Thailand

A car with good suspension

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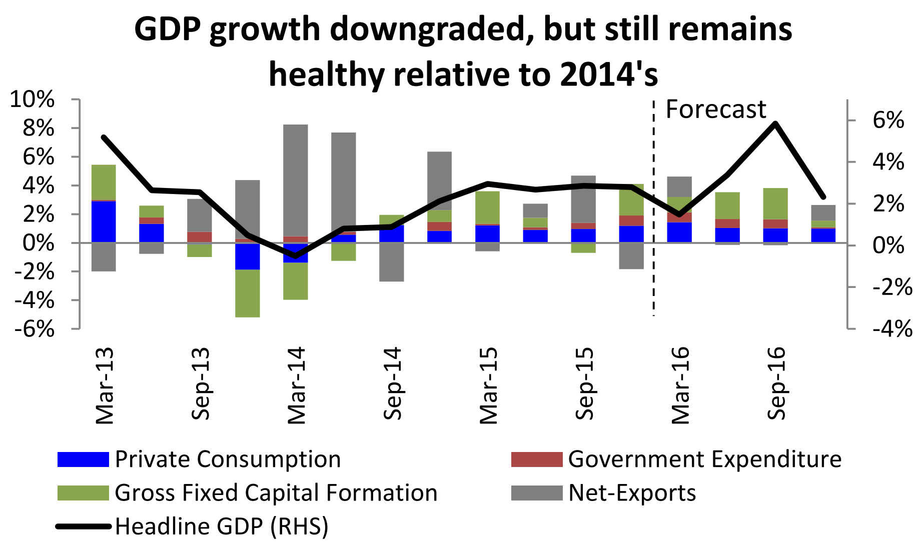
Highlights

- Despite the extremely weak external environment faced, Thailand posted a respectable 2.8% on-year growth in 4Q15, significantly stronger compared to our expectation, and bringing full-year growth to an encouraging 2.8% in 2015.
- Domestic growth pillars, which include private consumption, investment and government expenditure, stood strong and effectively cushioned the downside seen in the insipid export prints over the last year.
- Still, the drag expected from the external environment will likely be sizable, prompting NESDB to downgrade growth expectations to 2.8 – 3.8% yoy (from 3 – 4% earlier), while exports is now forecasted to come in at 1.2% growth (from a previous 3.0% estimate).
- With Thailand's growth fundamentals still appearing sound till date, the outlook for the year ahead should continue to bank on the relatively stable economic and political climate, while any improvement in the external environment would lend strength to overall growth.

Ending on a confident note

Thailand is "an economy with strong buffers… likened to a car with good suspensions", so says BOT chief Veerathai just months after he assumed his current position, is indeed an undeniable aspect of the Thai economy. With economic growth printing a stellar 2.8% on-year in the fourth quarter of 2015, it beats market expectation for a 2.6% growth over the same period, thus bringing full-year growth to 2.8% on-year, the fastest pace since 2012.



Source: Bloomberg, OCBC Bank

The good news came largely from domestic growth pillars, which include private consumption, investment and government expenditure. Importantly, these indicators had accelerated considerably in the fourth quarter versus the 3Q15's prints, led by Gross Fixed Capital Formation (GFCF) at +9.4%, while Government Expenditure (+4.8%) and Private Consumption Expenditure (+2.5%) followed suit. Notably, these strong prints were salubrious enough to offset the sustained weakness seen in Thailand's external environment, with exports growth seeing an insipid -3.5% on-year, the deepest contraction seen since 4Q11.

Thailand Growth in 2015

	GDP	QOQ SA	Private C	Govt Exp	GFCF	Exports	Exports (Goods)	Imports	Imports (Goods)
1Q15	3.0%	0.5%	2.5%	0.7%	10.3%	1.2%	-2.5%	2.3%	3.9%
2Q15	2.7%	0.4%	1.7%	1.0%	2.6%	1.5%	-3.9%	0.2%	-0.4%
3Q15	2.9%	1.0%	1.8%	2.3%	-2.6%	1.7%	-1.8%	-2.6%	-3.3%
4Q15	2.8%	0.8%	2.5%	4.8%	9.4%	-3.5%	-5.6%	-1.3%	-2.3%
2015	**2.8%**	**-**	**2.1%**	**2.2%**	**4.7%**	**0.2%**	**-3.4%**	**-0.4%**	**-0.6%**

Source: NESDB, Bloomberg, OCBC Bank

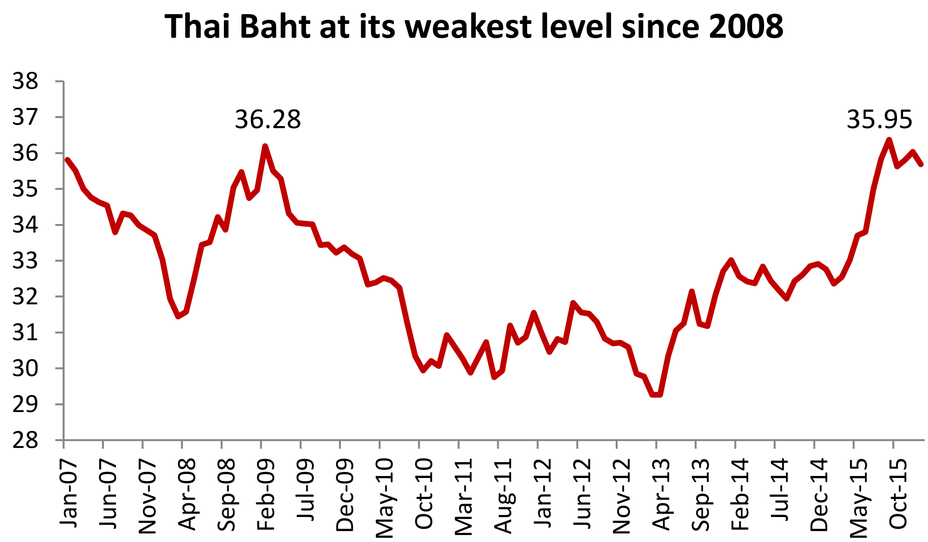
Needless to say, the strong domestic drivers will give market-watchers a great deal of confidence, especially during these times of global financial volatility. Akin to the car with good suspensions, continuing the governor's own words, suggests that the Thai economy is able to withstand the bumpy road ahead.

More good news

The road ahead is indeed 'bumped' with expected future US Fed Fund rate hikes, China growth slowdown concern and nadir oil prices, factors that will inevitably drag Thailand's economic growth in 2016. On this, it is unsurprising to see NESDB downgrading both GDP (+2.8-3.8%) and export growth (+1.2%) for the year-ahead, suggesting that the growth accounting from the external environment will continue to take a backseat. These contrast with BOT's own GDP growth expectation of +3.5%, with flat exports over the same period.

Despite the bumps ahead, we take comfort from the government's determination to aid growth. In this, it is encouraging to observe the ambitious government spending pipeline - infrastructure plan of THB3.8bn approved back in Sept 2015, targeted financial aid to farmers of THB13bn in Nov 2015, and plans to raise funds totaling about US$2.25bn (or about THB80bn) to fund Thailand's 4G network coverage. Moreover, the public construction (+54.5%) seen in ongoing infrastructure projects in water resources management and road transportation project, as well as government machinery purchases (+7.4%) have lifted overall public investment growth to a whopping 41.4%, up from a 21.9% print in 3Q15.

But more importantly are the indicators that spell growth potentials into the subsequent months. These carefully picked growth-gauges (see appendix), which include retail sales, private investment and net capital goods imports, are indicative for a sustained healthy growth outlook. Encouragingly, they have recovered into positive growth territories, especially with retail sales at +3.2% in Nov'15 (from 29 consecutive months of negative growth), net capital goods imports at +12.1% in Dec'15 over 3-months moving average while private investment growth accelerated to its strongest in 5 months to +2.2% over the same period. The economic confidence is also reflective in the relatively healthy consumer confidence prints (65.1 in Dec'15 vs 61.2 in Sep'15).



Source: Bloomberg, OCBC Bank

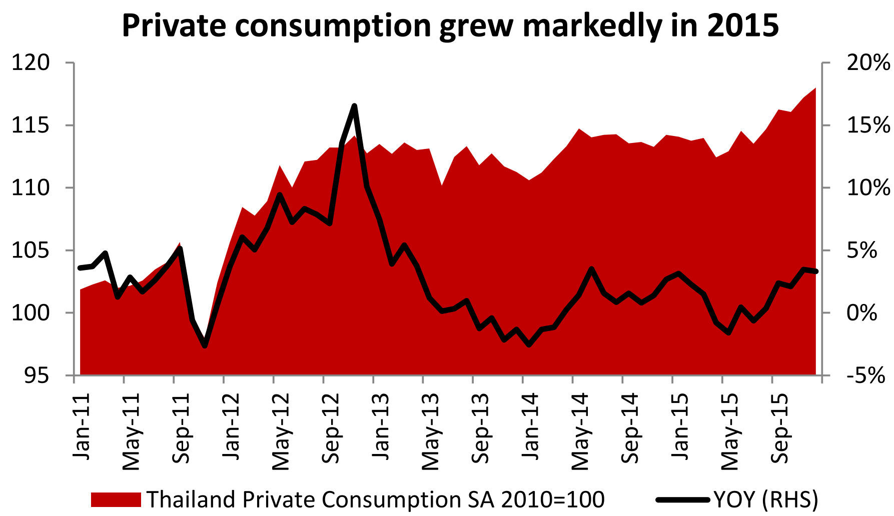
Lastly, the relatively weaker Thai Baht (weakest level since 2008) will aid both Thailand's external environment and tourist arrivals this year. Much of Thailand's export growth will be determined by two important factors, which include oil prices and China's import demand. With oil prices likely to trend higher into end 2016, higher commodity prices should lift export nominal value (note exports of consumer goods, raw materials and energy & minerals account for 10%, 20% and 17% of total export value respectively). Furthermore, we continue to expect a respectable 6.7% growth print for China, thus suggesting that import demand is likely to remain resilient.

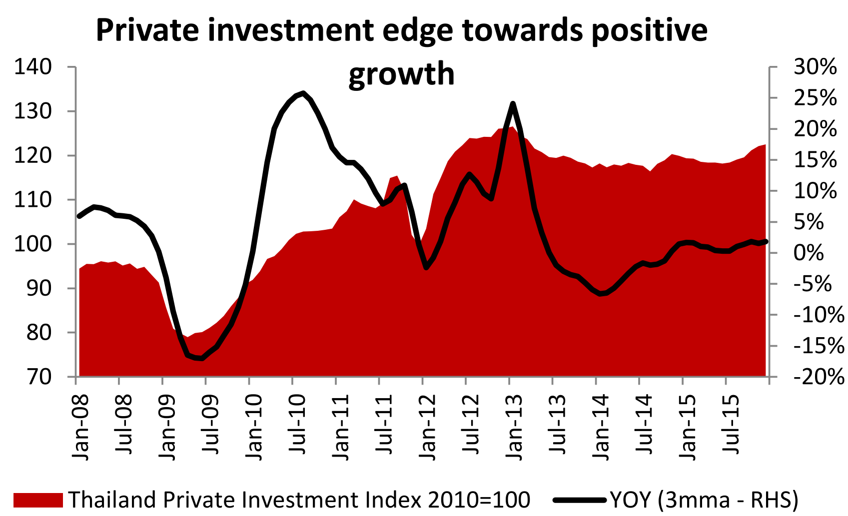
Growth Outlook for 2016

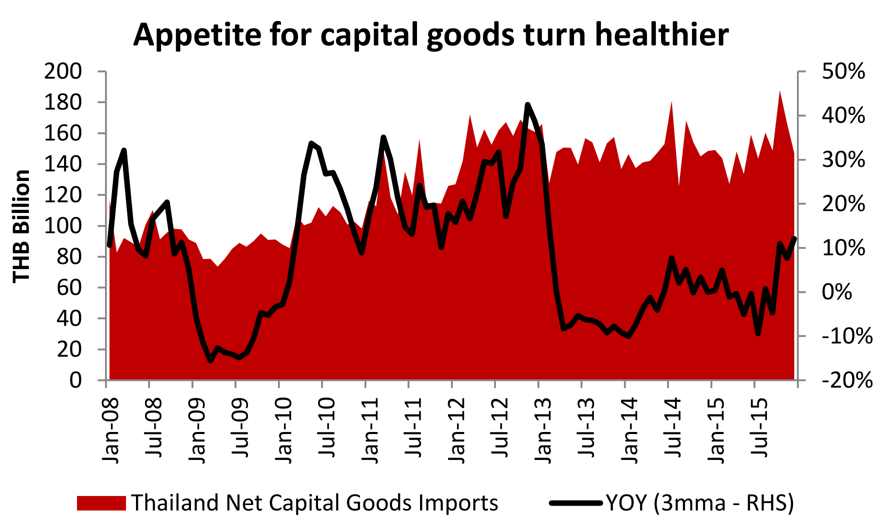
Thailand's strong domestic fundamentals are a beauty to behold indeed, now that precursors are indicating for a sustained growth pattern in consumer spending, government expenditure and investment. On top of the likelihood for oil prices to recover into the year amid the weak Thai Baht, the external environment will likely turn favourable into the year, albeit gradually into 4Q16. Moreover, the weak inflation prints are not a concern, especially with the positive core inflation amid BOT's expectation for headline inflation to turn positive into the year.

All-in-all, we see little reason to be bearish over Thailand's growth; the economy has proven to have good suspensions should we relate it back to BOT governor's own analogy. On this, we remain firm on our expectation for GDP growth to accelerate to 3.2% in 2016, while positive inflation will likely be seen as early as 2Q16 and average 0.6% in the year. With growth to pick-up amid higher US rates likely to be seen into the year, we expect BOT to hike its benchmark rate by 25bps in 2H16 to 1.75%.

Appendix







Source: Bloomberg, NESDB, OCBC Bank