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Thailand's economic growth continued at 4.6% YOY in Q2 2018. EIC revised up annual growth projection to 4.5% YOY

## Event

- Office of the National Economic and Social Development Board (NESDB) reported that the Thai economy expanded by 4.6% YOY in Q2 2018 (compared to the same quarter last year), or 1.0% on a seasonality-adjusted basis compared to the previous quarter. Overall, the economy expanded by 4.8%YOY in the first half of the year.

## Analysis

- **In Q2 2018, the Thai economy registered a broad-based growth across all components.** Private and public consumption and investment, as well as external demand, expanded in tandem, just as they did in the first quarter of the year. Moreover, in Q2 several of the components showed clear sign of acceleration, especially private consumption and export of goods.
- **Private consumption surged thanks to higher car sales, while consumption of non-durable goods softened.** Private consumption grew by 4.5%YOY in Q2, the highest rate since Q1 2013, and an improvement from 3.7%YOY in the previous quarter. The major driver was consumption of vehicles, which rose by 15.3%YOY on the back of passenger car sales. Also, consumption of semi-durable goods rose by 3.8%YOY, beating previous quarter's growth of 2.4%YOY. However, consumption of non-durable goods softened from 2.1%YOY in the previous quarter to 1.5%YOY in Q2. Contributing to the slowdown was consumption of food and non-alcoholic beverages, which slowed from 2.7%YOY in the previous quarter to 2.0%YOY. This pattern suggests that private consumption was still driven mainly by high-income consumers.
- **External demand remained a major growth driver in Q2.** The value of merchandise exports in real baht term expanded by 7.4%YOY, a sizable increase from 4.7%YOY in the previous quarter. Positive export growth continued in many product groups and across most markets, suggesting that global trade was still expanding and that the impact on Thai exports from recent tariffs between China and the United States was still limited. Regarding export of services, the value in real baht term rose by 3.1%YOY in Q2, slowing substantially from 9.5%YOY in Q1 as the growth in number of tourists edged lower.
- **Private and public investment accelerated.** Private investment posted a 3.2%YOY expansion, a small improvement from 3.1%YOY in Q1. Leading the investment growth was investment in machineries and equipment, which expanded at 3.3%YOY, up from 3.1%YOY

in Q1. However, construction investment growth softened to 2.8%YOY, down from 3.4%YOY in the previous quarter. Meanwhile, public investment expanded by 4.9%YOY, compared to 4.0%YOY in Q1, driven mainly by investment from state-owned enterprises,

## Implication

- **EIC expects growth to continue throughout the second half of 2018 and next year, but at a slower pace.** Annual growth in 2018 is estimated at 4.5%YOY (an upward revision from the previous 4.3%YOY). The economy is expected to grow at 4.2%YOY in second half of 2018, which is significantly above the 5-year historical average of 2.8%YOY. Growth will be supported by a strong momentum in domestic demand, but may soften somewhat due to a high base effect and a slowdown in external demand.
  - Merchandise export overall is expected to grow faster than over the past 5 years. However, growth may edge down slightly compared to the first half of the year as global trade is expected to cool. This is reflected in the Global Manufacturing Purchasing Managers' Index, which has been increasing at a slower pace since the beginning of the year. Similarly, next year's export will likely moderate further. Based on IMF's projections, economic growth of Thailand's major trading partners, namely the United States, the Eurozone, Japan, and China, will be lower in 2019 compared to this year. Similarly, WTO's assessment shows that the value of global trade in 2019 will expand at a slower pace than in 2018. In addition, there might be impacts of trade protectionist policies that have gone into effect, as well as the risk of additional measures in the following periods.
  - Regarding tourism exports, EIC expects growth to continue into the second half of the year. Nevertheless, it will be dragged in the short term by the decline in Chinese tourists in reaction to the Phuket boat accident, as well as a high base effect in Q4. In addition, the growth in number of foreign tourists may start to face a limit next year as the country's major airports reach their full capacity.
- **Household income started to show sign of recovery, but it will take time until spending picks up.** Household income gradually recovered in the first half of 2018, as the number of employed workers and monthly average wage grew by 0.3%YOY and 2.1%YOY, respectively. In addition, agricultural income began to recover by 1.7%YOY (based on data from the Office of Agricultural Economics.) However, consumption of non-durable goods, which reflects a large part of consumption expenditure among low and middle income households, remained subdued in Q2, with growth cooling from the previous period. This suggests that households have not yet been able to spend more, as income has only started to improve and the recovery has only been gradual. In addition, these households still have a high level of debt to income ratio. Thus, the main contributor of private consumption growth going forward will continue to be driven by high-income

households for the time being.

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