

Thailand: Counting The Costs

The Situation So Far

Floodwaters may now reach parts of central Bangkok, with the government now saying there is a threat of Bangkok being “swamped”. Protecting the capital is vital, as central Bangkok accounts for about 25% of the country’s GDP, and is home to many company headquarters. Vital services and tourism will be impacted.

So far 30 of the country’s 77 provinces have been flooded. With the worst-hit being the ancient capital Ayutthaya, where most of the auto and electronic industries are located. Export of technology, parts and automobiles should be lower in 4Q, with supply chain disruptions impacting the economy heavily.

Economic Impact

The total damage is estimated at around Bt100-150bn (1.0-1.7% of GDP), assuming the floods don’t swamp Bangkok. So far, an estimated 10,827 factories are flooded, affecting 446,777 workers, according to media reports quoting the Labour Ministry. All in, we could see up to 40% of the country’s GDP at risk, as Bangkok and the surrounding provinces in total account for about 40% of the country’s total GDP.

Our full year GDP forecast of 4.0% will have to be downgraded, possibly to about 3.0%, but we are still keeping 2012 growth at 4.5% for now. Rebuilding and reconstruction efforts should see some boost to 1Q 2012 GDP which is expected to mitigate losses from the manufacturing and agricultural side.

Manufacturing

6 industrial estates and over 1,000 major plants in 5 provinces near Bangkok have been shut.

Some of the foreign factories being affected:

- Western Digital, the world’s largest hard-disk drive (HDD) maker, which have Hewlett-Packard Co. and Dell Inc. as customers, expects its exports from Thailand will decrease by 40% this year due to the severe flooding. The company estimates a two-month production halt and then another four to six months to resume full operations.
- Carmakers such as Toyota, Honda Motor Co. and Ford have stopped production and closed factories. Production of cars have slipped by about 6000 units a day.
- Sony said it would delay the launch of several new cameras next month after a halt in production.
- Apple said supply of the components used in their Mac computers were disrupted.

Agriculture

An estimated 14% of paddy fields have been destroyed, and damage in the agricultural sector alone could cost between THB 16-20 billion (about 0.2% of GDP). Annual output is projected to be affected by at least 3 mn tones. High rice prices and other food items should climb due to decreased supply from flooding.

Impact on Monetary Policy

Bank of Thailand kept the benchmark interest rate steady at 3.50%, earlier this week. The adverse impact from the severe flooding has added to the already moderating growth in Thailand, The BoT thus looks likely to hold the policy

interest rate at 3.5% for the rest of the year, given that the economy is headed for a slowdown. But depending on how protracted the damage from the floods is, a rate cut cannot be ruled out. We project rate hikes to likely resume again in the 2H of next year to end 2012 at 3.75%, where monetary policy might resume its focus again on inflationary pressures, and the economy picks up.

Looking at the months ahead, domestic inflationary pressures are likely to continue, with the increase in rice prices, and more so after damage to agriculture arising from the flood, with. The rise in minimum daily wage to THB300 in Bangkok and six other provinces were approved, which should also add to domestic inflation.

Impact on USD/THB

The slowdown in the domestic economy from weak external demand as well as the flooding might see the THB weakened. The pause in rate hikes is another dampener on the domestic currency. But overriding these factors is the volatile external environment owing to the still unresolved Eurozone debt crisis. Risk appetite could still quickly swing back to risk-off mode, despite some strength seen recently in the Asian currencies. We are maintaining our call for THB to weaken to 31.50/USD by year end.

Disclaimer: This analysis is based on information available to the public. Although the information contained herein is believed to be reliable, UOB Group makes no representation as to the accuracy or completeness. Also, opinions and predictions contained herein reflect our opinion as of date of the analysis and are subject to change without notice. UOB Group may have positions in, and may effect transactions in, currencies and financial products mentioned herein. Prior to entering into any proposed transaction, without reliance upon UOB Group or its affiliates, the reader should determine, the economic risks and merits, as well as the legal, tax and accounting characterizations and consequences, of the transaction and that the reader is able to assume these risks. This document and its contents are proprietary information and products of UOB Group and may not be reproduced or otherwise.