

Confidence in new government sees onset of recovery

Outlook for Q4 2014

- Key Highlights

- The Thai economy is expected to expand by about 2.0 - 2.5% (y-o-y) or 1.0 - 1.5% (q-o-q) this quarter.
- All indices increased compared to 3Q2014 (q-o-q) except Inventory Levels which trended downwards.
- The Services sector enjoyed the largest index expansion overall while the Mining sector suffered the worst index contraction.

The Thai economy is expected to expand by about 2.0 - 2.5% (y-o-y) or 1.0 - 1.5% (q-o-q) this quarter barring several hurdles which could potentially derail its recovery. The positive outlook is attributed to increasing political stability due to more clarity in the formation of the government leading to more confidence in the national reform plan and the 2015 budget expenditure plan. Since September 1, 2014, a full government administering all national affairs has been formed. The new Thai Government has been widely welcomed by the majority of the Thai people, while recognition and acceptance by foreign countries have increased tremendously after the government implemented various reform plans with no violent incidents. This has resulted in greatly improved trade confidence and foreign investment. Furthermore, the presence of a stable government will help boost the efficiency of policy-making and implementation of economic stimulus measures. One of the measures is an expanding fiscal policy to increase employment. The government also aims to negotiate with foreign trade partners for increased farm goods exports in order to resolve the problem of falling prices of agricultural products.

Not surprisingly, there are signs of recovery in the second half of the year, underpinned by a recovering world economy

since the second quarter of this year. Although the recovery is uneven and there are some hiccups along the way, Thailand's economy is expected to do better going forward based on the trends up to the first 9 months of this year.

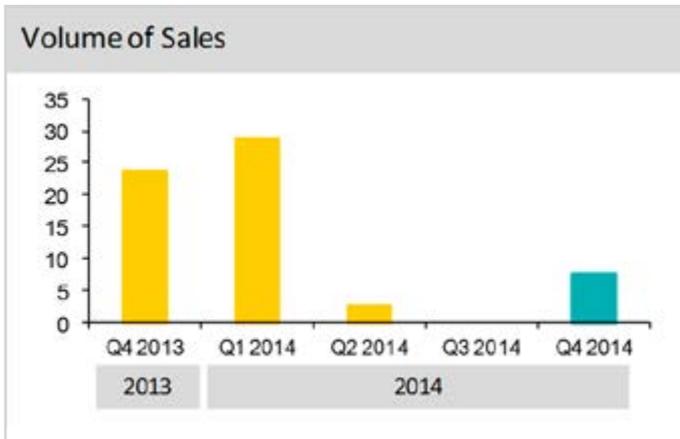
In the 2nd quarter, Thailand's exports to important trade partners' markets registered increases y-o-y (4.9% for the United States, 11% for the European Union and 7.2% for the Middle East). Despite exports to China falling by 4.2%, Japan by 6.3% and ASEAN by 0.1%, Thailand's exports this quarter is expected to expand by about 5-6% y-o-y, underpinned by the overall recovering world economy.

Potential Hurdles

- Inflation: As the 4th quarter is the winter period for the Northern Hemisphere countries which are home to the majority of the world's population, the demand for energy-related goods is set to soar, potentially causing oil prices and consequently production costs to rise, which in turn pushes up the inflation rate.
- Employment: As investment in Thailand has been on the downtrend, employment has correspondingly slowed down. Although the unemployment rate is not yet overly high, if left unattended, it could adversely affect the aggregate demand, resulting in chronic unemployment problems.
- Falling farm product prices: This is a critical problem because most Thai people are still engaged in the farming sector. In the 2nd quarter, the Farm Goods Prices Index dropped by 12.1%, causing farmers' incomes to shrink by 11.5%.
- Overseas conflicts: These continue to be a significant risk factor impacting the world economy, particularly those in the Middle-East, and the Ukraine and Russia which could deteriorate into war. Additionally, the uncertain outcome of the Hong Kong protests could potentially affect China's relations with the West.

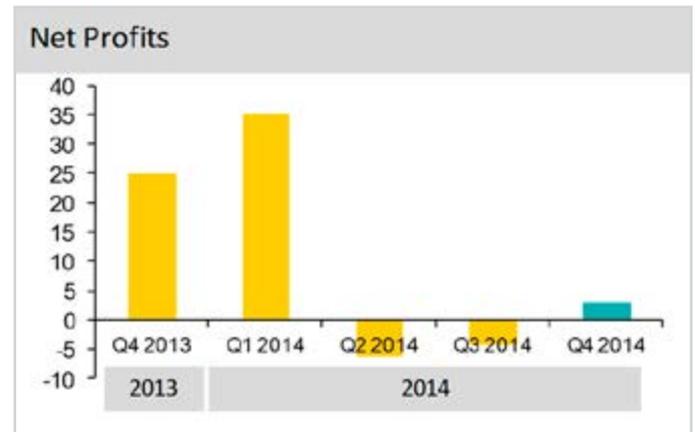
Volume of Sales

The growing confidence in the national reform plan resulted in the respondents expecting the Volume of Sales to increase by 8 percentage points compared to the previous quarter but when compared y-o-y, the sales volume still showed a drop of 16 percentage points, indicating that the economy is still not out of the woods yet. Respondents in the Services sector were the most optimistic with 100% indicating sales will improve this quarter, followed by Construction (60%) and Finance (47%). On the other hand, the Mining and Manufacturing sectors were even more pessimistic than the previous quarter, anticipating a fall in sales of 16% and 10% respectively.



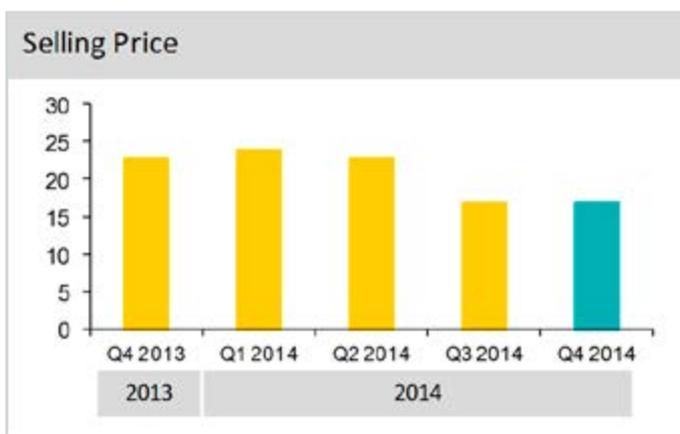
Net Profits

In line with the trend in Volume of Sales, the Net Profits index improved by 7 percentage points compared to the previous quarter but still fell short by 22 percentage points when compared with 4Q2013 (y-o-y). Again, the Services Sector is brimming with optimism, with all respondents anticipating Net Profits to rise this quarter. This is followed by Finance with 61% of the respondents looking forward to a rise in profits. As in the case of Volume of Sales, increased clarity in the formation of the government and the 2015 budget expenditure plan contributed to the renewed optimism in these sectors. This contrasts markedly with the Mining and Agriculture & Fishing sectors which saw optimism plummet to 23% and 21% respectively compared to the previous quarter.



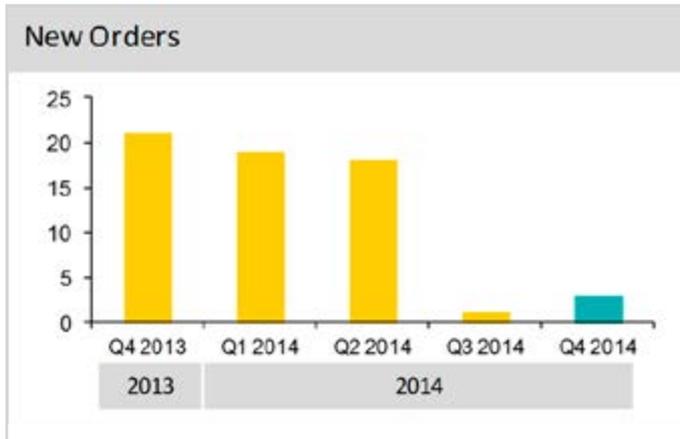
Selling Price

The Selling Price index is unchanged at 17% which is similar to the last quarter but down 6 percentage points from 4Q2013 (y-o-y). Overall, 54% forecast no change in the Selling Price this quarter. As with Volume of Sales and Profits, the respondents in the Services sector are the most optimistic (58%) followed by the Real Estate Sector (39%). In contrast, respondents in the Mining Sector were the most pessimistic followed by the Finance Sector with both sectors predicting falls in Selling Prices compared to the last quarter. 76% of respondents in both sectors anticipate no change in the Selling Price.



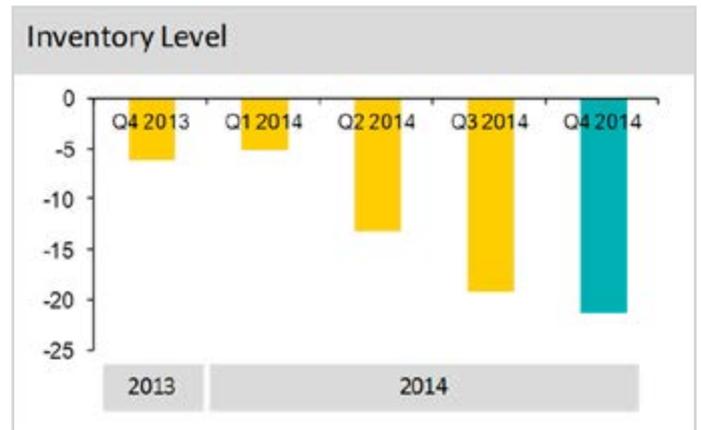
New Orders

Overall, New Orders saw an uptick in optimism with 2 percentage points increase this quarter compared to the last quarter but still registered a drop of 18 percentage points compared to 4Q2013 (y-o-y). Respondents were equally divided over whether New Orders will increase, decrease or remain unchanged, with a very slight bias towards a rise. The Services sector was all flushed with optimism with 100% of respondents looking forward to a rise in New Orders, followed by Construction (60%). On the other hand, Mining's gloomy outlook extends to New Orders with a further plunge in confidence (- 31%) followed by Manufacturing (- 17%) compared to the last quarter (- 8% and 0 %) respectively.



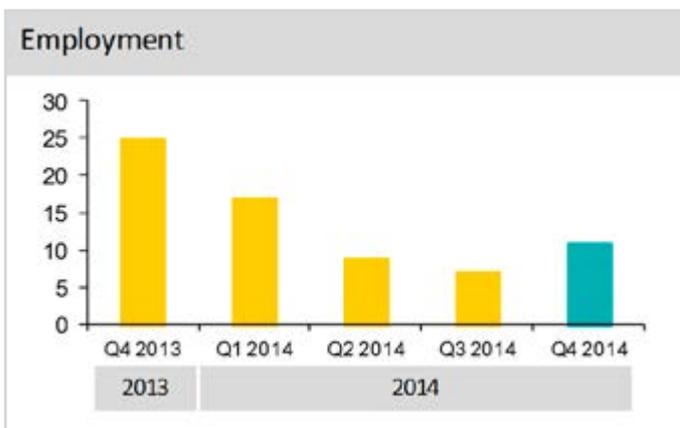
Inventory Level

Inventory Levels extend its fall even further this quarter plunging to -21%, a drop of 2 percentage points from last quarter and a huge -15% percentage points fall from 4Q2013 (y-o-y). It's the only index registering a fall among all the other indices. The biggest drops were recorded by Wholesaling & Retailing (-40%) followed by Agricultural and Fishing (-34%). Bucking the trend was the Mining Sector which predicted a rise in Inventory Levels this quarter (15%) due to a lack of sales and New Orders.



Employment

Confidence returned to the Employment sector in line with the uptrend in Volume of Sales and New Orders. Compared with the last quarter (7%), there was a slight improvement of 4 percentage points but still falls short of the 25% recorded in 4Q2013 (y-o-y). Respondents in the Construction (40%) sector followed by Utilities (33%) were the most optimistic, most likely buoyed by better economic conditions ahead. In contrast, the Transportation sector expects fewer hires this quarter with 60% anticipating the situation to remain unchanged while an overwhelming 91% in the Services sector expect the current hiring rate to stay the same.



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, Construction, Electric, Finance, Manufacturing, Mining, Services, Transportation, and Wholesalers.

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 increases. Unless otherwise stated, increases and decreases in indices represent changes from the previous quarter.

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