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# 2011 GDP cut to 1.8%

Supavud Saicheua +66 2 305 9193
Economist
Phatra Securities
supavud@phatrasecurities.com

Thanomsri Fongarunrung +66 2 305 9206
Economist
Phatra Securities
thanomsri@phatrasecurities.com

## 2011 GDP growth cut to 1.8%

We again lowered our 2011 GDP growth estimate to 1.8% from 2.5%. The downward revision resulted from unexpectedly weak 3QGDP and a fuller account of the flood damage in Bangkok. The flood is now expected to cut GDP by 2.2% (for all of 20111) from pre-flood estimates.

## 4Q12 GDP to fall by 2%YoY

We expect 4Q GDP to contract 2%YoY and nearly 4%QoQ. But Thailand will likely avoid technical recession because the floods have receded and reconstruction would boost GDP growth in 1Q 2012. The seven flooded industrial estates are starting to drain the water and begin damage assessment and cleanup. Some should be able to restart production by mid- to late December. Returning to the pre-flood level would take 1-2 quarters. Therefore, we expect the economy to return to normal by 2Q 2012.

## Our 2012 growth estimate is at 4.0%, below consensus

We forecast 2012 GDP to grow 4.0%, below consensus forecast of 4.3%. National Economic and Social Development Board (NESDB) expects growth to be strong next year at between 4.5% to 5.5%. Our less optimistic forecast is based on our forecast of recession in Europe and weaker than consensus forecasts in several key countries. The less favorable external environment will be a headwind to growth next year but post-flood reconstruction and reinvestment should partially shore up growth. Therefore, the source of growth next year should be more domestic-demand based.

Table 1: Key economic forecast

| % YoY | 2010A | 2011E | 2012E |
|---|---|---|---|
| Real GDP | 7.8 | 1.8 | 4.0 |
| Private consumption | 4.8 | 2.5 | 3.8 |
| Public consumption | 6.4 | 1.0 | 3.0 |
| Gross fixed investment | 9.4 | 4.3 | 9.3 |
| Private | 13.8 | 8.3 | 9.7 |
| Public | -2.2 | -8.0 | 8.0 |
| Headline CPI | 3.3 | 3.9 | 3.4 |
| Exports | 28.5 | 15.0 | 7.0 |
| Imports | 36.7 | 22.0 | 12.5 |
| Current account (US$ bn) | 14.8 | 8.1 | 0.7 |
| as % of GDP | 4.2 | 2.3 | 0.2 |
| Policy rate | 2.00 | 3.25 | 3.00 |
| Bht/US$--end period | 30.12 | 30.50 | 30.80 |

Source: Phatra Securities


Refer to important disclosures on page 5. Link to Definitions on page 4.

## 2011 growth cut to 1.8%

Table 2: 2011 Forecast changes

| | 2011F | |
|---|---|---|
| % growth | New | Old |
| GDP | 1.8 | 2.5 |
| Private consumption | 2.5 | 2.7 |
| Public consumption | -8.0 | -2.0 |

Source: Phatra Securities

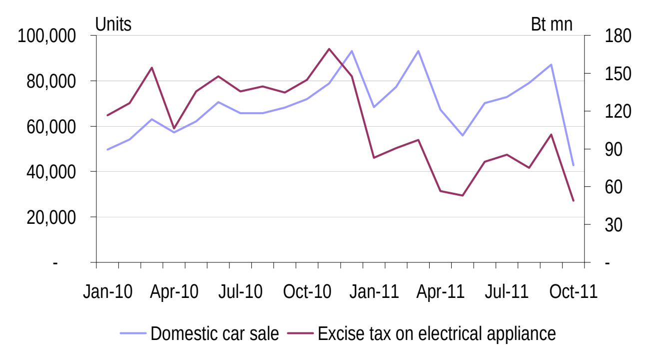
We again lowered our 2011 GDP growth estimate to 1.8% from 2.5%. The downward revision resulted from unexpectedly weak 3QGDP and a fuller account of the flood damage in Bangkok. The flood is now expected to cut GDP by 2.2% (for all of 2011) from pre-flood estimates. We expect 4Q GDP to contract 2%YoY and nearly 4%QoQ. But Thailand will likely avoid technical recession because the floods have receded and reconstruction would boost GDP growth in 1Q 2012.

Private consumption growth is brought down to 2.5% from 2.7% for all of 2011. Consumption decelerated, rising 2.4%YoY in 3Q vs 2.7% in 2Q. Consumption could still be positive in YoY terms in 4Q 2011 as people stocked up on essentials to prepare for the floods. As seen in the chart below for automobiles and electrical appliances, durable goods consumption fell sharply as supply was severely disrupted.

Government investment is revised down to -8% from -2% in response to an unexpected drop in 3Q government spending (-10% in 3Q). We expect government investment to contract further in 4Q due to flooding and delays in passage of the budget bill. The bill passed its first reading and now goes to committee for amendments. The budget bill should be passed by parliament in January 2012, four months late.

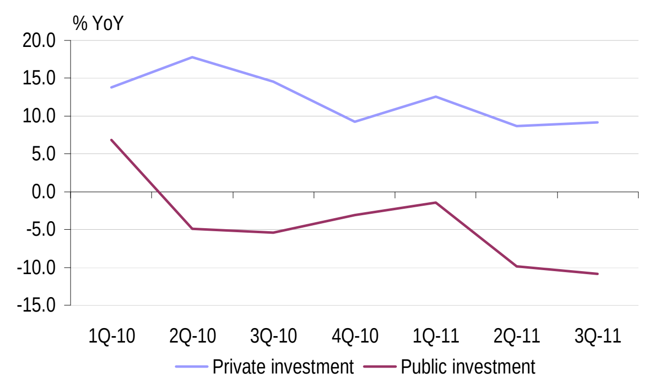
Inventories are expected to contract in 4Q due to damage from the flood and a rundown in inventories from plant shutdowns. With widespread production disruptions, we expect industrial output to fall by 4% and exports to contract 10% in dollar terms in 4Q.

Chart 1: Sharp fall in durable goods consumption




Source: Federation of Thai Industrial, MoF

Chart 2: Private investment grew modestly while public investment fell




Source: NESDB

## Central Bangkok is safe but much more work ahead

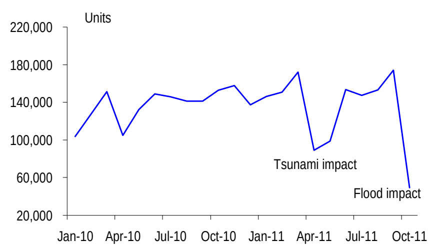
The flood threat to inner Bangkok has eased as water levels have begun to recede since mid-November. Last weekend, some flooded areas began to dry up, allowing clean-up to begin. The authorities expect Bangkok will return to normal by mid-December. 30 out of 50 districts in Bangkok were flooded since mid-October. All in all, water has damaged more than 500,000 dwellings and several main roads.

Although inner Bangkok is safe, many areas outside the flood walls continue to suffer from knee-deep, foul-smelling water. A case in point is Don Muang Airport (the old airport which is the main base of the Royal Thai Air Force) which remains under nearly two meters of water. The Royal Thai Air Force has requested a budget of Bt10.5bn to repair damaged aircraft and facilities. The armed forces want a total budget of Bt12.3bn from the government for repairs. Other government agencies (i.e. transportation, agriculture and education) also request for another Bt10bn for reconstruction.

Several communities have risen up in protest after their homes remain flooded for more than one month. Several groups are destroying the flood walls and pressuring the govt. to open the flood gates. One group protested by blocking the Don Muang tollway. The government asked for patience saying that water drainage would take time especially for the people who live on the west side of Bangkok. More water pumps are being installed to drain water out of the many flooded areas in the west and south of Bangkok.

Unlike the seven industrial estates in the central region, two industrial estates east of Bangkok are safe from the floods, limiting overall damage to Bangkok. Thus, the main impact is the loss in revenue from business disruptions particularly retails and hotels and restaurants, damage to dwellings, roads and Don Muang airport.

Chart 3: Disruptions in auto production




Source: Federation of Thai Industrial

## Production to restart in late December

The flood has stopped production in affected areas since October when seven industrial estates and surrounding areas in the central region were completely flooded. More than 1,000 industrial plants were shut and the damage to logistics meant that many more plants were closed even though they were not flooded. Production and exports especially of automobile and electronics products were severely curtailed. October auto production fell 50% from the previous month. October exports of automobiles and electronics fell 30% from September.

Automobile assemblers least-affected by the floods should be able to restart their plants by mid-November, for example, Mazda, Mitsubishi, Nissan and Ford. Toyota said it restarted production on 21 November. However, supply shortages will keep them running at 50% of normal capacity in late November, rising to two-thirds capacity in December. Automobile companies expect to resume normal production in 2Q 2012 when Honda's production returns to normal.

The seven flooded industrial estates are starting to drain the water and begin the damage assessment and cleanup processes. Some should be able to restart production by mid- to late December. Returning to the pre-flood level would take 1-2 quarters. Therefore, we expect the economy to return to normal by 2Q 2012.

Table 3: GDP growth forecast

| | 2010 | 2011F | 2012F |
|---|---|---|---|
| World | 5.1 | 3.9 | 3.7 |
| Euro zone | 1.8 | 1.5 | -0.6 |
| US | 3.0 | 1.8 | 2.0 |
| Japan | 4.0 | -0.5 | 2.4 |
| China | 10.4 | 9.2 | 8.6 |
| EM Asia | 9.2 | 7.6 | 7.2 |

Source: Bank of America Merrill Lynch

## 2012 growth: moderate rebound

We forecast 2012 GDP to grow 4.0%, below consensus forecast of 4.3%. NESDB expects growth to be strong next year at between 4.5% to 5.5%. Our less optimistic forecast is based on our forecast of recession in Europe and weaker-than-consensus forecasts in several key countries. We therefore expect modest export growth of 7%YoY with a small current account surplus of 0.2% of GDP. The Thai Ministry of Commerce, for example, targets 15% export growth in 2012 while the NESDB forecasts 19% export growth in the same year.

The less favorable external environment will be a headwind to growth next year but post-flood reconstruction and reinvestment should partially shore up growth. Therefore, the source of growth next year should be more domestic-demand based. We expect a moderate recovery in domestic demand led by investment (+9.8% in 2012 vs 4.3% in 2011). While the government is very much aware of the need to undertake major infrastructure projects to put in place a water management system that restores the confidence of investors, the project planning and construction is unlikely to begin in earnest until 2013 or later. For the next 3-6 months, government efforts would likely be focused on compensating flood victims, assisting in reconstruction, repairs to basic infrastructures, and provision of soft loans for SMEs. The government has authorized Bt325bn in soft loans and about Bt100bn from the budget for these purposes.

Spending will thus pick up early next year as housing repairs and reconstruction take place. The government vowed that it will push ahead with various stimulus programs promised earlier, including hikes in salaries and the minimum wage (the latter postponed to 1 April 2012), agricultural price supports (mainly rice), and tax credit for first-car and first-home buyers. The government also said it remained committed to cutting the corporate income tax from 30% to 23% in 2012 despite calls from the private sector to keep the tax at 30% and use the proceeds to set up a fund to help SMEs. Bottom line: we forecast consumption to grow 3.8% in 2012 vs. 2.5% this year.

Our inflation forecast for 2012 is at 3.4%, driven by rising wages and the end of government fuel subsidies. With inflation expectation at 3.5-4.0% (NESDB and Bank of Thailand [BoT] forecasts), a 50bps cut in the policy rate is justified. We expect the Bank of Thailand to cut 25bps at the next MPC meeting on 30 November although a 50bps cut is also possible. If a 25bps cut materializes on 30 November, we expect another 25bps cut in early 2012. This means that the policy rate will be 3% throughout 2012. The BoT is not expected to cut further despite acknowledging greater risks to the global economy. This is because the BoT insists that the flood impacts are temporary and that government populist policies could still raise inflationary expectations.

Table 4: NESDB forecast

| %YoY | 2011F | 2012F |
|---|---|---|
| GDP | 1.5 | 4.5-5.5 |
| Private consumption | 2.5 | 4.4 |
| Government consumption | 1.2 | 2.0 |
| Total investment | 4.7 | 10.3 |
| Private investment | 8.8 | 11.0 |
| Government investment | -7.9 | 8.0 |
| Exports (BoP basis-$ term) | 17.2 | 19.0 |
| Imports (BoP basis-$ term) | 27.2 | 25.0 |
| Current account – US$ bn | 7.7 | 4.5 |
| Current account-% of GDP | 2.2 | 1.2 |
| Inflation | 3.8 | 3.5-4.0 |

Source: NESDB

### NESDB outlook for 2012

- NESDB sees 2011 GDP growth at 1.5% vs our forecast of 1.8% and 2.6% consensus (early Nov survey).
- NESDB estimates that the flood impact would reduce GDP growth by 2.3% to 1.5% from its baseline forecast of 3.8%. Nearly 70% came from loss in manufacturing output, 20% from wholesale and retail trade and 10% from agriculture, tourism and others.
- NESDB expects GDP to grow 4.5-5.5% in 2012. The forecast is based on optimistic global growth: US (2.2%), EU (1%), Japan (2%) and China (9%), allowing Thai exports to grow 19% in 2012.
- Supporting factors for 2012 are: business rehabilitation measures (credit support, cut in corporate income tax, and returning confidence); Asian economic growth; rising household income from minimum wage hike, rise in government salary for graduates; and agriculture price supports.

## Link to Definitions

### Macro

Click here for definitions of commonly used terms.

## Important Disclosures

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