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## Northern Region Economy in July 2008

In July 2008, northern region economy slowed down from the previous month. **On the supply side**, farm income remained strong growth. The manufacturing production grew as a result of an accelerated increase of export-oriented production, whereas a domestic-oriented production declined. The service sector slowed down seasonally. **On the demand side**, overall private consumption substantially decelerated. Nonetheless, the number of registered motorcycle significantly increased, corresponding with farm income. The Headline Consumer Price Index accelerated following the energy and food price. Meanwhile, government spending as well as export and import expanded well. As for banking sector, both deposit and credit outstanding of commercial banks kept rising.

Details of the economic conditions are as follows:

**1. Agriculture.** *Farm income* from major crops maintained its high expansion. It increased by 65.5 percent year-on-year, decelerating from the preceding month in both price and production. The *major crop price index* rose by 63.3 percent as prices of second crop rice paddy and maize increased by 97.5 percent and 45.3 percent in line with the world market price. Meanwhile, the price of longan also rose by 50.0 percent, driven by increased export demand while its supply declined. As for the agricultural production, the *major crop production index* slightly improved by 2.2 percent from an increased production of second rice paddy, mungbean and maize by 32.5 percent, 1.1 percent and 2.7 percent, respectively as a result of high price which encouraged farmers to increase their production. However, the unfavorable weather condition during blooming and bearing period coupled with a low price last year which was unattractive for farmers to expand their production led to a decrease in longan production of 4.4 percent.

**2. Manufacturing.** *Manufacturing production index* (MPI) grew by 9.5 year-on-year as the production of electronic parts rose by 12.8 percent. This was attributable to the increased production of transistor, diodes, integrated circuits and capacitors in response to a strengthened external demand in order to use as components in mobile phone, television set, electronic appliances production as well as parts of sensor equipment and car's navigator screen. Similarly, production of processed agricultural products increased by 8.2 percent, close to that of the previous month, resulting from the production of processed frozen/dried fresh vegetables. Meanwhile, new market expansion in European countries also benefited to ceramic production, particularly tableware products. Nonetheless, jewelry industry slowed down following global demand. Furthermore, beverage manufacturing continued to fall from the previous month by 41.0 percent owing mainly to a strong competition leading to a market share.

**3. Service.** The service sector decelerated seasonally. Rising oil price continually affected to a caution of Thai tourists' spending. Nonetheless, seminar activities organized by domestic private and public sectors as well as foreign organizations helped to boost service activities, particularly in major provinces in the lower northern region. Development of key services indicators are as follows. The VAT collected from hotels and restaurants rose by 1.1 percent, slowing down from the previous month. The average of hotel occupancy rate was at 43.3 percent, falling from 44.2 percent in the preceding month. Meanwhile, the average of hotel room rate was up only by 2.5 percent with regard to an off-season discount hotel room rate slightly lowered than previous year because of the heightened operating costs. In addition, the number of air passengers significantly dropped by 8.7 percent, especially in Chiang Rai, Mae Hong Son, Pitsanulok and Chiang Mai provinces as availability flights offered by some airlines decreased associated with surging oil price.

**4. Private Consumption.** Private consumption declined from the same month last year on account of a caution in consumers' spending. The contraction was reflected by the key private consumption indicators as follows. The VAT collected from businesses decreased by 9.9 percent, partly due to a continual decrease of the VAT collection from beverage industries. Meanwhile, the number of registered cars and household electrical usage in June fell by 8.9 percent and 1.7 percent year-on-year, respectively. Nonetheless, the number of registered motorcycles increased by 25.3 year-on-year in light of higher farm income and an adjustment of consumer behavior traveling by motorcycles instead of cars.

**5. Private Investment.** The Private investment continued on a downward trend. However, the investors' interest in investment pointed toward a sign of improvement. The slowdown was reflected by key private investment indicators as follows. The sales of construction materials dropped by 31.4, year-on-year as a result of price increases as well as construction investment softened in conjunction with importing strictness of construction-related products posted by Myanmar. Meanwhile, the amount of land transaction fees grew at 11.4 percent year-on-year, compared with a decrease of 21.6 percent last month. Similarly, permitted construction areas in municipal zones increased by 7.6 percent year-on-year, improving from the previous month's contraction of 6.2 percent. This was attributed to the expansion of service and transportation construction areas permitted in major provinces. As for capital investment, the value of BOI's approved projects totaled 127.0 million baht, particularly expanding in the categories of agriculture and agricultural products as well as service and infrastructure.

**6. Foreign Trade.** In July, the *export value* passed through all custom houses in the northern region continued to expand from the preceding month by 37.0 percent to 242.6 million US dollars. Details of major export items are as followed. Manufacturing products grew well by 24.9 as result of an increased export of electronic parts, jewelry to the United Arab Emirates as well as auto parts, notably motorcycle parts. However, the export of cut diamond decelerated from last month. As for the border trade, overall trade value increased by 49.5 percent to 78.4 million US dollars. Exports to Myanmar increased by 79.1 percent and to Laos more than doubled with an expansion of major export items such as cooking vegetables oil and not-in-canned prepared food, whereas export to the southern china dropped by 42.0 percent owing to export of rubber smoked sheets.

*Import value* also expanded by 25.9 percent to 154.3 million US dollars with an increased import of raw materials and intermediate goods of 16.1 percent and 13.3 percent, respectively. The raw material expansion came mainly from diamond, jewelry and electronic parts. Nonetheless, import of capital goods declined by 13.8, particularly in categories of electrical machinery components and computer parts used in electronic industry. Import from neighboring countries grew at 24.9 percent, totaling 10.6 million US dollars as import from the southern China rose by 91.7 percent and Lao PDR increased more than double due to imports of agricultural product and lignite, whereas import from Myanmar dropped by 29.1 percent.

The *trade balance* registered a surplus of 88.4 million US dollars, increasing from a surplus of 54.5 million US dollars in the same period last year, though decreasing from the previous month with a surplus of 121.4 million US dollars.

**7. Government Spending.** The budgetary disbursement totaled 11,672.5 million baht, slightly up by 0.1 percent year-on-year. The current expenditure rose by 6.5 due to the adjustment of salary base for government officers at all levels, effective from October, 2007. Meanwhile, the capital expenditure declined by 13.4 percent, particularly land and building expenses as a result of continuously accelerated disbursement made to various projects in the previous year, namely reservoir/weir construction projects, an improvement of fresh water swamp and the Kaew Noi Dam in Pitsanulok province projects, Highway and local road construction and resurfacing projects.

**8. Prices.** The *Headline Consumer Price Index in the northern region* increased year-on-year with an accelerated rate of 10.7 percent. This was due to price increases in both of food and beverages and non-food and beverages categories with a rate of 14.2 percent and 8.5 percent, respectively. The risen prices were in categories of rice, flour and flour product, meat poultry and fish together with vehicles transportation and communication, which were up by 27.4 percent, 15.9 percent and 20.3, respectively.

The *Core Consumer Price Index* increased by 4.3 percent, compared to an increase of 4.1 percent in the preceding month.

**9. Labor.** According to the survey by the National Statistical Office, in June 2008, northern labor force totaled 6.642 million. Of this, 6.578 million were employed and accounted for 99.0 percent of the labor force, higher from 98.5 percent in the same period last year. This was in line with the rise of non-agricultural employment of 7.5 percent as hiring from sectors of hotel and restaurant as well as wholesale and retail trade at an increased rate of 14.6 percent and 12.4 percent, respectively. Meanwhile, agricultural employment dropped by 9.5 percent. The number of unemployed person totaled 0.06 million and accounted for 0.9 percent of the labor force, lower from 1.1 percent compared to the same period last year.

**In July, 2008,** the number of insured persons, according to the Section 33, was 0.598 million, increasing by 0.2 percent year-on-year.

**10. Banking.** At end-June 2008, the *deposit outstanding of commercial banks* amounted to 356,061 million baht, increasing by 2.8 percent year-on-year but decelerating from the previous month. The decrease was partly due to deposit withdrawals to higher return investment. However, fixed deposit, which accounted for 50 percent of total deposit, rose by 4.3 percent as a result of an intense competition among commercial banks for mobilizing fund, particularly in Chiang Mai, Chiang Rai and Pitsanulok provinces. As for lending, the *credit outstanding* considerably expanded by 7.9 percent to 302,118 million baht. The personal loan significantly increased by 25.5, owing mainly to a purchasing and leasing of motorcycles/cars as well as other personal loan in provinces of Chiang Mai, Pitsanulok, Petchaboon and Utaradit. Additionally, the wholesale and retail trade credit also grew at 5.4 percent, while demand for credit in sectors of construction, hotel and manufacturing declined by 11.6 percent, 4.6 percent and 0.5 percent, respectively. As a result, the ratio of credit to deposit was at 84.9 percent, rising from 80.9 percent in the same period last year.

Bank of Thailand, Northern Region Office  
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Contact Person: Varintorn Chaivivat  
Tel: +66 (0) 5393-1145  
e-mail: varintot@bot.or.th