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Northern Region Economy in April 2008

In April 2008, northern region economy expanded from the previous month and from the same month last year. **On the supply side**, farm income accelerated as both major crops production and price rose. Manufacturing Production Index expanded due to increased production of electronics products, while services sector expanded, benefiting from tourism promotional campaigns during Songkran Festival. **On the demand side**, private consumption and private investment remained flat, but showed signs of improvement as farm income and investment interest increased. Government spending was in acceleration, particularly capital expenditures. On the external front, exports and imports expanded. The Headline Consumer Price Index accelerated in light of increase in the price of food and beverage category. At end-March 2008, the commercial bank deposits and credits expanded.

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

1. Agriculture. Farm income grew at an accelerated rate of 62.5 percent due primarily to an increase in price of major crops. The major crop price index posted a historical high growth rate of 55.1 percent, with prices of second rice paddy, soybean, and maize rising significantly by 124.1 percent, 77.3 percent, 83.8 percent, and 20.2 percent, respectively. In addition, increased initial cane price lifted the price of sugarcane up by 9 percent, while lessened supply drove the price of shallot up by more than 4 folds. On the production side, the major crop production index also expanded, rising by 7.4 percent mainly as production of second rice paddy, soybean, and cassava, rose because last year's favorable prices encouraged farmers to increase production and this year's favorable weather conditions led to higher crop yields.

2. Manufacturing. Manufacturing production expanded, with the Manufacturing Production Index (MPI) increasing by 11.9 percent owing to acceleration in production of electronic products, which rose by 24.6 percent, compared with 9.6 percent in the previous month. Of the electronic products, production of electricity transformers and electronic components used in automobiles expanded well in line with related industries conditions in Japan and China. Production of components of electrical appliances, such as electronic components used in telecommunication equipments, and touch screen, also rose in light of emerging 3G services particularly in Asian markets. In addition, production of ceramic products increased, driven by demand from Italy, Sweden, and France. However, production of cut diamonds began to decelerate as demand from Israel softened. Meanwhile, production of processed agricultural products dropped by 10.2 percent as sugar production declined in light of lessened supply of crushed sugar cane, and production of frozen fresh, and dried vegetables decreased from last year's high level. Furthermore, production of food and beverages continued to decline, while production of construction-related materials dropped, in light of weakened construction conditions.

3. Service. The services sector expanded well during Songkran Festival, owing mainly to tourism promotional efforts made by both public and private sectors to attract tourists, both Thais and foreigner. As a result, there were greater number of foreign visitors from China, Taiwan, and Israel. Meeting and seminars activities held by government agencies, such as Local Administrative Organizations, also lifted the number of Thai visitors up, particularly in the upper northern region. Development of key services indicators are as follows. The amount of Value Added Tax (VAT) collecting from hotels and restaurants rose by 12.3 percent, while the number of air passengers increased by 8.3 percent. In addition, the average of hotel occupancy rate was up by 0.1 percent, compared with a decline of 1.2 percent in the previous month, and the average of hotel room rate was the same as last month's.

4. Private Consumption. Private consumption remained flat and was at last month's level in light of cautious consumer spending. Therefore, the VAT collecting from all types of businesses remained in the negative territory but improved from the previous month. Nonetheless, the VAT collecting from wholesale and retail trade businesses continued to expand. Meanwhile, signs of improvement were observed in

consumption of durable goods, i.e. motorcycle purchases, prompted in part by increased farm income, particularly in the lower northern region. In addition, the number of registered cars rose by 17.5 percent due to dealers' promotional campaigns, and the introduction of the much-lower price E20-capable passenger cars.

5. Private Investment. Private investment was flat, but improvement was seen especially in the areas of construction investment as indicated increased number of square meters of construction areas permitted in municipal zone, and increased amount of land transaction fees. The first rose by 7.9 percent, noting major fund groups' interests in constructing residential and commercial buildings in major northern provinces. The latter grew at an accelerated rate of 83.1 percent as real estates transaction resumed after having been delayed last month in anticipation of government's measures to reduce tax rates relating to purchasing units from residential, and condominium projects, as well as and buying office properties, effective from March 29, 2008. In addition, sales of construction related materials improved, though remained in the negative territory. Nonetheless, investment value of BOI's approved projects, a sign of capital investment, dropped by 67.7 percent to 223.6 million Baht as last year's investment value was at high level, boosted by investment interests in production capacity of lens manufacturing firms in Lamphun province, and software development firms in Chiang Mai province in April 2007.

6. Government Spending. Budgetary disbursement through provincial treasury offices in the northern region was 17,020.1 million Baht, increasing by 70.5 percent because Local Administrative Organizations' disbursements from current-year capital budget rose, particularly disbursements from general subsidies that increased by more than 11 folds, noting disbursements for constructing public infrastructure such as roads. Chiang Mai, Chiang Rai, and Phitsanulok provinces reported largest shares of the disbursements from the general subsidies. Meanwhile, disbursements from the current budget grew at an accelerated rate of 10.8 percent, largely as a result of the adjustment of the salary scale of public officers at all levels in October 2007.

7. Foreign Trade. Foreign trade passed through customs houses in the northern region expanded, both exports and imports. Export value increased by 24 percent to 223.7 million US dollars. Contributed mainly to the export increase were exports of manufacturing products exports, which grew by 21.4 percent due to increased exports of electronic components, camera lens, and jewelry, driven by demand from Japan, Hong Kong, and Israel. Meanwhile, exports to bordered countries expanded by 43.3 percent to 66.4 million US dollars, as exports of petroleum products more than doubled. Border exports to Myanmar, and Lao PDR, rose by 53.4 percent, and 51.4 percent, respectively, whereas border exports to southern China declined by 13.7 percent, pulling down by a 57 percent decline in exports of agricultural products, i.e. smoked rubber sheets.

Import value rose by 67.5 percent to 192.2 million US dollars, compared with a decline of 6 percent last month, as export-oriented firms located in Northern Region Industrial Estate in Lamphun province imported more raw materials, such as components, and precious stones. Meanwhile, large import quantity of cable joints (used in manufacturing components of automobile engines) from Switzerland drove imports in the category of raw materials and intermediate goods up by 31.8 percent. Furthermore, consumer goods imports also expanded, rising markedly by 65.5 percent due to increased imports of vegetables and fruits, particularly imports of maize from Myanmar. Imports from bordered countries grew by 12.7 percent to 6.8 million US dollars, with imports from Myanmar, and Lao PDR, increasing by 8.7 percent, and 35.2 percent, respectively, while import from southern China dropped by 10.3 percent. The trade balance posted a surplus of 31.5 million US dollars, declining from a surplus of 65.6 million US dollars in April 2007, and a surplus of 116.5 million US dollars in March 2008.

8. Prices. The Headline Consumer Price Index (Headline CPI) increased at an accelerated rate of 7.5 percent, largely as a result of acceleration in food and beverage prices. The food price index rose significantly by 13.1 percent due to increased prices of meat, rice, vegetables and fruits. The non food price index was up by 4.2 percent, nearly the same rate as last month's because fuel prices rose in line with world market prices. The Core Consumer Price Index (Core CPI) increased by 1.8 percent, compared with 1 percent in the previous month.

9. Labor. According to the Labor Force Survey by the National Statistical Office, northern labor force totaled 6.67 million at end-March 2008. Of these, 6.5 million were employed and accounted for 98 percent of the labor force, nearly the same rate as in the same month last year. Agricultural employment grew by 5.5 percent as higher major crops prices encouraged labors' moving to work in the agricultural sector. Non agricultural employment, on the other hand, dropped by 1.1 percent, noting significant drop in hiring by hotels and restaurants (-11.2 percent), and wholesale and retail trade (-5.7 percent). The unemployment rate was at 1.3 percent, compared with 1.4 percent at-end March 2007. In April 2008, the number of insured person increased by 1.3 percent to 0.6 million.

10. Banking. At end-March 2008, the commercial bank deposit outstanding increased by 5.2 percent to 357,685 million Baht, compared with 4 percent at end-February 2008. This was due to deposit mobilization, which led to fixed deposit increase of 5.3 percent, particularly in provinces of Phitsanulok, Sukhothai, Chiang Rai, Lampang, and Chiang Mai. As for lending, the commercial bank credit outstanding was 294,185 million Baht, increasing by 6.1 percent due to acceleration in personal loans, which expanded markedly by 21.9 percent as a result of increased loans for (hire) purchasing automobiles/motorcycles (34 percent) and increased loans for other personal consumption (18.3 percent). Provinces reporting significant increases in credits included Phitsanulok, Phetchabun, Lamphun, Nakhon Sawan, and Chiang Mai. The ratio of credit to deposit was at 82.3 percent, compared with 81.2 percent at end-March 2008.

Bank of Thailand, Northern Region Office
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Contact Person: Rawisprapa Ruckphaopunt
Tel: +66 (0) 5393-1156
e-mail: rawispr@bot.or.th