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Northern Region Economic condition in September 2009 and the third quarter of 2009

In September 2008, the economy of the Northern region continued to improve, though at a moderate rate from the previous month following the slowdown in export-oriented manufacturing, private consumption and trade activities. Nonetheless, private investment performed well in line with the construction businesses. Government spending accelerated. Consumer price index, however, remained in a negative territory. As for labor market, prospect of rehiring more workers was evident. At the end of August 2009 the commercial bank deposits expanded while credit outstanding declined.

In the third quarter of 2009, the Northern region economy registered a continued improvement from the previous quarter. Government stimulus packages helped boosted domestic trade activities and accelerated government spending. Additionally, export-oriented production and private investment expanded well. Although private consumption slowed down, exports and imports as well as tourism held up well. Meanwhile, the consumer price index declined, largely from a fall in oil prices. As for banking, deposit outstanding still increased whereas credit outstanding weakened.

Details of the development of the economic conditions are as follows:

1. Agriculture. In September 2009, farm income from major crops declined by 16.7 percent, a smaller contraction from the 22.7 percent decline in the previous month. The major crops production index was up by 4.2 percent following an increase in productions of maize, major rice and soybean at a rate of 3.5 percent, 0.8 percent and 0.2 percent, respectively following last year's high prices which encouraged farmers to expand their planting areas. The major crops price index was down by 20.1 percent as prices of maize, major rice paddy and soybean fell by 34.8 percent, 25.8 percent and 22.0 percent, respectively due to the decline in world market prices.

In the third quarter of 2009, farm income fell 20.4 percent. The major crops price index declined by 24.9 percent following a fall in the prices of maize (36.0 percent), major rice paddy (20.6 percent), second rice paddy (20.5 percent) and soybean (21.3 percent) as a result of last year's high base in tandem with a fall in world prices. Meanwhile, price of longan significantly dropped by 46.0 percent, owing mainly to its high output. As for agricultural production, the major crops production index rose by 5.9 percent with an increased production of maize, major rice and soybean at rate of 3.5 percent, 0.8 percent and 0.2 percent, respectively as farmers increased their planting areas, inducing by attractive prices last year. In addition, longan output was up by 19.7 percent, due mainly to favorable climate yielding higher output per Rai. Nevertheless, production of second rice declined by

5.3 percent because of insufficient water for the cultivation in the second round coupled with lower-than-usual temperature during the end of 2008 and the beginning of 2009 resulting in lower yield per Rai.

2. Manufacturing. In September 2009, manufacturing production slowed down from the previous month. Manufacturing Production Index (MPI) slightly increased by 1.5 percent compared with 23.9 percent last month as food industry, particularly frozen vegetables (such as green soy bean) and dried longan, grew at a slower pace of 85.5 percent from a sharp expansion rate of 125.9 percent in the previous month. Meanwhile, production of construction-related materials expanded 20.8 percent, moderating from 84.5 percent in the previous month. Apparel industry turned a positive territory for the first month since April, 2008. A strengthened demand from Japanese and European market resulted in an 11.4 percent increase of its production, particularly winter cloths manufactured in the lower Northern region. In addition, production of zinc rose by 11.3 percent. However, production of electronic components fell by 20.0 percent, with production falling in categories such as transformers, integrated circuits, hard disk drive components and diodes. Production of ceramics, notably tableware, decreased 25.3 percent with a marked decline in exports to England, Netherland and United States. Nonetheless, beverage production remained in a contraction but improving from last month with increased alcoholic beverage and soft drink production.

In the third quarter of 2009, manufacturing production registered positive growth over the same period last year. The MPI increased by 5.3 percent, in sharp contrast to the 30.4 percent contraction in the previous quarter as production of food industry, led mostly by dried longan, frozen and preserved vegetables, rose by 68.6 percent, which benefited from an increase in market share. Meanwhile, production of construction-related materials grew by 55.4 percent, accelerating from the second quarter as a result of entrepreneurs' stock accumulation in expectations of a rise in prices in tandem with an increased demand for export. In addition, production of zinc rose by 5.3 percent partly followed an expansion of construction-related materials production. As for the electronic components, production fell by 22.1 percent, improving from a 44.6 percent contraction in the previous quarter. Significant improvement was observed in the categories of new model electronic components, mobile phone monitors, television components in line with an increased demand in Asian market, namely China, Malaysia and Singapore. Production of beverage continued to decline from the previous quarter, particularly production of alcoholic beverage as a result of an upward adjustment in prices and losses in market share.

3. Service. In September 2009, services sector showed an improving trend. Development of key service indicators were as follows. The arrival of air passengers to Northern airports, particularly Chiang Rai and Chiang Mai airports continued to increase year on year by 23.3 percent, partly owing to airlines' fare promotion. By contrast, the amount of VAT collection from hotels and restaurants dropped by 17.8 percent. The average of hotel occupancy rate also seasonally declined to 37.0 percent or fell by 0.3 percent over the same period last year. Meanwhile, the average of hotel room rate was down by 3.0 percent on account of intense price competitions among hotel operators together with oversupply problem.

In the third quarter of 2009, the service sector improved from the previous quarter. However, the promotional activities to boost tourism, both hotels room rate and

airfares discounting, as well as a meeting and seminar organized by public and private sectors were supportive to service sector in the Northern region. This was reflected by several indicators as follows. The number of air passengers increased 11.6 percent. The amount of VAT collecting from hotels and restaurants declined by 11.6 percent, improving from a 22.1 percent from the second quarter. The average of hotel occupancy rate was up to 41.4 percent from 35.7 percent in the previous quarter. Meanwhile, the average of hotel room rate fell by 2.2 percent as a result of cutting-price strategy adopted by entrepreneurs.

4. Trading Sector. In September 2009, trading activities expanded on a year-on-year basis, though slowing down from the previous month. Trading sector index rose by 13.2 percent and can be broken down into the following components. Motor vehicles trade continually increased by 11.4 percent, mostly owing to an acceleration in total sales of motor vehicles from the previous month. In addition, repairing equipments recorded a growth rate, similar to that of the previous month. In contrast, total sales of fuel fell by 0.4 percent. Wholesale trade moderated from a rate of 22.5 percent last month to 15.8 percent. Expansions were observed in almost all categories except for food and beverage category. Retail trade, an indicator for consumers' spending, expanded across the board by 14.0 percent, particularly the sales of construction materials which its figure had improved since last month.

In the third quarter of 2009, trading sector index was up by 11.7 percent, accelerating from the same period last year and the previous quarter. An increase was observed in all categories, in part because of government stimulus package and a continued improvement in construction activities. This was reflected by an increase of both wholesale and retail sales. In addition, the preventive measures to safeguard against the spread of influenza (H1N1) led to a steep rise of pharmaceutical category. Categories of trading sector index registered a positive growth included motor vehicles, wholesale and retail trade with a rate of 7.4 percent, 20.2 percent and 12.6 percent, respectively.

5. Private Consumption. In September 2009, private consumption further slowed down from the previous month as represented by the following key private consumption indicators. The amount of VAT collected from all types of businesses rose by 3.9 percent compared with 10.1 percent last month. The number of registered car rose by 7.9 percent, moderating from an accelerated rate of 12.6 percent in the previous month following a declining of purchasing orders. Meanwhile, the number of registered motorcycles continued to fall by 8.6 percent from last month. The household electrical usage in August 2009 was up by 9.5 percent.

In the third quarter of 2009, private consumption moderated from the second quarter. Details of key private consumption indicators were as follows. The amount of VAT collected grew by 6.3 percent, decelerating from a 16.7 percent growth in the previous quarter. As for durable goods, the number of registered cars accelerated by 8.1 percent, whereas posted a contraction at a rate of 14.7 percent in the second quarter. Nonetheless, the number of registered motorcycles still recorded a larger contraction with a rate of 9.7 percent, compared with the previous quarter, partly because of high base effect over the same period last year.

6. Private Investment. In September 2009, private investment was on an improving trend following an expansion in construction activities. Details of key private investment indicators were as followed. Sales of construction-related materials expanded by 39.2 percent, slowing from a 78.3 percent growth in the previous month, in part because of seasonal factors. Meanwhile, the amount of land transaction fees, grew by 34.8 percent, representing a growth both in the number and value of transactions, a contrast from a 20.6 percent contraction in the previous month. This increase was seen in major provinces in the Northern region. In contrast, the number of square meters of construction areas permitted in municipal zone remained in a negative territory with a rate of 12.8 percent. Category of residential areas was up by 7.2 percent whereas services expanded by 35.5 percent, contrasting with a 74.7 percent contraction last month. The number of investment approved by BOI, an indicator for prospective capital investment, registered only 1 project with a value of 100.0 million Baht, declining from the same period last year by 27.5 percent.

In the third quarter of 2009, private investment markedly improved, as reflected by the following key private investment indicators. Total sales of construction-related materials rose by 62.5 percent, accelerating from an 11.9 percent increase in the previous quarter. This was due to stock accumulation process in response to an upward adjustment in prices as well as healthy exports demand to Myanmar and Laos. Additionally, the number of square meter of construction areas permitted in municipal zones continually improved from a 20.8 percent growth in the second quarter to a 38.4 percent. A sharp increase recorded in the area of commercial building, particularly department store construction in the upper Northern region with a sharp increase by 189.3 percent, accelerating from a 20.0 percent in the previous quarter. However, the amount of land transaction fees declined by 3.2 percent, but improving in both the number and value of transactions from a 41.8 percent in the second quarter. As for capital investment, the value of projects approved by BOI totaled 1,223.3 million Baht with 11 projects, increasing by 30.1 percent over the same period last year. The approved projects were observed in areas of agriculture and agricultural products, electronics and electrical appliances, light industry with investment value of 480.0 million Baht, 278.4 million Baht and 223.0 million baht, respectively.

7. Foreign Trade. In September 2009, total trade improved from the previous moth. Export value through custom houses in the Northern region declined by 10.4 percent to 215.9 million US dollars, decelerating from 17.6 percent in the previous month, partly as exports of manufactured products posted a smaller decline with a rate of 17.5 percent, compared with 22.8 percent last month. An improvement was registered in categories of electronics, lens and machinery parts. Meanwhile, exports of agricultural products fell by 29.3 percent, primarily from a decrease of rice and rubber exports. As for border trade, exports to neighboring countries grew at an accelerated rate from the previous month of 19.9 percent to 88.6 million US dollars. Border exports to Myanmar increased by 34.4 percent, while exports to Laos PDR and southern China dropped by 5.3 percent and 43.1 percent, respectively.

Import value through custom houses in the Northern region contracted by 14.5 percent to 121.8 million US dollars as imports of raw material and intermediate goods, namely electronics components and rough diamond, fell by 18.2 percent, closed to that of last month. Meanwhile, imports of capital goods declined by 20.5 percent in line with a slowdown in imports of machinery parts for producing electronics components. As for border trade, imports from

bordered countries increased by 4.8 percent to 11.2 million US dollars, slowing down from the previous month as import from Laos PDR, particularly lignite, increased more than doubled together with imports from southern China, mostly vegetables, fruits and garlic, increased by 7.2 percent. While imports from Myanmar declined by 48.8 percent.

The trade balance posted a surplus of 94.1 million US dollars, decreasing from a surplus of 98.5 million US dollars in September 2008, and from a surplus of 101.1 million US dollars in August 2009.

In the third quarter of 2009, total trade showed improvement from the previous quarter. Export value totaling 627.3 million US dollars posted a smaller contraction of 14.6 percent, compared with 29.4 percent in the previous quarter as exports of manufacturing products declined by 21.5 percent, compared with 32.3 percent in the second quarter. This was supported by an improvement of manufacturing products exports, particularly hard disk drive components and electrical apparatus for electrical circuits. Furthermore, exports of processed agricultural products, which expanded well in the Japanese market also helped to shore up exports of manufacturing products. As for border trade, border exports accelerated by 20.3 percent from the previous quarter, mainly stemmed from exports of vehicles and parts. Exports to Laos PDR increased by 9.7 percent, slowing down from the previous quarter as exports of agricultural products weakened. In contrast, exports to southern China dropped by 19.6 percent, registering a successive fall from the second quarter.

Import value fell by 20.1 percent to 330.0 million US dollars, improving from a decline of 44.8 percent in the previous quarter. Of this, imports of raw materials and capital goods helped up well throughout the third quarter, notable imports of raw materials for electronics, glasses, chemical and machinery parts. Meanwhile, imports of consumer products fell by 14.5 percent with a declined import of fishery, vegetables and fruits. As for border trade, imports from Laos PDR more than doubled, partly from a growing import of lignite. Nevertheless, imports from Myanmar and southern China were down by 22.7 percent and 4.2 percent, respectively. Products registered a decline were furniture, wooden products, grain and animal feed.

The trade balance in the third quarter posted a surplus of 297.3 million US dollars, slowing from a surplus of 321.8 million US dollars in the third quarter of 2008 but increasing from a surplus of 263.8 million US dollars in the second quarter of 2009.

7. Government Spending. In September 2009, budgetary disbursement through provincial treasury offices in the northern region amounted to 15,948.2 million Baht, grew at an accelerated rate of 24.1 percent, but registered a decline of 8.8 percent over the same period last year. Capital expenditures increased by 63.3 percent to 4,969.1 million Baht as the disbursement in categories of land/building, accounted for 79.8 percent of total capital expenditures, markedly increased by 71.3 percent. Notable disbursement was seen in provinces of Chiang Mai, Lampang, Phitsanulok and Sukothai. Meanwhile, current expenditures also expanded 12.0 percent to 10,979.1 million Baht as categories of other expenses, operating expenses as well as general subsidies of local administrative organizations rose by 60.4 percent, 22.0 percent and 24.6 percent, respectively.

The budgetary disbursement through provincial treasury offices in the Northern region in the third quarter of 2009 amounted to 42,984.2 million Baht grew at a faster pace by 21.4 percent, compared with a 5.6 percent decline in the same period last year. The capital expenditures amounted to 12,137.5 million Baht, increasing by 50.4 percent as the disbursement in categories of land/building, accounted for 79.0 percent of total capital expenditures, increased 56.2 percent. Meanwhile, the current expenditures totaled 30,846.7 million baht, up by 12.9 percent as categories of general subsidies of local administrative organizations as well as other expenses and operating expenses rose by 43.6 percent, 50.9 percent and 17.2 percent, respectively.

8. Prices. In September 2009, the Headline Consumer Price Index (Headline CPI) fell by 1.8 percent, recording a decline for a sixth consecutive month. The non-food price index fell by 3.7 percent as a decrease in fuel prices drove down prices in categories of vehicles, transportation and communication by 8.7 percent. In addition, government's 15 year free education measure led to a fall in prices of recreation and education category and apparel and footwear by 10.1 percent and 3.3 percent, respectively. However, prices of tobacco and beverage category as well as food and beverage were up by 9.2 percent and 0.4 percent, respectively as a result of a rise in the excise tax on alcoholic beverage. The Core Consumer Price Index (Core CPI) increased by 0.4 percent, closed to the previous month.

In the third quarter of 2009, the Headline CPI was down by 3.0 percent as the non-food price index fell by 6.5 percent. Of this, prices of vehicles and transportation declined by 12.7 percent, mainly owing to a fall in oil prices. In addition, the free education policy resulted in a decrease in prices of recreation and education category as well as apparel and footwear by 10.1 percent and 3.2 percent, respectively. In contrast, the upward adjustment in excise tax on alcoholic beverage and cigarette led to an increase in prices of tobacco and alcoholic beverage as well as food and beverage by 9.2 percent and 1.7 percent, respectively. The Core CPI fell by 0.7 percent.

9. Labor. According to the Labor Force Survey by the National Statistical Office, northern labor force totaled 7.3 million at end-August 2009. Of these, 7.2 million were employed and increased by 2.2 percent on year-on-year basis. The non agricultural employment expanded 7.2 percent as hiring in areas of wholesale/retail, manufacturing and hotel/restaurant gradually increased by 18.3 percent, 12.8 percent and 0.6 percent, respectively. Meanwhile, the agricultural employment declined by 2.5 percent, in part because prices of agricultural products were not attractive for workers. The number of unemployed persons was 0.1 million with an unemployment rate of 0.8 percent, similar to the same period last year. In addition, the underemployment rate (less than 35 hours working per week) stood at 0.0 percent, compared with 1.2 percent in the same period last year, signaling an increased demand for workers back to work. At end-September 2009, the number of insured persons, according to the Section 33, was 599,834 persons, closed to the same month last year. Meanwhile, the number of insured persons, according to the Section 39, was 93,771 persons, with an increase of 2.7 percent from the previous month and 36.0 percent from the same period last year.

10. Banking. At end-August 2009, the commercial bank deposit outstanding grew by 7.1 percent to 383,837 million Baht, slowing from the previous month. This was largely due to an increased saving deposit of public authorities combined with mobilizing deposit by some commercial banks. A significant increase was seen in provinces of Chiang

Mai, Chiang Rai, Phetchabun and Lampang. As for lending, the commercial bank credit outstanding decreased by 1.4 percent to 297,305 million Baht, improving from a contraction of 1.7 percent in the previous month as a result of an increased credit extended to rice mill and crop trading business in provinces of the lower Northern region, namely Kampanghet, Nakhon Sawan, Phetchabun and Pichit. In addition, debt payment made by wholesale and retail businesses as well as teacher saving cooperation was observed in the upper Northern region. The ratio of credit to deposit was at 77.5 percent, declined from 84.2 percent at end-August 2008.

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