

Thailand Economics

Consumption-led recovery

2Q16 data confirms our view of a consumption-led recovery. Strong tourism and public investment continue. Exports show signs of bottoming out. But, private investment remains sluggish. With already massive liquidity, rate cuts would not help in our view. We therefore expect the BOT to maintain its policy rate at the 3 August meeting.



KAMPON ADIREKSOMBAT, Ph.D.

Economist

662 – 617 4982

kampon.adi@thanachartsec.co.th

2Q16 consumption data reaffirms our positive view

The June 2016 Private Consumption Index slowed down somewhat (+3.6% y-y vs. 5.6% previously), due to a slowdown in car sales and small-ticket items. However, tourist spending (+9.8% y-y) remained robust. As for income data, farm income decelerated but managed to register three consecutive months of positive growth (+1.7% y-y vs. +6.5% previously). In detail, the farm prices uptrend continued (+3.8% y-y), but production fell by 2%. Non-farm income (+1.7% y-y) remains supportive of a consumption recovery. All in all, consumption in 2Q16 showed a significant improvement (+4.3% y-y vs. +2.2% in 1Q16).

But, private investment remains sluggish

The Private Investment Index (1.3% y-y vs. 1.2% previously) remained sluggish. Commercial car sales (7.2% y-y vs. 18.9% previously) slowed down after promotional campaigns and new model launches came to an end. The strong rebound in domestic machinery sales (13.2% y-y vs. -0.1% previously) was dragged by construction materials (-4.5% y-y vs. -0.3% previously) and permitted construction areas (-0.5% y-y vs. -8.0% previously). Production indicators also slowed down with flat growth in the Manufacturing Production Index (0.8% y-y) and industrial capacity utilization (sa) declining to 64.9% (vs. 66% previously). Overall, 2Q16 private investment showed no signs of recovery, with the outlook remaining bleak on the back of very low FDI year to date.

External demand remains a key support

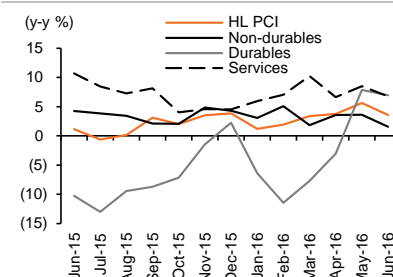
In June 2016, excluding gold, the value of exports again experienced a smaller contraction (-1.6% y-y vs. -5.6% previously), mainly due to a continued rebound in automotive exports (+22.0% y-y vs. +5.1% previously) with improving orders from the Middle East, Australia and China. Exports of air conditioners, rubber products and shrimp products remained strong. On the other hand, imports, excluding gold, plunged again (-9.7% y-y vs. -1.9% previously). The only import recovery area was in consumer goods, reflecting a continued domestic consumption recovery. The trade balance remained in surplus (US\$3.8bn). Tourist arrivals slowed down slightly (+7.2% y-y vs. 7.6% previously) due to the Ramadan fasting month for Muslim tourists. Net-net, 2Q16 external demand remained strong. The 1H16 current account surplus (US\$ 25bn) already accounts for 78% of the full-year 2015 number, a clear sign that massive liquidity in the country should continue.

Consumption-led recovery should continue

We see upside potential to our 2Q16 GDP growth forecast of 3%. The consumption recovery remains firm. Exports show signs of bottoming out. Our only concern now is when FDI and private investment will come back. Liquidity is not an issue, and hence a policy rate cut would not help in our view. We therefore maintain our view of a flat policy rate in 2016F. We hope the government finalizes its FDI tax policy soon.

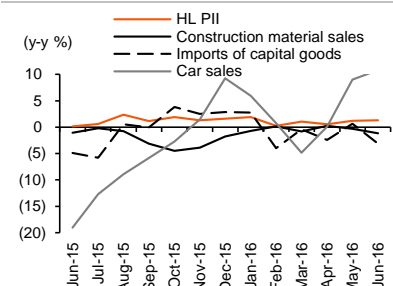
ECONOMIC MONITOR

Private Consumption Index (PCI)



Source: Bank of Thailand

Private Investment Index (PII)



Source: Bank of Thailand

Note: Car sales includes sales of passenger and commercial car sales

External Performance

	Apr-16	May-16	Jun-16
Tourist arrivals (y-y %)	9.8	7.6	7.2
Exports (y-y %)	(7.6)	(3.7)	1.9
Imports (y-y %)	(13.4)	(0.2)	(9.3)
Trade balance (US\$ bn)	2.4	3.5	3.8
Current account (US\$ bn)	3.2	2.2	3.0

Source: Bank of Thailand

Key Forecasts

	2016F	2017F	2018F
Real GDP growth	3.3	4.2	4.0
CA (% to GDP)	7.2	5.5	4.2
Headline CPI	0.8	2.0	2.5
Bt/US\$ - average	36.4	37.5	38.5
Policy rate	1.5	2.0	2.5

Source: Thanachart estimates

Ex 1: Monthly Economic Data

	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
The real sector (y-y %)							
Manufacturing Production Index, seasonally adjusted (level)	111.3	105.7	107.9	108.5	107.8	108.3	107.0
Manufacturing Production Index, non-seasonal adjusted (level)	105.1	107.3	108.7	120.7	99.0	111.6	108.9
Manufacturing Production Index, non-seasonal adjustment	1.4	(3.5)	(1.7)	2.2	0.9	2.7	0.8
Industrial capacity utilization (%)	64.0	65.1	66.9	74.3	59.5	67.5	66.3
Private consumption indicators							
- Non-durable Index	4.3	3.1	5.1	1.8	3.6	3.6	1.6
- Semi-durables Index	2.9	0.6	(0.7)	3.7	2.1	1.7	1.6
- Durables Index	2.2	(6.3)	(11.5)	(7.7)	(3.1)	7.8	6.9
- Service Index	4.3	5.9	7.0	10.3	6.6	8.5	6.8
Private investment indicators							
- Car sales for investment purpose	19.2	(8.5)	(5.1)	3.4	6.2	18.9	7.2
- Imports of capital goods (at 2010 prices)	(3.7)	1.4	(6.6)	9.3	(4.8)	(0.6)	(4.8)
- Construction material sales Index	1.4	(2.9)	1.9	(0.9)	1.6	(0.3)	(4.5)
Government cash balance (Bt bn)	(0.1)	(119.9)	(13.3)	(90.5)	(61.1)	25.5	na
Consumer Price Index							
- Food	0.83	0.81	1.26	0.97	1.57	2.97	2.80
- Non-food	(1.78)	(1.25)	(1.45)	(1.25)	(0.76)	(0.94)	(0.94)
Core inflation (excluding raw food and energy)	0.68	0.59	0.68	0.75	0.78	0.78	0.80
External accounts (US\$ m)							
Exports	16,958	15,560	18,120	18,577	15,472	17,548	18,009
Change (%)	(9.1)	(9.3)	6.2	(1.0)	(7.6)	(3.7)	1.9
Imports	13,739	12,924	12,142	13,890	13,022	14,042	14,218
Change (%)	(8.7)	(17.8)	(16.3)	(9.1)	(13.4)	(0.2)	(9.3)
Trade balance	3,213	2,636	5,978	4,687	2,450	3,506	3,791
Current account balance	4,044	4,118	7,453	5,004	3,164	2,234	2,978
Capital account	0	0	0	0	0	0	0
Financial accounts							
- Central bank	(446)	586	523	1,482	(464)	63	291
- Government	(190)	271	(486)	(471)	83	(201)	655
- Other depository corporations (ODC)	(712)	(134)	324	(922)	(1,500)	2,920	937
- Others	(2,677)	(1,277)	(2,410)	(2,086)	1,367	(3,577)	(2,039)
Balance of payments	(661)	4,544	6,071	3,159	1,626	432	1,860
Official reserves (US\$ bn)	156.5	160.1	168.0	175.1	178.6	175.5	178.7
Monetary statistics – end of period (Bt bn)							
Monetary base	1,710.1	1,649.1	1,631.6	1,727.3	1,664.0	1,646.0	1,639.8
Change (%)	2.6	4.1	1.5	8.0	4.7	5.9	5.8
Narrow money	1,778.1	1,748.9	1,750.0	1,748.6	1,764.1	1,772.9	1,742.1
Change (%)	5.7	6.5	4.6	5.1	6.8	4.6	(7.5)
Broad money	17,551.7	17,625.2	17,745.5	17,818.6	17,900.0	17,823.6	17,835.1
Change (%)	4.4	4.0	3.7	3.7	4.3	3.7	4.3
Other depository corporations credits							
Change (%)	5.3	4.9	5.0	4.6	4.9	4.4	4.4
Other depository corporations private credits							
Change (%)	5.5	5.3	4.8	4.3	4.2	4.3	4.5
Interest rates (% pa)							
- Repurchase rate, 1 day (closing rate daily average)	1.50	1.50	1.50	1.50	1.50	1.50	1.50
- Overnight interbank rate (mid-point daily average)	1.40	1.40	1.40	1.40	1.40	1.40	1.40
- Fixed deposit rate (1 year)	1.40	1.40	1.40	1.40	1.38	1.38	1.38
- Prime rate (MLR)	6.51	6.51	6.51	6.51	6.26	6.26	6.26
Exchange rate (Bt/US\$)							
	36.00	35.71	35.63	35.17	34.92	35.70	35.13

Source: Bank of Thailand

Ex 2: Quarterly Economic Data

	2014	2015	2Q15	3Q15	4Q15	1Q16	2Q16
The real sector (y-y %)							
Manufacturing Production Index, seasonally adjusted (level)	na	na	106.2	107.3	109.3	107.3	107.7
Manufacturing Production Index, non-seasonally adjusted (level)	107.4	107.7	104.9	106.6	106.1	112.1	106.5
Manufacturing Production Index, non-seasonal adjustment	(5.2)	0.3	(0.3)	0.9	0.3	(0.9)	1.5
Industrial capacity utilization (%)	65.1	65.8	63.6	65.3	64.6	68.8	64.4
Private consumption indicators							
- Non-durable Index	0.8	3.5	3.4	3.1	3.8	3.2	3.0
- Semi-durables Index	(0.2)	0.7	1.3	(0.1)	0.9	1.2	1.8
- Durables Index	(19.3)	(6.7)	(11.3)	(10.4)	(2.0)	(8.5)	4.3
- Service Index	2.9	6.8	7.5	7.9	4.4	7.8	7.3
Private investment indicators							
- Car sales for investment purpose	(30.6)	(6.2)	(19.1)	(6.2)	10.6	(3.0)	10.7
- Imports of capital goods (at 2010 prices)	(2.0)	(0.8)	(5.3)	(0.3)	3.2	1.3	(3.4)
- Construction material sales Index	(2.0)	(2.4)	(0.9)	(3.2)	(1.8)	(0.6)	(1.2)
Government cash balance (Bt bn)	(311.9)	(340.4)	140.8	47.3	(316.9)	(223.8)	51.3
Consumer Price Index							
- Food	3.94	1.14	0.41	1.23	1.15	1.01	2.44
- Non-food	0.83	(2.00)	(1.94)	(2.36)	(1.96)	(1.32)	(0.89)
Core inflation (excluding raw food and energy)	1.59	1.05	0.96	0.92	0.85	0.67	0.78
External accounts (US\$ m)							
Exports	224,777	212,080	52,648	24,207	52,242	52,257	51,029
Change (%)	(0.3)	(5.6)	(5.5)	(4.7)	(7.9)	(1.4)	(3.1)
Imports	200,194	177,515	44,790	44,607	42,616	38,956	413
Change (%)	(8.5)	(11.3)	(10.2)	(14.5)	(13.2)	(14.4)	(7.8)
Trade balance	24,583	34,565	7,858	9,600	9,626	13,301	9,747
Current account balance	15,418	31,958	6,117	6,850	10,550	16,576	8,375
Capital account	100	0	0	0	0	0	0
Financial accounts							
- Central bank	(2,956)	(1,405)	(434)	(653)	48	2,591	(111)
- Government	1,427	(1,673)	(476)	(551)	(272)	(687)	537
- Other depository corporations (ODC)	(5,283)	(12,812)	(413)	(6,991)	(2,228)	(802)	2,358
- Others	(9,677)	(3,621)	(464)	793	(5,855)	(5,774)	(4,248)
Balance of payments	(1,210)	5,859	3,326	(2,383)	931	13,773	3,917
Official reserves (US\$ bn)	157.1	156.5	160.3	155.5	156.5	175.1	178.7
Monetary statistics – end of period (Bt bn)							
Monetary base	1,666.8	1,710.1	1,549.9	1,603.1	1,710.1	1,727.3	1,639.8
Change (%)	5.4	2.6	2.8	11.3	2.6	8.0	5.8
Narrow money	1,682.5	1,778.1	1,619.8	1,618.5	1,778.1	1,748.6	1,742.1
Change (%)	1.3	5.7	2.2	3.5	5.7	5.1	7.5
Broad money	16,809.1	17,551.7	17,101.6	17,077.9	17,551.7	17,818.6	17,835.1
Change (%)	4.7	4.4	6.1	5.4	4.4	3.7	4.3
Other depository corporations credits							
Change (%)	4.0	5.3	6.3	6.1	5.3	4.6	4.8
Other depository corporations private credits							
Change (%)	4.2	5.5	5.3	5.7	5.5	4.3	4.5
Interest rates (% pa)							
- Repurchase rate, 1 day (closing rate daily average)	2.00	1.50	1.50	1.50	1.50	1.50	1.50
- Overnight interbank rate (mid-point daily average)	1.90	1.40	1.40	1.40	1.40	1.40	1.40
- Fixed deposit rate (1 year)	1.73	1.40	1.50	1.46	1.40	1.40	1.38
- Prime rate (MLR)	6.75	6.51	6.51	6.51	6.51	6.51	6.26
Exchange rate (Bt/US\$)							
	32.90	36.00	33.77	36.31	36.00	35.17	35.13

Source: Bank of Thailand

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Thanachart Securities Pcl.

Research Team
19 Floor, MBK Tower
444 Phayathai Road, Pathumwan Road, Bangkok 10330
Tel: 662 - 617 4900
Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA

Head of Research
pimpaka.nic@thanachartsec.co.th

Chak Reungsinpinya

Energy, Petrochemical
chak.reu@thanachartsec.co.th

Phannarai Tiypittayarat

Property, Retail
phannarai.von@thanachartsec.co.th

Sarachada Sornsong

Bank, Financial, Telecom
sarachada.sor@thanachartsec.co.th

Chatchawin Lertapiruk

Electronics, Insurance
chatchawin.ler@thanachartsec.co.th

Sittichet Rungrassameephat

Assistant Analyst, Quantitative
sittichet.run@thanachart.co.th

Kampon Adireksombat, Ph.D.

Deputy Head of Research
Economics, Strategy
kampon.adi@thanachartsec.co.th

Kalvalee Thongsomaung

Food, Hotel, Media
kalvalee.tho@thanachartsec.co.th

Rata Limsuthiwanpoom

Industrial Estate, Property Fund, REITs
rata.lim@thanachartsec.co.th

Siriporn Arunothai

Small Cap Research, Healthcare
siriporn.aru@thanachartsec.co.th

Wichaya Wongpanuwich, CFA, FRM

Analyst, Retail Market
wichaya.won@thanachartsec.co.th

Adisak Phupiphatirungul, CFA

Retail Market Strategy
adisak.phu@thanachartsec.co.th

Pattarawan Wangmingmat

Senior Technical Analyst
pattarawan.wan@thanachartsec.co.th

Saksid Phadthananarak

Construction, Transportation
saksid.pha@thanachartsec.co.th

Supanna Suwankird

Energy, Utilities
supanna.suw@thanachartsec.co.th

Witchanan Tambamroong

Technical Analyst
witchanan.tam@thanachartsec.co.th