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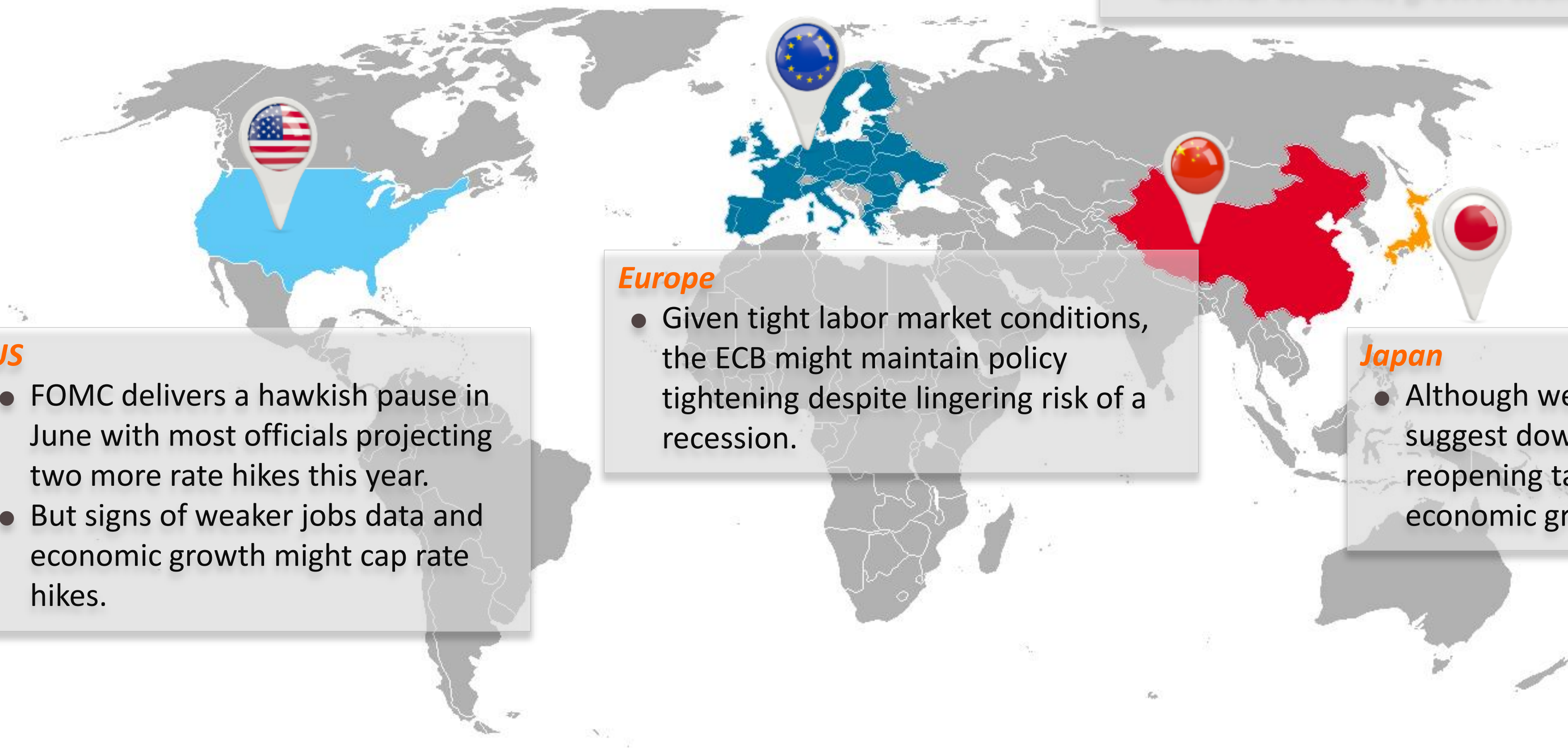
MONTHLY ECONOMIC BULLETIN

June 2023

Krungsri Research

Global: Juggling inflation fears and recession risk



China

- China has cut key policy rates in response to less encouraging signs since reopening and weaker external demand; growth could disappoint this year.

US

- FOMC delivers a hawkish pause in June with most officials projecting two more rate hikes this year.
- But signs of weaker jobs data and economic growth might cap rate hikes.

Europe

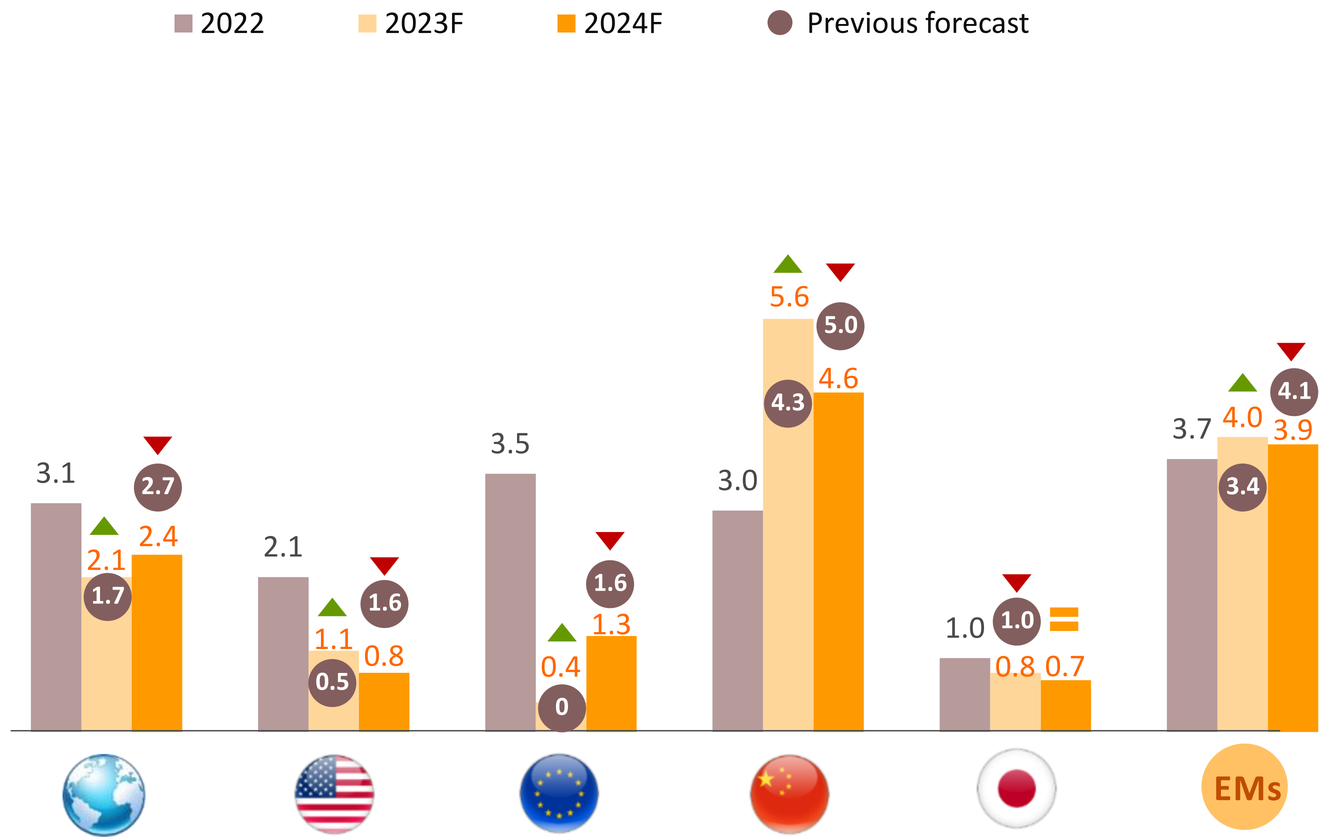
- Given tight labor market conditions, the ECB might maintain policy tightening despite lingering risk of a recession.

Japan

- Although weak global conditions suggest downside risk to exports, reopening tailwinds will support economic growth this year.

World Bank projects global growth will decelerate in 2023 despite China reopening and lower energy prices; revised down 2024 growth amid tight financial conditions

Economic growth projections for global and major economies (%)



Source: World bank, Krungsri Research

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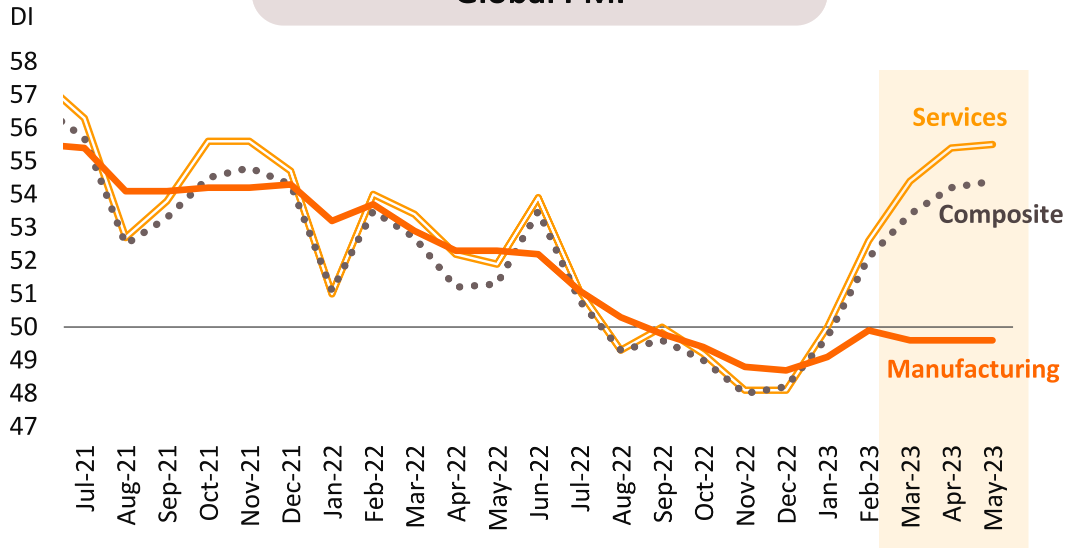
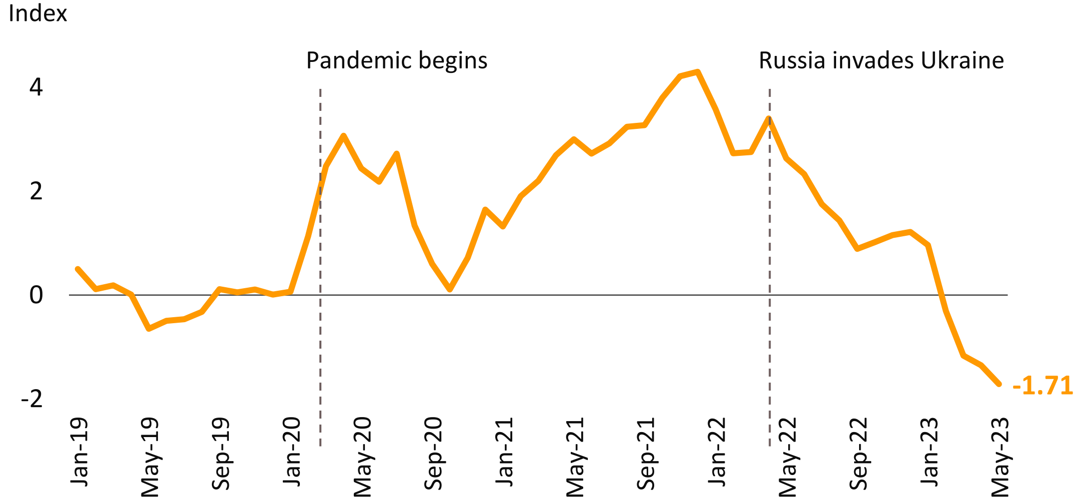
Global growth may not be sustainable given transitory pent-up demand and impending rate-hike impact; inflation remains high despite easing global supply chain pressures

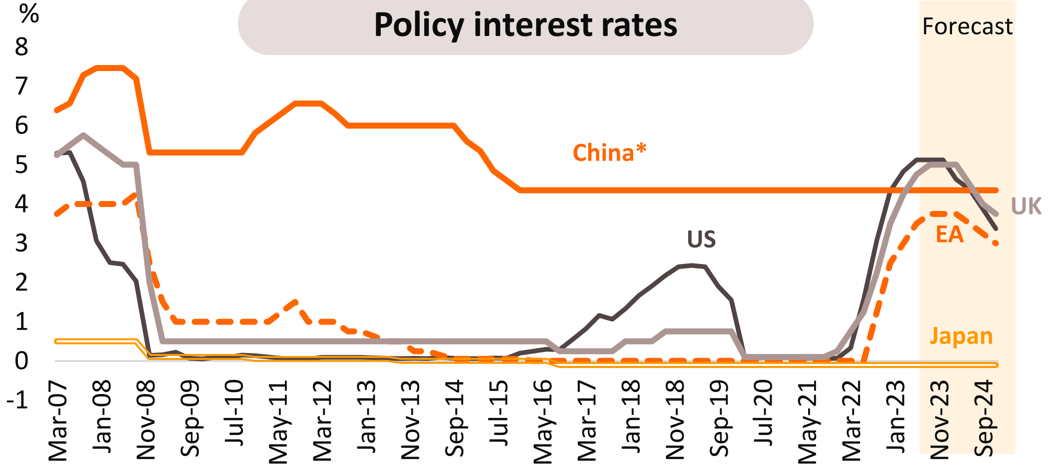
Global PMI



Global Supply Chain Pressure Index

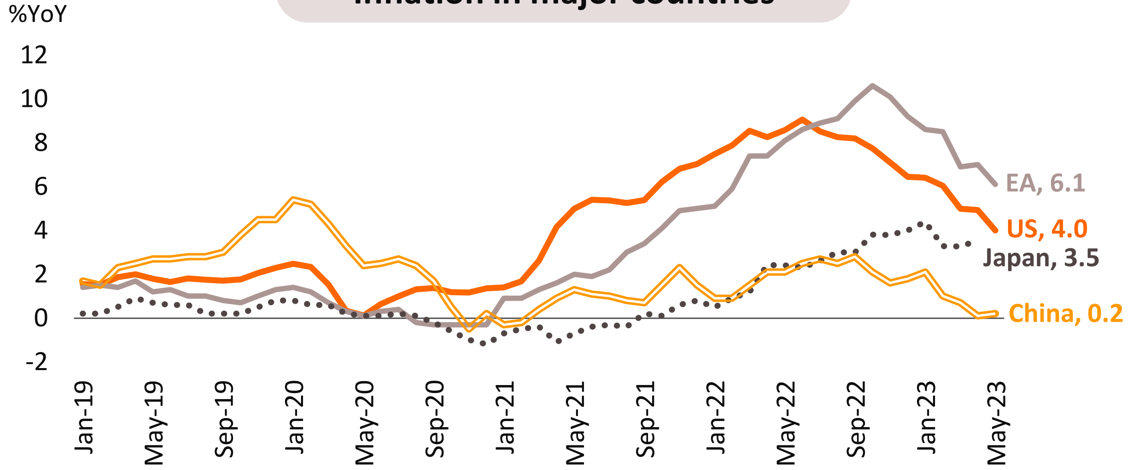


Policy interest rates



Note: *1-year best lending rate

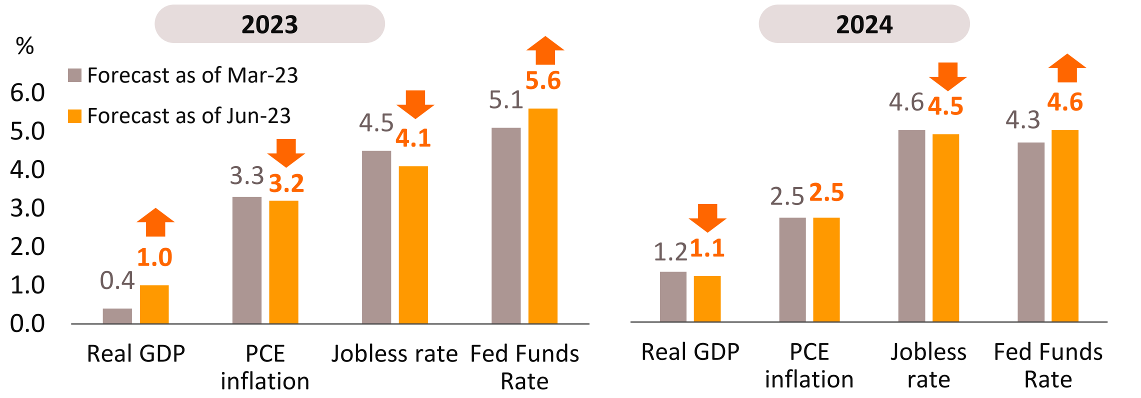
Inflation in major countries



Source: S&P Global, Federal Reserve Bank of New York, major central banks, CEIC, Bloomberg, Krungsri Research

US: FOMC delivers a hawkish pause in June with most officials projecting two more rate hikes this year, but signs of weaker jobs data and economic growth might cap rate hikes

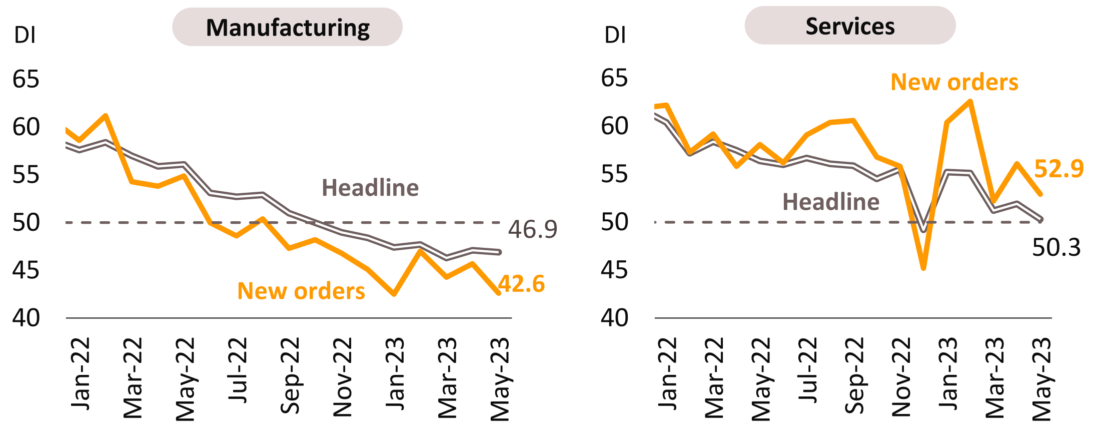
FOMC Economic Projections for…



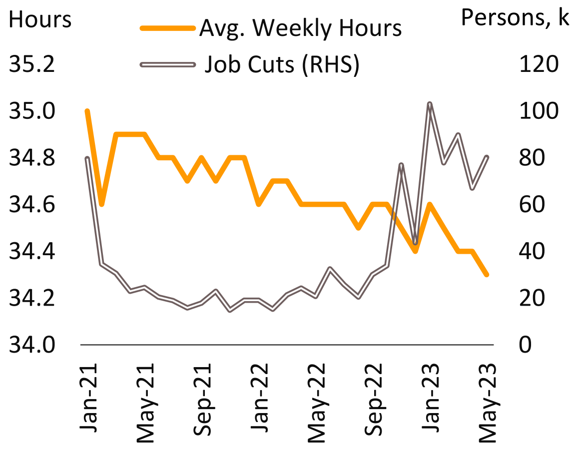
FOMC Dot Plot: *9 out of 18 members expect two more rate hikes in 2023, 4 members see one more hike; 2 members expect no rate hike.*

FOMC Dot Plot: *12 out of 18 members expect Fed funds rate at end-2024 to be lower than the current level.; 10 members see the rate at 4.5-4.75% or lower that that level.*

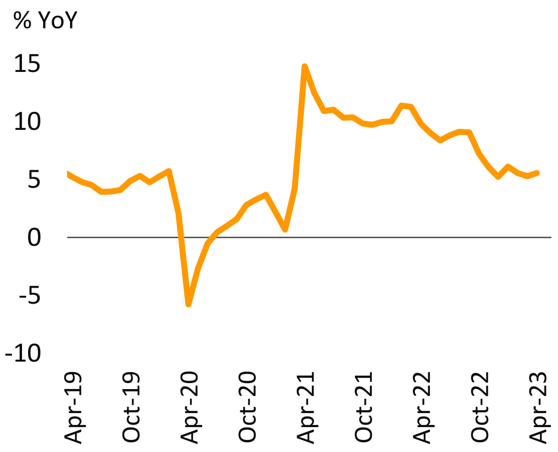
ISM Manufacturing and Services PMI



Average Weekly Hours and Job Cuts



Wage and Salaries Growth



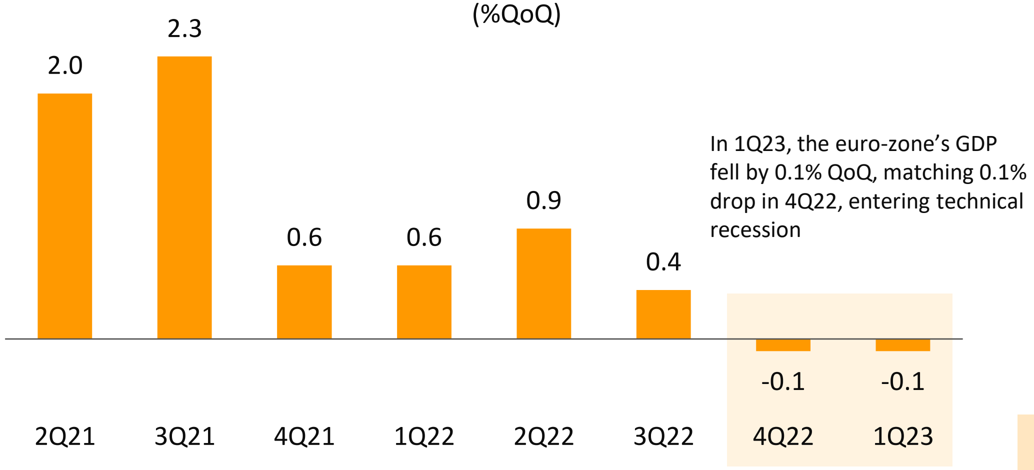
Source: ISM, Bureau of Labor Statistics (BLS), Federal Reserve, Capital Economics, CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

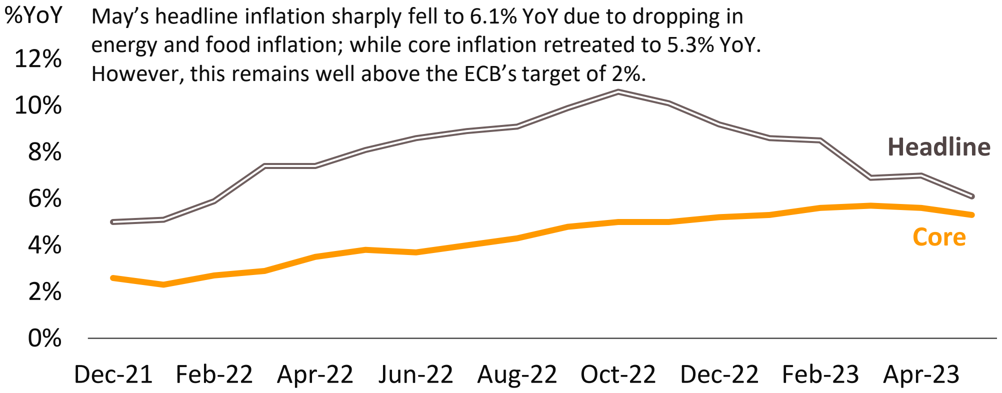
- **At the 13-14 June meeting, the US FOMC voted to hold Fed Funds rate at 5.00-5.25%, marking the first break after 15 months of rate hikes, by a total of 500bps. Most Fed officials project two more rate hikes this year amid concerns over sticky inflation but downside risk to economic growth might cap rate hikes.**
- **The Fed's decision to pause the current rate-hike cycle might be attributed to rising uncertainty over economic growth.** The FOMC statement said that *"holding the target range steady at this meeting allows the Committee to assess additional information and its implications for monetary policy."* This suggests the Fed is adopting a *wait-and-see* stance.
- **Despite the Fed's projection of two more rate hikes, the policy moves this year could be less hawkish than the Fed's latest projection due to the following reasons:**
  - **(i) The US economic growth is losing steam.** The ISM Manufacturing PMI dipped to 46.9, falling for the seventh month, and Services PMI also dipped to a 5-month low of 50.3.
  - **(ii) The labor market is showing signs of weakness despite still-low unemployment rate.** The average workweek for all employees fell to 34.3 hours in May, the shortest since the labor shock at the start of the pandemic in April 2020. So far this year, private companies have cut 417.5k jobs, or by 315% YoY, the largest January-May total since 2020. With the exception of 2020, it is the highest since 2009. Initial jobless claims have also risen to its highest since October 2021.
  - **(iii) Inflationary pressure is softening.** Headline inflation fell to an over 2-year low of 4% YoY in May and core inflation eased to 5.3%, the lowest since July 2021. 3- and 5-year inflation expectation eased to 3.0% and 2.7%, respectively. Wage growth slowed to 5.58% YoY in April, close to pre-Covid level.
- **Coupled with real policy rate reversing to positive, we expect only one more rate hike in July and the Fed to maintain rates the rest of this year to reduce the risk of a US recession.**

Euro-zone: Given tight labor market conditions, the ECB might maintain policy tightening despite lingering risk of a recession

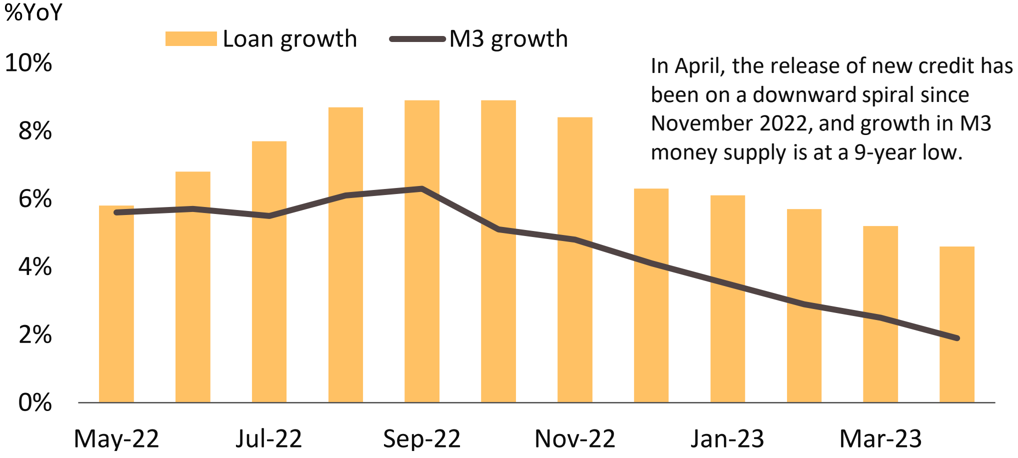
Euro-zone GDP Growth



Euro-zone Consumer Price Index



Euro-zone Loan Growth & Money Supply (M3)



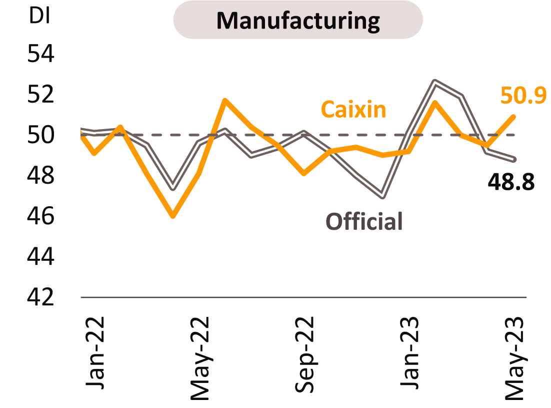
Source: ECB, CEIC, BLS, investing.com, Eurostat, Bloomberg, Krungsri Research

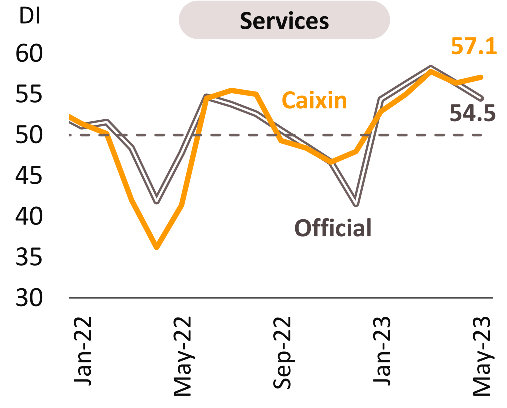
Krungsri Research's view

- **Euro-zone economy is technically in a recession since 1Q23 and that is likely to drag on** due to the full impact of the ECB's monetary tightening, weak industrial activity, and a worsening global economic outlook. In addition, **bank lending remains very weak and might cause more downside risk to economic activities in the second half of the year**.
  - In 1Q23, Euro-zone GDP shrank by 0.1% QoQ, matching the 0.1% drop in 4Q22 and pulling the union into a technical recession.
  - In April, growth of new credit by banks to businesses and consumers slowed to 4.6% and 2.5% YoY, respectively. Growth in M3 money supply also dropped to 1.9%, worse than the anticipated 2.1%.
- **We expect a mild recession in the euro-zone as tight labor market conditions and cheaper energy prices** would mitigate the economic downside risks on the horizon.
  - In 1Q23, wages grew 4.6% YoY following a downward-revised 5% growth in the previous quarter, marking the seventh consecutive quarter of wage increases. Meanwhile, unemployment rate fell to 6.5% in April from 6.7% last year, the lowest on record.
- **At its June meeting, the ECB raised deposit rate by 0.25% to 3.5% and signaled there could be more rate hikes at the July and September meetings.** The press statement reinforces a hawkish message, saying interest rates *"will be brought to levels sufficiently restrictive"* to achieve the ECB's inflation target. **Inflation projections have been revised up.** Headline inflation is now expected to notch 5.4% in 2023, 3% in 2024, and 2.2% in 2025. Core inflation is expected to reach 5.1% in 2023 and drop to 3.0% in 2024 and 2.3% in 2025. **The ECB is also less optimistic about growth in the coming years**, revising down its GDP growth projections by 0.1% to 0.9% for 2023 and to 1.5% for 2024. **Taking into account the strong hawkish bias and the latest inflation projections, we expect the ECB to continue to hike rates until its deposit rate reaches 3.75 or 4%.**

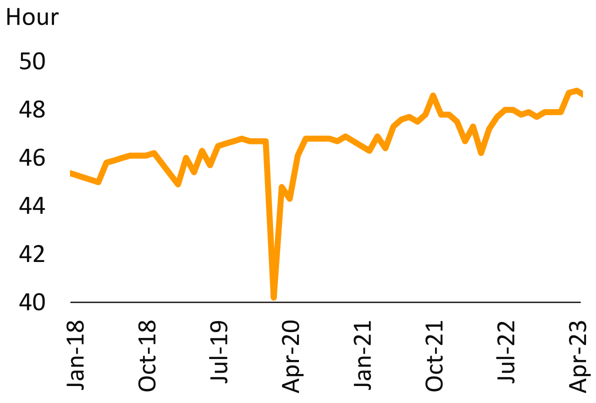
China cuts key policy rates in response to less encouraging signs since reopening and weaker external demand; growth could disappoint this year

Manufacturing and Services PMI

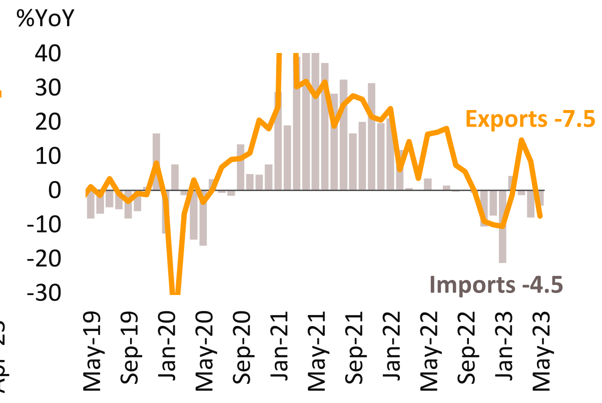




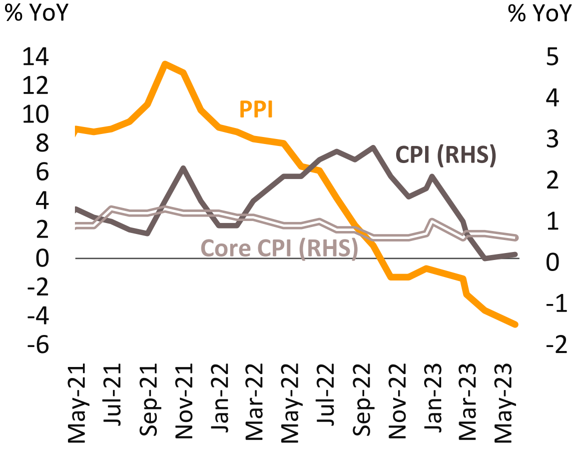
Average Weekly Hours Worked



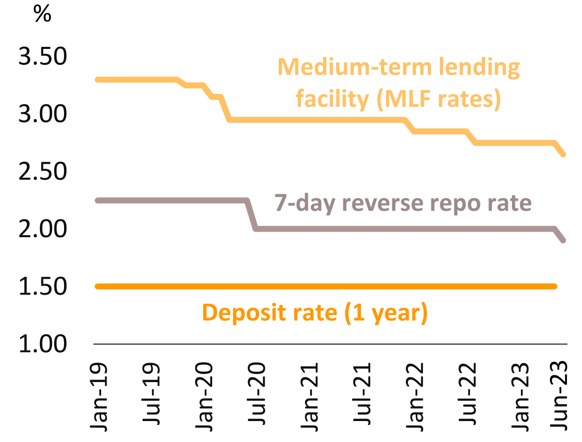
Exports and Imports



Inflation: CPI, Core CPI, and PPI



Interest rates



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

Krungsri Research's view

- **China's economy has been driven by the end of pandemic restrictions and reopening but the cyclical recovery momentum is weakening. In addition, weak global demand, a fragile property sector and domestic structural headwinds might prevent China from registering sustainable growth in the periods ahead.**
- **Driven by a rebound in the services sector, the cyclical recovery will help to drive 5% economic growth this year** compared to 3% last year, supported by the following positive indicators. Urban unemployment remained at a 16-month low of 5.2% in May. Average hours worked per week remained close to a record high in May. Vehicle sales jumped 27.9% YoY to 2.38m units in May.
- **Looking ahead, there are signs that growth will lose steam:**
  - **(i) Weakening momentum:** Several indicators are decelerating - retail sales (+12.7% YoY in May vs +18.4% in April), industrial output (+3.6% vs +5.6%) and fixed asset investment (+4.0% during Jan-May). In May, the official Services PMI dropped to 54.5 from 56.4, while Manufacturing PMI also slipped for the second month from 49.2 to a 5-month low of 48.8.
  - **(ii) Fragile property sector and structural headwinds:** Property investment dropped at a faster pace during January-May, by 7.2% YoY (vs -6.2% during January-April). Youth unemployment rate hit a new high of 20.8% in May.
  - **(iii) Weak global demand** with a drop in exports back to contraction territory in May, at -7.5% YoY, after expanding by 14.8% in March and 8.5% in April.
- **China is trying to support economic growth with a 10-bp cut in key policy rate (medium term lending facility) for the first time in 10 months. However, that is small and would have limited ability of support consumption, investment and overall economic growth.**

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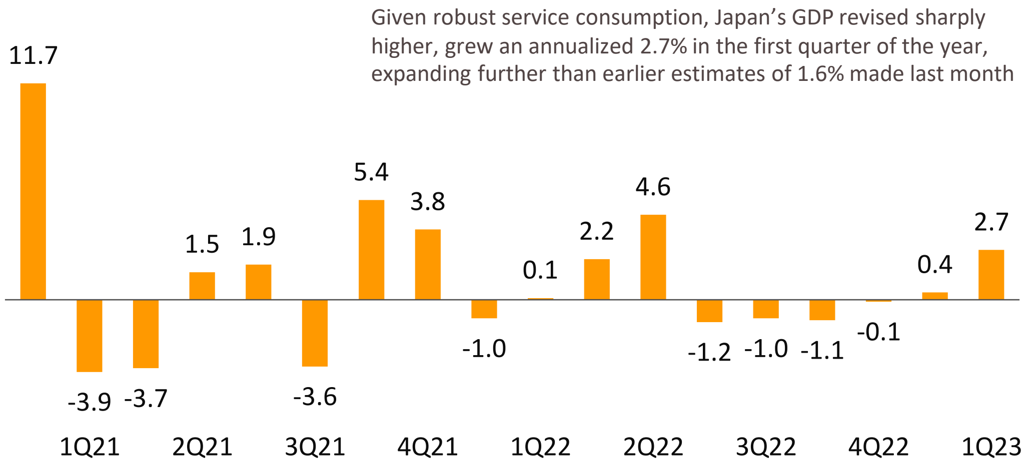
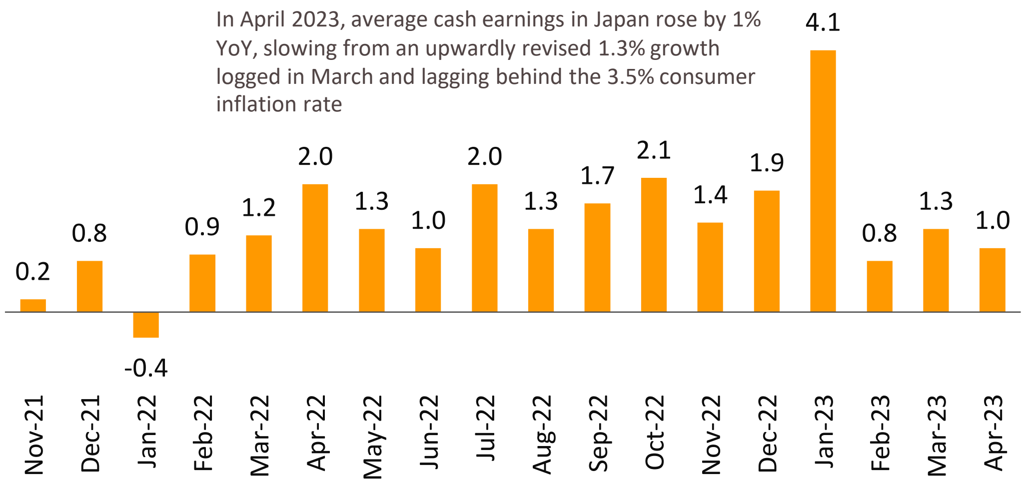
Japan: Although weak global conditions imply downside risk to exports, the reopening tailwinds will help support economic growth this year

Japan GDP Growth (%YoY)

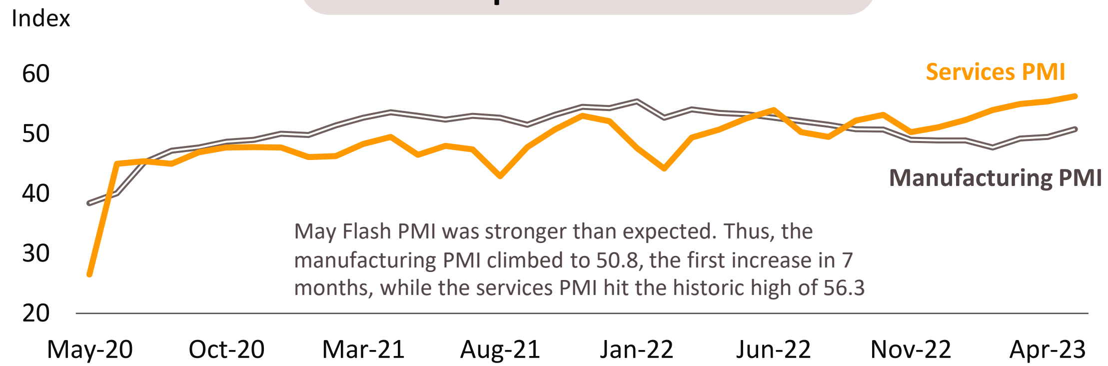


Japan Average Cash Earning (%YoY)



Source: Japan's Cabinet Office, BOJ, CEIC, investing.com, Bloomberg, Krungsri Research

Japan PMI Index



Krungsri Research's view

- **The government was more optimistic of the economy in May,** saying *"the economy is recovering moderately"*, dropping the statement *"there was some weakness"* in the previous report; **which led to the large upward revision of 1Q GDP growth to +0.7% QoQ (from +0.4%) and to +2.7% YoY (from +1.6%) due to robust spending on services and stronger-than-expected investment.**
    - In 1Q, Private non-residential investment, or capital spending, rose 1.4% YoY, higher than initial government estimate of 0.9%. Likewise, private demand rose 1.2% YoY and domestic demand was up 1%. However, exports of goods and services contracted 4.2% YoY due to deteriorating global economic conditions.
    - May Flash PMI was stronger than expected. Manufacturing PMI climbed to 50.8, the first increase in 7 months, while Services PMI hit a historic high of 56.3.
    - In April, the IMF projected 2023 GDP growth for Japan at 1.3%, stronger than +1.1% last year.
- Following the end of border control measures and ultra-loose monetary policy in Japan, **the services sector will continue to enjoy *catch-up recovery* in the second half of the year; however, sluggish wage growth and still-high inflation could disrupt economic growth this year**.
    - In April, average cash earnings in Japan rose 1% YoY, slower than the upward-revised 1.3% growth logged in March and lagging behind 3.5% consumer inflation rate.
- On the monetary policy front, Bank of Japan (BOJ) governor Ueda Kazuo suggested a policy change is a long way off - until inflation reaches and stays at the BOJ's 2% target - **current high inflation rates are unlikely to be sustainable as wage growth remains subdued**. **However, we expect the BOJ to be more open to a policy tweak in the second half of the year as ultra-loose policy has disrupted smooth market function and is creating larger policy divergence relative to other countries.**

Thailand: Awaiting clearer political direction in the country

- Krungsri Research is keeping 2023 GDP growth forecast at 3.3%. Economic growth is expected to be stable in Q2 and Q3 amid political uncertainty and rebound in Q4 driven by rising foreign tourist arrivals and the low base last year. The domestic political scene and new economic policies could determine upside and downside risks to growth outlook.
- Tourism sector remains a key economic driver. Foreign tourist arrivals dropped below 2 mn persons for the first time in six months in May due to seasonal effect. We expect arrivals to rise to 14.5m in 2H23 from 12.5m in 1H23
- Private consumption would be the other key driver, led by improving tourism, unemployment rate returning to pre-Covid level, and improving consumer confidence. However, slower growth in farm income, higher interest rates, and high household debt could cap upside to domestic consumption.
- Private investment would be supported by improving domestic activity. However, sentiment might be hurt by slower manufacturing growth and political uncertainty. Although the BOI's investment indicators are improving, a delay in forming the next government could hurt business sentiment
- Exports are expected to see near-zero growth. China reopening and easing chip shortage would help to boost some sectors. Exports of most industrial products would remain weak following signs of a global economic slowdown.
- Inflation slipped to only 0.5% in May, below the BOT's target range. Real interest rate is turning positive, reducing pressure to continue to tighten monetary policy.
- Our analysis of new stimulus measures suggests the program to boost economic growth via the cash aid program -- THB10,000 digital wallet (or even half of it) – can substantially increase purchasing power but for only medium- and low-income households and for only a year. The welfare package to reduce wealth inequality and improve the wellbeing of Thai people will cost around THB650 bn per year. However, it is uncertain how they will obtain the budget for that and how long it would take. Policies to boost domestic spending might be a fiscal burden and raise public debt.

Krungsri Research Forecasts for 2023

Krungsri Research Forecast		2021	2022	2023F
GDP growth	YoY (%)	1.5	2.6	3.3
Private Consumption Expenditure	YoY (%)	0.6	6.3	3.3
Government Consumption Expenditure	YoY (%)	3.7	0.2	-1.0
Private Investment	YoY (%)	3.0	5.1	2.7
Public Investment	YoY (%)	3.4	-4.9	1.5
Nominal Exports in USD (f.o.b.)*	YoY (%)	19.2	5.5	0.5
Nominal Imports in USD (f.o.b.)*	YoY (%)	27.7	15.3	1.0
Current Account Balance	USD, bn	-10.6	-16.9	8.0
Tourist Arrivals	Mn, persons	0.4	11.2	27
Headline Inflation	YoY (%)	1.2	6.1	1.9
Policy Interest rate (end of period)	(%)	0.50	1.25	2.00
Dubai crude price - period average	USD/bbl	69	96	82

Note: * base on BOT data

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

Key factors in 2H23: Growth would be driven mainly by tourism sector; domestic politics would affect investor sentiment

Major factors affecting Thai economy	2Q23	2H23
• Domestic political uncertainty		
• Tourism recovery led by Chinese tourist		
• Additional stimulus economic measures		
• High cost of living		
• Impact of drought (El Niño)		
• Impacts of multi-year-high interest rates in advanced economies		
• Russia-Ukraine crisis (global slowdown led by EU)		

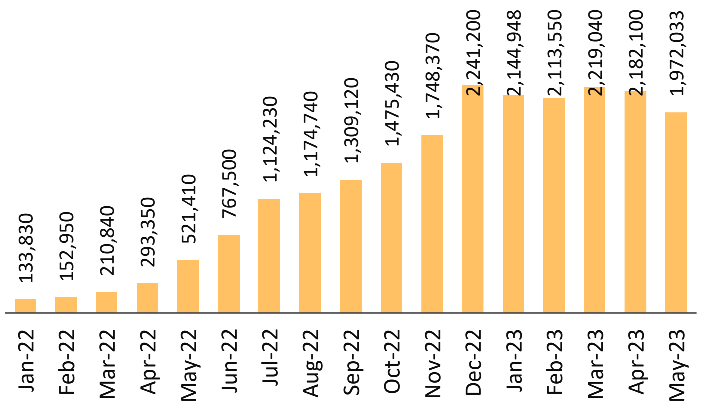
Negative impact Uncertainty Positive impact

Source: Krungsri Research

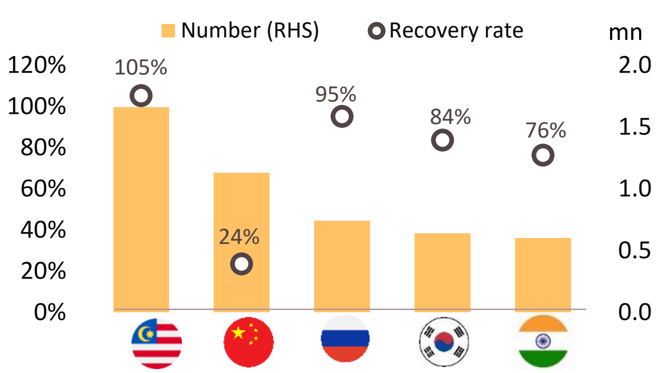
Tourism sector will remain a key driver although foreign tourist arrivals fell below 2 mn for the first time in 6 months due to seasonal effect; we expect arrivals to rise to 14.5m in 2H from 12.5m in 1H

The Tourism Authority of Thailand's data show the country welcomed 1.97mn foreign tourists in May, down from 2.18 mn in April. **In the first five months of this year, tourist arrivals reached 10.63mn or 63.6% of pre-Covid level (2019) and generated THB452 bn receipts (58% of pre-Covid level).** Arrivals from Malaysia, Russia, South Korea and India reached 76-105% of pre-pandemic levels. Chinese tourists are returning slowly (23.5% of pre-Covid level). In the second half of this year, we expect more Chinese tourists following more slots for Chinese airlines, from 150 flights per week to more than 400 starting in September.

Foreign tourist arrivals reached 10.63 mn in 5M 2023



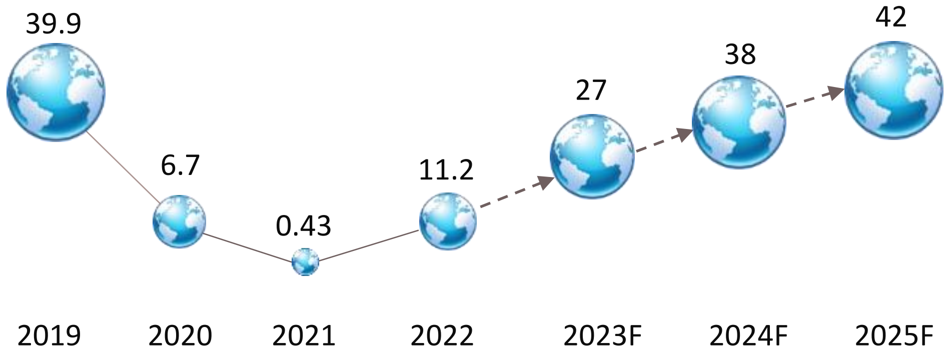
Top 5 foreign tourist arrivals by country during 1 Jan-31 May 2023



Tailwinds

- China's reopening and lifting of travel restriction with a sharp increase in flight slots for Airlines (China, Saudi Arabia)
- Thailand remains a top destination for tourists around the world. Recently, UNESCO declared five provinces in Thailand as creative cities (Phetchaburi, Sukhothai, Bangkok, Phuket and Chiang Mai)
- Several global travel websites have rated Thailand as one of the safest countries in ASEAN for LGBTQ travelers

Forecast for foreign tourist arrivals (mn persons)



Headwinds

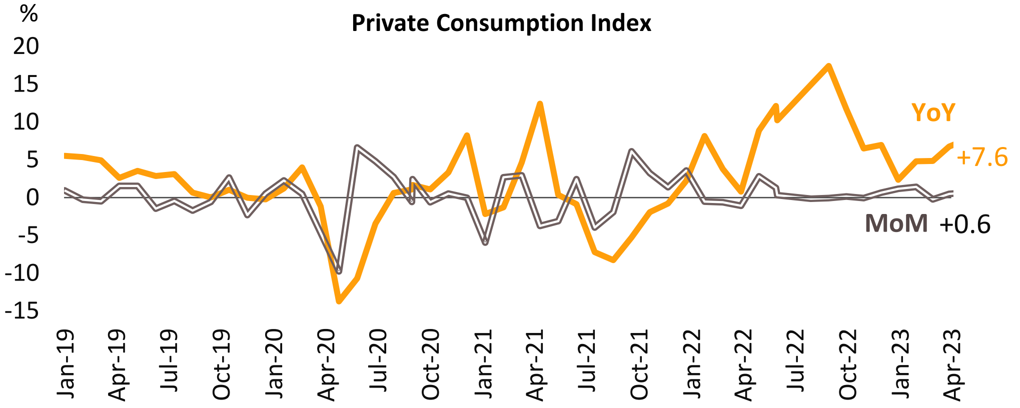
- High travel costs
- Labor shortage and higher labor costs
- China plans to stimulate domestic tourism
- Greater competition as many countries rely on tourism to drive their economics

Source: MOTS, CEIC, Krungsri Research

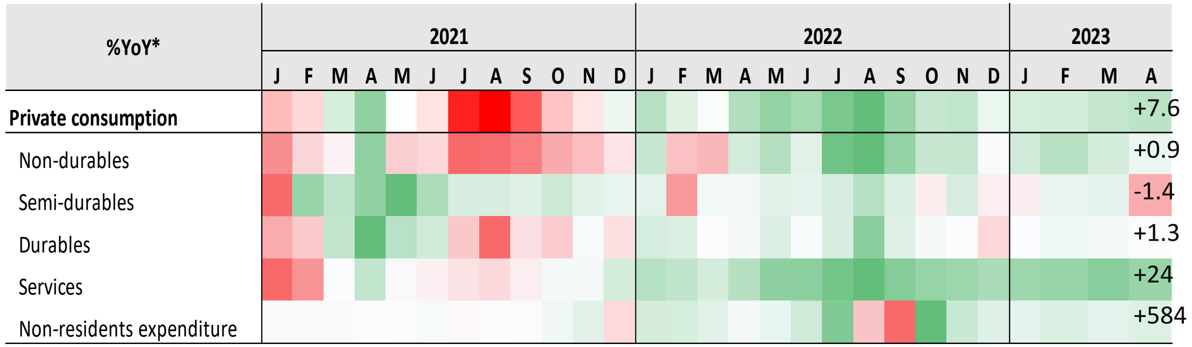
Private consumption: Mainly driven by improving tourism, unemployment rate returning to pre-Covid level, and improving consumer confidence

Private Consumption Index rose 7.6% YoY in April. There was improvement in many categories driven by recovering tourism activity, a growing services sector (which reduced unemployment rate to pre-pandemic level), improving confidence, and economic activity during the May general election. ***For the rest of the year, recovering tourism activity and easing inflationary pressure following lower fuel prices would boost consumption. However, household spending remains vulnerable, especially households which have debts and earn less than THB50,000 per month. Hence, recovery would be uneven between household segments amid fading pent-up demand.***

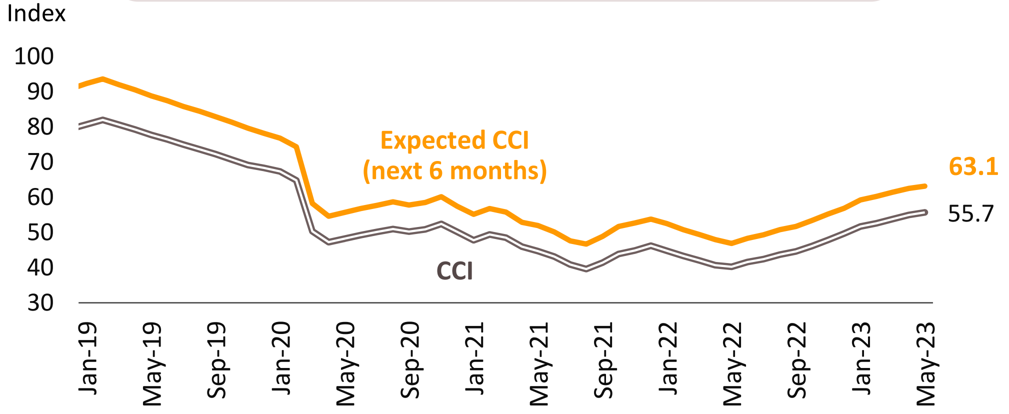
Private consumption rebounded from the previous month



Private consumption expanded across almost categories



Consumer confidence hit a 39-month high in May



Unemployment rate has returned to pre-pandemic level

Source: BOT, UTCC, NSO, Krungsri Research

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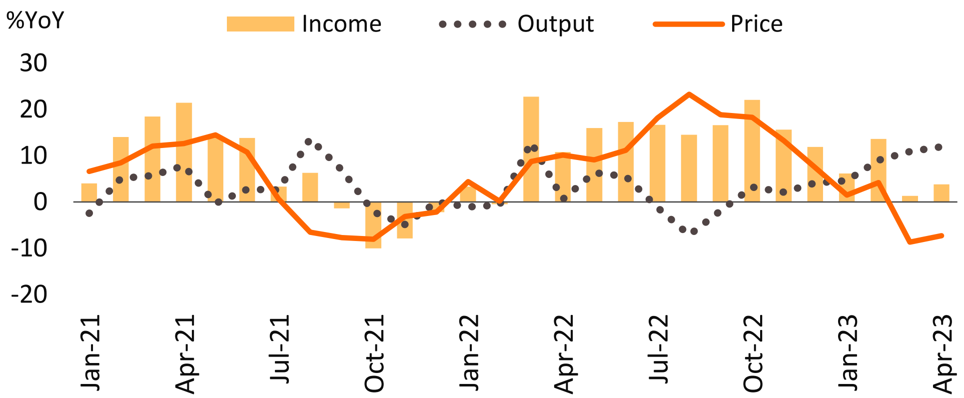
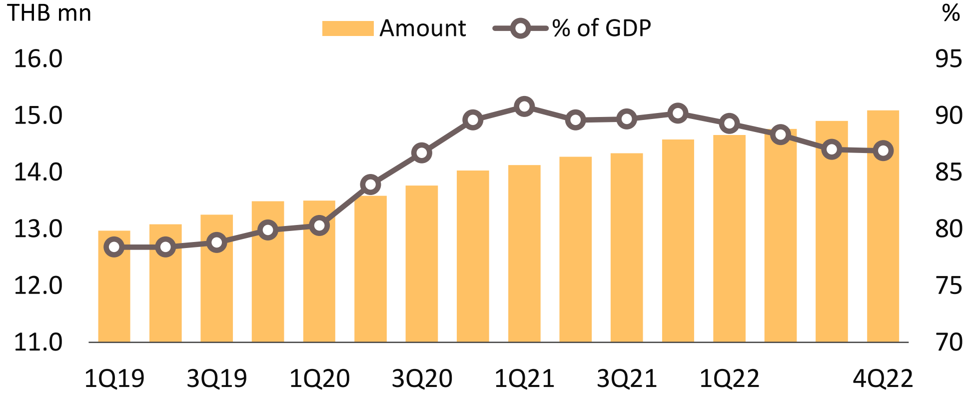
Slower growth in farm income, higher interest rates, and high household debt could cap consumption growth

In the first four months of 2023, agricultural product prices fell 2.9% YoY but output increased by 8.9%, causing farm income to rise 6.9%. ***But looking ahead, farm income is likely to increase at a slower rate in line with the drop in agricultural product prices as well as risk of El Nino-induced drought reducing agricultural output.*** In addition, consumption has been pressured by high level of household debt which has reached almost 87% of GDP and increasing financial burden as interest rates are at an 8-year high. Vulnerable households might need additional support from the government.

Farm income grew along with higher output



Household debt remains high at 87% of GDP in 4Q22



Source: OAE, BOT, Krungsri Research

Tailwinds

- Rising employment and income following the recovery in services sectors
- Improving consumer confidence and favorable farm income
- Softening inflation and measures to reduce cost of living
- High savings for middle- and high-income earners
- State welfare to help low-income households and vulnerable groups

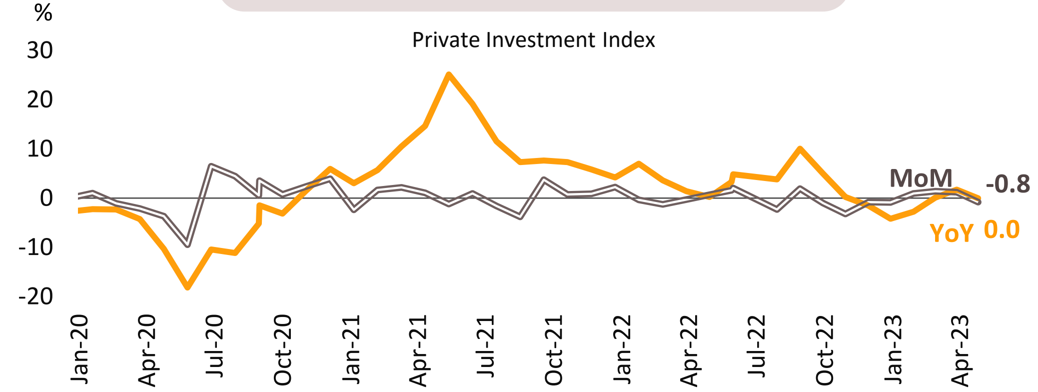
Headwinds

- Fading pent-up demand
- Higher borrowing costs, and high household debt
- Ending of some subsidies and assistance measures such as programs to boost domestic tourism and reduce electricity bills
- Chance of drought reducing agriculture output and income

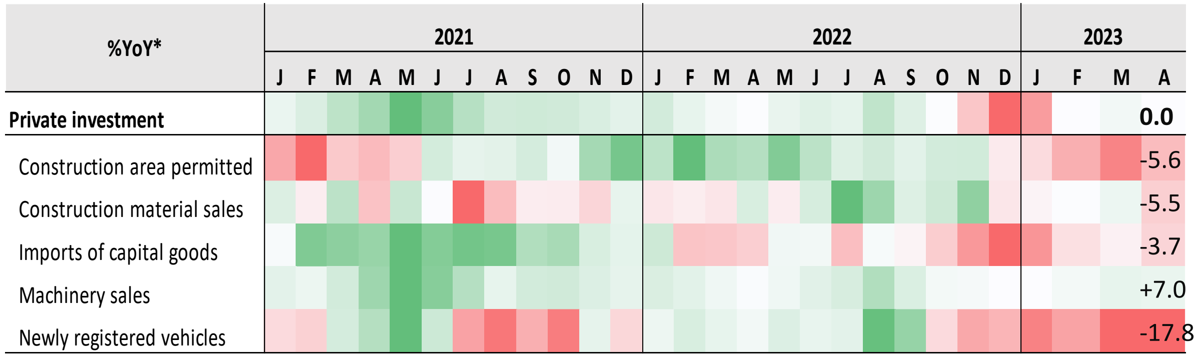
Private investment has been supported by improving domestic activity but sentiment is hurt by slower manufacturing activity and influenced by domestic political developments

Private Investment Index turned to contract 0.8% MoM and 0% YoY in April, led by a decline in new vehicle registrations and imports of capital goods. Likewise, the Manufacturing Production Index continued to drop for the seventh straight month, by 8.1% YoY. Capacity utilization rate fell to 59.0%, still below pre-pandemic level of 65.5%. The Business Sentiment Index (BSI) dipped below-50 again in May, as a result of a drop in non-manufacturing BSI, particularly hotel and restaurant sectors. This drop can be attributed to the start of the low season and the end of government tourism stimulus measures. Meanwhile, the Manufacturing BSI inched-up but remained in contraction territory (below-50). ***For the rest of this year, we expect private investment to remain stable as investors might delay investment decisions pending clarity on the formation of the next government and their economic policies.***

Private investment remained weak

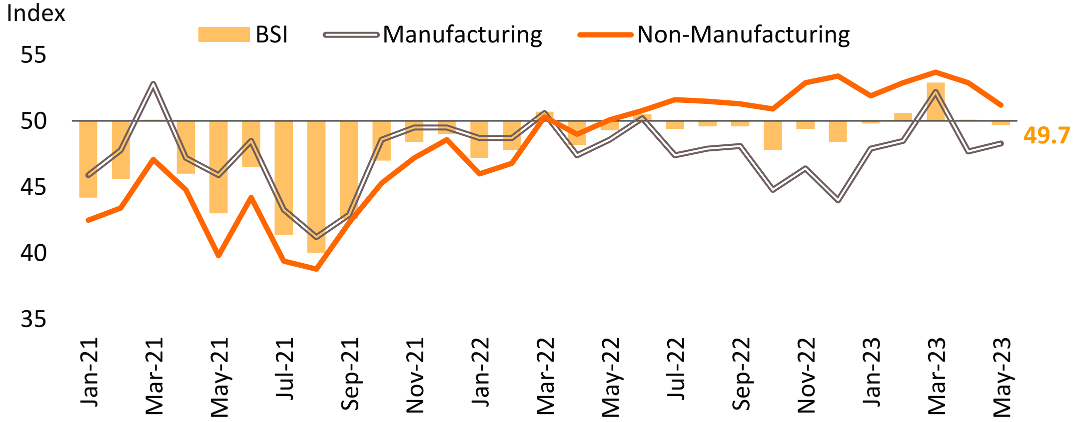


Private Investment by category

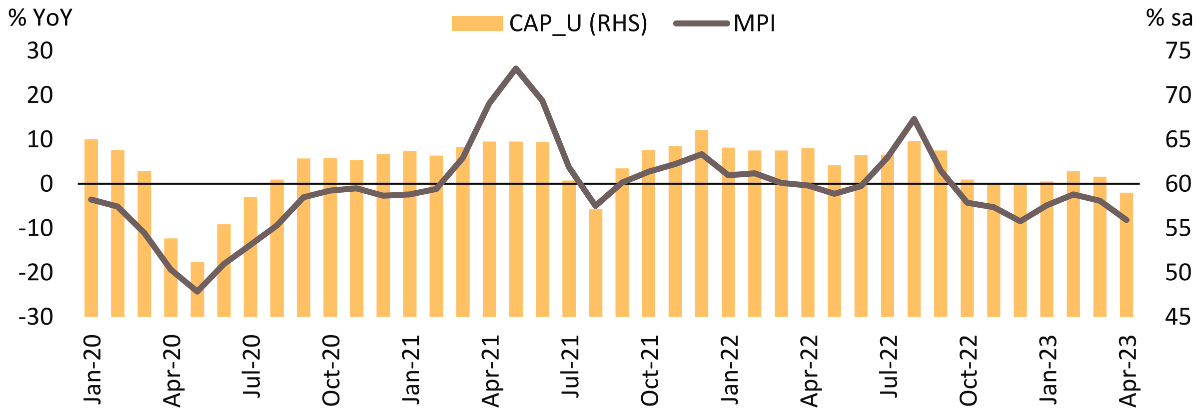


Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum

Business Sentiment Index fell below 50 again in May



Manufacturing Production Index and Capacity Utilization



Source: BOT, OIE, Krungsri Research

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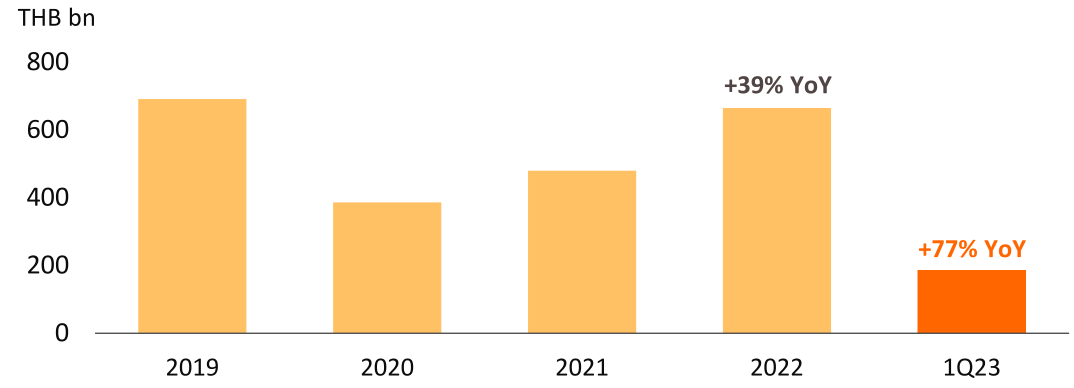
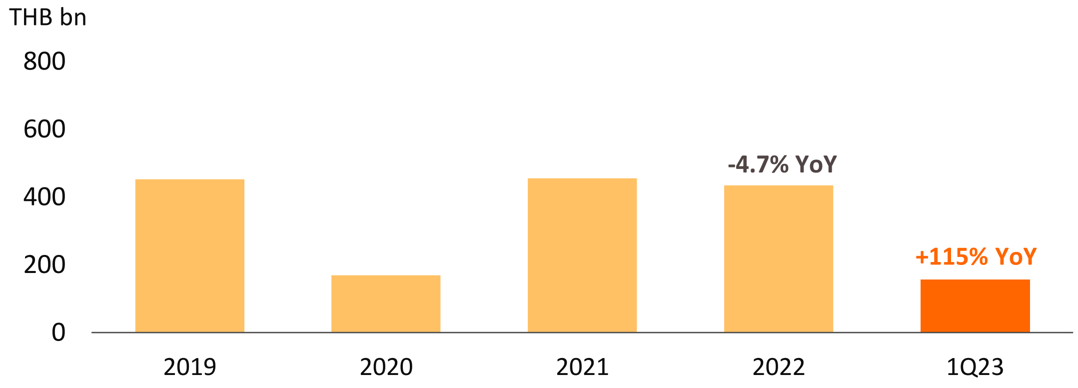
BOI investment indicators improved in 1Q23 but delays in forming the next government could hurt sentiment

In 1Q23, the BOI received applications for investment incentives for 397 projects (+9% YoY) with a total investment value of THB185.73 bn (+77% YoY). Foreign direct investment applications rose by 10% to 211 projects valued at THB155.26 bn. (+115%), led by South Korea, Singapore, China, and Japan, as (i) the COVID-19 situation eased; and (ii) countries which are major sources of FDI have reopened their countries and might relocate production to mitigate risks from geopolitical conflicts. Applications were mostly for the electronics sector. 2Q and 3Q will be the transition period as investors wait for clarity on the the formation of the next government and well as their economic policies. Greater uncertainty could delay investments.

Total Applications for BOI Investment Promotion



FDI applications for BOI Investment Promotion



Source: BOI, Krungsri Research

Tailwinds

- Investment expands in response to the domestic economic recovery, led by service sector
- Rising FDI in ASEAN driven by greater regionalization and US-China tech war
- Supportive policies and projects such as infrastructure investment, EEC, policy to promote Thailand as a production hub for electric vehicle (EV) in the ASEAN region, investment in energy and an environment-friendly economy

Headwinds

- Concerns over a delay in forming the next government and uncertainty over domestic political developments
- Weaker global growth and slowing manufacturing sector amid tight monetary policy and Russia-Ukraine crisis
- Higher interest rates, tight labor market, and concerns over wage-hike policy

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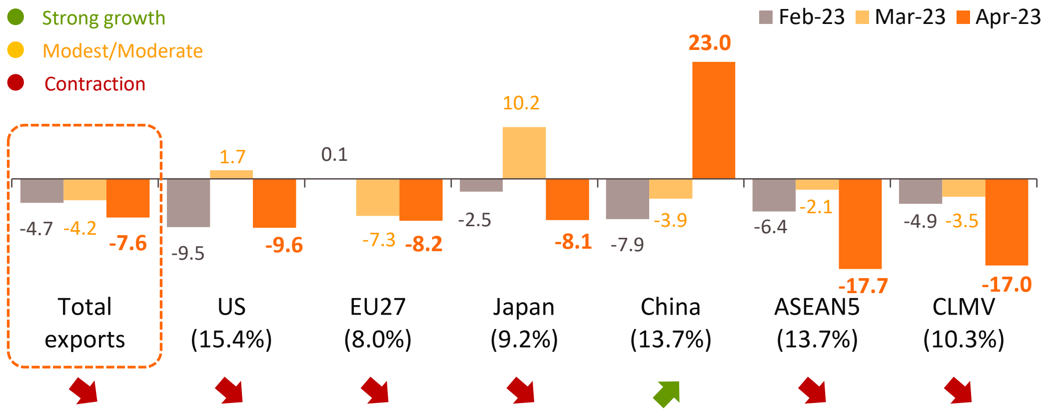
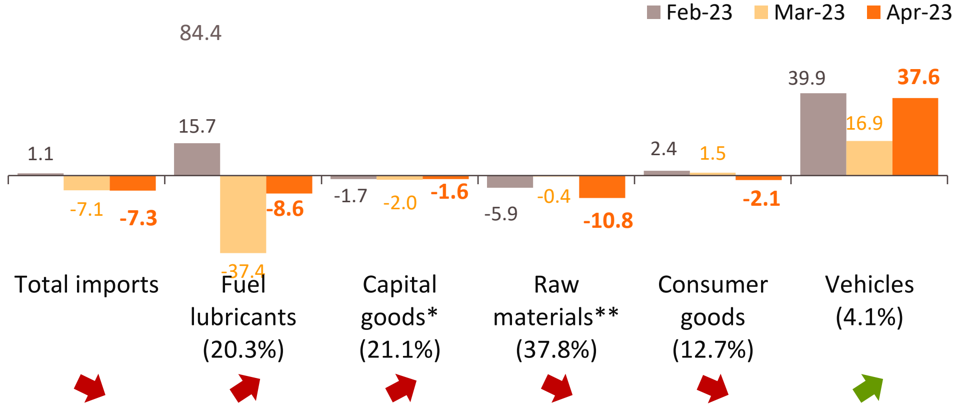
Exports: Total export value contracted more than expected in April though exports of agricultural products and processed foods expanded

Exports by major destination (%YoY)

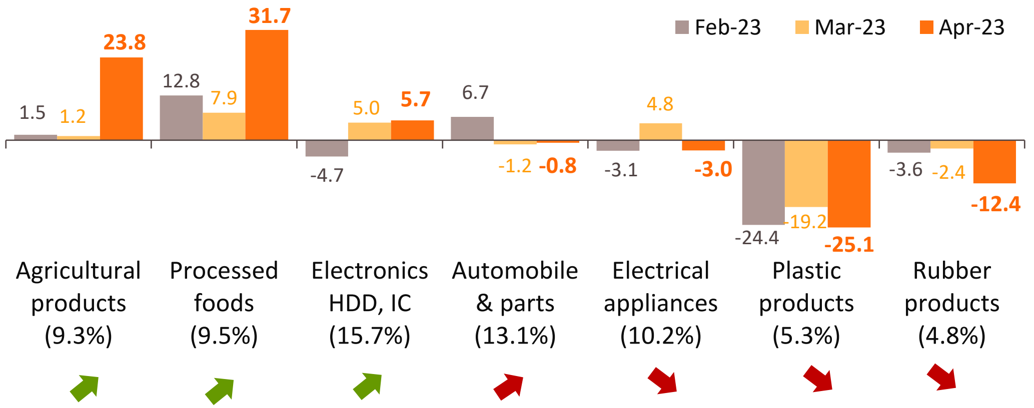


Imports by major product (%YoY)



* Capital goods excl. aircraft, ship ** Raw materials exclude gold

Exports by major product (%YoY)



Krungsri Research's view

- **In April, Thailand's merchandise export value fell for the seventh consecutive month, by 7.6% YoY to USD21.7 bn.** This was worse than the 2% contraction expected by the market and following a 4.2% decline in March. Exports from the real sector (excluding gold, oil-related products, and weaponry) decreased by 7.3%. Exports to major markets deteriorated, with larger declines in exports to US, EU, Japan, ASEAN, and CLMV. Exports to China started to grow again. By sector, exports of agricultural and agro-industrial goods grew for the third consecutive month by 8.2%, but exports of industrial goods contracted for the 7th consecutive month by 11.2%. In the first four months of 2023, Thai exports fell 5.2% while exports of the real sectors fell by 2.3%.
- For the rest of 2023, although Thai exports will benefit from China reopening, easing supply chain disruptions, and strong demand for food and agricultural products in overseas markets, overall performance would remain weak following global economic slowdown. ***In the second half of this year, exports will likely expand especially given the technical factor due to the extremely low base in the last quarter of last year affected by China's lockdown.***

Note: (% share in 2022)
Source: MOC, BOT, Krungsri Research

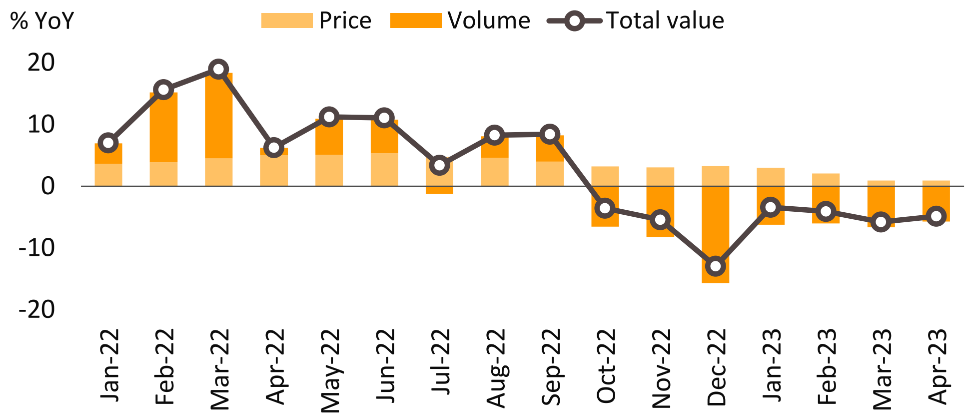
Some sectors gained led by specific factors but most industrial products saw a drop in export volumes and prices

In the first four months of this year, Thai exports contracted 5.2% YoY led by a 7.1% decline in industrial products such as computers & parts and oil-related products, while agricultural and agro-industrial products experienced 3.7% growth driven by fresh, frozen & dried fruits, rice, and fresh & frozen chickens. China reopening and easing chip shortage helped to boost some sectors. Most industrial products registered weaker export volumes and prices. Exports from oil-related sectors remain weak.

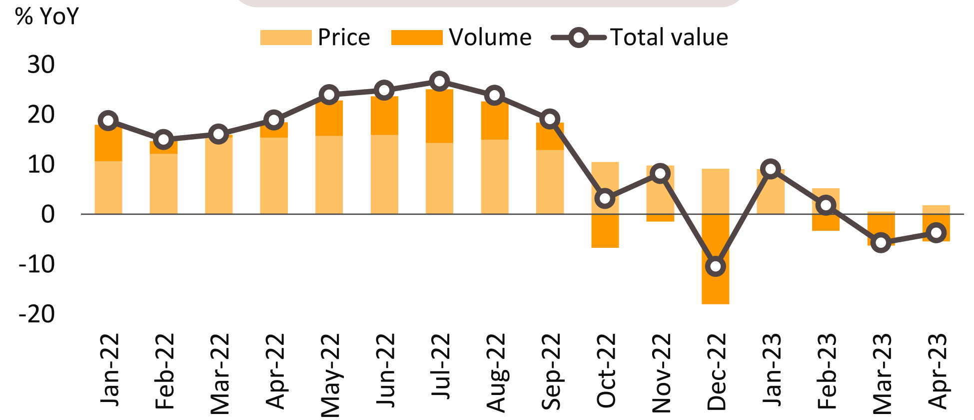
Thai exports by major product and destination

Thailand: Jan-Apr's export growth (% YoY)	World	US (17%)	EU (8%)	Japan (9%)	China (12%)	ASEAN-5 (14%)	CLMV (11%)
Total	**-5.2**	**-5.2**	**-1.1**	**-2.0**	**+0.7**	**-6.2**	**-9.0**
Cars & parts (9.8%)	+4	-14	+61	+9	-51	+21	+18
Computer & parts (7.2%)	-16	-12	-8	-16	-52	+36	+4
Rubber products (4.8%)	-6	-23	-13.8	+0.5	+16	-8	-21
Plastic resin (3.7%)	-26	-10	-4.2	-10	-29	-33	-36
Chemical products (3.3%)	-22	-31	-23	-10	-34	-15	-20
Electronic IC (3.3%)	-1	+16	+16	+19	+3	-8	+49
Fresh, frozen & dried fruit (2.0%)	+104.8	+17	+8	-24	+127	-9	-7
Rubber (1.8%)	-38	-36	-49	-33	-19	-59	-35
Electrical appliances (1.7%)	+17	+22	-3	+19	-15	+6	+17
Plastic products (1.6%)	-16	-25	-13	-6	-21	-16	-11
Tapioca products (1.5%)	-12	-18	-8	-9	-12	-31	-2
Rice (1.4%)	+19	-11	+8	+30	-33	+227	-7
Preserved fish, crustaceans (1.3%)	-10	-28	-16	+2.8	+48	+15	+12
Sugar (1.1%)	+24	-14	+694	+41	-77	+45	-13

Thailand's exports



Thailand's imports



Note: (% share in 2022)

Source: MOC, BOT, CEIC, Krungsri Research

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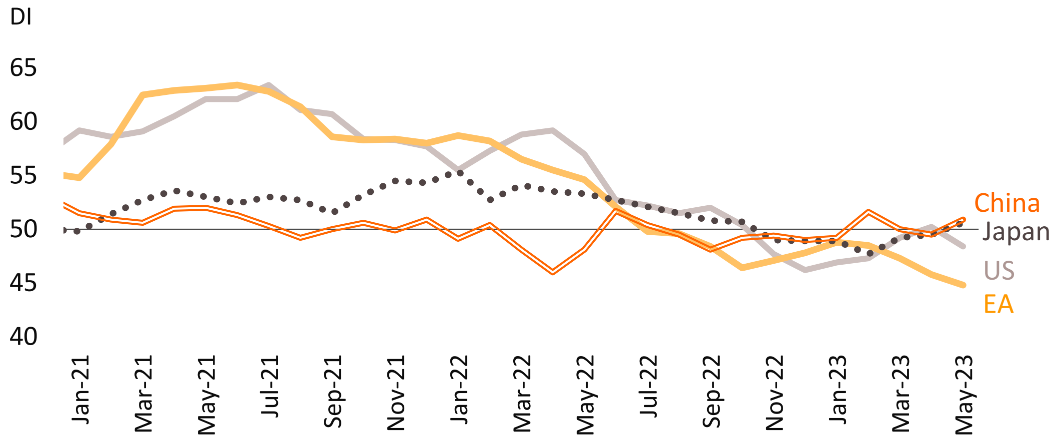
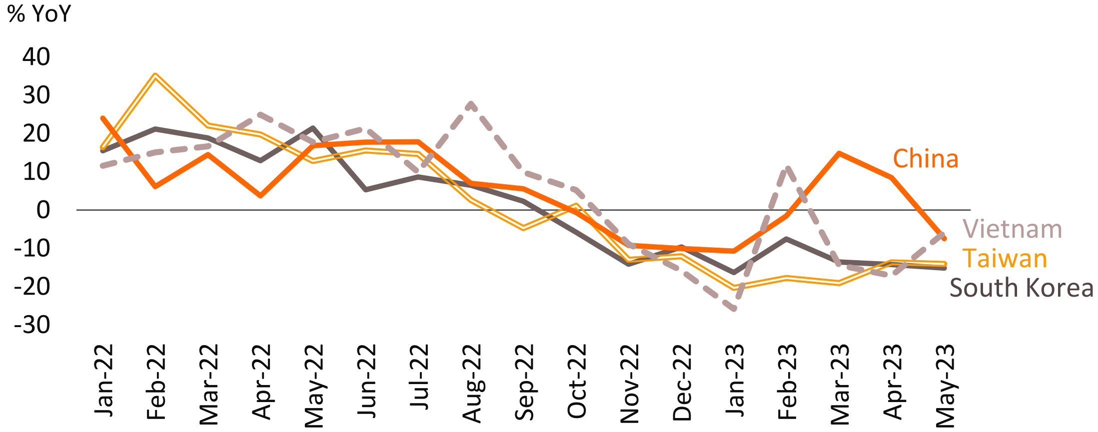
Thailand's exports remain fragile given signs of weaker manufacturing activity in major countries and slower exports in key Asian countries

Manufacturing PMI in core countries are softening



Exports of major Asian countries remained weak in May



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

Tailwinds

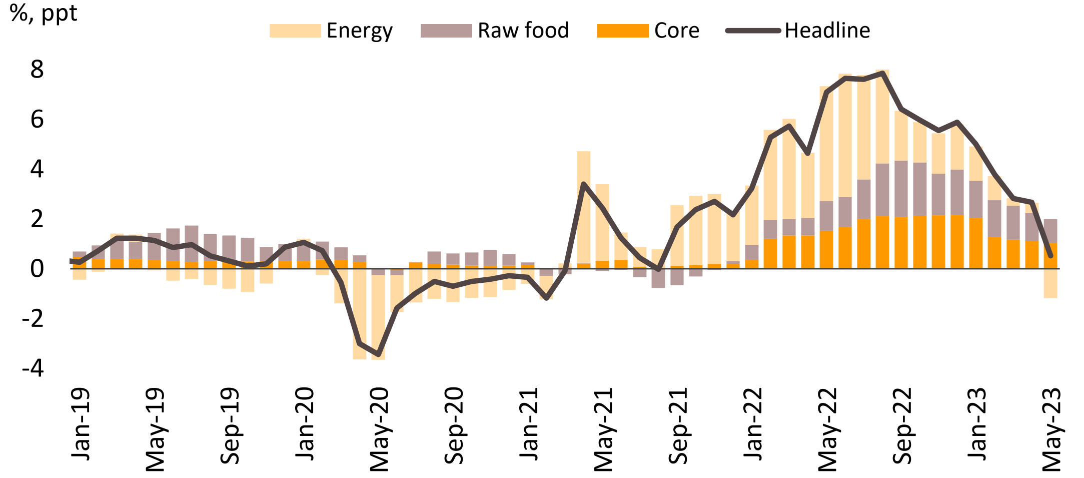
- Easing global supply disruption to support production of cars and electrical appliances
- China reopening will boost demand for some products such as fruits
- Higher demand for agricultural products and food due to concerns over drought and Ukraine war
- Recovering ASEAN economy could improve regional and cross-border trade amid regional integration efforts such as RCEP
- Restoring relations and penetrating new markets in the Middle East

Headwinds

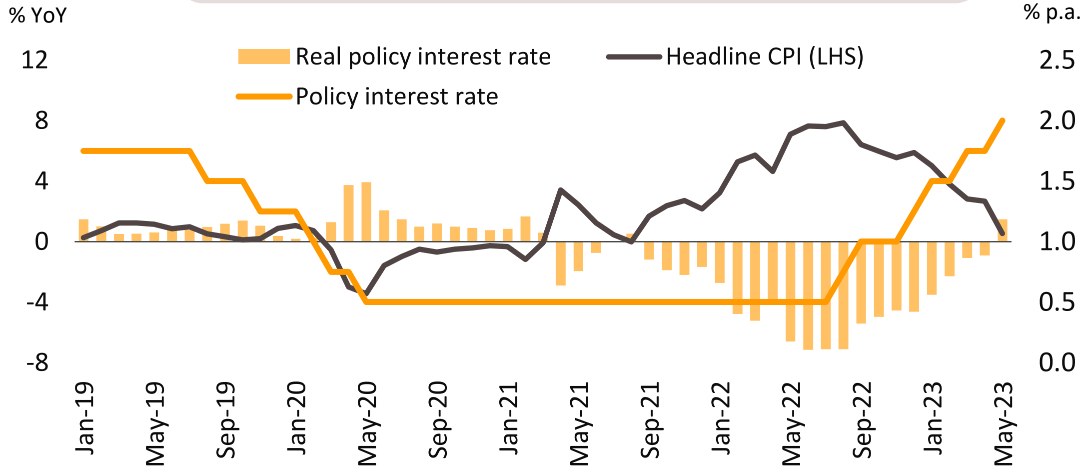
- Global economic slowdown led by weaker growth in advance countries amid tightening monetary policy
- Prolonged Ukraine war and energy crisis drag growth in many countries, especially in the EU and energy- importing countries
- High inflation would dampen purchasing power
- Weakening demand for manufactured goods due to fading effects of pandemic-driven trade boom
- Deglobalization or fragmented globalization become major risks to global trade given geopolitical conflicts and US-China decoupling
- Risk of damage to agricultural output due to El Niño

Headline inflation slipped to only 0.5% in May, below BOT's target range of 1-3%; *real policy rate* is turning positive, reducing need for additional policy tightening

Contributors to inflation



Real policy interest turned to positive in May



Source: MOC, BOT, Krungsri Research

Consumer Price Index: Major categories

Consumer Price Index (% 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
Headline CPI	**100.00%**																													**0.5**
Food & beverages	41.97%																													4.0
Apparel & footwears	2.09%																													0.5
Housing & furnishing	21.76%																													-0.7
Medical & personal care	5.47%																													1.9
Transportation & communication	23.14%																													-4.6
Recreation & education	4.24%																													1.5
Tobacco & alcoholic beverages	1.34%																													0.7
Raw food	21.31%																													4.7
Energy	13.46%																													-9.6
Core CPI	**65.24%**																													1.6

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

Krungsri Research's view

- **Headline inflation softened for the 5th month running in May, sliding from 2.67% in April to a 21-month low of 0.53% YoY,** significantly below 1.7% consensus estimate and our forecast of 1.5%. That was driven by cheaper crude which led to a 11.3% drop in fuel prices, a cut in variable tariff (or Ft) for electricity in May-August, and lower prices of some foods, including pork and vegetable oils. Core inflation (which excludes food and energy prices) also fell from 1.66% in April to 1.55% in May. For the first 5 months of the year, headline and core inflation averaged 2.96% and 1.98%, respectively.
- Moving forward, inflation will likely continue to soften this year and may even turn negative in some months give the high base in 2022, falling energy prices relative to a year ago, and government assistance with electricity bills for some users. ***We project inflation would average 1.0-1.5% the rest of this year. Full year inflation is projected at 1.9% down from the previous forecast of 2.5%.***
- **Monetary policy should become less hawkish**: (i) growth would remain flat in Q2 and Q3 (expect less than 3%, below the long-term average of 3.7%); (ii) lingering uncertainty over the formation of the next government and the implementation of economic policies during the transition period; and (iii) core inflation is expected to drop below 1.5% the rest of this year. This would pull the annual rate below the BOT's forecasts of 2%. Headline inflation would remain within the target range throughout this year. In May, headline inflation fell to the lowest since September 2021 and below the BOT target. In addition, the real policy rate should turn positive now. Hence, we anticipate that at its 2 August meeting, the MPC will leave policy rate unchanged at an 8-year high of 2.0%. However, there is a chance of further rate hikes if new data show the economy performing unexpectedly well and/or if the political outlook brightens.

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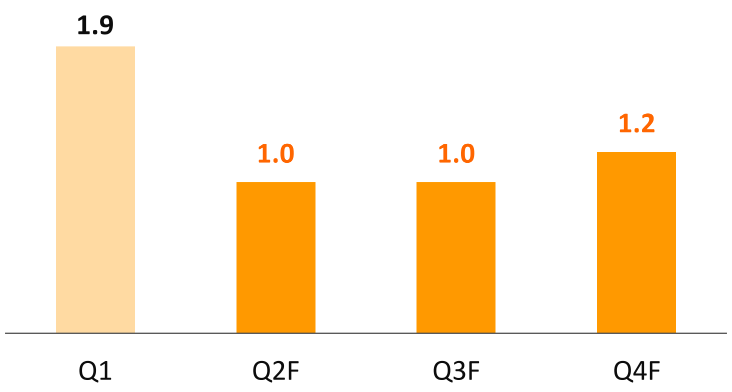
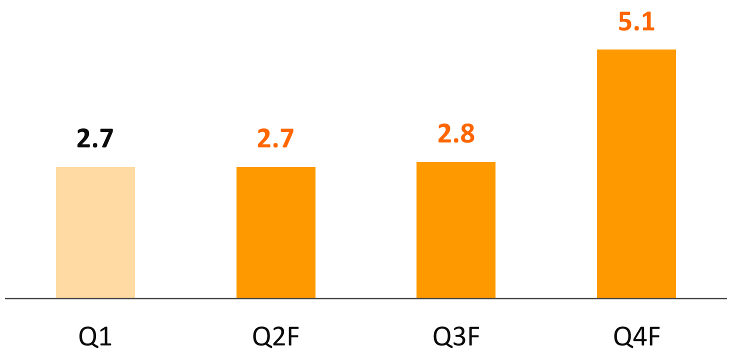
We maintain *2023 GDP growth forecast* at 3.3% amid upside and downside risks; growth is expected to be stable in Q2 and Q3 amid political uncertainty

Our economic growth forecast is supported by recovering tourism activities and improving consumption. Growth is expected to stabilize in 2Q and 3Q to 2.7-2.8.% YoY and pick up in Q4 driven by rising foreign tourist arrivals and the low base effect last year. However, there is downside risk from domestic political uncertainty, China slowdown, and US Fed's aggressive rate hikes.

2023 GDP Growth Forecast: % QoQ sa



2022 GDP Growth Forecast: % YoY



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

Upside and downside risks to our growth projection

Upside risk to growth

- Improving sentiment, and stimulus measures from new government
- Surprise gains in the tourism sector
- Improving employment and income following recovery in the services sector

Downside risks

- Delay in government formation and FY2024 budget bill
- Severe drought
- Higher risk of a worldwide recession given large effects of tightening monetary policies and greater stress in the banking sector
- Weaker-than-expected growth in China
- Prolonged Russia-Ukraine crisis, tougher sanctions, and possible retaliation by Russia

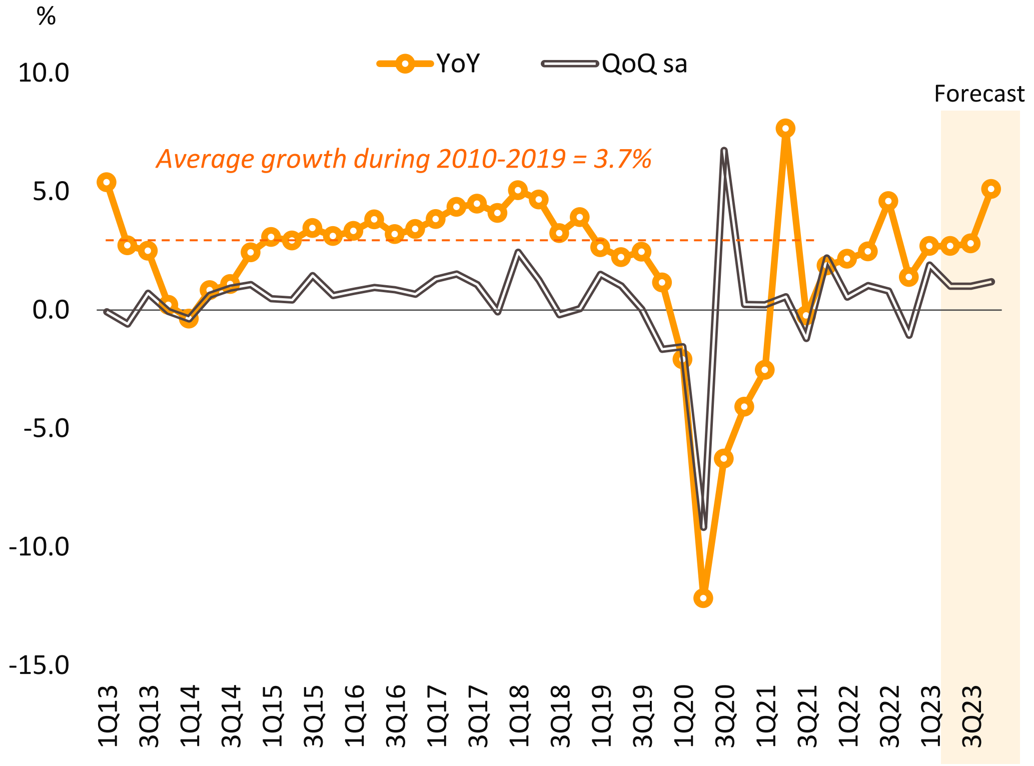
Gauging Thailand’s economic recovery and assessing the impact of cash aid plans by major political parties

- Thailand’s economic activity (reflected by GDP) returned to pre-Covid level in 1Q23. Growth is likely to stabilize in 2Q-3Q before improving in 4Q. On the demand side, the Thai economy has been driven by a strong recovery in tourism activity and rising domestic spending, despite weaker exports amid a slower global economy. On the supply side, agriculture and services sectors have exceeded pre-pandemic levels and continued to grow, while manufacturing output fell amid weak exports. There is lingering concerns over a K-shaped recovery.
- In the services sector, most categories have exceeded pre-Covid levels and been registering strong growth, including Information & Communication, Professional Scientific & Technical, Wholesale & Retail Trade, Financial & Insurance, Public Admin & Defense and Administrative & Support Service, accounting for a combined 37.6% of GDP. In the manufacturing sector, most industries remained weaker than pre-covid levels and registered negative growth, including Electrical Appliance, Food & Beverages, Cement & Construction, Rubber & Plastic, Chemicals, HDD, and Textile & Apparel, which account for a combined 15.5% of GDP.
- Measures to support economic growth via cash aid program such as THB10,000 digital wallet (or even half of it) can significantly increase purchasing power for low-income households and stimulate the economy, but for only a year.
- Welfare package to reduce wealth inequality and improve the wellbeing of Thai people will cost around THB650 bn. However, it is uncertain how they will obtain the budget for that and how long it would take.
- Policies to boost domestic spending might be a fiscal burden and raise public debt. If authorities borrow additional THB500 bn, public debt would increase from 61% of GDP currently to 64%, higher than that in other Southeast Asian countries.

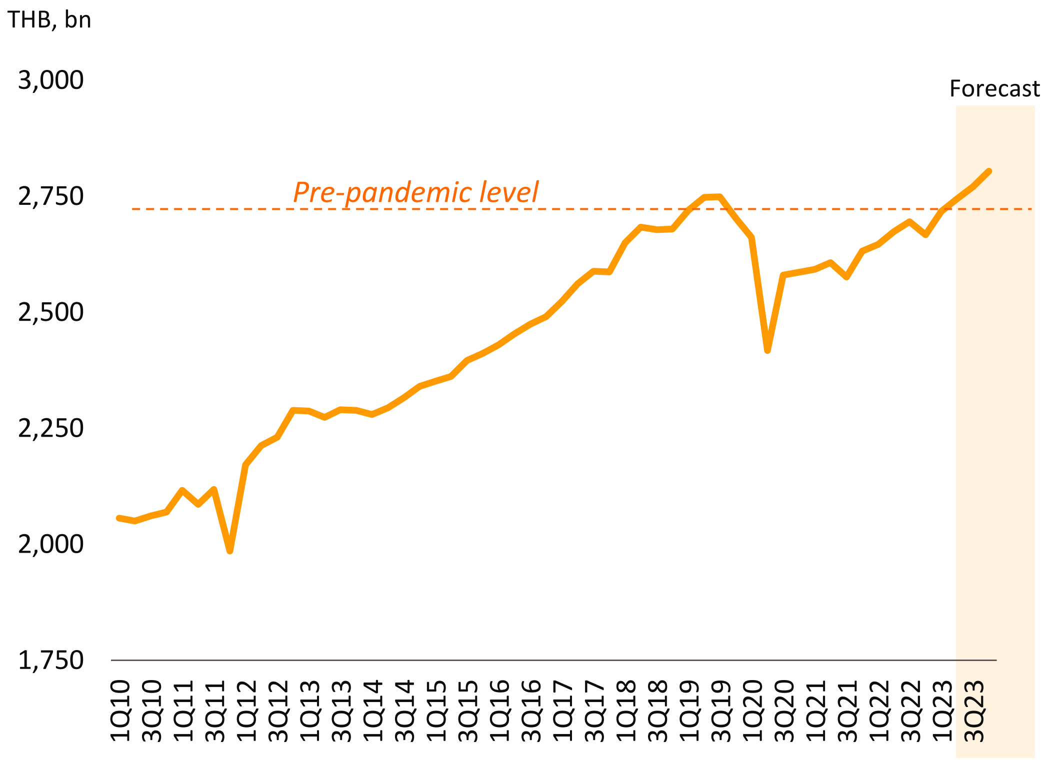
Economic recovery: Economic activity (reflected by GDP) returned to pre-Covid level in 1Q23; growth is likely to stabilize in 2Q-3Q before improving in 4Q

The Thai economy expanded by 2.7% YoY in 1Q23, accelerating from 1.4% in 4Q22, driven by the recovering tourism sector and improving private consumption amid higher employment and rising farm income. Private investment rose at a slower pace in both construction sector and machinery equipment. Merchandise exports and public consumption continued to shrink in 1Q23. Looking ahead, economic growth is expected to stabilize in 2Q23 and 3Q23 amid political uncertainty but would register growth in 4Q23 premised on rising foreign tourist arrivals and the low-base last year.

Thailand's GDP growth



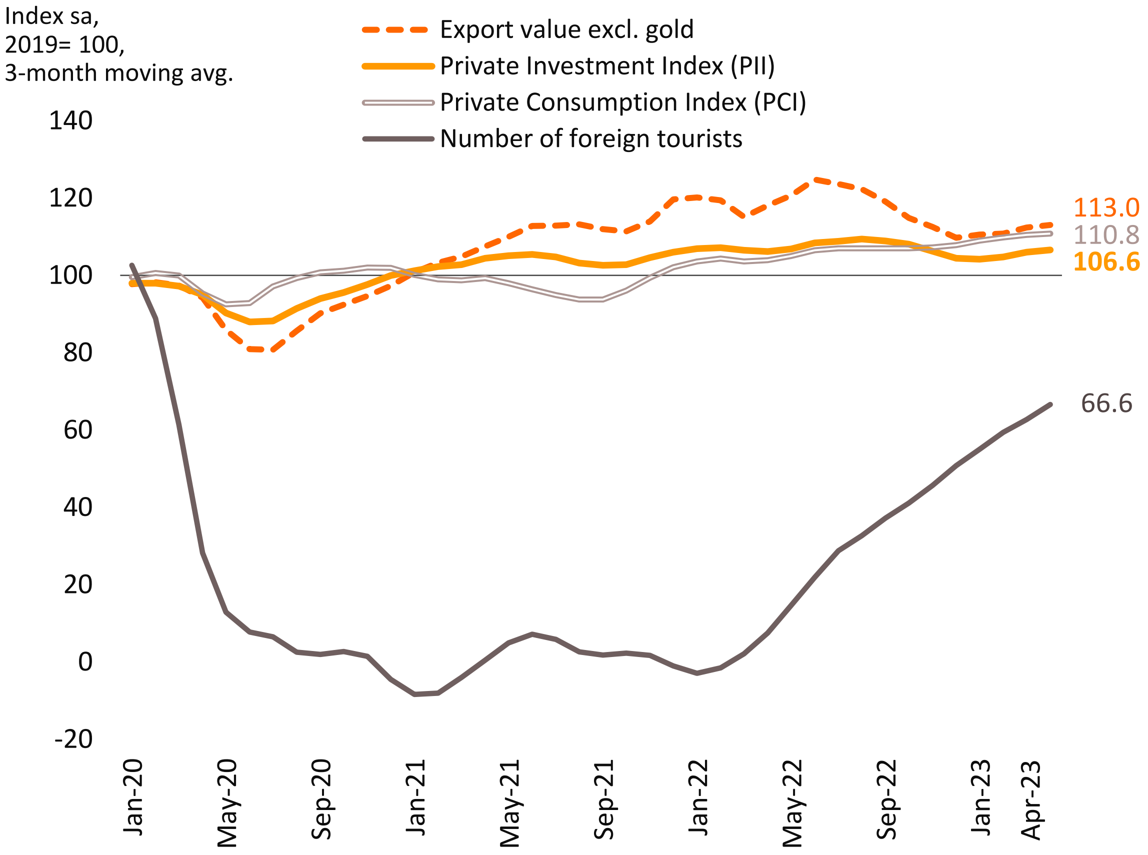
Real GDP (sa)



Source: NESDC, Krungsri Research

Demand side: Economic growth driven by strong recovery in tourism and improving domestic spending, despite weaker exports amid the slower global economy

Thailand's key indicators: Demand side



Source: BOT, CEIC, Krungsri Research

Recovery in demand side		
	Recovery pace (% of pre-covid level)	**Momentum**
Consumption (PCI)	+10.8% above pre-covid level	Steady
Investment (PII)	+6.6% above pre-covid level	Steady
Exports of goods excluding gold	+13.0% above pre-covid level	Weaker
Foreign tourist arrivals	-33.4% below pre-covid level	Stronger

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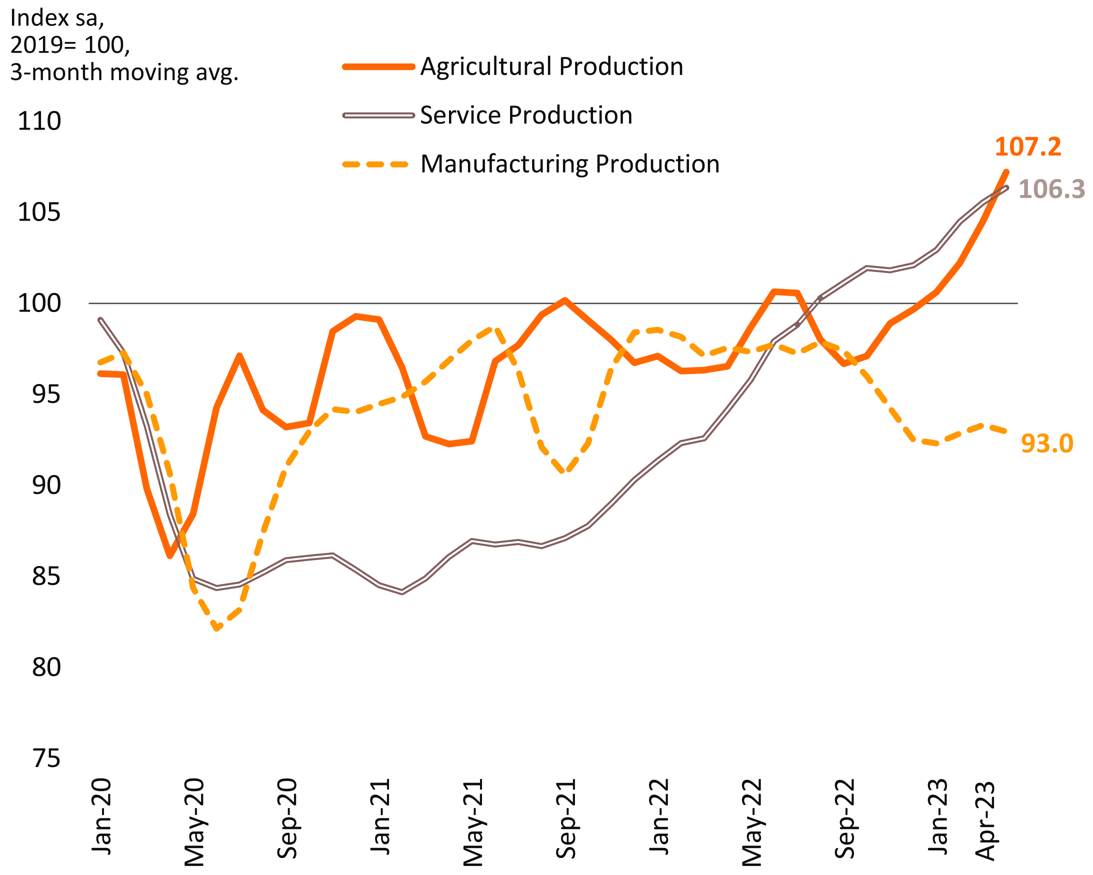
Supply side: Agriculture and services sectors have exceeded pre-COVID levels and continued to grow while manufacturing output fell amid weak exports; still in K-shaped recovery

Thailand's key indicator: Supply side



Recovery in supply side		
	Recovery pace (% of pre-covid level)	**Momentum**
Agriculture	+7.2% above pre-covid level	Stronger
Manufacturing	-7.0% below pre-covid level	Weaker
Services	+6.3% above pre-covid level	Stronger

Source: BOT, CEIC, Krungsri Research

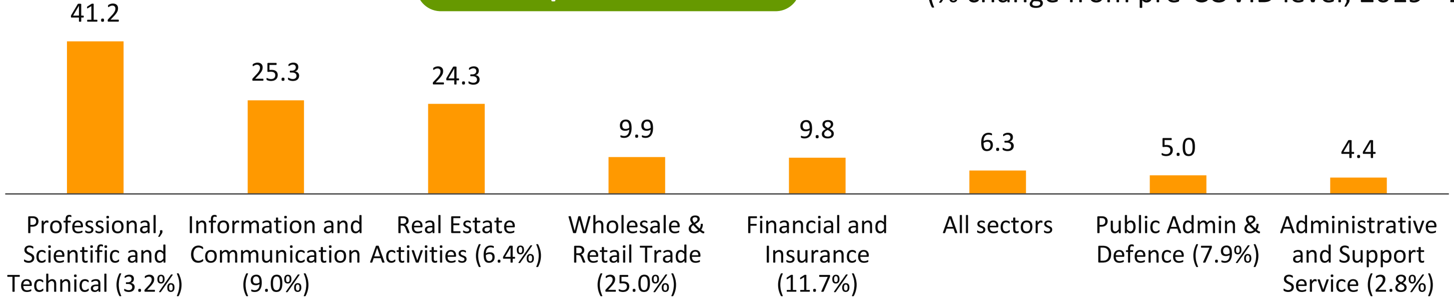
Many service sectors continued to grow following recovering tourism activity and improving domestic consumption

Service Production Index (SPI) for the first four months of this year surged 13.1% YoY with tailwinds from reopening and relaxation of containment measures. Production in many service sectors have exceeded pre-pandemic levels with accelerating momentum, led by Information & Communication, Real Estate Activities and Wholesale & Retail Trade. Sectors that are still weaker than pre-covid levels but continue to improve include Accommodation & Food Service and Transportation & Storage, supported by stronger tourism activity and improving domestic activity post-pandemic.

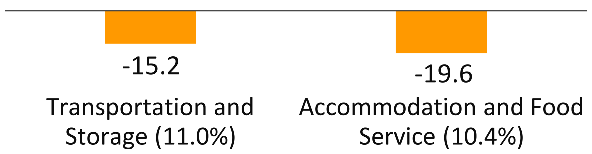
Service Production Index (SPI) by sector

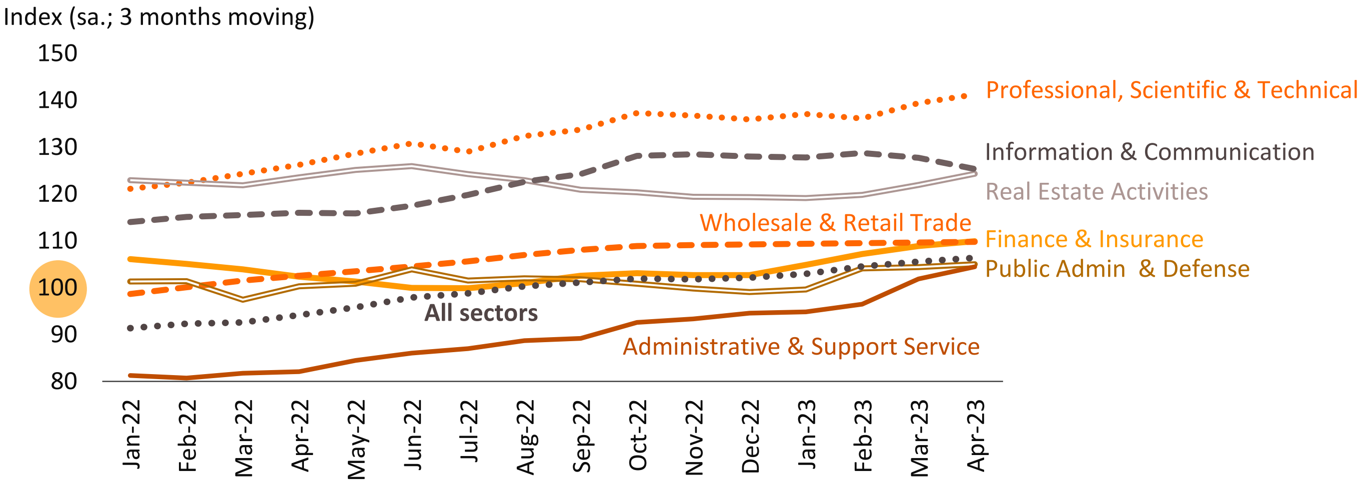
(% change from pre-COVID level; 2019 =100)

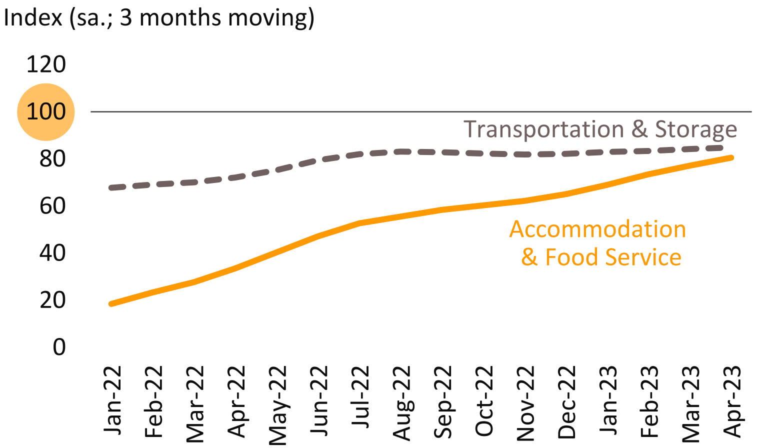
Above pre-COVID level



Below pre-COVID level







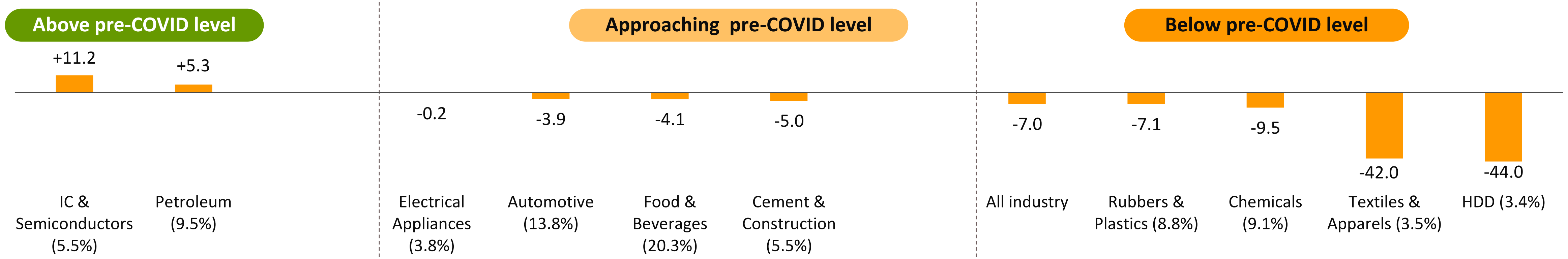
Note: (% share)
Source: BOT, CEIC, Krungsri Research

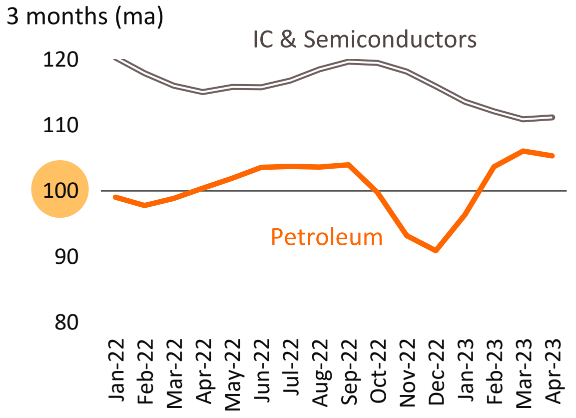
Manufacturing production: Most sectors remained weak due to slower global demand

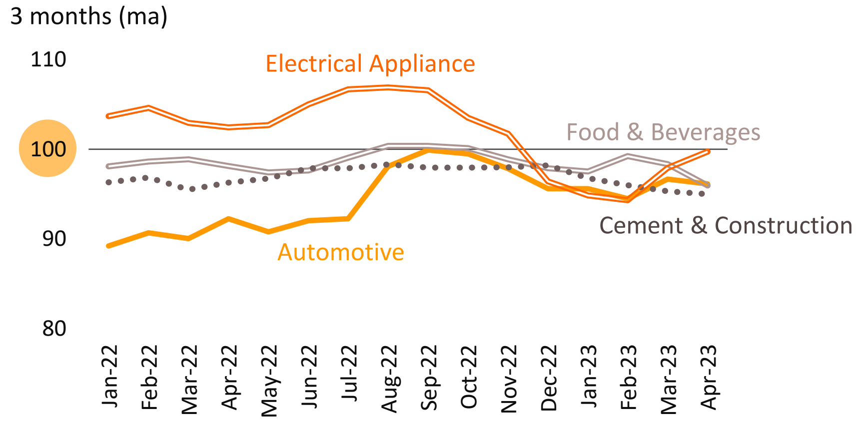
The Manufacturing Production Index (MPI) for the first four months of this year shrank 4.7% YoY. The sector which activities have exceeded pre-pandemic levels and continue to accelerate include petroleum amid ASEAN reopening and recovering tourism activity. Sectors which activity has exceeded pre-pandemic level but are registering steady momentum include IC & semiconductors amid easing chip shortage problem. Sectors which remain below pre-pandemic levels but are improving include electrical appliance and automotive due to easing global supply disruption. Sectors which remain below pre-pandemic levels with steady momentum include Food & Beverage and Cement & Construction given gradually improving domestic demand. Sectors which production remain weak and are still below pre-pandemic levels include Rubbers & Plastics, Textiles & Apparels, Chemicals and HDD as global demand has slowed down.

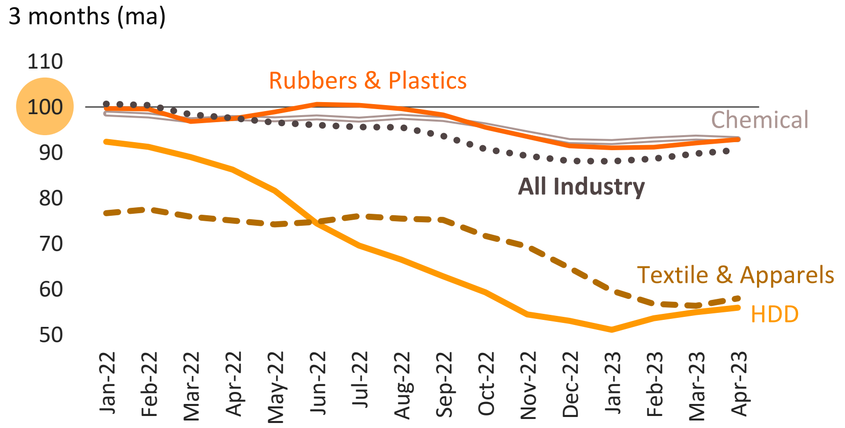
Manufacturing Production Index (MPI) by sector

(% change from pre-COVID level; 2019 =100)







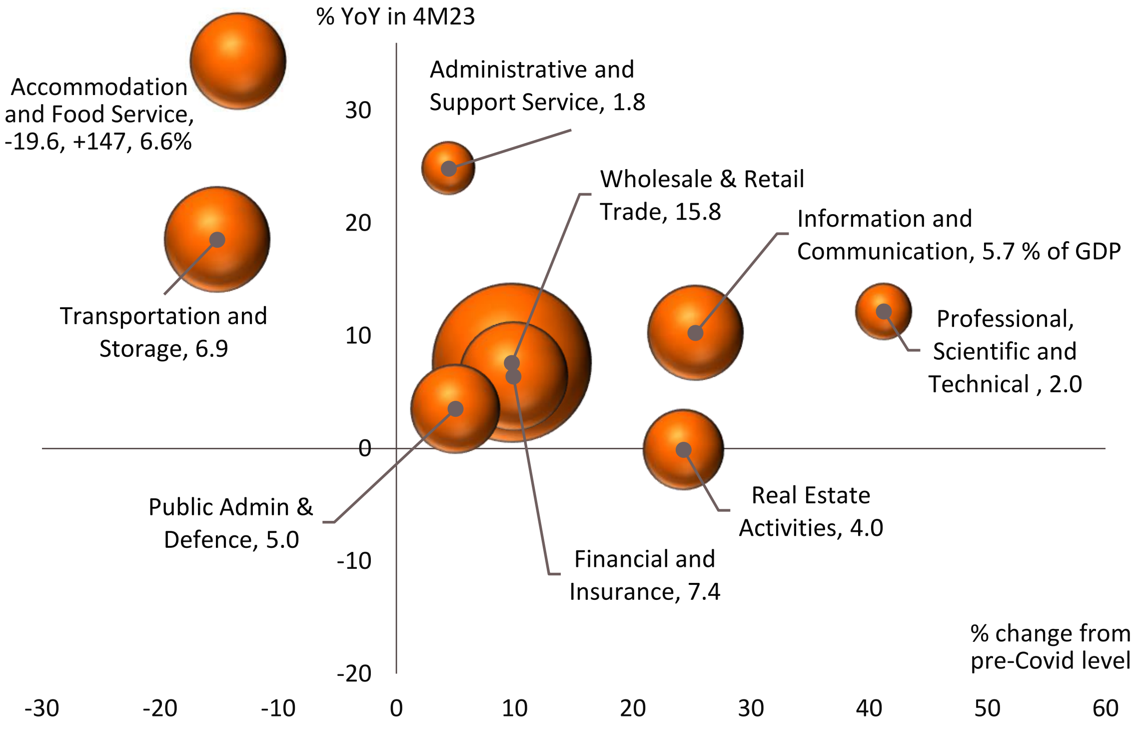


Note: (% share)
Source: OIE, CEIC, Krungsri Research

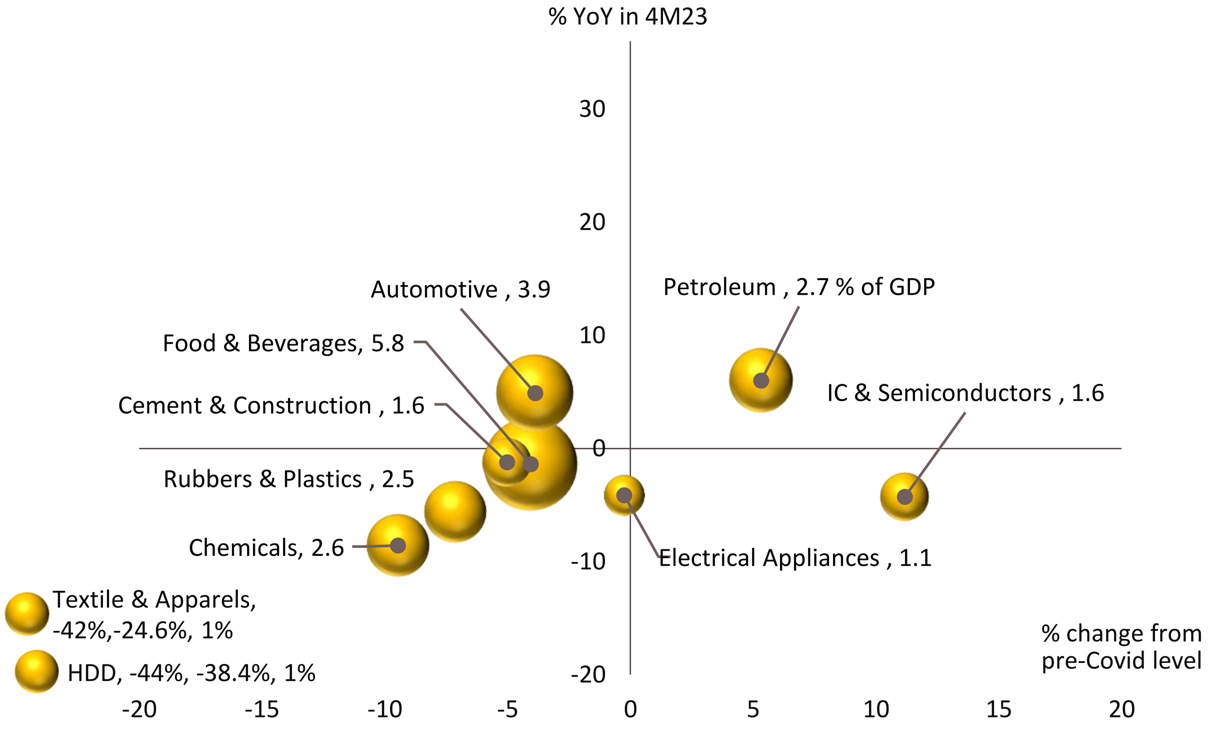
Recovery pace: Services sector registers stronger and broader-based recovery but manufacturing production remains fragile

- For the services sector, most categories have recovered **above pre-Covid levels and registered positive year-on-year growth**, including Information & Communication (25% above pre-covid level, +10% YoY), Professional Scientific & Technical (41%, +12%), Wholesale & Retail Trade (10%, +8%), Financial and Insurance (10%, +6%), Public Admin & Defense (5%, +4%) and Administrative & Support Service (4%, +25%). Output of those categories accounted for **a combined 37.6% of GDP.** Manufacturing industry in this classification include petroleum (2.7% of GDP).
- Manufacturing and services industries that have **recovered above pre-Covid levels but registered negative growth** included IC & Semiconductors (1.6% of GDP) and Real Estate Activities (4.0%).
- Manufacturing and services industries that **remained weaker than pre-pandemic levels but registered improving growth** include Automotive (3.9% of GDP), Accommodation & Food Service (6.6%), Transportation & Storage (6.9%).
- Manufacturing industries that **remained weaker than pre-covid levels and registered negative growth** include Electrical Appliance, Food & Beverages, Cement & Construction, Rubber & Plastic, Chemicals, HDD and Textile & Apparel. Output of those industries account for **a combined 15.5% 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% share 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

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Economic policy: THB10,000 *digital wallet* (or half that) can significantly lift purchasing power for low-income households and stimulate the economy, but for only a year

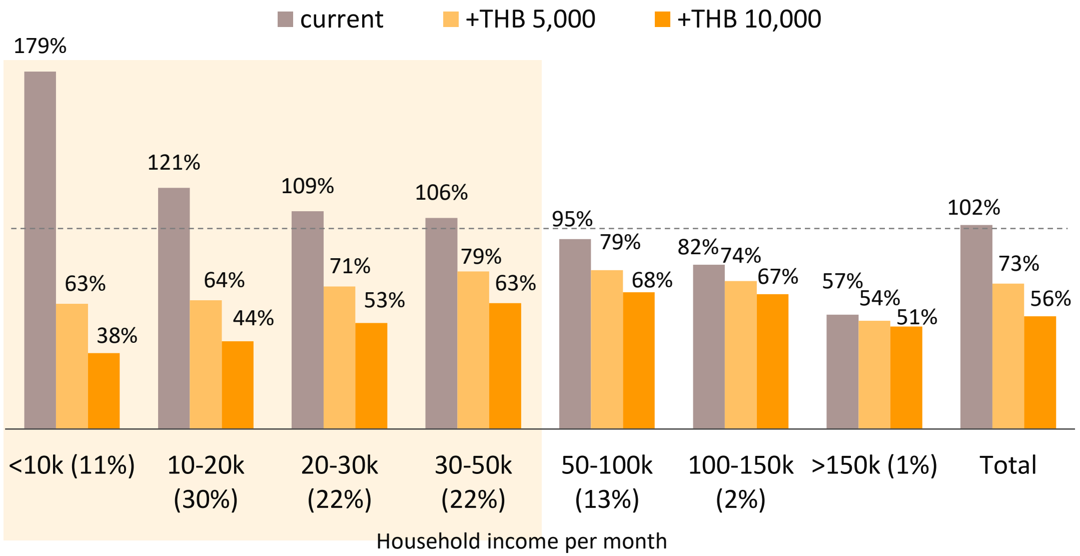
The defeat of the Pheu Thai Party (PTP) in the 2023 election means it will not lead the coalition government and might not be able to implement its major campaign promises, such as “digital wallet”. **We think the THB 10,000 in digital cash wallet proposal (for all Thais aged 16 and above) might be reduced or reallocated to the most fragile households (income less than expenses), especially those with monthly incomes below THB 50,000**. We estimate the original THB 10,000 digital cash wallet proposal would boost Thai GDP by 2.52% within a year of it being implemented and significantly increase purchasing power for all households, particularly those with less than THB 50,000 monthly income. If the digital cash wallet is halved to THB 5,000, it would boost Thai GDP by 1.26% and would still be sufficient to rescue fragile households without creating an excessive fiscal burden for the Thai government.

Digital wallet: THB 5,000 per person

Impact to GDP		
Impact	↑ **175,006.62** Mil. Baht	↑ **1.258%**
Original GDP	**13,906,197.07** Mil. Baht	

Indebted Households: Expenses to income ratio

(% to income)

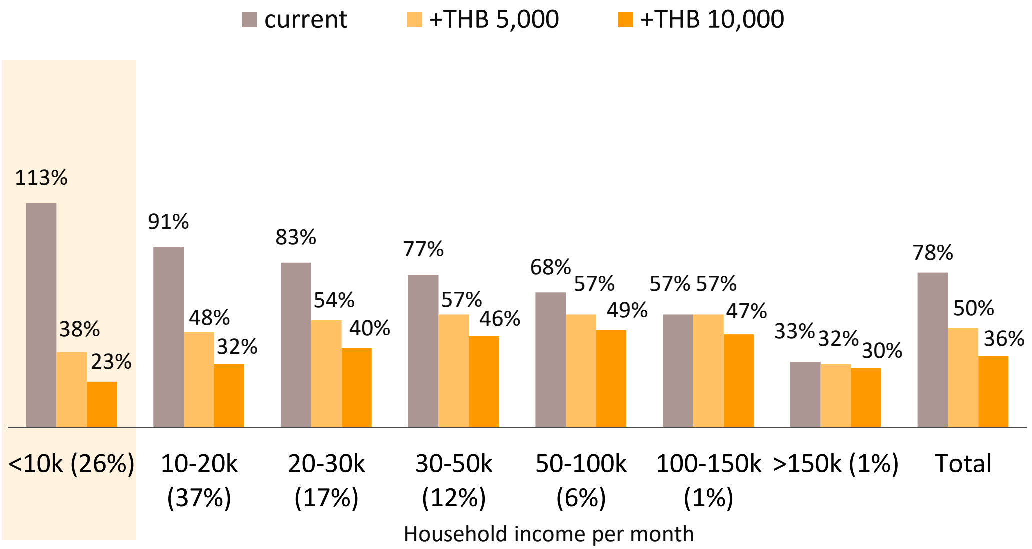


Digital wallet: THB 10,000 per person

Impact to GDP		
Impact	↑ **350,013.25** Mil. Baht	↑ **2.517%**
Original GDP	**13,906,197.07** Mil. Baht	

Debt-free Households: Expense to income ratio

(% to income)



Source: NSO, NESDC, Krungsri Research

Welfare package to minimize wealth inequality and improve wellbeing of Thai people will cost THB650bn but it remains uncertain where they would get the budget for that

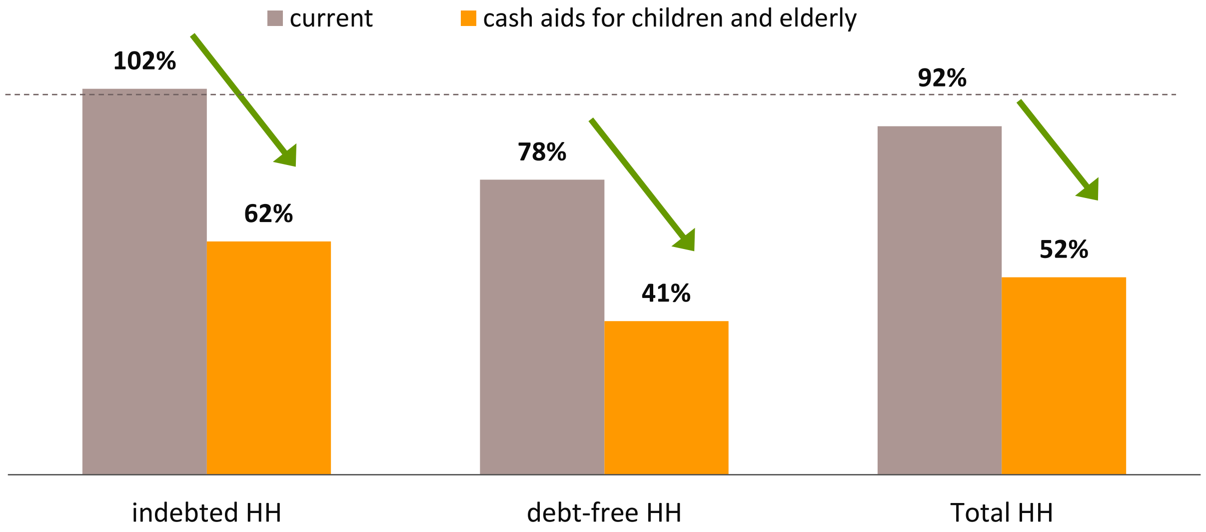
By 2027, around 70% of the welfare budget (THB452bn out of THB650bn total budget) would be used to finance the focus groups - children, parents and senior citizens - in order to minimize wealth inequality, lift birth rate, and improve the wellbeing of Thai people from birth to death. We estimate the welfare package has increased household purchasing power and lifted Thai GDP by 2.07% per year since launch. However, the budget comes from funds saved by trimming costs such as downsizing the military budget and improving tax collection. Without borrowing, it could be difficult for the Move Forward Party to push forward the policies or any legislation.

Welfare: THB 1,200 per month for children & THB 3,000 per month for elderly

Impact to GDP			
Impact	287,723.29	Mil. Baht	2.069%
Original GDP	13,906,197.07	Mil. Baht	

Household expenses (including debt payment) to income ratio

(% to income)



Sources of fund (THB bn)	
Trimming unnecessary costs	100
Downsizing the military budget	50
Improving tax system	100
Increasing corporate taxes on large companies	92
Increasing land tax	150
Increasing wealth tax on super-rich people	60
Trimming central budget	30
Reforming BOI benefit	8
Others	60
Total	**650**

Source: NSO, NESDC, Local press, Krungsri Research

State welfare policies would need a large budget and take time to implement

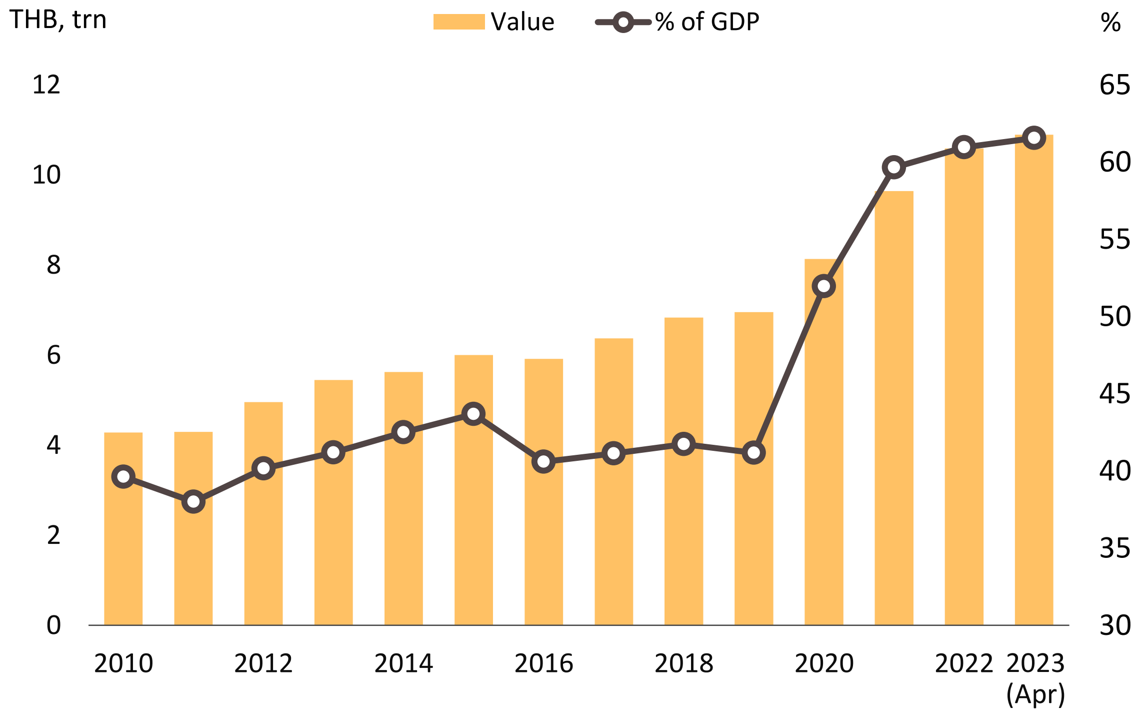
Policies	Amount (THB/ year)	Remarks
Welfare for children and elderly • Birth gift THB3,000 (THB2.1 bn of budget) • Support for small children THB1,200 per month (THB32 bn) • Support for elderly THB3,000 per month (THB420 bn)	***THB454.1 bn*** • Use current child allowance budget of THB16 bn per year combined with a new budget. 1/ • Use current elderly allowance budget of THB 80 bn per year, combined with a new budget. 1/	Source of funds: • Adopt zero-based budget • Improve taxation and tax collection system to increase revenue by THB650 bn per year, such as (i) capital gains tax, (ii) wealth tax, and (ii) corporate income tax.
Welfare for workers • Increase minimum wage every year. Immediately to THB450 per day (THB16 bn for relief measures) • Universal social security: Compensate for travel expenses to the doctor if sick (THB35 bn) • Coupon for skill enhancement programs: THB5,000 per person per year (THB5 mn)	***THB56 bn*** • Use the budget1/ to pay contributions to the Social Security Fund when a business starts operation, to ease burden on SMEs	Relief measures: • Help SMEs contribute to the Social Security Fund for workers who receive a minimum wage increase in the first 6 months • 200% tax deduction for wages • Reduce corporate income tax for SME operators to 10%

Note: 1/ Budget will come from the restructuring of revenue collection and improvements to the tax system. It is expected that the state's income will increase by THB650 bn per year
Source: The Move Forward Party

Policies to boost domestic spending could be a *fiscal burden* and raise public debt; if the government borrows additional THB500 bn, public debt would rise to 64% of GDP

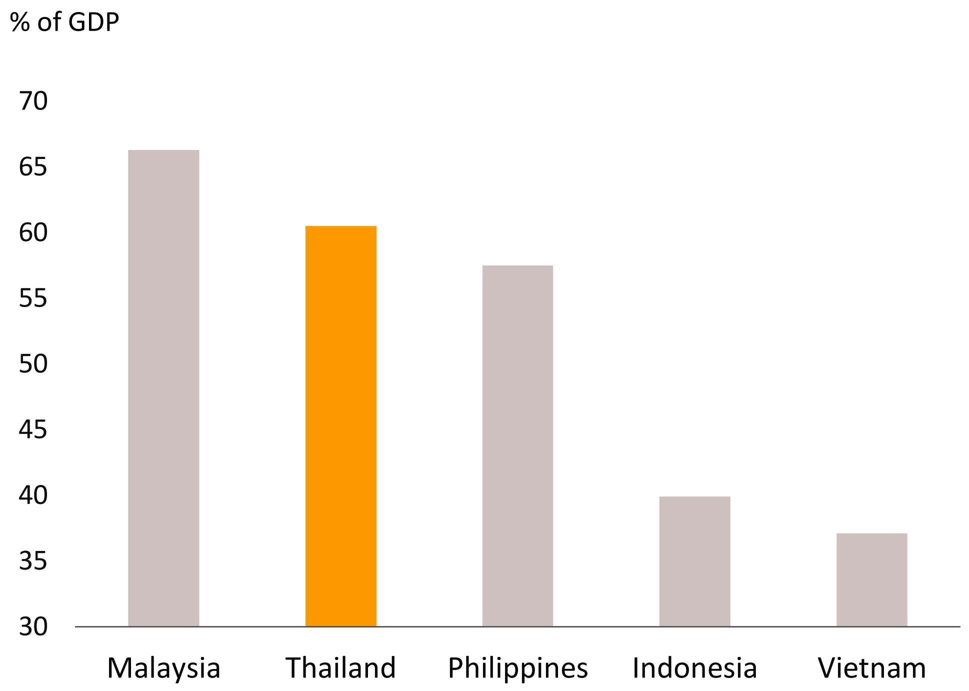
The COVID-19 outbreak has had a significant impact on Thailand's fiscal position. At the end of April, public debt had reached 61.6% of the country's GDP, equivalent to THB10.9 trillion. Although the government has raised the public debt ceiling to 70% of GDP as a buffer for the new government to support crucial policies, there is still a noticeable gap in debt coverage. If the government borrows an additional THB500 bn, Thailand's public debt will rise to 64% of GDP, higher than that of other Southeast Asian countries. Fitch Ratings has warned that this uncertainty and delays in forming the next government could interrupt disbursement of the annual budget. In addition, Thailand's fiscal position has deteriorated markedly since the Covid-19 pandemic and if the next government is unable to regain control of government debt, it would drag Thailand's credit profile.

Thailand's public debt



Public debt in Southeast Asian countries

(as of end-2022)



Source: IMF, PDMO, Krungsri Research

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