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May economic statistics indicate continuing steady growth in external and domestic demand

The stock market should be encouraged by the May economic numbers released by the Bank of Thailand on Wednesday evening. The Thai economy appears to be expanding at a steady, moderate rate despite the negative impact of rising oil and food prices, violence in southern Thailand and lower agricultural production from drought conditions.

The major impetus to growth remains strong external and domestic demand. Exports grew 21.7% yoy in May, while domestic cement demand increased by 11.7%, motorcycle sales by 21.5% and passenger car sales by 25.0%.

Under the best case scenario, we believe that the Bank of Thailand should aim for steady, sustainable economic growth in the range of 6-7%. Indications are that second quarter GDP growth should be in line with the 6.5% achieved in the first quarter and that full-year projections of 6.5-7.5% are still appropriate.

It is important to note the recent comments of Bank of Thailand governor, M. R. Pridiyathorn Devakula. First, he said that that Thailand's monetary policy will aim at keeping a lid on inflation to maintain the country's attractiveness for foreign investment and ensure sustainable economic growth. The policy is to maintain inflation in a range of 0-3.5% over the next eight quarters.

The BOT has raised its inflation forecast range for 2004 to 1.9-2.9% based on average crude oil prices of $33.60/barrel. The previous forecast range of 1.5-2.5% was based on oil prices averaging $29.40.

In June, the CPI increased 3.0%, up from the previous month's 2.4%, due to rising prices of oil, transportation and medicines. However, food prices declined from the previous month. In the first six months of this year, the CPI has increased 2.3%, while core inflation (minus food and energy components) rose only 0.3%.

Since core inflation appears to remain in check, we believe that the Bank of Thailand will not take a preemptive step in raising interest rates, unlike its counterpart in the US. Another factor is that economic growth appears to be moderating in a suitable range. We continue to hold the view that Thai interest rates will remain unchanged until the end of this year or early next year due to the still large surplus liquidity in the financial system.

M. R. Pridiyathorn, however, warned the government about the adverse impact of the government's oil subsidy programme. He believes that it is important for the government to allow petrol prices to float in line with the market to encourage energy conservation and reduce pressure on the country's trade account. We believe he has a very good point.

Due to rising oil prices as well as imports of capital goods supporting new investment, Thailand is expected to incur a trade deficit this year of $1.0-1.5bn. However, the current account is expected to remain in surplus of $3.5-5.5bn, assuming the inbound tourism sector remains strong.

Monthly Economic Indicator	2003			2004					
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	5Month
Manufacturing Production index, SA	143.2	137.4	150.8	147.9	152.8	147.0	149.4	147.3	148.9
Manufacturing Production index (%)	12.6	6.3	16.1	10.8	16.0	7.6	6.9	6.8	9.5
Industrial Capacity Utilization (%)	68.7	66.3	73.3	74.1	75.1	77.5	69.1	73.3	73.8
Private Consumption Indicators									
- Private consumption index	5.4	4.6	4.1	2.6	5.3	4.4	3.5	3.6	3.9
- Retail Sales (%)	18.6	14.5	20.9	15	22.2	19	n.a.	n.a.	na
- Passenger Car Sales (%)	37.8	55.1	49.8	10	19.8	27.8	18.2	25	20.2
- Motorcycle Sales (%)	-11.1	4.9	14.5	8.6	15	15	5.4	21.5	13.3
- Import of Consumer Goods (%)	5	8	13.2	4.6	16.2	29.5	17.6	16.4	16.9
Private Investment Indicators									
- Private Investment Index (%)	13.7	13.0	26.8	14.4	20.2	23.6	18.9	14.1	18.2
- Commercial Car Sales (%)	17.8	14.0	24.3	21.0	25.6	32.1	28.1	10.7	23.2
- Import of Capital Goods (%)	8.4	6.8	21.4	0.0	18.3	20.2	9.8	7.3	10.9
- Cement Sales (%)	8.5	13.6	24.6	5.9	16.4	16.2	12.4	11.7	12.6
External Accounts (US$, m)									
- Export	7,302	7,139	7,202	6,897	7,218	7,846	7,102	7,950	29,063
%chg	(18.7)	(17.9)	(33.6)	(16.9)	(22.3)	(23.3)	(21.0)	(21.7)	(20.9)
- Import	7,166	6,582	7,069	6,863	6,708	8,154	7,459	7,940	29,184
%chg	(24.3)	(14.0)	(39.9)	(17.0)	(28.2)	(36.6)	(30.4)	(33.8)	(28.1)
- Trade Balance	136	557	133	34	510	-308	-357	10	-121
- Current Account Balance	580	1085	732	842	1108	208	-19	214	2,353
- Net Capital Flow	-300	-794	-958	-790	-224	-81	n.a.	n.a.	n.a.
- Balance of Payment	356	334	-225	147	668	184	577	-155	1421
- Official Reserves (US$,bn)	40.3	41.3	42.1	42.2	42.9	43.0	42.7	42.8	42.8
Monetary Statistics									
- Commercial bank deposits	5,331	5,403	5,358	5,433	5,438	5,458	5,515	5,550	5,479
(YoY%)	(4.5)	(4.5)	(4.4)	(5.4)	(4.9)	(4.9)	(5.6)	(5.7)	(5.3)
- Commercial bank credit	4,868	4,899	4,954	4,977	5,011	5,053	5,107	5,137	5,057
(YoY%)	(3.4)	(3.2)	(3.6)	(3.5)	(3.8)	(4.4)	(4.9)	(5.8)	(4.5)

Manufacturing Production: In May, the manufacturing production index increased 6.8% yoy, a slight slowdown from the previous two month's growth rates of 7.6% and 6.9%. However, this was due to a shortage of raw materials in the sugar, frozen seafood and canned seafood industries. Domestic-oriented industries, particularly vehicle & equipment and petroleum products, showed favourable expansion of 24.55% and 11.06%, respectively.

Overall, industrial capacity utilisation was 73.3% in May, up from 69.1% in holiday-shortened April but still lower than the peak of 77.5% in March.

Domestic Consumption: The private consumption index increased 3.58% in May. Although this growth rate is down slightly from the five-month average this year of 3.87%, we still consider it strong growth. Volume sales of benzene increased 6.21% yoy, which may be one of the reasons that the BOT governor commented that higher prices should be fully passed onto consumers to encourage greater conservation.

Other consumer indicators showed steady but strong growth. VAT collection rose 15.1%, while imports of consumer goods jumped 19.4%. Passenger car and motorcycle sales rose 25.0% and 21.5% respectively. Any stronger growth rates than these would begin to be worrisome.

Private Investment: One of the key factors in Thailand's improving economic outlook is the new investment going into the manufacturing and infrastructure sectors. The private investment index expanded by 14.1% yoy. This is a slowdown from the previous two months' 23.6% and 18.9%, but it is still quite a satisfactory growth rate given the strong increase in building material prices in the first five months of this year. Domestic cement sales increased 11.7% yoy to 2.36mn tonnes. This is the fourth highest monthly cement sales total over the last six years.

Fiscal Position: Investment by the public sector, particularly on large infrastructure projects, is another major factor supporting growth. The government seems to be achieving budget disbursement much quicker than in previous years. In the first eight months of this fiscal year (October 03 – May 04), government spending has increased 18.25% to Bt728bn, representing 63% of full-year budget of Bt1,163.5bn. In the October 03 – April 04 period, current and capital spending had risen 15.2% and 36.3%, respectively. However, a large portion of the increase was due to transfers to the national health insurance fund.

The government can afford to step up spending due to the strong growth in revenues. Government revenues increased 14.4% in the eight-month period to Bt662bn. Due to the buoyant economy, personal, corporate, VAT and excise tax revenues are up 16.3%, 18.2%, 13.4% and 13.8%, respectively.

The government incurred quite manageable budget deficits of Bt4.4bn in May and Bt36.9bn in the eight-month period.

External Sector: The growth rate of both exports and imports continues to exceed expectations. In May, Thailand's total exports grew by 21.7%, while imports jumped 33.8%. Even with imports increasing at a much faster rate, Thailand still incurred a very slight trade surplus of US$10mn in the month.

According to the Bank of Thailand, a large portion of the growth in trade is due to price adjustments. Based on its estimates, export and import growth in actual volume terms increased only 3.4% and 17.9% in May, respectively. When price adjustments are factored in over the next year, we should see the growth rate moderate. We are still optimistic on Thailand's export potential given continuing strong demand in the region and improved economic conditions in Japan, US and Europe.

On the import side, the big concern is increasing oil imports. In May, total fuel and lubricant imports increased 81.1% yoy to US$1,177mn, or to 14.8% of total imports. In other words, the increase in fuel imports added 8.8% to the total import bill. This is misleading on a one-month basis given the timing of oil shipments, although it helps to explain the jump in May imports. Looking at a longer time span, fuel and lubricant imports increased 37.7% yoy in the first five months of this year, or roughly adding 4.4% to total imports.

Thailand still managed a very slight positive trade balance of US$10mn and current account surplus of US$214mn. In the first five months, Thailand incurred a negative trade balance of US$121mn and a positive current account of US$2,353mn. Based on these figures, we believe the BOT's revised full-year projections of a trade deficit of US$1.0-1.5bn and current account surplus of US$3.5-5.5bn look quite reasonable and achievable.

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