Thailand Outlook

OCBC Bank

GDP 4Q17 and 2018 Outlook

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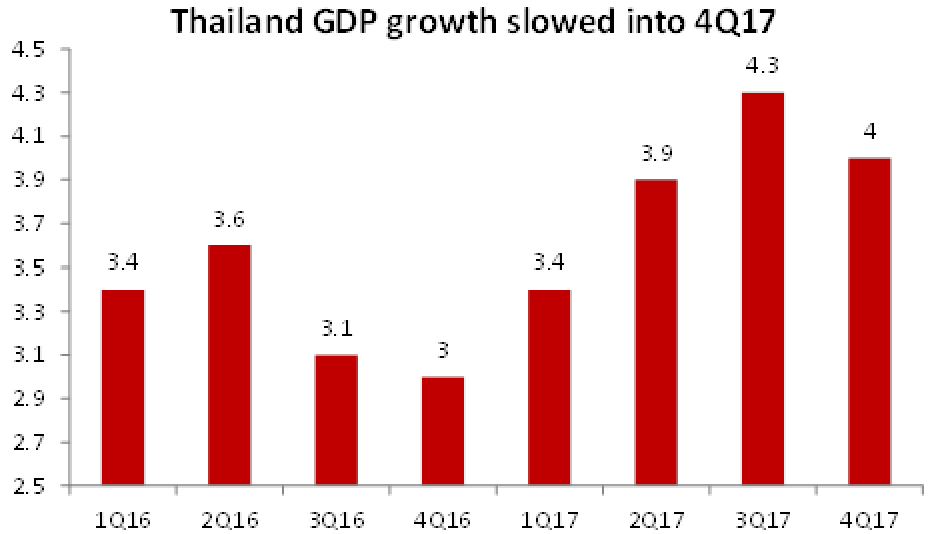
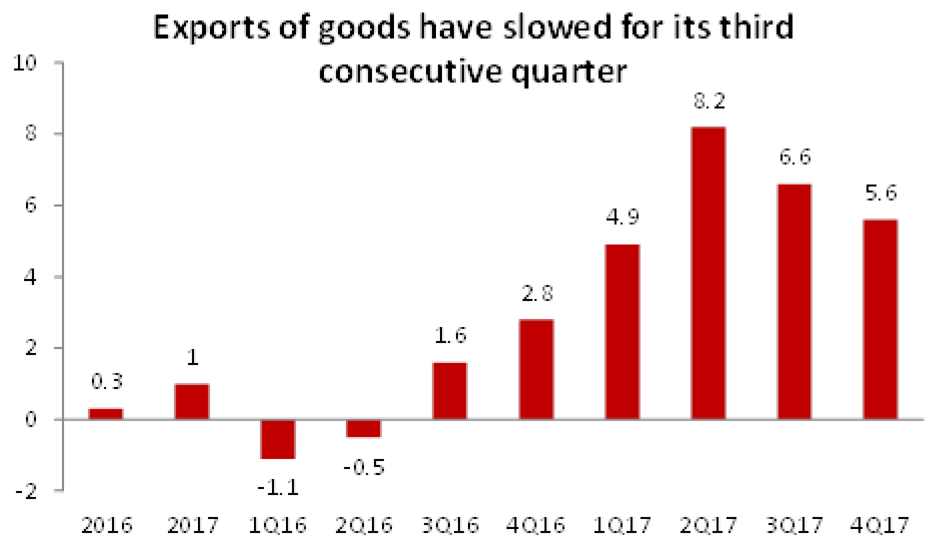
Treasury Research
Tel: 6530-8384

Barnabas Gan
Tel: 6530-1778
BarnabasGan@ocbc.com

Highlights

- **Pacing closely in line with our expectations, Thailand's economic growth in 4Q17 clocked 4.0% y/y (vs OCBC's 4.1%, market's 4.3%).** On a seasonally adjusted basis, the economy grew at 0.5% q/q sa. Accounting for 4Q17's performance, full-year growth came in at 3.9%, accelerating from 2016's growth print of 3.3%.
- **Trade, manufacturing and inbound tourism were the key pillars of growth, despite the strong 13% THB appreciation against the greenback since Dec 2016's trough.** While the agricultural sector slowed (-1.3% to 9.7% in 4Q17), non-agricultural surged to 4.6% (up from 3Q17's 4.0%), led by manufacturing, wholesale & retail trade, hotels & restaurants and transports. Importantly, private consumption growth was also stable at 3.5%, led by the strong expansion of durable items at +21.8, suggesting that consumer confidence has been supported by the overall rosy economic environment. Tourism arrival growth was impressive at 19.5% y/y in 4Q17, up from 6.4% in 3Q17 on the back of the political and economic stability.
- **Being a price taker and dependent on global growth, Thailand's growth risks may arise from uncertainties pertaining to US economic and foreign trade policies as well as geopolitical risks.** Moreover, trade and manufacturing could moderate further into 2018, given early signs of such being seen already in Dec's custom exports and manufacturing (see our Thailand BOT Outlook – 15th Feb 2018). Should we dig further, export growth at 6.6% in 4Q17 (down from 8.2% in 3Q17) is the first deceleration since 1Q16, reinforcing the view that some moderation in export growth is already on the cards.
- **In-all, our outlook for growth in 2018 remains unchanged at 3.5%, a tat lower than NESDB's growth projection of between 3.6 – 4.6%.** We view that Thailand's growth outlook remains positive, on the back of a sanguine external demand backdrop. Inflation is also expected to return to BOT's target range of between 1 – 4% this year, up from 0.7% in 2017. However, we cannot discount the risk of moderating trade and manufacturing momentum. Even in the face of lower growth, we think that BOT's policy rate at 1.50% cannot be kept at such low levels for a prolonged period; higher rates to be seen in both developed and Asian central banks would eventually persuade BOT to play catch up in 4Q18. Moreover, the search for yield behaviour may also lead to the underpricing of risks, and eventually worsen debt serviceability of households and SMEs into the year ahead. As such, we look for policy-makers to eventually lift its benchmark rate by 25bps in 4Q18.





Source: Bloomberg, OCBC Bank

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