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## Northern Region Economy in May 2008

In May 2008, northern region economy expanded from the previous month and from the same month last year. **On the supply side**, farm income accelerated due mainly to increased production and price of second rice paddy. Manufacturing production grew at a slower pace from the previous month as production of electronic products decelerated, while the services sector slowed down seasonally. **On the demand side**, private consumption and private investment remained in deceleration but showed improvement in light of better farm income. On the external front, exports and imports expanded along with manufacturing production. Meanwhile, government spending declined after having been in acceleration consecutively in earlier periods. The Headline Consumer Price Index accelerated owing to increased price in food and beverage category. At end-April 2008, the commercial bank deposits and credits expanded.

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

**1. Agriculture.** Farm income increased at an accelerated rate of 98.4 percent due primarily to expansion in both price and production of second rice paddy. The major crop price index was up by 82.1 percent as prices of second rice paddy, maize, and soybean, increased by 126.4 percent, 22.1 percent, and 87.9 percent, respectively, driven by increased world market demand and prices. In addition, the price of lychee rose by 91.1 percent as its supply lessened significantly after unfavorable weather conditions affected flowering and bearing lychee trees. On the production side, the major crop production index expanded by 16.3 percent because of plant area expansion, farmers' improved crop maintenance, and better crop yields resulting from favorable weather conditions. Under these conditions, major crop production rose, particularly second rice paddy, soybean, mungbean, and pineapple.

**2. Manufacturing.** Manufacturing production expanded well by 8.6 percent but slowed down from 11.9 percent in the previous month. Production of electronic products grew by 6.4 percent, noting increased production of electronic components such as diodes, hard disk drive components, and integrated circuits. In addition, production of electrical appliances expanded at a decelerated rate from the previous month, and production of electric motors and generators declined as demand from China weakened. Meanwhile, production of processed agricultural products rose, contributed mainly by increased production of frozen fruit, frozen fresh vegetables, and dried vegetables. Furthermore, production of table ware ceramic products rose as a result of new market expansion, i.e. Germany. Nonetheless, production of beverages declined for the fifth consecutive month as northern producers' market share slipped in light of intense competition from producers outside the northern region.

**3. Service.** The services sector slowed down seasonally, as concerns over Thailand current political situations led to some foreign tourists' canceling trip to the northern region, especially Singaporeans, and Malaysians. Nonetheless, mid-size hotels still benefited from meeting and seminar activities organized by private and public sectors. Development of key services indicators are as follows. The amount of Value Added Tax (VAT) collecting from hotels and restaurants rose by 10.5 percent. The average of hotel occupancy rate increased slightly by 0.8 percent, while the average of hotel room rate rose by 2.3 percent, and the number of air passenger increased by 6.2 percent.

**4. Private Consumption.** Private consumption continued to slowdown but improved from the previous month due in part to increased farm income, particularly in the lower northern region, leading to consumption of durable goods as reflected by increased number of registered motorcycle. Developments of other key private consumption indicators are as follows. The VAT collecting from all types of businesses improved from the previous month as the VAT collecting from wholesale and retail trade businesses rose. Meanwhile, the number of registered cars, comprising passenger car and commercial car, grew by 4.8 percent, especially for the much-lower price E20-capable passenger cars.

**5. Private Investment.** Private investment improved slightly from the previous month. Development of key private investment indicators is as follows. The amount of land transaction fees rose by 13.6 percent, with most of the transactions being a land of over 1 Rai (1 Rai = 1,600 square meter), which was still subjected to the regular transaction fee of 2 percent, not the reduced fee rate introduced in recent tax measures aiming to stimulate the real estate sector. Nonetheless, the square meters of construction areas permitted in municipal zone, a sign for construction investment, decreased by 45 percent, with categories of residential area, commercial area, and services, declining, particularly in major provinces. The decrease was due primarily to increased prices of construction materials, especially iron. Meanwhile, investment value of BOI's approved projects, a sign of capital investment, dropped by 29 percent to 134.3 million Baht. The projects approved this month were projects in categories of light industry, electronics industry, electrical appliance industry, and machinery and equipment industry.

**6. Government Spending.** Budgetary disbursement through provincial treasury offices in the northern region decreased by 38.4 percent to 10,709.9 million Baht, as the capital expenditures, which had been accelerated earlier, dropped markedly by 72.7 percent. The drop in the capital expenditures, in turn, was due to a decrease in general subsidies, especially that of local administrative organizations in provinces of Chiang Rai, Lamphun, Nakhon Sawan, Kamphaeng Phet, and Sukhothai. Meanwhile, the current expenditures rose by 5.5 percent, as salary category, accounted for more than 60 percent of the current expenditures, rose by 6.4 percent owing partly to the adjustment of the salary scale of public officers at all levels, effective from October 2007.

**7. Foreign Trade.** Foreign trade passed through customs houses in the northern region continued to expand from the previous month. Export value rose by 24.1 percent to 273.9 million US dollars, contributed mainly by increased exports of manufacturing products, including electronic components, jewelry, and machinery parts. Meanwhile, exports to bordered countries expanded by 63.4 percent to 91.3 million US dollars, because exports to Myanmar nearly doubled, as demand for consumption goods, such as zinc, vegetable cooking oil, and fuel, increased after Myanmar's Irrawaddy delta had been hit by cyclone Narkis. In addition, border export to Lao PDR rose by 68 percent, contributed by exports of fuel and construction materials. However, border export to southern China posted decline for the second consecutive month, dropping by 33.7 percent as exports of smoked rubber sheets decreased.

Import value rose by 37 percent to 162.1 million US dollars, with imports of raw materials and intermediate goods increasing by 19.8 percent, especially unworked, or simply sawn diamonds, and electronic components. In addition, import of capital good rose by 11.8 percent due to increased import of glass and components of electrical machinery. Border import declined by 2.7 percent, as import from southern China, and Lao PDR, dropped by 24.2 percent, and 12.5 percent, respectively, noting declines in imports of cereals, animal feed, and articles of wood. Border import from Myanmar, on the other hand, rose by 29.6 percent, boosted by imports of furniture, and wooden products. The trade balance posted a surplus of 111.8 million US dollars, increasing from a surplus of 102.4 million US dollars in May 2007, and a surplus of 31.5 million US dollars in April 2008.

**8. Prices.** The Headline Consumer Price Index (Headline CPI) grew at an accelerated rate of 10.4 percent, noting acceleration in food and beverages prices, primarily. The food price index increased markedly by 18.8 percent, as the price of rice, starch, and starch products increased at an accelerated rate of 32.1 percent. In addition, the price of vegetables and fruits rose by 22.8 percent because plant areas were affected by heavy rain, while the price of meat, poultry, and seafood, increased by 18.4 percent. The non food price index also rose, rising by 5.4 percent, in light of persistent rises in fuel prices in the world market. The Core Consumer Price Index (Core CPI) grew by 3.5 percent, compared with 1.8 percent in the previous month.

**9. Labor.** According to the Labor Force Survey by the National Statistical Office, northern labor force totaled 6,649 thousand at end-April 2008. Of these, 6,486 thousand were employed and accounted for 97.5 percent of the labor force. Non agricultural employment grew by 6.2 percent as hiring by sectors of construction, wholesale and retail trade, and manufacturing, rose by 17.3 percent, 4.5 percent, and 0.8 percent, respectively. On the other hand, agricultural employment dropped by 5 percent. The number of unemployed persons was 100 thousand, with the unemployment rate of 1.5 percent, improving from 2.2 percent at-end April 2007. In May 2008, the number of insured person increased by 0.7 percent to 596 thousand.

**10. Banking.** At end-April 2008, the commercial bank deposit outstanding rose by 7.1 percent to 364,649 million Baht, accelerating from 5.2 percent at end-March 2008, as every northern province reported an increase in deposit amount, largely as a result of authorities' deposit funds. In the upper northern region, Chiang Mai, and Lampang provinces reported marked increase in deposits, while provinces of Nakhon

Sawan, and Kamphaeng Phet, in the lower northern region reported significant gains in deposits. As for lending, the commercial bank credit outstanding rose by 7.1 percent to 296,785 million Baht, with most of the credits being personal loans, and loans extended to savings cooperatives. Provinces reporting significant expansion in credits included Chiang Mai, Phitsanulok, Phrae, and Nakhon Sawan. The ratio of credit to deposit was at 81.4 percent, the same as at end-April 2007.

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