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Northern Region Economy in December 2008 and in the Year 2008

In December 2008, the northern region economy continued to slowdown from the previous month. Farm income grew at the rate close to last month's as the agricultural price increased on account of the government's rice pledging scheme. Private consumption decelerated, while government spending rose, especially current spending. However, manufacturing production contracted markedly as the production of electronics industry dropped in light of the global economic slowdown. In the service sector, the number of foreign tourists decreased as tourism demand slowed under decelerating world economy. Private investment was stable from the previous month but signs of improvement were observed in both construction and capital investments. On the external front, export and import values continued to fall from the previous month. Inflation decelerated owing to decreases in oil prices and the government's measure to alleviate the burden of the rising cost of living. At end-November 2008, commercial bank deposit outstanding accelerated from the previous month, while credit outstanding moderated for the second consecutive month.

In 2008, the northern region economy expanded from last year. Farm income grew as both the agricultural price and the quantity rose. Meanwhile, manufacturing production expanded due to an increase in export-oriented production, particularly in the first half of the year. Both export and import values expanded well. Private consumption was stable as consumers became more cautious on spending, while the service sector declined under unfavorable conditions, namely persistent rises in oil prices in the first half of the year and domestic political uncertainty. In addition, private investment continued to decrease, especially construction, due to weak investor confidence. Government spending declined as capital expenditure dropped. Inflation increased, mainly owing to a hike in prices of food and beverages. At end-November 2008, commercial bank deposit, and credit outstandings continued to expand.

Details of economic conditions in December 2008 and in the year 2008 were as follows:

1. Agriculture. In December 2008, farm income expanded by 29 percent due mainly to increases in both price and production of major rice paddy. The major crop price index was up by 25.6 percent, contributed primarily by a 44.1 percent rise of the price of major rice paddy as a result of high pledging price, and an increase of the price of industrial sugar cane. The prices of glutinous rice paddy, and cassava, on the contrary, dropped by 16.7 percent, and 34.2 percent, respectively. As for the agricultural production, the major crop production index was up by 3.4 percent, owing to increases in outputs of major rice paddy, and cassava by 3.3 percent, and 13.2 percent, respectively, as high prices in the beginning of the year encouraged more production, and crop yield per Rai increased under favorable weather conditions. On the contrary, the output of the industrial sugar cane fell by 4.7 percent, resulting from decreased cane plating area prompted by the discouraging price in the previous crop year and higher costs of production.

In 2008, farm income rose by 42.3 percent, accelerating from 11.4 percent last year. The major crop price index was up by 33.1 percent because of significant acceleration in the prices of several major crops in line with global market prices during the beginning of the year. The prices of major rice paddy, second rice paddy, maize, industrial sugarcane, and cassava, increased by 72.3 percent, 95.6 percent, 10.8 percent, 12.4 percent, and 33.2 percent, respectively. However, the price of glutinous rice paddy dropped by 19.9 percent in light of last year's high base effect caused by risen demand for glutinous rice for the production of sake liquors and food prior to the Beijing 2008

Olympic Games. The major crop production index was up by 9.2 percent, contributed by increases in outputs of major rice paddy, second rice paddy, maize, and industrial sugar cane by 3.3 percent, 32.5 percent, 1.6 percent, and 8 percent, respectively, as high prices encouraged more production and crop yield per Rai increased under favorable weather conditions. However, crop yield per Rai of longan crop, and shallot dropped markedly as last year's discouraging prices resulted in poorer crop maintenance. In addition, the output of cassava fell by 2.3 percent as farmers switched to plant other crops such as industrial sugar cane, and maize.

2. Manufacturing. In December 2008, manufacturing production declined for the fourth consecutive month. The northern region's Manufacturing Production (MPI) was down by 24.1 percent, compared with a decline of 23 percent last month, largely as a result of a 33.9 percent contraction of electronics production and a 21.4 percent contraction of food production. In the electronics industry, output of every electronic products declined, for instance electric motors, and electronic components, as trade orders from trading countries decreased in light of the global economic slowdown. Meanwhile, the production of food industry dropped, pulled down by a decline in dried longan export production and the output of sugar that fell by 9.5 percent as planting area decreased and most sugar mills delayed cane crushing. The output of table ware ceramic products contracted by 1.6 percent, improving from last month, while the diamond cutting industry reported a significant decline in production as world demand shrank. However, the output of beverage industry expanded by 39.6 percent, mainly due to a significant increase in production of alcoholic beverages.

In 2008, manufacturing production expanded. The northern region's MPI was up by 1.3 percent, compared with 0.4 percent last year. In the electronics industry, the output increased by 2.3 percent as production of electric motors and electronic components such as diodes, capacitors, and integrated circuits, rose in the first half of the year before declining during year-end period as a result of world economic crisis. Meanwhile, the output of table ware ceramic products grew by 26.6 percent due to increased market share in Europe. The output of zinc grew by 6.3 percent in line with a favorable expansion in export. On the contrary, the output of food industry and beverage industry declined by 1.9 percent and 7.6 percent, respectively, as the production of dried longan and alcoholic beverages dropped. In light of weakened construction activities both in private and public sectors, the output of construction-related materials declined. The output of apparel industry contracted due to higher costs and tight competition. The output of diamond cutting industry declined markedly in the second half of the year as a result of a softening in global demand.

3. Service. In December 2008, the service sector trended downward as a result of tourists' concerns over Thailand's political situation and the global economic slowdown. This was reflected by a decline in all key service indicators. The number of air passengers continued to contract by 32 percent, with every airport in the northern region reporting a decline. In addition, the amount of Value Added Tax (VAT) collected from hotels and restaurants decreased by 33.2 percent, while the average of hotel occupancy rates was at 73.9 percent, down from 76 percent in the same month last year, and the average of hotel room rates declined by 1.1 percent due to intense price competition and the government's tourism pricing policy, aiming to promote tourism activities.

In 2008, the service sector contracted from last year, mainly owing to Thailand's political uncertainty, increased travel costs caused by high oil prices in the first half of the year, and the global economic slowdown that became more pronounced in the second half of the year. Developments of key service indicators were as follows. The number of air passengers decreased by 7.7 percent, the amount of VAT collected from hotels and restaurants fell slightly by 0.8 percent, the average of hotel occupancy rates was at 51.9 percent, compared with 53.7 percent last year, and the average of hotel room rates increased slightly by 0.3 percent due in part to newly-opened pricey hotels, particularly in Chiang Mai province.

4. Private consumption. In December 2008, private consumption expanded slightly in light of decreasing oil prices and the government's stimulus measures. Developments of key private

consumption indicators were as follows. The amount of VAT collected from all types of businesses increased by 1.9 percent, slowing down from 9.8 percent last month, whereas the favorable high farm income drove the number of registered motorcycles up by 13.6 percent, accelerating from 3.4 percent in the previous month, particularly in the lower northern region. Meanwhile, the number of registered cars declined slightly by 0.1 percent, but improved from the previous month due to an increase in registered passenger cars.

In 2008, private consumption expanded close to last year as consumers were more cautious on spending given increased costs of merchandise and services following persistent rise in oil prices in the beginning of the year. Developments of key private consumption indicators were as follows. The number of registered motorcycles increased by 8.5 percent as a result of consumers' changing behavior prompted by high oil prices, and increased farm income, especially in the lower northern region. The number of registered cars increased slightly by 0.2 percent, compared with a contraction in last year, while the amount of VAT collected from all types of businesses contracted by 2.4 percent from last year.

5. Private Investment. In December 2008, private investment continued to decline from the previous month, reflected by a continued decline in the sales of construction-related materials. However, a sign of improvement for construction remained. The square meters of construction areas permitted in municipal zone rose by 50.2 percent, noting increased investment interest in constructing residential buildings and commercial buildings. Meanwhile, the amount of land transaction fee dropped by 34.6 percent, but this was largely a result of the reduction in the fee rates under the tax measures aiming to stimulate the real estate sector. The outlook for capital investment remained favorable. The investment value of BOI's approved projects continued to expand with the amount of 2,271 million baht. Most of the approved projects were in the businesses of providing services and public services, and manufacturing of agriculture and agricultural products.

In 2008, private investment continued to decrease from last year as investors' confidence eroded by a weakening economic conditions and increased costs in the first half of the year. The sales of construction-related materials declined from the previous month. However, the square meters of construction areas permitted in municipal zone, indicating future construction activities, expanded by 9.5 percent, compared with a fall of 5.6 percent last year. Meanwhile, the investment value of BOI's approved projects, indicating future capital investment activities, increased by 17.2 percent to 9,244 million baht, with most of the approved projects being in the businesses of providing services and public services, and manufacturing of agriculture and agricultural products.

6. Foreign Trade. In December 2008, trade value recorded through customs houses in the northern region decreased. Export value recorded through customs houses in the northern region dropped by 27.9 percent to 189.3 million US dollars as the export of manufacturing products fell by 12 percent, particularly the exports of electronic components and cut diamonds following a significant decline in trade orders. The export of agricultural products dropped by 37.6 percent, weighted down by a decrease in the export of smoked rubber sheets. In addition, the export to bordered countries fell by 24 percent to 71.9 US million dollars, recording the first month of decline since April 2008, as the export to southern China decreased markedly by 75.8 percent. Nonetheless, border exports to Myanmar and Lao PDR continued to increase by 10.3 percent and 118.7 percent, respectively, contributed by exports of vegetable cooking oil, fuel oil, and smoked rubber sheets.

Import value recorded through customs houses in the northern region decreased by 14.4 percent to 104.5 million US dollars, as the import of raw materials and intermediate products dropped by 49.1 percent, particularly raw materials imports for electronics industry. Import products posting a decline included electronic components, unworked or simply sawn diamonds, and electrical machinery parts. However, the import from bordered countries grew at an accelerated rate of 45.7 percent to 13.4 million US dollars, with expansions of imports from Myanmar, Lao PDR, and southern China by 28.6 percent, 72.2 percent, and 55.9 percent, respectively. The trade balance

registered a surplus of 84.8 million US dollars, compared with a surplus of 140.6 million US dollars in December 2007, and a surplus of 91.7 million US dollars in November 2008.

In 2008, trade value recorded through customs houses in the northern region expanded by 4.5 percent to 4,426.8 million US dollars, compared with a decrease of 2.9 percent last year. Export value recorded through customs houses in the northern region increased by 3.7 percent to 2,798.9 million US dollars. In the first half of the year, the export value expanded well, contributed by a 13.2 percent increase in the export of manufacturing products, including integrated circuits, cut diamonds and jewelry, cameral lens, and fuel oil. However, the slowdown in trading countries' economies during year-end period resulted in a contraction of export value in the fourth quarter. Meanwhile, the export to bordered countries rose by 37.4 percent to 927 million US dollars, accelerating from the previous year. The export to Myanmar grew by 59.1 percent to 757.3 million US dollars, as demand for consumer goods rose after the cyclone Nargis hit Myanmar's Irrawadee Delta in May 2008. The export to Lao PDR expanded by 68.6 percent to 59.6 million US dollars, whereas the export to southern China dropped by 32.7 percent to 110.1 million US dollars.

Import value recorded through customs houses in the northern region fell by 5.7 percent to 1,627.9 million US dollars, accelerating from the previous year as imports expanded well in the first half of the year. The import of consumer goods rose by 19.5 percent as imports of vegetables and fruits increased. During year-end period the imports of raw materials and intermediate goods, and capital goods, declined by 1.2 percent and 3.7 percent, respectively, responding to slowdowns in domestic demand and export demand. In 2008, major import goods included raw materials for producing electronic components, and unworked or simply sawn diamonds and jewellery. The import markets recorded significant expansions included Japan, Malaysia, and China. The import from bordered countries increased by 13.6 percent to 114.3 million US dollars, accelerating from last year as imports from southern China, and Lao PDR grew by 41.3 percent, and 15.8 percent, respectively, whereas the import from Myanmar decreased by 2.5 percent. The trade balance registered a surplus of 1,171 million US dollars, increasing from a surplus of 1,157.8 million US dollars in 2007.

7. Government Spending. In December 2008, government spending disbursed from provincial treasury offices in the northern region increased by 5.8 percent to 11,240.4 million baht, contributed by an increase of 9.6 percent of current expenditure, following an increase in general subsidies classified as current expenditure, and rises in operating expenses and other expenses. On the contrary, capital expenditure dropped by 8.4 percent to 2,065.4 million baht as spending for land and building declined by 10.2 percent.

In 2008, government spending disbursed from provincial treasury offices in the northern region declined by 4.1 percent to 149,408 million baht, compared with an increase of 18.8 percent last year. The decline was due to adverse effects of Thailand's political instability and higher costs in the first half of the year, discouraging auction bidding for public construction projects. As a result, capital expenditure decreased by 18.9 percent, compared with an increase of 44.3 percent last year, particularly in spending for land and building, and general subsidies for investment and equipments spending. However, current expenditure grew by 4.2 percent, owing to an increase in salaries expenses of 0.8 percent and a rise in general subsidies of 44.9 percent.

8. Prices. In December 2008, the Headline Consumer Price Index (Headline CPI) increased by 0.8 percent, decelerating from 2.6 percent in the previous month due to declines in oil prices and the government's measures. As a result, the non food price index was down by 8.7 percent, contributed by a decline of 9.5 percent of the price of housing and furnishing, and a decline of 14.7 percent of the price of transportation and communication. The food price index was up by 16.7 percent, contributed by higher prices of rice, starch, starch products, meats, and vegetables and fruits. The Core Consumer Price Index (Core CPI) grew by 3 percent close to last month.

In 2008, the Headline CPI rose by 6.6 percent, accelerating from 2.3 percent last year. The food price index and the non food price index grew by 14.2 percent, and 2.0 percent, respectively, experiencing significant increases in the first half of the year as oil prices rose in line with world market crude oil prices, and then continued declines in the second half of the year after domestic oil prices decreased in light of the global economic crisis and the positive effect of the government's measures. The Core CPI increased by 2.7 percent, accelerating from 0.6 percent in the previous year.

9. Labor. According to the Labor Force Survey conducted by the National Statistical Office, the northern labor force totaled 7 million at end-November 2008. Of which, 6.9 million were employed, increasing by 5.5 percent from at end-November 2007. Employment of agricultural sector rose by 4.7 percent, responding to increased labor demand during the agricultural season, while employment of non-agricultural sector grew by 6.4 percent due to an increase in employment of construction sector and hotels and restaurants sector. The unemployment rate was at 1.1 percent, nearly the same rate as at end-November 2007's. In December 2008, the number of insured person under section 33 of the social security system declined by 1.1 percent to 592,663 persons, recording the third consecutive month of decline, while the number of insured person under section 39 increased by 28.5 percent to 71,725 persons.

10. Banking. At end-November 2008, commercial bank deposit outstanding increased by 6.6 percent to 366,499 million baht, accelerating from last month due to an increase in deposits of authorities and commercial banks' intense deposit mobilization. As a result, the fixed deposit outstanding grew by 14.8 percent, especially in Chiang Mai, Chiang Rai, Lamphun, Phitsanulok, and Nakhon Sawan. As for lending, commercial bank credit outstanding increased by 6.7 percent to 303,914 million baht, decelerating for the second consecutive month as a result of slowdowns in credits extended to crop traders, leasing businesses, and savings cooperatives, and a slowdown in personal loans. Provinces recording significant increases in credits included Chiang Rai, Nakhon Sawan, Chiang Mai, and Phrae. The ratio of credit to deposit was at 83 percent, compared with 82.8 percent at end-November 2007.

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