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Macro Note

Thailand: The Worst May Be Over, But A Full-Year Contraction Is Still Expected

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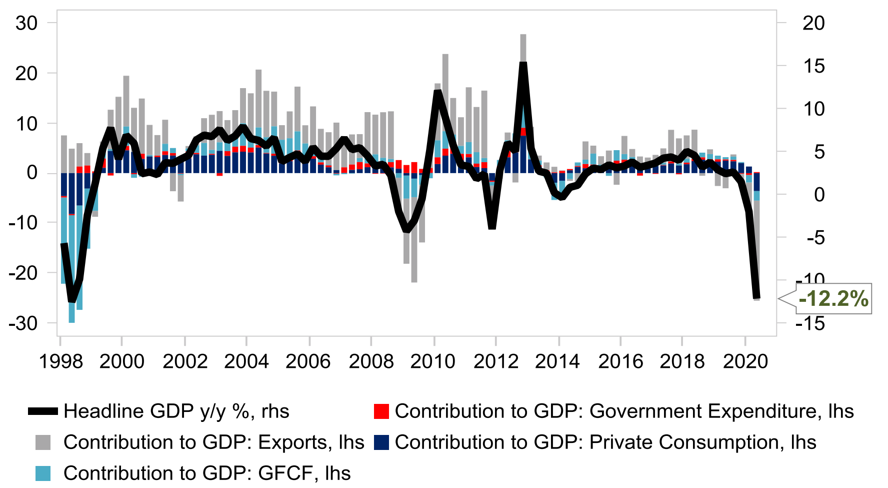
Highlights

- Thailand's GDP fell 12.2% y/y (-9.7% q/q sa) in the second quarter of 2020, clocking the deepest contraction since 2Q98 (-12.5% y/y, -4.1% q/q sa). The economy has been dragged by its key growth engines, specifically trade and tourism.
- Given the double-digit contraction seen in 2Q20, the National Economic and Social Development Council downgraded its GDP outlook to a range of between -7.3% and -7.8% in 2020, down from its previous range outlook of between -5% and -6%. This compares to Bank of Thailand's recently revised outlook of -8.1%.
- Across the key sectors, exports growth plunged 27.6% y/y in 2Q20, a record pace of contraction since available public data as of 1994. Imports also fell 22.9% y/y, led by lower inbound shipments of fuel lubricants, vehicle/transport accessories and raw materials.
- Similar to investment momentum across the region, Thailand's Gross Fixed Capital Formation (GFCF) plunged 8.0% y/y in 2Q20, the lowest print since 1Q14 (-10.3% y/y). This suggested that investor confidence had stayed soft on the back of COVID-19-led concerns.
- Thailand remains to be one of the Asian economies that is very dependent on trade and tourism. Given the deterioration in the outlook for these industries, we downgrade Thailand's GDP outlook to -7.5% in 2020, down from our previous outlook of -5.4%.

Exhibit 1: Thailand's Growth Saw Its Deepest Contraction Since 1998

Source: Macrobond, UOB Global Economics & Markets Research



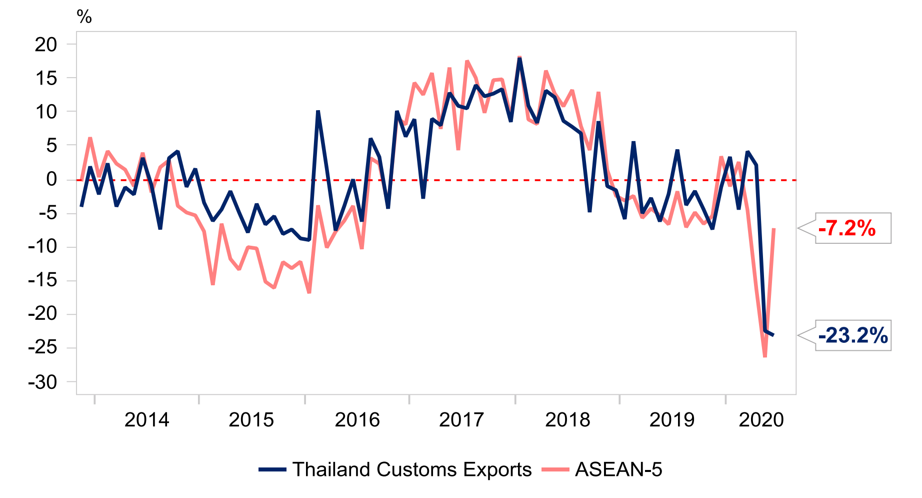
Thailand's GDP fell 12.2% y/y (-9.7% q/q sa) in the second quarter of 2020, clocking the deepest contraction since 2Q98 (-12.5% y/y, -4.1% q/q sa). GDP in 1Q20 has also been downgraded to -2.0% y/y (-2.5% q/q sa), down from the prior -1.8% y/y (-2.2% q/q sa) handle. The economy has been dragged by Thailand's key growth engines, specifically trade and tourism, while growth pangs in its external environment has been compounded by the relatively stronger THB, which gained over 6.0% in 2Q20, making it the second-best performing Asian currency.

Given the double-digit contraction seen in 2Q20, the National Economic and Social Development Council downgraded its GDP outlook to a range of between -7.3% and -7.8% in 2020, down from its previous range outlook of between -5% and -6%. This revised forecast, which is marginally higher compared to Bank of Thailand's and Ministry of Finance's point forecasts of 8.1% and 8.5%, respectively, is on the assumption that there is no second COVID-19 wave in Thailand, coupled with the expectation that the outbreak will be successfully contained in 4Q20.

Across the key sectors, Thailand's external environment bore the brunt of the contraction. Exports plunged 27.6% y/y in 2Q20, a record pace of contraction since available public data as of 1994. According to the latest data by the Ministry of Commerce, the exports of goods have been dragged by almost all products except for vegetable products (+15.7% y/y) and live animals & animal products (+12.8% y/y) in 2Q20. Imports also fell 22.9% y/y, led by lower inbound shipments of fuel lubricants (-45.2% y/y), vehicle & transport accessories (-34.4% y/y) and raw & intermediate materials (-20.1% y/y) in the same quarter. More worryingly perhaps, is the contraction of capital goods imports (-16.2% y/y in 2Q20, lowest since 2Q09) which fell for its third consecutive quarter, suggesting that investment demand has been lacklustre as firms remained cautious over the COVID-19-led drags.

Exhibit 2: Thailand's Exports Have Been Poor Relative To ASEAN-5

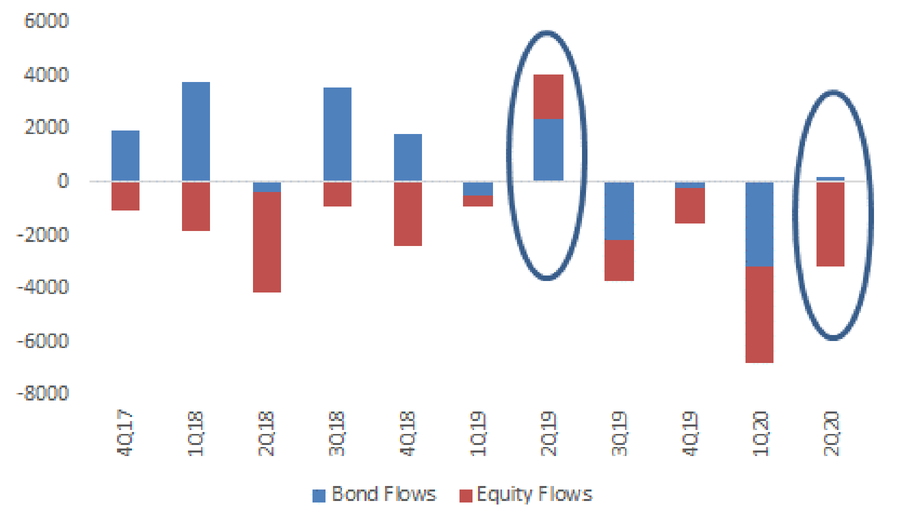
Source: Macrobond, UOB Global Economics & Markets Research



In the same vein, capital formation has been weak, similar to the poor investment momentum across the region. Thailand's Gross Fixed Capital Formation (GFCF) plunged 8.0% y/y in 2Q20, the lowest print since 1Q14 (-10.3% y/y), suggesting that investor confidence had stayed soft on the back of COVID-19-led concerns. According to data compiled by the Stock Exchange of Thailand, equity saw a net outflow of US$3.2 billion in 2Q20, compared to a net inflow of US$1.7 billion in 2Q19. Similarly, data by the Thai Bond Market Association indicated the bond net flows clocked merely US$177.8 million in 2Q20, down from a net inflow of US$2.4 billion in 1Q19. See Exhibit 3 for more details.

Exhibit 3: Equity & Bond Flows Have Remained Soft in 2Q20

Source: Bloomberg, UOB Global Economics & Markets Research



The shortfall in tourist arrivals and trade headwinds may however continue in 2H20. As discussed above, the economy's traditional twin engines, trade and tourism, had been performing poorly in 2Q20. In the latest tourism forecast report by the Tourism Authority of Thailand (TAT), inbound tourism is expected to fall to merely 6.1 million persons, or down by as much as 84.7% in 2020. The agency added that the base case for tourism is a recovery path taking place only in 3Q20. This is down from the government's previous outlook where tourism arrivals is pencilled at 12.7 million persons (-68.1% y/y) in 2020.

Thailand remains to be one of the Asian economies that is very dependent on trade and tourism. Given the deterioration in the outlook for these industries, we downgrade Thailand's GDP outlook to -7.5% in 2020, down from our previous outlook of -5.4%. The Thai economy is expected to improve in the second half of 2020, albeit declining but at a more moderate degree of 11.9% and 4.6% in 3Q20 and 4Q20, respectively. This is due to the gradual relaxation of lockdown measures in June, while high-frequency data such as trade, private consumption and private investment indicators have contracted at a lower rate at the latest June 2020 data. Coupled with the expansion of public spending in both current and capital expenditures to-date, we believe that fall of 12.2% in Thailand's GDP will likely be the trough for the year ahead.

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