Growth likely to get worse before it gets better

Howie Lee
Economist
+65 6530 1778
howielee@ocbc.com

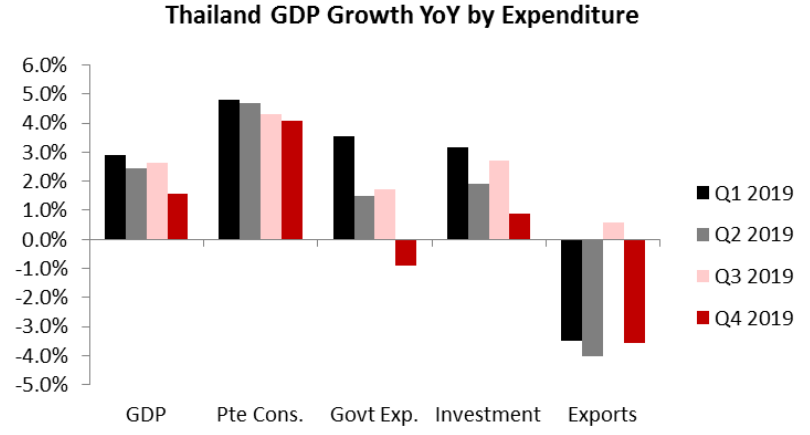
- **Thailand's Q4 GDP rose 1.6% yoy, below our estimate of 2.0% yoy.**
- **Manufacturing continues to add a drag to growth, contracting 2.3% as the strong baht takes its toll on exports.**
- **The triple challenges of COVID-19, drought and relatively strong THB will continue to impact the Thai economy to the downside this year.**
- **We downgrade Thailand's 2020 growth to 2.0% from 2.6%.**

1. All expenditure segments weaken; government expenditure contracts.

Overall it was a pretty weak performance for Thailand's economy in Q4, with all expenditure segments posting disappointing results.

- **Consumption** growth continued its downward decline to 4.1% yoy, extending a downtrend since peaking at 5.1% in Q4 2018.
- **Government expenditure** contracted -0.9% yoy, the first pullback in growth since Q4 2017, as the budget delay returns to haunt the economy.
- **Investment (GCFC)** posted a meagre 0.9% yoy growth, the lowest since Q3 2015.
- **Exports** continued its slump, contracting 3.6% despite recording a 0.6% growth in Q3, proving that last quarter's recovery was probably a flash in the pan.

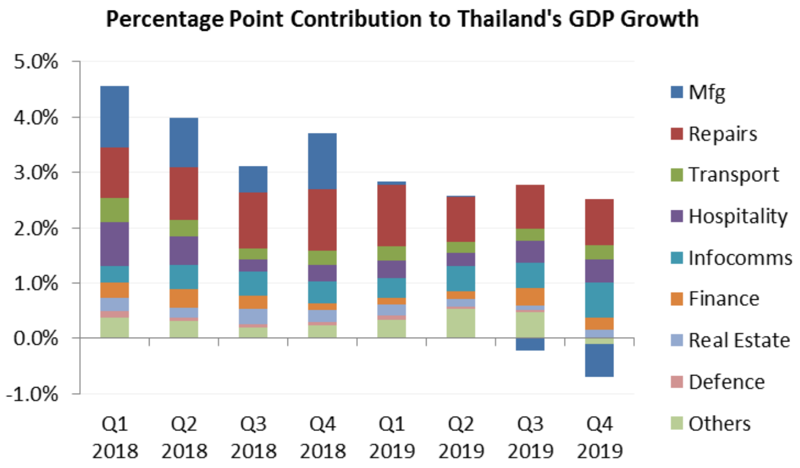
The set of economic problems that plagued Thailand in Q4 – poor external demand, strong THB, budget delay, falling Chinese tourist arrivals – are likely to continue in 2020. Based on Q4's disappointing performance, growth in Thailand looks likely to get worse before it gets better.



Source: CEIC, OCBC Bank

2. Manufacturing really needs the boost from a weaker baht.

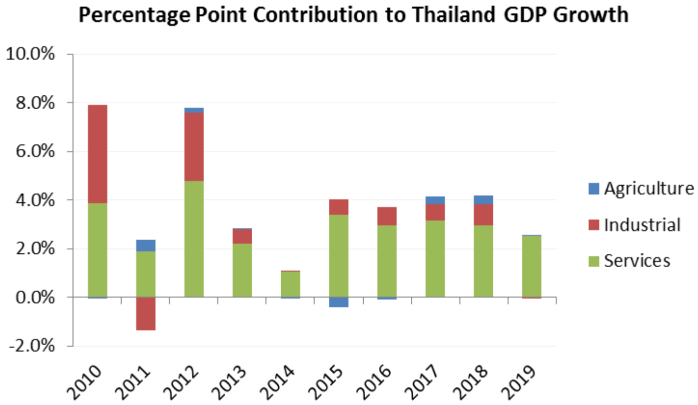
A sizeable portion of Thailand's declining growth rate resides in manufacturing's poor showing. This is the second consecutive yoy contraction in Thailand's manufacturing sector and the lowest since Q1 2012. A combination of poor external demand due to the US-China trade war and a relatively strong baht has created challenges in exporting Thai-manufactured goods. With the benchmark rate already at 0.75%, it remains to be seen how much more the Bank of Thailand can further cut rates. Manufacturing needs the boost from a weaker baht, but that lifeline may not materialise just yet as the current balance continues to show a surplus.



3. Drought and COVID-19 to add further stress to growth.

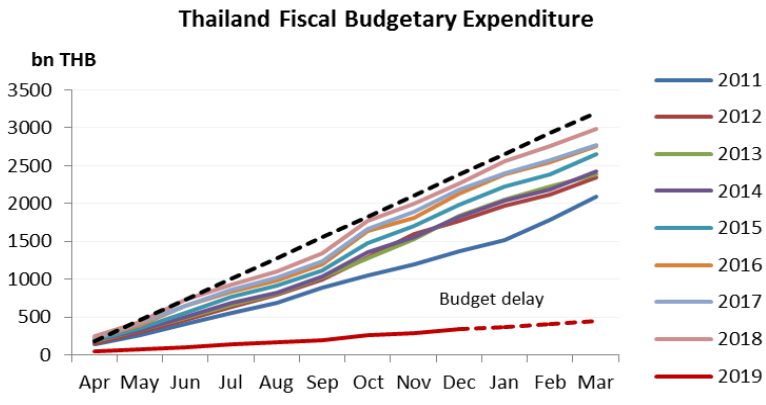
Services shouldered most of Thailand's growth in 2019. Both the agricultural and the industrial sector posted negligible to slightly negative growth rates last year. In 2020, each of these sectors is expected to face further headwinds from the ongoing drought and the COVID-19 outbreak:

- **Agriculture:** The drought in Thailand – the worst in 40 years – means the agricultural sector is highly likely to contract this year. It is likely to match 2015's contraction of 6.7% yoy, if not worse.
- **Industrial:** poor external demand from China due to COVID-19, as well as the strong baht, is likely to continue adding downward pressure on exports of manufactured goods.
- **Services:** Transport and accommodation account for 16% of Thailand's GDP in the past three years, on average. These two sectors are likely to see sharp pullbacks in Q1 at least due to a drop in tourist arrivals from China. This might extend beyond Q1, depending on the developments of COVID-19.



4. The budget approval is a timely lifeline for the economy.

The long-delayed 2020 budget was finally approved by the House of Representatives last Thursday. At 3.2tn baht, it should prove to be a timely shot up the arm for Thailand's economy in tackling the multiple economic growth headwinds. We expect the bulk of the funds to be allocated towards upskilling the workforce, with the Labour Ministry having an increase in funding of almost 20%. In the immediate term, spending on construction and infrastructure is likely to take precedence in complementing the Thailand Plus package, announced in September last year to attract foreign businesses. The other cornerstones of the budget would be possible enhancements to the Village Funds, bridging loans for SMEs, infrastructure spending on the Eastern Economic Corridor programme and further improvements to the "Chim, Shop, Chai" campaign.



Source: Bloomberg, OCBC Bank

5. We downgrade Thailand’s 2020 growth forecast to 2.0%.

We downgrade Thailand’s 2020 growth forecast to 2.0% yoy from 2.6% yoy. This is assuming the COVID-19 outbreak stays short-lived and travel restrictions are lifted by end of Q1. Services are likely to shoulder most of the growth again this year.

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu
Hong Kong & Macau
dicksnyu@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

Co.Reg.no.:193200032W