

## Thailand's Economic Indicators (Sept. & 3Q18)

### Decline in exports reflected in manufacturing, while consumption remained robust

**Key takeaways: Lower exports and Chinese tourist arrivals made for lowest current account surplus in 15 quarters.** Export value declined for the first time in 23 months in September—by 5.5% YoY to US\$20.7bn (BOP basis), a reversal from growth of 5.8% in August. That made for 3Q18 goods exports of \$20.7bn. Exports dropped most significantly to China, (particularly integrated circuits and rubber) and to Australia (especially automotive) (Figure 1). Meanwhile, goods imports in September totaled \$18.7bn, down from \$21.8bn in August, led by imports of gold and capital goods. As a result, the trade surplus was \$2.0bn for September and \$3.4bn for 3Q18. Visitor arrivals in September rose 2.1% YoY, up slightly from 1.3% YoY in August, led by ASEAN (largely Malaysian) tourists. But Chinese arrivals fell again by 14.9% YoY (Figure 2). Consequently, the current account surplus was \$2.4bn for September and \$4.2bn for 3Q18—the lowest since 4Q14.

**Decline in exports was reflected in manufacturing numbers; consumption indicators remained robust.** In tandem with lower exports, the Manufacturing Production Index (MPI) declined for the first time in 16 months in September—by 2.6% YoY, with the slippage most pronounced in the production of automotive, rubber, and plastic items. Concurrently, Private Investment Index (PII) growth stalled, with reductions in real imports of capital goods and construction investment (Figure 3). In contrast, the Private Consumption Index (PCI) grew 4.4% YoY in September, with accelerating consumption of both durable and semi-durable goods. Thus, the 3Q18 PCI expanded 6.5% YoY, up from 4.3% YoY in 2Q18. Furthermore, government current expenditure surged 14.2% YoY in September.

Core inflation in September inched up to 0.8%, while headline inflation was 1.3% for the month, a deceleration from August's 1.6%, due to soft prices for unprocessed food items.

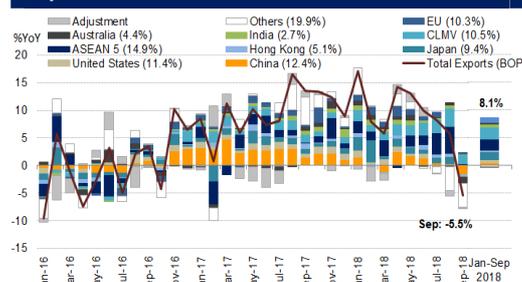
#### Our assessment

With exports down and tourism growth slow, we estimate 3Q18 GDP growth of 4.1% YoY, a deceleration from 4.5% YoY for 2Q18. Furthermore, US tariffs on imports from China started to squeeze Thai industries that contribute to China's supply chain, such as electronics and rubber product manufacturers. Going forward, the impact of the tariff rise from 10% to 25%, effective January 1, 2019, and the possibility of US tariffs on a further \$267bn of imports from China in early 2019 present greater downside risks to Thailand's 2019 GDP growth, which will likely decelerate from 2018. In the absence of significant inflationary pressure, we think the Bank of Thailand will hold off raising its policy interest rate until the fallout on Thailand from the Sino-US trade tension is clearer.

Nevertheless, the potential adverse impact of the trade conflict could be mitigated by the relocation of some production—particularly of electronics manufacturing—from China to Thailand. There are also plans to further expand the manufacturing of categories such as tires, automotive and semiconductors.

November 1, 2018

**Figure 1: Contribution to export growth, by export markets**



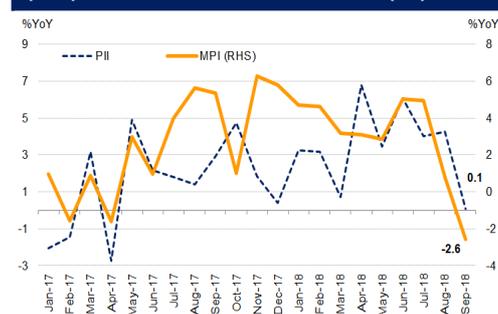
Source: Bank of Thailand

**Figure 2: Tourist arrival growth, by nationality**



Source: Ministry of Tourism and Sports

**Figure 3: Manufacturing Production Index (MPI) and Private Investment Index (PII)**



Source: Bank of Thailand

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#### See disclaimer at the end of report

<sup>1</sup> The customs basis trade balance recorded a deficit of US\$120m. Unlike the customs basis, the BOP basis excludes goods transferred to Thai citizens abroad and transactions associated with shipment.

**Figure 4: Monthly economic indicators**

	2017	2017				2018					
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	July	August	September
<b>Private Consumption</b>											
Private Consumption Index (PCI)	120.3	117.4	120.3	120.8	122.8	121.6	125.4	128.6	126.5	129.0	130.4
PCI (% YoY)	2.2	1.9	2.3	1.3	3.2	3.6	4.3	6.5	7.8	7.4	4.4
Imports of consumer goods (% YoY)	7.5	1.7	7.7	7.5	12.9	20.3	12.7	7.1	8.3	7.9	5.3
Motorcycle sales (% YoY)	5.2	4.4	8.2	0.2	8.2	0.7	-3.7	-2.2	-2.6	6.1	-9.7
Passenger car sales (% YoY)	18.1	19.1	11.3	9.5	32.1	14.8	25.1	27.0	27.7	33.9	20.1
Non-durable index (% YoY)	1.2	0.7	1.0	2.5	0.7	1.2	0.9	0.0	1.2	0.5	-1.6
Semi-durable index (% YoY)	0.7	0.6	0.6	1.0	0.6	2.4	2.5	3.0	3.1	2.1	3.8
Durable index (% YoY)	8.0	8.3	5.4	4.9	12.8	6.3	10.4	10.6	11.5	14.5	6.1
Service index (% YoY)	7.1	5.0	6.3	5.5	11.7	7.2	6.6	6.0	6.2	5.7	6.0
Net tourist spending (% YoY)	17.6	9.2	13.7	19.7	29.2	8.9	4.8	-9.6	-10.8	-11.6	-5.5
<b>Private Investment</b>											
Private Investment Index (% YoY)	1.5	0.0	1.5	2.1	2.3	2.3	5.4	2.8	4.0	4.2	0.0
One-ton pickup sales (% YoY)	7.7	7.8	0.8	13.2	8.7	10.5	26.8	20.5	25.5	23.7	13.8
Commercial car sales (% YoY)	9.6	13.7	1.9	17.5	6.1	11.8	29.1	16.6	23.4	20.2	8.2
Permitted construction area (9mma) (% YoY)	-0.8	-4.1	0.6	0.4	0.2	1.3	0.2	-4.1	-2.4	-3.2	-6.6
Construction materials index (% YoY)	-0.9	-3.3	0.0	2.2	-2.3	-1.8	0.5	5.0	8.7	6.2	0.1
Newly registered motor vehicle for investment (% YoY)	5.7	-3.4	10.3	6.5	11.8	3.0	6.8	6.3	13.8	19.7	-11.5
Import of capital goods (% YoY)	2.8	-2.1	5.2	4.1	3.9	4.0	6.6	-0.6	-2.5	2.2	-1.8
Import of raw materials (% YoY)	15.7	19.7	14.5	12.4	16.6	19.5	21.2	21.3	22.9	22.2	18.8
Capacity utilisation (%)	67.1	69.6	64.5	67.1	67.4	72.5	66.6	66.5	66.9	66.3	66.3
Capacity utilisation (%) (SA)	-	65.6	66.6	68.4	67.8	68.2	69.1	68.6	69.0	68.7	68.0
MPI (% YoY)	2.5	0.1	0.8	5.0	4.4	4.1	3.7	1.0	4.9	0.8	-2.6
<b>Government Expenditure</b>											
Current expenditure ex. subsidies/grants and other (billion baht)	1547.9	376.4	361.7	382.3	427.5	382.9	379.9	410.3	125.6	129.7	154.9
Current expenditure ex. subsidies/grants and other (% YoY)	1.7	0.9	0.2	4.2	1.7	1.7	5.0	7.3	5.5	1.7	14.2
Capital expenditure ex. subsidies/grants and other (billion baht)	397.7	111.7	84.5	100.2	101.2	111.6	91.0	104.6	25.3	30.5	48.8
Capital expenditure ex. subsidies/grants and other (% YoY)	-5.0	7.6	-21.7	3.0	-7.6	0.0	7.7	4.4	8.2	14.3	-2.7
<b>External Sector</b>											
Exports of goods (BoP, billion USD)	235.3	56.2	56.1	61.8	61.1	61.8	63.0	63.4	20.3	22.4	20.7
Exports (% YoY)	9.8	6.8	7.9	12.8	11.6	9.9	12.3	2.6	8.3	5.8	-5.5
Export vol (% YoY)	6.0	11.9	0.4	1.9	-8.3	-16.0	-2.0	9.2	4.4	2.8	-7.7
Imports of goods (BoP, billion USD)	201.1	46.8	49.0	51.2	54.1	55.2	57.2	60.0	19.4	21.8	18.7
Imports (% YoY)	13.2	14.3	12.6	12.4	13.4	17.9	16.8	17.0	12.4	24.2	14.3
Import vol (% YoY)	7.2	-13.5	-12.9	0.6	-8.1	-3.6	-4.3	4.5	5.1	17.2	8.2
Tourist arrivals (million arrivals)	35.4	9.2	8.1	8.8	9.3	10.6	8.9	9.0	3.2	3.2	2.7
Tourist arrivals (% YoY)	8.8	2.1	8.3	6.9	19.5	15.5	8.4	1.9	2.8	1.3	2.1
Tourist revenue (billion baht)	1826.7	395.0	456.1	494.0	573.3	442.6	474.6	0.0	166.4	168.0	140.1
Tourist revenue (% YoY)	11.8	9.8	9.4	23.2	19.0	12.1	4.1	-100.0	6.4	2.8	2.9
Trade balance (billion USD)	34.2	9.5	7.1	10.6	7.0	6.6	5.8	3.4	0.9	0.6	2.0
Net services, income and transfers (billion USD)	16.9	5.8	0.7	4.3	5.3	8.4	0.8	0.8	0.2	0.1	0.4
Current account (billion USD)	51.1	15.2	7.8	14.9	12.4	15.1	6.7	4.2	1.1	0.8	2.4
Capital account (billion USD)	-0.1	0.0	0.0	0.0	-0.1	-0.6	0.0	0.0	0.0	0.0	0.0
Financial account (billion USD)	-19.1	-5.1	-4.8	2.7	-5.3	-3.7	-5.1	-1.4	-0.4	-1.2	0.2
Overall balance (billion USD)	26.0	8.2	2.0	12.6	3.2	12.0	-4.3	0.3	-0.9	0.2	1.0
International reserves (billion USD)	194.0	172.7	177.3	190.9	194.0	206.9	198.4	196.4	197.3	196.4	196.4
Net forward position (billion USD)	36.7	26.6	31.3	31.2	36.7	35.8	33.0	31.9	32.2	32.3	31.9
<b>Labor Market</b>											
Unemployment (%)	1.2	1.2	1.2	1.2	1.1	1.2	1.1	1.0	1.0	1.0	1.0
Farm income (% YoY)	2.8	19.8	14.0	-3.4	-6.2		5.2	1.3	6.0	2.7	-4.0
Non farm income (% YoY)	0.2	-0.6	0.4	1.1	0.0	3.5	1.5	1.3	1.5	1.3	2.3
Wage chg (% YoY)	-0.1	-0.6	-0.2	0.5	0.1	2.3	1.2	1.4	1.2	1.6	2.5
<b>Interest Rate and Currency</b>											
CPI (%)	0.7	1.3	0.1	0.4	0.9	0.6	1.3	1.5	1.5	1.6	1.3
CPI, core (%)	0.6	0.7	0.5	0.5	0.6	0.6	0.8	0.8	0.8	0.7	0.8
Repo rate (%)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
MLR : max (%)	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6
3M deposit rate (%)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
10Y govt bond yield (%)	2.6	2.81	2.57	2.41	2.58	2.56	2.8	2.8	2.8	2.7	2.8
THB/USD (avg)	33.92	35.10	34.30	33.36	32.91	31.19	33.12	32.34	33.26	32.73	32.34

Sources: Bank of Thailand, CEIC, Fiscal Policy Office

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