

1Q19 GDP growth preview: Slowing as export decline squeezed domestic production and private investment

- **We expect 1Q19 GDP growth of 3.0% YoY, down from 3.7% YoY in 4Q18 and slightly below the consensus estimate of 3.3% YoY (Chart 1).**
- **Our estimate is primarily attributable to the sharp export decline.** Export volume in 1Q19 slipped by 3.9% YoY, the weakest showing since 4Q15. The fall in exports were deepest across the computer, machinery & parts, and integrated circuit categories, in tandem with decreasing electronics exports among major producers, such as China, Korea, and Taiwan (**Chart 2**). To a large degree, this was due to weaker global electronics demand. Another contributing factor was the impact of US tariffs on imports from China, which reduced Chinese demand for components and parts from suppliers across a range of electronics and machinery supply chains. In the case of Thailand, the 9.2% YoY reduction in exports to China in 1Q19 was led by a 15.7% YoY contraction in exports of electronics-related products (**Chart 3**). Furthermore, 1Q19 tourism revenue dipped by 1.3% YoY, as receipts from Chinese tourists slipped by 2.2% YoY and European tourist arrivals dropped, given the shift in the Easter holiday from March to April.
- **Weak export performance has squeezed domestic production and private investment.** The Manufacturing Production Index (MPI) slipped for the first time in nine quarters by 1.1% YoY, squeezed by lower export-oriented production, while the Private Investment Index (PII) dipped for the first time since 1Q17 by 1.3% YoY on lower purchases of machinery for computer production.
- **Manufacturing inventory indicators point to accumulation in 1Q19 (Chart 4).** The 1Q19 finished product inventory index surged by 15.8% YoY, its sharpest rise in six years. The increase was led by rising inventories of motor vehicles and electronics-related products, reflecting a 3.8% YoY drop in automotive exports and an 11.3% YoY decline in electronics exports in the quarter.
- **Private consumption, still a major growth driver, showed signs of slowing.** The Private Consumption Index (PCI) increased by 3.5% YoY in 1Q19, a slowdown from 4.5% YoY growth in 4Q18, with deceleration across both durables and non-durables. Domestic car sales continued to exceed our expectation (**Chart 5**), but the rise in auto-related loans, which has contributed to household debt expansion, has become a concern of the Bank of Thailand. Meanwhile, public consumption and investment are expected to add to GDP growth in 1Q19, as current expenditure increased by 10.1% YoY because of front-loaded compensation disbursement and capital expenditure growth of 5.3% YoY, led by disbursement for road-related and other small-scale project spending.
- **Our 2019 forthcoming GDP growth forecast revision will reflect slower Thai economic momentum.** Higher US tariffs on US\$200bn worth of imports from China (from 10% to 25%) will further dampen global trade and Thailand's export outlook. Furthermore, the Bt21bn fiscal stimulus package indicates government concern that private consumption is likely to weaken in 2Q19. Going forward, the implementation of policies, including the campaign measures aimed at increasing purchasing power and infrastructure investment, will depend to a large extent on the stability of the incoming administration.

Anuk Serechetapongse

Economist

anuk.serechetapongse@bangkokbank.com/ +66 2 626 3372

Kantheera Tipkanjanarat

Research Associate

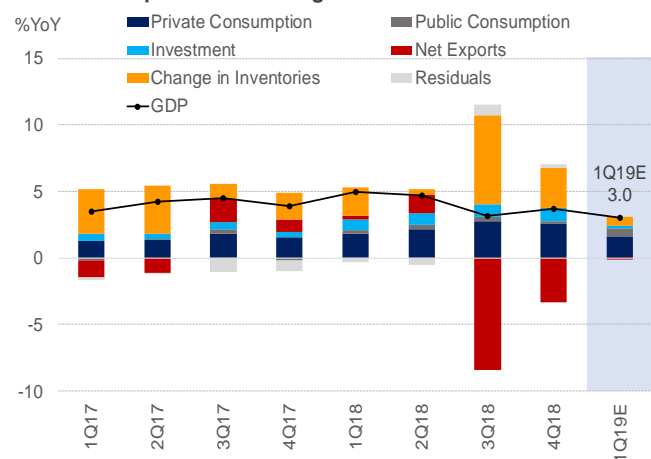
kantheera.tipkanjanarat@bangkokbank.com

Boochita Pitakard

Research Associate

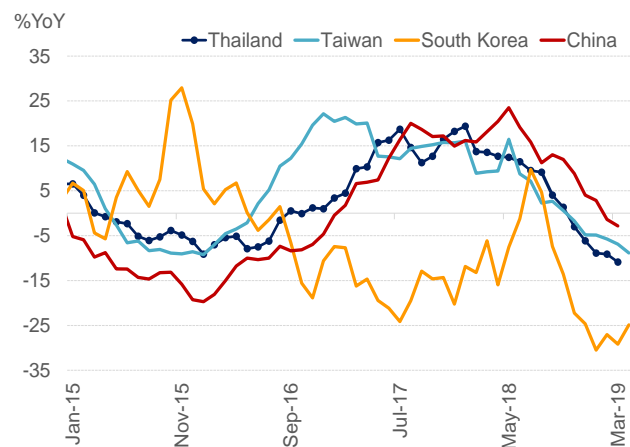
boochita.pitakard@bangkokbank.com

Chart 1: Components of GDP growth



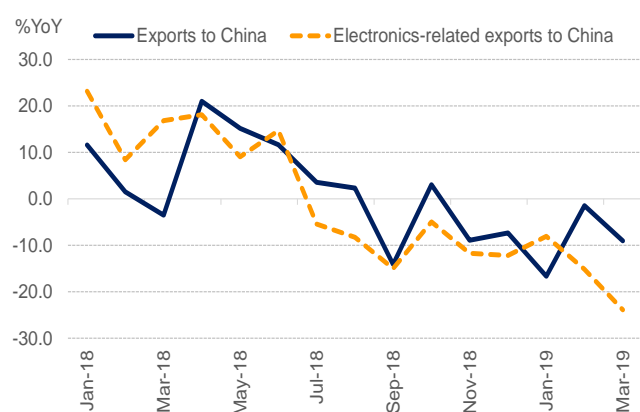
Source: NESDC

Chart 2: Electronics-related exports (3-month moving ave)



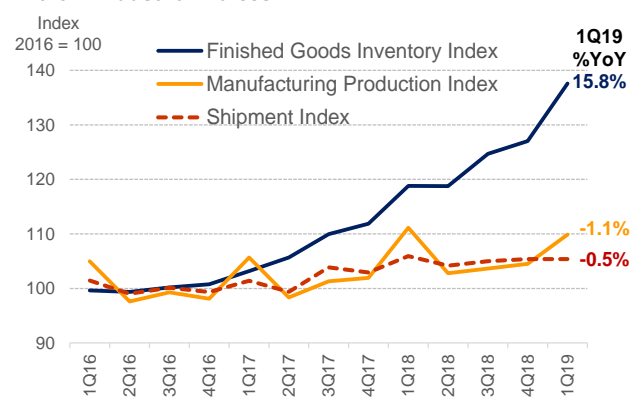
Source: Ministry of Commerce

Chart 3: Thai exports to China



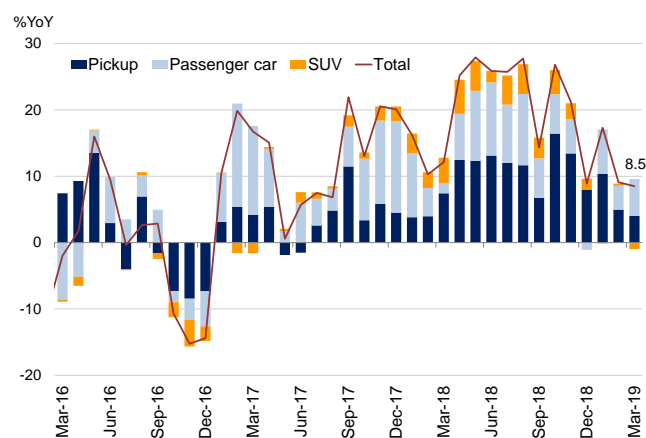
Source: CEIC

Chart 4: Industrial indices



Source: Office of Industrial Economics

Chart 5: Thai Auto Sales



Source: CEIC

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