

Thailand Macro Flash: Still No 'Breaking' of the Bad Macro in July

- **Fledgling gains posted by onshore spending indicators in July** — Private consumption index (PCI: 0.2%YoY/0.9%MoM SA), fiscal disbursements (9.7%YoY) together with tourist arrivals (9.1%MoM SA) supported a firmer demand backdrop in July. Non-durable goods consumption led by electricity consumption (9.5%YoY) enabled PCI's incremental gains although there's really not much to show particularly for the big-ticket consumer items: car sales index (-31.1%YoY) and consumer goods imports (-3.9%YoY) despite sustained improvements in consumer confidence. Upbeat fiscal spending in July merely cushioned the downturn of -1.8%YoY in the first 10 months of FY14. Current expenditures as of July accounted for 79.3% of the FY14 program consistent with historical performance. Gov't capital expenditures managed a 55.5% accomplishment rate of the FY14 program. Any fiscal resurrection in 3Q14 (4QFY14) bode well for 'consumption' but would unlikely sow the seeds of investment revival—a more effective means of limiting slack in the labor markets (jobless rate: 1.1% SA). Tourist arrivals from Asia (65% share) was less negative than in June as political risk concerns appeared to wane.
- **Struggle with slack continues due to lack of a firm export uptrend** — BOP exports fell 6.3%MoM SA in July (vs +3.5%MoM SA gain in June). Exports of manufactures declined 5.5%MoM SA led by electronics (-2.3%MoM SA vs +1.6%MoM SA in June), chemicals (-13.8%MoM SA vs +17.1%MoM SA in June), petroleum (-8.4%MoM SA vs +16%MoM SA in June) to name a few, that highlights a pattern of alternating shallow weakness and gains. Absent a firm export uptrend, lackluster manufacturing prevailed (-0.1%MoM SA) Utilization rate fell to less than 60% for the first time since the great deluge.

According to BoT, the mfg index's downturn eclipsed declining finished goods inventory index to reflect sustained struggle with slack. Amid entrenched slack, private investments index fell 3.4%YoY (-0.4%MoM SA).

- **Despite persistent slack, current account was back in a deficit**— Against lackluster exports, imports fell 3.4%YoY in July with familiar drag from auto imports (-32.4%YoY) and easing consumer imports (-2%YoY) while oil (12.8%YoY) and capital goods imports (10.1%YoY) resisted weakness. Resulting BOP trade surplus was US\$1.5bn that wasn't enough to blot out a current account deficit of US\$0.9bn.
- **Returning FDI and portfolio flows despite bad macro** — FDI (US\$1.5bn) and net offshore portfolio flows (US\$4.1bn) largely investments in debt securities (US\$3.9bn) figured prominently in July to bolster net financial inflows to US\$4.6bn (vs 1H: -US\$7.3bn). Lower risk premia, high yielding debt securities led by BoT's cash management bills, and possible roll out of previous year's FDI approvals facilitated strong net financial flows.

This resulted in a July BOP surplus of US\$2.9bn that easily blotted out 1H deficit of US\$1.1bn while uplifting THB's outlook.