Thailand: Downgrading GDP growth forecast

2019 is shaping up to be the worst year for Thai growth in the last five years. The latest manufacturing data prompts us to cut to our full-year 2019 GDP growth forecast to 2.8% from 3.1%, while this brings more support to our view of the central bank joining the global easing cycle as early as next month.

Source: Shutterstock

-5.5%

June manufacturing growth

YoY

Worse than expected

Worst manufacturing growth in five years

Contrary to the consensus view of a slight improvement, the June manufacturing index posted a steeper fall (-5.5% year-on-year) than the 4% fall the previous month. The Bloomberg consensus median was -3.3% growth (ING forecast -3.5%). This is the worst manufacturing growth since mid-2014.

The accelerated weakness from -4.0% in May contrasts with a moderate export fall in the month (-2.1% YoY up from -6.2% in May). This points to weak domestic demand as the culprit. Just as in exports, automobiles and electronics have been the standout sectors in this manufacturing weakness.

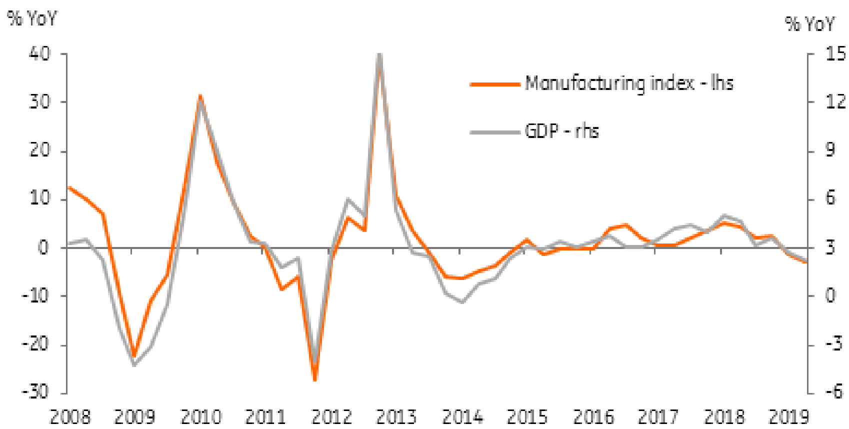
Dragging GDP for further weakness in 2Q

Manufacturing drives GDP growth in Thailand. Average second quarter manufacturing growth of -2.8% was a further deterioration from -1.2% in the first quarter. Indeed, this will have dragged GDP growth down from a 4-year low of 2.8% in 1Q, while weak tourism continued to weigh on the services sector.

Based on the latest information we estimate 2Q19 GDP growth of 2.3%, to which we revise our forecast from 3.0%. While the base effect may help some recovery in the third and the fourth quarters of the year, we imagine it's going to be tough for the economy to outperform the 3% new normal for GDP growth this year. We also revise our full-year growth forecast to 2.8% from 3.1%, which will be a sharp dip from 4.1% growth in 2018.

Recently, both the government and the Bank of Thailand cut their 2019 GDP growth forecast to 3.3% from 3.8%. We don't rule out more downgrades ahead.

Manufacturing drives GDP



Source: Bloomberg, CEIC, ING

And tipping the BoT for easing in August

The latest activity data strengthens our view that the economy needs some policy stimulus. And with the weak coalition government potentially facing a political headwind to stimulatory fiscal policies, this will most likely have to come from the monetary side.

We maintain our view of the Bank of Thailand joining the global easing bandwagon with a 25bp policy rate cut at the next meeting on 7 August and one more such move in the final quarter of the year, taking the policy rate to 1.25% by year-end. We believe this could aid the central bank in its efforts to curb the Thai baht (THB) appreciation pressure, while recent regulatory measures to that end are proving to be ineffective. Our end-year USD/THB rate forecast is 31.0 (30.8).