Thu, May 26, 2022

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KEY SUMMARY

Thai Q1/22 GDP continued to expand.

During Q1/22, Thailand's economic growth topped previous forecasts. Such growth represented a two consecutive quarters increase at 2.2% compared with the same period in the previous year. Furthermore, in comparison to the previous quarter that was boosted by recovering conditions from easing virus curbs, the seasonally adjusted economic performance in Q1 continued to improve by 1.1% QoQ sa. Notable growth drivers during the quarter included recovering domestic demand prompted by easing virus curbs, a growing number of visitors after the country reopened, facilitating export growth momentum from last year, as well as the introduction of government stimulus packages. In regards to the production approach, various economic sectors recovered with solid growth. The service sector improved according to tourism recovery. The industrial sector also grew following robust exports. Meanwhile, the agricultural sector edged up according to growing output quantity. However, the construction sector shrank in Q1 due to slowing government investment.

Looking ahead, Thailand's economic growth should see more impacts from the war in Ukraine.

During Q2, EIC expects that the economy will continue to recover following alleviating Omicron conditions indicated by lower numbers of daily infected persons and greater vaccination progress. Such better conditions should then usher domestic demand recovery. Furthermore, the tourism sector should also improve as various countries gradually started to reopen borders. However, EIC views that Thailand's economic recovery may see harsher implications from the war in Ukraine in the periods ahead through worsening trade and inflation conditions. Thailand's export sector should see slowing demand with further challenges from the global supply disruption prompted by the Russia-Ukraine war. Despite receiving limited impact during the prior period, EIC views that Thai exports will see more adverse impact during Q2. Meanwhile, rising inflation from higher energy and commodity prices will undermine domestic consumption and investments in the periods ahead.

EIC expects that the Thai economy will gradually recover in 2022 amid various risks.

During H2/22, the Thai economy should continue to gradually recover with the support from better tourism conditions following higher-than-expected tourist arrival outlooks after virus curbs were eased as well as expedited country re-openings. Meanwhile, exports should continue to expand throughout the remainder of the year, though at stalling rates due to slowing global economic trends. With such regard, EIC views that in 2022 the Thai economy should improve by 2.7%, though with various downside risks that warrant monitoring, including (1) prolonged periods of persistently high and potentially rising oil prices due to the Russia-Ukraine war, (2) supply disruptions in the manufacturing and logistics industry, including weaker-than-anticipated demand following China's strict city lockdown measures and economic sanctions on Russia by western nations with potential retaliations from Russia, (3) major central banks tightening monetary policies, especially the Fed that may prompt a more constricted and volatile global financial environment, and (4) worsening economic scars from rising costs of living that could lower the household sector's ability to repay debt on a wide scale. EIC will continue to monitor and analyze economic impacts in various dimensions before publishing the updated economic forecasts again in June.

KEY POINTS

Thai GDP expanded by 2.2% in Q1/22 compared with the same period during the previous year (YOY). In terms of seasonally adjusted quarter-on-quarter growth, the Thai economy still expanded by 1.1% (QoQ sa), continually improving from Q4/21 at 1.8%YOY.

Figure 1: Thai GDP in Q1/2022 expanded in nearly all sectors, except for public investment.

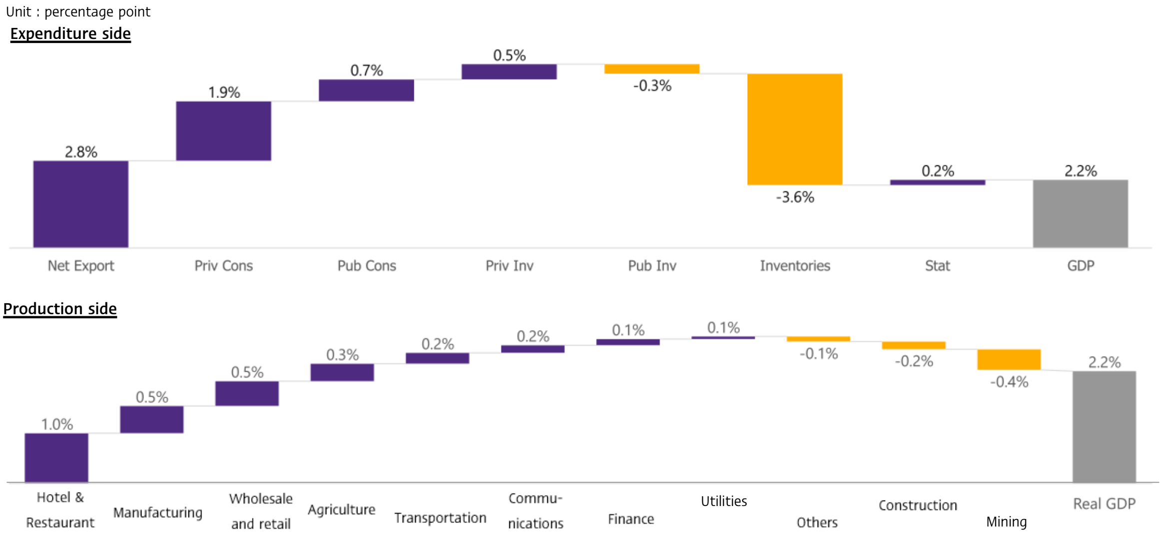
Expenditure Approach

%YoY	% of GDP	2020	2021	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	YTD
RGDP	**100.0%**	**-6.2%**	**1.5%**	**-2.4%**	**7.7%**	**-0.2%**	**1.8%**	**2.2%**	**2.2%**
Private Consumption	54.1%	-1.0%	0.3%	-0.3%	4.7%	-3.2%	0.4%	3.9%	3.9%
Public Consumption	16.0%	1.4%	3.2%	2.2%	1.0%	1.5%	8.1%	4.6%	4.6%
Total Investment	24.7%	-4.8%	3.4%	7.3%	7.4%	-0.4%	-0.2%	0.8%	0.8%
Private Investment	17.8%	-8.2%	3.3%	3.1%	9.2%	2.6%	-0.8%	2.9%	2.9%
Public Investment	6.8%	5.1%	3.8%	19.8%	3.4%	-6.2%	1.7%	-4.7%	-4.7%
Export G&S	66.2%	-19.7%	10.4%	-10.3%	28.4%	12.3%	17.6%	12.0%	12.0%
Export Goods	61.7%	-5.8%	14.9%	2.9%	30.8%	12.0%	16.6%	10.2%	10.2%
Export Services	5.3%	-61.3%	-23.1%	-62.3%	4.8%	14.7%	28.8%	30.7%	30.7%
Import G&S	68.0%	-14.1%	17.9%	1.0%	28.7%	29.5%	16.4%	6.7%	6.7%
Import Goods	57.9%	-10.6%	18.3%	4.6%	29.9%	28.0%	14.0%	4.4%	4.4%
Import Services	10.5%	-27.8%	16.0%	-13.4%	23.6%	37.1%	28.1%	15.4%	15.4%

Production Approach	%YoY	% of GDP	2020	2021	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	YTD
	RGDP	**100.0%**	**-6.2%**	**1.5%**	**-2.4%**	**7.7%**	**-0.2%**	**1.8%**	**2.2%**	**2.2%**
	Agriculture	6.3%	-3.5%	1.0%	1.0%	2.1%	2.2%	-0.6%	4.1%	4.1%
	Industrial	32.5%	-5.9%	3.4%	-0.3%	14.2%	-1.7%	2.6%	0.5%	0.5%
	Mining	1.9%	-8.9%	-7.1%	-6.2%	3.2%	-11.4%	-13.4%	-18.7%	-18.7%
	Manufacturing	27.4%	-5.6%	4.9%	1.1%	17.0%	-0.9%	3.8%	1.9%	1.9%
	Electricity, gas	2.7%	-8.0%	-2.5%	-9.1%	1.0%	-2.4%	2.1%	2.0%	2.0%
	Services	62.3%	-6.7%	0.7%	-3.8%	5.3%	0.3%	1.7%	2.9%	2.9%
	Construction	2.9%	1.3%	2.7%	13.5%	3.1%	-4.2%	-0.8%	-5.5%	-5.5%
	Wholesale & Retail	15.9%	-3.2%	1.7%	-2.4%	5.0%	2.7%	3.0%	2.9%	2.9%
	Transport & Storage	5.3%	-22.9%	-2.9%	-16.9%	10.3%	-1.4%	3.2%	4.6%	4.6%
	Hotel & Restaurant	3.6%	-37.5%	-14.4%	-36.8%	16.4%	-19.0%	-4.9%	34.1%	34.1%
	Info & Communication	6.2%	1.1%	5.6%	4.5%	5.6%	6.8%	5.3%	5.9%	5.9%
	Finance	8.4%	5.1%	5.7%	6.4%	5.9%	6.1%	4.4%	1.5%	1.5%
	Real Estate	4.3%	1.5%	1.8%	2.2%	2.7%	0.7%	1.5%	1.0%	1.0%
	Public	5.2%	1.6%	0.6%	1.4%	1.0%	0.1%	0.1%	-3.7%	-3.7%
	Education	3.3%	1.3%	0.6%	0.7%	0.5%	0.5%	0.8%	0.5%	0.5%

Source: EIC analysis based on data from NESDC

Figure 2: Contribution to growth of Real GDP in Q1/2022



Source: EIC analysis based on data from NESDC

Considering the expenditure approach, economic conditions in nearly all sectors improved with public investment and change in inventory undermining growth.

- Private consumption improved by 3.9% (compared with the same period in the prior year), increasing from 0.4% in the previous quarter. Better conditions were supported by easing virus curbs that boosted the recovery of economic activities amid the pressure from higher costs of living. During the quarter, consumption of durable goods, semi-durable goods, non-durable goods, and net services improved.
- Public investment returned to a -4.7% contraction after improving by 1.7% in the previous quarter. Government investment contracted by -6.5%, while state-owned enterprise investment fell by -2.1%. Similarly, investments in construction and machinery and equipment dropped by -3.9% and -7%, respectively.

- **Private investment reverted to a 2.9% expansion,** after contracting by -0.8% in the previous quarter. Investments in machinery and equipment improved by 5.4% maninly due to the expansion in the automotive industry. On the other hand, growth in other categories stalled partly due to higher import costs. Meanwhile, construction investment fell by -8%.
- **Public consumption increased by 4.6%,** stalling from the 8.1% expansion in the previous quarter. Social transfer in kind – purchased market production particularly soared by 74.5%, increasing from the 38.5% growth in the previous quarter. Such growth was mainly driven by the increase in COVID-19 related expenses. On the contrary, wages dropped by -2.6%, and goods and services expenditure fell by -3.8%, after expanding by 0.4% and 11.4%, respectively in the previous quarter.
- **The value of merchandise exports in real terms increased by 10.2%,** continually improving from the 16.6% growth in the previous month. Such conditions improved following easing virus curbs that limited manufacturing activities in the prior periods. Other notable drivers included better global trade and economic conditions, heightened demand for food products due to the Russia-Ukraine war, high gold exports, and the weakening baht.
- **The value of merchandise imports in real terms stalled to 4.4%** from 14% in the previous quarter. Imports of consumer goods improved following growing household demand. Imports of capital goods expanded following higher machinery and equipment demand. Meanwhile, imports of raw materials also improved, especially the electronics and chemicals sector to manufacture export products.
- **Exports of services soared by 30.7%,** accelerating from the 28.8% growth in the previous quarter, following higher revenue from tourism, merchandise transportation, and other business services. Meanwhile, imports of services stalled to 15.4% from 28.1% in the previous quarter, the growth was still considered high following sustainingly high freight charges.
- **Change in inventories dropped compared to the same period in the previous year. However, value of the inventories improved from the previous quarter by THB 253,556 million.** During the quarter, inventories of industrial products and mining products surged, particularly, crude oil due to rising prices as well as fears of escalating conflict in the Ukraine war. Similarly, other sectors with growing inventories included sugar, gemstones and jewelry, petroleum, plastic, and synthetic rubber in primary forms. On the other hand, the automotive, computer, and agriculture sectors had lower inventory.

Regarding the production approach, the agriculture, the industrial, and the service sectors improved during the quarter.

- **Agricultural production growth reached a 15 quarter high at 4.1%,** after stalling by -0.6% in the previous quarter. The output of crops, livestock, and fisheries all improved with significant growth from key products, such as paddy, industrial sugarcane, oil palm, and pineapple.

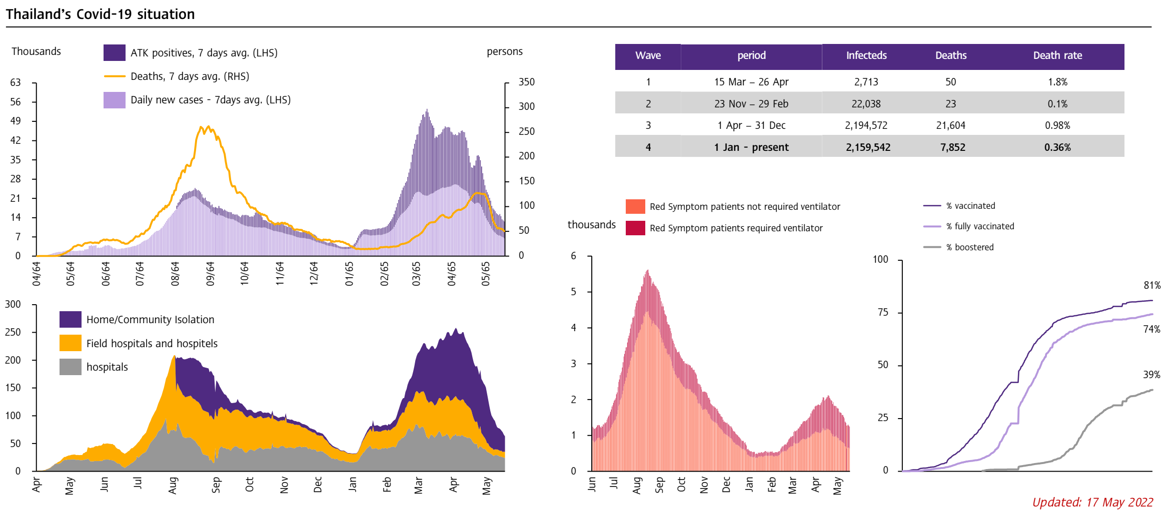
- **Industrial production expanded by 0.5%,** stalling from 2.6% in the previous quarter. Such a figure slowed according to stalling industrial product output growth at 1.9%, dropping from the 3.8% growth in the previous quarter. Furthermore, the mining and quarrying sector also shrank by -18.7%, worsening from the -13.4% drop in the previous quarter.
- **Services expanded by 2.9%,** accelerating from 1.7% in the previous quarter. Sectors that drove the expansion included hotels and restaurants, wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage, and information and communications. However, the main undermining factor was from the construction sector with a -5.5% contraction following continually higher business costs. Furthermore, there were no additional construction investments in large-scale projects by the government during the period after the construction of the Yellow and Pink line mass transit projects ended in the previous quarter.

IMPLICATIONS

Thai Q1/22 GDP growth beats expectations. The growth in the quarter continued to improve for 2 consecutive quarters at 2.2% compared to the same period in the previous year. In terms of seasonally adjusted quarter-on-quarter growth, the Thai economy still expanded by 1.1% (QoQ sa) after improving from easing virus curbs in the previous quarter. Notable growth drivers during the quarter included recovering domestic demand prompted by easing virus curbs, a growing number of visitors after the country reopened, facilitating export growth momentum from last year, as well as the introduction of government stimulus packages. As for the production approach, nearly all economic sectors improved. The service sector expanded following recovering tourism conditions. The industrial sector recovered following robust exports and better conditions in the agricultural sector from higher output. However, the construction sector shrank in Q1 due to slowing government investment.

During Q2/22, EIC views that the economy will continue to improve following country re-openings, though with harsher war-induced implications, such as slowing exports and continually rising inflation. Casualties from the Omicron outbreak started to alleviate indicated by lower numbers of daily infected persons and greater vaccination progress (Figure 3). As such, domestic demand should start to recover, while economic activities increasingly return to nearly normal levels. Furthermore, the tourism sector should edge up as various countries gradually start to reopen borders, especially neighboring Asian countries. However, notable risks that could undermine Thailand's economic recovery in the next quarter include the war in Ukraine and China's strict city lockdown measures that may worsen trade and inflation conditions. With such regard, Thailand's export sector may be hampered by slowing global demand, especially from China, amid challenges from global supply disruption prompted by the Russia-Ukraine war. Despite the limited impact on export value during Q1, EIC views that Thai exports should see more adverse impacts in the periods ahead. Furthermore, conditions could be exacerbated by rising inflation from increasing energy and commodity prices that could exert more pressure on domestic consumption and investment (Figure 4).

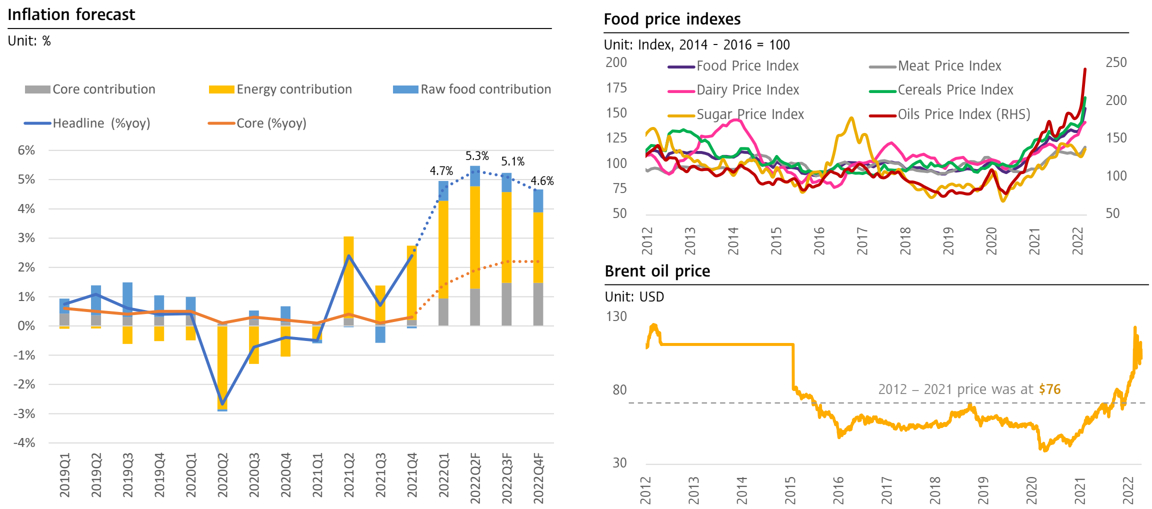
Figure 3: The number of new daily infections and deaths in Thailand continued to decline amid increasing vaccination. Thus, the government plans to announce COVID-19 as an endemic by July.



Wave	period	Infecteds	Deaths	Death rate
1	15 Mar – 26 Apr	2,713	50	1.8%
2	23 Nov – 29 Feb	22,038	23	0.1%
3	1 Apr – 31 Dec	2,194,572	21,604	0.98%
4	1 Jan - present	2,159,542	7,852	0.36%

Source: EIC analysis based on data from CCSA and the Ministry of Public Health

Figure 4: Supply risks from the Russia-Ukraine war and China's Zero Covid policy undermined global economic conditions via continually increasing commodity prices and rising business costs.



Source: EIC analysis based on data from the Ministry of Commerce, UN FAO, Bloomberg, and CEIC

During H2/22, the Thai economy should continue to gradually recover with the support from better tourism conditions following higher-than-expected tourist arrival outlooks after virus curbs were eased as well as expedited country re-openings. Also, exports should continue to expand, though at stalling rates throughout the remainder of the year due to slowing global economic trends. With such regard, EIC views that in 2022 the Thai economy should improve by 2.7%. However, various downside risks warrant monitoring, including (1) prolonged periods of persistently high and potentially rising oil prices due to the Russia-Ukraine war that may prompt a severe and prolonged stagflation environment, (2) supply disruptions in the manufacturing and logistics industry, including weaker-than-anticipated demand following China's strict city lockdown measures and economic sanctions on Russia by western nations with potential retaliations from Russia that may lower global economic growth by more than previously anticipated and hurting Thai exports, (3) major central banks tightening monetary policies, especially the Fed that may prompt a more constricted and volatile global financial environment, and (4) worsening economic scars from rising costs of living that could lower the household sector's ability to repay debt on a wide scale. **EIC will continue to monitor and analyze economic impacts in various dimensions before publishing the updated economic forecasts again in June.**

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