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Northern Region Economic Conditions in January 2010

In January 2010, the Northern region continued to expand from the previous month. Export accelerated for the fourth consecutive month following the recovery in major trading partner economies. Private consumption and private investment picked up as consumers and investors regained confidence, while, tourism expanded favorably. Consequently trade indices such as sales of vehicle, wholesale and retail increased in response to the rising demand in consumption. The recovery in manufacturing production was more broad-based, notably the electronic components for export and beverage industry. Farm income turned positive for the first month since April, 2009. However, government spending declined following last month's acceleration in disbursement of capital expenditure made by local administrative organizations. Unemployment registered a lower rate than that of the overall economy. As for banking, credit outstanding posted its first month expansion while deposit outstanding increased.

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

1. Agriculture. In January 2010, farm income turned positive for the first time since April, 2009 rising both in prices and outputs. **The major crops price index** was up by 8.3 percent as price of industrial sugar cane increased by 12.2 percent in tandem with world market prices. Prices of cassava, maize, and second rice paddy also significantly rose by 79.9 percent, 17.9 percent and 64.9 percent, respectively due mainly to an increase in external demand. On the other hand, price of major rice paddy declined by 17.1 percent due to the exceptionally high base over the same period last year. As for production, the **major crops production index** expanded slightly by 0.5 percent as output of industrial sugar cane and maize increased by 4.5 percent and 2.9 percent, respectively, owing to an expansion in cultivation areas in response to last year's attractive prices. Nonetheless, major rice and cassava declined by 2.5 percent and 16.2 percent, respectively, following the outbreak of plant hoppers in the major planting areas, notably in the lower part of the Northern region which resulted in lower crop yield per Rai.

2. Manufacturing. In January 2010, Manufacturing Production Index (MPI) surged 41.5 percent, due to last year's base effect caused by the world economic downturn and also up by 16.7 percent from the previous month. This was a result of robust expansion in export-oriented manufacturing, with production of electronics components growing by 80.5 percent. Notable increase was observed in all categories such as Integrated circuits, hard disk drive components and Diode, driven by a rise in external demand for electronics and household appliances industry. Production of construction-related materials continued to expand

markedly, led mostly by an increase in construction activities in both public projects and rural-based household in line with a strong export performance in neighboring countries. Production of jewelry registered an upward trend for the fourth consecutive month following a growing demand in Middle East market. Production of agricultural processed industry expanded by 4.7 percent, notably frozen and preserved vegetables which posted a continued expansion from the previous month. Nonetheless, production of sugar slowed down after recording an acceleration in the previous month.

3. Service. In January 2010, tourism condition improved satisfactorily, although moderating from the end of last year as reflected by the following key service indicators. The arrival of air passengers through the Northern airports increased 9.1 percent, slowing from a 41.5 percent expansion in the previous month which recorded the highest rate of the year. In addition, the amount of Value Added Tax (VAT) collected from hotels and restaurants rose by 15.1 percent. This was mainly observed in provinces of Chiang Mai and Chiang Rai. The average hotel occupancy rates was 55.6 percent and the average hotel room rates was 1,481.7 baht per room night.

4. Trading Sector. In January 2010, trading activities continued to expand. **Trading index** rose 22.5 percent across the board in line with the overall economic recovery. The motor vehicles trade rose 24.1 percent as the retail sales of fuel adjusted upward due to the coming high season along with a rise in retail oil prices. Sales of both cars and motorcycles increased to a historical high in part due to a strengthened domestic demand. In addition, Myanmar's open vehicles registering policy helped boost export demand for vehicles to neighboring countries. Meanwhile, wholesale trade rose by 23.8 percent in line with the increase in sales of beverage and construction-related materials. However, the sales of food and tobacco still contracted. Retail trade further expanded by 19.7 percent as consumers kept up their spending, notably in categories of food, beverage, tobacco and construction materials since July 2009. Furthermore, festive activities during New Year as well as measures to encourage the purchase of local products as gifts and souvenirs helped promote department store as well as handicraft sales.

5. Private consumption. In January 2010, private consumption improved from the preceding month. **Private Consumption Index** increased by 3.8 percent, representing an improvement in most key private consumption indicators. The amount of VAT collected from all types of businesses was up by 13.8 percent. The consumption in necessities in both wholesale and retail trade in category of household appliance such as televisions, refrigerators, mobile phones and computers held up well. Meanwhile, the car index rose for the eight consecutive months in line with improvements of trade index in category of vehicle and fuel. This is partly due to last year's low base effect. In addition, events such as motor show, sales of promotional activities, the launch of new car models, low interest rate environment and favorable farm income from higher major crop prices also helped stimulate auto sales. In December 2009, household electricity usage was up by 6.4 percent.

6. Private Investment. In January 2010, private investment continued to expand, primarily due to the government stimulus measures. **Private Investment Index** was at 104.9, up by 3.9 percent in line with successive

improvements in construction activities. This was also reflected by increased sales of construction-related materials with a rate of 54.7 percent on account of a strong domestic demand in response to construction activities in the official segments of the market as well as farm household and neighboring countries' demand. Meanwhile, the square meters of construction areas permitted in municipal zones increased by 60.1 percent. Significant increase was observed in areas of residential and service buildings in major provinces of the Northern region. In addition, the number of registered commercial car rose by 21.7 percent. By contrast, the amount of land transaction fee moderated with the coming of the expiration of real estate tax measures. As for the prospect of forthcoming capital investment, the number of investment approved by BOI totaled 6 projects with the value of 555.8 million baht, accelerating by 766.0 percent year-on-year. Most of the approved projects were in the businesses of agriculture and agricultural products, services and public utilities.

7. Foreign Trade. In January 2010, trade value recorded through customs houses in the Northern region grew at a faster pace. **Export value** accelerated by 86.0 percent to 257.1 million US dollars, partly due to the base effect from the sharp decline last year. Nonetheless, export still registered a 10.7 percent expansion compared to the previous month in line with increased exports of manufacturing products in all categories, particularly Hi-tech Products such as electronic components, camera lens, and hard disk drive components. Meanwhile, other manufacturing products, namely jewelry and agricultural processed products also expanded well. In addition, export of agricultural products accelerated from last month mainly following a rise in export of maize and tobacco. Export market with favorable growth included ASEAN, China and Middle East. As for border trade, the export to bordered countries accelerated by 86.4 percent to 113.5 million US dollars, from the previous month. Exports to Myanmar, Lao PDR and the southern China increased by 90.4 percent, 62.5 percent and 64.3 percent respectively, mainly from fuel and vehicle exports.

Import value recorded through customs houses in the Northern region increased by 52.4 percent to 99.8 million US dollars, accelerating across the board, notably import of raw materials and intermediate goods for export-oriented industry such as electronic components, raw diamonds and glass. Additionally, import of capital goods expanded well, particularly imports of electrical machine and machinery. As for border trade, import from bordered countries was up by 10.2 percent to 9.2 million US dollars, in contrast with a decline in the previous month. Imports from Lao PDR increased more than double, mainly from imports of lignite, vegetables and flowers. Meanwhile, imports from the southern China rose by 6.7 percent whereas import from Myanmar decreased by 39.5 percent, registered a decline for the seventh successive months.

The **trade balance** registered a surplus of 157.3 million US dollars, increasing from January 2009 and December 2009 with a surplus of 72.8 million US dollars and 140.4 million US dollars, respectively.

8. Government Spending. In January 2010, government spending disbursed from provincial treasury offices in the Northern region declined by 41.3 percent to 11,174.9 million baht following a 78.2 percent fall of the capital expenditure disbursement as the capital expenditure budget for local administrative organizations in category of general subsidies was allocated earlier than that of previous years. As this consequence, this category was substantially disbursed in

December, 2009. However, category of specific subsidies still increased by 74.5 percent. Meanwhile, the current expenditure rose by 4.2 percent to 8,888.5 million baht as the disbursement made by local administrative organizations, notably expenditures for lunch, school milk and old-age sustenance allowance continued to expand by 56.9 percent. In addition, operating expenses classified as public officers' remuneration was up by 10.0 percent.

9. Prices. In January 2010, the **Headline Consumer Price Index** (Headline CPI) was at 107.6, increasing by 4.8 percent. Food and beverage prices rose by 5.3 percent as categories of rice, flour and flour products increased by 15.0 percent following the world market prices. Prices of vegetables and fruits rose by 12.4 percent. Meanwhile, prices of meat, poultry and fish also increased by 5.9 percent. Non-food and beverage price was up by 4.5 percent as prices of vehicle, transportation and communication rose by 12.0 percent on account of a surge in retail oil prices following the crude oil prices in the world market. In addition, prices of tobacco and alcoholic beverage grew by 9.1 percent as a result of a rise in excise tax. Prices of housing and furnishing registered an increase of 2.4 percent as the roll back of five-measures-for-six-months program, particularly water fee subsidies resulted in higher cost of living. Prices of recreation and education as well as apparel still declined as the benefits from the 15 year free education program still apply. The Core Consumer Price Index (Core CPI) posted a slight increase at a rate of 0.2 percent.

10. Labor. According to the Labor Force Survey conducted by the National Statistical Office, the Northern labor force totaled 7.3 million at end-December 2009 and 7.2 million were employed. Employment of non-agricultural sector grew by 6.2 percent as employment in sectors of hotel/restaurant, construction and manufacturing rose by 28.3 percent, 10.4 percent and 7.1 percent, respectively following an increased demand for labors in these sectors. Meanwhile, employment of agricultural sector declined 2.9 percent, partly due to the labor migration to non-agricultural sector. The number of unemployed persons was 0.03 million with the unemployment rate of 0.4 percent, a sharp decline from 1.1 percent at end-December, 2008. In addition, the underemployment rate was 1.1 percent, down from 1.3 percent in the same period last year. At end-January 2010, the number of insured persons under the social security system was 707,452 persons, increasing from the previous month and from the same period last year by 0.3 percent and 7.2 percent, respectively. Of this, the number of insured persons listed under section 33 and section 39 totaled 607,580 persons and 99,872 persons with an increased rate of 3.7 percent and 35.0 percent, respectively.

11. Banking. At end-December 2009, commercial bank **deposit outstanding** rose by 4.4 percent to 392,000 million baht, a slowdown compared to the previous month due to an increase in deposits made by authorities, local administrative organization, and academic institutions combined with mobilizing deposits by some commercial banks. Notable increase was observed in both the upper and lower part of the Northern region, particularly in provinces of Chiang Mai, Phetchaboon, Kamphangphet and Phitsanulok. As for lending, commercial bank **credit outstanding** was 309,679 million baht, its first positive growth of 1.3 percent following a contraction since May, 2009. Credit growth was observed in businesses of rice mills, crop trading, wholesale/retail trade and saving cooperatives, notably in

provinces of Phetchaboon, Kamphangphet, Nakorn Sawan and Pichit in the lower Northern region. In addition, significant increase in credit was also observed in the upper Northern region, especially provinces of Chiang Rai, Lampang and Chiang Mai mainly for wholesale/retail businesses, saving cooperatives, personal loans, motor vehicle dealers and leasing businesses. The ratio of credit to deposit was at 79.0 percent, decreasing from 81.4 percent at end-December 2008.

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