Thai GDP contracts less than anticipated in Q3/20 following faster-than-expected recovery in private and government spendings.

16 November 2020

Key summary

The Thai economy in Q3/2020 stalled to a -6.4%YOY contraction (compared to a -12.1%YOY drop in Q2/2020). Such an improving circumstance signaled that Thailand's economy has bottomed out, in line with the relaxation of lockdown measures and the support from government stimulus packages that boosted private consumption.

Thailand's economic recovery is likely to continue into the last quarter of 2020, though at a slowing rate. Factors that will support growth include the low base effect in 2019 from the delayed Budget Bill in addition to improvements in the export sector. However, sluggish growth in private investment and the tourism sectors should remain.

The -6.4%YOY contraction observed in Q3/2020 was smaller than what EIC anticipated, suggesting that the Thai economy could recover slightly faster than previously expected. Exports and private consumption should be the main drivers for recovery. With such regards, the actual 2020 economic growth figure could be better than previously anticipated at -7.8%.

Looking forward to 2021, the Thai economy should continue to gradually recover from the damages of scarring effects. However, promising vaccine discoveries could accelerate the recovery of Thailand's trading partners' economies as well as improve international tourism. As such, Thailand's economic growth could also be higher than the forecasted 3.5%.

Key points

In Q3/2020, the Thai economic growth dropped slightly by -6.4%YOY, after tumbling by -12.1%YOY in Q2/2020. In terms of seasonally adjusted quarter-on-quarter growth (%QOQ seasonally adjusted), the Thai economy returned to an expansion of 6.5% QOQ sa (compared to -9.9% QOQ sa in Q2/2020) following recovering economic conditions. The easing lockdown measures and the sizable stimulus packages issued contributed greatly to the improvement. As such, during the first 3 quarters of 2020, the Thai economy shrank by -6.7%YOY.

Figure 1: Nearly all economic sectors in Thailand saw slower contractions except for international tourism that continued to plummet. Support from increasing government consumption and investment improved economic conditions.

Real GDP growth by expenditure and production approach

Expenditure Approach

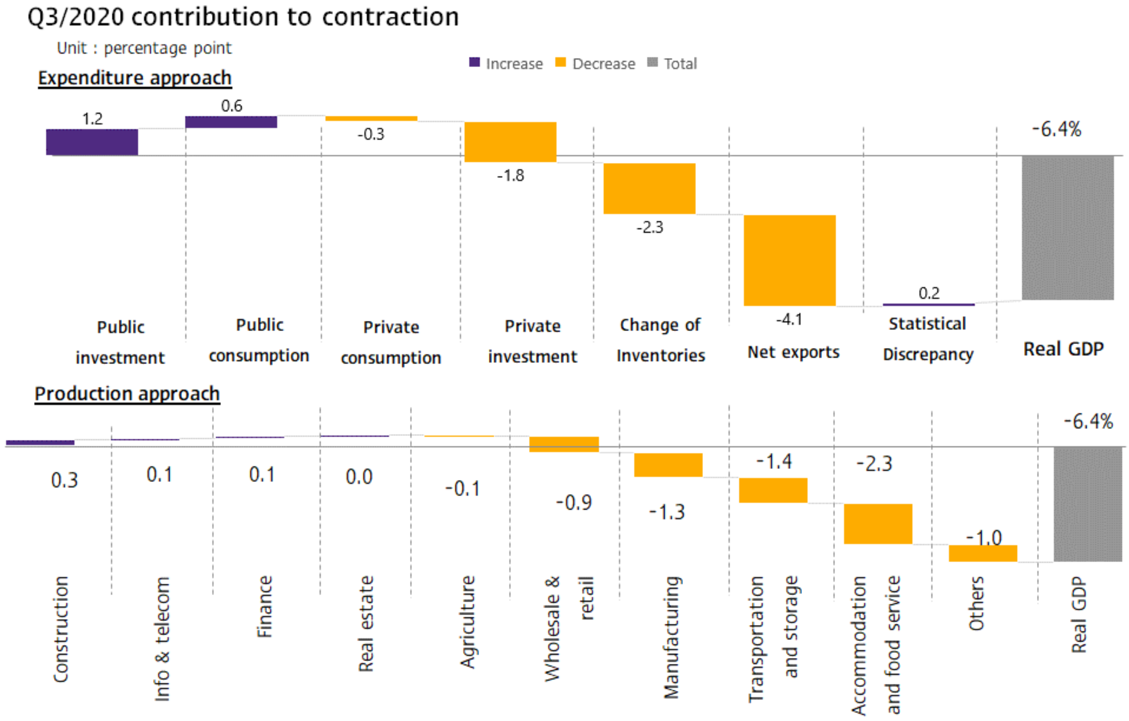
%YoY (Share 2019)	2018	2019	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	YTD
RGDP (100.0%)	**4.2%**	**2.4%**	**2.6%**	**1.5%**	**-2.0%**	**-12.1%**	**-6.4%**	**-6.7%**
Private Consumption (52.1%)	**4.6%**	**4.5%**	**4.3%**	**4.1%**	**2.7%**	**-6.8%**	**-0.6%**	-1.7%
Public Consumption (14.6%)	**2.6%**	**1.4%**	**1.7%**	**-0.9%**	**-2.8%**	**1.3%**	**3.4%**	0.7%
Total Investment (23.9%)	**3.8%**	**2.1%**	**2.7%**	**0.8%**	**-6.5%**	**-8.0%**	**-2.4%**	-5.6%
Private Investment (17.8%)	4.1%	2.8%	2.3%	2.6%	-5.4%	-15.0%	-10.7%	-10.3%
Public Investment (6.0%)	2.9%	0.2%	3.7%	-5.1%	-9.3%	12.5%	18.5%	7.3%
Export G&S (71.4%)	**3.3%**	**-2.6%**	**0.6%**	**-3.4%**	**-7.3%**	**-27.8%**	**-23.5%**	-19.4%
Export Goods (54.3%)	3.8%	-3.6%	-0.1%	-5.1%	2.0%	-15.9%	-7.7%	-7.2%
Export Services (17.2%)	2.0%	0.5%	3.2%	1.7%	-32.2%	-68.0%	-73.3%	-56.3%
Import G&S (64.6%)	**8.3%**	**-4.4%**	**-5.9%**	**-7.9%**	**-3.1%**	**-23.2%**	**-20.3%**	-15.6%
Import Goods (52.3%)	7.9%	-5.5%	-6.8%	-8.6%	-0.3%	-19.3%	-17.0%	-12.3%
Import Services (12.3%)	9.9%	0.5%	-2.1%	-5.3%	-13.0%	-37.4%	-32.8%	-27.6%

Production Approach

%YoY (Share 2019)	2018	2019	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	YTD
RGDP (100.0%)	**4.2%**	**2.4%**	**2.6%**	**1.5%**	**-2.0%**	**-12.1%**	**-6.4%**	**-6.7%**
Agriculture (6.1%)	**5.5%**	**-0.2%**	**2.7%**	**-2.5%**	**-9.8%**	**-3.3%**	**-0.9%**	**-5.2%**
Industrial (31.7%)	**2.7%**	**0.0%**	**-0.1%**	**-1.9%**	**-1.9%**	**-14.2%**	**-5.8%**	**-7.2%**
Mining (2.1%)	-3.0%	1.7%	2.9%	1.0%	2.2%	-14.0%	-7.4%	-6.4%
Manufacturing (26.4%)	3.2%	-0.7%	-0.8%	-2.2%	-2.6%	-14.6%	-5.3%	-7.4%
Services (63.2%)	**4.8%**	**4.0%**	**3.9%**	**4.1%**	**-0.9%**	**-12.2%**	**-7.3%**	**-6.7%**
Construction (2.7%)	2.4%	1.9%	2.7%	-2.1%	-9.9%	7.4%	10.5%	2.6%
Wholesale & Retail (15.6%)	6.6%	5.7%	5.3%	5.2%	4.8%	-9.8%	-5.5%	-3.0%
Transport & Storage (6.8%)	4.4%	3.4%	3.1%	3.9%	-6.0%	-38.8%	-23.6%	-22.2%
Hotel & Restaurant (6.2%)	7.6%	5.5%	6.7%	6.8%	-23.3%	-50.2%	-39.6%	-37.2%
Info & Communication (5.3%)	7.6%	8.8%	8.2%	10.6%	3.2%	2.7%	3.1%	3.0%
Finance (7.2%)	3.4%	2.7%	3.8%	3.4%	4.5%	1.7%	1.6%	2.6%

Source: EIC analysis based on data from NESDC

Figure 2: Q3/2020 contribution to contraction



Source: EIC analysis based on data from NESDC

Considering the expenditure approach, nearly all economic sectors saw slower contractions except for imports and exports of services that continued to plummet. Meanwhile, government consumption and investment continued to increase.

- **The value of merchandise and services exports in real terms dropped for 4 consecutive quarters, with the latest quarter decline at -23.5%YOY.**
  - **The value of merchandise exports in real terms declined by -7.7%YOY**, improving from the -15.9%YOY contraction in the previous quarter. Such conditions suggested a broad recovery in exports. However, several key industries, especially automotive and parts and machinery, continued to suffer from dwindling exports.
  - **Exports of services or tourism plunged by -73.3%YOY**, after tumbling by -68.0%YOY in the previous quarter. The figure worsened as various countries, including Thailand, continued to ban international tourists in Q3. Foreign tourist receipts fell by -100%YOY in Q3/2020, though the sector saw some improvements from receipts from other services.

- **The value of merchandise and services imports in real terms slowed to a -20.3%YOY contraction, compared to the -23.2%YOY drop in Q2**, following weak domestic demand. Overall merchandise imports fell by -17.0%YOY, meanwhile services imports fell drastically by -32.8%YOY as Thais were unable to travel abroad.

- **Private consumption moderated by -0.6%YOY**, after dropping by -6.8%YOY in the previous quarter. The improvement was prompted by easing lockdown measures and government stimulus packages that partly restored economic activities. Durable goods and semi-durable goods consumption also slowed to a -19.3%YOY and -14.0%YOY contraction. Meanwhile, non-durable goods consumption expanded by 2.7%YOY.
- **Private investment improved to a -10.7%YOY contraction,** though representing a 3 consecutive quarters decline following weakened machinery items investment (-14.0%YOY). Meanwhile, construction investment reverted to growth of 0.3%YOY.
- **Government consumption and investment continued to grow considerably since quarter 2,following accelerated budget disbursements after the 2020 Budget Bill was passed.** As such, government consumption increased by 3.4%YOY while government investment surged by 18.5%YOY.

Regarding the production approach, nearly all key sectors noticed slower contractions. Meanwhile, the construction, communications, and finance sectors continued to improve.

- **The agricultural sector continued to contract for 4 consecutive quarters, but at a slower pace of -0.9%YOY** compared to the contraction of -3.3%YOY in the previous quarter. The negative growth was driven by lower production of key agricultural products, including rice, rubber, and oil palm.
- **Manufacturing production stalled to a -5.3%YOY contraction, improving from the fall of -14.6%YOY in the previous quarter.** Production from manufacturing sectors increased across the board as domestic and foreign demand started to recover.
- **Wholesale and retail sales continued to shrink for 2 consecutive quarters with the latest quarter decline at -5.5%YOY** after contracting by -9.8%YOY in the previous quarter. The improving situation was driven by easing lockdown measures that prompted a recovery in domestic demand followed by growth in domestic production.
- **Accommodation and food service activities fell by a slower pace of -39.6%YOY,** after tumbling by -50.2%YOY in the previous quarter. Domestic tourists (Thailand continued to ban international tourists for 2 quarters) and government stimulus packages for domestic tourism, including the Gum Lung Jai and Rao Tiew Duay Gun packages, drove the growth.
- **Transportation and storage fell for 3 quarters straight, with the latest quarter decline at -23.6%YOY** as airspace and border closures significantly limit the number of passengers. However, all transportation sectors observed slower contractions.
- **Production in several sectors continued to expand, including construction that grew considerably by 10.5%YOY** after increasing by 7.4%YOY in the previous quarter. The sector was

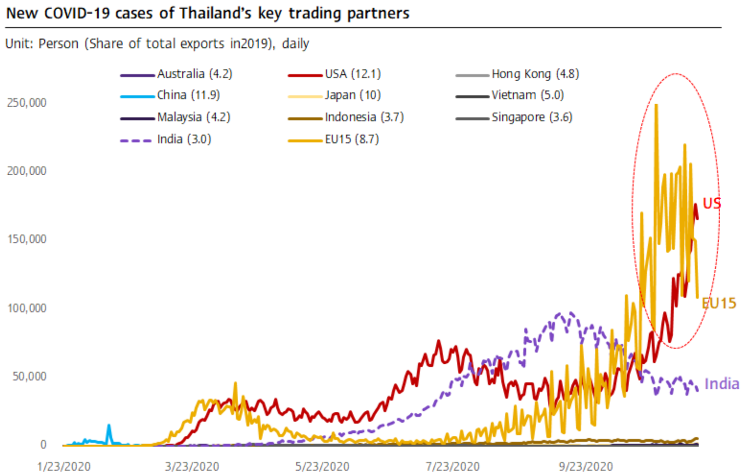
supported by accelerated disbursement of the 2020 Budget Bill, in which most of the budget was for the construction of ongoing projects. Furthermore, sectors such as the financial and information and news services continued to improve from the previous quarter with growth at 3.1%YOY and 1.6%YOY, respectively.

Implication

During the third quarter of 2020, Thailand's economy contracted at a slower rate as easing lockdown measures boosted private consumption. The economy also saw support from increasing government consumption and investment. InQ3/20, private consumption, excluding expenditure of non-residents in the country, reverted to a 3.8%YOY expansion, reflecting that domestic demand started to recover. Improving conditions spurred from the continual launch of government stimulus programs, including the Gum Lung Jai, Rao Tiew Duay Gun, and packages that alleviated affected persons. Similarly, government consumption and investment increased following hastened FY2020 budget disbursements (3.4%YOY and 18.5%YOY, respectively). The export sector also recovered following global economic conditions. On the contrary, sluggish conditions in the tourism sector, especially in part of international tourism lingered as foreign tourists were banned from entering Thailand. While worsening conditions in private investment also persisted.

Thailand's economic recovery is likely to continue into the last quarter of 2020, though at a slowing rate. Factors that will support growth include the low base effect in 2019 from the delayed Budget Bill. The passing of the Bill shall continue to sustain high government consumption and investment growth. On the contrary, conditions in the private investment and the tourism sector should remain sluggish despite the welcoming of long-stay international tourists as most were small scale. The export sector should see a slower pace of recovery according to stalling global economic recovery as well as a resurgence in COVID-19 cases in many of Thailand's key trading partners' economies (Figure 3). **Nevertheless, the -6.4%YOY contraction witnessed in Q3/2020 was smaller than what EIC previously anticipated**, reflecting that the Thai economy could recover slightly faster than previously expected, particularly from exports and private investment. As such, **Thailand's economic growth in 2020 could improve from the forecasted -7.8%.**

Figure 3: Accelerating COVID-19 casualties reemerged in many of Thailand's key trading partners' economies. Such conditions could impact the recovery of Thai exports.



Examples of countries that re-implemented lockdown measures from high new COVID-19 cases:

Italy: Partial lockdown measure, effective from 26 October to 24 November 20.

Belgium: New nationwide lockdown (2 Nov-13 Dec 20), which non-essential goods and personal services shops have been ordered to close

Germany: Lockdown measure throughout this November, starting on November 2, 20.

UK: Second national lockdown, effective from 5 Nov - 2 Dec 20

Other key trading partners: Malaysia has extended partial lockdown measures in some cities with high numbers of infected cases until Dec 6, 20.

Remarks: * Excluding weaponry shipments to the US in 2019

Source: EIC analysis based on data from Oxford and various press

Looking forward to 2021, the Thai economy should continue to gradually recover from the damages of scarring effects. If effective vaccines are discovered, Thailand's economic growth could improve from the forecasted 3.5%. Promising vaccine trial results released will directly accelerate the pace of recovery and restore global economic confidence, including in Thailand. However, a rise in foreign tourist numbers should be observed in late 2021 as it could take many months before the use of vaccination becomes widespread. Nevertheless, various pressuring factors will continue to undermine Thailand's economic recovery. The economy continually showed signs of fragility, particularly from scarring effects (Figure 4) as business closure figures climbed and labor market conditions waned. The labor market saw worsening unemployment figures and dwindling total working hours as full-time and over-time jobs dwarfed, thereby spurring waves of underemployment with many suspended from work without receiving payment (furloughed workers). Such mentioned conditions will directly impact the household and business sectors in terms of income recovery. Furthermore, the added debt burden accumulated due to COVID-19 will influence the household and business sectors to be more cautious in spending. As such, the pace of recovery for private consumption and investment will be gradual in 2021.

Figure 4: The 3 scarring effects that could undermine Thai economic growth in the periods ahead.

Source: EIC analysis

Please stay tuned for EIC's elaborate economic forecast for 2020 and 2021, scheduled to be published in late November 2020.

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