press release

Standard Chartered Bank: 2019 Global Economic Growth Expected to Ease Modestly

24 January 2019, Bangkok – The tide is going out for the global economy. Standard Chartered Bank expects the world growth to ease modestly to 3.6% in 2019 from 3.8% in 2018.

Synchronised global growth at the beginning of 2018 has given way to more divergent growth trends. Several growth-supportive factors that the markets had grown accustomed to in recent years are now reversing. We see risks from the end of the Quantitative Easing (QE) era and rising protectionism. A number of factors could slow growth more aggressively: the US-China trade war, European politics, China's tough balancing act, and oil price volatility, according to Standard Chartered Bank's research.

ASEAN
Signs are emerging that the region's export growth is starting to be affected by trade tensions and slowing growth in China and the euro area. Singapore, Malaysia and Thailand are vulnerable to slowing trade growth; meanwhile, Vietnam and Malaysia could benefit by exporting more to the US in case US-China trade tensions re-escalate. The growth outlook for the region remains robust, supported by domestic demand strength. This is underpinned by government infrastructure spending, especially in Indonesia, the Philippines and Thailand. The inflation picture is mixed in ASEAN while Chinese yuan weakness could put pressure on central banks to defend their currencies.

Who else is affected by the US-China trade war?
An escalating US-China trade war is undoubtedly bad news for global growth, as tariff-related trade distortions are likely to result in a net loss of GDP. However, some individual economies may benefit as they absorb US demand diverted from China. We have identified potential winners and losers from US tariffs on imports from China.

• Step 1: Impact on countries in China's supply chain (negative). We assume a 25% tariff on all US imports from China, resulting in a 40% drop in China's exports to the US. This leads to a 40% drop in other countries' exports to China that were ultimately bound for the US.

• Step 2: Direct impact of US demand diverted to other countries (positive). We assume that China's competitors benefit from diverted US demand and sell more goods to the US, in proportion to their current export shares. We assume a maximum increase in exports to the US of 20% year on year.

• Step 3: Indirect impact of diverted US demand on the supply chains of China's competitors (positive). We assume that the countries in Step 2 that sell more to the US at China's expense are also buying inputs from the supply chain that feeds China's exports. It is unlikely, however, that the entire 40% decline in China's exports to the US would be diverted elsewhere.

We find that Vietnam, Mexico, Malaysia, Thailand and Canada are the top five 'winners' in this scenario, in terms of the likely impact on their GDP.

Thailand's Economic Outlook – Optimistic despite external risks
"This year is to bring policy continuity, but no new growth catalyst. Thailand's main focus in 2019 will be long-delayed elections expected at the start of the year," said Tim Leelahaphan, Economist, Standard Chartered Bank (Thai).

"While political noise is likely to increase leading up to the elections, we expect a smooth electoral process and transition of power to boost sentiment. Thailand's economic expansion has been robust and in line with what we see as potential growth of around 4%. We remain optimistic on the outlook, forecasting GDP growth of 4.5% in 2019."

We expect structural policy continuity under the new government in the next couple of years, regardless of the election outcome. Infrastructure megaprojects – a key growth driver – are likely to remain on track, as the new constitution entails the continuation of the current military government's development plans.

"We think an improved political outlook, along with Thailand's strong economic parameters, could result in a sovereign rating upgrade after the elections. We do not see a new postelection growth catalyst," said Tim.

We remain neutral on the export outlook given the uncertain impact of the US-China trade dispute. While the dispute could benefit Thailand as buyers seek to substitute for tariff-affected goods, the impact will depend partly on the ability of Thai exporters to respond to higher import demand from both the US and China. We are also watching whether recently announced government measures can reverse a slowdown in tourism caused by a fatal boat accident in Phuket in July, and attract foreign travellers during the peak season. The government continues to promote tourism in less-visited rural provinces. It is targeting 40 million foreign visitors in 2019, up from 38 million in 2018.

We expect inflation to continue rising this year. However, to reflect lower-than-expected inflation prints in 2018, we lowered our average CPI inflation forecasts to 2.0% for 2019 (from 2.3%). That said, it may surprise on the upside if oil prices resume their rise. Headline inflation was within the Bank of Thailand's (BoT's) 1%-4% target range for a seventh straight month in October, after being mostly below 1% since the target was adopted in 2015.

Policy – BoT may move faster on widening rate differential

We forecast the Bank of Thailand (BoT) will hike rates twice this year on financial stability risks; in contrast, the consensus expects the BoT to hold. We acknowledge risks to our call after global market developments recently. The first meeting of the BoT's monetary policy committee (MPC) in February should reveal its signal after having started the normalisation process late last year. Given rising capital expenditure spending and uncertain tourism demand going forward, we believe Thailand's peak years of a strong current account (C/A) are in the past. The BoT is increasingly concerned about risks to economic growth from a prolonged period of low interest rates, increased vulnerability in the property sector due to speculative buying, and search-for-yield behaviour. The MPC is of the view that macro-prudential measures alone are insufficient to contain such risks. To reflect these factors, we lower our 2019 C/A surplus forecast to 5.0% of GDP from 7.0%, compared with the consensus view of c.8% for 2019.

Final thoughts - Turbulent times, cyclical and structural challenges

We expect a gradual global slowdown in 2019, particularly in the US, euro area and China. Higher funding costs, trade tensions and European politics will be in focus in 2019 and beyond, creating a more challenging environment for emerging markets. These challenges should be partly cushioned by modest economic recoveries in Latin America, Africa and the Middle East. Emerging markets that are perceived to be delivering reforms are likely to be better positioned in terms of both growth and investor flows in the years ahead. The cyclical slowdown in the major economies comes as structural drags from rapidly ageing populations are accelerating in some parts of Asia. Economies that are investing in hard and soft infrastructure will be better placed to face the cyclical and structural headwinds of the coming years.

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