

Farm Price and Farm Income in 2002 and Outlook for 2003

The agricultural sector continues to play a vital role in the economy, despite falling as a ratio of GDP to around 11.4 per cent as of 2000. The sector employs approximately 30 million workers, or around 40 per cent of the total labour force, constitutes an important source of food production, and provides essential raw material for downstream industries. In addition, the income generated from the sale of agricultural products, both domestically and through exports, is vital in helping to sustain private consumption.

Even though income from fisheries and livestock trended downwards in 2002, reflecting problems related to exports to the European Union that depressed shrimp and poultry prices, overall farm income continued to expand at a high rate buoyed by better crop prices, which accounts for roughly 60 per cent of the agricultural sector. In particular, farm income from crops grew by 11 per cent on the back of the significant pickup in rice, rubber, tapioca, and palm oil prices in 2002.

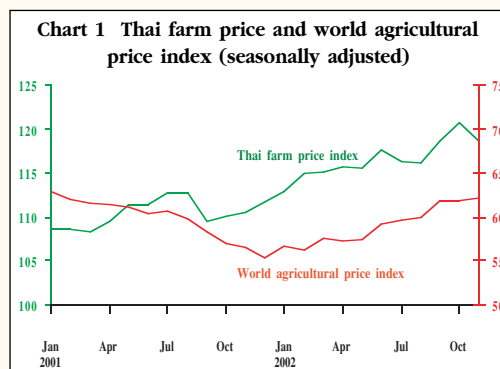
1. Farm prices in 2002

Prices of key farm products in Thailand rose in line with world prices in 2002 (Chart 1). Dynamic regression analysis on monthly data over 1994-2002 indicated that a one percentage rise in world farm prices (in US dollars) would result in a statistically significant 0.53 per cent increase in Thai farm prices (in baht). As weather-related factors reduced global farm inventories and drove world farm prices up in 2002, increases in the price of rice, rubber, palm oil, and tapioca underpinned higher overall farm prices in Thailand. The price of rice had been on an upward trend since the beginning of the year following floods in China, Indonesia, and Thailand that reduced rice production. Rubber prices were buoyed by an agreement among major world producers (including Thailand, Malaysia, and Indonesia) to cut back production and exports, as

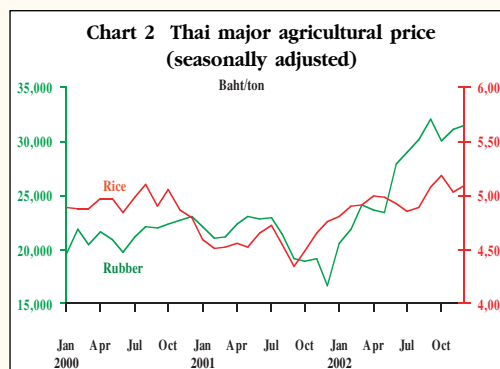
Thai crop price

Baht/ton	2001	2002	%Δ
Rice	4,574	4,973	8.7
Rubber	20,943	27,103	29.4
Oil palm (Baht/kg.)	1.22	2.41	97.5
Cassava	871	1,033	18.6

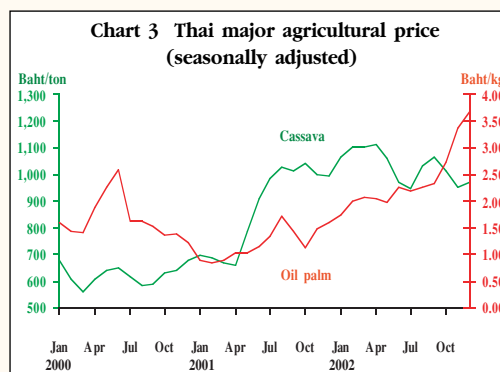
Source: Ministry of Commerce



Source: Bank of Thailand



Source: Bank of Thailand



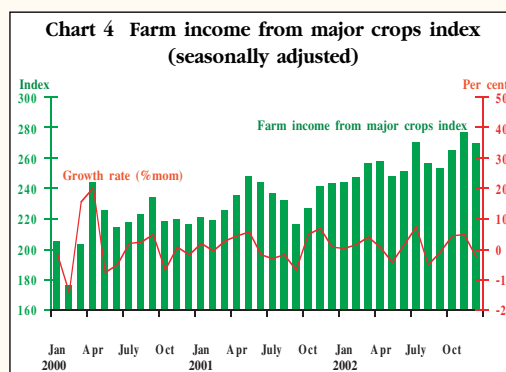
Source: Bank of Thailand

well as robust demand for rubber from the vehicles industry. The price of palm oil almost doubled in 2002 and remained on an upward trend as Malaysia, a major world producer, was hit by drought. Cassava prices rose in response to reductions in cultivation area following low prices in the previous year, while demand for cassava chips to produce alcohol for use as a fuel-substitute during periods of high oil prices also helped to support the price of cassava.

2. Farm income and private consumption in 2002

The continued rapid rise in crop prices in 2002 was a key factor behind the 11 per cent growth in farm income over the previous year (Chart 4). Production volumes grew slightly by 0.2 per cent as favourable market conditions encouraged an expansion in land devoted to sugar cane plantation, which helped to offset the decline in rice production following floods in the latter part of the year.

The substantial rise in farm income was a major contributor to the pickup in private consumption in 2002, as reflected in the 39 per cent jump in motorcycle sales. A recent study into the relationship between income and private consumption indicated a marginal propensity to consume of Thai households of around 0.7-0.8 and suggested that the figure was higher for lower-income households.^{1/} As households in the agriculture sector tend to have lower incomes, this finding supports the notion that higher farm incomes may have been a key factor behind the pickup in private consumption. The latter, in turn, helped to underpin production for domestic consumption which had been instrumental in supporting the Thai economic recovery in 2002.



Source: Bank of Thailand

3. Outlook for farm price and farm income in 2003

Farm income from crop sales should continue to grow in 2003, albeit at a slower rate of around 7.5 per cent. Farm production volumes should be supported by higher prices of agricultural products in world markets, especially with respect to rice and corn, as unfavourable weather conditions in major grain producing countries reduced the ratio of stock to consumption. Rubber prices should continue to trend upward on the back of steady expansion of the vehicles industry, especially in China, while palm oil prices were also expected to rise in response to higher import demand from India following floods towards the end of 2002.

Moreover, the step up in authorities' efforts in May 2002 to resolve the problem of chemical residue in shrimp and broiler should help to support growth in exports of these two products in 2003. The resultant improvement in fisheries and livestock income should help to complement income from crop.

Nevertheless, the projected growth in farm income in 2003 was subject to the risk that the expansion in domestic production in response to favourable prices in the previous year could outweigh market demand and lead to lower farm prices. In addition, higher world farm prices could prompt other countries with similar climate to Thailand but lower labour costs, such as Vietnam, China, and Indonesia, to expand production. These factors could result in lower than projected growth in farm income.

^{1/} See Pipat Nawatien (1998) "An impact of financial liberalization on Thai household consumption and saving," Ph.D. thesis, Thammasat University and various overseas studies.