



No. 1/2008

Press Release on Northern Region Economic Conditions in December 2007 and in the Year 2007

In December 2007, northern region economy expanded and improved from the previous month. **On the supply side**, farm income grew at a decelerated rate as both price and production of major crops slowed down. Meanwhile, manufacturing production expanded well, particularly export-oriented production, and the services sector grew in light of high season of tourism. **On the demand side**, private consumption accelerated from the previous month, benefited from tourism season and sales promotions, while private investment continued to decline, particularly construction investment. As for government spending, budgetary disbursement slowed down. Exports returned positive after declining in the previous month. The Headline Consumer Price Index rose at last month's rate. At end-November 2007, commercial bank deposit and credit slowed down.

In 2007, northern region economy expanded but at a slower pace compared with last year. **On the supply side**, major crop production increased in light of more favorable weather conditions compared with last year's floods, but farm income decelerated as a result of major crop price slowdown. Manufacturing production decreased as production for exports dropped, even though production for domestic consumption increased, especially, beverages, and sugar production; while the services sector expanded slightly. **On the demand side**, private consumption grew at a decelerated rate as consumers were more cautious about spending, while private investment continued to decline as a result of further weakness in construction investment. Government spending accelerated - both current and capital spending. On the external front, exports and imports decreased. The Headline Consumer Price Index slowed down. At end-November 2007, both credit and deposit of commercial banks grew at a slower rate.

The development of the economic conditions in details is as follows:

1. Agriculture. Farm income grew at a decelerate rate of four percent due to a slowdown in major crop price. The major crop price index was up by 2.7 percent, decelerating from 5.6 percent in the previous month as the price of glutinous rice fell by 10.9 percent in light of increased supply and lower quality. However, prices of other major crops expanded well. The price of major rice rose by 11.9 percent owing to expanded demand, while prices of maize, mungbean, and cassava, increased by 18.2 percent, 16.9 percent, and 82 percent, respectively, responding to demand, both domestic and foreign. As for agricultural production, the major crop production index increased by 1.3 percent as production of major rice, mungbean, and cassava, grew by 2.1 percent, 0.2 percent, and 5.9 percent, respectively, as farmers were encouraged by last year's high price to raise production, and the weather this year was more suitable than that of last year that caused floods. Aside from this, maize production was down by 4.2 percent, resulting from farmers' switching to plant cassava, and industrial sugar cane.

In 2007, farm income expanded at a decelerated rate of 8.4 percent, owing to a slowdown in major crop price which grew by only 5.3 percent, compared with 15 percent in the previous year. The slowdown was due mainly to declines in prices of major rice, second rice, and longan - by 2.7 percent, by 5.1 percent, and by 6.5 percent, respectively, in light of greater supply. Added to the slowdown was a fall in sugarcane price which dropped by 3.4 percent in line with decreased sugar price in the world market. Nonetheless, other major crops posted price increases, including glutinous rice which its price rose by 36.8 percent, driven by export demand, particularly from China. Maize and soybean also recorded price increases of 29.9 percent, and 16.2 percent, respectively, in light of risen prices in the world market. In addition, the price of mungbean rose by 9.8 percent because of stronger demand, while increased world market price and less supply lifted the price of garlic up by 4.3 percent. The price of cassava also rose by 16.7 percent, boosted by demand, both domestic and foreign. As for agricultural production, major crop production

increased by 3.1 percent, accelerating from a negative growth of 1.9 percent in the previous year, contributed mainly by risen production of major rice, and longan, which expanded by 2.1 percent, and 6.4 percent, respectively, owing to more suitable weather conditions as opposed to last year unfavorable ones that had caused floods. Production of second rice, and cassava, increased by 1.9 percent, and 21.4 percent, respectively, due to expansion of plant areas, while production of industrial sugarcane rose by 39.3 percent as last year's high initial price of cane led to plant area expansion. On the contrary, production of maize, and soybean dropped by 4.2 percent, and one percent, as farmers' switching to plant cassava, and industrial sugarcane, while garlic production decreased by 8.7 percent prompted by government measures to reduce garlic plant areas.

2. Manufacturing. In December 2007, manufacturing production improved. Export-oriented production expanded, as indicated by a rise in export value of firms located at Northern Region Industrial Estate (NRIE) in Lamphun province, which increased by 2.9 percent to 159.4 million US dollars. Contributed to the increase was a 31.3 percent rise in camera lens exports, boosted by demand from China and Malaysia; and a more-than-on-fold increase in jewelry exports responding to greater foreign demand. Nonetheless, exports of hard disk drives, and apparatus for making and breaking electrical circuits, especially those used in mobile phones, were down by 17 percent, and 6.9 percent, respectively, due to intense competition. As for production for domestic consumption, sugar production rose by 18.9 percent to 323.7 thousand metric ton in light of a 23.3 percent rise in supply of sugarcane available for sugar production. Meanwhile, beverages production continued to fall and production of construction-related materials dropped since construction investment softened. In addition the amount of VAT collected from manufacturing firms decreased by 3.6 percent to 238.1 million Baht.

In 2007, manufacturing production declined, pulled down by a decrease in export-oriented production, which began to fall since the second quarter though started to pick up at the end of the year. The export value of firms located at NRIE in Lamphun province decreased by three percent to 1,893.8 million US dollars in 2007, compared with 14 percent last year, mainly as a result of a fall in exports of apparatus for making and breaking electrical circuits, which dropped by 25.4 percent when exports of electrical circuits attached to mobile phone screen – one category of apparatus for making and breaking electrical circuits, decreased. In addition, exports of hard disk drive declined after having been slowed down throughout the year in light of intense competition, posting a fall of 21.7 percent. On the contrary, camera lens exports increased by 10.3 percent, benefiting from evolving technology of digital camera, while jewelry exports rose by more than one fold as a result efforts to expand into new markets. Moreover, exports of electronic components used for hearing aids also expanded well. Production for domestic consumption was generally positive, except construction-related production. Sugar production rose by 34.3 percent to 2,139.4 thousand metric ton, given expansion of plant areas, while beverages production expanded at a slower pace than last year in which demand for beverages was exceptionally high, driven by the event of 2006 FIFA World Cup. On the contrary, production of construction-related materials declined in light of continued weakness in construction investment, i.e., few residential construction projects, and less public construction projects. Aside from this, the VAT collected from manufacturing firms increased by 10.3 percent, amounting to 2,831.7 million Baht

3. Service. In December 2007, the services sector improved seasonally from the previous month, but declined from the same month last year in which tourism activity was exceptionally high as the International Horticultural Exposition for His Majesty the King (the Royal Flora Ratchaphruek 2006) took place in Chiang Mai province. Moreover, continued risen fuel prices also discouraged Thai tourists' traveling. Nonetheless, high end market foreign tourists appeared to expand markedly since premium hotels introduced accommodation packages that included hotels in northern provinces, and southern areas of Thailand, such as Phuket, and Samui Island. Development of key services sector is as follow. The amount of VAT collected from hotels and restaurants rose by 26.3 percent, and the number of air passengers grew by 7.1 percent. The average of hotel occupancy rate increased to 76 percent, but the average of hotel room rate was down slightly by 0.3 percent.

In 2007, the services sector expanded slightly, with the Royal Flora Ratchaphruek 2006 contributing to the first quarter expansion, however, in the following quarter, the sector weakened as tourism was adversely affected by unfavorable weather condition, i.e., the heavy haze. Besides, persistent rises in oil prices also discourages Thai tourists' traveling. On the plus side, the services sector benefited from private, and public sectors' meetings and seminars, and premium hotels' promotional packages that attracted up market foreign tourists. As a result most of key services sector expanded. The VAT collected from hotels and restaurants rose by 24.5 percent, the number of air passengers grew by 2.4 percent, the average of hotel room rate increased by 2.2 percent, and the average of hotel occupancy rate was at last year's level of 53.7 percent.

4. Private Consumption. In December 2007, private consumption was in acceleration. The amount of VAT collected from all types of businesses accelerated and grew by 3.3 percent, compared with a decline of 3.6 percent in the previous month, owing to improved tourism spending, as well as end-of-the-year sales promotions. Development of key private consumption indicators is as follows. The number of registered cars, consisting of passenger car and commercial car, rose by 10.7 percent, improving from 4.2 percent last month, with both passenger and commercial cars rising as a result of sales promotions. Nonetheless, the number of motorcycles continued to decline, falling by 21.3 percent, compared with a fall of 17.1 percent in the previous month.

In 2007, the private consumption grew at a slower pace as a result of cautious consumer spending, and the economic slowdown. The amount of VAT collected from all types of businesses increased by 6.3 percent, but slowed down from 21.6 percent in a year earlier, and household electrical usage expanded, increasing by five percent, compared with 3.8 percent in the previous year. Spending for durable goods, i.e., vehicles, on the other hand, declined. The number of registered cars fell by 4.1 percent, following a drop of 6.6 percent in the previous year, pulled down by decreases in both passenger and commercial cars. The number of passenger cars, and the number of commercial cars, declined by 0.7 percent, and 7.4 percent, respectively, compared with a fall of 5.4 percent, and a drop of 6.2 percent in the previous year, respectively. Furthermore, the number of registered motorcycle was down by 21.1, compared with a decrease of 4.9 percent in the previous year.

5. Private Investment. In December 2007, private investment continued to decline from the previous month, particularly construction investment. This was reflected by a continued decline in sales of construction-related materials, and a decrease in a sign for construction investment, i.e., the number of square meters of construction areas permitted in municipal zones, which decreased by 29.1 percent, compared with a rise of 4.8 percent in the previous month. Every category of construction areas declined except one category that increased because of construction of academic institutions in Phitsanulok province. However, the number of land transaction and the amount of land transaction fees continued to rise from the previous month and increased by 6.1 percent, and 10.2 percent, respectively, due mostly to land transactions in provinces of Chiang Mai, and Chiang Rai. As for capital investment, the value of BOI's approved projects, a sign for capital investment, grew by more than two folds to 2,595.4 million Baht, as investors were interested in building ethanol plants, and plants producing metal components in Lamphun province.

In 2007, private investment declined. Construction investment in particular decreased, as large construction projects had already been constructed in earlier period, and many real estate projects were postponed, waiting for clearer political situation. However, the construction investment appeared to expand well in provinces of Chiang Mai, and Phitsanulok, where many discount stores were built. Development of key private investment is as follows. The number of square meter of construction areas permitted in municipal zones was down by 5.6 percent, compared with a fall of 15.3 percent in the previous year, as there were fewer interests in constructing commercial buildings, while many services and transportation buildings had already been built in the past few years, i.e., various premium hotels in Chiang Mai provinces. In addition, the number of land transactions, and the amount of land transaction fees decreased by 5.2 percent, and 4.1 percent, respectively, and sales of construction-related materials continued to decline from the previous year. In contrast to construction investment, a sign for capital investment rose, with the investment value of BOI's approved projects increasing markedly by 65.8 percent. These projects would eventually produce various goods and services, which could be categorized as agriculture and agricultural products, light industry products, services and transportation, electronic product and electrical appliances.

6. Government Spending. In December 2007, budgetary spending through provincial treasury offices in the northern region totaled 10,623.9 million Baht, expanding by 4.7 percent but slowing down from 11.2 percent in the previous month. The slowdown was due to a fall in the capital spending, which declined by 5.6 percent, whereas the current spending expanded. Contributing to the fall in the capital spending were decreases in expenses for equipments, and expenses for land and buildings, which dropped by 42.3 percent, and 10.7 percent, respectively. Contingent subsidies, one category of capital spending, however, more than doubled. The current spending (for recurring, day-to-day expenses), on the other hand, increased by 7.9 percent, as personnel expenses, and operating expenses, grew by 16.4 percent, and 13.9 percent, respectively. Provinces recorded significant gain in budgetary spending included Phrae, Nan, Mae Hong Son, and Chiang Rai.

In 2007, budgetary spending through provincial treasury offices in the northern region was in acceleration, particularly in the first half of the year, and grew by 18.8 percent to 155,833.8 million Baht, compared with a decline of 4.6 percent last year. The capital spending grew by as much as 43.4 percent, compared with a fall of 19.8 percent as expenses for land and buildings, and expenses for equipments, increased by 12 percent, and 3.2 percent, respectively, while contingent subsidies rose by more than one fold, largely as a result of disbursement made by local administration organizations. In addition, the current spending grew by 8.3 percent, noting a rise in personnel expenses of 11.5 percent, due in part to increased teachers' accreditation allowances. On the contrary, operating expense dropped by 5.2 percent.

7. Foreign Trade. In December 2007, foreign trade that passed through customs houses in the northern region amounted to 356.2 million US dollars, declining slightly by 0.2 percent, with exports increasing and imports falling. Exports accelerated and grew by 11 percent to 233.7 million US dollars, compared with a fall of 2.3 percent in the previous month, boosted by border exports. The border exports rose by more than one fold to 94.6 million US dollars in light of a more-than-two-fold increase in border exports to southern China totaling 41.7 million US dollars, with the export goods comprising mainly of rubber smoked sheets, and palm cooking oil. Border exports to Myanmar also grew, increasing by 63.3 percent, but border exports to Lao PDR decreased by 7.8 percent. Aside from this, exports of manufacturing goods declined by 34.2 percent, particularly to Japan, Singapore, and Hong Kong, with apparatus for making and breaking electrical circuits, and motors declining the most.

Imports declined by 16.3 percent to 122.5 million US dollars, compared with a 2.6 percent fall in the previous month, due mainly to decreased imports of capital goods, and consumer goods. Capital goods imports fell by 29.2 percent, noting significant fall in imports of scientific equipments, and a decline in imports of electrical machinery and parts of 9.7 percent. Meanwhile, consumer good imports dropped by 19.3 percent, pulled down by imports of household appliances. Imports of raw materials and intermediate goods, on the contrary, increased slightly by 0.8 percent as imports of rough diamonds or diamonds that were unworked or simply sawn rose by 49.3 percent and imports of raw materials for electronics manufacturing declined by 27.9 percent. Border imports decreased by 9.2 percent to 9.7 million US dollars, as imports from every neighboring country dropped. Border imports from Myanmar, Lao PDR, and southern China, dropped by 6.7 percent, 20.4 percent, and four percent, respectively. The trade balance posted a surplus of 111.2 million US dollars, improving from a surplus of 64.2 million dollars in December 2006, and a surplus of 89.4 million US dollars in November 2007.

In 2007, foreign trade that passed through customs houses in the northern region decreased by 6.5 percent to 4,082.2 million US dollars, with both exports and imports declining. Exports decreased by 4.3 percent to 2,535.6 million US dollars, compared with an increase of 7.2 percent last year. Exports declined since the beginning of the year with some signs of pick-ups at end-2007. Attributed to the export decline was weakness in manufacturing product exports, which dropped by 18.5 percent, as a result of decreases in exports of hard disk drive components, mobile phone screens, motors, and cable wires and electrical wire sets. By contrast, exports of camera lens grew by 10.3 percent, and jewelry exports rose by more than one fold. Border exports increased by 26.4 percent to 677.1 million US dollars. The border exports accelerated the second half of the year as border exports to Myanmar, and southern China, increased by 22.2 percent, and 51.1 percent, respectively, with significant increases in non-canned processed foods, and rubber smoked sheets. Border exports to Lao PDR, nonetheless, declined slightly by 0.9 percent.

Imports decreased by 9.9 percent to 1,546.7 million US dollars, compared with an increase of 11.8 percent last year, owing to decreased imports of capital goods and consumer goods. Capital goods imports decreased by 6.5 percent, noting a decline in imports of machinery components of 21.1 percent, and a fall in imports of computer parts used in electronics industry of 59 percent. Consumer goods imports decreased by 29.5 percent as imports of household appliances dropped. Imports of raw materials and intermediate goods continued to expand, and grew by six percent, as a result of increased imports of rough diamonds or diamonds that were unworked or simply sawn, and plastics for industrial usage. Major import countries included Japan, the USA, and Singapore. Border imports grew by five percent to 107.4 million US dollars, as imports from Lao PDR rose by 32 percent as a result of imports of lignite coal, processed woods, and maize. Meanwhile, border imports from Myanmar fell by 2.7 percent, and border imports from southern China equaled to last year's. The trade balance recorded a surplus of 988.8 million US dollars, improving from a surplus of 932.7 million US dollars in the previous year.

8. Prices. The Headline Consumer Price Index (Headline CPI) increased by 3.5 percent, as steady growth rate from the previous month. The non food price index accelerated and rose by 3.9 percent as a result of a rise in oil price of 23.8 percent, and an increase in Liquefied Petroleum Gas (LPG) price of 5.3 percent. The food price index slowed down, increasing by 2.9 percent, compared with 3.2 percent in the previous month. The Core Consumer Price Index (Core CPI), excluding prices of raw food, and energy, increased by 0.6 percent, equalling last month's

In 2007, the Headline CPI grew by 2.3 percent, slowed down from 4.7 percent last year, as oil prices in January – September were below year-ago levels. The non food price index increased more slowly than in the previous year, increasing by one percent compared with 3.9 percent last year, as the fuel price decelerated, growing by 3.7 percent compared with 17.2 percent last year, and the price of tobacco products slowed down, growing by 2.6 percent compared with 17.5 percent last year. The food price index increased by 4.6 percent, decelerating from six percent last year. Increases in prices for sticky rice, vegetables and fruits, duck, chicken, and eggs, contributed to the food price increase. The Core CPI increased by 0.6 percent, compared with 1.9 percent last year.

9. Labor. According to the Labor Force Survey by the National Statistical Office, northern labor force totaled 6.65 million at end-November 2007. Of these, 6.57 million were employed. The employment rate was 98.9 percent, improving from 98.1 percent last year, since the non agricultural employment rose as hiring by sectors of hotels and restaurants, construction, and manufacturing, rose by 5.1 percent, 3.5 percent, and 2.3 percent, respectively. The agricultural employment, on the other hand, was down by 2.7 percent. The number of unemployed persons totaled 0.64 million and accounted for one percent of the labor force, improving from 1.5 percent last year, and 1.3 percent last month. In December 2007, the number of insured person was 0.6 million, increasing from December 2006 by 2.1 percent, and from November 2007 by 0.1 percent.

10. Banking. At-end November 2007, the commercial bank deposit outstanding increased by 2.5 percent to 343,981 million Baht, but slowed down from 4.8 percent in October 2007 as a result of investors' withdrawing funds to invest in government bonds and mutual funds, as well as authorities' withdrawals. Provinces reporting significant decreases in deposits included Nakhon Sawan, Chiang Mai, Phitsanulok, and Chiang Rai. As for lending, the commercial bank credit outstanding was 284,825 million Baht, increasing by 4.9 percent and decelerating slightly from 5.1 percent in October 2007. The increase in credits resulted from demand from crop traders in provinces of Nakhon Sawan, Phitsanulok, and Phetchabun; and from teachers' savings cooperatives in provinces of Phayao, Tak, and Phrae. The ratio of credit to deposit was at 82.8 percent, improving from 80.9 percent at-end November 2006.

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February 4, 2008

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