Firms Remain Cautiously Optimistic

Outlook for Q4 2013 - Key Highlights

- Composite Business Optimism Index decreases by 7% (q-o-q) and decrease by 10% (y-o-y)
- Five of the six Optimism indices registered a decrease (q-o-q) except Inventory level
- Net profits and selling price registered the largest optimism index at +25% and +23%
- Companies are least optimistic about inventory levels with an index of -7%

In the second quarter of 2013, Thailand’s economic growth slackened further to 2.8% from 5.4% in the first quarter of 2013. Such deceleration was largely a consequence of a notable slow-down of household consumption (which grew by 2.4% versus 4.4% in the Q1 2013) and a severe contraction in exports of goods and services (which fell 3.9%, compared to a 9.0% expansion in the previous quarter). High leverage of household debt together with declining consumer confidence led to prudent spending. Meanwhile, exports suffered from sluggish global demand, especially from China, resulting in reduction of both agricultural and manufactured exports. The above-mentioned slower pace of Thai economic activities in Q2 2013, as officially reported by the Office of the National Economic and Social Development Board (NESDB), corresponded well to the result of the Business Optimism Index (BOI) survey result. As for the second half of 2013, strong adverse effects from the severe flood are widely felt as verified by declining indexes of private consumption and industrial production. Unsurprisingly, most concerned parties lower their estimates of real economic growth rate in 2013 to around 3.5%. However, CPI inflation rate fell in return, from 3.0% in 2012 to 2.4% in the first nine months of 2013. Nevertheless, Thailand’s economy is expected to experience a rebound of GDP growth in 2014 to approximately 5.2% with expected several favorable factors.

The cumulative trade balance from January to August 2013 posted a slightly deficit of US$ 0.51 billion. However, the current account deficit reached US$ 6.8 billion largely due to gold speculation and remittances of profits plus dividends. Fortunately, both public and private entities borrowed sizable funds (US$ 6.6 billion) from abroad, thus restraining the balance of payments deficit to only US$ 0.17 billion. As the Bank of Thailand’s foreign exchange reserves constantly amount to US$ 170 billion (spot) plus US$ 20 billion (forward), it is expected that most imbalances on the Balance of Payment Account can be easily cushioned. That is particularly so since the current exchange rate policy, which is market-oriented, continues to be adopted. As regards to the outlook next year, the IMF predicts a better perspective for global trade transactions. And even though the Thai government will undertake several mega projects which could induce some current account deficit, substantial fund inflows will be tapped to the extent that the baht value may appreciate to some degree.
A net balance of +23% of the companies interviewed are expecting higher sales volume in Q4 (27% pessimists vs. 50% optimists) while nearly all of the sectors have the same view on this except transportation and mining sectors (-6% and -25%) The most optimistic sectors are utilities (+100%), construction (+83%) and services (+82%). Looking at data from Q3 2013, the index of financial sector falls from +73% to +24% in Q4 as banks are more aware of credit risks which results in a more stringent process on loan approvals. This is also echoed by the construction sector (-17% from Q3 2013) as constructors are anticipating the real estate bubble.

The overall net profit is expected to rise as reflected in the Q4 index at +25% led by the utilities sector (net +100%) and the construction sector (net +83%) However there are also sectors whose index has decreased such as the mining sector (net -38%) and the transportation sector (net -19%) The rise in net profits in the construction and the utilities sectors is due to the government’s investments on water management and mega infrastructure projects. On the other hand, the fall in the mining sector is due to a decrease in domestic demand.

The number of optimists (weighted 41%) compared to pessimists (17%). The most optimistic sector is the services sector (net +82%), followed by the real estate sector (net +80%) This is caused by the rise in employee’s wages and salaries as part of the government’s initiative to raise the minimum salary for graduates. Meanwhile, the rise in real estate prices especially condominiums which are situated along the BTS sky train and the MRT underground network, coupled with the higher prices of construction materials, also contributed to the higher index for the real estate sector.
Local manufacturers are expecting an expansion in new orders (net +22%) while those who expect the situation to remain unchanged stands at 24%, the remaining are split between 49% optimistic and 27%. Although many analysts have forecasted a lower than expected GDP growth for 2013, there are still new orders coming in from both domestic and international markets with some manufacturers already taking orders for next year. In addition, more products are being launched in the market especially in the FMCG sectors as companies rush to gain an early market share for their new products during the New Year's holiday.

Note: Only manufacturing companies are surveyed for new orders.

There are mixed opinions on inventory levels for Q4 2013, although the overall data suggests that this would decrease (net -7%). Those sectors with falling inventory levels are wholesale and retail sector (-33%), mining sector (-25%), and agricultural sector (-18%). However, there is a significant increase in inventory levels of the fishing and utilities sector as there are more local and international demands for seafood but issues regarding fluctuating prices in the global market should not be overlooked. As for the utilities sector, this is caused by a large injection of investment on projects that awaits investment benefits such as electricity general projects and air transportation of freight as airlines rush to purchase more aircrafts to cope with increasing demand.

All the sectors are anticipating a rise in employment (net +25%) with 39% optimists compared to 14% pessimists. A rise in employment level is led by the utilities and manufacturing sectors (both at +67%) followed by the services sector (+ 55%). The reason behind the rise in employment in the services sector is due to expanding on travelling sector (+28% compare y-o-y). Furthermore, the rise in employment in utilities and manufacturing factors is linked with increasing demands for products along with the government’s investment in infrastructure projects.
Business Optimism Index (BOI) Report

D&B Optimism Index report is recognized as a product, which measures the pulse of the business community and serves as a reliable benchmark for investors. The D&B Optimism Index is arrived at on the basis of a quarterly survey of business expectations. Over time, this quarterly survey has emerged as a leading indicator of turning points in economic activity in countries which it is published.

Methodology

For the purpose of conducting the survey, a sample is randomly selected from D&B database, consisting of companies belonging to the following sectors including Agriculture (Agr.), Fishing, Mining, Manufacturing (Mfg.), Utilities, Construction (Cons.), Wholesales & Retails (Whl.&Rtl.), Services (Svs.), Transportation (Trns.), Finance and Real Estate (R.Estate).

All the respondents in the survey are asked six standard questions regarding their expectations as to whether the following critical parameters pertaining to their respective companies will register an increase, decline or show no change in the ensuing quarter as compared to the same quarter in the prior year: Volume of Sales, Net Profits, Selling Prices, New Orders, Inventory Levels, and Employees. The individual indices are then calculated by subtracting the percentage of respondents expecting decreases from those expecting decreases.

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