Thailand

OCBC Bank

Strong growth in 2Q17

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Highlights

- **Thailand GDP growth print in 2Q17 was the fastest in more than four years.** Statistically, growth accelerated to 3.7% yoy (+1.3% qoqsa) in the second quarter this year, close to our in-house estimate of 3.6% yoy (+1.3% qoqsa) and way better than market-call of 3.2% yoy (+1.0% qoqsa). Accounting for 2Q17 growth, the Thai economy grew by 3.5% in the first half of this year, its fastest pace since 1H13. With the stellar growth print, official growth outlook has been upgraded to 3.5% - 4.0%, up from 3.3% to 3.8% for 2017.
- **Growth has been chiefly underpinned by the recovery in global trade,** while other key sectors such as private consumption, private investment and government expenditure continued to support overall growth. Empirically, export growth in 2Q17 was stellar at 6.0%, led by exports of goods (+5.2%, fastest pace since 4Q12) and services (+8.8%, fastest pace since 2Q16). Notably as well, private consumption grew at a healthy pace of 3.0%, suggesting improving purchasing power from better farm, export and tourism income. Meanwhile, private investment surged 3.2% yoy, up from a decline of 1.1% in the previous quarter, thus suggesting improved business and industrial confidence.
- **Delving into sectorial growth,** agricultural production expanded robustly by 15.8% in 2Q17, up from 5.7% in 1Q17, underpinned by a recovery in crops and livestock produce amid a low 2Q16 base-year. However, manufacturing production slowed marginally to 1.0% yoy (down from 1.3% in 1Q17), led by growth in major industries such as computer & parts, electronics and motorcycles. Importantly, the improved external environment clearly aided Thailand's capital & technology industry (+2.0%), given the better production in computer & parts and electronics according to higher external demand.
- **Growth outlook remains rosy into year-end, underpinned by the continued recovery of global trade environment into end-year.** The recovering external demand does suggest positive spill-over effects into Thailand's key industries, such as private consumption (given strengthening household income and purchasing power) and investment (given strong correlation between exports and industrial output) as evident in the 2Q17 prints. As such, our year-end growth outlook of 3.5% remains unchanged for now, though at the lower end of the official growth outlook of 3.5 – 4.0%. Essentially as well, there remains little inflation risk for the year, given the lowered official CPI outlook of 0.4% - 0.9% (down from 0.8% - 1.3%) in 2017. In all, in view of the stellar growth and the tame inflation climate, we look for the Bank of Thailand to keep its benchmark rate unchanged at 1.50%.

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