

## Thailand: Full Year GDP Grew By A Strong 6.4%

- Thailand's GDP grew 6.4% in 2012, surprising consensus estimates of 5.5%. Although net exports contracted, strong growth in private consumption and investments provided the boost to overall economic growth.
- The October 2012 25bps policy rate cut, January's minimum wage imposition and planned government expenditure on infrastructure should continue to hold up both consumption and investment growth in 2013.
- Although the tight labour market and minimum wage increase may pass-through to result in higher consumer prices, we believe that core inflation will remain well within BoT's target of 0.5% to 3.0% this year.
- We do not expect BOT to cut policy rates as yet in the first half of this year, but expect a 25bps cut in 2H 2013.

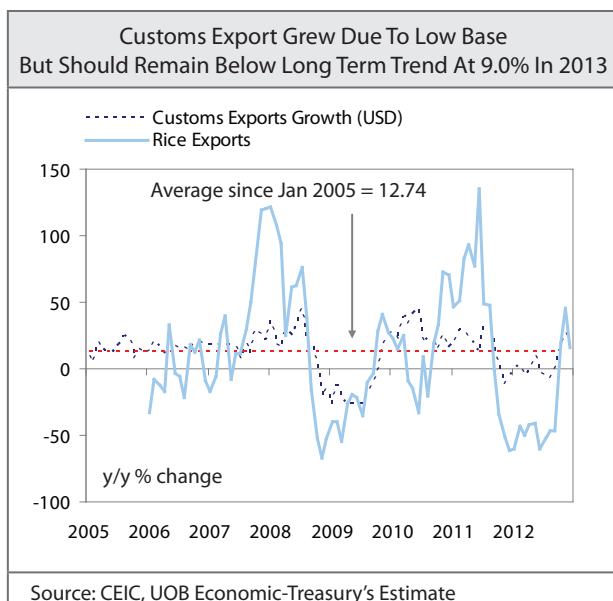
### Strong 4Q12 Numbers Supported Full Year 6.4% GDP Growth

Strong recovery across all engines of the Thai economy from the flood-hit low base seen in 4Q11 supported the **18.9% y/y** (3.6% q/q sa) jump in 4Q12 GDP, much better than both consensus forecasts and our estimates of 15.0%, and the growth of 3.0% y/y seen in the third quarter. **On a full year basis, Thailand's economy expanded 6.4% in 2012.**

### Net Exports Grew Strongly in 4Q12 On The Back Of Flood-Affected Low Base In 4Q11 But Was Not Enough To Yield Positive On-Year Growth

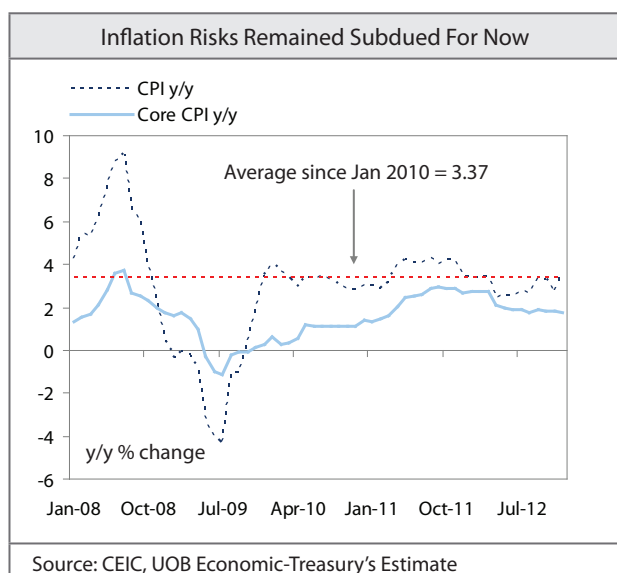
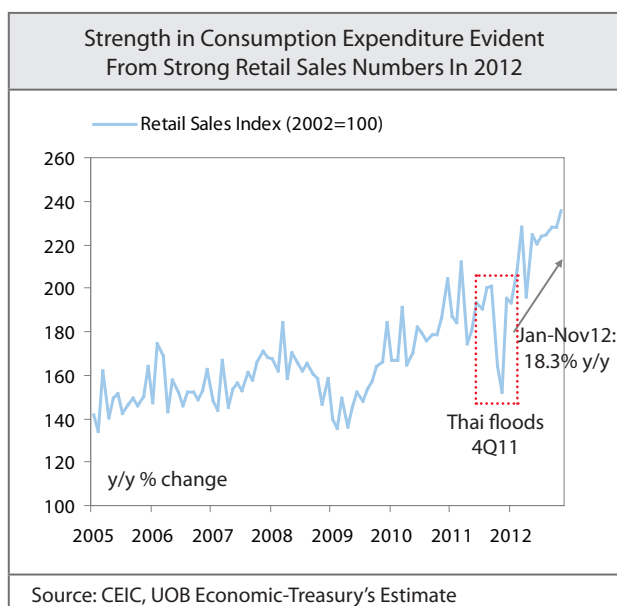
**With manufacturers back to their normal-times operating capacity, net exports contributed 4.7pp to overall 4Q12 GDP growth**, reversing 4 quarters of consecutive, negative contributions. Although recovering, we believe that still-weak global demand will continue to hurt Thailand's exports sector. Thailand's exports (USD terms) in 2012 grew 3.7% y/y, but imports grew by a larger 8.0% as the THB strengthen 3.2% against the USD, and manufacturers probably increased their purchase of capital equipment and intermediate products that were destroyed in the end-2011 floods. With that, full year

2012 net exports declined 9.3% and contributed -1.5pp to overall GDP growth. **We expect overall export growth to remain relatively subdued going into the first quarter of 2013. Supported by an improvement in global consumption demand and a pickup in rice exports, we are confident that Thai exports should pick up in the second half of the year and achieve a 9% y/y growth this year.**



### Consumption And Investment Demand Is Key Driver For 2012's Growth

**Strong growth in private consumption (52% share of overall GDP in 2012) and investment (23% share) continued to provide the necessary support to overall GDP growth in both 4Q12 and the full year.** 4Q12 private consumption expenditure (PCE) grew by a strong 12.2%, and contributed 6.7pp to overall GDP growth. Other than the recovery from the 4Q11 floods, the robust consumption expenditure was further supported by the extension of fuel subsidies, rising consumer confidence and the April 2012 round of 40% minimum wage



increase by the Thai government.

**On a full year basis, investment and PCE grew 13.3% and 6.6% respectively.** This is also evident in the strong retail sales numbers that grew an average of 18.3% y/y in the first 11 months of 2012, supported by both local and tourist expenditures.

**Core Inflation To Remain Within BoT's Target of 0.5% to 3.0%**

**Thailand's headline inflation rates had been averaging around 3.37% y/y since January 2010, with the latest December at 3.6% y/y (compared to 2.7% y/y a month earlier).** More importantly, core inflation had been trending lower since the start of 2012 and reached 1.78% y/y in December, a figure that is well within the 0.5% to 3.0% target of the BOT. We believe that further easing in food prices will keep overall inflation in check over the next few months. However, possible inflation risks would come in the form of a tight labour market, and pass-through from the introduction of the minimum wage of 300baht/day across all of Thailand's 77 provinces on 1st Jan 2013.

**Non-action Is Expected At Next MPC Meeting**

**Bank of Thailand's next monetary policy meeting will be held on the 20th of February, and we expect the current 2.75% policy rate remains unchanged as core inflation remains well within BoT's target.** However, we are penning a 25bps rate cut sometime in 2H 2013 as our projection shows GDP growing at a slower pace compared to last year.

January's minimum wage increase and the planned government injection of 2 trillion baht in investments in infrastructure and water-management projects over the next 7 years should continue to boost confidence in Thailand's growth prospects. The fiscal push, together with a 25bps cut in the Thai policy rate to 2.75% on 17th Oct, should bode well for consumption and investment growth this year. **Our forecasts for 2013 GDP and CPI remains at 4.0% and 3.8% respectively.**

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