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Northern Region Economic Conditions in December 2009 and in 2009

In December 2009, the Northern region economy expanded continually from the previous month. Export registered strong growth for the third consecutive month following the recovery of major trading partners markets. Private consumption and private investment posted continued improvement in line with consumers' confidence along with a strong performance in investment, particularly the construction sector. Government spending accelerated due mainly to a disbursement in capital expenditure made by local administrative organizations. As a result, trading activities expanded well in both wholesale and retail trade in response to an increased demand in consumption. Meanwhile, improved confidence of both foreign and domestic tourists helped lift the service sectors which also benefited from the continued recovery of the overall economy. Manufacturing production also rose largely in line with the increase in export-oriented production, notably the electronic industry. Farm income further improved from the previous month. Inflation rose whereas unemployment rate remained low. As for banking, credit outstanding stabilized while deposit outstanding increased.

Overall for the year 2009, the Northern region economy contracted from the previous year, following the global economic crisis and internal political uncertainties since the fourth quarter of 2008. However, economic performance gradually improved, which was attributed by the government stimulus measures to boost domestic consumption, increase people's income and restore overall confidence. The improvement, initially was limited to certain economic activities, namely, hi-tech based manufacturing such as electronic industry as a result of a resumption of new orders, agricultural possessing manufacturing which were necessities as consumers became more cautious about their spending. However, economic recovery became more broad-based since the third quarter of 2009, in sectors of investment, consumption and construction. In addition, tourism also improved, while farm income helped cushion consumers' purchasing power as well as overall economy.

Details of the development of the economic conditions are as follows:

1. Agriculture. In December 2009, farm income showed an improving trend from the previous month, though recording an 11.4 percent decline over the same period last year. This was contributed by a fall of **major crops price index** with a rate of 9.9 percent as major rice paddy was down by 3.6 percent, owing to last year's markedly high prices. However, its current prices remained higher-than-usual levels relatively to earlier years. In contrast, the price of industrial sugar cane was up by 13.0 percent due to an upward preliminary price adjustment following the world market prices. Meanwhile, prices of maize, cassava and major glutinous rice paddy rose by 19.1 percent, 64.2 percent and 67.4 percent, respectively on account of increasing demand for export. As for the agricultural production, the **major crops production index** dropped by 1.7 percent, due to a fall in outputs of major rice paddy and cassava by 2.5 percent and 6.5 percent, respectively caused by a spread of planthoppers in the lower part of the Northern region. Meanwhile, the production of industrial sugar cane expanded 4.5 percent whereas its output was at the

highest level within 8-year period. In addition, maize output increased 2.9 percent, resulting from an expansion in planting areas in response to attractive last year's prices in tandem with higher crop yield per Rai.

In 2009, farm income remained satisfactory, though falling by 11.8 percent as a result of exceptionally high price a year earlier. **The major crops price index** contracted by 11.7 percent as prices of major paddy rice, second paddy rice, maize and cassava decreased by 10.3 percent, 15.7 percent, 21.5 percent and 17.8 percent, respectively. Significant decrease was observed in the second quarter due to last year's high price caused by a concern over food and energy crisis. However, prices of these three major crops continually picked up since the fourth quarter following external demand. Additionally, price of longan significantly dropped 46.0 percent on account of its abundant supply. As for agricultural production, **the major crops production index** fell slightly by 0.1 percent. The output of major rice decreased 2.5 percent as planting areas in the lower Northern region was damaged by a spread of planthoppers. The output of second rice paddy also dropped 5.3 percent as a consequence of insufficient water supply. Nonetheless, outputs of major crops registered an increase were industrial sugar cane, maize and cassava with a rate of 1.3 percent, 2.9 percent and 38.9 percent, respectively as farmers increased their production encouraged by last year's attractive price.

2. Manufacturing. In December 2009, Manufacturing Production Index (MPI) expanded 9.7 percent as electronics components production continued to increase by 20.4 percent, accelerating from the previous month. This was largely due to a rising demand for exports, particularly to Asian market, in electronics and household appliances industry such as mobile phones, television sets. Meanwhile, food production rose by 3.0 percent, moderating from last month in line with a decrease in dried longan production. Nevertheless, production of frozen fruits and vegetables as well as sugar further increased from the previous month. In addition, production of construction-related materials grew markedly driven by increasing construction activities in both public projects and farmer household in rural-based areas coupled with a robust export to Myanmar. Overall beverage production, on the other hand, posted a contraction of 18.0 percent, reflecting a larger decline compared to the previous month due to the base effect from last year's record high alcoholic beverage production

In 2009, Manufacturing Production Index fell by 12.9 percent which was observed across most industries. In the light of the world economic crisis, the Northern region's production as parts of the global supply chain experienced a marked decline in the second half of the year. Nevertheless, overall manufacturing production showed improvement since the second quarter through the end of the year as the inventory level was replenished and the global economy started to recover. In electronics industry, its output declined by 29.1 percent across the production categories. Meanwhile, beverage production also fell substantially by 22.8 percent, throughout the year following a decline in alcoholic beverage production, which was affected by a caution of consumers' spending caused by an economic slowdown. In addition, a continued decline in apparel production was also affected by the competition in the world market. On the other hand, food production increased 20.6 percent mainly benefited from frozen vegetables, dried longan and sugar. Production of construction-related materials expanded well in the latter half of the year on account of increased construction activities in both domestic (government projects and household in agricultural-based areas) and neighboring countries, namely Myanmar and Laos.

3. Service. In December 2009, tourism sector pointed to an upward trend as a result of a large number of tourists coming to the Northern region during Christmas and New Year. This followed a recovering economy coupled with an improvement in political situation. This was reflected by key service indicators as follows. The arrival of air passengers to the Northern airports markedly increased 41.5 percent with the highest growth recorded of the year. In addition, the amount of Value Added Tax (VAT) collected from hotels and restaurants rose by 19.4 percent, registering a positive growth for the first month after a contraction since September 2008. The average of hotel occupancy rates was at 79.2 percent, increasing from 73.9 percent in the same period last year and 63.7 percent from last month. Meanwhile, the average of hotel room rates was 1,192.2 baht per room night, increasing 3.1 percent over the same period last year.

The **tourism activities in 2009** declined slightly from the previous year. Tourism performance was adversely affected by unfavorable factors, starting from the end of the Royal Flora Ratchaphruek in 2007 and then the global economic crisis during 2008-2009 led to a decrease in major trading partners' purchasing power. The impact was observed in Chiang Mai province where the number of foreign tourists fell substantially. Nonetheless, tourism sector benefited from domestic travelers, which accounted for the largest share or approximately 70 percent of total in-bound tourists. This was together with the government incentives on longer official holiday period, a number of seminars organized by local administrative organizations as well as various tourism promotions such as room rate and airfare discounting. However, an improvement in tourism became more apparent in the third quarter as evidenced by an increase of the arrival of air passengers with a rate of 1.7 percent, with a marked rise in the fourth quarter. By contrast, the amount of VAT collected from hotels and restaurants fell 11.6 percent. The average of hotel occupancy rates was at 49.8 percent, decreasing from 51.9 percent last year and the average of hotel room rates also dropped slightly by 0.9 percent to 963.8 baht per room night. These were partly due to a weak tourism condition in tandem with an intense price competition following an expansion of new hotels.

4. Trading Sector. In December 2009, trading activities posted the highest growth of the year due to an economic recovery and a substantial improvement in tourism. **Trading index** increased 14.6 percent, recording a favorable expansion across the board. Notable increase was observed in motor vehicles trade with a rate of 13.3 percent following an upward adjustment in retail oil prices in response to the beginning of tourist season. Meanwhile, wholesale and retail trade rose further from the previous month by 15.0 percent and 16.1 percent, respectively in line with increased consumers' spending in categories of food, beverage, tobacco and department store as well as construction materials.

In 2009, overall trading activities grew at a faster pace from the previous year. **Trading index** rose by 6.3 percent, compared with a smaller increase of 2.2 percent last year. The acceleration was seen in major categories, notably in the second half of the year. Of this, motor vehicle trade was up by 2.7 percent following a recovery in auto sales during the latter half of the year. In addition, wholesale trade accelerated by 9.2 percent, compared with a slight growth of 0.6 percent last year. Retail trade also expanded with a rate of 9.5 percent, especially the sales in categories of food, beverage, tobacco and department store as well as construction materials.

5. Private consumption. In December 2009, private consumption signaled a continued improvement from the preceding month. **Private Consumption Index** fell by 1.6 percent, which was resulted from temporary factors. The amount of VAT collected from all types of businesses decreased by 2.4 percent in line with a slowdown in VAT collected from industry category, notably beverage manufacturing after the All percentage figures represent percentage change from the same period last year 3/7 (% change year-on-year), unless stated otherwise.

accelerated production earlier for New Year sales. Nevertheless, car index improved remarkably due to a launch of new car models, dealers' promotional campaigns coupled with a stronger consumers' confidence. As a consequence, consumption in necessities both wholesale and retail trade, particularly category of household appliances such as televisions, refrigerators, washing machines increased continuously. In November 2009, household electricity usage was up by 10.1 percent.

In 2009, private consumption was hit by the economic downturn since the first quarter of the year, which led to more conservative in consumers' spending. However, the economic stimulus packages and government measures to alleviate the cost of living such as a 2,000 baht cash handout program, 15 year free education combined with an improvement in both political situation and economy helped revive people's confidence and boost their consumption. Furthermore, a recovery of tourism sector since the third quarter onwards also benefited to the Northern region's consumption as well.

6. Private Investment. In December 2009, private investment expanded as a result of the government stimulating measures and resumption in construction investment, particularly projects of condominium, apartment and residential buildings. **Private Investment Index** rose by 4.9 percent as sales of construction-related materials strongly increased. This was largely supportive by the government measures, increased activities in rural-based household construction together with a robust export to bordering countries. Meanwhile, the square meters of construction areas permitted in municipal zones, especially in areas of residential and service buildings, noting an improvement from the previous month. Meanwhile, the amount of land transaction fee grew at a stronger pace by 75.5 percent as real estate sector began to show an improving trend. As for the outlook of capital investment, the number of investment approved by BOI totaled 8 projects with the value of 281.4 million baht. Most of the approved projects were in the businesses of agriculture, metal products, machinery and equipment.

In 2009, private investment exhibited recovering signs. In the first quarter, the lack of investors' confidence caused the delay of investment projects. In the second quarter, investors started to push forward their investment; especially in large-scale and mid-scale projects in the major provinces of the Northern region as political situation became more stable and government accelerated its spending resulting in a restoration of investors' confidence. Furthermore, the prospect of forthcoming investment was also observed in vacant land purchasing, particularly areas in provinces which is bordered with neighboring countries, large-scale project approved by BOI such as Bio-mass project in agricultural-based provinces and electronic factory expansion project in Lamphun province.

7. Foreign Trade. In December 2009, trade value recorded through customs houses in the Northern region was in an expansionary territory. **Export value** increased 35.7 percent to 256.9 million US dollars, accelerating from the previous month and registering an increase for the third consecutive month. Export of manufacturing products rose by 16.3 percent in line with favorable export growth in Hi-tech Products, particularly categories of electronic components following a continued rise in external demand. Exports of cutting diamond gradually improved, notably Middle East market. Meanwhile, export of agricultural products was also up by 4.2 percent, in part due to an expansion in exports of smoked rubber sheets to China. In addition, tobacco exports also expanded well. As for border trade, the export to bordered countries remarkably increased by 74.0 percent to 125.1 million US dollars, speeding up from the previous month. The export to Myanmar robustly increased by 84.0 percent, mainly from processed food, rubber products and

construction-related materials exports. Exports to Lao PDR and the southern China also rose by 18.8 percent and 58.9 percent, respectively.

Import value recorded through customs houses in the Northern region increased by 11.4 percent to 116.4 million US dollars. Notable increase was seen in all categories. Import of raw materials and intermediate goods grew continuously by 32.8 percent, particularly imports for export-oriented industry such as electronic components, metal and raw diamonds. Furthermore, import of capital goods also rose by 20.4 percent, mainly imports of machinery parts, scientific equipment used for lens manufacturing. As for border trade, import from bordered countries further declined from the previous month by 14.1 percent to 11.5 million US dollars, with a contraction of imports from Myanmar, and southern China by 48.8 percent and 2.7 percent, respectively, while import from Lao PDR increased 36.2 percent.

The **trade balance** registered a surplus of 140.5 million US dollars, increasing from December 2008 and November 2009 with a surplus of 84.8 million US dollars and 98.6 million US dollars, respectively.

In 2009, trade value recorded through customs houses in the Northern region contracted by 19.2 percent to 3,574.3 million US dollars, registering a decline in both export and import. **Export value** decreased by 16.4 percent to 2,340.6 million US dollars, noting a sharp decline in the first quarter as global economic crisis negatively affected the global supply chain including the Northern region. However, a sign of improvement in exports was gradually seen from the second quarter onwards. In the third quarter, economic recovery overseas became broad-based, resulting in an improved performance in exports from the Northern region to major trading partners. Noticeably, exports to certain countries were brought back to higher levels than that of pre-crisis period. However, exports of manufacturing products for the entire year were still down by 21.1 percent across the board such as electronic components, cutting diamonds, hard disk drives components and camera lens. Meanwhile, agricultural export also dropped by 17.7 percent due mainly to a decrease in rice exports. As for border trade, export to bordered countries rose by 17.1 percent to 1,085.3 million US dollars, slowing down from the previous year. This was attributable by a slower expansion of export to Myanmar with a rate of 20.8 percent to 914.6 million US dollars as the impact of last year's natural disaster resulted in an unusually increased demand for consumer goods. The export to Lao PDR was up by 27.3 percent to 75.9 million US dollars, whereas the export to southern China dropped by 13.9 percent to 94.8 million US dollars.

Import value fell by 24.2 percent to 1,233.7 million US dollars, a large contraction due to an adverse effect from the slowdown of the global economy. Imports of raw materials and intermediate goods markedly decreased 31.1 percent, notably products of electronic components, raw diamonds, glass, chemical and plastic. In addition, imports of capital goods declined, in particular imports of machinery parts. Meanwhile, imports of consumer goods fell by 11.8 percent in line with a decrease in imports of food products such as milk and fishery products as well as jewelry. As for border trade, the import from bordered countries increased by 7.0 percent to 122.3 million US dollars, moderating from last year as imports from Myanmar and the southern China declined by 0.2 percent, and 9.8 percent, respectively, whereas the import from Lao PDR expanded well by 51.1 percent, primarily from a rise in lignite import.

The **trade balance** registered a surplus of 1,106.9 million US dollars, decreasing from a surplus of 1,171.1 million US dollars in 2008.

8. Government Spending. In December 2009, total **government spending** disbursed from provincial treasury offices in the Northern region rose by 63.2 percent to 18,342.4 million baht following a more-than-tripled increase of capital expenditure. The increase was observed in every province, resulting from an accelerated disbursement in categories of general subsidies and specific subsidies disbursed by local administrative organizations. Meanwhile, the current expenditure was also up by 1.5 percent to 9,309.8 million baht, particularly categories of operating expenses classified as public officers' remuneration.

In 2009, **government spending** which provided a main engine to sustain and stimulate the Northern region economy, expanded well throughout the year. In particular, the government stepped up its budget disbursement in the third quarter to expedite the needed stimulus before the end of fiscal year. This resulted in a marked expansion in government expenditure disbursed from provincial treasury offices in the Northern region with a rate of 19.0 percent to 177,759.4 million baht, in contrast with a decline of 4.1 percent last year. Significant disbursement was made by local administrative organizations.

9. Prices. In December 2009, the **Headline Consumer Price Index** (Headline CPI) grew by 3.9 percent, increasing for the third consecutive month following a rise in food price index at a rate of 3.0 percent. Of this, categories registered an increase included rice and starch products, partly due to a reduction of rice supply caused by a spread of brown planthoppers. Meanwhile, the non food price index also rose by 4.4 percent as prices of vehicle, transportation and communication was up by 11.1 percent on account of higher fuel prices. In addition, the reduction of the government measures for free electricity and water resulted in a rise in price of housing and furnishing with a rate of 2.4 percent. The Core Consumer Price Index (Core CPI) grew slightly by 0.1 percent.

In 2009, the **Headline CPI** fell by 1.1 percent as fuel price, in the first half of the year, remained at a low level compared to that of last year and various government measures also helped alleviate people's daily expenses. However, inflation began to increase during the second half of 2009 in the light of the onset of an economic recovery, a rise in fuel prices, a reduction of subsidy measures for electricity and water fee and government's economic stimulus package under Patibatkan Thai Khem Khaeng Project. In 2009, the non-food price index dropped by 5.6 percent, whereas the food price index was up by 5.1 percent. The Core CPI increased slightly 0.5 percent from last year.

10. Labor. According to the Labor Force Survey conducted by the National Statistical Office, the Northern labor force totaled 7.2 million at end-November 2009. Of which, 7.1 million were employed, increasing by 2.6 percent from last year. Employment of agricultural sector increased slightly by 0.4 percent, responding to increased labor demand during the agricultural harvesting season. Meanwhile, employment of non-agricultural sector grew by 4.7 percent, particularly in sectors of wholesale/retail and construction as a result of strengthened demand for labor. The number of unemployed persons was 0.1 million with an unemployment rate of 1.0 percent, lower than 1.1 percent in the same period last year. The number of insured persons under the social security system totaled 705,239 persons, increasing 0.5 percent from the previous month and 6.2 percent from the same period last year. Of this, the number of insured persons listed under section 33 and section 39 increased by 2.3 percent and 37.9 percent, respectively.

11. Banking. At end-November 2009, commercial bank **deposit outstanding** grew by 4.9 percent to 384,326 million baht. This expansion decelerated from the previous month due to slower increases in current and saving deposits of authorities and local administrative organization, particularly in

the upper Northern region namely Chiang Rai, Chiang Mai, Phrae and Tak provinces. As for lending, commercial bank **credit outstanding** fell slightly by 0.1 percent to 303,594 million baht, improving compared to 1.5 percent decline in the previous month. The lending amount of 5,985 million baht increased from the previous month was owed to a credit expansion in businesses of rice mills/crop trading in provinces of Nakorn Sawan, Phetchaboon and Pichit in the lower Northern region as well as businesses of agricultural processed industry, wholesale/retail, rice mills and leasing in provinces of Chiang Mai and Chiang Rai in the upper Northern region. The ratio of credit to deposit was at 79.0 percent, decreasing from 82.9 percent at end-November 2008.

However, commercial bank **deposit outstanding** at end-December 2009 (Preliminary) was 392,000 million baht, increased by 4.4 percent year-on-year but decelerated further from the previous month. Commercial bank **credit outstanding** amounted to 309,672 million baht, recording a 1.3 percent year-on-year increase for the first month after a decline since May 2009.

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