Economic Outlook & SME Focus Through Big Data

Prepared by: TMB Analytics
Date: 31 May 2017
Global Economy
Interest Rate Outlook
FX Trend
Brighter Economic Outlook Leads to Hawkish Policies

### Key Factors for Policy Rate Direction

#### GDP growth
- **Fed's Projection**
  - 2017: 2.1%
  - 2018-2019: 2.0%
- **TMBA's Projection**
  - 2017: 3.3%
  - 2018-2019: 3.7%

- **Strong demand recovery in 2018**

#### Inflation rate
- **Fed's Projection**
  - 2017: 2.0%
  - 2018-2019: 2.0%
- **TMBA's Projection**
  - 2017: 1.7%
  - 2018-2019: 2.2%

- Data source: Minute of FOMC March 14-15, 2017; Bank of Thailand, CEIC, and TMB Analytics, as of May 2017

#### Unemployment rate
- **Fed's Projection**
  - 2017: 4.5%
- **TMBA's Projection**
  - 2017: 4.3%

- GDP on growth momentum. (1.8% long run growth)
- Inflation reaches Fed's target at 2%.
- Unemployment rate continues to drop. (4.8% long run unemployment rate)
Brace For New Regime: When Fed Rate Higher Than BOT Rate

**Federal Funds Rate**

- % year end
- **Thai policy rate**
- **Fed funds rate**

*Projection of Fed funds rate is from FOMC’s projection as of March 2017*
*Projection of Thai policy rate is from TMBA’s projection as of May 2017*

**Thai-US Policy Rate Differentials**

- % year end
- **Projection**
- US policy rate is higher than Thai policy rate

*Thai RP minus US Fed funds rate

**Entering rising rate environment**

- Acceleration in **US rate hike** puts pressure on **Thai policy rate** as fund outflows could be intensified
- **Thai economic expansion** leads to **rising inflation.**
- **Thai policy rate uptrend** to begin in 2018

Data source: Minute of FOMC March 14-15, 2017; Bank of Thailand, TMB Analytics, as of May 2017
THB Weakness: Limited by Robust Domestic Fundamentals

Fed hiked policy rate by 25bps and planned to raise the rate 75bps in 2017

Trump presidency leads to EM sell-off

2 Hikes (No B/S reduction in 2017) Trump budgets less than what he proposes

Only June Hike as Fed fear weak inflation Trump dislikes strong dollar

2 Hikes and B/S reduction in 2017 + Pro-growth agenda all pass congress

Fed’s Aggressive & Trumponomics

2 Hikes & Trump Lite

Trump’s Weak USD & Dovish Fed

Strong Thai Baht
- Geopolitical Risks
- Trump “Too Strong Dollar”
- Robust Thai economy and high C/A surplus

THB Risk Factors

Weak Thai Baht
- EM Risk-Off from China Debt Bomb
- Pro-growth Trumponomics
- Underestimated US inflation
- Fed’s Tightening Cycle with B/S reduction

Source: CEIC and TMB Analytics; as of May 2017
Domestic Economy

Growth Engines

2017 Export Trend
2017 Growth Engines: Tourism and Public Investment

Growth (%share)

<table>
<thead>
<tr>
<th></th>
<th>7</th>
<th>19</th>
<th>51</th>
<th>57</th>
<th>16</th>
<th>18</th>
<th>53</th>
<th>12</th>
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<tbody>
<tr>
<td>Size</td>
<td>9.9</td>
<td>9.5</td>
<td>7.8</td>
<td>13.5</td>
<td>3.1</td>
<td>3.1</td>
<td>2.9</td>
<td>2.0</td>
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<tr>
<td></td>
<td>0.5</td>
<td>3.7</td>
<td></td>
<td></td>
<td>1.5</td>
<td>1.0</td>
<td>0.4</td>
<td>1.0</td>
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<tr>
<td>USD</td>
<td></td>
<td></td>
<td>0.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.0</td>
</tr>
<tr>
<td>Growth</td>
<td>3.1</td>
<td>3.1</td>
<td>2.0</td>
<td>1.5</td>
<td>0.4</td>
<td>1.0</td>
<td>4.3</td>
<td>2.0</td>
</tr>
<tr>
<td>GDP</td>
<td>0.9</td>
<td>1.4</td>
<td>1.6</td>
<td>1.6</td>
<td>0.2</td>
<td>0.2</td>
<td>-2.2</td>
<td>-0.2</td>
</tr>
<tr>
<td>%yoy</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>3.3</td>
</tr>
</tbody>
</table>

High growth but small size

Source: NESDB, CEIC and TMB Analytics
Thai Export: Recovery … Not A Significant Boost

What is 2017 outlook for Thai Export?

<table>
<thead>
<tr>
<th>Market</th>
<th>Total +3.7 (2016 +0.5)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Able to grow from global demand recovery despite higher uncertainty from political and geopolitical risk</td>
</tr>
</tbody>
</table>

| Product | | |
|---------| | |
| **Rubber +38.5** | Rising demand for tire mfg from China and price increase |
| **Chemical +8.3** | Global economic recovery and increase in oil price which is expected to be 57 dollar per barrel at the end of 2017 |
| **Computer &Parts +6.3** | |
| **Electrical appliances +5.4** | |
| **Beverages +0.5** | Energy drink market growth contributes to overall growth |
| **Vehicles -0.9** | Drop comes mainly from middle east market |

Source: MOC CEIC and TMB Analytics
Private Consumption: Positive Surprises From Durable Consumptions

Private Consumption = Service (49%) + Non-Durable (30%) + Durables (11%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Durable</th>
<th>Non-Durable</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017F</td>
<td>3.1</td>
<td>1.00</td>
<td>2.10</td>
</tr>
<tr>
<td>2016</td>
<td>3.1</td>
<td>0.90</td>
<td>1.00</td>
</tr>
<tr>
<td>2015</td>
<td>2.2</td>
<td>0.90</td>
<td>0.60</td>
</tr>
<tr>
<td>2014</td>
<td>0.9</td>
<td>0.90</td>
<td>0.20</td>
</tr>
<tr>
<td>2013</td>
<td>0.9</td>
<td>0.90</td>
<td>0.20</td>
</tr>
</tbody>
</table>

Supporting Factors

Lower debt burden:
End of black-out period of the compulsory five-year ownership of the first-time car buyer scheme

Improvement in Farm Income:
Increase in commodity prices

Dampening Factors

High Household-Debt-to-GDP: 79.9%
Low Consumer confidence

Source: BOT, CEIC and TMB Analytics
Sluggish, though Improving, Growth for Private Investment

Private Investment = Construction (20%) + Equipment (80%)

Supported by:
- Public Investment
  - Infrastructure Projects
  - Mid-year Additional Budget

Supported by:
- Goods Exports
  - External Demand Improvement
  - Uncertainty from External Sector

Improvement is mainly from construction

%yoy

Source: NESDB, BOT, CEIC and TMB Analytics
SME Focus Through Big Data
SME’s Rising Concern on Cost

Top 3 of Concern Factors

<table>
<thead>
<tr>
<th>% Concern Factors</th>
<th>Economic Slowdown &amp; low purchasing power</th>
<th>66.2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>60.8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>57.0</td>
<td></td>
</tr>
</tbody>
</table>

Business Management Cost

<table>
<thead>
<tr>
<th>Cost</th>
<th>15.0</th>
<th>16.9</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>11.4</td>
<td>7.1</td>
</tr>
<tr>
<td></td>
<td>5.1</td>
<td>4.8</td>
</tr>
</tbody>
</table>

The Impact of Rising Concern On Cost

Cost

- Cost of Goods sold
- Labor Cost
- Oil Price
- Interest Rate

Business Management Cost

- Cash Conversion period
- Working Capital Needs
- Competitive Intensive
- Labor shortage

Note: TMB SME Sentiment Index Q1/2017

Source: TMB Analytics
Only 8% of SMEs Are Cream

Juristic SMEs: 350K+ firms

Cream SMEs: 28K firms (8%)

Services Have Higher Net Profit Margin

Net Profit Margin (%)

Debt To Equity Ratio

Manufacturing

9,500 firms

Services

1,500 firms

Trade

17,000 firms

Source: DSS and TMB Analytics
SMEs’ leverage (DE Ratio) is 3 times less than Corporates due to the lack of financial access.

SMEs take 1.5 times longer than Corporates to convert their raw materials into cash because of small bargaining power, and less efficient inventory management.

SMEs have a larger portion of current assets. In other words, they rarely have fixed assets to use as collaterals in getting loan.

Source: DSS and TMB Analytics
Thailand Going Forward: Thailand 4.0, Digital, Regionalization

SME Financial Performance

Future SME Business

3 Growth Factors
- E-Commerce
- E-Payment
- Border Trade Infrastructure & EEC
- Tourism SEZ
- Industry 4.0 & Super Clusters

3 Connectivities
- Digital Economy
- Regionalization
- Global Supply Chain

Source: TMB Analytics
Future SME Businesses

Source: TMB Analytics
THANK YOU

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## Global Recovery: Improving But Uneven

### United States
- Manufacturing sector keeps expanding but strong dollar could be an obstacle
- **Economy is projected to expand 2.3% in 2017** from 1.6% in 2016

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1.6%</td>
</tr>
<tr>
<td>2017</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

### Eurozone
- Stronger expansion among manufacturing and service sectors support EU recovery
- **Growth in 2017 is expected to recover by 2.0%** same as +2.0% in 2016

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<thead>
<tr>
<th>Year</th>
<th>GDP growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2.0%</td>
</tr>
<tr>
<td>2017</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

### Japan
- Economy is likely to sustain above 1.0% expansion in 2017
- Inflation and consumer spending gradually improve
- **Weak yen boosts Exports** and imports and strengthen recovery

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1.0%</td>
</tr>
<tr>
<td>2017</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

### China
- GDP is likely to grow by 6.6% in 2017 where growth story still broadly unchanged
- Rebound in industrial sector galvanize rising profits and debt-repayment ability
- **High corporate debt to GDP (156%) remains a terrifying risk**

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>6.7%</td>
</tr>
<tr>
<td>2017</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

Source: Bloomberg, and TMB Analytics’ projection
Tourism Remains Robust As Chinese Tourists Return

Number of Foreign Tourists and Revenue

- Number of tourists is expected to increase from 32.6 million to 35 million in 2017, while revenue is expected to grow from 1.7 to 1.8 billion baht.
- Negative effect on Chinese tourists from “Zero-Dollar” tour operation crackdown begins to fade and returns to normal.

Foreign Tourists Classified by Nationality

Index 2015 = 100 Seasonally Adjusted 3MMA

- European (19%)
- ASEAN (27%)
- East Asia (13%)
- China (27%)

Source: Department of Tourism and TMB Analytics
Infrastructure Projects

2017 Money injected

240 Bn

Land transport
- Pattaya-Maptatput
- Bangpa-In - Korat
- Bang Yai - Kanchanaburi

Double track
- Thai-China
- Jira-Khonkaen
- Mabkabao-Jira
- Nakhonpathom-Huahin
- Lopburi-Paknumpoe
- Prachub-Chumporn

Mass transit
- Pink
- Purple
- Dark Red
- Yellow
- Light Red
- Orange

Money Invested in Infrastructure Projects 2017-2023

Total 2.24 trillion (15.6% of GDP)

Source: FPO and TMB Analytics
Regional SME Businesses: Different Potentials, Different Needs

**Zoom In Business Potentials**

<table>
<thead>
<tr>
<th>Groups</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Potential</strong></td>
</tr>
<tr>
<td>Border Trade</td>
</tr>
<tr>
<td>Tourism</td>
</tr>
<tr>
<td><strong>Matured</strong></td>
</tr>
<tr>
<td>Urbanization</td>
</tr>
<tr>
<td>Infrastructure</td>
</tr>
<tr>
<td>Manufacturing Hub</td>
</tr>
<tr>
<td>Logistic Hub</td>
</tr>
<tr>
<td>High Population</td>
</tr>
<tr>
<td><strong>Challenged</strong></td>
</tr>
<tr>
<td>Agricultural-Based</td>
</tr>
<tr>
<td>Passage Way</td>
</tr>
<tr>
<td>Low Population</td>
</tr>
</tbody>
</table>

**Needs**
- Investment Incentive
- Industry 4.0
- Productivity Enhancement
- Supply Chain Government Support

Source: DSS and TMB Analytics
SME Business : Important Foundation of Thai Economy

Total Income of Thai Businesses

- 58% of 28 trillion baht
- 42% of 20 trillion baht

Number of Thai Businesses

- 1% of 4,000 enterprises
- 99% of 360,000 enterprises

Employment of Thai Enterprises

- 80% of 10.7 million people
- 20% of 2.6 million people

Source: DSS, OSMEP and TMB Analytics