

Thailand: Economy Likely Seen the Worst, Improvement in the Rest of the Year

- Thailand has plunged into a recession, following the deepening contraction in 1Q GDP, but the economy looks likely to have stabilized
- Manufacturing probably past its worst, with global sentiment and confidence picking up.
- Services sector also set to strengthen with government measures boosting the sector
- We are revising our forecasts for Thailand's GDP to improve in the 2Q and 3Q, with 2Q and 3Q GDP shrinking 4% each, before climbing back into positive territory in the 4Q to 2.6%. For the full year, the economy is expected to decline by 3.2%.
- However, given that political instability still remaining in Thailand, we think the baht has room to depreciate

Thailand has plunged into a recession, following the deepening contraction in 1Q GDP. But the economy looks likely to have stabilized, with signs of pickup in the global economy. Thailand's GDP shrank further to -7.1% y/y in 1Q, from -4.2% y/y in 4Q08, on falling exports and services. On a q/q s/adj basis, economic growth declined by 1.9%. Manufacturing- which made up about 40% of GDP last year, bore the brunt of the slowdown, slowing 14.9% y/y, compared to a 6.7% y/y decline in 4Q08. Different sectors such as capital and technology industries, F&B, leather products, and raw materials all contracted, with the capital and technology industry (which includes office machinery and motor vehicles) falling by 28.4% y/y- the highest decrease in all industries.

We think though, that manufacturing has however seen the worst of its slowdown, with global sentiment and confidence picking up. The sector will probably shrink by a lesser magnitude in 2Q, at -10% y/y. 3Q might see the sector decline by 7% y/y, before reversing to an expansion in the 4Q at +1% y/y. Exports, which make up more than 60% of GDP, have yet to recover conclusively, with the latest April exports still falling 16% y/y, on par with Mar's decline of 16.6% y/y. But this is better than the contraction of 24.6% y/y seen in Jan. Exports are still decreasing in all major categories such as petroleum, computer, electrical appliances, electrical apparatus, vehicles and plastic products. Export value also dropped in the main markets of China and ASEAN. But with the impact of China's fiscal stimulus working its way into China's economy, this will boost demand for exports.

As for the services sector- which account for about 40% of GDP- this sector declined 2.4% y/y. Transportation, hotels and restaurants were adversely impacted by the closure of the airports last Dec, and a subsequent plunge in tourist arrivals. Hotels and restaurants, which depend heavily on tourism, saw its declines moderate from the previous quarter, falling 5% y/y compared to a drop of 7.7% y/y in 4Q08. International tourist arrivals were down 15.8% y/y, with 3.6 million tourists arriving in 1Q09. To boost the sector, the government came up with measures such as exempting foreigners from visa fees during 5 March – 4 June this year, as well as reducing the landing fee for international airlines. Tourist insurance for foreigners was also provided, on a temporary basis. As a result of the initiative, the 1Q thus saw a 15.7% fall in inbound tourists, better than the 17.9% contraction in the previous quarter. The hotel sector also improved slightly, from an 18.6% y/y decrease in the previous quarter, to a 14% y/y contraction in 1Q09. The restaurant segment

also picked up with a 1.9% y/y decline compared to a steeper fall of 2.3% y/y in previous quarter. We are projecting an improvement in the hotels and restaurants sector in the coming quarters, with a 2Q09 decline of 2.8% y/y, and 3Q contraction of -1% y/y, before possibly reverting to expansion again in 4Q of 4% y/y respectively.

We think Thailand's economy, like the rest of the global economy, has probably seen the worst of its declines. The coming quarters might still see the economy contracting, but not as severe as in the 1Q. The economy is moving, albeit slowly. Manufacturing production has been improving, in recent months, from a low of -21.3% y/y in Jan, to -9.5% y/y in Apr. With Thailand's export markets like China also seeing an uptick, Thailand's exports may also get a lift in the coming months. We are revising our forecasts for Thailand's GDP to improve in the year ahead. Although still contracting, 2Q and 3Q might see the economy shrinking 4% each, before going back into positive territory in the 4Q to 2.6%. For the full year, the economy is expected to decline by 3.2%.

USD/THB

The THB has been gaining of late on general USD weakness, despite Thailand's still sluggish underlying economic fundamentals. After THB hit a more-than 2 year low 36.16/USD, it has steadily climbed upwards to nearly 34 in June as USD declined on fears of its massive fiscal deficits. Fund inflows into the Thai stock market has also lifted the currency. However, given that political instability still remaining in Thailand, we think the baht has room to depreciate. We project the THB to go to 34.8 in 2Q, before strengthening to 34.0 and 33, in the 3Q and 4Q respectively, on concerns that the USD will weaken in the coming quarters.

Growth Rates of Selected Sectors of Real GDP						
	2008	1Q08	2Q08	3Q08	4Q08	1Q09
Agriculture	5.0	3.1	8.6	9.6	1.6	3.5
Manufacturing	3.9	9.5	7.7	6.1	-6.7	-14.9
Services	1.2	3.9	2.9	1.6	-3.6	-2.4
GDP y/y	2.6	6.0	5.3	3.9	-4.2	-7.1
GDP q/q s/adj	2.6	1.1	0.3	0.5	-6.1	-1.9
Source: Office of the National Economic and Social Development Board						

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