Economics

DBS Flash

Thailand: Slow 3Q growth challenges hawkish BOT

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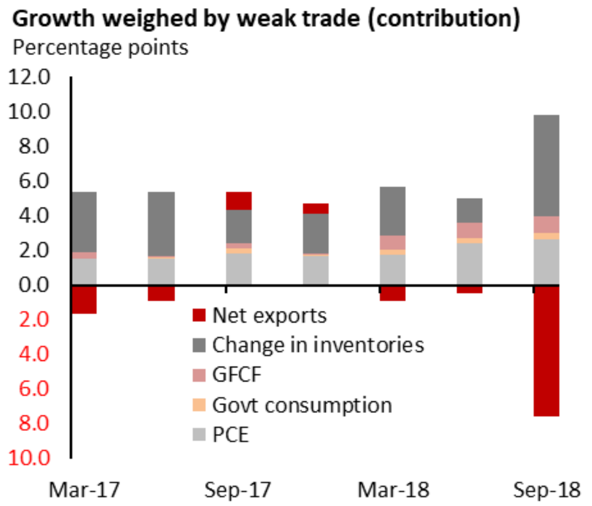
- *Growth slowed more than expected in 3Q.*
- *Domestic drivers improved, helped by inventory restocking*
- *But there was a sharp drop in net exports.*
- *The NESDB trimmed its forecast to more conservative levels than the Bank of Thailand (BOT) and Finance Ministry.*
- *At last week's policy review, the Bank of Thailand had signalled that a hike was near.*
- *Firm domestic sectors might still give them the confidence to tighten policy*
- *If the committee leans towards a hike, the cycle is likely to be front-loaded and shallow.*
- *Growth is likely to stay below 4% in 4Q*

Thai growth slowed more than expected in Q3, undershooting consensus by a wide margin. Growth eased to 3.3% YoY, sharply lower than 4.8% in H118. Growth plateaued on MoM terms, down from a revised 0.9% in Q2 and 2.0% in Q1.

Under expenditure, domestic consumption and investment growth improved. As lead indicators had suggested, private consumption strengthened to 4.3% from 3.6% in H1, alongside higher public sector spending. Fixed asset investments also accelerated, helped by pre-election and broader infrastructure boost. A sizeable contribution by the inventory restocking helped to prop up the headline, but this is unlikely to sustain. Net trade, meanwhile, was the biggest drag, with the extent of decline sharpest since late-2011, when large-scale floods had dampened Thai growth. Exports slowed sharply, while higher imports were largely due to a wider commodity bill rather than a pick-up in private sector demand.



Source: CEIC, data transformations by DBS Group Research

For the year, growth is likely to remain sub-4% in Q4, posing 30-40bp downside risk to our full-year forecast of 4.5%. This also sets 2019 on a softer note. Concerns are that investments might slow as the short-term lift to investments ahead of February 2019 elections passes and manufacturing slows due to weaker exports. Tourism earnings have also been weaker, with focus on recent measures to boost travel earnings. These factors might see 2019 growth miss our current forecast of 4.2%.

Following the data release, the NESDB trimmed its forecast to 4.2% for 2018, more conservative than the Bank of Thailand (BOT) at 4.4% and Finance Ministry at 4.5%. The NESDB pegged 2019 growth at 3.5-4.5%

At last week's policy review, the Bank of Thailand had signalled that a hike was near. Firm domestic sectors (consumption and investment) might still give them the confidence to tighten policy in December or early 2019 (to create buffers for future contingencies), but it will be a close call. Even if policy normalisation kickstarts, the cycle will be front-loaded and shallow, as we had highlighted in our recent note (see here).

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).