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Northern Region Economy in September 2008 and in the First Nine Months of 2008

In September 2008, northern region economy grew at a decelerated rate from the previous month and from the same month last year. **On the supply side**, farm income decelerated as both price and production of major crops slowed down. Manufacturing production declined in light of the world economic slowdown and weaker domestic demand, while the service sector declined, dampened by Thailand unresolved political situation and the slowdown of the world economy. **On the demand side**, private consumption declined due to cautious consumer spending, while private investment and the government spending decreased. On the external front, exports slowed down while imports expanded. The Headline Consumer Price Index decelerated owing to continued decreases in fuel prices. At end-August 2008, the commercial bank deposits and credits expanded.

In January – September 2008, northern region economy increased at a decelerated rate from the same period last year. **On the supply side**, farm income accelerated as both production and price of major crops were in acceleration, while manufacturing production increased, in response to foreign demand. However, the service sector slowed down as a result of tourists' cautious spending and concerns over the political situation. **On the demand side**, private consumption decelerated as consumers were more cautious about spending in light of increased cost of living. In addition, the private investment continued to decline as investor confidence was dampened by the increased cost of living, significant increased production costs, and the political situation. Meanwhile, the government spending decreased. On the external front, both exports and imports expanded well. The Headline Consumer Price Index accelerated due to increased goods and oil prices. At end-August 2008, the commercial bank deposits and credits expanded.

Details of economic conditions in September 2008 and in the first nine months of 2008 are as follows:

1. Agriculture. In September 2008, farm income increased at a decelerated rate of 33.7 percent as both price and production of major crops slowed down. The major crop price index increased by 32.1 percent as prices of certain crops remained at high levels, even having been slowed down in light of world market prices: Prices of major rice paddy, soybean, and maize, rose by 95.2 percent, 48 percent, and 8.7 percent, respectively. As for agricultural production, the major crop production index increased by 1.6 percent, with production of major rice paddy, soybean, and maize increasing by 4.5 percent, 0.8 percent, and 2.7 percent, respectively, due to encouraging prices and better crop yield. However, production of longan dropped by 15.3 percent as a result of unsuitable weather condition during bearing season and low crop maintenance caused by discouraging price.

In January-September 2008, farm income rose at an accelerated rate of 59.3 percent as both price and production of major crops were in acceleration. The major crop production index increased by 14.7 percent, contributed by increases in production of second rice paddy, industrial sugarcane, soybean, and maize, which rose by 32.5 percent, 8 percent, 0.8 percent, and 2.7 percent, respectively, in light of encouraging prices, and increased crop yield per Rai caused by favorable weather condition. However, production of longan and shallot declined by 14.4 percent, and 11.4 percent, respectively, as a result of unsuitable weather condition during the bearing season, and low crop maintenance due to last year's discouraging prices. The major crop price index rose at an accelerated rate of 44.6 percent, as prices of second rice paddy, industrial sugar cane, maize, and soybean, were in acceleration, rising by 96.7 percent, 9.1 percent, 62.4 percent, and 19.8 percent, respectively, lifted by prices in the world market. Moreover, prices of longan, cassava, and shallot, increased markedly by 99 percent, 75.7 percent, and 194.2 percent, respectively, whereas the price of longan declined by 48.8 percent.

2. Manufacturing. In September 2008, manufacturing production declined. The northern region's Manufacturing Production Index (MPI) decreased by 6.9 percent, with several industries reporting declines or deceleration in manufacturing activities. In the electronics industry, production increased at a

decelerated rate of 1.4 percent, compared with 20.2 percent in the previous month, as weakening in demand from China and the U.S. drove production of many electronics products down, including diodes, hard disk drive components, capacitors, and electronic product components. In the industry of processed agricultural products, production dropped by 30.7 percent as a result of declined dried longan production following earlier significant rise in longan exports, as well as decreased frozen fruit and vegetable production prompted by weak demand from the U.S. Moreover, production of wearing apparel industry, and production of diamond cutting industry decreased as a result of weak demand from the U.S. and Europe. Meanwhile, beverage industry reported a decline in production of 3.1 percent, due to deceleration in distilled liquor and soda production, production of construction-related materials experienced continued decline in light of a slowdown in construction activities, especially for the public sector. In addition, declined, affected by the slowdown of the world economy. In contrast, ceramics industry reported continued strength in production, particularly tableware ceramic products.

In January-September 2008, manufacturing production expanded, reflected in the northern MPI that increased by 10 percent as major industries experienced production expansions. Production of electronic component industry increased by 9 percent in response to foreign demand from IT industries that produced mobile phones, television receivers, electronic equipments, car sensor equipments, and car navigator screens. In the industry of processed agricultural products, production rose by 14.7 percent as production of fresh-frozen, dried vegetables rose responding to demand from Japan, and production of sweet corn increased as foreign competitors had problem with product quality. In addition, production of table ware ceramic products expanded well as a result of increased market penetration in Europe. However, production of diamond cutting industry slowed down as a result of increased costs and weaker demand. However, the beverage industry reported a decline in production of 12.6 percent due to reduced market share; while decreased construction projects of public and private entities led to a decline in production of construction-related materials.

3. Service. In September 2008, the service sector declined, as tourists, particularly foreigners, concerned about Thailand political situation. Developments of key service indicators are as follows. The amount of Value Added Tax (VAT) collected from hotels and restaurants decreased by 0.6 percent, while the average of hotel occupancy rates was at 37.3 percent, compared with 41.6 percent in the same month last year, and the number of air passengers dropped by 22.1 percent, partly due to flight reduction or cancellation. However, the average of hotel room rates increased by 2 percent.

In January-September 2008, the service sector slowed down markedly, as foreign tourists' confidence was adversely affected by the unresolved political situation, and Thai tourists' cautious about spending. However, meeting and seminar activities, organized by public and private entities, contributed some positive effects on the sector and lifted the VAT collected from hotels and restaurants up by 4.9 percent. Meanwhile, the number of air passengers decreased slightly by 0.3 percent, the average of hotel occupancy rates was at 49.1 percent, down from 50.5 percent in the same period last year, and the average of hotel room rates increased slightly by 0.7 percent as a result of hotels' increased costs.

4. Private Consumption. In September 2008, private consumption decelerated due to consumer cautious spending. Developments of key private consumption indicators are as follows. The VAT collected from all types of businesses declined by 6.8 percent, indicating overall weakened consumer spending. Meanwhile, the number of registered cars dropped by 4.9 percent, but the number of registered motorcycles increased by 38.6 percent, with expansion seen in every province, owing to introduction of new motorcycle models, increased farm income, and active exporters' purchasing for exports, encouraged by Myanmar authority's temporary permission of motorcycle registration.

In January-September 2008, private consumption decelerated as consumer confidence was affected by the significant increased cost of living. The amount of VAT collected from all types of businesses decreased by 4.3 percent, partly due to reduced excise tax rates for gasohol and diesel that lowered retail fuel prices. Meanwhile, the number of registered cars increased by 1.6 percent, mostly indicating an increase in the much-lower price E20-capable passenger cars. The number of registered motorcycles rose by 7.7 percent due to a combination of increased farm income, dealers' promotional campaigns, consumers' shifting purchases from automobiles to motorcycles as a result of expensive fuel prices, and Myanmar authority's temporary permission of motorcycle registration.

5. Private Investment. In September 2008, private investment declined as investor confidence weakened and prices of construction materials remained at high levels. Developments of key private investment indicators are as follows. The sales of construction related materials remained in a negative territory but improved from the previous month. The amount of land transaction fees decreased by 28.5 percent as the fee rates were reduced as a result of introduced tax measures aiming to stimulate the real

estate sector. However, the square meters of construction areas permitted in municipal zone, a sign for construction activity increased by 13 percent, in light of an increase in construction areas for residential buildings, and commercial buildings in major northern provinces. Meanwhile, investment value of BOI's approved projects, a sign of capital investment, totaled 138 million baht. The approved projects included agriculture and agricultural product, manufacturing, services and public services, and light industry, with investment values of 80 million baht, 48 million baht, and 10 million baht, respectively.

In January-September 2008, private investment declined as investor confidence was weak, influenced by the economic slowdown and political uncertainty. The sales of construction-related materials declined. Meanwhile, the amount of land transaction fees decreased by 0.1 percent, owing partly to the reduction in fee rates – from 2 percent/1 percent to 0.01 percent, in line with the government's measures aiming to stimulate the real estate sector. In addition, the investment value of BOI's approved projects dropped by 50.2 percent. However, the square meters of construction areas permitted in municipal zone, a sign for construction investment, increased by 3.8 percent, mostly from construction areas for constructing service and transportation buildings, as well as commercial buildings in the upper northern region.

6. Foreign Trade. In September 2008, export value passed through customs houses in the northern region grew at a decelerated rate of 2.1 percent to 240.9 million US dollars, compared with 14 percent in the previous month. The deceleration was due to a slowdown in manufacturing exports, which included cut diamonds and jewelry, hard disk drive components, and medical electronic equipments. Meanwhile, the export to bordered countries rose by 30.3 percent, nearly the same rate as last month's, to 73.9 million US dollars, as exports to Myanmar and Lao PDR rose by 45.5 percent, and 45.7 percent, respectively, following Myanmar's relaxing importation restrictions, temporary permitting motorcycle registration, and temporary reducing fees for motorcycle registration. However, the export to southern China declined by 19.8 percent.

Import value passed through customs houses in the northern region increased by 8 percent to 142.4 million US dollars, contributed by a 25.7 percent increase in consumer goods import, consisting mainly of fruits and vegetables from China, an increase in gold import to be used as raw material for electronics industry. However, decreased imports of unworked or simply sawn diamonds, led the decline of overall raw material import of 13.8 percent, compared with a drop of 21.8 percent in the previous month. Meanwhile, the import from bordered countries increased by 44.8 percent to 10.6 million US dollars, as imports from every neighboring country increased: Imports from Myanmar, Lao PDR, and southern China, rose by 19.7 percent, 9.1 percent, and 87.4 percent, respectively, with major import goods including maize, fruits, fresh vegetables, and fireworks. The trade balance registered a surplus of 98.5 million US dollars, declining from a surplus of 104.1 million US dollars in September 2007, and a surplus of 134.2 million US dollars in August 2008.

In January-September 2008, foreign trade passed through customs houses in the northern region expanded by 11.8 percent to 3,469.2 million US dollars, as both exports and imports rose. Export value increased by 10.5 percent to 2,180.9 million US dollars, contributed by an 18.7 percent increase in manufacturing product exports, including electronic components, integrated circuits, cut diamonds and jewelry, camera lens, motorcycle parts, and fuel. Export markets reporting expansions included Singapore and Hong Kong. In contrast, exports of agricultural products declined slightly by 1.6 percent as exports of fresh-frozen, dried fruits and vegetables, and dried longan, decreased. Meanwhile, the export to bordered countries increased by 50 percent to 695.4 million US dollars as the export to Myanmar rose by 70.4 percent to 578.2 million US dollars, and the export to Lao PDR increased by 53.1 percent to 42 million US dollars, due to an expansion of fuel exports, particularly in the second quarter. However, the export to southern China dropped by 22.3 percent to 75.3 million US dollars because of decreased smoked rubber sheet export.

In line with exports, import value expanded by 14 percent to 1,288.3 million US dollars, contributed by a 10.4 percent increase in the raw material import. Most of which were raw materials for firms located in Northern Region Industrial Estate in Lamphun province, such as electronic components, unworked, or simply sawn diamonds, chemical and plastic products. In addition, the capital good import increased by 3.4 percent as a result of electronic component industry's import of electrical machinery. Meanwhile, the import from bordered countries increased by 6 percent to 75.1 million US dollars as imports from southern China and Lao PDR rose by 42.9 percent and 17.1 percent, respectively, comprising imports of fresh vegetables and fruits, and ignites. However, the import from Myanmar declined by 15.3 percent as a result of mid year natural disaster. The trade balance registered a surplus of 892.6 million US dollars, improving from a surplus of 842.9 million US dollars in the same period last year.

7. Government Spending. In September 2008, the government spending through provincial treasury offices in the northern region declined by 8.8 percent to 12,849.4 million baht, due to a decrease in capital expenditure. The capital expenditure dropped by 33.8 percent, particularly expenditure for

land and construction that declined by 21.5 percent, after having accelerated in earlier period. However, the current expenditure increased by 3.2 percent, as salaries and wages rose, following the adjustment of the salary scale of public officers at all levels, effective from October 2007, while remuneration, services other than personnel and supplies, and public utilities, decreased.

In January-September 2008, the government spending through provincial treasury offices in the northern region declined by 1.7 percent to 120,078.3 million Baht, compared with an increase of 17.4 percent in the same period last year. The capital expenditure declined by 10.2 percent from the same period last year. This was due to the high base last year as the capital expenditure accelerated, particularly from mid year, as the behind-scheduled Expenditure Budget Act for the fiscal year 2007 was promulgated in January 9, 2007. As for the capital expenditure, subsidy for Local Administrative Organizations, land and building, and equipments, recorded a decline of 11.4 percent, 8.4 percent, and 16.1 percent, respectively. In contrast, the current expenditure increased by 3.3 percent, with salaries and wages, and remuneration, increasing by 1 percent, and 14.1 percent, respectively, due to the adjustment of the salary scale of public officers at all levels, effective from October 2007, while remuneration, services other than personnel and supplies, and public utilities, declined.

8. Prices. In September 2008, the Headline Consumer Price Index (Headline CPI) grew by 7.5 percent, decelerating from the previous month due primarily to declines in fuel prices and the government's measures that led to a fall in the prices of vehicles, transportation, and communication. The food price index increased by 18.8 percent, as the prices of rice, meats, and processed and fresh vegetables increased. The Core Consumer Price Index (Core CPI) grew by 3.4 percent, compared with 3.5 percent in the previous month.

In January-September 2008, the Headline CPI increased at an accelerated rate of 7.9 percent, compared with 2 percent in the same period last year, owing mainly to acceleration in fuel prices. The Core CPI increased by 2.6 percent.

9. Labor. According to the Labor Force Survey conducted by the National Statistical Office, northern labor force totaled 7,151 thousand persons at end-August 2008. Of which, 7,084 thousand persons were employed, accounted for 99.1 percent of the labor force, compared with 98.7 percent at end-August 2007. Agricultural employment grew by 8.8 percent due to higher labor demand during agricultural season. Non agricultural employment increased by 1.5 percent as employments of construction, wholesale and retail trade sectors, rose by 29.3 percent, and 1.2 percent, respectively. With the unemployed persons of 61 thousand, the unemployment rate was at 0.9 percent, improving from 1.1 percent at end-August 2007. In September 2008, the number of insured person increased by 0.3 percent to 600 thousand persons.

10. Banking. At end-August 2008, the commercial bank deposit outstanding amounted to 358,341 million baht, rising by 4.2 percent owing to competitive deposit mobilization. The outstanding of fixed deposits increased by 11.7 percent, especially in provinces of Chiang Mai, Nakhon Sawan, Phitsanulok, and Chiang Rai; whereas the outstanding of current deposits, and the outstanding of saving deposits dropped by 7.2 percent, and 4.2 percent, respectively. As for lending, the commercial bank credit outstanding rose by 8.3 percent to 301,517 million baht, with most of the credits being extended to crop trading businesses in provinces of Kamphaeng Phet, Phitsanulok, Phetchabun, and Tak. The ratio of credit to deposit was at 85.6 percent, compared with 80.7 percent at end-August 2007.

Bank of Thailand, Northern Region Office
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Contact Person: Rawisprapa Ruckphaopunt
Tel: +66 (0) 5393-1156
e-mail: rawispr@bot.or.th