Flash by EIC

SCB Economic Intelligence Center

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Thailand's growth dipped to 2.8%YOY in Q1/2019, while EIC cut this year's growth forecast to 3.3%.

Event

- The Office of the National Economic and Social Development Council (NESDC) reported that Thailand's GDP expanded by 2.8%YOY (compared to the same period last year), or 1.0%QOQ_sa (seasonally adjusted compared the previous quarter) in Q1/2019.

Analysis

- **Looking at the expenditure approach, the slowdown in the rate of growth was driven mainly by the contraction in merchandise exports.**
  - **External demand softened.** Merchandise exports in real terms contracted -5.4%YOY, down from 0.8%%YOY expansion in the previous quarter. Dragging exports were the slowdown in the global economy and the impact from the ongoing US-China trade war. Meanwhile, merchandise imports in real terms also contracted -2.6%YOY, down from 4.5%YOY growth in the previous quarter. This was in parts due to the decline in imports of raw material and intermediate goods used in the production of exports. Export of services, or tourism, also contracted -3.6%YOY, down from zero growth (0.0%YOY) in the previous quarter. This followed the decline in tourism income, despite 1.8%YOY growth in the number of foreign tourists in Q1/2019, suggesting that average spending per head of foreign tourists had declined compared to the same period last year.
  - **Private consumption posted a robust 4.6%YOY growth.** This quarter saw an impressive 8.6%YOY growth in durable goods, especially auto sales that expanded 10.5%YOY. Similarly, non-durable goods expanded persistently at 3.6%YOY, supported partly by financial assistance for low-income individuals via the government welfare card, especially in the form of monthly expense allowance.
  - **Private investment grew at a slower pace than in the previous quarter.** It expanded 4.4%YOY, compared to 5.5%YOY in the previous quarter. The main driver was investment in machineries and equipment, which grew 5.1%YOY, especially in the auto and transport categories boosted by the rise in new car registrations, such as taxis (passenger transport cars with up to 7 seats), buses, chartered buses, and personal vehicles.
  - **Public consumption grew 3.3%YOY,** on the back of 5.6%YOY expansion in government puchases of goods and services, as well as 5.0% expansion in in-kind social benefits.
  - **Public investment declined slightly.** It contracted -0.1%YOY, close to the previous quarter's figure. The decline in public investment was led mainly by the

-11.7%YOY contraction in investment in machineries and equipment, as Thai Airways did not import any aircrafts in Q1/2019. Nevertheless, investment in constructions grew 4.1%YOY, an improvement from 2.1%YOY in the previous quarter.

- **The change in inventories also provided support for growth.** Investories rose for computers and equipment, engines and turbines manufacturing, watches manufacturing, sugar, and rice.

Considering the production approach, GDP growth slowdown in the first quarter was due mainly to softer growth in manufacturing of industrial products. The growth in manufacturing of industrial products fell to 0.6%YOY from 3.5%YOY in the previous quarter, following the contraction in exports of industrial products. Meanwhile, the agricultural sector expanded slightly by 0.9%YOY, which was already an improvement from 0.7%YOY growth in the previous quarter. The service sector saw softer growth in nearly all categories, such as hotels and restaurants, and transportation, whose growth slowed to 4.9%YOY and 3.4%YOY, respectively. This was a result of slower growth in the number of tourists. Similarly, the constructions sector expanded at a slower pace of 3.0%YOY, following softer growth in private constructions.

Implication

EIC has revised down the forecast for Thailand's GDP growth in 2019 to 3.3%, from the previous projection of 3.6%. The downward revision was prompted by the larger-than-expected impacts that the trade war and the global economic slowdown have had on Thai exports. Moreover, recent escalation in the trade war between the US and China have delivered another direct blow to Thai exports, especially those that are parts of the supply chains of Chinese exports impacted by the US tariffs, such as computers, equipment and parts; printed circuits; wood and wood products; and chemicals. In addition, the trade war has worsened trade and investment sentiments in the global market, leading to a global economic slowdown that will further have an indirect impact on Thai exports. For these reasons, EIC has revised down our projection for Thai exports in 2019 from the previous forecast of 2.7%. As a result, Thailand's GDP is now expected to grow at only 3.3%, down from 3.6% previously projected.

The larger-than-expected slowdown in merchandise exports will lead to somewhat slower growth in private investment. Merchandise exports growth is expected to slow following global economic slump and the impact of trade war. As a result, private invesment in industries related to exports is also expected to decelerate. However, overall private investment will continue to be supported by the government's large-scale infrastructure projects. Indeed, in Q1/2019, public investment in constructions expanded by 4.1%YOY, faster than 2.1%YOY in the previous quarter. In addition, a successful formation of the new government would help reduce some political uncertainties, boosting domestic and foreign investors' confidence. Nevertheless, even after the new government is successfully formed, the stability of the government and the effectiveness with which it drives new economic policies remain uncertain, and will have to be closely watched going forward.

- **Private consumption should continue to expand throughout 2019, although the rate of growth may slow somewhat after the stimulus measures in the first half of the year expire.** Overall, private consumption growth is set to persist from the previous year on the back of the gradual expansion in non-agricultural wages. Latest data from the first quarter showed private consumption growing at a solid 4.6%YOY, boosted in parts from economic stimulus measures effective since the end of 2018. Moreover, in Q2/2019, additional measures were continued to be introduced, including transfers via the government welfare card totaling around 13.2 billion baht, and various tax deductions designed to stimulate spending. Thanks to these supports, private consumption growth is expected to persist throughout the second quarter. However, once these stimulus measures expire in the latter half of 2019, private consumption will soften somewhat if no new measures are introduced.

- **Trade war and domestic political uncertainties remain the important risk factors facing the Thai economy during the rest of 2019.** Recently, the trade war between China and the US has entered a new round of escalation, with back-and-forth tariff retaliations. This shows that the trade conflict is highly persistent and uncertain, and needs to be closely monitored. With regard to domestic uncertainties, the major concern is the stability of the newly-formed government, which will most likely command only a razor-thin majority in parliament. Also, as it will be a coalition government, the stability and the effectiveness with which it pursues future economic policies can be called into question. These uncertainties can potentially dent confidence among businesses and consumers, which in turn might lead to a slowdown in private investment and consumption going forward.

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