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## Northern Region Economic Condition in February 2009

In February 2009, the northern region economy contracted year on year in line with the global economic crisis. Manufacturing production recorded a steeper decline than last month following the contraction of the global economy, with the decline being observed notably in the electronics sector, and tourism as tourists put off travel plans. Private investment, exports, and imports also contracted. Farm income though remaining high, registered a decline from the same month last year in which the price of major crops was exceptionally high. The slowdown in domestic economy coupled with concerns over domestic economic outlook led to a fall of private consumption. Government spending expanded significantly due to increased disbursements to local administrative organizations, particularly the capital expenditure. Headline inflation climbed slightly following the restoration of the excise tax on oil products. At end-January 2009, commercial bank deposit outstanding continued to expand while credit outstanding slowed down.

Details of economic conditions in February 2009 were as follows:

**1. Agriculture.** Farm income remained at a high level though the decline of 4.1 percent from the same month last year was on account of the unusually high base as the agricultural prices soared in light of concerns over the 2008 world food crisis. The major crop production index was down by 1 percent as the outputs of industrial sugar cane and pineapple fell by 4.7 percent and 5.9 percent, respectively, following the decline in the relative planting areas as growers switched over to better return crops, such as cassava. With rain shortfall and considerably colder-than-usual temperatures from the end of 2008 to the beginning of 2009, the output of the second rice paddy also dropped, recording a decline of 12.9 percent. However, the outputs of cassava, and shallots, increased by 33.3 percent and 7.6 percent, respectively, as last year's high prices encouraged expansion of planting areas. As for the agricultural price, the major crop price index was down by 3.1 percent, pulled down by decreases in the prices of cassava, and pineapple, which dropped by 49.9 percent and 20.2 percent, respectively, as demand for export weakened. In addition, the maize price fell by 17.1 percent, whereas the price of major rice paddy increased by 6.7 percent owing to government's support measures.

**2. Manufacturing.** The northern region's Manufacturing Production Index (MPI) was down by 38.5 percent, decreasing more than that of last month, owing mainly to a marked 58 percent decline in the production of electronics industry, such as hard disk drive components, electrical transformers and motors, and integrated circuits, as overseas trade orders weakened under the global economic crisis. Adversely affected by the global economic downturn were export-led productions of diamond cutting industry and tableware ceramic products. In addition, the production of food industry declined by 11.8 percent due primarily to last year's high base effect, whereas production of dried longan and sugar increased significantly. However, the production of beverage industry dropped but improved from the previous month as the output of alcoholic beverages expanded. Meanwhile, the production of construction related materials, though remaining in negative territory, continued to improve for the third consecutive month.

**3. Service.** The service sector contracted due to tourists' cautious spending that stemmed from concerns over the global economic slowdown. This was reflected by the decreases in most of the key service indicators. The Value Added Tax (VAT) collection from hotels and restaurants dropped by 8.8 percent, with the decline being observed in major northern provinces such as Chiang Mai which declined by 14.7 percent representing a fall for the sixth consecutive month. However, the amount of VAT collection from hotels and restaurants began to pick up in certain northern province owing to its growing popularity as major tourist attractions. Meanwhile, the number of air passengers continued to decline, falling by 21.4 percent with every airport in the northern region reporting a decline. In addition, the average of hotel occupancy rates declined to 66.4 percent and the average of hotel room rates dropped by 0.6 percent.

**4. Private consumption.** Private consumption contracted as consumer spending grew weaker in light of the slowdown of the economy and consumer concerns over domestic economic outlook. Developments of key private consumption indicators were as follows. The VAT collection from all types of businesses fell by 4.8 percent, reflecting the weakening of overall consumption, particularly spending for durable goods such as automobiles. In addition, the numbers of registered cars, and registered motorcycle contracted by 16.2 percent and 15.6 percent, respectively.

**5. Private Investment.** Private investment contracted, though certain key private investment indicators showed signs of improvement. The sales of construction related materials, though remaining in the negative territory, improved from last month due to increased homeowners' construction activity, particularly in agricultural-based northern provinces. Meanwhile, the amount of land transaction fees dropped by 52.9 percent, whilst the number of actual land transaction increased by 2.4 percent resulting from the government's economic stimulus measures. Turning to construction areas, the square meters of construction areas permitted in the municipal zone, an indicator of forthcoming construction activities, contracted by 36.4 percent, as construction area for residential buildings fell by 30 percent and construction area for commercial buildings dropped by 46.7 percent. On the contrary, the investment value of BOI's approved projects, an indicator of future capital investment, increased by 164.6 percent to 233.1 million baht, led by investment of the plastic product industry and machinery investment of the agricultural processing industry

**6. Foreign Trade.** Foreign trade recorded through customs houses in the northern region declined as both exports and imports contracted. Export value recorded through customs houses in the northern region decreased by 42 percent to 134.3 million US dollars, the sharpest decline since September 1998. The decrease was due largely to a 30.9 percent fall in the export of manufacturing goods caused by the weakening demand for electronic products following the global economic downturn. Electronic products posting significant decline included printed circuits, integrated circuits, and hard disk drive components. In addition, the export of agricultural products decreased from the same month last year where there was high export volume of smoked rubber sheets to China. Meanwhile, the export to bordered countries expanded by 2.9 percent to 67.6 million US dollar as exports to Lao PDR and southern China increased by 27 percent and 21.3 percent, respectively, whereas the export to Myanmar fell by 0.5 percent, following the decrease in the export of petroleum products.

Import value recorded through customs houses in the northern region contracted by 60 percent to 51.3 million US dollar in line with consecutive declines in exports. The import of raw materials and intermediate goods dropped by 68.6 percent owing to decreases in imports of electronic products, unworked or simply sawn diamonds, chemical products, and plastic products. In addition, decreased imports of electrical machinery and parts, industrial machinery and parts, and scientific equipments, resulted in a decline in the capital goods import. On the contrary, the import from bordered countries expanded by 14.7 percent to 7.9 million US dollar due to a marked increase in import from Myanmar, noting the high import value of wooden products. Meanwhile, the imports from Lao PDR and southern China contracted by 43.3 percent and 4.1 percent, respectively, as imports of vegetables, fruits, and lignite, decreased. The trade balance registered a surplus of 83

million US dollars, compared with a surplus of 103.4 million US dollars in February 2008, and a surplus of 72.7 million US dollars in January 2009.

**7. Government Spending.** Government spending disbursed from provincial treasury offices in the northern region expanded by 44.6 percent to 16,159.3 million baht. The capital expenditure accelerated, increasing by nearly two folds, boosted mainly by the increase in general subsidies disbursement to local administrative organizations. General subsidies item that was classified as capital expenditure rose by more than 50 folds, with the increase notably significant in the provinces of Chiang Rai, Pichit, Kamphaeng Phet, and Uttaradit. However, the spending for land and construction declined by 2.6 percent as the delayed promulgation of the fiscal year 2009 budget led to a delay in construction of public sector's projects. The current expenditure was 8,895.2 million baht, growing by 1.7 percent, due in part to increased operating expenses such as remuneration, services other than personnel, and supplies.

**8. Prices.** The Headline Consumer Price Index (Headline CPI) increased from the same period last year. The food price index was up by 11.9 percent, as the price of rice rose in light of the government's rice pledging scheme, while the price of vegetables and fruits expanded as supplies were lower, given dried weather conditions and the season's end of some fruits. The non food price index was down by 7.2 percent, with the price of vehicles and fuel falling by 17 percent. However, the price of energy increased from the previous month, as the excise tax was applied to oil products again after having been lifted in the prior period, and the scale of the government's measure to alleviate consumer spending on electricity and water was reduced. The Core Consumer Price Index (Core CPI) grew by 2.8 percent.

**9. Labor.** According to the Labor Force Survey conducted by the National Statistical Office, the northern labor force totaled 7 million at end-January 2009. Of these, 6.8 million were employed, increasing by 6.2 percent from the same period last year. Agricultural employment increased by 3.3 percent, responding to demand for labor during the agricultural season. Meanwhile, employment of the non-agricultural sector grew by 8.6 percent, with the employment in the sectors of construction, hotels and restaurants, and manufacturing, rising by 21.2 percent, 17 percent, and 3 percent, respectively. With the number of unemployed persons of 0.12 million, the unemployment rate was at 1.7 percent, compared with 1.6 percent at end-January 2008. In February 2009, the number of insured person under section 33 of the social security system recorded the fifth consecutive month of decline to 589,396 persons, falling by 1.5 percent from February 2008. Meanwhile, the number of insured person under section 39 was 78,837 persons, increasing by 36.2 percent from February 2008 and by 6.6 percent from January 2009.

**10. Banking.** At end-January 2009, commercial bank deposit outstanding continued to expand, rising by 10 percent to 381,589 million baht, due to an increase in deposits of authorities, particularly in provinces of Nakhon Sawan, Chiang Rai, Kamphaeng Phet, and Tak. As for lending, commercial bank credit outstanding increased by 4.3 percent to 301,183 million baht, slowing down from the previous month as promissory notes and overdraft loans were paid up by rice mill businesses, savings cooperatives, and wholesale and retail trade businesses. Provinces recording significant fall in credits included Chiang Mai, Nakhon Sawan, Chiang Rai, and Lampang. The ratio of credit to deposit was at 78.9 percent, declining from 83.2 percent at end-January 2008.

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