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Northern Region Economy in August 2008

In August 2008, northern region economy slowed down from the previous month. **On the supply side**, farm income decelerated with regards to major crop prices but its growth remained strong. Meanwhile, manufacturing production grew at slower pace due mainly to a production of processed agricultural product. Service sector slowed down seasonally. **On the demand side**, private consumption and private investment decreased as a caution of domestic spending and lowered investors' confidence. Government spending fell, following the capital expenditure. Nonetheless, export was in an expansion pace. The headline consumer price index decelerated, owing to a declining in oil price. As for banking, both deposit and credit outstanding still expanded.

Details of the economic conditions are as follows:

1. Agriculture. Farm income from major crops grew by 59.2 percent year-on-year, decelerating from the preceding month corresponding with major crop prices. Nonetheless, the major crop price index still increased by 52.6 percent as prices of second crop rice paddy and maize rose by 83.6 percent and 32.6 percent, respectively in line with the world market price. In addition, longan price significantly rose by 163 percent due to a fall of its production, while demand for export increased. As for the agricultural production, the major crop production index expanded by 6.6 percent. This was attributed to an increased production of second crop rice paddy and maize by 32.5 percent and 2.7 percent, respectively as a result of a favorable weather condition leading to higher crop yields per rai in conjunction with a marked increase in prices, which encouraged farmers to expand their production. However, the longan production dropped by 14.4 percent because of last year's unattractive price, which discouraged farmers to maintain their own crop well.

2. Manufacturing. In August 2008, manufacturing production grew at a slower pace from the previous month. The manufacturing production index improved by 1.7 year-on-year, but decelerating from the previous month as a production of processed agricultural products decreased, particularly dried longan resulting from a decrease of its production. Additionally, the production of preserved vegetable slowed down seasonally together with a continual decrease of garment production from the preceding month. Nevertheless, production of beverages was up by 12.4 percent, resulting from an increase of alcoholic beverage production in the first month after continually decreased since the end of last year. Meanwhile, production of electronic parts also expanded by 20.2 percent in the light of an increased production of IT components for export such as diodes, integrated circuit and capacitors. However, jewelry industry slowed down with regards to a higher cost of production and a slowdown of global demand.

3. Service. The impact of current political situation in conjunction with of low- tourism season resulted in a declining trend of service sector. However, seminar activities held by private and public organizations were a major factor supportive to this sector. This was partly reflected by key service indicators as follows. The VAT collected from hotels and restaurants rose by 6.9 percent year-on-year. Meanwhile, the average of hotel occupancy rate was at 51.2 percent, comparing to 51.7 percent in the same period last year. In addition, the average of hotel room rate was down by 2.0 percent year-on-year, caused by a strong business competition. The number of air passengers significantly dropped by 14.9 percent year-on-year.

4. Private Consumption. Private consumption declined from the same period last year on account of a caution in consumers' spending. Development of key private consumption indicators as follows. The VAT collected from businesses decreased by 9.2 percent year-on-year, due mainly to a continual downward adjustment in VAT collection from manufacturing industry. The number of registered cars decreased by 27.2 percent year-on-year, whereas the number of registered motorcycle increased by 4.5 year-on-year, particularly in provinces of the lower northern region, as a result of higher farm income together with a launch of new car model responding to the target. In addition, the household electrical usage in July 2008 rose by 2.4 percent year-on-year.

5. Private Investment. The Private investment was in a decline, resulting from current political situations leading to deterioration of investors' confidence. The key private investment indicators confirmed a downward trend as follows. Comparing to the same period last year, the sales of construction-related materials fell, corresponding with a slowdown in construction sector. Meanwhile, the amount of land transaction fees decreased at a rate of 11.4 percent year-on-year, partly owing to the government measure to reduce fees on land transaction. Nevertheless, the number of square meters of construction areas permitted in municipal zones increased by 8.8 percent year-on-year. This was attributed to an expansion of household and commercial building construction areas permitted in Chiang Mai and Chiang Rai provinces. As for capital investment, the value of BOI's approved projects totaled 40.0 million baht, particularly in the areas of service and public utility.

6. Foreign Trade. In August 2008, foreign trade passed through custom houses in the northern region continued to expand. **The export value** rose by 14.0 percent to 251.9 million US dollars, as a consequence of an increased manufacturing export of 24.9 percent, notably a continual increased export of electronic components from the previous month such as electrical circuits and computer parts. Additionally, auto parts export, particularly to Indonesia also expanded well. In contrast, jewelry export slowed down from the previous month. As for the border trade, export value kept increasing by 32.2 percent from the previous month to 77.5 million US dollars with an expansion of border export to Myanmar and Laos of 57.4 percent and 7.2 percent, respectively. However, border export to the southern china continued to fall by 57.4 percent from last month, resulting from decreased exports of dried longan, palm oil and rubber smoked sheets.

Import value dropped by 13.8 percent to 117.6 million US dollars, following a decreased import of raw materials, notably rough diamond for cutting and glass materials, of 21.8 percent. Meanwhile, the import of electronic components slightly declined. In addition, import of capital goods continued to fell from the previous month. This was due to a decline of electrical machinery parts import this month, in conjunction with the base effect resulting from high-value import of science equipment in the same period last year. As for border trade, import value passed through border customs houses increased by 31.0 percent to 7.9 million US dollars, with imports from Myanmar, southern China, and Lao PDR, rising by 7.5 percent, 35.6 percent, and 67.0 percent, respectively. The increase came mainly from imports of fresh vegetables, fruit and maize products.

The trade balance registered a surplus of 134.2 million US dollars, increasing from the same period last year and the previous month with a surplus of 81.6 million US dollars and 89.2 million US dollars, respectively.

7. Government Spending. The budgetary disbursement through provincial treasury offices in the northern region totaled to 10,879.6 million Baht, declining by 8.0 year-on-year. The capital expenditure dropped by 31.2 percent as a land/building expenses fell by 31.3 percent as a result of a continual disbursement accelerated in the earlier period. Meanwhile, the current expenditure slightly increased by 0.8 percent, following an increase of salaries and wages category, owing to the adjustment of salary base for government officers at all levels, effective from October 2007. However, the current expenditure in categories of remuneration, supplies and materials, public utilities and other expenses fell.

8. Prices. The Headline Consumer Price Index grew by 7.7 percent year-on-year, decelerating from the previous month's rate of 10.7 percent. This was attributable to a slowdown in non-food and non-beverage prices, including vehicle, transportation and communication categories. Meanwhile, the food and beverage prices increased by 16.4 percent as prices of rice, meat and vegetables and fruits rose by 21.3 percent, 15.2 percent and 18.1 percent, respectively. **The Core Consumer Price Index** rose by 3.5 percent year-on-year, decreasing compared to the previous month's rate of 4.3 percent.

9. Labor. According to the Labor Force Survey by the National Statistical Office, northern labor force totaled 7.042 million at end-July 2008. Of this, the number of employed persons stood at 6.94 million and accounted for 98.6 percent of the labor force, which was a rate close to that of the same period last year. Agricultural employment increased by 2.7 percent, due to the seasonal flow of labor to agricultural sector. Meanwhile, non-agricultural employment also rose by 3.8 percent as more hiring from sectors of construction, hotel and restaurants and wholesale and retail trade, which grew by 7.2 percent, 2.8 percent, and 2.3 percent, respectively. Unemployed persons totaled 0.09 million and accounted for 1.3 percent of the labor force, remained comparable to the same month last year.

In August 2008, the number of insured person, according to the section 33, was 0.599 million, slightly decreasing by 0.1 percent year-on-year.

10. Banking. At end-July 2008, the deposit outstanding of commercial banks amounted to 351,495 million Baht, increasing by 2.3 percent year-on-year but slowing down from the preceding month. This was partly caused by a withdrawal of fund by official authorities as well as by others to purchase promissory notes and mutual fund, which generate higher returns. However, the decline in deposits was observed in provinces of Chiang Mai, Chiang Rai and Nakorn Sawan. As for lending, the credit outstanding of commercial banks expanded by 8.5 percent to 300,775 million Baht, due mainly to credit expansion of processed agricultural manufacturing, particularly in provinces of Chiang Mai, Lamphun and Chiang Rai. However, the large decline of credit, notably in Nakorn Sawan, Phetchabun and Phichit provinces, mostly resulted from loan payment in sectors of agricultural crop trading and rice mill. The ratio of credit to deposit was at 85.6 percent, up from 80.7 percent in the same period last year.

Bank of Thailand, Northern Region Office
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Contact Person : Varintorn chaivivat
Tel 0 5393 1145
E-mail: varintot@bot.or.th