Bangkok Bank | RESEARCH

ECONOMICS

Our Latest Revision to GDP Forecast

Brighter prospect for both external and domestic sectors

June 8, 2018

We upgraded our 2018 GDP forecast from 4.2% YoY to 4.5% YoY and project the 2019 GDP growth to be 4.3% YoY. We see brighter prospect for both external and domestic sectors, particularly for domestic investment. Our year-end THBUSD forecast is 30.5 given the country's strong external fundamentals. We see the Bank of Thailand keep the policy rate unchanged throughout 2018 before taking the wait-and-see approach in 2019.

We upgraded our 2018 GDP forecast from 4.2% YoY to 4.5% YoY (Exhibit 1) on account of (1) still-higher exports and tourism revenue, (2) firmer private consumption in line with better consumer sentiment and improving household income, and (3) stronger-than-previously-projected investment mainly due to higher degree of spillovers from export-related activities and the accelerating budget disbursement associated with infrastructure project implementation.

Going forward, we project the 2019 GDP growth to be 4.3% YoY as the growth of our trading partners moderate. However, we are more optimistic about the domestic outlook. With greater clarity of the election, we should see accelerating implementation of infrastructure projects and strengthening sentiment of the private sector, supporting both consumption and investment.

Since the beginning of the year, USDTHB appreciated by 2%, in line with the path we previously projected. Our year-end USDTHB forecast is 30.5 as we remain bullish on the currency because of the strong external fundamentals of Thailand –ample FX reserves, limited exposure to FX-denominated debt, and bouyant current account surplus.

We see the Bank of Thailand keep the policy rate unchanged throughout 2018. Even with stronger GDP outlook and higher inflation, the key factor for the BOT to lift policy rate will be the domestic demand developments–not keeping pace with the hiking cycle of the Federal Reserve. However, given the stronger sentiment, the pace at which the improvement in domestic demand translates into core inflation will dictate the Bank of Thailand's policy response in 2019.

We see progress in the preparation of the EEC-related projects, most of which are at the market sounding stages in which both foreign and Thai investors showed considerable interest. As we expect the election to take place in early 2019, we believe that contract-signing process for all the key EEC projects will be concluded in the next 8-10 months. Therefore, the amount of infrastructure investment will be even higher than previously estimated from 2019 onwards.

Exhibit 1: Thailand Macroeconomic Forecasts

		2018E		2019F
		BBL(Old)	BBL(New)	BBL
Real GDP growth	%YoY	4.2	4.5 ↑	4.3
Private consumption	%YoY	3.2	3.3 ↑	3.3
Private investment	%YoY	3	3.5 ↑	4
Public consumption	%YoY	2.5	4.3 ↑	3
Public investment	%YoY	9	10.8 ↑	12
Exports of goods (nominal)	%YoY	4.5	6.5 ↑	6
Imports of goods (nominal)	%YoY	9	13.3 ↑	12
Current account	USD billion	38	36.2 ↓	32.1
CPI (period average)	%YoY	1.7	1.8 ↑	2
Exchange rate (period average)	THB/USD	30	30.5 ↑	
Policy rate	%	1.5	1.5	

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Exports

We upgraded our forecast of the 2018 goods exports growth from 4.5% YoY to 6.5% YoY in value. Against the backdrop of a solid global GDP growth, Thailand's exports growth stood at 9.9% YoY (BOP basis) in 1Q18, beating our forecast for annual export growth (4.5% YoY) as well as the consensus (5.6% YoY), before strengthening further to 14.6% YoY in April (Exhibit 2).

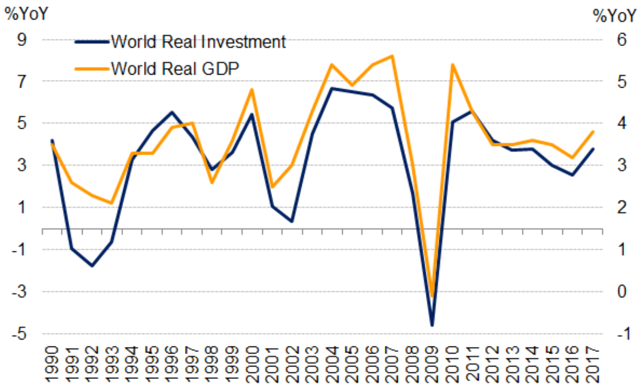
Exhibit 2: Thailand Macroeconomic Forecasts

		2018E			2019F	
		BBL(Old)	BBL(New)	Consensus	BBL	Consensus
Real GDP growth	%YoY	4.2	4.5 ↑	4.2	4.3	4.2
Private consumption	%YoY	3.2	3.3 ↑	3.4	3.3	3.3
Private investment	%YoY	3	3.5 ↑	3.7	4	5.2
Public consumption	%YoY	2.5	4.3 ↑	2.8	3	3.2
Public investment	%YoY	9	10.8 ↑	9.3	12	6.6
Exports of goods (nominal)	%YoY	4.5	6.5 ↑	6.9	6	5.7
Imports of goods (nominal)	%YoY	9	13.3 ↑	10.3	12	7.1
Current account	USD billion	38	36.2 ↓	41.7	32.1	37.8
CPI (period average)	%YoY	1.7	1.8 ↑	1.2	2	1.7
Exchange rate (period average)	THB/USD	30	30.5 ↑			
Policy rate	%	1.5	1.5	1.6		2

Source: Bank of Thailand

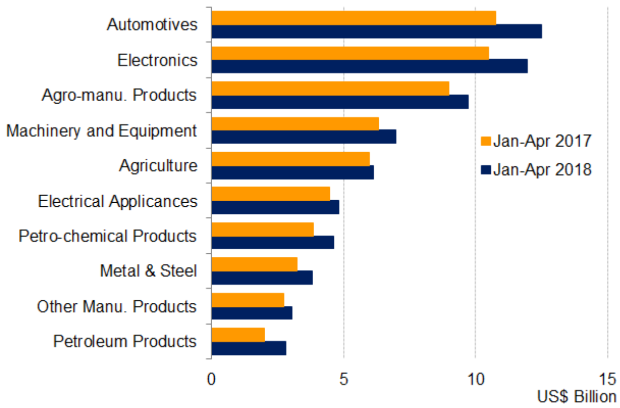
Since this round of global growth recovery has been propelled by an upturn in the global investment cycle (Exhibit 3), we believe that involving exports categories, such as automotives, electronics and new generation computers and parts, will continue to play a major role in driving Thailand's export performance (Exhibit 4). In addition, with the growing importance of the electronics sector due to the concurrent new technology cycle, the share of electronics exports already exceeded that of automotives exports in March and April. (More details on the external sector were covered in Thailand's Goods Exports-Surprises on the Upside of April 30).

Exhibit 3: Global GDP and Investment



Source: WTO, UNCTAD, IMF

Exhibit 4: Top Ten Exports



Source: Bank of Thailand

However, **we expect the 2019 export of goods to moderate to 6% YoY**, in line with the decelerating growth of most trading partners as the investment cycles in advanced economy start to mature.

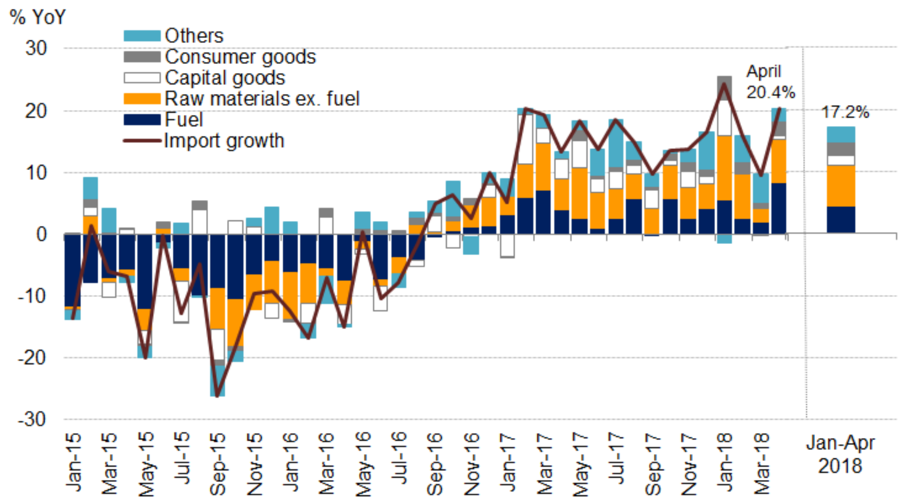
Tourism

We project export of services in 2018 to increase by 8.5% in value primarily due to a stronger momentum in tourism, reflected by the 14%YoY growth in tourism arrival in the January-to-April period. At the same time, tourism revenue increased by 17.6%YoY, partly due to the growing number of Chinese tourists, whose spending per person per day exceeded that of the American and European tourists. This year, the Bank of Thailand projected tourist arrivals to reach 37.6 million, and the Tourism Authority of Thailand targeted tourism revenue to grow by 15%. Nonetheless, we project a 7.9% increase in services exports in 2019 amid the limitations in airport capacity.

Imports

On the other hand, we revised our 2018 annual merchandise imports up from 9% YoY to 13.3% YoY in value. Total merchandise imports from January to April 2018 expanded by 17.2% YoY (BOP basis) and stood at US$73.9 billion, beating our previous forecast for annual import growth (9% YoY) and the consensus (7.4% YoY). This was in part a result of more production activities in response to external and domestic demand, which led to higher imports of intermediate raw materials, whose contribution to import growth was 6.6%. Further, a rapid oil price rally together with an increasing oil import volume have led to a 33% YoY rise in fuel imports for the first 4 months, contributing 4.5% to the import growth (Exhibit 5). We expect imports this year to continue to grow further because of these two factors.

Exhibit 5: Contributions to Import Growth



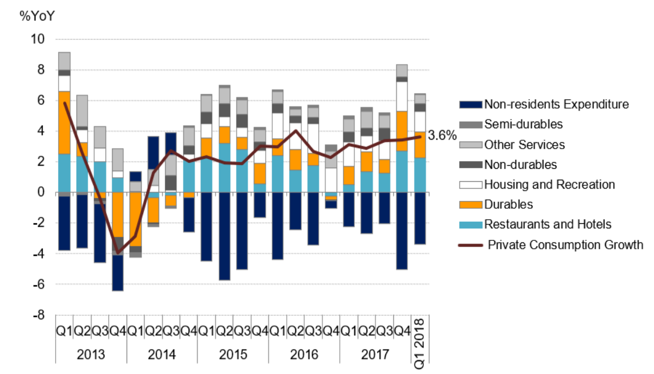
Source: Bank of Thailand

We project a 12% YoY merchandise import growth in 2019. This is conditioned upon the following: (1) the prospects of buoyant oil prices over the next several years as the growth of global crude oil demand exceeds that of global supply, and (2) the acceleration of domestic investment, particularly as mega-projects such as the implementation of the Eastern Economic Corridor (EEC) projects start to progress.

Private Consumption

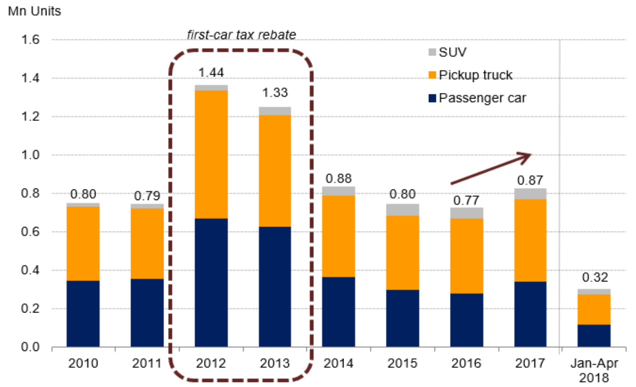
we revised our forecast for private consumption growth slightly to 3.3% YoY and keep our forecast at this rate in 2019. In 1Q18, private consumption rose by 3.6% YoY, above our yearly forecast (3.2% YoY) and the consensus (3.5% YoY). This is largely attributed by higher purchases of durables and spending in hotels and restaurants (Exhibit 6). In particular, auto sales in all categories have been accelerating significantly for the first time since the 2012-2013 first-car policy. From January to April 2018, auto sales surged by 16% YoY and totaled 316 thousand units (Exhibit 7), the highest first-four-months reading since 2014. The stronger momentum in consumption activities is in line with the improvement in non-farm income, which increased by a 13-quarter high 3.5% YoY in 1Q18, and farm income, which also rose by 8.2% from 4Q17. Nevertheless, the still-elevated household debt and higher oil prices remained constraints to households' purchasing power.

Exhibit 6: Contributions to Private Consumption Expenditure



Source: NESDB

Exhibit 7: Motor Vehicle Sales



Source: CEIC, Toyota Motor Thailand (TMT)

Government investment

We revised our forecast for the 2018 public investment from 9% YoY to 10.8% YoY. After seeing an acceleration of the infrastructure investment in 1Q18, we expect faster disbursement in the remainder of the year as more projects are now under construction. Out of the THB622 billion budget for capital expenditure, 33% has already been disbursed since the beginning of the 2018 fiscal year (September 2017) with the 20% portion disbursed during January-April 2018. Since the beginning of the year, THB14.5 billion was disbursed for the construction of the existing infrastructure projects, including the 5 dual-track railway projects whose contracts were signed at the end of last year (Exhibit 8).

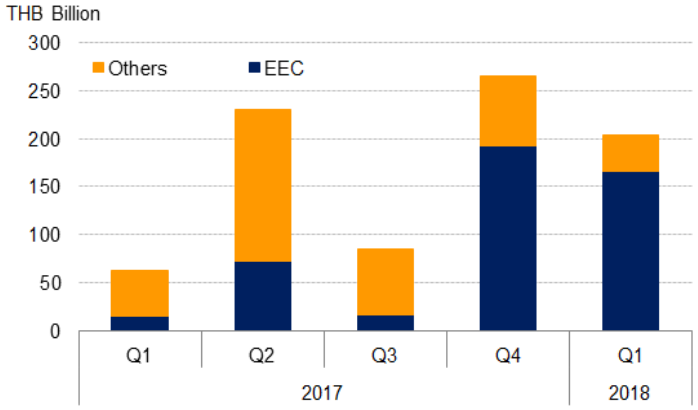
Exhibit 8: Upcoming Infrastructure Projects

1. Infrastructure projects under construction	Value (THB billion)	Disbursement 1Q 2018	Totoal Disbursement	Expected Completion Time
1.1 Motorway				
Pattaya to Map Ta Phut	20.2	0.8	9.7	2020
Bang Pa In- Saraburi-Nakhon Ratchasima	84.6	3.5	22.3	2020
Bang Yai-Ban Pong-Kanchanaburi	55.6	0.2	8.0	2021
1.2 Dual-track railway Jira to Khon Kaen	26.0	1.4	12.3	2019
1.3 Mass transit system Orange line (Thailand Cultural Center-Min Buri)	110.1	0.5	1.5	2023
1.4 Harbor development project at Laem Chabang port	1.9	0.1	1.5	2018
1.5 Railway container depo at Laem Chabang port (phase 1)	2.0	0.4	1.8	2019
1.6 Regional airport development	7.9			2019
1.7 Intermodal facility at Chiang Khong	2.4			2019
1.8 Common ticket system	0.8			2018
2. Infrastructure projects at the start of the construction phase	**Value (THB billion)**	**Disbursement 1Q 2018**	**Totoal Disbursement**	**Expected Completion Time**
2.1 Mass transit system				
Pink line (Khae Rai-Min Buri)	53.5	0.4	2.4	2021
Yellow line (Lad Phrao-Samrong)	51.9	0.3	1.2	2021
2.2 Dual-track railway				
Map Kabao to Jira	30.9	1.7	1.7	2021
HuaHin to Prachuap Khiri Khan	42.9	3.4	3.5	2021
Lop Buri to Paknampho	22.7	1.9	1.9	2021
2.3 High-speed train from Bangkok to Nakhon Ratchasima	179.4			2021
Total	**692.8**	**14.5**	**67.8**	

Source: Ministry of Transport, Office of Transport and Traffic Policy and Planning

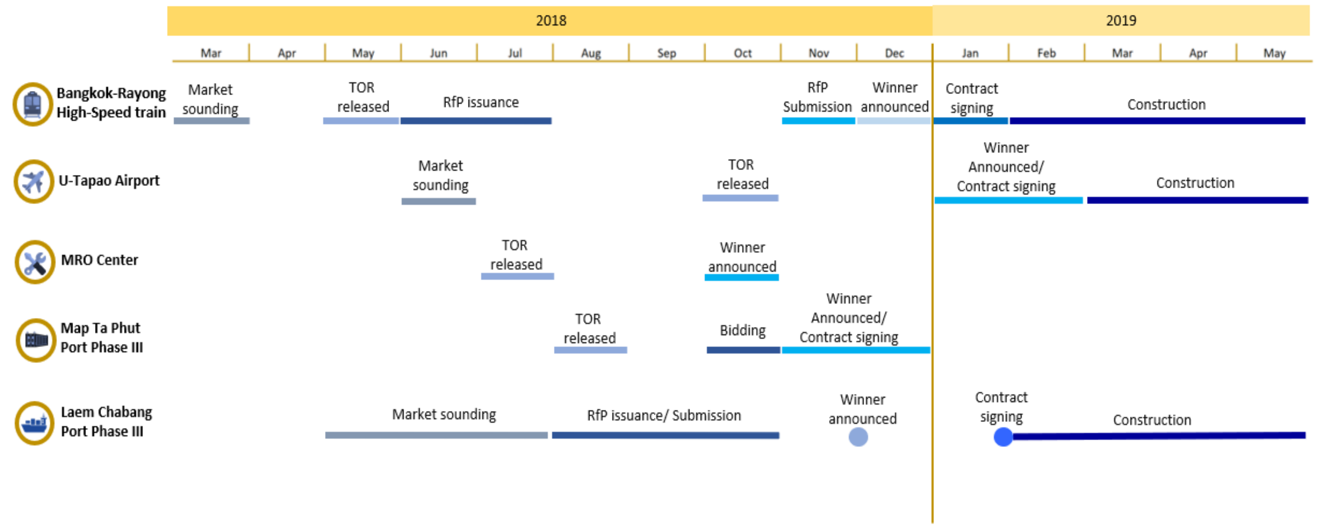
We also expect public investment to grow further by 12% YoY in 2019 with the greater clarity surrounding the EEC initiative. The growing application for the Board of Invesment (BOI) tax incentives related to the EEC (Exhibit 9) reflects stronger confidence among both foreign and Thai investors as the preparation of the EEC-related projects is progressing (the timeline is summarised in Exhibit 10). Since 59% of the total investment will be financed via the PPP mechanism, the government aims for the contract-signing of these projects with the private counterparts to be completed before the general election that is expected to take place in early 2019. Further, the enactment of the EEC Act will ensure a continuation of these projects under the new government. With the imminent conclusion of the EEC-related projects, the budget disbursement will be even higher than previously estimated from 2019 to 2023 (Exhibit 11).

Exhibit 9: Net Application Submitted to the BOI



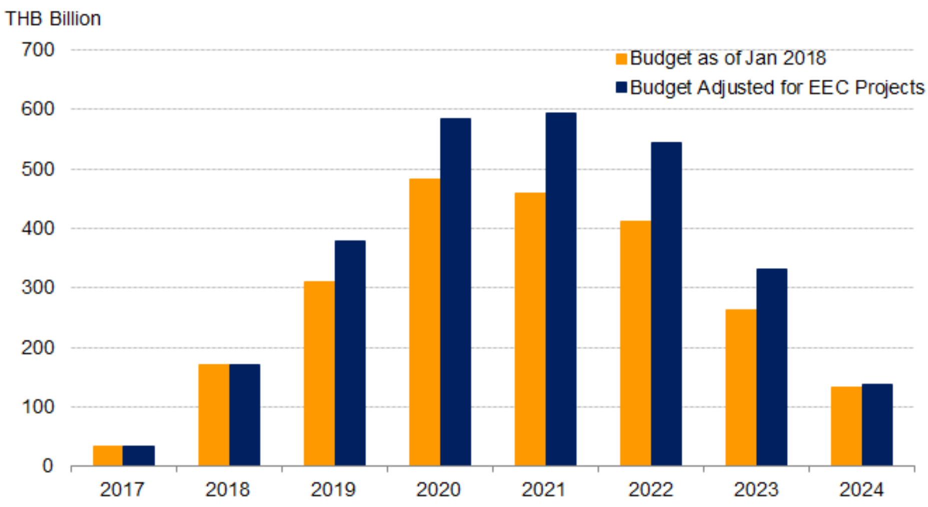
Source: Board of Investment (as of March 2018)

Exhibit 10: EEC Timeline



Source: EECO

Exhibit 11: Disbursement Schedule of Infrastructure Projects



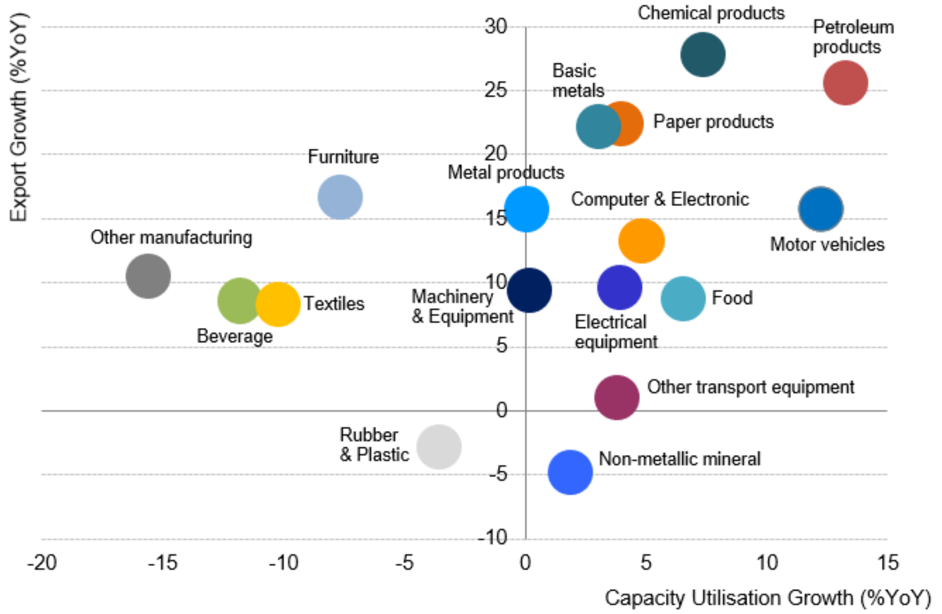
Source: Ministry of Transport, Office of Transport and Traffic Policy and Planning, EECO

(The disbursement schedule for the EEC-related projects are calculated by Bangkok Bank Economics Team)

Private Investment

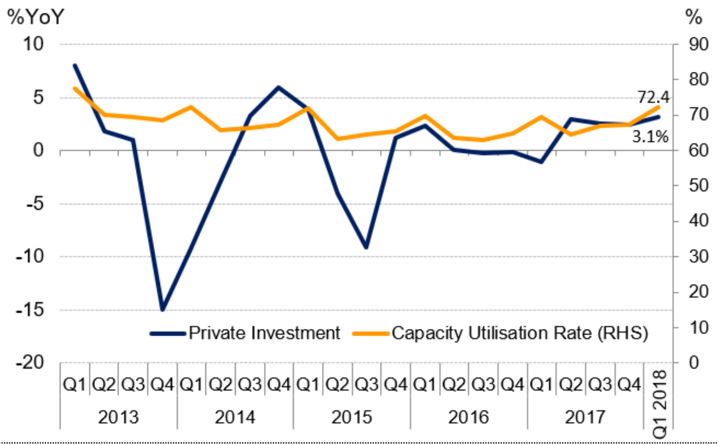
We also upgraded our forecast for private investment to 3.5% YoY in 2018 and 4.0% YoY in 2019. Since the beginning of 2018, we witnessed a higher degree of spillovers from the world economic recovery and the upturn in the global investment cycle, which have translated into a rise in capacity utilisation in most production sectors, particularly those that export more (Exhibit 12). In addition, some sectors such as automotive benefited further from the growing domestic demand. As a result, the overall capacity utilisation has picked up from 67.1% in 2017 to 72.5% in 1Q18, the highest rate in 4 years (Exhibit 13).

Exhibit 12: Capacity Utilisation by Export Sectors



Source: Bank of Thailand, Office of Industrial Economics (OIE)

Exhibit 13: Private Investment and Capacity Utilisation Rate



Source: NESDB, Office of Industrial Economics (OIE)

The better prospect of private investment is conditioned on the following: (1) the duration of the global investment cycle upturn, which is expected to exceed a historical maximum of 9 quarters as it is driven by technological advancement, (2) firm's imminent needs to invest in techonology, such as investment related to next generation hybrid models in the automotive sector, and (3) the implementation of the EEC-related projects.

Current Account Surplus to edge down to USD36 billion

We revise down our projected 2018 current account from USD38 billion to USD36 billion. Despite recording current account surplus of USD17.1 billion in 1Q2018, elevated oil prices and rising imports will slow the pace of current account accumulation.

CPI Inflation in 2018 to rise to 1.8%

Our earlier estimate for headline inflation in 2018 was 1.7%, but rising energy prices have contributed to rapid CPI inflation –the May figure is 1.49% (Exhibit 14). On the contrary, raw food prices turned out to be more subdued than anticipated. In addition, the 2018 core inflation is expected to rise by 0.8%, up 0.1% from our earlier estimate, due to stronger-than-expected domestic demand. Overall, we revised our headline inflation forecast slightly to 1.8%.

Year-End Thai baht forecast is 30.5 THB/USD

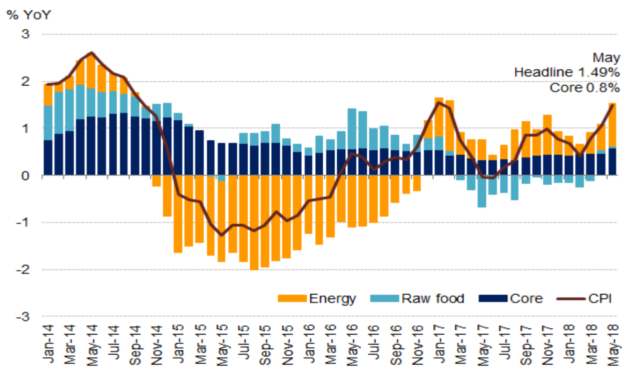
The Thai baht has given back some of the gains since our last outlook piece in January 2018–up by 2.0% YTD compared with 4.0% in January. We still maintain the appreciation bias for the currency as solid economic fundamentals will continue to support the Baht. As the aftershocks from treasury spasm and tango tantrum (Argentina) dissipate, global capital flows should return to Emerging markets more meaningfully. We revise our THB forecast to be 30.5 THB/USD from 30 THB/USD (current USDTHB is 32.02) (Exhibit 15).

Monetary Policy: on hold through 2018

The readings from the first quarter GDP indicated a stronger-than-expected domestic demand which is what the Bank of Thailand keeps a keen eye on before raising the policy rate. Exports and tourism have continued to be even stronger than thought, and this has translated into an increase in private investment and private consumption. That said, we consider the extent of stronger economic activity to be insufficient for the BOT to lift rates in 2018. For 2019, the outlook is much more uncertain given how strongly we believe in the EEC. If core inflation starts to accelerate, then there might be a case for the BOT to lift rates earlier than anticipated.

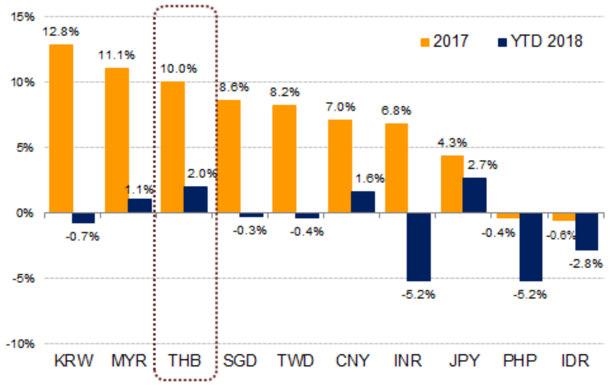
But for now, we see the policy rate remain unchanged in 2018, and for 2019 the inflation picture will dictate how the BOT will respond. Once again, we believe the BOT will pay more attention on the domestic demand developments rather than raising rates prematurely in order to narrow the gap between our policy rate and the Fed funds rate.

Exhibit 14: Contribution to Headline Inflation



Source: CEIC, Ministry of Commerce

Exhibit 15: Currency Movements



Source: Bloomberg (as of June 8, 2018)

What are the risks to our forecast?

One of the possible downside risks is an inclination towards protectionism, as exemplified by the renewed trade tension between the US, China, the EU, Canada, and Mexico. Although we view the impacts of the the trade tensions on Thailand to be limited, the risk that an escalation in the tension could delay trade and investment decisions warrants close monitoring. Further, higher oil prices pose greater uncertainties to our outlook for inflation and growth. Base on our calculations, a US$10 increase in the oil price from the current level approximately translates into a 0.4% increase in inflation and a 0.1% reduction in GDP growth. Finally, further delays in the implementation of infrastructure projects remains a downside risk to the investment prospect.

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CG Rating

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 00359		Pass
Below 50	No logo given	N/A

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BUY: Expected positive total returns of 15% or more over the next 12 months.
HOLD: Expected total returns of between -15% and +15% over the next 12 months.
SELL: Expected negative total returns of 15% or more over the next 12 months.
TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.
NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.
UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.