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Northern Region Economic Conditions in June and in the second quarter of 2010

In June 2010, the economic expansion in the Northern Region accelerated.

Export continued to increase for the ninth consecutive month with favorable growth recorded in all major markets. This contributed to a robust expansion in the manufacturing sector, notably high-tech products. Private investment also kept up the growth trend both in construction activities as well as in capacity building and productivity improvement investments. Meanwhile, private consumption continued to expand on the back of the return in consumers' confidence. However, public spending contracted but noting an improvement from the previous month. Tourism activities continued to decline. Furthermore, farm income continued to decline due to lower outputs caused by the unfavorable weather condition.

Headline inflation rose moderately due to a decline in fuel prices. The unemployment rate remained low while demand for labor in manufacturing sector was still high. As for banking, credit outstanding accelerated while deposits outstanding grew at a closely rate last month.

Details of the economic conditions are as follows:

Northern Region's demand continued to increase from the previous month. The **Private Consumption Index** (PCI) rose by 4.4 percent, accelerating from 3.0 percent last month, reflected by positive contributions including an increase in VAT collection, the number of registered cars and motorcycles and household appliance sales, following an improvement in consumers' confidence in tandem with low interest rate environment and more favorable term of payment. The **Private Investment Index** (PII) continued to grow at 6.7 percent following an expansion in construction activities, imports of machinery for expanding the capacity and productivity, and in line with the markedly strong increase in the value of approved investment projects by BOI at a rate of 2,404.1 percent, particularly in the sectors such as mining, processed fruit and vegetable, electronic components and broiler chicken industries. With regard to government spending, fiscal stimulus saw some retraction but exhibiting some improvement from the previous month, especially capital expenditure as budget under the Strong Thailand 2012 Project was directly allocated to some local government agencies.

As for the external demand, export grew well and close to that of last month. The **export value** amounted to 291.1 million US dollars, increasing by 58.4 percent, especially in high-tech products such as electronic components and vehicles and spare parts together with agricultural products, such as maize and tobacco, which turned positive after registering a contraction in the previous month. As for border trade, export was up by 53.8 percent at 129.6 million US dollars, increasing to markets such as Myanmar, Lao PDR and the southern China. **Import value** at 115.0 million US dollars grew by 21.5 percent, accelerating from the previous month. The increase was observed in categories of raw material and capital goods for the manufacturing of metal, electronic components, electrical

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machinery components and spare parts. However, imports of consumer goods such as vegetable and fruit recorded a slowdown.

Increasing external demand was mainly attributable to an expansion in manufacturing sector. **Manufacturing Production Index (MPI)** rose by 51.3 percent, in line with an increase in manufacturing of electronic components and parts used in the production of computer, mobile phone and television as well as in manufacturing of beverage, textile, construction materials and ceramics. Meanwhile, agricultural processed production shrank as a result of a fall in production of frozen vegetable and preserved vegetable due to last year irregularly high production. In addition, **tourism activities** continued to decline as a result of political turmoil. **Trade activities** grew by 18.6 percent, noting a marginal deceleration from the previous month affected by poor tourism conditions and a drop in farm income with a rate of 4.1 percent.

The **Headline Consumer Price Index** in the Northern region rose 3.6 percent, slowing down from a 3.9 percent increase last month due mainly to a downward adjustment in fuel prices. The **Core Consumer Price Index** remained unchanged from the previous month with a slight increase of 0.9 percent.

On **employment**, the unemployment rate in May 2010 was subdued with a rate of 1.4 percent, lower than 1.6 percent over the same period last year. Demand for labor in the electronic components and textile industries were on the rise.

At end-May 2010, commercial bank **deposit outstanding** rose by 4.0 percent, slightly increase from 3.8 percent at end-April 2010. This was attributable to an increase in current deposit made by public authorities and local administrative organizations. Successive withdrawal from fixed deposit to invest in other financial products with offering higher return was also observed. As for lending, **credit outstanding** accelerated by 7.3 percent compared with 5.9 percent in the previous month. The credit extension was well diversified across businesses such as wholesale and retail businesses, construction-related material trading, saving cooperatives, leasing and housing loans.

In the second quarter, the Northern economic conditions grew at a favorable pace, although slowing down from the previous quarter. Exports in electronic components and agricultural processed products continued to expand well driven by external demand. Meanwhile, private consumption, especially durable goods also increased on the back of continued economic recovery in line with low interest rate and a relaxation in terms of payments. Private investment accelerated as reflected from increased construction activities as well as productivity and capacity expansion, particularly export-oriented manufacturing. However, the impact of political unrest led to a contraction in tourism sector after its rebound in the first quarter. Consequently, related-tourism consumption also softened. Additionally, public spending, especially capital expenditure scaled down as parts of the Strong Thailand budget was directly allocated to some local government agencies. Meanwhile, farm income dropped following a falling price of the second rice paddy. Unemployment was low and price level slowed down from the previous quarter. As for banking, credit outstanding grew at a faster pace while deposit outstanding expanded at rate similar to that of previous month.

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