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Press Release on Northern Region Economic Condition in March and in the First Quarter of 2009

In March 2009, the northern region economy continued to contract. On the supply side, farm income remained favorable, although below year-ago level. Manufacturing production continued to fall, while the service sector remained in the negative with falling tourist arrival. On the demand side, private consumption and private investment contracted, but signs of improvement were observed in both the construction and capital investment. Growth in government spending was driven by an acceleration in the capital expenditure. On the external front, exports and imports declined. Headline inflation slowed down. At end-February 2009, commercial bank deposit and credit outstanding grew at a slower pace.

In the first quarter of 2009, the northern region economy contracted year on year and in sequential term from the previous quarter. On the supply side, falling production of major crops contributed to the decline in overall farm income. Manufacturing production remained soft. The global economic crisis continued to hold down performance of export-oriented sectors and limited the number of tourists, thereby leading to sluggish activity in the service sector. On the demand side, private consumption and private investment declined, but the latter showed some improvements, particularly in construction investment. Government spending increased as the capital expenditure rose. Exports and imports continued to fall. The Headline inflation slowed down from the previous quarter. At end-February 2009, commercial bank deposit and credit outstanding grew at a decelerated rate.

Details of economic conditions were as follows:

1. Agriculture. In March 2009, farm income remained high level-wise, though declining by 3.4 percent from year-ago level when farm income was exceptionally high, fueled by high global prices of major crops. The major crop production index was down by 4.1 percent as the output of the second rice paddy declined by 12.9 percent due to less favorable weather and water supply conditions compared with last year's. Moreover, outputs of industrial sugar cane, pineapple, and onion, decreased by 4.7 percent, 5.9 percent, and 3.4 percent, respectively, as some growers switched to other crops. In contrast, the output of cassava rose by 33.6 percent, a historical high, as planting areas expanded in response to last year's favorable price. The major crop price index was up slightly by 0.8 percent, as prices of the second rice paddy and industrial sugar cane increased by 7.8 percent and 7 percent, respectively, boosted by the government's measures. Meanwhile, the price of onion rose by 35.5 percent due to supply shortfall. In contrast, prices of cassava, shallot, and maize, plunged by 50 percent, 44.2 percent, and 23.3 percent, respectively, due in part to excess supply from the previous crop year.

In the first quarter of 2009, farm income contracted by 1.1 percent from last year's high base, when the farm income surged 34.7 percent as prices of major crop soared with the high world-market prices, spurred by concerns over the food and fuel crisis. The major crop production index was down by 1.8 percent as outputs of industrial sugar cane and pineapple declined by 4.7 percent and 5.9 percent, respectively, due in part to farmers behaviour in switching over crops yielding better returns such as cassava. Moreover, the output of the second rice paddy dropped by 12.9 percent due to unfavourable water supply and colder-than-usual weather conditions during year-end 2008 and the beginning of 2009. In contrast, outputs of cassava and shallot rose by 33.6 percent and 7.6 percent, respectively, driven by increased planting areas following last year's high prices. As for the agricultural price, the major crop price

index was up slightly by 0.7 percent, as prices of industrial sugar cane, second rice paddy, and major rice paddy, increased by 7.8 percent, 7 percent, and 30.8 percent, respectively, prompted by the government's measures to support farmers. In contrast, prices of cassava, shallot, and maize, declined by 47.7 percent, 50.9 percent, and 19.9 percent, respectively, due to last year's high base and weakened demand in light of the global economic slowdown.

2. Manufacturing. In March 2009, manufacturing production contracted, with the northern region's Manufacturing Production Index (MPI) falling by 39.7 percent, compared with a decline of 38.5 percent last month. However, some improvements in the outlook for the manufacturing production was observed as the pace of decline of the seasonally adjusted MPI had eased somewhat, recording a fall of 3.2 percent compared with a decline of 10.2 percent last month. Production of electronics industry contracted by 60.2 percent due mainly to suspension of production line of hard disk drive components. In contrast, production of other electronic products increased from the previous month as manufacturers adjusted their business to the changing economic conditions as well as inventories run down. In the food industry, production contracted, with sugar and fresh frozen fruits production declining and canned corn production falling as European demand weakened. In addition, production of tableware ceramic products and construction-related materials continued to decline, falling by 20.9 percent and 9.8 percent, respectively. The diamond cutting industry showed no visible signs of production upturn. Meanwhile, production of beverages expanded as production of sodas and liquors increased.

In the first quarter of 2009, manufacturing production contracted further, with the MPI decreasing by 37.2 percent, compared with a decline of 19.4 percent in the previous quarter, as production dropped across most industries. Production of electronics industry declined by 55.2 percent as demand overseas contracted markedly during the global economic crisis. Electronic products recording a fall in production included printed circuit board assembly, integrated circuits, and transformers. Moreover, production of food industry decreased by 15.3 percent as production of fresh frozen fruits declined, and production of canned corn dropped as demand from Europe weakened. Meanwhile, production of beverage industry contracted, and production of construction-related materials decreased by 9.5 percent, improving from a decline of 19.5 percent in the previous quarter. In addition, production of tableware ceramic products dropped by 20.4 percent as demand from Europe and the U.S. remained dampened, while production of apparel products declined by 24.5 percent as production of cotton clothing and other clothing dropped.

3. Service. In March 2009, the service sector contracted due to a combination of factors namely tourists' scaling back on discretionary and travel spending, the unfavourable weather condition with heavy haze covering some northern provinces, and 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 contracted by 21.5 percent, noting a decline of the VAT in Chiang Mai province of 26.9 percent. In addition, the number of air passengers continued to decline, falling by 19.4 percent with every airport in the northern region reporting a decrease. The decline was due in part to route cancellation or reduced number of flights of some airliners. Meanwhile, the average of hotel occupancy rates declined from the same period last year to 44 percent due mainly to the adverse effect of the heavy haze condition, and the average of hotel room rates dropped by 1.1 percent.

In the first quarter of 2009, the service sector continued to decline as a result of decreased number of tourists, tourists' cautious spending, and the unfavourable effects of the heavy haze condition. The VAT collection from hotels and restaurants contracted by 14.2 percent, particularly in major tourism provinces such as Chiang Mai and Chiang Rai. Meanwhile, the number of air passengers dropped by 17.9 percent, with every northern airport recording a fall. In addition, the average of hotel occupancy rate was down to 60.6 percent and the average of hotel room rates declined by 0.2 percent.

4. Private consumption. In March 2009, private consumption continued to contract as consumer spending moderated due to concerns over domestic economic outlook and employment conditions.

Developments of key private consumption indicators were as follows. The VAT collection from all types of businesses declined by 3.2 percent, noting significant drop in major northern provinces, particularly for spending for durable goods such as vehicles. Meanwhile, the numbers of registered cars, and registered motorcycle contracted by 16.3 percent and 2.9 percent, respectively.

In the first quarter of 2009, private consumption contracted due to more cautious spending behaviours of consumers and concerns over prolonged economic slowdown and employment conditions. The VAT collection from all type of businesses increased slightly by 0.4 percent due in part to the government's economic stimulus packages. Meanwhile, the numbers of registered cars and registered motorcycles contracted by 15.6 percent and 9.3 percent, respectively, in light of more stringent requirements for loans, and reduced farm income.

5. Private Investment. In March 2009, private investment contracted due to concerns over the domestic economic slowdown and Thailand's political unrest. However, some signs of a moderation in the pace of decline were observed. The sales of construction related materials declined by 4 percent, but improved from a decline of 7.3 percent in the previous month. Meanwhile, the amount of land transaction fees increased slightly by 0.3 percent, with both the number of transactions and the amount of transactions rising. The increase was due in part to the fact that the extension of the tax incentives to promote real estate was not widely known to the public – the tax measures, originally set to be effective until end-March 2009, was extended to end-March 2010. As a result, there was a rush to complete real estate transaction in March 2009 to avail themselves of the benefit of the tax measures. Turning to construction areas, the square meters of construction areas permitted in the municipal zone, an indicator of forthcoming construction activities, contracted by 10.2 percent, as construction area for hotels and dormitory buildings dropped. Meanwhile, the investment value of BOI's approved projects, an indicator of future capital investment, increased by 344.6 percent to 562 million baht, led by investment of software industry, investment to produce aluminum, and plastic products.

In the first quarter of 2009, private investment, particularly construction investment, declined as investor confidence was adversely affected by the global economic slowdown and Thailand's domestic political situation. Sales of construction-related materials remained weak, and the amount of land transaction fees decreased by 33.4 percent. The decline in the amount of land transaction fees, however, was due in part to interim measures to reduce fee/tax rates to promote real estate transactions, which in turn, helped boost the number of land transactions up by 28.3 percent. Moreover, the square meters of construction areas permitted in the municipal zone contracted by 35.4 percent, as construction areas for residential building, and service and transportation building, declined. Meanwhile, the investment value of BOI's approved projects totaled 859.3 million baht, with the majority being investment to produce metal products, machinery and equipments, paper and plastic products, and electronics and electrical appliances.

6. Foreign Trade. In March 2009, foreign trade remained dampened. Export value recorded through customs houses in the northern region declined by 35 percent to 159.7 million US dollars, but the pace of decline had slowed compared with a fall of 42 percent last month, as exports of some major goods improved. The export of manufacturing goods, for instance, decreased by 24.2 percent, improving from a decrease of 30.9 percent in the previous month. Included in the manufacturing goods was printed circuit board assembly. Meanwhile, the export of agricultural products declined by 7.2 percent as fresh and frozen fruits exports dropped. In contrast, the export to bordered countries rose by 11.8 percent to 92.2 million US dollars, accelerating from 2.9 percent in the previous month due to increases in exports to Myanmar and Lao PDR, which increased by 15.6 percent and 30.2 percent, respectively. The export to southern China, however, declined by 25.3 percent due to decreased export of smoked rubber sheets.

Import value recorded through customs houses in the northern region decreased by 43.1 percent to 72.8 million US dollars, but the pace of decrease had slowed compared with a fall of 60 percent in the previous month, particularly the import of raw materials and the import of intermediate goods. The import

of raw materials and the import of intermediate goods declined by 52.1 percent, but improved from a decline of 68.6 percent last month, as raw materials imports for electronics industry and the import of glass fared better. Meanwhile, decreased imports of electrical machinery and parts, and industrial machinery and parts, led to a decline in the capital goods import. In contrast, the import from bordered countries expanded by 22.4 percent to 10.1 million US dollars due to a marked increase of 54.3 percent in the import from Myanmar. The imports from Lao PDR and southern China, however, contracted by 1.6 percent and 29.6 percent, respectively. The trade balance registered a surplus of 86.9 million US dollars, compared with a surplus of 118 million US dollars in March 2008, and a surplus of 83 million US dollars in February 2009.

In the first quarter of 2009, the trade value recorded through customs houses in the northern region contracted by 42 percent to 621.9 million US dollars as both exports and imports remained sluggish during the global economic crisis. Export value recorded through customs houses in the northern region declined by 37.2 percent to 432.3 million US dollars, a steeper decline in this quarter, compared with a decline of 14.7 percent in the previous quarter. This was due to decreased export of manufacturing goods, which dropped by 27.8 percent, particularly the export of electronic products such as electrical circuit breakers, integrated circuits, and diodes. In addition, exports of cut diamonds and jewelry posted a significant decline. Meanwhile, the export to bordered countries increased by 0.3 percent to 220.7 million US dollars, slowing down from 9.6 in the previous quarter as exports to Myanmar and Lao PDR increased at decelerated rates of 1.9 percent and 17.7 percent, respectively, whereas the export to southern China declined by 23.1 percent due to decreased export of smoked rubber sheets.

Import value recorded through customs houses in the northern region declined by 50.6 percent to 189.6 million US dollars, noting further decline compared with a decline of 17.1 percent in the previous quarter. The import of raw materials and intermediate goods dropped by more than 60 percent, particularly raw material imports for electronics industry and diamond cutting industry. Moreover, the import of consumer goods fell by 29.5 percent due mainly to decreased imports of vegetables, fruits, and seafood products. Meanwhile, the import from bordered countries increased at a decelerated rate of 7.4 percent to 26.3 million US dollars, as the imports from Lao PDR and southern China contracted by 24.5 percent and 28.6 percent, respectively, due to decreased imports of lignite, vegetables, and fruits, whereas the import from Myanmar rose by 46 percent. The trade balance registered a surplus of 242.7 million US dollars, compared with a surplus of 304.4 million US dollars in the first quarter of 2008, and a surplus of 278.5 million US dollars in the fourth quarter of 2008.

7. Government Spending. In March 2009, government spending disbursed from provincial treasury offices in the northern region increased by 4.5 percent to 12,884.1 million baht. Capital expenditures rose at an accelerated rate of 24.7 percent to 3,921.6 million baht, following acceleration in disbursement in the land and construction areas. Provinces recording acceleration in disbursement was Uthai Thani, Tak, Lampang, and Phayao. In contrast, the current expenditure contracted by 2.3 percent to 8,962.5 million baht, as disbursement from the category of general subsidies dropped by 33.3 percent, whereas disbursement from categories of personnel, and operating expenses, increased by 0.9 percent and 15.9 percent, respectively.

In the first quarter of 2009, government spending disbursed from provincial treasury offices in the northern region increased by 13.5 percent to 48,077.6 million baht, turning from a decline of 2 percent in the previous quarter. The capital expenditures expanded by 36.4 percent, as the general subsidies that were classified as capital expenditure was disbursed to local administrative organizations following the delayed in the allocation of the 2009 budgetary expenditures in December 2008. Significant increases in disbursement were observed in provinces of Tak, Uthai Thani, and Phayao. The current expenditures decreased slightly by 0.3 percent to 26,387.3 million baht, as disbursement from the general subsidies that was classified as the current expenditures to local administrative organizations declined by 21.7 percent, with most of it being expenses for milk, students' meal, travel, tap water, and electricity. In the fourth quarter of 2008, the disbursement to local administrative organization expanded by 55.9 percent.

8. Prices. In March 2009, the Headline Consumer Price Index (Headline CPI) increased slightly by 0.2 percent, driven mainly by increased food prices. The food price index was up by 11.6 percent as the price of rice, starch, and starch products, and the price of vegetables and fruits, rose by 12.3 percent, and 12.9 percent, respectively. In contrast, the non food price index was down by 7.3 percent, as the prices of fuels, electricity, and tap water categories, dropped by 22.5 percent, 35.9 percent, and 34 percent, respectively, as a result of the extension of the six-month five measures to alleviate consumers' cost of living burden. The Core Consumer Price Index (Core CPI) increased by 2.8 percent, representing the same level of the previous month.

In the first quarter of 2009, the Headline CPI grew slightly by 0.2 percent as food prices rose. The food price index was up by 12.4 percent as the price of rice, starch, and starch products, and the price of vegetables and fruits, increased by 12.1 percent, and 10.7 percent, respectively. In contrast, the non food price index was down by 7.7 percent, due to decreased oil prices and the positive effect of the government's measures to alleviate consumers' cost of living burden. The Core CPI grew by 2.7 percent.

9. Labor. According to the Labor Force Survey conducted by the National Statistical Office, the northern labor force totaled 7 million at end-February 2009. Of these, 6.9 million were employed, increasing by 8.1 percent from the same period last year. Agricultural employment increased by 6.3 percent, as demand for labor increased during the agricultural season. Meanwhile, employment of the non-agricultural sector grew by 9.5 percent, with the employment in the sectors of construction, manufacturing, and hotels and restaurants, rising by 32.7 percent, 13.3 percent, and 8.2 percent, respectively. With the number of unemployed persons of 0.13 million, the unemployment rate was at 1.8 percent, the same rate as that of at end-February 2008.

10. Banking. At end-February 2009, commercial bank deposit outstanding increased at a slowing rate of 7.9 percent to 384,500 million baht, with most of the increase coming from deposits of local authorities and agencies. Significant increase in deposits was observed in provinces of Phitsanulok, Kamphaeng Phet, Sukhothai, and Phayao. As for lending, commercial bank credit outstanding grew by 3.7 percent to 300,067 million baht, slowing from the previous month as debtors such as savings cooperatives, rice mill businesses, and crop traders paid back their promissory notes. Provinces recording significant fall in credits included Kamphaeng Phet, Chiang Rai, Tak, and Phichit. The ratio of credit to deposit was at 78 percent, declining from 81.2 percent at end-February 2008.

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