

Thailand: Weak private consumption underscored soft 2Q GDP; more of the same in store by JPM

Thailand's economy contracted 1.4%q/q, saar in 2Q13, leaving headline growth up 2.8% oya, at the lower end of consensus forecasts (JPM and consensus: 3.3%oya). The 2Q13 print confirmed our expectation that private consumption struggled through the quarter, with spending continuing to suffer from the roll off of last year's fiscal stimulus, from an increasingly fragile political environment, and from a growing drag associated with households' rising debt servicing burden (see: "**Higher household debt hints at slower growth ahead**", *GDW*, July 5)

Fall in autos and durables weighed on consumption

In all, domestic demand was mixed through the quarter. Private consumption contracted 7.3%q/q, saar, largely reflecting a prolonged fall in spending on vehicles, as demand continued to wane on the expiration of last year's first car tax rebate scheme.

Spending on electronic durables also contracted; together these two sectors (autos and electronics) had underpinned growth in private consumption late last year and now look to be cooling to trend

Government consumption was up a robust 33.8%q/q, saar, but much of this strength owed to a surge in spending on wages, in part reflecting the recent hike in civil servant wages.

Investment growth mixed; construction cooling – Fixed investment performed better through 2Q. In all, investment outlays expanded 16.5%q/q, saar, more than reversing the 1Q decline. The relatively strong gain goes some way in explaining the stickiness in import demand over the course of the quarter, which had served to depress the trade balance.

Overall, strength was concentrated in transport equipment outlays, while other categories looked much softer. Construction was weak across both public and private sectors, with the exception of some private building categories. In all, construction ended the quarter down 5.3%q/q, saar, its first quarterly contraction since the 2011 flooding.

Net trade also a drag; expect improvement in 2H — Along with the expansion in fixed investment, imports eked out a 1.6%q/q, saar gain, while exports contracted 6.6%. This left net trade in negative territory, subtracting 0.4%-pts from headline over-year-ago GDP growth. Looking ahead, we expect some recovery in exports in the second half, and—along with an expected stabilization in the external balances—this should also support headline GDP growth.

Stabilization in manufacturing should support 3Q GDP — While private consumption is likely to remain tepid into 3Q, there are signs that we could see stabilization in the manufacturing sector, with inventory growth cooling and export demand expected to recovery modestly. This should support growth at the margin, given the sector's large share in the economy.

However, the outlook into 2H13 still remains fragile, in our view. We anticipate only a modest improvement in momentum through the end of the year, with full year 2013 GDP now expected at just 2.6%oya and 2014 revised down to 3.0%.

Further monetary easing not yet off the cards

Recent guidance from the BoT highlighted the expectation that domestic demand should recover toward trend growth in the second half of the year, and to the extent that the authorities' expectation still holds, we think the softer-than-expected 2Q print is unlikely to prompt an immediate easing in monetary policy at Wednesday's MPC meeting. That said, further downward revisions to BoT's 4.2% forecast for 2013 look very likely.

In all, the increasingly fragile political environment may also weigh on sentiment, and complicates implementation of the government's THB2tn infrastructure spending which will be important in shoring up growth. At this juncture, further easing cannot be ruled out, if growth continues to disappoint in the absence of further fiscal support.

Thailand: Disappointing 2Q GDP Confirms Thailand In Technical Recession by UOB

- Thailand's GDP grew at a slower-than-expected rate of 2.8% y/y in 2Q 2013. Officially, Thailand is in a technical recession as both 1Q and 2Q experienced contraction on a q/q SA basis. The main drag was the q/q contraction seen in private consumption, which had a 54% share of GDP.
- Industries such as manufacturing, wholesale & retail trade, and agriculture contracted in 2Q, and dragged overall GDP growth. We downgrade full year GDP forecast to 3.8%, from 4.7%.
- We do not expect BoT to cut policy rates during the coming meeting this Wednesday (21st Aug 2013), although we believe that there would be room for rates to go even lower to further cushion against downside risk to domestic demand.

Thailand Macro Flash: 2Q GDP in Technical Recession but Unlikely to Prompt Rate Cuts by Citi

2Q GDP in technical recession after 0.3%QoQ SA drop following -1.7%QoQ SA in 1Q (revised upward from -2.2%QoQ SA) — 2Q GDP was lower than expected with consensus (+0.2%QoQ SA) and Citi (+0.6%QoQ SA) expecting quarterly gains.

Technical recession came by way of real private consumption (largest demand account) falling 1.9%QoQ SA, extending its 1.3%QoQ drop in 1Q13. Exports of goods and services also declined 1.4%QoQ SA in 2Q13 (1Q: -0.6%QoQ SA).

Government consumption and real investments (ex-inv) did not succumb to weakness, posting growth of 7.5% and 3.9%QoQ SA respectively. On the supply side, the 3.6%QoQ SA decline in mfg GDP underpinned the technical recession, largely due to de-stocking bias in the face of lackluster demand (1Q: -4.7%QoQ SA). Construction output fell 1.4%QoQ SA alongside a 0.6%QoQ SA decline in farm GDP. Meanwhile Services GDP defied the downtrend due to strong tourist arrivals, rising 2.2%QoQ SA.

- **On YoY basis, services GDP led the way** — 2Q GDP grew 2.8%YoY, which was lower than consensus (3.3%YoY) though higher than Citi's estimate of 2.5%YoY. Domestic demand (ex-inv) grew 3.4%YoY, led by public investments (14.8%YoY) while net exports as a share to 2Q GDP narrowed to 10.6% (vs 11.3% a year-ago). Merchandise exports fell 1.5%YoY while imports grew 4.4%YoY in 2Q. Farm GDP reported an incremental gain of 0.1%YoY while non-farm GDP grew 3%YoY on the back of construction (5%YoY), tourism-driven hotels & restaurants services (14.2%YoY) and financial intermediation (10.3%YoY). Overall, 1H GDP grew 4%YoY.
- **Technical recession need not result in a rate cut in this week's MPC meeting**
 — While there is indeed elevated likelihood of a rate cut in this week's MPC meeting following weak 2Q GDP estimates, we don't sense that the MPC would actually pursue rate easing. Reviving growth via additional rate easing, particularly if exports continue to underperform, would be a waste of basis points. Domestic demand did not collapse in 2Q as government consumption and real investments recorded upbeat QoQ growth. Easing global uncertainties led by improving US 2H13 GDP prospects which may spark the roll-out of FDI approvals would be a key positive. Senior officials warned of the consumption drag from a higher HH debt burden particularly for low income groups – guarding against rising HH debt would discourage rate easing. Public investment (waterworks projects) delay remains a risk that won't be offset by a 25bp-50bp cut.
- **Tweaked our 2013 GDP rate forecast to 4% from 4.1% previously** — Our 2013 GDP growth forecast is practically unchanged at 4% while we expect 4.4% next year. Domestic demand (ex-inv) and its key components faced strong base effect in 2H due to peak of post-flooding expenditures with particular reference to real investments. In 4Q13, we expect public investments led by water works projects to be initiated, which could provide the public investment spark. Roll-out of FDI approvals which posted strong 2Q gains would also lift GDP, coincident with cyclical recovery in US and Japan and euro area improvements.