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Northern Region Economy in October 2008

In October 2008, the northern region economy continued to decelerate. On the supply side, farm income expanded well despite a slowdown in the price of major crops. Manufacturing production fell in line with the global economic slowdown and weak domestic demand. The service sector declined, adversely affected by Thailand's unresolved political situation, and the slowdown in the world economy. On the demand side, private consumption and private investment decreased as a result of consumer cautious spending and investor weak confidence, while the government spending dropped due to a decline in capital investment. On the external front, export value fell, recording its first month of decline in 2008. The Headline Consumer Price Index decelerated as fuel prices declined. At end-September 2008, commercial bank deposit outstanding and credit outstanding continued to expand.

Details of economic conditions in October 2008 are as follows:

1. Agriculture. Farm income expanded by 32.9 percent largely as a result of increased major crops price. The major crop price index grew by 27.5 percent as the price of major rice paddy rose by 69.2 percent supported by the government's rice-pledging scheme. Meanwhile, the prices of maize, and cassava dropped by 11.3 percent and 11.6 percent, respectively, in light of greater supply and inferior quality. The major crop production index grew by 5.4 percent as the prices of major rice paddy, maize, and cassava increased by 4.5 percent, 2.7 percent, and 14.4 percent, respectively, due to the expansion of planting areas encouraged by last year's high prices.

2. Manufacturing. Manufacturing production showed a continuous falling trend. The northern region's Manufacturing Production Index (MPI) declined by 10 percent due primarily to a decrease in production of export-oriented industries in light of the world economic slowdown: Production of electronics industry fell by 2.6 percent, production of processed agricultural product industry dropped by 24.7 percent due in part to significant declines in production of frozen fruits and dried longan products following last year's unusually high production levels, production of wearing apparel industry declined particularly in European markets, and production of diamond cutting industry decreased. On the contrary, production of tableware ceramic products for exports continued to expand. Overall production for domestic consumption decreased: production of construction related materials remained weak in light of softened construction investment activities, while production of beverage industry declined after having accelerated in earlier period.

3. Service. The service sector continued to decline, largely as a result of tourists' concerns over Thailand political situation. Developments of key service indicators were as follows. The amount of Value Added Tax (VAT) collected from hotels and restaurants fell by 8.7 percent, while the average of hotel occupancy rates was at 42.7 percent, down from 45.3 percent in the same month last year. Meanwhile, the number of air passengers dropped by 14.8 percent, with every airport in the northern region recording a decline. However, the average of hotel room rates increased by 2.2 owing to hotels' increased costs.

4. Private Consumption. Private consumption decreased in light of cautious consumer spending. However, the government's economic stimulus measures helped shore up consumption along with continued declines in oil prices. Developments of key private consumption indicators are as follows. The VAT collected from all types of businesses decreased by 3.1 percent, compared with a decline of 6.3 percent in the previous month. Meanwhile, the number of registered cars dropped by 4.3 percent, improving from a decline of 4.9 percent last month, particularly in the area of the number of registered passenger cars with 2000 cc. engine or less, which was boosted by introduction of new car models as well as continued declines in oil prices. The number of registered motorcycles rose by 17.5 percent, slowing down from the previous month as Myanmar authority's temporary permission of motorcycle registration ended. However, introduction of new motorcycle models and increased farm income were positive factors boosting the number of registered motorcycles.

5. Private Investment. Construction investment showed downward trend, reflected by a continued decline in the sales of construction related materials. Nonetheless, the square meters of construction areas permitted in municipal zone, an indicator of construction investment activity, increased by 4.3 percent, contributed by an increase in construction areas for commercial buildings in major northern provinces. The amount of land transaction fees dropped by 31.6 percent, mainly on account of the reduction in the fee rates, which were part of the tax measures to stimulate the real estate sector. The number of land transactions, however, were boosted by the tax measures. Meanwhile, the investment value of BOI's approved projects, an indicator of capital investment, was at a satisfactory level, totaling 2,611.2 million baht for 11 approved projects. The approved projects included investment in manufacturing of agriculture and agricultural products, electronic products and electrical appliances, metal products paper and plastic products, and machinery and equipment, and producing of services and public services.

6. Foreign Trade. Trade value recorded through customs houses in the northern region declined. Export value recorded through customs houses in the northern region decreased by 1.1 percent to 230.4 million US dollars, recording the first month of decline in 2008. This was due to a decrease in exports of electronic equipments and components, and cut diamonds. Exports to major markets posting a decline included China, Israel, and the U.S. However, exports to bordered countries rose by 33.6 percent to 79.6 million US dollars, as export to Myanmar increased by 46.9 percent and export to Lao PDR more than doubled, with main export items being motorcycles and fuel. Exports to southern China, however, fell by 22.1 percent, as exports of dried longan and rubber products declined.

Import value recorded through customs houses in the northern region fell by 17 percent to 128.4 million US dollars, as imports of intermediate products and raw materials continued to decrease, particularly raw materials used in electronic component

industry, and unworked or simply sawn diamonds. Imports from major markets posting a decline included Singapore, Israel, South Korea, and the U.S. However, the import from bordered countries increased by 17.7 percent to 11.2 million US dollars, as the import of consumer goods continued to expand. The import from Myanmar and southern China grew by 28.4 percent and 20.4 percent, respectively, contributed by increased imports of vegetables and fruits, while the import from Lao PDR declined by 4 percent due to a decrease in imports of maize.

The trade balance registered a surplus of 102 million US dollars, improving from a surplus of 78.3 million US dollars in October 2007, and a surplus of 98.5 million US dollars in September 2008.

7. Government Spending. Government spending disbursed from provincial treasury offices in the northern region decreased by 41.5 percent to 7,298.6 million baht. Capital expenditure fell by 89.8 percent following the delay in the passage of the Expenditure Budget Act for the fiscal year 2009 due to the current political situation. As the fiscal year 2009 budget could not be promulgated in time, the disbursement of capital expenditure could only be made from the previous year's budget (carry-over). Within the capital expenditure, land and building, and specific subsidies dropped by 34.2 percent and 37.5 percent, respectively. Meanwhile, the current expenditure totaled 6,678.3 million baht, increasing by 4 percent due to an increase in salaries and wages.

8. Prices. The Headline Consumer Price Index (Headline CPI) increased by 4.7 percent, decelerating from 7.5 percent in the previous month as the non food price index declined by 2.3 percent as a result of continued decreases in oil prices as well as the government's six-month six measures. Meanwhile, the food price index rose by 16 percent as the prices of rice, meats, and vegetables and fruits increased by 11.5 percent, 16.5 percent, and 20.3 percent, respectively. The Core Consumer Price Index (Core CPI) grew by 3.3 percent, decelerating slightly from 3.4 percent in the previous month.

9. Labor. According to the Labor Force Survey conducted by the National Statistical Office, the northern labor force totaled 7.134 million at end-September 2008. Of which, 7.036 million were employed, increasing by 6.3 percent at end-September 2007 as employment of most sectors rose except manufacturing sector. Agricultural employment increased by 1.9 percent during the agricultural season. Meanwhile, employments of construction, wholesale and retail trade, as well as hotel and restaurant sectors increased by 19.2 percent, 11.6 percent, and 12.4 percent, respectively. With the unemployed persons of 87,110, the unemployment rate was at 1.2 percent, declining from 1.5 percent at end-September 2007. In October 2008, the number of insured person totaled 597,235, decreasing by 0.1 percent from the October 2007 and declining by 0.1 percent from September 2008.

10. Banking. At end-September 2008, commercial bank deposit outstanding amounted to 361,706 million baht, increasing by 4.3 percent due to competitive deposit mobilization. Fixed deposit outstanding, comprising more than 50 percent of the total deposit, rose by 9.4 percent, with provinces such as Chiang Mai, Nakhon Sawan, Phitsanulok, Kamphaeng Phet, and Phichit recording most significant increases in fixed deposit outstanding. Meanwhile, current deposit outstanding and savings deposit outstanding declined by 11.7 percent and 0.9 percent, respectively. As for lending, commercial bank credit outstanding increased by 8.5 percent to 301,804 million baht, with credit growth being observed in personal loans, particularly in the areas of hire purchase for automobiles and motorcycles, and loans to real estate services such as apartments and dormitories. Provinces recording significant increases in credits included Chiang Mai, Chiang Rai, Phitsanulok, and Nakhon Sawan. Meanwhile, credit extended for production, hotels, healthcare services, and transportation decreased. The ratio of credit to deposit was at 83.4 percent, improving from 80.2 percent at end-September 2007.

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