

Hurray to 1Q18 GDP growth!

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Highlights

- **Thailand's GDP growth surprised market-expectations at 4.8% y/y (+2.0% qoqsa) in 1Q18, up from 4.0% (+0.5% qoqsa) in the previous quarter.** This marks the fastest year-on-year growth pace since 1Q13 (+5.4% y/y), led by the expansion in private & government consumption, investment and export growth. Note that Thailand's Macroeconomic Strategy and Planning Office has upgraded their 2018 growth outlook to 4.2% – 4.7%, up from their previous projection of between 3.6% - 4.6% made earlier in 4Q17.
- **Across industries, the surprisingly strong growth in Thailand's agriculture sector (+6.5% y/y) was the key reason for the overall growth acceleration,** up from a contraction 1.3% print in the earlier quarter as weather conditions favoured a stronger crop yield. Aside, the non-agriculture sector grew at the same pace in the last quarter (+4.7%), on the back of the accelerating manufacturing growth print of 3.7% as externally-oriented industries such as capital and technology-related products (electrical equipment, machinery, motor vehicles etc) benefited from the relatively rosier trade backdrop.
- **Broad-based expansion across Thailand's services industries also suggested the strengthening growth backdrop as well as robust tourism activities:** Note wholesale & retail prints accelerated for its 7th consecutive quarters to 7.0% due to the expansion of agricultural and manufacturing products, as well as the uptick in both exports and imports of goods. Hotels & Restaurants services also grew at its double-digit growth rate for the second consecutive quarter at 12.8% y/y, underscoring the strong tourism sector in 1Q18. Note that the overall expansion in tourism activities was underpinned by the record high tourist arrivals at 10.6 million arrivals (excluding overseas Thai) at 15.4% y/y. Lastly, investment growth also supported the overall economic expansion in 1Q18. Note that Gross Fixed Capital Formation (GFCF) expanded 3.4% (vs a tepid +0.3% in 4Q17), underpinned by the strong public sector investment of 4.0% given many public projects entering its construction phase in 1Q18. Private sector investment also rose 3.1%, up from 4Q17's 2.4% and underpinned by the acceleration in private construction activity in both residential (+4.1%) and non-residential (+2.7%) projects.
- **We upgrade our 2018 growth outlook to 4.2% (up from 3.6%) given the strong momentum seen in the first quarter.** The surprisingly higher economic growth in 1Q18 is a strong reminder that Thailand growth momentum is largely supported by its manufacturing, trade and tourism activities. With inflation surprising higher at 1.07% in April (vs market consensus of 0.92% and fastest pace since Feb 2017), the robust growth print seen today could give Thailand's policy-makers more reason to normalise its monetary policy higher to 1.75%

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(currently 1.50%) into 2H18. Still, note that several growth drivers seen in 1Q18 may be seasonal in nature and may not persist into the year. This includes the strong agricultural growth print given favourable weather conditions, as well as the uptick in construction activities as projects enter their construction phase. Moreover, a markedly higher growth base into the rest of 2018 will be observed, owing to 2H17's growth of above 4.0% as well.

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