



No. 5/2009

Press Release on Northern Region Economic Condition in April 2009

In April 2009, the northern region economy contracted for the fourth consecutive month from the perspective of both supply and demand sides. Signs of recovery were observed, but not broad based, in some sectors such as the pick up in purchase order of the electronics industry. Private consumption, on the other hand, remained generally flat. Private investment, though declining, showed some improvements in the outlook, both on the construction and new machinery. Meanwhile, farm income from major crops declined from last year's exceptionally high level, while the service sector continued to decline as tourists postponed trips. Government spending contracted after a period of acceleration in capital expenditure disbursements earlier on. On the external front, both exports and imports contracted. Headline inflation recorded its first decline since June 2003. At end-March 2009, commercial bank deposit and credit outstanding grew at a slower pace.

Details of economic conditions were as follows:

1. Agriculture. Farm income was 21.6 percent below year-ago level where it in turn, nearly doubled that of April 2007. The major crop price index was down by 13.9 percent as the price of the second rice paddy declined by 28.5 percent from last year's high level which occurred in light of strong export demand and increased world market prices. Declines in the prices of cassava (-50.8 percent), mungbean (-12.3 percent), and shallot (-45.3 percent), following a surge in supply, also drove down the index of major crop price. However, increased initial cane price boosted the price of industrial sugar cane up by 7 percent. The major crop production index was down by 8.9 percent as unfavorable weather conditions led to a 12.9 percent decline in the second rice paddy output. In addition, industrial sugar cane and garlic posted declines in outputs of 1.2 percent and 16.4 percent, respectively, as some growers switched to other crops yielding better returns. In contrast, the output of cassava and soybean rose by 33.6 percent and 1.3 percent, respectively, as planting areas were expanded in response to last year's favorable price.

2. Manufacturing. Manufacturing production continued to decline with signs of stabilizing over last month. The northern region's Manufacturing Production Index (MPI) decreased by 37.8 percent year-over-year, compared with a 38.1 percent year-over-year decrease last month, while the seasonally adjusted MPI declined slightly by 1 percent month-over-month. Electronics industry recorded a sharp decline of 60.4 percent due to the suspension in hard disk drive production line. But production of other electronic products, such as integrated circuits, capacitors, and diodes, continued to improve consecutively from last month with the pick up in purchase orders. In the beverage industry, production declined as alcoholic beverage production dropped. Production of construction-related materials and tableware ceramic products remained in the negative territory but improved from last month. In the agricultural processed industry, production grew by 4.4 percent, notably in the sugar and frozen processed vegetable products as their competitors faced the issue of product quality.

3. Service. The service sector continued to be weighted down by Thailand's political unrest, cautious spending, and the global economic slowdown. This was reflected by the decreases in most of the key service indicators. The Value Added Tax (VAT) collected from hotels and restaurants declined by 20.4 percent, with notable declines in the upper northern provinces such as Chiang Mai and Chiang Rai. In addition, the number of air passengers continued to decrease, falling by 16.1

percent with every airport in the northern region reporting a fall. Meanwhile, the average of hotel occupancy rates was at 39.4 percent, declining from 43.8 percent last year, whereas the average of hotel room rates increased slightly by 0.2 percent.

4. Private consumption. Private consumption remained flat overall. Developments of key private consumption indicators were as follows. The VAT collected from all types of businesses rose at an accelerated rate of 22 percent, compared with a fall of 2.5 percent last month, due in part to improving efficiency of tax collection. Of this, the VAT collected from wholesale and retail businesses increased by 15.2 percent, and the VAT collected from manufacturing businesses soared by 45.7 percent as manufacturers' build up inventory in anticipation of a rise in excise tax on beer and liquor tax. Spending for durable goods such as vehicles remained mostly sluggish and below year-ago levels, as reflected by a 19.3 percent decline in the numbers of registered cars and a 9 percent fall in the number of registered motorcycle. In March 2009, household electrical usage increased by 9.4 percent.

5. Private Investment. Private investment continued to decline though the outlook shows signs of positive development. The sales of construction related materials declined but the pace of decline eased for the fourth successive month. In addition, the square meters of construction areas permitted in the municipal zone, an indicator of forthcoming construction activities, turned positive following a plunge of 32.4 percent in the first quarter, and recorded a 7.3 percent growth as residential areas expanded in upper northern provinces. Meanwhile, the amount of land transaction fees dropped by 53.3 percent but this was due primarily to interim measures aiming to promote real estate sector by cutting tax and fee of property transaction. As for capital investment, the investment value of BOI's approved projects, an indicator of future capital investment, increased by nearly three folds to 2,324.4 million baht, with the majority being investment to produce ethanol and investment to generate electricity from biomass.

6. Foreign Trade. Foreign trade remained weak but improved from the previous month. Export value recorded through customs houses in the northern region declined by 26.5 percent to 164.5 million US dollars, but the pace of decline had eased compared with a fall of 35 percent in the previous month. The export of manufacturing goods dropped by 28.9 percent, pulled down by declines in exports of electronic components, jewelry, and machinery parts, while the export of agricultural products decreased by 14.5 percent due to declines in exports of smoked rubber sheets and dried longan. In contrast, the export to bordered countries increased by 18.6 percent to 78.7 million US dollars, accelerating from 11.8 percent in the previous month, as exports to Myanmar and Lao PDR rose by 19.7 percent and 44.2 percent, respectively. The export to southern China, however, continued to contract, declining by 9.3 percent.

Import value recorded through customs houses in the northern region decreased markedly by 67.6 percent to 62.1 million US dollars as the import of raw materials and intermediate goods plunged by 57.2 percent, pulled down by a fall in the import of raw materials for producing electronic components. In contrast, the import of glass raw materials rose in line with improved conditions of the glass-based camera-lens industry. Meanwhile, the import of capital goods declined for the eleventh consecutive month as imports of electrical machinery and parts, and industrial machinery and parts, dropped. As for border trade, the import from bordered countries expanded by 22 percent to 7.5 million US dollars as the imports from Myanmar and Lao PDR increased by 55 percent and 21.2 percent, respectively, while the import from southern China contracted by 55.7 percent, particularly for fresh vegetables and flowers. The trade balance registered a surplus of 102.3 million US dollars, compared with a surplus of 32 million US dollars in April 2008, and a surplus of 86.9 million US dollars in March 2009.

7. Government Spending. Government spending disbursed from provincial treasury offices in the northern region contracted by 18.8 percent to 13,824.1 million baht. Capital expenditures

totaled 3,974.2 million baht, declining by 55.2 percent as general subsidies, and specific subsidies disbursed to local administrative organizations, dropped markedly by 81 percent and 59.6 percent, respectively, from last year's high levels. However, the disbursement from land and construction, among the category of capital expenditures, increased by 22.3 percent. Meanwhile, the current expenditures expanded by 20.9 percent to 9,849.9 million baht, accelerating from a decline of 2.3 percent last month.

8. Prices. The Headline Consumer Price Index (Headline CPI) decreased slightly by 0.9 percent, posting its first decline since June 2003. The non food price index was down by 7.3 percent as the prices for housing and transportation fell by 7.2 percent and 12.9 percent, respectively. Meanwhile, the food price index increased by 8.7 percent, decelerating from 11.6 percent in the previous month, due primarily to slowdown in the prices for meat, poultry and fish, vegetables and fruits, and seasonings and condiments. The core Consumer Price Index (Core CPI) grew by 2 percent, decelerating from 2.8 percent last 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-March 2009. Of these, 6.9 million were employed, increasing by 6.5 percent from the same period last year. Agricultural employment grew slightly by 0.4 percent. Meanwhile, employment in the non-agricultural sector increased by 11.6 percent, with significant increases in construction (24.5 percent), manufacturing (17.7 percent), and wholesale and retail trade (11.8 percent). With the number of unemployed persons of 0.1 million, the unemployment rate was at 1.6 percent, higher than 1.2 percent at end-March 2008. In April 2009, the number of insured person under section 33 of the social security system recorded the seventh consecutive month of decline to 587,382 persons, falling by 2 percent from April 2008. Meanwhile, the number of insured person under section 39 was 84,134 persons, increasing by 40.6 percent from April 2008 and by 2.4 percent from March 2009.

10. Banking. At end-March 2009, commercial bank deposit outstanding increased by 6.7 percent to 381,604 million baht, slowing down from the previous month as academic institutions withdrew funds from fixed deposits, and investors, seeking higher returns, withdrew funds to invest in Bills of Exchange and mutual funds. Significant decline in fixed deposits was observed in provinces of Chiang Mai, Nakhon Sawan, Pichit, and Phayao. Meanwhile, savings deposits expanded by 13.3 percent, due to increased deposits made by authorities. As for lending, commercial bank credit outstanding grew at a slower rate of 2.4 percent to 301,323 million baht. Significant increase in lending was observed in Chiang Mai province, mainly for wholesale and retail trade businesses, and in provinces of Kamphaeng Phet and Phetchabun, particularly for agricultural businesses. The ratio of credit to deposit was at 79 percent, declining from 82.3 percent at end-March 2008.

The Bank of Thailand, Northern Region Office
June 2, 2009

Contact Person: Rawisprapa Ruckphaopunt
Tel: +66 (0) 5393-1156
e-mail: rawispr@bot.or.th