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Northern Region Economy in July 2009

In July 2009, key economic indicators point to signs of stabilization in the Northern region economy. Key service indicators, tourism sector, turned to positive territory for the first time since June, 2008 as a result of promotional activities by airlines and hotels combined with a long holiday during the beginning of this month. In addition, private investment expanded from the previous month, particularly in areas of construction and manufacturing both domestic-oriented and export-oriented production. As for government expenditures, disbursements accelerated. Furthermore, private consumption remained on an expansionary trend, though slowing down from the previous month. Nevertheless, the headline consumer price index posted a continual decline for the fourth consecutive month. As for banking, deposit outstanding accelerated whereas credit outstanding weakened.

The development of the economic conditions in detail is as follows:

1. Agriculture. *Farm income* declined 20.6 percent, in line with the decline in prices of major crops. *The major crop price index* dropped 26.2 percent as longan price fell by 36.7 percent as a result of high output. Additionally, prices of the second rice paddy and maize also dropped by 16.4 percent and 34.8 percent, respectively, due mainly to exceptionally high base over the same period last year. As for agricultural production, *the major crop production index* rose 7.6 percent. This was led by an increase of 19.7 percent and 6.3 percent in longan and shallot production, respectively as a result of favorable climate conditions coupled with attractive prices from the previous year. Consequently, farmers, recognizing the increased value of these crops, took additional care of them, which yielded higher output per rai. However, output of the second rice paddy declined by 5.3 percent, a result of the low temperature during the beginning of this year.

2. Manufacturing. Manufacturing production continued to improve from the previous month for the fifth consecutive month. The Manufacturing production index (MPI) contracted by 9.4 percent, compared with a 20.3 percent decrease in the previous month. Electronic components production recorded a contraction of 27.2 percent on year-on-year basis, but expanded by 11.0 percent from the previous month. The upward adjustment was registered in all categories, particularly hard disk drive and transformer components for diode production, which continually increased by 7.9 percent from the previous month in response to growing demand for television and mobile phone monitor manufacturing. Beverage production was down by 13.5 percent as alcoholic beverage production declined in line of slowing demand. In addition, ceramic tableware still registered a decline of 25.1 percent from the previous month. Apparel production fell at a more moderate rate of 7.1 percent, as opposed to a decline of 33.1 percent last month. This was caused by an increased demand of knitting cloth exports. However, production of construction-related materials registered markedly high growth, in part because of favorable demand in exports to Myanmar and Laos. Meanwhile, the food industry rose by 15.4 percent, slowed down from a month earlier. The increase was mainly observed in processed vegetable and fruit products as well as frozen and dried vegetables exported to the Japanese market.

3. Service. The service sector showed improvement from the previous month. The arrival of air passengers to Northern airports turned positive at a rate of 2.8 percent for the first month since June 2008. The hotel average occupancy rate was also up 39.3 percent, up from 33.7 percent last month. Additionally, the average hotel room rate was at 881.7 baht, increasing on a year-to-year basis by 0.2 percent. The upward adjustment resulted from the promotional air fares, more frequent flight services in some provinces such as Chiang Rai, a long holiday during the beginning of July, local promotional activities in Chiang Mai, namely the “Chiang Mai Grand Sales” as well as greater activities in the meetings and seminar market. However, the VAT collected from hotels and restaurants dropped by 5.1 percent as tourists were cautious with their spending.

4. Trading. Trading activities was at a satisfactory level. Trading sector index rose by 10.0 percent and can be broken down into the following components. **Motor vehicles trade** increased by 4.3 percent resulting from surges in total sales of motor vehicles and repairing equipments, improving considerably from the 3.1 percent decrease in the previous month. While total sales of automotive fuel continued to slow down from the previous month as consumers were more cautious in their spending following a high level of oil prices. **Wholesale trade** slightly decelerated as the figure went up by 22.1 percent year on year compared to a rise of 24.7 percent in the previous month. Expansions were observed in almost all areas except for construction materials category which was down by 0.2 percent, but had improved significantly in comparison to the previous period. **Retail Trade** which reflects consumer demand went up by 10.5 percent over the same period last year, but declined slightly when compared to the previous month. Categories experiencing declines in total sales were foods and drinks, durable goods such as electrical and household appliances, department stores and supermarket products, whereas construction materials sales continued to expand from the previous month with the figure increased year on year.

5. Private Consumption. Private consumption remained in an expansionary territory, though moderating from the previous month. Development of key private consumption indicators were as follows. The VAT collection grew by 4.4 percent, but decelerating from 6.3 percent in the previous month. Meanwhile, the number of registered motorcycles contracted 13.0 percent, partly due to a production reduction in the earlier period resulting in insufficient supply to meet consumers’ demand. Nevertheless, the number of registered passenger car, in turn, rose by 4.6 percent, accelerating from a negative territory at a rate of 2.1 percent last month. This was due to a capacity expansion in response to prior advanced orders and new orders reflecting from an anticipation of increased prices. Additionally, promotional activities by entrepreneurs also stimulated cars’ sales. Furthermore, the household electrical usage in June 2009 rose by 5.4 percent.

6. Private Investment. Private investment increased from the previous month. Development of key private investment indicators were as follows. The sales of construction-related materials recorded a large expansion, responding partly to market anticipation of increase prices in tandem with demand for export to the neighboring countries. The number of square meters of construction areas permitted in municipal zones, both in commercial building and household construction area in major provinces in the upper northern region also rose markedly by 130.8 percent. In contrast, the amount of land transaction fees remained in a contraction at a rate of 17.1 percent, a slight improvement from the previous month which declined by 21.1 percent as anticipated from the government’s fee reduction measures. As for capital investment, the value of BOI’s approved projects in the Northern region, reflected forthcoming investment expenditure in machinery and equipment, totaling 848.5 million baht, up sharply by 568.1 percent. This was partly attributed to the acceleration of applications submitted before the expiration of the special incentives for promoted projects at the end of 2009. The BOI’s approved projects

were observed in areas of service and public utilities as well as the electronic industry and electric appliances with investment value of 480 million baht and 244.4 million baht, respectively.

7. Foreign Trade. *Export value* through customs houses in the Northern region contracted by 15.9 percent to 203.8 million US dollars, but improved from a decline of 29.5 percent in the previous month. This was attributed to increased exports of manufacturing products, which dropped by 24.0 percent compared to 30.2 percent last month. An improvement was observed in all categories, notably electronic components and jewelry. Meanwhile, export of agricultural processed products also grew by 3.6 percent, mainly from processed vegetables. Export of agricultural product, on the other hand, further declined by 56.9 percent from the previous month, especially in products of tobacco, maize and rice. As for border trade, export value expanded by 12.1 percent to 87.5 million dollars with an increase in exports to Myanmar, Laos and the Southern China at a rate of 12.2 percent, 21.2 percent and 6.2 percent, respectively.

Import value recorded through customs houses in the Northern region continued to decline by 33.6 percent from the preceding month to 101.7 million US dollars. Import of raw materials and intermediate goods fell by 36.5 percent in line with a contraction of imports in rough diamond, electronic components and chemical and plastic products. In addition, import of capital good also dropped by 39.5 percent, noting a fall in imports of electrical machinery and mechanical appliance components and optical appliances. Imports of raw material and capital goods improved modestly, when compared to last month. In contrast, imports from bordering countries were up by 5.7 percent to 9.9 million US dollars, slowing down from the previous month as imports from Myanmar and the Southern China deteriorated by 5.2 percent and 34.9 percent, respectively. However, imports from Laos more than doubled, partly due to a rise of imports in electrical machinery components.

The trade balance registered a surplus of 102.1 million US dollars, increasing from the same period last year and in the previous month with a surplus of 89.2 million US dollars.

8. Government Spending. The budgetary disbursement through provincial treasury office in the Northern region totaled 13,454.5 million baht, growing at a faster pace of 15.3 percent compared with a marginal increase of 0.9 percent in the same period last year. Capital expenditures rose by 43.0 percent to 3,982.7 million baht as the disbursement of land and building category, accounted of 73.8 percent of total capital expenditures, increased by 43.4 percent and general subsidies to local administrative organizations category rose more than eleven fold. Notable disbursement was made by authorities and local administrative organizations in provinces of Chiang Mai, Phetchabun, Phitsanulok and Chaing Rai for public utilities projects. The current expenditures expanded by 6.6 percent to 9,471.8 million baht as categories of other expenses, operating expenses (travelling and seminar) as well as general subsidies of local administrative organizations increased by 34.6 percent, 14.9 percent and 8.7 percent, respectively.

9. Prices. The Headline Consumer Price Index (Headline CPI) dropped by 5.1 percent, compared with a 4.8 percent decrease last month, recording a decline for the fourth successive month as a result of an unusually high base in the same period last year. Nevertheless, the headline CPI slightly fell by 0.1 percent month on month. This was mainly caused by a fall of food and beverage prices at a rate of 0.4 percent followed by a decrease in prices of swine and rice. The non food price index was up by 0.1 percent, mainly on account of a higher fuel price. The core consumer price index (Core CPI) was down by 1.2 percent.

10. Labor. According to the Labor Force Survey conducted by the National Statistical Office, the Northern labor force totaled 7.2 million at end-June 2009. Of this, 7.1 million were employed, increasing by 7.5 percent from the same period last year. Employment in agricultural sector was up by 12.7 percent caused by an increased demand for workers during cultivating season. This combined with increased employment in non-agricultural sector at a rate of 3.0 percent following an expansion in areas of manufacturing, construction, hotels/restaurants and wholesale/retail. Meanwhile, the number of unemployed persons was 0.1 million with an employment rate of 1.2 percent, higher than a 0.9 percent in the same period last year. In addition, the underemployment rate increased from 1.6 percent in the same period last year to 1.7 percent in June. At end-July 2009, the number of insured persons, according to the Section 33, was 594,768 persons, declining by 0.6 percent recording a contraction for the tenth consecutive month since October 2008. Meanwhile, the number of insured persons, according to the section 39, totaled 88,703 persons with an increase of 0.6 percent from the previous month and 32.9 percent from the same period last year.

11. Banking. At end-June 2009, commercial bank deposit outstanding grew at an accelerated rate of 8.3 percent from a 6.8 percent increase last month to 385,479 million baht. This was a result largely from an increase in saving deposits of academic institutions, crop trading businesses and temporary fund transfer by firms in the Northern Region Industrial Estate. However, fund withdrawals from current account deposits were made by local administrative organizations for capital investment purpose. In addition, fixed deposit in every province also registered a decline as investors withdrew to invest in debt securities which offered better returns. As for lending, commercial bank credit outstanding contracted by 1.2 percent to 298,380 million baht, recording a continual decline from the previous month. Credit extended to business in the lower Northern region fell by 3.8 percent as a result from debt payment made by crop traders and rice mill businesses. In contrast, borrowing demand from various businesses including retail, agriculture-related, transportation/service businesses as well as saving cooperatives and for personal purpose resulted in a slight expansion of credit in the upper Northern region at a rate of 0.9 percent. The ratio of credit to deposit was at 77.4 percent, declining from 84.9 percent at end-June 2008.

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