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Northern Region Economy in November 2008

In November 2008, the northern region economy continued to moderate from the previous month. Manufacturing production contracted, especially in export-oriented industries, in line with the global economic slowdown. The services sector declined largely a result of the domestic political situation. Meanwhile, private investment continued to decline but experienced some areas of improvement. On the external front, both export value and import value continued to decline from the previous month. However, farm income continued to expand as a result of the government's agriculture pledging scheme, which was a significant factor in shoring up private consumption in this month along with the rise in consumer purchasing power which benefited from the continued declines in oil prices and the government's economic stimulus measures. Notably farm income growth had been decelerating in line with the slowdown in global agriculture prices which is likely to dampen private consumption growth in the period ahead. Meanwhile, government spending slightly expanded. Inflation decelerated owing to continued declines in oil prices. At end-October 2008, commercial bank deposit outstanding and credit outstanding continued to expand.

Details of economic conditions in November 2008 were as follows:

1. Agriculture. Farm income grew by 33.8 percent, mainly attributable to price factors. The major crop price index grew by 29 percent owing to a rise in the price of major rice paddy of 53.9 percent largely as a result of the government's rice-pledging scheme. As for agricultural production, the major crop production index grew by 4.8 percent, driven by increases in outputs of major rice paddy, and maize by 3.3 percent, and 2.7 percent, respectively, as planting areas expanded and crop yield per Rai increased in light of favorable weather condition. However, the production of mungbeans decreased by 0.9 percent as some farmers switched to alternative crops. Overall farm income growth exhibited decelerating trend in tandem with the slowdown in global agriculture prices which may affect private consumption growth in the period ahead.

2. Manufacturing. Manufacturing production continued to decline from the previous month. The northern region's Manufacturing Production Index (MPI) contracted by 23 percent with output contraction observed in almost all category of export-oriented industries following the global economic slowdown and the domestic political situation. Electronic industry reported a fall in output of 7.6 percent, especially integrated circuits, diodes, and capacitors. Output declined in the processed agricultural product due to a drop in dried longan output in light of lower supply of longan. The output of table ware ceramic products dropped by 10.2 percent following a softening in demand from Europe. Moreover, the output of construction-related materials remained in the negative territory, though showing signs of improvement from the previous month. Meanwhile, the output of beverages grew by 1.0 percent as producers step up production of alcoholic beverages in anticipation of the upcoming year-end festive seasons.

3. Services. The service sector declined due to tourists' concerns over Thailand's political situation and the slowdown in the global economy, with the decline being observed in all key service indicators. The number of air passengers fell by 28.5 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 1.1 percent, while the average hotel occupancy rate was at 64.9 percent, down from 69.5 percent in the same period last year, owing to the closure of the international airport in Bangkok which affected tourist travels and hotel cancellation. Under this circumstance, average hotel room rates declined by 1.1 percent, due to pressure from price competition and loss in entrepreneurs pricing power.

4. Private consumption. Private consumption expanded, owing primarily to continued decreases in oil prices and the government's economic stimulus measures. Developments of key private consumption indicators were as follows. The VAT collected from all types of businesses increased by 9.4 percent, compared with a contraction of 2.4 percent in the previous month. However, this increase was partly due to the rise in VAT collected from distribution of beverages to stores in anticipation of the upcoming year-end festive seasons. The number of registered motorcycles, another indicator, recorded an increase of 3.4 percent, though moderating from a rise of 17.5 percent last month. Although the number of registered cars dropped by 13.1 percent, the number of registered passenger car continued to increase as a result of declines in oil prices and dealers' promotional campaigns.

5. Private Investment. Private investment continued to slow down, reflected by a 23.4 percent contraction of construction-related materials sales. However, signs of improvement were observed as the square meters of permitted construction areas in municipal zone, an indicator of future investment activities, rose by 25.2 percent in line with the expansion in construction area for commercial buildings in major northern provinces. Fees collected from land transaction declined by 44.1 percent, mainly due to the reduction in the fee rates as part of the tax measures to stimulate the real estate sector. Meanwhile the number of land transactions continued to increase. Investments in machinery and equipment continued to expand favourably from last month with the investment value of BOI's approved projects totaling 1,150.9 million baht. Projects which received approval were mostly in metal products machinery and equipment, services and infrastructure, agriculture and agricultural products, electronic products and electrical appliances.

6. Foreign Trade. Trade value recorded through customs houses in the northern region continued to decrease. Export value recorded through customs houses in the northern region dropped by 13.3 percent to 198.4 million US dollars as the export of manufacturing products fell by 6.6 percent in light of the global economic slowdown and the closure of Suvarnabhumi International Airport during the end of November. Exports to major markets experiencing a decline included China, Singapore, and Israel. Whereas key export items posting a decline included electronic components, jewelry, and machinery parts. However, the exports to bordered countries expanded by 40.2 percent to 80.2 million US dollars as exports to Myanmar, southern China, and Lao PDR rose by 38.9 percent, 29.3 percent, and 113.7 percent, respectively, contributed by increases in exports of vegetable cooking oil, fuel oil, and vehicles.

Import value recorded through customs houses in the northern region continued to decline by 19.6 percent to 106.7 million US dollars, as imports of raw materials and intermediate products dropped by 34 percent following a slowdown in manufacturing

production, particularly export-oriented production of Northern Region Industrial Estate in Lamphun province, as well as the closure of Suvarnabhumi International Airport during the end of November. Raw material imports recording a decline included electronic components, unworked or simply sawn diamonds, and plastic products. However, the imports from bordered countries rose by 32.2 percent to 14.6 million US dollars, as imports from Myanmar, and southern China increased by 41.1 percent, and 45.6 percent, respectively, boosted by an increase in consumer good imports such as vegetables, fruits, and meat products. The import from Lao PDR, however, dropped by 25.6 percent as imports of cereal products and animal feed declined.

The trade balance registered a surplus of 91.7 million US dollars, compared with a surplus of 95.9 million US dollars in November 2007, and a surplus of 102 million US dollars in October 2008.

7. Government Spending. Government spending disbursed from provincial treasury offices in the northern region increased by 2.5 percent to 10,790.8 million baht. Current expenditure rose by 7.2 percent, contributed by increases in general subsidies, and other expenses. In contrast, capital expenditure decreased by 16.2 percent to 1,747.6 million baht as spending for land and building declined by 4.9 percent. However, specific subsidies, a subcategory of capital expenditure, increased by 10.2 percent.

8. Prices. The Headline Consumer Price Index (Headline CPI) increased by 2.6 percent, slowing down from 4.7 percent in the previous month as the non food price index declined by 6.3 percent due to continued decreases in oil prices and the government's measures. In contrast, the food price index was up by 17 percent, contributed mainly by an increase in vegetables and fruits price, with the price of processed vegetables rising markedly by 37.4 percent as some vegetables were damaged by heavy rainfall and cooler weather conditions. In addition, the price of rice, starch, and starch products increased by 8.8 percent and the price of meats, poultry, and seafood increased by 14.5 percent. The Core Consumer Price Index (Core CPI) grew by 3.1 percent, decelerating from 3.3 percent in the previous month.

9. Labor. According to the Labor Force Survey conducted by the National Statistical Office, the northern labor force totaled 7.1 million at end-October 2008, of which 7 million were employed, representing an increase of 7.5 percent y-o-y. Employment in the agricultural sector rose by 9.3 percent due to increasing demand for labor during the agricultural season. Employment in the non agricultural sector also rose by 5.9 percent as employment of construction sector increased by 14.9 percent. However, employment in the hotels and restaurants declined by 3.5 percent with the slowdown in tourism activities, whilst employment in the manufacturing sector dropped by 11 percent, recording the fifth consecutive month of decline. With the unemployed persons of 70,990 persons, the unemployment rate was at 1 percent, improving from 1.3 percent at end-October 2007. In November 2008, the number of insured person totaled 596,289 persons, decreasing by 0.4 percent from November 2007 or 0.2 percent from October 2008.

10. Banking. At end-October 2008, commercial bank deposit outstanding increased by 3.5 percent to 360,858 million baht, decelerating from last month due to deposit withdrawal made by authorities and reallocation of investment toward higher yield such as

investment in bills of exchange and mutual funds. However, fixed deposit outstanding, which comprised more than 50 percent of total deposits, increased by 10.5 percent following intensified competition by commercial banks for deposit mobilization. Provinces recording significant increases in deposit outstandings were Chiang Mai, Nakhon Sawan, Phitsanulok, and Kamphaeng Phet. As for lending, commercial bank credit outstanding increased by 7.4 percent to 302,052 million baht, with the majority of the credits being extended to crop traders, leasing businesses, processed agricultural product manufacturers, and construction material vendors. Provinces recording significant increases in credits included Chiang Mai, Chiang Rai, Phitsanulok, Phetchabun, and Tak. The ratio of credit to deposit was at 83.7 percent, increasing from 80.7 percent at end-October 2007.

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