



Thailand's Economic Outlook 3Q2023

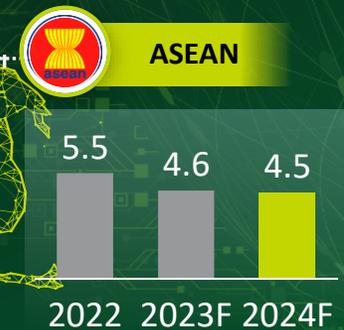
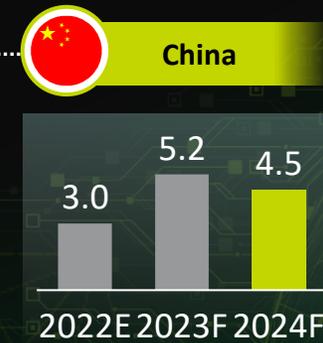
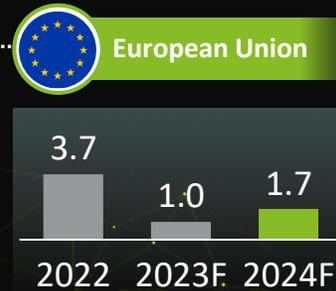
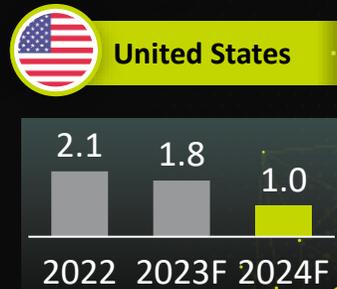
Clients & Markets, September 2023





Global Economy 3Q2023

The **2023 Global economy** remains feeble by historical standards. The increase in central bank policy rates to combat inflation is still weighing on economic growth. Global headline inflation is expected to fall from 8.7% in 2022 to 6.8% in 2023 and 5.2% in 2024.



Source: Deloitte Analysis, IMF WEO July 2023

Note:

1 Asia refers to Emerging and Developing Asia

2 ASEAN refers to ASEAN-5; Indonesia, Malaysia, Philippines, Singapore, Thailand

Key Takeaways and Watchlist in 2023



US

Key Takeaway

- + Retail sales continued to grow rapidly in July.
- + Housing surged in July.
- + US Treasury yields rose sharply after the Federal Reserve hinted at further rate hikes.
- Significant increase in defaults on junk (high yield) corporate loans

Watchlist

-  FED's direction on interest rate: either tightening or pausing the increase
-  Abandoning trade liberalization



EU

Key Takeaway

- + Declined core inflation in August
- High inflation (5.3% in Aug 23)
- Sharp rise in wages in Germany
- Weak euro
- Weakening credit markets

Watchlist

-  Less certainty on ECB to further raise interest rate due to weak euro
-  EU's energy trade and resource amidst the war in Ukraine



Japan

Key Takeaway

- + Accelerating household income
- + Growth in shipments of automobiles
- + Recovering inbound tourism
- Higher than target inflation (3.3% in Aug 23)
- The lowest value of yen since Nov 22
- Weak domestic demand

Watchlist

-  Impact of rising inflation on household financial stability
-  Bank of Japan's signal to shift, tightening the monetary policy.



China

Key Takeaway

- + PBOC's cut in foreign currency reserve required ratio for commercial banks to reduce downward pressure on renminbi value
- Suffered deflation in July for the first time since early 2021
- Private equity and venture capital funds ban from US in investing in certain Chinese technologies
- Weak trade to the rest of the world

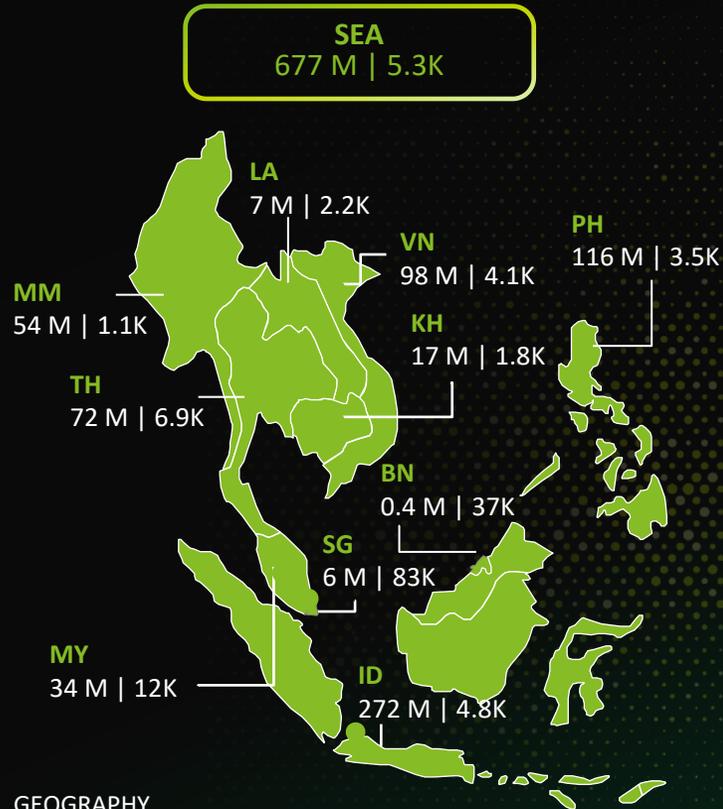
Watchlist

-  China's central bank cut a key interest rate, signaling a shift in monetary policy
-  Fragile property market

Southeast Asia overview and opportunities

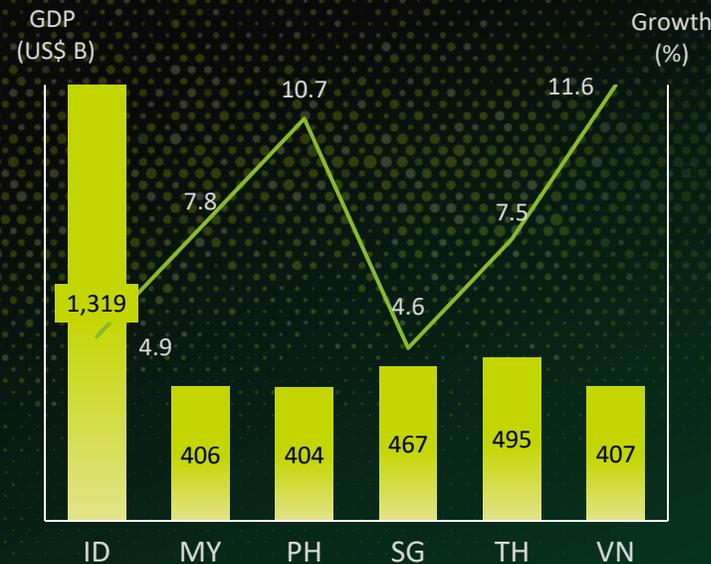
Strong internal and external drivers are increasing the region's importance as a manufacturing and trading hub for both East and West developed nations.

2022 Population and GDP Per Capita ¹



2022 GDP and GDP Growth (2022 – 27) ¹

SEA	
GDP (US\$B)	3,626
Growth Rate % (2022-27)	7.7%



Key Highlights

- Remains on a growth trajectory with 5-year CAGR of 7.7%, impacted by softening export demand from global economic slowdown
- Inflation to remain moderate at ~4% in 2023 (peaked at 5% in 2022) following higher input cost and local currency depreciation
- US-China trade tensions driving investment flow from US-SEA-TW/Japan semiconductor value chain
- Growing middle-income population with higher education level driving demand for quality goods and services
- Diverse levels of economic developments, ranging from highly developed to developing markets, that are interdependent and complementary

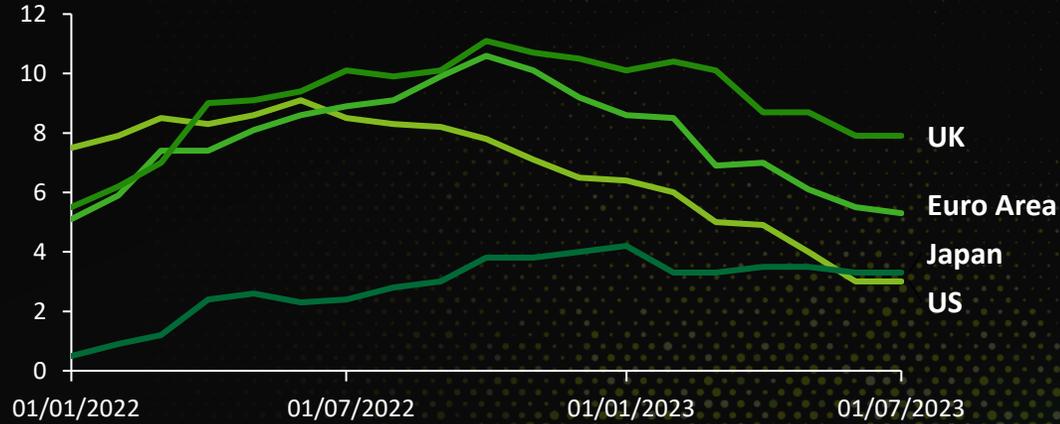
GEOGRAPHY
Population (M) | GDP / Capital (US\$ '000)

Sources: Deloitte Analysis, (1) EIU, ADB

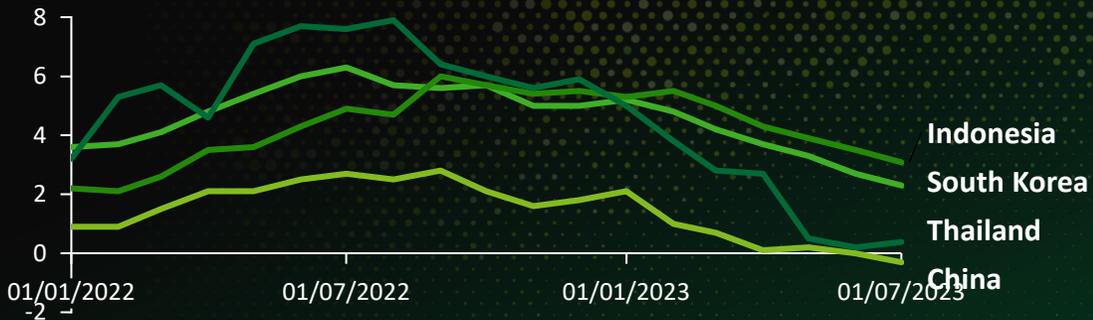
Inflationary pressures alleviated in several areas; however, central banks are still increasing interest rates to stifle the consequences.

Inflation Rate

Developed countries

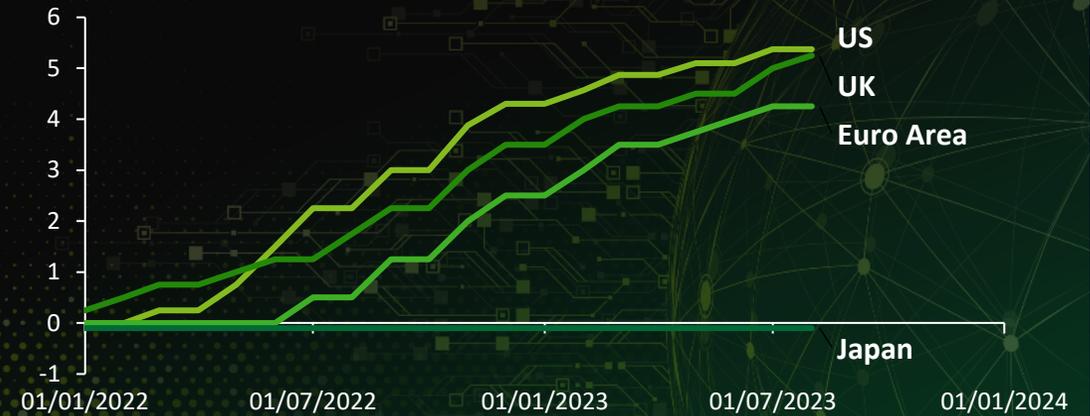


Developing countries & Emerging markets

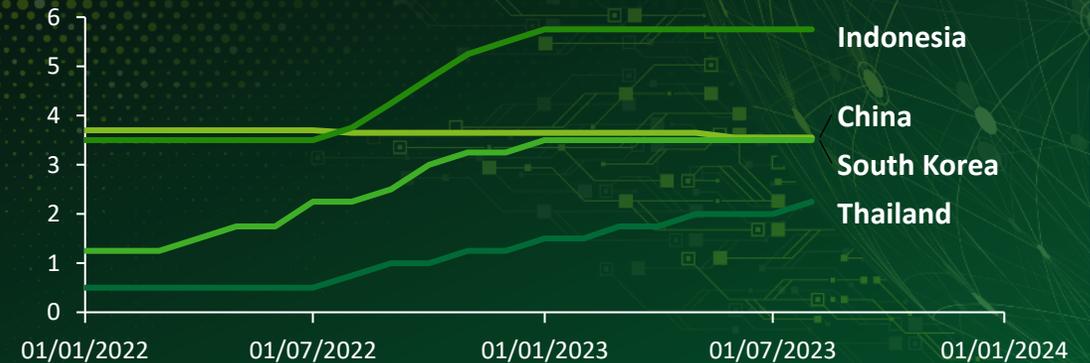


Policy Rate

Developed countries



Developing countries & Emerging markets



Source: Deloitte Analysis, NESDC

El Niño – onslaught on supply chains and inflation

Extreme weather, floods, heatwaves, water scarcity and wildfires will brew up potent new economic storm.

El Nino, fears of fires and drought

- Happens when the surface temperature of the eastern and central Pacific Ocean is at least 0.5°C warmer than average, weakening or reversing the flow of the trade winds
- July 2023 was earth's hottest month ever, 1.8 °C above than average.
- The last strongest one to date was in 2016, at about 1.1 °C higher than the pre-industrial period



Why does it matter?



- Lower crop yields such as rice and coffee beans, resulting in higher cost of food and thereby increase the cost-of-living.
- Dangerous early summer heat waves i.e. in Tokyo, Beijing, India, and Vietnam

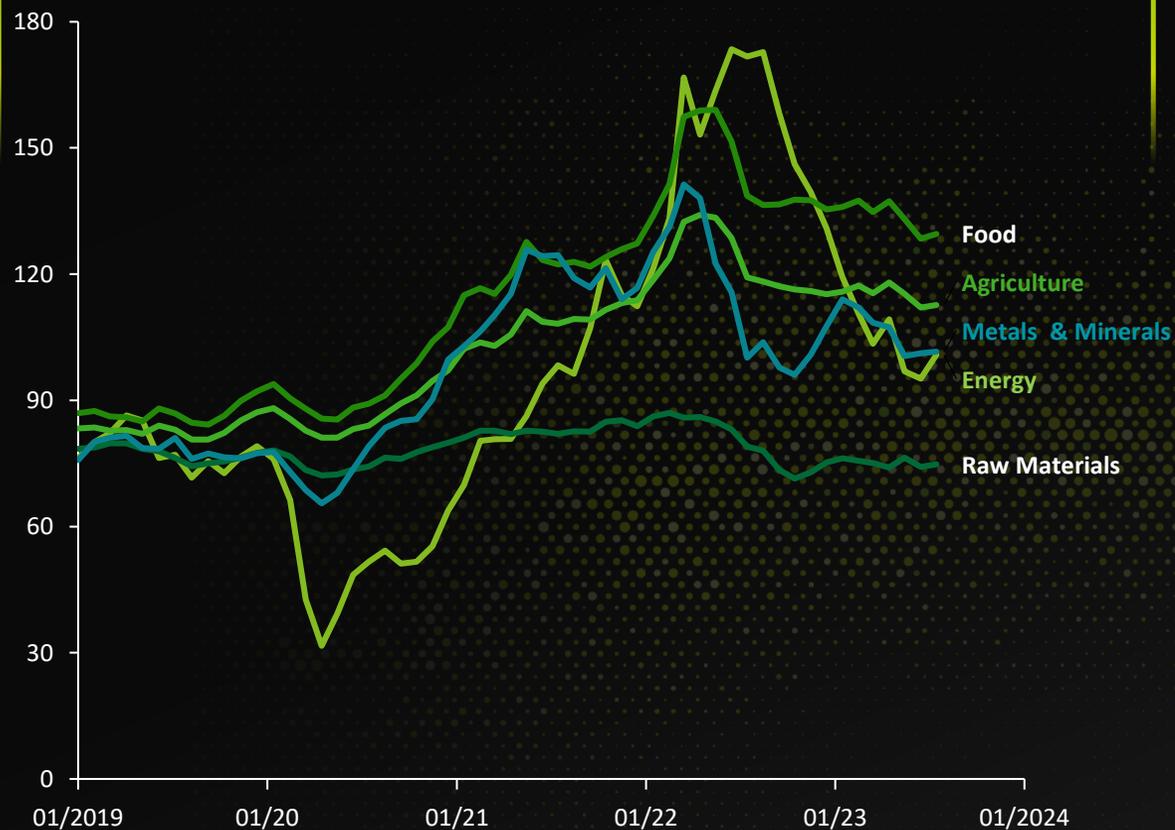


- Thailand's domestic **milled rice prices jumped** nearly 20% in the early of August 2023 to 21,000 baht (\$597) per tonne, up from around 17,000 baht.
- Estimated 53 billion THB **loss from drought** and 48 billion THB **damage in agricultural sector**¹
- High chance of **lower export** level than expected in food and agricultural products

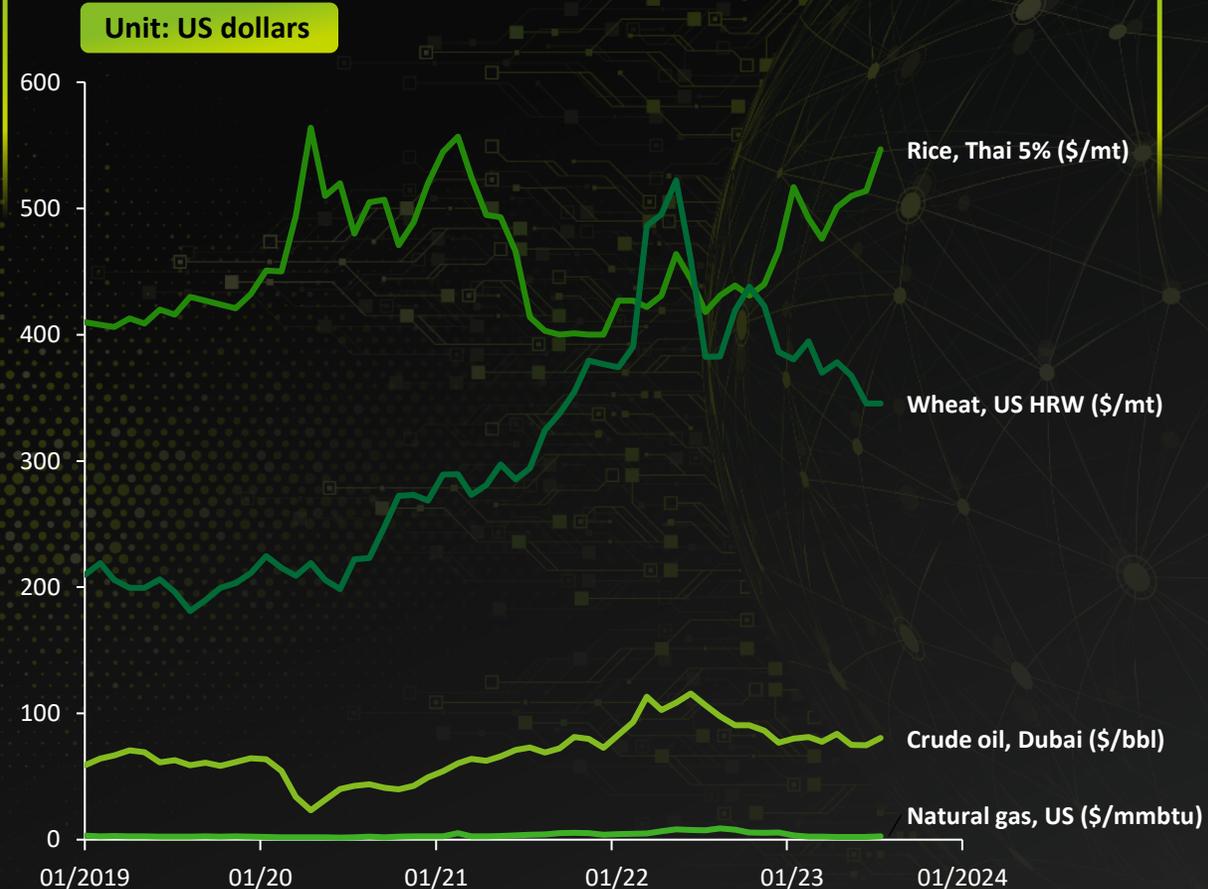
Source: Deloitte Analysis, Reuters, NASA, JSCIB¹, Thansettakij

Lower crop yields from El Nino and India's limit on rice exports have increased food price. Higher electricity demand has also raised energy prices.

Commodities Price Index (2010=100)



Commodities Price

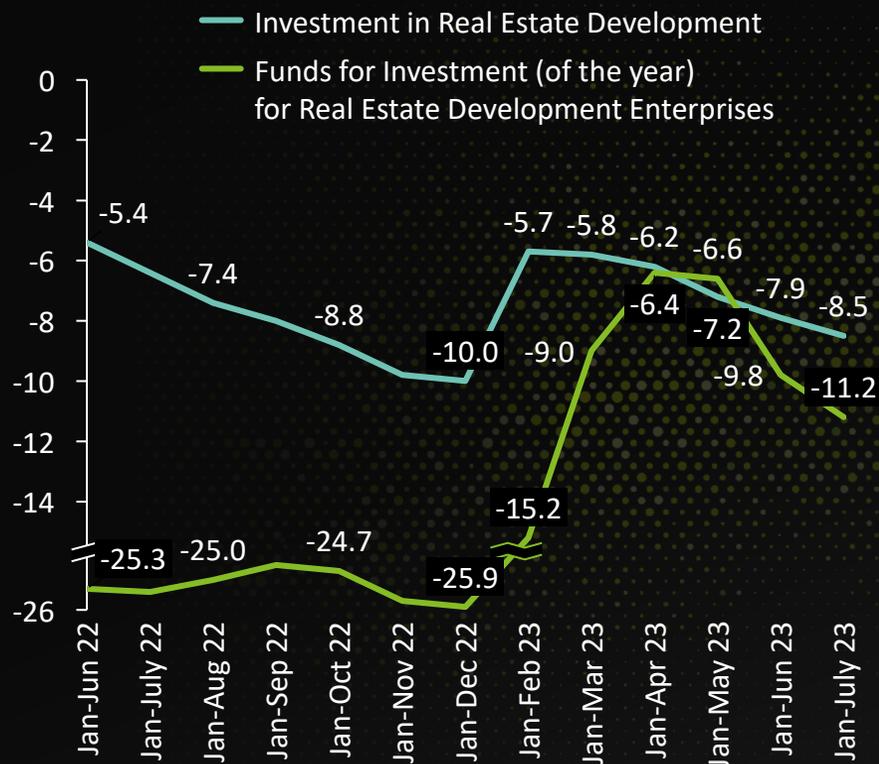


Source: Deloitte Analysis, World Bank

China's property crisis continues. Evergrande filed for chapter 15 bankruptcy protection in New York, and Country Garden's risk of default are deepening the crisis.

Growth Rates of Investment in Real Estate Development, and Funds for Investment This Year for Real Estate Development Enterprises

Unit: %



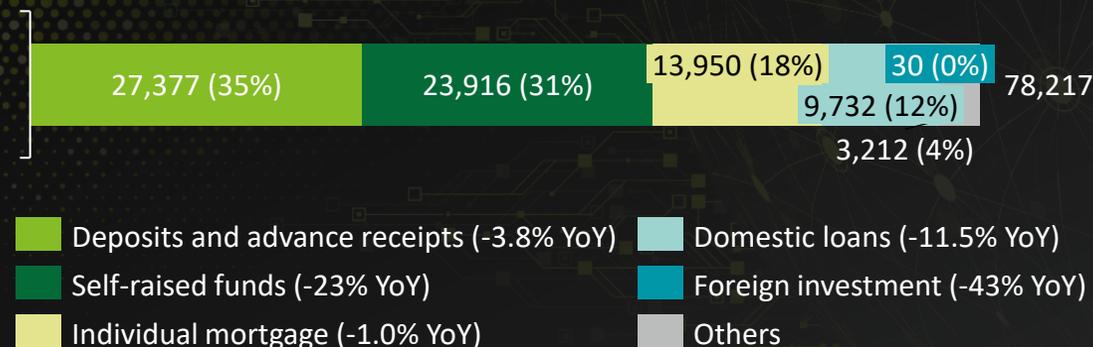
Source: Deloitte Analysis, National Bureau of Statistics of China

For Jan-Jul 2023, the investment in real estate development stood at 6.77 billion yuan (-8.5% YoY), of which, the investment in residential buildings was 5.14 billion yuan (-7.6% YoY), and office buildings indicated as 0.26 billion yuan (-8.1%).

For Jan-Jul 2023, the funds for investment for real estate were 7.8 billion yuan (-11.2%), of which the utilized foreign investment saw the most plummeted.

Funds for Investment This Year for Real Estate Development Enterprises - Breakdown

Unit: 100 million yuan

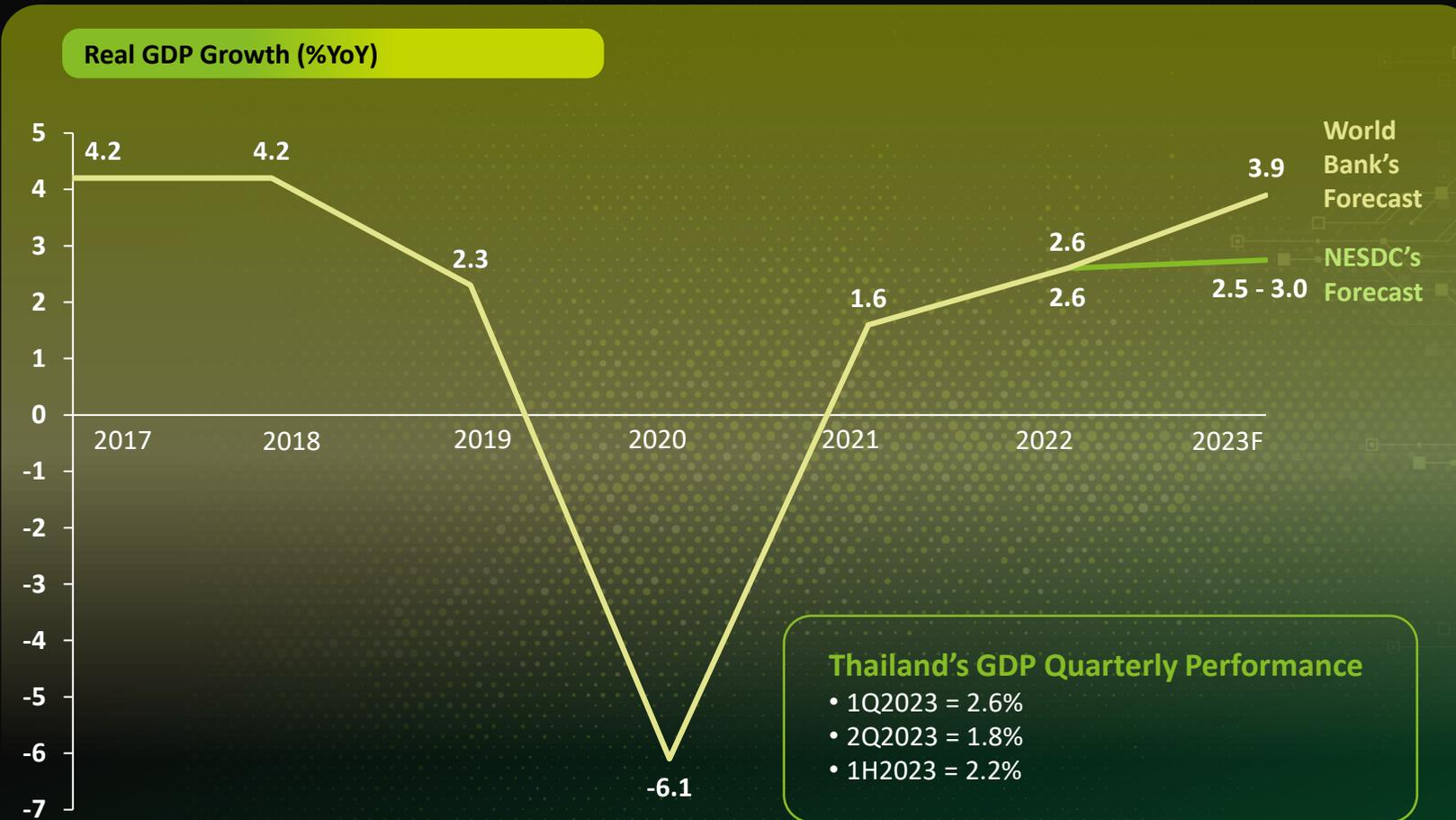




Thai Economy 3Q2023

Thailand's Economic Outlook

2023 GDP growth rate is likely to be lower than expected, due to low tourism spending and China's tourist arrivals missing the target.



Source: Deloitte Analysis, Bank of Thailand, World Bank (as of June 2023), NESDC

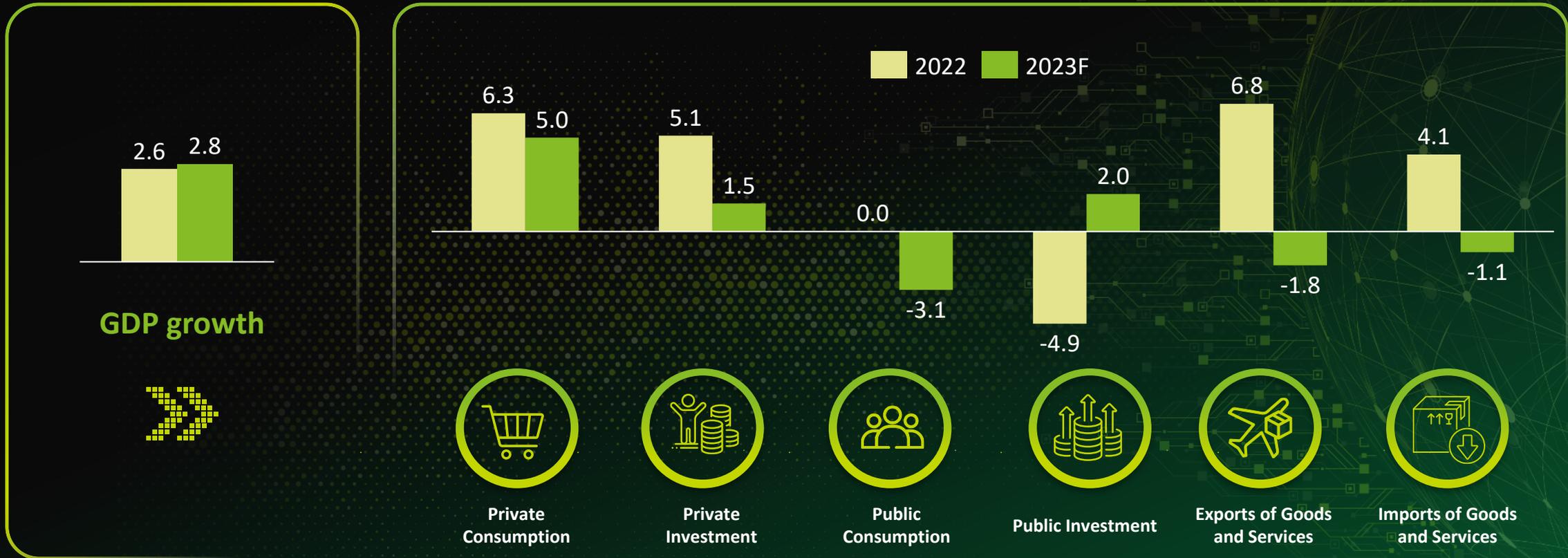


Key Factors to be Monitored

- +** • Expanding private consumption
- Recovering tourism sector
- • High household debt and inflation
- Rising policy rate results in higher cost of loan
- Impacts from Russia-Ukraine war
- Slow growth among other regions

Thailand's Economic Outlook

Thailand's economic recovery is mainly attributed to increasing tourism activities and private consumption, driven by spending of medium and high-income consumers. However, 2023 merchandise exports are projected to contract, weighed by subdued Chinese demand, global electronic cycle, and a severe El Niño episode.

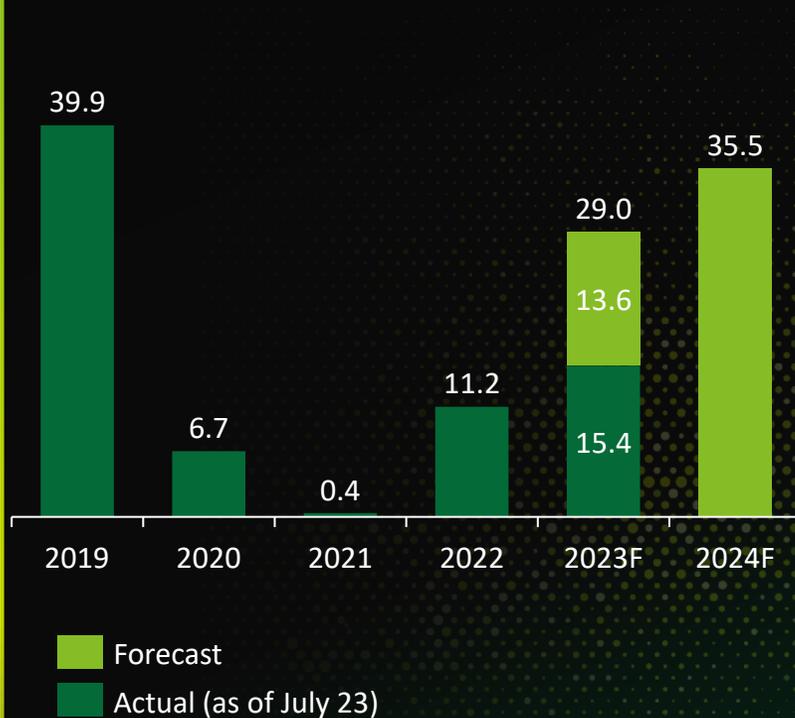


Source: Deloitte Analysis, NESDC

Tourism in Thailand is recovering from increased tourist arrivals.

Foreign tourist arrivals Forecast

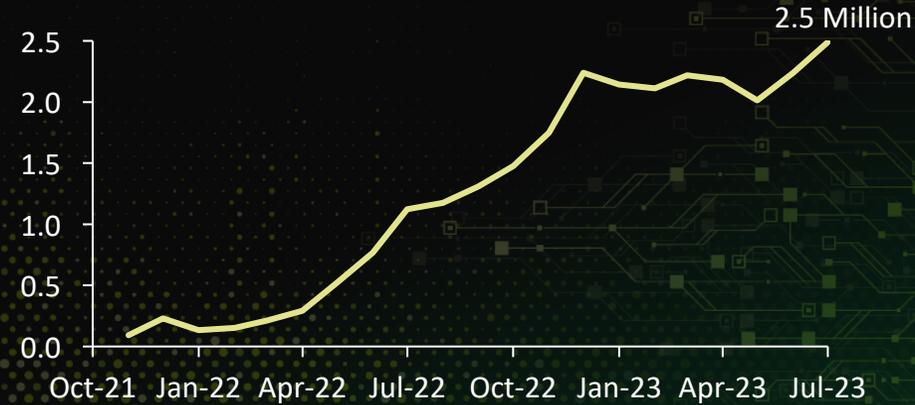
Unit: Million Persons



Source: Deloitte Analysis, Bank of Thailand, MOTS, TAT, NESDC

Foreign tourist arrivals by Month

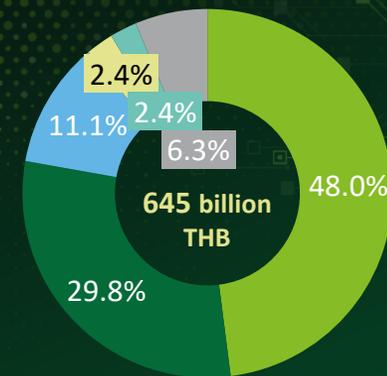
Unit: Million Persons



Top 5 provinces received income from foreign visitors

As of July 23

- Bangkok
- Phuket
- Chon Buri
- Surat Thani
- Chiang Mai
- Others



Top 5 Tourist Arrivals to TH by Nationality

Unit: Person (as of July 23)



Thailand's Tourism Situation

Occupancy rate increased in July due to school break in some regions/countries. However, about 88% of surveyed hotels would have lack of workforce for the upcoming high season which majority would hire casual/temporary workforce for the period.

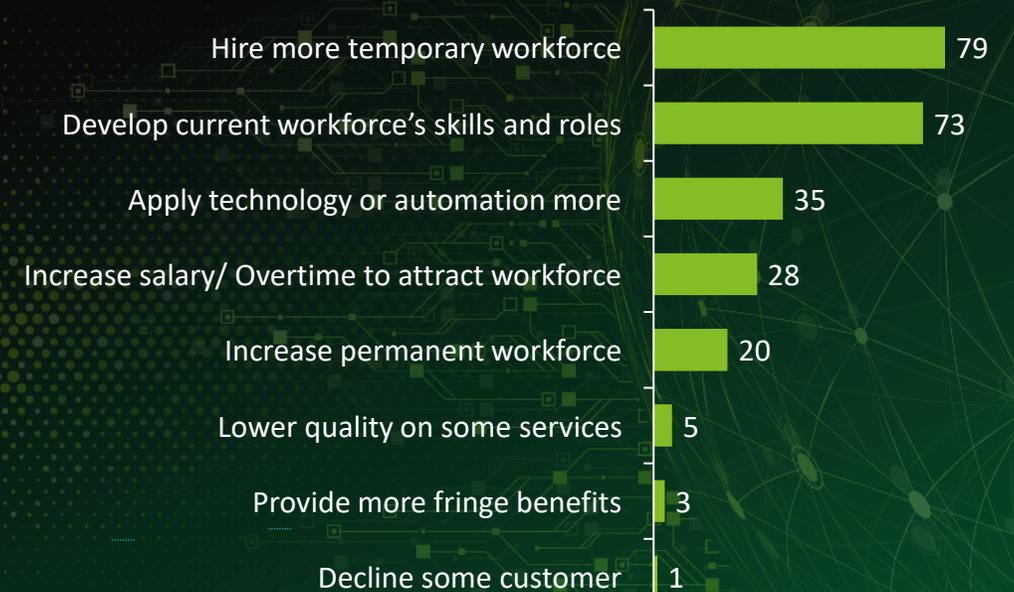
Occupancy Rate



Source: Deloitte Analysis, Bank of Thailand

Expected solution to solve on hotels' lack of workforce during high season

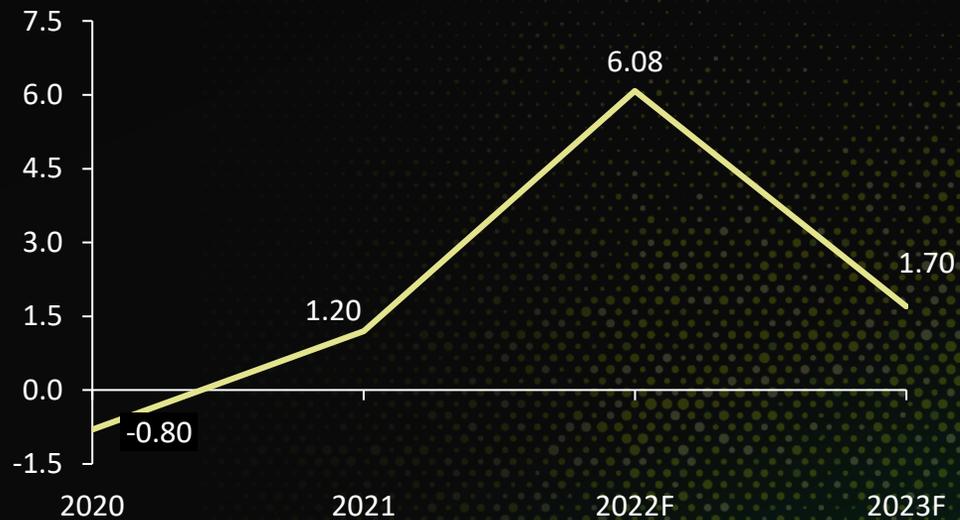
Unit: % of 91 respondents (more than one answer is allowed)



Inflation eases in Thailand.

Headline inflation saw modest from August 2022's high base and government's subsidies on cost-of-living. However, global impact and current high food prices are creating challenges in lowering Thailand's inflation rate.

Headline Inflation (%)



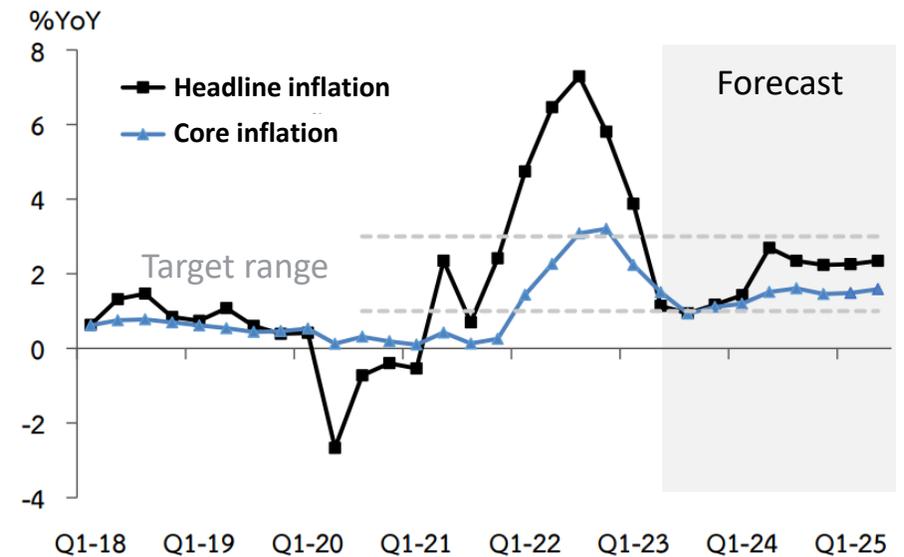
Inflation in August 23 = 0.88%

Easing inflation contributed by

- Recovering domestic demand from tourism sector
- High base from last year
- Cost-of-living subsidies from government

Source: Deloitte Analysis, Bank of Thailand, NESDC, TPSO, Fiscal Policy Office

Inflation forecast (%)



Source: Bank of Thailand

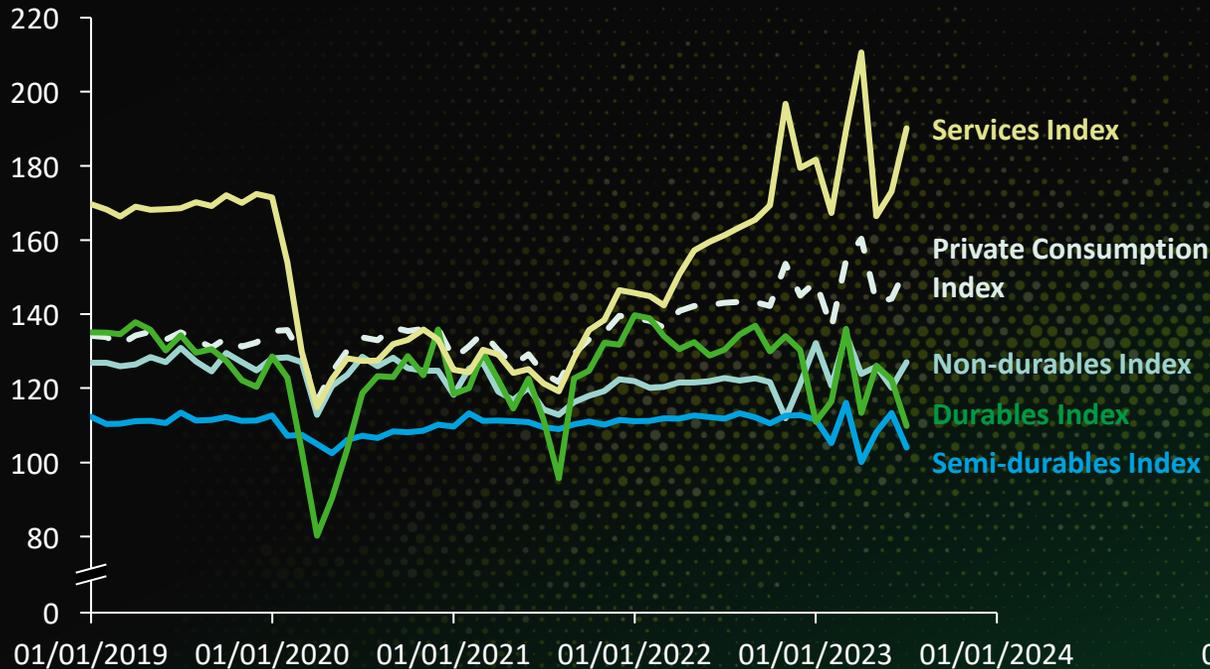
Watchlist

- Direction of government economic policies
- Global food and energy prices
- Global economies and financial situations

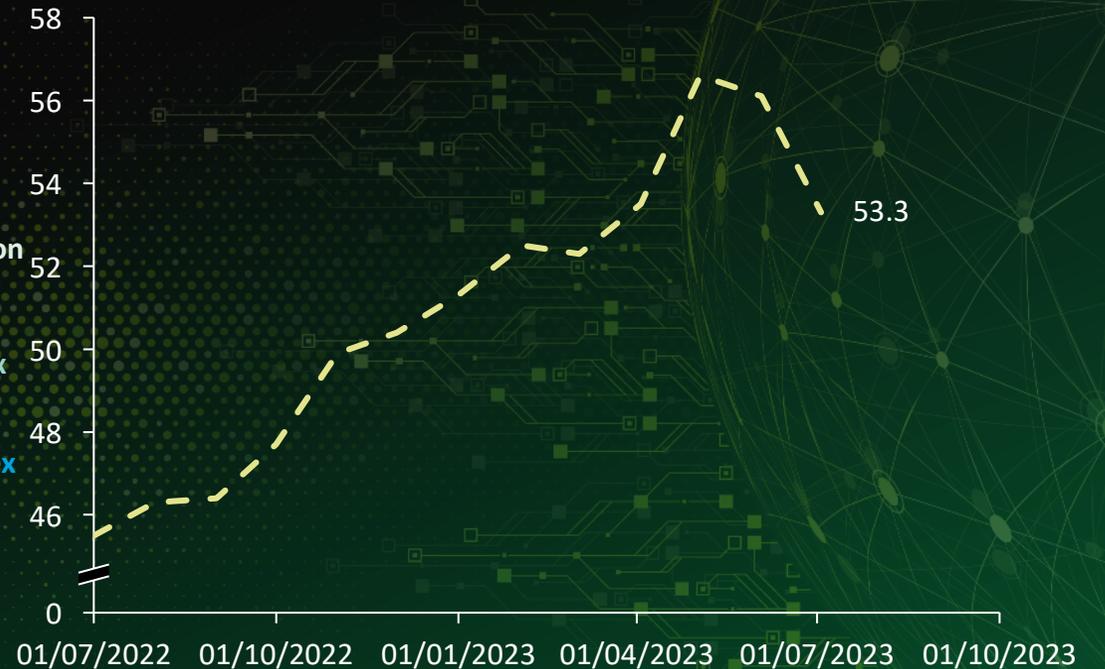
Most consumption levels saw improvements, especially in services, due to a recovering tourism sector. However, declining passenger car sales yielded a lower durable index.

Still, lower-than-expected economic recovery, political uncertainty in June-July 2023, and increase in fuel prices resulted in lower business sentiment in July 2023.

Private Consumption Index (Seasonally Adjusted)



Business Sentiment Index



Source: Deloitte Analysis, Bank of Thailand, TPSO

Thai Industries Sentiment Index in July 2023 fell to a 10-month low.

Thai Industries Sentiment Index



Source: Deloitte Analysis, FTI

+ Positive Factors

Rise in tourism yields to hold up domestic consumption and spending

- Negative Factors

Deceleration in manufacturing and demand of goods

Household debt burden and high living expenses

Increasing interest rate

Global fragility due to decreased market demand

Lower expansion of Chinese economy than expected

3-month Forecast watchlist

Increasing production costs trend

High uncertainty of global economy

Thai Industries Sentiment Index by Performance

Compared to last month, automotive and automotive parts saw had a higher sentiment index whilst petrochemical, glass, and electronics saw decline in sentiment.



100



Declined TISI

- Petroleum refinery
- Air conditioner
- Electricity
- Renewable energy
- Packaging
- Rubber
- Aluminum

Tightrope

Declined TISI but above 100

Increased TISI

- Automotive parts
- Automotive
- Food & Beverage
- Pharmaceutical
- Digital
- Medical equipment manufacturer
- Cosmetics

Rising Star

Increased TISI and above 100

- Textile
- Apparel
- Jewelry
- Leather
- Glass
- Ceramic
- Sawmill
- Machine
- Agricultural machine
- Electronics
- Sugar
- Gas
- Petrochemical
- Chemical
- Plastic
- Palm oil
- Paper

Red Flag

Declined TISI and below 100

- Cement
- Shoes
- Metal
- Roof and equipment
- Granite and marble
- Wood and plywood
- Dairy supplement

Mastering

Increased TISI but below 100

- Furniture
- Herb
- Creative craft
- Environmental management
- Biotechnology
- Boat maintenance
- Metal casting

Note: As of July 2023
Source: Deloitte Analysis, FTI

Policy Rate

The Monetary Policy Committee (MPC) unanimously voted to raise the policy rate by 0.25 percentage point, from 2.00 to 2.25 percent.



MPC's Perspectives:

- **Thai economy overall continued to recover.** External demand softened somewhat in the near term, but is expected to gradually recover looking ahead.
- **A higher interest rate would add buffer to monetary policy and the financial system,** enhancing the capability to respond to negative shocks.
- The present context of sustained economic expansion should provide an opportunity for **building up policy space in readiness for uncertainties** looking forward.

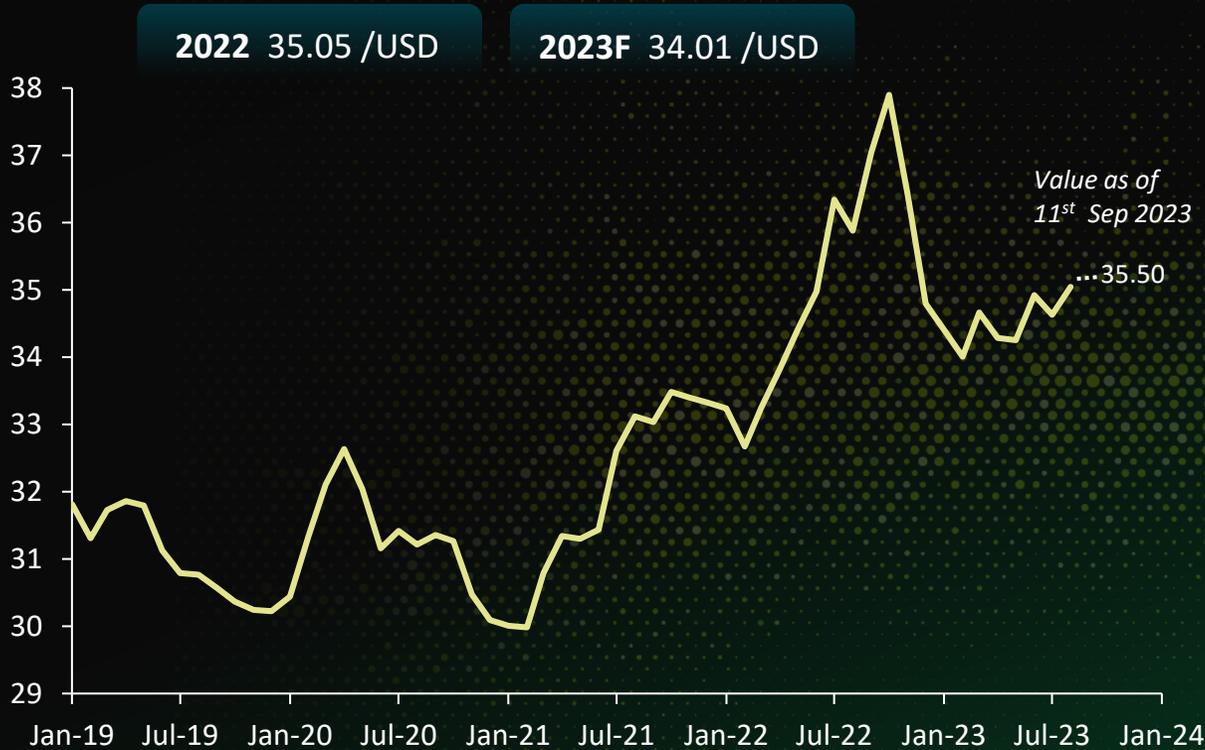


Source: Deloitte Analysis, Bank of Thailand's Monetary Policy Committee's Decision 4/2023

Exchange Rate

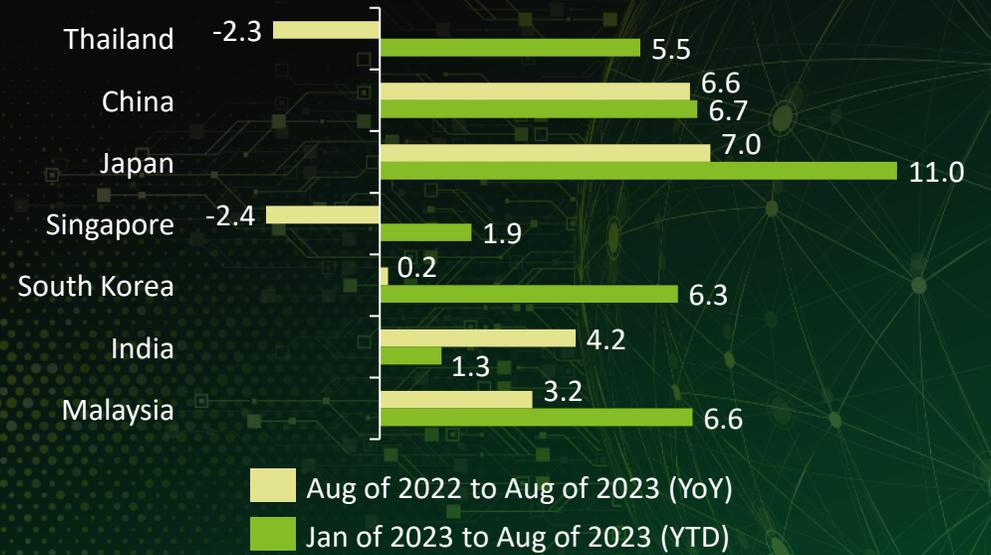
Thai baht saw more volatile in response to FED's interest rate increase and Yuan's weakening value.

Exchange Rate (Unit: THB/USD)



Source: Deloitte Analysis, Bank of Thailand, TDRI EIS, Fiscal Policy Office

The Change of Currencies against USD (%)



Factors influencing Thai baht

Appreciation

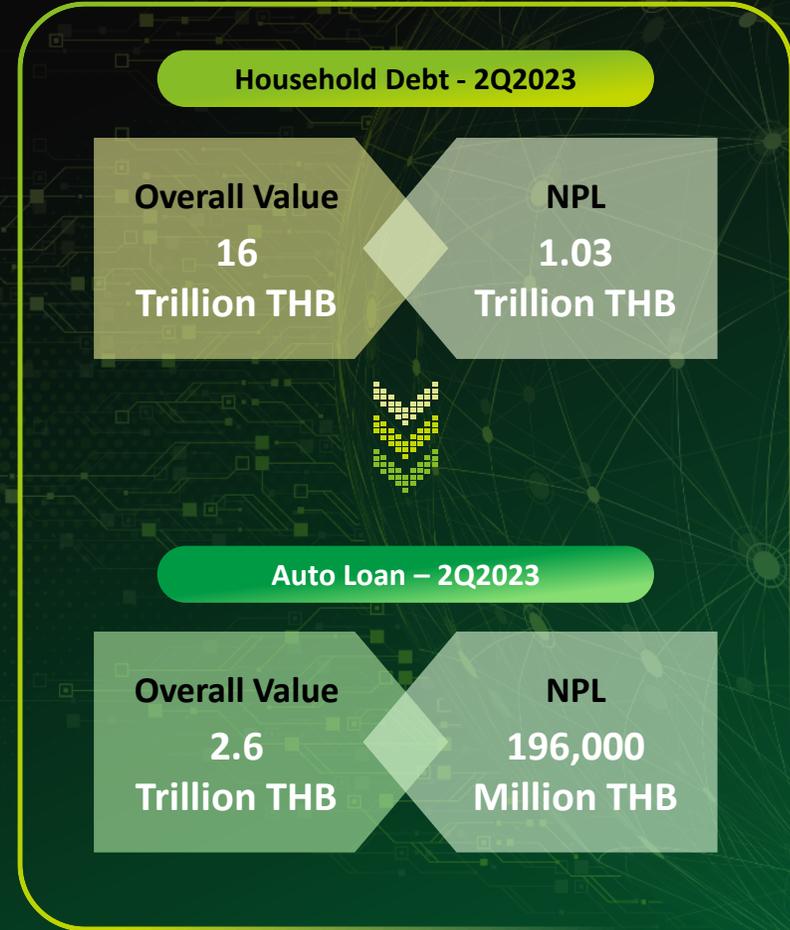
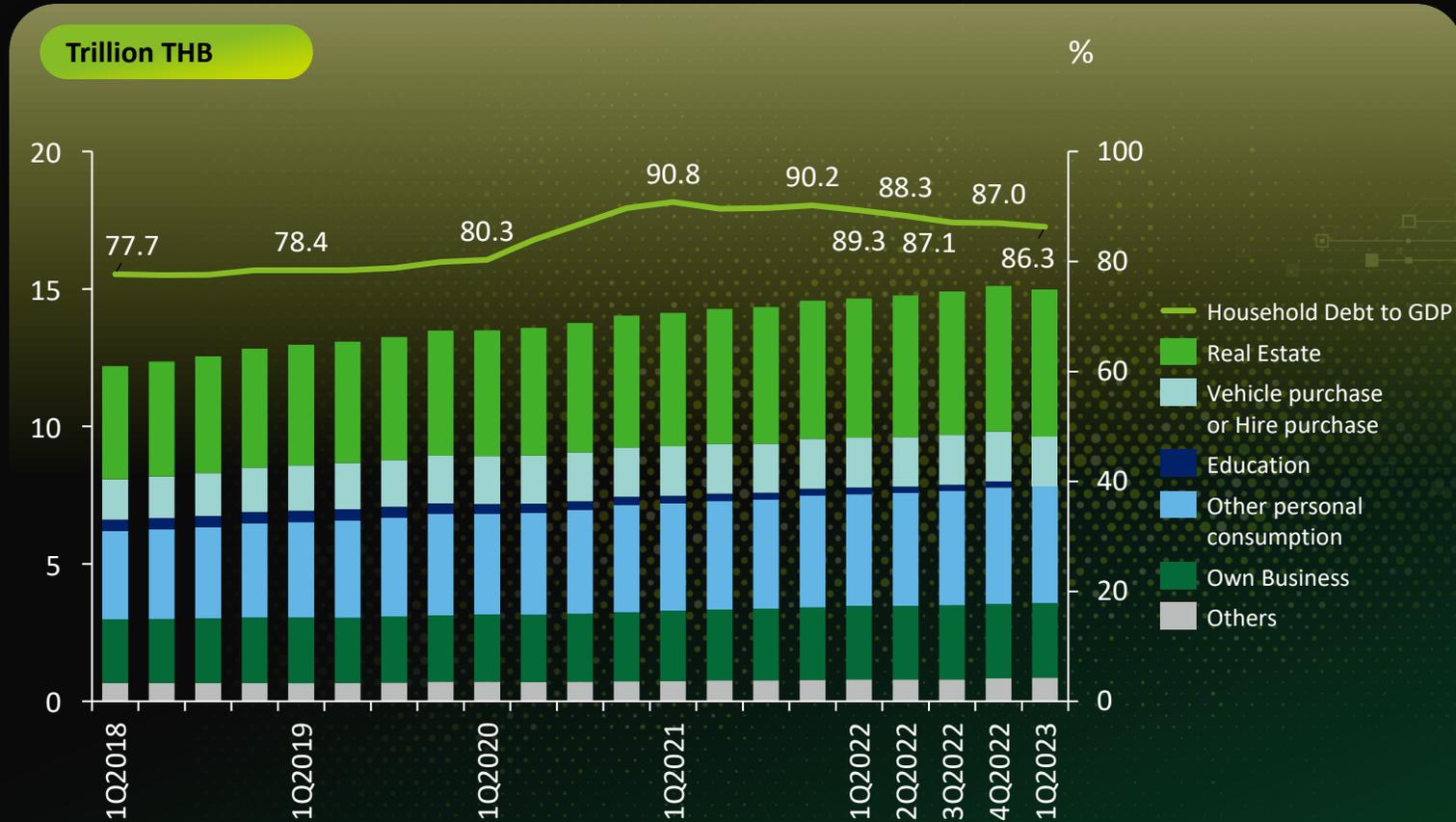
- Expected recovery from tourism

Depreciation

- FED's more increases in interest rate in 2023
- Impact from geopolitical conflicts

Household debt remains high at 86.3% to GDP. (90.6% at adjusted rate)

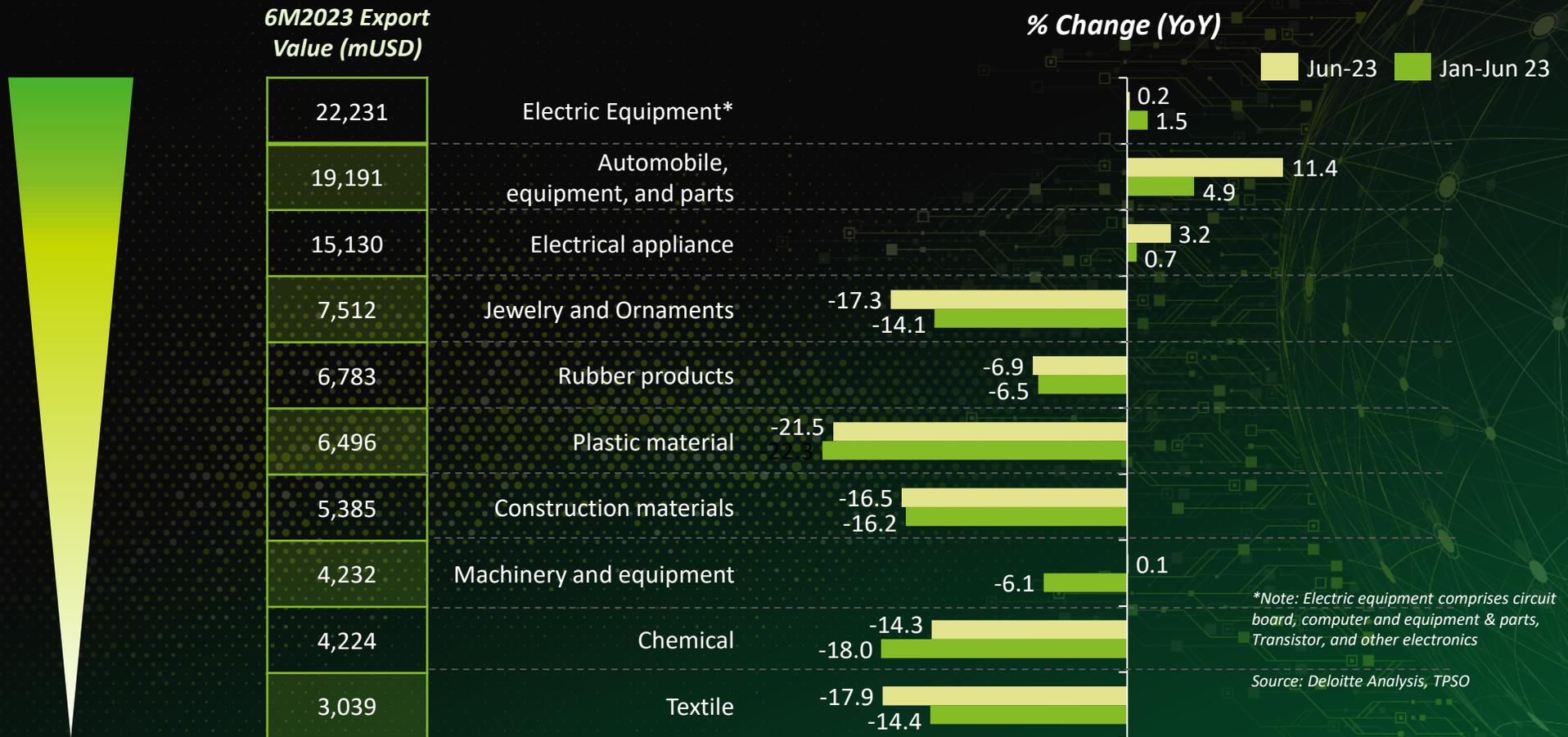
Non-productive loan such as Other Personal Consumption significantly contributed to total household debt. Surge in delinquent auto loans is a cause for concern.



Source: Deloitte Analysis, TDRI EIS, PIER, National Credit Bureau, Bank of Thailand, Bangkok BizNews

10 Key Industrial Exports for 6M2023

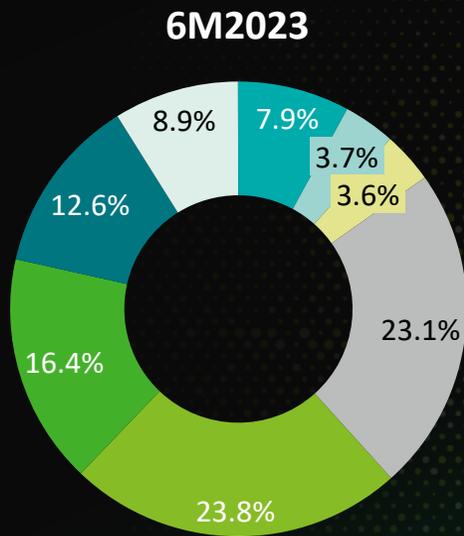
Majority of industrial exports plummeted during 6M2023, except electronic equipment, automobile-equipment-and-parts, and electrical appliances.



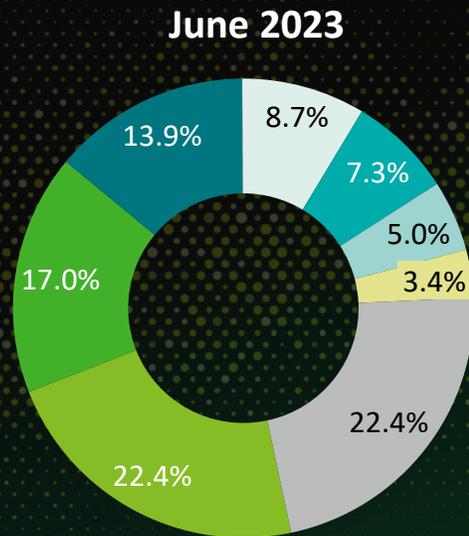
Thailand's Export Destinations

United States, China, and Japan are the top 3 countries for TH's export. ASEAN economies also contributed to about a quarter of total export. However, in 6M2023, the total export value declined 5.4% (YoY).

Percentage Contribution



Total Export Value
141,170 mUSD

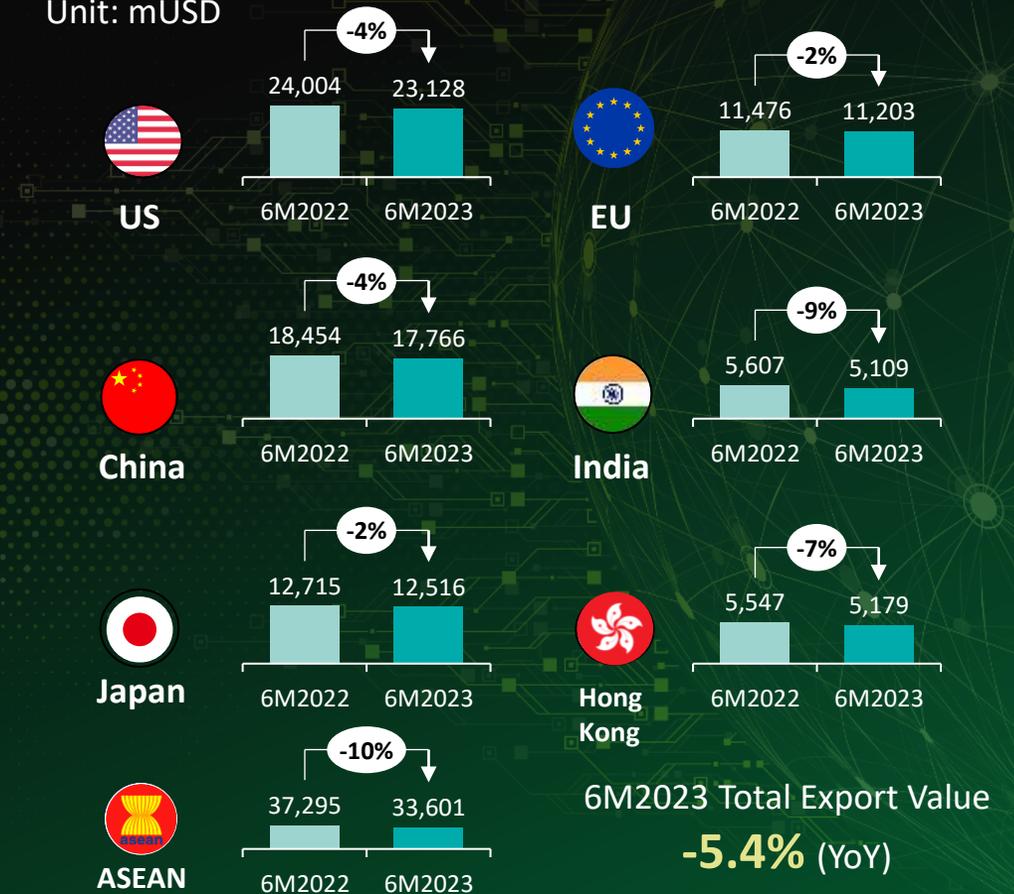


Total Export Value
24,846 mUSD

Source: Deloitte Analysis, TPSO

6M2023 Percentage Change (YoY)

Unit: mUSD

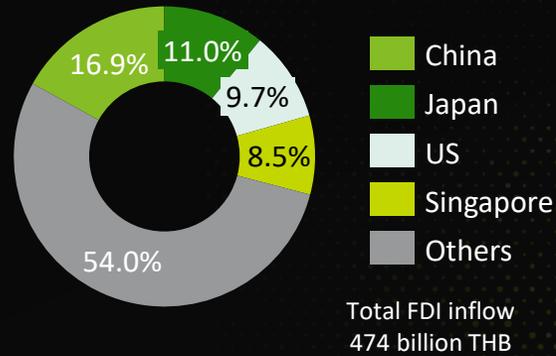


6M2023 Total Export Value
-5.4% (YoY)

1Q2023 FDI inflow had been mostly contributed by Financial Service, Insurance, and Real Estate sectors, followed by Manufacturing, in which China has been a lead investor.

However, FDI inflow in 2022 was led by Japan. Singapore also saw becoming a major player for Thai market.

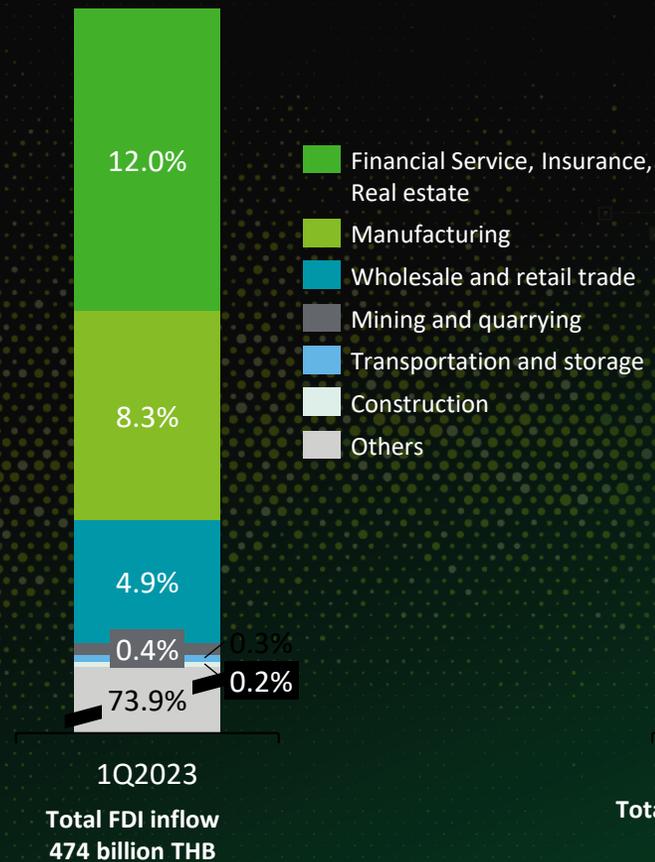
1Q2023 FDI inflow to TH by Countries (%)



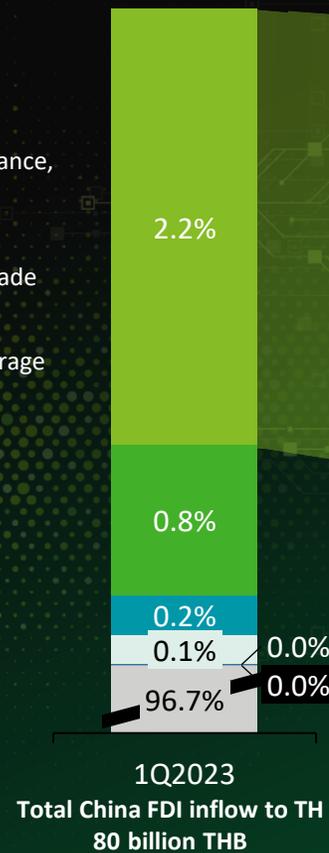
Historical 2020-1Q2023 by Top Countries' Percent Contribution to TH FDI inflow



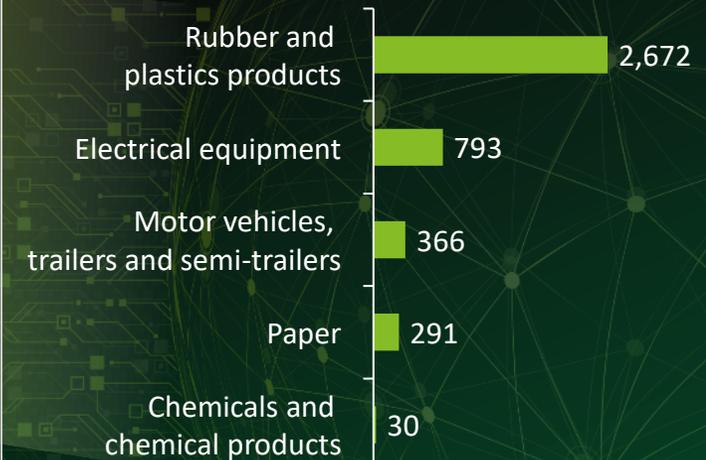
1Q2023 FDI inflow to TH by sectors (%)



1Q2023 China FDI inflow to TH by sectors (%)



1Q2023 China FDI inflow to TH by sectors - Manufacturing Top 5 (million THB)



Source: Deloitte Analysis, Bank of Thailand, MOTS

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