Thai Economic Outlook 2020: Thai GDP growth moderates as the world economy slows

- **Global economy has come to a sharp slowdown following the measures to contain the coronavirus outbreak.** Service sector is taking a big hit as consumers stay under lockdown, leading to a plunge in retail sales, in revenue for travel and leisure. Disruptions to supply chains linked to China will impede global trade and manufacturing. Growth is estimated to halve the 2019 world GDP growth, should the virus outbreak is not contained within H1 2020.

- **Our baseline forecast for 2020 GDP is 0.8%, but downside risks continue to widen especially if the outbreak is not contained by Q2 2020.** We project 2020 GDP to grow by 0.8%, a sharp drop from our earlier estimate of 2.3% as the virus continued to spread around the world, leading to draconian lockdown measures in many countries. For our baseline forecast, we expect the peak of infections in May. That said, downside risks stem from the uncertainty over the extent of the economic recovery.

- **A collapse in tourist arrivals depress the domestic economy with plunging private sector confidence.** Measures to contain the outbreak will further slow consumption, albeit temporary. As roughly a fifth of our GDP is linked to tourism, therefore, with a drastic fall in tourist arrivals, this will take a big hit to the economy. Our bear case sees the economy grow only by 0.4%.

- **Private consumption and investment continue to face strong headwinds as the economic recovery is pushed back further.** Non-farm household income will be under pressure as the travel, tourism and leisure sector contracts sharply, while farm households face a severe drought which will weigh on agricultural production. Investment will receive a modest boost from a higher disbursement rate from the government investment budget plan, but will face a slowdown on residential, commercial construction. Further, substantial capacity utilization will weigh on private investment.

- **The BOT is to cut policy rate further. Our call is for the BOT to cut the rate to 0.5%, which is, in our opinion, the effective lower bound.** The Bank of Thailand will have no choice but respond to an unanticipated negative shock to the economy which will at least ease the debt burden for the private sector. Meanwhile, the BOT also rolled out debt restructuring plans to help the private sector who were affected by the coronavirus outbreak.

- **Thai Baht is set to weaken further in 2020 to 32.50-33, as EM currencies are dragged down by lower commodity prices and a collapse in tourism.** Despite a sharp fall in oil prices, we estimate our current account surplus to fall to USD 19bn in 2020, resulting from the hit to export of services income by the virus outbreak.

Chart 1: Thailand's Macroeconomic Forecasts

Components (% share)		2020F	2019
GDP	%YoY	0.8	2.4
Private consumption (52%)	%YoY	2.7	4.5
Private investment (18%)	%YoY	0.5	2.8
Public consumption (15%)	%YoY	1.2	1.8
Public investment (6%)	%YoY	5.9	0.2
Exports of goods (54%)	%YoY	0.4	-3.6
Exports of services (17%)	%YoY	-13.0	0.4
Imports of goods (52%)	%YoY	-4.5	-4.2
Imports of services (52%)	%YoY	-1.3	-0.8

	Bull	Base	Bear
GDP	1.3	0.8	0.4

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Global Economic Outlook

- **With the Covid-19 outbreak at the beginning of the year, global tourism and industrial sectors' outlook dimmed once again** as many countries restrict overseas travelling and enforced lockdowns in an attempt to control the epidemic. We initially expected the global economy to have bottomed out last quarter as trade tension between the US and China eases and the effects of looser monetary policy filters through. The ban on Chinese tour-group travelling by the Chinese authority will affect many popular destinations **(Chart 2).** The travel lockdown and factory closures in China reflected lower production activity in purchasing managers' index **(Chart 3).** All in all, we forecasted the world's economy to grow around 2.0% YoY this year.

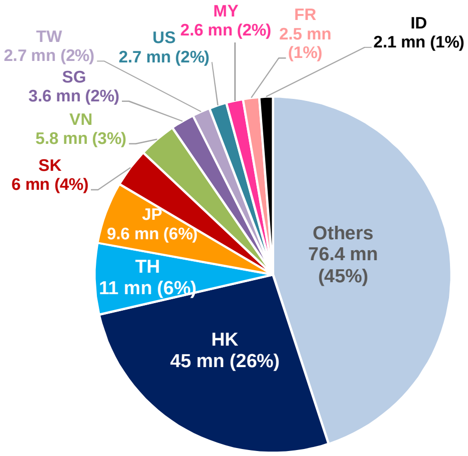
- **Financial markets saw sharp sell-offs despite rising global liquidity and lower policy rates (Chart 4).** Measures to contain the outbreak prompted shutdowns of schools, sport events, concerts, and factory closures as well as travel bans, border closures. This could lead to a spike in bankruptcies and unemployment for many around the world. Hence, the financial markets sold off in response to the large uncertainty hanging over the economic outlook. Central banks around the world have aggressively reduced policy rates to counteract a collapse in economic activity in their respective economy. In addition, several central banks restarted their QE programmes in order to address the illiquidity in key capital markets.

- **Extreme volatility was prevalent across global stock markets.** The speed of the fall and rise of S&P 500 has been almost unprecedented, rivalling the 1987 financial panic. Assets showed a high degree of correlations. In addition, Saudi Arabia and Russia tussled in a price war in the oil market, leading to a collapse of global oil prices– a drop of roughly 30% in one day **(Chart 5).**

- **Once the virus is contained, the economic recovery should rebound sharply, driven initially by consumption.** In addition, private consumption should be supported low unemployment and moderate wage growth if the outbreak does not lead to a permanent loss of jobs and widespread bankruptcies. Meanwhile, the emerging markets are enjoying low interest rates and growing household credit. Investment growth should then follow a recovery in demand, but will be limited by the lingering uncertainties around trade and geopolitics.

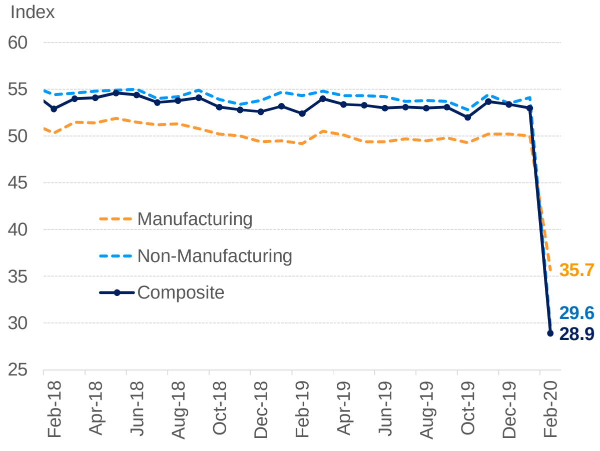
- **It is reported that the temperature which is most conducive for a coronavirus spread is between 5-11°C.** The countries that have been affected the most by the COVID-19 outbreak are located around latitude 40 **(Chart 6).** Further, another piece of good news is we see improvements in China and South Korea as the drastic responses have proved to mitigate and contain the outbreak. Therefore, we conjecture that once temperature rises in the spring and summer in the aforementioned countries. We are likely to see a containment in the next few months.

Chart 2: Chinese Outbound Tourists by Destination



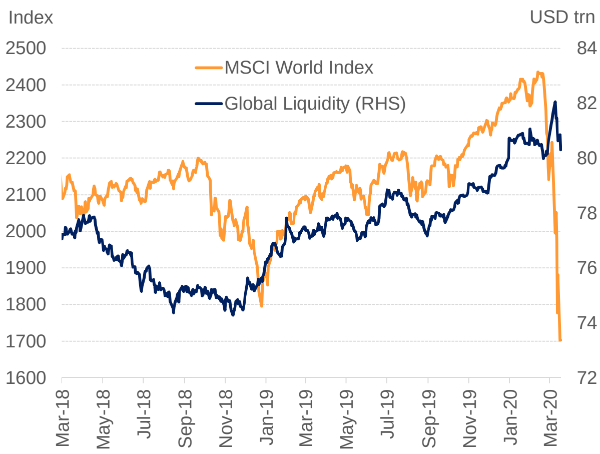
Source: Bloomberg

Chart 3: China's Purchasing Manager Index



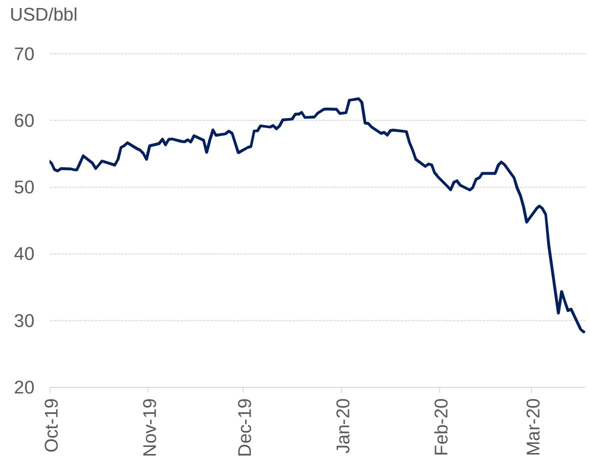
Source: Bloomberg

Chart 4: MSCI World Index and Global Liquidity



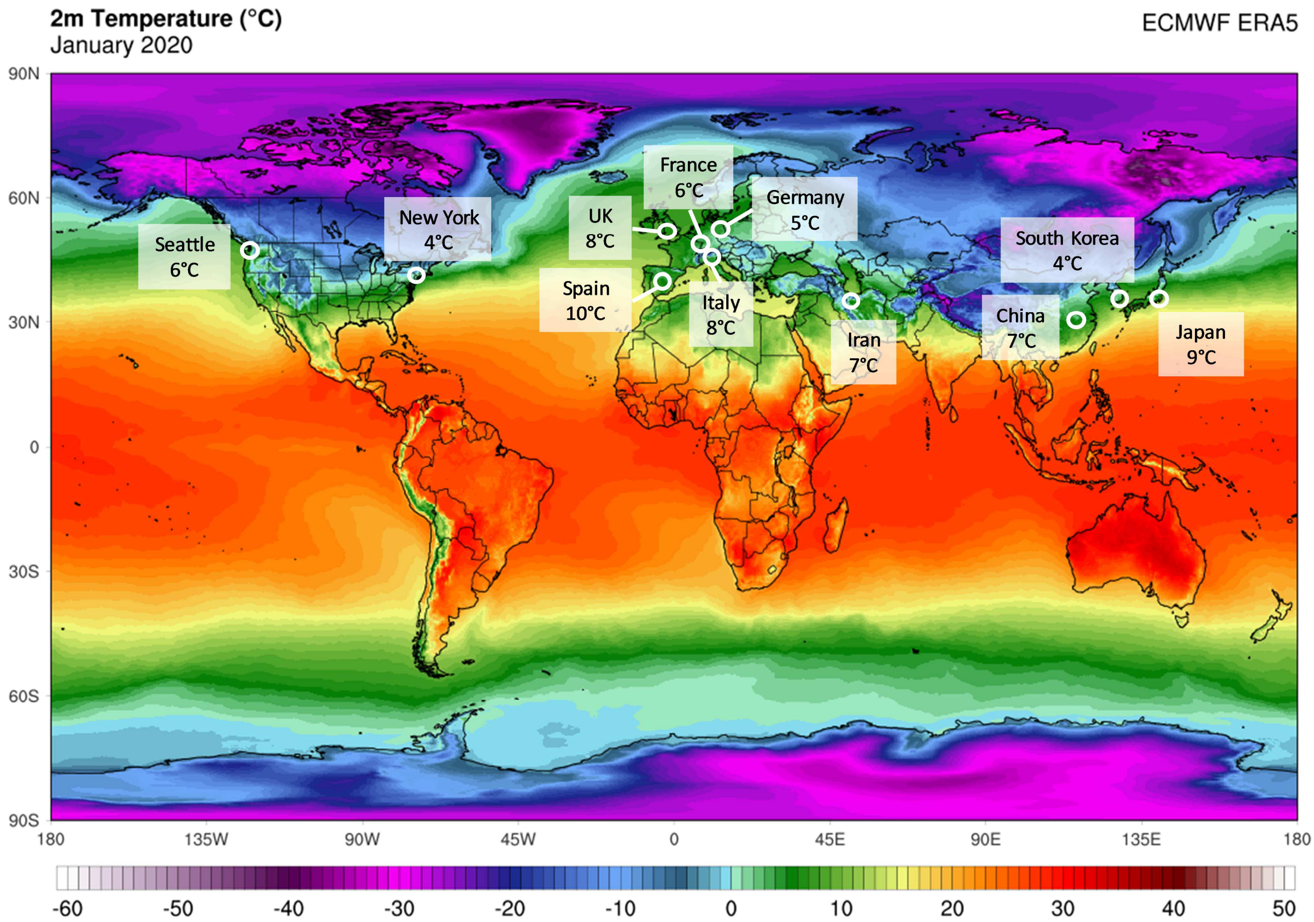
Source: Bloomberg

Chart 5: WTI Crude Oil Price



Source: Bloomberg

Chart 6: Temperature Map



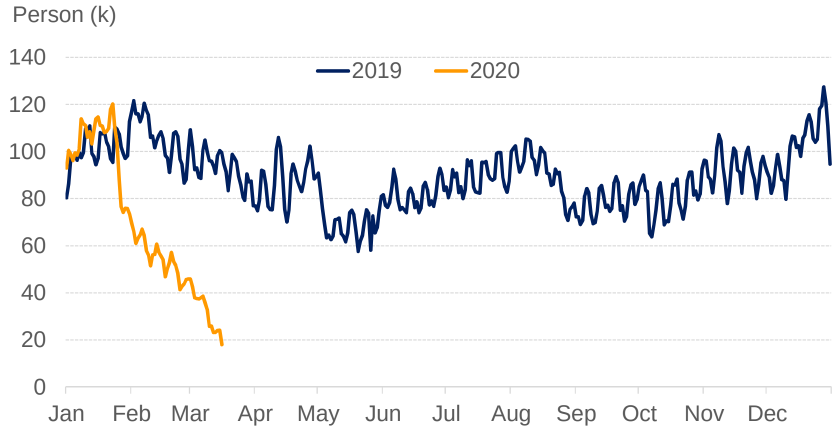
Source: ClimateReanalyzer.org, Climate Change Institute, University of Maine

Thai Economic Outlook

- **In 2020, Thailand's economic growth is expected to slow to 0.8% mainly due to the 3D problems: drought, disease, and delay to budget approval.** Amid the Covid-19 outbreak, the economy would slow sharply in Q1 2020 from decline in tourist arrivals and supply chain disruptions. Worsening tourism sector would further deteriorate weak consumer and business sentiment and pose potential knock-on effects on private consumption and investment.

- **Tourism growth is projected to drop sharply in the first quarter as the Covid-19 outbreak led to lockdowns in many countries and discourages tourists from travelling abroad.** The international tourist revenues account for 11% of GDP and Chinese tourist receipts alone for 3.2%. For the first two months of the year, international arrivals has already contracted by 21.7% compared to the same period last year **(Chart 7).** The number of Chinese visitor arrivals in February plunged by an alarming 85% YoY. Our current base case is that the outbreak will peak by mid-May. Other assumptions are that the peak is reached by early April (bull) and end June (bear).

Chart 7: Thailand's Daily International Arrivals

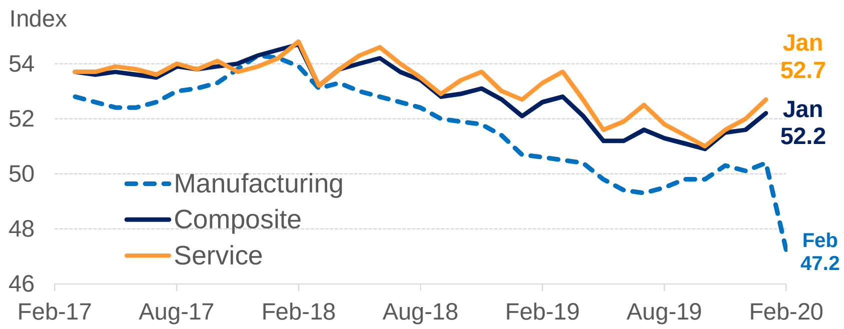


Source: Macrobond

- **Goods exports is expected to see relatively modest growth of 0.4%.** Improvement in the global trade in H2, a weaker Thai baht, and the growing demand for electronics are likely to help support Thailand's trade momentum this year. However, a hit to global economic activity due to the epidemic will weigh on export demand **(Chart 8)**. Moreover, slowing Chinese economy and factory closures as well as disruptions to supply chain should also hamper demand for Thai exports for both final and intermediate products **(Chart 9)**.

- **Imports is expected to contract by 4.5% from lower export demand and construction slowdown.** Machinery imports will likely slow from a weaker Thai baht. Despite a collapse in tourist receipts**,** current account should come in at around USD 19.0bn due to much lower oil prices.

Chart 8: Global Manufacturing Production Index



Source: Bloomberg

Chart 9: Chinese Products as a Percentage of Total Imported Manufacturing Inputs

Chinese Products as a Percentage of Total Imported Manufacturing Inputs

	Vietnam	Malaysia	Cambodia	Thailand	S. Korea	Taiwan	Hong Kong	Phillippines	Singapore	Indonesia	India
Food, drinks, tobacco	12	14	21	17	16	9	24	14	8	12	8
Textiles, apparel	47	42	69	38	44	29	55	38	21	36	35
Wood & cork	27	27	39	27	28	26	22	36	9	20	13
Paper & printing	28	19	34	20	18	18	21	25	5	15	14
Coke & petroleum	21	5	4	1	1	1	44	4	2	5	2
Chemicals	22	14	33	16	15	12	22	19	6	15	25
Rubber & plastic	29	19	32	23	24	19	21	22	7	21	26
Other non-metals	30	26	26	28	36	20	21	36	10	13	12
Basic metals	38	19	11	21	17	15	23	33	10	18	10
Fabricated metals	45	29	17	28	36	25	22	47	15	32	16
Electronic devices	41	29	25	39	45	36	23	18	6	43	48
Electrical machinery	39	28	15	31	33	30	21	29	9	34	15
Other machinery	40	28	23	30	28	29	21	33	11	31	18
Autos & parts	40	25	21	27	29	21	22	18	9	14	21
Other transport	32	28	21	24	31	23	25	30	7	25	20
Other manufacturing goods	39	27	30	27	33	26	22	31	11	29	17

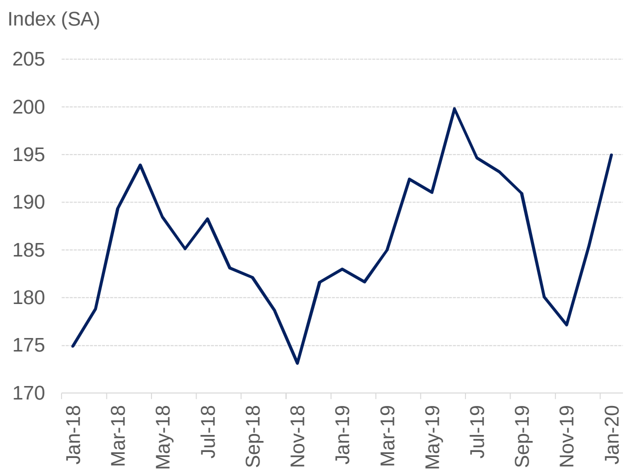
<10% 10%-50% > 50%

Source: OECD, Capital Economics

- **Private investment is expected to grow by 0.5%, weighed down by strong headwinds as the economic recovery is pushed back further.** Investment will receive a modest boost from a higher disbursement rate from the government investment budget plan, but will face a slowdown on residential, commercial construction. Further, substantial capacity utilization will weigh on private investment.

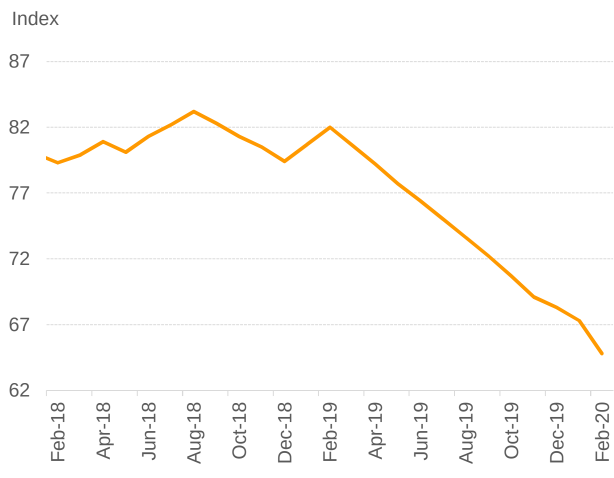
- **Private consumption will likely slow to 2.7% from both the long-term secular challenges–elevated household debt and the aging population– as well as the reduced income from business disruptions.** Non-farm income will be affected substantially. Furthermore, the country is witnessing the worst drought in 50 years. For Thailand, lower production will likely outweigh rising prices, resulting in lower farm income and spending power for farmers in 2020 **(Chart 10)**. Virus fear will hamper consumption in the first quarter further as it discourages people from leaving home. Low consumer confidence will heavily weigh on durable good purchase such as cars **(Chart 11)**. Nonetheless, government stimulus packages, such as welfare cards and tax cuts, should provide some support to consumer spending in periods to come.

Chart 10: Farm Income Index



Source: Office of Agricultural Economics

Chart 11: Thailand's Consumer Confidence Index



Source: Bloomberg

- **We expect fiscal policy to do the heavy lifting as monetary policy efficacy is hitting its limits.** However, the budget delay of the government budget for fiscal year 2020 may cloud the outlook for public spending. The THB 3.2 trn (USD 102 bn) budget for the 2020 fiscal year, originally due to start in the beginning of October 2019, has recently been approved after a five-month delay.

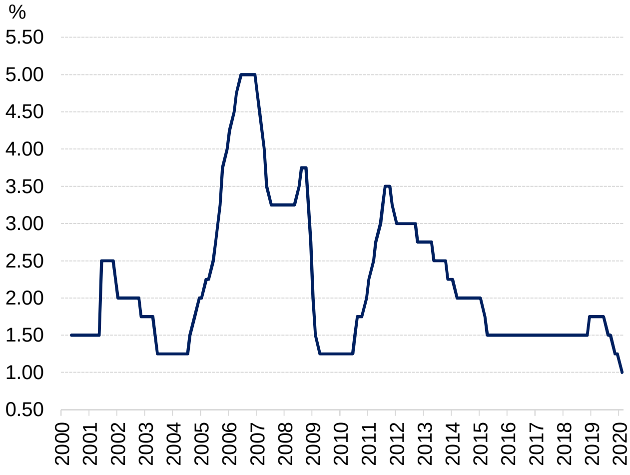
- **The Thai government recently rolled out phase one of Covid-19 stimulus package** which plans to release THB 180bn (USD 5.7bn) of SME soft loans and a THB 20bn extra budget for those affected. Tax benefits include the withholding tax cut to 1.5% from 3% and tax deductions for long-term investments in Super Savings Funds during April – June 2020. Other measures are Bank of Thailand's two-year debt restructuring and THB 45bn budget for deposit returns and lower electricity bills.

- **Public investment to grow by 5.9% as we expect the government to achieve a higher disbursement rate.** The government aimed to fully disbursement of the THB 640bn investment budget within the fiscal year, THB 400bn by Q2 and THB 240bn by Q3. The delay though will likely affect the planned increase in expenditure, especially among the new infrastructure projects. Meanwhile, EEC projects appear to be on track as a few key projects have been awarded. Possible delays to the EEC progress include the difficulty in land expropriation of 850 rai, required to hand over to the high speed train contractor, the Charoen Pokphand (CP) consortium within 90 days before construction is due to start.

- **The BOT will lower the rate to 0.50% this year to counteract the economic slowdown (Chart 12).** The Bank of Thailand will have no choice but respond to an unanticipated negative shock to the economy which will at least ease the debt burden for the private sector. Meanwhile, the BOT also rolled out debt restructuring plans to help the private sector who were affected by the coronavirus outbreak. But, details vary from bank to bank, and implementation may run into bottlenecks as the BOT measures are not explicitly spelt out on who are eligible to such debt restructurings.

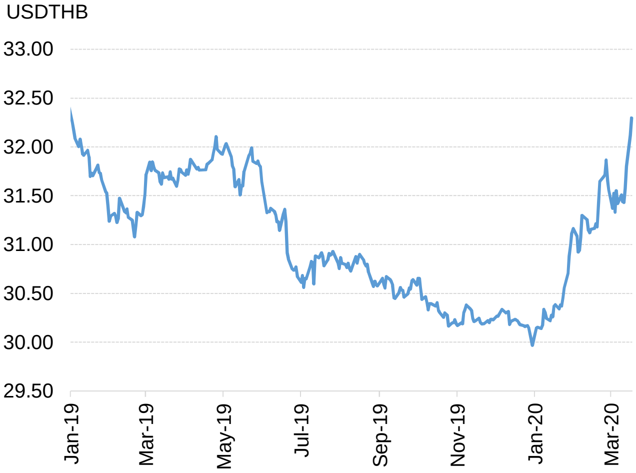
- **Thai Baht is set to weaken further in 2020 to 32.50 – 33 (Chart 13), as EM currencies are dragged down by lower commodity prices and a collapse in tourism.** A major hit to our tourism sector led the baht to weaken sharply. The baht's weakness also resulted, in part, from weak global economy, and capital outflows from EM economies.

Chart 12: Bank of Thailand's Policy Rate



Source: Bank of Thailand

Chart 13: USDTHB



Source: Bloomberg

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