



CHAPTER 3

Sentiment Indices of SMEs for 2017 and 2018

3.1 Trade & Services Sentiment Index for SMEs in 2017 and 2018

For 2017, analysis of the Trade & Services Sentiment Index (TSSI) for SMEs showed the current-month confidence level dropping below the 50 points base value for much of the year; it remained on the low side for three intervals of January – March, May – June and August – November. It was only in April, July and December that the index hovered above the base value. The TSSI for the year had its lowest value at 45.7 in September and highest peak at 54.7 in December.

- Positive factors for the index consisted of the following:
The boom in tourism that had continued from the year before and remained active throughout 2017 as a result of on-going promotional effort from the Thai government including a range of incentive measures designed to encourage both international and domestic tourism, such as special tax deduction packages to attract visitors to new travel destinations in regional cities, programs to promote community-based tourism and cultural tourism. A faster rate of export growth relative to the year before. Increases in private investment, which had continued from the year before albeit still at a low level, with its activity index recording a tiny 0.13% growth which was attributed to the still low rates of borrowing interest. Encouraging public sector investment, especially investment in large-scale transport projects and distributed regional investment schemes for the provinces many of which were in the process of receiving expedited budgetary allocations. Government's loan assistance to SMEs. And improving performance of the Stock Market.

- Negative factors comprised the following: Increases in fuel prices as well as the FT costing rates for electricity supply. Damage to farm production due to flooding in many provincial regions which had depressed the manufacturing price index which in turn had affected domestic consumption. To combat these negative effects, the Government implemented a range of measures to stimulate domestic consumption, for example: the carded welfare scheme for low income earners; tax deductible year-end shopping program, the farmers aid and flood impact mitigation scheme, and so on.

Components necessary for the derivation of the current-month sentiment indicators consist of sentiment indices in Sales, Employment, Investment, Cost and Profit — all of which are parameters for determining the TSSI Index. The dynamics of these parameters during the period from 2017 to 2018 are described below.

- Indices for sentiment in sales and profit: Both were seen to be moving in comparable amplitudes and directions. A pessimistic mood among entrepreneurs was reflected for 2017 - 2018 since both indicators had remained below the 50 point baseline for ten of the past 16 months and rising above it only in April, July and December of 2017 as well as January and March of 2018.

- Indices for sentiment in employment and investment: Movement of these indicators showed a stabilizing trend with their scores remaining in the vicinity of the baseline throughout; and in particular the investment sentiment index which was moving consistently in the positive zone.

- Index for sentiment in production cost: This indicator was the only one whose movement was confined below the 50-point baseline.

Analysis of the parameters' behavior revealed that the indices of sentiment in sales and profit as being the factors having a significant influence on the determination of the overall TSSI index.

TSSI index for the first quarter of 2018: The index indicated entrepreneurs' declining confidence over the current month as well as the 3 months forward-looking (F3) interval. This downward movement of the TSSI over both periods was most likely attributable to the influence of the indices for sentiment in sales and profit, both of which had shown excessive fluctuations over the year.

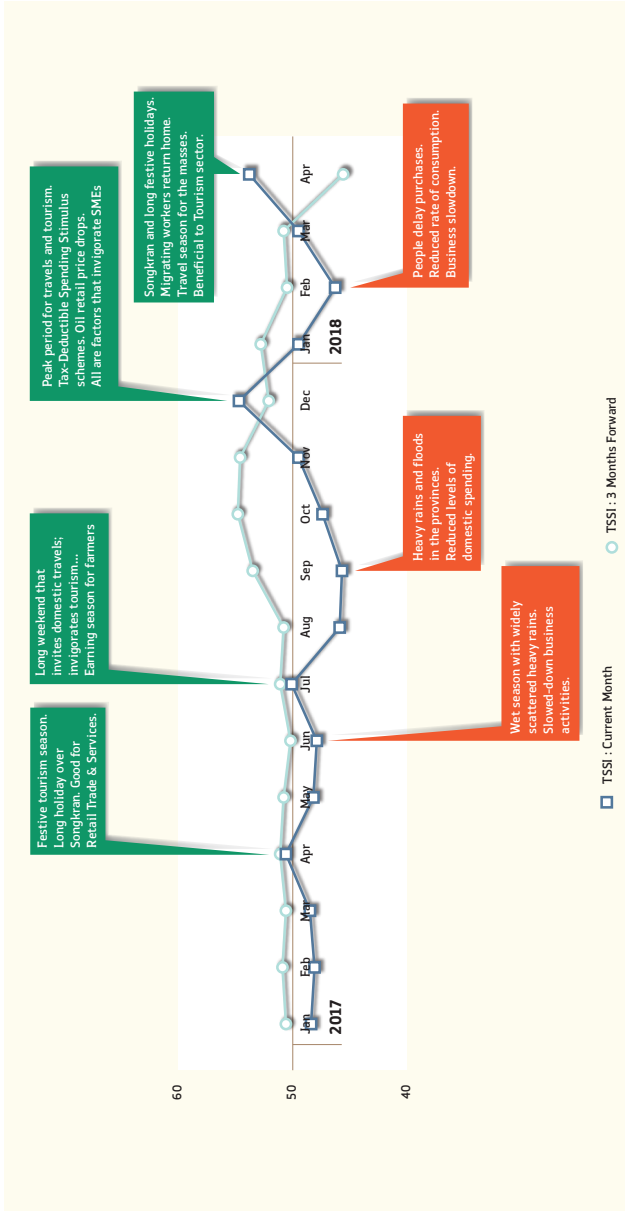
- Factors with likely impacts on the TSSI during first quarter of 2018: Positive influence on the index was quite likely coming from these factors: Government policies and measures designed to stimulate the economy and provide cost-of-living aid to low income earners. Government initiatives to encourage upgrades in entrepreneurs' business capacity and competitiveness using both monetary and non-monetary measures such as the provision of SME service centers, training courses in financial management and manufacturing standardization. Such measures have resulted in added liquidity in the economy through increases in domestic consumption as mirrored by the quarter's private consumption index which expanded by 3.27% over the same period of previous year. A slight appreciation in value of the baht was also noticed that testified to the net inflow of foreign exchange. In addition, satisfying growth was reported for the sectors of exporting and tourism with the latter showing a 15.39% expansion over the same period of the previous year.

- Factors with negative impacts on trade sentiment for the first quarter of 2018: The prospect of a basic wage adjustment raised concerns among the entrepreneurs as to any accompanying rise in their production cost, especially for the SME operators in the Trade and Services sectors where labor-intensive content is the norm and wages tied to the regulated basic rate, such as the businesses in Construction, Wholesale, Retail, and Catering. The still weak climate of private investment and slumping demand

for agricultural produce were also affecting trade confidence. The latter sector had been sustaining negative growths with its farm earning index showing a 4.83% drop which had accompanied the decline in produce price index of 12.27% from the same period of the previous year.

TSSI index for the second quarter of 2018: All sentiment indices are expected to move down for Q2 of this year. This is due to the return of domestic spending to its 'normal' level after the period of heightened consumption in Q1 where its celebratory mood and festive climate had persuaded a high level of consumption among the locals and foreign visitors alike. All Q2 sentiment indices should show a slight drop despite the arrival of the Songkran season which would serve to spark another round of heightened consumption. Notwithstanding the negative factors mentioned, the Thai economy should not fare too badly in Q2 given that the momentum of government stimulus programs would most likely continue to help push up the indices. For example, the Export sector is expected to continue strengthening after its sustained period of recovery stretching over five quarters. Public-sector initiatives designed to promote the SMEs, infrastructure mega-projects, in particular the Eastern Economic Corridor development scheme, are all being readied for immediate implementation. The recent basic wage adjustment would help to enhance the grass-roots purchasing power; while the tourism sector would continue as a major driver of the economy. Plans have been made to channel some tourism to the community level, and foreign buyers to new high-potential markets, as well as to attract tourism to new destinations in 55 sub-regional cities in order to stimulate regional economy, cash flow and employment. (Effective from January, 1 through to the end of 2018, travel expenses in these cities, up to 15,000 baht, may be brought forward for tax deduction.) Nonetheless, there still are concerns over issues that might act to depress entrepreneur confidence in Q2. These include the problem of produce prices that have plunged very low, which might impact the well-being of farmers; and the recent regulated basic wage increase which would drive up entrepreneurs' production cost even though some tax measures have been offered that may help to mitigate such impact.

Fig 3.1 : Trade and Service Sentiment Index for SMEs, January 2017 – April 2018



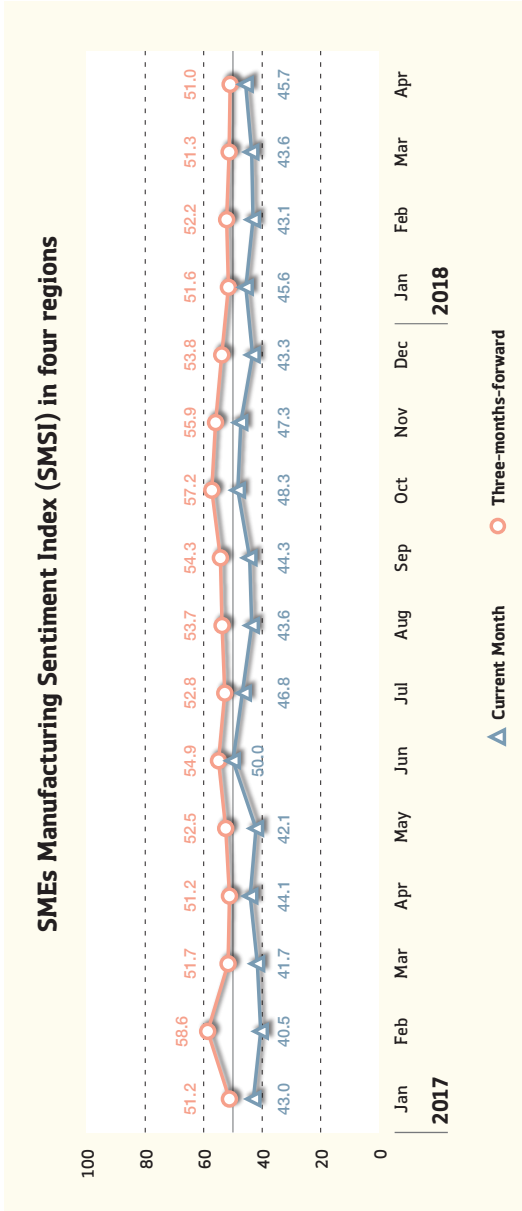
Source: Office of Small & Medium Enterprises Promotion (OSMEP)

3.2 SMEs Manufacturing Sentiment Index (SMSI) for 2017

OSMEP has worked with a number of regional universities to gauge the business sentiment of SMEs in the Manufacturing sector over a period covering the entire 2017 and extending to April of 2018. The study found that the SMSI scores persisted on the low side (scores less than 50) for much of the study period. The SMSI reached its lowest point in February of 2017, at 40.5; while its highest peak of 50 occurred in June. Accordingly the sentiment of Thai SMEs in the Manufacturing sector was confined to the low side although it began to show a rising trend in Q2 of 2018.

By contrast, the corresponding 3 months forward-looking index was entirely above the 50 point baseline, thus signifying a positive outlook of the entrepreneurs although in Q1 of 2018, the sentiment appeared to dip towards the baseline.

Fig 3.2 : SMEs Manufacturing Sentiment Index (SMSI) in four regions, January 2017 – April 2018



Source : Office of Small & Medium Enterprises Promotion (OSMEP)

Breakdown of the SMSI scores by region indicated that the SMEs were largely operating with a low level of confidence except those in the Central region where the index was displaying relatively stable movements with their scores clinging to the baseline and moderate variations month after month. Sentiment in the other regions showed a sensitivity of the SMEs to an array of factors, both positive and negative. The lowest confidence score was identified for the Northern Region where the average SMSI was a disappointing 37.4. Scores for the Northeast, South, and Central regions were 39.4, 50.7, and 50.7 respectively.

Compared with other regions, **the North** was where the SMSI averaged the lowest score over the study period (January 2017 - April 2018). The area's manufacturing sentiment had its highest peak at 51.3 in October of 2017 as a result of growths in the export-oriented manufacturing activities such as production of electronic components and lace fabrics.

Factors with possible impacts on the region's SME manufacturing operations span the whole range; from fuel and transportation costs, labor wages, to the rise and fall in market demand, domestic consumption as well as stimulus packages issued by the government. It should be noted that despite the rather low scores of the current-month index, the region's three-months-forward sentiment level was unexpectedly high which reflected the entrepreneurs' optimistic outlook for the future.

Manufacturing activities that contributed towards raising the indices are mainly in the production of computers, electronic components and electrical appliances. This group of businesses, by virtue of its being the prime economic driver for the region, has helped to induce the highest level of entrepreneur confidence leading to a positive adjustment in its overall sentiment score. Meanwhile, industries in Textile and Clothing production tended to have negative influences on the region's SMSI.

Northeastern Region: The area's SMSI figure over January 2017 to April 2018 was at a low level comparable to that of the North. For the Northeast, its SMSI soared above the baseline for the first time and reached 55.3 in January 2018, and immediately fell back in the following month. A trend of small increases was observed whereby the index rose to 43.6 in April 2018 which was due to a backlog of production orders that began the month before and continued well into April.

Manufacturing activities that contributed towards raising the indices are mainly in the production of textile and clothing articles. This group of businesses has created the highest level of entrepreneur confidence for the region, while industries in computer, electronic and electrical appliances production tended to have negative influences on the region's SMSI.

Southern Region: Entrepreneurs sentiment level over January 2017 to April 2018 was slightly above the baseline. The index was trending on a decline which had continued from its position in July 2017. Its lowest point, at 37.0, was reached in January 2018 as a result of the adverse impact of heavy rains during early to mid-January of 2018 which acted to depress the production of agricultural commodities especially the area's cash crops such as rubber latex. Increased production in the following months, for such commodities as rubber, palm oil and farmed prawns, was responsible for raising the index to the level of March 2018. Decline of palm oil production caused the index to dip again in the following month.

Manufacturing activities that contributed towards raising the indices are mainly in the production of computers, electronic and electrical appliances; and the making of parawood furnishing items. Activities that create the least degree of confidence were in the food and beverages industry.

Central, Eastern and Western provinces (excluding Bangkok): This province grouping was the single region where its SMSI measurement has been quite stable and consistently staying close to the baseline. Confidence level for the area from January 2017 to April 2018 averaged a score of 50.7, the highest as against those of other regions. Increasing trends of the index were noted with the figure rising to 52.9 in April of 2018. The region's superior score for its sentiment measurement has been due to the benefits from a range of positive factors in the area including the renewed growth in private consumption and investment as well as continuing expansion of the tourism sector.

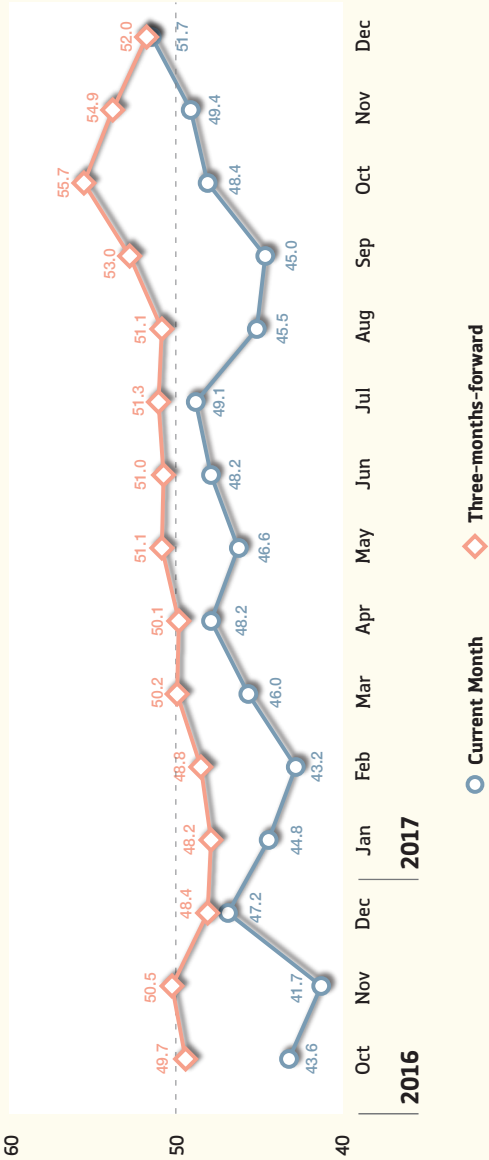
Manufacturing activities that contributed towards raising the sentiment indices were mainly in the production of computers, electronic and electrical appliances, while those that create the least degree of confidence were in the motorized vehicles and semi-trailers industry.

3.3 Composite Index for Thai SMEs in 2017

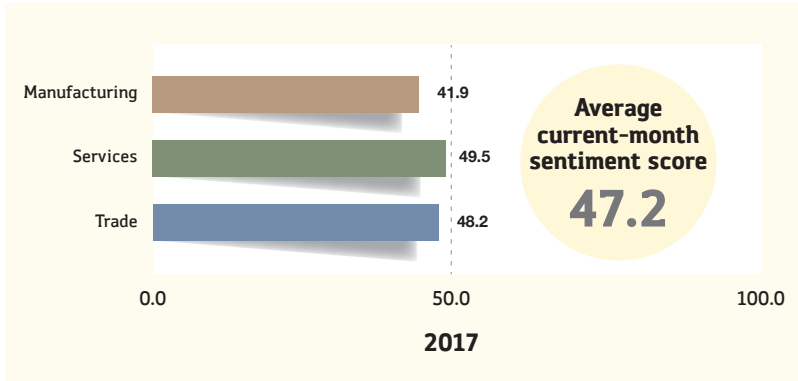
The Composite Index for SMEs is a statistical compilation prepared by the Office of Small and Medium Enterprises Promotion, or OSMEP. Derivation of this indicator involves the analysis and application of data from the SME Trade and Service Sentiment Index (TSSI) and the SME Manufacturing Sentiment Index (SMSI).

For 2017, the SME Composite Index produced an average current-month sentiment score of 47.2 and average three-months forward (F3) sentiment score of 51.5. Across the entire year, the current month sentiment of this particular index displayed an overall increasing trend with rising nodes occurring in March, April, June, July, October, November and December. Likewise, the F3 sentiment also showed an improving trend with rising nodes in January February, March, May, July, September and October. It should be noted, however, that the sentiment values of both scenarios were largely located below the 50 point baseline. This may be explained as the combined effect of a range of factors whose negative influence had worked to pull down the current-month sentiment index. Apart from the negative factors discussed at the beginning of this chapter, a careful analysis of the SME situation in 2016 - 2017 should point out that, during the year of this assessment, Thai entrepreneurs were suffering the impact of a stagnating economy at home which had left domestic consumption in a dormant state over an extended period. An agriculture sector that had been weakened by the problems of flooding at home and intensifying competition on the global market would have undergone a slump in sector earnings. In addition, a sudden increase in oil prices had occurred and continued throughout the year while the baht had strengthened against the currencies of our trading partners. All of these factors therefore accounted for the low levels of SME business confidence in 2017.

Fig 3.3 Composite Index for Thai SMEs in 2017



Components of Current-Month Composite Index



Components of 3-Months-Forward Composite Index

