FLASH

SCB EIC

SCB EIC expects a slower growth momentum for Thai economy,

underweighting recovery in 2024.

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KEY SUMMARY

In Q4/2023, the Thai economic expansion remained subdued

The Thai economy in Q4/2023 demonstrated a modest 1.7% year-on-year growth, with a -0.6% quarter-on-quarter, seasonally adjusted, contraction. In terms of the expenditure approach, the Thai economy saw an upswing towards the end of 2023, driven by robust private consumption growth. This surge was propelled by increased consumer confidence, a rise in tourist numbers, a favorable unemployment rate, and a rebound in merchandise exports. However, the Thai economy grappled with significant challenges, notably a sharp contraction in both public consumption and investment. Public investment witnessed a notable decline, attributed to the delay in enacting the 2024 Budget Act. As for the production approach, the services sector emerged as a robust growth engine, particularly within tourism and wholesale-retail services. However, the construction sector faced a substantial contraction, chiefly driven by diminishing public sector construction, notably government projects. Concurrently, the agricultural sector witnessed a predicted contraction, impacted by adverse hot and dry weather conditions in the initial 8 months of 2023, leading to a decline in crop production. Furthermore, the manufacturing sector continued to weaken, mirroring the decline in production for exports.

SCB EIC anticipates higher Thai economic growth in Q1/2024.

SCB EIC views that the Thai economy in Q1/2024 should expand by a higher rate than the prior quarter driven by a robust private consumption growth, particularly following tourism sector recovery from an increasing influx of Chinese tourists. A significant surge of Chinese tourists is expected in February, coinciding with the Chinese New Year festival, while the number of tourists visiting Thailand from various countries already recovered to near-normal levels. Moreover, the reading of the consumer confidence index strengthened, reflecting positive impacts from economic relief and stimulus measures, notably measures aimed at reducing the cost of living, particularly in terms of energy costs, along with the implementation of the Easy e-receipt scheme to stimulate spending. Additionally, the Thai economy is poised to benefit from the resurgence of exports. However, various factors may slow Thai economic growth in this quarter, including the delayed enactment of the 2024 Budget Act, leading to sluggish public spending in the first 4 months of 2024. This delay is expected to exert pressure on both public consumption and investment.

In the broader context, the outlook for the Thai economy in 2024 remains worrisome, characterized by a slow recovery.

SCB EIC views that the Thai economy in 2024 should recover at a slow pace, primarily driven by private consumption recovery momentum. The services sector, particularly benefiting from the continual return of foreign tourists and ongoing domestic travels by Thais, is anticipated to play a pivotal role in boosting the economy. Similarly, private investment should improve, indicated by higher project approvals from the Board of Investment and a rebound in exports according to more favorable global trade and manufacturing conditions. However, potential disruptions stemming from supply chain risks, such as attacks by Houthi rebels and the drought impacting the Panama Canal, warrant monitoring. Meanwhile, notable Thailand-specific risks include diminishing public investments resulting from the delayed enactment of the 2024 Budget Act. Consequently, overall economic support from public spending, particularly investment, is expected to be limited during the first half of the year. The disbursement rate of public spending should accelerate after the 2024 Budget Act is enacted during April – May, but will not be able to offset the preceeding delays. Furthermore, the government is anticipated to grapple with heightened budget constraints, **attributed to** the substantial public debt accumulated since the COVID crisis. In addition, the supply side of the Thai economy remains notably weak, particularly evident from the continued contraction in various manufacturing-related sectors, with no clear signs of recovery. These factors collectively contribute to the view that the Thai economy will undergo a slow recovery in the periods ahead.

KEY POINTS

In Q4/2023, the Thai economy expanded by 1.7%YOY, improving from 1.4%YOY in the prior quarter, driven by private consumption, net exports of services, and private investment. However, in terms of the seasonally adjusted quarter-on-quarter growth, the Thai economy contracted by -0.6%QOQ_sa, indicating a weakening performance compared to the 0.6% QOQ_sa growth observed in Q3/2023. As such, in 2023, the Thai economy settled at a modest 1.9%YOY expansion, reflecting slow recovery post-COVID-19 and contributing to a lower-than-anticipated economic momentum in 2024.

Figure 1: In Q4/2023, the Thai economy saw boosts from private consumption, private investment, and tourism. Growth momentum from the public sector plummeted, particularly in investments. Meanwhile, the industrial sector continued to weaken.

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

<u>Expenditure approach</u>

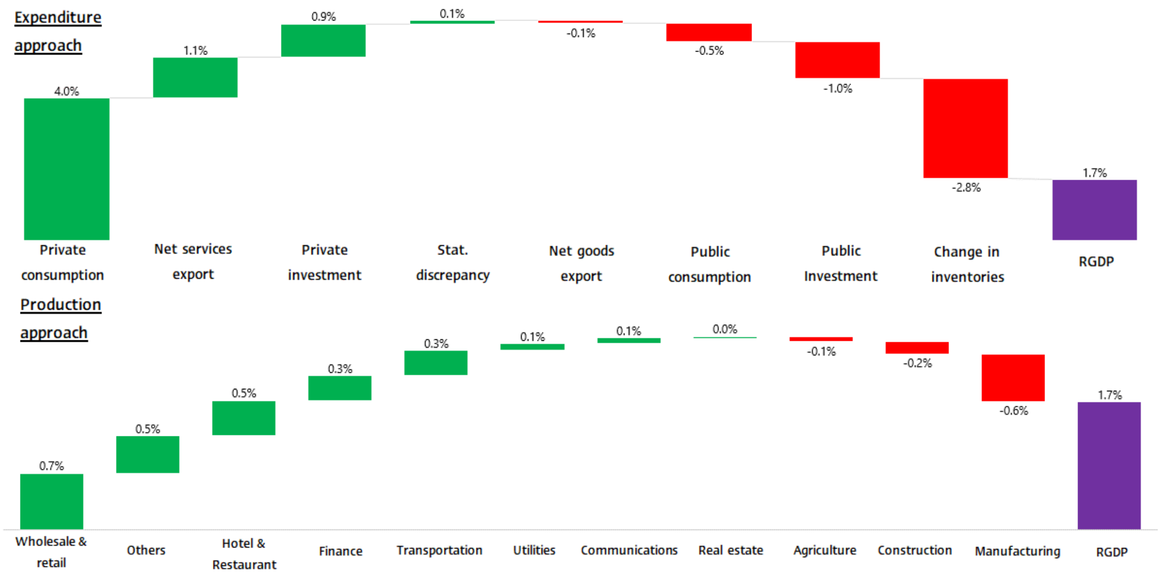
%YoY	% of GDP	2022	2023	2023Q1	2023Q2	2023Q3	2023Q4	YTD
RGDP	**100.0%**	**2.5%**	**1.9%**	**2.6%**	**1.8%**	**1.4%**	**1.7%**	**1.9%**
Private Consumption	56.2%	6.2%	7.1%	5.9%	7.3%	7.9%	7.4%	7.1%
Public Consumption	15.7%	0.1%	-4.6%	-6.0%	-4.3%	-5.0%	-3.0%	-4.6%
Total Investment	24.6%	2.3%	1.2%	3.1%	0.4%	1.5%	-0.4%	1.2%
Private Investment	18.1%	4.7%	3.2%	2.8%	1.4%	3.5%	5.0%	3.2%
Public Investment	6.4%	-3.9%	-4.6%	4.2%	-2.1%	-3.4%	-20.1%	-4.6%
Export G&S	69.0%	6.1%	2.1%	1.9%	0.9%	1.1%	4.9%	2.1%
Export Goods	61.0%	1.1%	-2.8%	-5.6%	-5.3%	-3.0%	3.4%	-2.8%
Export Services	8.6%	59.9%	38.3%	66.9%	53.7%	30.6%	14.7%	38.3%
Import G&S	68.8%	3.6%	-2.2%	-0.2%	-2.6%	-9.4%	4.0%	-2.2%
Import Goods	57.1%	1.2%	-3.8%	-3.6%	-4.8%	-10.4%	5.0%	-3.8%
Import Services	11.8%	13.6%	4.3%	14.5%	6.4%	-5.2%	2.5%	4.3%

<u>Production approach</u>

%YoY	% of GDP	2022	2023	2023Q1	2023Q2	2023Q3	2023Q4	YTD
RGDP	**100.0%**	**2.5%**	**1.9%**	**2.6%**	**1.8%**	**1.4%**	**1.7%**	**1.9%**
Agriculture	6.4%	2.5%	1.9%	6.2%	1.5%	1.1%	-0.8%	1.9%
Industrial	31.8%	0.1%	-2.4%	-2.9%	-2.2%	-3.1%	-1.5%	-2.4%
Mining	1.6%	-12.3%	-0.9%	-5.5%	-0.8%	1.5%	1.3%	-0.9%
Manufacturing	27.0%	0.7%	-3.2%	-2.6%	-3.5%	-4.4%	-2.4%	-3.2%
Electricity, gas	2.8%	3.4%	3.0%	-4.0%	5.8%	4.7%	6.0%	3.0%
Services	62.8%	3.8%	4.3%	5.2%	4.0%	4.0%	3.9%	4.3%
Construction	2.8%	-2.4%	-0.6%	3.8%	0.3%	0.5%	-8.8%	-0.6%
Wholesale & Retail	16.0%	3.7%	3.8%	3.3%	3.4%	3.3%	5.1%	3.8%
Transport & Storage	5.7%	8.0%	8.4%	12.5%	7.4%	7.1%	6.7%	8.4%
Hotel & Restaurant	4.7%	34.5%	18.0%	34.4%	15.3%	15.0%	10.0%	18.0%
Info & Communication	6.4%	5.2%	3.3%	3.5%	3.7%	3.1%	2.9%	3.3%
Finance	8.0%	-2.3%	3.1%	0.9%	2.4%	4.2%	4.8%	3.1%
Real Estate	4.3%	2.3%	1.9%	1.9%	2.5%	1.9%	1.1%	1.9%
Public	5.0%	-1.1%	1.0%	1.4%	0.2%	0.2%	2.4%	1.0%
Education	3.2%	1.4%	1.3%	1.2%	1.4%	0.9%	1.7%	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 Q4/2023



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

In terms of the expenditure approach, economic growth in Q4/2023 was driven by private consumption, tourism, and private investment.

- **Private consumption expanded by 7.4%YOY, continuing from a 7.9% increase in the prior quarter.** Growth was attributed to a lower cost of living and continually strengthened consumer confidence. Particularly, consumption of durable and non-durable goods fueled the expansion, while semi-durable goods and services consumption stalled.
- **Exports of services improved by 14.7%YOY, slowing from 30.6% in the previous quarter,** following lower growth in tourism and transportation service receipts. On the other hand, **imports of services expanded by 2.5%YOY** in line with increasing tourism expenses from Thai travelers.
- **Private investment increased by 5.0%YOY, accelerating from 3.5% in the previous quarter.** The upswing was led by machinery and tools investments, with a 5.2% expansion. This improvement was notably driven by increased imports within the other vehicles category, specifically vessels, and office supplies for computers and parts and ready-made software investments. Meanwhile, construction investments grew by 3.4%, especially from factory constructions that surged by 26.1% and non-residential constructions that increased by 9.8%.
- **Merchandise export volume expanded by 3.4%YOY, improving from the continual drop of -3.0% in the previous quarter.** Key products driving growth included industrial products, such as communication equipments, electrical appliance parts, steel products, automotive parts, and petroleum products. On the other hand, exports of palm oil, integrated circuit boards,

air conditioners, passenger cars, and pickup trucks contracted. Meanwhile, agricultural exports continued to expand due to rice exports, which were supported by India's rice export control policy to alleviate inflation and food security in the country.

- **Merchandise import volume also expanded by 5.0%YOY, improving from -10.4% in the prior quarter.** Imports of all categories contributed to the expansion, especially imports of crude oil that increased significantly, in line with petroleum refining and transportation growth. Additionally, imports of electronic parts expanded, imports of capital goods increased partly as a result of heightened private investment in machinery and tools, and imports of consumer goods improved, especially in the electric vehicles category.
- **Public consumption contracted by -3.0%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 -14.1%, in addition to purchases of products and services at -8.0%. On the other hand, labor compensation, fixed asset depreciation, and sales of products and services to households and businesses grew at a trivial rate.
- **Public investment weakened by as high as -20.1%YOY, continuing from the prior quarter. Investments from government agencies** particularly plunged by -33.5%, worsening from -3.5%YOY in the prior quarter following the delayed announcement of the 2024 Budget Act. Conversely, investments from State Owned Enterprises accelerated by 7.0%, improving from -3.3% in the previous quarter. In terms of construction investments, government construction investment dropped by -30.9% due to lower road repair, bridge repair, and other constructions. On the other hand, State Owned Enterprises construction increased by 9.8%, with growth continually driven by ongoing projects, including public infrastructure projects, such as electricity, water, and communications networks. As for machinery and tools investments, government investments in this sector also plunged by -43.1%, while such investments from State Owned Enterprises improved slightly by 0.4%, up from -12.3% in the prior quarter.
- **Changes in inventories reverted to an expansion in Q4/2023,** with an increase of THB 109,626 million (current market prices) from the prior quarter that fell by THB -180,024 million (current market prices). This positive reversal was driven by increased inventories of various products, including paddy rice, rice, cassava, jewelry, automobile-related items, plastics, synthetic rubber, electrical wires, cables, and motorcycles, and higher gold accumulation resulting from a sustained uptrend in gold imports during the previous quarter. Meanwhile, inventories of rubber, sugar, computer equipment and peripherals, basic chemicals, and products derived from petroleum refining and crude oil dropped.

Regarding the production approach, the Thai economy saw boosts primarily from the services sector. The agriculture sector witnessed a first contraction in 6 quarters, meanwhile, the industrial sector continued to weaken.

- **Agricultural production contracted for the first time in 6 quarters at -0.8%YOY** following the hot weather and reduced water reserves compared to the previous year, resulting in diminished output across various economic crops, notably palm oil, fruits, and cassava. Similarly, fisheries output also dropped, though livestock output continued to increase.

- **Industrial production shrank by -1.5%YOY,** improving from -3.1% in the prior quarter. Such performance was primarily influenced by a notable shrinkage in industrial manufacturing at -2.4%, driven by decreased production in manufacturing sectors with an export proportion of 30-60% of total production and manufacturing sectors with an export proportion of over 60% of total production. Key contributors to this decline were the production of automotive, electronic components and boards, computers and peripherals, and sugar. On a positive note, the production of electricity, gas, steam, and air conditioning systems expanded by 6.0%, accelerating from 4.7% in the previous quarter. Lastly, mining and quarrying production continued to expand by 1.3%.
- **Services continued to improve by 3.9%YOY,** a rate similar to the previous quarter. Notably, all key sectors witnessed even growth, with the exception of construction, which observed a 15-quarter high contraction at -8.8%. This decline was attributed to a significant reduction in public construction, plummeting by -18.4%, linked to a decrease in investment budget disbursement. In contrast, accommodation and food services expanded by as much as 10.0%, transportation and warehouse improved by 6.7%, and wholesale and retail trade; repair of motor vehicles and motorcycles grew by 5.1%.

IMPLICATIONS

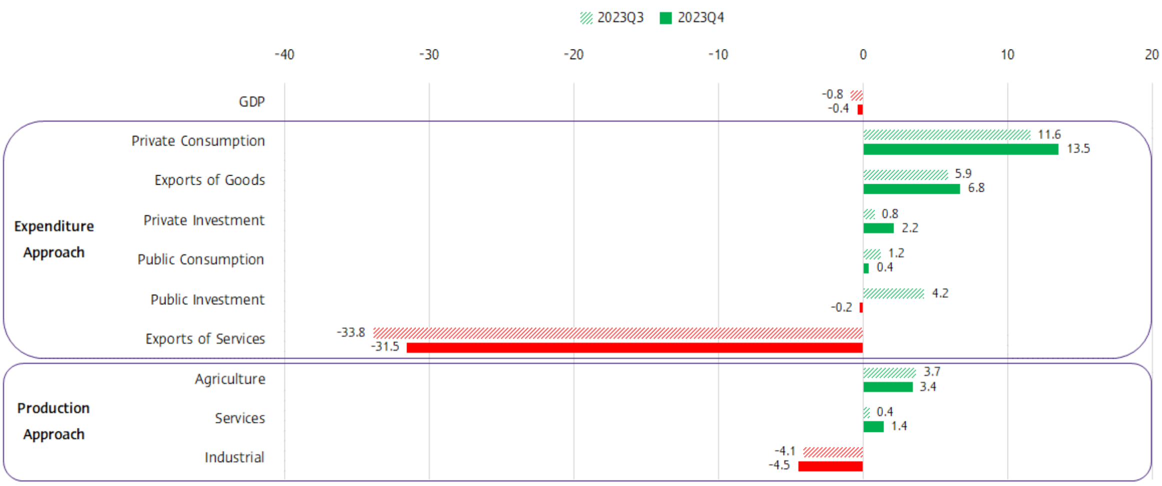
In Q4/2023, the Thai economy continued to demonstrate a modest expansion, recording a growth of 1.7%YOY or -0.6%QOQ_SA in comparison to the preceding quarter on a seasonally adjusted basis. In terms of the expenditure approach, the Thai economy saw an upswing towards the end of 2023, driven by robust private consumption growth. This surge was propelled by increased consumer confidence, a rise in tourist numbers, a favorable unemployment rate, and a noteworthy recovery in merchandise exports, marking the first expansion in 5 quarters. The positive momentum also extended to private investment. However, amidst these positive indicators, the Thai economy grappled with significant challenges, notably a sharp contraction in both public consumption and investment. Public investment, in particular, continued its sharp decline for 3 consecutive quarters following lower government investments from the delay of the 2024 Budget Act and lower budget disbursement rate.

Regarding the production approach, the services sector emerged as a robust growth engine in Q4/2023, particularly within tourism and wholesale-retail services, fueled by the strong growth in household consumption. However, certain sectors experienced a reversal to contraction. Notably, the construction sector faced a substantial decline, primarily attributed to diminishing public sector construction, particularly in government projects. Simultaneously, the agricultural sector witnessed a predicted contraction, influenced by adverse hot and dry weather conditions during the initial 8 months of 2023. This climatic impact led to a decline in the output of various economic crops, including palm oil, cassava, sugarcane, and paddy rice. Furthermore, the manufacturing sector continued to weaken, mirroring the decline in product manufacturing for exports and the weakened reading of the Industrial Production Index.

In 2023, the Thai economy exhibited a disappointingly slow recovery. With a mere expansion of 1.9%, slowing from the 2.5% growth observed in 2022, **the trajectory underscored a slower-than-anticipated return to pre-COVID levels.** Despite positive indicators from the expenditure approach, with notable growth in private consumption, merchandise exports, and private investment surpassing pre-COVID crisis levels, the overall Thai economy in Q4/2023 still lagged below the pre-COVID crisis level by approximately -0.4%. Although this represented an improvement from the -0.8% and -1.2% experienced in Q2/2023 and Q3/2023, respectively, the slow recovery indicated a more gradual resurgence than initially assessed by SCB EIC. A significant contributing factor was the considerable weakening of public spending as capital injections to alleviate the COVID crisis winded down and the 2024 Budget Act delayed. Furthermore, the export of services (primarily driven by tourism) continued to face challenges and remained -31.5% below the pre-COVID crisis level.

Regarding the production approach, the agricultural sector demonstrated a noteworthy recovery, surpassing pre-COVID crisis levels since Q2/2022. Similarly, the services sector exhibited resilience, achieving a recovery above the pre-COVID crisis level from Q3/2023 onwards. However, the industrial sector lagged, remaining approximately -4.5% below the pre-COVID crisis level and recovered at a slower pace compared to Q3/2023. This slower recovery was evident in the continued contraction of production across various industrial sectors.

Figure 3: In Q4/2023, the Thai economy lagged below the pre-COVID crisis level by approximately -0.4%.



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

SCB EIC anticipates continued support for the Thai economy in Q1/2024, primarily driven by robust private consumption growth stemming from recovery in the tourism sector, particularly due to an increasing influx of Chinese tourists. A significant surge in Chinese tourists is expected in February, coinciding with the Chinese New Year festival, while the number of tourists visiting Thailand from various countries has already approached near-normal levels. As of February 11, 2024, more than 4.39 million foreign tourists have visited Thailand, generating tourism revenue of approximately THB 215 billion (Figure 4). Other supporting indicators include a labor market that recovered to pre-COVID levels and a strengthening consumer confidence index, reflecting positive impacts from economic relief and stimulus measures. Notably, measures aimed at reducing the cost of living, particularly in terms of energy costs, along with the implementation of the Easy e-receipt scheme that have stimulated spending in early 2024. Moreover, the Thai economy is poised to benefit from the resurgence of exports, aligning with the recovery of manufacturing activities across various sectors, particularly the electronics sector. However, various factors may undermine Thai economic growth in this quarter, including the delayed enactment of the 2024 Budget Act, leading to sluggish public spending support in the first 4 months of 2024. This delay is expected to exert pressure on both public consumption and investment. Additionally, there is uncertainty stemming from geopolitical conflicts, particularly new risks in the Middle East, which may hinder maritime transport and further disrupt global supply chain activities.

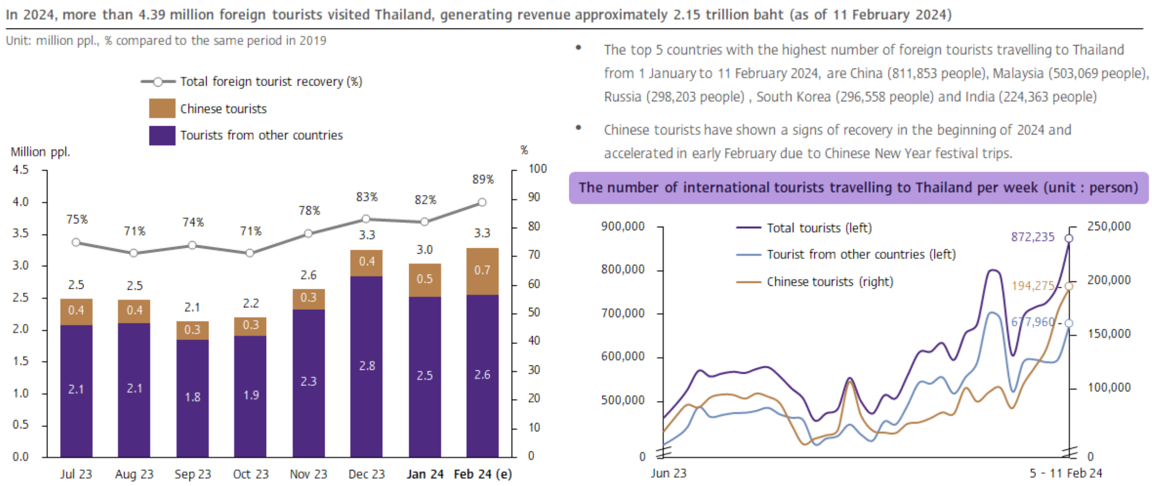
In the broader context, the outlook for the Thai economy in 2024 remains worrisome, characterized by a slow recovery. SCB EIC views that the Thai economy in 2024 should benefit from the growth momentum in private consumption, particularly driven by domestic and foreign tourism-led services sector conditions. Similarly, private investment is expected to show improvement, as indicated by higher project approvals from the Board of Investment. Additionally, a rebound in exports is foreseen, propelled by more favorable global trade and manufacturing conditions. However, the outlook is not without concerns as various factors need monitoring, particularly potential supply chain disruptions triggered by Houthi rebels attacks and the drought impacting the Panama Canal.

Notable risks that may undermine Thai economic growth in 2024 include the potential reduction in public investment resulting from the delayed enactment of the 2024 Budget Act. Consequently, overall economic support from public spending is expected to be limited during the first half of the year. While there is an anticipated acceleration in disbursement following the enactment of the 2024 Budget Act in mid-April, the restricted timeframe may impose limitations on disbursements. Furthermore, the government is anticipated to grapple with heightened budget constraints, attributed to the substantial public debt accumulated since the COVID crisis. In addition, **the supply side of the Thai economy remains notably weak, particularly in industrial manufacturing,** as various sectors continue to contract with no clear signs of recovery.

Looking ahead, several risks pose challenges to Thai economic recovery, including (1) Slowing Chinese economic conditions, prompted by structural challenges, may hurt Thai exports and lower the number of Chinese tourists visiting Thailand. (2) Escalating geopolitical conflicts from the attacks by Houthi rebels on cargo ships in the Red Sea, a crucial passage for maritime transport from Asia to Europe.

Such conflicts may significantly prolong transportation times and increase maritime freight costs for products shipped from Thailand to Europe. (3) Slow and uneven household income recovery with high debt burdens, especially in low-income households and small businesses with low accessibility to capital. (4) Slow recovery across various manufacturing sectors from heightened raw material costs and competition with low-priced imports. Meanwhile, (5) Drought and climate changes may lower agricultural output.

Figure 4: The number of foreign tourists visiting Thailand in early 2024 accelerated from Chinese tourists, especially in February that coincided with the Chinese New Year. Meanwhile, the number of tourists visiting Thailand from various other countries already recovered to near-normal levels.



Note: The number of foreign tourists visitng Thailand in February was estimated from preliminary data by the Economic, Tourism and Sports Division.

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

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