



No.3/2010

Northern Region Economic Conditions in February 2010

The Northern economy in February 2010 continued to expand from the previous month, with growth largely broad-based across major economic sectors. Export accelerated in line with the economic recovery in major trading partners, increasing for the fifth consecutive month. This resulted in a strong expansion in almost all manufacturing sector, notably export-oriented productions of electronic components, agricultural processing industry as well as jewelry. Meanwhile, government spending continued to provide the underlying stimulus for the economy. Private consumption and private investment continued to hold up well following improvement in consumers' purchasing power and investors' confidence. Furthermore, various events in promoting tourism activities led to the successive growth in tourism sector. Farm income showed an improving trend due to better prices of major crops, especially industrial sugar cane, cassava and glutinous paddy. As a consequence, trading activities notably increased across the board. Meanwhile, inflation rose slightly as raw food price increased during the Chinese New Year Festival. Signs of tightening appear in the employment conditions with the pickup in hiring in the manufacturing sector. In the banking sector, deposit outstanding slowed down whereas credit outstanding rose for the second consecutive month.

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

1. Agriculture. Farm income expanded for the second successive month and rose 11.5 percent year-on-year due to a rise in major crop prices. **The major crops price index** was up by 16.0 percent as price of industrial sugar cane increased 11.9 percent following a surge in the world market prices resulting from reduction of the world supply of sugar cane and sugar. Prices of cassava and glutinous paddy also significantly increased 70.2 percent and 52.2 percent, respectively, on account of strong export demand. As for the agricultural production, **the major crops production index** declined 3.9 percent as output of cassava dropped 18.6 percent due to a severe outbreak of mealy bugs leading to a remarkable fall in crop yield per Rai. In addition, outputs of garlic and shallot were down by 17.0 percent and 13.8 percent, respectively, associated with the shortage of garlic and shallot bulbs as well as their expensive prices. As a consequence, some farmers switched to planting alternative crops. Nonetheless, output of industrial sugar cane increased 4.5 percent as farmers expanded their cultivation areas encouraged by its high prices.

2. Manufacturing. Manufacturing Production Index (MPI) grew at a faster pace of 55.6 percent year-on-year, compared with a growth of 41.9 percent in the previous month and also registered an increase from last month following an expansion in major manufacturing sectors. Production of electronics components accelerated from the preceding month. Significant increase was observed in

categories of components used in computer mouse, hard disk drive components, and parts of mobile phones. Meanwhile, production of agricultural processing industry continued to expand from the previous month, notably frozen and preserved vegetables. In addition, production of construction-related materials continued to grow partly due to increased exports to neighboring countries. Moreover, production of jewelry rose almost twice as demand in both cutting diamonds and fashionable jewelry made from silver and diamond expanded well in Asian markets such as Japan, Hong Kong as well as European market.

3. Service. Growth momentum in the tourism sector continued on from the New Year supported by various events in promoting tourism activities in major Northern provinces such as the 2010 Chiang Mai Flower Festival and the Chinese New Year Festival in Nakorn Sawan. This was reflected in key service indicators as follows. The arrival of air passengers to the Northern airports rose 13.3 percent. In addition, the amount of Value Added Tax (VAT) collected from hotels and restaurants grew 8.3 percent, increasing for the third consecutive month in both the upper and lower parts of the Northern region. The average of hotel occupancy rates was at 52.2 percent and the average of hotel room rates was 1,698.6 baht per room night.

4. Trading Sector. Trading activity expanded continually 21.1 percent. **Trade index** rose across the board following a recovery in both economic conditions and consumers' confidence. Motor vehicles trade rose as sales of retail oil continued to improve. Sales of car and motorcycles expanded well, although slightly slowed down from the previous month. Meanwhile, wholesale trade also increased in almost all categories, particularly non-durable goods which started to edge up. The exception was in the wholesale trade categories of food, beverage and tobacco which remained in a declining trend. Retail trade continued to grow across the board, notably durable goods such as construction-related materials, furniture, electrical appliances, food and beverage. Meanwhile, sales of department store performed well following an increase in consumers' spending.

5. Private consumption. Private consumption grew favorably driven by an expansion in tourism, employment and farm income. **Private Consumption Index** increased 5.7 percent with improvements being observed in most key private consumption indicators as follows: the amount of VAT collected from all types of businesses rose 12.6 percent. The consumption in necessities in categories of household appliances such as televisions, mobile phones and computers continued to trend upward. Car index improved in part due to last year's low base. Additionally, other major contributing factors included various sales promotional activities and the launch of new car models to meet consumers' demand. .

6. Private Investment. Private investment further expanded. **Private Investment Index** increased 4.2 percent in line with a recovery in both public and private construction activities. This was reflected by increased sales of construction-related material at 55.9 percent following government projects under Patibatkan Thai Khem Khaeng scheme, rural-based household construction as well as exports to bordering countries. Meanwhile, the square meters of construction areas permitted in municipal zones rose 46.4 percent, particularly in areas of residential and service buildings in major provinces of the Northern region. In addition, the amount of land transaction fee rose 30.3 percent partly due to the upcoming expiration of government measures to temporarily reduce registration fees on property transfer and mortgage. As for the outlook for capital investment, the

investment approved by BOI was triple folds compared to the same period last year. The approved projects included services and public utilities, businesses of agriculture and agricultural products.

7. Foreign Trade. Trade value rose satisfactorily. Export value recorded through customs houses in the Northern region largely increased 85.7 percent to 249.4 million US dollars. This represented a further increase from the previous month as exports of manufacturing products was up by 45.9 percent, particularly high-tech products such as electronics components, computer parts and camera lens. Meanwhile, labor-intensive and resource-based manufacturing products, namely jewelry and agricultural processed products also expanded well. In addition, export of agricultural products markedly expanded 86.8 percent mainly following a continued rise in export of maize. Export markets with favorable growth included ASEAN, China and Europe. As for border trade, the export to bordered countries notably increased 63.9 percent to 110.8 million US dollars. Exports to Myanmar and Lao PDR increased 75.4 percent and 51.1 percent, respectively, while export to the southern China declined 35.3 percent.

Import value recorded through customs houses in the Northern region increased 98.9 percent to 102.9 million US dollars, accelerating across the board following a rise in export. Import of raw materials rose 53.3 percent following surge in export-oriented industry, namely electronics components, cutting diamonds and glass used for camera lens. Additionally, import of capital goods expanded following imports of electrical machine and machinery as well as lens. As for border trade, import from bordered countries was up by 9.0 percent to 8.6 million US dollars, slowing down from the previous month. Imports from Myanmar and the Southern China dropped 29.3 percent and 64.2 percent, respectively, while import from Lao PDR increased more than double, mainly from imports of lignite.

The trade balance registered a surplus of 146.5 million US dollars, increasing from February 2009 with a surplus of 82.6 million US dollars but decreasing from January 2010 with a surplus of 157.3 million US dollars.

8. Government Spending. Government spending disbursed from provincial treasury offices in the Northern region increased 18.4 percent to 19,135.5 million baht. Capital expenditure expanded 47.0 percent, mostly disbursed by local administrative organizations in categories of general subsidies and specific subsidies. Continued disbursement, particularly in public utilities projects was observed in provinces of Chiang Mai, Chiang Rai, Phetchaboon and Nakorn Sawan. On the other hand, the current expenditure declined 4.9 percent to 8,458.8 million baht as the disbursement made by local administrative organizations decreased by 40.7 percent due to a successive disbursement in the earlier month.

9. Prices. Headline Consumer Price Index (Headline CPI) was up by 4.7 percent, close to 4.8 percent in the previous month. The increase mainly followed oil prices and water fees as a result of a rise in oil prices and the reduction of water fee subsidies over the same period last year. Food and beverage prices accelerated as prices of food, particularly categories of vegetables and fruits rose 28.6 percent due to its lower supply and increased demand during the Chinese New Year Festival.

10. Labor. According to the Labor Force Survey conducted by the National Statistical Office, the Northern labor force totaled 7.2 million at end-January 2010 and 7.0 million were employed. Overall employment increased 3.1 percent. Of this, employment in agricultural sector rose 4.6 percent and employment of non-agricultural sector grew 1.8 percent as most hiring concentrated on sectors of hotel/restaurant and wholesale/retail. The number of unemployed persons was 0.09 million with the unemployment rate of 1.3 percent, lower from 1.7 percent in the same period last year. At end-February 2010, the number of insured persons under the social security system was 711,675 persons, up from the previous month and from the same period last year by 0.6 percent and 6.5 percent, respectively.

11. Banking. At end-January 2010, commercial bank **deposit outstanding** increased 2.6 percent to 391,545 million baht, though slowing down from the previous month. The deposit amount of 455 million baht decreased from the previous month was due to fund withdrawal made by authorities and local administrative organization to accommodate various projects. However, substantial increase in deposit made by academic institutions saw in Chiang Mai province. As for lending, commercial bank **credit outstanding** was 307,067 million baht, recording further increase with a rate of 2.0 percent compared with 1.3 percent last month. This was owed to an increase in credit extended to businesses of wholesale/retail trade and construction. Noticeably, payment of promissory notes and overdrafts by rice mill businesses and saving cooperatives in the previous month resulted in 2,612 million baht decline in credit outstanding. Significant fall in credit was observed in provinces of Pichit, Nakorn Sawan, Chiang Mai, Sukothai and Utradit. The ratio of credit to deposit was at 78.4 percent, close to that at end-January 2009.

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March 31, 2010

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