Thailand: A huge downside GDP miss

The 3Q18 performance is bad enough to dent the official optimism about the economy this year and the next, with continued 4%-plus GDP growth. It should also dampen the central bank's hawkish rhetoric on tightening recently

Source: Shutterstock

3.3% 3Q18 GDP growth

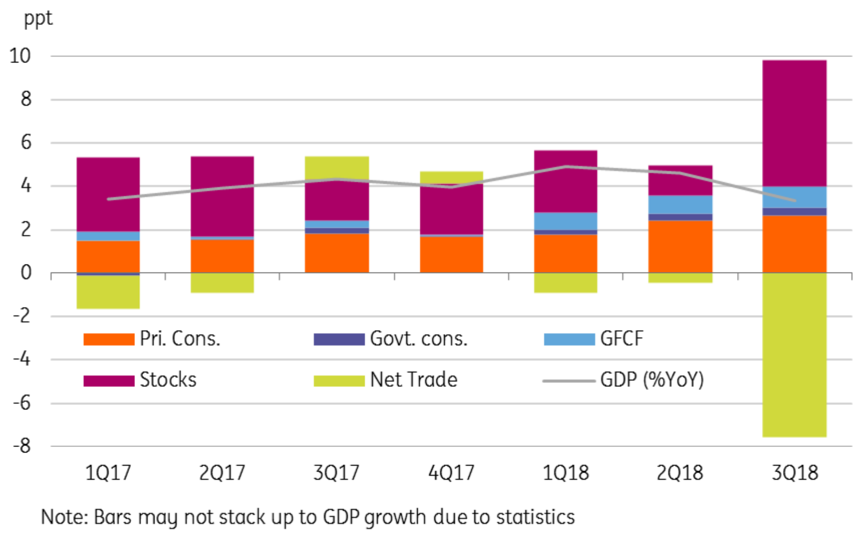
Worse than expected

Net trade dents GDP growth

Thailand's GDP growth slowed more than expected to 3.3% year-on-year in the third quarter of 2018 from 4.6% in the second quarter. The outcome was far below the analysts' consensus, which centred on 4.2% growth. We were at the low end with a 3.7% estimate.

As the graph below shows, net exports were the main drag on GDP growth in 3Q18, led by a sharp slowdown in export growth. While import growth remained robust, this seems to be more due to higher oil imports rather than an improvement in domestic demand. The contribution of private consumption to GDP was slightly better than the second quarter, while that of government consumption and fixed capital formation was little changed. This left inventories in the prime spot as the GDP driver for yet another quarter, not a healthy sign for future growth.

Where GDP growth is coming from?



Source: Bloomberg, CEIC, ING

No more reasons for optimism

We believe the data is bad enough to dent the official optimism on the economy's performance this year and the next, with continued 4%-plus GDP growth, as well as dampen the Bank of Thailand's (BoT) hawkish rhetoric on tightening recently. The National Economic and Social Development Board (NESDB), the agency responsible for the National Accounts statistics, forecasts 2018 GDP growth at 4.2%, slower than the finance ministry's 4.5% and the BoT's 4.4% forecasts.

On its own, the 3Q18 data has pushed our 2018 growth forecast to 4.1% from 4.2%. We anticipate a further slowdown to 3.8% in 2019 (consensus 3.9%, BoT 4.2%).

Weakening support for the THB

Our view of the BoT maintaining the policy rate at 1.50%, the level it's been at since early 2015, in the rest of the year remains on track. Aside from a softer USD and falling oil prices recently, we see no reason to remain positive on the Thai baht (THB) as the currency is also losing the strong support it enjoyed from the wide current account surplus. The THB's 1.9% depreciation since October is the worst among Asian currencies. We continue to see the USD/THB rising to 33.60 by the end of the year from the current spot rate of 32.96.