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SCB Securities Company Limited

Thai Q1/2021 GDP shrank by -2.6%, improving from the previous quarter following strong merchandise export recovery. However, private consumption returned to a contraction from the second wave COVID-19 outbreak in Thailand.

17 May 2021

Key summary

Thai Q1/2021 GDP contracted by -2.6%YOY, after falling by -4.2%YOY in the previous quarter. During the period, the economy saw boosts from strong merchandise export recovery following better global economic and trade conditions. Heightening government expenditure, especially from construction expenditure that benefited from the low-base effect due to the delayed budget approval, also supported growth. However, sluggish tourism conditions lingered, while private consumption recovery stumbled (contracted by -0.4%QOQ_sa) from the second wave outbreak during early 2021. Moreover, the production approach signaled uneven recovery. The agriculture sector improved following output, the manufacturing sector expanded from exports, while the construction sector saw boosts from government investment. On the contrary, manufacturing relating to service and tourism continued to contract with sectors, such as hotels and restaurants, and transportation, experiencing considerable shrinkage.

Prompted by the third wave outbreak that occurred in April, EIC anticipates significant economic contraction in Q2/2021. Although economic growth may revert to an expansion (in terms of %YOY) in Q2/2021, growth will be influenced by the low-base effect in the prior year as countries instituted national lockdowns. Comparing to the prior periods, recovering conditions in Q2/2021 should significantly worsen, especially private consumption of face-to-face services, such as hotels, restaurants, tourist attractions, and other recreational activities. Furthermore, the casualties incurred from the third wave outbreak may deepen existing economic scars, thereby potentially worsening business closure figures and the already-fragile labor market conditions.

Nevertheless, the Thai economy during H2/2021 should slowly recover following strong export recovery, capital injections from government stimulus packages, and

the progress of vaccinations. Meanwhile, worsening tourism conditions, as well as the damages from the economic scars, should continue to undermine recovery in the periods ahead. EIC expects that the Thai economy will slowly recover with a 2.0% growth in 2021. However, various downside risks warrant monitoring, including 1) The time required to contain the third wave outbreak may exceed the prediction of 3 months, as the growth momentum of new cases continued. Meanwhile, additional waves of outbreaks could occur as long as citizens are not sufficiently vaccinated and 2) Delays in vaccinations, in addition to the uncertainty regarding the efficacy of the vaccines to fight with mutated COVID-19 strains. EIC will closely monitor the situation and further conduct economic analysis in various dimensions. Please stay tuned for the updated in-depth analysis due to release in early June.

Key points

Thai GDP contracted by -2.6%YOY in Q1/2021, after shrinking by -4.2%YOY in the previous quarter. In terms of seasonally adjusted quarter-on-quarter growth (%QOQ_sa), the Thai economy expanded slightly by 0.2% QOQ_sa (compared to 1.1%QOQ_sa in Q4/2020).

Figure 1: Thailand's GDP in Q1/2021 recovered from better export and investment conditions. However, damages from weakening tourism growth and the second wave outbreak suppressed private consumption and overall economic growth.

Expenditure		%YoY	% of GDP	2019	2020	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1
Approach	RGDP	100.0%	2.3%	-6.1%	-2.1%	-12.1%	-6.4%	-4.2%	-2.6%	
	Private Consumption	54.6%	4.0%	-1.0%	2.7%	-6.7%	-0.6%	0.9%	-0.5%	
	Public Consumption	15.7%	1.7%	0.9%	-2.5%	1.0%	2.5%	2.2%	2.1%	
	Total Investment	24.2%	2.0%	-4.8%	-6.3%	-7.9%	-2.6%	-2.5%	7.3%	
	Private Investment	17.4%	2.7%	-8.4%	-5.3%	-14.9%	-10.6%	-3.3%	3.0%	
	Public Investment	6.7%	0.1%	5.7%	-9.1%	12.6%	17.6%	0.6%	19.6%	
	Export G&S	61.0%	-3.0%	-19.4%	-5.8%	-27.5%	-23.3%	-21.5%	-10.5%	
	Export Goods	54.4%	-3.7%	-5.8%	1.7%	-15.8%	-7.5%	-1.5%	3.2%	
	Export Services	7.2%	-0.5%	-60.1%	-26.8%	-67.7%	-73.1%	-75.2%	-63.5%	
	Import G&S	59.1%	-5.2%	-13.3%	-3.0%	-23.6%	-19.3%	-7.0%	1.7%	
	Import Goods	49.2%	-5.8%	-11.2%	-2.2%	-21.2%	-18.1%	-3.1%	6.4%	
	Import Services	10.0%	-2.7%	-21.1%	-6.2%	-32.4%	-23.9%	-22.1%	-15.4%	

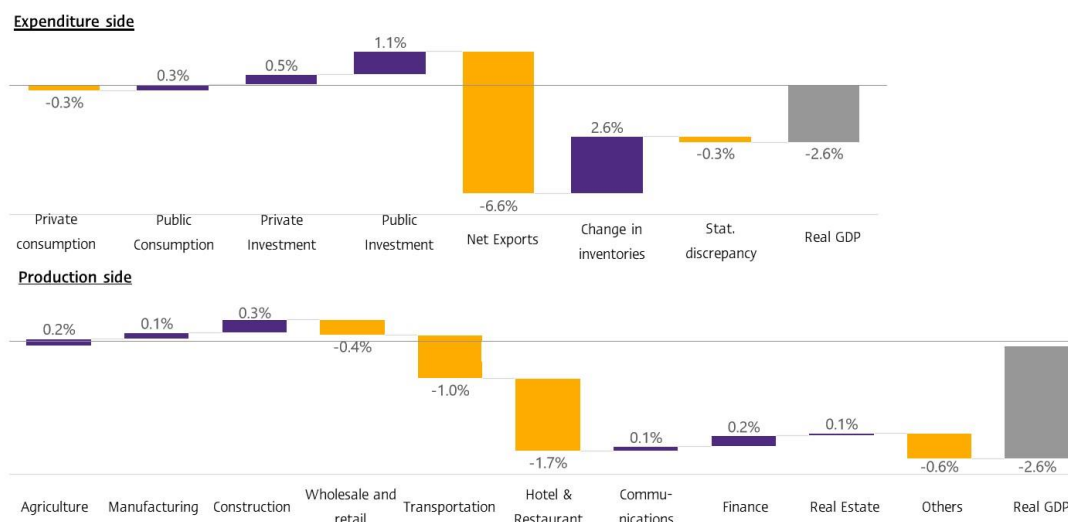
Production		%YoY	% of GDP	2019	2020	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1
Approach	RGDP	100.0%	2.3%	-6.1%	-2.1%	-12.1%	-6.4%	-4.2%	-2.6%	
	Agriculture	6.3%	-0.6%	-3.6%	-9.9%	-3.1%	-1.1%	0.4%	1.9%	
	Mining	2.1%	1.7%	-6.9%	2.6%	-13.4%	-7.1%	-9.6%	-4.6%	
	Manufacturing	26.5%	-0.7%	-5.7%	-2.4%	-14.7%	-5.3%	-0.7%	0.7%	
	Electricity, gas	2.8%	4.6%	-8.4%	1.3%	-12.7%	-9.4%	-13.3%	-9.1%	
	Construction	2.9%	1.6%	2.3%	-9.3%	7.5%	10.8%	-0.3%	12.7%	
	Wholesale & Retail	15.8%	4.5%	-3.7%	3.6%	-10.9%	-6.1%	-3.1%	-2.1%	
	Transport & Storage	5.7%	3.0%	-21.0%	-5.5%	-36.6%	-22.2%	-21.1%	-17.7%	
	Hotel & Restaurant	4.3%	7.8%	-36.6%	-23.3%	-49.9%	-39.3%	-35.2%	-35.0%	
	Info & Communication	6.2%	12.3%	4.6%	4.4%	4.1%	4.5%	5.4%	4.6%	
	Finance	7.9%	2.2%	2.7%	4.3%	1.7%	1.6%	3.3%	3.4%	
	Real Estate	4.2%	3.8%	1.4%	1.7%	0.9%	1.5%	1.3%	2.2%	
	Public	5.2%	1.4%	1.7%	1.9%	2.1%	0.3%	2.3%	1.1%	
	Education	3.3%	1.2%	2.0%	1.4%	0.8%	2.9%	3.1%	1.2%	

Source: EIC analysis based on data from NESDC

Figure 2: Worsening conditions in the tourism and recreational sectors curbed overall economic growth. However, government stimulus packages and merchandise export recovery played a vital part in ushering growth.

Contribution to Real GDP Contraction in Q1/2021

unit: percentage point



Source: EIC analysis based on data from NESDC

Considering the expenditure approach, export and investment witnessed a strong recovery. Nevertheless, the tourism sector continued to weaken. Meanwhile, private consumption suffered from the second wave outbreak.

- **The value of merchandise exports in real terms surged by 3.2%**, reverting to an expansion after tumbling for 3 consecutive quarters. Such improving growth was prompted by better global economic and trade conditions. Exports of products with considerable growth, included electrical appliances, automotive, agricultural commodities, chemical and plastic, and rubber products.
- **Exports of services or tourism continued to plunge by -63.6%YOY**, after tumbling by -76.2%YOY in the previous quarter. However, such growth slightly improved from the arrival of tourists with Special Tourist Visa or Thailand Privilege Card.
- **The value of merchandise imports reverted to a 6.4% expansion**, following the growth of merchandise exports and domestic investment. **Meanwhile, the value of service imports continued to drop by -15.4%YOY**, after falling by -22.1%YOY in the previous quarter. Lower domestic tourism expenditure contributed greatly to the decline. However, service import growth was somewhat supported by higher freight cost following a higher volume of international trade.
- **Private investment expanded by 3.0%YOY**, after contracting by -3.3%YOY in the previous quarter. The improvement was prompted by growing machinery and tools investment (3.8%YOY from -3.2%YOY in Q4/2020), especially from industrial machinery and tools investment. Meanwhile, construction investment slightly contracted by -0.4%YOY, improving from the -3.8%YOY in the previous month.

- **Government investment accelerated by 19.6%YOY**, following the aid from the low-base effect due to the delayed budget approval. The growth was driven by construction investment that improved by 23.1%YOY and machinery and tools investment that increased by 10.1%YOY. Similarly, **government consumption expanded by 2.1%YOY**.
- **Private consumption returned to a -0.5%YOY contraction**, after expanding by 0.9%YOY in the previous quarter. Worsening figures followed the second wave outbreak that occurred in early 2021. However, various stimulus packages, such as the Kon La Krueng Phase 2, Rao Chana, and Rao Rak Kan scheme, backed private investment growth, especially for non-durable goods that significantly benefited from such measures.

Regarding the production approach, the agriculture sector improved. The manufacturing sector recovered following export conditions. Meanwhile, construction improved from government investment. However, the hotels and restaurants, and transportation sector continued to weaken.

- **The agricultural production continued to expand by 1.9%YOY**, following the growth of agricultural products, especially rice, fruits, rubber, and cassava.
- **Manufacturing production returned to 0.7%YOY growth**, after falling for 6 consecutive months. Such growth was propelled by increasing production of export merchandise during Q1/2021, such as electrical appliances, computers, electronics, and automotive.
- **Construction improved by 12.7%YOY**. Growth was driven by government construction that benefited from the low-base effect in the prior year due to the delayed budget approval. Meanwhile, private construction continued to shrink.
- **Hotels and restaurants, and transportation fell by -35.0%YOY and -17.7%YOY, respectively**, due to the casualties from the COVID-19 outbreak. Foreign tourist arrival numbers remained sluggish. Similarly, domestic travel stalled according to the second wave outbreak.

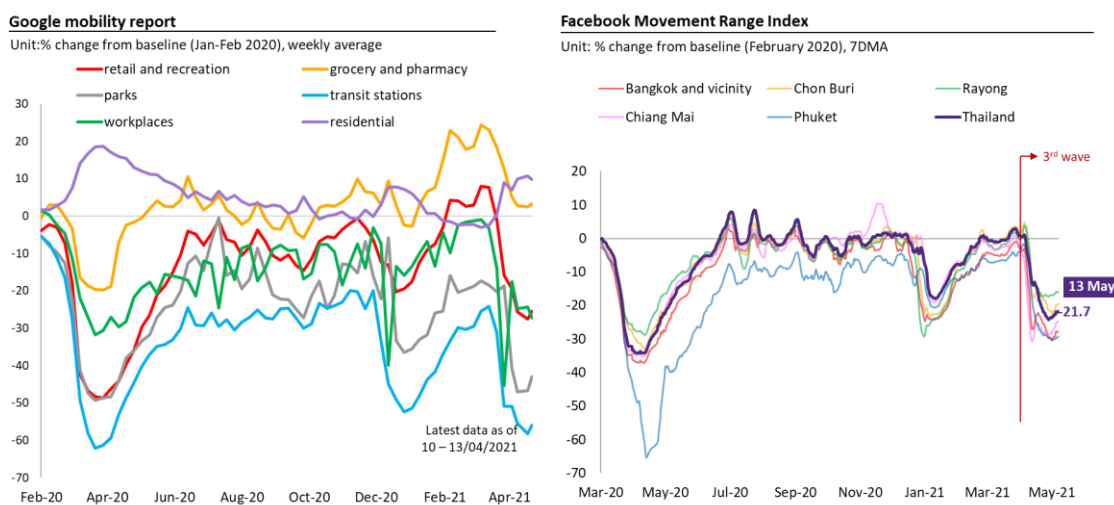
■ Implications

During Q1/2021, the Thai economy recovered following strong support from export and government expenditure. However, the tourism sector continued to weaken. Meanwhile, private consumption recovery stumbled from the second wave outbreak that occurred in early 2021. The resulting -2.6%YOY GDP contraction was better than market expectations (Bloomberg consensus forecasted -3.3%YOY, while EIC anticipated -3.2%YOY). The key difference between the actual results and EIC's forecast spurred from changes in inventory from gold and better-than-expected private investment growth. However, overall economic conditions in Q1 were as EIC previously anticipated. First off, the economy recovered from strong merchandise export growth following better

global economic and trade conditions. Private investment in machinery and tools thus recovered accordingly. Other anticipated conditions included heightening government investment and weakening tourism conditions, as well as, subdued private consumption recovery prompted by the second wave outbreak during early 2021.

Furthermore, the third wave outbreak that occurred in April should significantly impair economic activities in Q2/2021. Although the economy may return to an expansion (in terms of %YOY) in Q2/2021, growth would be driven by the low-base effect in the prior year as countries instituted national lockdowns. Meanwhile, economic activities in Q2 should clearly worsen, especially those relating to private consumption of face-to-face services, such as hotels, restaurants, tourist attractions, and other recreational activities, as casualties from the third wave outbreak should be more severe than the second wave outbreak during early 2021. Furthermore, high-frequency data from Google and Facebook (Figure 3) suggested that mobility and economic activity slowed drastically during the third wave outbreak compared to the second wave outbreak.

Figure 3: Economic impact incurred from the third wave outbreak should be more severe than the second wave outbreak from the higher number of new cases and the spread of infected persons throughout the country.



Source: EIC analysis based on data from Google and Facebook

Even though Thailand should avoid the technical recession in H1/21 as the GDP results in Q1 were better-than-anticipated with %QOQ_sa expansion (+0.2%QOQ_sa), the domestic economy continued to stall with slow recovery. Private consumption, one of Thailand’s main economic drivers, was particularly hampered. Despite strong support from government stimulus packages (worth THB 290 billion) from measures, such as Rao Chana, Mor 33 Rao Rak Kan, and Kon La Krueng Phase 2, the readings for private consumption in Q1 contracted both in comparison to the prior year (-0.5%YOY) and the prior quarter, seasonally adjusted (-0.4%QOQ_sa). Furthermore, in Q2, private consumption should continue

to weaken from the damages of the third wave COVID-19 outbreak with no clear improvement in sight. Government support might not be sizeable enough (THB 85 billion from the extension of the Rao Chana and Rao Rak Kan scheme for 2 weeks) compared to the new round of casualties incurred in Q2.

Figure 4: Latest government stimulus packages (5/5/2021) estimated to inject THB 240 billion into the economy

Measures	Details	Budget	Duration
1) SFI loan and debt moratorium scheme	Loans of maximum 3 years will receive up to 0.35% monthly interest (waiver of principal and interest for the first 6 months) and SFI retail debt moratorium extension until 2021 year-end	THB 20,000 million	Until 2021 year-end
2) Water and electricity bill discounts	For households using electricity not exceeding 150 units in April, the first 90 units will be free of charge. Those exceeding 150 units will receive discounts relative to usage in April (base month). 10% water bill discount	Not exceeding THB 10,000 million	May – Jun 2021
3) Rao Chana and Mor 33 Rao Rak Kan extension	Additional THB 1,000 for 2 weeks (32.9 million people from Rao Chana and 9.27 million people from Mor 33 Rao Rak Kan)	THB 85,500 million (67,000 – Rao Chana/ 18,500 Rao Rak Kan)	Spending available until end of Jun 2021
4) Cash handouts to fragile people	Additional THB 200 per month, 16.1 million participants (13.6 million – welfare cardholders / 2.5 million – persons requiring special assistance)	THB 19,320 million	Jul – Dec 2021
5) Kon La Krueng Phase 3 (Co-pay) scheme	Up to THB 3,000/ person. Limit THB 150/ person/ day, 31 million participants	THB 93,000 million	Jul – Dec 2021
6) Ying Chai Ying Dai scheme	E-voucher of up to THB 7,000/ person for purchase of food and beverages. Spending limit of THB 5,000/ person/ day, target participants at 4 million	THB 28,000 million	Aug – Dec 2021
Total Budget (excluding loan-based measures)		THB 235,820 million	

Source: EIC analysis based on data from the Royal Thai Government and news agencies

During the second half of 2021, the Thai economy should slowly recover following strong export growth, government stimulus packages, and the progress of COVID-19 vaccinations. On the other hand, sluggish tourism activities should linger with damages from economic scars undermining growth in the periods ahead. Thailand's strong export growth momentum should continue, especially to advanced economies with rapid inoculation progress and sizable government stimulus packages. In terms of the domestic economy, during the second half, the confidence of consumers, as well as businesses, shall improve following the progress of COVID-19 vaccinations and support from additional stimulus packages anticipated at THB 140 billion. However, in the big picture, the economic recovery should be slow as the tourism sector, one of Thailand's main economic drivers will continue to suffer. EIC expects that only 1.5 million international tourist arrivals will enter Thailand in 2021. Furthermore, Thailand's existing economic scars could exacerbate immensely, especially from severe conditions in Q2. The number of business closures could worsen, existing vulnerabilities in the labor market could increase, and citizens could increase precautionary savings from growing economic uncertainty. As such, the mentioned factors could hinder recovery in the periods ahead.

Risks that warrant monitoring include 1) Time required to contain the third wave outbreak may exceed the prediction of 3 months, as the growth of new cases continued with new clusters constantly

forming. Such conditions will continue to hamper private consumption recovery. Meanwhile, additional waves of outbreaks could occur as long as citizens are not sufficiently vaccinated. 2) Delays in vaccinations, in addition to the uncertainty regarding the efficacy of the vaccines to fight with mutated COVID-19 strains. **EIC will closely monitor and further conduct economic analysis in various dimensions. Please stay tuned for the updated economic analysis due to release in early June. As for EIC's current economic forecast, in 2021, EIC maintains the projection at 2.0%.**

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