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Press Release on Northern Region Economic Conditions in September 2007 and in Nine Months of 2007

In September 2007, northern region economy continued to decelerate from the previous month. **On the supply side**, farm income expanded in light of increased major crops price. Meanwhile, the service sector slowed down during low tourism season, but improved condition was seen in the area of meeting and seminar activity. As for the manufacturing sector, manufacturing production declined. **On the demand side**, private consumption improved, but private investment declined as a result of weakened construction investment. As for government spending, budgetary disbursement declined slightly in the last month of fiscal year 2007. On the external front, exports and imports continued to fall, but exports showed an improved trend. The Headline Consumer Price Index accelerated, however. At end-August 2007, commercial bank deposit outstanding and credit outstanding both increased at a slower rate.

In January – September 2007, northern region economy grew at a slower pace. **On the supply side**, farm income rose as major crops production increased following favorable weather conditions and expansion of plant areas. The service sector grew at a decelerated rate, whereas the manufacturing production declined due primarily to decreased production of electronic products. **On the demand side**, private consumption grew at a slower pace as a result of more cautious consumer spending, while private investment dropped in light of declined construction investment. On the external front, both exports and imports declined but the trade balance was still in surplus, and greater than last year's. As for government spending, the budgetary disbursement via provincial treasuries in the northern region accelerated, but slowed down in the fiscal year 2007 (October 2006 – September 2007) as disbursement in the first quarter declined. At end-August 2007, both deposit and credit of commercial banks decelerated.

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

1. Agriculture. In September 2007, farm income expanded by 7.1 percent, accelerating from the previous month, owing mainly to increased price of major crops. The major crops price index was up by 8.4 percent, boosted by a 35.4 percent rise in maize price which in turn caused by a combination of higher world market prices, and lessened domestic supply. In addition, ample demand from China drove the price of glutinous rice up by 34.9 percent. The price of major rice, in contrast, dropped by 5.8 percent. As for agricultural production, the major crops production index was down by 1.3 percent, largely as a result of decreased production of maize, and soybean – by 4.4 percent, and two percent, respectively, as farmers switched to plant other crops that generated higher prices in the previous year such as cassava, and industrial sugar cane. Added to the decline in agricultural production was a 1.7 drop in shallot production, caused by farmers' switching to plant garlic as shallot prices were at low levels in light of less export demand. The price of major rice, by contrast, rose by 3.9 percent as weather conditions were more favorable than last year's floods.

In January – September 2007, farm income expanded by 18.4 percent, accelerating from 12.9 percent in the same period last year, due to increased major crop production. The major crops production index was up by 12.9 percent, boosted by increased production of second rice following plant area expansion. Production of industrial sugarcane, cassava, and longan, also rose, increasing by 39.3 percent, 19.2 percent, and 6.8 percent, respectively, as a result of expansion of plant areas, as well as favorable weather conditions during planting season. On the contrary, garlic production dropped by 8.7 percent as a result of government measures to reduce plant areas. Aside from this, other crops posting declines in production included maize, soybeans, and shallot, which decreased by 4.4 percent, two percent, and 1.7 percent, respectively. As for agricultural price, the major crop price index grew by 5.5 percent. The prices of glutinous rice, and cassava, rose by 52 percent, and 3.6 percent, respectively, driven by foreign demand, particularly from China, while the price of industrial sugarcane was up by 5.2 percent as a result of finer cane quality as measured by higher level of Commercial Cane Sugar (CCS). In addition, higher world market

prices, and lessened domestic supply, lifted the prices of maize, and soybeans up by 30.7 percent, and 6.3 percent, respectively. In addition, garlic price was up by 22.9 percent due to lessened supply, whereas greater supply pulled prices of second rice, and longan, down by 5.7 percent, and 6.5 percent, respectively. Aside from this, the price of shallot declined significantly by 59.9 percent as export demand decreased.

2. Manufacturing. In September 2007, manufacturing production remained in the negative territory but improved from a marked drop in the previous month. The export-oriented production slightly weakened as reflected by a negative growth rate of export value by firms located at Northern Region Industrial Estate (NRIE) in Lamphun province. Such export value declined slightly by 1.6 percent to 170.8 million US dollars but improved from a decline of 8.1 percent last month, as export production of hard disk drives posted a consecutive decline, falling by 14.9 percent. Certain export production, nonetheless, posted an expansion: production of camera lens was up by 15.5 percent responding to demand from China, production of cut diamonds nearly doubled, and production of carburetors expanded well driven by foreign demand. As for production for domestic consumption, beverages production decreased from the same month last year but increased from the previous month, while production of construction-related materials declined in light of decreased construction investment, both private and public. However, the amount of Value Added Tax (VAT) collected from manufacturing firms grew by 21 percent to 225.5 million Baht, accelerating from 16.1 percent in the previous month, largely reflected increased manufacturing activities in provinces of Nakhon Sawan, and Uttaradit.

In January – September 2007, manufacturing production declined, with export-oriented production falling as seen by a decline in export value by firms located at Northern Region Industrial Estate (NRIE) in Lamphun province which dropped by 3.3 percent to 1,410 million US dollars, compared with an increase of 15.9 percent in the same period last year. This was due primarily to a 20.8 percent fall in production and export of hard disk drives, caused by changes in product technology, as well as manufacturers' losing market shares to other domestic competitors. On the contrary, export production of jewelry was up by 27.2 percent responding to foreign demand. As for production for domestic consumption, beverages production expanded, while production of construction-related materials declined as private and public construction projects dropped. Aside from this, the amount of VAT collected from manufacturing firms increased by 14.9 percent to 2,149.8 million Baht, decelerating from 30.4 percent in the same period last year as sales by manufacturing firms slowed down in provinces of Kamphaeng Phet, Nakhon Sawan, Chiang Mai, and Lampang.

3. Service. In September 2007, the service sector seasonally slowed down from the previous month, but improved slightly from the same month last year as public authorities' meetings and seminars boosted activities in the service sector. World Weight Lifting competition held on 16th – 26th September 2007 in Chiang Mai province also helped lifting activities in the sector. The development of key services indicators is as follows. The average of hotel occupancy rate was at 41.5 percent, improving from 39.9 percent in the same month last year but falling from 52.6 percent in the previous month, while the average of hotel room rate increased by 0.9 percent, slowing from 2.8 percent last month. The number of air passengers grew at 17.5 percent; accelerating from 10.7 percent in the previous month, and the amount of VAT collected from hotels and restaurants was at sound level and expanded by 26.5 percent.

In January – September 2007, the service sector grew slightly. In the first quarter, tourism expanded well benefited from the event of the International Horticultural Exposition for His Majesty the King (the Royal Flora Ratchaphruek 2006), but softened in the second, and third quarters due to adverse tourism conditions, i.e., heavy haze, and cautious spending that led to a slow down in the number of Thai tourists visiting the northern region. Nonetheless, meeting and seminar activity organized by public authorities helped boosting the service conditions in the third quarter. The development of key services indicators is as follows. The amount of VAT collected from hotels and restaurants grew by 25.8 percent, while the number of air passengers increased by 4.2 percent. In addition, the average of hotel room rate was up by 2.2 percent, and the average of hotel occupancy rate was near last year's level at 50.5 percent.

4. Private Consumption. In September 2007, overall private consumption improved from the previous month. The development of key private consumption indicators is as follows. The amount of VAT collected from all types of businesses expanded at an accelerated rate of 12.6 percent, compared with 2.8 percent in the previous month, noting increases in the VAT of nearly all provinces in the northern region. As for consumption for durable goods, the quantity of vehicle purchased declined. The number of registered cars, comprising passenger cars and commercial cars, decreased by 1.7 percent, compared with a rise of five percent in the previous month. Of this the number of passenger cars rose by 5.7 percent, while the number of

commercial cars continued to decline, falling by 10.7 percent. In addition, the number of registered motorcycle dropped by nearly the same rate as last month's at 28.1 percent.

In January – September 2007, private consumption expanded at a slower pace due to consumers' cautious spending and overall economic slowdown. Key private consumption indicators, thereby, were in deceleration. The amount of VAT collected from all types of businesses grew at a decelerated rate of 7.4 percent, compared with 22.2 percent in the same period last year. In addition, spending for durable goods, i.e., vehicle purchase, remained weak, with the number of registered cars declining by 5.6 percent and the number of registered motorcycle decreasing by 22 percent, compared with a decline of 2.9 percent, and a decrease of 1.3 percent, respectively, in the same period last year.

5. Private Investment. In September 2007, private investment continued to decrease from the previous month, particularly construction investment. Most of key private investment indicators remained weak. Sales of construction-related materials fell, while the square meter of construction areas permitted in municipal zones, a sign for construction investment, decreased by 32.6 percent, compared with a decrease of 25.3 percent last month. Nonetheless, the amount of land transaction fees increased slightly by 1.1 percent, compared with a decline of 18.8 percent in the previous month, largely as a result of transferring of land ownership by individuals in provinces of Chiang Mai, and Phitsanulok. As for capital investment, investment value of BOT's approved projects, a sign for capital investment, expanded by nearly one fold to 633.1 million Baht. Most of the approved projects were in provinces of Chiang Mai, and Lamphun, and were in the areas of manufacturing electronic products and electrical appliances, and agriculture and agricultural products.

In January – September 2007, overall private investment declined from the same period last year as large-scale construction projects were in the stage of completion. However, the second quarter had seen improvement in private investment as a result of speeding up projects that fell behind schedules in Chiang Mai province. The development of key private investment indicators is as follows. The square meter of construction areas permitted in municipal zones declined by 5.8 percent, compared with a drop of 12.7 percent in the same period last year, however, residential construction areas, one category of the construction areas permitted in municipal zones, expanded well in key northern provinces, i.e., Chiang Mai, and Phitsanulok, particularly in the second quarter. Meanwhile, the amount of land transaction fees was down by 6.5 percent, compared with a decrease of 8.2 percent in the same period last year. As for capital investment, investment value of BOI's approved projects rose by 37.5 percent, improving from 9.3 percent in the same period last year. Most of the projects were approved in the first quarter and were in the areas of manufacturing agriculture and agricultural products, and electronic products and electrical appliances, in provinces of Lamphun, and Chiang Mai.

6. Government Spending. In September 2007, the last month of fiscal year 2007, budgetary spending recorded at provincial treasuries in the northern region, was down slightly by 0.7 percent to 14,095.2 million Baht, compared with an increase of 2.9 percent in the previous month. Current spending (for recurring, day-to-day expenses) continued to decline, falling by 1.2 percent to 9,480.7 million Baht as disbursement in the remuneration category decreased by 19.3 percent in light of declined traveling expense. Capital spending (capital expenditures) increased slightly by 0.5 percent to 4,614.5 million Baht, slowing down from the previous month as disbursement in a sub-category of general subsidies dropped by 36.9 percent as there had been acceleration in spending by local administrative organizations. Disbursement in a sub-category of contingent subsidies, by contrast, grew by more than one fold, while disbursement in a category of equipment rose by 47.7 percent.

In January – September 2007, the cumulative budgetary spending grew by 17.4 percent to 122,203.3 million Baht, compared with 1.8 percent in the same period last year, as the government accelerated budgetary spending to stimulate the economy, particularly during February – June 2007. As a result, both current and capital spending expanded, growing by 7.2 percent, and 39.4 percent, respectively. The first was due primarily to increased personnel expenses, i.e., remuneration for teachers, while the latter was due mainly to increases in disbursement in contingent subsidies, land and construction, and equipment.

In the fiscal year 2007 (October 2006 – September 2007), the cumulative budgetary spending increased by 7.1 percent to 149,277 million Baht, slowing down from 10.2 percent in the same period last year because of delayed issuance of the budget for the fiscal year 2007. The delay resulted in a decline in budgetary disbursement in the first quarter (October – December 2006). In the fiscal year 2007, the current spending grew at a slower rate of four percent, while the capital spending accelerated, posting a growth rate of 13.4 percent, compared with 8.1 percent in the fiscal year 2006.

7. Foreign Trade. In September 2007, the trade value passed through all customs houses in the northern region declined by 6.3 percent to 358.3 million US dollars, compared with a decrease of 2.8 percent last month. Exports passed through all customs houses in the northern region decreased and recorded a fall in export value by 1.2 percent to 225.1 million US dollars, nearly equaling 1.1 percent in the previous month. Export value of manufacturing products dropped by 7.2 percent as exports of electronic, and electrical products declined, such as components of hard disk drives, mobile phone screens, and electrical transformers and motors. Nonetheless, exports of camera lens, and jewelry, expanded well, responding to foreign demand. As for border trade, the value of border exports rose by 26.9 percent to 56.8 million US dollars, as exports to Myanmar, and southern China, expanded well by 25.2 percent, and 44 percent, respectively, noting increased exports of petroleum products, vegetable oil, and vehicles. Border export to Lao PDR, however, slowed down and grew by 1.5 percent.

Imports passed through all customs houses in the northern region also declined, posting a fall in import value by 13.9 percent to 133.2 million US dollars, as imports of capital goods dropped by 14.1 percent due to decreased imports of machinery parts. However, import of raw materials and intermediate goods was up by 19.4 percent, following a decline in the previous month, as a result of risen imports of electronic components, and metal ore products, which rose by 14.3 percent, and 51.1 percent, respectively. As for border trade, the value of border imports dropped by 5.4 percent to 8.7 million US dollars, in light of declined imports from Myanmar, and southern China, which fell by 5.4 percent, and 31.1 percent, respectively, after Thai authorities applied stricter monitoring of illegal materials, and contaminated substances in foods from China. Major goods imported from the two bordered countries were crop products, raw materials from animals and plants, and household appliances. Meanwhile, border imports from Lao PDR rose by nearly two folds, as lignite imports rose. The trade balance recorded a surplus of 91.9 million US dollars, increasing from a surplus of 73.1 million US dollars in the same month last year, and a surplus of 81.3 million US dollars in the previous month.

In January – September 2007, the trade value passed through all customs houses in the northern region decreased by 8.7 percent to 2,989.6 million US dollars, with both exports and imports falling. Exports passed through all customs houses in the northern region dropped by 6.8 percent to 1,855.8 million US dollars, pulling down by decreased exports of electronic products that decreased by 11 percent. Of the electronic products, exports of hard disk drives posted a decline, and exports of mobile phone screens were down after losing market share to domestic competitors. Exports to Japan, Singapore, and the US, declined by 22 percent, 33.1 percent, and 44.6 percent, respectively. As for border trade, the value of border export expanded by 16.8 percent to 464.9 million US dollars, compared with a fall of 3.4 percent in the same period last year, as exports to Myanmar, and southern China, expanded well, rising by 13.9 percent, and 33.6 percent, respectively, boosted by exports of non-canned processed foods, rubber products, and vegetable oil. Border export to Lao PDR, however, grew at a slower rate of 3.1 percent.

Imports passed through all customs houses in the northern region fell by 11.6 percent to 1,133.8 million US dollars in light of declined capital good import that dropped by 6.3 percent. Imports of computer components, and machinery components, were also down, falling by 60.9 percent, and 21 percent, respectively, while import of components of electronic products dropped by 4.2 percent. As for border trade, the value of border import increased by 4.3 percent to 74.1 million US dollars, with imports from Lao PDR, and southern China, rising by 29.4 percent, and 3.9 percent, respectively. Border import from Myanmar, nonetheless, dropped by 4.3 percent to 38.3 million US dollars. The trade balance posted a surplus of 722.1 million US dollars, improving from a surplus of 707.9 million US dollars in the same period last year.

8. Prices. The Headline Consumer Price Index (Headline CPI) grew by 2.4 percent, accelerating from 1.6 percent in the previous month as the price for non-food increased. The non-food price index was in acceleration, posting a growth rate of 1.3 percent, compared with a decrease of 0.9 percent last month. The acceleration was due to risen fuel price, which rose by 6.7 percent; as well as an increase in the price of tobacco products and alcoholic beverages, which was up by 3.9 percent following the increased excise tax rates. In addition, the food price index grew by 4.5 percent, compared with six percent in the previous month, largely as a result of increases in prices of sticky rice, vegetables and fruits, and raw chicken meat. As for core inflation, the Core Consumer Price Index (Core CPI), excluding prices of raw food, and energy, was up slightly by 0.4 percent, compared with 0.3 percent last month.

In January – September 2007, the Headline CPI increased by two percent, compared with 5.1 percent in the same period last year. The increase in the Headline CPI was contributed mainly by a rise in the food price. Increased prices of sticky rice, and vegetables and fruits, lifted the food price index up by 5.1

percent. The non-food price index, on the other hand, grew slightly by 0.3 percent, slowing down from 4.8 percent in the same period last year, owing to reduction in the fuel price by 1.5 percent, compared with a 23.7 rise of the fuel price in the same period last year. In addition, the Core CPI increased by 0.6 percent, compared with 2.2 percent in the same period last year.

9. Labor. At end-August 2007, according to the Labor Force Survey by the National Statistical Office, northern labor force totaled 6.83 million. Of this, 6.74 million were employed and accounted for 98.7 percent of the labor force. Agricultural employment increased slightly by 0.1 percent, while non agricultural employment grew by 1.3 percent as hiring by sectors of hotels and restaurants, wholesale and retail trade, were up by 25 percent, and one percent, respectively. Employment by manufacturing, and construction sectors, however, were down by 7.5 percent, and 6.7 percent, respectively. The number of unemployed persons was 0.07 million and accounted for 1.1 percent of the labor force, equaling that of August 2006, but improved from 1.3 percent in July 2007. In September 2007, the number of insured person was 0.6 million, increasing from September 2006 by two percent but slightly declining from August 2007 by 0.2 percent.

10. Banking. At-end August 2007, the commercial bank deposit outstanding grew at a slower pace of 4.2 percent to 344,001 million Baht, compared with 4.7 percent in the previous month, with many northern provinces reporting deposit expansion. Chiang Mai province recorded deposit increase made by savings cooperatives, and academic institutions; while provinces of Chiang Rai, and Phetchabun posted deposit expansion, resulting from funds deposited by export businesses, and crop traders, respectively. However, Nakhon Sawan province had seen withdrawals from deposit accounts to invest in financial securities that generated higher returns. As for lending, the commercial bank credit outstanding increased by 6.5 percent to 278,539 million Baht, slowing down from 6.9 percent in the previous month. The slowdown was due to loan paying off made by businesses and organizations in several provinces. Savings cooperatives in provinces of Phayao, Phichit, Nakhon Sawan, and Phetchabun paid off commercial bank loans and use credit facilities offered by the Federation of Savings and Credit Cooperatives of Thailand Limited instead, while Lampang province had seen loan paying off made by auto dealers, and electrical appliances retailers. In addition, other businesses also lowered their credit usage due to decreased sales orders, including producers of ceramic products, manufacturers of wooden products. On the contrary, several provinces reported credit expansion driven by demand from seasonal agriculture-related businesses, such as producers of dried longan in provinces of Chiang Mai, Chiang Rai, and Lamphun; crop traders, and rice mill businesses in provinces of Nakhon Sawan, Phetchabun, and Phitsanulok. The ratio of credit to deposit was at 81 percent, improving from 79.3 percent at end-August 2006

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