

2019 GDP growth forecast cut—1Q19 number missed market expectation and China-US trade conflict is re-escalating

- **1Q19 GDP growth came in at 2.8% YoY, down from 3.7% YoY in 4Q18 and below the consensus estimate of 3.3% YoY and our expectation of 3.0% YoY.** The miss was largely attributable to steeper declines in the exports of goods (down 5.4% YoY) and services (down 3.3% YoY) than assumed. Public consumption rose by 3.3% YoY with increasing disbursement of employee compensation, while public investment dipped by 0.1% YoY, as investment in new major infrastructure projects did not take place. Meanwhile, private consumption grew by a solid 4.6% YoY in 1Q19, supported by ongoing car sales expansion (albeit a slower growth rate than the 5.3% YoY posted for 4Q18). Private investment increased by 4.4% YoY, slower than the 5.5% YoY growth reported for 4Q18, due to decelerating residential property construction and industrial machinery & equipment investment, in tandem with weakening domestic production (Figure 1).
- **As 1Q19 GDP growth missed the market expectation and China-US trade conflict is re-escalating, we have cut our 2019 GDP growth forecast from 3.8% YoY to 3.1% YoY,** well below the 3.8% YoY forecast of the Bank of Thailand and the Ministry of Finance or the 3.3-3.8% YoY forecast range of the NESDC (Figure 2). We also project GDP growth in 2Q19 to be 2.5% YoY, the weakest reading in the year, then a recovery to 3.5% YoY in 3Q19 and 3.7% YoY in 4Q19, led by expanding tourism revenue and public investment from low 2H18 base comparisons.
- **Our export growth forecast for 2019 is revised down sharply from 4.5% YoY to 0.5% YoY; intensifying downside risks going forward.** With subdued world trade, Thai exports (customs basis) in 1Q19 slipped by 1.64% YoY and export volume by 3.9% YoY, in tandem with contracting exports among major Asian exporting peers (Figure 3). Against this backdrop, the rapid re-escalation of China-US trade conflict, which ranged from raising tariffs to imposing restrictions on Huawei (which have been deferred for 90 days), will further dampen already-declining global trade. This may also trigger disruptions to global supply chains and elevate uncertainties in the fragile global investment environment.
- **Given the dimmer global economic outlook, we expect tourism revenue to fall short of target, though the 2H19 figure should improve YoY.** We expect 2019 visitor arrivals to reach 40m persons and revenue from foreign visitors of Bt2.1trn, below the TAT's target of 41m arrivals and Bt2.2trn in revenue, as the slowing global economy may, to some extent, weigh on tourist spending. However, tourism revenue growth should recover YoY in 2H19 from the low base set by 2H18 (Figure 4), helping boost GDP growth for the period. The extension of the visa fee waivers (to the end of October) will also help improve tourism revenue later in the year, as it appears to be facilitating a rebound in the number of Chinese arrivals.
- **Our public investment projection growth forecast slumps from 8% YoY to 4% YoY, due to a diminished expectation for disbursement for major infrastructure projects, such as the China-Thailand high-speed rail.** Moreover, given delays in the processing of private sector counterpart selection and contract-signing (Figure 5), we do not expect EEC-related infrastructure investment to start this year. In addition, the Mass Rapid Transit Authority of Thailand's investment plan is downsized by Bt35bn.
- **We also cut our private investment forecast from 3.5% YoY to 2.0% YoY, as investment indicators point to slower momentum.** The Private Investment Index (PII) dipped (for the first time since 1Q17) by 1.3% YoY on lower purchases of machinery and motor vehicle registrations (Figure 6), in tandem with the Manufacturing Production Index (MPI), which slipped (for the first time in nine quarters) by 1.1% YoY. The decline in overall domestic industrial production was led by export-oriented sectors (Figure 7). Furthermore, the slower-than-expected infrastructure investment will contribute to delays in the related private sector investment.

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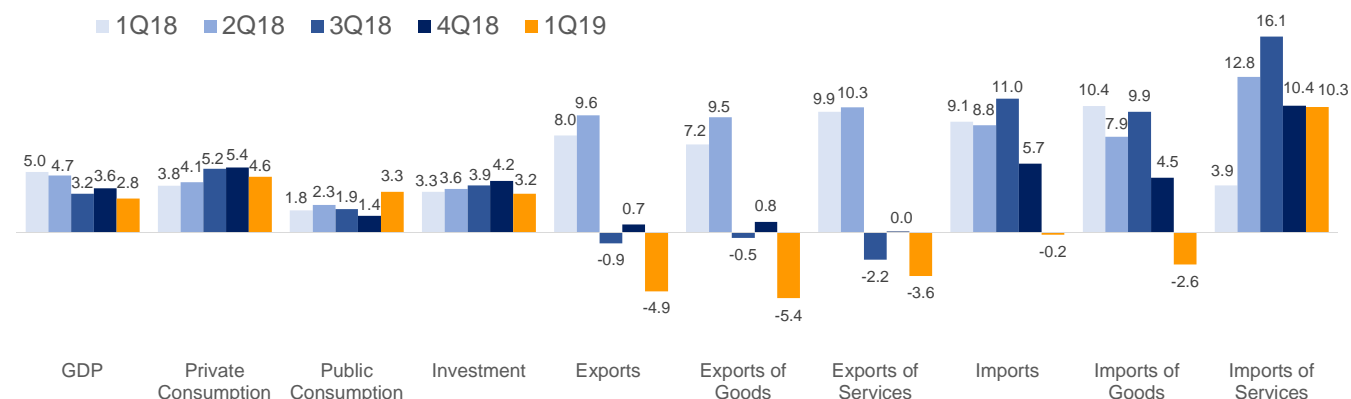
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- **Meanwhile, we have upgraded our public consumption forecast from 3.0% YoY to 3.7% YoY, primarily due to the fiscal stimulus package.** In addition to the Bt13.2bn additional welfare card benefits (effective in 2Q19 and 3Q19), we assume that the government will, as promised in the election campaign, extend the welfare card to an additional two million persons, adding Bt12.7bn to the budget in 4Q19 (Figure 8).
- **Private consumption, still a major growth driver, showed signs of slowing.** In line with the 1Q19 GDP outturns, the Private Consumption Index (PCI) increased by 3.5% YoY in 1Q19, a slowdown from 4.5% YoY growth in 4Q18, with decelerated purchases of semi-durables and non-durables (Figure 9). Although domestic car sales, particularly passenger cars, continued to exceed our expectation (Figure 10), we are skeptical that such momentum is sustainable, as the rise in auto-related loans has become a concern of the Bank of Thailand. We also believe that rising household debt (Figure 11) will remain a drag on household purchasing power (the BOT reported that 3m persons cannot service their debt within 90 days). In the meantime, government policies—from welfare card benefits to tax exemptions for vacations in second-tier provinces—will provide only short-term support to consumption (Figure 12). Therefore, **we have cut our 2019 private consumption growth forecast from 3.5% YoY to 3.0% YoY.**
- **Major risks to our forecast lie in the China-US trade conflict and domestic political stability.** Further escalation of the China-US trade conflict may lead to an export contraction, which could squeeze Thailand's 2019 GDP growth below 3% YoY. Also, the implementation of policies (including measures to boost consumption and infrastructure investment) will depend, to a large extent, on the stability of the incoming administration.

Figure 1: Thailand's GDP growth, by quarter (% YoY)



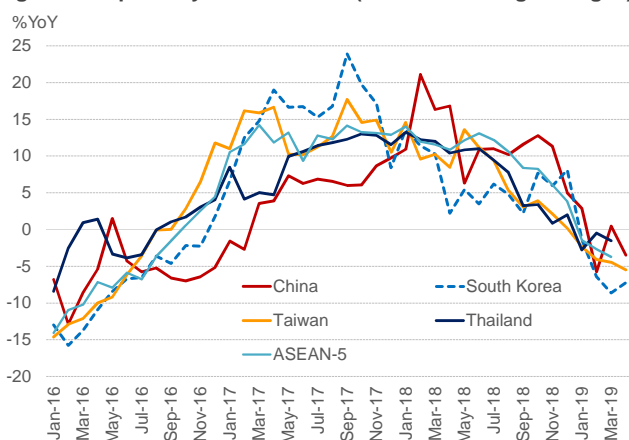
Source: NESDC

Figure 2: Revised 2019 GDP growth forecast

		2019F		2018
		BBL (2Q19)	BBL (4Q18)	
Real GDP growth	%YoY	3.1	3.8	4.1
Private consumption	%YoY	3.0	3.5	4.6
Private investment	%YoY	3.0	3.5	3.9
Public consumption	%YoY	3.7	3.0	1.8
Public investment	%YoY	4.0	8.0	3.3
Exports of goods (nominal)	%YoY	0.5	4.5	4.2
Imports of goods (nominal)	%YoY	3.7	5.9	8.6

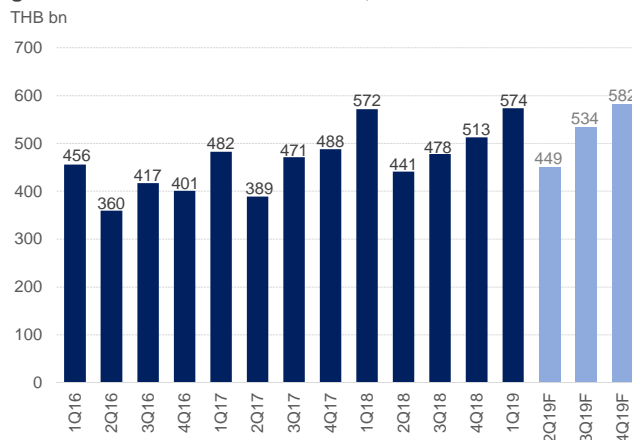
Sources: NESDC and Bangkok Bank Economics and Strategy

Figure 3: Exports by Asian nations (3-month moving averages)



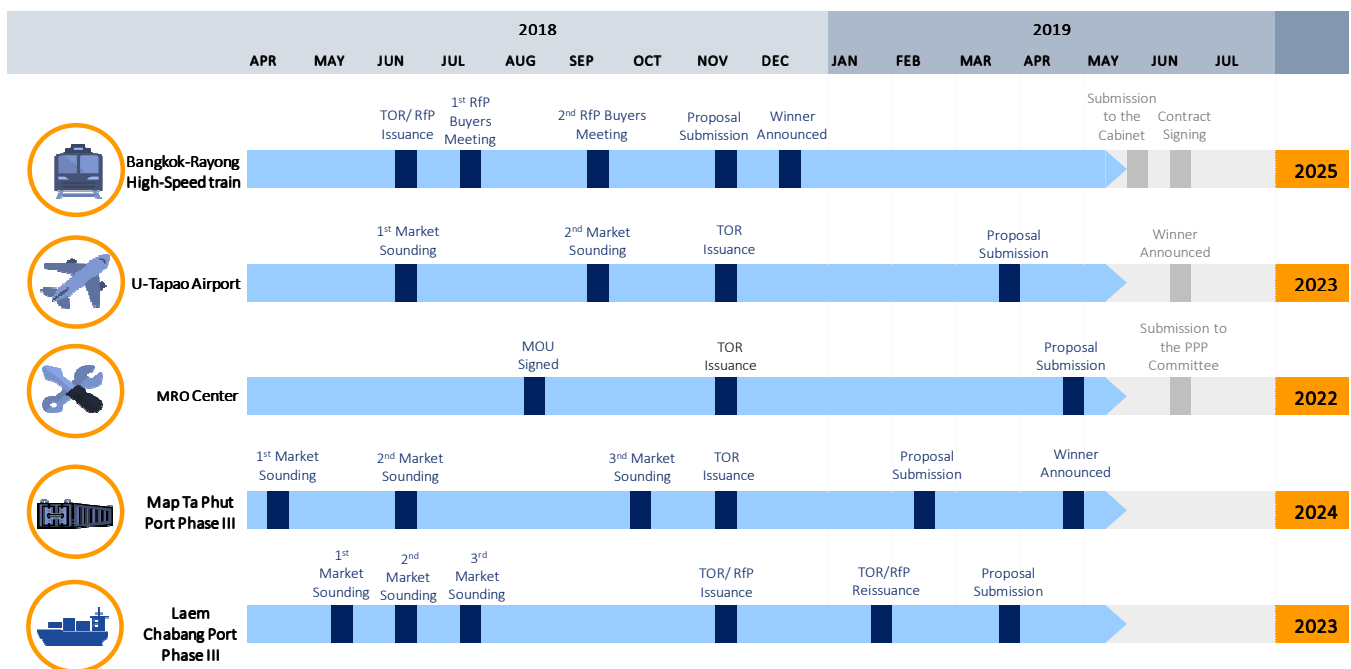
Source: CEIC

Figure 4: Thailand's tourism revenue, 1Q16-4Q19F



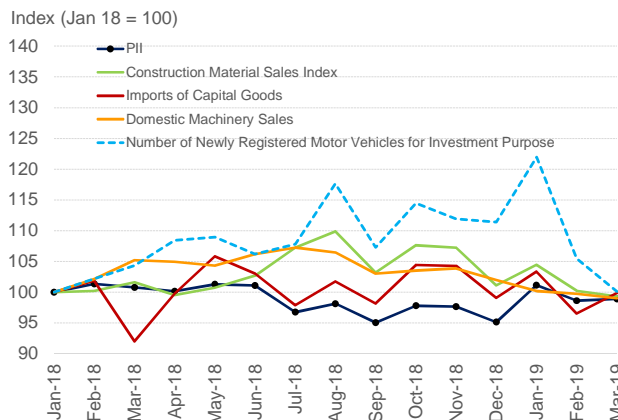
Sources: Ministry of Tourism & Sports, Bangkok Bank Economics & Strategy

Figure 5: EEC timeline



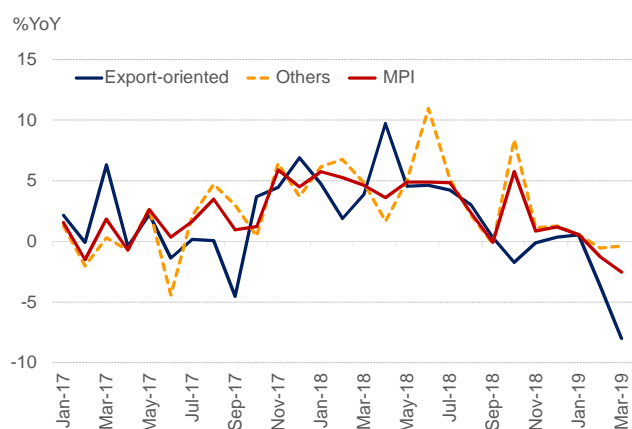
Source: EEC Office

Figure 6: Private Investment Index



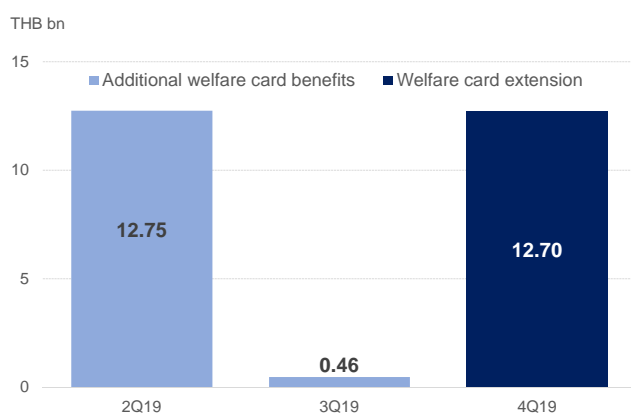
Source: Bank of Thailand

Figure 7: Manufacturing Production Index



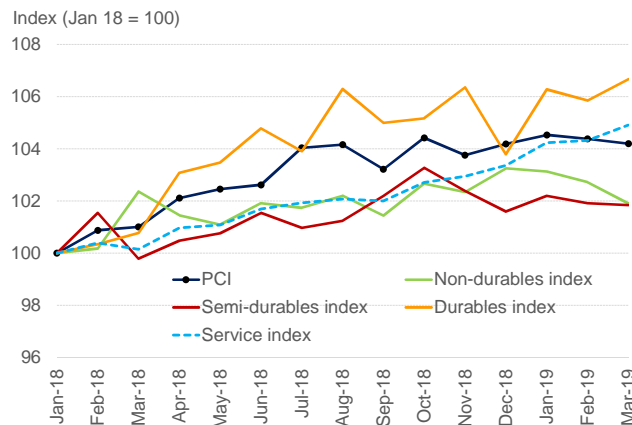
Source: Office of Industrial Economics

Figure 8: Government's additional budget disbursement



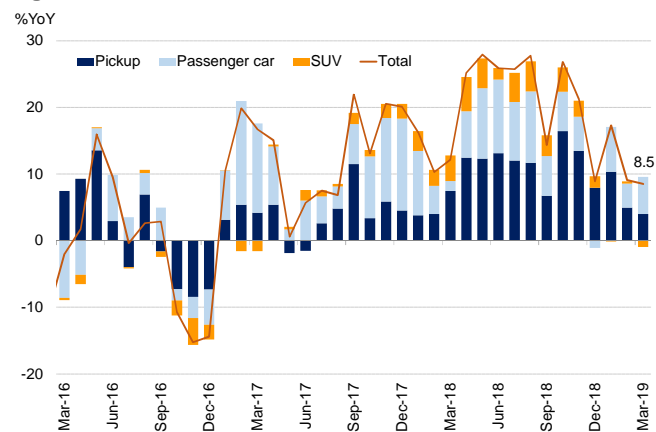
Source: Bangkok Bank Economics and Strategy

Figure 9: Private Consumption Index



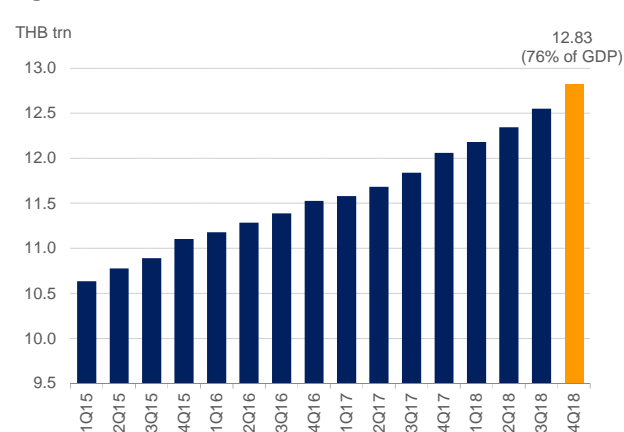
Source: Bank of Thailand

Figure 10: Motor vehicle sales in Thailand



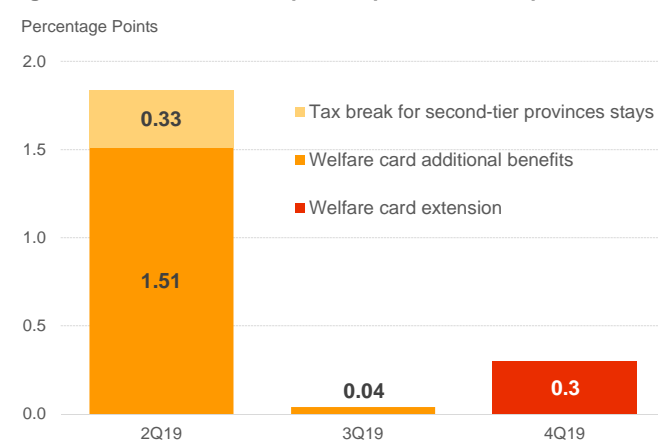
Source: CEIC

Figure 11: Thai household debt



Source: Bloomberg

Figure 12: Govt stimulus impact on private consumption



Source: Bangkok Bank Economics & Strategy

Figure 13: Real GDP—expenditure side

%YoY	GDP	Private Consumption (51%)*	Public Consumption (14%)*	Gross Fixed Capital Formation (25%)*	Private Investment (18%)*	Public Investment (6%)*	Exports of Goods & Services (77%)*	Exports of Goods (58%)*	Exports of Services (19%)*	Imports of Goods & Services (69%)*	Imports of Goods (57%)*	Imports of Services (13%)*
Q1 2015	3.1	2.4	2.1	9.9	3.8	33.9	2.5	-0.9	15.6	2.6	4.4	-5.1
Q2 2015	2.9	2.0	1.0	1.3	-3.9	20.0	2.7	-2.4	27.3	0.4	0.4	0.5
Q3 2015	3.4	1.6	1.4	-2.1	-9.3	21.6	4.3	-0.1	23.5	-2.0	-2.1	-1.2
Q4 2015	3.1	3.3	5.6	9.1	1.4	41.8	-2.8	-4.6	3.8	-0.9	-1.5	1.6
Q1 2016	3.5	3.2	8.8	4.9	2.3	12.8	5.1	1.0	18.9	-4.9	-7.4	6.8
Q2 2016	3.8	4.1	1.6	3.1	-0.2	12.8	2.3	-1.1	14.8	-1.6	-2.8	3.0
Q3 2016	3.1	2.4	-2.7	1.3	0.1	4.4	2.1	-0.4	11.4	-1.0	-2.1	4.4
Q4 2016	3.1	1.9	2.4	2.2	0.0	8.9	1.8	1.6	2.4	3.5	3.2	4.8
Q1 2017	3.5	2.7	-1.3	2.2	-0.5	10.0	2.5	2.8	1.6	5.2	5.9	2.5
Q2 2017	4.2	2.5	0.6	1.5	4.7	-6.9	4.1	4.9	1.4	6.3	7.8	0.3
Q3 2017	4.5	3.4	2.0	2.0	3.5	-1.6	7.8	8.5	5.2	6.4	8.7	-3.5
Q4 2017	4.0	3.2	-1.0	1.5	4.0	-6.0	7.4	6.6	10.3	7.0	7.3	5.7
Q1 2018	5.0	3.8	1.8	3.3	3.1	4.0	8.0	7.2	9.9	9.1	10.4	3.9
Q2 2018	4.7	4.1	2.3	3.6	3.1	4.9	9.6	9.5	10.3	8.8	7.9	12.8
Q3 2018	3.2	5.2	1.9	3.9	3.8	4.2	-0.9	-0.5	-2.2	11.0	9.9	16.1
Q4 2018	3.6	5.4	1.4	4.2	5.5	-0.1	0.7	0.8	0.0	5.7	4.5	10.4
Q1 2019	2.8	4.6	3.3	3.2	4.4	-0.1	-4.9	-5.4	-3.6	-0.2	-2.6	10.3
2015	3.1	2.3	2.5	4.4	-2.1	28.4	1.6	-2.0	16.2	0.0	0.2	-1.0
2016	3.4	2.9	2.2	2.9	0.6	9.5	2.8	0.3	11.7	-1.0	-2.3	4.7
2017	4.0	3.0	0.1	1.8	2.9	-1.2	5.4	5.7	4.6	6.2	7.4	1.3
2018	4.1	4.6	1.8	3.8	3.9	3.3	4.2	4.1	4.4	8.6	8.1	10.7

%QoQ, sa	GDP	Private Consumption (51%)*	Public Consumption (14%)*	Gross Fixed Capital Formation (25%)*	Private Investment (18%)*	Public Investment (6%)*	Exports of Goods & Services (77%)*	Exports of Goods (58%)*	Exports of Services (19%)*	Imports of Goods & Services (69%)*	Imports of Goods (57%)*	Imports of Services (13%)*
Q1 2015	0.4	0.7	-2.8	5.3	-0.2	22.3	-5.1	-4.6	-6.4	1.0	1.8	-2.4
Q2 2015	0.4	0.9	2.7	-1.3	-1.9	0.3	0.8	-0.4	6.8	-1.7	-2.8	3.8
Q3 2015	1.5	0.8	2.2	1.5	-0.8	5.8	0.5	0.0	2.1	0.3	0.3	-0.1
Q4 2015	0.9	1.1	2.6	3.1	4.0	7.7	1.2	0.3	2.8	-1.3	-1.6	0.3
Q1 2016	0.8	0.4	0.6	0.5	0.7	-4.1	2.1	0.8	5.8	-1.7	-2.8	2.8
Q2 2016	0.7	1.4	-3.4	-1.4	-3.9	5.1	-1.4	-1.9	2.5	1.3	1.5	-0.2
Q3 2016	0.8	-0.6	-1.8	-0.1	0.3	-2.2	0.4	0.5	-0.1	0.8	0.5	1.8
Q4 2016	0.9	0.8	6.6	2.9	2.4	9.2	0.9	2.3	-4.4	2.8	3.6	0.2
Q1 2017	1.1	1.1	-2.9	0.1	0.5	-4.1	2.3	1.8	3.5	0.7	0.6	0.7
Q2 2017	1.4	1.1	-0.7	-1.0	1.5	-7.6	0.4	0.3	1.7	1.9	3.0	-2.5
Q3 2017	1.2	0.4	-0.2	0.5	-0.1	2.6	4.1	4.0	4.7	0.9	1.1	-1.6
Q4 2017	0.3	0.7	2.5	1.5	1.5	2.9	0.6	0.3	0.7	3.0	2.3	9.2
Q1 2018	2.2	1.6	-0.1	1.8	0.3	5.1	2.5	2.4	2.3	3.2	3.9	-0.8
Q2 2018	1.2	1.3	0.3	0.0	1.6	-4.7	2.2	2.5	1.8	1.5	0.6	5.8
Q3 2018	-0.3	1.5	-0.5	0.8	0.7	1.8	-5.9	-5.5	-6.9	2.7	2.7	1.5
Q4 2018	0.8	0.8	1.5	1.4	2.5	-2.5	2.3	1.6	3.5	-1.9	-2.5	3.6
Q1 2019	1.0	0.0	1.8	0.8	-0.4	5.2	-3.3	-4.0	-1.9	-2.5	-3.4	-0.9

Source: NESDC

Figure 14: Real GDP—production side

%YoY	GDP	Agriculture	Non Agriculture	Industry		Services									
				Manufacturing	Construction	Wholesale & Retail	Hotel/ Restaurants	Transport/ Storage	Financials	Real Estate	Public Admin/ Defence	Education	Health/ Social Work	Other Service Activities	
		(6%)*	(95%)*	(27%)*	(3%)*	(15%)*	(6%)*	(7%)*	(7%)*	(4%)*	(5%)*	(3%)*	(2%)*	(1%)*	
Q1 2015	3.1	-9.5	4.7	2.6	20.3	4.8	20.4	6.4	10.2	1.8	-0.5	-2.2	0.6	2.7	
Q2 2015	2.9	-8.4	3.9	-0.4	15.0	5.3	23.9	7.2	8.7	-2.9	1.7	-0.5	0.6	4.3	
Q3 2015	3.4	-6.1	3.9	1.7	10.9	4.3	13.3	2.9	6.8	-0.5	3.1	1.6	3.2	2.1	
Q4 2015	3.1	-2.7	4.3	2.1	24.1	7.9	4.3	0.0	7.9	7.5	-0.1	1.8	8.4	3.1	
Q1 2016	3.5	-3.0	4.1	0.3	12.1	6.0	11.7	6.8	5.3	6.0	3.3	3.4	5.0	3.0	
Q2 2016	3.8	-1.2	4.2	3.8	8.1	5.8	8.8	1.2	7.5	9.0	-0.9	0.7	4.1	2.3	
Q3 2016	3.1	-1.8	3.4	2.4	5.3	6.1	11.1	3.0	6.6	6.5	-1.9	-1.2	1.7	4.3	
Q4 2016	3.1	0.4	3.5	2.6	6.4	6.5	5.5	1.8	8.7	6.6	2.2	0.1	1.4	5.7	
Q1 2017	3.5	3.5	3.5	2.3	3.1	5.9	7.0	6.7	5.5	4.8	-0.1	-0.8	3.6	5.4	
Q2 2017	4.2	14.1	3.4	1.7	-6.3	6.7	9.6	9.4	6.9	6.6	1.5	1.4	4.1	5.2	
Q3 2017	4.5	6.5	4.3	4.3	-2.3	7.2	9.4	7.7	5.4	7.1	0.2	0.1	4.2	4.9	
Q4 2017	4.0	-4.0	5.0	3.5	-5.9	8.3	16.5	9.2	3.7	7.5	-0.1	1.8	2.9	2.7	
Q1 2018	5.0	6.8	4.8	3.7	1.2	7.0	13.1	7.1	3.5	6.0	2.0	2.3	4.8	3.3	
Q2 2018	4.7	10.5	4.2	3.1	1.9	7.4	8.8	5.4	4.6	4.0	1.1	-0.1	4.3	2.9	
Q3 2018	3.2	3.2	3.2	1.5	4.5	7.5	4.1	4.5	3.1	5.9	0.4	-1.2	2.3	4.9	
Q4 2018	3.6	0.7	4.0	3.5	3.4	7.5	5.3	5.4	1.8	4.9	0.1	-0.7	4.3	4.3	
Q1 2019	2.8	0.9	3.0	0.6	3.0	6.8	4.9	3.4	2.4	4.7	0.9	1.2	3.9	2.5	
2015	3.1	-6.5	4.2	1.5	17.1	5.6	15.0	4.0	8.4	1.5	1.1	0.2	3.2	3.1	
2016	3.4	-1.3	3.8	2.2	7.9	6.1	9.2	3.2	7.0	7.0	0.6	0.7	3.0	3.9	
2017	4.0	3.7	4.1	3.0	-2.8	7.0	10.6	8.2	5.4	6.5	0.4	0.6	3.7	4.5	
2018	4.1	5.0	4.0	3.0	2.7	7.3	7.9	5.7	3.3	5.2	0.9	0.1	3.9	3.9	

%QoQ, sa	GDP	Agriculture	Non Agriculture	Industry		Services									
				Manufacturing	Construction	Wholesale & Retail	Hotel/ Restaurants	Transport/ Storage	Financials	Real Estate	Public Admin/ Defence	Education	Health/ Social Work	Other Service Activities	
				(6%)*	(95%)*	(27%)*	(3%)*	(15%)*	(6%)*	(7%)*	(7%)*	(4%)*	(5%)*	(3%)*	(2%)*
Q1 2015	0.4	-2.9	0.8	1.4	12.0	1.6	3.6	-3.3	4.2	2.3	-3.0	-1.9	0.6	1.1	
Q2 2015	0.4	-2.5	0.7	-1.9	2.7	1.3	2.7	3.4	-0.1	-2.4	3.1	1.7	0.9	2.4	
Q3 2015	1.5	1.2	1.4	1.8	0.7	1.3	-1.5	-0.2	1.8	2.8	1.4	2.0	3.2	-0.1	
Q4 2015	0.8	1.9	1.1	0.5	5.9	2.5	1.4	0.9	1.5	3.9	-1.7	-0.3	2.9	0.0	
Q1 2016	0.7	-3.1	0.9	0.2	0.5	1.0	7.2	1.8	2.4	1.8	0.5	0.1	-2.0	1.0	
Q2 2016	0.7	-2.3	0.9	1.4	2.1	1.1	0.8	-1.3	1.3	0.6	-1.0	-1.1	0.3	1.3	
Q3 2016	0.7	2.2	0.5	0.0	-1.9	1.6	2.0	1.9	1.4	0.6	0.8	0.4	0.9	1.3	
Q4 2016	0.9	4.3	1.1	0.7	4.8	2.1	-3.2	0.0	3.0	2.7	1.5	0.5	1.8	2.0	
Q1 2017	1.0	-0.5	0.9	0.3	-3.5	1.2	6.6	5.4	-0.1	0.9	-1.3	-0.7	0.5	0.7	
Q2 2017	1.4	6.5	1.0	0.8	-4.1	1.7	3.6	1.8	2.1	2.4	0.5	1.2	0.9	1.1	
Q3 2017	1.1	-3.5	1.4	2.2	0.8	2.1	2.8	0.7	0.5	1.1	-0.2	-0.7	1.2	0.7	
Q4 2017	0.5	-5.7	1.6	0.0	0.7	2.7	3.1	1.5	1.1	2.4	0.8	1.7	0.2	0.2	
Q1 2018	1.9	10.2	0.8	0.8	2.9	0.5	2.4	2.5	0.1	0.1	0.7	0.0	2.2	1.3	
Q2 2018	1.1	9.4	0.4	0.2	-1.4	1.9	0.0	0.6	2.8	0.5	-0.2	-1.1	0.6	0.8	
Q3 2018	-0.4	-9.3	0.3	0.5	2.1	2.1	-1.1	0.0	-0.8	3.0	-0.7	-1.7	-0.5	2.3	
Q4 2018	0.9	-7.8	2.3	2.0	0.1	2.8	4.0	2.4	-0.4	1.1	0.2	2.0	2.1	-0.1	
Q1 2019	1.0	10.1	-0.1	-1.9	1.7	0.0	1.9	0.0	0.9	0.2	1.5	1.9	1.5	-0.5	

Source: NESDC

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