

Thailand: Weak manufacturing opens door for more BoT easing

But we don't think the Bank of Thailand will deliver a back-to-back rate cut in December, especially now that the government has just unveiled more stimulus



Source: Shutterstock

-8.5%

October manufacturing growth

Worst in six years

Worse than expected

Blame it on weak domestic demand

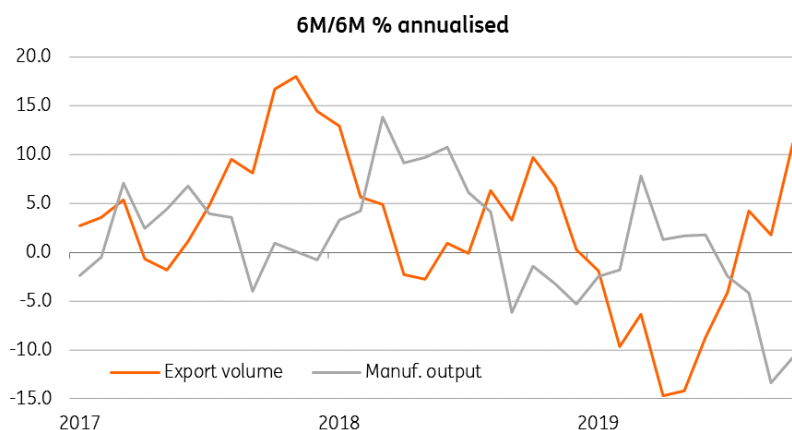
Thailand's manufacturing output plunged 8.5% in October from a year ago, more disappointing than the consensus expectation for a 5.1% fall. It's also the worst reading since January 2014.

Weak manufacturing growth may appear consistent with more weak exports growth in October (-4.5% YoY vs. -1.4% in September). But there is more to it than that. Despite the steeper year-on-

year export fall in October, the underlying trend has been improving as is evident from six month annualised growth figures. This drives the blame for the manufacturing decline from exports to weak domestic demand. This is also reflected by a double-digit decline in car sales in recent months. And probably adding to these woes is the strong currency (THB) depressing tourism spending.

This data points to continued sluggish GDP growth in the current quarter. Our view of a slowdown in GDP growth to 2.0% YoY in 4Q from 2.4% in 3Q remains on track.

Decoupling of exports and manufacturing



Source: Bloomberg, CEIC, ING

Will more stimulus help?

The government is addressing its weak domestic demand problem with some fiscal stimulus. Just yesterday it unveiled additional stimulus worth \$3.3 billion (0.6% of 2018 GDP) to support growth, almost all of which is directed toward additional support to farmers. This comes on top of the \$10 billion stimulus provided in August, which clearly hasn't helped the economy much yet. Headline GDP growth got some lift in 3Q from low base effects but the underlying growth drivers were still missing. We are sceptical about how far the additional stimulus will go in shoring up demand.

The Bank of Thailand (BoT) also cut its policy rate earlier this month by 25 basis points, the second cut this year taking policy rates to a record low of 1.25%. Governor Veerathai Santiprabhob has recently flagged more policy easing "if needed". Today's data provides a strong reason for another rate cut at the December policy meeting. However, we don't think the BoT will deliver a back-to-back cut, especially now that the government has unveiled more stimulus.