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Northern Region Economy in January 2009

In January 2009, the northern region economy weakened from the previous month. Farm income decelerated along with deceleration in the price of major crops while the production contracted. Government spending slightly expanded in light of disbursement made by local administrative organizations. Private consumption was stable from the previous month, supported by the government's economic stimulus measures. However, the global economic slowdown led to a continued decline in manufacturing production, particularly in the electronics industry, while the service sector weakened as tourists postponed their trips. Private investment, exports, and imports, contracted. Inflation was stable owing to decreases in oil prices and the government's measure to alleviate the burden of the rising cost of living. At end-December 2008, commercial bank deposit outstanding continued to expand while credit outstanding slowed down.

Details of economic conditions in January 2009 were as follows:

1. Agriculture. Farm income grew moderately by 0.6 percent as the agricultural price markedly decelerated and the agricultural production declined. The major crop price index was up by 2.2 percent, compared with 16.7 percent during the same period last year, as the price of major rice paddy increased at a decelerated rate of 52.7 percent, but remained at favorable level due to the government's rice pledging scheme. Meanwhile, the prices of glutinous rice paddy, cassava, and maize, contracted by 10.1 percent, 42.6 percent, and 19 percent, respectively. As for the agricultural production, the major crop production index was down by 1.6 percent, owing mainly to a 4.7 percent fall in the output of industrial sugar cane as farmers switched to plant alternative crops such as cassava because of low initial cane price in the previous crop year, coupled with increased costs of sugar cane production. Output of the second rice paddy also contracted by 11.9 percent, partly due to low water supply compared with last year. However, the production of major rice paddy, cassava, and maize, increased by 3.3 percent, 13.2 percent, and 1.6 percent, respectively, as last year's favorable prices encouraged more productions and crop yield per Rai increased in light of favorable weather condition.

2. Manufacturing. Manufacturing production contracted. The northern region's Manufacturing Production Index (MPI) continued to contract by 33.4 percent with output contraction observed in almost all category of industries. The production of electronics industry fell significantly by 47.1 percent as international trade orders decreased in light of the global economic crisis, while the food industry declined by 3 percent following a reduction in sugar production. In addition, the production of beverage industry contracted markedly following the curtailment of alcoholic beverages production as inventory build up after producers stepped up production last month. Furthermore, the production of ceramic tableware declined in response to softening demand in Europe market. The production of export-led cut diamond industry dropped considerably, while the production of apparel industry and construction related materials remained in negative territory but improved slightly from the previous month.

3. Service. The service sector contracted due to tourists' cautious spending, stemmed from concerns over the global economic slowdown. This was reflected by decreases in most of key service indicators. The amount of Value Added Tax (VAT) collected from hotels and restaurants

declined by 12.8 percent, but improved from the previous month due in part to the government's measure on extended year-end holidays. Meanwhile, the number of air passengers continued to decline, falling by 13.3 percent with every airport in the northern region reporting a decline. In addition, the average of hotel occupancy rates was at 71.4 percent, down from 74.2 percent in the same month last year, whereas the average of hotel room rates increased by 1.2 percent due to increased demand for rooms during promotion of tourism activities in some northern provinces.

4. Private consumption. Private consumption was stable from the previous month, supported largely by the government's economic stimulus measures. Developments of key private consumption indicators were as follows. The amount of VAT collected from all types of businesses expanded at an accelerated rate of 6.1 percent as a result of the economic stimulus measures. However, the numbers of registered cars, and registered motorcycle contracted by 13.3 percent and 8.3 percent, respectively, particularly in the lower northern region where farm income slowed down and credit providers tightened lending criteria for hire purchase loans. The number of registered passenger car, by contrast, expanded by 4.4 percent due to a temporary factor, i.e., some auto dealers were branching out.

5. Private Investment. Private investment continued to contract in light of investors' concerns over the global economic slowdown and Thailand's political situation. As a result, most of key private investment indicators recorded declines. The sales of construction related materials continued to fall from the previous month, while the square meters of construction areas permitted in municipal zone, an indicator of future construction activities, contracted by 47.1 percent following reductions of 30.8 percent in construction area for residential buildings and 32.7 percent in construction area for commercial buildings. In addition, the amount of land transaction fees dropped by 39 percent, whereas the number of transaction increased by 1.2 percent resulting from the government's economic stimulus measures. Meanwhile, the investment value of BOI's approved projects, an indicator of future capital investment, decreased by 93.1 percent to 64.2 million baht.

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 34.3 percent to 138.2 million US dollars, compared with a 27.9 percent decrease last month, as the export of manufacturing products dropped by 28.8 percent, especially exports of electronic components. In addition, the export of agricultural products fell by 60.3 percent, due to a decline in the export of smoked rubber sheets. Moreover, the export to bordered countries fell by 15.2 percent to 60.9 million US dollars, as export to Myanmar recorded the first month of decline since March 2008, falling by 11.8 percent, while exports to southern China and Lao PDR dropped by 46.6 percent and 2.8 percent, respectively, owing to decreases in exports of rubber products and construction materials.

Import value recorded through customs houses in the northern region fell by 48.6 percent to 65.5 million US dollars, the lowest level since December 2001. The fall was contributed by consecutive declines in the import of raw materials and intermediate goods (-58.6 percent) and the import of capital goods (-30.2 percent), due to lower import demand of electronics industry located at the Northern Region Industrial Estate in Lamphun Province. Meanwhile, the consumer goods import declined, partly owing to the high base effect last year as a result of the acceleration in import of high-value pharmaceutical products. In addition, the import from bordered countries contracted by 11.2 percent to 8.3 million US dollars, as imports from southern China and Lao PDR fell by 36.9 percent and 28 percent, respectively, due largely to decreased imports of vegetables and fruits, whereas the import from Myanmar increased by 14.9 percent, decelerating from an increase of 28.6 percent in the previous month.

The trade balance registered a surplus of 72.8 million US dollars, compared with a surplus of 83 million US dollars in January 2008, and a surplus of 84.8 million US dollars in December 2008.

7. Government Spending. Government spending disbursed from provincial treasury offices in the northern region grew by 0.9 percent to 19,034.2 million baht. The capital expenditure expanded by 1.7 percent, following the expansions of 6.2 percent in general subsidies and 31.8 percent in specific subsidies, due to disbursement made by local administrative organizations. The provinces recorded an increase in spending were Chiang Mai, Chiang Rai, Phitsanulok, and Nakhon Sawan. Meanwhile, the spending for land and construction dropped by 24.5 percent as procurement process was being undertaken as the fiscal year 2009 budget was just allocated in December 2008. The current expenditure was 8,529.6 million baht, close to last year's level.

8. Prices. The Headline Consumer Price Index (Headline CPI) was stable from the same period last year. The food price index was up by 13.7 percent, following a 13.8 percent increase in the price of meats, poultry, and seafood, and a 13.8 percent rise in the price of fruit and vegetable, prompted by increased demand during the Chinese New Year Festival. However, the non food price index was down by 8.6 percent owing to the government's measures and declines in oil prices, resulting in a drop of 15.1 percent in the price of vehicle, transportation, and communication. The Core Consumer Price Index (Core CPI) grew by 2.5 percent.

9. Labor. According to the Labor Force Survey conducted by the National Statistical Office, the northern labor force totaled 7.2 million at end-December 2008. Of which, 7.1 million were employed, increasing by 6.6 percent from the same period last year. Employment of the non-agricultural sector expanded by 16.2 percent as employments of wholesale and retail trade sector, construction sector, manufacturing sector, and hotels and restaurants sector, rose by 35.3 percent, 26.2 percent, 8.8 percent, and 0.9 percent, respectively. Meanwhile, employment of the agricultural sector decreased slightly by 0.8 percent. With the number of unemployed persons of 81,790, the unemployment rate was at 1.1 percent, compared with 0.8 percent at end-December 2007. In January 2009, the number of insured person under section 33 of the social security system recorded the fourth consecutive month of decline to 586,106 persons, falling by 1.9 percent from January 2008 or 1.1 percent from December 2008. Meanwhile, the number of insured person under section 39 was 73,968 persons, increasing by 30.2 percent from January 2008 or 3.1 percent from December 2008.

10. Banking. At end-December 2008, commercial bank deposit outstanding continued to expand by 10.5 percent to 375,543 million baht, due to an increase in deposits of authorities and commercial banks' intense deposit mobilization. As a result, the fixed deposit outstanding grew by 18.4 percent, especially in Chiang Mai, Nakhon Sawan, Phetchabun, Chiang Rai, and Pichit. As for lending, commercial bank credit outstanding increased by 5.3 percent to 305,704 million baht, recording the third consecutive month of slowdown. Most of the credits were extended to crop traders, Teacher Savings Cooperatives, wholesale and retail businesses, and personal consumption. Provinces recording significant increases in credits included Phetchabun, Chiang Mai, Lampang, and Kamphaeng Phet. The ratio of credit to deposit was at 81.4 percent, declining slightly from 85.5 percent at end-December 2007.

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