

## Thailand's Economic Indicators (August)

### Current account surplus narrowed, despite solid exports, while domestic demand gained traction

October 1, 2018

**Key Takeaways:** Export growth remained solid and tourist arrivals picked up from July's dip, but a surge in imports led to a 46-month low current account surplus. Exports of goods in August rose by a solid 5.3% YoY to US\$22.4bn (BOP basis), albeit slower than July's 8.3% YoY. While exports to the Chinese and US markets slowed recently, the ASEAN-5 and CLMV markets have become the drivers of export performance (Figure 1). Meanwhile, imports of goods totaled \$21.8bn, up 24.2% YoY with record-high gold imports in response to lower gold prices (excluding gold, imports increased by 14.6%). That brought the August trade surplus down further to \$0.6bn from \$0.9bn in July. Tourist arrivals in Aug rose 3.0% YoY, up slightly from July's 2.8% YoY, but the net services, income, and transfers balance declined further to \$0.1bn in August from \$0.2bn in July. Consequently, the August current account surplus was \$0.8bn, the lowest since Sep 2014.

**Leading indicators showed that the domestic economy continued to gain traction.** Although Private Consumption Index (PCI) growth slowed from July's 5.7% YoY to August's 4.1% YoY, durables consumption in August increased 14.5% YoY, in line with accelerating car sales. In August, farm income continued to improve, led by higher production, and the Consumer Confidence Index reached a 5-year high. Private Investment Index (PII) growth surged from 4.0% YoY in July to 6.3% YoY in August, led by domestic machinery sales and newly-registered vehicles for investment (Figure 2). In addition, government capital expenditure expanded further from 8.2% YoY in July to 14.3% in August (Figure 4).

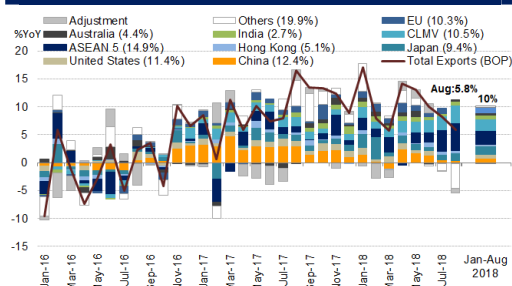
Despite the firming of domestic demand, core inflation in August remained tepid at 0.75%. Headline inflation was 1.62% for the month, boosted by higher refined petroleum product prices.

#### Our assessment

With diverse markets and products, Thai exports remained buoyant with 10% growth from January to August. There are now greater downside risks after US imposed tariffs on another \$200bn of imports from China, but there is also potential for supply chain relocation from China to Southeast Asia, which would support Thai exports (electronics makers have begun to explore the possibility of ordering parts from Thailand).

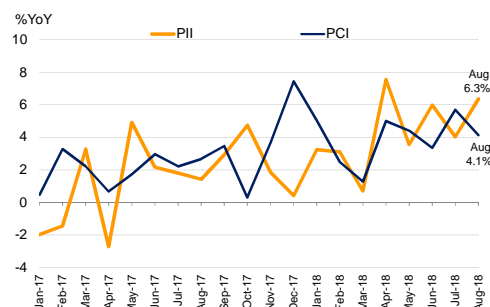
Acknowledging improved consumption and income, the Bank of Thailand (BOT) increased its 2018 consumption forecast from 3.7% to 4.2% (Figure 3). The vote of the Monetary Policy Committee (MPC) in September shifted from 6-1 to 5-2, with two members viewing that "the continued economic expansion was sufficiently robust". Thus, although we view that there is no imminent need to raise the policy interest rate, the possibility of a rate hike by the end of this year cannot be ruled out, as the BOT stated for the first time in its MPC statement that "the need for currently accommodative monetary policy would gradually be reduced" and cited the need to build policy space to combat future economic downturns.

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



Source: Bank of Thailand

**Figure 2: Private Consumption Index (PCI) and Private Investment Index (PII)**



Source: Bank of Thailand

**Figure 3: 2018 GDP forecasts**

		2018			
		BOT (Jun)	BOT (Sep)	BBL	Consensus
Real GDP growth	%YoY	4.4	4.4	4.5	4.4
Private consumption	%YoY	3.7	4.2	4.3	3.7
Private investment	%YoY	3.7	3.7	3.5	3.9
Public consumption	%YoY	2.7	2.3	3.1	2.6
Public investment	%YoY	8.9	6.1	6.3	8.5
Exports of goods (nominal)	%YoY	9	9	6.5	8.7
Imports of goods (nominal)	%YoY	14.7	16.9	13.3	13.5
Current account	USD billion	40	35.4	36.2	40.9

Source: Bank of Thailand, Bloomberg, Bangkok Bank Economic Analysis Team

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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	June	July	August
Private Consumption										
Private Consumption Index (PCI)	118.9	115.5	117.7	120.7	121.6	118.8	122.7	119.1	124.0	125.3
PCI (% YoY)	2.6	2.0	1.8	2.8	3.8	2.9	4.3	3.4	5.7	4.1
Imports of consumer goods (% YoY)	7.5	1.7	7.7	7.5	12.9	20.3	12.7	7.5	8.3	7.9
Motorcycle sales (% YoY)	5.2	4.4	8.2	0.2	8.2	0.7	-3.7	2.1	-2.6	6.1
Passenger car sales (% YoY)	18.1	19.1	11.3	9.5	32.1	14.8	25.1	21.6	27.7	33.9
Non-durable index (% YoY)	0.5	0.0	0.2	1.8	0.0	0.5	0.2	0.2	0.6	-0.2
Semi-durable index (% YoY)	0.7	0.6	0.6	1.0	0.6	2.4	2.5	2.0	3.2	2.0
Durable index (% YoY)	8.0	8.3	5.4	4.9	12.8	6.3	10.4	10.7	11.5	14.5
Service index (% YoY)	7.1	5.0	6.3	5.5	11.7	7.2	6.5	5.9	6.4	4.2
Net tourist spending (% YoY)	13.5	7.4	15.2	9.2	23.7	10.7	3.5	6.6	-2.2	-2.5
Private Investment										
Private Investment Index (% YoY)	1.5	0.1	1.5	2.1	2.3	2.3	4.6	6.0	4.0	6.3
One-ton pickup sales (% YoY)	7.7	7.8	0.8	13.2	8.7	10.5	26.8	29.5	25.5	23.7
Commercial car sales (% YoY)	9.6	13.7	1.9	17.5	6.1	11.8	29.1	34.8	23.4	20.2
Permitted construction area (9mma) (% YoY)	-0.8	-4.1	0.6	0.4	0.2	1.3	0.2	-2.1	-2.4	-3.3
Construction materials index (% YoY)	-0.9	-3.3	0.0	2.2	-2.3	-1.8	0.4	-1.0	8.7	5.4
Newly registered motor vehicle for investment (% YoY)	5.7	-3.4	10.3	6.5	11.8	3.0	6.8	5.3	13.8	19.7
Import of capital goods (% YoY)	2.8	-2.1	5.2	4.1	3.9	4.0	6.6	8.8	-2.5	2.2
Import of raw materials (% YoY)	15.7	19.7	14.5	12.4	16.6	19.5	21.2	20.4	22.9	22.2
Capacity utilisation (%)	67.1	69.6	64.5	67.1	67.4	72.5	66.6	69.1	66.9	65.9
Capacity utilisation (%) (SA)	-	65.6	66.6	68.5	67.9	68.2	69.1	70.0	69.1	68.5
MPI (% YoY)	2.5	0.1	0.8	5.0	4.4	4.1	3.5	5.0	4.9	0.7
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	125.3	125.6	129.7
Current expenditure ex. subsidies/grants and other (% YoY)	1.7	0.9	0.2	4.2	1.7	1.7	5.0	0.3	5.5	1.7
Capital expenditure ex. subsidies/grants and other (billion baht)	397.7	111.7	84.5	100.2	101.2	111.6	91.0	35.6	25.3	30.5
Capital expenditure ex. subsidies/grants and other (% YoY)	-5.0	7.6	-21.7	3.0	-7.6	0.0	7.7	7.1	8.2	14.3
External Sector										
Exports of goods (BoP, billion USD)	235.3	56.2	56.1	61.8	61.1	61.8	63.0	21.8	20.3	22.4
Exports (% YoY)	9.8	6.8	7.9	12.8	11.6	9.9	12.3	10.0	8.3	5.8
Export vol (% YoY)	6.0	2.9	5.0	9.0	7.0	4.9	7.5	5.5	4.4	2.8
Imports of goods (BoP, billion USD)	201.1	46.8	49.0	51.2	54.1	55.2	57.2	18.9	19.4	21.8
Imports (% YoY)	13.2	14.3	12.6	12.4	13.4	17.9	16.8	12.9	12.4	24.2
Import vol (% YoY)	7.2	5.8	7.7	8.3	7.2	10.7	8.9	4.7	5.1	17.2
Tourist arrivals (million arrivals)	35.4	9.2	8.1	8.8	9.3	10.6	8.9	3.0	3.2	3.2
Tourist arrivals (% YoY)	8.8	2.1	8.3	6.4	19.5	15.4	9.1	11.6	2.8	3.0
Tourist revenue (billion baht)	1824.0	481.7	395.0	453.4	494.0	573.3	442.6	148.4	166.4	168.0
Tourist revenue (% YoY)	11.7	5.7	9.8	8.8	23.2	19.0	12.1	14.5	6.4	2.8
Trade balance (billion USD)	34.2	9.5	7.1	10.6	7.0	6.6	5.8	2.9	0.9	0.6
Net services, income and transfers (billion USD)	16.9	6.2	1.4	3.8	5.4	8.3	0.6	1.3	0.2	0.1
Current account (billion USD)	51.1	15.7	8.5	14.4	12.5	15.0	6.4	4.2	1.1	0.8
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	-7.2	-0.4	-1.2
Overall balance (billion USD)	26.0	8.2	2.0	12.6	3.2	12.0	-4.3	-5.3	-0.9	0.2
International reserves (billion USD)	194.0	172.7	177.3	190.9	194.0	206.9	198.4	198.4	197.3	196.4
Net forward position (billion USD)	36.7	26.6	31.3	31.2	36.7	35.8	33.0	33.0	32.2	32.3
Labor Market										
Unemployment (%)	1.2	1.2	1.2	1.2	1.1	1.2	1.1	1.1	1.0	1.0
Farm income (% YoY)	2.8	19.6	13.2	-3.3	-8.2	-2.3	6.2	3.1	4.9	4.8
Non farm income (% YoY)	0.2	-0.6	0.4	1.1	0.0	3.5	1.5	0.8	1.5	1.3
Wage chg (% YoY)	-0.1	-0.6	-0.2	0.5	0.1	2.3	0.0	0.7	1.2	1.6
Interest Rate and Currency										
CPI (%)	0.7	1.3	0.1	0.4	0.9	0.6	1.3	1.4	1.5	1.6
CPI, core (%)	0.6	0.7	0.5	0.5	0.6	0.6	0.8	0.8	0.8	0.7
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	2.7
THB/USD (avg)	33.92	35.10	34.30	33.36	32.91	31.54	31.92	32.49	33.27	33.01

Source: Bank of Thailand, CEIC, Fiscal Policy Office

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