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20 November 2023

Thai GDP in Q3/2023 remained worrisome, dragging overall 2023 growth amid all-rounded risks.

KEY SUMMARY

In Q3/2023, the Thai economy witnessed a slower growth, falling short of market estimates.

During Q3/2023, the Thai economy grew slightly by 1.5%YOY compared to the same period in the prior year or 0.8%QOQ_SA (seasonally adjusted quarter-on-quarter growth), marking a continuous stall from the onset of 2023 and notably lower than the Bloomberg survey's consensus estimate of 2.2%YOY or 1.3%QOQ_SA. In terms of the expenditure approach, the Thai economy in Q3/2023 saw boosts from tourism services recovery, buoyed by an ongoing surge in foreign tourist arrivals. Concurrently, domestic tourism demand remained robust. Additionally, merchandise exports contracted by a slower pace, albeit with a noteworthy improvement in net exports due to a sharp decline in imports. Meanwhile, public consumption remained subdued by the base effect that included assistance measures to fight COVID-19. Domestic investments expanded primarily thanks to private investments, while public investments continued to decline.

Regarding the production approach, the services sector surged, particularly in tourism-related domains. Meanwhile, the agriculture sector stalled following drought conditions. Simultaneously, the industrial sector grappled with ongoing contraction from declining production for exports.

SCB EIC anticipates a surge in Thai economic growth in Q4/2023, surpassing the preceding 3 quarters.

SCB EIC views that in Q4/2023, the Thai economy will post higher growth than the previous 3 quarters. This positive outlook hinges on robust backing from growing private consumption, driven by a resilient labor market recovery. Other key indicators include ongoing improvements in consumer confidence index readings and a notable increase in foreign tourist arrivals, particularly from Asia and Russia, as the quarter marks the beginning of the high season. Additionally, the economy should continue to see boosts from the rebound in export value with return to positive growth in Q4/2023. Such conditions should be prompted by heightening prices of certain products, such as agricultural products, and the advantageous low base effect. However, despite these promising indicators, SCB EIC views that the overall GDP growth for 2023 may fall short of initial expectations, given weaker-than-expected economic data observed.

Looking ahead to 2024, Thailand's economic recovery remains fragile with multifaceted risks.

SCB EIC views a potential acceleration in Thailand's 2024 economic growth, albeit fragile from all-rounded risks. This anticipated growth are driven by factors such as the ongoing recovery of foreign tourist arrivals, expected to reach 37.7 million, a rebound in exports leading to positive growth, and strengthening private investments following investment approvals by the Board of Investment. However, the economy should see low growth momentum from the public sector during H1/2024 compared to H2/2024 due to the delayed announcement of the FY 2024 Budget Act.

Nevertheless, various downside risks remain in 2024, including (1) The Israel-Hamas war – in the base case, the war should have a limited impact on the Thai economy, however, if conditions escalate, the global economy, including Thailand, could see indirect impacts from higher global oil prices and more volatile conditions in the global financial market. (2) Stalling Chinese economic growth with implications on Thai exports, particularly products with high reliance on the Chinese market or products that are part of China's supply chain. (3) More severe impacts from the drought in various areas could significantly reduce the production of Thailand's economic crops, such as off-season rice and sugar cane.

KEY POINTS

In Q3/2023, the Thai economy expanded by 1.5%YOY compared to the same period in the prior year (YOY), stalling from 1.8%YOY in the prior quarter. In terms of the seasonally adjusted quarter-on-quarter growth, the Thai economy grew by 0.8%QOQ_sa.

Figure 1: In Q3/2023, the Thai economy saw boosts from private consumption, net exports, and tourism. Meanwhile, growth momentum from the public and industrial sectors continued to decline.

Real GDP growth (%YOY) by expenditure and production approach

Expenditure approach

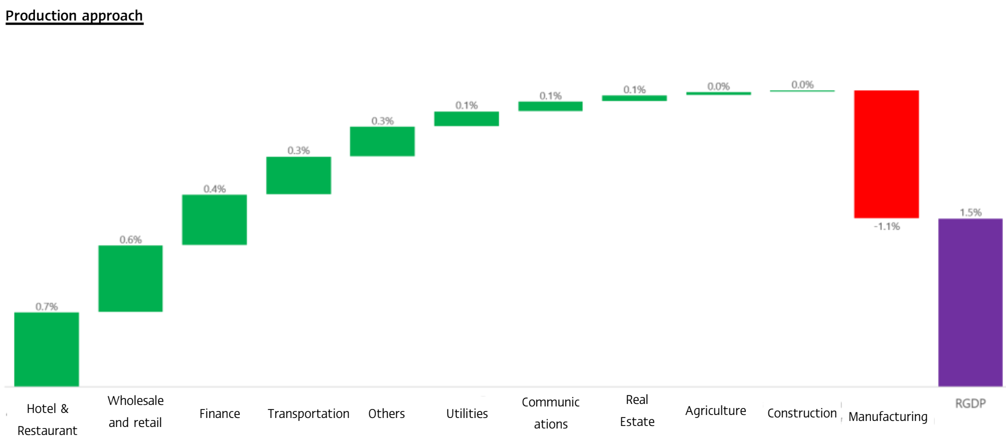
%YOY	% of GDP	2021	2022	2022Q3	2022Q4	2023Q1	2023Q2	2023Q3	YTD
RGDP	**100.0%**	**1.5%**	**2.6%**	**4.6%**	**1.4%**	**2.6%**	**1.8%**	**1.5%**	**1.9%**
Private Consumption	56.2%	0.6%	6.3%	9.1%	5.6%	5.8%	7.8%	8.1%	7.3%
Public Consumption	15.7%	3.7%	0.2%	-1.5%	-7.1%	-6.3%	-4.3%	-4.9%	-5.2%
Total Investment	24.6%	3.1%	2.3%	5.5%	3.9%	3.1%	0.4%	1.5%	1.7%
Private Investment	18.2%	3.0%	5.1%	11.2%	4.5%	2.6%	1.0%	3.1%	2.2%
Public Investment	6.3%	3.4%	-4.9%	-6.8%	1.5%	4.7%	-1.1%	-2.6%	0.3%
Export G&S	69.4%	11.1%	6.8%	8.7%	-0.7%	2.1%	0.6%	0.2%	1.0%
Export Goods	61.0%	15.3%	1.3%	2.3%	-10.5%	-6.4%	-5.7%	-3.1%	-5.1%
Export Services	8.9%	-19.9%	65.8%	79.2%	94.9%	78.2%	53.4%	23.1%	48.9%
Import G&S	69.1%	17.8%	4.1%	9.5%	-4.8%	-0.9%	-2.3%	-10.2%	-4.6%
Import Goods	59.4%	18.2%	5.4%	11.2%	-5.9%	-3.3%	-4.3%	-11.8%	-6.6%
Import Services	10.3%	16.0%	-0.6%	3.7%	-0.9%	9.2%	6.5%	-3.5%	3.9%

Production approach

%YOY	% of GDP	2021	2022	2022Q3	2022Q4	2023Q1	2023Q2	2023Q3	YTD
RGDP	**100.0%**	**1.5%**	**2.6%**	**4.6%**	**1.4%**	**2.6%**	**1.8%**	**1.5%**	**1.9%**
Agriculture	6.4%	2.3%	2.4%	-2.2%	3.4%	6.2%	1.2%	0.9%	3.0%
Industrial	31.6%	3.8%	-0.5%	4.5%	-4.6%	-3.2%	-2.0%	-2.8%	-2.7%
Mining	1.6%	-5.4%	-14.9%	-13.3%	-6.9%	-5.2%	-1.2%	1.1%	-1.9%
Manufacturing	26.9%	4.9%	0.4%	6.0%	-5.0%	-3.0%	-3.2%	-4.0%	-3.4%
Electricity, gas	2.7%	0.3%	1.9%	4.4%	0.1%	-4.3%	5.7%	4.7%	2.0%
Services	63.1%	0.4%	4.3%	5.5%	4.3%	5.2%	4.0%	3.9%	4.4%
Construction	2.8%	2.2%	-2.7%	-2.6%	2.6%	3.9%	0.4%	0.6%	1.6%
Wholesale & Retail	16.0%	1.6%	3.1%	3.5%	3.1%	3.3%	3.4%	3.3%	3.3%
Transport & Storage	5.6%	-2.7%	7.1%	10.1%	9.8%	12.1%	7.4%	6.8%	8.9%
Hotel & Restaurant	4.9%	-14.2%	39.3%	53.2%	30.6%	34.3%	15.1%	14.9%	21.0%
Info & Communication	6.4%	6.1%	5.1%	4.7%	3.9%	3.4%	3.5%	3.1%	3.3%
Finance	8.3%	5.5%	1.0%	1.0%	0.5%	1.2%	2.8%	4.7%	2.9%
Real Estate	4.2%	1.7%	2.1%	3.1%	1.9%	1.9%	2.5%	1.9%	2.1%
Public	5.0%	0.0%	-0.5%	1.0%	-0.8%	1.4%	0.1%	0.2%	0.6%
Education	3.2%	0.4%	1.1%	2.9%	-0.7%	1.1%	1.3%	0.8%	1.1%

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

Figure 2: Contribution to growth of Real GDP in Q3/2023



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 net exports of goods and services and private consumption.

- **Exports of services improved by 23.1%YOY, continuing from 53.4% in the previous quarter,** from growing numbers of tourists increased tourism and transportation service receipts. On the other hand, imports of services fell by -3.5%YOY as merchandise freight costs continued to drop in line with declining international trade volume. However, increasing tourism and transportation service expenses will drive growth.
- **Private consumption expanded by 8.1%YOY, continuing from 7.8% in the prior quarter.** Growth was particularly boosted by the consumption of services that increased by as high as 15.5%, following the growth of Thai and foreign tourists. Meanwhile, consumption of durable goods and non-durable goods continued to expand, though consumption of durable goods stalled.

- **Private investment increased by 3.1%YOY, accelerating from 1.0% in the previous quarter.** Such growth was led by construction investments with continued growth at 3.6%, particularly from factory constructions. Similarly, machinery and tools investments expanded by 3.1% following higher imports of vessels, aircrafts, and parts.
- **Public investment fell by -2.6%YOY, continuing from the prior quarter.** Investments from government agencies dropped by -3.4%, worsening from 0.5%YOY expansion in the prior quarter. Similarly, investments from State Owned Enterprises fell by -1.4%, continuing from the previous quarter. As for construction, government construction shrank by -3.1% continuing from the previous quarter due to lower road and bridge repair constructions. On the contrary, State Owned Enterprises construction increased by 2.2% with growth continually driven by ongoing projects, including public infrastructure projects, such as electricity, water, and transportation. In terms of investments of machinery and tools, such investments from the government contracted by -4.7%, drastically worsening from a high growth of 10.4% in the prior quarter due to declining purchases of office supplies, vehicles, and medical equipments. Similarly, such investments from State Owned Enterprises fell by -8.4% from -15.6% in the prior quarter.
- **Public consumption contracted by -4.9%YOY, continuing from the previous quarter.** The contraction during the quarter followed a slump in social transfer in kind – purchased market production (COVID-19 related expenses) at -38.6%. On the other hand, other public consumption categories improved, including labor compensation, products and services expenditure, fixed asset depreciation, and revenue from sales of products and services to households and businesses.
- **Merchandise export volume dropped by -3.1%YOY, improving from -5.7% in the previous quarter.** Key products dragging growth included industrial products, such as computer parts and components, palm oil, air conditioners, steel products, and chemicals and petrochemical products. On the other hand, exports of electrical appliances, automotive, and agricultural products increased, especially exports of durian to China following high demand and exports of rice following India's rice export ban (excluding basmati rice) to control inflation and domestic food security.
- **Merchandise import volume also contracted by -11.8%YOY, accelerating from -4.3% in the prior quarter.** Imports of raw materials mainly contributed to the drop, especially from electronic parts and computer components. Meanwhile, imports of capital goods expanded following growing machinery and tools investments from the private sector. Imports of consumer goods continued to increase, especially in the electric vehicles category.
- **The value of inventories witnessed a 3-year-high contraction** by THB 186,490 million (current market prices) or THB 98,372 million (CVM) compared to the prior quarter. During the quarter, inventories of rice, sugar, gemstones and jewelry, plastics and synthetic rubber in primary forms, pharmaceuticals, and computer equipment and peripherals, dropped. Meanwhile, inventories of petroleum refining byproducts and fresh/ chilled/ frozen poultry surged.

Regarding the production approach, the Thai economy saw boosts from the services sector. Meanwhile, the agriculture sector continued to expand at a stalling rate, and the industrial sector continued to weaken.

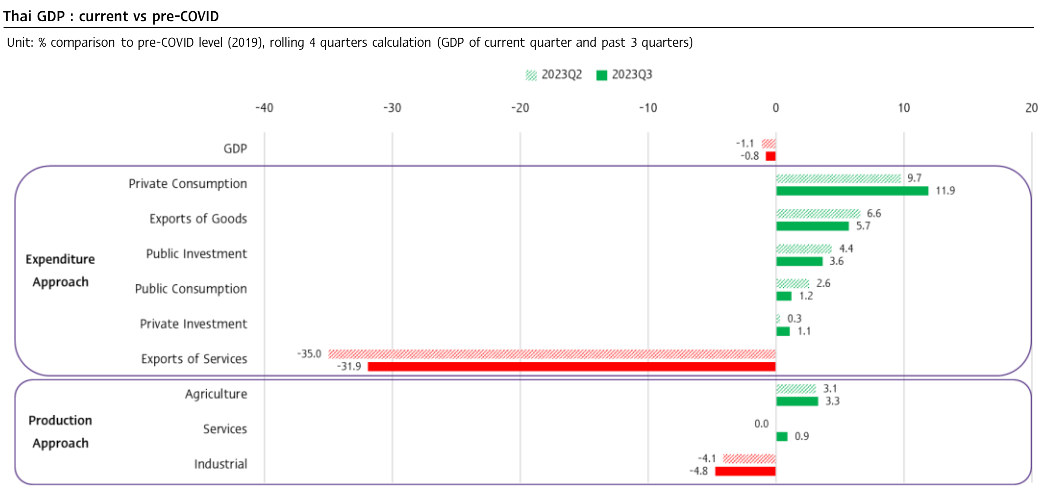
- **Agricultural production slowed with a 4-quarter-low growth at 0.9%YOY** as the hot weather during the past 2 quarters lowered output of various economic crops, especially paddy rice, palm oil, cassava, and industrial pineapple. Meanwhile, products with increasing output included livestock, fisheries, and fruits and vegetables.
- **Industrial production shrank by -2.8%YOY,** worsening from -2% in the prior quarter. Such a drop was driven by the contraction of a in industrial production at -4.0% from -3.2% in the previous quarter due to weakened overseas demand. Meanwhile, the electricity, gas, steam, and air conditioning supply sector expanded by 4.7%, dropping slightly from 5.7% in the previous quarter. Similarly, mining and quarrying activities returned to a first expansion in 9 quarters at 1.1% following higher natural gas production at 6.0% from -2.5% in the previous quarter and higher liquefied natural gas production at 7.8% from 3.3% in the previous quarter.
- **Services continued to improve by 3.9%YOY,** a rate similar to the previous quarter with growth in all key sectors led by accommodations and food service that grew by as high as 14.9%, and transportation and warehouse that grew by 6.8%. Other notable sectors with growth included wholesale and retail trade; repair of motor vehicles and motorcycles with 3.3% growth.

IMPLICATIONS

The Thai economy in Q3/2023 registered a growth considerably lower than market estimates. The Thai economy expanded by 1.5%YOY compared to the same period last year, or by 0.8%QOQ_SA compared to the previous quarter on a seasonally adjusted basis. However, such a performance fell notably short of the Bloomberg survey's consensus estimate of 2.2%YOY or 1.3%QOQ_SA. Overall, the Thai economy in Q3/2023 was driven by the recovering tourism sector, with the number of foreign tourist arrivals continually increasing and reaching 7.1 million in the quarter. Robust private consumption, buoyed by improved consumer confidence, rising tourist numbers, favorable unemployment rates, and a deceleration in inflation, fueled economic growth. While merchandise exports shrank in line with global economic and trade conditions, net exports saw improvement due to a more pronounced contraction in merchandise imports. Public consumption, however, witnessed contraction, as it was measured against the 2022 base when the government extended financial aid to combat the COVID crisis. Excluding such assistance, other public consumption categories expanded. Domestic investments, driven primarily by private investments, expanded, while, public investments continued to decline. Regarding the production approach, the services sector saw robust expansion, led by tourism-related sectors. In contrast, the agricultural sector growth stalled due to drought-induced weather conditions, and the industrial sector grappled with continued contraction, fueled by declining production for exports. Nevertheless, a sharp inventory decline, the steepest in 3 years, emerged as a crucial factor contributing to the lower-than-expected expansion of the Thai economy in this quarter.

In the big picture, Thai economic conditions inched closer to pre-COVID, yet slower than expected, despite various sectors already surpassing such benchmarks. Thai economic conditions in Q3/2023 remained around -0.8% below pre-COVID levels, a gradual improvement from the -1.2% and -1.5% recorded during the previous two quarters. This pace fell behind SCB EIC's projections, which anticipated a return to pre-COVID levels during this quarter. Regarding the expenditure approach, sectors such as private consumption, private investment, public consumption, public investment, and merchandise exports all outperformed pre-COVID levels. However, exports of services (primarily tourism) remained lagging by -30% compared to pre-COVID levels. In terms of the production approach, the agricultural sector rebounded to levels higher than pre-COVID since Q2/2022. The services sector also recovered to such levels for the first time this quarter. Meanwhile, the industrial sector continued to lag, standing at approximately -4.8% below pre-COVID levels due to continually declining industrial production.

Figure 3: Thailand's overall economic conditions stood at -0.8% below pre-COVID levels.



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

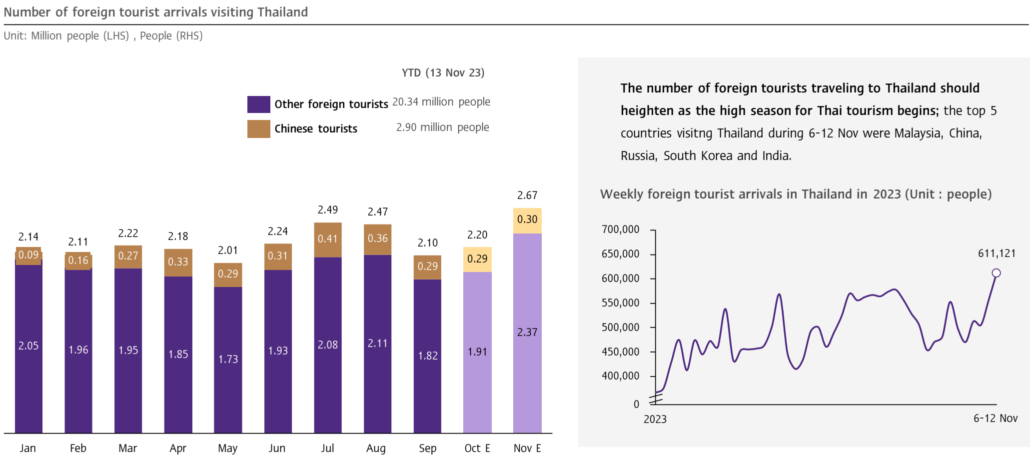
SCB EIC views that the Thai economy should slowly recover with growth in Q4/2023 exceeding the preceding 3 quarters. This upswing is expected to be backed by growing private consumption, propelled by a robust labor market recovery that has rebounded to pre-COVID levels. Other notable drivers include the ongoing improvements of the consumer confidence readings, partly attributed to economic stimulus and relief measures, coupled with a clear surge in foreign tourist arrivals, particularly from Asia and Russia (Figure 4), coinciding with the onset of the high season. While the recently approved visa free travel scheme for selected countries may not immediately exhibit a clear impact, the scheme should attract more tourists, especially after the addition of target countries. Furthermore, the recovery of merchandise exports should continue and turn positive in Q4/2023. This positive outlook is driven by higher export prices in certain product groups (such as agricultural products) and the favorable low base effect. However, GDP growth in 2023 may fall short of initial expectations, given the considerably weaker economic results posted.

Looking ahead to 2024, Thai economic recovery remains fragile amid all-rounded risks. SCB EIC views that in 2024 Thailand's economic growth should accelerate following continually increasing foreign tourist arrivals with numbers anticipated to reach 37.7 million. Other drivers include private investment that should improve according to investment approvals by the Board of Investment. Merchandise exports should recover with a return to positive growth. Public consumption is likely to expand in line with the increased expenditure budget in 2024, while public investment should contract following the delay in enacting the FY 2024 Budget Act. As such, overall support from the public sector should be limited during H1/2024 compared to H2/2024.

Nevertheless, various downside risks remain in 2024, including the Israel-Hamas war. In the base case, the war should have a limited impact on the Thai economy, however, if conditions escalate, global economic and inflation conditions could be impacted with implications on Thailand via indirect impacts from global world oil prices and more volatile conditions in the global financial market. Adding to the complexity, a potential slowdown in Chinese economic growth poses a risk to Thai exports, especially those heavily reliant on the Chinese market or embedded in China's supply chain. Additionally, the flow of Foreign Direct Investment (FDI) from China might decelerate. Lastly, drought in various areas may be more severe and could drastically reduce the production of Thailand's economic crops, such as off-season rice and sugar cane. This, in turn, could hamper the agricultural sector and exports of Thai agricultural products.

Fiscal policy uncertainty remains, with a spotlight on the digital wallet program. Although the details of the stimulus appear clearer in terms of eligible recipients, value, source of funds, scope of spending, and types of products that are eligible, a shroud of uncertainty lingers around the legal, economic impact, and fiscal sustainability aspects. Should the government's digital wallet announcement materialize, SCB EIC views the digital wallet as a catalyst, propelling the Thai economy to temporarily surge beyond its potential level. After that, the Thai economy should return to expand according to the same potential trajectory. However, this short-term economic boost comes at a price — a significant fiscal burden as the government taps into substantial capital to fuel the stimulus, potentially compromising fiscal sustainability in the long run. Consequently, the public debt to GDP ratio may escalate at an accelerated pace, surpassing the 70% debt ceiling sooner than expected. Moreover, this scheme threatens to constrict fiscal space, limiting flexibility to cushion future uncertainties and the country's overall fiscal stability.

Figure 4: The number of foreign tourists visiting Thailand, especially from Asia and Russia, should accelerate upon entering the high season.

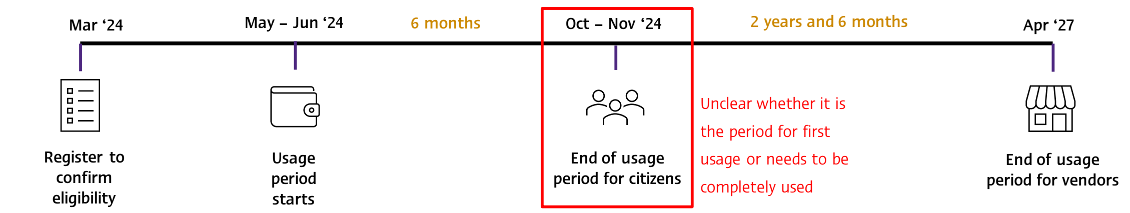


Note: The number of foreign tourists in October and November was estimated based on preliminary figures by the Ministry of Tourism and Sports

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

Figure 5: Details on the Digital Wallet program is clearer, though a shroud of uncertainty lingers around the legal, economic impact, and fiscal sustainability aspects.

Timeline of digital wallet THB 10,000 scheme



Details of the digital wallet THB 10,000 scheme

Source of funds	THB 500 billion Loan Act
Eligible persons	50 million Thais aged 16 and older who earn less than THB 70,000 per month and have less than THB 500,000 in their total bank accounts
Permissable spending	Citizens: can only use within the district where their address is registered Vendors: can be used throughout Thailand
Legal issues	Lack of necessity to take urgent and continuous actions to solve the country's crisis – unable to set the annual budget in time (State Fiscal and Financial Disciplines Act and other regulations)

Other economic stimulus packages that may be introduced in 2024

e-Refund program
Personal income tax deductions from purchases of goods and services worth no more than THB 50,000 in early 2024

Funds to increase competitive advantage
Investments in target industries should start by mid-2024, with a limit of THB 100 billion sourced from budget

Minimum wage hike
Announcement expected at the beginning of the year as usual, but details on the size of the increase not yet released

Source: SCB EIC analysis based on data from the Royal Thai Government, Pheu Thai Party, and various press

As of September, the most up-to-date forecast for Thai 2023 economic growth stands at 3.1%. (September 2023 forecast) SCB EIC is diligently assessing the economic impact in various areas before publishing the updated economic forecast in the SCB EIC Monthly, November 2023 issue.

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