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Northern Region Economy in August 2009

In August 2009, the Northern region economy continued to show signs of improvement from the previous month. The manufacturing sector registered positive growth for the first time since August, 2008, led by the food industry which benefited from export growth. Moreover, tourism sector improved as the arrival of air passengers to Northern airports picked up for the second consecutive month. The trade sector also showed positive outturn. As for government expenditures, disbursement accelerated as the fiscal year-end approaches. Meanwhile, private consumption, private investment, export and import, farm income and consumer price index posted continued improvement from the previous month. As for the banking sector, deposit growth slowed down while credit continued to contract.

Details of the development of the economic conditions are as follows:

1. Agriculture. *Farm income* improved from the previous month with a decline of 17.9 percent compared to 21.3 percent in July. *The major crop price index* was down by 22.6 percent following a 52.9 percent fall in the price of longan following high output production. In addition, prices of maize and second paddy rice fell by 38.3 percent and 18.9 percent, respectively on account of last's year high base. As for agricultural production, *the major crop production index* was up by 6.1 percent as output of longan, maize and shallot increased by 19.7 percent, 3.5 percent and 6.3 percent, respectively. This was due to higher yield per rai of major crops resulting from favorable weather conditions coupled with better crop maintenance in response to attractive prices last year.

2. Manufacturing. Manufacturing production was in a positive territory for the first month since August, 2008. *The Manufacturing production index* (MPI) increased by 23.8 percent, compared to a decline of 9.4 percent in the previous month. The expansion resulted mainly from the production of food industry, particularly products of frozen and dried vegetables, processed vegetables and dried longans, following strong demand in Japanese and Chinese market. Furthermore, production of construction-related materials still expanded well due to entrepreneurs' inventory accumulation in an anticipation of upward adjustment in prices in line with favorable exports performance to Myanmar and Laos. Meanwhile, electronic components production also showed improvement over last month with a 19.4 percent decline on a year ago basis. Almost all categories, notably hard disk drive components, print circuits and integrated circuits, posted a smaller contraction. Additionally, jewelry industry consecutively improved following a rising exports demand to Middle Eastern market. While production of beverage industry declined as a result of slowing demand.

3. Service. The service sector posted a continual improvement from the previous month. Signs of recovery reflected by key service indicators were as follows. The arrival of air passengers to Northern airports rose by 11.4 percent year-on-year for the second consecutive month. The upward trend significantly stemmed from the airlines' fares discounting and an increase in direct international flights. Hotel average occupancy rate was up to 47.8 percent from 39.3 percent in the previous month. In contrast, the average hotel room rate was at 823.9 baht, a decline of 3.9 percent over the same period last year. Meanwhile, the VAT collected from hotels and restaurants dropped by 11.6 percent.

4. Trading Sector. Trading activities were favorable. Trading index was up by 11.2 percent and can be broken down into the following components. Motor vehicles trade rose by 6.0 percent, improving from the preceding month notably from total sales of motor vehicles and repairing equipments. Meanwhile, total sales of fuel remained in a contraction pace from the previous month as consumers were more cautious in their spending regarding their concern over high level of oil prices. Wholesale trade increased almost across the board by 20.2 percent, moderating from 22.3 percent in the previous month. In addition, retail trade, which represented consumer spending, went up by 13.0 percent, accelerating from 10.6 percent last month. Such an increase was observed in all categories, especially construction-related materials retail sales, which recorded a continual expansion from the previous month.

5. Private Consumption. Private consumption showed some improvements reflected by key private consumption indicators as follows. The VAT collection continually increased by 8.8 percent in line with the pick up in purchase orders of manufacturing, food, beverage and construction-related materials industry. Meanwhile, the number of registered passenger car accelerated by 12.6 percent, compared with a 4.6 percent increase last month following a capacity expansion in response to current orders. However, the number of registered motorcycles recorded a smaller contraction of 6.8 percent, compared to a decline of 13.0 percent in the previous month. This was due to an increased sale of automatic motorcycles and rising oil prices, encouraging consumers to use more motorcycles instead of cars. The household electrical usage in July 2009 rose by 4.5 percent, slowing down from 5.4 percent last month.

6. Private Investment. Private investment improved, mainly driven by an increase in construction sector. Development of key private investment indicators were as follows. The sales of construction-related materials recorded a continually high growth from the previous month. The factors contributed to an expansion included construction of dormitory and commercial buildings in the main provinces, like Chiang Mai, and of residential construction of farmers in the rural area, robust exports demand in neighboring countries, construction projects of local administrative organizations and inventory build-up by entrepreneurs in anticipation for a rise in prices of construction-related materials. In contrast, the number of square meters of construction areas permitted in municipal zones declined by 3.2 percent, from a sharp growth of 130.8 percent last month. Noticeably, household construction area permitted in major provinces in the upper northern region still registered a successive expansion. In addition, the amount of land transaction fees remained in the negative territory as expected following the government fee reduction measures. As for capital investment, the project value approved by BOI in the Northern region, indicating future investment in machinery and equipment, substantially rose by 587.1 percent to 274.8 million baht. The approved projects were observed in areas of light industry and agriculture and agricultural products with investment value of 112.3 million baht and 92.6 million baht, respectively.

7. Foreign Trade. *Foreign Trade* through customs houses in the Northern region was in a negative territory over the same period last year. *Export value* contracted by 17.6 percent to 207.6 million US dollars. Export of manufacturing products still declined by 22.8 percent on a year-ago basis, whereas export of major products, namely electronic components showed an improvement. Meanwhile, export of agricultural processed products grew by 11.0 percent, mainly benefited from Japanese market. In addition, longan export also performed well. As a result, overall export of agricultural products was up by 4.7 percent. As for border trade, export value continued to increase from the previous month by 13.0 percent year-on-year to 87.5 million US dollars with a rise in exports to Myanmar and Laos at a rate of 16.2 percent and 18.2 percent, respectively. While the export to the Southern China dropped by 14.2 percent.

Import value recorded through customs houses in the Northern region declined by 9.4 percent to 106.5 million US dollars, improving from a decrease of 33.6 percent in the previous month. Import of raw materials and intermediate goods fell at a slower rate of 18.9 percent as import of electronic components continued to increase from the previous month and import of rough diamond had improved. Nevertheless, import of capital good remained closely subdued from the previous month. The major categories of capital goods included electrical machinery components for electronic industry. As for border trade, import value was up by 31.9 percent to 10.4 million US dollars, accelerating from a rate of 5.7 percent in the previous month. Import from Laos more than doubled, while import from the Southern China increased by 3.5 percent. However, import from Myanmar fell by 13.1 percent for the second consecutive month.

Trade balance registered a surplus of 101.1 million US dollars, decreasing from a surplus of 134.2 million US dollars in the same period last year and a surplus of 102.1 million US dollars in the previous month.

8. Government Spending. The budgetary disbursement through provincial treasury office in the Northern region totaled 13,581.5 million baht, accelerating by 24.8 percent, compared to a 8.0 percent decline in the same period last year. Capital expenditures were up by 42.1 percent to 3,185.7 million baht as the disbursement of land and building category, accounted of 84.2 percent of total capital expenditures, increased by 51.2 percent. Significant disbursement was observed in provinces of Chiang Mai, Pitsanulok, Nakhon Sawan and Phetchaboon. The current expenditures grew by 20.4 percent to 10,395.8 million baht as categories of general subsidies of local administrative organizations more than doubled combined with categories of other expenses and operating expenses increased by 54.6 percent and 12.0 percent, respectively.

9. Prices. The Headline Consumer Price Index (Headline CPI) fell by 1.9 percent, decelerating from last month's rate of 5.1 percent mainly due to a rise in retail oil prices as world crude oil price continually trended upward. Additionally, increased prices in categories of food and other goods, such as egg, fish and fishery goods and alcoholic beverage also contributed to the smaller decline. The core consumer price index (Core CPI) was down by 0.4 percent.

10. Labor. According to the Labor Force Survey conducted by the National Statistical Office, the Northern labor force totaled 7.3 million at end-July 2009. Of this, 7.2 million were employed, increasing by 3.4 percent from the same period last year. Employment in agricultural sector was up by 3.9 percent following an increase in demand for workers during cultivating season. Moreover, employment in non-agricultural sector also rose by 2.8 percent as a result of an expansion in areas of manufacturing, hotels/restaurants

and wholesale/retail. Meanwhile, the number of unemployed persons was 0.1 million with an employment rate of 1.4 percent, higher than a 1.3 percent in the same period last year. In addition, the underemployment rate increased from 1.3 percent in the same period last year to 1.4 percent in July. At end-August 2009, the number of insured persons, falling into the Section 33 category was 597,371 persons, declining by 0.2 percent recording a contraction for the eleventh consecutive month since October 2008. Meanwhile, the number of insured persons, falling into the Section 39 category, totaled 91,334 persons with an increase of 3.0 percent from the previous month and 34.8 percent from the same period last year.

11. Banking. At end-July 2009, commercial bank deposit outstanding totaled 378,072 million baht, increasing by 7.6 percent over the same period last year. However, a decline of 7,407 million baht deposit in July was primarily due to fund withdrawals to invest in government bonds issued by Ministry of Finance. Notable declines were observed in provinces of Chiang Mai, Kamphangphet, Lampang and Phetchaboon. As for lending, commercial bank credit outstanding totaled 295,649 million baht or a decline of 1.7 percent on a year-ago basis, contracting for the third consecutive month. Of this, credit extension in the upper and the lower Northern region declined by 2.9 percent and 0.7 percent, respectively. This was a consequence of debt payments by wholesale/retail business following a slowdown of businesses' activities. Additionally, commercial banks' customers found alternative borrowing channel from teacher saving cooperatives, which offered lower rate. Such a significant fall in credit outstanding was observed in the provinces of Chiang Mai, Lampang, Chaing Rai and Lamphun. The ratio of credit to deposit was at 78.2 percent, declining from 85.6 percent at end-July 2008.

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