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SCB Securities Company Limited

Thai Q4/20 GDP saw a lower-than-expected contractiondue to improving private consumption conditions following government stimulus boost, in addition to export and inventory growth.

15 February 2021

Key summary

The Thai economy in Q4/ 2020 stalled to -4.2%YOY. In terms of the seasonally adjusted quarter-on-quarter growth, the Thai economy expanded slightly by 1.3% QOQ sa. As such, in 2020, the Thai economic growth plummeted by -6.1%YOY, marking the biggest decline in 22 years since the Asian Financial Crisis in 1998.

The Thai economic growth in Q4/ 2020 dropped by a slower than expected rate due to improving private consumption conditions from the support of government stimulus measures, recovering export conditions following global economic conditions, and increasing inventory levels.

In 2021, EIC expects that the Thai economy should gradually improve as the sluggish tourism recovery amid growing casualties from the second wave outbreak will weigh on recovery. Such conditions, in addition to other prevailing risks, could further worsen Thailand's existing economic scars.

Key points

In Q4/2020, Thailand's economic growth moderated to -4.2%YOY, after falling by -6.4%YOY in the previous quarter. In terms of the seasonally adjusted quarter-on-quarter growth (%QOQ seasonally adjusted), the Thai economy expanded slightly by 1.3% QOQ sa (compared to 6.2% QOQ sa in Q3/ 2020). In 2020, the Thai economy tumbled by -6.1%YOY, marking the biggest decline in 22 years since the Asian Financial Crisis in 1998 with a contraction of -7.6%. Furthermore, such a significant decline represented Thailand's first economic contraction since the Global Financial Crisis in 2009 that Thailand experienced only a slight fall at -0.7%.

Figure 1 : Various parts of the Thai economy improved from the previous quarter, except for the foreign tourism sector that continued to suffer from sluggish conditions. Meanwhile, government consumption and investment growth expanded at a slower pace.

Real GDP growth by expenditure and production approach

Expenditure Approach

%YoY (Share 2020)	2018	2019	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2020
RGDP (100.0%)	**4.2%**	**2.3%**	**1.3%**	**-2.1%**	**-12.1%**	**-6.4%**	**-4.2%**	**-6.1%**
Private Consumption (54.6%)	**4.6%**	**4.0%**	**3.6%**	**2.7%**	**-6.7%**	**-0.6%**	**0.9%**	**-1.0%**
Public Consumption (15.7%)	**2.8%**	**1.7%**	**-0.8%**	**-2.5%**	**1.0%**	**2.5%**	**1.9%**	**0.8%**
Total Investment (24.2%)	**3.8%**	**2.0%**	**0.6%**	**-6.3%**	**-7.9%**	**-2.6%**	**-2.5%**	**-4.8%**
Private Investment (17.4%)	4.1%	2.7%	2.5%	-5.3%	-14.9%	-10.6%	-3.3%	-8.4%
Public Investment (6.7%)	2.8%	0.1%	-5.7%	-9.1%	12.6%	17.6%	0.6%	5.7%
Export G&S (61.0%)	**3.4%**	**-3.0%**	**-3.0%**	**-5.8%**	**-27.5%**	**-23.3%**	**-21.4%**	**-19.4%**
Export Goods (54.3%)	3.8%	-3.7%	-5.5%	1.7%	-15.8%	-7.5%	-1.5%	-5.8%
Export Services (7.2%)	2.0%	-0.5%	4.9%	-26.8%	-67.7%	-73.1%	-74.8%	-60.0%
Import G&S (59.1%)	**8.3%**	**-5.2%**	**-9.5%**	**-3.0%**	**-23.6%**	**-19.3%**	**-7.0%**	**-13.3%**
Import Goods (48.9%)	7.9%	-5.8%	-9.1%	-2.2%	-21.2%	-18.1%	-5.6%	-11.9%
Import Services (10.3%)	9.9%	-2.7%	-11.0%	-6.2%	-32.4%	-23.9%	-11.9%	-18.6%

Production Approach

%YoY (share 2020)	2018	2019	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2020
RGDP (100.0%)	**4.2%**	**2.3%**	**1.3%**	**-2.1%**	**-12.1%**	**-6.4%**	**-4.2%**	**-6.1%**
Agriculture (6.3%)	5.8%	-0.6%	-3.1%	-9.9%	-3.1%	-1.1%	0.9%	-3.4%
Manufacturing (26.5%)	3.4%	-0.7%	-2.2%	-2.4%	-14.7%	-5.3%	-0.7%	-5.7%
Construction (2.9%)	2.3%	1.6%	-3.1%	-9.3%	7.5%	10.8%	-0.3%	2.3%
Wholesale & Retail (15.8%)	6.4%	4.5%	3.9%	3.6%	-10.9%	-6.1%	-3.1%	-3.7%
Transport & Storage (5.7%)	4.0%	3.0%	3.4%	-5.5%	-36.6%	-22.2%	-21.1%	-21.0%
Hotel & Restaurant (4.3%)	7.9%	7.8%	9.3%	-23.3%	-49.9%	-39.3%	-35.2%	-36.6%
Info & Communication (6.2%)	8.4%	12.3%	14.2%	4.4%	4.1%	4.5%	5.7%	4.7%
Finance (7.9%)	3.6%	2.2%	2.5%	4.3%	1.7%	1.6%	3.3%	2.7%
Real Estate (4.2%)	5.4%	3.8%	3.3%	1.7%	0.9%	1.5%	1.3%	1.4%
Professional (2.0%)	2.8%	1.7%	1.8%	2.3%	-8.2%	-7.2%	-6.6%	-5.1%
Support service (1.5%)	3.2%	2.8%	3.5%	-5.3%	-24.8%	-20.4%	-18.0%	-17.1%

Source: EIC analysis based on data from NESDC

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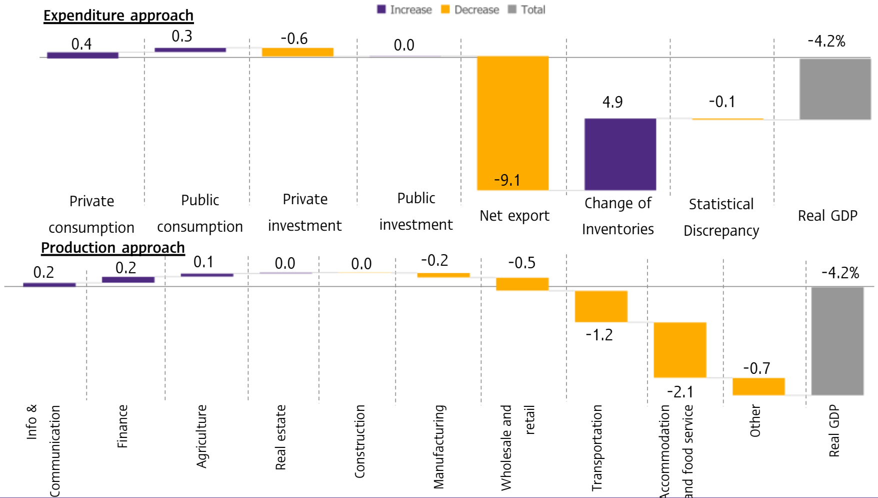
Figure 2: Change in inventories partly influenced Real GDP in Q4/2020 to contract by a lower-than-expected rate.

Q4/2020 contribution to contraction

Unit: percentage point



Source: EIC analysis based on data from NESDC

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Regarding the expenditure approach, various economic sectors saw slower contractions from the previous quarter, except for exports of services that continued to plummet.

- **The value of merchandise and services exports in real terms continued to drop by -21.4%YOY, improving from the -23.3%YOY contraction in the previous quarter.**
    - **The value of merchandise exports in real terms contracted at a slower pace of -1.5%YOY,** after tumbling by -7.5%YOY in the previous quarter. Such conditions improved following global economic recovery. Key export products that saw recovering growth included electrical appliances, automotive, electronics, and agricultural products.
    - **Exports of services or tourism continued to plunge by -74.8%YOY,** after tumbling by -73.1%YOY in the previous quarter. The figure continued to worsen as only a small number of international tourists could visit Thailand.
- **The value of merchandise and services imports in real terms stalled to -7.0%YOY, compared to the -19.3%YOY drop in Q3** following recovering domestic demand and the resumption of business activities. Merchandise imports moderated to -5.6%YOY from growth in all categories. Similarly, services imports stalled to -11.9%YOY from the support of higher freight costs and higher business servicing costs despite the measures constraining international travels.
- **Private consumption reverted to a 0.9%YOY expansion,** improving from the -0.6%YOY drop in the previous quarter. Such an improvement was prompted by the government stimulus packages, including the Kon La Khrueng, Rao Tiew Duay Kan, and Shop Dee Mee Kuen program that boosted non-durable goods consumption primarily in the food and beverage category (food and non-alcoholic beverages expanded by 1.8%YOY). Meanwhile, durable goods and semi-durable goods consumption continued to slow, though at a stalling rate compared to the previous quarter.
- **Private investment moderated to a -3.3%YOY contraction, after plummeting by -10.6%YOY in the previous quarter.** Such growth reflected improving investment conditions for machinery items (-3.2%YOY from -13.9%YOY in Q3/2020), especially for the automotive sector. Meanwhile, construction investment returned to a -3.8%YOY contraction, slowing from the 0.5%YOY growth in the previous quarter.
- **Budget disbursements for government consumption continued to increase, though at a slowing rate.** In particular, the government investment expanded by only 0.6%YOY, compared to the soaring growth at 17.6%YOY in the previous quarter. Such conditions were triggered by shrinking investments from state-owned enterprises. Meanwhile, in-budget investments continued to improve.

Regarding the production approach, various sectors noticed slower contractions from the previous quarter. Meanwhile, the communications, finance, and agricultural sectors continued to expand.

- **Manufacturing production stalled to a -0.7%YOY contraction,** improving from the fall of -5.3%YOY in the previous quarter. The sectors that led the growth included raw material (1.8%YOY) and capital and technology (1.4%YOY) industries following the recovery of domestic and external demand.
- **Wholesale and retail sales slowed to -3.1%YOY,** after plummeting by -6.1%YOY in the previous quarter as household spending recovered and received boosts from government stimulus packages.
- **Accommodation and food service activities continued to struggle with severe contractions at -35.2%YOY,** though slightly improving from the -39.3%YOY decline in the previous quarter. Such better conditions were prompted by increasing demand from domestic travelers, partly supported by government stimulus packages.
- **Transportation continued to plummet by -21.1%YOY,** after contracting by -22.2%YOY in the previous quarter. Growth in all transportation segments continued to drop, especially air transportation (-68.1%YOY) from the existing restrictions imposed on international travels.
- **Nevertheless, agricultural production reverted to a slight growth of 0.9%YOY in the current quarter, after falling for 4 consecutive quarters.** Such growth was prompted by the growing agricultural production of key products, including paddy, cassava, and maize.
- **Production in several sectors continued to expand,** including information and communication that grew by 5.7%YOY from the growth of telecommunications, information services, and computer programming activities. Meanwhile, the financial and insurance sector grew by 3.3%YOY from the growth of loans in commercial banks.

Implication

In Q4/2020, the Thai economy improved by a higher-than-expected rate following the recovery in private consumption and exports, as well as higher inventory. The contraction at -4.2%YOY was lower than market expectations (Bloomberg median consensus as well as EIC predicted a contraction at -5.4%YOY). As such, in 2020, the Thai economy shrank by -6.1%, a rate lower than EIC's previous estimate at -6.5%. The factors that supported the Thai economy in Q4 to improve by more than expected included the resumption of growth in private consumption that was partly stimulated by government schemes, such as Rao Tiew Duay Gun, Khon La Khrueng, and Shop Dee Mee Kuen. Similarly, the recovery in the export sector prompted significant growth in manufacturing production. In Q4/2020, the Manufacturing Production Index (MPI) dropped by only -0.9%YOY. Such conditions also influenced growing investment in export-related sectors. With such regards, private investment fell by only -3.3%YOY compared to the -10.6%YOY fall in the previous quarter. Furthermore, the change in inventories also supported the economy in Q4/2020 to drop by a lower than expected rate. The key products with increasing inventory in Q4 were paddy, gold, and materials for computer production.

For 2021, EIC expects that the Thai economy should gradually improve, though with various lingering risks. According to EIC's latest forecast, Thai economic growth in 2021 should gradually improve by 2.2%, as growth should be constrained by sluggish conditions in the tourism industry. EIC expects that the number of tourists in 2021 will be at only 3.7 million persons. Furthermore, domestic purchasing power recovery should also be gradual as the new wave outbreak during early 2021 worsened existing economic scars. Such scars include the increasing business closure and growing unemployment, factors that should directly impact citizen's purchasing power. However, the government will play a vital role to support economic growth in 2021. Some of the government's latest stimulus measures included Rao Chana and Mor 33 Rao Rak Gun aimed to alleviate over 40 million affected persons with a budget of over THB 250 billion. Such measures should alleviate troubling conditions to some extent. The government is likely to introduce other packages to support the economy throughout the remainder of the year. **Nevertheless, the recovery of global economic conditions and global trade warrant close monitoring as the faster than expected recovery according to the latest released export indicators from various countries will directly influence the recovery of Thai exports and the Thai economy.** *EIC will re-evaluate the economic conditions and will release the new forecasts in early March.*

Other risk factors that warrant monitoring include 1) the duration required to successfully contain the second wave outbreak, 2) potential delays in widespread vaccine distribution in Thailand, 3) economic scars that could deteriorate financial stability via increasing bad debt, 4) political instability in Thailand that could weaken investor confidence, 5) drought as the water stored in major dams approached a level lower than the historical average, and 6) the stronger baht appreciation relative to trading partners and competitors, which could slow export recovery and international travel demands.

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