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## Northern Region Economy in June 2009 and the First Half of 2009

**In June 2009**, the Northern region economy continued to contract compared to the same period last year but exhibited signs of improvement from the previous month. Production rose in certain industries. Private consumption was also boosted by a high level of farm income and the government's stimulus package. Moreover, prospects for forthcoming private investment were evident, especially in areas of construction, in major provinces of the Northern region. Nevertheless, a continual decline reflected in service sector. Government disbursement through provincial treasury offices as well as export and import had also shown the same trend. Consumer Price Index dropped for the third consecutive month. As for the banking, the commercial bank deposit grew at a faster pace but credits declined.

**In the first half of 2009**, the Northern region economy slowed down significantly, most notably in the first quarter of the year, mainly due to the global economic crisis. This led to a significant decline in the production of export-oriented industries, notably in the electronic components, jewelry and lens. However, signs of stabilization were observed in the second quarter as a result of increased orders for electronic components from overseas as they replenished their inventories level. This implied no further job cuts and, in turn, a resumption of the recruiting process. Furthermore, acceleration in government's disbursement, as well as the government's stimulus helped sustain domestic demand. This was further assisted by the relatively high level of farm income, which though declining year on year, helped to shore up the consumers' purchasing power. Meanwhile, export and import remained in a contractionary territory. Tourism was adversely affected by the influenza (H1N1) pandemic. Inflation was down from the same period last year according to the high base effect. As for banking, the commercial bank credit contracted while deposit accelerated.

Details of economic conditions were as follows:

**1. Agriculture. In June 2009, farm income** declined 17.5 percent, as last year exceptionally high growth was a rare phenomenon. The **major crop price index** was down by 17.0 percent following a decrease in prices of second rice paddy and maize at a rate of 14.8 percent and 20.2 percent, respectively, due mainly to last year's high base effect. In addition, price of lychee also fell as a result of its high production. However, prices of both pineapple and garlic increased due to the low domestic supply. As for agricultural production, the **major crop production index** slightly fell by 0.5 percent as a result of a decline of 5.3 percent in the second rice paddy, where last year's second crop output was at the highest historical level. Furthermore, production of pineapple and garlic also fell at a rate of 12.6 percent and 16.4 percent, respectively as farmers switched to plant other crops. However, the outputs of lychee, shallot and maize were up by 48.0 percent, 6.3 percent and 0.3 percent, respectively as favorable weather condition led to an improvement of crop yield per rai.

**In the first half of 2009**, farm income remained satisfactory but falling by 6.0 percent compared to the same period last year which recorded a historical increase of 52.1 percent. The major crop price index fell by 5.5 percent, due to a drop in prices of second rice paddy, cassava, major rice, shallot and maize at a rate of 10.7 percent, 50.7 percent, 3.4 percent, 43.0 percent and 20.8 percent, respectively as a result of the high base over the same period a year earlier. Nevertheless, industrial sugar cane price rose by 7.1 percent following the upward adjustment in the floor level of preliminary sugarcane price. In addition, the garlic price was up by 37.8 percent because of lower production than the previous year. As for agricultural production, the major crop production was slightly down by 0.6 percent as the second rice paddy output dropped by 5.3 percent due to below-average low temperature condition during the end of 2008 and beginning of 2009 in tandem with notably high base effect last year. The production of garlic declined by 16.4 percent, as some farmers switched to produce other crops with better return. Nonetheless, the output of industrial sugar cane, cassava, major rice, shallot and maize increased by 1.3 percent, 35.4 percent, 1.8 percent, 6.3 percent and 0.3 percent, respectively on account of favorable weather condition coupled

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with attractive market prices in the previous year, which encouraged farmers to be more diligent resulting in higher crop yield per rai.

**2. Manufacturing. In June 2009,** manufacturing production continued to improve from the previous month, though on a year ago basis remained in a negative territory. Manufacturing Production Index (MPI) registered a smaller contraction, registering a fall of 20.5 percent, compared with a decrease of 33.3 percent in the previous month. This was attributed mainly to a slower decline of electronic industry at 31.1 percent, compared with a contraction of 42.9 percent last month, owing to an improvement of the electronic production in all categories, particularly components in mobile phone and communication appliances as well as computer parts, such as hard disk drive and diodes, in response to consumer demand. Beverage production also declined both alcoholic and non-alcoholic beverage. The export-oriented production of ceramic tableware also saw a reduction by 31.0 percent due to weak European demand. Apparel production dropped by 33.1 percent, an improvement from a decline of 51.4 percent last month. However, food industry accelerated at 33.4 percent, compared to a contraction last month, owing to an increased demand in export of processed agricultural products to Japanese market. Additionally, production of construction-related materials also rose, partly resulting from increased demand in exports to Myanmar and Laos.

**In the first half of 2009,** manufacturing production declined by 33.9 percent with a marked decline falling primarily in the first quarter, particularly in sectors of electronic components, lens and jewelry as a result of global economic slowdown. However, demand picked up for electronic components to rebuild their inventories following a sharp inventory run down earlier. However, production in electronic components still dropped 49.8 percent in the first half of 2009. Electronic products registered a decline in production included hard disk drive components, integrated circuits and transformers. Meanwhile, production of jewelry industry also substantially fell by 72.9 percent, in particular diamond cutting industry, which recorded a large contraction. In addition, food industry was down by 8.1 percent. Nevertheless, production of frozen vegetables continually expanded well, driven by growing external demand in foreign markets, following the loss of market shares of foreign providers on account of quality issues, which shifted demand to Thai products. However, beverage manufacturing also contracted resulting from the loss of market share and shrinkage in demand for alcoholic beverage. Meanwhile, the production of construction-related materials increased in the light of an increased demand for domestic construction as well as favorable demand in exports to neighboring countries.

**3. Services. In June 2009, the service sector** contracted further from the previous month resulting from the global economic slowdown and the spread of H1N1 influenza. Development of key service indicators were as follows. The amount of Value Added Tax (VAT) collected from hotel and restaurant business fell 21.6 percent, in particular major tourist destinations, notably Chiang Mai where VAT collection declined 27.3 percent. The arrival of air passengers to Northern airports dropped by 5.0 percent except Chiang Rai airport, which saw a rise in passenger arrival by 2.4 percent. The hotel average occupancy rate continuously decreased by 33.7 percent, while the hotel average room rate marginally improved from 859.6 baht in the same period last year to 861.3 baht.

**In the first half of 2009, the service sector** in the northern region slowed down from the same period last year. The global economic downturn, weary of spending by both foreign and domestic tourists, internal political unrest and the influenza (H1N1) pandemic led to a decline in key indicators as follows. The amount of Value Added Tax (VAT) collected from hotel and restaurant declined 17.6 percent. The number of air passengers also fell 14.8 percent in every airport in the northern region. Furthermore, the hotel average occupancy rate dropped from 51.6 percent to 48.2 percent. Meanwhile, the hotel average room rate was at 990.9 baht per room night, mostly steady relative to the same period last year.

**4. Private Consumption. In June 2009, private consumption** decelerated from the preceding month. Development of key private consumption indicators were as follows. The VAT collection expanded 5.7 percent but slowing down from accelerating at 18.8 percent in the previous month. Expansion were observed mainly in categories of wholesale and retail trade and construction, which rose 13.4 percent and 5.2 percent, respectively. The VAT collected from industry dropped by 2.0 percent, compared with a large expansion of 44.5 percent in May because of the reduction of beverage production due to high inventory holding in the earlier period. Numbers of registered car dropped 2.1 percent but improving from a contraction of 21.6 percent in the previous month as promotional activities helped boost their sales. In addition, number of registered motorcycles slightly

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increased by 0.7 percent, accelerating from a decrease of 8.1 percent in the previous month partly supported by students' demand for motorcycles during the beginning of semester.

**In the first half of 2009, overall private consumption** slowed down from the same period last year. Private consumption in the first quarter of 2009 contracted as consumers became more cautious in their spending coupled with growing concerns over economic slowdown and lower discretionary income resulting from imposition of working hour reduction and staff layoffs. However, farm income, particularly the lower northern region was favorable. Support from government stimulus package contributed to an improvement in private consumption in the second quarter. Development of key private consumption indicators in the first half of 2009 were as follows. The amount of VAT collected turned positive at 8.2 percent compared with a contraction of 2.3 percent in the second half last year. This was due to a sharp increase of VAT collected from industry, following accelerated production of alcoholic beverage in anticipation of the excise tax increase. However, the numbers of registered cars and motorcycles declined by 15.2 percent and 7.1 percent, respectively as a result of adverse impacts from economic slowdown and more cautious in consumers spending. In addition, a decline of registered passenger cars was due to a reduction in car production reflecting a number of advanced orders at car dealers.

**5. Private Investment. In June 2009, private investment** continued to slow down, but showed an improving trend from the previous month, reflected in an accelerated growth in sale of construction-related materials from the previous month. Construction areas expanded markedly by 39.6 percent as measured by the square meters of construction areas permitted in municipal zone in residential and commercial building categories, particularly major provinces in the upper northern region. . Meanwhile, the amount of land transaction fees, fell by 21.1 percent – an improvement from a 46.0 percent contraction in the previous month as the government fee reduction measure was still in place. However, the value of BOI's approved projects, as prospects for future capital investment, contracted by 82.4 percent.

**In the first half of 2009, private investment** contracted. New investment plans was still subdued due to investors' confidence following unfavorable economic condition and political instability. Nonetheless, construction still expanded well in the household sector in agricultural-based area, particularly the lower northern region and the upper northern region included Chiang Rai and Pra Yao provinces. Nevertheless, some key indicators pointed to signs of improvement. Sales of construction-related materials decreased slightly by 0.2 percent, when compared with a fall in the second half last year of 20.4 percent. In addition, the value of BOI's approved projects, representing investment outlays in machinery and equipment in the northern region, increased by 17.2 percent. On the other hand, the square meters of construction areas permitted in municipal zone decreased by 12.8 percent. However, an upturn signaled in the second quarter as permitted construction areas started to increase. Meanwhile, land transaction fees was also held down by a 37.7 percent reduction as a consequence of a fee reduction measure.

**6. Foreign Trade. In June 2009, export value** through custom houses in the northern region fell by 29.5 percent with values totaling 183.8 million US dollars as export-led industries dropped by 30.2 percent. Substantial decline was observed in high-technology manufactured products including electronic components and lens, while a fall in export of labor-intensive products was seen especially in category of cutting diamond. However, export of domestic resourced-based products still expanded namely canned sweet corn. Other agricultural products which continued to post a contraction from the previous month were tobacco and frozen fruits. As for border trade, export value declined by 4.6 percent to 84.3 million US dollars in line with a decrease in exports to Myanmar and Southern China at 2.6 percent and 47.0 percent, respectively. Export to Lao PDR, in contrast, rose by 74.5 percent, accelerating from the previous month.

**Import value** through custom houses in the northern region dropped by 31.7 percent to 94.6 million US dollars, due to a 42.8 percent decrease in import of raw material and intermediate goods, most notably in rough diamond, electronic components, chemical and plastic products. Imports of capital goods including components of electrical machinery were also declining. However, import value pass through border custom houses grew by 24.7 percent to 11.0 million US dollars but slowing down from the previous month. Imports from Myanmar and Loa PDR increased at a diminishing rate of 51.7 percent and 88.0 percent, respectively, while import from Southern China decreased by 35.2 percent.

**Trade balance** posted a surplus of 89.2 million US dollars in June 2009, decreasing from a surplus of 121.9 million US dollars in the same period last year and a surplus of 91.1 million US dollars in the previous month.

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**In the first half of 2009, the value of trade** through custom houses in the northern region contracted. **Export value** decreased 33.1 percent to 967.5 million US dollars. This mainly followed a decline in export of manufactured product by 31.8 percent as a result of global economic crisis. Significant decline was recorded particularly in categories of electronic components, lens and jewelry. Nonetheless, purchasing orders of electronic products showed signs of pickup during the second quarter of the year. Export of agricultural products also fell by 30.5 percent from contraction in rice and tobacco export at 12.9 percent and 63.9 percent, respectively. Meanwhile, export through border custom houses grew 3.8 percent to 483.5 million dollar, decelerating from 21.7 percent growth in the second half last year as exports to Myanmar and Lao PDR grew at a slower pace by 5.6 percent and 30.4 percent, respectively. In contrast, export to Southern China dropped by 26.2 percent, partly owing to a shift from ship transportation through Mekong River to car transportation through Lao PDR.

**Import value** passed through border custom houses considerably dropped by 38.2 percent to 540.8 million US dollars, compared to a 5.9 percent fall in the second half of 2008. This decrease was primarily due to a 50.7 percent decrease export of raw materials and intermediate goods, notably electronic products, jewelry and lens. However, significant decline was more evident in the first quarter, whereas the second quarter edged up slightly as a result of a rise in new orders. Imports of consumer goods also fell by 23.1 percent. Key products, which saw a decline included milk products, chemical products and jewelry. On the other hand, border import rose by 19.5 percent to 56.4 million dollar, slowing down from 30.8 percent in the second half last year. Import from Myanmar and Lao PDR recorded an increase at 59.1 percent and 9.7 percent, respectively while import from Southern China decreased by 40.4 percent.

**Trade balance** of the first half this year posted a surplus of 426.7 million US dollars, falling from a surplus of 600.3 million US dollars in the second half of 2008.

**7. Government Spending. In June 2009,** budgetary disbursement through provincial treasury offices in the northern region decreased by 3.6 percent from the same period last year to 14,053.1 million baht. The capital expenditure registered a contraction of 11.3 percent owing to a 30.3 percent decrease in general subsidies of local administrative organizations. Nonetheless, expense of land and building category rose by 19.2 percent. The current expenditure recorded a 9,081.7 million baht, rising by 1.2 percent following an increase in categories of other expenses and operating expenses (personnel and supplies) at a rate of 50.1 percent and 14.9 percent, respectively.

**In the first half of 2009,** budgetary disbursement in the northern region was 91,968.6 million baht, growing from the same period last year by 8.6 percent. The capital expenditures were 37,946.2 million baht, accelerating by 14.8 percent comparing to the second half last year with a contraction of 41.8 percent. This was attributable to an increase in categories of general subsidies to local administrative organizations (in the part of capital expenditure), which was due to the speeding up of disbursement during the first quarter as well as in land and building category with a rate of 22.5 percent and 14.4 percent, respectively. The current expenditures were 54,022.4 million baht, expanding by 4.6 percent as categories of other expense and operating expenses were up by 38.2 percent and 10.4 percent, respectively. In addition, general subsidies (in the part of current expenditure) rose 7.3 percent from the same period last year.

**8. Prices. In June 2009,** the Headline Consumer Price Index (Headline CPI) was in negative territory for the third consecutive month, declining 4.8 percent primarily from the high base in the same period last year. The non-food price dropped by 10.6 percent as the prices of transportation and communication as well as housing fell by 18.1 percent and 7.0 percent, respectively due to an extension in the government's measure to support cost of living expenses. Meanwhile, tobacco and alcoholic beverage prices was up by 8.9 percent as a result of the excise tax increase since May 2009. The food price index grew by 4.1 percent following a rise of 7.4 percent in meat price and 11.4 percent in vegetable and fruit price. The Core Consumer Price Index (Core CPI) decreased by 1.0 percent.

**In the first half of 2009,** the Headline CPI fell by 1.7 percent, mainly from non-food category, of which price dropped by 8.4 percent, with the price of transportation and housing declined by 14.5 percent and 7.5 percent, respectively. However, the price of tobacco and alcoholic beverage was up by 2.3 percent following the increase in excise tax. The food price index grew by 8.5 percent, with a rise in prices of meat, poultry and fish as well as vegetables and fruits at a rate of 7.9 percent and 9.9 percent, respectively. The Core CPI increased by 1.4 percent.

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**9. Labor.** According to the Labor Force Survey by the National Statistical Office, northern labor force amounted to 7.2 million at end-May 2009. Of this, 7.1 million were employed, increasing by 9.1 percent as employment in agricultural sector rose 10.2 percent, due to demand for workers during agricultural season and employment in non-agricultural sector increased 8.2 percent. Notable increases in non-agricultural employment was observed in sectors of hotel/restaurant, wholesale/retail and construction, where hiring increased by 19.8 percent, 15.2 percent and 14.6 percent, respectively. The number of unemployed persons was 0.1 million with an unemployment rate of 1.6 percent. In addition, the underemployment rate and seasonal unemployed rate registered at a rate of 1.8 percent and 0.5 percent, respectively. At end-June 2009, the number of insured persons, according to the Section 33, was 594,138 persons, continually declined for the ninth consecutive month at a rate of 0.3 percent. Meanwhile, the number of insured persons, according to the Section 39, totaled 88,196 persons, rising by 2.4 percent from the previous month and 35.4 percent from the same period last year.

**10. Banking.** At end-May 2009, the commercial bank deposit outstanding was 385,109 million baht, growing at an accelerated rate of 6.8 percent from 5.3 percent in the previous month. The increase in deposits, particularly in provinces of Chiang Mai, Nakhorn Sawan, Pitsanulok and Chiang Rai, was attributed to the expansion in saving deposits of public authorities, academic institutions, crop trading businesses as well as temporary parking of funds of maturing mutual funds. Nevertheless, fixed deposits in every province continued to decrease for the fifth consecutive month since January 2009, as investors shifted deposits into bills of exchange and mutual funds. As for lending, the commercial bank credit outstanding dropped by 0.8 percent to 296,519 million baht. Significant fall was in particular was observed in the provinces of Nakhon Sawan, Kampheang Phet and Pichit as a result of promissory notes and overdrafts payment by crop traders, rice mill businesses, motorcycle dealers and wholesale and retail businesses. The ratio of credit to deposit was at 77.0 percent, declining from 82.9 percent at end-May 2008.

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