Thailand Economics

Macro data wrap (Oct-Nov): Conditions coming together for a rate cut

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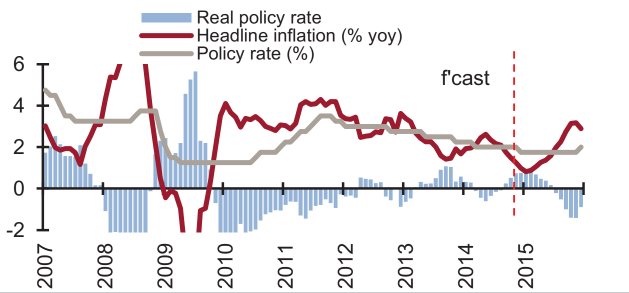
- November consumer price inflation has moderated to 1.3% YoY, at a five-year low and it probably has not bottomed yet, thanks to lacklustre growth and lower oil prices.
- Unlike what some market observers suggested, we still do not find signs of any broad-based economic recovery. October domestic consumption and private investment growth indicators are still weak (and contracting in YoY basis). Only tourism arrivals showed a strong recovery. We believe this divergence trend largely will continue next year.
- With weak growth and inflation, we think the BoT has plenty of room to cut the policy rate by 25 bp and continue to expect them to do so within the next few months.
- While the BoT's 17 Dec meeting is a possibility for the move, we believe the central bank may wish to see more data on growth and inflation before delivering the rate cut.

Figure 1: Headline inflation should edge down further in coming months, providing plenty of room for a further policy rate reduction



Source: the BLOOMBERG PROFESSIONAL™ service, CEIC, Credit Suisse

November consumer price inflation—at a five-year low and not bottoming yet, in our view

Headline CPI inflation moderated further to 1.26% YoY, a touch below the consensus but slightly above our call. This was the lowest YoY print since the GFC.

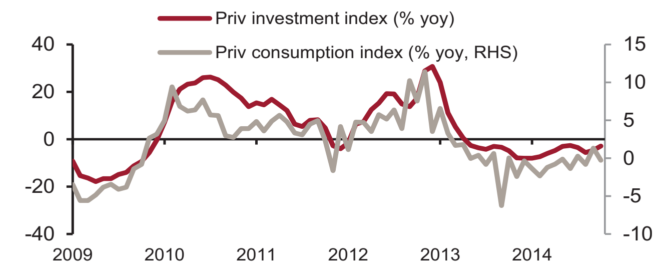
As expected, energy component led the weakness, coming in at -2% YoY from +0.1% earlier. Meanwhile, improvement in the supply of meat resulted in moderation in meat prices (4.9% YoY from 5.5%). Core inflation also softened to 1.6% YoY from 1.67%.

We think that headline inflation could edge lower in coming months to below 1% YoY print, thanks to a combination of weak growth and lower oil prices (see Asia: Weaker commodity prices could be a game changer).

Monthly growth indicators suggest domestic demand growth is still weak, but external demand improved

Private consumption and investment recovery are still anemic. Private consumption slipped back into negative territory on YoY basis in October (-0.3% from +1.3%), thanks to weak VAT collection and moderation in real consumer goods imports. Private investment contracted less than in September (-2.8% YoY from -4.6%), but is still struggling to find significant upward momentum despite the improvement in FDI approvals.

Figure 2: Private consumption and investment growth remained weak

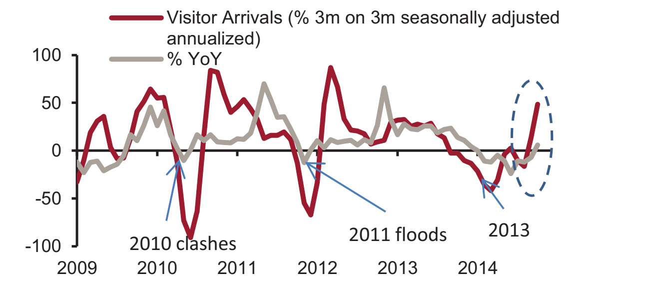


Source: the BLOOMBERG PROFESSIONAL™ service, CEIC, Credit Suisse

Tourism witnessed the most promising trend. October saw continuation of robust tourism recovery on a sequential basis. This has also contributed to the healthy YoY print, showing a positive number for the first time in ten months. We continue to believe tourism will be the key driver of GDP growth next year as the tourism recovery is likely to continue.

Meanwhile, October merchandise exports also surprised the market on the upside last week, giving some hope that exports are on the mend. We remain cautious on the pace of export recovery going forward, however, given that our preferred leading indicator is pointing towards some moderation ahead.

Figure 3: Tourism was the only growth indicator witnessing significant improvement



Source: the BLOOMBERG PROFESSIONAL™ service, CEIC, Credit Suisse

In sum, in contrast to views expressed by some market observers, we do not see October macro growth indicators pointing towards a strong and broad-based recovery. The data generally support our view that tourism will be the GDP boost while domestic demand growth should continue to disappoint (Thailand 2015 GDP upgrade: Tourism boost, consumption drag).

Moving closer to a rate cut

With headline inflation likely to average close to the bottom end of the BoT's inflation target (3% +/- 1.5%), and growth remaining weak, we maintain our view that the central bank will soon opt to cut its policy rate to help boost private sector confidence (see Disappointing recovery means another rate cut).

We think the window of opportunity for the rate move will be within the next three months. While we see a chance of BoT cutting the rate (25bps to 1.75%) as soon as at its 17 Dec meeting, we believe the MPC may opt to see more high frequency growth and inflation data before acting.