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Northern Region Economy in June 2008 and the First Half of 2008

In June 2008, northern region economy expanded from the same month last year. **On the supply side**, farm income accelerated due mainly to increased production and price of second crop rice paddy. Manufacturing production grew at a slower pace in both export-oriented and domestically-consumed production, while services sector slowed down seasonally. **On the demand side**, private consumption accelerated from the previous month even though consumers were still careful with their spending, while private investment continued to decline. Government spending and exports were in acceleration, while imports slightly declined. The Headline Consumer Price Index grew at a higher rate owing to increased price in oil and food. The commercial bank deposits and credits expanded.

In the first half of 2008, northern region economy continued to expand. **On the supply side**, farm income accelerated due mainly to increased major crops price. Manufacturing production increased markedly, driven by foreign market demand, while services sector declined as a result of political concern and rising oil price. **On the demand side**, the private consumption and private investment slightly increased from the same period last year. Government spending expanded about the same rate compare to the same period last year. On the external front, exports and imports performed well. The Headline Consumer Price Index accelerated mainly because of the price of oil and food. The commercial bank deposits and credits kept rising.

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

1. Agriculture. In June 2008, farm income continued to increase from the previous month at the rate of 98.3 percent due to the significantly rising in both price and production of second crop rice paddy. The **major crop price index** was up by 85.2 percent due to prices of second crop rice paddy which increased by 91.1 percent, partly benefiting from the government's rice pledging scheme. In addition, prices of other major crops such as maize, lychee, shallot, and pineapple also rose. As for agricultural production, the **major crop production index** grew by 13.1 percent due to an increase in production of second crop rice paddy, maize, mungbeans, and pineapple. Last year's prices encouraged farmers to increase production and this year's favorable weather conditions led to higher crop yields.

In the first half of 2008, farm income rose at an accelerated rate of 51.5 percent compared to 6.1 percent of the same period last year. **Major crop price** grew by 43.8 percent from the increased prices of second crop rice paddy, cassava, major rice, soybeans, and maize, which increased by 99.4 percent, 87.1 percent, 70.9 percent, 71.2 percent, and 15.4 percent, respectively. Furthermore, industrial sugarcane price increased by 9.1 percent due to the adjustment in setting up higher floor of preliminary sugarcane price. In light of a supply shortage, shallot and lychee soared up to 178.2 percent, and 63.0 percent respectively, compared to those of the previous year. As for agricultural production, **major crop production** rose by 7.7 percent from the same period last year. The production of second crop rice paddy, industrial sugarcane and major rice increased by 32.5 percent, 8.0 percent, and 2.4 percent, respectively. The acceleration in prices of these major crops was due to high market demand, which encouraged farmers to expand their cultivated area. Not only farmers took better care of their crops but also favorable weather attributed to higher yield per rai. Nonetheless, the production of cassava, shallot, and lychee decreased by 2.0 percent, 11.4 percent, and 23.2 percent, respectively.

2. Manufacturing. In June 2008, Manufacturing Production Index (MPI) expanded by 2.5 percent, slowed down from 9.4 percent in the previous month, caused by a decrease in export-oriented and domestically-consumed production. Electronics manufacturing slowed down due to a decreased foreign demand for electronic components such as hard disk drives, ICs, and diodes. Production of processed agricultural products dropped as a result of decreased circulation of frozen and dried vegetable in Japanese and American market. Meanwhile, beverages production, including alcohol, soda and soft drink, continued to fall by 30.8 percent, and production of construction-related materials dropped by 17.8 percent since construction investment softened. However, ceramics and jewelry production increased by 18.8 percent and 63.7 percent, respectively.

In the first half of 2008, manufacturing production increased. MPI increased by 8.9 percent in light of a continual growth of major manufacturing. Electronics production rose by 7.9 percent, contributed by an increased production of motor and electrical appliance components exported to Singapore, and an increased production of electronic components such as ICs, diodes, and capacitors in electronic continuous production in China. Meanwhile, production of processed agricultural products rose as frozen fresh and dried vegetable, preserved vegetable, and sweet corns expanded well. Sugar production continued to increase as a result of higher cultivated sugarcane product than last year. Ceramic production grew, as driven by an expanded market in Europe. Jewelry production expanded well, but was decelerated during the second quarter. Beverages manufacturing decreased by 13.3 percent because of loss in market share to competitors, while textile manufacturing continued to drop from the end of previous year due to higher cost of production and higher competition.

3. Services. In June 2008, the service sector slowed down seasonally, as some foreign tourist groups were sensitive to Thailand current political situations and Thai tourists were careful with their spending due to the high oil prices. Nonetheless, seminar activities organized by foreign organizations, and domestic private and public sectors boosted service activities. Development of keys services indicators are as follows. The amount of Value Added Tax (VAT) collected from hotel and restaurant business rose by 9.4 percent. The hotel average occupancy rate moderately increased from 36.6 percent to 37.2 percent, while the hotel average room rate rose by 1.6 percent. However, the number of air passengers decreased slightly by 0.5 percent, mostly in Phit Sa Nu Lok, Mae Hong Son, and Chiang Mai. This was partly because some airlines had to decrease flights due to the cost of record-high oil prices.

In the first half of 2008, the Northern service sector slowed down from the same period last year. In the first quarter, tourism was not affected by the heavy haze, so the services expanded well compared to the same period last year. Various sales promotion helped boosting the sector. However in the second quarter, the service sector slightly dropped since Thai tourists were affected by political uncertainties and skyrocketing oil prices. Nonetheless, as a result of seminar activities continuously organized by foreign organizations, and domestic private and public sectors, the amount of Value Added Tax (VAT) collected from hotel and restaurant business increased by 5.7 percent. The number of air passenger rose by 7.2 percent. The hotel average room rate was up by 0.6 percent, where as the hotel average occupancy rate moderately decreased from 52.8 percent last year to 51.6 percent, due partly to an increase in the amount of hotel rooms in major northern provinces.

4. Private Consumption. In June 2008, private consumption improved from the previous month, due to increased farm income especially in lower northern region. The VAT collecting improved from the same period last year by 2.7 percent, compared to the decrease of 5.1 percent in the previous month, as the VAT collected from retail trade, department stores, and motorcycle sales increased. In addition, numbers of registered automobiles, comprising passenger car especially for the E20-capable passenger cars and commercial car, grew by 4.4 percent. Numbers of registered motorcycles increased by 4.5 percent, partly because of increased farm income, particularly in Pichit, Kamphaeng Phet, and Sukho Thai and changing in consumers' behavior to use motorcycles instead of cars due to the high oil prices. In addition, the promotions boost their sales.

In the first half of 2008, overall private consumption expanded at a slower pace from the same period last year. Development of keys private consumption indicators are as follows. The numbers of registered automobiles rose by 8.0 percent from the same period last year, mostly from increased personal cars, in particular, the E20-capable passenger cars. Numbers of registered motorcycles increased by 1.8 percent from the same period last year because of several reasons: increased farm income, sales promotion, and change in consumers' behavior to use motorcycles as their second vehicle and to avoid an increased fare of public transportation. The VAT collecting dropped by 2.5 percent, compared to an increase of 5.6 percent last year. However, the VAT collected from retail trade increased by 6.9 percent from the same period last year, as a result of sales promotion.

5. Private Investment. In June 2008, private investment continued to drop, reflected by a 6.2 percent decrease in number of square meters of construction areas permitted in municipal zone, particularly residential area and services. Sales of construction related materials decreased due to an increase in prices. The amount of land transaction fees rose by 21.6 percent, compared to a rise of 13.6 percent in the previous month. In addition, the value of BOI's approved projects, a sign for capital investment, rose by 17.8 percent from the same period last year. The projects approved were categorized as light industry, agriculture and agricultural products industry.

In the first half of 2008, private investment in the northern region slightly improved from the same period last year. The amount of land transaction fees increased by 20.5 percent, compared to a drop by 2.4 percent same period last year. Meanwhile, the square meters of construction areas permitted in municipal zone decreased by 0.2 percent, primarily in commercial and residential area. Nevertheless, the square meters of construction areas permitted for services expanded by 86.2, mostly in Chiang Rai. Sales of construction related materials decreased due to higher price level. The value of BOI's approved projects dropped by 47.5 percent from the same period last year; the decrease was shown in electronics industry, electrical appliance industry, agriculture and agricultural products industry.

6. Foreign Trade. In June 2008, export value continued to grow from the previous month at a rate of 37.9 percent with values totaling 260.5 million US dollar. The increase was mainly from exports of manufacturing products such as electronic components used in electrical appliance such as main board, ICs, as well as carburetors, which highly exported to Indonesia and China. Agricultural exports dropped by 36.9 percent, caused by a decrease in demand for frozen fresh and dried vegetable in the Japanese market. Meanwhile, exports to bordered countries expanded by 89.2 percent to 88.3 million US dollar because export to Myanmar was nearly doubled especially palm oil, cooking vegetable oil, fuel oil, and zinc. The export to Southern China and Lao PDR increased by 63.5 percent and 121.0 percent, respectively.

Import value rose by 14.5 percent to 139.2 million US dollar decelerating from 37.0 percent in the previous month, with imports of raw materials and intermediate goods slowed down. This drop followed decreased imports of electronic components, metal, and glass raw materials imported. In addition, import of capital good decreased by 10.6 percent due to decreased import of components of electrical machinery. Border import declined by 7.3 percent to 9.4 million US dollar. Import from Myanmar dropped by 41.5 percent due to increased imports of wooden products during the same month last year. Meanwhile, import value from Southern China was almost doubled, especially vegetable, and imports from Lao PDR increased by 18.7 percent.

Trade balance posted a surplus of 121.4 million US dollar, increasing from a surplus of 102.4 million US dollar in June 2007, and a surplus of 67.4 million US dollar in May 2008.

In the first half of 2008, value of trade passed through custom houses in the northern region grew well. **Export value** rose at a faster pace compared to the second half of last year. The increase was 17.1 percent, with export value totaling 1,446.6 million US dollar. The export value increased markedly during the second quarter, especially exports of electronic components and processed electrical main board, and export value of petroleum product extremely increased as well. These rise in export value led to an expansion of border trade during the first half of the year by 57.3 percent to 466.7 million US dollar. In particular, exports to Myanmar rose 70.6 percent to 391.1 million US dollar, mostly in May and June due to exports of zinc plate, construction-related materials, and fuel oil as a disaster aid. As for exports to Lao PDR, the export value increased 56.8 percent, while the exports to Southern China dropped 3.6 percent due to a decrease in exports of smoked rubber sheets.

Import grew by 18.8 percent to 880.3 million US dollar, at a faster pace compared to the 7.7 percent drop in the second half of last year. Import value grew well during the second quarter due to imports of raw materials and intermediate goods used in Northern Region Industrial Estate in Lamphun province such as electronic components, jewelry, and connectors. Border import increased 4.1 percent, because import from Lao PDE expanded by 44.4 percent due to increased imports of lignite and processed wood. In addition, imports from Southern China increased 16.8 percent, attributed by increasing import of vegetable, while imports from Myanmar decreased 19.1 percent, especially during the first quarter from a decrease of wooden products and fishery products.

Trade balance of the first half this year posted a surplus of 566.3, rising from a surplus of 494.4 million US dollar in the first half of 2007.

7. Government Spending. In June 2008, budgetary disbursement through provincial treasury offices in the northern region increased by 3.2 percent, from the same period last year, to 14,575.7 million Baht, with an increase in current expenditures of 7.7 percent, owing partly to the adjustment of the salary scale of public officers at all levels, effective from October 2007. The capital expenditures dropped by 3.3 percent, mostly in general subsidies, especially that of local administrative organizations, which dropped by 5.2 percent, and a decreased of land and building expense by 17.3 percent, because the spending had been continuously accelerated earlier.

In the first half of 2008, budgetary disbursement in the northern region was 84,676.7 million Baht, growing at the same rate as last year. The current expenditures grew 3.3 percent to 51,625.9 million Baht, slowing down from the same period last year which increased by 10.5 percent due to a drop in salary since during the same period last year, a lot of public officers (teachers) obtained their accreditation pay-back. The capital expenditures were 33,050.8 million Baht, dropping by 4.8 percent, especially in general subsidies to local administrative organizations, which decreased by 17.8 since the

delayed expenditure Budget Act was promulgated in 2007, leading to an accelerated disbursement during the same period last year.

8. Prices. In June 2008, the Headline Consumer Price Index (Headline CPI) grew at an accelerated rate of 10.5 percent, compared to 2.2 percent in June 2007. Noting accelerated prices were in non-food and non-beverage goods which increased 7.9 percent from the previous month and the same period last year due to rising oil prices. Meanwhile, prices of food and beverages grew by 14.7 percent, following the higher price of rice, flours, flour products, and meat.

The Core Consumer Price Index (Core CPI) grew by 4.1 percent from the same period last year, compared with 3.5 percent in the previous month, and 0.4 percent in the same period last year.

In the first half of 2008, the Headline Consumer Price Index (Headline CPI) increased by 7.6 percent from the same period last year, accelerating with prices of food and beverages, which grew by 11.8 percent due to the higher price of fruits and vegetable in the second quarter from a shortage in supply resulted from heavy rain. In addition, the prices of meat, rice, flours, and flour products also increased, as well as prices of non-food and non-beverage goods, which grew by 5.0 percent due primarily to rising oil prices.

The Core Consumer Price Index (Core CPI) grew by 2.0 percent from the same period last year, increasing from 0.4 percent of the second half of 2007.

9. Labor. According to the Labor Force Survey by the National Statistical Office, northern labor force totaled 6.636 million at end-May 2008. Of these, 6.475 million were employed and accounted for 97.6 percent of the labor force, compared with 97.3 percent at end - May 2007. Non agricultural employment grew by 4.8 percent as hiring by construction sectors and manufacturing, rose by 22.7 percent and 6.7 percent, respectively. On the other hand, agricultural employment dropped by 1.9 percent. The number of unemployed persons was 0.107 million, with the unemployment rate of 1.6 percent, improving from 1.9 percent at end-May 2007.

In June 2008, the number of insured persons, according to the Section 33, was 0.596 million, equaling that of the previous year.

10. Banking. At end-May 2008, the commercial bank deposit outstanding rose by 4.5 percent to 360,505 million Baht, decelerating from the previous month and the same period last year. As for lending, the commercial bank credit outstanding rose by 7.8 percent, to 298,893 million Baht mainly due to acceleration in personal loans. Significant expansion in credits included Chiang Mai, Chiang Rai, and Phitsanulok. The ratio of credit to deposit was at 82.9 percent, growing from 80.4 percent from the end-May 2007.

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