

## Thailand: A modest manufacturing slowdown in July

Slowing manufacturing signals a further GDP slowdown in the current quarter. Yet, the recent increase in hawkish rhetoric by the central bank threatens our call of unchanged monetary policy during the remainder of the year



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**4.6%** July manufacturing growth

Better than expected

### Above-expected July manufacturing growth

Thailand's July manufacturing output surprised on the upside with growth of 4.6% year-on-year, beating the consensus expectation for only 4.3% growth. The July growth rate was a slowdown from 5.0% growth in June, which was revised up from 4.7%. We were at the low end of the

consensus forecasts range (3.6% to 5.2% growth), expecting base-year effects and tapering export strength in recent months to depress manufacturing. The manufacturing capacity utilization dipped to the lowest in nine months to 67.2% in July from 69.1% in June.

Although our forecast was wide of the mark, the manufacturing slowdown does tally with our forecast for a further slowdown in GDP growth in the current quarter from 4.6% in the second quarter, which in itself was down from a five-year high of 4.9%. We will refine our 4.1% GDP growth forecast for 3Q in the light of more high-frequency data in the weeks ahead. But for now, a GDP slowdown seems inevitable against a more unfriendly base-year effect, while the global trade war risk to exports remains elevated.

## Increased central bank policy risk

There has been a significant increase in hawkish policy rhetoric by Bank of Thailand officials recently, especially from Governor Veerathai about the need for monetary policy normalization. Today's data may provide a further boost to such rhetoric.

Creating some policy space for the future is one thing. But, the economy isn't screaming out for a policy tightening just yet, while higher rates could also threaten the fragile recovery reflected by still anaemic domestic demand. Apart from consumer spending, which contributed to half of the 4.6% GDP growth rate in 2Q18, there is little vigour in other domestic spending-side GDP components. Moreover, inflation continues to be low and, unlike some of its Asian counterparts, the BoT isn't under any pressure to shield the currency from the emerging market rout (like the one earlier this month stemming from the Turkish financial crisis), thanks to a large current account surplus.

That said, our call for the BoT keeping policy unchanged this year remains at risk at the next policy meeting on 19 September.