

Thailand: 4Q GDP And Full Year Growth In Line With Expectations

The Thai economy grew 3.8% y/y and 1.2% q/q on a seasonally adjusted basis in the 4Q, and 7.9% for the whole of 2010, in line with market estimates. The services sector drove the gains in the 4Q, rising 4.2% y/y in 4Q, roughly similar to the 3Q's 4.1% pace. Manufacturing slowed to a single digit growth of 4.8% y/y in 4Q, from 11.6% in 3Q. On the expenditure side, domestic demand stemming from private consumption was a key contributor to GDP growth. Private consumption expenditure grew 3.8%, albeit at a slower rate compared to 5.0% in 3Q.

The other major component of GDP-services - which account for over 40% of GDP- should continue to see some strength this year. With domestic demand remaining fairly strong, as well as some rebound in tourism, the services sector might see extended gains in 2011. The hotels and restaurants segment saw an ease in pace to 7.9%, from 10.1% in 3Q, but tourists arrivals were up 11.7% for 2010, with visitors from the region growing stronger compared to European and American tourists.

For the year as a whole, key sectors of the economy such as manufacturing grew at a robust pace of 13.9%, but for 2011, could smaller increases on the high base effect in 2010, as well as some slowdown stemming from lower external demand for Thai exports. We expect to see the manufacturing sector ease to a single digit range for 2011.

Thailand's economy looks to be moving on the right track, and next year's growth is also likely to remain on a sustainable level of around 4% or higher. Growth will be predicated on whether personal consumption will continue to drive growth, which in turn depends on sentiment and stems from the political landscape. Also taking the cue from the domestic politics are private investments. So far, investments into the country are still continuing apace, but with elections likely in the first half of this year, some unrest ahead of the elections could see investments put on hold. Generally, we are keeping to our full year 2011 projection of 4.0%, with a moderation in GDP on the cards. We will look to the country's export figures to see if external demand will spur growth.

Tighter Monetary Policy, Stronger THB On The Cards

With growth at a sustainable level, Bank of Thailand looks likely to continue raising its benchmark 1 day repo rate by 25 bps each quarter to end the year at 3.0%, from the current 2.25%. Inflationary concerns, already enveloping much of Asia, will dictate monetary policy. Food constitutes a third of the Thai CPI basket, and with prices rising, this will see inflation move higher. In tandem with the growing economy, other factors driving inflation higher would be the low unemployment rate, which would indicate strong domestic demand. The expected rate hikes should prove supportive for the THB, and coupled with the strong economy, we're looking at the THB strengthening against the USD. We are maintaining our USD/THB forecasts at around 28.10 by end-2011.

Growth Rates Of Selected Sectors Of Real GDP (% Y/Y)					
	2010	1Q10	2Q10	3Q10	4Q10
Agriculture	-2.2	-2.2	1.5	-4.5	-3.3
Manufacturing	13.9	22.9	17.6	11.6	4.8
Services	4.5	6.3	3.3	4.1	4.2
GDP y/y	7.9	11.8	9.4	6.9	3.9
GDP q/q s/adj	na	3.5	-0.4	-0.3	1.2
<i>Source: Office of the National Economic and Social Development Board</i>					

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