Thailand: Further downgrade to GDP growth forecasts

We now expect GDP to contract as much as 5% in the first quarter, more than double the -2.2% previous estimate. While fiscal policy has taken the lead in minimising the economic impact of the Covid-19 outbreak, the data is screaming out for more central bank policy easing

Source: Shutterstock

11.3%

March manufacturing fall

Year-on-year

Worse than expected

Dismal March manufacturing data

Manufacturing output contracted by 11.3% in March from a year ago, a steeper fall than the consensus estimate of -6.7%. The sharp fall can be explained by the high base effect, as output rose 2.9% on the month.

The recovery from the Lunar New Year-related slack in the first two months of the year and some front-loading ahead of the Thai New Year (Songkran) holiday in April generally make March a strong growth month, with double-digit month-on-month surges. It was less strong this year with only a 2.9% MoM rise, much of which could be traced to firmer exports rather than domestic demand. The Covid-19 outbreak has virtually halted tourism, the backbone of the economy, and through that, domestic spending.

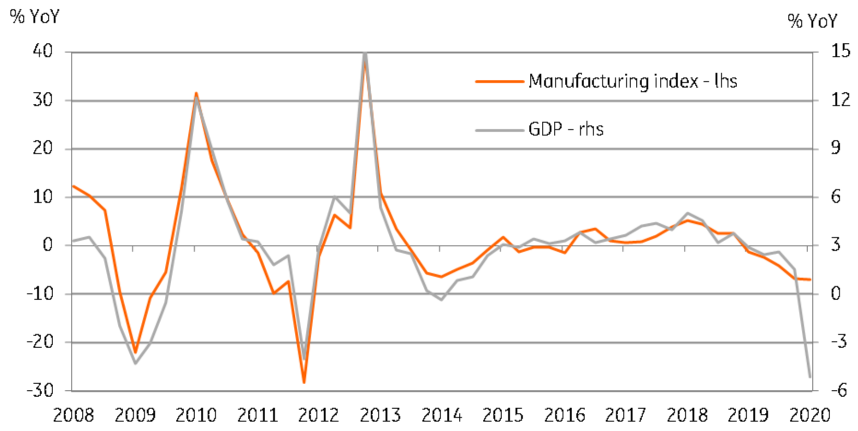
The sector breakdown was not available at the time of writing, though we think autos and parts remained the weak spot, judging from the over 40% YoY crash in vehicle sales in the last month. Press reports also point to sugar and refinery productions as drags.

It means deeper GDP contraction

The March fall brings the cumulative 1Q20 manufacturing fall to 6.9% YoY. While this is little changed from the rate of fall in 4Q19, a significant dent to services activity likely pushed overall GDP growth into negative territory in the last quarter. Or rather, more deeply into negative terrain than we had thought earlier. We now estimate that GDP contracted as much as 5% YoY in 1Q, more than double our previous view of -2.2% (data due in mid-May).

This is the steepest GDP fall in almost a decade, since the last quarter of 2011 when the severe floods hit the economy hard with a 4% YoY GDP fall. It's going to be worse in the current quarter as two months of a state of emergency, until the end of May, will prove to be a much bigger dent to activity in both manufacturing and services. We expect the GDP decline to accelerate to -8.3% in 2Q20 and the full-year decline to be -5.4% in 2020, downgraded from our earlier forecasts of -7.7% and -4.3%, respectively.

Manufacturing-GDP growth disconnect



Source: CEIC, ING

Quarterly data. ING estimates for 1Q20.

And, demands more policy support

Fiscal policy has taken the lead with over 8% of GDP in real spending aimed at softening the Covid-19 impact. Monetary policy isn't far behind with an increased thrust on soft loans, market stabilisation funds, and other support measures. But the latest data, including a return to a negative inflation trend, also screams out for more central bank easing. We expect the Bank of Thailand to top it up with an additional 50 basis point rate cut this quarter, taking the policy rate to an all-time low of 0.25%.

However, the increasing policy support comes against a backdrop of record low consumer and business confidence, keeping the economy on course for a deep slump this year.