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Impact of Thailand Flooding

Thailand is suffering from the worst floods in 50 years. The disaster has killed more than 300 people and swamped at least 14,000 factories employing more than 600,000 workers, according to the government data.

"If we can't pump water out on time, there is a chance Bangkok may be swamped," Pracha Promnong, head of the national flood center, said in a phone interview on 19 Oct. Thailand's benchmark SET index fell 3.1% on that day as investors worried that the economic growth will significantly slow down. The cost to the economy could go far higher if Bangkok, which accounts for 41% of Thailand's GDP, is hit by floods.

Finance Minister Thirachai Phuvanatnaranubala expect the economy would probably shank 1.1% in the fourth quarter from a year earlier and grew by little more than 2% this year because of the floods. Even in late September, his ministry was still forecasting growth of 4% this year. It cut that on Oct 10, but only to 3.7%. The central bank governor Prasarn Traiatvorakul said the damage would be around 120 billion baht (around USD 3.9 billion).

Prime Minister Yingluck Shinawatra apologized after floods swamped part of Navanakorn Pcl's industrial zone in Pathum Thani on Bangkok's outskirts, which employs 180,000 workers at 227 plants. About 30% of the industrial zone was flooded.

Thailand serves as a production hub for Japanese carmakers and electronics firms. Japanese carmakers led by Toyota, Honda and Nissan may lose more than \$500 million because of the floods, according to Kohei Takahashi, an analyst at JPMorgan Chase & Co. in Tokyo. It's a revival of the nightmare for them following the March 11 earthquake.

The global supply chain for hard-disk drives is also affected because Thailand makes about a quarter of them. Thai Industry Minister estimated that Western Digital's exports from Thailand may slide as much as 40% to 120 baht this year after floods shut two of its plants and it may take the company between four and six months to resume full production.

Since the global economic outlook had deteriorated markedly and the floods cause serious damage, Thailand's central bank left the interest rate unchanged on Oct 19. (Voted 6 to 1)

Policy makers noted that the severity of the floods would substantially curtail economic growth in the remaining part of the year from previously projected. Nevertheless, reconstruction spending would provide support for domestic demand to gradually pick up in the period ahead.

Inflationary pressure continued to be sustained by growth in domestic demand, though declines in input costs, such as moderated oil prices from a weaker global economy, as well as more stable inflation expectations would lessen inflationary pressure going forward. Nonetheless, upside risks to inflation from higher public and private spending as the floods recede would need to be monitored.

Thailand's inflation eased in September after accelerating in August to the fastest pace since 2008. Still, core inflation, which excludes fresh food and fuel prices, quickened last month to 2.92%.

The central bank signaled Oct 20 it may consider cutting rates as the disaster threatens to slow growth.

United Nations Food and Agriculture Organization expect about 12.5% of rice fields in Thailand, the world's biggest exporter of the grain, have been damaged. The country's largest packer also expects the price of rice may advance 19% because of the inundation and government's state-purchasing program.

According to the All India Rice Exporters Association, India's government has removed curbs on private companies on September. The possibility of additional exports from India could potentially balance out the market.



Thailand's SET Index (Sources: Bloomberg)

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