

Q3 2019 GDP growth edged up to 2.4% YoY– below expectations.

- Q3 2019 GDP growth picked up to 2.4% YoY from 2.3% YoY in the previous quarter (Chart 1).** The GDP figure came in at almost the weakest level in five years and well below market expectations. (Bloomberg: 2.7%) On a QoQ basis, the Thai economy grew by only 0.1%. Therefore, the NESDC lowered its 2019 GDP forecast to 2.6%, down from its previous projection of 2.7-3.2% in August, and 3.3-3.8% in May this year. The revised forecast is now in line with our 2019 GDP growth forecast of 2.6%, but subject to growing downside risks.
- Private consumption in Q3 2019 slowed to 4.2% YoY from 4.6% YoY in Q2 2019 despite improvements in other areas of the economy.** Public consumption rose 1.8% YoY in Q3 2019, up from 1.1% in Q2 2019, and Q3 private investment edged up to 2.4% YoY from 2.1% YoY in Q2. Export performance improved from a contraction of -7.9% YoY in Q2 to -1% YoY in Q3. By contrast, Imports fell even more sharply with -6.8% YoY in Q3, from -2.6% YoY in Q2. (Chart 2)
- The contribution to growth from net exports masked the underlying weakness in the economy as net exports accounted for a 4.3% YoY growth.** In addition, export performance was overstated by the gold exports, which rose on the back of strong gold price in the global markets. Also, service exports has benefited from the sharp rebound of Chinese tourists on the back of low base in Q3 2018, as well as the prolonged unrest in HK which explained an outbound Chinese tourist diversion away from Hong Kong. (Chinese tourists make up for approximately 30% of total visitors to Thailand)
- We expect fiscal stimulus to remain supportive and loose going into year-end and in 2020.** But we think the boost to GDP will turn out to be limited. More accommodative monetary policy from the Bank of Thailand will lend further support, but we reckon the BOT is still well behind the curve. And we expect to see further cuts to the policy rate, taking the rate down to at least 1% (record low is 1.25%) or below in 2020 given the collapse of headline inflation (Aug 0.52%; Sep 0.32%; Oct 0.11%) and further downside risks to GDP growth.
- The persistence in the baht strength continues to be a drag on merchandise exports and to some extent on tourism.** The baht has continued to defy expectations to reach a six-year high, making it one of the best performing EM currencies year-to-date against the US dollar. In response, the BOT has eased regulations on capital outflow, but we think the impacts will prove very limited. This will be one of the factors that the BOT will have to ease monetary policy more aggressively than market expectations
- On the brighter side, we expect to see a material pickup in private investment and exports in 2020, as key infrastructure projects especially under the Eastern Economic Corridor initiative.** That will dent current account accumulation for Thailand, and we expect the THB should weaken from this elevated level. We should see further support to the construction sector as the implementation of infrastructure projects get under way. (Chart 3)
- That said, we anticipate the economy to perform below its potential in the quarters ahead, as headwinds continue to persist such as high household debt, the competitiveness of our SME segment.** The NESDC expects the economy to have bottomed out in Q2 2019, but we are not as certain as we expect the drag from the trade war on exports, manufacturing and private investment to linger well into 2020.
- We will release our Thai economic outlook for 2020 in December this year.** For now, we maintain our 2019 GDP forecast of 2.6%, but we are less optimistic about next year's prospects than the NESDC 2020 GDP forecast of 2.7%-3.7%. And we change our yearend USDTHB forecast to 30.75-31.25 as we expect some pullback from this elevated level on the back of ongoing uncertainty surrounding the US-China trade negotiations.

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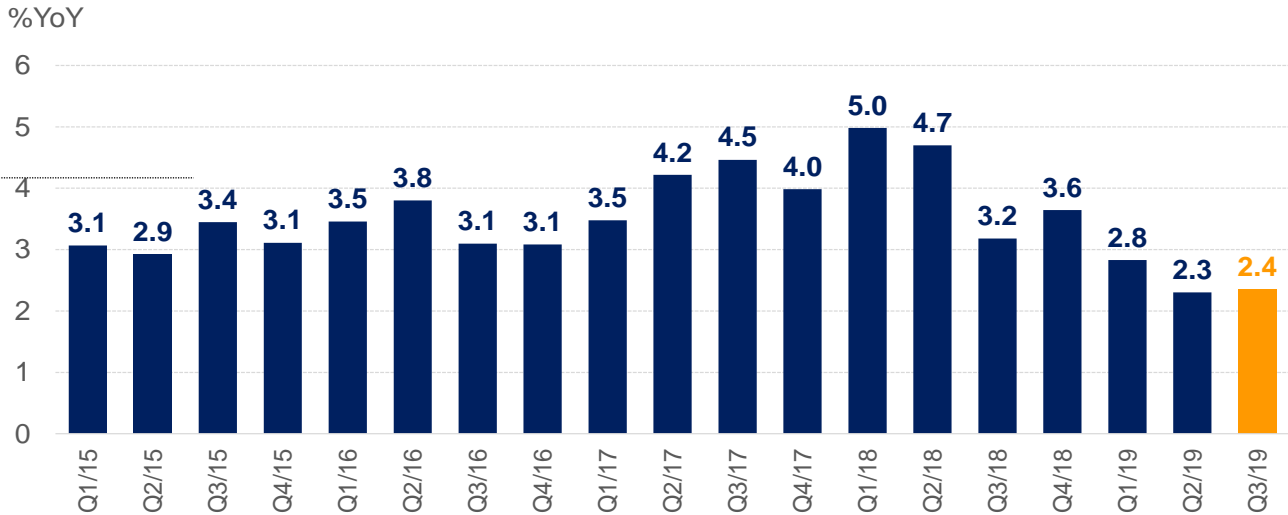
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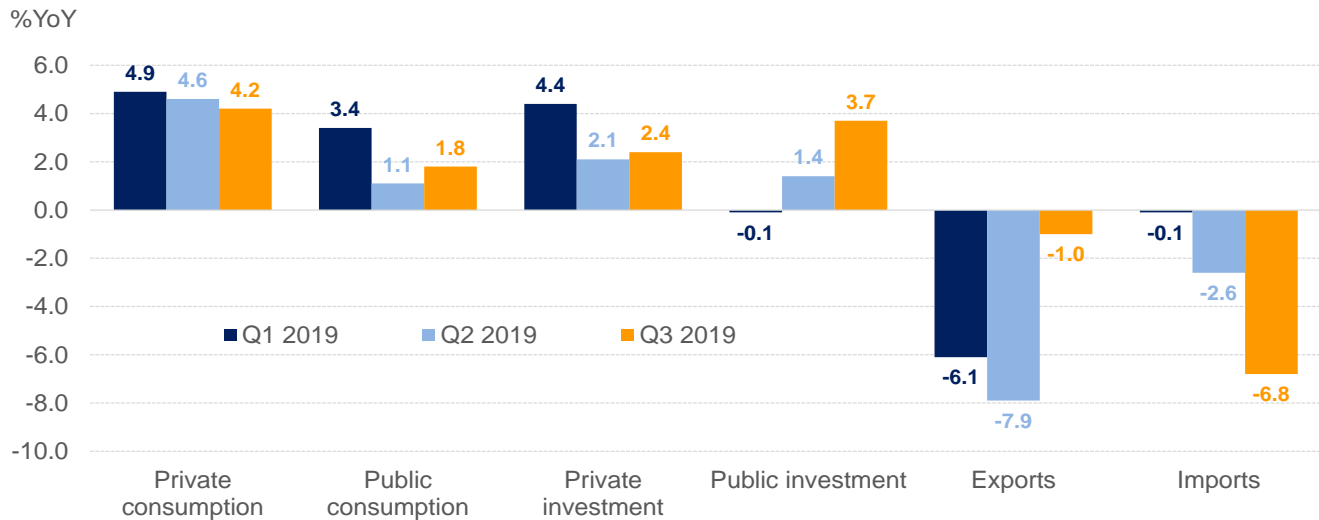
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Chart 1: Quarterly GDP Growth



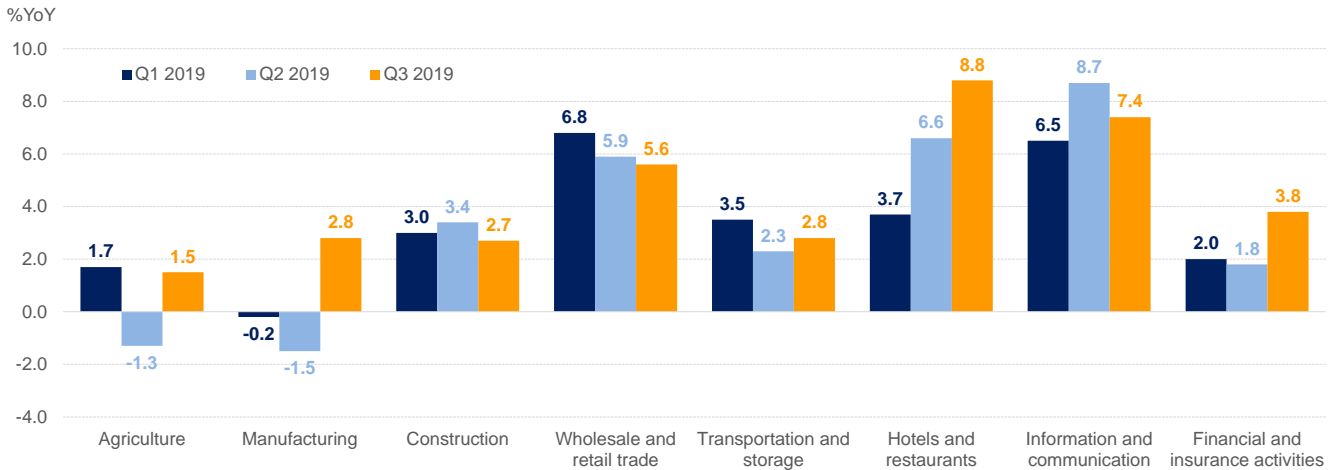
Source: NESDC

Chart 2: GDP Growth by Expenditure Approach



Source: NESDC

Chart 3: GDP Growth by Production Approach



Source: NESDC

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