OXFORD ECONOMICS

THE ECONOMIC IMPACT OF THE AGRI-FOOD SECTOR IN THAILAND

2022

FIA FOOD INDUSTRY ASIA

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EXECUTIVE SUMMARY

The Southeast Asian economy is enjoying an economic revival in 2022 as borders reopen, social distancing measures are ratcheted back, and businesses return to more "normal" operations in the transition to a post-pandemic environment. Sat at the heart of this national economy is the agri-food industry, which has played a crucial role in the country's resilience throughout the past two years of the pandemic and is central to its future trajectory, too. The sector not only puts food on the table for the region's population, but also provides income and employment for a large portion of its workforce and a multitude of opportunities to businesses at each stage of the agri-food value chain.

As the industry looks forward, it faces significant risks on the horizon that threaten its growth. From inflationary pressures to demographics and policy risks, the implications matter not only to the livelihoods of agri-food industry entrepreneurs and employees but, given the size of the sector and its role in supply chains, the wider economy too.

Oxford Economics was commissioned by Food Industry Asia (FIA) to assess the total economic impact in 2021 of the agri-food sectors in five major Southeast Asian economies: Indonesia, Malaysia, the Philippines, Thailand, and Vietnam. In this report, we unpack the importance of the sector's contribution to Thailand's economy, and its future trajectory.

US$129 bn

The agri-food sector's total contribution to 2021 GDP in Thailand (in 2021 prices).

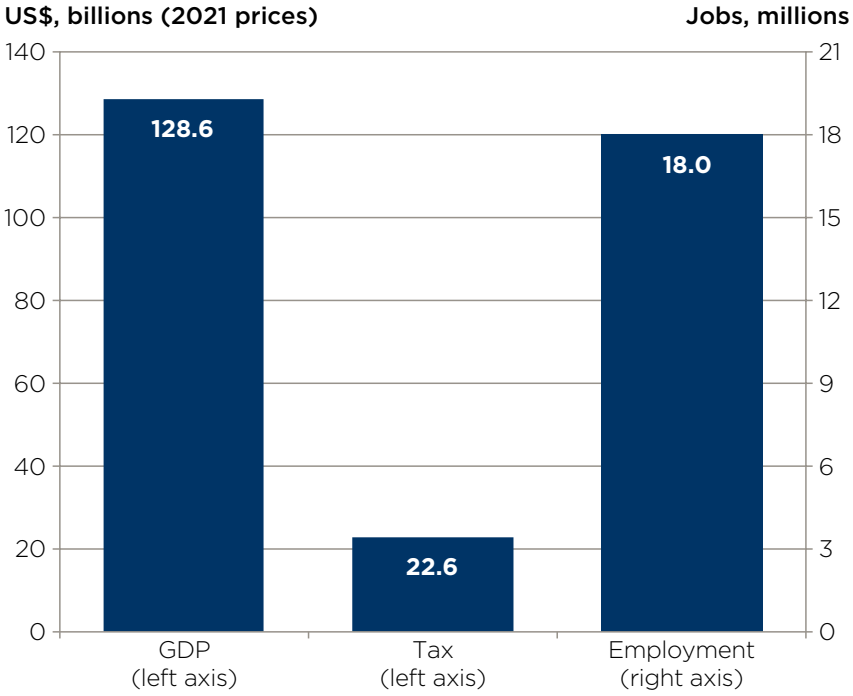
THE AGRI-FOOD SECTOR'S ECONOMIC IMPACT

In this analysis, we define the agri-food sector to be the combination of three components: agricultural production; food and beverage (F&B) manufacturing; and F&B distribution (including wholesale, retail, and hospitality services).

In 2021, Thailand's agri-food sector contributed USD 128.6 billion towards Thailand's GDP, the equivalent to almost a quarter of the whole economy that year. It also supported a total of 18.0 million jobs that year, representing almost half of the total jobs in the economy. In addition to this, the sector generated USD 22.6 billion worth of tax revenues.

Agricultural production was responsible for 43% of the agri-food sector's contribution to GDP in Thailand in 2021. This amounted to USD 54.7 billion, with USD 42.9 billion coming from its direct footprint, USD 6.7 billion from its indirect supply chain impacts and USD 5.1 billion from the induced impacts, caused by the wage spending of employees. Overall, the sector supported a total of 12.4 million jobs, of which 11.9 million were from direct agricultural activities.

Fig. 1: Total economic contribution of the agri-food sector in Thailand, 2021



Source: Oxford Economics

18 million

Total number of jobs supported by the agri-food sector in Thailand in 2021.

Manufacturing of F&B products made a total contribution to GDP worth USD 45.7 billion in 2021. This was primarily driven by a direct contribution worth USD 25.8 billion, however its supply chain is also significant, totalling USD 16.1 billion. The sector supported a total of 2.1 million jobs across direct, indirect and induced channels.

F&B distribution contributed USD 28.3 billion to the Thai economy in 2021, representing 22% of the agri-food sector's combined contribution to GDP. The retail and wholesale channels accounted for USD 18.8 billion, while the rest was generated by catering and accommodation services. Wholesale and retail activities sustained a total of 1.7 million jobs, while 1.8 million were sustained by accommodation and catering activities.

Thailand's agri-food sector has historically been a significant net-exporter of F&B products. The net exports value contracted in 2019 with the onset of the pandemic but has since recovered in 2021 with a surplus of USD 19.9 billion. The surplus was primarily driven by processed F&B goods, with a surplus worth USD 18.8 billion in 2021, while the remaining USD 1.1 billion was from agricultural products.

Despite a contraction in 2020, the sector bounced back quickly and grew by 5% in 2021, with an economic footprint worth USD 128.6 billion, only 1% lower than its peak in 2018. Agricultural activities continued to grow despite the pandemic (in real terms), while F&B manufacturing t recovered strongly in 2021. However, F&B distribution was harshly affected. Employment in the sector proved resilient; the total number of jobs it supported dipped slightly in 2020 but rose to 18.0 million in 2021. The growth in the sector's GDP footprint despite this stable employment indicates a growth in productivity over time.

"As borders begin to reopen and countries remove social distancing restrictions, Thailand's agri-food sector still faces significant headwinds that pose a risk to recovery."

OUTLOOK FOR AGRI-FOOD DEMAND IN THAILAND

As borders begin to reopen and countries remove social distancing restrictions, Thailand's agri-food sector still faces significant headwinds that pose a risk to recovery. Inflationary pressures from home and overseas will act as a drag on consumer spending. Nevertheless, with broader economic recovery underway, and supported by the crucial tourism sector, Oxford Economics anticipates spending on food and non-alcoholic beverages in Thailand to grow from USD 57 billion in 2022 to around USD 62 billion in 2025, in 2021 price terms. In the longer term, the sector requires high levels of investment and innovation to raise productivity as labour becomes more scarce. Therefore, whilst the macroeconomic drivers for demand in the agri-food sector look robust, the conditions and emerging risks on the supply-side of the industry could continue to create challenges in the years to come.

THE AGRI-FOOD SECTOR IN THAILAND

TOTAL ECONOMIC IMPACT

Agricultural production · F&B manufacturing · F&B distribution

A total contribution to GDP worth $128.6 billion

$54.7bn $45.7bn $28.3bn

Thailand's agri-food sector accounts for **a quarter of the economy's GDP**.

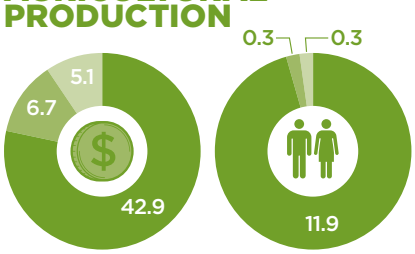
A total employment footprint of 18.0 million

12.4 mn 2.1 mn 3.4 mn

The sector is dominated by its massive agricultural sector, which makes up **two thirds** of its jobs.

FROM FARM TO FORK

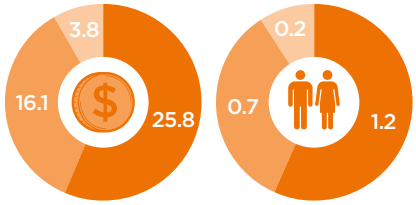
AGRICULTURAL PRODUCTION



$54.7 billion 12.4 million

Direct · Indirect · Induced

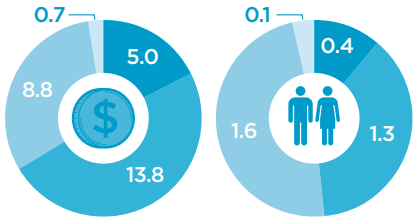
FOOD & BEVERAGE MANUFACTURING



$45.7 billion 2.1 million

Direct · Indirect · Induced

FOOD & BEVERAGE DISTRIBUTION



$28.3 billion 3.4 million

Wholesale · Retail · Catering · Accommodation

TRADE SURPLUS

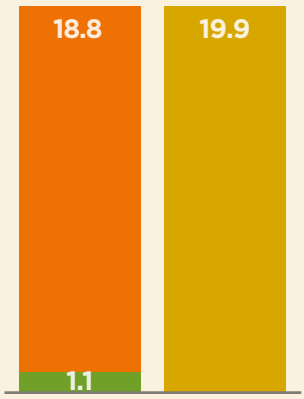
Its exports of processed food and beverages give it a large trade surplus.

Agricultural products

Processed F&B products

Total

Net exports in 2021 (US$, billion)



COVID-19 IMPACT

Despite growth in 2021, the sector was still smaller than before the pandemic.

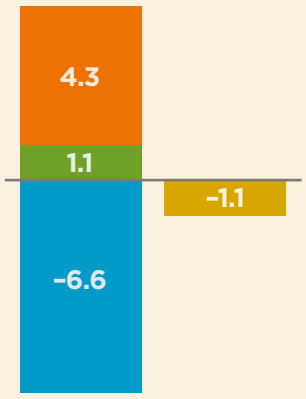
Agricultural production

F&B manufacturing

F&B distribution

Total

Change in GDP contribution (US$, billion)



Totals may not sum due to rounding. $ = US dollar.

1. INTRODUCTION

1.1 THE STRUCTURE OF THIS REPORT

This report presents an analysis of the economic contribution that the agri-food sector makes to Thailand's economy. It is structured in three parts. This chapter details the approach that we take in our analysis and how the agri-food sector is conceptualised. We then present a full assessment of the sector's economic impact, focussing on 2021, as well as detailing how it has changed over the past eight years. Finally, we go on to examine the current economic picture in the country and, critically, the factors that will influence the demand for agri-food products in the near future.

1.2 HOW WE FRAME OUR ANALYSIS

The supply of food and non-alcoholic beverages in a country relies upon a diverse network of activities, covering the production, processing, distribution, and sale of food and beverage products. In this study, we consider the agri-food sector to encompass all of these activities, representing the food value chain from farm to fork. In this respect, the sector is not only the source of essential goods to the population, but also the backbone to the region's economies.

To quantify the contribution the sector makes to the economy, we focus primarily on its "direct economic impact". This refers to the activities of enterprises directly engaged in one of those three components. We augment this analysis with an assessment of the "indirect economic impact" that flows from each component. This refers to activity within their supply chains. Finally, we assess a third tier of impact, the "induced economic impact". This refers to the activity supported by employees in the agri-food sector and its supply chain as they spend their wages. More detail on these three channels of impact and how they are estimated is provided in Box 1.

Our analysis is focused primarily on the size of the agri-food sector's economic footprint in 2021—the latest year for which complete economic statistics are available—and we evaluate the historical trend from 2015-2020. This provides us with a clear picture of the state of the agri-food sector in each country prior to the impact of the Covid-19 pandemic, and its performance since.

Component 1: Agricultural production

The Southeast Asia region is home to some of the world's major agriculture producers. In each of the five economies featured in this study, agricultural production (including both the agriculture and fishing sectors) makes up a significant proportion of the Gross Domestic Product (GDP). Rice accounts for the largest share of agricultural output, by gross production value, followed by other key commodities such as coffee, cocoa, fruits, vegetables, and maize. Livestock and poultry farming also play a critical role in the production mix. The region is characterised by large coastal or island-based geographies, and thus also supports large fishing communities, with sizeable seafood production sectors.

Agricultural production also naturally accounts for a huge share of Southeast Asian employment. Despite the sector's moderate wages, agricultural workers typically spend a high proportion of their earnings on local goods and services, thereby creating a significant spending footprint, which manifests itself as a large "induced economic impact" in our analytical framework.

Component 2: Food and beverage manufacturing

The second major component of the region's agri-food value chain is food and beverage manufacturing, which includes production, processing, and packaging. For the purpose of this study, alcoholic beverages are excluded from this category. A significant number of people are employed in this sector and its supply chain, going on to spend some portion of their income in their local economy, which stimulates a wider induced economic impact.

Component 3: Food and beverage distribution

The third and final stage of the agri-food value chain is the distribution of food and beverage products to consumers. This involves the wholesale and retail activities linked to distribution, as well as activities in the hospitality sector, such as events catering and restaurants.

BOX 1: OUR APPROACH TO ECONOMIC IMPACT ASSESSMENT

In this report, we use a bespoke economic impact modelling framework to analyse the contribution the agri-food sector makes to the economies of Indonesia, Malaysia, Thailand, the Philippines, and Vietnam. Our assessment captures three channels of impact.

Firstly, we assess **the direct economic impact** of the businesses and workers directly involved in the agri-food sector itself—that includes agricultural production, F&B manufacturing, and F&B distribution,

For the agricultural production and F&B manufacturing components, we also capture two further channels of impact, as summarised in Fig. 2.

- **The indirect economic impact** refers to the economic activity stimulated along the agri-food sector's non-food supply chain, from procurement spending.
- **The induced economic impact** refers to the economic activity that flows from the payment of wages in the agri-food sector and the businesses in its non-food supply chain. Those wages are spent in the local economy, for example in retail and leisure outlets, generating profits and wages for other businesses, which in turn stimulate further spending in their own supply chains and amongst their own employees.

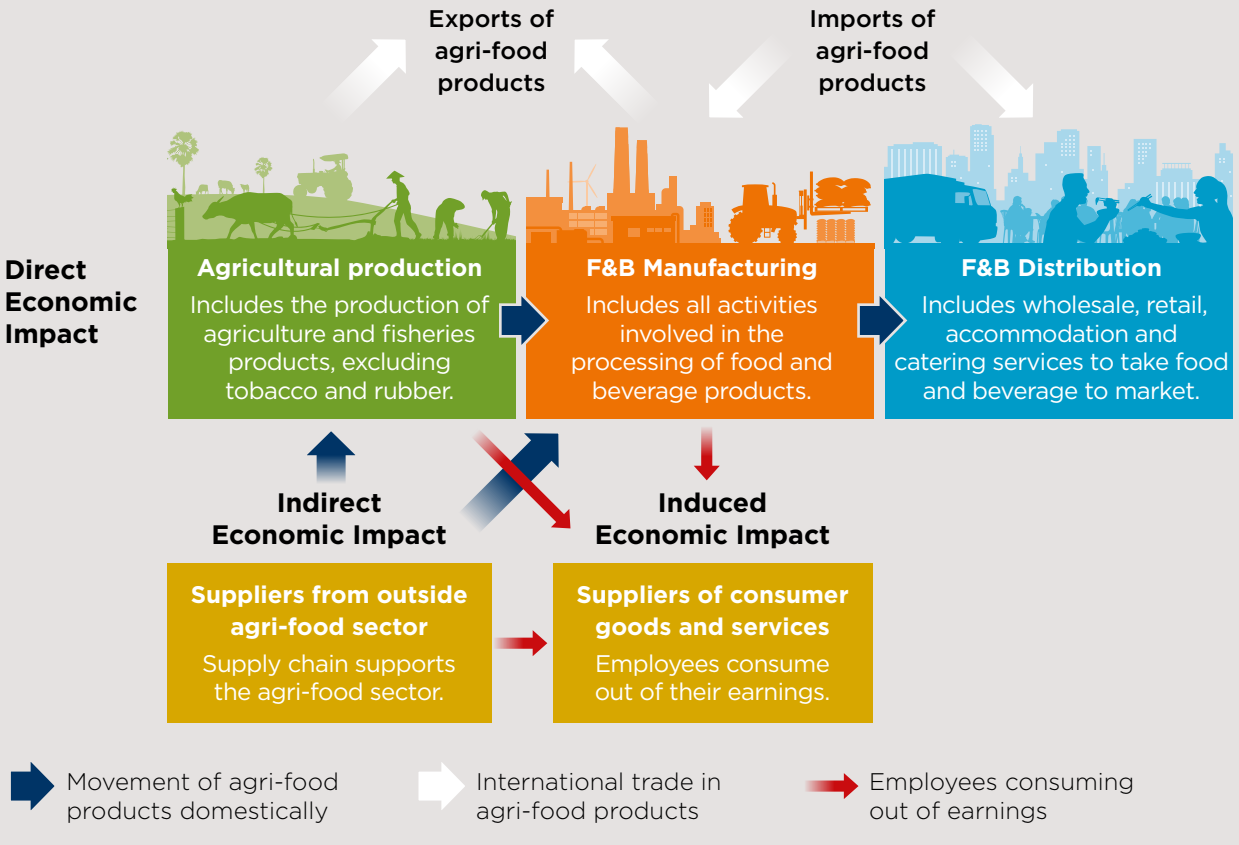
The total economic impact of the agri-food sector encompasses all of these impacts, and we present the impact in three ways:

- **Gross value added (GVA) contribution to Gross Domestic Product (GDP).** This is the value of the output produced by a firm minus its expenditure on inputs (goods and services) that are used up in production. Aggregated across all economic operators in the economy, this forms GDP (plus production taxes and subsidies), which is the most widely recognised measure of total economic output.
- **Employment.** This is measured on a headcount basis to facilitate comparisons with national statistical agencies' employment data. It therefore includes anyone who is paid wages regardless of the length of their working week or whether they work all year round. Those who are paid as part of a contract for the provision of services will be considered as part of the supply chain, for the purposes of this study.
- **Tax receipts.** This is an estimate of all income and corporation tax revenues generated by firms and employees that form part of the economic footprint.

Our results are presented on a gross basis. They therefore ignore any displacement of activity from other uses of the land, for example. They do not consider what those resources currently used by the agri-food sector, or by their suppliers, could produce in the absence of the sector's activity.

We present our results in real terms, using 2021 price levels and a 2021 USD exchange rate, for the purposes of consistent international comparison. When adjusting prices to real terms, we use official price deflators based on economy wide inflation trends. We are cognisant that inflation rates are not uniform across all sectors of the economy and that if we were to use sector-specific price deflators—especially for the agriculture sector, which is characterised by more volatile prices than the weighted national average—the implied 2021 value of the agri-food sector's economic footprint would look different. Rising prices mean the value of the agriculture sector's economic impact would rise, even if output remains static. Nevertheless, in our judgement, the soundest approach to normalising price levels is to use the national, not sectoral price deflator. This is because our analysis is designed to capture the ways in which the value that the agri-food sector generates reaches across sectors and permeates through the whole economy. Sector-specific price indices would skew this picture. For the purposes of transparency, when we observe trends in the volume of agricultural output that contradict our analysis of the value of economic output in this study, we caveat our findings appropriately.

Fig. 2. The contribution the agri-food makes to the Southeast Asian economy



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2. THE AGRI-FOOD SECTOR'S IMPACT IN THAILAND

Economic activity in Thailand's agri-food sector is distributed broadly across the three components: agricultural production, F&B manufacturing, and F&B distribution. The sector was hit hard by the Covid-19 pandemic and its associated economic downturn. However, it proved resilient and managed to bounce back to pre-pandemic levels in most areas by the second year of the pandemic.

In this chapter, we map out the economic footprint of the agri-food sector in Thailand and its different components. We then go on to analyse its trajectory over recent years and the impact the Covid-19 pandemic had on the sector's performance, before considering Thailand's international trade position in agri-food products.

All values are quoted in US dollars, adjusted to keep prices and exchange rates constant at 2021 levels. This enables comparability across the years and the five markets in this report. As is detailed in Box 1, we adjust prices based on economy-wide, rather than sector-specific inflation indices, because our analysis is designed to capture the agri-food sector's impact throughout the whole economy.

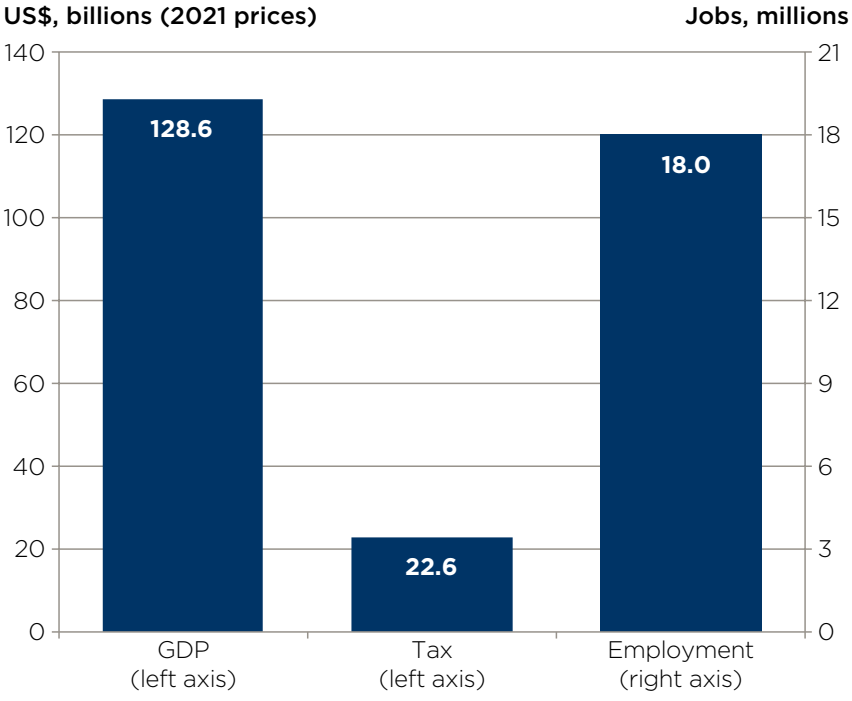
2.1 THE TOTAL ECONOMIC IMPACT OF THE AGRI-FOOD SECTOR

The agri-food sector contributed USD 128.6 billion to Thailand's GDP in 2021. This was equivalent to approximately a quarter of the national GDP that year, illustrating its critical importance to the domestic economy.

The agri-food sector also supported 18.0 million jobs in the Thai economy that year across various stages of the value chain, representing 48% of total jobs in the country. In addition, the industry generated USD 22.6 billion worth of tax revenues for the Thai government in 2021, primarily in the form of income and corporation taxes.

Thailand's agri-food sector ranks in the middle of the five Southeast Asian countries we study in terms of labour productivity, contributing an average of USD 7,200 to GDP per worker in 2021. This indicates that Thailand is performing relatively well in productivity terms relative to its neighbours. However, as the second most economically developed economy in the study (measured in GDP per capita terms), it there is potential for further productivity improvements.

Fig. 3: Total economic contribution of the agri-food sector in Thailand, 2021



Source: Oxford Economics

2.2 THE AGRI-FOOD SECTOR IN DETAIL

Agricultural production (inclusive of its indirect and induced impacts) is the largest component of the Thai agri-food sector, accounting for 43% of the total footprint in 2021. It also supports the largest share of jobs, accounting for 69% of the agri-food total. F&B manufacturing made up 35% of the sector's GDP contribution and 12% of jobs. Meanwhile, the distribution of food and non-alcoholic beverages contributed the remaining 22% of the sector's GVA, and 19% of jobs.

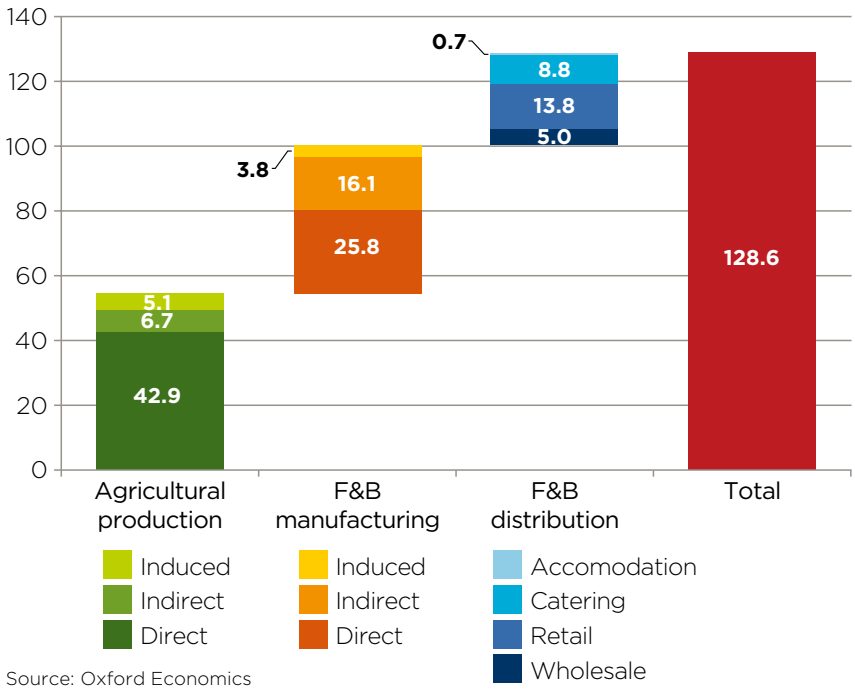
2.2.1 Agricultural production

In 2021, direct agricultural activities generated USD 42.9 billion for the Thai economy. This was further augmented by an indirect impact worth USD 6.7 billion, generated through spending in the supply chain, and an induced impact of USD 5.1 billion, stimulated by workers in the agricultural sector, and its supply chain, spending their wages.

On the workforce front, agricultural production supported 12.4 million jobs in Thailand in 2021, 11.9 million of which were in direct agricultural activities. This represents a large portion of the total, illustrating the labour-intensive nature of farming, forestry, and fishing-related activities in the sector. The agricultural sector also generated USD 5.9 billion in tax revenues for the Thai government.

Fig. 4: Agri-food industry contribution to Thailand's GDP, by component, 2021

US$, billions (2021 prices)



Source: Oxford Economics

2.2.2 Food and beverage manufacturing

As in most Southeast Asian agri-food sectors, the second largest component is F&B manufacturing, which directly contributed USD 25.8 billion to GDP in 2021. After accounting for indirect activities through the supply chain and induced impacts via consumer spending, the total economic impact of Thailand's F&B manufacturing rose to USD 45.7 billion that year.

F&B manufacturing activities support a far smaller share of jobs compared to the share of their economic impact. This is likely explained by their above-average productivity. A worker in F&B manufacturing was nearly three times more productive than the average agri-food sector worker in 2021. Across direct, indirect, and induced channels, F&B manufacturing sustained a total of 2.1 million jobs in 2021. It also raised USD 12.4 billion in tax revenues, accounting for a little over half of agri-food's combined tax revenues that year.

2.2.3 Food and beverage distribution

Finally, F&B distribution contributed USD 28.3 billion to the Thai economy in 2021, equivalent to 5.6% of Thailand's GDP. Nearly two-thirds of this impact came from retail and wholesale channels, which created USD 18.8 billion worth of value for the economy respectively. The remaining share was generated by catering and accommodation activities. This large footprint represents 22% of the agri-food sector's combined contribution to GDP, the second highest of the five countries in the study, illustrating the importance of the F&B distribution industry in Thailand.

Despite the difference in their economic footprints, retail and wholesale activities supported a similar number of jobs as accommodation and catering activities: 1.7 million and 1.8 million jobs, respectively. Overall, the F&B distribution component generated USD 4.4 billion in taxes for the Thai government over the year.

2.3 THE EVOLUTION OF THAILAND'S AGRI-FOOD SECTOR

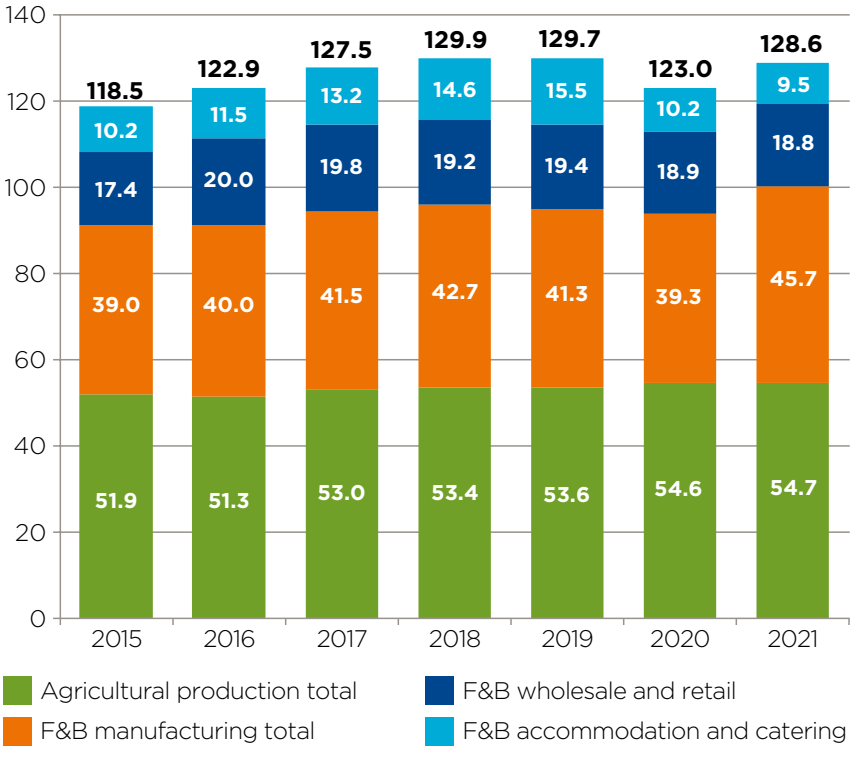
The agri-food sector in Thailand was growing steadily from 2015 to 2019 until the Covid-19 pandemic hit. Since then, its economic footprint shrank from USD 129.7 billion in 2019 to USD 123.0 billion in 2020 (Fig. 20), ending an average growth rate of 2% per year from 2015 to 2019, to contract by 5% between 2019 and 2020. Nevertheless, the sector bounced back quickly from the pandemic-related economic fallout, growing by approximately 5% in 2021, to reach a size of USD 128.6 billion.

By 2021, the agri-food sector's total economic footprint was 9% larger in real terms than in 2015, and only 1% behind its earlier peak in 2018. This robust recovery puts the Thai agri-food industry on track to soon recover its pre-Covid-19 value.

The Covid-19 pandemic left less of a mark on Thailand's agri-food workforce than on its economic output. The total number of jobs supported by the sector shrank briefly in 2020 to 17.6 million jobs, from 17.9 million the year prior, but rose back to 18.0 million in 2021.

Fig. 5: Change in GDP contribution by Thailand's agri-food sector, by component, 2015-2021

US$, billions (2021 prices)



Source: Oxford Economics

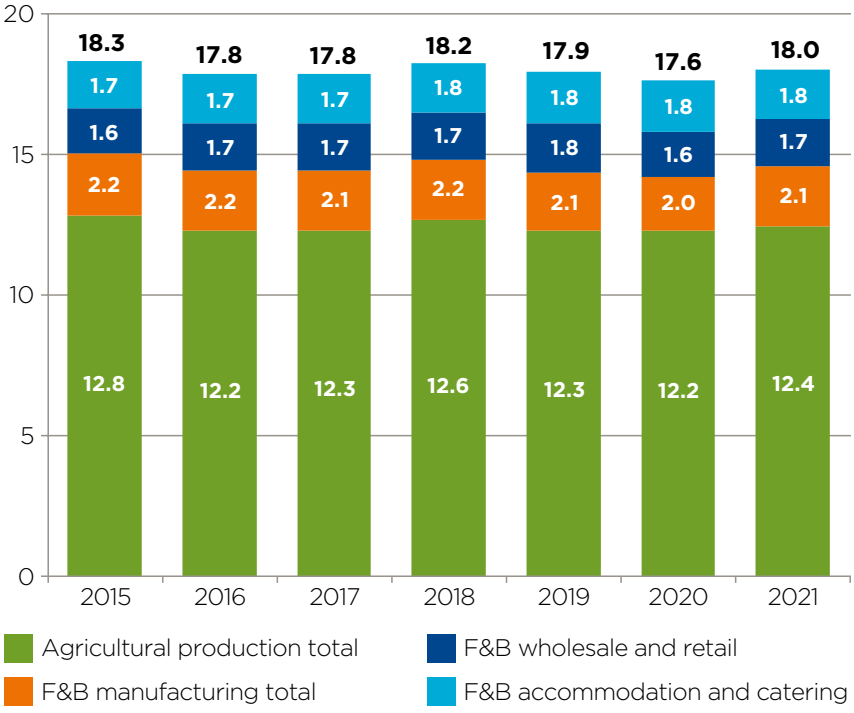
The growth in the sector's GDP footprint despite little change in employment numbers, illustrates the growth in labour productivity over time. As of 2021, the sector displayed a contribution to GDP per worker that was 11% larger in 2021 than in 2015. However, this growth is the slowest of the five countries in this study, in large part because of the limited productivity growth of the Thailand's agricultural sector.

2.3.1 Agricultural production

The total contribution agricultural production makes to Thai GDP has climbed consistently—in real terms—since 2015, despite the dampening effects of the pandemic, with an average growth rate of 1% per year from 2015 to 2021. Nonetheless, the agricultural sector was able to retain this slow and steady growth throughout the pandemic and created an economic footprint worth USD 53.6 billion in 2019, which grew to USD 54.7 billion in 2021. With this growth, Thailand's primary agricultural activities played a key role in the resilience of the agri-food sector's economic footprint during the pandemic.

Fig. 6: Change in employment footprint by Thailand's agri-food sector, by component, 2015-2021

Employment, millions



Source: Oxford Economics

Meanwhile, employment in agriculture has moved in the opposite direction. Historically, agricultural production sustained the highest number of jobs at 12.8 million in 2015 but has never reached this peak since. The sector has supported an average of 12.3 million workers since the Covid-19 pandemic began. This concurrent growth in the economic footprint and fall in the number of jobs sustained implies long-term labour productivity growth in the sub-sector.

However, this productivity growth is slower than that experienced by other countries in the region. This could be due to a variety of reasons, including relatively high subsidies, relatively poor weather conditions affecting rice production, and diminished export competitiveness against its regional counterparts due to inflated crop prices.[1]

[1] Nikkei Asia: Thai agriculture needs reform from ground up

2.3.2 Food and beverage manufacturing

The trend in agriculture's impact on GDP has been largely mirrored in F&B manufacturing, which expanded its economic footprint every year until 2018, when it contributed USD 42.7 billion (2021 prices). After a slight contraction that started before the Covid-19 pandemic, the sector's total contribution to Thai GDP fell to USD 39.3 billion in 2020. But after a bold recovery, F&B manufacturing generated USD 45.7 billion for the Thai economy that year.

This strong performance can be partly explained by the Thai Ministry of Industry's "Bubble and Seal" initiative, which strictly controlled the movement of factory workers to ensure that factories would continue to operate at 100% capacity through Covid-19, whilst preventing further outbreaks. The F&B manufacturing recovery was also helped by an increase in agricultural raw material production and an expansion in food exports in 2021.[2]

On the employment front, F&B manufacturing has sustained a relatively stable number of jobs over the period of our analysis. On average, the sub-sector employed 2.1 million people annually from 2015 to 2021. This briefly dipped to 2.0 million during the initial wave of the pandemic but has since climbed back to its pre-pandemic levels from 2019. The overall growth in the segment's contribution to GDP means that its labour productivity has grown significantly, standing 23% higher in 2021 than in 2015. This growth rate is higher than that of other components of the sector, despite it having started with the highest productivity to begin with.

2.3.3 Food and beverage distribution

As in other countries around the region, F&B distribution in Thailand was harshly affected during the pandemic. The combined economic impact created by wholesale, retail, accommodation, and catering activities reached USD 41.3 billion in 2019 but fell to USD 29.1 billion in 2020 and further to USD 28.3 billion in 2021.

Retail and catering activities stood out as the only aspect of F&B distribution to recover to pre-pandemic levels by 2021. Meanwhile, the economic footprints of wholesale and accommodation-related activities shrank by a further 16% and 61% respectively. This is potentially because restrictions during the pandemic harshly impacted Thailand's key tourism and hospitality sector, which would have had different knock-on effects across F&B distribution activities but reduced their earnings to a lesser degree.

The F&B distribution sector's employment footprint has not fluctuated in the same way. Accommodation and catering activities have supported roughly the same number of jobs since 2018, at 1.8 million jobs annually. The numbers linked to wholesale and retail employment dipped from 1.8 million jobs (2019) to 1.6 million (2020) then rose to 1.7 million (2021). This range is, however, similar to the number of jobs supported pre-pandemic, suggesting a tendency in the sector to retain workers through the difficult periods of the pandemic.

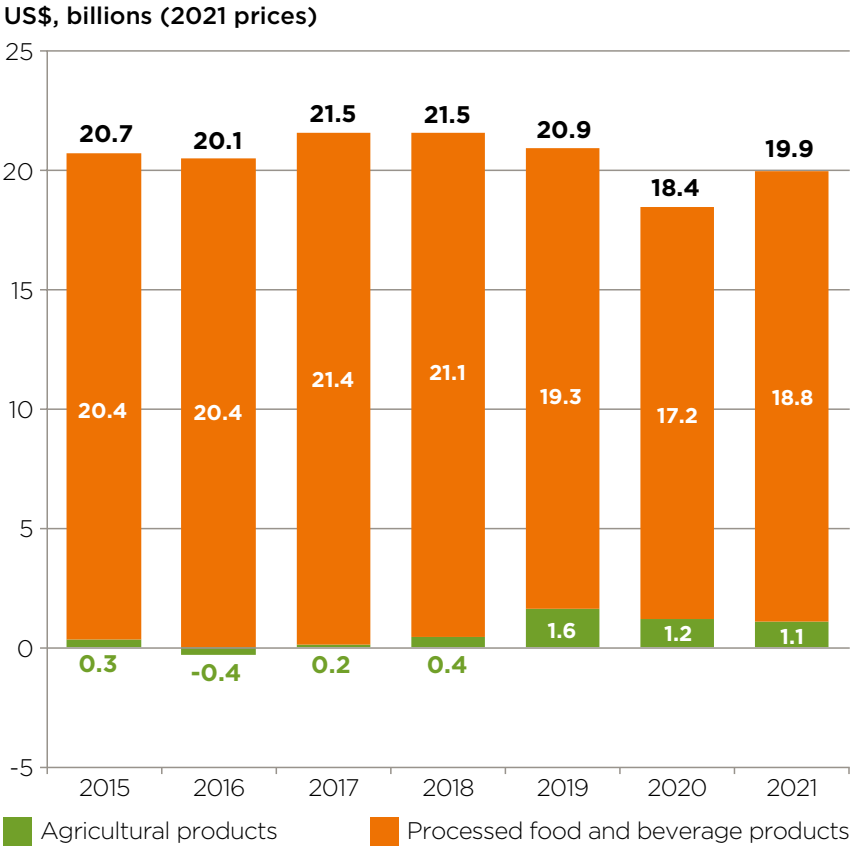
[2] Food Navigator Asia: Making a comeback: Thailand hails food industry growth after COVID-19 slump- but urges firms to maintain vigilance

2.4 TRADE IN AGRI-FOOD PRODUCTS

Thailand's agri-food sector has consistently maintained a strong trade surplus since 2015, with minimal fluctuations except for in 2020. The sector maintained an average trade surplus of USD 20.9 billion until 2019 when it contracted to USD 18.4 billion as the Covid-19 pandemic took hold. However, it was able to largely recover to previous levels with a surplus of USD 19.9 billion in 2021. This included exports worth USD 34.8 billion and imports worth USD 15.0 billion.

Historically, the positive trade balance was almost entirely driven by processed F&B goods. Thailand's agricultural sector (specifically rice production) has struggled with its export competitiveness but maintained almost a close balance in imports and exports until 2018. In recent years, Thai processed food and beverage exports have grown, generating a surplus of USD 1.1 billion in 2021.

Fig. 7: Net exports of primary and processed food and non-alcoholic beverages, Thailand, 2015-2021[3]



Source: Oxford Economics

[3] Due to COMTRADE data not being released at the time of writing, 2021 values are estimated based on available data for trade of broader agricultural and food products.

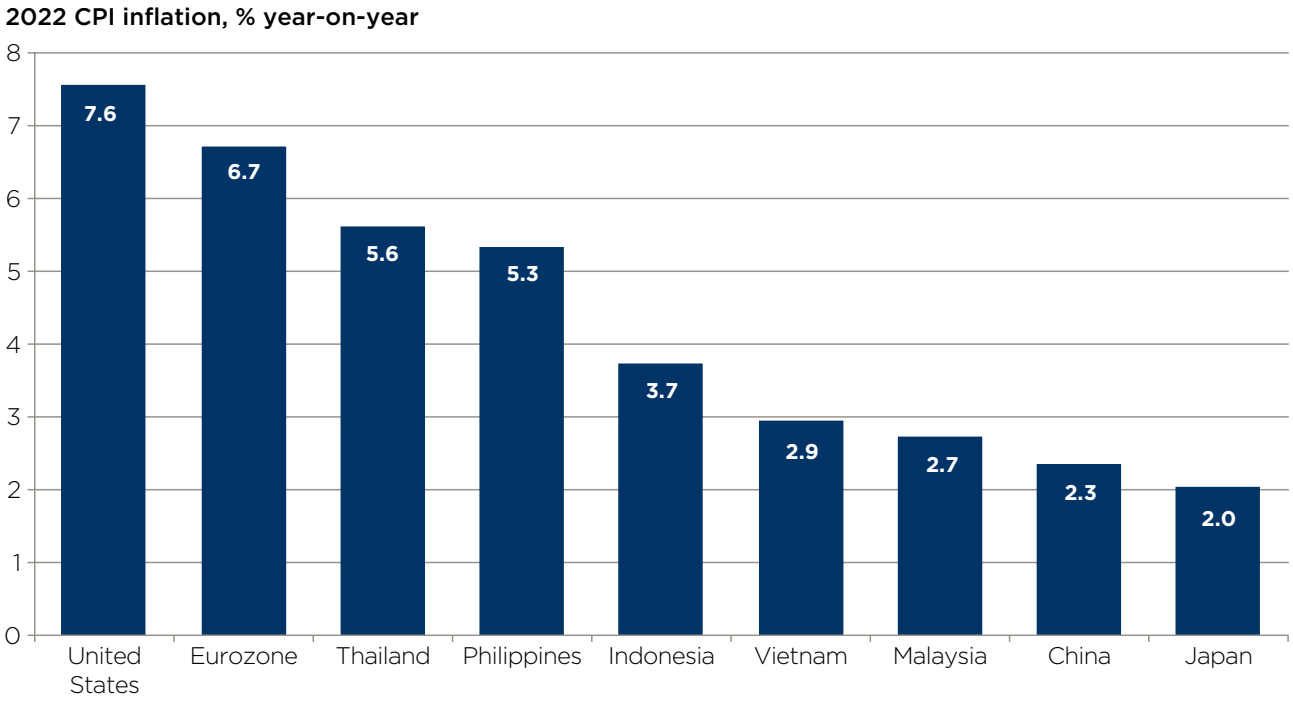
3. DEMAND OUTLOOK FOR THE AGRI-FOOD SECTOR IN THE THAILAND

In this chapter, we examine prospects for post-Covid-19 economic recovery in Thailand, and the implications this has for the agri-food outlook, set against a regional context. Oxford Economics forecasts Thailand's economic recovery to continue through 2022 and into the coming years. Thailand's agri-food industry will benefit from a normalisation of activities, a reopening of borders, selected cases of impactful fiscal support, and better labour market conditions to support growing food expenditure over the next five years. Inflationary pressures have risen faster in Thailand than in other parts of the region (thanks to imported goods prices in particular) but are increasing at a more moderate pace than in many other parts of the world economy.

The economic rebound from Covid-19 across Southeast Asia will support household spending power to the benefit of the wider agri-food system, and a recovery in tourism will fuel demand in the hospitality industry and its supply chains. Both factors feed into a positive demand-side outlook for the sector in the coming years. And as prosperity and living standards rise in Southeast Asia over the longer-term, we expect higher spending on food to drive growth in the agri-food sectors' economic footprint.

However, the sector will face significant macroeconomic challenges to this recovery. In this chapter we unpack these opportunities and risks in more detail.

Fig. 8: Consumer price inflation, 2022



Source: Oxford Economics

3.1 OUTLOOK FOR EMPLOYMENT AND TOURISM WILL UNDERPIN RECOVERY

3.1.1 Labour market recovery will provide a boost

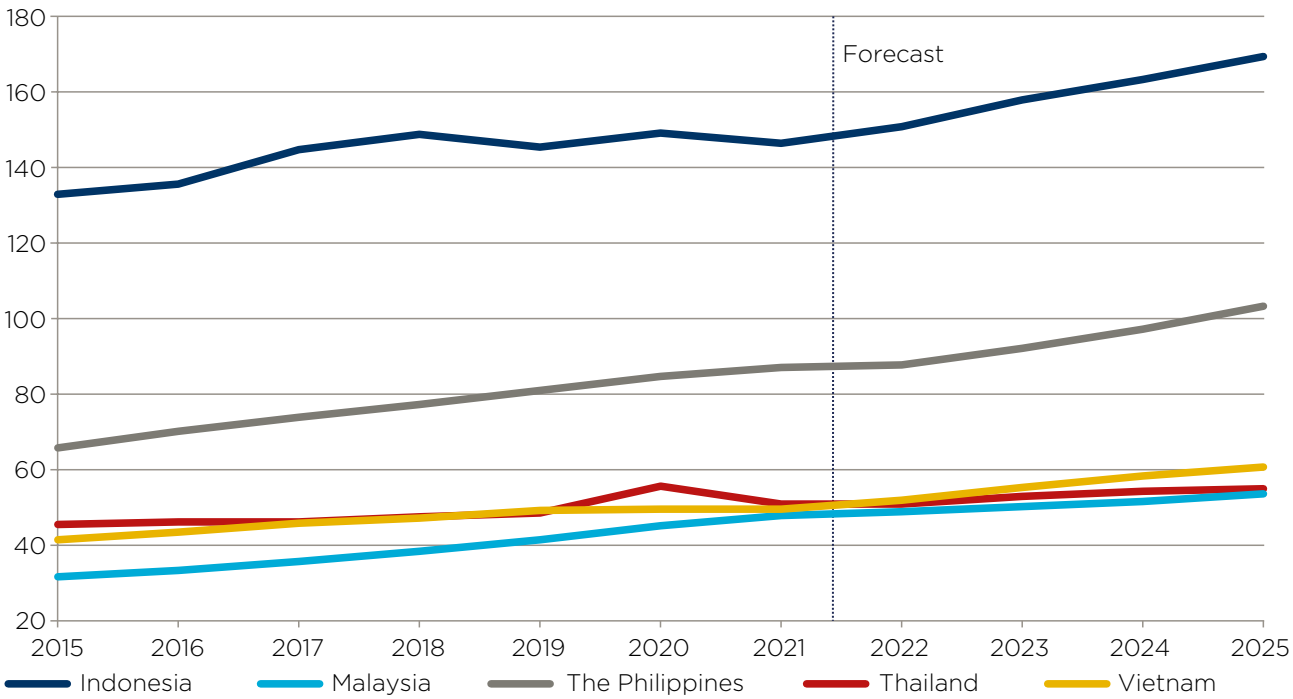
In Thailand, we anticipate wages will fail to keep pace with inflation in 2022, but rebound faster in 2023, delivering real income gains from this point onwards. As mobility gradually returns to pre-pandemic levels, the normalisation of economic activities, reopening of international borders, and policy support measures will boost employment, especially in the services sector.

The government is taking measures where possible to try to mitigate the impacts of price pressures on consumers, where resources permit. A cut in fuel duty in February has provided some relief, but the government has limited fiscal space for further support. Assuming global energy prices normalise and supply chain pressures ease, we expect inflation to slow after 2022 and support a rebound to real wage growth and food spending in Thailand.

Oxford Economics anticipates spending on food and non-alcoholic beverages in Thailand to grow from USD 57 billion in 2022 to around USD 62 billion in 2025, in 2021 price terms.

Fig. 9: Real spending on food and non-alcoholic beverages in Southeast Asia, 2015-2025

US$, billions (2015 prices)



Source: Oxford Economics

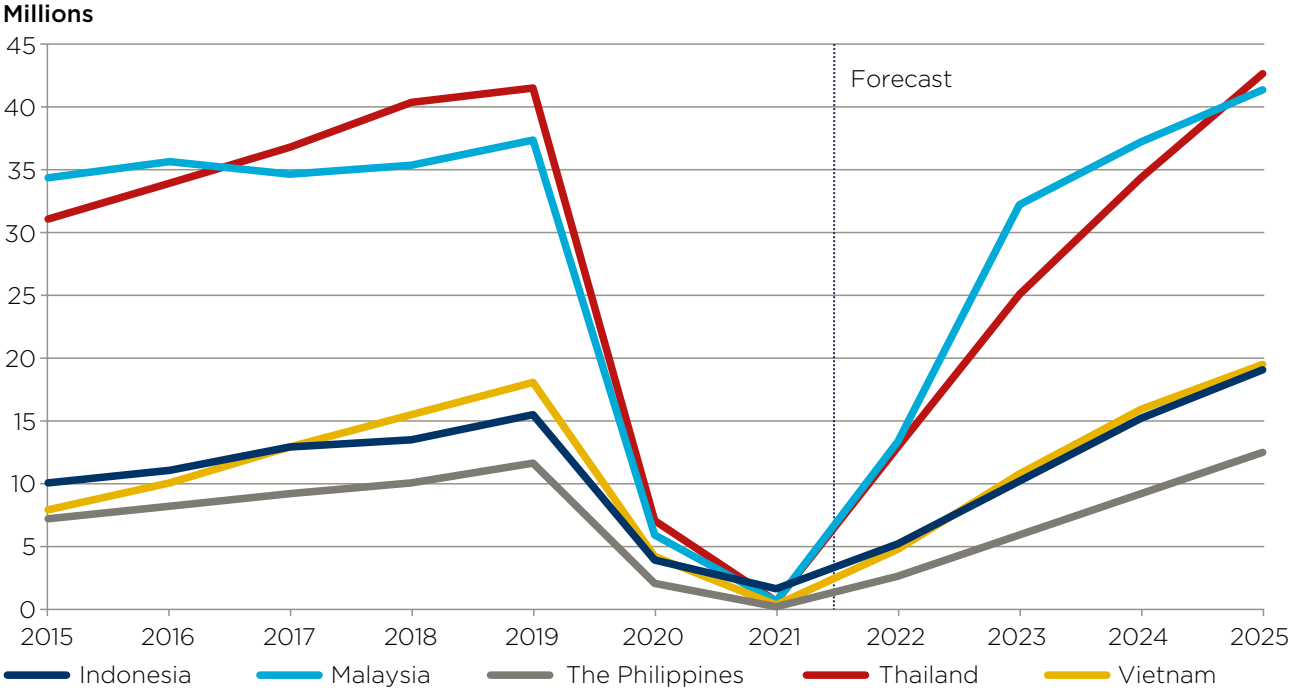
3.1.2 Tourism rebound supports the hospitality sector

Given the importance of tourism to Thailand — generating around 12% of GDP—the pace of the tourism revival will play a key role in the agri-food sector outlook, through spending in hospitality venues. We forecast the number of tourist visitors to Thailand to rise to 13 million in 2022, although this rebound remains well below the 42 million arrivals pre-Covid-19, partly due to the continued absence of Chinese outbound travellers. In 2019, Asia Pacific destinations were host to 81% of Chinese outbound visits, with the bulk going to Northeast and Southeast Asia. Among the countries in our study, Thailand is the second-most reliant on Chinese tourists, who accounted for 28% of total inbound visitors in 2019.

The Chinese government remains resolute in enforcing its strict "zero-Covid" policy, therefore restricting international arrivals, including returning residents, which therefore limit departures. Given the size of the Chinese outbound market, it would be difficult if not impossible for destinations to fill this gap with visitors from other major source markets. Hence, we expect tourist numbers to Thailand to not return to pre-Covid-19 levels by 2025.

Nevertheless, a recovery in tourism and higher domestic demand will boost spending on hospitality services from 2022 onwards, supporting the broader recovery in domestic demand for the agri-food sector. The rebound in spending on meals out will take a little longer in more tourism-reliant economies such as Thailand than in relatively less tourism reliant economies such as Indonesia and Malaysia.

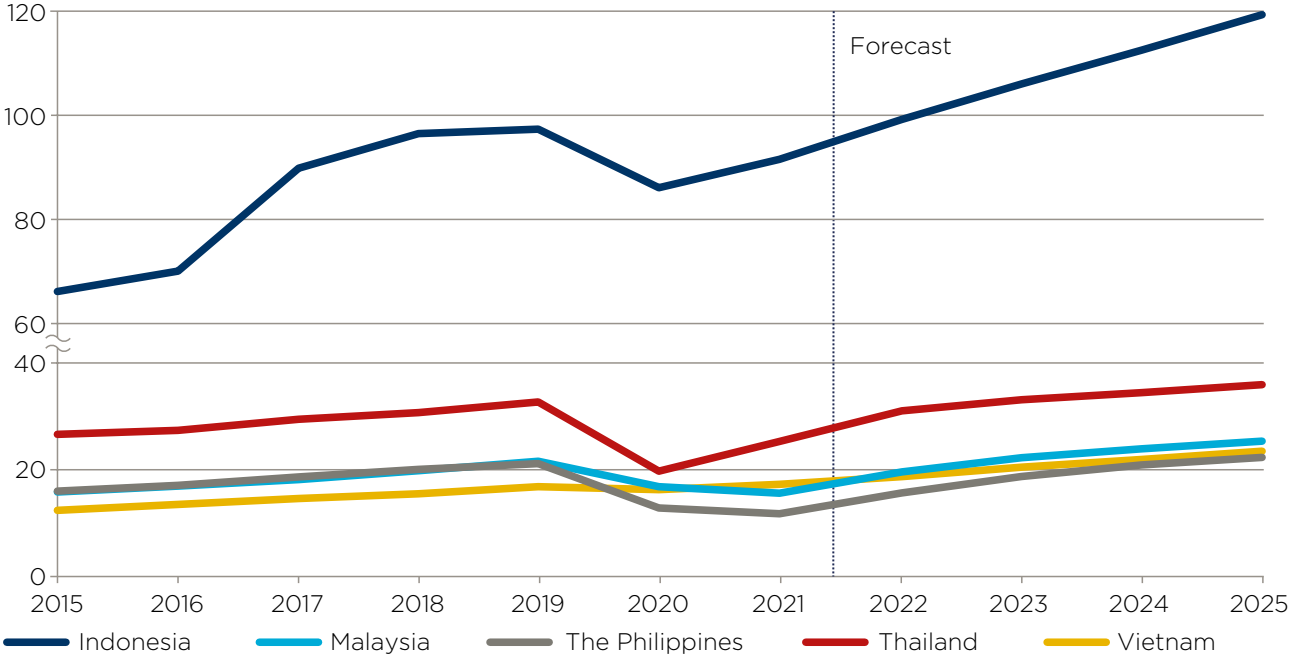
Fig. 10: Number of inbound tourists, 2015-2025



Source: Oxford Economics

Fig. 11: Real spending on eating out, 2015-2025

US$, billions (2015 prices)



Source: Oxford Economics

3.2 FOUR NEGATIVE FACTORS THAT MAY CONSTRAIN THE PACE OF RECOVERY

Despite the various reasons for optimism, the agri-food sectors in the five Southeast Asian countries will have to adapt to four key negative macroeconomic conditions, which could present major challenges. Thailand faces structural challenges from demographics and fiscal consolidation, but exchange rate and cost risks should be more insulated than in some neighbouring economies.

3.2.1 Rising inflation will dampen spending

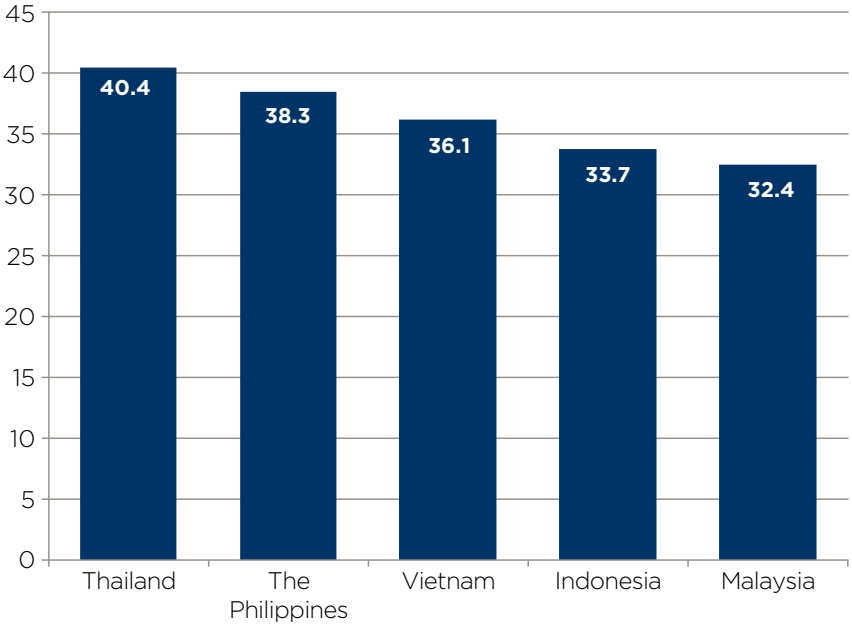
Through the first half of 2022 the Russian invasion of Ukraine drove commodity prices sharply higher across a range of commodity types. As of May 2022, both maize and corn prices were around a third higher than at the start of the year, whilst wheat prices were up around 46%—three markets for which both Russia and Ukraine are key global suppliers. Meanwhile oil and gas prices, which are also important cost drivers for food producers given the importance of energy in food manufacturing[4], have both more than doubled in price so far in 2022.

As spending on food, beverages, and restaurants accounts for a relatively large portion of household budgets in Southeast Asian countries, average households are highly impacted by this shift in global commodity prices. This is especially true for Thailand where food and beverages account for 35% or more of household spending (using their respective shares in the consumer price index as a benchmark).

[4] For more on the pass-through of energy prices to food manufacturing costs, see "The Outlook for Food Price in Asia", Oxford Economics, 2022

Fig. 12: Food and restaurant spending accounts for a third or more of household spending in Southeast Asia

CPI weights: Food, beverages, and restaurants, %

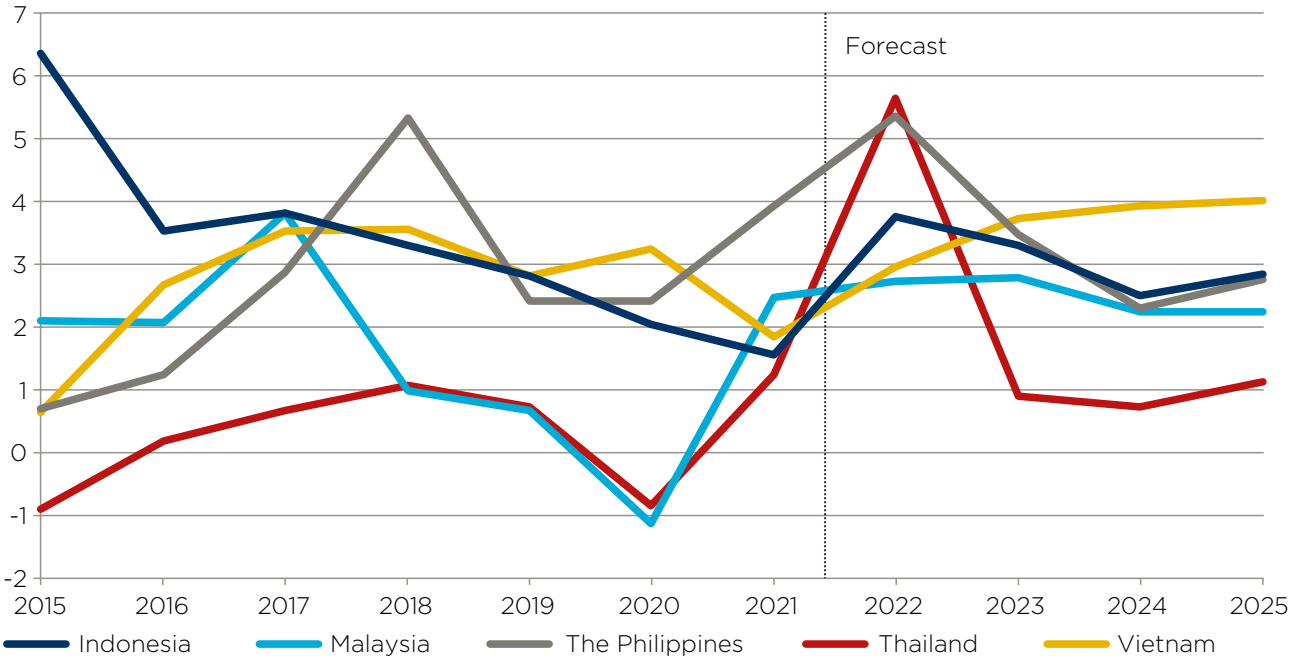


Source: Oxford Economics

Other inflationary pressures have also worsened through the course of the first half of 2022, impinging on demand for agri-food outputs. Supply chain interruptions from China's continued lockdowns have raised the cost of manufactured inputs, whilst the rebounding hospitality activity (as households "catch up" with social activities) is also pressuring the cost of providing services. Across all the countries in our report the rate of price growth will be faster in 2022 than in the past couple of years, with the acceleration especially sharp in Thailand (see Fig 13). Faster inflation, in turn, will squeeze real incomes and will weigh on food spending through the course of the year.

Fig. 13: Consumer price inflation in Southeast Asia, 2015-2025

CPI inflation, %



Source: Oxford Economics

3.2.2 Demographic changes will add costs for firms

The decline in the working age population in some Southeast Asian countries will mean labour becomes scarcer, necessitating new and faster solutions to grow productivity. Thailand is especially exposed in this respect. Thailand's already-shrinking working-age population will mean enterprises along the agri-food value chain may need to raise worker compensation and accelerate investment and automation to keep pace with demand and remain internationally competitive.

3.2.3 Impact of post-Covid-19 fiscal measures

As we discussed in the 2021 publication with FIA, "Fiscal Risks in the food sector in Asia after Covid-19" some governments in the region need to start balancing their books in the aftermath of Covid-19. In Thailand the government debt burden has risen by 20 percentage points (pp) of GDP since 2019, faster than in other parts of the region. Supply conditions for the agri-food sector in Thailand may be more at risk from new policy measures, such as value added taxes on food and beverage consumption or reductions in public spending, than in countries with stronger fiscal positions.

3.2.4 But Thailand's persistent trade surplus should provide currency stability

The ASEAN region (including Thailand) has historically been more prone to exchange rate volatility than other parts of Asia, especially during periods of heightened global financial and economic uncertainty. Exchange rate volatility can transmit to increased food prices through the cost of imported agricultural and energy commodities. Thailand's persistent trade surplus (once tourism rebounds) should place it well to weather such storms in the future though, supporting price stability.

3.3 CONCLUSION

As borders begin to reopen and countries remove social distancing restrictions, Thailand's agri-food sector still faces significant headwinds that pose a risk to recovery. Inflationary pressures from home and overseas will act as a drag on consumer spending. In the longer term, the sector requires high levels of investment and innovation to raise productivity—particularly in the face of global warming. Therefore, whilst the macroeconomic drivers for demand in the agri-food sector look robust, the conditions and emerging risks on the supply-side of the industry could continue to create challenges in the years to come.

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Food Industry Asia (FIA) was formed in 2010 to enable major food and beverage manufacturers and ingredients suppliers to speak with one voice on complex issues such as health and nutrition, food safety, sustainability, and regulations and trade. From its base in Singapore, FIA seeks to enhance the industry's role as a trusted partner and collaborator in the development of science-based policy across Asia. To do so means acting as a knowledge hub for Asia's national industry associations and affiliated groups, to support with their engagement of public bodies and other stakeholders across the region.

August 2022

The modelling and results presented here are based on information provided by third parties, upon which Oxford Economics has relied in producing its report and forecasts in good faith. Any subsequent revision or update of those data will affect the assessments and projections shown.

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