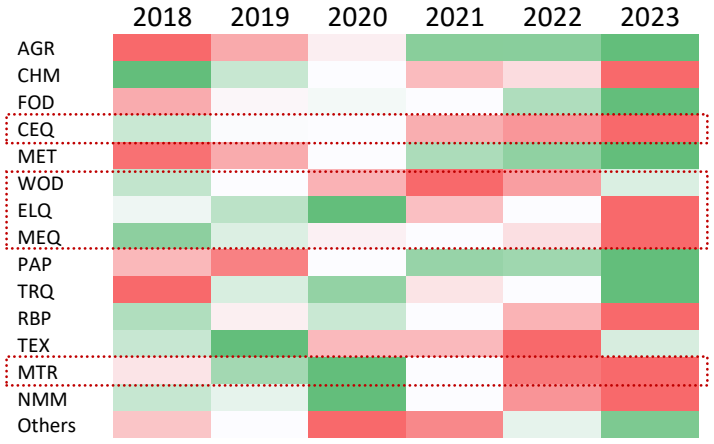
Share of Exports from Thailand



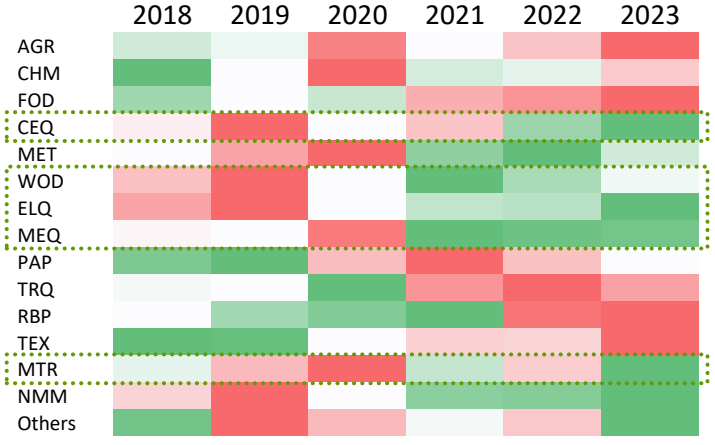
Thai export products

AGR	Agriculture, forestry & fishing	PAP	Pulp, paper, printing & publishing
CHM	Chemicals & chemical products	TRQ	Transport equipment
FOD	Food products, beverage	RBP	Rubber & plastic products
CEQ	Computer, Electronic & optical equipment	TEX	Texiles, leather & footwear
MET	Basic metals	MTR	Motor vehicles, trailers
MEQ	Machinery & equipment	NMM	Other non-metallic mineral
ELQ	Electrical machinery & apparatus	WOD	Wood products

Thai exports to China by product (% of total)



Thai exports to the US by product (% of total)



Source: Reuters, CEIC, Trade map, Krungsri Research

I. US raise new tariffs on USD18 bn worth of Chinese products, effective 2024

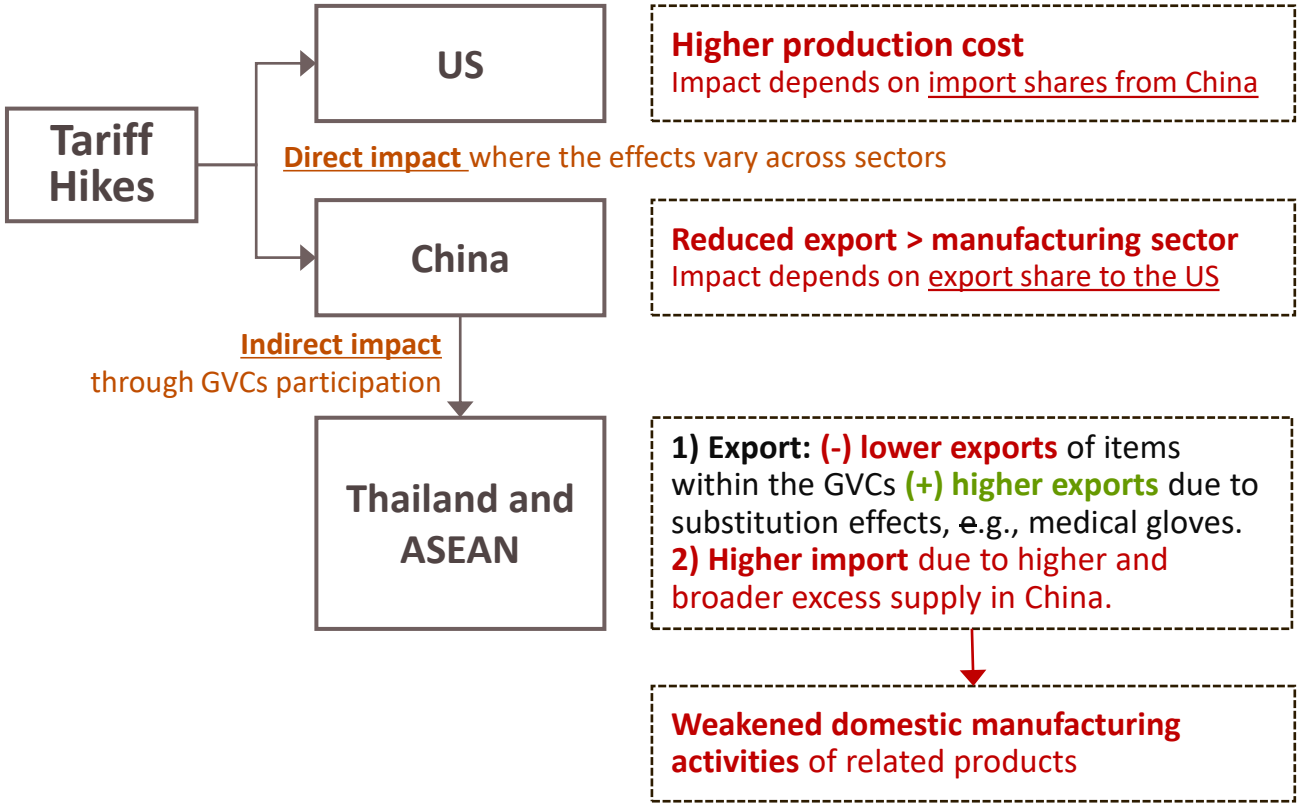
On May 14, US President Joe Biden raised tariffs on USD18 bn worth of Chinese imports across a handful of sectors, citing a need to protect American workers and businesses from China's unfair trade practices. The decision was made after the mandatory four-year review of tariffs imposed by former President Donald Trump in 2018 under Section 301 of the 1974 Trade Act. However, **the immediate price impact on the US economy should be minimal as the new tariffs cover only 4% of total US imports from China.**

New US tariffs on Chinese goods

Product list	Old	New	Effective
Electric vehicles	25%	100%	2024
Solar cells	25%	50%	2024
Semiconductors	25%	50%	2025
Syringes and needles	0%	50%	2024
Lithium-ion batteries for electric vehicles	7.5%	25%	2024
Other lithium-ion batteries	7.5%	25%	2026
Rubber medical and surgical gloves	7.5%	25%	2026
Steel and aluminum products	0-7.5%	25%	2024
Face masks and respirators	0-7.5%	25%	2024

Economic impact of higher tariffs: Analytical framework

Biden's tariffs: Immediate Impact



Source: Reuters, The White House, CEIC, Bloomberg, Krungsri Research

US: Tariff hikes could increase production costs but have minimal impact given diversified markets but there could be backlash from retaliatory measures by China

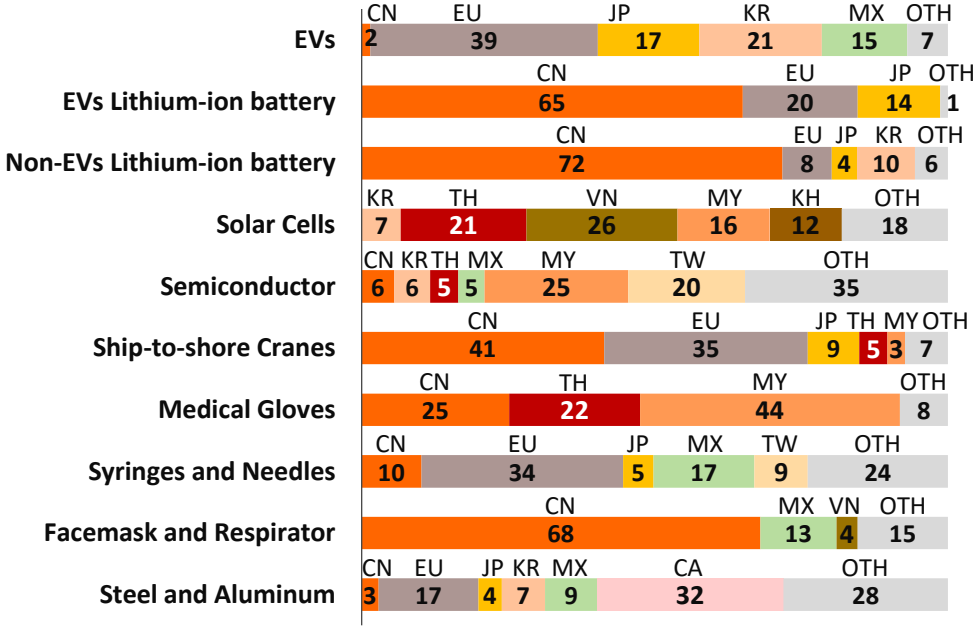
Impact of Biden tariffs on the US

- **The tariff hikes could increase production costs and hinder the reshoring strategy in the near-term, especially in the electronics sector.**
- **The US might not suffer significant immediate repercussions on trade and manufacturing** as import structure for most targeted products is diversified across Europe and Asia.
- **However, lithium-ion batteries are a critical exception for several reasons:**
  - US is dependent on China to supply those batteries, at over half of its battery imports.
  - China's dominance in upstream markets will increase competition for raw materials.
  - Short tariff transition period may not give US firms enough time to adjust.

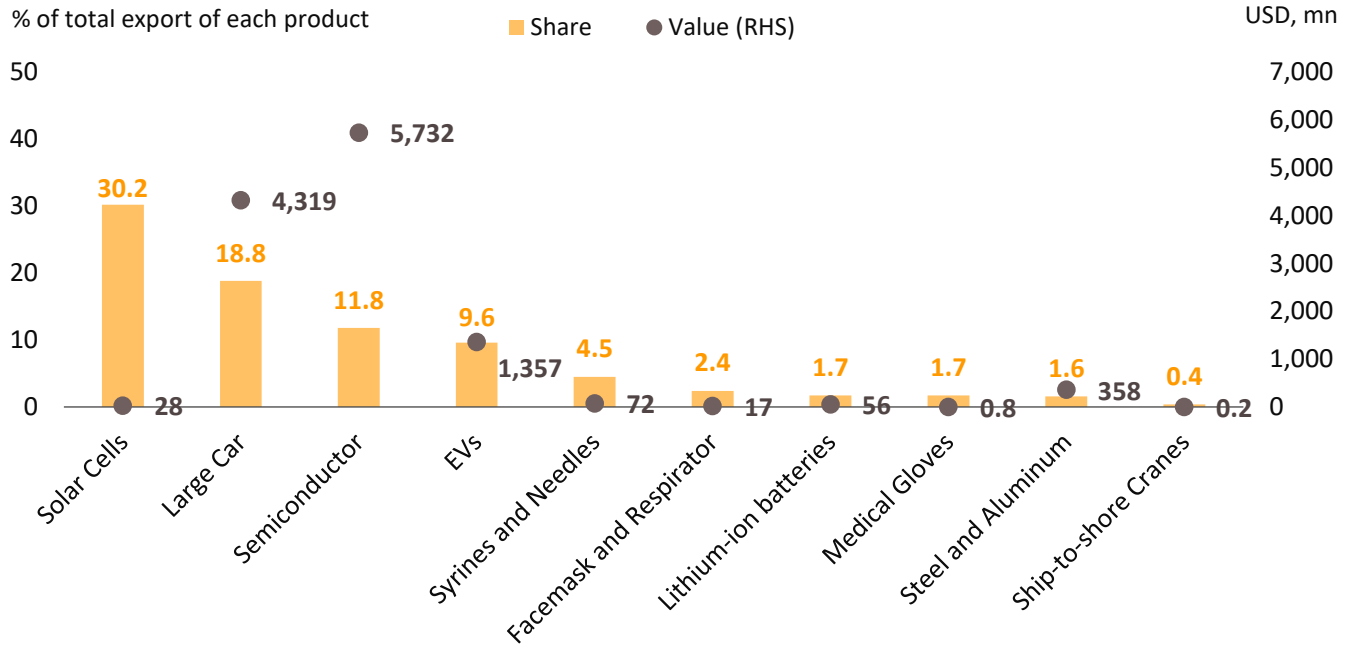
What could happen if trade tensions escalate?

- **China has signaled more retaliatory measures against the US**, including anti-dumping investigation on polyformaldehyde (POM) and raising tariff on large US-made cars from 15% to 25%.
- **The US' trade and manufacturing sectors could see a backlash if China retaliates** by targeting popular imports from the US, especially solar cells, large engine-capacity cars, semiconductors, and EVs.
- **Related industries could also be affected**, including energy storage. Tesla recently commencing construction of its mega battery manufacturing plant in Shanghai.

Share of the US Imports by products (2023)



US Exports to China by Product (2023)



Source: ITC, Bloomberg, USTR, Capital Economics, Bangkok Post and Krungsri Research

China: Most of the targeted products command modest market shares in the US, so immediate impact is limited; but it could worsen with additional and broader tariffs

Impact of Biden tariffs on China

- **The latest tariff hikes could have immediate negative impact on China's exports and manufacturing, but the magnitude would be limited for most products.**
  - EVs and solar cells - they accounted for only 0.2% and 0.9% of total Chinese exports to the US in 2023, respectively. Medical equipment and ship-to-shore cranes, which depend heavily on the US market, accounted for only 0.2% of China's total exports in 2023.
- **Lithium-ion batteries are the most vulnerable**. The US as China's second largest export destination for this product after the EU (35.9% of exports in 2023).

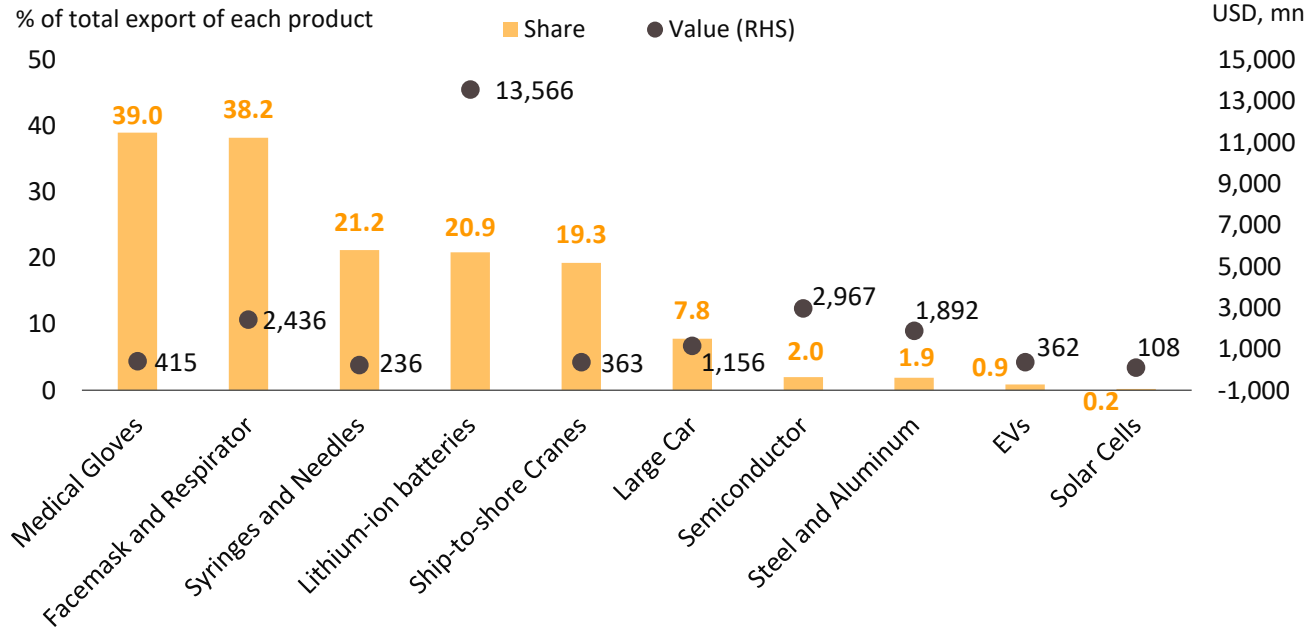
What could happen if trade tensions escalate?

Despite limited immediate impact, China could be hurt significantly if:

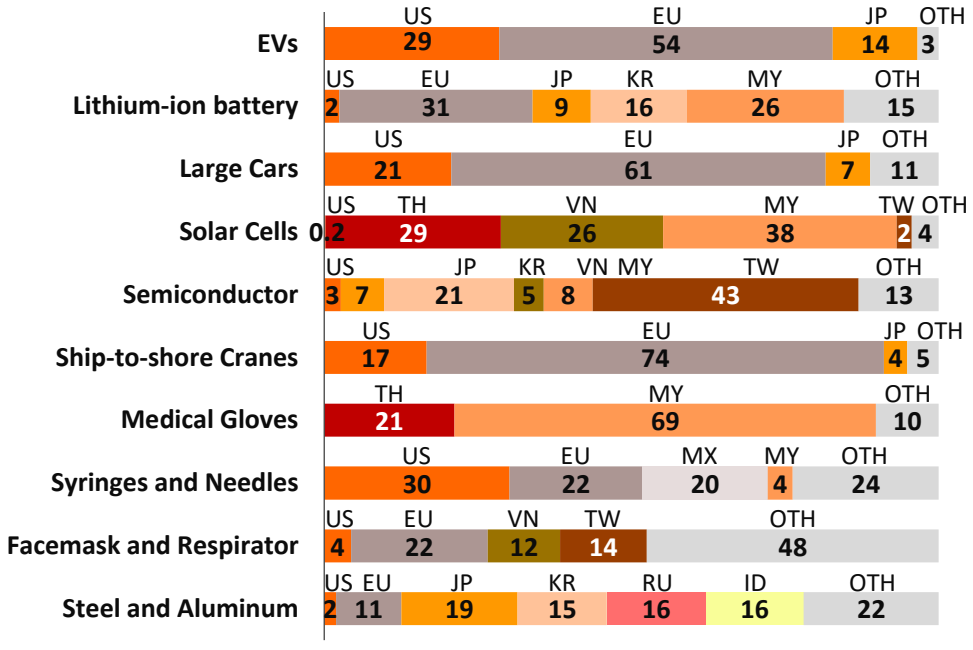
i. **The US pressures South Korea, Japan, and the EU to raise tariffs** on lithium-ion batteries and EVs; these products accounted for 51.7% and 39.2% of Chinese exports in 2023.

ii. **The US imposes additional tariffs on third-party Chinese production bases**, such as Mexico (EVs) and ASEAN nations (solar cells). In the latter case, Cambodia, Malaysia, Thailand, and Vietnam could face high anti-dumping and countervailing duties (AD/CVD) of more than 200% after the waiver period ends in June this year, unless they negotiate new terms with the US.

Chinese Exports to the US by Product (2023)



Share of Chinese Imports by Product (2023)



Source: ITC, Bloomberg, USTR, Capital Economics, Bangkok Post and Krungsri Research

Thailand: Impact could worsen if the US increases tariffs directly or indirectly on key Thai products

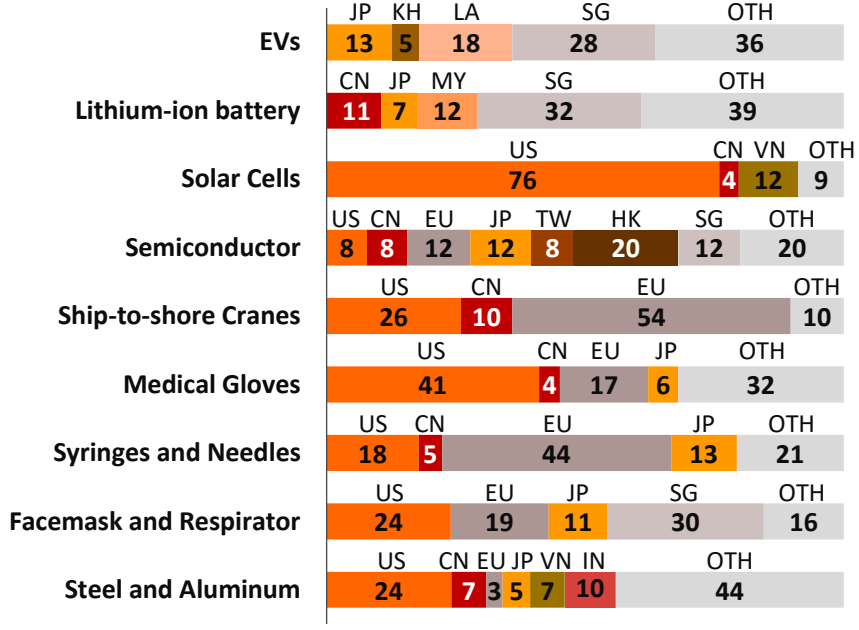
Impact of Biden tariffs on Thailand

- **There is minimal indirect impact of the latest US tariff hikes on Thailand's exports. It could see a positive impact from the substitution effect but products in the value chains of goods subject to tariffs might be affected.** The negative impact would be bigger in sectors which depend largely on exports to China, especially rubber and plastics used to manufacture medical equipment. These are among Thailand's top exports at 6.2% of total exports in 2022.
- **Thai trade balance could worsen with higher imports from China.** China might export tariffed goods at cheaper prices to clear excess supply.

What could happen if trade tensions escalate?

- **Solar cells – if the waiver period expires in June without a compromise**, Thailand might face AD/CVD of more than 200%. Thailand exported USD3.31bn worth of solar cells to the US in 2023.
- **Additional tariffs could force China to dump cheap goods in other countries. Thailand would face fierce competition in key sectors:**
  - i. **Domestic market:** We expect an influx of Chinese goods in industries which are dependent on imports, such as computers & electronics (CEQ) and chemical products (CHM).
  - ii. **Foreign market:** Competition could increase in sectors where China remains a major player in the global market, such as computers & electronics (CEQ), machinery & equipment (MEQ), electrical machinery (ELQ), and rubber & plastics (RBP).

Share of Thai Exports by Product (2023)



Top 10 Thai Imports from China by Sector (2022)

Sectors	Value (USD bn)	% of Total Imports
Computer & Electronics	17.6	24.6
Chemical products	9.0	12.6
Electrical machinery	8.4	11.7
Basic metals	7.4	10.3
Machinery & equipment	7.1	9.9
Fabricated metal	4.7	6.6
Textiles, leather & footwear	3.0	4.2
Rubber & plastics	2.9	4.1
Motor vehicles	2.5	3.5
Food & beverages	1.6	2.2

Top 10 Thai Exports by Sector (2022)

Sectors	Value (USD bn)	% of Total Exports	% Chinese Global Market Share in 2022
Computer & Electronics	47.01	17.58	26.3
Food & beverages	30.49	11.4	4.7
Motor vehicles	32.21	12.04	8.8
Chemical products	28.93	10.82	10.3
Machinery & equipment	19.57	7.32	17.7
Electrical machinery	18.48	6.91	31.6
Basic metals	12.71	4.75	8.4
Rubber & plastics	16.48	6.16	22.9
Agriculture	14.1	5.27	3.0
Coke & refined petroleum	8.25	3.08	4.3

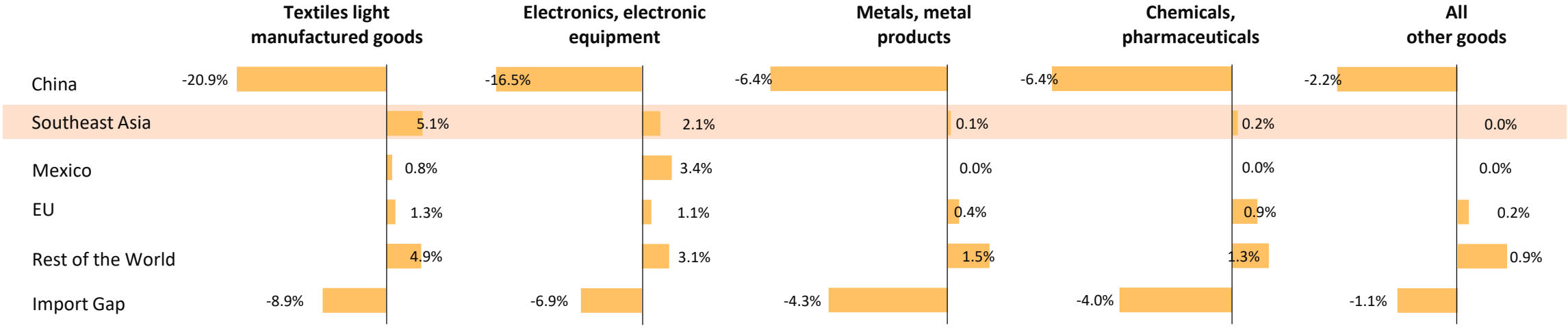
Source: ITC, Bloomberg, USTR, Capital Economics, Bangkok Post and Krungsri Research

II. Trump's proposed tariffs would reduce imports from China but create opportunities for ASEAN exporters; retaliatory measures could accelerate global trade fragmentation

In keeping with his MAGA promises, Donald Trump recently proposed to increase tariff to up to 60% on all imports from China and 10% universal baseline tariff across the board. If he wins this year's election, trade ties between the US and China would worsen in 2025; the share of US imports from China has shrunk from 26.1% in 2018 to 14.1% in 2023, after Trump raised tariffs on China goods. However, **China's loss could be ASEAN's gain, thanks to trade diversion and relocation. However, China is likely to introduce retaliatory actions to defend its rights and interests. This could lead to an influx of cheap Chinese goods, which would create new trade tensions between China and other countries. This will accelerate global trade fragmentation.**

Projected change in share of American imports in 2030

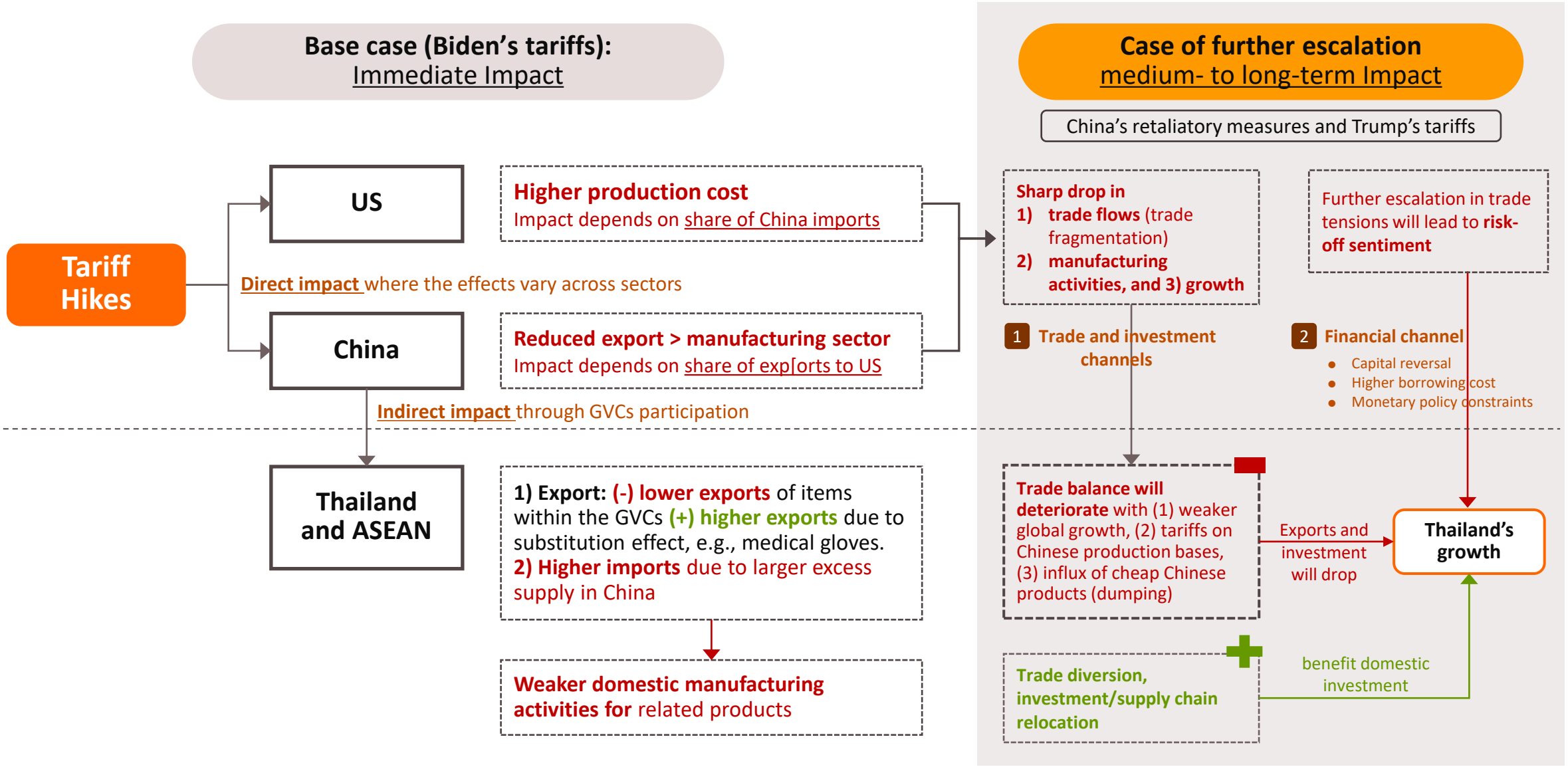
Note: Projections (by Bloomberg) assuming Trump's proposed tariff start in 2025



Potential impact from new Trump's tariff	
US economy	**Global supply chain**
• **For the real economy,** the universal tariff can boost selected US industries like mining and auto manufacturing. But it would increase cost of imports and lead to higher inflation, reduce income, weaker employment, and smaller economic output. • **For financial markets,** it could lead to risk-off sentiment. The USD would appreciate in response to tariffs, which would offset the impact of potentially higher prices for consumers.	• Trump's tariff proposal could prompt **foreign firms to reconsider China's position in their supply chains**, and reduce its appeal as an export center. • **Chinese firms to locate more production outside of the country,** to minimize the impact of trade barriers.

Source: Bloomberg Economics, Krungsri Research

Summary: Economic impact of higher tariffs



Source: Krungsri Research

Thailand: We trimmed 2024 GDP growth forecast to 2.4%; cyclical recovery in 2H24 to be capped by domestic and external headwinds

- **We revised down 2024 GDP growth forecast to 2.4%** to reflect longer-than-expected delays in public spending, weak exports, and structural headwinds. Year-on-year growth is expected to improve the rest of this year.
- **In 2H24,** growth would be driven by cyclical factors with accelerating public spending and the recovering tourism sector. However, it might be capped by domestic political risk, structural problems, and external headwinds.
- **In the tourism sector**, the move to extend free-visa entry should boost the number of inbound foreign tourists. We maintain our forecast for foreign tourist arrivals to reach 35.6mn this year.
- **Public investment** is picking up, supporting economic recovery in the next period. However, fiscal stability could weaken.
- **Private investment** will improve with crowding-in effect of accelerating public investment, but upside will be capped by weak manufacturing and domestic political uncertainty.
- We trimmed **2024 export growth forecast** to only +1.8%, premised on structural problems in the manufacturing sector and rising global trade tensions.
- **Private consumption** will grow at a slower pace despite measures to boost domestic tourism. Volatile farm income and high household debt could cap consumption growth.
- **Headline inflation** returned to the BOT's target range for the first time in 13 months in May. It is expected to average +0.7% for the full year.
- MPC voted 6-to-1 to maintain **the policy rate** with hawkish tones. We expect the BOT to hold the rate throughout this year.

Krungsri Research Forecasts for 2024

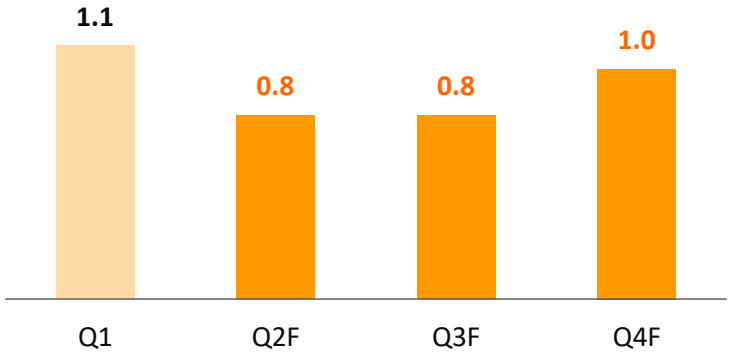
Krungsri Research Forecast		2022	2023	2024F**	
				Previous	Latest
GDP growth	YoY (%)	2.5	1.9	2.7	2.4 ▼
Private Consumption Expenditure	YoY (%)	6.2	7.1	3.1	3.4 ▲
Government Consumption Expenditure	YoY (%)	0.1	-4.6	1.5	1.5 =
Private Investment	YoY (%)	4.7	3.2	3.3	3.0 ▼
Public Investment	YoY (%)	-3.9	-4.6	2.4	-1.1 ▼
Nominal Exports in USD (f.o.b.)*	YoY (%)	5.4	-1.7	2.5	1.8 ▼
Nominal Imports in USD (f.o.b.)*	YoY (%)	14.0	-3.1	4.2	4.2 =
Current Account Balance	USD, bn	-15.7	6.6	7.8	6.5 ▼
Tourist Arrivals	Mn, persons	11.1	28.2	35.6	35.6 =
Headline Inflation	YoY (%)	6.1	1.2	1.1	0.7 ▽
Policy Interest rate (end of period)	(%)	1.25	2.50	2.00	2.50 △
Dubai crude price - period average	USD/bbl	96	82	87	85 ▽

Note: * Based on BOT data, ** 2024 projection excluding Digital Wallet Scheme
Source: NESDC, BOT, MOC, MOTS, Bloomberg, Krungsri Research

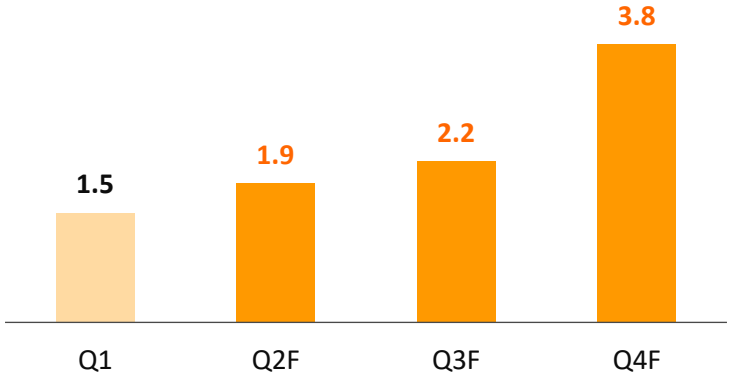
We trimmed *2024 GDP growth forecast* to 2.4%; year-on-year growth should improve the rest of this year

We trimmed 2024 GDP growth forecast from +2.7% to +2.4% to reflect longer-than-expected delays in public spending, weak exports, and structural headwinds. Our forecast is supported by cyclical factors, including recovering tourism activity and accelerating government spending. GDP growth marked +1.5% YoY in 1Q24 and is projected to improve to 1.9-2.2% in 2Q24 and 3Q24, before accelerating in 4Q24 supported by peak tourist season and a low base. However, there is downside risk from domestic politics, structural problems (such as in the production sector, exports and consumption), and possibly worsening trade war.

2024 GDP Growth Forecast: % QoQ sa



2024 GDP Growth Forecast: % YoY

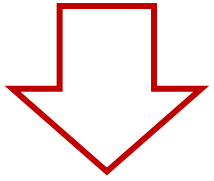


Upside/Downside risks to our growth projection



Upside risks

- Larger-than-expected disbursements of FY2024 budget and crowding-in effect on private investment
- Additional stimulus measures such as to boost domestic tourism
- Surprise gains in foreign tourist arrivals
- Improving employment and income following recovery in the services sector



Downside risks

- Domestic politics and risks
- Impact of El Nino and La Nina
- Intensifying global trade tensions
- Risk of global slowdown amid still-tight monetary policy
- Prolonged geopolitical tension
- Domestic structural headwinds

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

Key growth drivers in 2H24: Accelerating public spending and recovering tourism sector; domestic politics could hurt investor sentiment

Major factors affecting Thai economy	2Q24	2H24
• Tourism growth supported by free visa scheme		
• Additional economic stimulus measures		
• Public spending		
• Domestic political uncertainty		
• Geopolitical tensions		
• Impact of high interest rates in advanced economies		
• Global trade protectionism		
• Impact of climate change (from El Niño to La Niña)		
• Structural problems (lower competitiveness, high household debt)		



Negative impact Positive impact

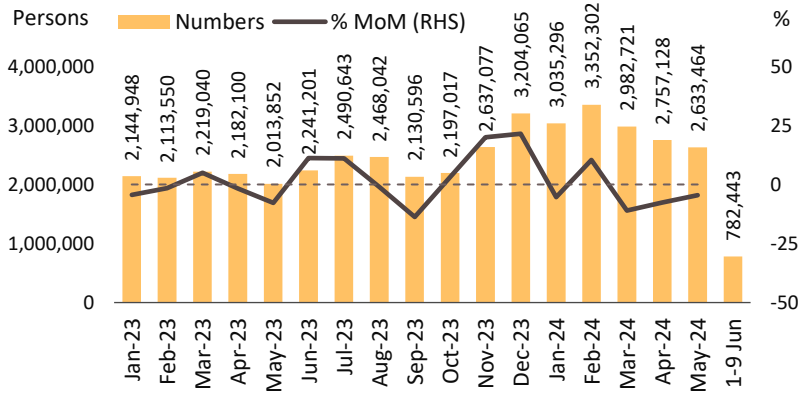
Source: Krungsri Research

Tourism sector: Extending free visa to more countries should boost foreign tourist arrivals; maintain foreign tourist arrivals at 35.6mn this year

Thailand welcomed 2.63 mn foreign tourists in May, slowing down for the third consecutive month following seasonally-fewer European tourists. **During 1 Jan-9 Jun 2024, tourist arrivals reached 15.54 mn (88% of pre-Covid level vs 71% in 2023) and generated THB736 bn receipts (90% of pre-Covid level vs 63% in 2023)** led by Chinese tourists which made up the largest group; however, that is only 61% of pre-Covid level. Tourists from Malaysia, India, Russia and South Korea surged to 106-130% of pre-pandemic levels. In the second half of this year, tourism sector would be encouraged by positive factors, including measures to extend free visas to tourists from 93 countries (vs 57 currently), extend length of visa-free stay in Thailand from 30 days to 60 days, and increase flight routes and frequency, especially from India.

Foreign tourist arrivals reached 15.54 mn

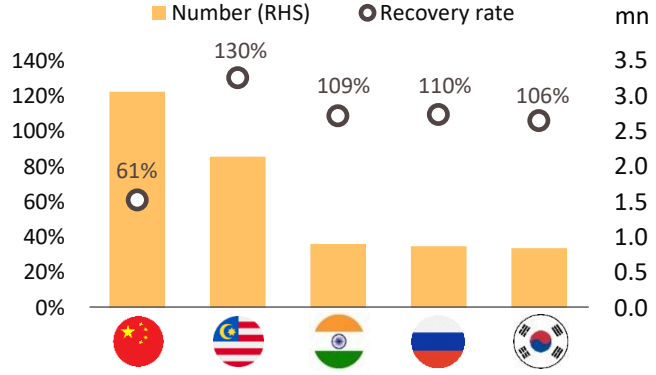
(during 1 Jan-9 Jun 2024)



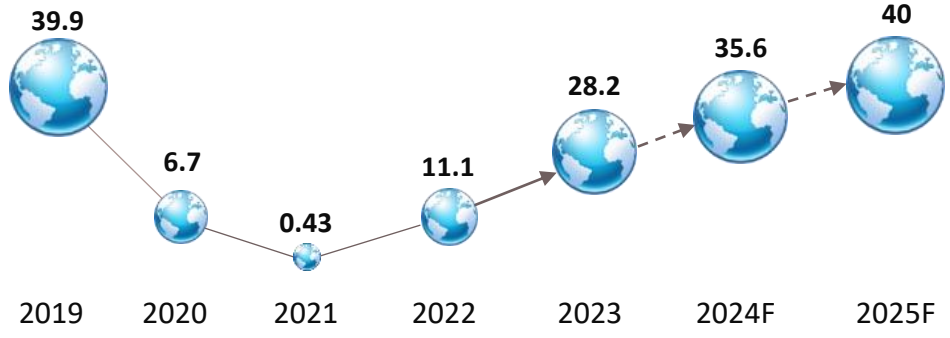
Top 5 foreign tourist arrivals by country

(during 1 Jan-9 Jun 2024)

Unit: persons, (% change from pre-Covid level)



Forecast for foreign tourist arrivals (mn persons)



Tailwinds

- Expand visa-free entry to 93 countries now eligible and increase visa-free stay in Thailand to 60 days.
- Thailand is the top destination in Asia among European tourists, followed by Indonesia, Japan, Malaysia, and the Philippines, according to a survey by international online travel booking Agoda. (May 26, 2024)
- Based on flight booking data on Chinese platform Qunar, Thailand was the most popular destination for tourists from China, followed by Japan, Malaysia, and South Korea. (May 6, 2024)

Headwinds

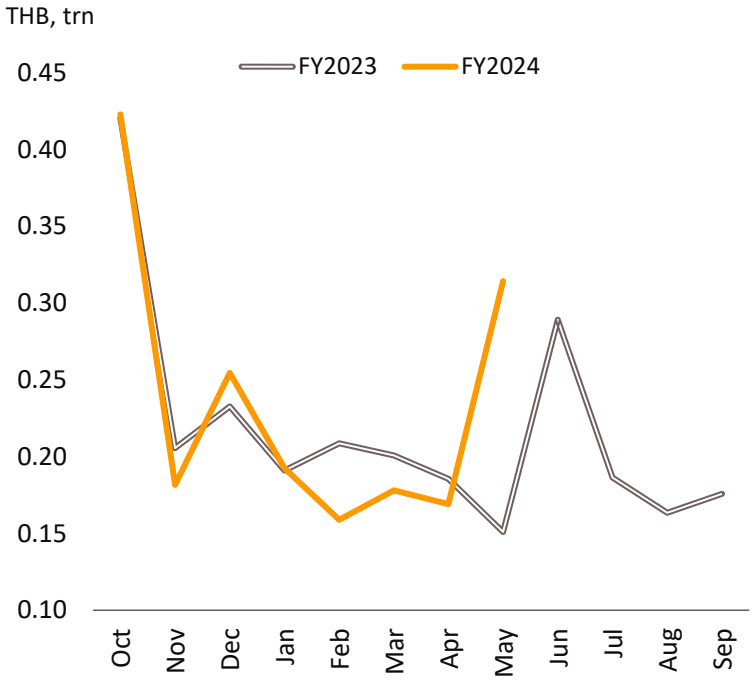
- Flight routes and frequencies are still limited.
- Labor shortage and higher labor costs
- Chinese tourists recovering slower than expected and spending less than pre-covid levels
- Greater competition as many countries rely more on tourism to drive their economics

Source: MOTS, CEIC, Krungsri Research

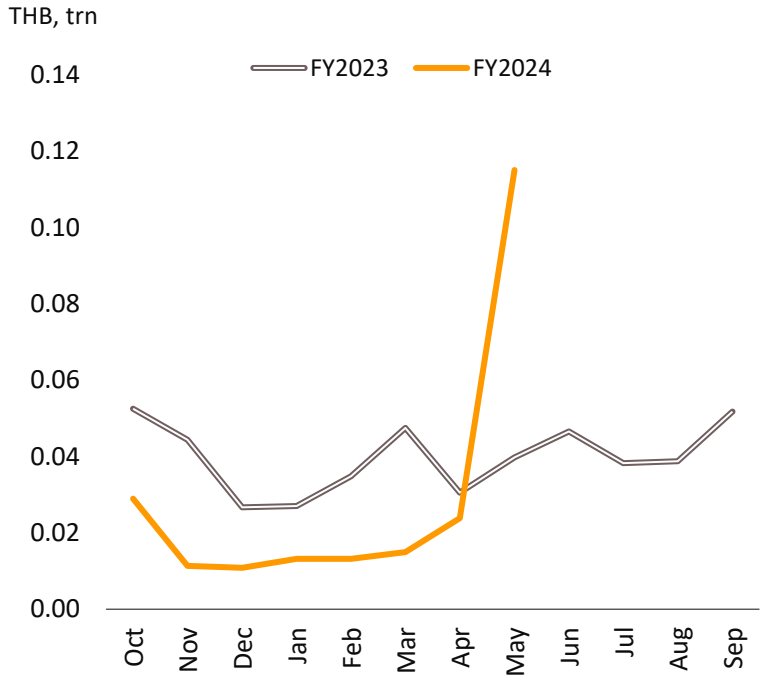
Public investment is accelerating, supporting economic recovery in the next period; but fiscal stability could weaken

Public spending has picked up since the FY2024 Budget Act came into effect in late-April. Data from the Ministry of Finance show that in May, disbursements of the current budget and capital budget had expanded by 108% and 189% YoY, respectively. In the first 8 months of FY2024 (October 2023 to May 2024), spending of the current budget reached THB1.86 trn, or 71% of the annual budget and rising 4.3% YoY. For the capital budget, the government disbursed THB0.23 trn, or only 27% of the annual capital budget and falling 23.7% YoY. **Recently, the Cabinet agreed to increase FY2024 budget expenditure by THB122bn to fund economic stimulus projects.** This raised the annual expenditure budget to THB3,602bn from THB3,480 bn and the fiscal deficit would rise to 4.3% of GDP (previously -3.6% of GDP), which implies weaker fiscal stability in the next period.

Current expenditure disbursement



Capital expenditure disbursement



Fiscal plan

Fiscal year (THB, bn)	2024		2025
	Previous	Latest*	
Expenditures	3,480	3,602	3,752
% YoY	9.3	13.1	4.2
Receipt	2,787	2,797	2,887
% YoY	11.9	12.3	3.2
Fiscal balance	-693	-805	-865
% of GDP	-3.6	-4.3	-4.5
Public debt (% of GDP)	63.7	65.7	67.9

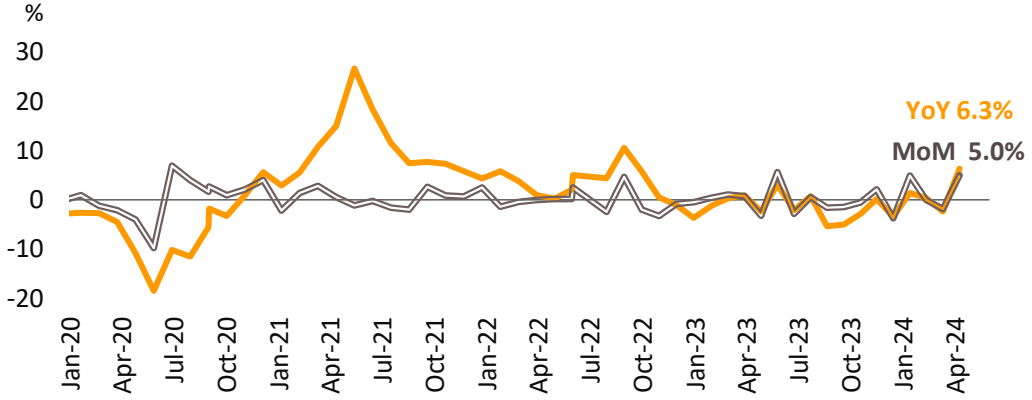
Note: * preliminary from the cabinet (approved as of May 28, 2024)

Source: MOF, the cabinet, Krungsri Research

Private investment is improving, induced by accelerating public investment, but upside would be capped by weak manufacturing sector and domestic politics

Private investment is improving, albeit slowly. That is reflected in the following: (i) Business Sentiment Index improved in May from a 27-month low in April; (ii) Private Investment Index returned to expansion zone in April (+6.3% YoY and +5.0% MoM sa); and (iii) Manufacturing Production Index returned to expansion zone for the first time in 19 months, though capacity utilization rate remained below 60**%. For the rest of this year, we expect positive impact from the accelerating disbursement of capital budgets, which will support crowding-in effect on private investment.** However, weak exports could cap private investment and domestic politics could continue to pressure investor confidence.

Private Investment Index in April showed improving signs

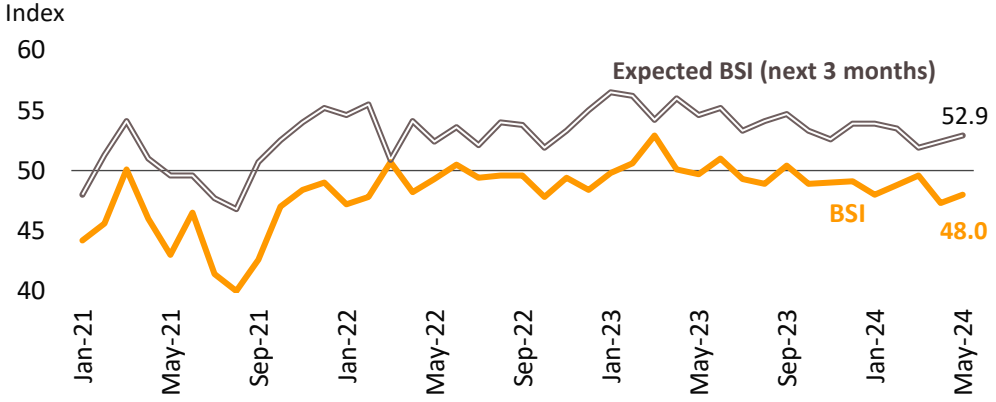


Private Investment by category

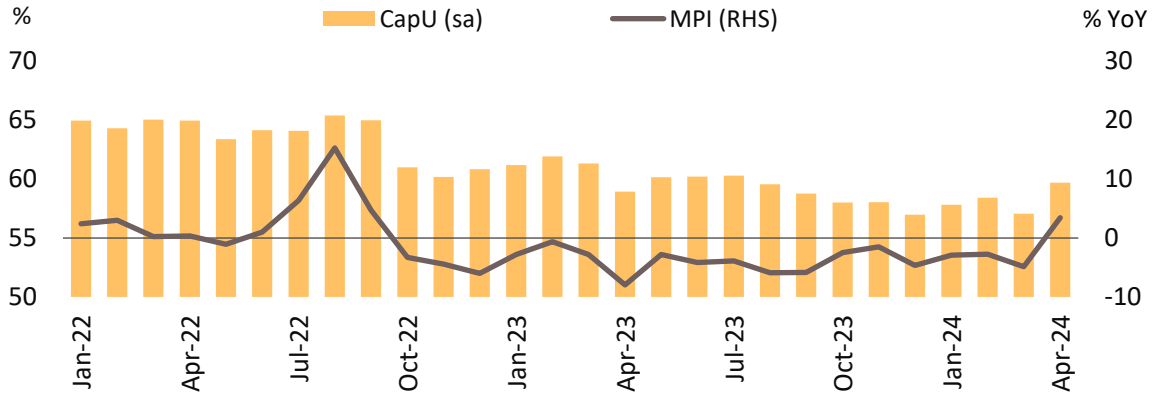
%YoY*	2021												2022												2023												2024			
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A
Private investment																																								6.3
Construction area permitted																																								21.7
Construction material sales																																								-5.4
Imports of capital goods																																								15.7
Machinery sales																																								0.2
Newly registered vehicles																																								-16.9

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

Business Sentiment Index edged up but remains low



Manufacturing Production Index and Capacity Utilization Rate

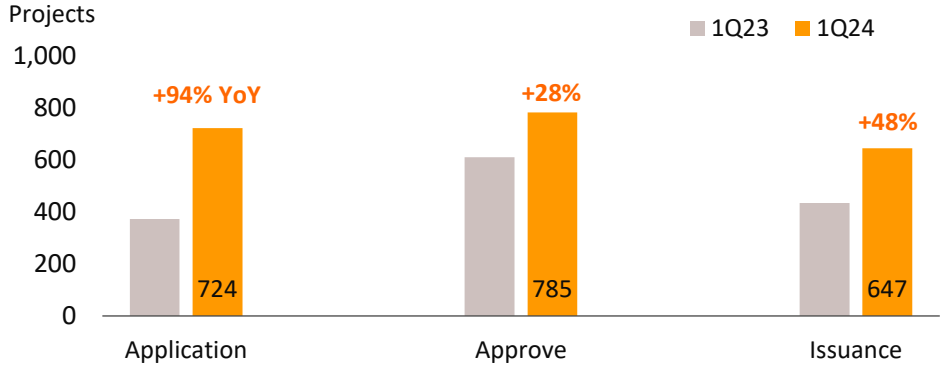


Source: BOT, OIE, CEIC, Krungsri Research

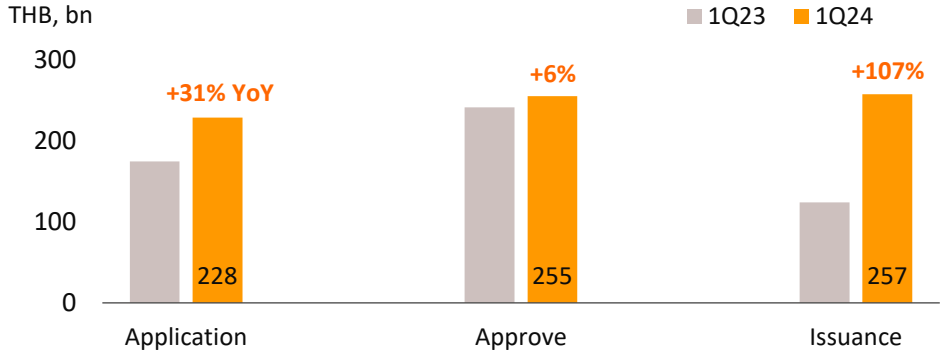
Government to boost private investment by introducing more investment incentives

Board of Investment (BOI) data for the first quarter of this year revealed it received applications for 724 projects (+94% YoY) with total investment value of THB228 bn (+31% YoY). The board approved 785 projects (+28%) with total investment value of THB255 bn (+6%) and issued promotional certificates for 647 projects (+48%) with total investment value of THB257 bn (+107%). Recently, the government said it would expedite private investment through the BOI. In 2023, the BOI approved incentives for more than THB800 bn worth of projects. If actual investment accelerate to THB30-40 bn this year, that will lift GDP by 0.14-0.15%.

BOI Investment Incentives (Projects)



BOI Investment Incentives (Value)



Source: BOI, Krungsri Research

Tailwinds

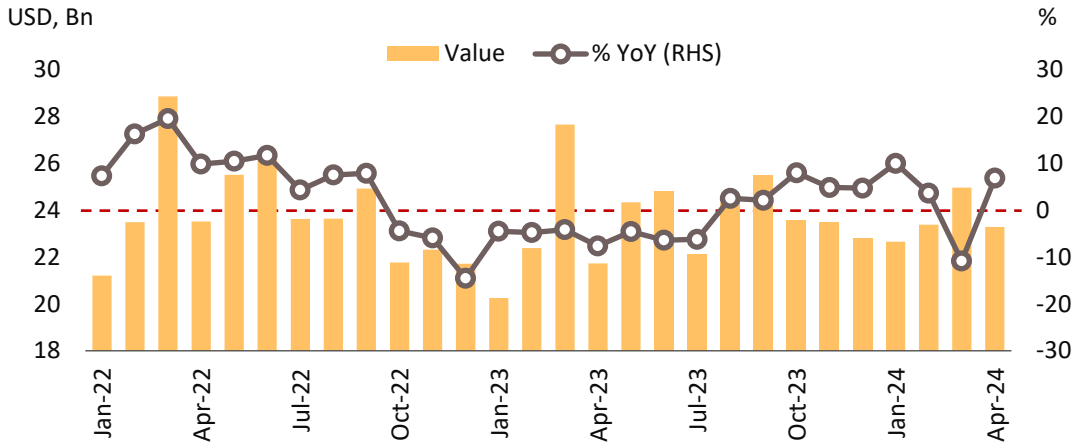
- Investment improve in response to the recovering domestic economic recovery, led by services sector
- Accelerating public investment could help to induce related private investment
- Rising FDI in ASEAN driven by greater regionalization and US-China trade war
- Supportive policies and projects (e.g., infrastructure investment, EEC, policies to promote Thailand as a production hub for electric vehicle (EV) in ASEAN region, investment in energy, and an environment-friendly economy

Headwinds

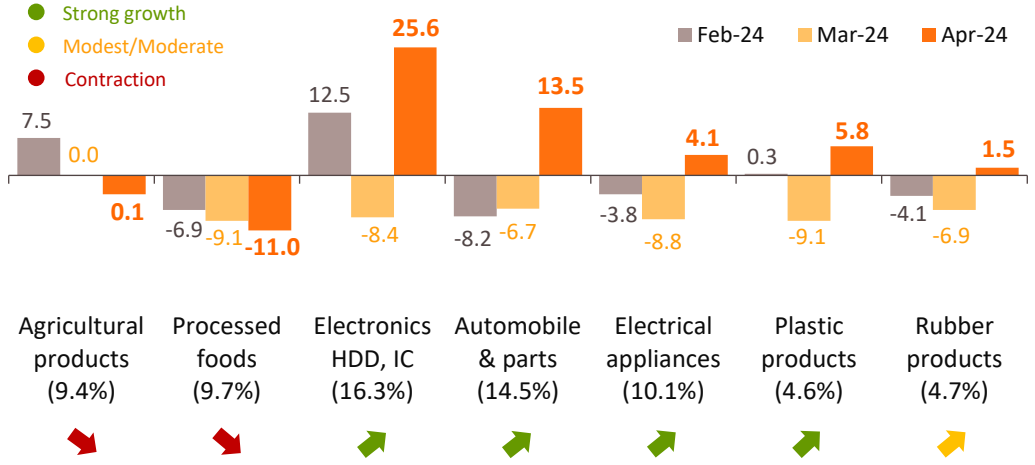
- Concerns about domestic politics could dampen investor sentiment
- Weaker competitiveness in key manufacturing sectors due to low capacity utilization
- Prolonged geopolitical tensions
- Tight labor market, and concerns over wage-hikes

Exports is projected to grow by only 1.8% this year amid headwinds from structural problems and risk of rising trade tensions

Exports



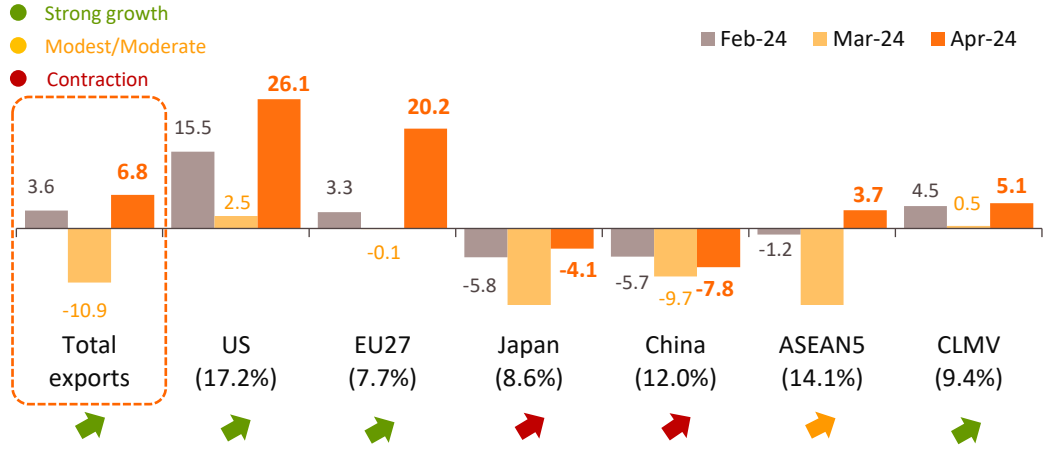
Exports by major product (%YoY)



Note: (% share in 2023)

Source: MOC, Krungsri Research

Exports by major destination (%YoY)



Krungsri Research's view

- **Merchandise export value marked 6.8% growth in April to reach USD23.3 bn.** Excluding gold and oil, exports grew 11.4%. Top gainers were rice (+91.5%), computers & computer equipment (+62.0%), machinery & parts (+58.8%), rubber (+36.2%) and auto, auto equipment & parts (+20.4%). However, exports fell for fresh, chilled, frozen & dried fruit (-29.8%), integrated circuit boards (-9.2%), and sugar (-9.1%). There were stronger exports to the US, the EU, ASEAN-5 and CLMV nations, while exports to China and Japan contracted. In first 4 months of this year, export value only inched-up 1.4%.
- For the rest of this year, structural problems in the manufacturing sector would continue to cap export growth. This is reflected by the weaker industrial production sector (-2.0% in the first 4 months of 2024) and May Manufacturing Purchasing Managers Index which remained weak at 50.3 despite recovering. Additionally, Thai industries are losing competitiveness against competing countries. And, the US-China trade war could intensify and potentially hurt exports from Thailand and other ASEAN countries which the US identify as China's proxy production bases. Consequently, exports could remain weak in 2024. **We recently trimmed export growth forecast for this year to +1.8% from +2.5%.**

Exports could be capped by structural problems in manufacturing sector and rising trade protectionism

In the first four months of this year, Thai exports grew 1.4% YoY led by industrial products which marked 1.8% growth (including computers & parts, and plastic products). Exports of agricultural products (rice and rubber) expanded by 3.1%, while exports of agro-industrial products (rubber products, cassava products, and sugar) fell by 1.8%. Exports remained weak in many Thai industries (including cars & parts, electronic ICs, chemical products, and plastic resin), reflecting structural problems in Thailand's industrial production sector.

Thai exports by major product and destination

Thailand: Jan-Apr's export growth (% YoY)	World	US (17%)	EU (8%)	Japan (9%)	China (12%)	ASEAN-5 (14%)	CLMV (9%)
Total	**+1.4**	**+13.4**	**+2.3**	**-8.0**	**-6.0**	**-3.3**	**+6.2**
Cars & parts (10.9%)	-2.4	+21.1	-6.5	-1.7	-8.2	-22.2	-41
Computer & parts (6.3%)	+18.1	+27.2	+32.7	-11	+31	-25.0	-2.5
Rubber products (4.7%)	-1.8	+21.4	+2.0	-0.6	-32	-7.7	+6
Electronic IC (3.4%)	-10.8	-40.1	-15.6	+1.0	-1.4	-13.0	-22
Plastic resin (3.1%)	-4.5	+27.2	-14.1	-7.0	-7	+0.4	-1.2
Chemical products (2.8%)	-7.9	-5.2	-16.3	-15.8	-13	-11	-5.0
Fresh, frozen & dried fruit (2.0%)	-25.3	-7.6	+20.2	+10.4	-29	-7.8	+22
Electrical appliances (1.9%)	-5.9	-6.1	-5.6	+4.3	+29	-9.2	-26
Rice (1.8%)	+53.8	+27.1	+15.1	-3.5	-3.1	+262	+27
Plastic products (1.5%)	+8.6	+43.3	+5.8	-7.6	+7.3	+5.9	-0.5
Rubber (1.3%)	+27.3	+71.2	+59	+24.3	+5.4	+29	+128
Tapioca products (1.3%)	-18.6	+17.5	-7.9	+8.4	-38	+87	-1.0
Preserved fish, crustaceans (1.2%)	+6.9	+9.9	+15.1	-12.1	-27	-6.8	-6.9
Sugar (1.2%)	-30.8	-50.2	-70.9	+20.9	+41.7	-49.2	+64

Tailwinds

- Improving demand from trading partners as inflation ease
- Stock-piling to ensure food security and for domestic consumption, especially rice
- Recovering global service sectors could boost demand for related products
- Gradual recovery in some manufacturing sectors worldwide would support exports of electronics and electrical appliances.
- Strong domestic demand in ASEAN region could increase regional and cross-border trade

Headwinds

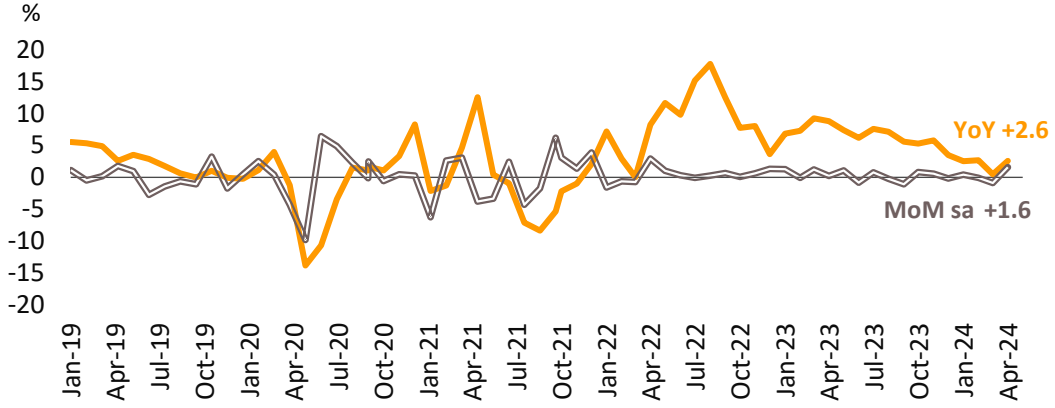
- Due to structural problems triggered by weak manufacturing production and low competitiveness, growth of Thai exports is largely concentrated in low-value-added products.
- Rising global trade protectionism
- Tensions in the Middle East are affecting commodity prices and shipping costs
- Climate change could affect agricultural output

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

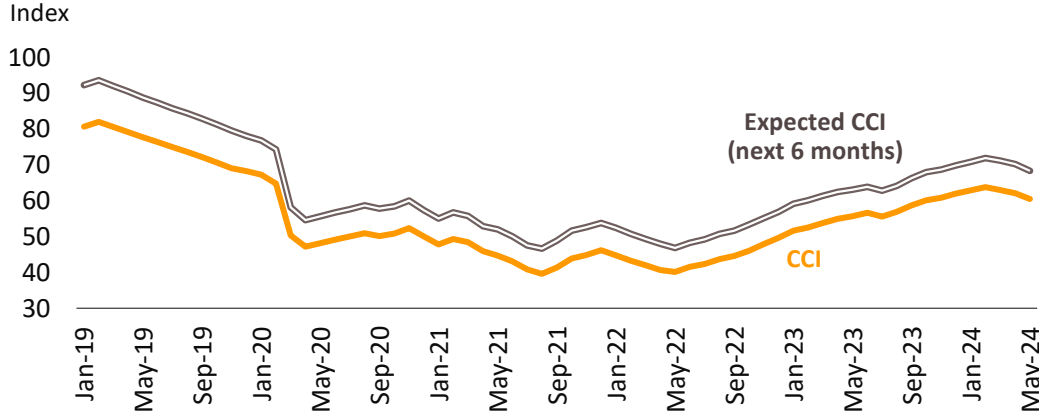
Private consumption: Slower growth despite measures to boost domestic tourism

Private consumption index rose in April (+2.6% YoY and +1.6% mom sa). Spending in the services sector increased in line with the tourism sector which experienced a boost during Songkran holidays. This trend is consistent with stronger spending on non-durable and consumer goods. **In the second half of this year, private consumption would continue to be supported by** (i) the improving tourism sector following recent measures to stimulate tourist spending in secondary cities in Thailand; (ii) measures to reduce energy bills; (iii) offering lower lending interest rates to help vulnerable groups; and (iv) the end of El Nino (characterized by dry weather) during mid-year which should improve farm output and income. **However, projected La Nina conditions in 2H24 could hurt farm output in flood-prone areas and structural problems arising from high household debt could cap consumption growth.**

Private consumption improved slightly in April



Consumer confidence fell for the third consecutive month



Source: CEIC, BOT, University of the Thai Chamber of Commerce (UTCC), 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
Private consumption																																								2.6
Non-durables																																								4.4
Semi-durables																																								1.4
Durables																																								-6.1
Services																																								6.1
Non-residents expenditure																																								43.8

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

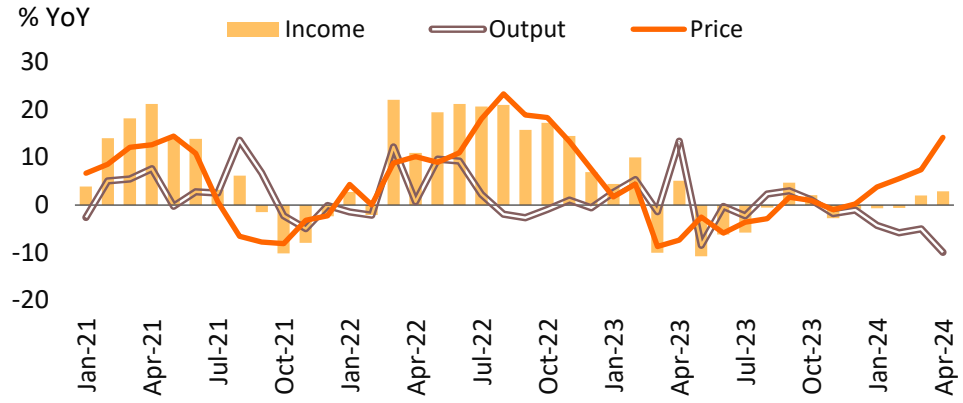
Programs to boost domestic tourism

Tax deduction	Detail	Condition
Personal income tax	• Individuals can deduct up to THB15,000 per person for spending on tour guides, hotel, homestay, or other types of temporary accommodation in any of the 55 second-tier provinces.	• Effective 1 May to 30 November 2024. • Claimants need to submit e-tax invoices and e-receipts to qualify.
Corporate income tax	• Companies can deduct expenses for organizational training and seminars, at 2x deduction for events held in second-tier provinces and 1.5 times for events held in leading tourist areas.	

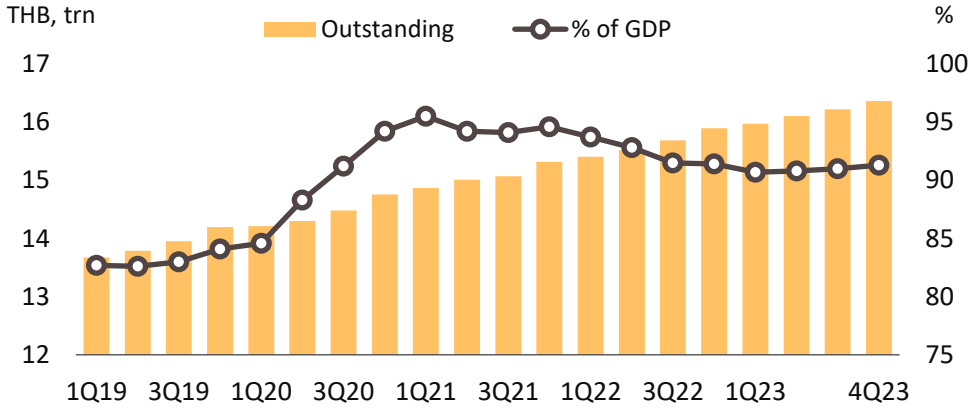
Slower rise in farm income and structural problems arising from high household debt could cap consumption growth

In the first four months of 2024, agricultural prices rose 7.7% YoY but output fell 6.1%, which led farm income to rise by only 1.1%. Looking ahead, farm output could improve as El Nino conditions (dry weather) start to fade soon, but growth could be limited by risk of flooding in some areas with the predicted onset of La Nina (risk of flood) in 2H24. Consumption would be pressured by high household debt at 91.3% of GDP, mostly in the low-to medium-income groups. Vulnerable households might need additional support from the government.

Drought reduced output and lowered farmers' incomes.



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



Source: OAE, BOT, Krungsri Research

Tailwinds

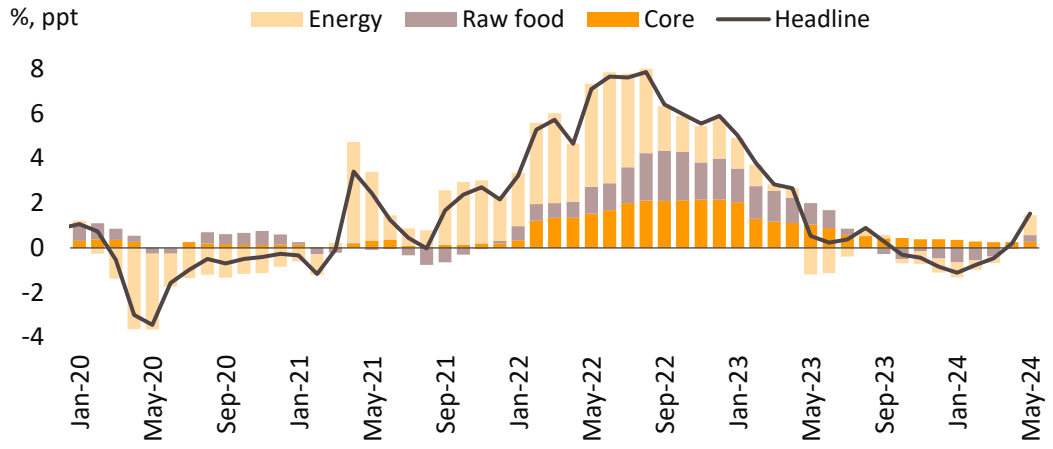
- Rising employment and income following the recovery in services sectors
- Measures to stimulate domestic tourism
- End of El Niño could increase some farm output and income
- Low inflation and measures to reduce energy bills (e.g. electricity) for vulnerable household
- Commercial banks and SFIs offering lower lending rates to vulnerable groups
- High savings for middle- and high-income earners

Headwinds

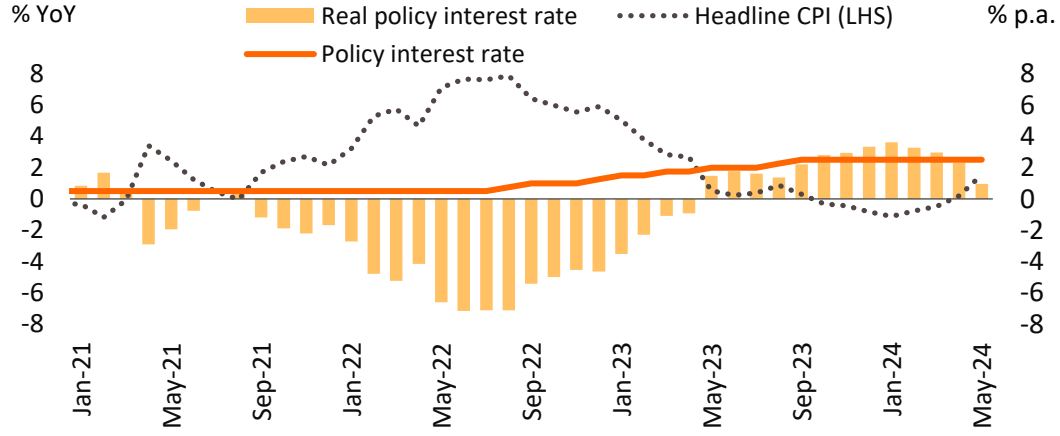
- Weak confidence and concerns over domestic politics
- Higher diesel price would increase cost of living
- High household debt
- Risk of flooding (La Niña) in 2H24, which could reduce agriculture output and income

Headline inflation returned to target range for the first time in 13 months in May; expect full-year inflation to average +0.7%

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
Headline CPI	**100%**																													1.54
Food & beverages	41.8%																													1.13
Apparel & footwears	2.1%																													-0.36
Housing & furnishing	21.9%																													2.06
Medical & personal care	5.4%																													0.47
Transportation & communication	23.3%																													2.40
Recreation & education	4.2%																													0.56
Tobacco & alcoholic beverages	1.3%																													1.39
Raw food	21.3%																													1.51
Energy	14.2%																													7.15
Core CPI	**64.5%**																													0.39

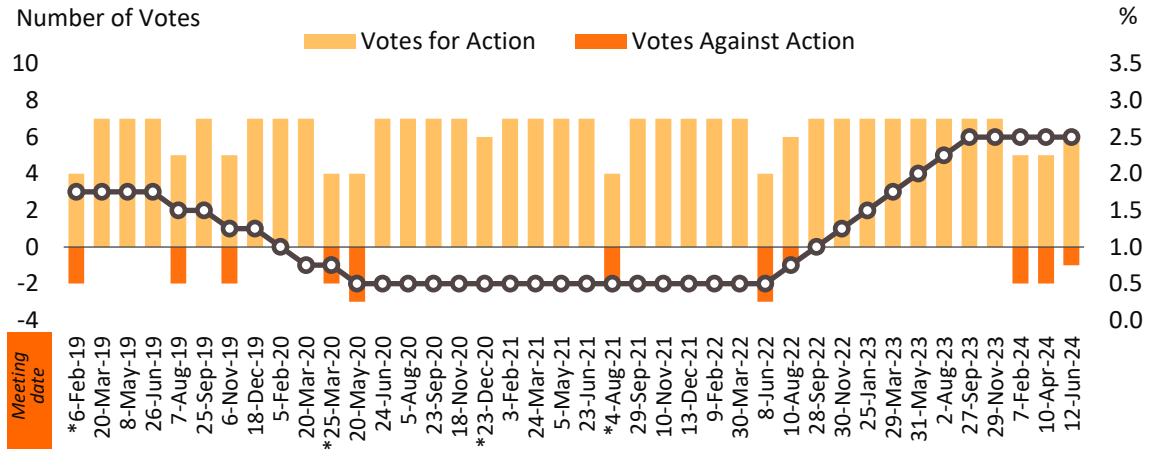
** Red > 0%, Green < 0% / Darker colors indicate stronger momentum*

Krungsri Research's view

- **Headline inflation rose for the second consecutive month in May, to a 13-month high of 1.54% YoY.** This is attributed to: (i) temporary subsidy for electricity bills in the year ago period; (ii) higher diesel pump prices, which reached THB 32.94/liter in late-May; (iii) impact of drought on agricultural yields, which has fed through to higher prices for fresh food, mostly vegetables and eggs. Core inflation, which excludes raw food and energy prices, inched up to 0.39% in May vs 0.37% in April. In the first 5 months of 2024, headline and core inflation averaged -0.13% and 0.42%, respectively.
- Headline inflation climbed back to target range in May; the last time this happened was in April 2023. **For the rest of this year, we expect inflation to ease driven by:** (i) easing prices for agricultural goods with the worst of summer gone; and (ii) subsidies for electricity bills for poor households. However, inflation should remain within 1-3% target range in the second half of this year, and average 0.7% for full-year 2024.

MPC voted to keep policy rate at June 12 meeting, with hawkish tone; expect BOT to hold the rate throughout this year

MPC policy rate decisions and voting result



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

BOT Economic Projections

		Previous (Apr)		Latest (Jun)	
		2024F	2025F	2024F	2025F
GDP growth	YoY (%)	2.6	3.0	2.6	3.0
Private Consumption Expenditure	YoY (%)	3.5	2.9	4.2	2.5
Government Consumption Expenditure	YoY (%)	1.8	3.3	1.8	3.3
Private Investment	YoY (%)	3.3	3.2	3.3	3.2
Public Investment	YoY (%)	1.0	5.0	3.6	2.6
Nominal Exports in USD (f.o.b.)	YoY (%)	2.0	2.8	1.8	2.6
Nominal Imports in USD (f.o.b.)	YoY (%)	2.5	3.0	3.1	2.0
Current Account Balance	USD, bn	13.0	17.5	13.0	17.5
Tourist Arrivals	Persons, m	35.5	39.5	35.5	39.5
Headline Inflation	YoY (%)	0.6	1.3	0.6	1.3
Core Inflation	YoY (%)	0.6	0.9	0.5	0.9

Krungsri Research's view

- **At the June 12 meeting, the MPC voted 6-to-1 to keep policy interest rate at 2.5% (with one member advocating for a 25 bps cut),** citing improving growth and inflation. For 2024, the Thai economy is expected to expand led by stronger domestic demand in 1Q24, accelerating government spending from 2Q24 onwards, and recovering tourism activity. However, exports will remain subdued due to structural issues , which is affecting Thailand's competitiveness. Headline inflation is projected to return to the BOT's target by 4Q24.
- **We expect policy rate to remain unchanged, premised on the following**: (i) GDP growth is projected to improve from 2Q24 and inflation rate would return to target range in 4Q24. And, at its latest press conference, the BOT noted easing downside risks. The "outlook-dependent" central bank said the window for easing is limited. (ii) The committee remains concerned about financial stability, i.e., high household debt level, which could influence the BOT's future decisions. The BOT has been using monetary policies to guide the economy's deleveraging cycle. (iii) Despite growth still being below-potential, the BOT affirmed that there would be no significant change from recalibrating the neutral rate. One of its statements noted that *"The majority of the Committee deems that the current policy interest rate is consistent with the economy converging to its potential."* (iv) There is less need for a broad-based interest rate adjustment given the following: (a) commercial banks and SFIs recently cut rates for vulnerable clients, in line with the MPC's aim to support specific groups; (b) the Committee supports targeted measures, as these would increase credit access for SMEs and support ongoing deleveraging of household debt.
- **We conclude that the MPC will keep policy rates at 2.50% for the rest of 2024**, as they have room to pursue financial stability given improving growth-inflation dynamics. The above-mentioned arguments are also supported by a 'hawkish hold,' with only one dissenting vote at the last meeting.

Source: BOT, Krungsri Research

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