

Thailand's Economic Indicators (July)

Firmer domestic demand, but external sector weakened further, despite solid exports

Key Takeaways: Exports grew strongly, but weaker services receipts made for even slimmer current account surplus. Exports of goods in July rose 8.3% YoY to US\$20.3bn (BOP basis), continuing solid expansion (albeit a bit slower than June's 10% YoY). While exports of agricultural products declined, exports of petroleum products, agro-manufactured goods, electronics, and automotives still performed well (Figure 1). Imports of goods totaled \$19.4bn in July, up 12.4% YoY, led by higher prices for imported crude. That brought the July trade surplus down to \$0.9bn from \$2.9bn in June. Tourist arrivals rose 2.8% YoY, the slowest rate of increase in 16 months, largely due to a decline in Chinese tourists (Figure 2) after the recent ferry accident in Phuket, causing the net services, income, and transfers balance to decline from \$1.2bn in June to \$0.2bn in July. Therefore, the current account surplus narrowed from \$4.1bn in June to \$1.1bn in July.

Leading indicators point to firmer domestic demand

The Private Consumption Index (PCI) grew 4.7% YoY, up from June's 3.7% YoY, with heavier durables consumption, led by car purchases. Nevertheless, growth in purchases of semi-durable and non-durable goods remained soft, suggesting that the purchasing power recovery is yet to broaden. Furthermore, the impact of the floods on farm income warrants close monitoring. Meanwhile, Private Investment Index (PII) growth slowed sharply from 5.1% YoY in June to 2.7% YoY in July. Government current expenditure expanded by 5.5% YoY and government capital expenditure by 8.2% YoY in July, continuing its recovery from the low base set in 2017.

With only gradually firming of domestic demand, core inflation remained at 0.8% in July. Headline inflation was 1.46% for the month, up from 1.38% in June, led by higher refined petroleum product prices.

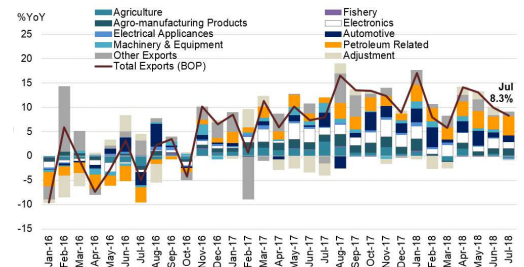
Our assessment

Thai exports remained strong despite the fact that US-imposed import tariffs on \$34bn of Chinese-made products became effective at the start of July. Although downside risks remain of additional tariffs being imposed on more Chinese products in August onward, Thailand's diverse export markets should cushion it against the potential impact of such tariffs on sectors exposed to China's supply chain, including the electronics and automotive industries.

Amid escalating trade tensions and financial turbulence that triggered capital outflows among EMs, the baht has depreciated only 0.5% since the start of the year, a much shallower rate of decline than most other Asian EMs (Figure 3)—Thailand's current account surplus is high (equal to around 9% of GDP), as are its FX reserves (about 3.5x short-term FX-denominated debt). These factors, together with the gradual firming of domestic demand and inflation, mean that the Bank of Thailand has no imminent need to raise its policy interest rate. Hence, we expect the One-day Repurchase Rate to stand unchanged at 1.50%, at least until the end of this year.

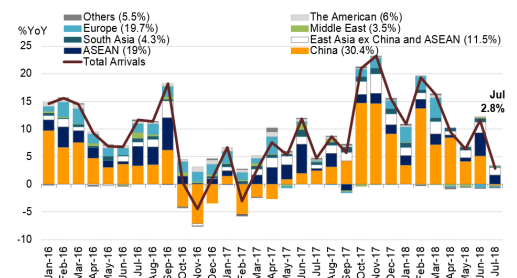
September 3, 2018

Figure 1: Contributors to export growth



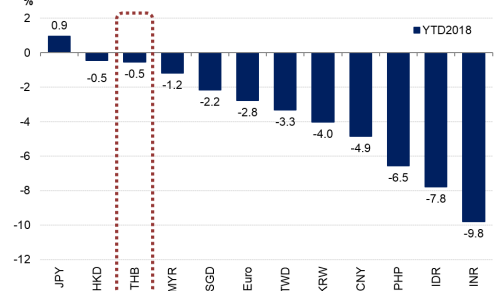
Source: Bank of Thailand

Figure 2: Places of origin of tourist arrivals



Source: CEIC

Figure 3: Currency movements



Source: Bloomberg

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¹ 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	May	June	July
Private Consumption										
Private Consumption Index (PCI)	118.9	115.5	117.7	120.7	121.6	118.8	122.8	121.4	119.5	122.8
PCI (% YoY)	2.6	2.0	1.7	2.8	3.8	2.9	4.4	4.4	3.7	4.7
Imports of consumer goods (% YoY)	7.5	1.7	7.7	7.5	12.9	20.3	12.7	9.2	7.5	8.3
Motorcycle sales (% YoY)	5.2	4.4	8.2	0.2	8.2	0.7	-3.7	-10.8	2.1	-2.6
Passenger car sales (% YoY)	18.1	19.1	11.3	9.5	32.1	14.8	25.1	29.0	21.6	27.7
Non-durable index (% YoY)	0.5	0.0	0.2	1.8	0.0	0.5	0.2	0.2	0.3	0.3
Semi-durable index (% YoY)	0.7	0.6	0.6	1.0	0.6	2.4	2.5	2.2	2.1	2.9
Durable index (% YoY)	8.0	8.3	5.4	4.9	12.8	6.3	10.4	9.5	10.7	11.5
Service index (% YoY)	7.1	5.0	6.3	5.4	11.7	7.2	6.7	6.2	6.5	5.0
Net tourist spending (% YoY)	13.5	7.4	15.2	9.2	23.7	10.7	3.5	0.4	6.6	-2.2
Private Investment										
Private Investment Index (% YoY)	1.5	0.1	1.5	2.1	2.3	2.3	4.6	3.5	4.0	5.0
One-ton pickup sales (% YoY)	7.7	7.8	0.8	13.2	8.7	10.5	26.8	25.3	29.5	25.5
Commercial car sales (% YoY)	9.6	13.7	1.9	17.5	6.1	11.8	29.1	27.9	34.8	23.4
Permitted construction area (9mma) (% YoY)	-0.8	-4.1	0.6	0.4	0.2	1.3	0.0	1.6	-2.9	-2.7
Construction materials index (% YoY)	-0.9	-3.3	0.0	2.2	-2.3	-1.8	0.4	3.5	-1.0	8.8
Newly registered motor vehicle for investment (%)	5.7	-3.4	10.3	6.5	11.8	3.0	6.8	4.4	5.3	13.8
Import of capital goods (% YoY)	2.8	-2.1	5.2	4.1	3.9	4.0	6.6	1.6	8.8	-2.5
Import of raw materials (% YoY)	15.7	19.7	14.5	12.4	16.6	19.5	21.2	14.6	20.4	22.9
Capacity utilisation (%)	67.1	69.6	64.5	67.1	67.4	72.5	66.6	69.8	69.1	67.2
Capacity utilisation (%) (SA)	-	65.6	66.6	68.5	67.8	68.2	69.1	69.5	70.1	69.6
MPI (% YoY)	2.5	0.1	0.8	5.0	4.4	4.1	3.5	2.9	5.0	-95.7
Government Expenditure										
Current expenditure ex. subsidies/grants and other (billion baht)	1547.9	376.4	361.7	382.3	427.6	382.9	379.9	132.6	125.3	125.6
Current expenditure ex. subsidies/grants and other (% YoY)	1.7	0.9	0.2	4.2	1.7	1.7	5.0	11.8	0.3	5.5
Capital expenditure ex. subsidies/grants and other (billion baht)	397.7	111.7	84.5	100.2	101.2	111.6	91.0	29.6	35.6	25.3
Capital expenditure ex. subsidies/grants and other (% YoY)	-5.0	7.6	-21.7	3.0	-7.6	0.0	7.7	2.1	7.1	8.2
External Sector										
Exports of goods (BoP, billion USD)	235.3	56.2	56.1	61.8	61.1	61.8	63.0	22.3	21.8	20.3
Exports (% YoY)	9.8	6.8	7.9	12.8	11.6	9.9	12.3	13.1	10.0	8.3
Export vol (% YoY)	6.0	2.9	5.0	9.0	7.0	4.9	7.5	8.1	5.5	4.4
Imports of goods (BoP, billion USD)	201.1	46.8	49.0	51.2	54.1	55.2	57.2	19.6	18.9	19.4
Imports (% YoY)	13.2	14.3	12.6	12.4	13.4	17.9	16.8	12.7	12.9	12.4
Import vol (% YoY)	7.2	5.8	7.7	8.3	7.2	10.7	8.9	5.0	4.7	5.1
Tourist arrivals (million arrivals)	35.4	9.2	8.1	8.8	9.3	10.6	8.9	2.8	3.0	3.2
Tourist arrivals (% YoY)	8.8	2.1	8.3	6.4	19.5	15.4	9.1	6.4	11.6	2.8
Tourist revenue (billion baht)	1824.0	481.7	395.0	453.4	494.0	573.3	442.6	136.7	148.4	166.4
Tourist revenue (% YoY)	11.7	5.7	9.8	8.8	23.2	19.0	12.1	9.0	14.5	6.4
Trade balance (billion USD)	34.2	9.5	7.1	10.6	7.0	6.6	5.8	2.7	2.9	0.9
Net services, income and transfers (billion USD)	16.9	6.2	1.4	3.8	5.4	8.3	0.6	-1.7	1.2	0.2
Current account (billion USD)	51.1	15.7	8.5	14.4	12.5	15.0	6.4	1.0	4.1	1.1
Capital account (billion USD)	-0.1	0.0	0.0	0.0	-0.1	-0.6	0.0	0.0	0.0	0.0
Financial account (billion USD)	-19.1	-7.0	-5.7	0.5	-6.9	-2.8	-7.1	0.1	-7.0	-0.7
Overall balance (billion USD)	26.0	8.2	2.0	12.6	3.2	12.0	-4.3	0.1	-5.3	-0.9
International reserves (billion USD)	194.0	172.7	177.3	190.9	194.0	206.9	198.4	204.1	198.4	197.3
Net forward position (billion USD)	36.7	26.6	31.3	31.2	36.7	35.8	33.0	33.4	33.0	32.2
Labor Market										
Unemployment (%)	1.2	1.2	1.2	1.2	1.1	1.2	1.1	1.0	1.1	1.0
Farm income (% YoY)	2.8	19.6	13.2	-3.3	-8.2	-2.3	6.2	8.0	3.2	6.4
Non farm income (% YoY)	0.2	-0.6	0.4	1.1	0.0	3.5	1.5	-0.1	0.8	1.5
Wage chg (% YoY)	-0.1	-0.6	-0.2	0.5	0.1	2.3	0.0	0.1	0.7	1.2
Interest Rate and Currency										
CPI (%)	0.7	1.3	0.1	0.4	0.9	0.6	1.3	1.5	1.4	1.5
CPI, core (%)	0.6	0.7	0.5	0.5	0.6	0.6	0.8	0.8	0.8	0.8
Repo rate (%)	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
3M deposit rate (%)	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	2.58	2.8	2.8	2.8
THB/USD (avg)	33.92	35.10	34.30	33.36	32.91	31.54	31.92	31.96	32.49	33.27

Source: Bank of Thailand, CEIC, Fiscal Policy Office

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