Thailand: Activity data points to 1Q GDP slowdown

Our forecast for GDP growth to slow (to 3.6% in 1Q from 4.0% in the previous quarter) remains on track. We revise our end-2018 US dollar/Thai baht forecast to 31.3 from 31.0

Source: Shutterstock

We consider the official 4.2% GDP growth forecast for 2018 at risk from an overvalued currency and the global trade war, as these factors threaten exports while a domestic demand recovery remains in a nascent stage. And the central bank (Bank of Thailand) has little scope to increase monetary accommodation in the event these risks materialise. While we aren't forecasting the BoT to ease policy this year, we aren't expecting it to be tightened either. We revise our end-2018 USD/THB forecast to 31.3 from 31.0 (spot 31.5, consensus 31.0).

2.6%

March industrial production growth

Year-on-year

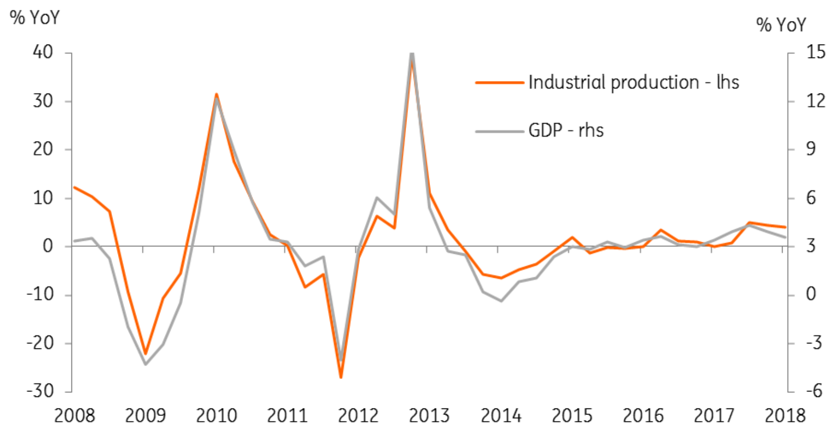
Lower than expected

Weak manufacturing, weak GDP in 1Q18

The slowdown in Thailand's manufacturing activity bodes ill for the country's GDP growth in the first quarter of 2018. Released today, industrial production (IP) surprised on the downside in March with growth of 2.6% year-on-year, a five-month low and down from 4.6% in February. The consensus forecast was 3.6% growth. Part of the IP slowdown can be traced to slower export growth; 7.1% year-on-year export growth was the weakest annual pace in a year. We believe domestic demand continued to be weak as well, as reflected in moderate vehicle sales growth.

IP growth is closely correlated with GDP growth (see chart). Today's data puts 1Q18 IP growth at 3.9% YoY, down from 4.4% in 4Q17. This will be associated with slower GDP growth. GDP grew by 4% in 4Q17. Our forecast of a slowdown to 3.6% in 1Q18 remains on track (data due on 21 May).

Where IP goes, GDP follows



Source: Bloomberg, ING

Official optimism on growth in 2018

In its quarterly economic report on Friday last week, the finance ministry maintained the 4.2% GDP growth forecast for the full-year 2018 (3.9% in 2017). This assumes steady support to the economy from exports and tourism receipts. The ministry lifted its forecast for export growth this year to 8% from 6.6% projected at the start of the year, while tourism revenue is forecast to rise by 17%. But the ministry also predicts reduced support from public spending, with the growth forecast cut to 5.5% from 8.2%. We consider these projections subject to more downside than upside risk.