

## Economic Review

### Exports surprise props up growth

- ▶ During 3Q14 Thai economy grew 0.6% YoY, picking up slightly from 0.4% growth in 2Q14. *Seasonally adjusted* quarterly growth (QoQ) was 1.1%.
- ▶ Actual data fell short of expectations as Reuters poll of economists forecasted YoY and SAQoQ figures of 1.0% and 1.8%, respectively.
- ▶ NESDB revised its 2014 growth forecast down for the fourth time this year, adjusting 2014 growth from 1.5-2.0% to 1.0%.
- ▶ On expenditure side, growth came mainly from private consumption, government expenditure, as well as private investments. Exports declined. Production-wise, the agricultural sector slowed, while the real estate sector began to expand. The manufacturing and construction sectors continued to contract, but at a slower pace.

Table 1: Economic Projections for 2014-15

Economic Projections for 2014-15						
(% YOY)	2013		2014		Projections	
	4Q	FY	1H	3Q	2014	2015
GDP (at 1988 price)	0.6	2.9	0.0	0.6	1.0	3.5-4.5
Total Investment (at 1988 price)	-11.4	-2.0	-8.1	2.9	-1.9	5.8
<i>Private</i>	-13.2	-2.8	-7.2	3.9	-1.0	4.8
<i>Public</i>	-4.7	1.3	-11.3	-0.8	-5.0	9.8
Total Consumption (at 1988 price)	-3.3	1.1	-0.7	1.9	1.2	3.1
<i>Private</i>	-4.1	0.3	-1.3	2.2	0.7	2.6
<i>Public</i>	0.8	4.9	3.1	0.4	3.6	5.6
Export of Goods (USD)	-0.9	-0.2	-0.1	-1.7	0.0	4.0
<i>Volume</i>	0.3	0.2	1.2	-1.4	0.9	4.0
Import of Goods (USD)	-7.5	-0.5	-13.3	-0.8	-6.5	5.0
<i>Volume</i>	-6.1	1.6	-12.7	-0.4	-5.8	5.5
Current Account to GDP (%)	3.1	-0.5	4.6	-1.6	2.9	2.2
Inflation	1.7	2.2	2.2	2.0	2.1	1.4-2.4
Unemployment rate	0.7	0.7	0.9	0.8	0.9	0.8-1.0

Source: NESDB

## Thai Economy 3Q14 – Components of Aggregate Demand

**Private consumption expanded by 2.2%**, picking up from a 0.2% increase in the previous quarter. This was partly due to the continued strengthening of household sentiment, reflected in the Consumer Confidence Index continuing its rise from 60.0 to 61.2, and then to 69.3 from the first through to the third quarter, respectively. Spending on durables continued to contract but at a slower pace, while spending on non-durables increased.

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*Comment: The acceleration of overall consumption, and decelerating of the contraction in durables spending paint a picture of a strengthening economic recovery.*

**Total investments declined 2.9% YoY**, but whereas in the prior quarter the 6.9% decline in total investments was marked by a fall in both private and public investment (by 7.0% and 6.7% respectively), during 3Q14 public investment dipped only 0.8% and private investment actually increased by 3.9%. Private investment grew for the first time in four quarters, due to an expansion in machinery and equipment investment, which expanded 6.4% from a 7.5% 2Q14 contraction. The value of net applications for investment promotion to the Board of Investment (BOI) increased by 84.1%, a remarkable improvement from the 69.4% contraction in the previous quarter brought about largely by the appointment of a new BOI board on 6 Jun 2014 and the consequent resumption of the normal approval process. The Business Sentiment Index (BSI) improved from 47.0 to 49.2 in the third quarter.

*Comment: As mentioned in our previous report, BSI and BOI contraction suggested fall in private investments was in part due to aversion to local instability, not just global economic conditions. As such, as uncertainty dissipated there has been a return of investments from the private sector. Applications during 3Q14 likely foretell further increases in private investment in the final quarter, while government efforts to accelerate budget disbursement should ensure that the public sector investment also expands over the same period.*

**Exports value contracted 1.7% YoY**, versus a 0.4% increase during the previous quarter. This was due to the economic slowdown experienced by key trading partners, including the US, China and Australia, but also due to the rather large drop in the price of gold. Exports to all major markets contracted, or at least decelerated, with ASEAN being the exception, growing by 1.1%, up from 0.2% previously. For example, value of exports to Japan and China contracted by 1.0% and 6.3%, respectively, while exports to the EU grew by 2.0%, down from 11.0% in the previous quarter, reflecting the European stagnation.

With the exception of unwrought gold, export value increased by 1.0%. Agricultural exports grew in value by 4.4%, an improvement from the 2.7% 2Q14 figure – again this was achieved by *volume growth in the face of falling prices* – export volume of key agricultural products grew 15.6% while agricultural prices declined by 9.7%. Manufacturing exports bounced back from the prior period's 0.1% contraction to grow in value by 0.9%.

*Comment: Exports value actually increase across all major categories except for "other exports", whose value declined 77.4%. Other exports were in turn weighed down by unwrought gold whose value declined 85.4% versus the prior quarter's 14.3% increase. Concerns over global growth, as well as the seasonal strength gold enjoys over the final and first quarter of each year, mean that an expansion in the value of gold exports, and overall exports, are both rather likely in 4Q14. NESDB expects 2015 exports to rise 4%, in line with the Commerce Ministry.*

**Imports value contracted by 0.8% YoY**, contracting for the fifth consecutive quarter. However, compared with the prior quarter's 11.8% contraction, imports have recovered somewhat. Excluding unwrought gold, imports value grew by 0.4%. Notably, there was growth in import value of raw material and intermediate goods (1.1%), capital goods (1.9%) and consumer goods (1.1%).

*Comment: The increase in capital goods and intermediate goods imports bode well for future period exports.*

The trade balance recorded a surplus for the fifth consecutive quarter, coming in at US\$4.8bn, or Bt153,315mn.

## Thai Economy 2014 – Production

**Agricultural production expanded by 1.7%**, decelerating from the 4.2% expansion over 2Q14. The slowdown was due to unfavorable weather conditions adversely affecting paddy and rubber (6.1% and 0.3% contraction, respectively). The Agricultural Price Index dropped by 7.2% over 3Q14, plunging yet faster from the 0.9% and 7.0% drops over the first and second quarters, respectively. The accelerated fall resulted from both the acceleration of rice sales from government stockpiles and the lower rubber demand from China.

**Industrial and construction sectors** both continued to contract but showed improvements. The contraction rates of 0.7% and 2.7% were less than 2Q14 figures of 2.1% and 3.2%, for industrial production and construction, respectively.

*Comment: This combined with the improvement in the **real estate sector** (0.2% increase from 0.7% contraction before) indicate a deeper return of consumer and business confidence that helped not just non-durables but also with larger ticket items.*

**Hotels and restaurant sector** experienced the greatest contraction, dropping 4.6% as opposed to the 4.7% decrease over 2Q14. This was directly due to the persistently low inbound tourist numbers (5.8mn, a 10.1% YoY drop, whereas 2Q14 figure was 13.3%), which in turn reflects the continued imposition of martial law and the consequent travel warnings. Tourists from most countries declined except from Africa and the Middle East. Tourist numbers have improved since 3Q14, however, where the September drop of 7.0% was the lowest since May 2014, and October's figure actually expanded by 6.1%. The improvement was attributed to an exemption of visa fees for Chinese and Chinese-Taipei tourists and the launch of new routes to Thailand from Japan and Korea.

*Comment: With regards to tourism some problems are transient, such as the negative sentiment surrounding the unresolved murder of two British tourists – likely to dissipate as the case is judiciously dealt with – while others are not. To the extent martial law is adversely affecting*

*numbers there will likely be a cap as to how much the tourist numbers could improve over the next quarter, unless the military carries out partial repeals as it suggested it would.*

*There have been recent improvements, with October foreign tourist numbers increasing for the first time this year, moving up 6.14% YoY, helped by Chinese (67.0%) and ASEAN (15.1%) visits.*

### Thai Economy 2014 – Stability

**Employment moved up by 0.3% YoY, increasing for the first time in five quarters**, due to an improvement in non-agricultural employment (+13.6%), overcoming a drop in agricultural employment (-2.2%), allowing unemployment rate to fall to 0.8% from 1.0% in the previous quarter.

Regarding **fiscal considerations**, revenue remained weak due the slow local and global economic recoveries, but spending at least appeared to finally be strengthening. **Revenue collection** over July-September – the last quarter of the fiscal year – was Bt525.0bn, 3.1% lower YoY and **14.2% lower than the target**, due largely to the decrease in personal and corporate income tax rates. **Budget disbursement** for the quarter was Bt515.8bn, increasing 3.9% YoY and equivalent to around **20.8% of total budget, lower than the 25% target**. For the fiscal year 2014, the **annual budget disbursement** amounted to **Bt2.246tn, increasing 3.4% YoY**. The **disbursement rate of 89.0% was below the 95.0% target**.

**Public debt was at 46.5% of GDP**, increasing in value from the previous quarter by Bt35.4bn to Bt5,690.81bn but actually falling **0.1ppt from the prior quarter**.

The Monetary Policy Committee (**MPC**) voted 6-1 on the 5 Nov 2014 to **maintain policy rate at 2.0%/year**, as the committee deemed the current policy sufficiently accommodative and did not hinder the recovery.

**Headline inflation was 2.0%** for 3Q14, marking a disinflation from 2.5% in the previous quarter. This resulted from a decline in the price of fruits and vegetables, and the deceleration of energy prices.

*Comment: The BOT next reviews its policy rate on 17 Dec 2014 after maintaining base rate at 2.0% since March. On the 15 Nov the BOT said a rate cut would not help much, but at the same time stated that further cuts would be considered should they become necessary.*

*On the fiscal side, current budget expenditure is driving overall expenditure and boosting growth but capital budget disbursement is lagging behind. For the quarter current expenditure disbursement expanded 5.1% YoY while capital expenditure decreased by 3.1% YoY. Bigger projects naturally require more coordination and time. The challenge for the government for 2015 fiscal year will be to bridge the disparity between the ambitious capital budget disbursement target and actual implementation to support growth.*

*With a low public debt to GDP ratio, the government has ample room to borrow further. However, the composition of the loan (50.51% foreign) would be another channel through which an appreciating US dollar would pressure the BOT to raise rates.*

## Thai Economy 2014 – Projections for 4Q14 and 2015 by NESDB

On the 17 Nov 2014 the **NESDB revised its growth projection** for the Thai economy for 2014 **down from 1.5-2.0% to 1.0%**. This was due to:

- Slower-than-expected local economic recovery
- Weaker-than-expected global economic recovery
- Lower-than-expected passenger cars sales and car production
- Disbursement of fiscal year 2014 budget falling short of target
- Sluggish recovery of tourism sector

The 2014 growth forecast of 1.0% would constitute the lowest growth since 2011 when the country was devastated by floods, and also the lowest slowest pace among Southeast Asian economies this year.

**Headline inflation is forecasted** to remain subdued **at 2.1%** compared with 2.2% in 2013.

The Thai **economy** is projected to **expand 3.5-4.5% over 2015**, with **headline inflation** between **1.4-2.4%**. The more optimistic outlook is based on expectations of various engines of growth stepping up (exports, government expenditure and investments), as well as a drop in crude oil prices.

*Comment: More recent data suggest the outlook for the year will likely fall in line with NESDB's projection, with positives counterbalanced by negatives. There is however, the possibility of growth exceeding NESDB's 2015 projection.*

*October auto sales continued to disappoint. Sales fell 20.4% YoY, from 88,989 to 79,850. Industry experts have commented that even accounting for the expected boost from motor expos sales will likely fall short of the latest prediction by Toyota of 920k vehicles, more likely coming in at around 800k. The outlook for next year, however, is better as disposable income strengthens and interest rates remain low.*

*Regarding tourism, recent comments from Deputy PM and Commerce Minister that martial law will likely persist in full force for a year, highlights some obstacles to boosting foreign visitors numbers, at least for the remainder of 2014. Schemes launched by the government recently, however, such as the visa-waivers for Chinese and Chinese-Taipei tourists, have proved successful, and should boost visitor numbers further over 2015.*

Meanwhile exports have already shown signs of surprising strength, with October figure growing 3.97% YoY and beating expectations, led by US-bound exports growing 6.4%. With the US economy steadily strengthening, and with Japan's looking to pick up, exports should continue to outperform over 2015.

We have revised our 2014 growth forecast down to 1.0% from 1.8% but maintain our 2015 projection of 5.1%.

**Table 2: Exports growth by major markets**

(% YOY)	NESDB Projections Revision		
	Aug 19th FY14	Nov 17th FY14	Change
GDP (at 1988 price)	1.5-2.0	1.0	-0.5
Total Investment (at 1988 price)	-2.0	-1.9	0.1
<i>Private</i>	-2.9	-1.0	1.9
<i>Public</i>	1.0	-5.0	-6.0
Total Consumption (at 1988 price)	1.3	1.2	-0.1
<i>Private</i>	0.8	0.7	-0.1
<i>Public</i>	3.7	3.6	-0.1
Export of Goods (USD)	2.0	0.0	-2.0
<i>Volume</i>	3.0	0.9	-2.1
Import of Goods (USD)	-4.9	-6.5	-1.6
<i>Volume</i>	-4.4	-5.8	-1.4
Current Account to GDP (%)	2.6	2.9	0.3
Inflation	1.9-2.4	2.1	0.2
Unemployment rate	0.9	0.9	0.0

Source: NESDB

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2013.



ADVANC	BTS	GRAMMY	MCOT	PTT	SC	SSI	TMB
AOT	CIMBT	HANA	MINT	PTTEP	SCB	SSSC	TNITY
ASIMAR	CK	HEMRAJ	NKI	PTTGC	SCC	SVI	TOP
BAFS	CPF	ICC	NOBLE	QH	SCSMG	SYMC	TRC
BANPU	CPN	INTUCH	PAP	RATCH	SE-ED	TCAP	TRUE
BAY	CSL	IRPC	PG	ROBINS	SIM	THAI	TTW
BBL	DRT	IVL	PHOL	RS	SIS	THCOM	TVO
BCP	DTAC	KBANK	PR	S&J	SITHAI	THRE	UV
BECL	EASTW	KKP	PRANDA	SAMART	SNC	TIP	VGI
BKI	EGCO	KTB	PS	SAMTEL	SPALI	TISCO	WACOAL
BROOK	ERW	LPN	PSL	SAT	SPI	TKT	



2S	ASP	CHOW	GBX	JUBILE	LRH	NMG	PPP	SINGER	TCP	TOG	UAC
ACAP	AYUD	CM	GC	KBS	LST	NSI	PREB	SIRI	TF	TPC	UMI
AF	BEC	CNT	GFPT	KCE	MACO	NWR	PRG	SKR	TFD	TPCORP	UMS
AHC	BFIT	CPALL	GL	KGI	MAJOR	OCC	PT	SMT	TFI	TPIPL	UP
AIT	BH	CSC	GLOW	KKC	MAKRO	OFM	PYLON	SNP	THANA	TRT	UPOIC
AKP	BIGC	DCC	GOLD	KSL	MBK	OGC	QTC	SPCG	THANI	TRU	UT
AMANAH	BJC	DELTA	GSTEL	KWC	MBKET	OISHI	RASA	SPPT	THIP	TSC	VIBHA
AMARIN	BLA	DTC	GUNKUL	L&E	MFC	PB	SABINA	SSF	TICON	TSTE	VIH
AMATA	BMCL	ECL	HMPRO	LANNA	MFEC	PDI	SAMCO	STANLY	TIPCO	TSTH	VNG
AP	BWG	EE	HTC	LH	MODERN	PE	SCCC	STEC	TK	TTA	VNT
APCO	CCET	EIC	IFEC	LHBANK	MTI	PF	SCG	SUC	TLUXE	TTCL	YUASA
APCS	CENTEL	ESSO	INET	LHK	NBC	PJW	SEAFCO	SUSCO	TMILL	TUF	ZMICO
ASIA	CFRESH	FE	ITD	LIVE	NCH	PM	SFP	SYNTEC	TMT	TWFP	
ASK	CGS	FORTH	JAS	LOXLEY	NINE	PPM	SIAM	TASCO	TNL	TYM	



A	ASIA	CITY	EASON	HTECH	KASET	MJD	PL	SF	SVOA	TMI	UOBKH
AAV	BAT-3K	CMR	EMC	HYDRO	KC	MK	POST	SGP	SWC	TNDT	UPF
AEC	BCH	CNS	EPCO	IFS	KCAR	MOONG	PRECHA	SIMAT	SYNEX	TNPC	UWC
AEONTS	BEAUTY	CPL	F&D	IHL	KDH	MPIC	PRIN	SLC	TBSP	TOPP	VARO
AFC	BGT	CRANE	FNS	ILING	KTC	MSC	Q-CON	SMIT	TCCC	TPAC	VTE
AGE	BLAND	CSP	FOCUS	INOX	KWH	NC	QLT	SMK	TEAM	TPP	WAVE
AH	BOL	CSR	FPI	IRC	LALIN	NIPPON	RCI	SOLAR	TGCI	TR	WG
AI	BROCK	CTW	FSS	IRCP	LEE	NNCL	RCL	SPC	TIC	TTI	WIN
AJ	BSBM	DEMCO	GENCO	IT	MATCH	NTV	ROJNA	SPG	TIES	TVD	WORK
AKR	CHARAN	DNA	GFM	JMART	MATI	OSK	RPC	SRICHA	TIW	TVI	
ALUCON	CHUO	DRACO	GJS	JMT	MBAX	PAE	SCBLIF	SSC	TKS	TWZ	
ANAN	CI	EA	GLOBAL	JTS	MDX	PATO	SCP	STA	TMC	UBIS	
ARIP	CIG	EARTH	HFT	JUTHA	PRINC	PICO	SENA	SUPER	TMD	UEC	

Score	Range Number of Logo	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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