



# Economic and Social News

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## Thai Economy in Q1/2014 and the Outlook for 2014

Office of the National Economic and Social Development Board (NESDB) announced the official Gross Domestic Product (GDP) in the first quarter of 2014 and the outlook for 2014 as follows:

### The Thai Economy in the first quarter of 2014

**In the first quarter of 2014, the Thai economy contracted by 0.6 percent from the same period of last year (YoY).** Compared with the fourth quarter, the economy declined by 2.1 percent (QoQ SA). Nevertheless, overall economic stability remained sound, indicating by a low unemployment rate of 0.9 percent, inflation rate of 2.0 percent, and a current account surplus of 267 billion Baht, equivalent to 8.8 percent of GDP in this quarter.

**The contraction of the Thai economy in the first quarter was due primarily to the contraction in domestic demand. Meanwhile, there were two factors which helped prevent a severe contraction, including the government expenditure as the budget was constantly disbursed by both the government and the state-owned enterprises, and a gradual recovery of export. However, the budget disbursement rate was lower than its target and the contribution of export was insufficient to outweigh the reduction of domestic demand.**

Domestic factors associated with the economic contraction in the first quarter are as follows:

**1. Private consumption expenditure** contracted by 3.0 percent. This was caused by a contraction in expenditure on durable goods, especially on domestic car sales which declined rapidly due to a high base in the first quarter of 2013 when large amounts of car were delivered under the first-car-buyer scheme. Moreover, consumer confidence also worsened and people became more cautious about their spending due to increasing concerns over the domestic political situation and the continual deceleration of household income and overall economy.

**2. Total investment** declined by 9.8 percent. Private investment contracted by 7.3 percent, reflected in the declines in machinery and equipment and construction investment. These declines were in line with the contraction of import value of capital goods and the construction permitted areas in earlier periods. Similarly, public investment contracted by 19.3 percent following a reduced disbursement in government investment budget.

**3. Government consumption expenditure** increased by 2.9 percent owing to a rise in expenditure on salaries and wages. However, expenditure on public utilities declined due to a temporary closure of some government agencies in Bangkok area amid the political turmoil. Nonetheless, the overall budget disbursement rate in the first quarter of the FY2014 was 19.1 percent, which is lower than the target of 24 percent.

For the international trade, **export of goods** valued 55.6 billion US dollars. Export volume increased by 0.9 percent, gradually picking up in line with the slow global economic recovery which was more prevalent in industrial countries. However, export price declined by 1.6 percent, resulting

in the decline of export value by 0.8 percent. The exported products with value contraction include cassava, fishery products, metal and steel, and petroleum products. The products with value expansion include automotive, electronics, electrical appliances, and machinery and equipment. Export value to the US, Europe, and Japan expanded in line with the economic recovery of these major markets. However, export values to China and ASEAN market declined due to slow economic recovery of these economies. Together with the decline in the numbers of inbound tourists, which were adversely affected by the domestic political unrest and the new Chinese tourism law to improve quality of Chinese tourists, export volume of goods and services declined by 0.4 percent. Import of goods valued 49.1 billion US dollars, decreasing by 14.8 percent, while import volume declined by 13.8 percent, caused by the contraction of domestic demand and declining exports. Consequently, the import volume of goods and services declined by 8.5 percent. The more rapid decline in import compared to that in export led to a surplus in the current account and higher net exports. The contributions from net exports, however, were not sufficient to compensate for the decline in domestic demand.

On the production side, the agricultural and financial sectors expanded while other sectors declined. **The agricultural sector** grew slightly by 0.8 percent due to the expansion in crop and livestock production. However, there were declines in some major crops including rice, cassava, and palm oil. Meanwhile, prices of major crops continued to decline. **The financial sector** increased by 6.6 percent, slowing down from 10.1 percent expansion in 2013 in line with a deceleration in commercial banks' credits and the overall economy. The production sectors which experienced contractions include **the industry, construction, hotel and restaurant, and wholesale and retail trade**. In the first quarter, the industrial sector declined by 2.7 percent in line with the declines in consumption, investment, and export. **The construction sector** declined by 12.4 percent, in both public and private constructions. Meanwhile, **the hotels and restaurants sector** declined by 3.1 percent due to a decline in the number of inbound tourists. **The wholesale and retail trade** contracted by 0.5 percent, led by the declines in consumption, international trade volume, industrial production, construction and tourism sectors.

### **Economic Outlook for 2014**

The Thai economy in 2014 is likely to grow at a slow pace as a result of the economic contraction in the first quarter while the expansion for the rest of the year tends to be constrained by the political uncertainty which has caused a further delay in the new government formation than earlier expected. The lingering political unrest and the delay in the government formation will obstruct the budget disbursement, the implementation of key economic measures, the preparation of the FY2015 budgeting process, and continue to dampen consumer and business confidence and thus private consumption and investment. Moreover, export sector seems to pick up more slowly than previously anticipated due to a slow recovery of the global economy particularly Chinese and other Asian economies. Hence, contributions from exports are likely to be lower than previously estimated.

Under such conditions, Office of the National Economic and Social Development Board (NESDB) projected that **the Thai economy in 2014 will grow by 1.5 - 2.5 percent, lower than 3.0 - 4.0 percent previously estimated on 17<sup>th</sup> February 2014**. This downward revision are based on the fact that (1) the prolonged political uncertainty tends to constrain the economic growth more than earlier estimated as the situation further delays the new government formation than previously assumed. Under such circumstances, the implementation of economic measures, the budget disbursement, and the budgeting process for the FY 2015 will delay further. In addition, consumer and business sentiments have been affected by the political condition and the slowdown of

household income, and thus people become more cautious on their consumption and investment. (2) The global recovery were mostly pronounced in developed countries while several Asian economies tend to grow slower than expected and thereby the recovery of Thai export volumes was only gradual while export prices declined. (3) Numbers of inbound tourists in the first quarter of 2014 were below the earlier estimation while the recovery for the rest of the year depends much on domestic political situation. It is expected that total number of tourists in 2014 will be 27.0 million people, downwardly revised from 27.5 million people in the previous projection. Nevertheless, economic stability remains favorable. Inflation is forecasted to stay subdued in the range of 1.9 - 2.9 percent and the current account is estimated to record a surplus of 0.5 percent of GDP, improving from a deficit of 0.6 percent of GDP in 2013.

Key details of growth components under the current projection are as follows;

**1. Export value of goods** is projected to expand by 3.7 percent, down from the last projection of 5.0 - 7.0 percent. This owes to the downward revision of export volume growth to be 4.2 percent from 4.0 - 6.0 percent, and the revision of export price to a negative growth of 1.0 - 0.0 percent from the growth of 1.9 - 2.9 percent in line with a slow global recovery. Coupled with a downward revision of tourist numbers, volume of export of goods and services is projected to grow by 3.6 percent, declining from 6.0 percent in the previous projection.

**2. Government consumption expenditure and public investment** are expected to decline by 1.8 and 5.0 percent, downwardly revised from 2.0 and 0.3 percent respectively in the earlier estimation. This is due to a delay in the formation of new government than previously assumed which will deter the budget disbursement and the budgeting process of the FY2015.

**3. Private investment** is estimated to grow by 0.2 percent, adjusted down from 3.8 percent in the previous estimation as a result of the prolonged political problem and the slowdown of overall economy and export sector which, in turn, led to low capacity utilization rate.

**4. Private consumption** is expected to increase by 0.8 percent, downwardly revised from 1.4 percent in the previous projection because of high base of durable goods expenditure in the second quarter, worsened consumer confidence without a clear recovery sign due to lingering political uncertainty, and a slowdown of household income. Meanwhile, financial institutions have imposed more credit restrictions.

### **Economic Management in 2014**

Macroeconomic policy management for the remainder of the 2014 needs to give priorities on expediting exports to expand at its full potential especially by raising export income from major markets and newly high-potential markets as well as promoting border and regional trade. The tourism sector also needs to be stimulated particularly by restoring tourists' confidence and promoting additional tourism campaigns. Meanwhile, policies need to emphasize on expediting disbursement of the FY2014 of both current and capital budget as well as preparing the budgeting process for the FY2015. In addition, it is also necessary to restore overall economic sentiment by implementing accommodative monetary policy to further support the economic recovery, applying communication strategy with accurate and up-to-date information provided for public, and preparing measures to support those affected by the economic slowdown.

**Table 1: GDP by production components (at constant 1988 prices, %)**

|                                   | Weight 2013  | 2012       | 2013       | 2012        |            |            |             | 2013        |            |             |            | 2014        |
|-----------------------------------|--------------|------------|------------|-------------|------------|------------|-------------|-------------|------------|-------------|------------|-------------|
|                                   |              |            |            | Q1          | Q2         | Q3         | Q4          | Q1          | Q2         | Q3          | Q4         | Q1          |
| <b>Agriculture</b>                | <b>8.3</b>   | <b>3.8</b> | <b>1.4</b> | <b>3.4</b>  | <b>1.8</b> | <b>8.3</b> | <b>3.1</b>  | <b>0.8</b>  | <b>2.5</b> | <b>-0.3</b> | <b>2.1</b> | <b>0.8</b>  |
| Products of Agriculture           | 5.7          | 5.6        | 3.2        | 4.9         | 1.0        | 14.5       | 4.8         | 2.5         | 5.4        | 0.8         | 3.8        | 1.5         |
| Live Animals and Animal Products  | 1.0          | 4.2        | 1.3        | 2.8         | 4.3        | 2.9        | 6.7         | 1.3         | 0.1        | 1.7         | 2.1        | 1.6         |
| Fishing Products                  | 1.4          | -3.0       | -6.7       | -2.4        | 3.7        | -6.4       | -5.8        | -6.7        | -8.1       | -7.4        | -5.2       | -2.4        |
| Other                             | 0.2          | -1.3       | 0.0        | 0.7         | -0.5       | -1.2       | -5.4        | -5.4        | 2.3        | 0.4         | -0.9       | -9.8        |
| <b>Non-Agriculture</b>            | <b>91.7</b>  | <b>6.7</b> | <b>3.0</b> | <b>0.1</b>  | <b>4.7</b> | <b>2.7</b> | <b>21.2</b> | <b>5.8</b>  | <b>3.0</b> | <b>3.0</b>  | <b>0.5</b> | <b>-0.7</b> |
| Manufacturing                     | 38.1         | 6.9        | 0.1        | -4.3        | 2.8        | -1.1       | 37.0        | 4.9         | -1.1       | -0.5        | -2.8       | -2.7        |
| Electricity, Gas and Water Supply | 3.6          | 9.7        | 0.9        | 9.1         | 11.8       | 4.9        | 13.4        | 2.8         | 2.8        | 1.0         | -3.3       | -3.1        |
| Construction                      | 2.1          | 7.8        | 1.0        | 0.8         | 6.9        | 9.8        | 14.1        | 10.5        | 5.0        | -2.2        | -8.5       | -12.4       |
| Wholesale and Retail Trade        | 13.4         | 5.2        | 3.2        | 4.1         | 5.4        | 4.0        | 7.6         | 5.1         | 3.0        | 2.6         | 2.2        | -0.5        |
| Transport and Communications      | 10.2         | 8.1        | 8.0        | 3.8         | 7.5        | 8.0        | 13.0        | 8.4         | 7.7        | 8.6         | 7.4        | 3.7         |
| Hotels and Restaurants            | 4.6          | 11.6       | 12.2       | 5.6         | 8.6        | 7.0        | 25.7        | 14.8        | 14.2       | 15.1        | 5.7        | -3.1        |
| Financial Intermediation          | 4.8          | 6.5        | 10.1       | 6.4         | 5.5        | 4.8        | 9.4         | 10.0        | 10.1       | 11.3        | 9.0        | 6.6         |
| Other                             | 14.9         | 4.7        | 3.4        | 0.5         | 4.1        | 5.3        | 9.3         | 3.6         | 5.3        | 3.6         | 1.0        | 2.2         |
| <b>GDP</b>                        | <b>100.0</b> | <b>6.5</b> | <b>2.9</b> | <b>0.4</b>  | <b>4.4</b> | <b>3.1</b> | <b>19.1</b> | <b>5.4</b>  | <b>2.9</b> | <b>2.7</b>  | <b>0.6</b> | <b>-0.6</b> |
| <b>GDP SA.</b>                    |              |            |            | <b>11.2</b> | <b>2.9</b> | <b>1.6</b> | <b>2.5</b>  | <b>-1.4</b> | <b>0.2</b> | <b>1.5</b>  | <b>0.1</b> | <b>-2.1</b> |

Source: NESDB

**Table 2: GDP by expenditure components (at constant 1988 Prices, %)**

|                                           | Weight 2013  | 2012        | 2013        | 2012        |             |             |             | 2013       |            |             |              | 2014        |
|-------------------------------------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|------------|-------------|--------------|-------------|
|                                           |              |             |             | Q1          | Q2          | Q3          | Q4          | Q1         | Q2         | Q3          | Q4           | Q1          |
| <b>Private Consumption Expenditure</b>    | <b>50.8</b>  | <b>6.7</b>  | <b>0.3</b>  | <b>2.9</b>  | <b>5.3</b>  | <b>6.0</b>  | <b>12.4</b> | <b>4.4</b> | <b>2.5</b> | <b>-1.2</b> | <b>-4.1</b>  | <b>-3.0</b> |
| <b>Government Consumption Expenditure</b> | <b>10.3</b>  | <b>7.5</b>  | <b>4.9</b>  | <b>-0.2</b> | <b>7.4</b>  | <b>10.0</b> | <b>12.5</b> | <b>2.9</b> | <b>7.6</b> | <b>7.3</b>  | <b>0.8</b>   | <b>2.9</b>  |
| <b>Gross Fixed Capital Formation</b>      | <b>21.7</b>  | <b>13.2</b> | <b>-2.0</b> | <b>5.2</b>  | <b>10.2</b> | <b>15.5</b> | <b>22.9</b> | <b>5.8</b> | <b>4.7</b> | <b>-6.3</b> | <b>-11.4</b> | <b>-9.8</b> |
| Private                                   | 17.0         | 14.4        | -2.8        | 9.2         | 11.8        | 16.2        | 20.9        | 2.9        | 2.0        | -3.1        | -13.2        | -7.3        |
| Public                                    | 4.7          | 8.9         | 1.3         | -9.6        | 4.0         | 13.2        | 31.1        | 18.8       | 15.4       | -16.2       | -4.7         | -19.3       |
| <b>Exports of Goods and Services</b>      | <b>74.0</b>  | <b>3.1</b>  | <b>4.2</b>  | <b>-3.2</b> | <b>1.1</b>  | <b>-2.8</b> | <b>19.6</b> | <b>8.3</b> | <b>2.9</b> | <b>3.8</b>  | <b>2.0</b>   | <b>-0.4</b> |
| Goods (f.o.b.)                            | 56.5         | -0.4        | 0.2         | -5.0        | -1.6        | -6.2        | 13.5        | 3.7        | -1.5       | -1.4        | 0.2          | 0.8         |
| Services                                  | 17.5         | 19.1        | 19.7        | 4.2         | 15.4        | 14.3        | 45.7        | 25.7       | 22.4       | 25.2        | 8.1          | -4.2        |
| <b>Imports of Goods and Services</b>      | <b>59.3</b>  | <b>6.2</b>  | <b>2.3</b>  | <b>4.3</b>  | <b>8.6</b>  | <b>-1.8</b> | <b>15.0</b> | <b>8.1</b> | <b>4.5</b> | <b>0.8</b>  | <b>-3.5</b>  | <b>-8.5</b> |
| Goods (c.i.f.)                            | 49.9         | 6.5         | 1.8         | 4.3         | 8.8         | -2.3        | 16.9        | 9.5        | 4.4        | -0.5        | -5.3         | -12.0       |
| Services                                  | 9.3          | 4.6         | 5.2         | 4.3         | 7.1         | 1.3         | 5.8         | 1.2        | 5.3        | 8.1         | 6.3          | 11.2        |
| <b>GDP</b>                                | <b>100.0</b> | <b>6.5</b>  | <b>2.9</b>  | <b>0.4</b>  | <b>4.4</b>  | <b>3.1</b>  | <b>19.1</b> | <b>5.4</b> | <b>2.9</b> | <b>2.7</b>  | <b>0.6</b>   | <b>-0.6</b> |

Source: NESDB

**Table 3: Economic Projection for 2014**

|                                       | Actual Data |         | Projection |           |
|---------------------------------------|-------------|---------|------------|-----------|
|                                       | 2012        | 2013    | 17 Feb 14  | 19 May 14 |
| GDP (at current prices: Bil. Bht)     | 11,375      | 11,897  | 12,599     | 12,424    |
| GDP per capita (Bht per year)         | 167,501     | 174,319 | 183,638    | 181,077   |
| GDP (at current prices: Bil. USD)     | 366         | 385     | 388        | 382       |
| GDP per capita (USD per year)         | 5,389       | 5,647   | 5,650      | 5,572     |
| GDP Growth (at constant prices, %)    | 6.5         | 2.9     | 3.0-4.0    | 1.5-2.5   |
| Investment (at constant prices, %)    | 13.2        | -1.9    | 3.1        | -1.3      |
| Private (at constant prices, %)       | 14.4        | -2.8    | 3.8        | -0.2      |
| Public (at constant prices, %)        | 8.9         | 1.3     | 0.3        | -5.0      |
| Consumption (at constant prices, %)   | 6.8         | 1.0     | 1.6        | 1.0       |
| Private (at constant prices, %)       | 6.7         | 0.2     | 1.4        | 0.8       |
| Public (at constant prices, %)        | 7.5         | 4.9     | 2.0        | 1.8       |
| Export volume of goods & services (%) | 3.1         | 4.2     | 6.0        | 3.6       |
| Export value of goods (Bil. USD)      | 225.9       | 225.4   | 241.2      | 233.8     |
| Growth rate (%) <sup>1/</sup>         | 3.1         | -0.2    | 5.0-7.0    | 3.7       |
| Growth rate (Volume, %) <sup>1/</sup> | 2.5         | 0.2     | 4.0-6.0    | 4.2       |
| Import volume of goods & services (%) | 6.2         | 2.3     | 4.6        | 1.3       |
| Import value of goods (Bil. USD)      | 219.9       | 219.0   | 231.7      | 220.2     |
| Growth rate (%) <sup>1/</sup>         | 8.8         | -0.4    | 5.7        | 0.5       |
| Growth rate (Volume, %) <sup>1/</sup> | 7.1         | 1.7     | 5.2        | 1.0       |
| Trade balance (Bil. USD)              | 6.0         | 6.4     | 9.6        | 13.6      |
| Current account balance (Bil. USD)    | -1.5        | -2.8    | -0.6       | 1.9       |
| Current account to GDP (%)            | -0.4        | -0.6    | -0.2       | 0.5       |
| Inflation (%)                         |             |         |            |           |
| CPI                                   | 3.0         | 2.2     | 1.9-2.9    | 1.9-2.9   |
| GDP Deflator                          | 1.3         | 1.7     | 1.9-2.9    | 1.9-2.9   |

Source: Office of the National Economic and Social Development Board, 19<sup>th</sup> May 2014

Note: <sup>1/</sup> Export and import base on the Bank of Thailand's data.