

Thailand's 2Q18 GDP

Beating market expectations with much-improved consumption

Key takeaways: Thailand's 2Q18 GDP growth came in at 4.6% YoY, beating market expectations, led by strong exports and much-improved consumption. Note that GDP growth was slightly slower than the 1Q18 figure (retroactively revised up) of 4.9% YoY (Figure 1).

Overall export growth accelerated; tourism growth slowed. Merchandise goods export growth accelerated from 4.7% YoY in 1Q18 to 7.4% in 2Q18—outweighing the effect of decelerating services receipts growth (from 9.5% YoY in 1Q18 to 3.1% in 2Q18). The net result was that exports of goods and services rose from 6.0% YoY in 1Q18 to 6.4% YoY in 2Q18. Meanwhile, merchandise imports expanded by 7.2%, led by the landing of fuels, metals, and electronic parts, as well as consumer products—indicative of accelerating domestic activity.

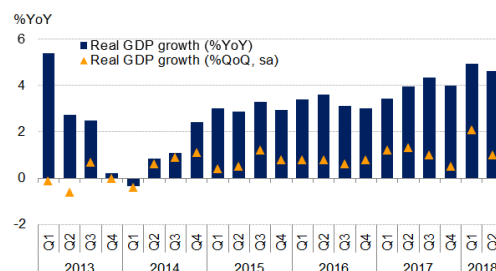
2Q18 data, particularly for private consumption, point to rising domestic demand. Private consumption surged from 3.7% YoY in 1Q18 to 4.5% YoY in 2Q18. Hence its contribution to 2Q18 GDP growth (4.6%) rose to 2.4% YoY—the highest since 1Q13 (Figure 2). This was in line with improved farm income (Figure 3) and a higher minimum wage. Private investment inched up from 3.1% YoY in 1Q18 to 3.2% YoY in 2Q18 on greater investment in construction and machinery. At the same time, public investment rose by 4.9% YoY, picking up from growth of 4.0% YoY in 1Q18, due to both the low base set by 2Q17 and the implementation of electricity and transportation infrastructure projects (Figure 4). Note that public consumption increased by a sedate 1.4% YoY in 2Q18, a deceleration from growth of 1.9% in 1Q18.

Production growth was driven by the agricultural sector, which supports household purchasing power. Agricultural production accelerated from 6.5% in 1Q18 to 10.4% YoY in 2Q18, led by major cash crops, such as rice and rubber, boosting farm income. In contrast, overall non-agricultural production growth slowed from 4.8% YoY in 1Q18 to 4.1% YoY in 2Q18. Manufacturing production growth eased back from 3.8% YoY in 1Q18 to 3.1% YoY in 2Q18. The sectors that saw faster expansion in 2Q18 included construction, wholesale & retail, and financial intermediaries (Figure 5).

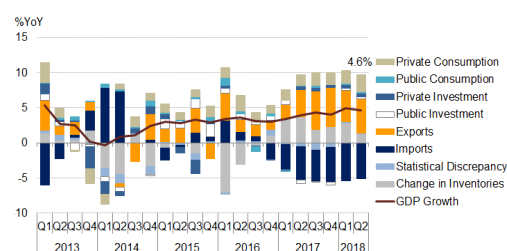
Our assessment

Although the direction of 2Q18 GDP growth was in line with our expectation, the magnitude exceeded our earlier projection (of 4.2% YoY), primarily due to strong consumption expansion. Yet public investment growth—notwithstanding the recent acceleration—remains disappointing, as slow land acquisition processes caused planned budget disbursement for new infrastructure projects to be delayed.

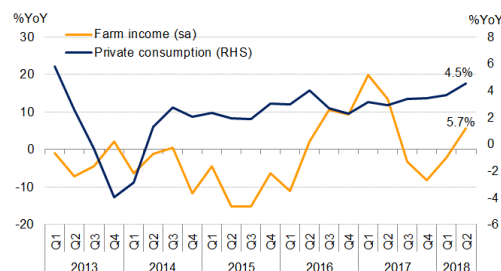
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Figure 1: Real GDP Growth


Source: NESDB

Figure 2: Contribution to GDP growth


Source: NESDB

Figure 3: Private Consumption and Farm Income


Source: NESDB, Office of Agricultural Economics

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Given the strong 1H18 GDP growth readings, 2H18 growth would need to average only about 4.3% YoY for Thai economic expansion to achieve our 2018 forecast of 4.5% YoY (Figure 6). However, 3Q18 is likely be the weakest quarter of the year—floods will dampen agricultural production and discourage consumption in affected provinces. Moreover, the effect of tourism low season could be exacerbated by the recent ferry accident in Phuket, making for weaker YoY tourism revenue. Nonetheless, GDP growth should bounce back in 4Q18, so long as consumer spending recovers after the floods, international trade tensions are contained, and tourist arrivals rebound, especially Chinese tourists (the PRC has a long public holiday in early October). With these factors in play, an average 2H18 GDP growth rate of 4.3% YoY is achievable, we believe.

Despite the scope for upside to domestic consumption amid the upcoming election, other variables now appear to be more skewed toward downside than previously anticipated. In particular, the potential impact of escalating US-China trade tensions on China's GDP growth and the knock-on effects on the global supply chain (where Thailand figures prominently) present a downside risk to exports and, thus, production. Furthermore, the risk remains that Chinese tourist arrivals may not fully recover. Were these downside risks to manifest, they could potentially squeeze 2018 GDP growth by 0.1-0.3% from our base-case forecast.

GDP and its Composition

Exhibit 4: Real GDP—Expenditure Side

%YoY	GDP	Private Consumption (51%)*	Public Consumption (16%)*	Gross Fixed Capital Formation (25%)*	Private Investment (18%)*	Public Investment (7%)*	Exports of Goods & Services (75%)*	Exports of Goods (57%)*	Exports of Services (19%)*	Imports of Goods & Services (65%)*	Imports of Goods (53%)*	Imports of Services (12%)*
Q1 2015	3.0	2.3	1.6	9.9	3.8	33.9	2.5	-0.9	15.6	2.6	4.4	-5.1
Q2 2015	2.9	1.9	1.0	1.2	-4.1	20.0	2.7	-2.4	27.3	0.4	0.4	0.5
Q3 2015	3.3	1.9	2.1	-1.9	-9.1	21.6	4.3	-0.1	23.5	-2.0	-2.1	-1.2
Q4 2015	2.9	3.0	5.3	8.9	1.1	41.8	-2.8	-4.6	3.8	-0.9	-1.5	1.6
Q1 2016	3.4	3.0	8.3	4.9	2.4	12.8	5.1	1.0	18.9	-4.9	-7.4	6.7
Q2 2016	3.6	4.0	2.8	3.3	0.0	12.8	2.3	-1.1	14.8	-1.7	-2.8	2.5
Q3 2016	3.1	2.7	-3.9	1.0	-0.3	4.5	2.0	-0.5	10.7	-1.0	-2.1	4.4
Q4 2016	3.0	2.3	2.9	2.1	-0.1	8.9	1.8	1.6	2.5	3.5	3.2	4.8
Q1 2017	3.4	3.1	-0.7	1.7	-1.1	10.0	2.7	2.8	2.5	5.9	7.3	0.4
Q2 2017	3.9	2.9	0.4	0.3	3.0	-6.9	5.1	4.9	5.7	7.2	9.2	-1.0
Q3 2017	4.3	3.4	1.8	1.2	2.5	-1.6	6.9	8.2	2.6	6.5	9.2	-5.0
Q4 2017	4.0	3.4	0.2	0.3	2.4	-6.0	7.4	6.6	9.9	7.5	8.3	4.0
Q1 2018	4.9	3.7	1.9	3.4	3.1	4.0	6.0	4.7	9.5	8.7	9.3	6.2
Q2 2018	4.6	4.5	1.4	3.6	3.2	4.9	6.4	7.4	3.1	7.5	7.2	8.9
2015	3.0	2.3	2.5	4.3	-2.1	28.4	1.6	-2.0	16.2	0.0	0.2	-1.0
2016	3.3	3.0	2.2	2.8	0.5	9.5	2.8	0.3	11.5	-1.0	-2.3	4.6
2017	3.9	3.2	0.5	0.9	1.7	-1.2	5.5	5.6	5.1	6.8	8.5	-0.3

%QoQ, sa	GDP	Private Consumption (51%)*	Public Consumption (16%)*	Gross Fixed Capital Formation (25%)*	Private Investment (18%)*	Public Investment (7%)*	Exports of Goods & Services (75%)*	Exports of Goods (57%)*	Exports of Services (19%)*	Imports of Goods & Services (65%)*	Imports of Goods (53%)*	Imports of Services (12%)*
Q1 2015	0.4	0.7	-2.8	5.1	-0.3	23.1	-4.9	-4.4	-6.2	0.9	1.6	-2.6
Q2 2015	0.5	0.8	2.3	-1.2	-1.9	-0.6	0.8	-0.2	6.2	-1.6	-2.7	4.6
Q3 2015	1.2	0.9	3.2	1.0	-0.8	5.4	0.6	-0.2	2.9	0.4	0.5	-0.9
Q4 2015	0.8	0.8	1.6	3.6	4.0	8.5	0.8	0.0	2.3	-1.4	-1.6	0.5
Q1 2016	0.8	0.5	0.7	0.5	0.6	-3.2	2.4	1.2	6.0	-1.9	-3.1	2.5
Q2 2016	0.8	1.5	-2.4	-1.3	-3.5	3.7	-1.4	-1.7	2.0	1.2	1.5	0.5
Q3 2016	0.6	-0.2	-3.1	-1.2	-0.6	-2.8	0.3	0.1	0.2	1.2	1.0	0.9
Q4 2016	0.8	0.6	7.4	3.9	3.2	10.6	0.7	2.0	-4.4	2.5	3.3	0.8
Q1 2017	1.2	1.2	-2.4	-0.3	-0.4	-3.1	2.8	2.3	4.4	1.0	1.6	-1.9
Q2 2017	1.3	1.0	-0.8	-1.6	1.0	-9.3	1.3	0.6	5.0	2.2	2.9	-0.7
Q3 2017	1.0	0.4	-1.7	-0.3	-0.8	1.7	2.0	3.1	-2.0	0.9	1.3	-3.2
Q4 2017	0.5	0.8	5.0	2.4	2.3	4.7	1.2	0.4	2.9	2.9	2.0	10.2
Q1 2018	2.1	1.4	-0.6	2.7	0.5	6.9	1.1	0.3	3.1	2.6	2.9	0.1
Q2 2018	1.0	1.8	-1.1	-0.8	1.3	-7.2	1.9	3.6	-1.2	0.9	0.8	1.9

* Percentage of GDP (2017)

Source: NESDB

GDP and its Composition

Figure 5: Real GDP—Production Side

%YoY	GDP	Agriculture	Non Agriculture	Industry		Services								
				Manufacturing	Construction	Wholesale & Retail	Hotel/ Restaurants	Transport/ Storage/ Comm	Financials	Real Estate	Public Admin/ Defence	Education	Health/ Social Work	Social Services
		(6%)*	(94%)*	(28%)*	(3%)*	(15%)*	(6%)*	(10%)*	(7%)*	(8%)*	(5%)*	(3%)*	(2%)*	(2%)*
Q1 2015	3.0	-9.3	4.7	2.7	20.3	4.6	20.4	7.0	10.3	2.4	-1.3	-2.3	1.7	2.2
Q2 2015	2.9	-8.0	3.8	-0.1	15.0	4.7	23.8	8.7	8.8	0.0	0.8	-0.8	1.3	5.0
Q3 2015	3.3	-6.6	3.8	1.9	10.9	3.3	13.3	4.8	6.8	1.1	2.5	1.5	3.6	5.7
Q4 2015	2.9	-2.3	4.0	2.2	24.1	6.4	4.5	1.3	7.8	3.6	0.3	0.8	7.6	4.5
Q1 2016	3.4	-3.9	4.2	0.2	12.6	5.5	12.8	6.6	5.2	3.3	3.9	3.4	4.5	7.9
Q2 2016	3.6	-2.9	4.2	3.7	9.1	4.4	10.1	2.3	7.1	3.6	-0.4	0.8	3.5	9.2
Q3 2016	3.1	-3.6	3.6	2.6	5.9	5.6	12.1	3.8	6.0	2.5	-1.8	-0.8	1.3	10.1
Q4 2016	3.0	-0.4	3.5	2.9	6.9	5.8	4.9	3.7	7.6	3.2	0.3	1.6	-0.1	6.0
Q1 2017	3.4	6.0	3.2	1.9	3.2	5.9	5.1	5.3	4.8	3.8	-0.2	0.1	1.5	6.5
Q2 2017	3.9	15.9	3.0	1.0	-5.7	6.0	7.0	7.8	6.3	4.2	1.4	2.2	3.1	5.8
Q3 2017	4.3	9.7	4.0	4.2	-1.6	6.4	6.9	7.4	4.6	4.7	-0.4	1.2	4.1	5.3
Q4 2017	4.0	-1.3	4.7	3.4	-5.3	6.9	15.3	8.8	3.6	5.8	0.1	1.3	3.8	6.1
Q1 2018	4.9	6.5	4.8	3.8	1.2	7.0	12.8	7.5	3.6	4.9	0.3	1.7	5.0	4.6
Q2 2018	4.6	10.4	4.1	3.1	2.0	7.2	9.4	7.0	5.5	3.2	-0.9	0.0	4.4	4.1
2015	3.0	-6.3	4.1	1.7	17.1	4.8	15.0	5.3	8.4	1.8	0.6	-0.2	3.6	4.3
2016	3.3	-2.5	3.8	2.3	8.6	5.3	9.9	4.1	6.5	3.2	0.4	1.2	2.2	8.3
2017	3.9	6.2	3.7	2.6	-2.3	6.3	8.5	7.3	4.8	4.6	0.2	1.2	3.1	5.9

%QoQ, sa	GDP	Agriculture	Non Agriculture	Industry		Services								
				Manufacturing	Construction	Wholesale & Retail	Hotel/ Restaurants	Transport/ Storage/ Comm	Financials	Real Estate	Public Admin/ Defence	Education	Health/ Social Work	Social Services
		(6%)*	(94%)*	(28%)*	(3%)*	(15%)*	(6%)*	(10%)*	(7%)*	(8%)*	(5%)*	(3%)*	(2%)*	(2%)*
Q1 2015	0.4	-2.3	0.7	1.5	11.3	1.1	4.0	-1.8	4.1	-0.2	-3.5	-2.1	1.1	-2.5
Q2 2015	0.5	-1.3	0.7	-1.5	2.5	1.5	2.5	3.5	0.0	-0.5	3.1	1.6	1.0	1.2
Q3 2015	1.2	0.0	1.2	1.5	0.3	0.8	-1.5	-0.4	1.8	1.7	1.6	1.8	2.5	2.1
Q4 2015	0.8	1.2	1.1	0.4	7.2	2.2	1.3	0.6	1.3	2.1	-0.8	-0.8	2.5	3.3
Q1 2016	0.8	-3.4	1.0	0.2	0.5	0.8	8.9	2.2	2.2	-0.1	0.0	0.9	-1.3	1.4
Q2 2016	0.8	-1.4	0.9	1.8	2.0	0.8	0.7	-0.3	1.3	0.2	-1.1	-1.1	-0.1	2.4
Q3 2016	0.6	0.4	0.5	-0.1	-2.5	1.9	1.3	1.4	1.2	0.5	0.4	0.2	0.1	2.2
Q4 2016	0.8	4.2	1.0	0.8	6.0	1.9	-4.5	0.8	2.4	2.1	0.7	1.5	0.8	-0.1
Q1 2017	1.2	3.2	0.7	-0.3	-3.4	1.2	7.0	3.0	0.0	0.8	-0.1	-0.5	0.7	2.1
Q2 2017	1.3	6.8	0.8	0.9	-4.5	1.2	3.0	2.3	2.2	1.1	0.5	1.0	1.5	1.5
Q3 2017	1.0	-4.3	1.4	2.6	0.8	2.1	1.8	1.2	0.0	0.9	-1.3	-0.8	1.0	1.5
Q4 2017	0.5	-6.5	1.6	0.1	1.2	2.1	3.5	2.3	1.2	2.8	0.9	1.4	0.5	1.0
Q1 2018	2.1	11.5	0.8	0.4	3.3	1.5	3.6	1.3	0.3	0.1	0.2	0.1	1.9	0.6
Q2 2018	1.0	10.3	0.2	0.0	-2.4	1.5	0.2	1.9	3.8	-0.5	-0.7	-0.7	0.9	1.0

* Percentage of GDP (2017)

Source: NESDB

Figure 6: Thailand Macroeconomic Forecasts

		2018E		2019F	
		BBL	Consensus	BBL	Consensus
Real GDP growth	%YoY	4.5	4.4	4.3	4.2
Private consumption	%YoY	3.3	3.6	3.3	3.4
Private investment	%YoY	3.5	3.9	4.0	5.2
Public consumption	%YoY	4.3	2.8	3.0	2.8
Public investment	%YoY	10.8	9.0	12.0	9.1
Exports of goods (nominal)	%YoY	6.5	8.6	6.0	5.1
Imports of goods (nominal)	%YoY	13.3	12.8	12.0	6.9
Current account	USD billion	36.2	41.7	32.1	36.9

Source: BBL Economic Analysis Team

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