Few silver linings in Thailand’s Q1 GDP growth

- Thailand Q1 GDP contracted 1.8% yoy, with all three broad sectors of agriculture, industrial and services posting negative growth.
- On expenditure, private consumption was the only segment that posted a positive growth; conversely, investments contracted 6.5% yoy.
- Thai authorities expect exports and tourism to recover only in Q4 at earliest, if not 2021; 2020 GDP growth expected at -5% to -6% yoy.
- We estimate 2020 Thailand GDP growth at -4.8% yoy.

1. Contractions in all three broad sectors – agriculture, industrial, services.

There are few silver linings in this morning’s Thailand Q1 GDP growth of -1.8% yoy this morning, especially with all three broad sectors of agriculture, industrial and services posting contractions. This is the first time since Q2 2009 that all three sectors have displayed simultaneous contractions. Prior to Q1 2020, both the industrial and the agriculture sectors were already in contraction, but services had remained relatively strong with a growth of 2.6% yoy. For services to have flipped from 2.6% yoy in just Q2 last year to a negative growth rate of 0.7% suggests further economic stress ahead.

2. Hospitality, manufacturing and transport industries lead growth lower.

The hospitality and transport sectors joined manufacturing in posting negative growth rates this quarter. Manufacturing had already been under stress since Q3 2019, as dampened demand for goods from the US-China trade war and a strong THB took its toll on the manufacturing sector. At a contraction of -0.7% yoy, manufacturing in Q1 posted its sharpest slowdown since Q1 2012.

Meanwhile, the hospitality sector fell from a growth rate of 0.4% yoy in Q4 2019 to -1.2% yoy last quarter. Given that the lockdown measures were
only imposed in late March, we expect the hospitality industry to show a sharper slowdown in Q2.

On the other end of the scale, the vehicle repairs industry as well as the finance industry held up growth, posting an expansion of 0.8% yoy and 0.3% yoy respectively. We do not expect these sectors to continue displaying the same kind of resilience in Q2, which should lead to broad-based growth weakness in all industries next quarter.

3. We don’t rule out the possibility of negative private consumption growth in Q2.

On the expenditure front, all segments posted negative growth rates except private consumption, which rose 3.0% yoy. Investments fell 6.5% yoy, while exports declined 6.7% yoy. This is the sixth consecutive quarter that private consumption has slowed. Although household expenditure is a segment that typically shows less volatility in growth rates than its other expenditure counterparts, Thailand is not immune to having negative growth rates in private consumption. During the political instability period arising from the military coup in late 2013/ early 2014, private consumption contracted an average of 3.4% yoy across Q3 2013 and Q4 2014. We see a likely repeat of this in Q2 2020, albeit at a less severe pace.
4. We see full year 2020 GDP growth at -4.8% yoy.

We now forecast full-year 2020 Thailand GDP growth at -4.8% yoy, from -4.5% yoy previously. This is slightly higher than the current official estimate of -5% to -6% yoy. With today’s result, we also now heavily expect another 25bp rate cut in this week’s Bank of Thailand policy meeting.
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