Thailand

5 September 2024

Export Boost in July & Still Benign Inflation

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- Headline inflation eased to 0.4% YoY in August versus 0.8% in July while core inflation edged slightly higher to 0.6% YoY in August versus 0.5% in July.
- Economic activity in July was mixed as weakness persisted in certain sectors such as construction and durable spending. Export growth was the bright spot.
- Our forecast is for Bank of Thailand (BoT) to cut its policy rate by a cumulative 50bp, with one 25bp in 4Q24 followed by another 25bp cut in 1Q25.

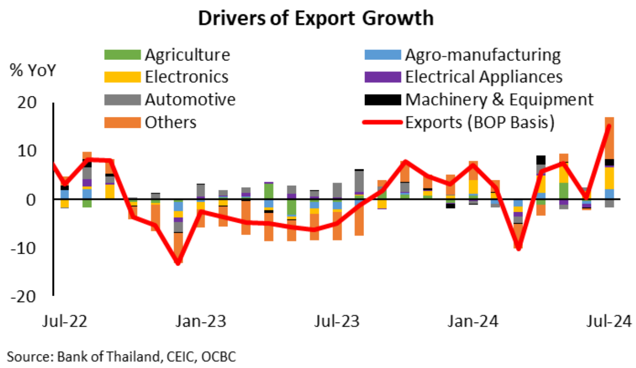
Headline CPI eased to 0.4% YoY in August versus 0.8% in July, in line with expectations (Consensus: 0.4%, OCBC: 0.3%). In contrast, core inflation edged slightly higher to 0.6% YoY in August versus 0.5% in July but remained benign, nonetheless. Headline inflation was driven by lower transportation (-1.0% YoY versus 2.0%), and utilities (-0.9% YoY versus -0.8%) costs, which more than offset higher food prices (1.8% YoY versus 1.3%). Year-to-date headline inflation averaged 0.1% YoY. We forecast the 2024 average to be 0.6% YoY, assuming some upward adjustments to retail fuel and electricity tariffs, with headline inflation potentially returning to BOT 1-3% target range around 4Q24.

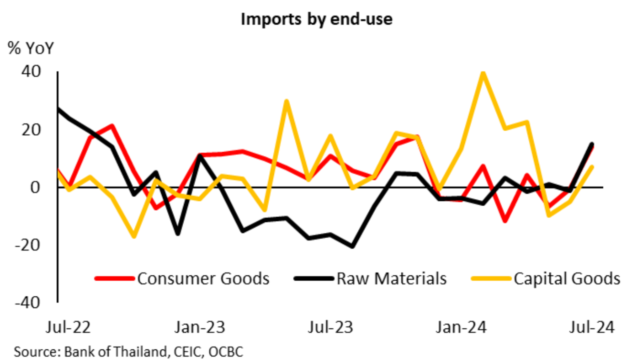
Drivers of inflation, %YoY	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24
Headline CPI	**-1.1**	**-0.8**	**-0.5**	**0.2**	**1.5**	**0.6**	**0.8**	**0.4**
Food & Non Alcoholic Beverages	-1.1	-1.0	-0.6	0.3	1.1	0.5	1.3	1.8
Apparel & Footwears	-0.1	-0.2	-0.1	-0.2	-0.4	-0.5	-0.5	-0.6
Housing & Furnishing	-0.7	-0.8	-0.9	-0.8	2.1	-0.8	-0.8	-0.9
Medical & Personal Care	0.9	0.9	0.3	0.4	0.5	0.1	-0.4	0.0
Transport & Communication	-2.5	-1.2	-0.4	0.9	2.4	2.4	2.0	-1.0
Recreation, Reading, Education and Religion	0.6	0.5	0.5	0.4	0.6	0.7	0.6	0.6
Tobacco & Alcoholic Beverages	0.9	1.2	1.4	1.4	1.4	1.5	1.5	1.6
Core Consumer Price Index	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.5**	**0.6**

Source: Ministry of Commerce, CEIC, OCBC

Meanwhile, July economic activity was mixed as weakness persisted in certain sectors including construction, durable consumption spending and government spending. Export growth (goods & services) was the bright spot in July. Goods export growth rose to 15.3% YoY in July versus 0.3% in June, driven by manufacturing goods exports. Within this, exports of electronics (43.6% YoY versus 13.2% in June), machinery & equipment (14.9% YoY versus -1.8%) were strong, offsetting the weakness in automotive (-9.5% YoY versus 4.7%) exports.

Much of the boost to exports were due to higher volumes while the price effects were broadly unchanged from June. Similarly, higher import volumes pushed import growth 15.8% YoY in July versus -0.1% in June. By end-use, import growth was broad-based across the consumer, raw materials, and capital goods. The trade surplus narrowed to USD0.9bn from USD2.4bn in June.

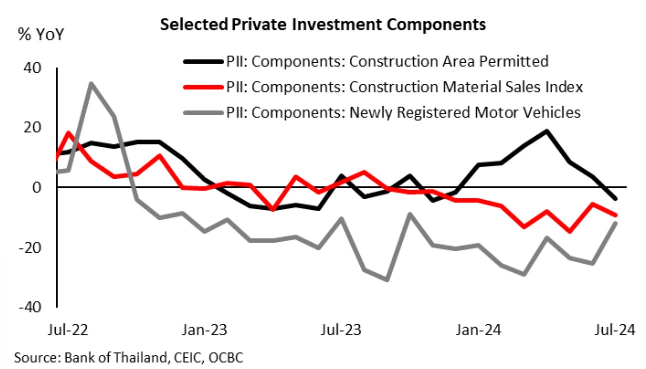


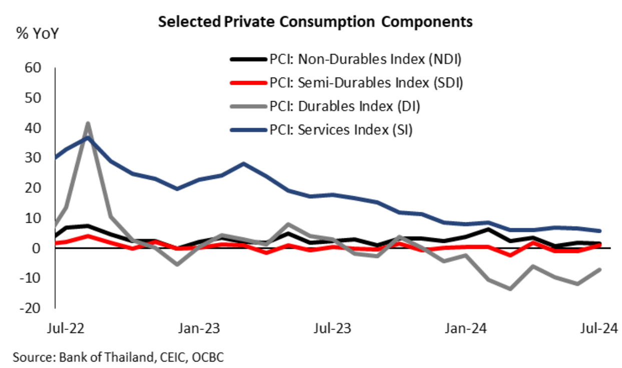


On the services front, tourist arrivals increased by 24.6% YoY in July (93.3% of 2019 levels) versus 22.3% in June, driven by increased tourist arrivals from other countries such as Malaysia, China, Russia, and Germany. However, the 'net services, income and transfers' deficit widened marginally to USD0.6bn in July versus USD0.5bn in June. The current account surplus narrowed sharply to USD0.3bn from USD2.0bn in June.

Meanwhile, the domestic demand picture was mixed. Although growth in the private investment index picked up to 3.4% YoY versus -2.3% in June, it was led by capital goods imports and domestic machinery sales. The construction sector related sub-components, including permitted construction area and the construction material index, remained weak.

Growth in the private consumption index was flat at 0.2% YoY in July as the weakness in durable spending persisted (-7.0% YoY versus 12.0% in June. Farm incomes and hence private consumption could come under pressure in the coming months given the tragic flooding in North Thailand since mid-August, which has affected more than 30000 households in 13 provinces. According to the Thai Chamber of Commerce, the costs total about THB6bn or 0.03% of GDP.





Government spending continued to contract underscoring the slower execution on public expenditures even after the FY23-24 budget was approved in May. There may have been continued weakness in August given the political uncertainty. However, with the political transition from Srettha Thavisin to PM Paetongtarn Shinawatra now complete, there is scope to ramp up public disbursements. The cabinet of the new government received royal endorsement on 4 September and importantly, the finance minister remains Pichai Chunhavajira. We believe that the economic priorities may not deviate substantially under the new PM, however, there are some uncertainties around the mechanisms associated with the digital wallet program. Fiscal spending beyond September remains supported by the timely discussions of the FY25 budget. The Budget passed the first reading in Parliament on 3 September, with the second and third readings on 5 September.

Putting together the data, we believe that growth momentum in 3Q24 started on a similar anaemic note to 1H24. We maintain our 2024 GDP growth forecast of 2.3%, below the BoT's estimate of 2.8% and this implies that growth momentum will remain weak in 2H24.

From a monetary policy perspective, weaker domestic demand particularly private consumption and investment spending suggests that lower interest rates can bolster growth. Moreover, with BoT noting slightly tighter financial conditions at its previous meeting on 21 August, we expect BoT to keep a closer eye on THB appreciation pressures. As such, our base case remains for the BoT to embark on shallow rate cutting cycle of a cumulative 50bp with the first 25bp cut in 4Q24 followed by another 25bp cut in 1Q25.

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