Thailand Outlook

Thailand's growth slows on exports

Wednesday, May 22, 2019

Highlights

- **Thailand Q1 GDP slows to 2.8% YoY, the lowest since Q4 2016.**
- **A sharp contraction in exports contributed to the slowdown, led by a slump in electronics demand.**
- **Strong fiscal expenditure softened the impact from contracting exports by 0.2pp, according to our estimates.**
- **Continued political uncertainty and a prolonged US-China trade war remain heavy drags to growth.**
- **We downgrade full-year Thailand GDP growth to 3.4% from 3.8%.**
- **At current growth and inflation rates, we expect Bank of Thailand to keep rates constant through 2019.**

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Executive Summary

Thailand's Q1 GDP slowed to a 2-year low of 2.8%, lower than our expectations of 3.1%. Exports saw a contraction of -4.9%, as a prolonged US-China trade war reduced demand for Thai goods. We expect this trend to continue into Q3 as the Sino-US trade war shows no signs of abating. Strong fiscal spending in Q1 – presumably as a result of the elections –cushioned the fallout from exports. Our estimate of Thailand full-year growth is now revised downwards to 3.4% from 3.8%.

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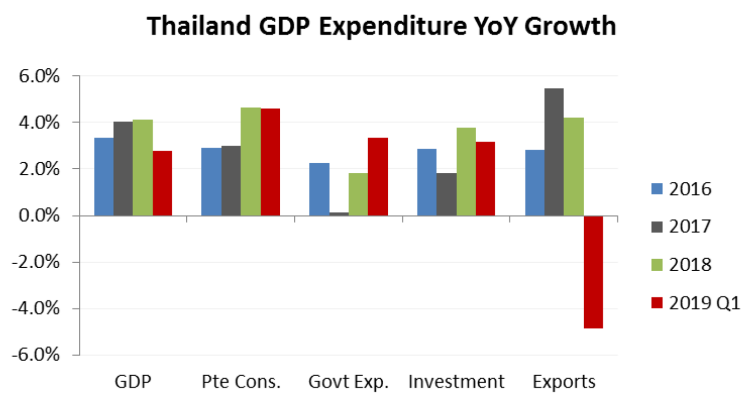
1. Growth came in soft at 2.8% on weak exports, slowing investments

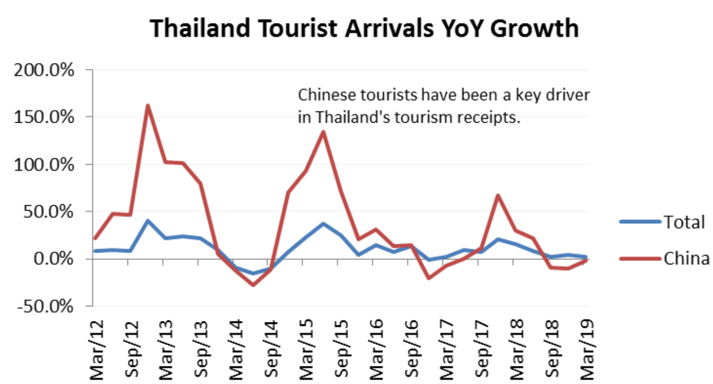
Q1 GDP growth for Thailand came in at 2.8% YoY, in-line with consensus and lower than our estimate of 3.1%. A sharp contraction in exports proved the biggest drag on growth. This is consistent with trends shown in other ASEAN countries that have their supply chains caught in the cross-fires of the Sino-US tensions. Strong fiscal spending of 3.3% YoY appear to have softened the fallout from exports by 0.2pp – we estimate that Thailand GDP growth in Q1 would have only been 2.6% YoY if government expenditure had tended more to last year's growth of 1.8%.

Thailand faces additional challenges in addition to the ongoing US-China trade war. The domestic political scene remains highly uncertain in the presence of a highly fragmented Lower House, which may lead to impasses in infrastructure and budget approvals. Tourism receipts have suffered in Q1 on lower Chinese arrivals. Exports are expected to remain sluggish as the Sino-US tensions take its toll on supply chains in the region. Fiscal spending may remain elevated in Q2 on King Maha Vajiralongkorn's coronoation, but is expected to mean-revert into 2H.

On these challenges, we now expect Thailand's economy to grow 3.4% in 2019, down from our prior forecast of 3.8%. This is in-line with Thailand's NESDC growth expectations of 3.3%-3.8% from 3.5%-4.5%.



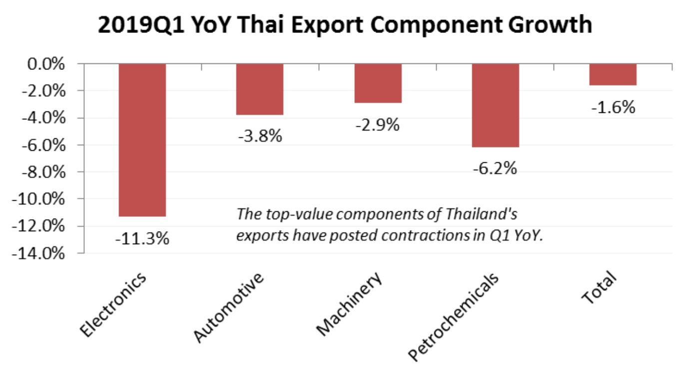
Source: CEIC, OCBC Bank



Source: CEIC, OCBC Bank

2. Poor exports have been a consistent trait in ASEAN's slow Q1

ASEAN exports suffered in Q1, with ASEAN-5 members all posting contractions in YoY export growth. The lack of export demand from China, particularly in electronics trade, has hurt growth in the region. This trend is likely to persist into Q3, given rising tensions between the US and China. Electronics is likely poised to bear most of the demand downturn, made complicated by the US adding Huawei on its Commerce Department blacklist. Thailand is likely to be caught in the cross-fires of the Sino-US trade, with its top exports by value – electronics, automotives, machinery and petrochemicals – all already suffering YoY contractions in Q1.



Source: CEIC, OCBC Bank

3. Bank of Thailand likely to keep rates constant

With the latest downgrade in growth forecasts and possibly the slowest GDP growth since 2016, the BoT now has possibly lesser room on the growth front to justify a rate hike at this stage. Rising inflationary pressures from food prices (swine flu appears to have spread into Thailand) and higher energy prices are likely to weigh on the MPC's considerations, as is financial stability from leaving rates near a record low for an extended period. With growth likely dropping out of the hawkish equation for now, there appears to be an increasing incentive for BoT to keep its benchmark repo rate at 1.75% through 2019. The Fed's tendency to resume rate normalization will likely be the trigger for BoT to resume its hawkish stance.

Conclusion

Poor exports were the main drag in Thailand's Q1 GDP growth. This trend is likely to persist given the increasing tensions between the US and China. We have revised Thailand's 2019 GDP growth downwards from 3.8% to 3.4%. With a toned-down growth prospect, the BoT may likely have lesser room to maneuver a hawkish rate stance at this stage. We expect the benchmark repo rate to be likely kept constant at 1.75% through 2019, with the hawkish tilt resuming once the Fed restarts its rate normalization policy.