EIC evaluates that the Thai economy has already entered a recession with the deepest contraction in Q2/20, before gradually improving.

18 May 2020

Thailand's first-quarter data showed a -1.8%YOY economic contraction (marking the first decline since Q1/2014 and the highest decline since Q4/2011). Such growth pushed the Thai economy into a technical recession in Q1/2020 as the GDP growth (%QOQ sa) pointed to a two consecutive quarters decline.

In a nutshell, the Thai economy in Q1/2020 contracted following the direct hit of the COVID-19 pandemic, which severely weakened the tourism and export sectors. The economy was further hampered by delayed government disbursements that stalled government consumption expenditure and investment, as well as the harsh drought that dwarfed the supply of various key agricultural products.

EIC views that the economy will be hit the hardest in the second quarter from the impact of lockdown measures imposed in various countries, worldwide. Then, the economy should gradually improve during the second half with partial support from government stimulus and post lockdown measures. However, the major risk is that if there is a second wave of COVID-19 pandemic, it may cause the Thai economy to contract further.

EIC maintains the view that the policy interest rate will be lowered by 25 bps in Q2/2020 due to troubling economic conditions including the current recession with deeper contractions expected in Q2/2020 and the slow recovery with high lingering down-side risks. The MPC could most likely cut the policy rate by 25 bps during the Monetary Policy Committee Meeting on May 20, 2020.

For EIC's in-depth economic forecasts and analyses, please stay tuned for the published report in early June 2020.

Key points

In Q1/2020, the Thai economic growth declined to -1.8%YOY, marking the first contraction since Q1/2014 and the highest decline since the great-flood in Q4/2011. In the present, Thailand's economy has entered a recession from two consecutive quarter-on-quarter, seasonally adjusted (%QOQ sa) growth decline (Q4/2019 by -0.2%QOQ sa and Q1/2020 by -2.2%QOQ sa).

Figure 1: Thailand's economy saw a broad-based contraction. Growth was only present from private consumption and merchandise exports (driven by gold exports), though with significantly slower momentum.

Expenditure approach

%YoY	2018	2019	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	% of GDP (2019)
RGDP	4.2%	2.4%	2.9%	2.4%	2.6%	1.5%	-1.8%	100.0%
Private Consumption	4.6%	4.5%	4.8%	4.7%	4.3%	4.1%	3.0%	52.1%
Public Consumption	2.6%	1.4%	3.5%	1.5%	1.7%	-0.9%	-2.7%	14.6%
Total Investment	3.8%	2.1%	3.2%	1.9%	2.7%	0.8%	-6.5%	23.9%
Private Investment	4.1%	2.8%	4.3%	2.1%	2.3%	2.6%	-5.5%	17.8%
Public Investment	2.9%	0.2%	0.0%	1.5%	3.7%	-5.1%	-9.3%	6.0%
Export G&S	3.3%	-2.6%	-3.5%	-4.0%	0.6%	-3.4%	-6.7%	71.4%
Export Goods	3.8%	-3.6%	-4.4%	-4.6%	-0.1%	-5.1%	2.0%	54.3%
Export Services	2.0%	0.5%	-1.1%	-1.7%	3.2%	1.7%	-29.8%	17.2%
Import G&S	8.3%	-4.4%	0.1%	-3.4%	-5.9%	-7.9%	-2.5%	64.6%
Import Goods	7.9%	-5.5%	-2.8%	-3.7%	-6.8%	-8.6%	-0.3%	52.3%
Import Services	9.9%	0.5%	13.0%	-2.1%	-2.1%	-5.3%	-10.5%	12.3%

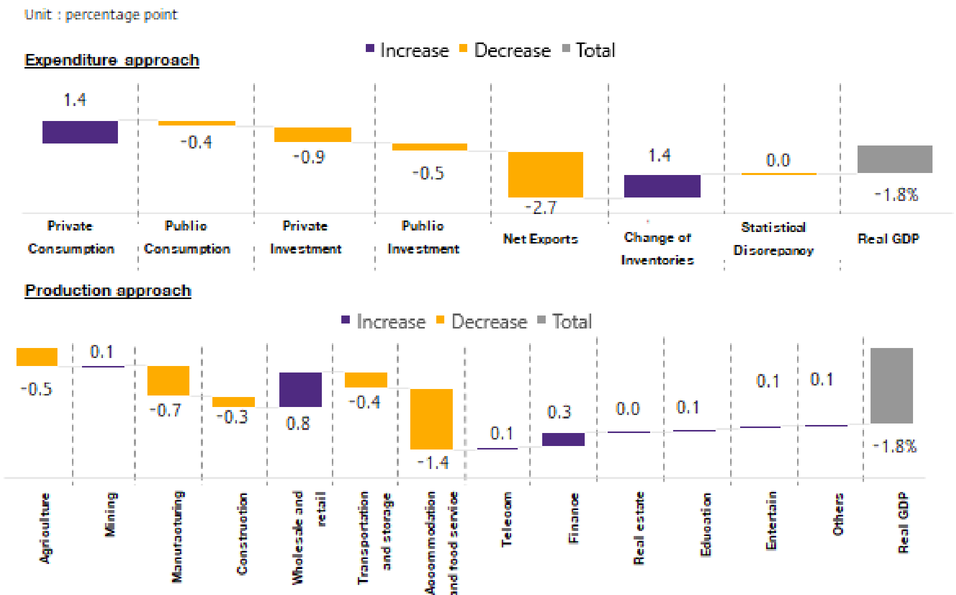
Production approach

%YoY	2018	2019	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	% of GDP (2019)
RGDP	4.2%	2.4%	2.9%	2.4%	2.6%	1.5%	-1.8%	100.0%
Agriculture	5.5%	-0.2%	1.7%	-1.4%	2.7%	-2.5%	-5.7%	6.1%
Industrial	2.7%	0.0%	0.7%	1.2%	-0.1%	-1.9%	-1.9%	31.7%
Mining	-3.0%	1.7%	-1.2%	4.2%	2.9%	1.0%	2.6%	2.1%
Manufacturing	3.2%	-0.7%	0.2%	0.1%	-0.8%	-2.2%	-2.7%	26.4%
Services	4.8%	4.0%	4.3%	3.6%	3.9%	4.1%	-1.1%	63.2%
Construction	2.4%	1.9%	3.0%	3.4%	2.7%	-2.1%	-9.9%	2.7%
Wholesale & Retail	6.6%	5.7%	6.7%	5.5%	5.3%	5.2%	4.5%	15.6%
Transport & Storage	4.4%	3.4%	3.7%	3.0%	3.1%	3.9%	-6.0%	6.8%
Hotel & Restaurant	7.6%	5.5%	5.0%	3.6%	6.7%	6.8%	-24.1%	6.2%
Info & Communication	7.6%	8.8%	7.1%	8.8%	8.2%	10.6%	4.4%	5.3%
Finance	3.4%	2.7%	2.0%	1.8%	3.8%	3.4%	4.5%	7.2%
entertain	12.2%	11.4%	11.6%	9.7%	11.5%	12.6%	9.2%	1.0%

Source: EIC analysis based on data from NESDC

SCB Economic Intelligence Center

Figure 2: Thai GDP shrank by only -1.8%YOY as the final demand contracted by -3.2 ppt., while changes in inventories increased by 1.4 ppt.



Source: EIC analysis based on data from NESDC

SCB Economic Intelligence Center

Considering the expenditure approach, the economy was hampered by drastic declines in exports, tourism, and private investment growth following the COVID-19 infection, in addition to lower government expenditure from the delayed FY2020 Budget Bill.

- **The value of merchandise and services exports in real terms dropped for 2 consecutive quarters with the latest quarter decline of -6.7%YOY.**
  - **Exports of services or tourism shrank by over -29.8%YOY** due to the impact of strict COVID-19 containment measures, resulting in a -38.0%YOY drop in the number of tourists in Q1/2020.
  - **Even though the value of merchandise exports in real terms expanded by 2.0%YOY, the majority was from gold exports,** which do not reflect actual economic activities[1]. If excluding gold, the value of exports[2] in the first quarter would shrink by -1.3%YOY. Key items that led the decline included rice, automotive, and chemical exports. On the contrary, electronics exports showed satisfactory growth driven by increasing demand from work from home activities in several countries throughout the world.
- **Private investment returned to a -5.5%YOY contraction, compared to the 2.6%YOY expansion in the previous quarter.** The growth decline was driven by lower construction investment (-4.3%YOY) and sluggish machinery investment (-5.7%YOY), especially from vehicles.
- **The delayed FY2020 Budget Bill approval continued to weaken government consumption and investment growth.** The government's consumption expenditure dropped by -2.7%YOY, as well as government investment by -9.3%YOY. The decline was led by government construction contraction of -29.6%YOY, even with the cushion from State-Owned Enterprise construction growth of 20.8%YOY. Meanwhile, government machinery investment expanded by 4.2%YOY.
- **Private consumption expenditure growth slowed to 3.0%YOY.** The expansion was supported by growing non-durable goods consumption. However, durable and semi-durable goods consumption stalled according to weakened household purchasing power and the influence from the COVID-19 pandemic that pressured the economy since late Q1/2020.

---

[1] Gold exports were excluded from GDP calculations. Such exports will register as a surplus in the export account but as a deficit in changes in inventory, thus having no impact on GDP figures.

[2] Export value in USD terms according to the Customs Department, excluding gold and weaponry reshipments.

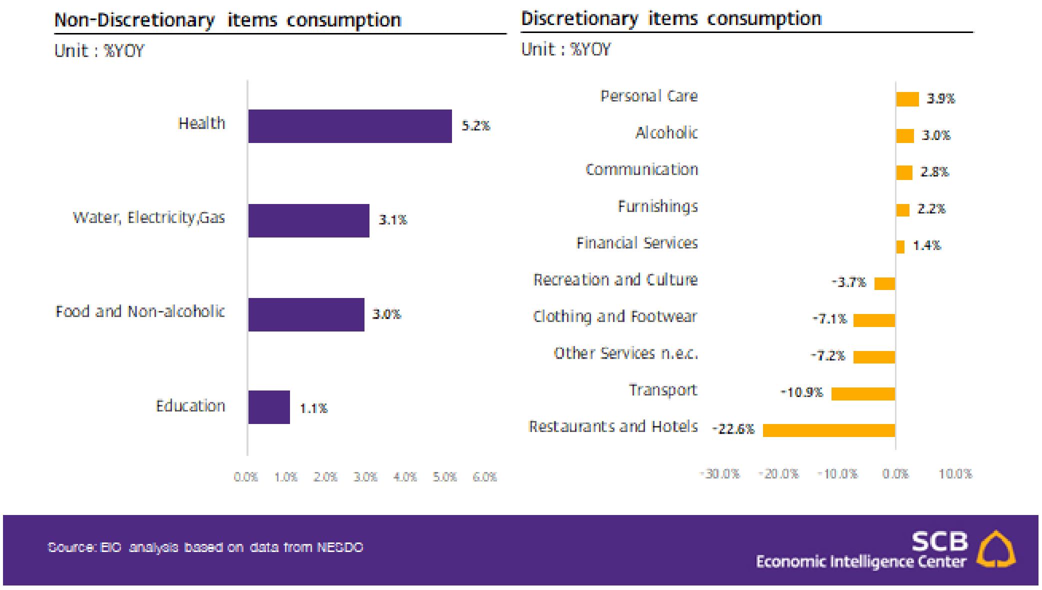
Regarding the production approach, the agriculture sector considerably shrank following the drought. Similarly, the industrial manufacturing sector contracted following exports. Meanwhile, services relating to tourism drastically declined, and construction significantly stalled from declining public and private construction growth.

- **The agricultural sector continued to contract for two consecutive quarters with the latest quarter decline at -5.7%YOY.** The negative growth was driven by the drought, which dwarfed the production of key agricultural products such as rice, sugarcane, and cassava.
- **Industrial manufacturing production continued to contract for three-quarters straight with the latest quarter decline at -2.7%YOY.** Weakened exports and sluggish domestic economic growth drove the decline. The products contributing to the drop were, for instance, automotive, food, petroleum refinery, chemicals, and rubber and plastic.
- **However, the accommodation and food service activities returned to a -24.1% contraction,** down from the previous quarter expansion of 6.8%YOY due to the COVID-19 pandemic and the COVID-19 control measures imposed by Thailand and countries throughout the globe, resulting in drastic declines in tourist figures.
- **Transportation and storage dropped by -6.0%YOY** following lower land transportation (-4.2%YOY) and air transportation (-20.8%YOY), which slowed according to lower numbers of domestic and foreign tourists, in addition to lower transportation of agricultural and industrial products.
- **Construction continued to drop by -9.9%YOY.** The private construction growth stalled following domestic economic conditions, similarly, government construction fell following the budget approval delay.
- **However, manufacturing in various sectors continued to expand but at a decelerating momentum. Wholesale and retail trade grew by 4.5%YOY**, down from the previous quarter with 5.2%YOY growth. The slower momentum was driven by imposed disease control measures and the drop in foreign tourist arrivals.

Implication

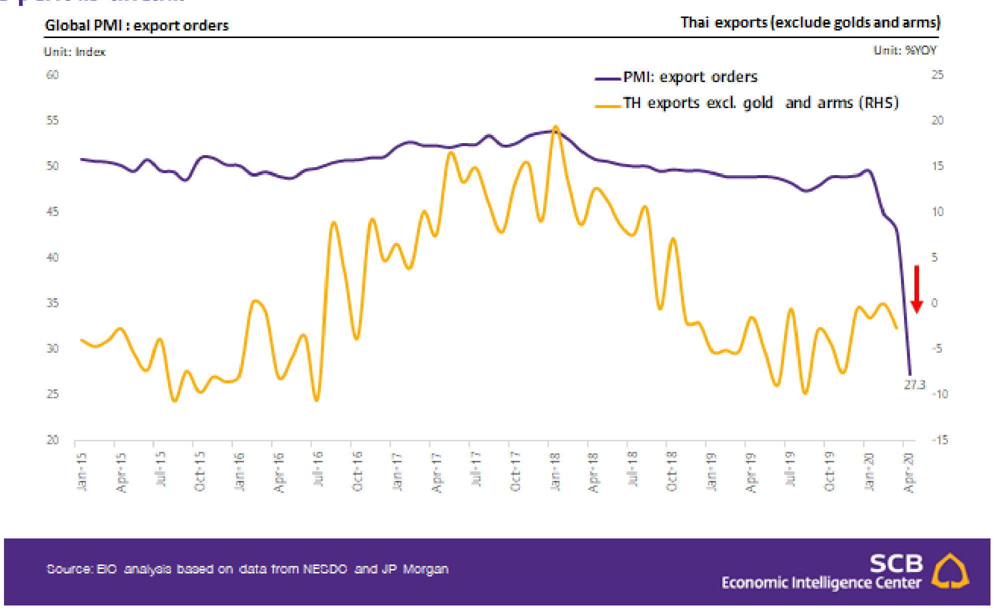
During the first quarter of 2020, Thailand's economy saw direct impacts from COVID-19, which significantly hurt the tourism and export sectors. The accommodation and food service activities saw a -24.1%YOY contraction. Although exports expanded during the first quarter, the majority was driven by gold exports, which do not reflect actual economic activities. If excluding gold, export growth will turn negative and influencing a decline in industrial production by -2.7%YOY. However, Thailand's first-quarter GDP saw a short-term boost from non-discretionary items consumption, partly driven by stockpiling before the lockdown. Other economic cushions were from growth in consumption relating to living at home and work from home, such as water, electricity, furniture, and telecommunication (internet fee) consumption (Figure 3).

Figure 3: Drivers for domestic private consumption growth were non-discretionary items, living at home, and work from home consumption.



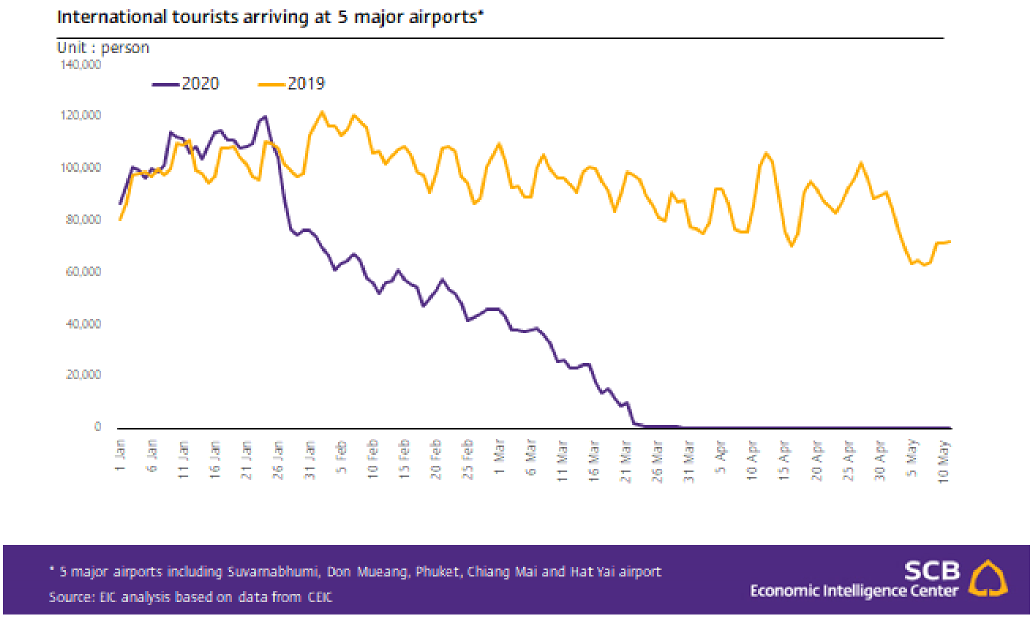
Going forward, EIC views that the economy will be hit the hardest in the second quarter from the full impact of lockdown measures imposed in various countries. This is because the national lockdowns will trigger a sudden stop in economic activities worldwide, which will directly hurt Thai exports from sluggish global economic growth and supply chain disruptions. In addition, the indicator for global trade or the global PMI export orders index showed a significant drop in April (Figure 4), reflecting that exports will considerably shrink in the second quarter.

Figure 4: The Global PMI export orders index indicated that Thai exports should considerably decline in the periods ahead.



Apart from dimmed export outlooks, Thailand's tourism sector should also see high contractions. The international travel ban imposed in Thailand significantly lowered the number of tourists by almost 100% since late March - Present (Figure 5). Moreover, growth in the tourism and transportation sectors were suppressed by inter-provincial travel restrictions. Meanwhile various commerce businesses had to suspend operations. Such mentioned factors will cause the Thai economy to see the deepest decline in Q2/2020.

Figure 5: Since the international travel ban was imposed, tourist growth fell by almost 100%.



Nevertheless, EIC views that the economy will slowly recover during the second half of 2020, based on the condition of no successive waves of COVID-19 outbreaks. Even though economic recovery should be witnessed in the second half, the expansion from the second quarter (positive %QoQ sa growth) will not offset the decline, thus the 2020 full-year growth should still be negative (negative %YOY growth).

Capital from government stimulus measures will play a vital role in supporting the economy in 2020. The Emergency Degree that allowed the government to borrow THB 1 trillion will be a notable measure that will soften the economic impact this year. Such mentioned budget was allocated into two parts, 1) **budget to provide financial aid to affected persons, including farmers worth over THB 555 billion** – parts of the budget were already disbursed according to the government assistance scheme that provided affected persons with direct income compensation of THB 5,000 payments for 3 months, in addition to the same scheme imposed for farmers and **2) budget for economic and social rehabilitation worth THB 400 billion**. The full THB 1 trillion will not be injected into the economy this year as the budget will be gradually allotted to support the economy from the present until September 2021 according to the government's policy. EIC evaluates that such a budget is sizable enough to support the economy in 2020, though close monitoring of the upcoming money allotments and policy details will be required.

Please stay tuned for EIC's 2020 in-depth economic forecasts and analyses, scheduled to be published in early June 2020.

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

Phimchanok Hou (phimchanok.hou@scb.co.th)
Analyst

Economic Intelligence Center (EIC)
Siam Commercial Bank
EIC Online: www.scbeic.com