FLASH

SCB Economic Intelligence Center

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KEY SUMMARY

The Thai economy in Q1/2023 continued to expand with growth surpassing market consensus.

During the first quarter of 2023, the Thai economy grew by 2.7% compared to the same period in the prior year. Such a growth was higher than the market consensus (Reuters poll) at 2.3%. In terms of the seasonally adjusted quarter-on-quarter growth, the Thai economy expanded by 1.9% QOQ_sa, improving from -1.1% QOQ_sa in the prior quarter. Thailand's economy posted growth during the quarter thanks to steadily improving private consumption amid a rebound in tourism and services activities after China reopened its border. On the other hand, merchandise exports and public consumption dragged growth. Regarding the production approach, various economic sectors continued to improve. The services sector saw significant growth as the number of international tourists entering Thailand grew to over 6.5 million during the first quarter. The agriculture sector also improved according to favorable weather conditions and adequate water supply for cultivation. However, the industrial sector continued to contract following declining production for exports.

SCB EIC views that the Thai economy should revert to pre-COVID conditions by mid-2023, and economic activities should continue to improve as tourism is on track to full recovery.

SCB EIC anticipates that the Thai economy should continue to recover in the periods ahead following the return of international tourists, especially from China and ASEAN. In addition, domestic tourism should continue to grow as travel demand remain high. As such, the services sector, as a whole, should improve, particularly those relating to tourism, such as hotels, restaurants, and transportation. Private consumption should also enjoy growth, particularly in Q2/2023, following sizable spending from election campaigns. In the big picture, the Thai economy is approaching pre-COVID conditions and should return to the pre-COVID level by mid-2023. Export prospects should remain worrisome, with anticipated weakening in H1/2023 following gloomy global economic and trade conditions in addition to pressures from the high base. Such conditions could undermine investment and production for exports. Regardless, export conditions should gradually recover in H2/2023 following a recovery in Chinese demand after the country reopens. Additionally, the global economy has already passed the trough cycle.

The economic impact from the playouts of the election and the new government formation warrants monitoring.

Results from the general election on May 14, 2023, may lead to a change in government. Such an outcome calls for observation and will determine Thailand's economic outlook in the coming years. In the base case, SCB EIC views that the election and a transition of government will have a limited effect on the economy during the first 3 quarters of 2023 because budget disbursements for government agencies were already included in the FY 2023 Budget Act until Q3/2023. As such, government organizations can carry on as usual with the initiatives and policies that have been established. Moreover, budget disbursements were hastened and proposed for consideration prior to the dissolution of the parliament. SCB EIC expects that negative consequences will be more pronounced in Q4/2023 due to the uncertainty regarding the period of approval of the FY 2024 Budget Act, which should limit the scope for additional government economic stimulus. Moreover, new policy priorities from the new government should be enacted from 2024 onwards.

KEY POINTS

In Q1/2023, the Thai economy expanded by 2.7% compared to the same period in the prior year (YOY), improving from 1.4%YOY in the prior quarter. In terms of the seasonally adjusted quarter-on-quarter growth, the Thai economy reverted to an expansion that reached a 10 quarters high at 1.9%QOQ_sa after contracting by -1.1%QOQ_sa in the previous quarter.

Figure 1: In Q1/2023, the Thai economy saw boosts from the services and agriculture sectors. However, the industrial sector contracted.

<u>Expenditure Approach</u>

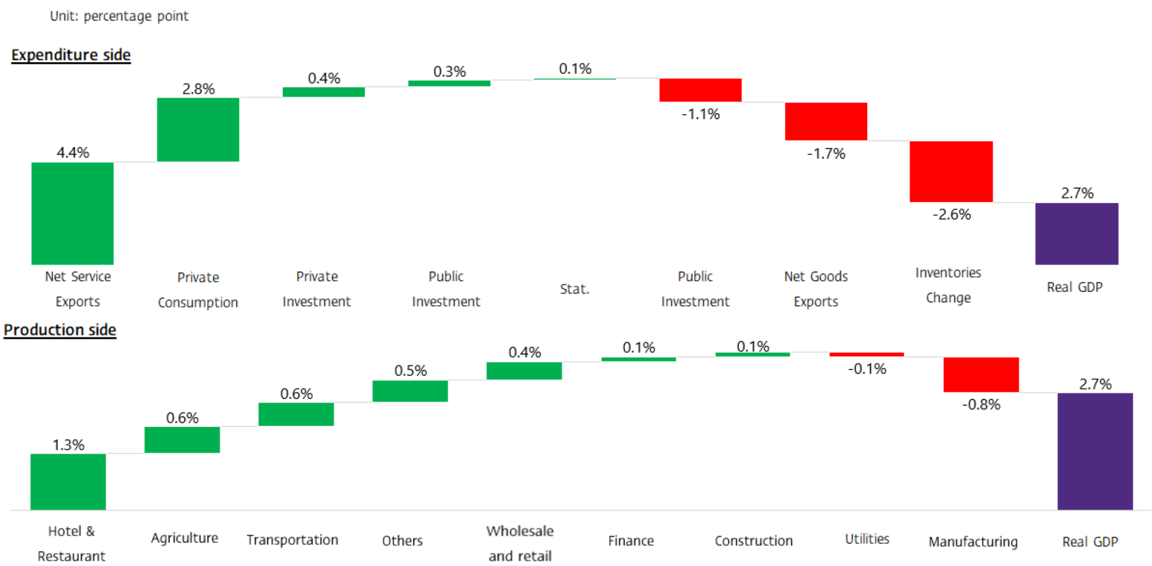
%YoY	% of GDP	2021	2022	2022Q1	2022Q2	2022Q3	2022Q4	2023Q1	YTD
RGDP	**100.0%**	**1.5%**	**2.6%**	**2.2%**	**2.5%**	**4.6%**	**1.4%**	**2.7%**	**2.7%**
Private Consumption	56.2%	0.6%	6.3%	3.5%	7.1%	9.1%	5.6%	5.4%	5.4%
Public Consumption	15.7%	3.7%	0.2%	8.2%	2.7%	-1.5%	-7.1%	-6.2%	-6.2%
Total Investment	24.6%	3.1%	2.3%	1.0%	-0.9%	5.5%	3.9%	3.1%	3.1%
Private Investment	18.2%	3.0%	5.1%	2.9%	2.3%	11.2%	4.5%	2.6%	2.6%
Public Investment	6.3%	3.4%	-4.9%	-3.8%	-8.8%	-6.8%	1.5%	4.7%	4.7%
Export G&S	69.4%	11.1%	6.8%	11.9%	7.8%	8.7%	-0.7%	3.0%	3.0%
Export Goods	61.0%	15.3%	1.3%	9.7%	4.3%	2.3%	-10.5%	-6.4%	-6.4%
Export Services	8.9%	-19.9%	65.8%	35.5%	47.7%	79.2%	94.9%	87.8%	87.8%
Import G&S	69.1%	17.8%	4.1%	4.4%	7.3%	9.5%	-4.8%	-1.0%	-1.0%
Import Goods	59.4%	18.2%	5.4%	6.6%	9.9%	11.2%	-5.9%	-3.3%	-3.3%
Import Services	10.3%	16.0%	-0.6%	-3.3%	-1.9%	3.7%	-0.9%	8.9%	8.9%

Production Approach

%YoY	% of GDP	2021	2022	2022Q1	2022Q2	2022Q3	2022Q4	2023Q1	YTD
RGDP	**100.0%**	**1.5%**	**2.6%**	**2.2%**	**2.5%**	**4.6%**	**1.4%**	**2.7%**	**2.7%**
Agriculture	6.4%	2.3%	2.4%	3.4%	4.0%	-2.2%	3.4%	7.2%	7.2%
Industrial	31.6%	3.8%	-0.5%	0.7%	-2.1%	4.5%	-4.6%	-3.0%	-3.0%
Mining	1.6%	-5.4%	-14.9%	-17.2%	-21.2%	-13.3%	-6.9%	-2.4%	-2.4%
Manufacturing	26.9%	4.9%	0.4%	2.0%	-0.8%	6.0%	-5.0%	-3.1%	-3.1%
Electricity, gas	2.7%	0.3%	1.9%	1.8%	1.1%	4.4%	0.1%	-4.2%	-4.2%
Services	63.1%	0.4%	4.3%	2.8%	4.7%	5.5%	4.3%	5.2%	5.2%
Construction	2.8%	2.2%	-2.7%	-5.1%	-4.4%	-2.6%	2.6%	3.9%	3.9%
Wholesale & Retail	16.0%	1.6%	3.1%	2.7%	3.2%	3.5%	3.1%	3.3%	3.3%
Transport & Storage	5.6%	-2.7%	7.1%	3.5%	5.0%	10.1%	9.8%	12.4%	12.4%
Hotel & Restaurant	4.9%	-14.2%	39.3%	32.2%	44.7%	53.2%	30.6%	34.3%	34.3%
Info & Communication	6.4%	6.1%	5.1%	5.7%	6.3%	4.7%	3.9%	3.4%	3.4%
Finance	8.3%	5.5%	1.0%	1.0%	1.4%	1.0%	0.5%	1.5%	1.5%
Real Estate	4.2%	1.7%	2.1%	1.3%	2.4%	3.1%	1.9%	1.9%	1.9%
Public	5.0%	0.0%	-0.5%	-2.8%	0.6%	1.0%	-0.8%	1.4%	1.4%
Education	3.2%	0.4%	1.1%	0.6%	1.7%	2.9%	-0.7%	1.3%	1.3%

Source: SCB EIC analysis based on data from the National Economic and Social Development Council

Figure 2: Contribution to growth of Real GDP in Q1/2023



Source: SCB EIC analysis based on data from the National Economic and Social Development Council

In terms of the expenditure approach, economic growth during the quarter was driven by the services, private consumption, and private investment sectors.

- Exports of services soared by 87.8%YOY, continuing from 94.9% in the prior quarter, as tourism and transportation service receipts increased. Similarly, imports of services expanded by 8.9% following expenses from tourism services, transportation, financial services, and other business services. Meanwhile, merchandise freight costs continued to drop in line with declining export and import volume.

- **Private consumption expanded by 5.4%YOY**, continuing from 5.6% in the prior quarter. Growth during the quarter was driven by consumption of services that increased by as high as 11.1%, particularly in the hotel sector. Consumption in other categories, such as durable goods and non-durable goods, also improved across the board during this quarter.
- **Private investment increased by 2.6%YOY**, declining from 4.5% in the previous quarter. Such a decline was led by stalling machinery and tools and construction investments, in which investments in machinery and tools expanded by only 2.8%, dropping from 5.1% in the prior quarter following lower investments in 3 main sectors, including office supplies, automotive, and industrial machinery. Meanwhile, investments in construction expanded by 1.1% in comparison to 1.9% growth in the previous quarter due to lower factory and commercial building constructions that already saw hastened growth during the past year.
- **Public investment accelerated by 4.7%YOY** compared to 1.5% in the prior quarter. Investments from government agencies increased by 6.9%, accelerating from -2.2% in the prior quarter. Meanwhile, investments from State Owned Enterprises grew by 1.8%, dropping from 10.3% in the previous quarter. As for construction, government construction improved considerably by 8.3% compared to 0.1% in the prior quarter due to road and bridge constructions. State Owned Enterprises construction increased by only 1.3%, dropping from 11.5% in the prior quarter as there were no new investments for the construction of mega-projects. In terms of investments for machinery and tools, such investments from the government contracted by only -0.5%, drastically improving from -10.2% in the prior quarter, while such investments from State Owned Enterprises stalled to 2.2% from 7.2% in the prior quarter.
- **Public consumption contracted by -6.2%YOY, continuing from -7.1%YOY in the prior quarter.** The contraction during the quarter followed a slump in social transfer in kind – purchased market production (COVID-19 related expenses) at -40.4%. On the other hand, other public consumption categories continued to improve, including labor compensation, products and services expenditure, fixed asset depreciation, and revenue from sales of products and services to households and businesses.
- **Real merchandise export value dropped by -6.4%YOY.** Despite such a performance improving from -10.5% in the prior quarter, the magnitude remained worrisome in line with global economic and trade conditions, particularly exports of industrial products. Meanwhile, exports of agricultural products continued to expand following the demand to secure food supply in various nations.
- **Real merchandise import value also contracted by -3.3%YOY**, continuing from -5.9% in the prior quarter. Imports of raw materials mainly contributed to the drop, especially from electronic parts and computer components. Similarly, imports of capital goods contracted in line with stalling machinery and tools investment. On the other hand, imports of consumer goods continued to increase in line with recovering private consumption activities.
- **The value of inventories increased by THB 60,852 million** from the prior quarter. During the quarter, inventories of industrial products surged. Meanwhile, inventories of agricultural

products dropped slightly. On the other hand, inventories of gold declined as the high gold price prompted higher exports. Nevertheless, the THB 60,852 million inventory gain was the lowest addition in 7 quarters.

Regarding the production approach, the Thai economy saw boosts from the services and agriculture sectors. Meanwhile, the industrial sector weakened at a slower pace.

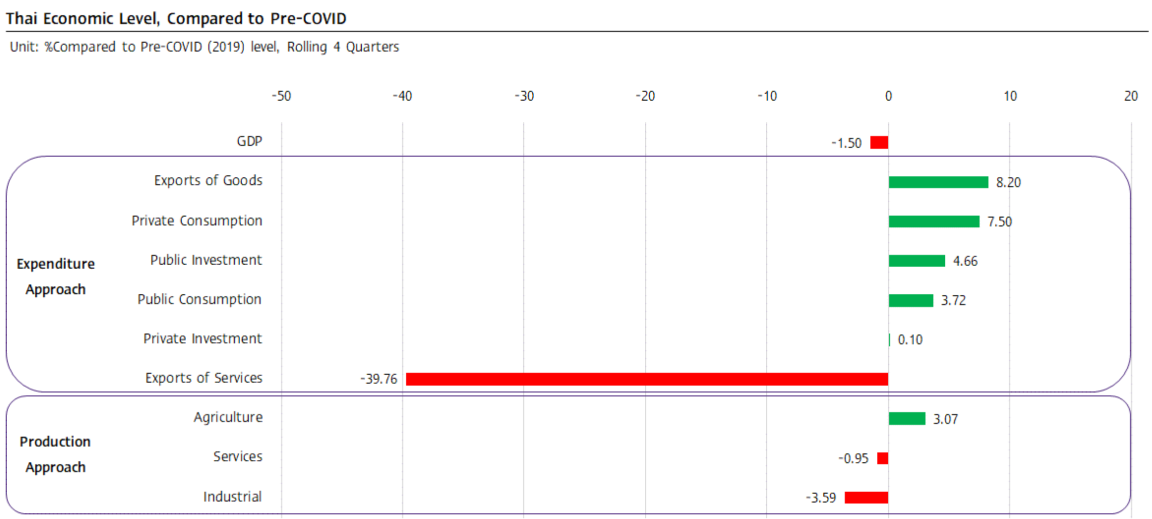
- Agricultural production growth reached a 19 quarters high at 7.2%YOY. The production of livestock and agricultural products drove such growth due to favorable weather conditions and adequate water supply. Products with high output included sugarcane, palm oil, paddy, fruits, pigs, and chicken meat. On the other hand, the output of fishery products dropped.
- Industrial production shrank by -3%YOY, improving from -4.6% in the prior quarter. The electricity, gas, steam, and air conditioning supply sector returned to a first contraction in 6 quarters at -4.2%. Lower output from the electricity and gas separation plant sectors largely contributed to the drop, in line with the nationwide drop in electricity usage. Similarly, production of manufacturing products weakened by -3.1%, though improving from -5% in the previous quarter. Mining and quarrying activities also dropped by -2.4%, improving from -6.9% in the previous quarter.
- Services continued to improve for 6 quarters with growth at 5.2%YOY in this quarter. All major sectors expanded, especially accommodations and food service, which improved by as high as 34.3%. Moreover, the transportation and warehouse sector edged up by 12.4%, in line with the growing numbers of international tourists and Thai visitors.

IMPLICATIONS

In Q1/2023, the Thai economy performed better than market estimates. The Thai economy expanded by 2.7%YOY in Q1/2023 compared to analyst estimates surveyed by Reuters poll at 2.3%. Such a posted growth also improved from the previous quarter, which recorded 1.4%YOY growth. In terms of the seasonally-adjusted quarter-on-quarter growth, the Thai economy expanded by 1.9%QOQ_sa, improving from -1.1%QOQ_sa in the prior quarter. Overall, the Thai economy should continue to recover. Strong tourism recovery was the key economic driver during this quarter, as the number of international visitors increased and reached 6.5 million people over the period. Similarly, domestic travel demand remained high, as can be seen from the number of Thai visitors that grew to levels above pre-COVID. The government's tourism stimulus via the Rao Tiew Duay Kan (We travel together) Phase 5 scheme launched in March also nudged tourism growth. Therefore, the expansion had favorable effects on the labor market, as well as manufacturing, private consumption, and private investment activities. As for public investment, the sector continued to strengthen from hastened budget disbursements prior to the dissolution of the parliament. However, merchandise exports continued to weaken following volatilities in the global economic and trade conditions. Even though public consumption saw boosts from hastened government budget disbursements, the magnitude was substantially lower than when the special loans to fight the COVID outbreak were injected but have since expired. Regarding the production approach, the services sector improved considerably, meanwhile, the agriculture sector accelerated following favorable weather conditions and adequate water supply for cultivation. However, the industrial sector continued to weaken as manufacturing activities for exports dropped.

In the big picture, Thailand's economy continued to recover toward the pre-COVID level, with various sectors already surpassing such a pre-COVID benchmark. In Q1/2023, the posted Thai economic level was 1.5% lower than the pre-COVID benchmark. In terms of the expenditure approach, sectors that already surpassed the pre-COVID benchmark included private consumption, private investment, public consumption, public investment, and merchandise exports. However, exports of services (mostly tourism) were still 40% lower than the pre-COVID benchmark. On the other hand, in terms of the production approach, the agricultural sector already recovered and surpassed the pre-COVID benchmark since Q2/2022. Meanwhile, the industrial and services sectors were still below the pre-COVID level by 1% and 3.6%, respectively. Nevertheless, the Thai economy should recover to the pre-COVID level by mid-2023.

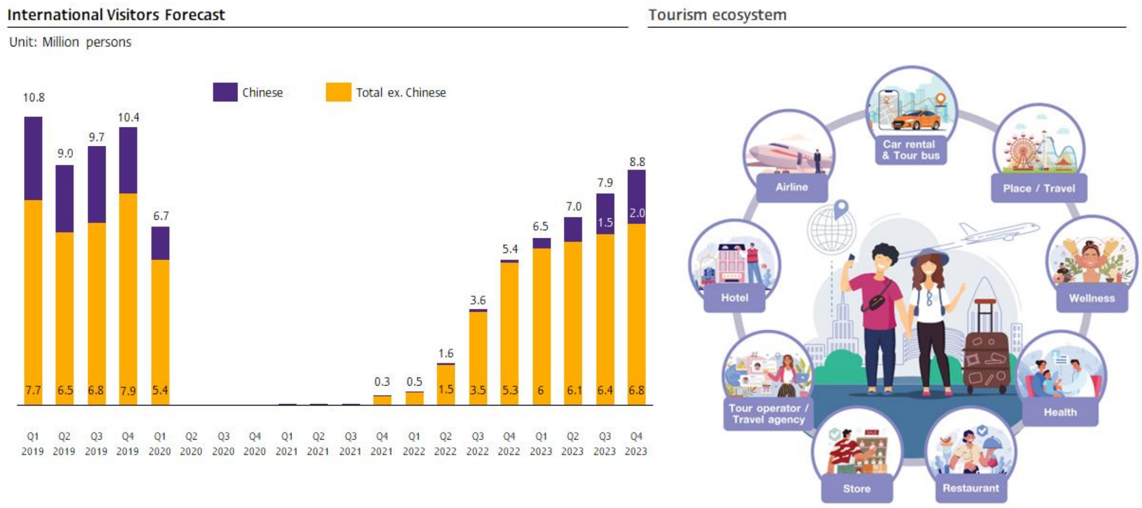
Figure 3: In the big picture, Thailand's economic level was 1.5% lower than the pre-COVID benchmark.



Source: SCB EIC analysis based on data from the National Economic and Social Development Council

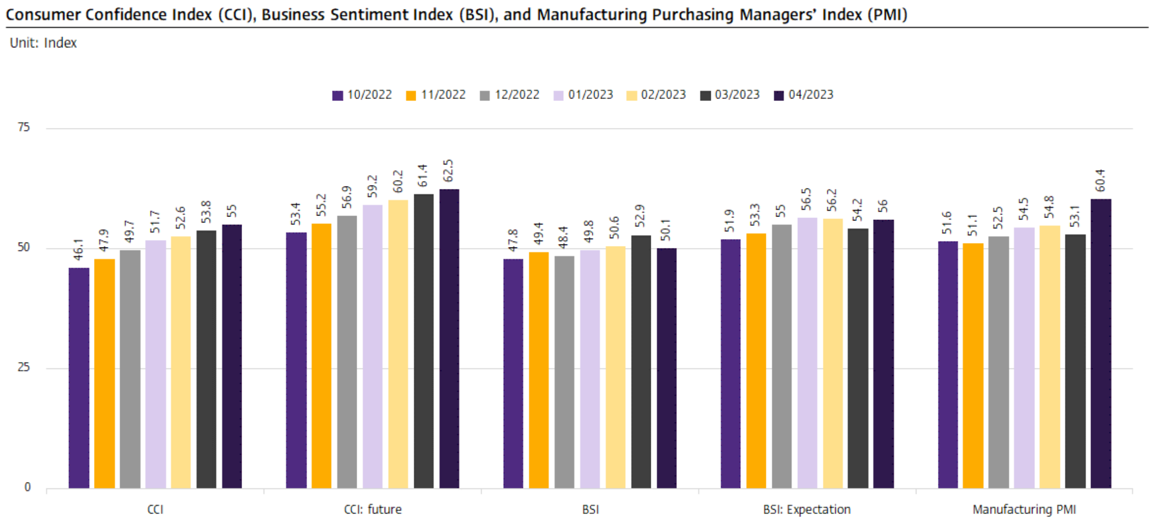
Going forward, the Thai economy should continue to recover with great support from the tourism sector. SCB EIC anticipates that a total of 30 million international tourists will visit Thailand in 2023. Such a high figure should be partially attributed to Chinese tourists, with 4.8 million persons anticipated after China's reopening. Furthermore, the number of Thai visitors in April should continue to improve as this year's Songkran celebration returns to post-COVID normalcy, although results could be undermined by the growing numbers of Thais traveling abroad. Nevertheless, such better conditions will inevitably improve tourism-related businesses, including hotels, airlines, tour operators, car rentals, recreation centers and activities, stores, restaurants, spas and wellness, as well as medical services. Meanwhile, merchandise exports that continued to weaken in Q1/2023 should experience slower contractions with anticipated growth in H2/2023. Private consumption and private investment should continue to improve as the readings of the Consumer Confidence Index and the Business Sentiment Index increased. Similarly, the industrial sector should also edge up, especially from domestic demand as the reading of the Manufacturing Purchasing Managers Index reached a record high since the initiation of the survey in December 2015. However, various downside risks may cloud Thailand's economic recovery in 2023, such as escalating global geo-political risks, spreading of financial stability crisis globally, increasing inflation, aggressive tightenings of monetary policies worldwide, including in Thailand, growing household debt and increasing default risks, as well as risks from political instability following the government transition.

Figure 4: SCB EIC anticipates that a total of 30 million international tourists will visit Thailand in 2023, thus benefiting the tourism ecosystem.



Source: SCB EIC analysis based on data from the Ministry of Tourism and Sports

Figure 5: Private consumption, private investment and manufacturing activities should improve.



Source: SCB EIC analysis based on data from the Bank of Thailand, University of the Thai Chamber of Commerce, and S&P Global

In 2023, risks from the government transition warrant close monitoring. The general election and the government transition will have a limited effect on the Thai economy during the first 3 quarters of 2023 because budget disbursements for government agencies were already included in the FY 2023 Budget Act until Q3/2023. As such, government organizations can carry on as usual with the initiatives and policies that have been established. Moreover, budget disbursements were hastened and proposed for consideration prior to the dissolution of the parliament. Apart from budget disbursements, the Thai economy should see boosts from spending following the election campaigns. Nevertheless, negative consequences will be more pronounced in Q4/2023 due to the uncertainty regarding the period of approval of the FY 2024 Budget Act, which should limit the scope for additional government economic stimulus. Moreover, new policy priorities from the new government should be enacted from 2024 onwards.

The latest Thai economic growth forecast by SCB EIC for 2023 stood at 3.9% (as of March 2023). SCB EIC will continue to monitor and analyze economic impacts in various dimensions before publishing the updated forecasts again in June.

Author

VISHAL GULATI (vishal.gulati@scb.co.th)

ANALYST

POONYAWAT SREESING, Ph.D. (poonyawat.sreesing@scb.co.th)

SENIOR ECONOMIST

ECONOMIC AND FINANCIAL MARKET RESEARCH

SOMPRAWIN MANPRASERT, Ph.D.

First Executive Vice President, Chief Economist at Economic Intelligence Center (EIC), Siam Commercial Bank and FEVP, Chief Strategy Officer at Siam Commercial Bank.

THITIMA CHUCHERD, Ph.D.

HEAD OF ECONOMIC AND FINANCIAL MARKET RESEARCH

POONYAWAT SREESING, Ph.D.

SENIOR ECONOMIST

ASAMA LIAMMUKDA, Ph.D.

ANALYST

JONGRAK KONGKUMCHAI

ANALYST

NICHANAN LOGEWITOOL

ANALYST

PUNN PATTANASIRI

ANALYST

VISHAL GULATI

ANALYST