

krungsri Research

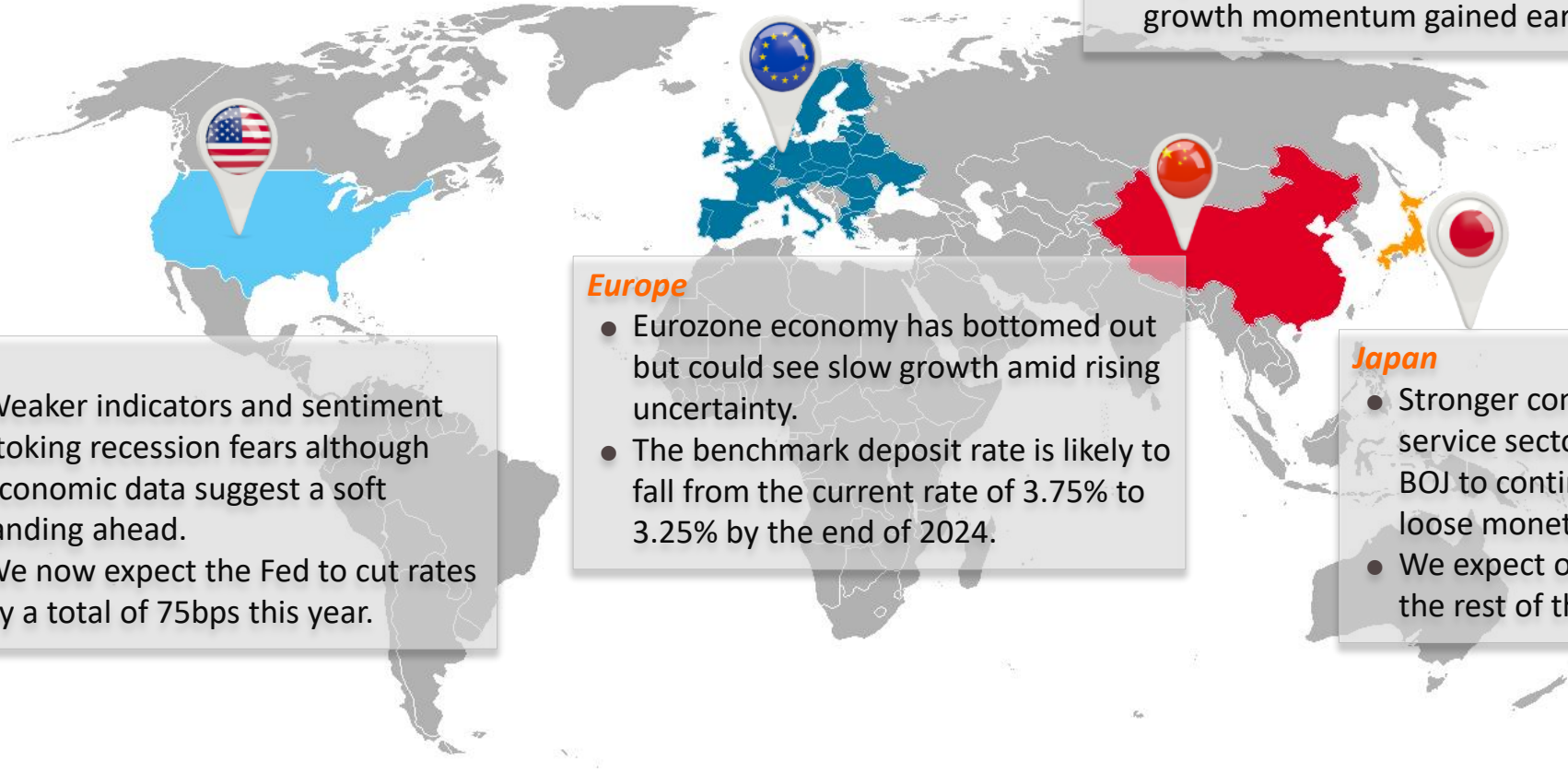
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MONTHLY ECONOMIC BULLETIN

August 2024

Krungsri Research

Global: Increasing vulnerability and risks



China

- Structural weaknesses overshadow the positive impact of current stimulus measures, stalling the growth momentum gained earlier this year.

US

- Weaker indicators and sentiment stoking recession fears although economic data suggest a soft landing ahead.
- We now expect the Fed to cut rates by a total of 75bps this year.

Europe

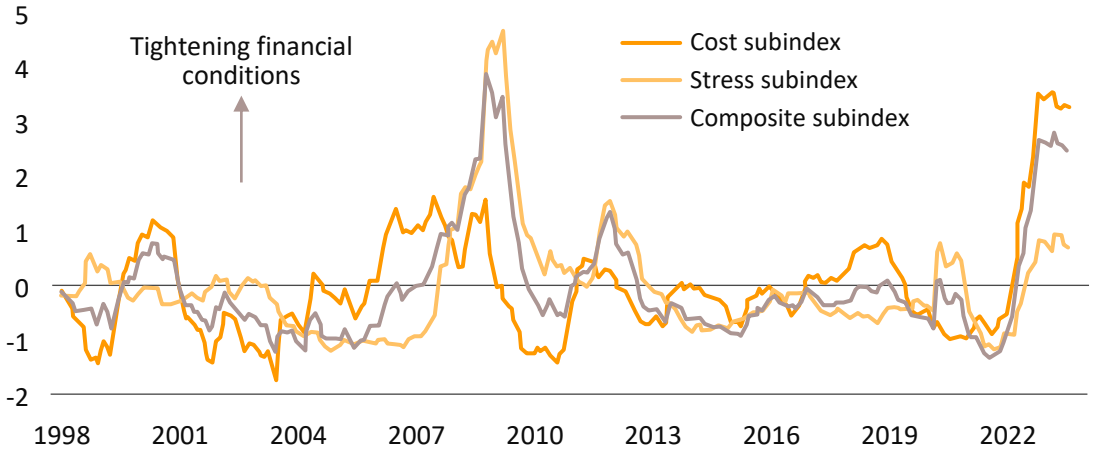
- Eurozone economy has bottomed out but could see slow growth amid rising uncertainty.
- The benchmark deposit rate is likely to fall from the current rate of 3.75% to 3.25% by the end of 2024.

Japan

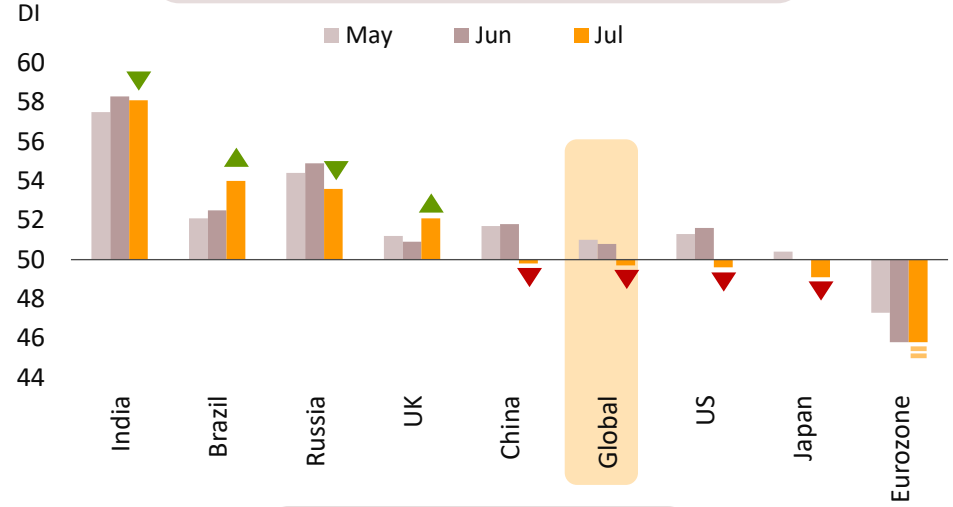
- Stronger consumption and a strong service sector could encourage the BOJ to continue to unwind ultra-loose monetary policy.
- We expect only mild rate hikes for the rest of this year.

Tighter financial conditions and recent sell-off in equities have raised recession risks in advanced economies; key data point to decelerating growth rather than a hard landing

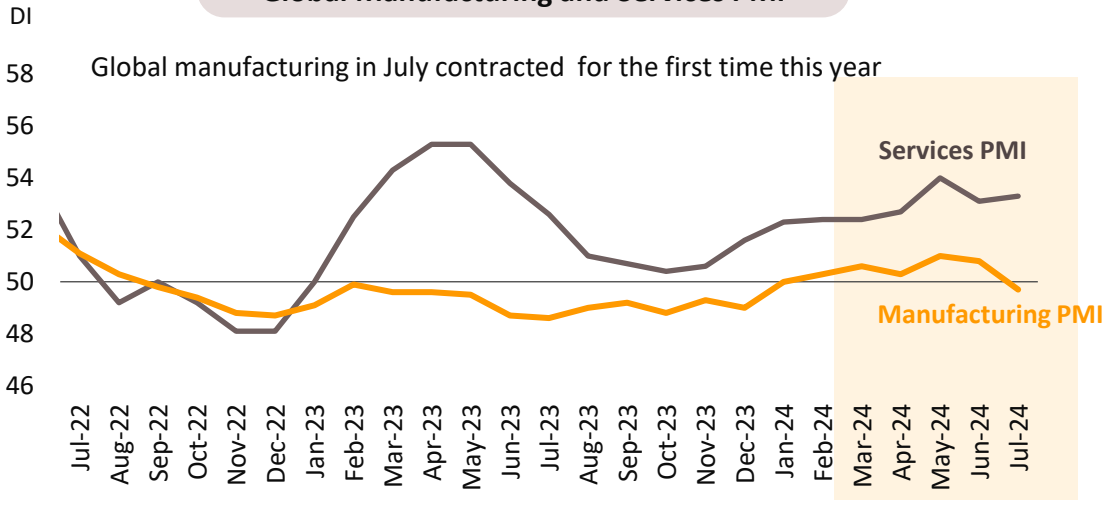
Financial Conditions in Developed Markets (Z-Scores by CE)



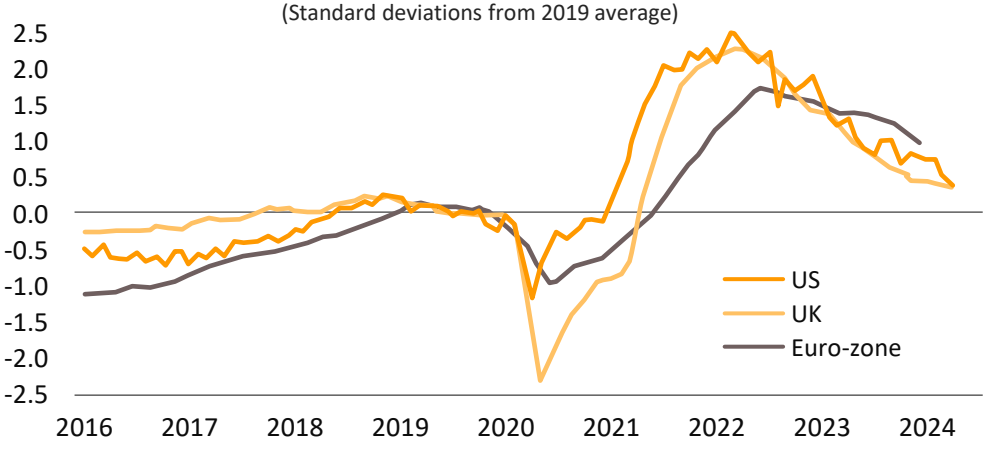
Major Countries' Manufacturing PMI



Global Manufacturing and Services PMI



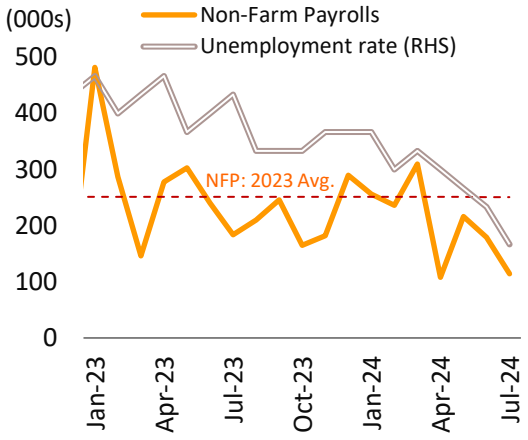
Vacancy Rates



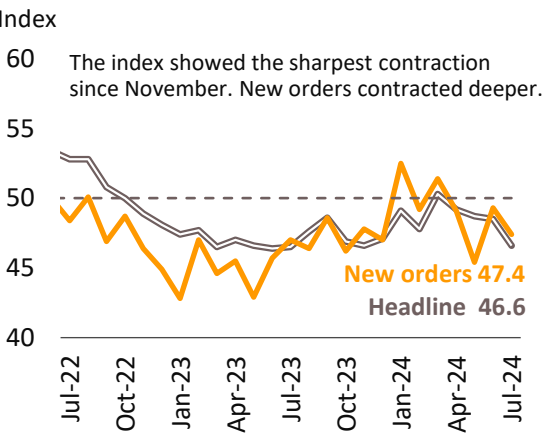
Source: S&P Global, Capital Economics (CE), CEIC, Bloomberg, Krungsri Research

US: Weaker indicators and sentiment stoking recession fears, although economic data suggest a soft landing ahead; expect the Fed to cut rates by a total of 75bps this year

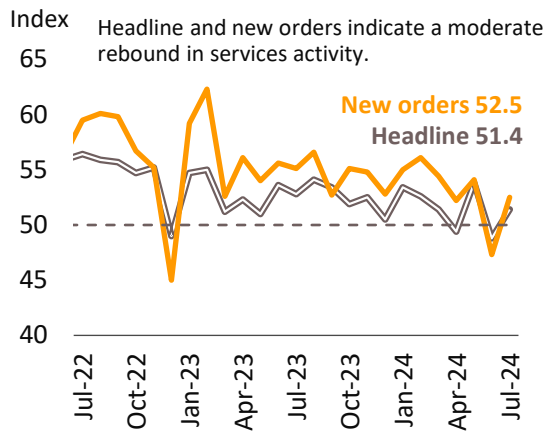
Payrolls and Unemployment



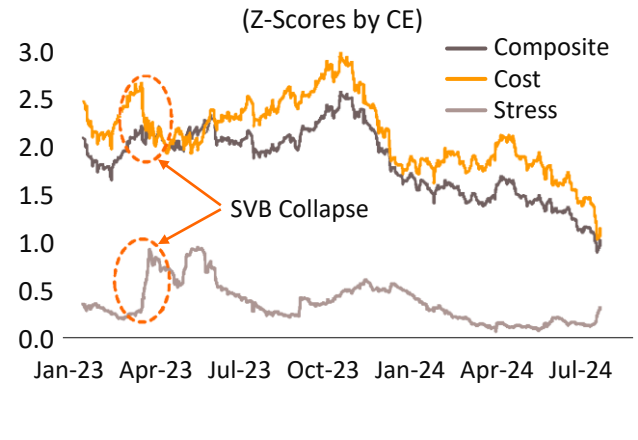
ISM Manufacturing PMI



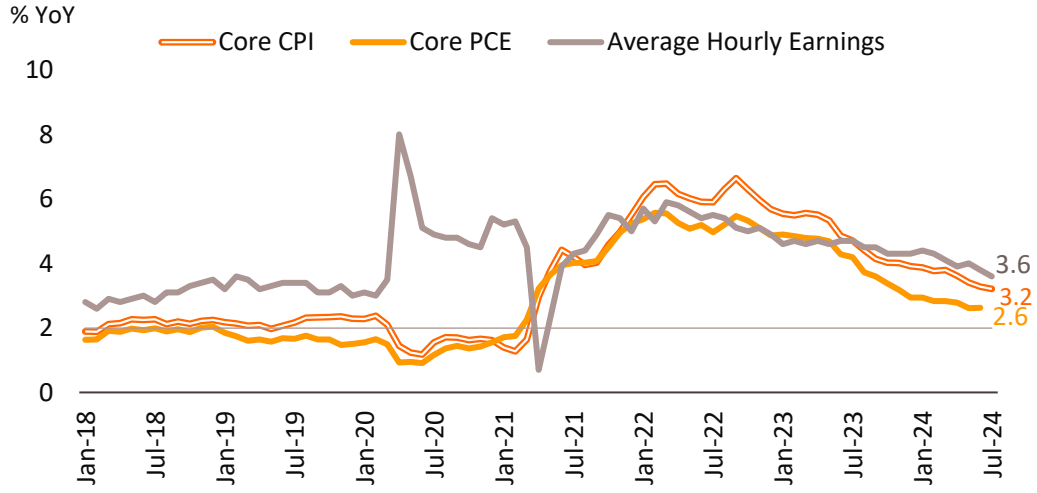
ISM Services PMI



US Narrow Financial Conditions



Core CPI, Core PCE and Average Hourly Earnings



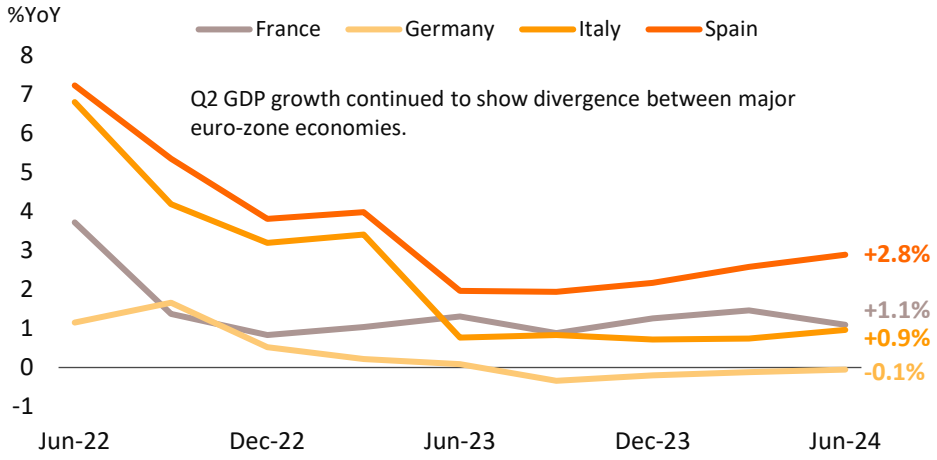
Source: ISM, BLS, CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

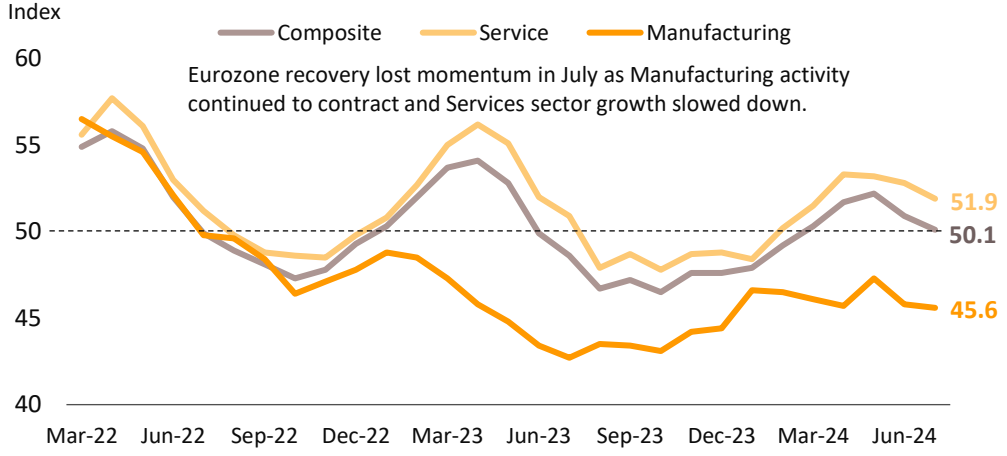
- **Higher risk of recession following weaker-than-expected July jobs data, larger contraction in manufacturing activity, and market sell-offs, as well as tightening financial conditions.**
  - The labor market is cooling off with non-farm payrolls rising by 114K jobs in July, well below 179K in June and market expectations of 175K. Unemployment rate rose from 4.1% to 4.3%, the weakest since October of 2021.
- **Larger downside risk, but we still expect a soft landing:**
  - **Signs of continuing economic expansion: (i) improving services activity** with ISM Services PMI reversing to expansion zone in July; (ii) a fall in **weekly initial jobless** claims in August, (iii) a rebound July retail sales; and (iv) **capacity utilization had risen to** a 9-month high of 78.8% in June.
  - **US Financial Conditions Index (FCI) has been easing since the beginning of this year** (see chart) amid lower borrowing costs, though recent market turmoil led to some tightening in FCI.
  - **Inflation is softening but remains a concern: (i) Core CPI data** eased to over 3-year low of 3.2% in July and **Core PCE inflation was steady at** 2.6% YoY, but both remain above their respective pre-covid levels (2010-2019) of below-2.5% and below-2%; and **(ii) Average Hourly Earnings rose** 3.6% YoY in July, the slowest rise since May 2021 but stronger than 3.08% average between 2007 and 2024.
  - In addition, the anticipated implementation of stimulus measures after the election should help soothe hard-landing concerns.
- **The disappointing July jobs data and weakening confidence suggest higher risks to US economic growth ahead. However, we expect a soft landing for the economy and maintain that excessive rate cuts could hurt sentiment and growth. Hence, the Fed might cut rates gradually. We now expect three rate cuts this year, by 25bp each, which would take the Fed Funds Rate to 4.50-4.75% by year-end from 5.25-5.50% currently.**

Eurozone: The economy has bottomed-out but could see slow growth amid rising uncertainty

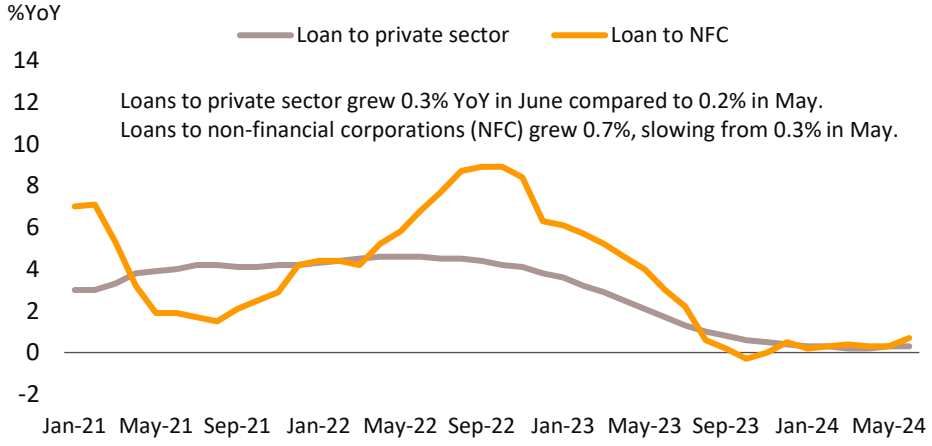
GDP Growth by Countries



HCOB PMI Index



Loan Growth



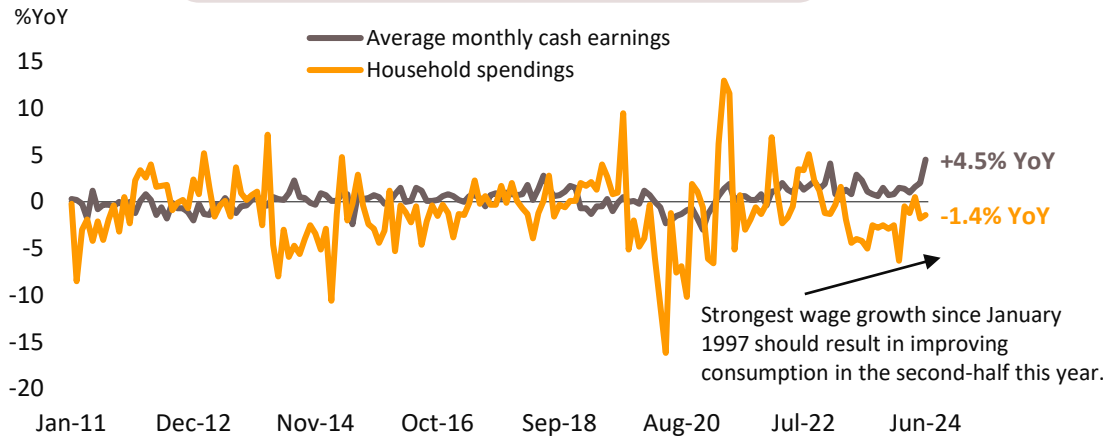
Source: ECB, World Bank, CEIC, investing.com, Eurostat, Bloomberg, Krungsri Research

Krungsri Research's view

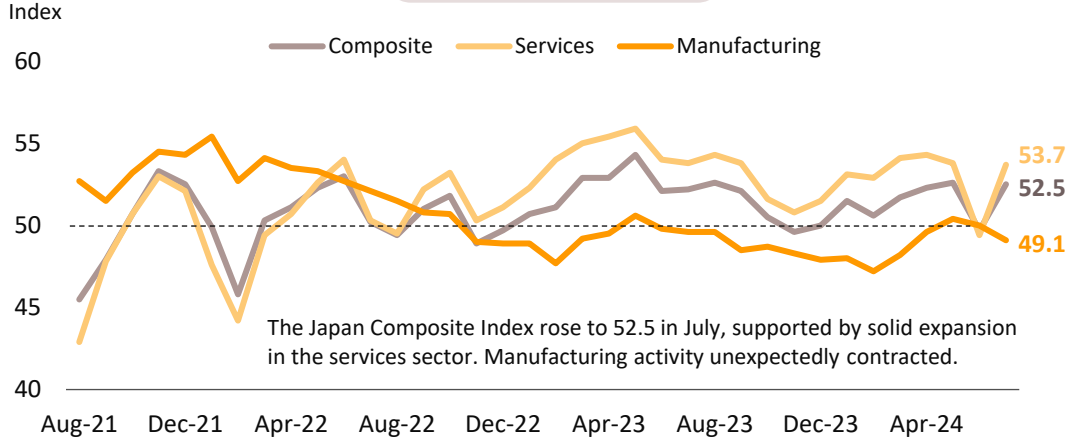
- **Despite growth improving in 2Q24, recovery in the Eurozone remains weak and fragile.** 2Q24 GDP data revealed divergence among major eurozone economies. On an annual basis, Spain's GDP grew by 2.9%, France's by 1.1%, and Italy's by 0.9%, but Germany's economy continued to contract by 0.1% due to weak manufacturing and construction activities. In 2H24, growth would remain weak, shaded by: (i) shrinking manufacturing activities and slower growth in the services sector; (ii) interest burden in the private sectors reaching the highest in over a decade; (iii) persistent inflation in the services sector is eroding purchasing power; and (iii) rising trade tensions between the EU and China. This suggests the Eurozone would see a sluggish recovery, which could prompt the ECB to deliver more interest rate cuts ahead.
  - In its July 2024 update, the IMF revised its GDP growth forecast for the Eurozone to 0.9% for 2024, from 0.8% in its previous forecast, but kept growth at 1.5% for 2025.
- **Slowing economic activities and money data also point to subdued growth.** Despite June data revealing growth in net lending to households and non-financial corporations, it was still low and needs more time to recover to support significant economic growth. Higher-for-longer interest rates could cap demand for loans. Also, the impact of the trade war on the economy and inflation could get worse.
- **Still-slow economic growth and slowing inflation could encourage the ECB to cut interest rates further for the rest of this year.** Nevertheless, given still-high inflation in the service sector and higher wages, as well as growth divergence among major eurozone economies, the ECB might cut interest rates twice more this year. That would take the benchmark deposit rate down from the current rate of 3.75% to 3.25% by the end of 2024. However, that could depend on a sustainable drop in inflation in the services sector.

Japan: Stronger consumption and strong services sector could encourage the BOJ to continue to unwind ultra-loose monetary policy

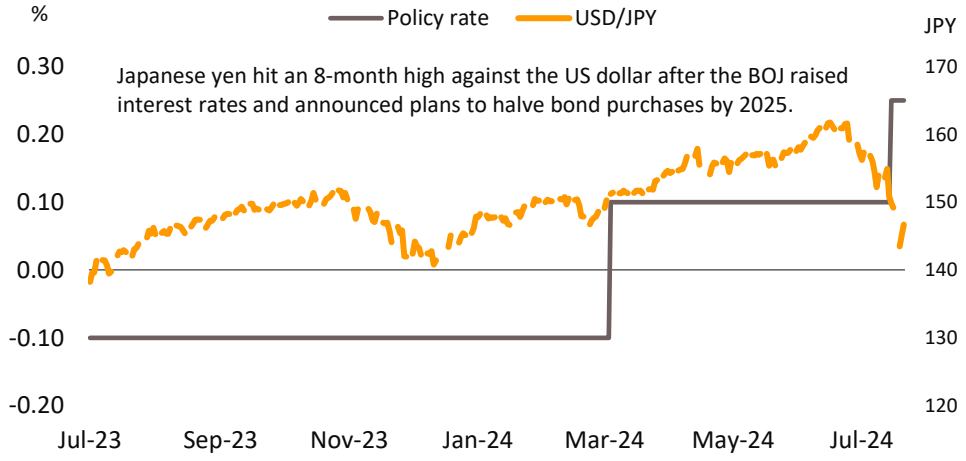
Wage growth and Household Spending



PMI Index



Japan's policy rate and USD/JPY



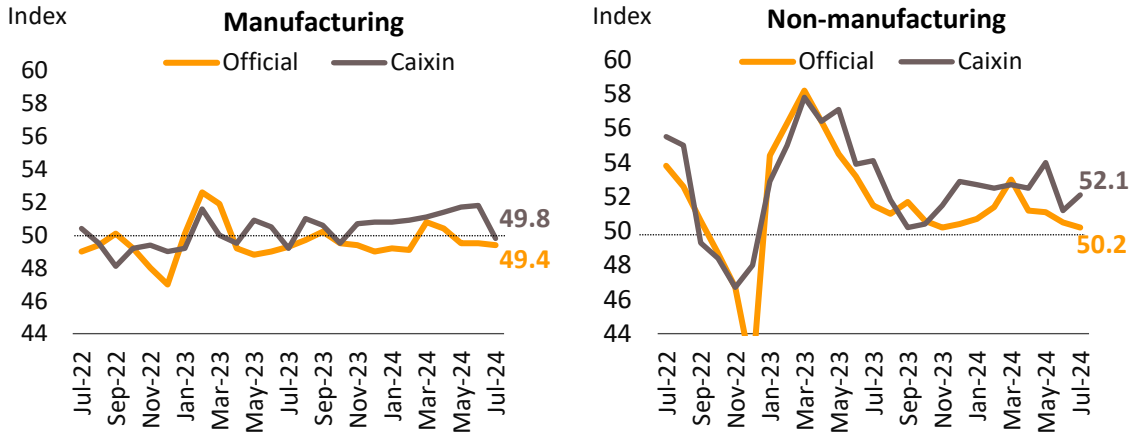
Source: Bank of Japan, International trade, CEIC, Investing.com, Bloomberg, Krungsri Research

Krungsri Research's view

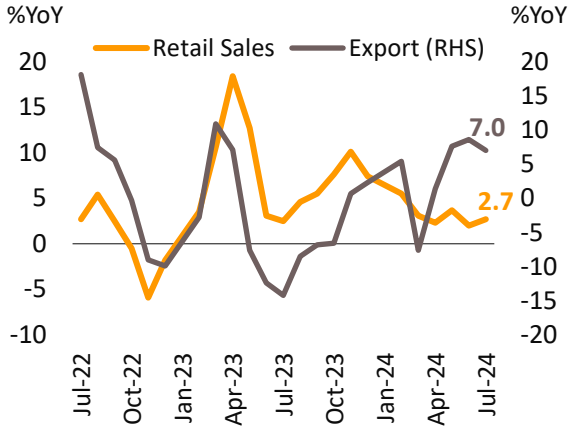
- **Consumption will improve in the near term due to several factors**, including: (i) higher labor cash earnings and regular cash earnings following the latest Shunto. This suggests robust wage growth in the near term, potentially approaching 3% by the end of the year; (ii) income tax cuts since June which would leave households with larger disposal income; (iii) resumption of government subsidies for electricity and gas bills effective September, which could reduce inflation temporarily; and (iv) proposed 5% hike in minimum wage starting April 2025, higher than increments in 2024.
- **Japan's economy would continue to recover in the second half of this year** driven mainly by services sectors, such as tourism and consumption. Manufacturing and export sectors are likely to play smaller roles. **Wage growth accelerated in June** but there are concerns that efforts to suppress inflation might dampen the wage-price cycle. Wage demands by trade unions are usually influenced by the inflation rate, which means wage growth could be smaller in the next round of wage negotiations (Shunto) in 2025.
  - Tourist arrivals in Japan reached a new high of 3,135,600 in June from 3,040,100 in May.
  - Exports grew by 5.4% YoY in June, rising for the seventh consecutive month, but is slower than the 13.5% jump in May and is the softest since last November.
- **Monetary policy.** At its most recent meeting, the Bank of Japan (BOJ) raised the policy interest rate by 15 bps to 0.25% and announced plans to halve its bond purchases in 2025, targeting to reduce to JPY3tn per month. We view this as a normalization of monetary policy to align with the rising inflation environment and support economic recovery. However, **we expect only mild rate hikes for the rest of this year** given the weak economic recovery, concerns over turbulence in financial markets, and anticipation of slower inflation since the government resumed subsidies for electricity and gas bills effective September. **Hence, we expect the BOJ to raise interest rates by only another 25bps to 0.50% by the end of this year.**

China: Structural weaknesses overshadow the positive impact of current stimulus measures, stalling the growth momentum gained earlier this year

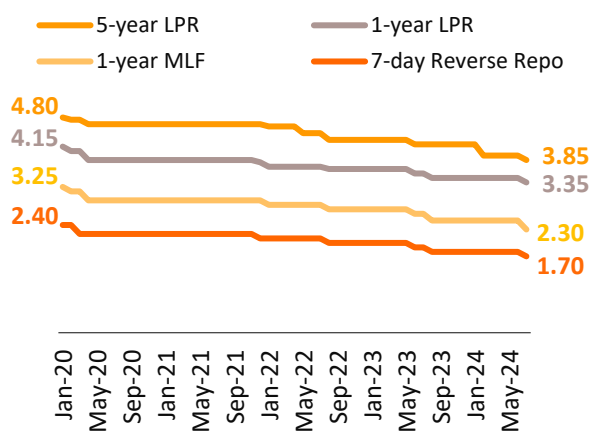
Purchasing Managers' Index (PMI)



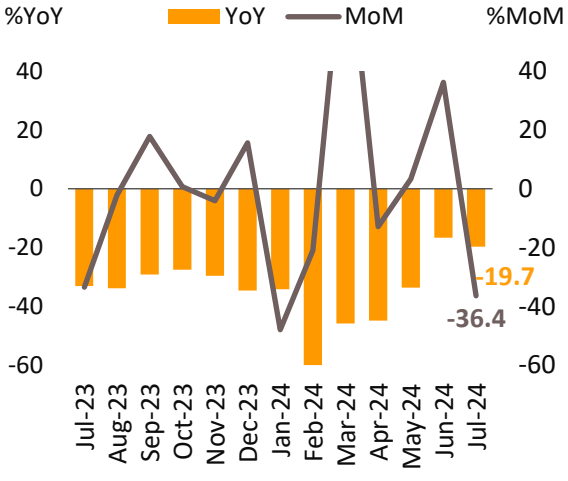
Retail Sales of Goods and Exports



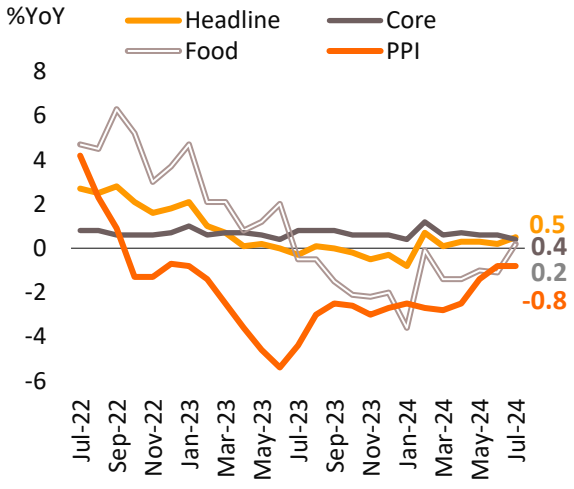
PBOC Policy Rates (%)



New Home Sales by Top 100 Developers



Consumer and Producer Price Index



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

Krungsri Research's view

- **Services sector continues to chug along as manufacturing loses steam.** The services sector has been improving steadily since 1Q23. However, the manufacturing sector is starting to experience a broad-based decline, suggesting that export gains and current stimulus measures might be insufficient to address excess supply and weak domestic demand. **Services and exports would drive growth in 2H24, but China would need more stimulus measures to achieve the 5% growth target this year.**
- **The government is ramping up a series of financial and fiscal measures,** including comprehensive policy rate cuts in July, USD41.5bn additional trade-in subsidy program for electrical appliances and automobiles, and USD413.8bn investment by state-owned enterprises to upgrade machinery over the next five years. **These measures could help to lift consumption, but the targeted nature and relatively small rate cuts could limit their overall impact.**
- **Real estate activity remains weak, with signs of improving momentum waning.** New home sales by the top 100 developers continued to contract despite several stimulus measures. This reflects still-weak consumer sentiment and the wealth effect from declining property prices over time. Liquidity and default risks among major developers remain a concern (e.g., Country Garden's sales tumbled 72% in July). **Hence, we expect new home sales to remain in contraction throughout 2H24.**
- **Subdued inflation, weak domestic demand, and fragile manufacturing sectors point to a slowing economy.** Meanwhile, it would be challenging for China to continue to depend on exports to drive the economy, given signs of a slowing US economy and rising trade tariffs. Given these challenges, **the government would likely expand targeted stimulus measures and further ease interest rates later this year, following recent cuts of just 10-20 bps.**

Thailand: Smooth political transition so far, but economic direction might not change even with prompt appointment of a new cabinet and potential continuity in economic policies

- **On August 14, the Constitutional Court decided ex-PM Srettha would have to step down for ethics violation. Two days later, Pheu Thai Party leader Paetongtarn Shinawatra was elected the 31st Prime Minister of Thailand with 319 votes (nearly two-thirds majority) in the House of Representatives.**
- **Despite the rapid appointment of a successor, expectations for a new cabinet by early September, with the possibility of accelerating budget disbursement, and continued economic policies given the coalition government remains in power, there is little else to suggest the economic outlook for Thailand would change substantially. However, the downside risk may stem from political uncertainty, unpredictable issues, and potential legal challenges.**
- **2Q24 GDP growth improved to a 5-quarter high of 2.3% on a year-on-year basis, but a quarter-on-quarter slowdown implied growth momentum failed to strengthen. Given this momentum and the latest political developments, we are likely to maintain our cautious growth outlook.**
- **The tourism sector** will remain an important economic driver. Foreign tourist arrivals exceeded 3 mn in July and we are keeping our annual forecast at 35.6 mn.
- **Public spending** has been slow with less than 50% of the annual capital budget disbursed in the first 10 months of fiscal year 2024. We expect disbursements to improve after the new government takes office.
- **Private investment** is recovering but remains fragile amid structural challenges in the manufacturing sector and pending clarity in the political scene and economic policies.
- **Exports** will remain challenging given the slowing global economy and structural issues in the domestic manufacturing sector. T**he surge in imports from China has intensified pressure on local industries, potentially weakening their competitiveness**.
- **Private consumption** is steady, but consumer confidence is weaker amid concerns over the domestic political situation and high household debt.
- **Headline inflation** could return to the BOT's target range in Q4. We expect the MPC to hold **the policy rate** for the rest of 2024.

Krungsri Research Forecasts for 2024

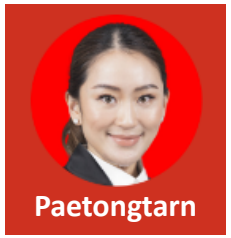
Krungsri Research Forecast		2022	2023	1H24	2024** To be fine-tuned
GDP growth	YoY (%)	2.5	1.9	1.9	2.4
Private Consumption Expenditure	YoY (%)	6.2	7.1	5.4	3.4
Government Consumption Expenditure	YoY (%)	0.1	-4.6	-0.9	1.5
Private Investment	YoY (%)	4.7	3.2	-0.9	3.0
Public Investment	YoY (%)	-3.9	-4.6	-16.7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

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

Election of new PM unlikely to alter Thailand's economic outlook even with rapid appointment of a new cabinet and assurances of continuity in economic policies



Previous PM
22 Aug 2023-14 Aug 2024



New PM
16 Aug 2024

Recent developments:

- On August 14, the court ordered ex-PM Srettha and his cabinet to step down.
- Two days later, the Parliament elected Pheu Thai Party leader Paetongtarn Shinawatra as the 31st Prime Minister of Thailand with **319 votes for,** 145 votes against, and 27 abstentions.

Government's economic policies:

Implemented recently:

- Visa-free policy for 93 countries, measures to boost tourism in second-tier cities
- Fuel subsidies (electricity fee, diesel oil, cooking gas)
- Min. wage hike to 400 baht/day in 10 tourist provinces
- Half-Half Fertilizer Project

Recent plans:

- Digital Wallet program (planned to start by 4Q24)
- Property (foreigners can lease land for 99 years)
- Long-term policies: Ignite Thailand (Thailand Vision 2030), Entertainment Complex, Land Bridge project

Source: Local Press, Krungsri Research

Base Case Scenario

Assumption:

- Rapid appointment of new cabinet by early September
- Continuity of economic policies and budget disbursement because the coalition government will remain in power
- Approval process of FY2025 budget bill will continue and not affect the budget disbursement.

Base case scenario:

- ***The rapid transition of power, starting with the election of PM Paetongtarn on August 16, and expectations of a new cabinet by early September that would align with the agreement made by the coalition parties under Srettha's term, will help to ensure the continuation of economic policies.***
- ***It should not disrupt the drafting and approval of fiscal year 2025 Budget Bill (THB3.75 trn).***
- ***On this note, we see limited impact on the overall Thai economy this year and we are likely to keep the 2024 GDP growth projection at 2.4%, excluding the Digital Wallet program, which might be adjusted to avoid legal issues.***
- ***Given improving growth and rising inflation, we maintain that the MPC will keep the policy rate at 2.50% throughout 2024.***
- ***However, there is lingering downside risks stemming from the political scene, unpredictable issues, and potential legal challenges in the periods ahead.***

Upside and downside risks to our growth projection

Upside

- Accelerating disbursement of government budget
- Utilize THB122bn extra-budget for new measures to stimulate growth in the near term instead of for the Digital Wallet program
- Stronger-than-expected confidence

Downside

- Delay in approving budget bill due to budget allocation
- Delays in forming a new cabinet
- Political uncertainty and legal challenges

2Q24 GDP grew by +2.3% YoY, up slightly from +1.6% in 1Q24; given this momentum and the latest political developments, we are likely to maintain our cautious growth outlook

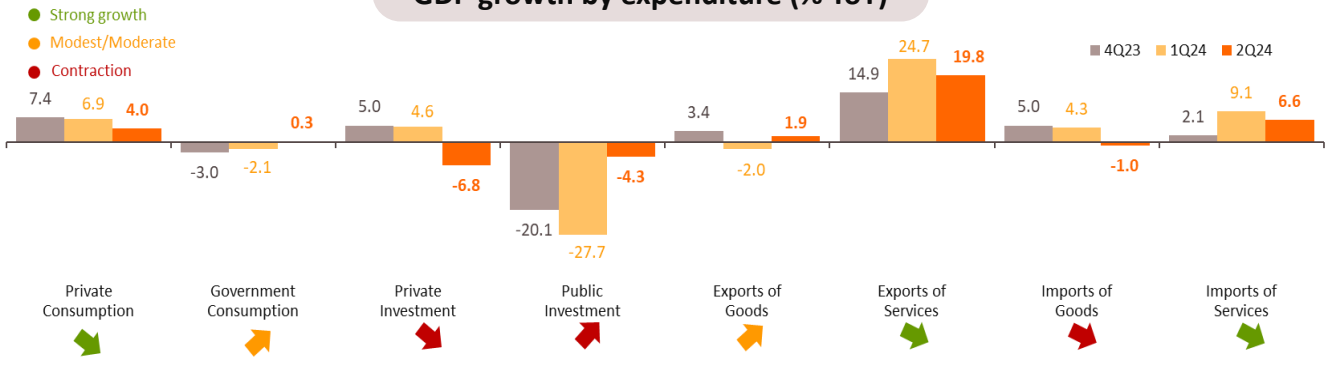
Key growth drivers in 2Q24:

- **Demand side: Improving growth** in goods exports, government consumption; **slowing growth in** private consumption and services exports
- **Supply side: Improving growth** in manufacturing and mining; **slowing growth** in trade, transport, accommodation, information, finance

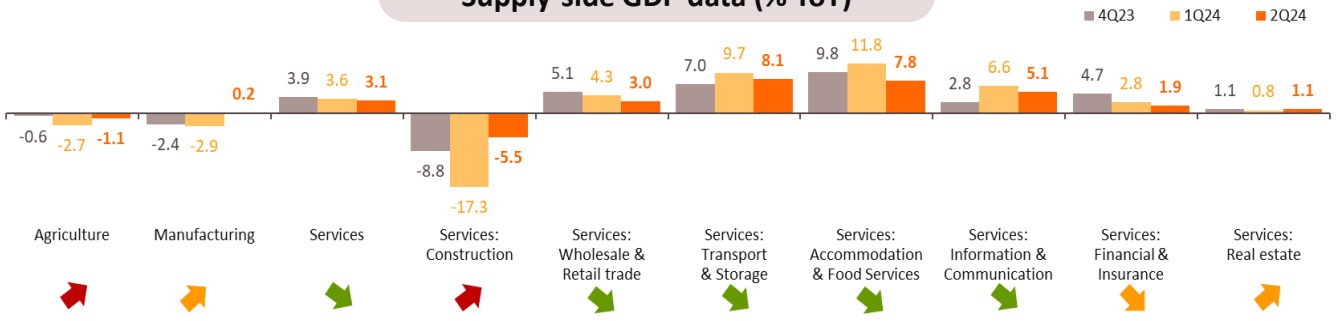
Negative YoY growth in 2Q24:

- **Demand side:** Shrinking private investment (-6.8%) and public investment (-4.3%),
- **Supply side:** Shrinking agriculture (-1.1%), and construction (-5.5%)

GDP growth by expenditure (% YoY)

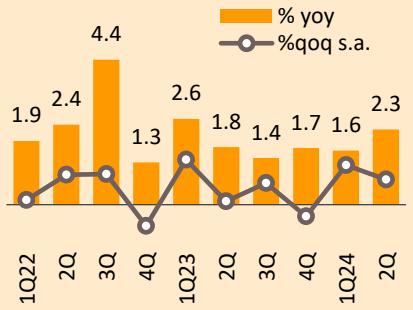


Supply-side GDP data (% YoY)



Source: NESDC, Krungsri Research

Thai GDP growth (%)



	% YoY			% QoQ sa	
	1H24	1Q24	2Q24	1Q24	2Q24
GDP	**1.9**	**1.6**	**2.3**	**1.2**	**0.8**
Private consumption	5.4	6.9	4.0	1.1	0.3
Public consumption	-0.9	-2.1	0.3	-0.1	1.6
Private investment	-0.9	4.6	-6.8	-0.3	-9.6
Public investment	-16.7	-27.7	-4.3	-9.0	21.9
Export of goods	-0.04	-2.0	1.9	-1.8	2.6
Export of services	22.3	24.7	19.8	14.5	4.2
Import of goods	1.6	4.3	-1.0	4.1	-3.3
Import of services	7.9	9.1	6.6	6.6	-1.7

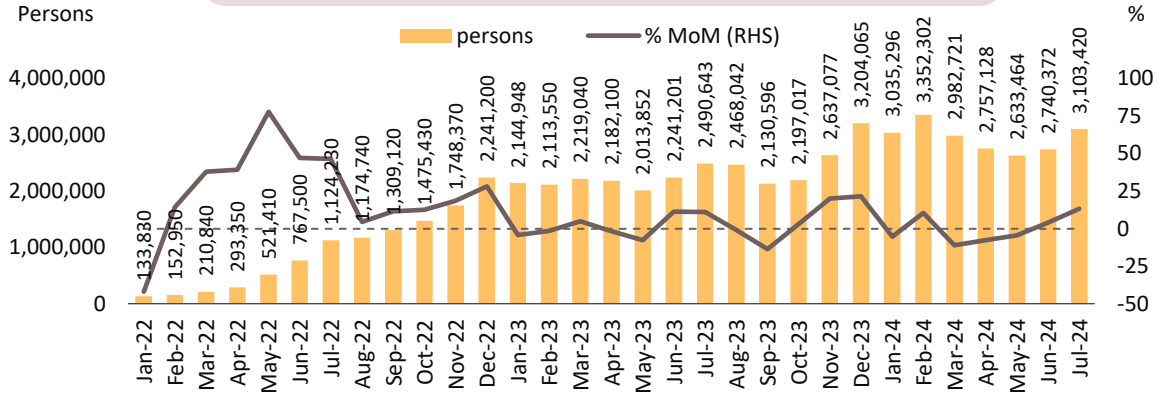
Krungsri Research's view

- **2Q24 GDP growth improved to a 5-quarter high of 2.3% on a year-on-year basis, compared to 1.6% in 1Q24, but a quarter-on-quarter slowdown (+0.8% in 2Q24 vs +1.2% in 1Q24) implied growth momentum failed to strengthen**. The growth figures are close to the expectations of the market and Krungsri Research.
- In 2Q24, an improvement in GDP growth was driven by a slight rebound in government consumption, a modest increase in goods exports, and a drop in goods imports. Private consumption continued to expand but at a slower pace. Private investment contracted. These indicators suggest that **overall economic recovery remains uneven.**
- **On the supply side**, 2Q24 GDP growth mainly came from a further expansion of service sectors, a slight rebound in manufacturing, and accelerating growth of mining. A less severe contraction was seen in agriculture and construction.
- **The NESDC has maintained its 2024 GDP growth forecast at 2.5% median.** The range forecast has been narrowed to 2.3-2.8% from 2.0-3.0% in its previous forecast in May.
- **In our view, the Thai economic growth could improve to close to 3% in 2H24 from 1.9% in 1H24. The key drivers are (i) a further recovery of the tourism sector and (ii) a speeding up of public spending. Private consumption and private investment outlook will rely on the coming economic policy and confidence in the new government.**
- **Given the latest political developments, the possible continuation of economic policies, and the continued approval process of the FY2025 Budget Bill, Krungsri Research is likely to keep the 2024 GDP growth projection at 2.4%, excluding the Digital Wallet program. We will closely monitor lingering risks stemming from the political scene, unpredictable issues, and potential legal challenges in the periods ahead.**

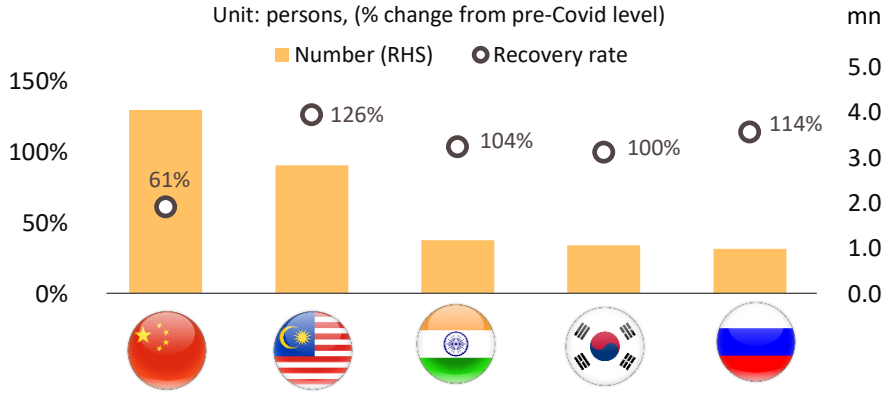
Tourism sector remains an important economic growth driver; foreign tourist arrivals exceeded 3 mn in July and we maintain annual forecast at 35.6 mn

Thailand welcomed 3.1 mn foreign tourists in July, an improvement from 2.74 mn in June, driven by the extended free-visa measure and the school holiday season in neighboring markets such as China, South Korea, and Japan. **In the first seven months of this year, tourist arrivals reached 20.6 mn (89% of pre-Covid level vs 71% in 2023) and generated THB 957bn receipts (90% of pre-Covid level vs 63% in 2023)** led by Chinese tourists which made up the largest group; however, they are only 61% of the pre-Covid level. Tourists from Malaysia, India, South Korea, and Russia surged to 100-126% of pre-Covid levels. In August, there could be a boost from factors school holiday season in neighboring markets and summer holidays in Europe, which would keep tourist arrivals at over 3 million. We are maintaining our forecast of 35.6 million tourist arrivals in Thailand this year.

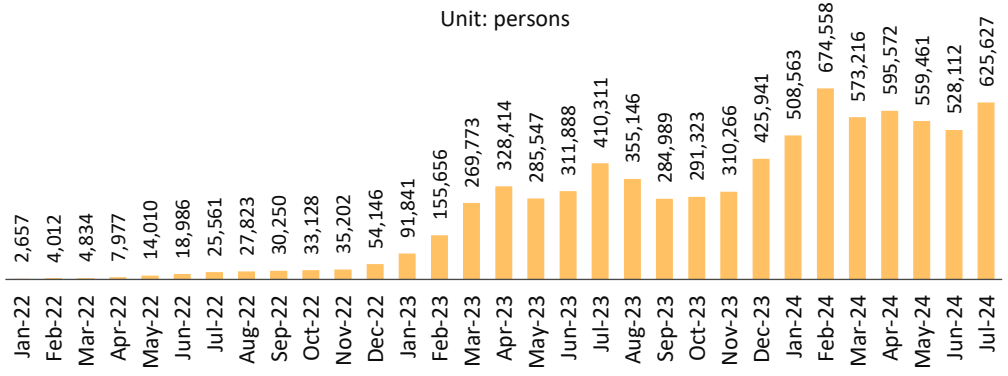
Foreign tourist arrivals reached 20.6 million in 7M24



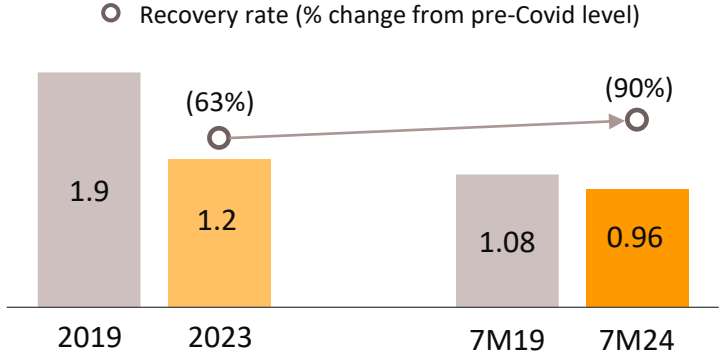
Top 5 tourist arrivals by country in 7M24 (Jan-Jul)*



Chinese tourist arrivals still below pre-Covid levels



Foreign tourist receipt (THB, trn)

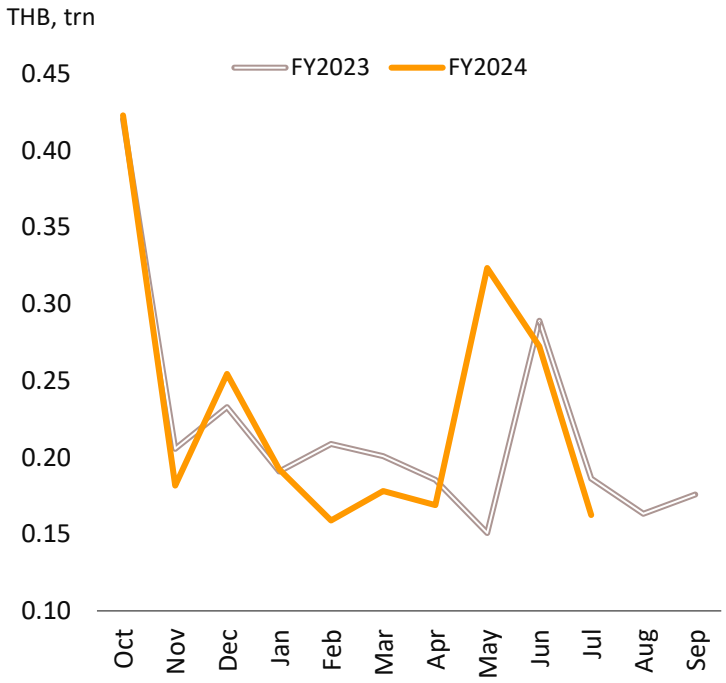


Note: * preliminary data (1Jan-28Jul)
Source: MOTS, CEIC, Krungsri Research

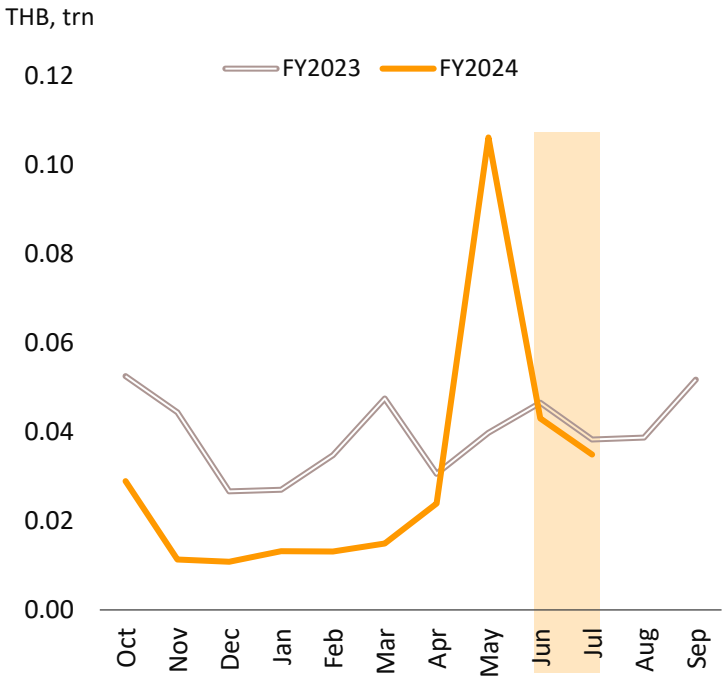
Public spending has been slow with less than 50% of the annual capital budget disbursed in 10 months of FY2024, but that could improve after the new cabinet is appointed

According to preliminary data from the Ministry of Finance, current and capital budget disbursements fell by -12.8% and -8.7% YoY, respectively, in July. In the first 10 months of FY2024 (October 2023 to July 2024), disbursements from the current budget reached THB2.32 trn or 84% of the annual budget, rising 2.0% YoY. For the capital budget, the government has disbursed THB0.30trn or only 41% of the annual budget, falling -22.6% YoY. **Public spending has been slower than expected, especially disbursements from the capital budget which is less than 50% of the annual capital budget. This is worrying given there are only two months left in the current fiscal year. However, budget disbursement is projected to improve following the appointment of a new cabinet.**

Current expenditure disbursement



Capital expenditure disbursement



Quarterly disbursement

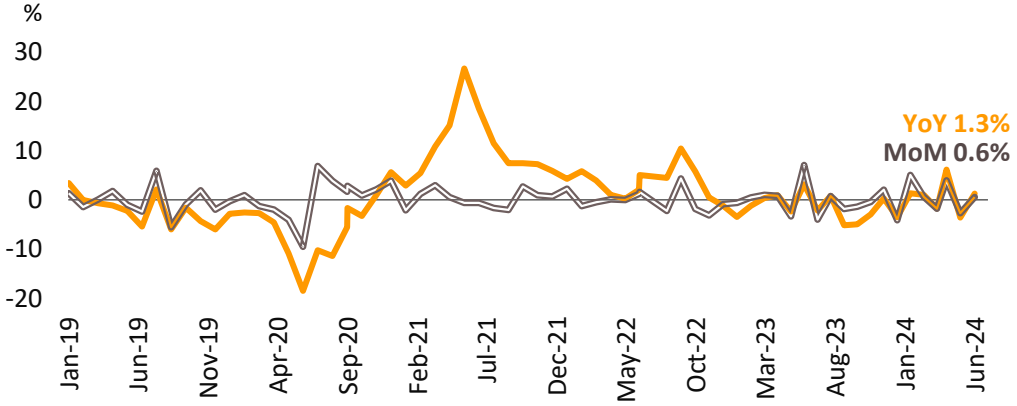


Source: MOF, Krungsri Research

Private investment is recovering but remains fragile amid structural issues in the manufacturing sector and pending clarity in politics and economic policies

The Private Investment Index improved slightly in June (+1.3% YoY and +0.6% MoM sa) but other investment indicators remained weak: (i) Business Sentiment Index (BSI) is at its lowest since October 2021 and below 50 for 10 consecutive months; (ii) Manufacturing Production Index (MPI) fell for the second consecutive month in June, by 1.7%, with capacity utilization rate remaining below-60% for nearly a year. **We project private investment would recover slowly given slower-than-expected public sector investment. Combined with weak exports, this could lead to slow growth in private investment. Additionally, the still-fragile political scene in the country might continue to dampen investor sentiment**

Private Investment Index improved only slightly in June

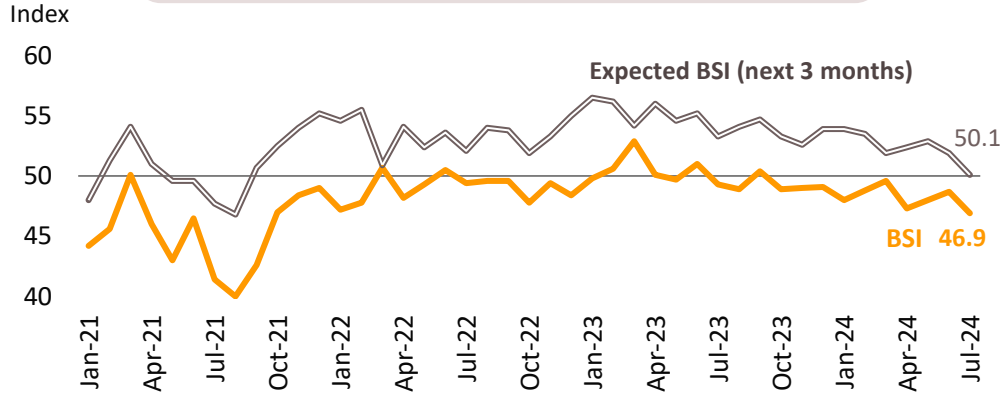


Private Investment by category

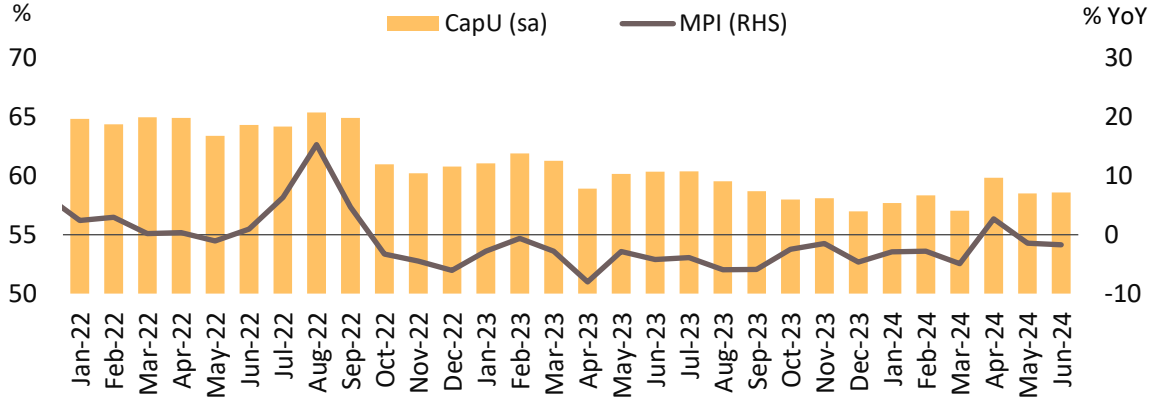
%YoY*	2021												2022												2023												2024					
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J
Private investment																																										1.3
Construction area permitted																																									5.3
Construction material sales																																									-5.5
Imports of capital goods																																									-5.6
Machinery sales																																									2.8
Newly registered vehicles																																									-25.4

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

Business Sentiment Index is at a 34-month low



Manufacturing Production Index and Capacity Utilization Rate

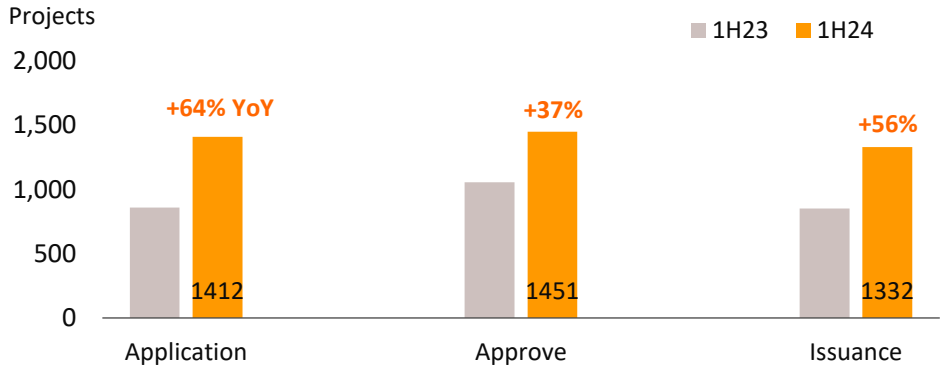


Source: BOT, OIE, CEIC, Krungsri Research

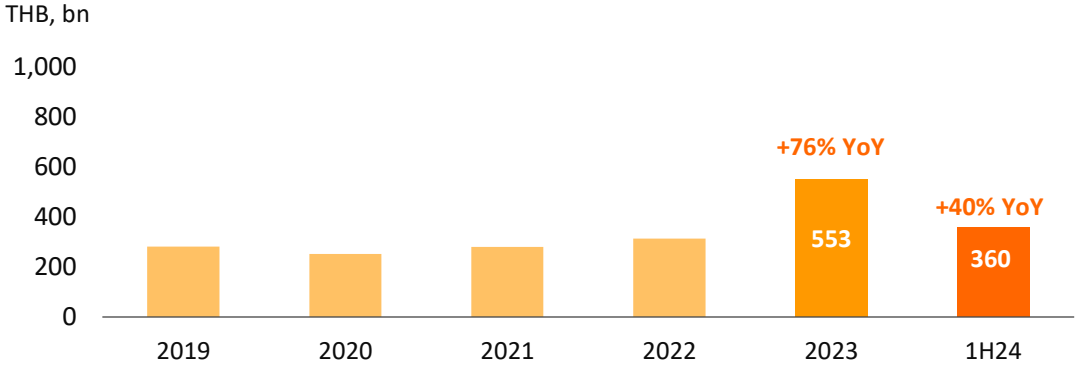
FDI applications approved for BOI incentives surged 40% (in value) in 1H24, suggesting improving investment in some key industries in the medium-term

The Board of Investment (BOI) data for the first half of this year revealed it received applications for 1,412 projects (+64% YoY) with a total investment value of THB458 bn (+35% YoY). The board approved 1,451 projects (+37%) with a total investment value of THB476 bn (+27%) and issued certificates for 1,332 projects (+56%) with a total investment value of THB439 bn (+87%). **The number of foreign direct investment projects which have been granted investment incentives surged 62% to 913 with a total investment value of THB360 bn (+40%).** The electronics & electrical appliances industry attracted the largest investments, followed by the machinery & vehicles industry. The major sources of investments were China, Singapore, and Japan. The latest data suggest investment would improve in the medium term if there is clarity in domestic politics.

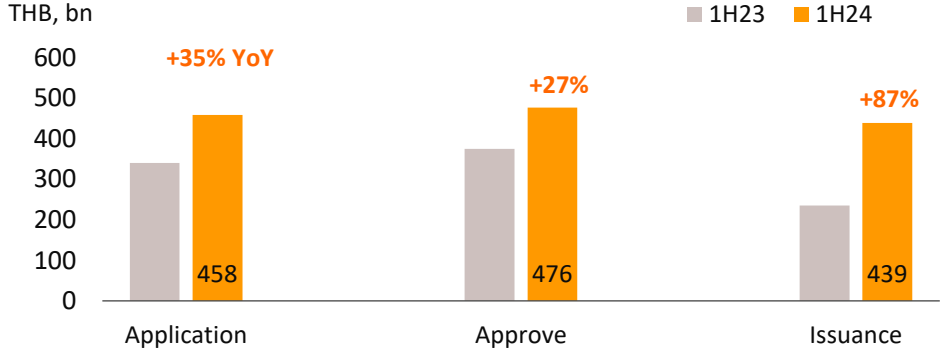
BOI Investment Incentives (Project)



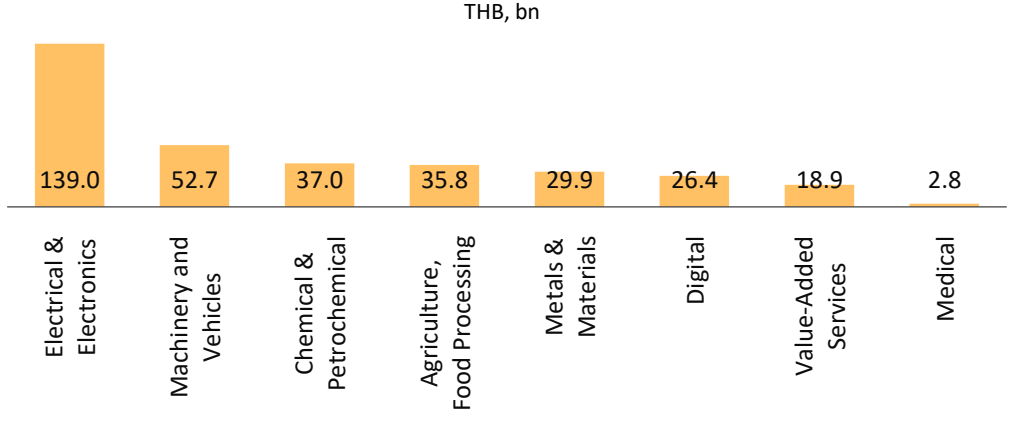
FDI Applications Approved for BOI Investment Incentives



BOI Investment Incentives (Value)



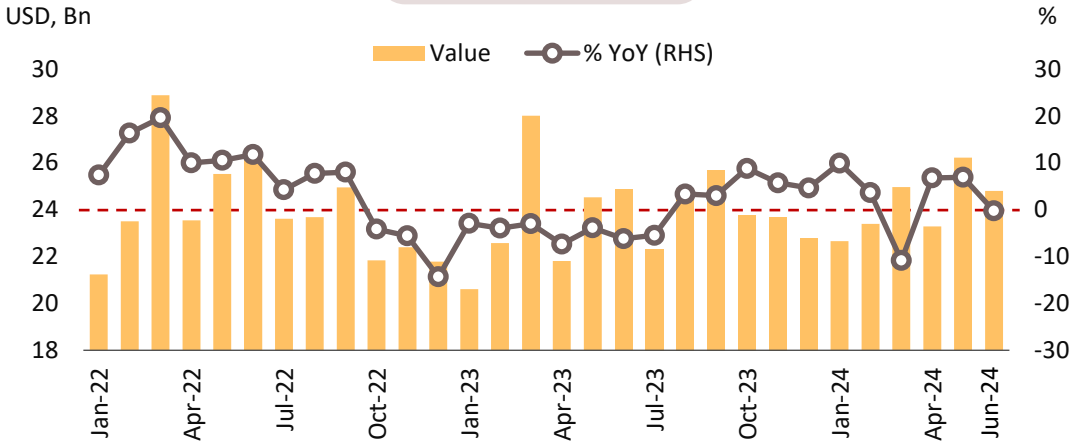
FDI Applications Approved for BOI Investment Incentives by sector



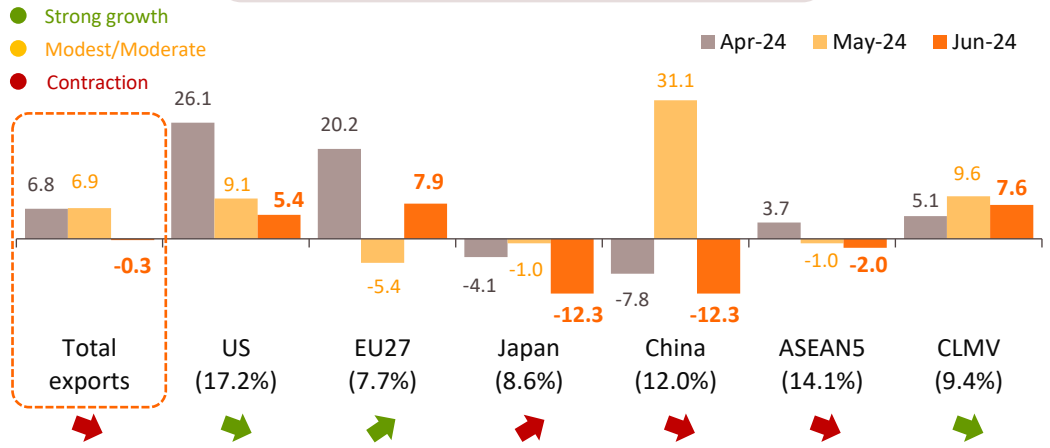
Source: BOI, Krungsri Research

Exports face challenges from a slowing global economy and structural issues in domestic manufacturing

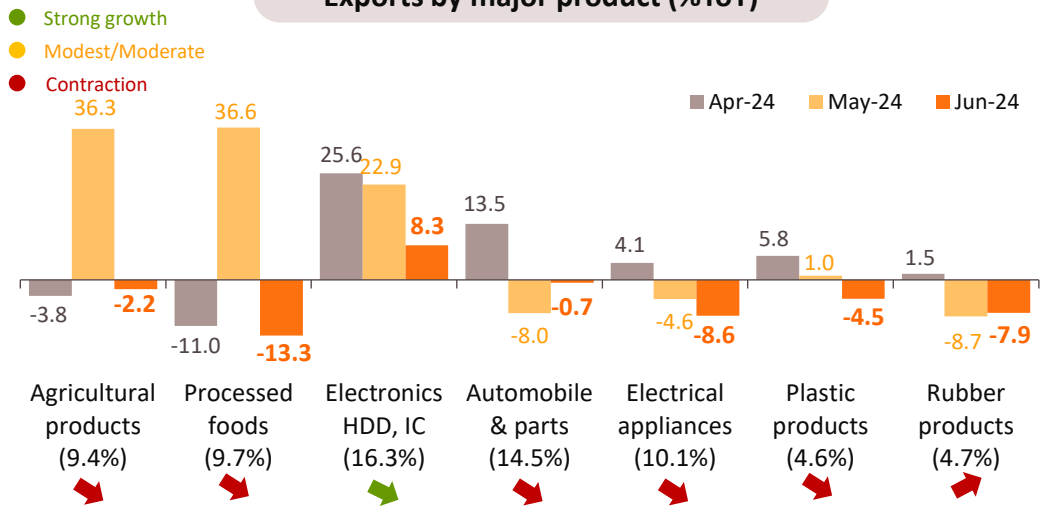
Exports



Exports by major destination (%YoY)



Exports by major product (%YoY)



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

Krungsri Research's view

- **In June, merchandise export value fell -0.3% YoY to USD 24.8bn** and from a 14-month high of USD 26.2bn in May. Excluding oil and gold, exports contracted by 1.6%. Major export goods that registered a contraction in June included sugar (-52%), fresh, chilled, frozen & dried fruits (-38%), integrated circuits (-21%), and rubber products (-8%). However, exports grew for rice (+97%), rubber (+29%), computers & computer equipment (+22%), telephones, fax machines, parts & equipment (+20%), and automobiles, parts & equipment (+14%). Exports to China, Japan, and ASEAN-5 contracted in June but exports to the US, the EU, and CLMV countries grew**. For the first half of this year, export value grew 2.0%.**
- Exports weakened in June partly due to the turn of the seasons and the resulting transition from 36.3% growth in exports of agricultural goods in May to a 2.2% contraction in June. In the second half of this year, exports will struggle against structural problems in the manufacturing sector. They will also be pressured by weaker linkages to global trade. The Bank of Thailand's analysis suggests Thailand's participation in the global electronics supply chains has been limited. In addition, trade tensions between the US and China are worsening, while problems associated with excess manufacturing capacity in China will likely lead to a torrent of cheap Chinese exports flooding world markets, which would worsen Thai manufacturers' competitive positioning, especially in electrical appliances and auto assembly. **On this note, we expect export growth to reach only 1.8% in 2024.**

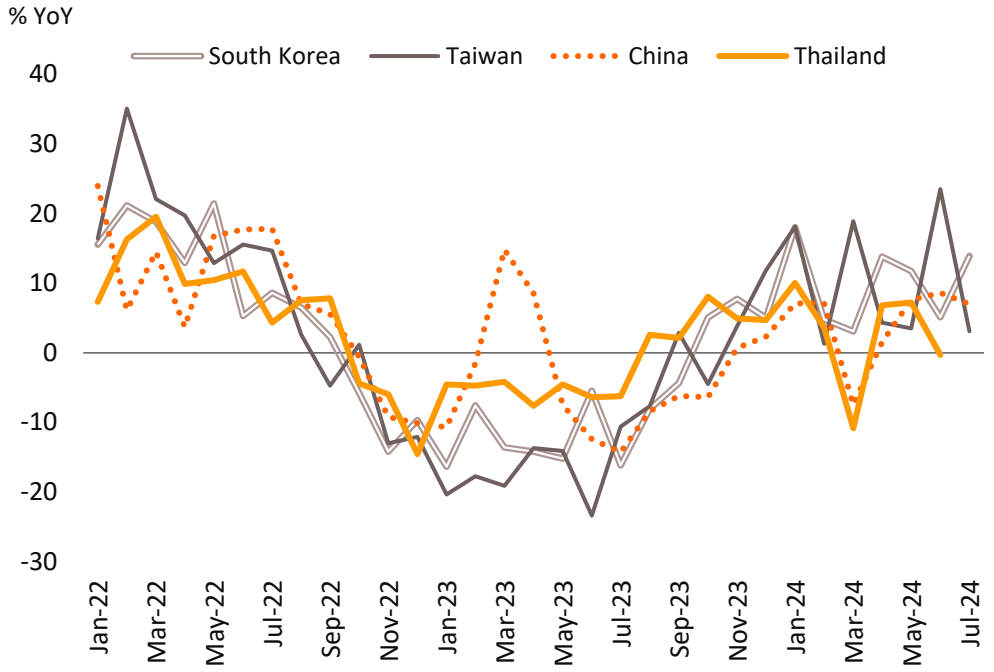
Fruit export benefits will end soon and recovery in the industrial sector is capped by structural issues, which suggest export growth will remain weak this year

In the first half of this year, Thai exports grew 2.0% YoY led by agricultural products which grew 7.6% (including rice and rubber). Exports of industrial products (computers & parts, and plastic products) expanded by 2.0%, while exports of agro-industrial products (rubber products, tapioca products, and sugar) fell by 1.9%. Exports remained weak in many domestic industries (including cars & parts, electronic ICs, chemical products, and plastic resin), reflecting structural problems in Thailand's industrial production sector. **For the rest of this year, Thailand's exports will continue to face several challenges that could hurt growth,** including: (i) structural problems in the manufacturing sector, (ii) slowing exports from major Asian countries in July, and (iii) projected slowdown in the economies of Thailand's major trading partners, including the US and China.

Thai exports by major product and destination

Thailand: Jan-Jun's export growth (% YoY)	World	US (17%)	EU (8%)	Japan (9%)	China (12%)	ASEAN-5 (14%)	CLMV (9%)
Total	**+2.0**	**+11.2**	**+1.2**	**-7.5**	**-1.2**	**-2.7**	**+7.0**
Cars & parts (10.9%)	-0.4	+19.9	-3.6	+0.8	-8.1	-15.2	-26.7
Computer & parts (6.3%)	+23.2	+32.6	+46.2	-7.8	+41	-20.5	+11.9
Rubber products (4.7%)	-4.0	+9.7	+2.2	-6.1	-29	-4.1	+7.5
Electronic IC (3.4%)	-13.0	-40.3	-21.0	-1.8	-7.6	-13.7	-17.3
Plastic resin (3.1%)	-4.1	+25.9	-7.2	-10.2	-7.3	+2.0	-3.3
Chemical products (2.8%)	-6.6	-7.8	-11.6	-16.4	-11.2	-9.0	-5.9
Fresh, frozen & dried fruit (2.0%)	-6.0	-11.4	+18.1	+9.6	-7.4	-19.1	+38.6
Electrical appliances (1.9%)	-6.3	-11.3	-7.2	+3.4	+19.9	-11.5	-13.2
Rice (1.8%)	+48.1	+24.0	+11.3	+18.2	-9.9	+137	+7.6
Plastic products (1.5%)	+6.2	+36.0	+6.4	-6.6	+3.2	+5.1	-4.4
Rubber (1.3%)	+30.6	+47.1	+48	+40.7	+12.6	+35.5	+167
Tapioca products (1.3%)	-16.4	+22.9	-7.3	+0.8	-35	+85.1	-9.3
Preserved fish, crustaceans (1.2%)	+4.4	-0.5	+19.3	-14.4	-26	-8.3	-5.6
Sugar (1.2%)	-37.5	+282.7	-63.8	+49.1	+41.1	-58.4	+46.8

Exports from major Asian countries slowed down in July

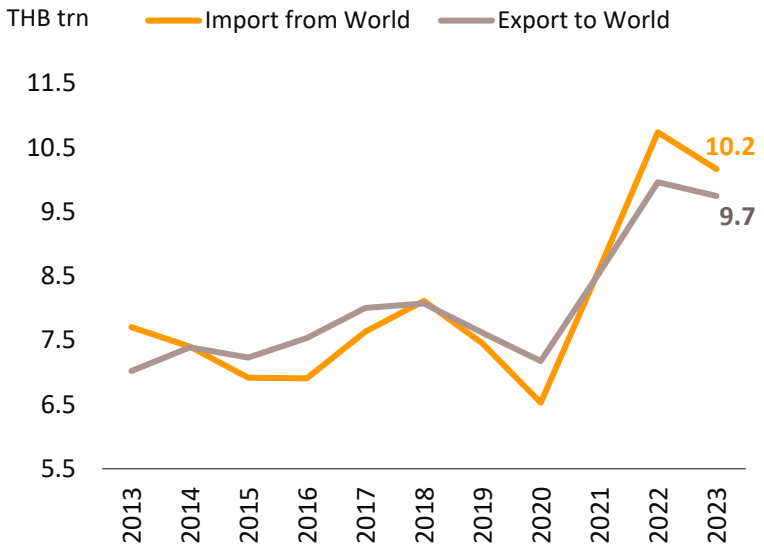


Note: (% share in 2023)
Source: MOC, S&P Global, Markit Economics, CEIC, Bloomberg, Krungsri Research

Exports rebounded strongly after the pandemic, but *the surge in imports* has intensified pressure on local industries, potentially weakening their competitiveness

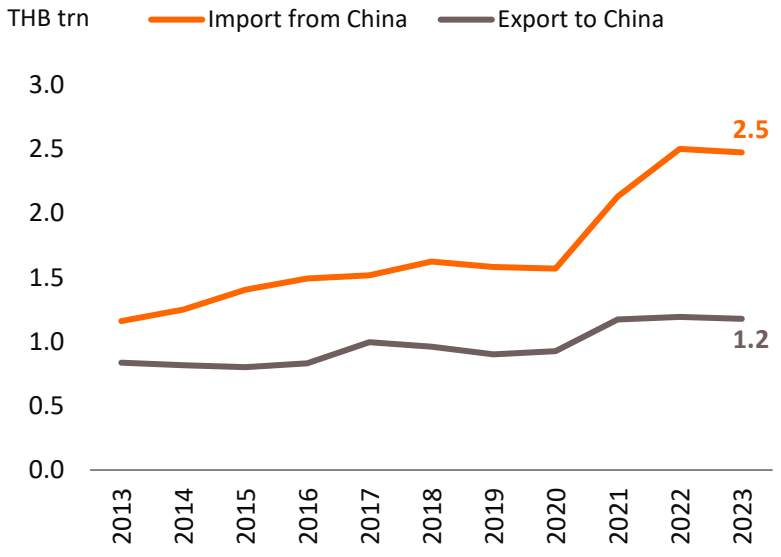
Before the pandemic, Thailand typically enjoyed a trade surplus, with export growth exceeding imports by an average of 0.4%. **After the pandemic, while export growth increased more than quadrupled** to 5.1% on average, **imports surged even more rapidly**, climbing from -0.5% to 6.4%. The trade imbalance is particularly evident with China, which accounted for around 25% of Thailand's total imports in 2023. Import growth from China surged more than doubled from 4.5% to 9.4. **This growing reliance on cheaper Chinese goods could significantly undermine the market position of domestic businesses,** especially SMEs and those in computers & electronics, electrical machinery, and other machinery & equipment sectors, which made up more than half of total imports from China in the first five months of 2024 and contributed 4.3% to GDP in 2023**.**

Thailand's total exports and imports



CAGR	2013-2023	Pre-covid	After covid
Export to World	3%	1.2%	5.1%
Import from World	2.6%	-0.5%	6.4%

Thai exports to and imports from China



CAGR	2013-2023	Pre-covid	After covid
Export to China	3.1%	1.1%	5.5%
Import from China	7.1%	4.5%	9.4%

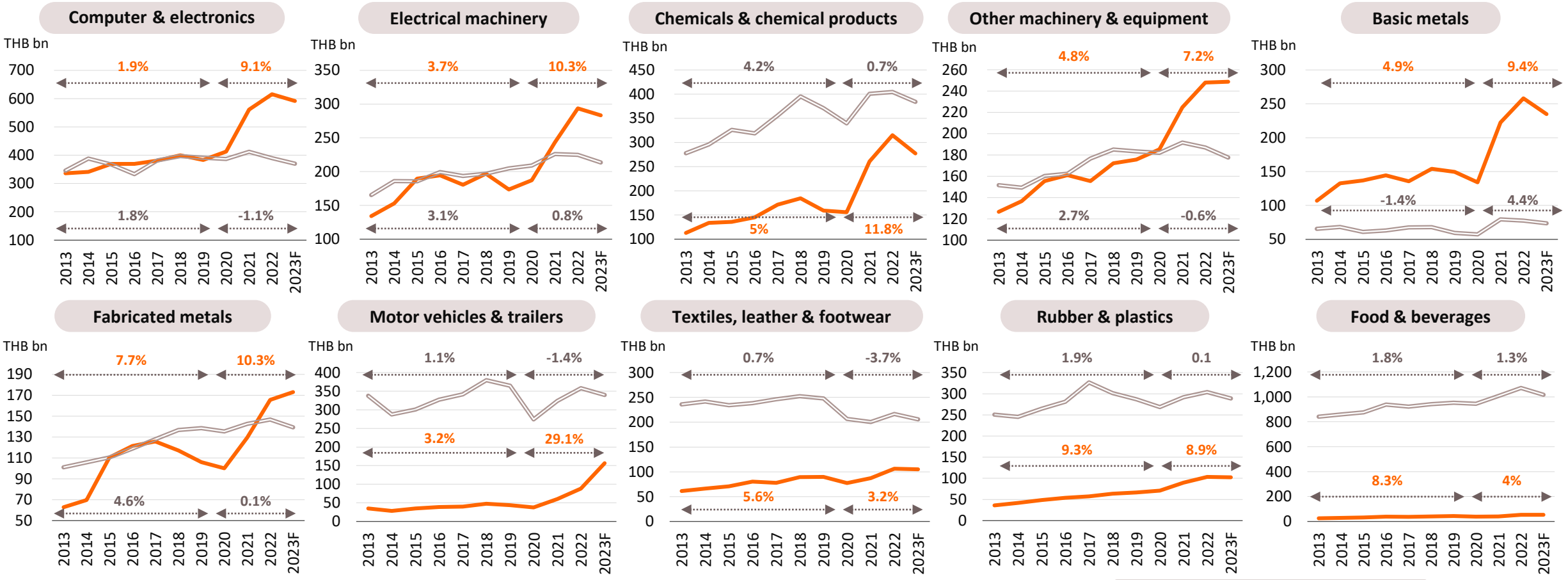
Top 10 Imports from China

Sector	Jan-May 2024	
	Value (THB bn)	Share (%)
Computer & electronics	261.8	23.2
Electrical machinery	130.9	11.6
Chemicals & chemical products	126.3	11.2
Other machinery & equipment	122.2	10.8
Basic metals	101.9	9.0
Fabricated metals	86.1	7.6
Motor vehicles & trailers	54.9	4.9
Rubber & plastics	47.4	4.2
Textiles, leather & footwear	46.9	4.2
Food & beverages	23.2	2.1
Total Import from China	**1,127.4**	**100.0**

Source: TradeMap and Krungsri Research

An influx of cheaper *Chinese imports* and a slower recovery in domestic production could hinder Thailand's economic growth prospect

As domestic production stagnated or declined, post-COVID imports from China surged across most sectors. In some sectors, such as computers & electronics, electrical machinery, and other machinery & equipment, imports even surpassed local production. The food & beverages sector is one of the few maintaining positive trends. This sharp contrast presents two key challenges. First, the influx of cheaper Chinese goods intensified competition and might in part contributed to the closure of over 2,500 factories and nearly 66,000 job losses during 2023 to mid-2024. Second, domestic productivity might not have returned to pre-COVID levels, leaving local businesses struggling to keep pace with foreign firms. **These dual challenges could threaten Thailand's longer-term economic growth prospects.**

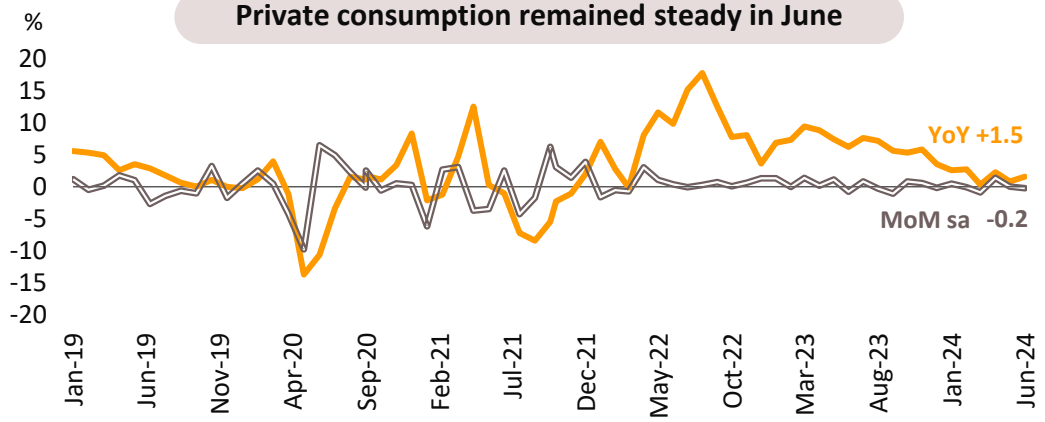


Note: 1) The 2023 sub-sector GDP is estimated by integrating the 2023 actual GDP value with the 2022 sub-sector.
2) The red numbers represent the Compound Annual Growth Rate (CAGR) of imports from China, while the blue numbers represent the CAGR of exports to China. The data covers both the pre- and after COVID periods.
Source: NESDC, TradeMap and Krungsri Research

Private consumption is steady, but consumer confidence continues to weaken amid concerns over the domestic political situation and high household debt

Thailand's Private Consumption Index was stable in June (+1.5% YoY and -0.2% MoM sa), as stronger spending on services and non-durable goods was offset by weaker spending on durable goods, especially vehicle sales. **For the rest of this year, private consumption would be supported by** (i) growth in the tourism sector, bolstered by tourism stimulus measures; (ii) measures to ease the energy cost burden for households; (iii) a program to offer cheaper loans to vulnerable groups; and (iv) favorable agricultural product prices, which would boost farm income. However, unpredictable weather would still pose a risk to agriculture production. In June data revealed average nominal wage in the country had shrunk 0.7% YoY in the first half of this year. Additionally, high household debt and weak consumer confidence could limit consumption growth. The Consumer Confidence Index has dropped for the fifth consecutive month in July, to an 11-month low.

Private consumption remained steady in June

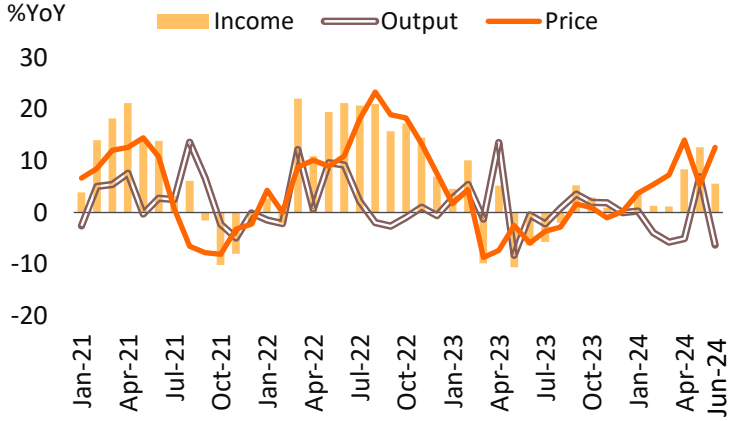


Private consumption by category

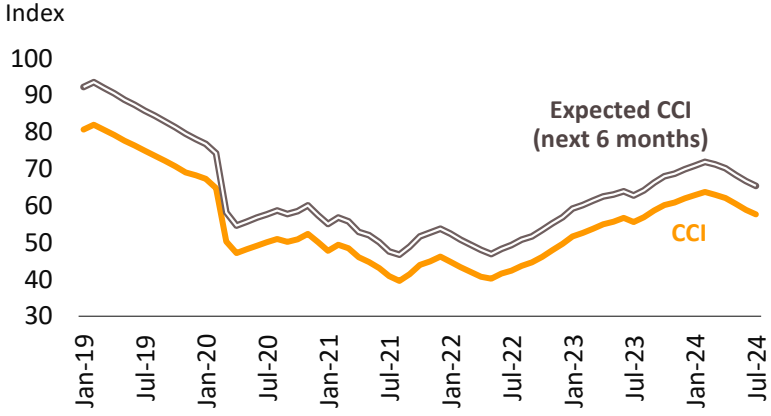
%YoY*	2021												2022												2023												2024					
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J
Private consumption																																										1.5
Non-durables																																									3.8
Semi-durables																																									-1.1
Durables																																									-12.0
Services																																									6.6
Non-residents expenditure																																									47.4

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

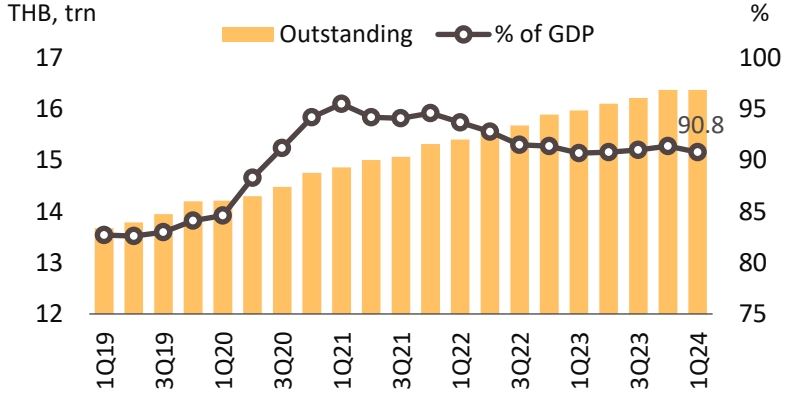
Farm income grew driven by higher prices



Consumer confidence is at an 11-month low



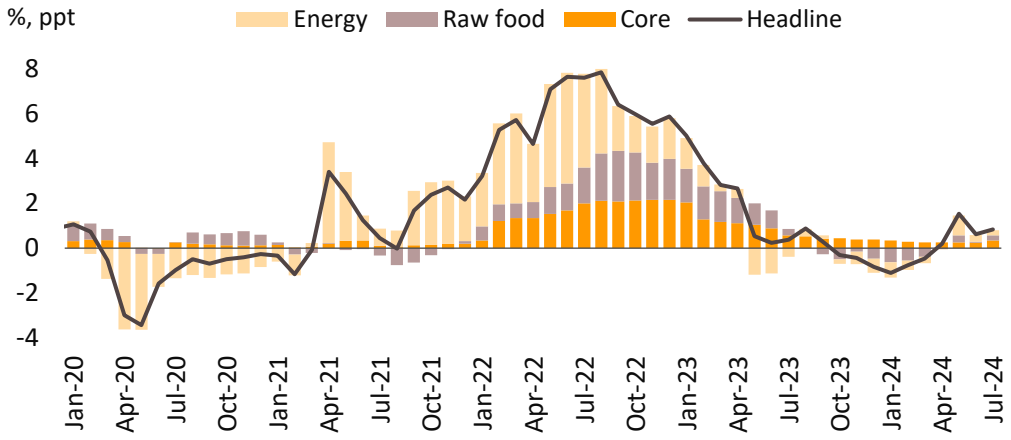
Household debt remained high at 90.8% of GDP in 1Q24



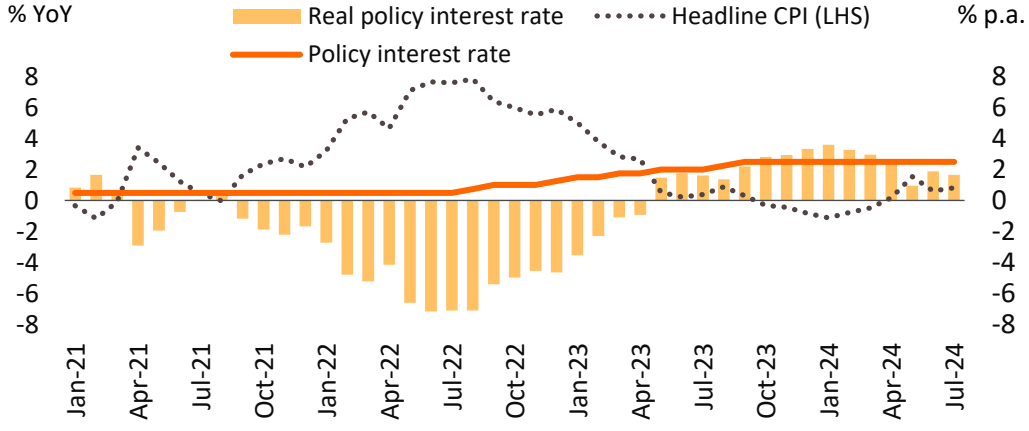
Source: CEIC, BOT, University of the Thai Chamber of Commerce (UTCC), Krungsri Research

Headline inflation is likely to return to target range in Q4; expect BOT to hold *policy rates* throughout 2024

Contributors to inflation



Real policy interest rate



Source: MOC, BOT, Krungsri Research

Consumer Price Index: Major categories

Consumer Price Index (% YoY)*	Weight	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
Headline CPI	**100%**																															0.83
Food & beverages	41.8%																															1.27
Apparel & footwears	2.1%																															-0.54
Housing & furnishing	21.9%																															-0.85
Medical & personal care	5.4%																															-0.38
Transportation & communication	23.3%																															2.01
Recreation & education	4.2%																															0.60
Tobacco & alcoholic beverages	1.3%																															1.53
Raw food	21.3%																															1.10
Energy	14.2%																															1.78
Core CPI	**64.5%**																															0.52

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

Krungsri Research's view

- **Headline inflation accelerated from 0.62% YoY in June to 0.83% in July** led by a combination of higher global crude prices which pushed up domestic cost of gasoline and gasohol, and more expensive food, especially ready-to-eat meals and white and glutinous rice. Core inflation, which excludes raw food and energy prices, also accelerated from 0.36% to 0.52%. In the first 7 months of this year, headline and core inflation averaged 0.11% and 0.42%, respectively.
- Although inflation had inched up to near the 1-3% target range in July, it could soften in August because of the high base in 2023. **Nevertheless, headline inflation would continue to rise and return to the target range in Q4. We maintain that it would average 0.7% for f 2024, albeit there could be intermittent volatility triggered by the following:** (i) volatile global oil prices given geopolitical tensions, and (ii) domestic measures to keep energy prices stable and to help vulnerable households with their energy bills. Recently, this included extending the THB 33/liter cap on diesel prices through to October, compared to THB 31.7/liter and THB 29.94/liter in 3Q23 and 4Q23.
- **For interest rate outlook, we expect the MPC to leave the policy rate at 2.50% at its 21 August meeting, and possibly the rest of this year** given: (i) expectations inflation would rise towards the target range in Q4; (ii) the BOT's view that the Thai economy is returning to its growth potential and current policy rate is appropriate, in line with the BOT's "outlook-dependent" stance; and (iii) the BOT's concern about structural issues in the manufacturing sector, rising competition in international markets, and high household debt in Thailand, which suggest a need for targeted policies. **On this note, it might not be appropriate to implement broad-based approaches, such as cutting policy rate, to support economic growth in the rest of 2024.**

KRUNGSRI RESEARCH

Pimnara Hirankasi, Ph.D. — **Head of Research Division and Chief Economist**

Macroeconomic Team

- Sujit Chaivichayachat — Head of Macroeconomic Research Team
- Wanicha Direkudomsak — Senior Economist
- Churailuk Pholsri — Senior Economist (Forecasting)
- Thansin Klinthanom — Economist
- Krittabhorn Sirichaichingkun — Economist
- Supasyn Itthiphatwong — Economist

Industry Team

- Pimnara Hirankasi, Ph.D. — Acting Head of Industry Research Team
- Taned Mahattanalai — Senior Analyst (Digital)
- Poonsuk Ninkitsaranont — Senior Analyst (Healthcare, Mobile Operators)
- Piyanuch Sathapongpakdee — Senior Analyst (Transport & Logistics)
- Narin Tunpaiboon — Senior Analyst (Power Generation, Modern Trade, Chemicals, Medical Devices)
- Thian Thiumsak — Senior Analyst (Energy, Petrochemicals)
- Puttachard Lunkam — Senior Analyst (Construction Contractors, Construction Materials, Hotels, Industrial Estate)
- Patchara Klinchuanchun — Senior Analyst (Real Estate)
- Chaiwat Sowcharoensuk — Senior Analyst (Agriculture)
- Prapan Leenoi — Analyst (ESG)
- Supawat Choksawatpaisan — Analyst (Automobile, Electronics & Electrical Appliances)
- Rapeepoom Lapmak — Analyst (Agriculture, Food & Beverages)

Analytics and Intelligence Team

- Pimnara Hirankasi, Ph.D. — Acting Head of Analytics and Intelligence Research Team
- Nathanon Ratanathamwat — Senior Analyst
- Narichaya Satafang — Analyst
- Parinya Mingsakul — Analyst
- Chanatta Thararos — Analyst

MIS and Reporting Team

- Thamon Sernsuksakul — Administrator
- Chirdsak Srichaiton — MIS Officer
- Wongsagon Keawuttung — MIS Officer

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

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