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Thailand's Economic & Political Situation

Thailand stocks underperform its ASEAN counterparties last month, concerns that an election victory for the pro-Thaksin Pheu Thai party may spark unrest prompted overseas investors to withdraw over \$800 million from Thai stocks. What is the economic and political situation in this country? You may find the answer in this article.

Growth in aggregate demand is moderating

Production sector contracted as reflected in the Manufacturing Production Index, which dropped by 7.8% year-on-year. This was partly due to the impact from the natural disasters in Japan affecting the production of automobile and parts industry. In addition, production in garment and textile industries decreased following customers' order postponement to assess the pricing condition of raw materials.

Regarding External demand, export grew satisfactorily despite a contraction in automobile export. April's export value increased in both quantity and price, amounting to 17,243 million US dollars or rose by 24.7% (yoy). Export quantity expanded in tandem with rising global demand, especially for export of agricultural products, notably rice and rubber. Likewise, exports of manufacturing products grew from plastic products, chemicals and electrical appliances. Furthermore, tourism sector grew continuously. The number of foreign tourist arrivals in Thailand totaled 1.5 million people, expanding by 35.9% (yoy), mainly from the rising number of tourists from East Asia and Europe.

Continued expansion in domestic demand was underpinned by strong supporting factors, including high farm income and improving employment condition. Farm income edged up by 62.9% (yoy) from both production and price. Meanwhile, employment condition in March continued to improve, resulting in a low unemployment rate of 0.7%. Private Consumption Index (PCI) grew by 4.5%, a slower pace from the previous month. This was attributable to a decline in domestic vehicle sales. Also, household electricity consumption contracted due to lower average temperature compared to the same period last year.

Concurrently, Private Investment Index (PII) expanded by 12.8% (yoy), moderating from last month mainly from decelerated imports of machinery and equipment. However, the construction area permitted in municipal areas increased mainly from rising residential and commercial construction projects in Bangkok.

Inflation is accelerating

Thailand's consumer prices climbed 4.19% in May from a year earlier, the fastest pace since September 2008. Core inflation, which excludes fresh food and fuel prices, accelerated to 2.48%. In order to tackle inflationary pressure and prevent it to exceed the 3% ceiling, the Bank of Thailand voted unanimously to boost the interest rate by a quarter of a percentage point to 3%. We expect the rate will increase further as election in July will boost the inflation,

The July 3 election in Southeast Asia's second-largest economy will pit Abhisit's ruling Democrat party against allies of ex-Premier Thaksin Shinawatra. The main opposition Pheu Thai Party, led by Thaksin's sister, Yingluck Shinawatra, has used billboard advertisements to blame Abhisit for rising costs. The prime minister pledged in February to boost the minimum wage by 25% over two years, while Pheu Thai has promised a larger increase.

According to Bank of America, political uncertainty could affect the economy going forward. Election campaigning may lead to as much as 40 billion baht of spending, adding to price pressures.

Of the 500 parliamentary seats up for grabs next month, 375 are chosen in districts and 125 through proportional representation. Pheu Thai held a 17-point lead against Abhisit's Democrats for the party list vote, according to a Suan Dusit Rajabhat University poll released on June 19 that surveyed 102,994 people nationwide from June 4 to Jun 18.

Yingluck Shinawatra's Pheu Thai party plans to reinstate a policy introduced by her brother, fugitive former leader Thaksin Shinawatra, to buy unmilled rice at 15,000 baht (\$496) per metric ton, twice the current level. That would raise costs for exporters and boost the price of shipments to about \$750 per ton from \$500, according to a survey of eight millers and traders.

We think the price of rice may go up a bit but not significantly as there is abundant supply. According to the U.S. Department of Agriculture, Thailand is on pace to export 10 million tons of rice this year, compared with global shipments of 31 million tons. In addition, World rice production will total 451.6 million tons this year, outpacing consumption of 448.4 million tons and helping replenish inventories by 3.4 percent to 97 million tons, an eight-year high.

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