

Thailand's economy grew with slower pace at **2.3%YOY** in **2019Q2**. Government Economic Stimulus Packages, approved tomorrow (August 20, 2019), need to be monitored.

19 August 2019

Thailand's economic growth in the second quarter of 2019 decelerated at 2.3% YOY, which is the slowest rate in nineteen quarters. This was significantly due to a drop in exports, both goods and services. For production side, agricultural sector contracted by drought effect while industrial sector's deteriorated following the export-related production.

EIC assesses 2019 Thailand's GDP growth would below 3% from global economic slowdown. However, fiscal stimulus packages, which should be approved by the cabinet tomorrow (August 20, 2019), are able to positively affect Thailand's GDP.

■ Key points

Thailand's economic growth in the second quarter of 2019 decelerated at 2.3%YOY, which is the slowest rate in nineteen quarters. Meanwhile, GDP growth expanded at 0.6%QOQ_sa (compared to the previous quarter with seasonally adjusted). In the first half of 2019, GDP grew by 2.6%YOY, which is closely to EIC's forecast at 2.5%YOY.

Based on the expenditure approach, exports and tourism pulled down the growth while private consumption progressively expanded.

- **Export values in real terms dropped 5.8%YOY following a drop of 5.9%YOY in the previous quarter due to the global economic slowdown and higher tensions from U.S.-China trade war.** Imports also shrank in real terms of -3.4%YOY, down from the previous quarter, which was at -2.6%YOY, from the reduction of raw material, and intermediate goods import for producing exporting products.

- **Service exports contracted from the drop in tourists' number and transportation income**, at -7.0% YOY, which was resulted from a slow in foreign tourist numbers, as well as a decline in transportation income, both in terms of transportation and freight.
- **Private consumption softened, at 4.4%YOY. This was mainly due to the decline in growth of durable goods**, at 5.5%YOY, declined from the expansion of 8.2% YOY in the previous quarter following the drop in auto sales. However, the growth of non-durable, and semi-durable goods accelerated at 3.0%YOY and 4.7%YOY, respectively, compared with the growth at 2.5%YOY and 2.8% YOY in the previous quarter. The continuous growth was supported by economic stimulus through the state welfare cards, valued at THB 13.2 billion.
- **Private investment growth slowed both in construction and machinery&equipment**, at 2.2%YOY, reduced from the rise of 4.4%YOY in the previous quarter. This was due to a decline in machinery&equipment investment used in offices, industries, and automotives. Similarly, construction growth also decelerated from residence construction, mainly in Bangkok and Perimeter including municipal.
- **Public investment growth was rebounded at 1.4% YOY** after shrinking -0.1% YOY from the previous quarter. This was resulted from the continuous expansion in public construction, at the accelerated rate of 5.8%YOY from the increase of 4.1%YOY in the previous period. However, the investment in machinery& equipment continuously dipped at -8.5%YOY, partially affected from no airplanes imported by Thai Airways in the second quarter.

For production approach, several sectors grew at a slower pace than in the first quarter

- **Industrial sector fell in negative growth at -0.2% YOY resulted from export reduction.** The decline in growth was mainly goods for exports e.g. computers, rubber, and plastic.
- **Agricultural production decreased at -1.1%YOY because of drought impact** especially for rice and sugarcane, which declined at -15%YOY and -65.3%YOY, respectively.
- **The number of tourists grew at slower pace affected GDP growth in hotel and restaurant sector.** The tourist numbers grew at only 1.1%YOY compared to the expansion at 1.8% in the first quarter. This resulted in the decline in GDP growth in hotels and restuarants, which was at 3.7%YOY compared with the rise of 4.9%YOY in the first quarter.
- **Real estate growth slowed at 3.1% YOY** from the LTV implementation in April 2019, which affected to ownership transfer.
- **Construction expanded with faster rate at 3.4%YOY**, higher from the previous quarter with the growth at 3.0%YOY. This was significantly due to a continue growth of public construction, while private construction softened.

■ Implication

In 2019, the Thai economy tends to expand below 3% due to worsening global economic conditions. Whether the government's economic stimulus packages will help uplift the economy in the second half still needs to be monitored. During the past month, the global economy slowed via various dimensions. A notable contributing event was the US levying tariff increments of 10% on Chinese imports based on 2 rounds as follows 1) September 1st – additional tariff imposed on USD 104 billion worth of Chinese imports and 2) December 15th – additional tariff imposed on USD 156 billion worth of Chinese imports. Furthermore, other concerning events such as escalating tensions between Japan and South Korea and protests in Hong Kong dimmed global economic growth prospects with direct impact on Thailand's export sector. **With this regard, EIC revises down export growth forecast in 2019 to -2.0% from the previous -1.6% (forecast as of July).** Similarly, weakened tourism sector growth outlook should be witnessed, EIC estimates that the accumulated **number of foreign tourist arrivals should drop to 40.0 million persons this year from the previous forecast of 40.1 million persons.** At the same time, the tourism sector will be further hampered by lowering spending per tourist from the influence of global economic slowdown and Thai baht appreciation. With weakening external demand, **EIC hence views that Thailand's economic growth will expand below 3.0% in 2019.**

GDP boosts from economic stimulus packages still need to be monitored. Even though the Thai economy was hurt by global economic slowdown and trade war tensions, economic growth during the second half should improve due to the government's economic stimulus packages. Preliminarily, the economic cabinet plans to introduce economic stimulus packages worth over THB 310 billion, divided into 3 categories as follows:

1) Packages to support farmers

- Emergency loan of THB 50,000 per person (interest-free during the first year)
- Drought recovery loan of THB 500,000 per person
- Rice production input support of 500-800 THB per rai capped at maximum 20 rais

2) State welfare card packages

- State welfare cardholder: an additional 500 baht per person per month for 2 months (August – September)
- Elderly: an additional 500 baht per person per month for 2 months (August – September)
- Infants: an additional 300 baht per person per month for 2 months (August – September)

3) Packages to support domestic tourism spending

- Tourism spending support of THB 1,000 per person for the first 10 million registered
- Rebate of 15% on tourism spending worth not over THB 30,000 with a maximum rebate of THB 4,500
- 1-year free visa for Chinese and Indian tourists and waiver of Visa on Arrival (VOA) fees

However, uncertainties regarding economic stimulus details remained, for example, eligibility criteria for farmer loans, duration of the loan, source of supporting budget, and whether the complete list of packages was announced. As such, pending official details need to be monitored. The details should be released after

approval of the cabinet meeting, which will take place tomorrow (20th September). Stay tuned as EIC will conduct a thorough analysis regarding the event.

Figure 1 GDP in Quarter 4/2018 in several sectors decelerated from the previous quarter

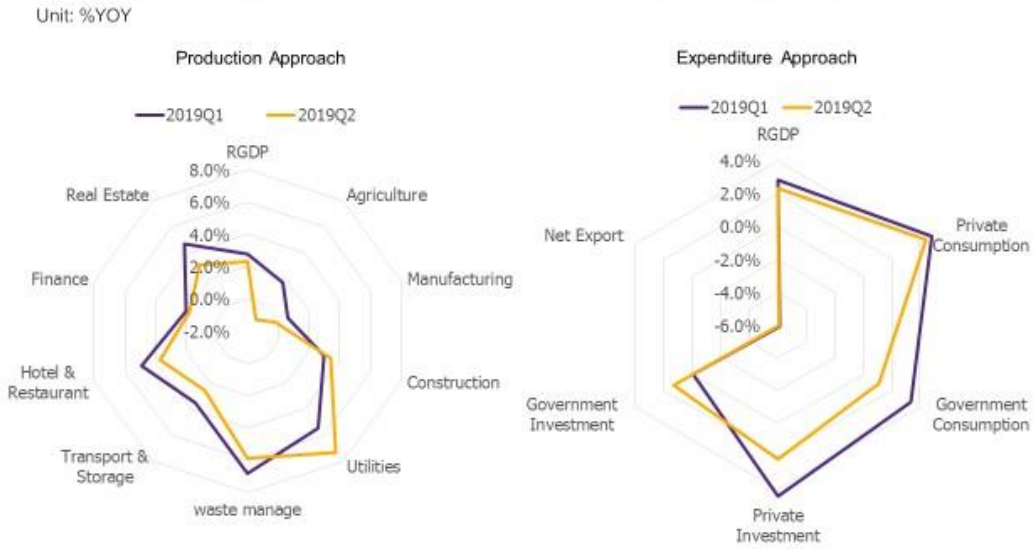


Figure 2 Contribution to GDP Growth (Expenditure Approach)

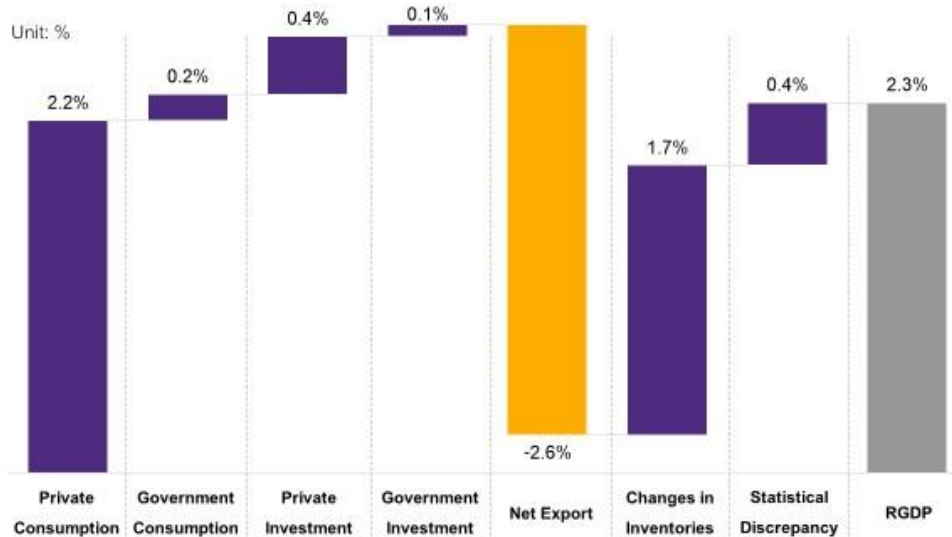
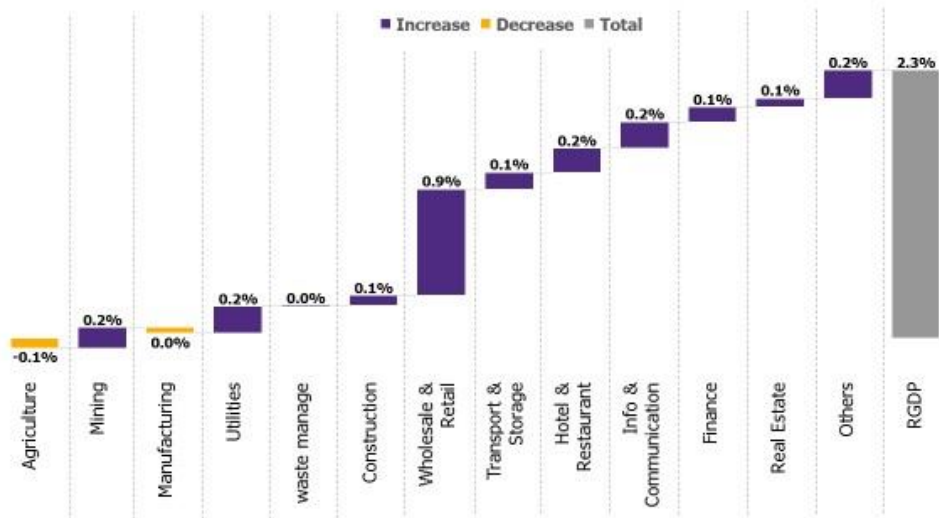


Figure 2 Contribution to GDP Growth (Production Approach)



By : Kampon Adireksombat, Ph.D. (kampon.adireksombat@scb.co.th)
 Head of Economic and Financial Market Research

Panundorn Aruneeniramarn (panundorn.aruneeniramarn@scb.co.th)
 Senior Economist

Jirayu Photirat (jirayu.photirat@scb.co.th)
 Analyst

Economic Intelligence Center (EIC)

Siam Commercial Bank

EIC Online: www.scbeic.com

