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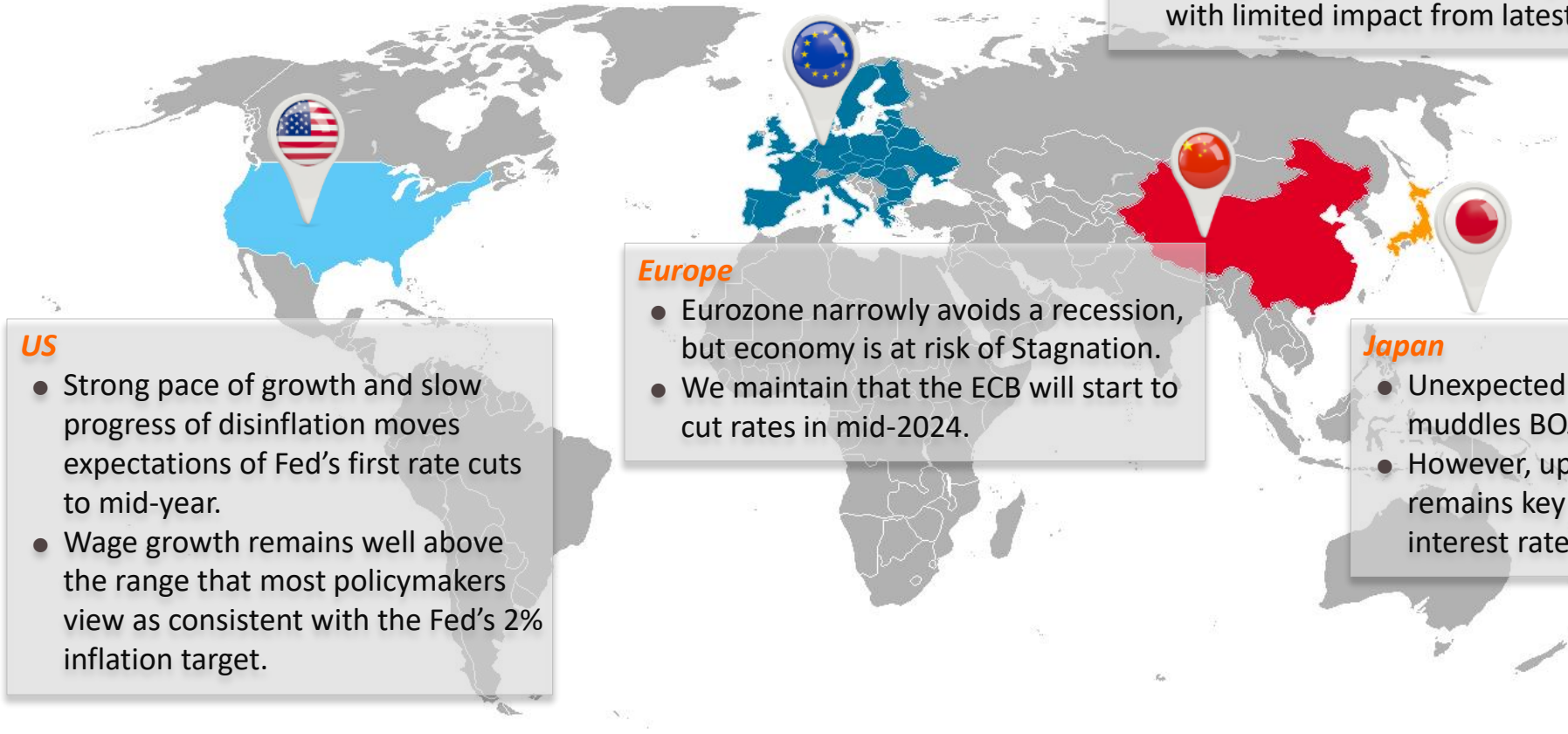
MONTHLY ECONOMIC BULLETIN

February 2024



Krungsri Research

Global: Lower probability of recession but there are lingering risks



China

- Economy showing sign of mild recovery and possibly easing deflation, but recovery remains vulnerable with limited impact from latest stimulus measures.

US

- Strong pace of growth and slow progress of disinflation moves expectations of Fed's first rate cuts to mid-year.
- Wage growth remains well above the range that most policymakers view as consistent with the Fed's 2% inflation target.

Europe

- Eurozone narrowly avoids a recession, but economy is at risk of Stagnation.
- We maintain that the ECB will start to cut rates in mid-2024.

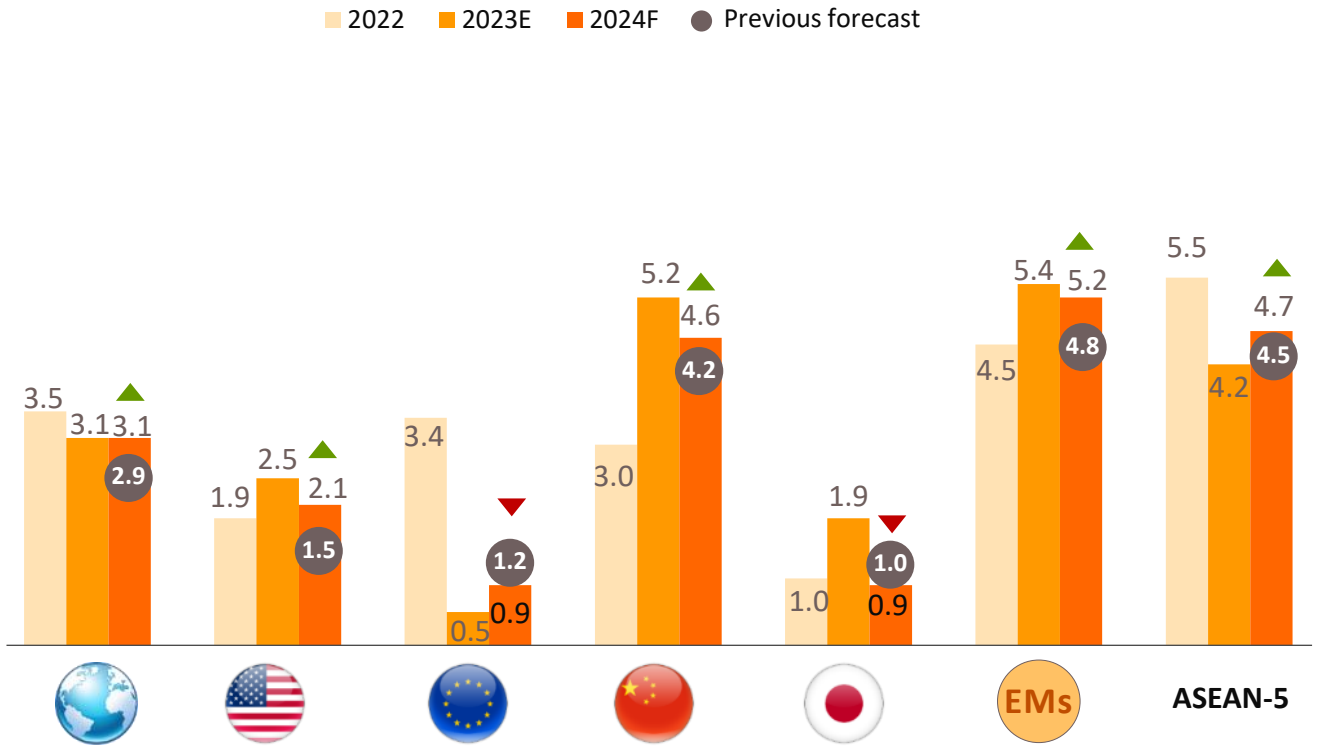
Japan

- Unexpected recession in 4Q23 muddles BOJ's pivot plan.
- However, upcoming wage hike remains key to ending negative interest rate policy by mid-year.

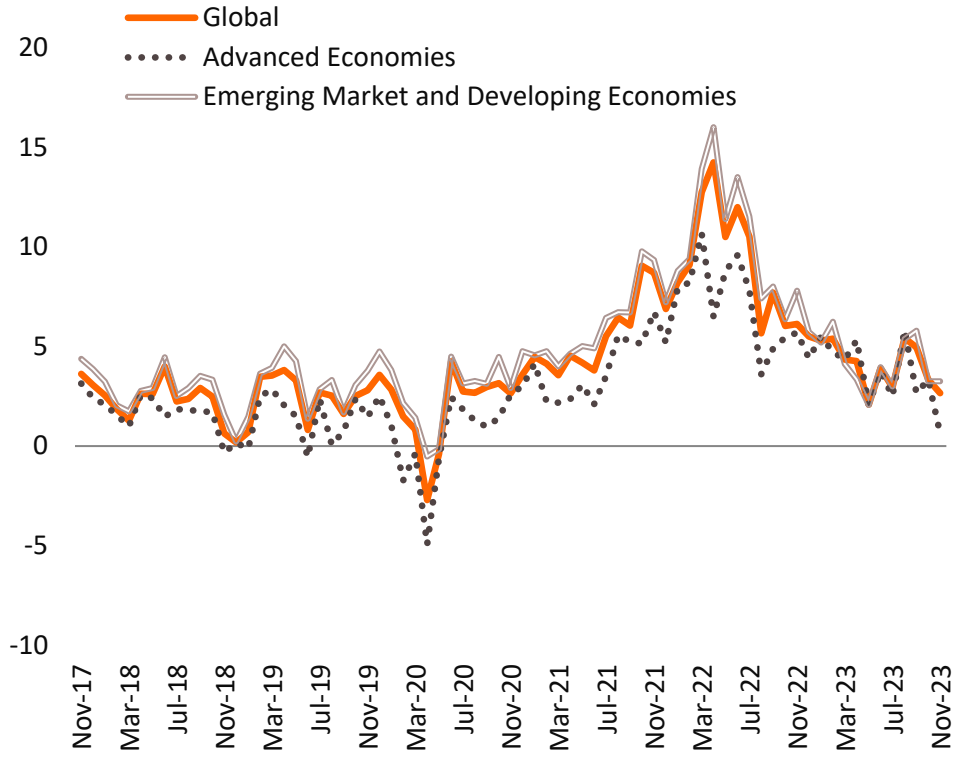
IMF upgrades global growth forecast, says moderating inflation and steady growth open path to a soft landing but its forecast remains below historical average

The IMF forecasts the global economy would grow by 3.1% in 2024 and inch-up to 3.2% in 2025. 2024 growth is 0.2 ppt higher that its previous projections last October, reflecting upgrades for China, the US, and large emerging market and developing economies. However, global growth forecasts for 2024 and 2025 are below historical (2000–19) annual average of 3.8%, reflecting restrictive monetary policies, withdrawal of fiscal support, and low underlying productivity growth. **There are still lingering adverse risks to global growth, led by risk of commodity price spikes amid geopolitical and weather shocks. The Gaza-Israel conflict** could escalate to the wider region, which produces about 35% of the world's oil exports and 14% of gas exports. **Continued attacks in the Red Sea** and the ongoing war in Ukraine risk generating fresh adverse supply shocks to global recovery, with spikes in food, energy, and transportation costs.

Economic growth projections for global and major economies (%)



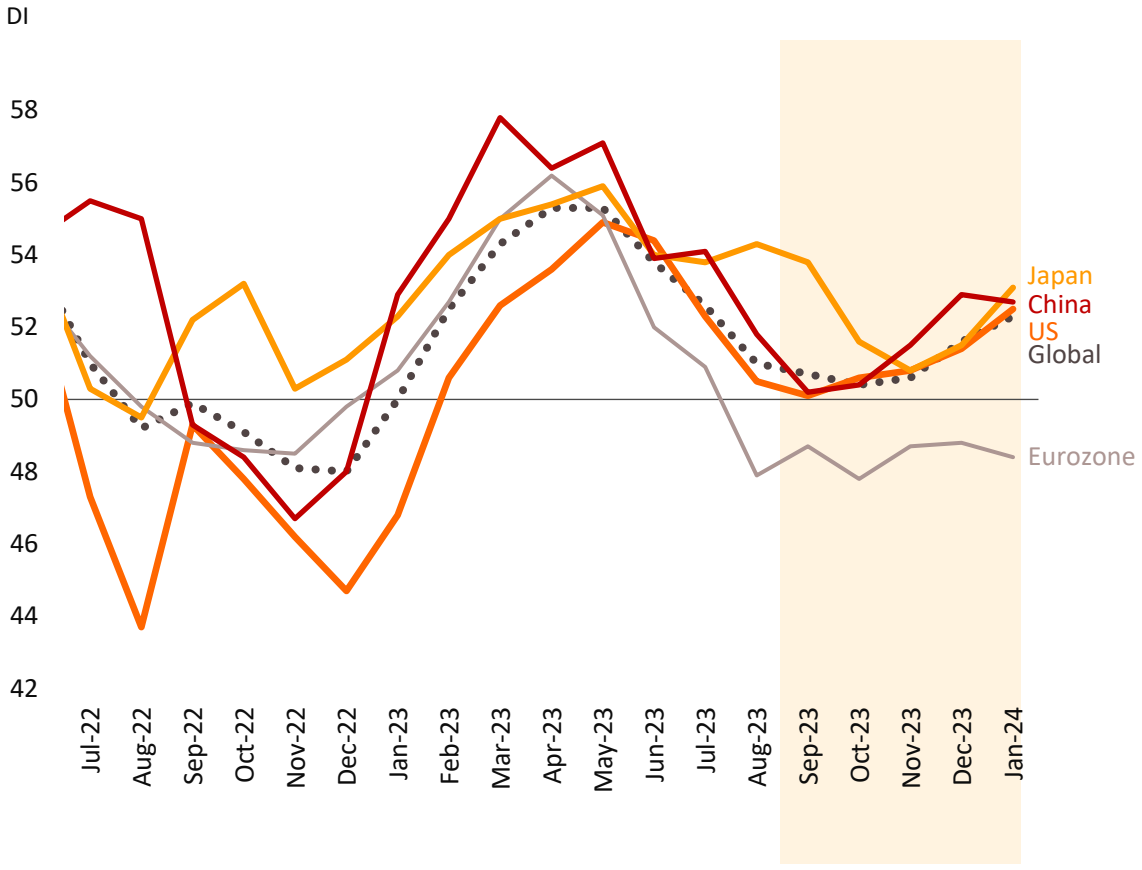
Headline inflation (% YoY)



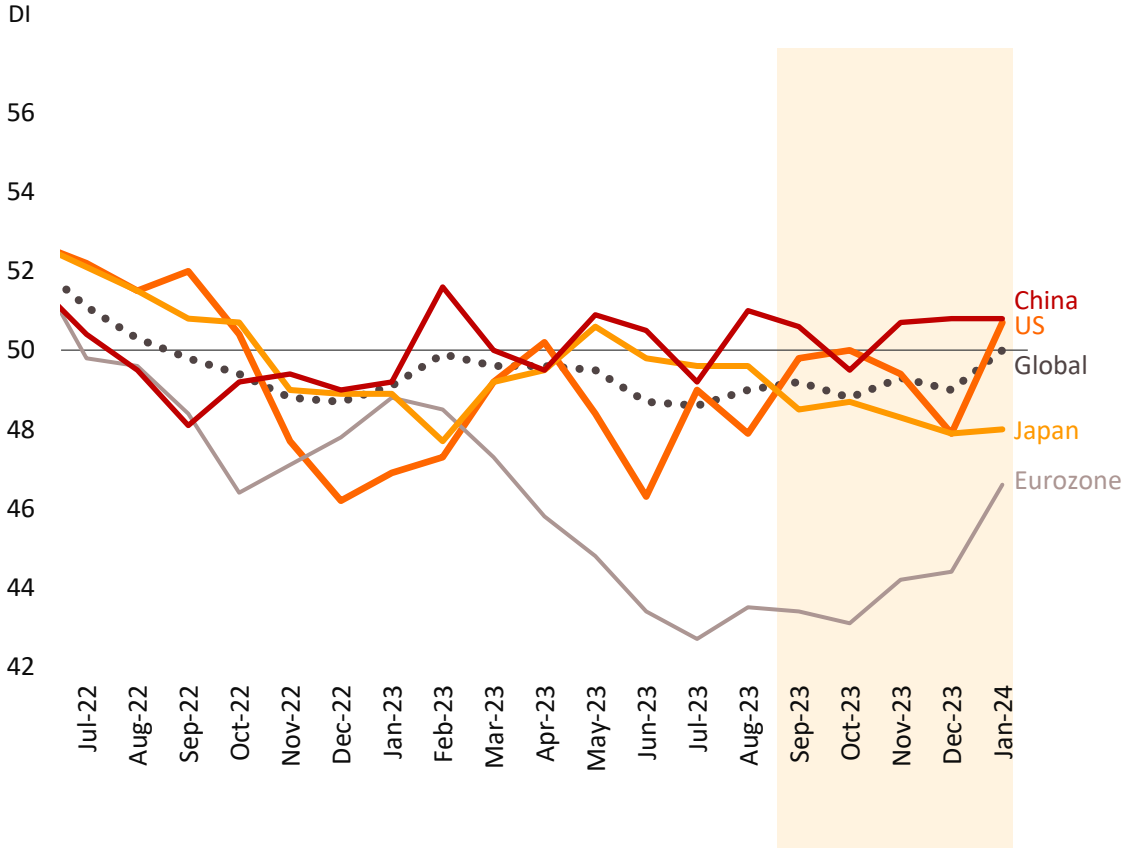
Source: IMF, World Economic Outlook (January 2024)

Global services activity continues to grow; shrinking manufacturing activity and restrictive monetary policy could ease inflation despite concerns over Red Sea disruption

Global Services PMI



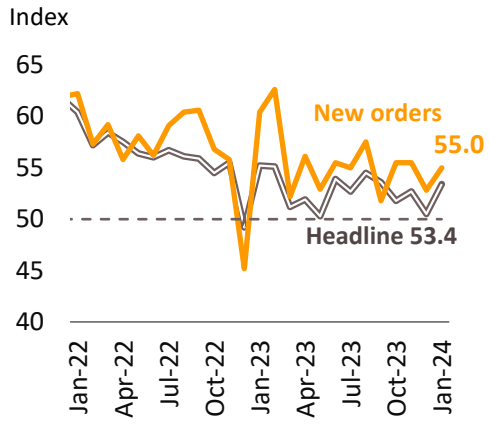
Global Manufacturing PMI



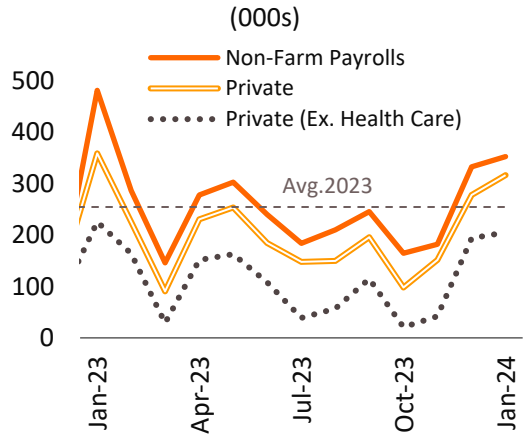
Source: S&P global, Bloomberg, Krungsri Research

US: Strong economic growth and slow drop in inflation have moved expectations of Fed rate cuts to the middle of this year

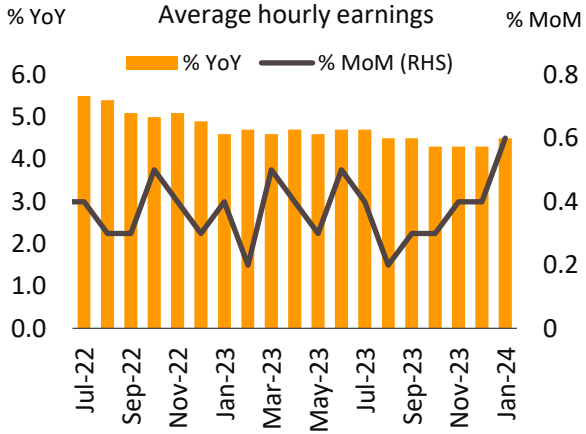
ISM Services PMI



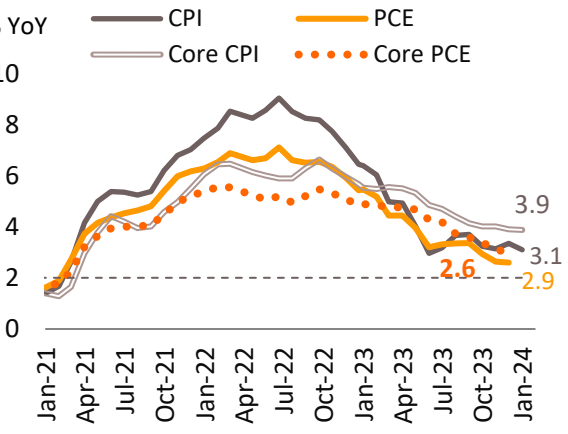
Change in Non-Farm Payrolls



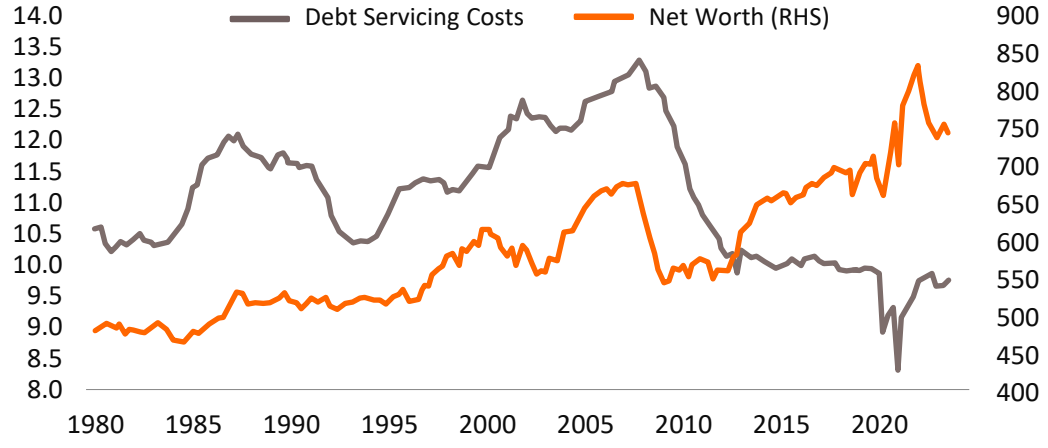
Wage Growth: %YoY and %MoM



CPI, Core CPI, PCE, and Core PCE



Household Net Worth & Debt Servicing (As % of Income)



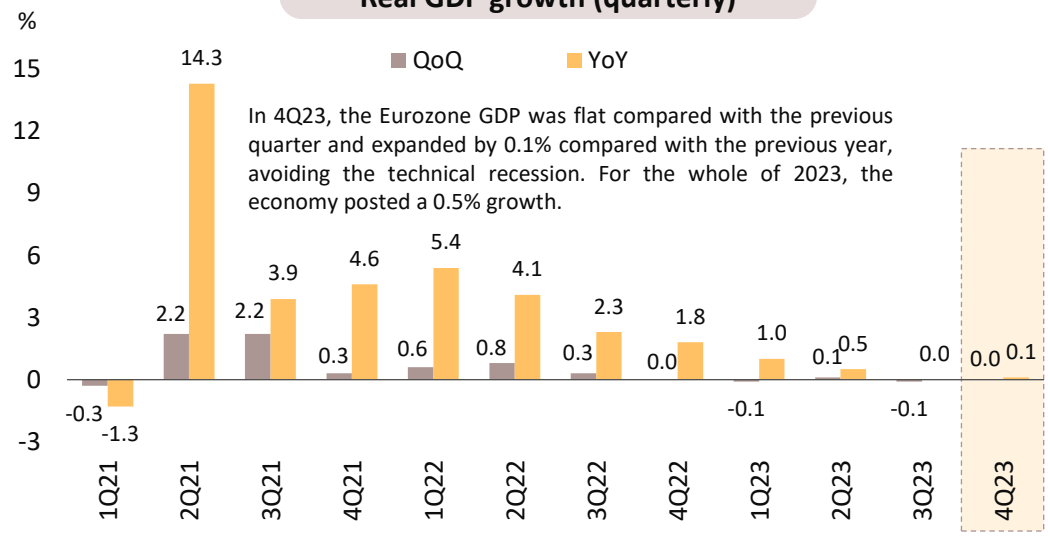
Source: Institute for Supply Management (ISM), Bureau of Labor Statistics (BLS), CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

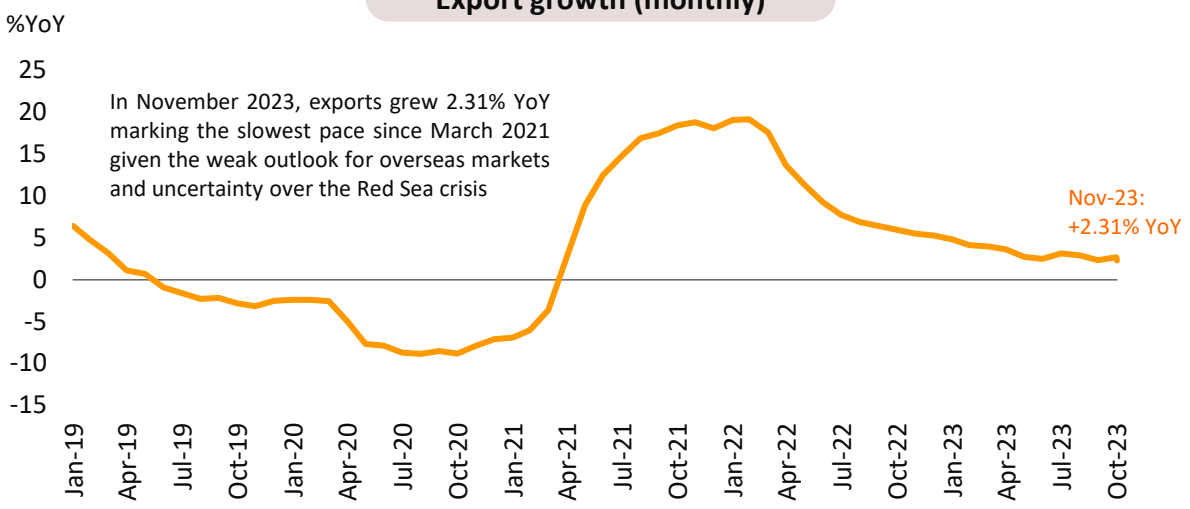
- **Latest US economic data - growth, labor market and inflation - suggest lower risk of a recession. That reinforces views of a *soft landing* and moved expectations of the first Fed rate cut from March and May to June.**
  - **Lower risk of recession: (i) The ISM Services Index suggests the economy is still in growth mode.** The index had jumped to 53.4 in January from 50.5 in December. New Orders Index is healthier at 55.9 (vs 52.8 in the previous month). **(ii) Labor market has been stronger-than-expected** with a 353,000 increase in non-farm payrolls in January, significantly higher than market expectation of +180,000 and monthly average of +255,000 in 2023. Unemployment rate was steady at 3.7%, below 4% for two consecutive years.
  - **Slow progress of disinflation:** Consumer Price Index (CPI) rose more than expected in January, at 3.1% YoY vs 3.4% in December, but it beat market expectation of a 2.9% increase. Underlying core inflation, which excludes energy and food prices, rose 3.9% YoY for a second straight month.
  - **Still-hawkish rhetoric by Fed officials:** Policymakers recently said they want to see "a broader easing" of price pressures before cutting interest rates.
- **Other key indicators that reflect economic growth remains healthy. The drop in excess savings would slow consumer spending, but growth would be backed by low debt servicing costs and high net worth of households. And, amid the robust labor market, strong wage growth could have a "second-round effect" on inflation. Average hourly earnings had risen by 4.5% YoY in January, above the 3.0-3.5% range that most policymakers view as consistent with the Fed's 2% inflation target. For these reasons, we expect the US central bank to start cutting benchmark rates in the middle of this year.**

Eurozone narrowly avoids a recession, but the economy is at risk of Stagnation, dragged by high credit cost, weak exports, and unwinding of fiscal stimulus

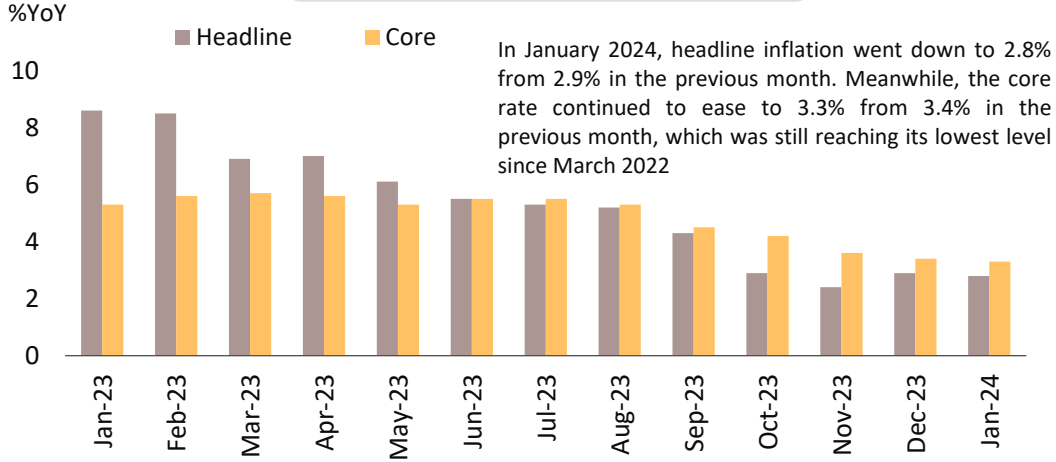
Real GDP growth (quarterly)



Export growth (monthly)



Consumer Price Index (monthly)



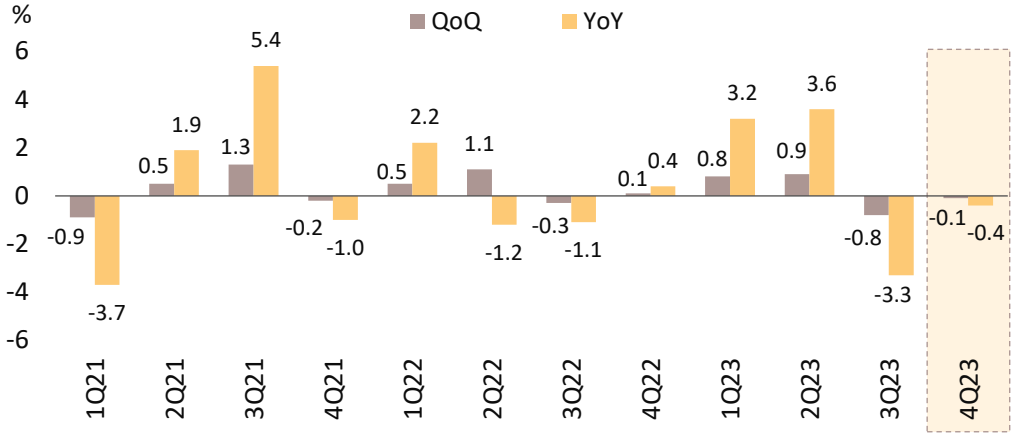
Source: ECB, CEIC, BLS, investing.com, Eurostat, Bloomberg, Krungsri Research

Krungsri Research's view

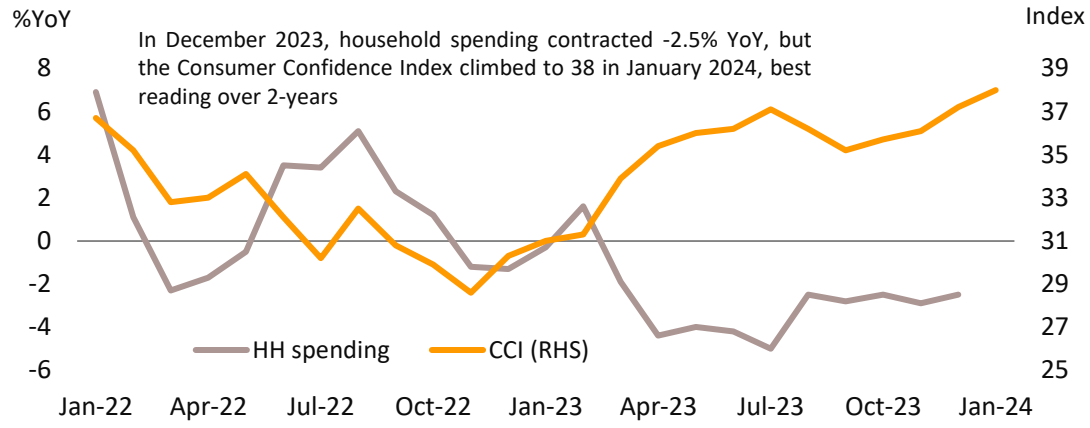
- **Eurozone narrowly avoided technical recession in 4Q23, as firmer growth in Italy and Spain offset a contraction in Germany, but outlook remains weak for 1H24**. Despite flat GDP growth in 4Q23, the economy remains at risk of stagnation in 1H24 given (i) softening sentiment; (ii) elevated cost of funds; (iii) unwinding of fiscal stimulus (fiscal deficit at 2.4% in 2024F vs 2.7% in 2023) and (iv) the weak outlook for overseas markets (Eurozone's exports grew 2.3% YoY in Nov 2023, the slowest since Mar 2021). In addition, attacks in the Red Sea could hurt international trade if the situation worsens.
  - In 4Q23, Eurozone GDP growth was flat compared to the previous quarter and expanded by 0.1% compared to the previous year, narrowly avoiding a technical recession which was predicted in a Reuters poll. **For full-year 2023, the Eurozone economy posted 0.5% growth.**
  - According to the IMF, growth in Eurozone would recover from a low of 0.5% in 2023 to 0.9% in 2024 and 1.7% in 2025, backed by stronger private consumption partly due to easing inflation. However, the IMF revised down **2024 GDP growth by 0.3ppt from October 2023 forecast, largely to reflect carry-over of weaker-than-expected growth in 2023**.
- Given the recent downgrades for 2024, a weak economy, signs of stagnation, and slower inflation (2.8% YoY in January vs peak of 10.7% in October 2022). **We maintain that the ECB will start to cut interest rates by the middle of this year.**
- **Receding risk of energy crisis in Europe** as the Eurozone had secured 90% of gas storage capacity in late-December 2023, thanks to spare capacity from Ukraine, which contributed to Europe. Combined with softer inflation, 2023 low-base support, and improving real income as well as potential rate cuts, we could see a gradual recovery in growth in 2H24.

Japan: Surprise recession in 4Q23 muddles BOJ's pivot plan, but upcoming wage hike remains key factor to ending negative interest rate policy by mid-year

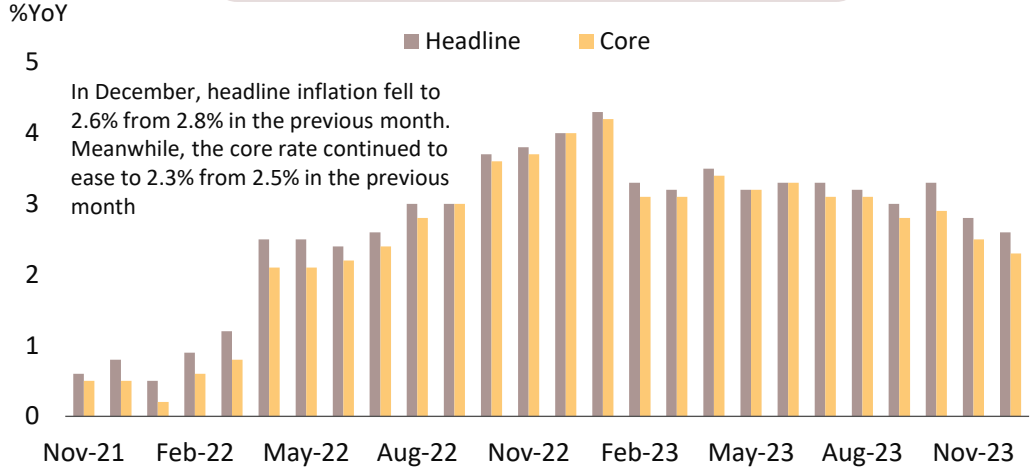
Real GDP growth (quarterly)



Household Spending and Consumer Confidence Index (monthly)



National Consumer Price Index (monthly)



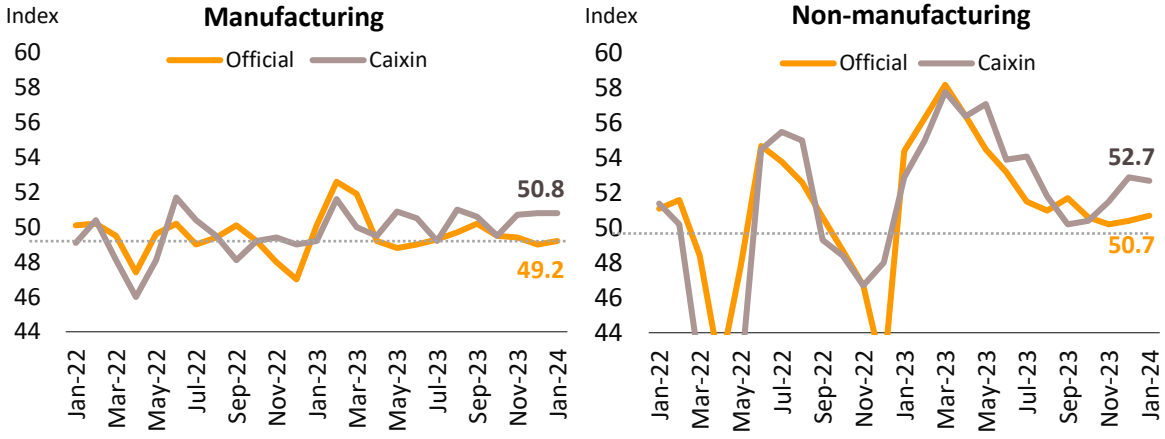
Source: ECB, CEIC, BLS, investing.com, Eurostat, Bloomberg, Krungsri Research

Krungsri Research's view

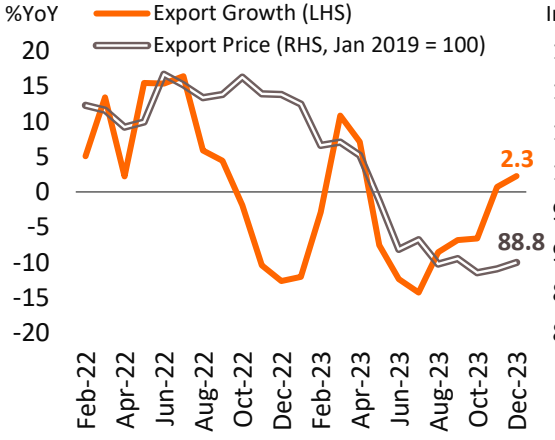
- **As sticky inflation and a weak yen continued to weigh on private consumption and offset improving export demand**, Japan's GDP unexpectedly contracted by 0.1% QoQ in 4Q23, following a 0.8% decline in the prior quarter. That puts the economy in a technical recession. And, business spending remained weak, with capital expenditure falling 0.1% QoQ vs a 0.6% drop in the prior quarter.
  - Japan's economy shrank by 0.1% QoQ and 0.4% YoY in 4Q23, dragged by a sustained drop in private consumption (-0.2% QoQ) against +0.1% expectations.
- **Economic growth will remain weak in 1H24 as the economy would be pressured by the following:** (i) softer purchasing power as real income drop; (ii) decelerating growth of Japan's trading partners; and (iii) slowing manufacturing activity. **However, we expect moderate growth in 2H24 backed by a potential improvement in real income and consumption with the Shunto spring wage negotiation being expected to result in a 2.5% increase in base pay, a recovery in the tourism sector, and possible upturn in the global semiconductor cycle in 2024.**
  - The IMF forecasts economic growth in Japan would decelerate from 1.9% in 2023 to 0.9% in 2024 and 0.8% in 2025, reflecting fading one-off factors that had supported activity in 2023, including a weaker yen, pent-up demand, and a recovery in business investment.
- **Technical recession presents a challenge to the BOJ's plan to phase-out ultra-loose policy sooner, as worsening growth might still necessitate stimulus and ease monetary conditions.** However, improving real income (following wage hike) and a more favorable economic environment (with a recovery in exports and tourism) this year should help to bring inflation towards target rate of 2.0% in a sustainable manner. **Krungsri Research maintains that the BOJ will exit negative-interest-rate policy, and possibly expand the band of 10-year yield curve control (YCC) from 1.0% to 1.25% by the middle of this year**.

China: Economy shows sign of mild recovery and possibly easing deflation, but recovery remains vulnerable and recent PBOC measures would have limited impact

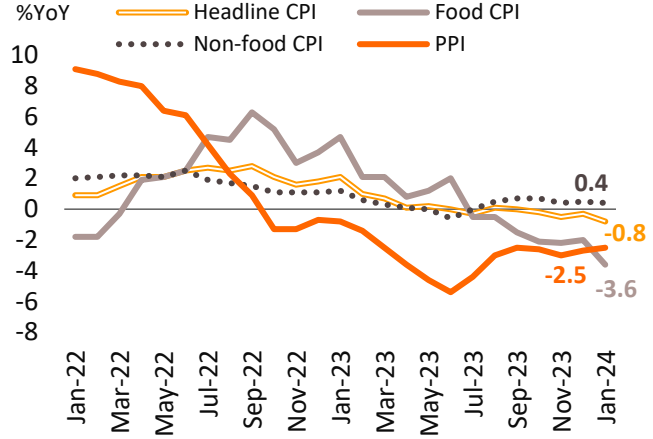
Purchasing Managers' Index (PMI)



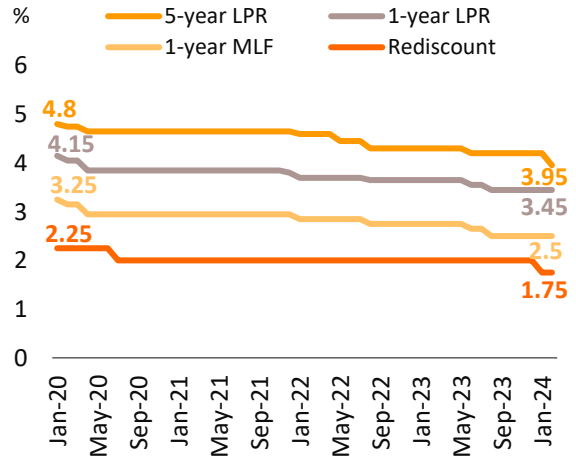
Export Growth Export Price Index



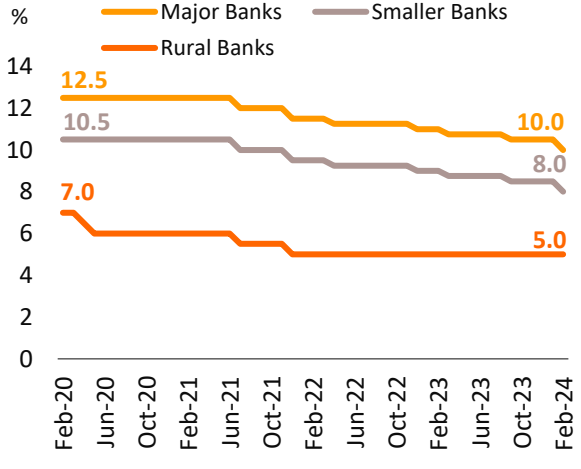
Consumer and Producer Price Index



PBOC Policy Rates



Reserve Requirement Ratio (RRR)



Source: NBS, CEIC, Capital Economics, NIFD, Bloomberg, Financial Times, Reuters, The Guardian, and Krungsri Research

Krungsri Research's view

- **The economy registered a mild improvement, but recovery remains vulnerable.** Despite several stimulus efforts, manufacturing remains sluggish due to weak domestic demand and heavy reliance on foreign demand (57% of total manufacturing value-added in 2023). Furthermore, export gains from price cuts might not last long due to potential increase in tariffs and falling industrial profits (-2.3% YoY in 2023). Meanwhile, offsetting a years-long property slump with more debt-fueled infrastructure investment could exacerbate financial difficulties, with the overall debt-to-GDP ratio (including debts of households, government, and non-financial corporations) expected to exceed 300% this year, up from 287.8% in 2023.
- **Deflationary risks could ease but remain a concern amid the fragile recovery.** In January, headline inflation fell to its lowest since 2009, due partly to volatile food prices, falling car prices, and base effects. However, with Chinese New Year spending, pressure might ease in February. The trend of easing deflation could continue as food prices gradually recover and car prices stabilize, potentially pushing Consumer Price Index (CPI) up by 1% this year. Meanwhile, Producer Price Index (PPI) has fallen for 16 consecutive months, reflecting persistent supply-demand imbalance. We expect PPI to show some signs of improvement in 2Q24, fueling by infrastructure spending.
- **The PBOC's recent measures could provide some liquidity relief and alleviate sluggish housing demand,** including 25-bps reduction in rediscount and re-lending rates for small firms and agricultural businesses, a 50-bps reduction in the reserve requirement ratio (RRR), permission for distressed developers to use commercial property as loan collateral, and a 25-bps reduction in 5-year Loan Prime Rate (LPR). **However, the broader effects on boosting economic activity would likely be limited** since weak consumer and business sentiment, along with structural issues, persist. **Therefore, larger fiscal measures are needed**, but anticipated massive packages seem unlikely as Xi Jinping has signaled a focus on "high-quality growth".

Thailand: Discouraging 4Q23 GDP data and weaker-than-expected growth momentum prompted us to revise down 2024 economic forecast

- Thailand's 4Q23 GDP growth became much weaker-than-expected at -0.6% QoQ sa and +1.7% YoY, far below median estimates of -0.1% QoQ sa and +2.6% YoY in a Bloomberg survey. In 2023, GDP grew by only +1.9%, compared to +2.5% in 2022.
- We have revised down our 2024 GDP growth projection from +3.4% to +2.7% excluding Digital Wallet scheme, to reflect the much-weaker-than-expected 4Q23 GDP growth and the slower-than-expected growth momentum.
- In 2024, Thai economic growth is expected to improve on the back of a continuing recovery in the tourism sector, a temporary surge in public spending from 2Q24 , and an increase in consumption with additional stimulus measures expected to be seen in 2H24.
- However, the overall economic growth this year will remain below 3% since the Covid-19 pandemic started in 2020 and well below the pre-covid (2010-2019) average of 3.6%.
- Average headline inflation will remain low at 1.1% in 2024 partly due to government subsidy measures; the easing prices is not broad-based.
- The weaker-than-expected economic outlook implies greater probability of MPC's first policy rate cut in the middle of this year.

Krungsri Research Forecasts for 2024

Krungsri Research Forecast		2022	2023	2024F** Latest
GDP growth	YoY (%)	2.5	1.9	2.7
Private Consumption Expenditure	YoY (%)	6.2	7.1	3.1
Government Consumption Expenditure	YoY (%)	0.1	-4.6	1.5
Private Investment	YoY (%)	4.7	3.2	3.3
Public Investment	YoY (%)	-3.9	-4.6	2.4
Nominal Exports in USD (f.o.b.)*	YoY (%)	5.4	-1.7	2.5
Nominal Imports in USD (f.o.b.)*	YoY (%)	14.0	-3.1	4.2
Current Account Balance	USD, bn	-15.7	6.6	7.8
Tourist Arrivals	Mn, persons	11.1	28.2	35.6
Headline Inflation	YoY (%)	6.1	1.2	1.1
Dubai crude price - period average	USD/bbl	96	82	87

** 2024 projection excluding Digital Wallet Scheme

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

Thailand: 4Q23 GDP came out weaker-than-expected at -0.6% QoQ, +1.7% YoY; 2023 growth slowed to 1.9% from 2.5% in 2022; We cut our 2024 GDP growth forecast to 2.7%

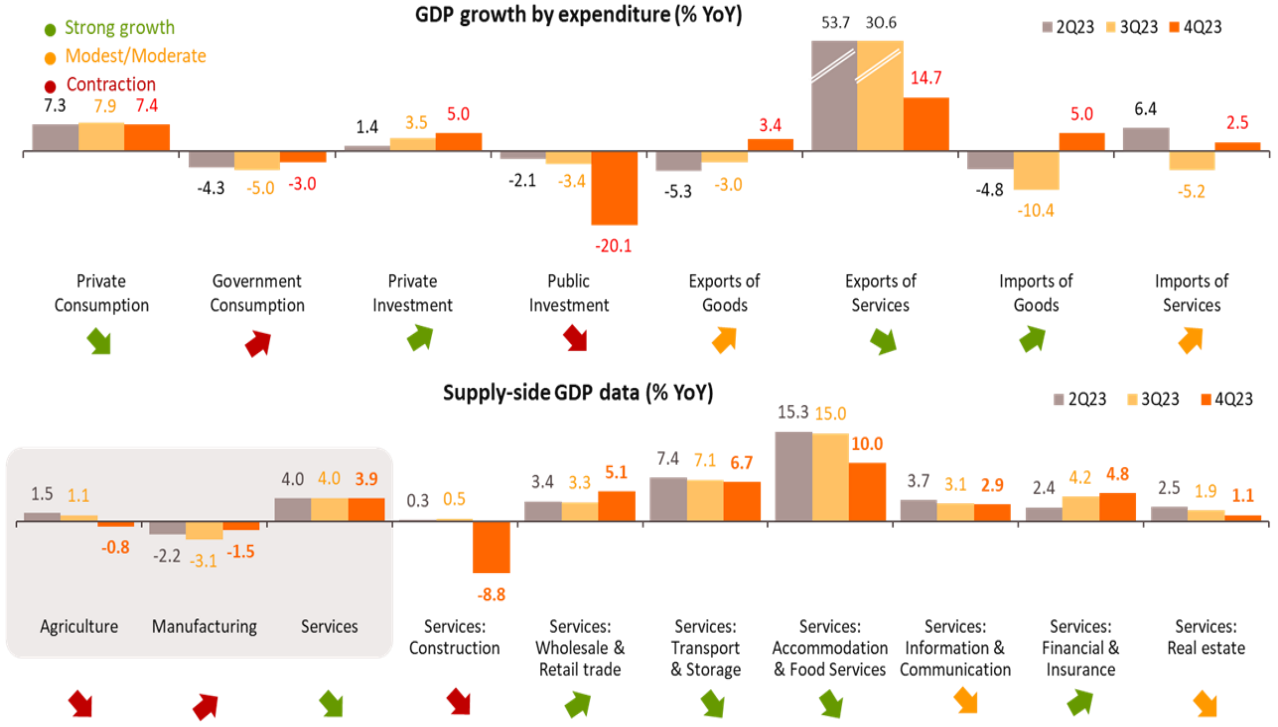
Negative year-on-year (YoY) growth in 4Q23:

- **Demand side:** (i) Plunging **public investment** (-20% YoY), (ii) lower public consumption (-3%), (iii) plunging **inventories (-19%)**
- **Supply side:** Lower **manufacturing production** (-1.5%), agriculture (-0.8%), construction (-8.8%)

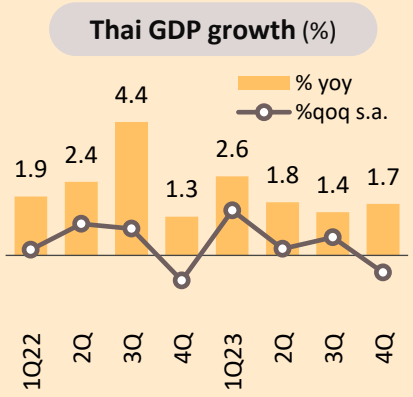
Positive YoY growth in 4Q23:

- Private consumption (+7.4%)
- Private investment (+5%)
- Exports of services (+14.7%)

But they seem losing momentum with zero or negative QoQ growth



Source: NESDC, Krungsri Research



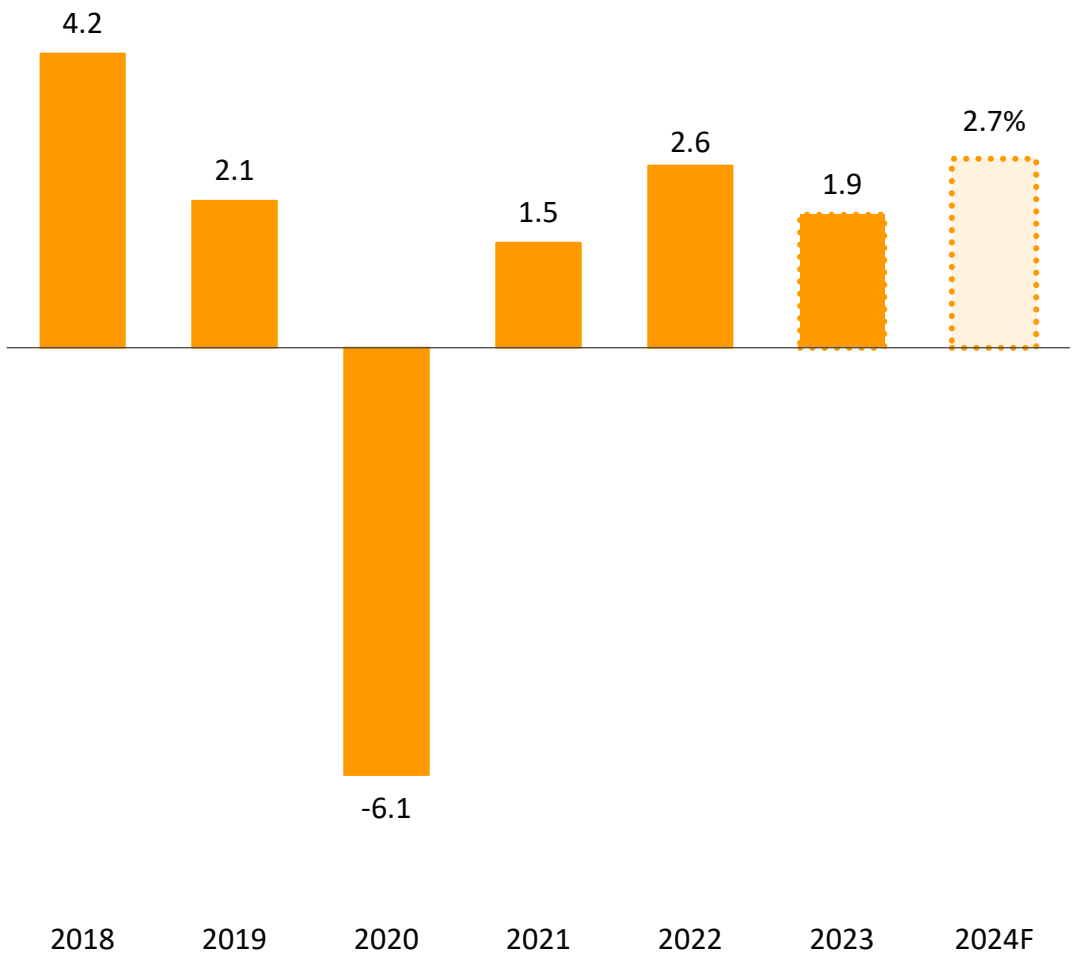
	% YoY		% QoQ sa	
	3Q23	4Q23	3Q23	4Q23
GDP	**1.4**	**1.7**	**0.6**	**-0.6**
Private consumption	7.9	7.4	2.2	0.0
Public consumption	-5.0	-3.0	-1.9	-0.6
Private investment	3.5	5.0	5.8	-1.0
Public investment	-3.4	-20.1	-2.6	-12.7
Inventories	-215.5	-19.0	-	-
Export of goods	-3.0	3.4	0.1	0.4
Export of services	30.6	14.7	1.6	-4.0
Import of goods	-10.4	5.0	-4.1	0.9
Import of services	-5.2	2.5	-3.1	5.1

Krungsri Research's view

- **In 4Q23, Thailand's seasonally adjusted GDP contracted 0.6% quarter-on-quarter**, below a median estimate for a 0.1% contraction in a Bloomberg survey. On a year-on-year basis, Thai GDP growth remained weak at 1.7%, compared to 1.4% in 3Q23, much weaker than the 2.6% median growth projection.
- **For the whole of 2023, Thai GDP growth decelerated sharply to only 1.9% from 2.5% in 2022,** and less than the previous estimates by the NESDC and Krungsri Research at 2.5%. The NESDC has slashed the 2024 GDP growth forecast from a range of 2.7-3.7% to a range of 2.2-3.2%, excluding the impact of the Digital Wallet Scheme
- **We have revised down 2024 GDP growth forecast from +3.4% previously to +2.7%,** excluding the Digital Wallet Scheme, to reflect much-weaker-than-expected 4Q23 GDP growth, a longer delay in public investment, and signs of losing growth momentum in economic activity.
- **1Q24 GDP growth would likely remain sluggish** as government consumption and public investment are likely to see a sharp contraction due to the delay of approval in the annual Budget Bill for Fiscal Year 2024.
- In 2024, Thai economic growth is expected to improve on the back of a continuing recovery in the tourism sector, a temporary surge in public spending from 2Q24 , and an increase in consumption with additional stimulus measures expected to be seen in 2H24. **However, the overall economic growth this year will remain below 3% for the 6th consecutive year and well below the pre-covid (2010-2019) average of 3.6%.**

2024 Thai economic outlook: Lagged cyclical recovery with uneven and uncertain growth

Thailand's GDP growth and forecast (%)



Upside

- Recovery in tourism activity and employment
- Higher public spending and greater policy supports
- Easing supply chain disruption and softening inflation
- Food security and gains in agricultural sector
- Regionalization, ASEAN dynamism, FDI
- Possible rate cuts in major countries from mid-2024
- Thailand's sound economic fundamentals

Downside

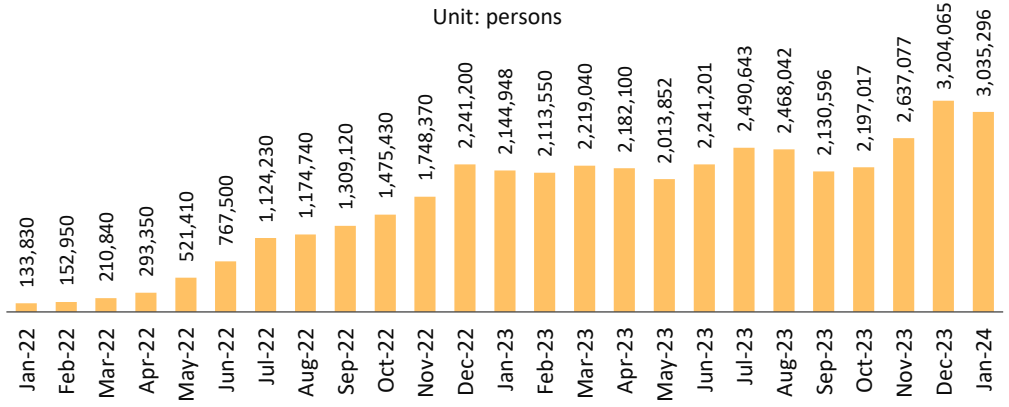
- Weak global growth and volatile financial market with tight financial conditions in 1H24
- Geopolitical tensions and US-China decoupling
- China's fading reopening tailwinds and property sector risks
- El Nino impact
- Higher borrowing costs amid high household debt
- Uncertainty over domestic political and policy direction
- Structural problems, e.g. demographics, labor shortage, competitiveness, climate change

Source: NESDC, Projection by Krungsri Research

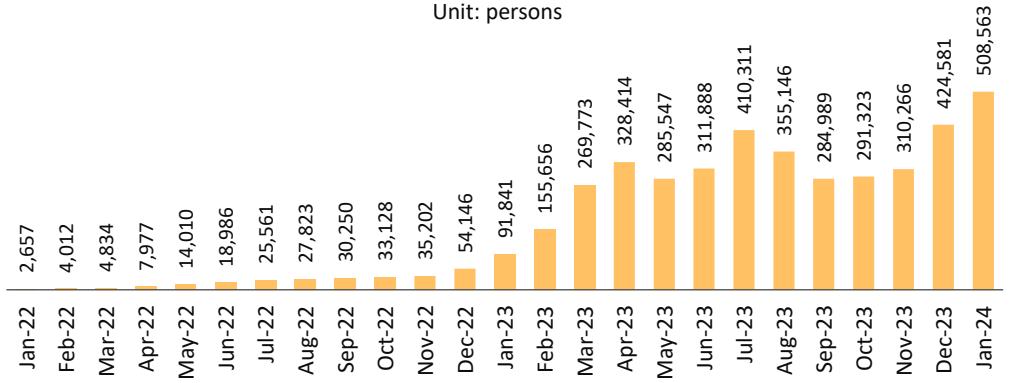
Tourism remains a key economic driver with China arrivals at new highs since the pandemic but still below 50% of pre-covid level; tourist spending per trip is disappointing

In January, Thailand welcomed over 3 million foreign tourists for the second consecutive month, accounting for 82% of pre-Covid (January 2019) level and generating 148 billion baht in revenue. Chinese tourists led the count with the number surpassing 500,000, the highest since the pandemic, but recovery is slow as that is only 48% of pre-pandemic level. In contrast, tourists from Malaysia, South Korea, India, and Russia, though smaller in numbers, have recovered to near or exceeded pre-pandemic levels (at 82-118% of pre-covid level). **We expect China arrivals to continue to improve in February because of *the Lunar New Year holiday period, coupled with support from the visa-free measure between Thailand and China. However, despite total arrivals improving, the expense per trip is lower than before. That could reflect a change in the structure of tourism receipts.***

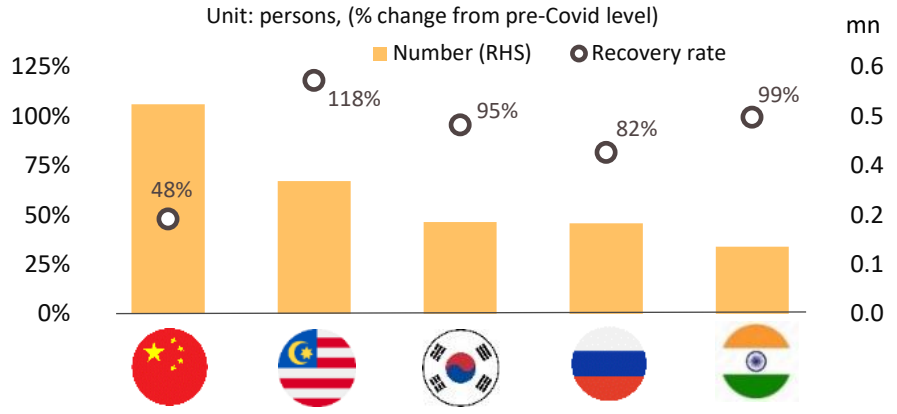
Foreign tourist arrivals exceeded 3 mil for the 2nd consecutive month



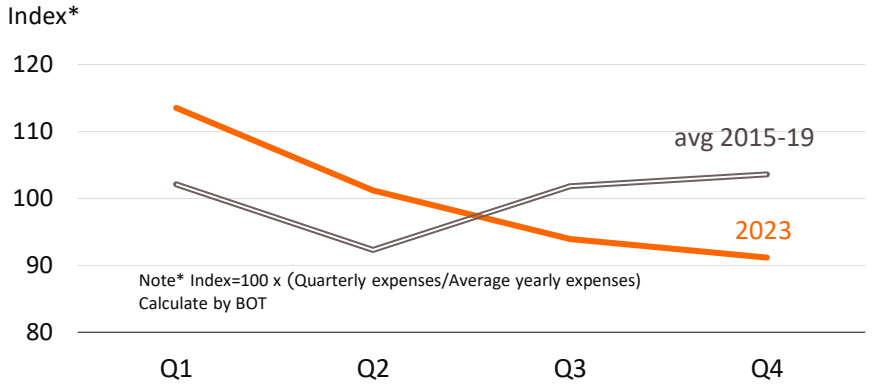
China leads in tourist arrivals to Thailand



Top 5 tourist arrivals by country in Jan 2024



Tourist expenses per trip are unusually low

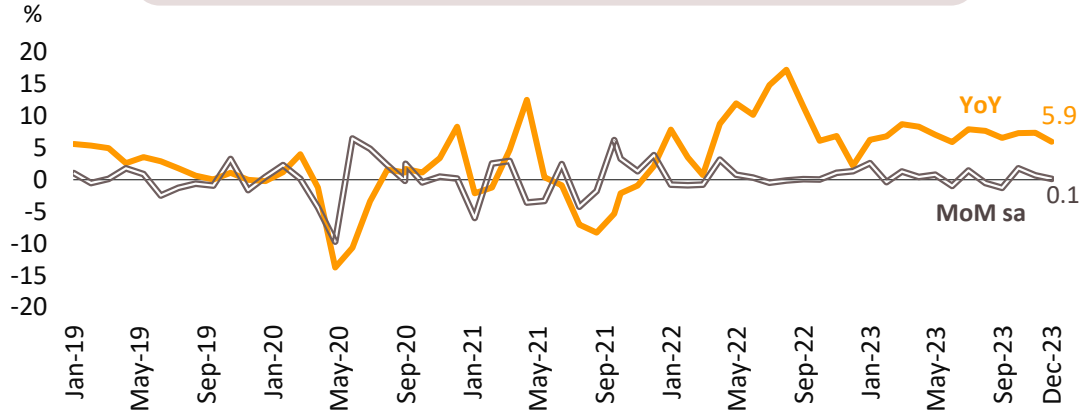


Note: Jan-24 Preliminary data
Source: MOTS, BOT, CEIC, Krungsri Research

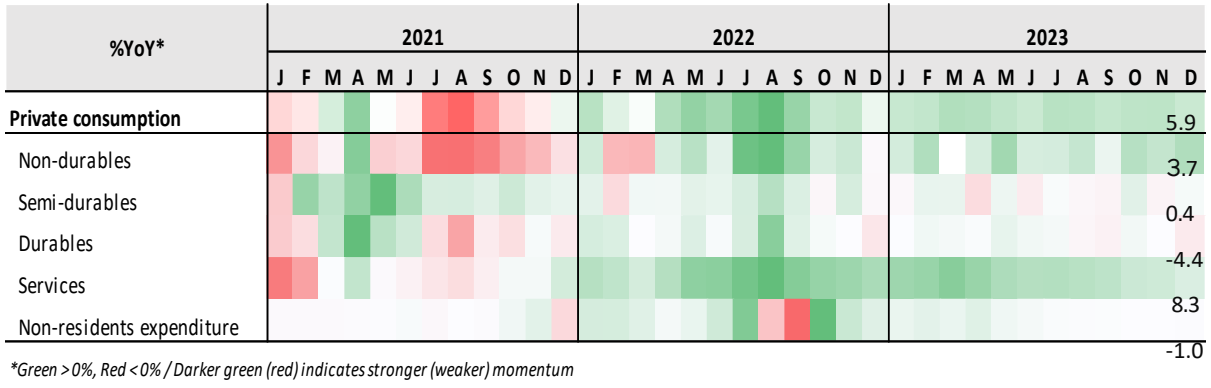
Private consumption to expand moderately supported by growing services sector, recovering tourism and rising employment, but headwinds would limit upside

Private consumption could slow down in 2024 following unusually-strong growth in 2023 (release of pent-up demand after country reopening). **But, it is expected to register moderate growth, supported by** (i) recovering tourism activity and services sectors; (ii) rising consumer confidence, and (iii) a stronger labor market. There is also support from government measures in 2024 such as energy bill subsidies, *Easy E-Receipt* and *Tax Refund* schemes and temporary suspension of debt repayment for farmers. However, there are several headwinds ahead, including high household debt, high interest rates, and drought impact on agricultural products and farm incomes.

Private consumption rose slightly from previous month

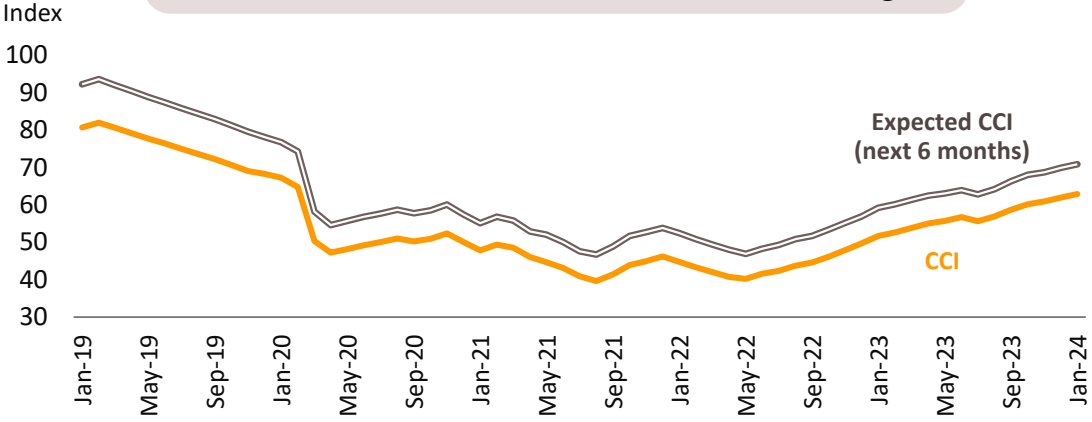


Private Consumption by category

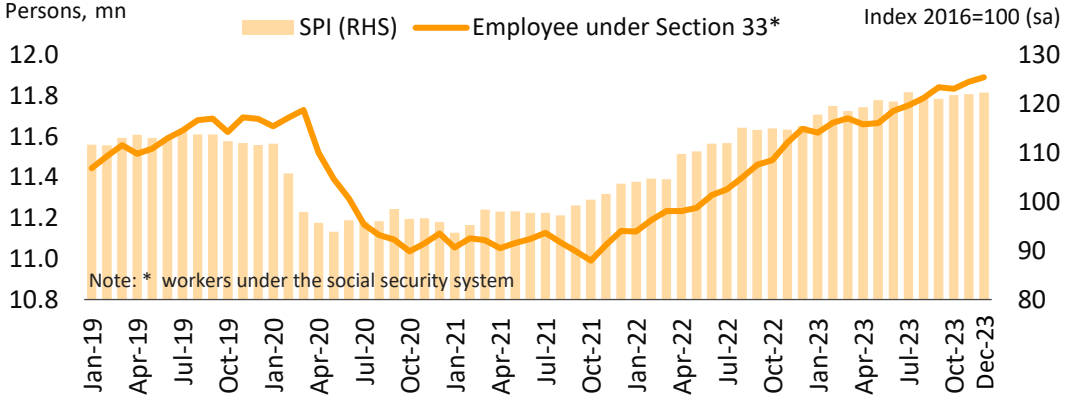


**Green >0%, Red <0% / Darker green (red) indicates stronger (weaker) momentum*

Consumer Confidence Index reached a 47-month high



Service Production Index and Employment

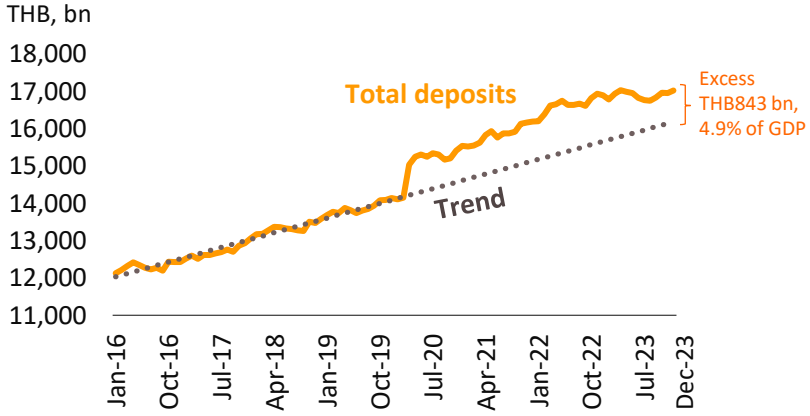


Source: CEIC, BOT, University of the Thai Chamber of Commerce (UTCC), Social Security Office (SSO), Krungsri Research

Savings (bank deposits) exceeds pre-covid trend by over THB800bn (4.9% of GDP) but excess deposits of lower- and middle-income groups have dropped substantially

Total outstanding bank deposits reached THB17.03 trn at end-2023, rising 0.8% from the previous year and exceeding THB14.1 trn at end-2019 (pre-pandemic period). There was THB 843 bn excess deposits, accounting for 4.9% of GDP. Most of the excess savings are in deposit with outstanding balance of THB1-10 mn per account and amounting to THB 547 bn (3.1% of GDP), implying high purchasing power for middle- and upper-income earners. ***This excess deposits would allow certain household groups to increase spending but the number of deposit accounts in these groups (over 500,000-baht per account) is less than 4 million, which is low relative to Thailand's 70 million population. Additionally, most of the low- and middle-income groups (below 500,000-baht per account) have run down their savings and might still struggle with spending ahead***

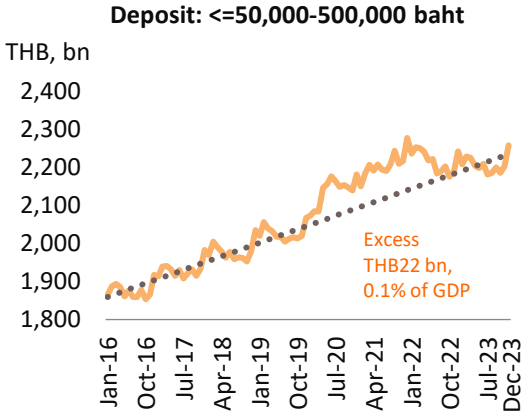
Total deposits at commercial banks

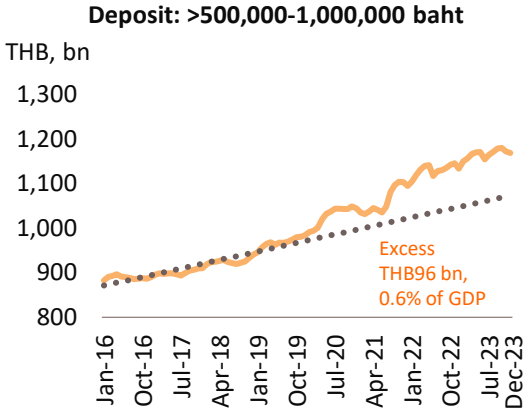


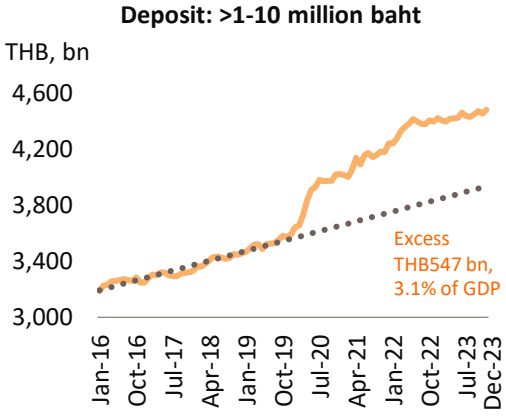
Bank Deposits in 2023

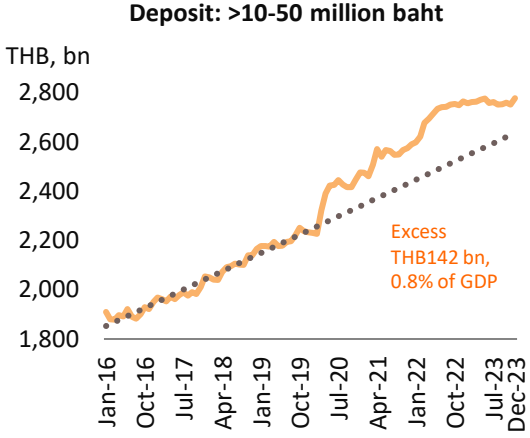
Deposit	Outstanding		Account	
	Baht, bn	% share	Number	% share
<=50,000-500,000 baht	2,258	13.3%	125,199,940	97.2%
>500,000-1,000,000 baht	1,169	6.9%	1,629,707	1.3%
>1-10 million baht	4,481	26.3%	1,791,960	1.4%
>10-50 million baht	2,778	16.3%	139,590	0.1%
>50-200 million baht	2,209	13.0%	23,922	0.02%
>200 million baht	4,135	24.3%	6,108	0.005%
Total	**17,029**	**100.0%**	**128,791,227**	**100.0%**

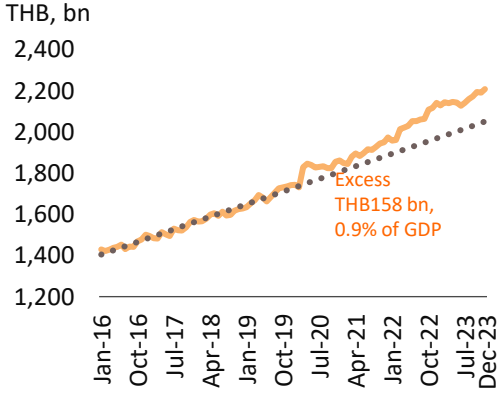
Deposits classified by outstanding balance

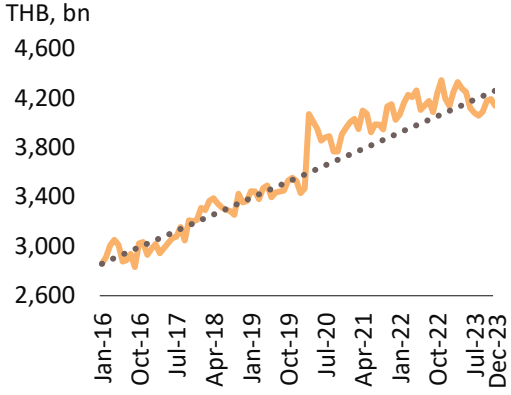








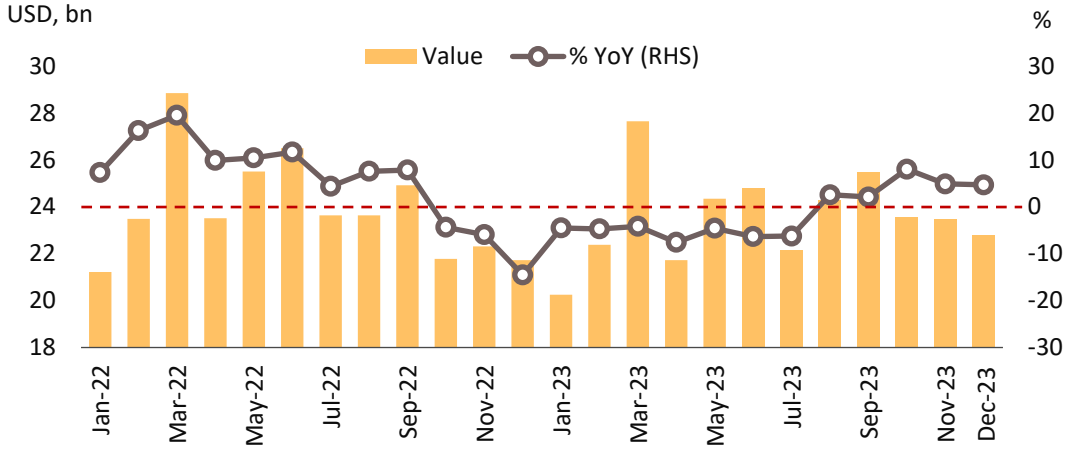




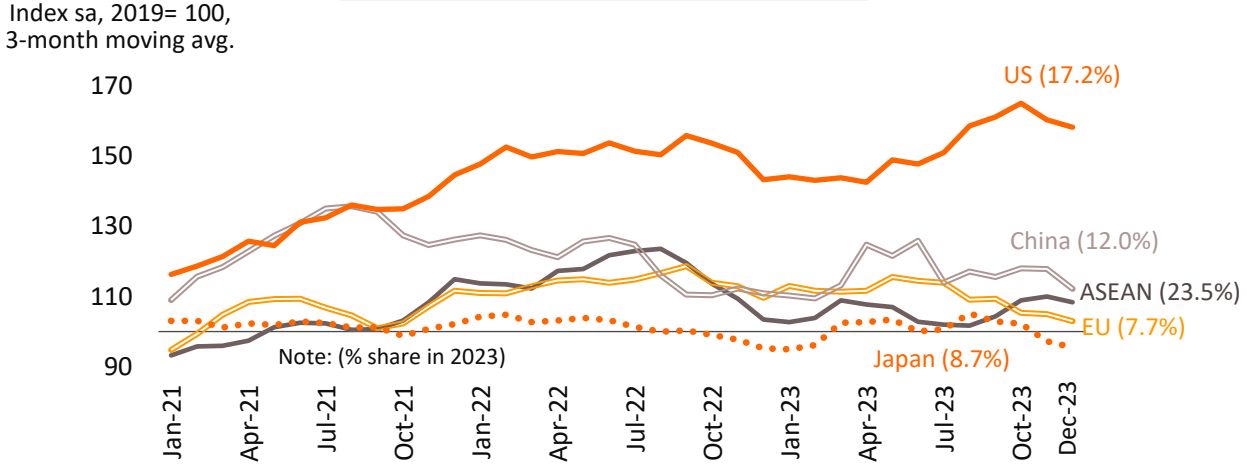
Source: BOT, Krungsri Research

Export growth: Mild and patchy recovery amid external uncertainties; we expect Thai exports to grow by 2.5% in 2024 vs -1.7% in 2023

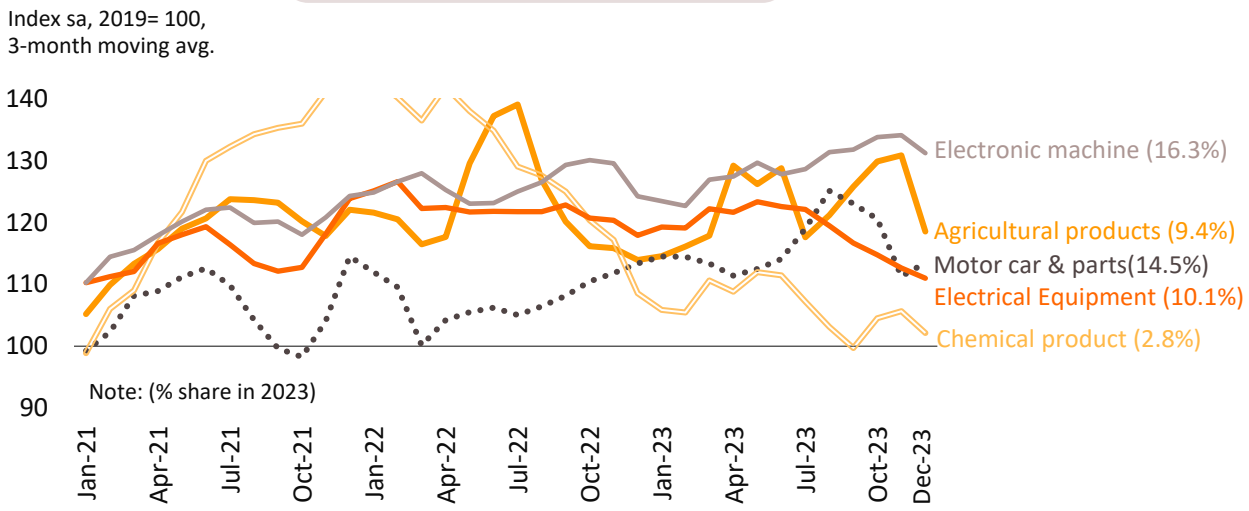
Total Thai Exports



Thai Exports by Major Destination



Thai Exports by Major Product



Source: MOC, CEIC, Krungsri Research

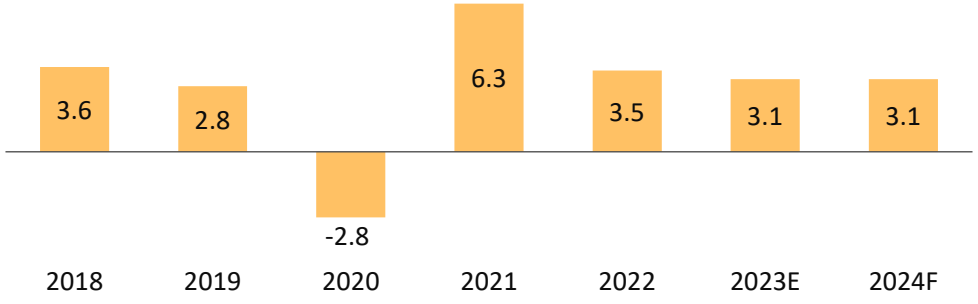
Krungsri Research's view

- **In December, merchandise export value expanded for the fifth straight month, by 4.7% YoY to USD23.5 bn.** Excluding oil, gold and weapons, exports rose 2.1%, led b sugar, rice, rubber, automobiles, components & equipment, rubber products, and computers & equipment. Exports rose to the US, China, and the ASEAN-5 countries but dropped to Japan, the EU, and the CLMV nations. For full-year 2023, total exports contracted by 1.0% to USD 284.6bn based on MOC data and by 1.7% to USD 280.2 bn based on BOT data.
- The steady recovery in the export sector in late-2023 matches trends in exports across Asia. ***For full-year 2024, we expect Thailand's export sector to benefit from moderate growth of around 2.5%.*** The improving outlook will be supported by easing inflationary pressures, easing global supply chain disruption, and an expansion in global trade. The could also be a boost from specific factors, including cyclical recovery in the electronics industry, worries over food security that will drive demand for agricultural goods, and deepening regionalization. Nevertheless, the recovery in exports will remain patchy. The worsening geopolitical situation could generate stronger headwinds that could threaten manufacturing supply chains and push up transportation costs in the period ahead.

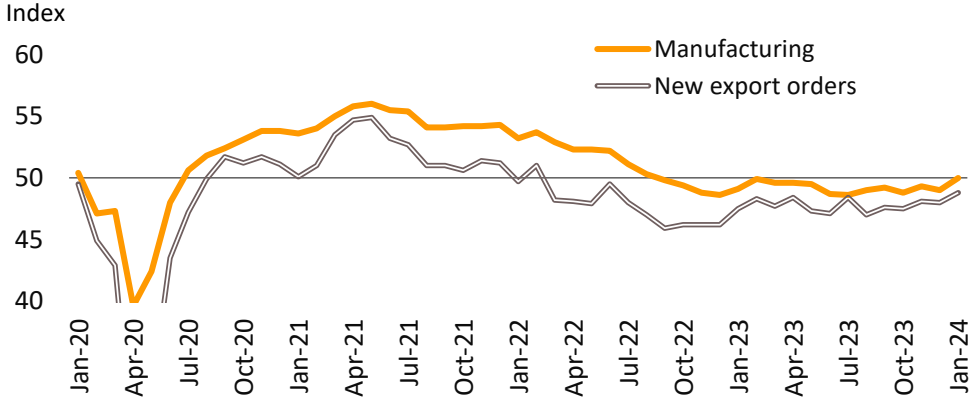
Exports will recover along with the global economy and easing supply chain disruptions, but Thailand's weak manufacturing sector and geopolitical tensions will limit recovery

Thai exports have improved, in line with Asian export trends, attributed to easing supply chain disruptions, concerns over food security, and recovering demand for electrical and electronic products. However, Thailand's manufacturing sector remains weak with the Purchasing Managers' Index in contraction territory (below-50) for the sixth consecutive month in January, although it improved from the previous month. It was the lowest compared to the other 4 major countries in ASEAN. Additionally, risks arising from geopolitical tensions could drive up transportation costs for exports.

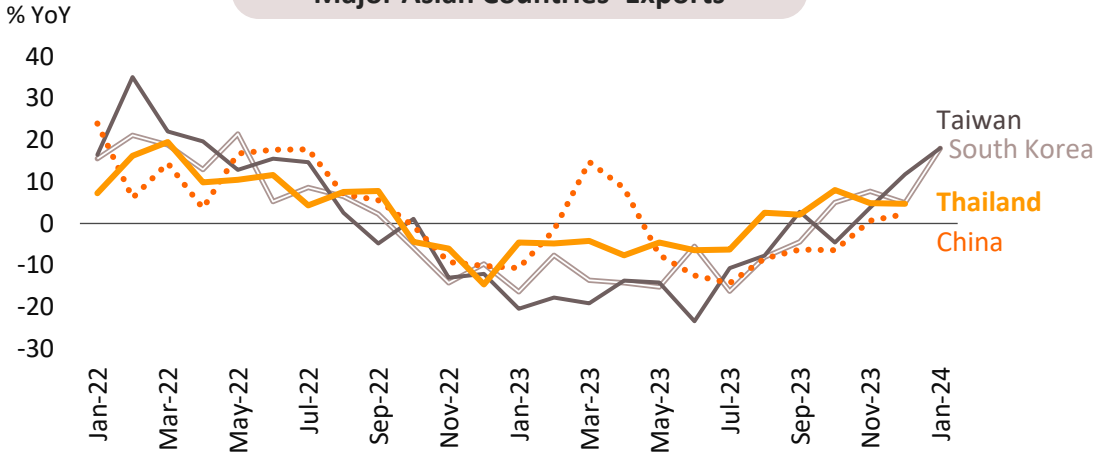
World GDP Growth Projection (by IMF)



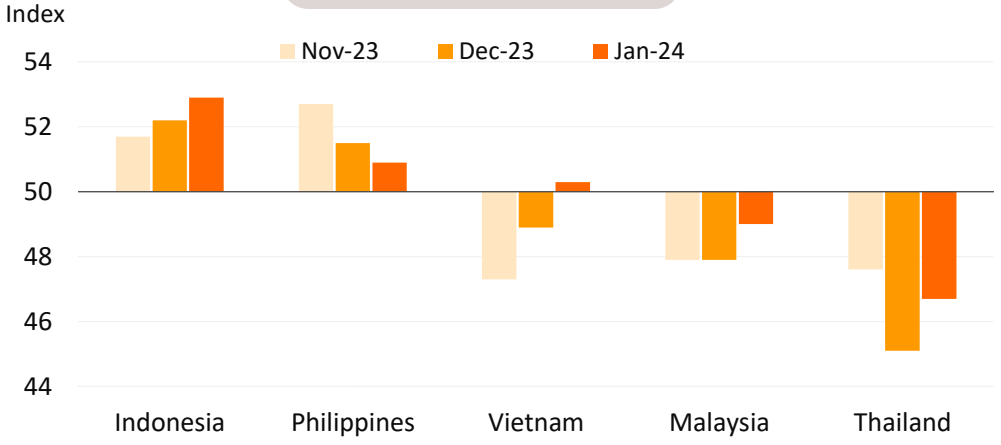
Global Manufacturing PMI and New Export Orders



Major Asian Countries' Exports



Manufacturing PMI



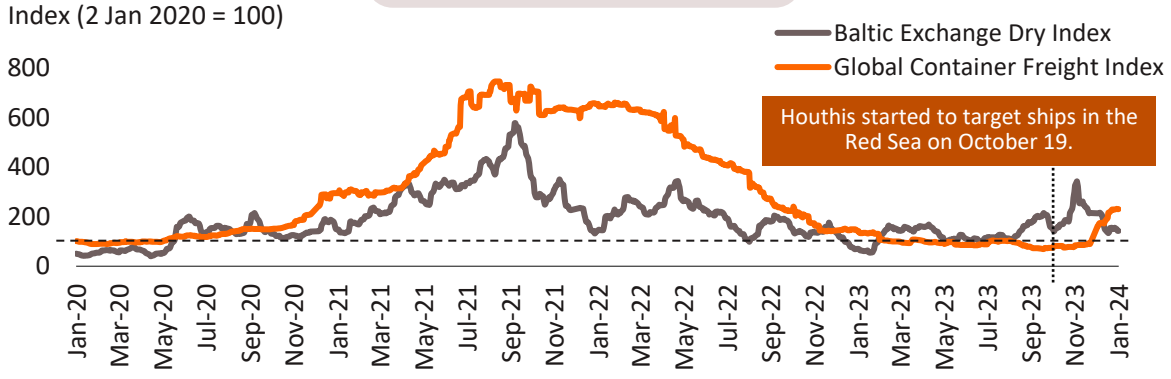
Source: S&P global, MOC, CEIC, Krungsri Research

Rising geopolitical risks and Red Sea tensions could lead to higher transportation cost, trade diversion, inflationary pressure, and even global supply chain disruption

Significance of the Red Sea route to the Global Economy

- **Strategic Location:** The Suez Canal, and by extension, the Red Sea, is a crucial passage for transporting goods from Asia and the Middle East to Europe, especially petroleum (9% of global oil demand in 1H23), LNG (8% of global LNG supply in 2023), raw materials, and consumer products.
- **Volume and Value:** The Suez Canal route accounts for **12% of global trade and 30% of container traffic,** worth more than $1 trillion each year.
- **Speed and Cost:** cargo vessels taking the Cape of Good Hope route could take 30-50% longer and incur higher operational costs including on fuel, wage, and maintenance.

Freight Cost Index



Latest Impact on the Global Economy

- **Delays:** Rerouting to the Cape of Good Hope is extending shipping time by 10-14 days.
- **Shipping costs:** Despite an initial surge, bulk goods shipping costs eventually subsided. But **container shipping costs have risen** by 3.2 times on average by the end of January.
- **Insurance rates** have increased from 0.6% to up to 2% of cargo value.
- **Production:** Tesla, Volvo and Michelin have temporarily suspended production in Europe.

Potential impact on Thai exports along the route

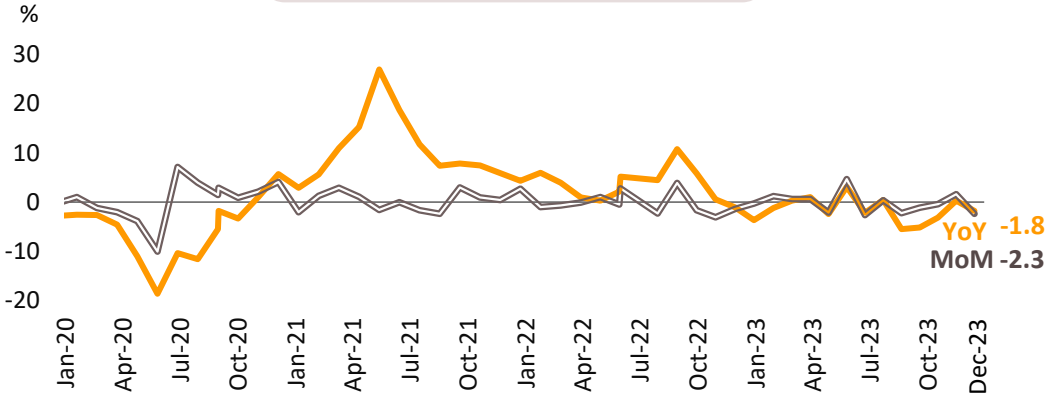
Exports to key destinations	Red Sea and Suez Canal route	Products expected to be affected
Europe (8% of total Thai exports)	Almost all exports to Europe from Thailand use this route.	Computer equipment & components, Air conditioning & components, Electrical circuit, Automobiles and parts & components, clothing products, rubber products, processed chicken and wheat products.
Middle East (4% of total Thai exports)	Exports to Jordan and Israel (accounting for 10% of Thai exports to the Middle East), with the rest via UAE ports. The overall impact may not be significant.	Automobiles and parts & components, Processed & frozen seafood
North Africa (1% of total Thai exports)	The main gateway for exports to Egypt, Thailand's top trading partner in North Africa (0.2% of Thailand's total exports).	Chemical products, Preserved fish, Processed & frozen seafood, Automobile parts, Iron products
US (17% of total Thai exports)	It may experience indirect consequences as some shipping vessels have recently altered their routes, diverting from the Panama Canal to the Suez Canal to avoid low water levels.	

Source: J.P. Morgan, Drewry, Baltic Exchange, Global Trade Research Initiative, Special Eurasia, Reuters, The Guardian, CSIS, S&P Global, Morgan Stanley, CEIC, Bloomberg, MOC, and Krungsri Research

Private investment: Delicate recovery as exports and manufacturing slowly regain strength; public investment will provide support starting from Q2

Business sentiment weakened in January, mainly in the trade sector, following an acceleration during the year-end festive season. However, there are positive signs of support for investment in the next period, including (i) applications for Board of Investment (BOI) investment incentives reached 848 bn baht in 2023, the highest in 5 years and an increase of 43% YoY. This was led by electrical appliances, electronics, automotive & parts, agriculture & food; (ii) measures to promote investments in target sectors, including the EV (electric vehicle) industry upgrade Phase 2 (EV 3.5) over 2024-2027 and (iii) accelerating infrastructure investment after the FY2024 annual Budget Bill takes effect in 2Q24. Premised on these, private investment would improve from 2Q24 onwards.

Private Investment Index

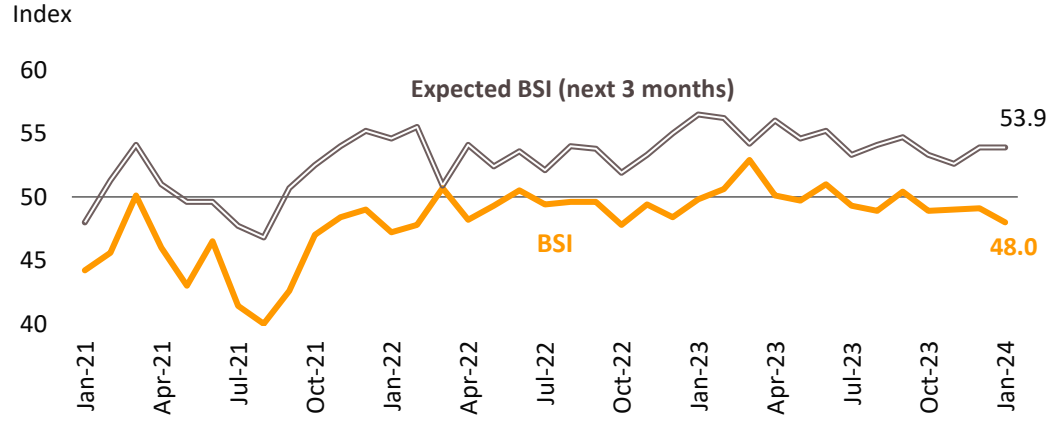


Private Investment by category

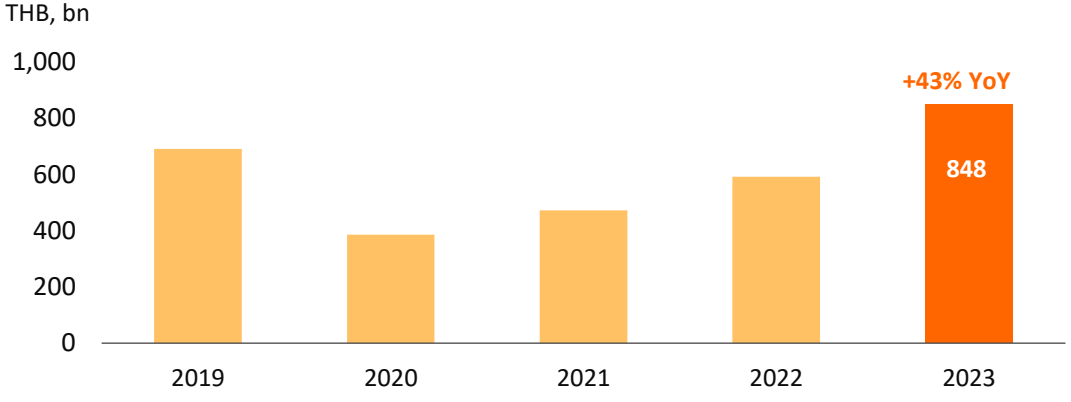
%YoY*	2021												2022												2023											
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Private investment																																				-1.8
Construction area permitted																																				-1.9
Construction material sales																																				-2.3
Imports of capital goods																																				2.0
Machinery sales																																				-2.3
Newly registered vehicles																																				-20.5

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

Business Sentiment Index remains weak



Total Applications for BOI Investment Incentives

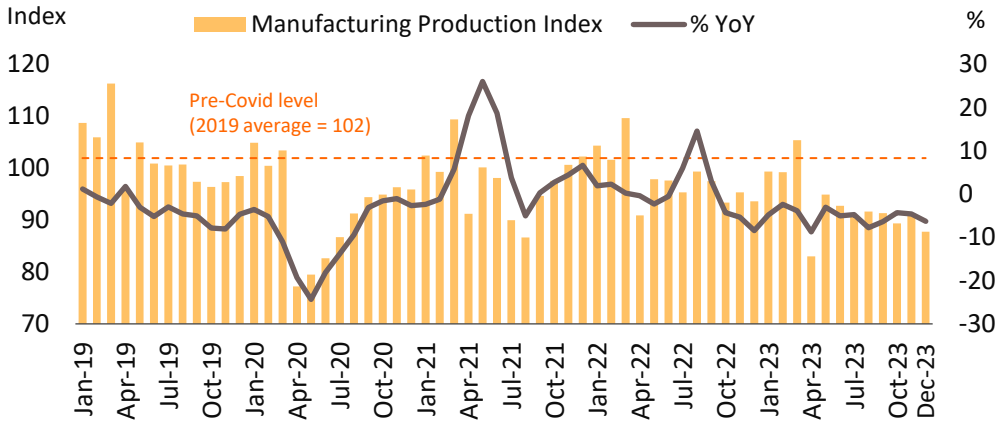


Source: BOT, BOI, CEIC, Krungsri Research

Manufacturing production to see mild improvement supported by recovering tourism sector and modest growth in global demand

In 2023, overall manufacturing production shrank significantly by 5.1% and capacity utilization rate tumbled from the pre-Covid level (2016-2019) average, attributed to slow recovery of the domestic economy and weak foreign demand. ***For 2024, we anticipate a mild improvement in industrial production driven by improving exports and private investment amid the global economic recovery, along with domestic activities bolstered by strong growth of the tourism sector. However, manufacturing production growth would still be limited by structural problems, including lower competitiveness in some key industries.***

Manufacturing production fell following weaker exports

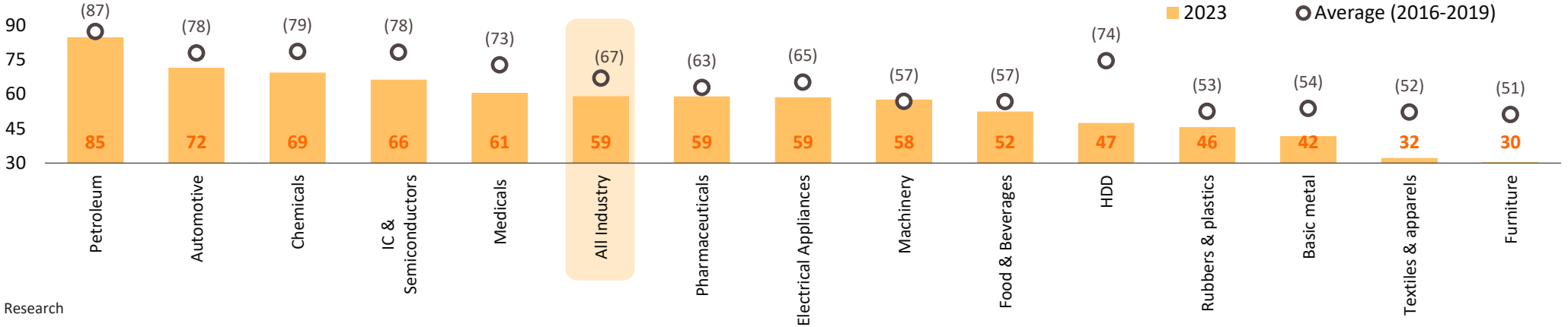


Manufacturing production in 2023 shrank 5.1% vs +0.4% in 2022

Manufacturing Production (%YoY)*	Weight	2021												2022												2023											
		J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
All industry	100.0%																																				**-6.3**
Food & Beverages	20.3%																																				-6.5
Automotive	13.8%																																				-20.9
Petroleum	9.5%																																				+7.2
Chemicals	9.1%																																				+2.4
Rubbers & Plastics	8.8%																																				-2.0
Cement & Construction	5.5%																																				-7.6
IC & Semiconductors	5.5%																																				-12.6
Electrical Appliances	3.8%																																				+1.4
Textiles & Apparels	3.5%																																				-13.8
HDD	3.4%																																				-19.9

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

Capacity utilization by sector (%)

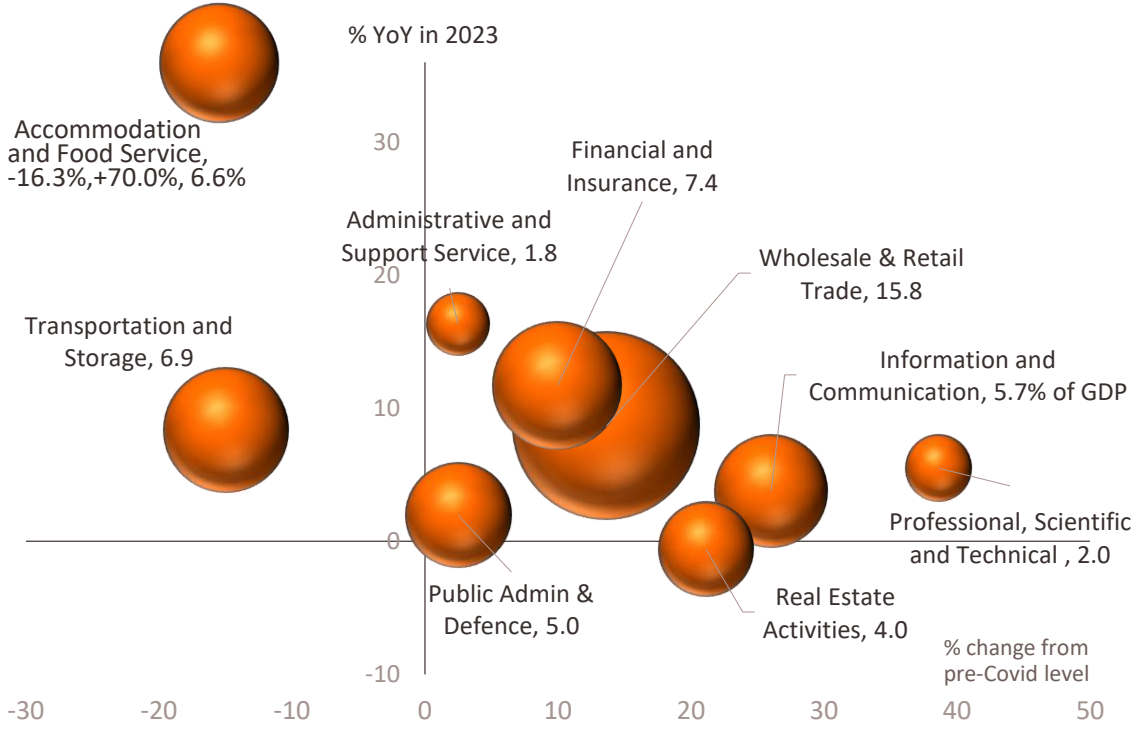


Source: OIE, Krungsri Research

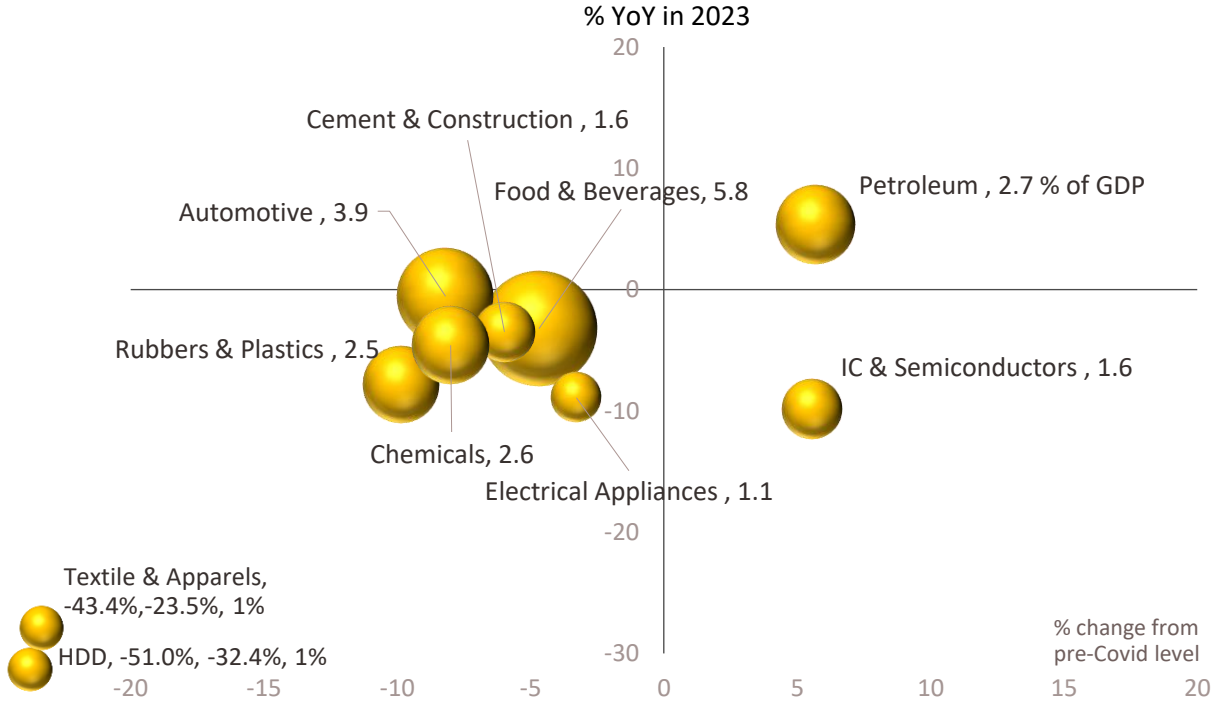
Supply side: Recovery remains uneven in both services and manufacturing sectors

- In 2023, several industries in the services sector have **recovered above pre-Covid levels and registered positive year-on-year growth**, including Information & Communication, Professional Scientific & Technical, Financial and Insurance, Wholesale & Retail Trade, Public Admin & Defense and Administrative & Support Services. Their combined output accounted for **37.6% of GDP.** Manufacturing industries in the same classification include Petroleum (2.7% of GDP).
- Manufacturing and services industries that have **recovered above pre-Covid levels but registered negative growth** include IC & Semiconductors (1.6% of GDP) and Real Estate Activities (4.0%).
- Services industries that **remained weaker than pre-pandemic levels but registered improvements** include Accommodation & Food Service (6.6%) and Transportation & Storage (6.9%).
- However, most manufacturing industries **remained weaker than pre-covid levels and registered negative growth,** including Automotive, Electrical Appliance, Food & Beverages, Cement & Construction, Rubber & Plastic, Chemicals, HDD and Textile & Apparel. Output of those industries account for **a combined 19.4% of GDP.**

Service Production Index (SPI): 55.1% share of GDP
(unit: % change from pre-covid level, % YoY growth, % share of GDP)



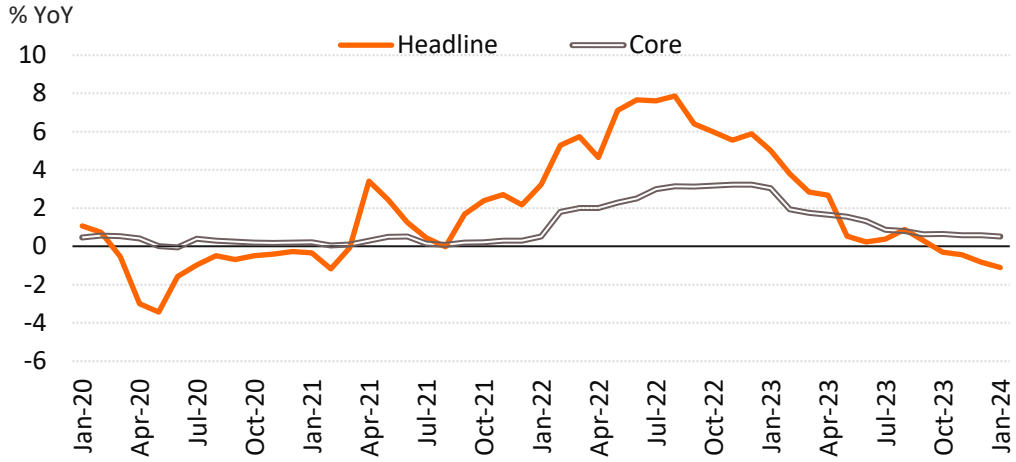
Manufacturing Production Index (MPI): 23.6% of GDP
(unit: % change from pre-covid level, % YoY growth, % share of GDP)



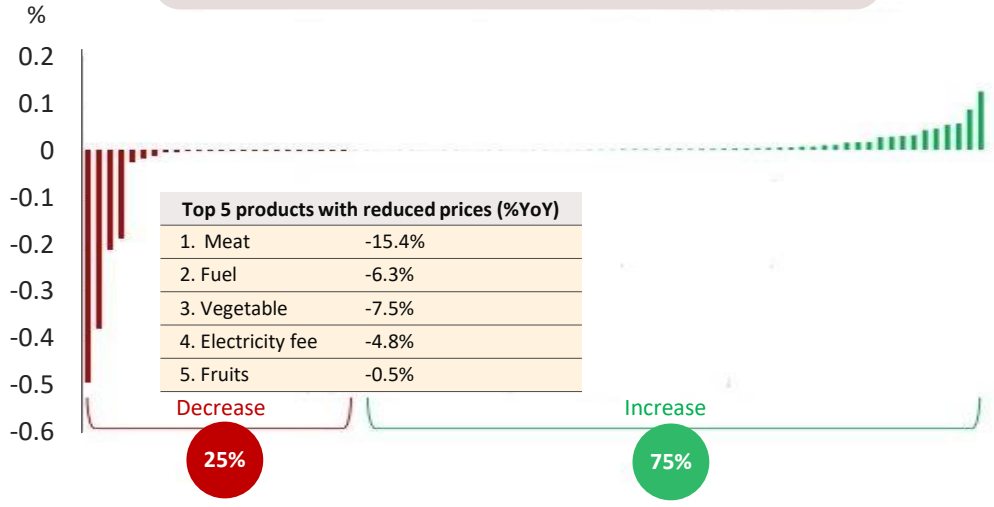
Note: Size of bubble represents % share of GDP
Source: FTI, BOT, NESDC, Krungsri Research

Headline inflation will remain low in 2024 partly due to government subsidy measures; easing prices still not broad-based

Inflation rate was negative for the 4th straight month



Inflation is slowing but is not broad-based



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
Headline CPI	**100%**			
Food & beverages	41.7%			
Apparel & footwears	2.1%			
Housing & furnishing	22.3%			
Medical & personal care	5.5%			
Transportation & communication	22.9%			
Recreation & education	4.3%			
Tobacco & alcoholic beverages	1.4%			
Raw food	20.8%			
Energy	13.6%			
Core CPI	**65.5%**			

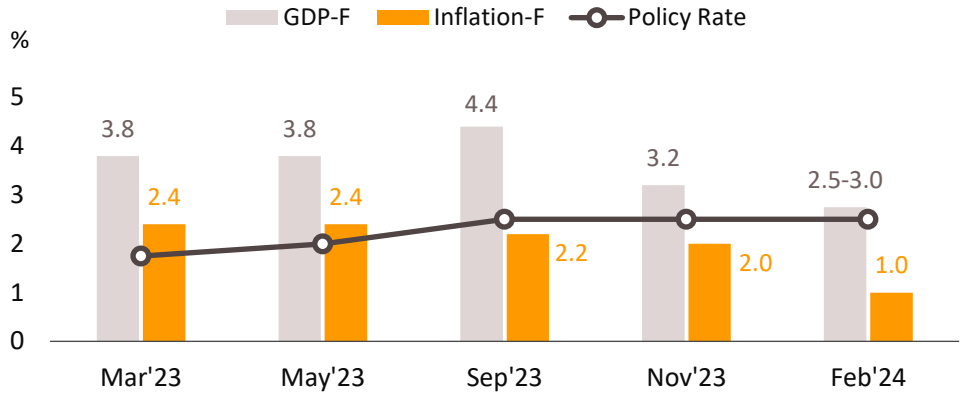
** Red > 0%, Green < 0% / Darker colors indicate stronger momentum*

Krungsri Research's view

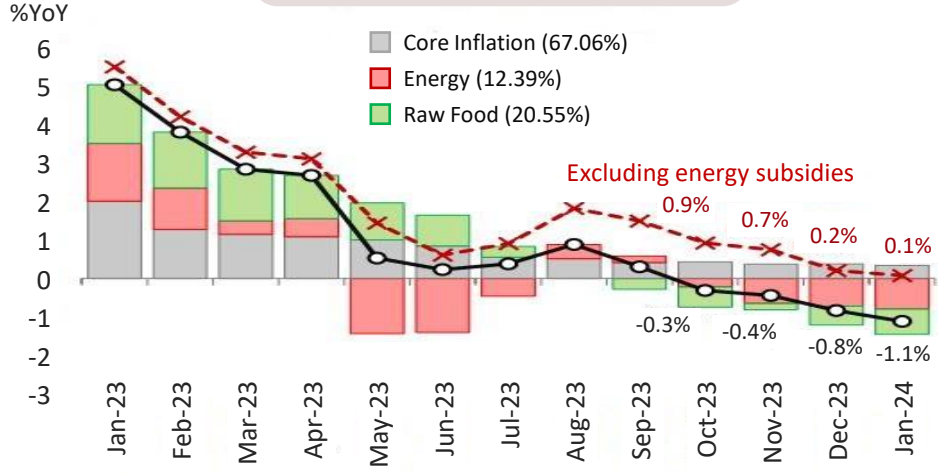
- **January headline inflation marked -1.11% YoY vs -0.83% in December, in negative territory for the 4th month.** This was due to ongoing government subsidies targeting energy costs, particularly extension of THB 30/liter cap on diesel prices and limiting electricity cost at THB 3.99/unit for qualifying households. In addition, higher agricultural output had caused a drop in fresh food prices, especially vegetables and pork. Meanwhile, core inflation, which excludes raw food and energy prices, inched down to 0.52% from 0.58% in December.
- Thanks partly to government control pf diesel prices and (for some consumers) electricity bills, headline inflation could remain in negative territory in 1Q24, which would keep average annual inflation for the year near the lower end of the BOT's target range. However, there is also a chance inflation might climb higher than expected driven by generally more expensive commodities triggered by drought impact and worsening geopolitical tensions especially in the Middle East. In addition, inflation in some months could also be affected by the expiry of energy bill subsidies.

Weaker-than-expected growth momentum implies greater probability of MPC's first *policy rate cut* in the middle of this year

Policy Interest Rate and BOT's revised 2024 Economic Growth Forecast

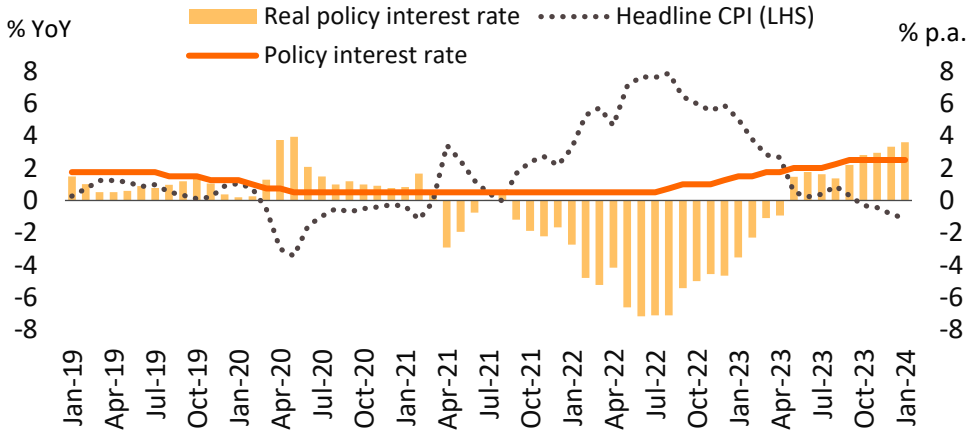


Contributors to inflation



Source: MOC, BOT, EIA, Bloomberg, Krungsri Research

Real policy interest rate



Krungsri Research's view

- **At its February 7th meeting, the MPC voted to policy interest rate at 2.5%, with two members supporting a rate cut.** The MPC revised down its 2024 economic growth projection from 3.2% to 2.5-3.0%, citing slower-than-expected growth in late 2023 influenced by weak exports, sluggish manufacturing activity, high inventory levels, changes in international tourist behavior, and a decline in public investment. The MPC attributed the economic slowdown to structural and specific factors, emphasizing that domestic demand remains a significant driving force. On inflation, the MPC expects that to stabilize at around 1% in 2024, and pick up gradually in 2025 given risks of worsening geopolitical tensions, climate change impact on agricultural prices, and smaller government subsidies.
- While the MPC's statement affirmed its belief that the current policy rate is sufficient to support economic growth and economic stability over the long term, **the absence of a unanimous decision and the downward revisions to inflation and GDP growth signal greater possibility of rate cuts this year.** Nevertheless, the MPC has stated that *"Monetary policy has a limited ability in addressing structural headwinds. Monetary policy primarily influences aggregate demand."* **We see the Thai economy recovering only slowly and faced with a range of challenges, growth will remain sluggish. Hence, more evidence of a deteriorating economic outlook implies higher probability of the MPC's first rate cut in in the middle of this year.**

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