

Thailand's 2017 GDP

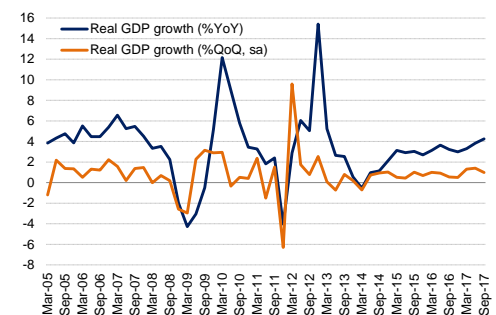
GDP 2017- below consensus, but still solid

February 19, 2018

Thailand's 2017 GDP grew by 3.9% on year, gathering pace from an upwardly revised 3.3% in 2016. This is in line with our projection and slightly below the consensus at 4.0%. 4Q17 GDP rose by 4.0% YoY (0.5% QoQ sa), decelerating from 4.3% YoY (1.0% QoQ sa) in 3Q17 (Exhibit 1).

Private consumption and investment grew moderately as projected, while public expenditure came in below market expectations. Private consumption growth edged up from an upwardly revised 3.4% YoY in 3Q17 to 3.5% YoY in 4Q17, in line with stronger durable goods purchases, pushing 2017 growth to 3.2%. Private investment rose 2.4% YoY in 4Q17, slowing from a downwardly revised 2.5% in 3Q17. That said, private investment growth accelerated to 2% in 2017 from 0.5% growth in 2016 and 0.3% in 2015. Meanwhile, public consumption in 4Q17 rose by 0.2% YoY, down from a downwardly revised 1.8% YoY in 3Q17. Public investment has continued to contract (-6.0% YoY in 4Q17) for the past three quarters, resulting in a contraction of 1.2% in public investment for 2017, in sharp contrast to expectations of a modest expansion (consensus +1.7%, our projection +1.5%). Since 2Q17 actual disbursement has been lower than 70% of the quarterly targeted amount, resulting partly from delays in the construction of infrastructure projects such as the Yellow and Pink mass transit lines in Bangkok (Exhibit 5).

Strong external demand played a critical role in bringing about another massive current account surplus. 2017 exports of goods registered growth of 9.7% in nominal terms (BOP basis) and of 5.6% in real terms, the highest in six years, thanks to solid expansion in almost all product categories and to major export destinations. Exports of services in 2017 also increased by 5.0% in real terms (surging by 9.7% YoY in 4Q17) as tourism revenue for the whole year hit a record high of USD53.8 billion. On the other hand, higher oil prices, together with higher imports of consumer and capital goods (reflecting a moderate pick-up in domestic demand), caused imports of goods to grow at a higher-than-expected 14.4% in nominal terms (BOP basis) and 8.5% in real terms. Nevertheless, the 2017 current account surplus remained elevated at USD49.3 billion, equivalent to 10.8% of GDP (Exhibit 4).

Exhibit 1: Real GDP Growth


Source: NESDB, CEIC

Exhibit 2: Thailand Macroeconomic Forecasts

		2017	BBL 2018F	Consensus	
				2017	2018F
Real GDP growth	%YoY	3.9	4.2	4.0	4.0
Private consumption	%YoY	3.2	3.2	3.2	3.1
Private investment	%YoY	1.7	3	1.9	3.3
Public consumption	%YoY	0.5	2.5	2.1	2.3
Public investment	%YoY	-1.2	9	1.7	10.2
Exports of goods (nominal)	%YoY	9.7	4.5	9.3	4.6
Imports of goods (nominal)	%YoY	14.4	9	13.5	7.4
Current account	USD billion	49.3	38	46.9	39.9
CPI (period average)	%YoY	0.7	1.7	0.7	1.3
Exchange rate	THB/USD	33.9	30		
Policy rate	%	1.5	1.5		

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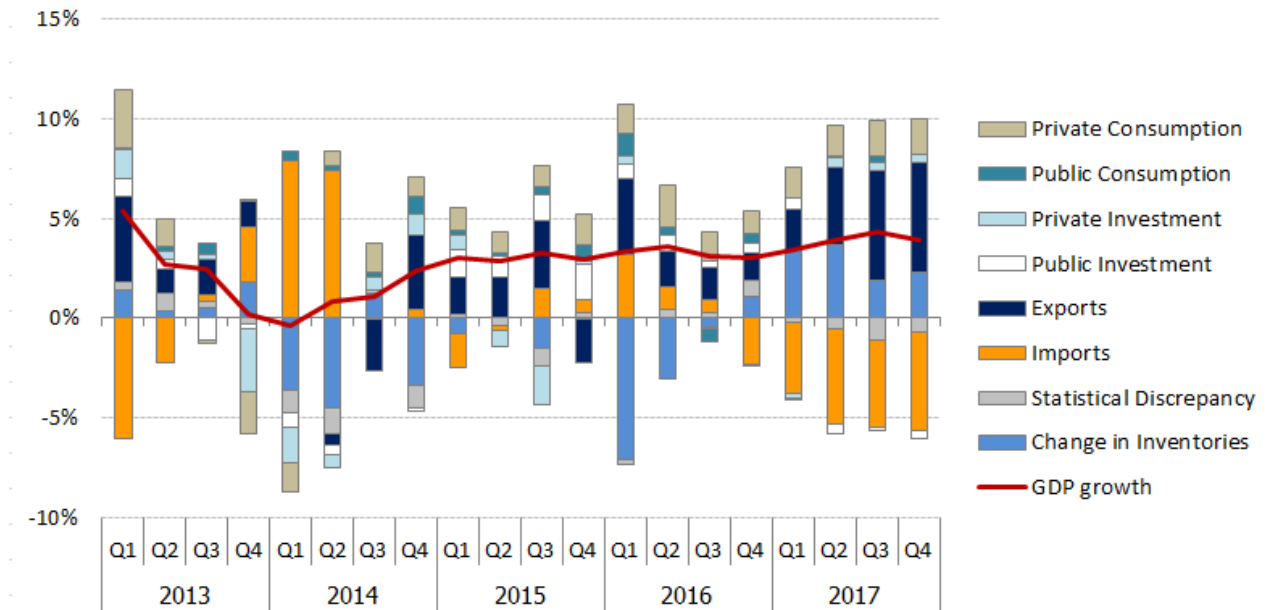
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Growth on the production side was primarily driven by the manufacturing and tourism-related sectors. Agricultural production in 4Q17 declined (-1.3% YoY) as a result of floods in the northeast of Thailand, though it has started to recover since December 2017. Manufacturing production continued to expand by 3.0% YoY in 4Q17, albeit decelerating from 4.2% YoY in 3Q17. This reflected higher investment and recovering capacity utilisation in export-oriented sectors—such as petrochemical, electronics, and automotive—as well as some domestically oriented sectors. On the services sector front, wholesale and retail sectors expanded by 6.9% YoY in 4Q17 (vs 6.4% YoY in 3Q17). Similarly, growth in the hotel and restaurant sector accelerated to 15.3% YoY from 6.9% YoY in 3Q17, and the transport sector expanded by 8.9% YoY, up from 7.4% YoY in 3Q17 in line with strength in the tourism industry. In contrast, the construction sector remained sluggish due to a slowdown in demand for housing coupled with huge financial burdens associated with past land purchases (Exhibit 6).

Exhibit 3: Contribution to GDP Growth



Source: NESDB, CEIC

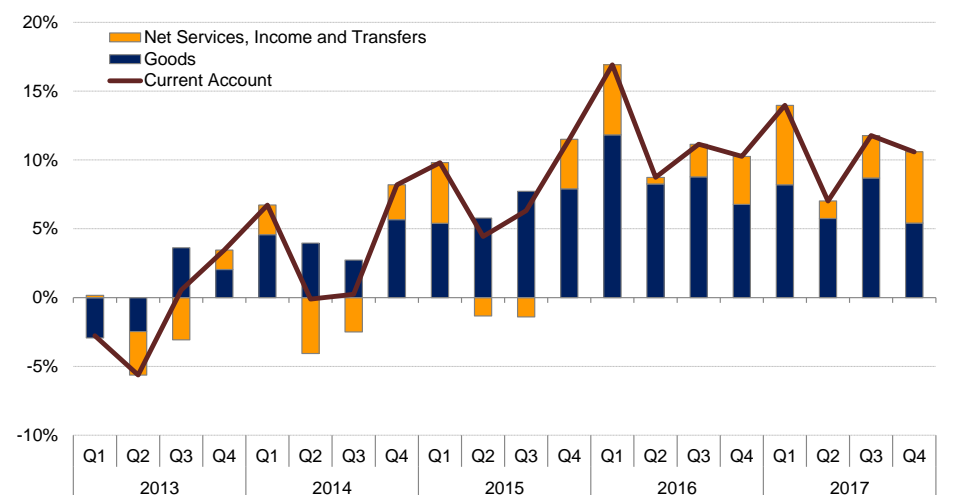
Our Assessment

Our headline GDP growth projection for 2017 of 3.9% coincided with the GDP print from the Office of the National Economic and Social Development Board (NESDB). However, some components of the GDP came in below our expectations. That said, **we are comfortable with our 2018 real GDP forecast of 4.2%**. We see some upside risks to our GDP projection as some government reforms should be bearing fruit in the coming quarters, such as the effort to simplify and streamline current laws and regulations to make them more pro-business—often dubbed as the regulatory guillotine. Granted, there remain downside risks to our projections stemming from the disappointing trend in government budget disbursement numbers and mounting pressures on our exports from the relentless appreciation of the baht.

Based on our economic outlook for 2018 published in Jan 2018, we called for the baht to average around 30 baht/USD, and we maintain our forecast despite the recent US economic indicators suggesting rising inflationary pressures—prompting markets to expect four rate hikes by the Fed in 2018. We are well aware of the outlook for higher US yields, but for the past year, rising US interest rates have not coincided with a stronger US dollar. In fact the dollar has weakened significantly. Further, we project another year of a strong current account surplus in 2018, despite moderation from 2017. As a result, **we remain quite bullish on the Thai baht for the remainder of 2018.**

We still maintain our view that the Bank of Thailand will leave the policy rate unchanged throughout 2018, despite some economists’ call for a rate rise as early as 3Q18. Our assessment is that the domestic economic drivers are subdued, as reflected by the fact that the government felt the need to roll out private consumption stimulus at the end of 2017, and that inflationary pressures—especially in terms of core inflation—remain muted. Some have argued that the higher Fed funds rate will prompt the Bank of Thailand to follow suit. We hold a different view as we think the monetary policy committee will focus more on conditions in the domestic economy, rather than attempting to narrow the interest rate differential with the US.

Exhibit 4: Thailand's Current Account (% of GDP)



Source: Bank of Thailand, CEIC

GDP and its Composition

Exhibit 5: Real GDP: Expenditure Side

%YoY	GDP	Private Consumption (51%)*	Public Consumption (16%)*	Gross Fixed Capital Formation (25%)*	Private Investment (18%)*	Public Investment (7%)*	Exports of Goods & Services (75%)*	Exports of Goods (57%)*	Exports of Services (19%)*	Imports of Goods & Services (65%)*	Imports of Goods (53%)*	Imports of Services (12%)*
Q1 2015	3.0	2.3	1.6	9.9	3.8	33.9	2.5	-0.9	15.6	2.6	4.4	-5.1
Q2 2015	2.9	1.9	1.0	1.2	-4.1	20.0	2.7	-2.4	27.3	0.4	0.4	0.5
Q3 2015	3.3	1.9	2.1	-1.9	-9.1	21.6	4.3	-0.1	23.5	-2.0	-2.1	-1.2
Q4 2015	2.9	3.0	5.3	8.9	1.1	41.8	-2.8	-4.6	3.8	-0.9	-1.5	1.6
Q1 2016	3.4	3.0	8.3	4.9	2.4	12.8	5.1	1.0	18.9	-4.9	-7.4	6.7
Q2 2016	3.6	4.0	2.8	3.3	0.0	12.8	2.3	-1.1	14.8	-1.7	-2.8	2.5
Q3 2016	3.1	2.7	-3.9	1.0	-0.3	4.5	2.0	-0.5	10.7	-1.0	-2.1	4.4
Q4 2016	3.0	2.3	2.9	2.1	-0.1	8.9	1.8	1.6	2.5	3.5	3.2	4.8
Q1 2017	3.4	3.1	-0.7	1.7	-1.1	10.0	2.7	2.8	2.5	5.9	7.3	0.4
Q2 2017	3.9	2.9	0.4	0.3	3.0	-6.9	5.1	4.9	5.7	7.2	9.2	-1.0
Q3 2017	4.3	3.4	1.8	1.2	2.5	-1.6	6.9	8.2	2.6	6.5	9.2	-5.0
Q4 2017	4.0	3.5	0.2	0.3	2.4	-6.0	7.4	6.6	9.7	7.5	8.3	3.8
2015	3.0	2.3	2.5	4.3	-2.1	28.4	1.6	-2.0	16.2	0.0	0.2	-1.0
2016	3.3	3.0	2.2	2.8	0.5	9.5	2.8	0.3	11.5	-1.0	-2.3	4.6
2017	3.9	3.2	0.5	0.9	1.7	-1.2	5.5	5.6	5.0	6.8	8.5	-0.4

%QoQ,sa	GDP	Private Consumption (51%)*	Public Consumption (16%)*	Gross Fixed Capital Formation (25%)*	Private Investment (18%)*	Public Investment (7%)*	Exports of Goods & Services (75%)*	Exports of Goods (57%)*	Exports of Services (19%)*	Imports of Goods & Services (65%)*	Imports of Goods (53%)*	Imports of Services (12%)*
Q1 2015	0.4	0.7	-2.4	5.7	-0.2	25.3	-4.9	-4.5	-5.2	1.0	1.7	-2.1
Q2 2015	0.5	0.9	1.9	-1.7	-2.1	-2.4	0.8	-0.2	5.7	-1.7	-2.8	3.9
Q3 2015	1.2	0.9	3.3	1.0	-0.9	5.7	0.6	-0.2	2.6	0.4	0.5	-0.8
Q4 2015	0.8	0.7	1.5	3.4	4.2	7.9	0.9	0.1	1.8	-1.3	-1.6	0.5
Q1 2016	0.9	0.6	1.3	1.4	0.9	-0.3	2.4	0.9	7.6	-1.8	-2.9	3.1
Q2 2016	0.8	1.6	-3.1	-2.2	-3.9	0.2	-1.4	-1.6	1.4	1.0	1.3	-0.3
Q3 2016	0.6	-0.3	-3.0	-1.0	-0.7	-1.9	0.2	0.1	-0.3	1.2	1.1	1.1
Q4 2016	0.8	0.6	7.3	3.7	3.4	9.9	0.8	2.1	-5.0	2.7	3.3	0.7
Q1 2017	1.2	1.3	-1.6	1.0	0.0	1.0	3.0	2.0	6.4	1.3	1.8	-1.1
Q2 2017	1.3	1.2	-1.8	-3.1	0.4	-13.9	1.1	0.7	4.3	1.7	2.6	-1.7
Q3 2017	1.0	0.2	-1.5	0.0	-0.9	3.3	1.9	3.2	-2.6	0.9	1.4	-2.9
Q4 2017	0.5	0.8	4.9	2.1	2.5	4.0	1.2	0.6	1.9	3.0	2.0	9.9

* percentage of GDP (2017)
Source: NESDB

Exhibit 6: Real GDP: Production Side

%YoY	GDP	Agriculture (6%)*	Non Agriculture (94%)*	Industry		Services								
				Manufacturing (28%)*	Construction (3%)*	Wholesale & Retail (15%)*	Hotels/ Restaurants (6%)*	Transport/ Storage/ Comm (10%)*	Financials (7%)*	Real Estate (8%)*	Public Admin/ Defence (5%)*	Education (3%)*	Health/ Social Work (2%)*	Social Services (2%)*
Q1 2015	3.0	-9.3	4.7	2.7	20.3	4.6	20.4	7.0	10.3	2.4	-1.3	-2.3	1.7	2.2
Q2 2015	2.9	-8.0	3.8	-0.1	15.0	4.7	23.8	8.7	8.8	0.0	0.8	-0.8	1.3	5.0
Q3 2015	3.3	-6.6	3.8	1.9	10.9	3.3	13.3	4.8	6.8	1.1	2.5	1.5	3.6	5.7
Q4 2015	2.9	-2.3	4.0	2.2	24.1	6.4	4.5	1.3	7.8	3.6	0.3	0.8	7.6	4.5
Q1 2016	3.4	-3.9	4.2	0.2	12.6	5.5	12.8	6.6	5.2	3.3	3.9	3.4	4.5	7.9
Q2 2016	3.6	-2.9	4.2	3.7	9.1	4.4	10.1	2.3	7.1	3.6	-0.4	0.8	3.5	9.2
Q3 2016	3.1	-3.6	3.6	2.6	5.9	5.6	12.1	3.8	6.0	2.5	-1.8	-0.8	1.3	10.1
Q4 2016	3.0	-0.4	3.5	2.9	6.9	5.8	4.9	3.7	7.6	3.2	0.3	1.6	-0.1	6.0
Q1 2017	3.4	6.0	3.2	1.9	3.2	5.9	5.1	5.3	4.8	3.8	-0.2	0.1	1.5	6.5
Q2 2017	3.9	15.9	3.0	1.0	-5.7	6.0	7.0	7.8	6.3	4.2	1.4	2.2	3.1	5.8
Q3 2017	4.3	9.7	4.0	4.2	-1.6	6.4	6.9	7.4	4.6	4.7	-0.4	1.2	4.1	5.3
Q4 2017	4.0	-1.3	4.6	3.0	-5.3	6.9	15.3	8.9	4.2	5.6	0.1	1.3	3.8	6.0
2015	3.0	-6.3	4.1	1.7	17.1	4.8	15.0	5.3	8.4	1.8	0.6	-0.2	3.6	4.3
2016	3.3	-2.5	3.8	2.3	8.6	5.3	9.9	4.1	6.5	3.2	0.4	1.2	2.2	8.3
2017	3.9	6.2	3.7	2.5	-2.3	6.3	8.5	7.3	5.0	4.6	0.2	1.2	3.1	5.9

%QoQ,sa	GDP	Agriculture (6%)*	Non Agriculture (94%)*	Industry		Services								
				Manufacturing (28%)*	Construction (3%)*	Wholesale & Retail (15%)*	Hotels/ Restaurants (6%)*	Transport/ Storage/ Comm (10%)*	Financials (7%)*	Real Estate (8%)*	Public Admin/ Defence (5%)*	Education (3%)*	Health/ Social Work (2%)*	Social Services (2%)*
Q1 2015	0.4	-2.7	0.7	1.5	12	1.1	4.3	-1.6	3.7	-0.1	-3.4	-2	1.1	-2.5
Q2 2015	0.5	-0.5	0.6	-1.5	2.3	1.4	2.5	3.3	0.8	-0.7	3.0	1.5	1.0	1.3
Q3 2015	1.2	-0.5	1.3	1.5	0.6	0.8	-1.5	-0.4	1.5	1.8	1.5	1.9	2.5	2.2
Q4 2015	0.8	1.3	1.2	0.5	6.5	2.2	0.8	0.6	1.3	2.2	-0.8	-0.7	2.4	3.2
Q1 2016	0.9	-4.0	1.1	0.0	1.5	0.8	9.7	2.5	1.5	0.0	0.2	1.0	-1.2	1.3
Q2 2016	0.8	0.0	0.7	1.8	0.9	0.7	0.4	-0.4	2.6	-0.1	-1.3	-1.3	-0.1	2.6
Q3 2016	0.6	-0.6	0.6	0.0	-1.7	1.9	1.3	1.3	0.6	0.7	0.3	0.3	0.1	2.2
Q4 2016	0.8	4.3	1.1	0.9	5.1	2.0	-5.2	0.8	2.5	2.1	0.7	1.6	0.7	-0.2
Q1 2017	1.2	2.3	0.8	-0.7	-1.7	1.1	8.3	3.3	-1.0	1.0	0.1	-0.4	0.9	1.9
Q2 2017	1.3	9.1	0.6	0.9	-6.6	1.0	2.5	2.3	4.0	0.5	0.2	0.7	1.4	1.8
Q3 2017	1.0	-5.6	1.5	2.9	2.2	2.2	1.7	0.9	-0.8	1.1	-1.4	-0.7	1.0	1.5
Q4 2017	0.5	-6.3	1.6	0.0	0.3	2.3	2.5	2.3	1.9	2.6	0.9	1.5	0.4	0.8

* percentage of GDP (2017)
Source: NESDB

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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.