

## Thailand: export recovery finally coming through

Consequently, we revise our GDP growth forecast upwards to 3.7% and scale back our forecast from one 25bp rate cut to no change, till the end of 2017



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Industrial production (IP) surprised on the upside in September with 4.21% YoY growth with the consensus being 3.55% and the previous figure 3.74%. Firmer exports supported the third consecutive month of acceleration in IP growth, even though export growth moderated in September (12.2% vs 13.2% in August). After de-coupling earlier in the year, both growth rates moved in the same direction in the third quarter, to acceleration. 3Q17 IP growth of 3.8% was up from -0.1% in the previous quarter, and it is the fastest rate in five quarters. USD-denominated export growth picked up to 12.0% and 10.9% over the same period.

This is a sign of export recovery finally coming through into manufacturing, validating the official tone of further acceleration of GDP growth in 3Q17 from 3.7% in 2Q. However, it needs to be seen how much of this really gets transmitted to GDP growth.

The manufacturing contribution to 3.5% GDP growth in 1H17 was insignificant at 0.3ppt, and oddly enough inventories were the biggest expenditure-side driver with 3.6ppt contribution. That said, we

revise our GDP growth forecast to 3.9% from 3.5% for 3Q and to 3.7% from 3.5% for the full-year (cons: 3.7% and 3.5% respectively). The Bank of Thailand forecasts 3.8% GDP growth in 2017.

CPI data for October is due tomorrow. We are in line with consensus in forecasting steady CPI inflation in October at September's rate of 0.86%. There is no inflation in Thailand, and all of the rise to 0.6% year-to-date from 0.2% in 2016 was from oil-related utilities and transport CPI components. Core inflation has eased to 0.5% from 0.7% over the same period. Inflation has been below the BoT's 1-4% target, and absence of spending-driven price pressure makes it hard to get there.

## Industrial production points to further acceleration in GDP growth



We also scale back our Bank of Thailand policy forecast from one 25bp rate cut before the end of the year to no change and an on-hold policy through 2018 in line with the consensus. However, the poor quality of growth and lack of inflation suggest the economy still needs stimulus. The hopes may be pinned on the post-mourning acceleration in the government spending on infrastructure development projects.