

THAILAND: WANING CONFIDENCE NEEDS STEADY NERVES



Thailand's Tourism industry faces a testing time. With Thai economic fundamentals taking a beating and a potentially weaker baht, what's in store for the Thai Tourism sector?

Negative news abounds with daily predictions on the price of oil; increasing food prices; natural disasters and political nervousness. Will this impact Thailand's long haul traffic and domestic travel, also negatively?

I believe we are at an important junction. How the government handles the increasing dissatisfaction of higher prices and the public's lack of confidence will be tested by how quickly they can demonstrate that people's daily lives are set to improve.

It's a difficult task and will need great leadership with a focus on the country. However many political experts believe that this is not possible with the current administration.

The immediate effect of the rising oil prices is that fewer people are travelling. A recent industry report suggested that global air traffic was down and fewer trips are being made compared to a similar period last year. The need to travel is being closely scrutinized. Add to that the economic woes of airlines facing as much as 50% of their costs just to pay for fuel and a shrinking customer base. THAI International (TG) recently cancelled their direct flights to New York and reduced their LA-Bkk schedule from daily to just five times per week. There will be much more of the same and even closures.

A respected industry source has indicated that airlines have huge outstanding airport, fuel and landing fee charges at Thailand's Suvarnabhumi airport. Airlines are struggling with cash flow. More airlines will face a cash critical situation within weeks. National papers have already been reporting the potential closure of Nok Air, due to the massive losses. The low budget airline is a sibling of THAI.

The weak will fall, but the strong will trim back. Fewer routes, fewer choices and most likely higher prices. Not a healthy situation for an industry that relies so heavily on aircraft to transport tourists,

with 80% arriving by air.

Rising oil prices mean not only rising costs but also rising inflation. Vietnam and India have Asia's highest inflation rate. Vietnam tops the list at 25%. Further pressure to float the dong could lead to a devaluation that will have an impact on Thailand and SE Asia.

The baht is losing its shine, a weak dollar has created a strong looking baht but look carefully at the Baht/Euro rate and the baht has weakened 8% in 3 months. Difficulty in obtaining quotes on forward baht buying has left a few to speculate that a significant correction is possible. Good news for Thai tourism and exports. However it puts even greater inflationary pressure on the government as the price of imported goods rises.

Food prices are becoming a global worry. Food for fuel and shortage of rice are grabbing headlines. Hom Mali rice, the famous fragrant Thai rice, has risen last year from around Bt 900 (\$ 28) per sack (50kgs) in late 2007 to Bt 1850 (\$ 58). Chicken and pork have also risen. Pork by as much as 50% compared to the last year. The higher costs touch not only the domestic consumers but also the tourists.

Pay, energy and cost of raw materials, across the board are rising. The ingredients in the economic cooking pot are looking set to boil over. How the government cools things down is going to be important in the short term. OPEC need to take a lead, but are they willing to increase the output? Many think not. With \$250 per barrel oil being forecast, producers of all rare commodities, can expect healthy profits, but at what cost? The people of the world's poorer nations are becoming more vulnerable as food becomes scarce and prices rise.

And what about the government? I have never been more worried that the country is facing a deadlock of bi-polarized interest that will challenge the most skilled politicians. The People's Alliance for Democracy (PAD) and the democratic opposite party have little in common with the ruling coalition lead by People Power Party leader and PM Mr. Samak Sundaravej. Thankfully much of the posturing is done without the knowledge of visiting tourists. However the country is facing an uneasy time and very few initiatives to solve the current economic woes are forthcoming from the government who is so focused on re-writing the constitution, to allow former friends and politicians back into power.

But what are the bright spots? The Tourism Authority (TAT) is still upbeat that they can reach their target this year of 15.7 million visitors with China, India and medical tourism helping to boost the numbers. Maybe they will, but as former Minister of Tourism, Dr Suvit Yodmani so rightly identified, quality not quantity maybe a more productive goal for our national tourism authority.

With an expected 20,000 new hotel rooms coming on line in Thailand by 2011, the pressure of the hotel owners for more visitors to fill these new rooms will be high. The good news for the agents and tourists? It should keep hotel prices competitive for years to come.

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Date: 2008-06-17

Article link:

<https://www.tourism-review.com/thailand-waning-confidence-needs-steady-nerve-news943>