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SCB Economic Intelligence Center

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KEY SUMMARY

The Thai economy continued to improve in Q2/22.

The Thai economy continued to expand for the third consecutive quarter by 2.5% compared wtih the same period in the prior year. In comparison to the prior quarter with some signs of recovery from the country re-opening, growth in the second quarter edged up by 0.7% QOQ sa. Such improving economic conditions were supported by domestic demand recovery as economic activities increasingly return to usual conditions following easing virus curbs and the country re-opening. In terms of the production approach, various economic sectors showed robust recovery. The service sector growth was a notable driver that improved due the continually recovering tourism sector, as well as the agriculture sector from higher outputs. However, the construction sector continued to contract from slowing public investment. The industrial sector stalled after achieving robust growth in the previous quarter. Such conditions reflected slowing export volume outlooks to some key markets, such as China and the US, and concerns regarding fluctuating costs.

Going forward, the major growth drivers for the Thai economy should be from the tourism and service sector.

For the remainder of 2022, EIC anticipates that the economy will continue to recover despite high pressure from domestic inflation as the tourism sector should recover at a faster-than-anticipated pace following easing international travel restrictions in various countries, including Thailand. EIC expects that the number of international tourist arrivals in 2022 could reach as high as 10 million persons (from the previous expectation of 7.4 million persons) due to pent-up demand for travel suggested by indicators, such as the high bookings of airport slots during winter (Oct 2022 – Mar 2023) for Thailand's main international airports. Such better conditions, in turn, should benefit the service and private consumption sector, particularly travel-related services, including hotels, restaurants, and transportation. The growth should continue to strengthen in 2023 as Chinese tourists should start to travel overseas. Moreover, the Chinese government should start to ease the Zero COVID policy in late 2022 and lift travel restrictions in 2023.

Pressures from global economic risks could slow Thailand's economic recovery.

The Thai economy should continue to improve. However, going forward, increasing risks from global environments could stall the economic recovery. Notable risks include concerns that a recession will hit the US economy following tightening monetary policy, implications on Europe's economic conditions following the energy supply risks from Russia, and China's fragile economic environments in various sectors. The global inflation hikes and rising global energy prices could further exacerbate such weak conditions. Moreover, exports value, as Thailand's key driver in recent periods, should slow in late 2022, especially in volume, following geopolitical risks from the escalating tensions between China and the US with potential economic decoupling acceleration between the two major economies. The slowing export condition was already reflected by weakening net export figures that dragged economic growth in the latest quarter after supporting growth in the prior quarter. With such regards, private investment growth could also slow in the periods ahead. Meanwhile, government stimulus packages will continue to play a vital role in supporting economic growth. However, such a supporting momentum should slow as EIC evaluates that only THB 27 billion from the THB 500 billion Emergency Loan should be available for new projects and will expire by Sep 2022.

KEY POINTS

The Thai economy in Q2/22 expanded by 2.5% in comparison to the same period in the prior year (YOY) or grew by 0.7% QOQ sa from the previous quarter, and continually increased by 2.3%YOY from the previous quarter.

The expenditure approach reflected recovering economic activities with private consumption and exports of services (tourism) driving growth during the quarter.

- Private consumption soared by 6.9%, marking a 38 quarters high, following better overall economic conditions compared to the same period during the prior year that suffered from severe Delta variant outbreak casualties. Recovery in the service sector, particularly tourism, improving labor market conditions, and higher farm income were the main supporting factors. However, escalating prices suppressed growth. During the quarter, private consumption of net services and semi-durable goods continued to increase. Meanwhile, private consumption of durable goods and non-durable goods expanded at a stalling rate.

- **On the contrary, public investment contracted by -9%**, marking a 9 quarters low. Government investment contracted by -15.1%, while state-owned enterprise investment improved by 2.9%. During the quarter, public construction and public machinery and equipment investment both fell by -6.6% and -17%, respectively.
- **Private investment expanded by 2.3%**, slowing from 2.9% in the previous quarter. Investments in machinery and equipment improved by 3.3% due to the expansion in the automotive industry. However, such growth stalled from the 5.4% expansion in the previous quarter due to increasing production costs as well as imported material costs following the weakening baht. Meanwhile, construction investment continued to fall by -1.3%, though improving from -8% in the previous quarter.
- **Public consumption increased by 6.8%**, marking a 3 quarters low. Compensation of employees reverted to a 1.3% expansion as well as purchases from enterprises and abroad by 0.1%, after contracting by -1.5% and -0.7%, respectively, in the previous quarter. Social transfer in kind – purchased market production particularly expanded by 17%, slowing from the 87.6% growth in the previous quarter.
- **The value of merchandise exports in real terms increased by 4.6%.** Despite the 6 consecutive quarters growth, the expansion during the current quarter marked a 5 quarters low with a 10.2% drop from the previous quarter. During the month, agricultural products grew following high global demand and agricultural export restrictions in various countries. Other notable drivers included the recovery in trade partner's industrial sector following recovering economic conditions from severe outbreaks and gains from the baht depreciation. However, Thai exports suffered from supply shortages, especially semiconductors which considerably lowered automotive exports and production.
- **The value of merchandise imports in real terms accelerated by 7.1%, surpassing export growth.** Imports of consumer goods expanded in alignment with private consumption. Meanwhile, expansion in imports of raw materials aligned with the demand to produce export products. Moreover, imports of capital goods continued to improve following higher machinery and equipment demand in the logistics sector.
- **Exports of services expanded by 54.3%** following recovering tourism receipts and increasing transportation fees from higher numbers of foreign tourist arrivals and the country re-opening. Meanwhile, imports of services increased by 16.8% from high international merchandise transportation volume and the country re-opening.
- **Change in inventories increased to THB 173,379 million** in comparison to the previous quarter. Inventories of industrial products and mining products surged as more supply was needed to serve recovering domestic and foreign demand. On the other hand, the agriculture sector had a lower accumulating inventory.

Regarding the production approach, the Thai economy saw boosts from the service sector, especially tourism-related sectors, and the continually growing agriculture sector. Meanwhile, the industrial sector weakened.

- Agricultural production expanded by 4.4%, after improving by 4.7% in the previous quarter. The growing output of rice, sugarcane, soybean, maize, fruits, and fisheries drove growth. On the contrary, livestock output dropped.
- Industrial production reverted to a -1.8% contraction, after improving by 0.6% in the previous quarter. The Manufacturing sector declined by -0.5% following lowered overseas orders. Furthermore, the mining and quarrying sector shrank by -22.4% throughout every key sub-categories worsening from the -18.5% drop in the previous quarter.
- Services expanded by 4.6%, accelerating from 2.9% in the previous quarter. Such growth was driven by easing virus curbs, the government's travel stimulus measures, and increasing foreign tourist arrivals and visitors. Accommodation and restaurants sector soared by 44.9%, followed by information and communication sector by 6.2%, and transportation and storage by 5.3%. However, the construction sector dropped by -4.5% following weakened public and private construction.

IMPLICATIONS

During Q2/2022, the Thai economy continued to recover as economic activities increasingly return to usual conditions from easing virus curbs and the country re-opening. The Thai economy continued to improve in Q2/2022 for the third consecutive quarter by 2.5% compared wtih the same period in the prior year. In comparison to the prior quarter with some recovery from the country re-opening, growth in the second quarter edged up by 0.7% QOQ sa (though lower than the 1.1% expansion in Q1/2022). Such improving economic conditions were supported by domestic demand recovery as economic activities increasingly return to usual conditions following easing virus control measures and the country re-opening. In terms of the production approach, various economic sectors expanded. The service sector growth was a notable driver that improved following the continually recovering tourism sector, as well as the agricultural sector following higher output. However, the construction sector continued to contract from slowing public investment. The industrial sector shrank after achieving robust growth in the previous quarter. Such conditions signaled slowing export volume outlooks to some key markets, such as China and Europe, and concerns regarding fluctuating costs.

During the second half of 2022, the Thai economic recovery should continue with the tourism sector as a major driver. EIC anticipates that the number of foreign tourist arrivals in 2022 could reach 10 million persons (from 7.4 million persons) due to pent-up demand for travel and easing international travel restrictions in various countries, including Thailand, suggested by indicators, such as the almost full bookings of airport slots during winter (Oct 2022 – Mar 2023) for Thailand's main international airports. Such better conditions, in turn, will continue to benefit the service sector, particularly in travel-related services, including hotels, restaurants, and transportation. Moreover, Thai agricultural output should increase following adequate rainfall and water reserve levels in dams, as well as government support, amid better prices from high global demand (excluding rice). Such conditions, in addition to easing virus curbs and existing pent-up demand, will be a major growth contributor for private consumption despite accelerating domestic inflation pressures. However, the volatile and slowing global economic conditions should likely slow Thai merchandise export growth during the second half of 2022, especially in volume, in which the export sector was Thailand's main economic driver in recent periods. Evidently, momentum of Thai exports volume started to stall. With such regards, private investment growth could also slow in the periods ahead. Meanwhile, government stimulus packages will continue to play a vital role in supporting economic growth. However, such a supporting momentum should slow as EIC evaluates that only THB 27 billion from the THB 500 billion Emergency Loan should be available for new projects and will expire by Sep 2022.

However, the Thai economy will face growing downside risks from external factors in the periods ahead. Notable risks in 2023 include (1) slowing global economic conditions : the US economy already entered a technical recession in Q2/2022, the European economy saw energy supply risks from Russia, inflation, amid tight monetary policy implementations, China's economic conditions in various sectors remained fragile, meanwhile various developing economies, including Laos and Myanmar had low international reserve holdings that could impact Thai merchandise exports, (2) global geopolitical risks, especially the escalating tensions between China and the US regarding Taiwan, with potential economic decoupling acceleration between the two major economies, (3) longer-than-anticipated domestic inflation conditions from sustainingly high oil prices, (4) damages from economic scars that could be exacerbated by higher cost of living and policy rate hikes, which could impair the household sector's ability to repay debt on a wide scale, vulnerable groups should be particularly impacted, and (5) political instability that may arise from the Thai House of Representatives election in early 2023, in addition to the rising instability and fiscal burden from various subsidy policies that may be introduced during and after the election.

Currently, EIC is monitoring and analyzing economic implications in various dimensions and will publish the updated economic projections again in mid-September.

Figure 1: Thai GDP in Q2/2022 expanded following robust service sector growth, especially from tourism-related sectors, in addition to private consumption.

Expenditure Approach

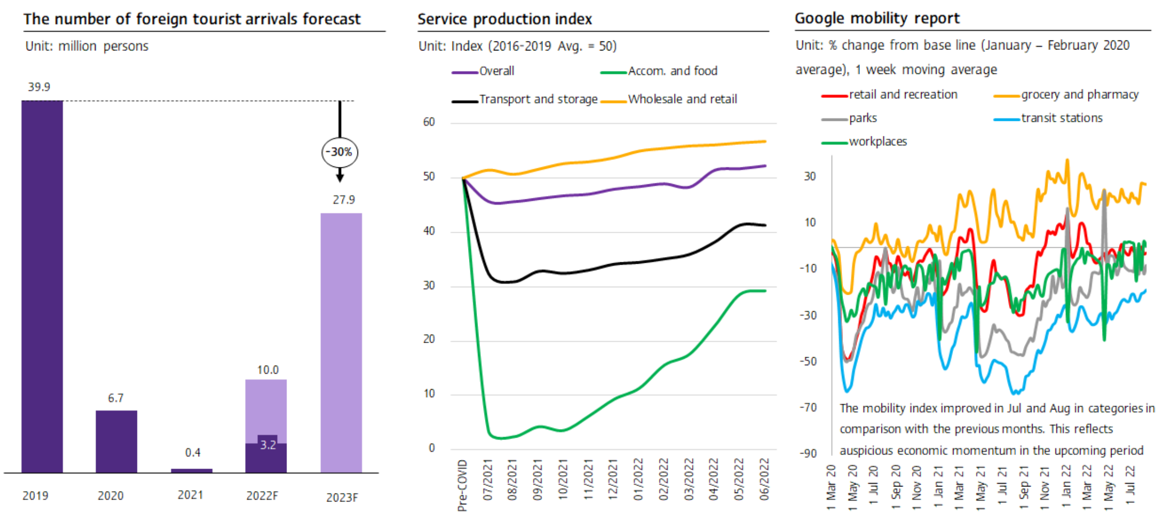
%YoY	% of GDP	2020	2021	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2	YTD
RGDP	**100.0%**	**-6.2%**	**1.5%**	**7.7%**	**-0.2%**	**1.8%**	**2.3%**	**2.5%**	**2.4%**
Private Consumption	54.1%	-1.0%	0.3%	4.7%	-3.2%	0.4%	3.5%	6.9%	5.2%
Public Consumption	16.0%	1.4%	3.2%	1.0%	1.5%	8.1%	7.2%	2.4%	4.7%
Total Investment	24.7%	-4.8%	3.4%	7.4%	-0.4%	-0.2%	0.8%	-1.0%	-0.1%
Private Investment	17.8%	-8.2%	3.3%	9.2%	2.6%	-0.8%	2.9%	2.3%	2.6%
Public Investment	6.8%	5.1%	3.8%	3.4%	-6.2%	1.7%	-4.7%	-9.0%	-6.8%
Export G&S	66.2%	-19.7%	10.4%	28.4%	12.3%	17.6%	12.1%	8.5%	10.2%
Export Goods	61.7%	-5.8%	14.9%	30.8%	12.0%	16.6%	10.2%	4.6%	7.3%
Export Services	5.3%	-61.3%	-23.1%	4.8%	14.7%	28.8%	32.5%	54.3%	43.2%
Import G&S	68.0%	-14.1%	17.9%	28.7%	29.5%	16.4%	6.2%	9.1%	7.6%
Import Goods	57.9%	-10.6%	18.3%	29.9%	28.0%	14.0%	4.2%	7.1%	5.7%
Import Services	10.5%	-27.8%	16.0%	23.6%	37.1%	28.1%	13.7%	16.8%	15.2%

Production Approach

%YoY	% of GDP	2020	2021	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2	YTD
RGDP	**100.0%**	**-6.2%**	**1.5%**	**7.7%**	**-0.2%**	**1.8%**	**2.3%**	**2.5%**	**2.4%**
Agriculture	6.3%	-3.5%	1.0%	2.1%	2.2%	-0.6%	4.7%	4.4%	4.6%
Industrial	32.5%	-5.9%	3.4%	14.2%	-1.7%	2.6%	0.6%	-1.8%	-0.6%
Mining	1.9%	-8.9%	-7.1%	3.2%	-11.4%	-13.4%	-18.5%	-22.4%	-20.3%
Manufacturing	27.4%	-5.6%	4.9%	17.0%	-0.9%	3.8%	2.0%	-0.5%	0.7%
Electricity, gas	2.7%	-8.0%	-2.5%	1.0%	-2.4%	2.1%	2.1%	1.4%	1.7%
Services	62.3%	-6.7%	0.7%	5.3%	0.3%	1.7%	2.9%	4.6%	3.7%
Construction	2.9%	1.3%	2.7%	3.1%	-4.2%	-0.8%	-5.5%	-4.5%	-5.0%
Wholesale & Retail	15.9%	-3.2%	1.7%	5.0%	2.7%	3.0%	2.8%	3.1%	2.9%
Transport & Storage	5.3%	-22.9%	-2.9%	10.3%	-1.4%	3.2%	4.2%	5.3%	4.7%
Hotel & Restaurant	3.6%	-37.5%	-14.4%	16.4%	-19.0%	-4.9%	33.5%	44.9%	39.3%
Info & Communication	6.2%	1.1%	5.6%	5.6%	6.8%	5.3%	5.7%	6.2%	6.0%
Finance	8.4%	5.1%	5.7%	5.9%	6.1%	4.4%	1.3%	1.6%	1.4%
Real Estate	4.3%	1.5%	1.8%	2.7%	0.7%	1.5%	1.0%	2.4%	1.7%
Public	5.2%	1.6%	0.6%	1.0%	0.1%	0.1%	-3.2%	0.2%	-1.5%
Education	3.3%	1.3%	0.6%	0.5%	0.5%	0.8%	0.8%	1.7%	1.2%

Source: EIC analysis based on data from the Office of the National Economic and Social Development Council

Figure 2: The service sector, particularly the tourism sector, significantly supported Thailand's economic conditions amid strong domestic consumption outlooks.

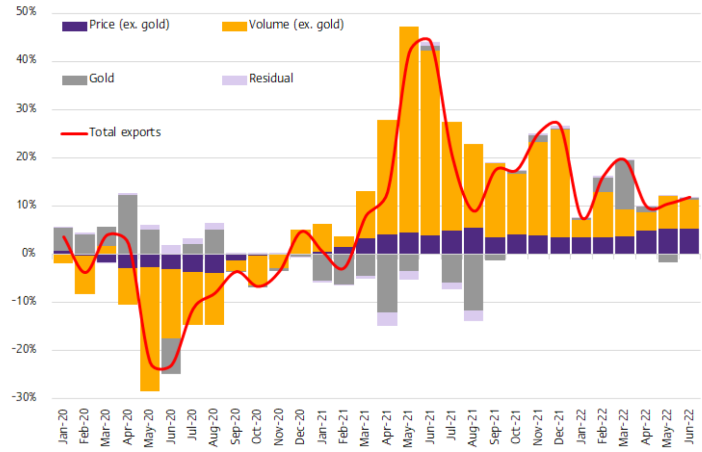


Source: EIC analysis based on data from the Ministry of Tourism & Sports, Bank of Thailand, and CEIC

Figure 3: Exports should slow, particularly in terms of volume (real value), from slowing or contracting growth of various major trading partners' economies.

Thai exports growth analysis

Unit: %



Global economic forecast by IMF

Unit : %YOY

GDP growth (%YOY)	2021	2022 Prev	2022 Current
World	6.1	3.6	3.2 ↓
US	5.7	3.7	2.3 ↓
Euro	5.4	2.8	2.6 ↓
Japan	1.7	2.4	1.7 ↓
China	8.1	4.4	3.3 ↓
India	8.7	8.2	7.4 ↓
Brazil	4.6	0.8	1.7 ↑
South Korea	4.1	2.5	2.3 ↓
Malaysia	3.1	5.6	5.1 ↓
Philippines	5.7	6.5	6.7 ↑
Global Inflation	4.7	5.7	8.3 ↑

Source: EIC analysis based on data from the Ministry of Commerce and CEIC

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