Thailand Economic Outlook 2019

Thai GDP growth moderates as the world economy slows

December 20, 2018

Executive summary

The global economy is set to slow over the course of 2019: Global trade and business sentiment has been dented by uncertainty brought about by ongoing Sino-US trade conflict. Furthermore, The US, despite remaining the bright spot in a sputtering world economy, is likely to slow in 2H19, weakening the global economy further (in addition to the drag on global trade caused by US trade conflicts). China is also likely to experience a continued slowdown—it recently posted disappointing numbers for car sales and retail sales. (See global, DM and EM PMIs in Figure 1.)

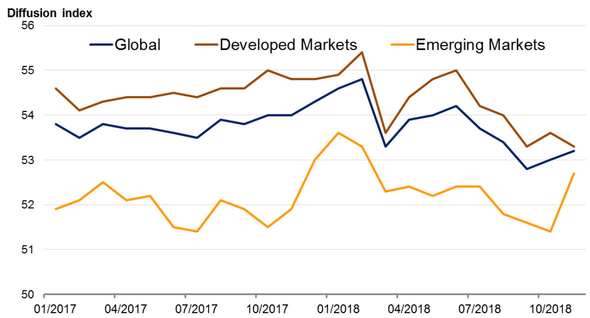
We forecast Thailand's 2019 GDP growth to be 3.8% YoY, below the consensus: Our projection assumes: 1) a weaker external sector amid slower global growth prospects, 2) slower private consumption growth, particularly as car purchases normalize, and 3) steady growth in private investment. However, with more infrastructure projects under construction and a backlogs of related budget disbursement from 2017 and 2018, public investment should rise somewhat (see Figure 2 for details of 2019 forecast).

Lower oil prices should boost the current account surplus and squeeze inflation: Based on our assumption of a 15.6% fall in oil prices, we expect the current account surplus to increase from our estimate of US$31.2bn at year-end 2018 to US$33bn at year-end 2019. We also forecast that headline inflation will slow from 1.2% in 2018 to 0.8% in 2019.

Our year-end 2018 Bt/US$ forecast is Bt32-32.3; for year-end 2019 we project Bt31.5: We remain bullish on the baht as the US dollar rally approaches its end and Thailand sustains strong external fundamentals—substantial FX reserves, a big (and growing) current account surplus, while having only limited exposure to FX-denominated debt.

After a 25bps Repo Rate rise on Dec 19, we expect the BOT to adopt a wait-and-see stance: The Bank of Thailand's rate hike was prompted by concerns over financial stability and need to build policy space. Nevertheless, uncertainty over the external environment and the risk of crippling domestic demand growth will be of the BOT's primary concern in monetary policy deliberation in 2019.

Figure 1: Composite PMI



Source: CEIC data

Figure 2: Thailand macro-economic forecasts

		2018E		2019F	
		BBL	Consensus	BBL	Consensus
Real GDP growth	%YoY	4.1	4.5	3.8 ↓	4.1
Private consumption	%YoY	4.6	3.9	3.5 ↓	3.5
Private investment	%YoY	3.5	3.9	3.5	5.0
Public consumption	%YoY	2.8	2.4	3.0	3.0
Public investment	%YoY	6.2	7.5	8.0 ↓	7.9
Exports of goods (nominal)	%YoY	6.2	7.9	4.5 ↓	4.8
Imports of goods (nominal)	%YoY	14.4	12.5	5.9 ↓	6.0
Current account	USD billion	31.2	40.2	33.0 ↑	40.6
CPI (period average)	%YoY	1.2	1.1	0.8	1.4
Exchange rate	THB/USD	32-32.3	33.0	31.5	32.9
Policy rate	%	1.75	1.6	1.75	2.0

Sources: BBL Economic Analysis Team, Bloomberg

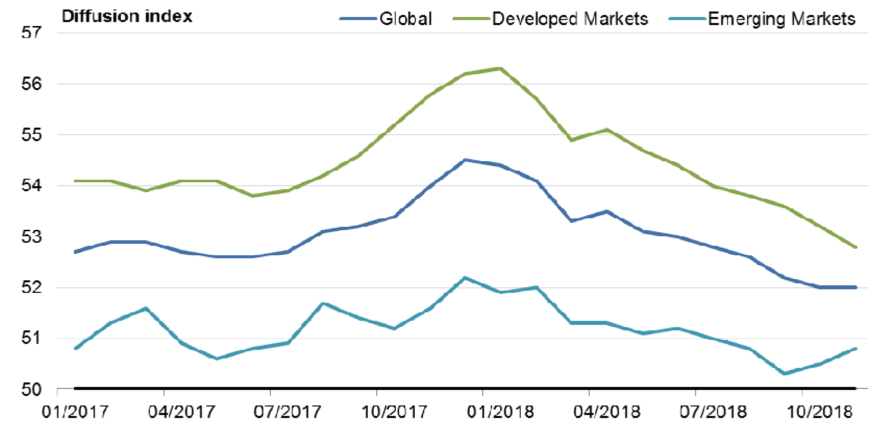
Burin Adulwattana
Senior Economist/Strategist
burin.adulwattana@bangkokbank.com / +66 2 230 2657
Anuk Serechetapongse
Economist
anuk.serechetapongse@bangkokbank.com / +66 2 626 3372
Kantheera Tipkanjanarat
Research Associate
kantheera.tipkanjanarat@bangkokbank.com
Boochita Pitakard
Research Associate
Boochita.pitakard@bangkokbank.com

Global backdrop

Around this time last year, the world economy was expected to expand robustly and in a synchronized fashion in 2018. As it turned out, the global growth picture failed to live up to the forecasts—growth sputtered in many parts of the world. The US was the only major economy to hold firm, growing briskly while its unemployment rate declined to a 49-year low of 3.7% and inflation remained around the US Federal Reserve's target.

The world economy shows signs of slowing—declining manufacturing PMIs for both DMs and EMs in 2018: Global trade also lost momentum during the year and Emerging Markets' currencies weakened substantially against the US dollar amid sustained capital outflows. Many EM economies had to grapple with slowing growth, weakening exports, and falling currencies and asset prices, such as equities. (See global, DM and EM manufacturing PMIs in Figure 3.)

Figure 3: Manufacturing PMIs—global, Developed Markets, and Emerging Markets



Source: CEIC data

Figure 4:GDP growth forecasts of trading partners

GDP Growth Forecast of Trading Partners			
Trading Partners	**Share of exports**	**2018E**	**2019F**
China	12.4	6.6	6.2
United States	11.2	2.9	2.5
Japan	9.4	1.1	0.9
Hong Kong	5.2	3.8	2.9
Vietnam	4.9	6.6	6.5
Australia	4.4	3.2	2.8
Malaysia	4.4	4.7	4.6
Indonesia	3.7	5.1	5.1
Singapore	3.5	2.9	2.5
Philippines	2.9	6.5	6.6
India	2.7	7.3	7.4
Cambodia	2.2	6.9	6.8
Germany	2.1	1.9	1.9
Netherlands	2.0	2.8	2.6
South Korea	2.0	2.8	2.6
Myanmar	1.8	6.4	6.8
Switzerland	1.7	3	1.8
United Kingdom	1.7	1.4	1.5
Taiwan	1.7	2.7	2.4
Laos	1.7	6.8	7

Sources: IMF WEO (October 2018)

Uncertainty over Sino-US trade conflict and the risk of a full-on trade war dented confidence and clouded the outlook for global trade and the world economy. As such, PMIs around the world started to fall after the US imposed its first import tariffs in 2018. The recent arrest of Huawei's CFO in Canada raised the specter of the conflict metastasizing into something much worse than just a series of tit-for-tat tariffs. The optimism stemming from the truce announced following the Xi-Trump dinner on the sidelines of the G20 Summit proved to be short-lived. The repercussions of the ongoing trade conflict now look likely to persist longer and run deeper than we had envisaged at the start of the year.

2019 Global economic outlook is dimmer, risks are intensifying: We expect the Chinese economy to slow further—its latest numbers for retail sales and auto sales suggest sharply declining consumer confidence and spending. A weaker Chinese economy could have a far greater impact on EM Asia than Sino-US trade conflict in isolation, as most EM Asia nations export more finished goods for Chinese consumers than components for global supply chains with final assembly in China. Moreover, the concurrent drop in Chinese outbound tourism, due in large part to its slowing economy, will have severe repercussions for EM Asian countries that rely heavily on receipts from Chinese visitors.

In the US, we expect the Federal Reserve to lift its Federal Funds Rate (FFR) on two more occasions (after the move on the December Open Market Committee). Recent comments by Fed officials indicate more dovishness than previously expressed. With economic growth set to slow in 2H19—the boost from fiscal stimulus is fading and higher US interest rates will add drag—the market is looking for further signs that the Fed will pause rate-hiking in 2019, bringing the top range of the Fed Funds Rate to 3%.

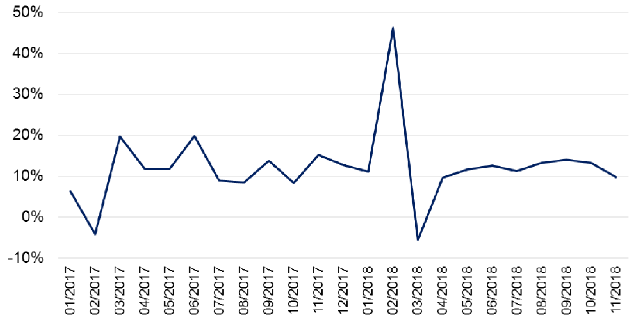
We also expect further weakness in Japan, as a VAT hike is scheduled for October 2019— depressing consumer spending in the near term (last time Japan raised VAT, consumer spending surged a month or so ahead of the imposition date, then slumped for months afterward). For Europe and the UK, Brexit is causing acute concern. The fallout on the political scenes in the UK is denting confidence for the UK and, to some degree, in European countries. Uncertainty over the longevity of Angela Merkel's shaky coalition presents another concern (one potential European crisis was averted yesterday when Italy agreed a 2019 budget deal with the EU), weakening sentiments in Europe despite the end of quantitative easing in December as announced by the ECB. We suspect that a rate increase by the ECB will be further delayed from the expectation of an increase after the summer in 2019.

Exports

Merchandise export growth set to slow, given weaker global trade & investment: The reverberations of the slowing global economy, particularly the ongoing loss of cyclical momentum in the US and the EU, and China's domestic demand slowdown, will result in softer growth among most of Thailand's major trading partners.

Should the Sino-US trade conflict intensify, it would have a further squeezing effect on exports. The 90-day delay to the tariff increase (from 10% to 25%) on US$200bn worth of Chinese exports to the US notwithstanding, there remains acute risk of further escalation. Uncertainty is bad for global business sentiment and CAPEX. Currently, Chinese exports to the US continue to expand (Figure 5), as declines in exports of goods subject to the US tariffs were outweighed by greater exports of other merchandise goods categories. However, this could be—at least in part—order frontloading in anticipation that tariffs might be imposed on a wider range of categories in the near future.

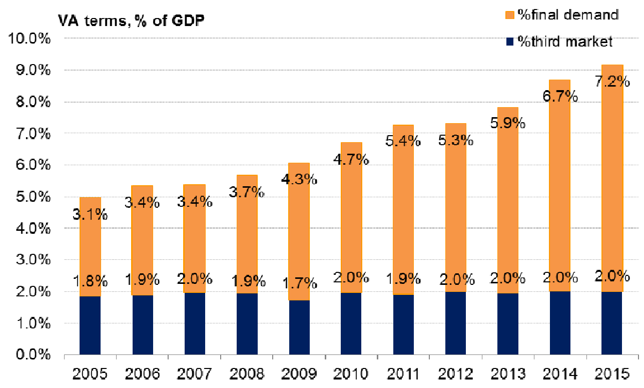
Figure 5: China's exports to the US



Source: CEIC data

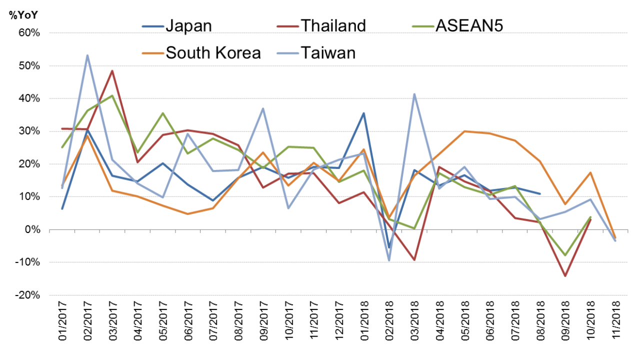
Little impact on Thailand for now, but fallout from Chinese slowdown a worry: We estimate the negative impact of the Sino-US trade conflict on Thai exports to the US and China to be only about 0.2% of total exports. But given the growing proportion of Thai exports serving Chinese domestic demand (Figure 6), if the trade conflict were to exacerbate China's economic slowdown, the repercussions on Thai exports would be more severe. Recent weaker Chinese domestic demand has probably been at least partly responsible for the deceleration of other Asian countries' exports to China (see Figure 7).

Figure 6: Thailand's exports to China



Sources: OECD TiVA, CEIC data, BBL Economic Analysis Team calculations

Figure 7: Asia's exports to China



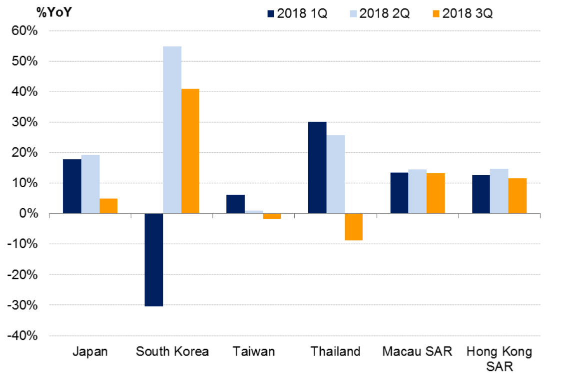
Source: CEIC Data

In sum, we now forecast that Thailand's 2019 merchandise goods export value will grow 4.5% YoY, a deceleration from our 2018 estimate of 6.2% YoY and below the consensus 2019 export growth projection of 4.8% YoY.

Tourism

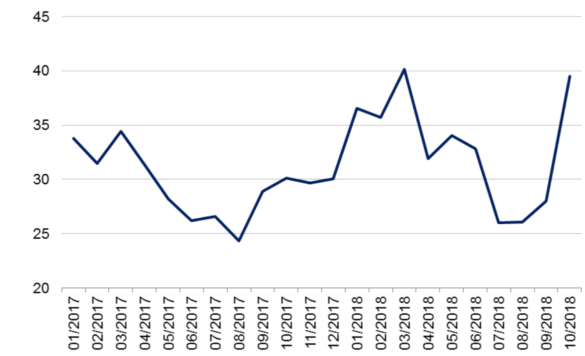
Signs of a tourism recovery: Tourism industry growth slowed in 2H18—foreign visitor arrivals decelerated precipitously from 15.5% YoY in 1Q18 and 8.4% YoY in 2Q18 to just 1.9% YoY in 3Q18, dragged by an 8.8% fall in Chinese tourists in 3Q18 (Chinese nationals comprised around 28% of tourist arrivals). Although the drop was partly attributable to fallout from the July 5, 2018 ferry tragedy in Phuket that killed dozens of Chinese nationals, China's softening economic conditions and anxiety caused by trade conflict with the US (prompting more saving and less indulgent consumer spending) probably contributed to the decline, as Chinese tourist arrival growth to other destinations has slowed (Figure 8). However, a tourism recovery was signaled by the three-month advanced booking rate, which rebounded from below 30% in Jul-Sep to 39.5% in Oct, close to the peak rate of 40.1% in March 2018 (Figure 9). The Tourism Authority of Thailand targets 2019 tourist arrivals of 40m persons, up 6.7% from 2018.

Figure 8: Chinese tourist arrivals



Source: CEIC Data

Figure 9: Three-month advanced booking rate

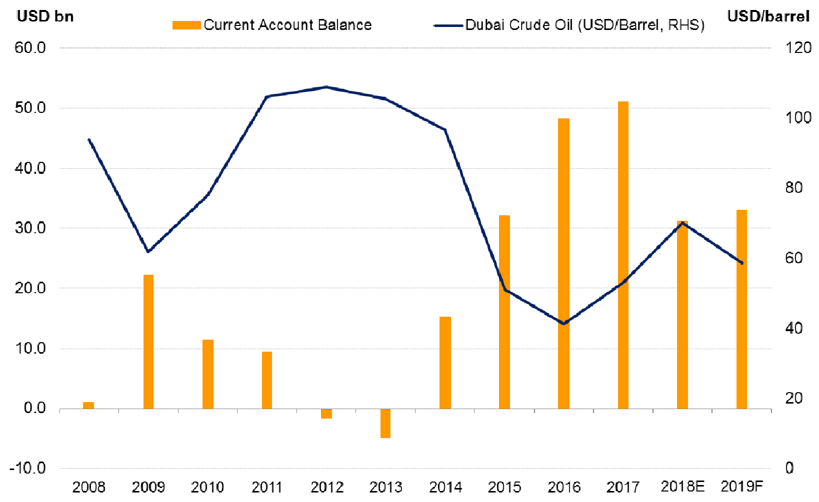


Source: Bank of Thailand

Imports and the current account

Export growth to slow, but lower oil prices will boost current account surplus. The US Energy Information Administration (EIA) forecasts the average 2019 Brent crude price at US$61/barrel, down by about $10/barrel or 16.4% from 2018. Thus, we project that the value of 2019 Thai oil imports will drop 15.6% YoY, a magnitude similar to 2016 when oil prices also fell by US$10/barrel. We expect imports of non-oil goods in 2019 to rise, but only by 8.1%, slower than our estimate of 12% for 2018. Thus, we project the 2019 total imports to rise only by 5.9%—a sharp deceleration from our 2018 total import growth estimate of 14.4% YoY (and below the consensus 2019 projection of 6.0% YoY). As a result, the current account surplus is expected to increase from US$31.2bn in 2018 to US$33bn in 2019 (Figure 10).

Figure 10: The current account balance and the Dubai crude price, 2008-19E

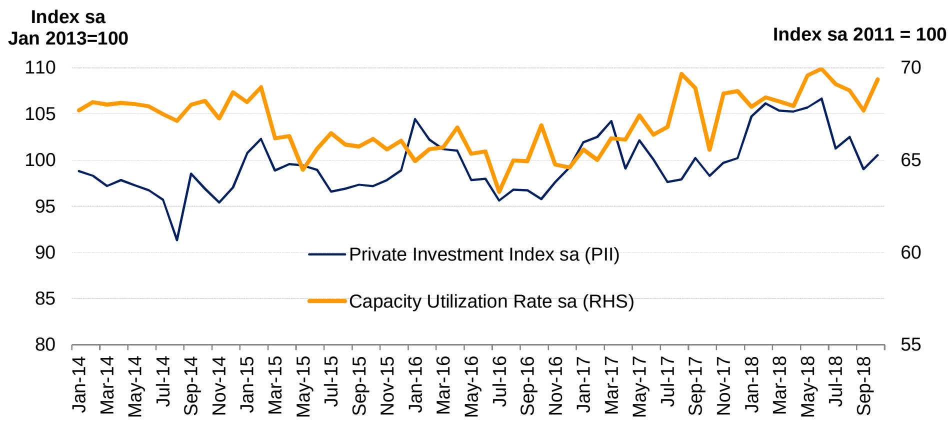


Sources: Bank of Thailand, Bloomberg

Private investment

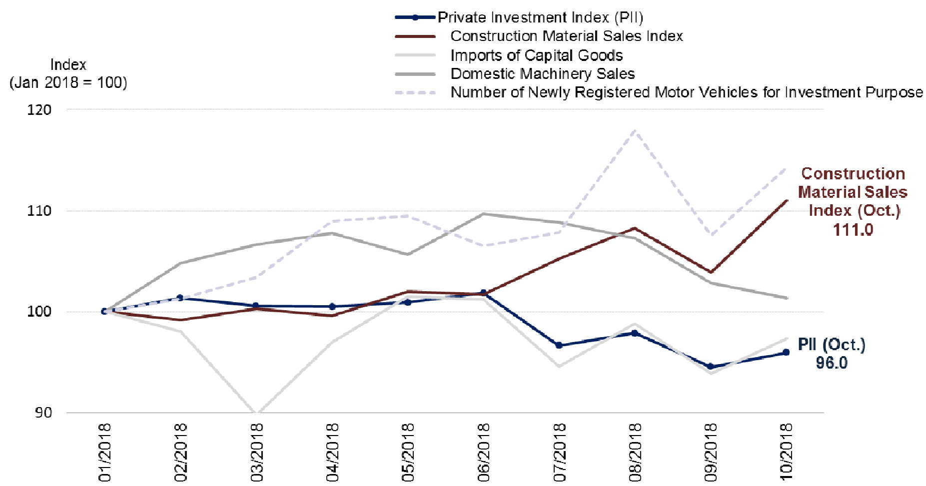
Private investment should hold up but the tailwind from exports will fade: Even when goods exports increased by only 2.6% YoY in 3Q18, capacity utilization held up well at 68.5%, above the five-year average of 67% (Figure 11). This was largely attributable to ongoing capacity utilization growth in sectors such as automotive, petrochemical, and nonmetallic minerals, where domestic demand is substantial. Furthermore, the construction new public infrastructure projects has spillover effects on private investment, reflected in the sales of products such as construction materials. After declining, 2013-17, the Construction Material Sales Index grew on average by 1.1% YoY per month, 1Q18-3Q19 and expanded by 12.6% YoY in October 2018—its swiftest growth rate in five years (Figure 12). Nevertheless, given the deteriorating global backdrop, we expect the tailwind from exports to fade further. Note also that we expect the spillover effect from infrastructure projects to private investment to be gradual and dependent on the scale of prevailing construction. **Thus, we forecast 2019 private investment growth of 3.5% YoY, the same pace as in 2018 but below the consensus projection of 5.0% YoY.**

Figure 11: Private Investment Index and Capacity Utilization Rate



Sources: Bank of Thailand, Office of Industrial Economics

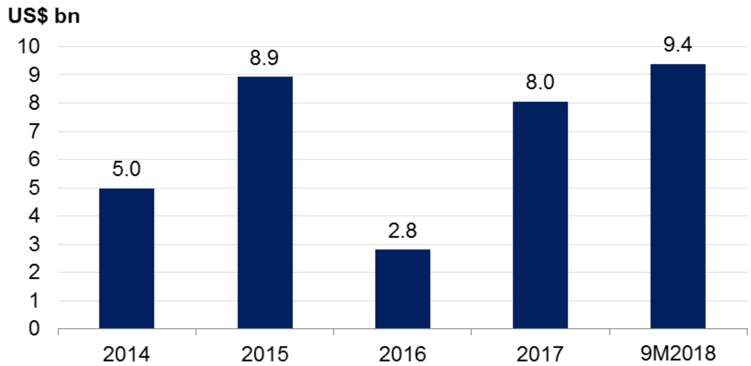
Figure 12: Private Investment Index (PII)



Sources: Bank of Thailand, Office of Industrial Economics

Opportunities tied to order and production relocation from China: Anecdotal evidence suggests considerable discussion over relocating orders for electronic parts from China to Thailand in order to circumvent tariffs for sales to the US. There are also tentative plans to expand or relocate production, notably for automotive parts, rubber tires, and furniture. It is far too early for these tentative plans to have fed into net-FDI data, which in 9M18 had jumped 47% YoY to US$9.4bn (Figure 13).

Figure 13: Net Foreign direct investment

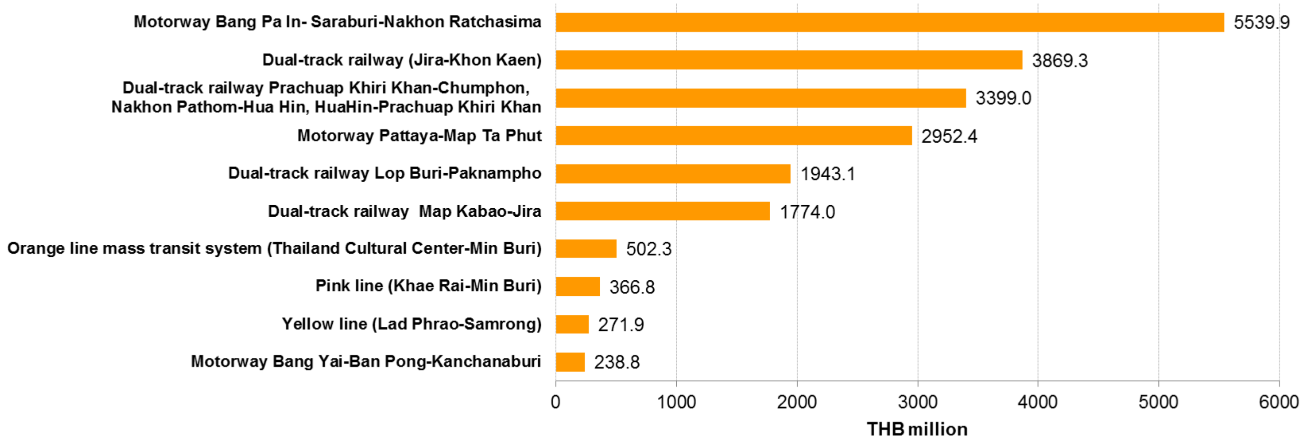


Source: Bank of Thailand

Public investment

Scope for public investment to expand further in 2019: The scope for further public investment is tied to two factors: 1) more infrastructure projects have broken ground (Figure 14) and construction will continue (regardless of the winner of the Feb 2019 election) and 2) there is a backlog of planned government investment CAPEX, as the actual disbursement rate for fiscal-year 2017 was 65% and for fiscal-year 2018 was just 56%—below the average rate of 70% (and far below the budget allocations for both of the two years).

Figure 14: Disbursement for infrastructure projects under construction

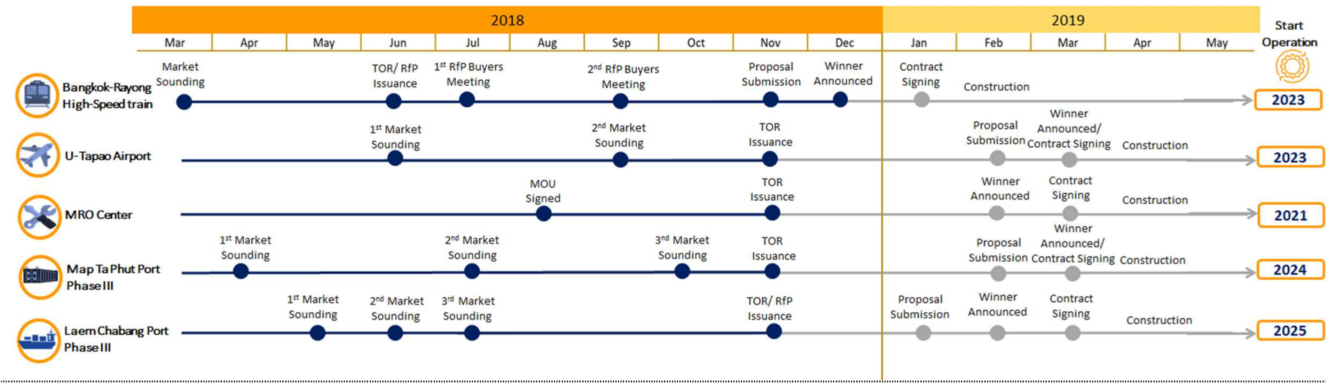


Source: Office of Transport and Traffic Policy and Planning

The government is concluding a search for private sector counterparts to invest with the state on the five infrastructure developments for the Eastern Economic Corridor (see Figure 15). The CP joint venture won the tender for the high-speed Bangkok-Rayong rail project, while the other four projects are now running up to the proposal submission stage. Given typical timeframes for such processes (tenders opening to contract-signing to groundbreaking) and the fact that an election is scheduled for February, only the Bangkok-Rayong rail project has any realistic chance of starting construction by July 2019.

We expect public investment CAPEX to accelerate from 6.2% YoY in 2018 to 8% YoY in 2019 (in line with the consensus projection of 7.9%).

Figure 15: EEC project slate and timelines for tender processes

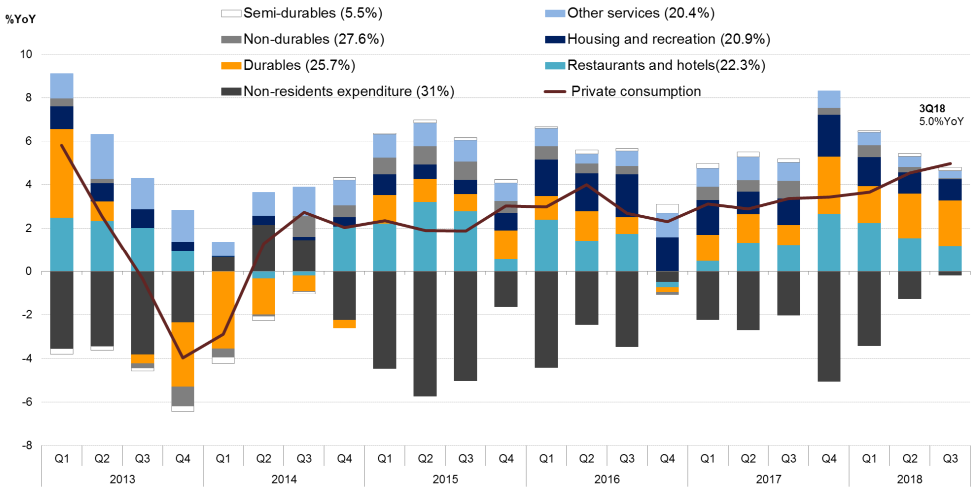


Sources: EEC Office

Private consumption

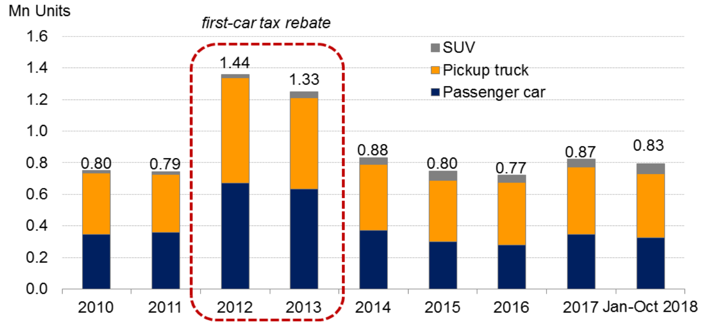
Private consumption growth expected to ease to 3.5% in 2019: We now estimate 2018 private consumption growth of 4.6% (our earlier forecast was 4.3%). The better-than-expected 1Q-3Q18 private consumption growth was largely driven by spending on durables (Figure 16), 60-70% of which was car purchases, which have accelerated since mid-2017 after the hangover lifted from the First-time Car Buyer excise tax rebate (Figure 17—a surge in sales in 2012 followed by a collapse in 2014). However, that boost is likely to lose momentum as car-buying normalizes. Furthermore, nationwide household debt, which increased to Bt12.3trn, will remain a drag on household spending. The 2017 Socio-economic Survey [National Statistics Office] indicates that about 50% of households are in debt and around 40% of such debt is used to finance living expenses. Note that the consensus projection for private consumption growth in 2019 is also 3.5%.

Figure 16: Private consumption spending composition and growth, by quarter, 1Q13-3Q18



Source: NESDB

Figure 17: Motor vehicle sales

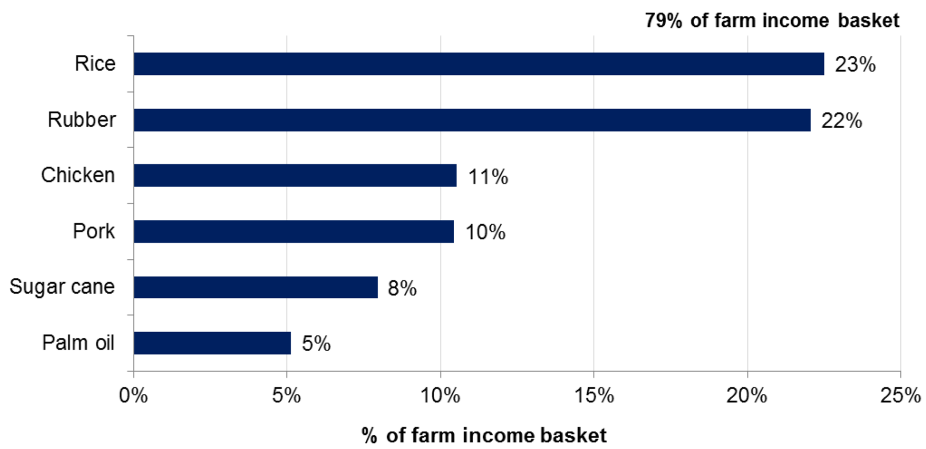


Source: CEIC data

Farm income improvement will support private consumption in 2019: The Bank of Thailand's *Prices of Major Crops Report* for 3Q18 points to the prices of rice and rubber rising in 2019 and the sugar price decline next year being shallower than this year. Furthermore, the Office of Agricultural Economics (OAE) expects favorable production conditions for most of Thailand's main agricultural products (Figure 18). Hence, we forecast that overall farm income will increase 8.9% YoY in 2019. Higher farm incomes will support household spending, particularly in the provinces. Historically, an improvement in farm income has correlated closely with heavier purchases of durable goods, such as motorcycles (Figure 19).

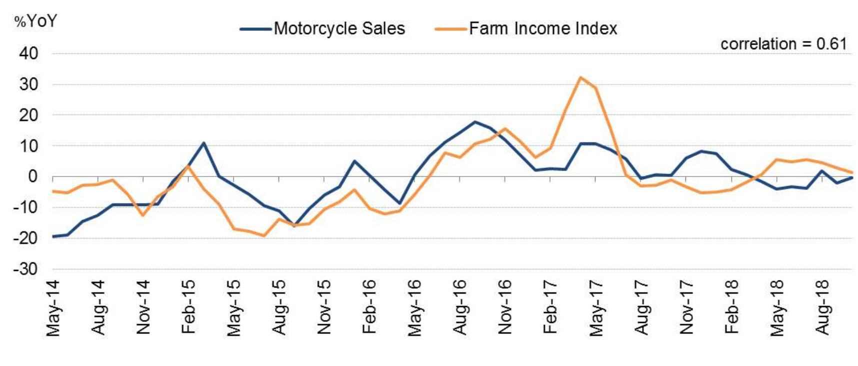
In addition, the government's THB84.2trn policy package launched in end-2018 (Figure 20) will, in the short run, help reduce the spending burden of low income households and mitigate the impact of low rubber and palm prices on farmers. However, its effects will likely be limited as the allocated budget for the package only accounts for 0.6% of GDP.

Figure 18: Main agricultural products of Thailand



Source: Office of Agricultural Economics

Figure 19: Farm Income Index correlation with natioonwide motorcycle sales



Sources: Bank of Thailand, CEIC data

Figure 20: Government policy package

Measures for Low-income Earners

Measures	Budget	Details	Period
1. Welfare smart card additional benefits	THB38.73 billion	**Coverage:** 11.4 million people **Benefits for all card holders:** • THB230 monthly electric bill aid per household • THB100 monthly water bill aid per household • THB500 one-time grant per person **Benefits for holders 60 years-old or above:** • 1000THB aid for health-related transportation per person **Benefits for holders 65 years-old or above:** • 400THB monthly subsidy for shelter rental fee per person	Dec 2018 – Sep 2019

Measures for Farmers

Measures	Budget	Details	Period	Max. subsidy per person
2. Assistance package for rubber farmers	THB18.6billion	**Coverage:** 999,065 registered rubber farmers and 304,266 rubber tappers • Plantation owners: THB1,100 subsidy per plantation not exceeding 15 rai • Rubber tapping workers: THB700 subsidy per plantation not exceeding 15 rai	Dec 2018 – Sep 2019	Plantation owner: THB16,500/person Rubber tapping worker: THB10,500/person
3. Assistance package for oil palm farmers	THB3.46 billion	**Coverage:** 150,000 oil palm farmers • THB1,500 subsidy per plantation not exceeding 15 rai	Dec 2018 – Sep 2019	THB22,500/person

Measures to Support Consumption

Measures	Budget	Details	Period
4. Year-end shopping tax allowance	THB1.6 billion	• Maximum tax exemption of THB15,000 per person for the purchase of following products: ▪ Registered OTOP goods ▪ Books and eBooks (excluding magazines and newspapers) ▪ Vehicle tires made with Thai rubber	15 Dec 2018 – 15 Jan 2019
5. Value-added tax (VAT) refund	THB10 billion	• 5% VAT refund for each shopper spending up to THB20,000	1 – 15 Feb 2019

Measures to Support SMEs

Measures	Budget	Details	Period
6. Stimulus package to support SMEs	THB1.8 billion	• Exemption from interest charges for loans of less than THB100,000 • The extension of the Local Economy Loan Project (with the credit limit of THB35 billion) • A reduction of interest charge on SME loans from 6% to 4%	In the process of acknowledging the cabinet
7. Value-added tax (VAT) refund	THB10 billion	• 5% VAT refund for each shopper spending up to THB20,000	1 – 15 Feb 2019

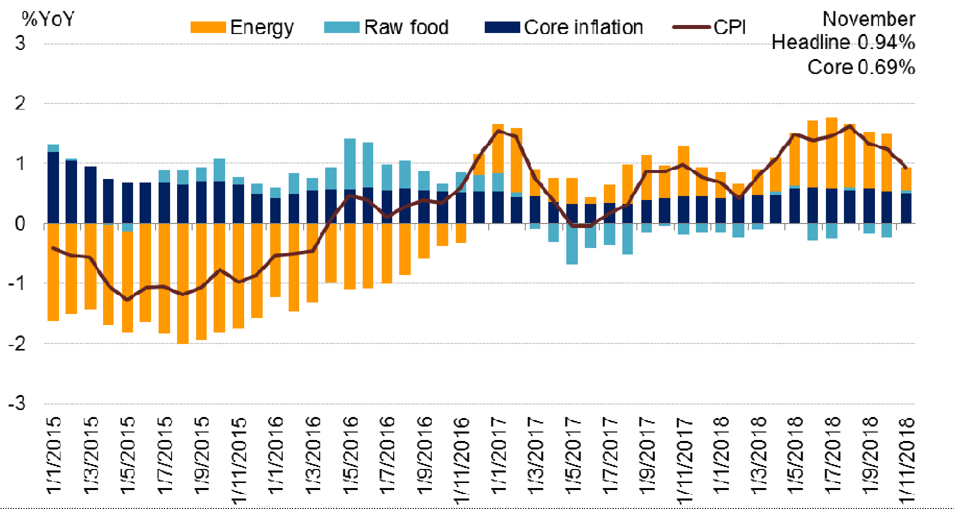
Measures to Support Domestic Tourism

Measures	Budget	Details	Period
8. Tax exemption for second-tier tourism		• A maximum of THB15,000 annual income tax exemption for people visiting 55 provinces classified as second-tier tourism destinations	1 Jan 2018 – 31 Dec 2018

Inflation

Headline inflation set to ease to 0.8% YoY in 2019: We estimate 1.2% headline inflation for 2018, slowing to 0.8% next year. Our underlying assumption of a 16.4% YoY fall in the price of benchmark Brent crude in 2019 translates into a 0.3% YoY deceleration in headline inflation. We also expect core inflation to ease from 0.6% in 2018 to 0.5% in 2019, reflecting only modest private consumption growth.

Figure 21: Inflation



Source: Bank of Thailand

Interest rates

The Bank of Thailand increased its one-day Repurchase Rate from 1.50% to 1.75%, stating concerns over financial stability and the need to build policy space to enable it to cut rates in the event of a future downturn in the Thai economy. That said, **our baseline assumption is that it is "one and done" for now, as the rate hike will slow core inflation further from its already declining path.**

Given that November headline inflation of just 0.9% was below the BOT's target range of 1-4%, the central bank will have to balance its act carefully between its desire to have sufficient gunpowder on-hand in the event of a downturn against the risks posed by a dimmer global economic outlook and domestic headwinds (high household debt, slowing private consumption, and subdued private investment). Moreover, lower oil prices in 2019 would have a further dragging effect on headline inflation away from the inflation target, making the additional rate increases much more difficult to justify.

Exchange rate

Mild baht appreciation ahead: We see a mild appreciation for the baht as our 2019 growth, despite slowing, continues to hold up much better than other EMs. Moreover, falling oil prices will widen Thailand's current account surplus from our previous projection. We project our year-end 2019 Bt/US$ exchange rate to be around Bt31.50 as concerns over trade war and a slowing Chinese economy are weighing on sentiment toward EM Asia currencies, despite the US Federal Reserve's recent more dovish hints over the likely future path of the Fed Funds Rate.

We would have been much more bullish over the baht if not for the prevailing uncertainty over Sino-US trade conflict, recently exacerbated by the arrest of the Huawei's CFO in Vancouver. Also, long positioning on the greenback is currently fairly crowded, so any signs of the US economic slowdown and the prospect of a US recession in 2020 could unwind the positioning in a hurry, which would boost EM currencies.

That said, we see two countervailing forces—on the one hand the dollar acts as a global safe-haven currency; on the other, a Federal Reserve pause in policy rate increases and/or hints of an economic slowdown would weigh on the currency.

Figure 22: Base-, bull, and bear-case forecast scenarios

2019 Forecast			
Key Assumptions	**Bear**	**Base**	**Bull**
World GDP Growth	2.5%	3.7%	3.9%
US GDP Growth	1.6%	2.5%	2.7%
China's GDP Growth	5.6%	6.2%	6.4%
Trade Tension	*US:* 25% tariff on all Chinese goods *China:* 25% tariff on all US goods Further escalation of trade war	*US:* increases tariffs on USD200 billion Chinese goods from 10% to 25% *China:* imposes 5-10% on USD60 billion goods	No further increase in tariffs
Thailand's Policy Continuity	Slower-than-expected political transition and infrastructure investment	Lag time for political transition and gradual infrastructure investment	Seamless political transition and accelerating infrastructure investment
Thailand's GDP Growth	3.0%	3.8%	4.1%

Bangkok Bank Public Company Limited

DISCLAIMER