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Northern Region Economic condition in March 2010 and the first quarter of 2010

In March 2010, the economy of the Northern region continued to expand from the previous month. Export accelerated for the sixth consecutive months with a sign of continued recovery in external demand, particularly in major trading partners markets including ASEAN, Japan and Europe. Consequently, export-oriented manufacturing increased in almost all industries, notably productions of electronic components with its growth more than doubled as well as agricultural processed products and jewelry. Private consumption held up well following strengthened purchasing power largely supported by growth in farm income and tourism sector which continued to expand since the beginning of the year. These resulted in a strong increase in trade activities across the board. Furthermore, the government stimulus helped boosted an expansion in both public and private investment, notably in areas of construction. Nevertheless, inflation grew at a slower pace while employment conditions improved following an economic recovery. As for banking, the commercial bank deposits and credit outstanding remained in expansion.

The recovery of the Northern Region economy in the first quarter of 2010 was evident and broad-based covering areas such as export, tourism, consumption and investment. Export accelerated driven by a recovery of major export markets as well as strengthened border trade. This led to a strong expansion in overall manufacturing industries, in particular hi-tech manufacturing and agricultural processed industries. Consequently, demand for labor also increased in tandem with the recovery. The pick up in tourism followed the momentum from the fourth quarter last year. Furthermore, favorable farm income, improved tourism and employment conditions were key supportive factors contributing to an increase in overall private consumption. Similarly, private investment, particularly construction activities, also rose mainly owing to government's stimulus measures. Nonetheless, government spending saw a slowdown as a result of an earlier disbursement since December, 2009, particularly in categories of general subsidies of local government organizations classified as capital expenditure. As for banking, credit outstanding resumed positive growth reflecting an economic recovery while deposit outstanding kept on the upward trend.

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

1. Agriculture. In March 2010, farm income grew slightly by 1.7 percent, slowing down from the previous month and the same period a year earlier as supply of some major crops in March declined. **The Major Crops Production Index** decreased 7.6 percent following a fall in productions of garlic and shallot with

a rate of 17.0 percent and 13.8 percent, respectively as there was a shortage in garlic and shallot bulbs for planting whilst farmers also switched to growing alternative crops. Similarly, production of cassava fell by 18.6 percent as a result of a severe outbreak of mealy bugs. However, a surge in certain major crops' prices encouraging output expansions resulted in increased productions of second rice and industrial sugar cane with a rate of 2.1 percent and 4.5 percent, respectively. As for agricultural prices, **the Major Crops Price Index** rose by 10.1 percent. Price of industrial sugar cane increased 3.1 percent due to an upward adjustment in preliminary prices following a hike in the world market prices of sugar. Meanwhile, prices of garlic and shallot were up by 108.2 percent and 17.1 percent, respectively on account of a larger reduction of its supply compared to the previous year. Furthermore, price of cassava notably increased by 102.9 percent in line with rising export demand. By contrast, prices of second rice and soybean fell by 17.8 percent and 9.3 percent, respectively.

In the first quarter of 2010, the Northern farm income rose by 4.4 percent, accelerating from the previous quarter and the same period last year due mainly to a rise in major crops prices. **The Major Crops Price Index** increased 9.5 percent. Price of industrial sugar cane was up by 3.1 percent following a surge in the world market prices as a result of a contraction in the world supply. Prices of cassava and glutinous rice paddy largely increased 84.3 percent and 58.2 percent following high external demand, notably from the Chinese market. In addition, prices of garlic and shallot rose by 108.2 percent and 33.1 percent, respectively due to low supply. Furthermore, price of maize was up by 19.3 following its growing demand. However, prices of major rice and second rice paddy dropped by 18.0 percent and 17.0 percent as a consequence of a slowdown in the world market prices coupled with the high level of government's rice stocks. As for agricultural production, **the Major Crops Production Index** declined by 4.6 percent with a decreased production of cassava and major rice at rate of 18.6 percent and 1.9 percent, respectively as a result of an outbreak of aphids yielding lower output per Rai, particularly major cultivation areas in the lower Northern region. Additionally, output of garlic and shallot fell by 17.0 percent and 13.8 percent, respectively as farmers shifted to cultivating other major crops together with a shortage of garlic and shallot bulbs for planting. However, output of industrial sugar cane, second rice and maize increased by 4.5 percent, 2.1 percent and 7.4 percent, respectively as farmers expanded their cultivation areas induced by attractive prices.

2. Manufacturing. In March 2010, **Manufacturing Production Index (MPI)** largely increased by 62.2 percent, accelerating from the previous month as major manufacturing industries expanded well. In particular, growth of electronic components production more than doubled as observed in all categories including computer parts such as mouse parts, hard disk drive components as well as mobile phone parts following rising demand in Asian market in tandem with a recovery in US and European markets. Production of food industry also grew by 27.7 percent after slowing down in the previous month. Notable expansion was seen in products of processed food, namely frozen fruits/vegetables and canned sweet corn. In addition, production of jewelry, both diamond cutting and fashionable ornaments continued to strengthen from the previous month. Production of construction-related materials expanded well, though at a slower rate than the previous month. Beverage

production, on the other hand, declined after acceleration in production during beginning of the year.

In the first quarter of 2010, **MPI** surged 53.8 percent, expanding favorably throughout the first quarter. Production of electronic components more than doubled following increased new orders in electronic components used in mobile phones/computers, sensors and electrical equipments. Food industry production expanded by 13.1 percent, close to that in the previous quarter in line with a rise in agricultural processed production for export to European market, notably frozen vegetables/fruit such as mango, green soybean as well as canned sweet corn. Jewelry production increased more than twice, partly due to a low base over the same period a year earlier caused by the global economic crisis. The increase was observed in production of both diamond cutting and fashionable ornaments. Meanwhile, production of construction-related materials grew well throughout the quarter as reflected in increased construction activities in both rural-based and government-based projects. Production of beverage registered an expansion, though slowing in the last month of the first quarter.

3. Service. In March 2010, **services sector** improved compared to the same period last year benefiting partly from increases in major events such as meetings and seminars. Development of key service indicators were as follows. The arrival of air passengers through the Northern airports increased year-on-year by 14.9 percent, moderating from the previous month following the beginning of low season as well as the adverse impact of smoke problem. Meanwhile, the amount of VAT collection from hotels and restaurants continued to increase for the third consecutive months with a rate of 9.8 percent. The increase mostly saw in major tourism-based provinces in the Northern region. The average of hotel occupancy rate was 40.1 percent with the average of hotel room rate at 1,470.1 baht per room night.

In the first quarter of 2010, **the service sector** sustained the growth momentum from a continual improvement from the previous quarter as reflected by a rise in both the number of air passenger arrivals and the amount of VAT collection from hotels and restaurants at a rate of 17.4 percent and 12.2 percent, respectively. The key contributing factors were an economic recovery, various events organized in most provinces to attract foreign and Thai tourists, cool weather condition, airfare and room rate discounting promotions as well as meetings and seminars organized by authorities and private sector. This also led to a successive increase in hotel occupancy rate. Smoke problem in the upper Northern region during March resulted in a small decline in the number of tourists.

4. Trading Sector. In March 2010, trading activities continued to expand on a year-ago basis. **Trading index** was up by 21.9 percent, noting an increase across the board in line with a recovery of economy and consumers' confidence. Motor vehicles trade rose 20.7 percent as retail sales of fuel continually improved in both prices and volume following growing demand for fuel in response to an increased number of vehicles. Meanwhile, sales of cars and motorcycles expanded favorably. In addition, wholesale trade increased 25.5 percent as seen in almost all categories such as construction-related material, books and accessories, notably sport equipments driven by the upcoming event of the 2010 World Cup.

Other categories registering a decline include food, beverage and tobacco though there appears to be signs of improvement. Retail trade maintained its rising trend with a rate of 21.3 percent. The increase registered across the board, particularly the sales of construction materials, furniture, electrical appliances, food, beverage, school accessories. Similarly, sales of department stores also noted a larger expansion following an increase in consumers' spending.

In the first quarter of 2010, trading activities expanded 21.1 percent, accelerating across the board from the same period last year and the previous quarter in the light of an economic upturn and improved consumers' confidence. This was represented by a continually strong increase in sales of durable goods, intermediate goods as well as retail fuel, notably sales of cars and motorcycles with recording the historical high. Categories of trading index registered an expansion included motor vehicles trade, wholesale trade and retail trade with a rate of 20.0 percent, 24.6 percent and 20.6 percent, respectively.

5. Private Consumption. In March 2010, private consumption expanded well in line with further expansion in tourism and manufacturing sectors which also resulted in an increase in employment conditions. In addition, farm income remained satisfactory. However, political uncertainties and drought conditions were key concerns for consumers. **Private Consumption Index** increased 6.2 percent year-on-year, moderating from the preceding month by 0.4 percent. Most key private consumption indicators, after seasonally adjusted, showed improvements. The amount of VAT collected from all types of businesses rose by 17.3 percent. Necessities consumption in categories of wholesale and retail trade particularly household electrical appliances such as radios and televisions accelerated following an upcoming of the world cup. Meanwhile, the number of registered cars and motorcycles continued expansionary trend. The household electrical usage in February 2010 was up by 9.5 percent year-on-year.

In the first quarter of 2010, **Private Consumption Index** rose by 5.6 percent year-on-year and 3.4 percent from the previous quarter due to a favorable expansion in tourism sector, employment and farm income. In addition, a continued economic recovery helped regained more consumers' confidence in spending as reflected by an upward trend in most key private consumption indicators, namely the amount of VAT collection, the number of registered cars and motorcycles as well as the household electrical usage.

6. Private Investment. In March 2010, private investment expanded for the ninth consecutive months. **Private Investment Index** was at 106.1, growing by 5.2 percent year-on-year due to a recovery in construction activities in both public and private projects. Sales of construction-related materials continued to increase by 54.8 percent from the previous month in response to an increase in government construction projects under the Strong Thailand Project, residential development projects (ranging between 1.0-3.0 million baht/unit), farm household construction as well as rising export demand to neighboring countries. In addition, the number of registered commercial cars was up by 6.4 percent following improved consumers' confidence. Nevertheless, the number of square meters of construction areas permitted in municipal zone declined slightly by 0.2 percent, particularly category of residential areas whereas category of commercial areas in major provinces, notably

1-3 floored commercial buildings still increased. Meanwhile, the amount of land transaction fee grew largely by 80.7 percent as most transactions were accelerated due to concerns over uncertainty in extension of fee reduction measure. As for prospects of capital investment as well as investors' confidence, the value of investment approved by BOI grew at an accelerated rate of 224.3 percent. The approved projects were observed in areas of electronics and electrical appliances as well as agriculture and agricultural products.

In the first quarter of 2010, private investment, notably construction activities expanded well mainly due to government stimulus measures. **Private Investment Index** was at 105.4, increasing by 4.4 percent year-on-year. Total sales of construction-related materials rose by 53.7 percent as benefited from a stimulus under the Strong Thailand Project, renovation and construction of farm households together with strong export demand to bordering countries. Additionally, the number of registered commercial cars rose by 2.8 percent whereas the number of square meter of construction areas permitted in municipal zones declined slightly by 1.9 percent. However, an exception was seen in permitted areas for residential construction which recorded a strong expansion, particularly in major economic provinces as well as agriculture-based provinces. Furthermore, the amount of land transaction fees increased 43.9 percent as a result of fee reduction measure to stimulate real estate sector. As for investment approved by BOI, the total approved value totaled 3,311.9 million baht, accelerating by 285.4 percent over the same period last year. The approved projects were observed in areas of, electronics and electrical appliance, agriculture and agricultural products as well as services and public utilities.

7. Foreign Trade. In March 2010, total trade continued to grow from the previous moth. **Export value** through custom houses in the Northern region increased remarkably 85.0 percent to 295.4 million US dollars, remained at high level and registered a strengthened growth in all major export markets. Exports of manufactured products rose 46.4 percent with an increased export in hi-tech products observed in categories of electronics, camera lens and transformers. Meanwhile, exports of labor-intensive and resource-intensive products also expanded well following exports of cutting diamond, agricultural processed products and construction materials. In addition, export of agricultural products was up by 36.8 percent, mainly stemmed from a continued increase in maize export. Noticeably, this expansion slowed down from the previous month but remained at favorable level. As for border trade, exports to neighboring countries grew by 49.8 percent to 138.2 million US dollars, decelerating from the previous month due to a larger decline in export to the Southern China whereas exports to Myanmar and Laos PDR still increased by 53.7 percent and 128.3 percent, respectively.

Import value through custom houses in the Northern region increased 62.7 percent to 118.4 million US dollars, slowing down compared with a 98.9 percent growth in the previous month. The increase was observed in all categories, particularly imports of raw material used for export-oriented production by NRIE such as electronic components, raw diamond, and chemical products with a rate of 73.8 percent. Meanwhile, imports of capital goods substantially rose by 91.0 percent following imports of electrical and machinery parts. As for border trade, imports from bordered countries declined slightly 0.6 percent to 10.0 million US dollars as imports from Myanmar and the

southern China decreased by 25.8 percent and 76.9 percent, respectively. By contrast, import from Laos PDR increased 87.4 percent.

The trade balance posted a surplus of 177.0 million US dollars, increasing from a surplus of 86.9 million US dollars in March 2009, and from a surplus of 146.5 million US dollars in February 2010.

In the first quarter of 2010, export and import accelerated. **Export value** increased 85.5 percent to 801.8 million US dollars with favorable expansion throughout the first quarter. This was due to a continued increase in new orders from the previous quarter and partly from low base effect caused by the global financial crisis over the same period last year. Export of manufacturing products rose by 46.6 percent, accelerating from the fourth quarter last year. Notable increase was observed in almost all categories, especially electronic components, motor vehicle parts, jewelry and agricultural processed products which exported to all major trading partners such as ASEAN, Japanese, Chinese and European markets. In addition, exports of agricultural products, notably maize and tobacco exported to Vietnam, Malaysia and Europe expanded well by 42.9 percent. As for border trade, exports grew by 64.2 percent to 362.5 million US dollars as exports to Myanmar and Laos PDR increased by 70.4 percent and 83.5 percent, respectively. In contrast, exports to southern China dropped by 20.3 percent.

Import value rose by 69.0 percent to 321.2 million US dollars, recording a strong growth throughout the quarter as imports of raw materials and capital goods registered a substantial growth with a rate of 84.0 percent and 70.2 percent, respectively. Significant increase seen in raw material imports by NRIE included electronic components, jewelry and glass while capital good imports were mainly electrical equipment parts for machinery assembling. In addition, imports of consumer goods were up by 26.8 percent, primarily categories of household equipments, alcoholic beverage, electrical appliances. As for border trade, imports expanded 5.7 percent to 27.8 million US dollars as import from Laos PDR more than doubled. Nevertheless, imports from Myanmar and southern China dropped by 30.9 percent and 32.6 percent, respectively.

The trade balance in the first quarter posted a surplus of 480.7 million US dollars, rising from a surplus of 242.3 million US dollars in the first quarter of 2009 and a surplus of 382.9 million US dollars in the fourth quarter of 2009.

8. Government Spending. In March 2010, **budgetary disbursement** through provincial treasury offices in the Northern region amounted to 13,753.5 million baht, increasing by 6.7 percent year-on-year. Current expenditures, amounting to 10,574.9 million baht, expanded by 18.0 percent owe to the continued disbursement made by local administrative organizations as well as an increased disbursement in categories of officers' remuneration under operating expenditures more than doubled. Meanwhile, capital expenditures declined by 18.9 percent to 3,178.6 million baht as the disbursement in categories of land/building, accounted for 66.9 percent of total capital expenditures, decreased 34.5 percent as certain budget of local government agencies was partially allocated from the Strong Thailand Project. Notable disbursement was seen in provinces of Chiang Mai, Phitsanulok, Nakhorn Sawan and Chiang Rai.

In the first quarter of 2010, the **budgetary disbursement** totaled 44,063.9 million baht, decreasing by 8.3 percent. The capital expenditures fell by 25.6 percent with a declined disbursement in categories of general subsidies of local administrative organizations at a rate of 43.0 percent. This resulted from an earlier budgetary allocation in category of general subsidies classified as capital expenditures which also led to the substantial disbursement during December, 2009. Furthermore, the disbursement in categories of land/building dropped by 22.2 percent as budget under the Strong Thailand Project was partially allocated to some local government agencies. Meanwhile, the current expenditures totaled 27,922.2 million baht, up by 5.8 percent, resulting from the 35.5 percent expansion of current expenditure budget of local administrative organizations for projects of school lunch, school milk, and old-age pension. In addition, operating expenditures, mainly in the categories of officers' remuneration, increased 25.8 percent from the same period last year.

9. Prices. In March 2010, the **Headline Consumer Price Index** (Headline CPI) was at 108.5, increasing by 4.0 percent over the same period last year. The food and beverage price index rose 6.0 percent in line with higher prices of rice at a rate of 22.3 percent following farmers' income guarantee scheme. The non-food and beverage price index was up by 2.9 percent as prices of tobacco and alcoholic beverage rose 9.4 percent due to an increase in excise tax. Meanwhile, prices in categories of vehicles, transportation and communication were also up by 8.8 percent following fuel prices. **The Core Consumer Price Index** (Core CPI) increased slightly by 0.1 percent and remained steady from the previous month.

In the first quarter of 2010, the **Headline CPI** was at 108.2, up by 4.5 percent. The food and beverage price index rose by 6.3 percent due to an increase in prices of rice following farmers' income guarantee scheme as well as price of meat, especially pork meat as unfavorable weather conditions led to lower supply of swine to the market. The non-food and beverage price index was up by 3.5 percent as prices of vehicles and transportation increased 10.0 percent, mainly owing to a rising oil prices. In addition, prices of tobacco and alcoholic beverage rose by 9.2 percent on account of the excise tax increase. Meanwhile, prices of housing and furnishing also increased 1.1 percent as a result of the rollback of the government's measure to alleviate the people' cost of living, particularly water fee subsidies. Nevertheless, the 15-year free education policy benefited to a decline in prices of apparel and footwear as well as prices of recreation and education category. **The Core CPI** was close to that of the same period last year.

10. Labor. According to the Labor Force Survey by the National Statistical Office, northern labor force totaled 7.2 million at end-February 2010. Of these, 7.1 million were employed and increased by 3.2 percent on year-on-year basis. The non-agricultural employment expanded 3.3 percent as an increased hiring in areas of wholesale/retail and hotel/restaurant at a rate of 18.1 percent and 20.3 percent, respectively. Meanwhile, the agricultural employment also rose by 3.2 percent. The number of unemployed persons was 0.06 million with a lower unemployment rate of 0.9 percent, compared with 1.8 percent in the same period last year. In addition, the underemployment rate (less than 35 hours working per week) stood at 1.3 percent, compared with 1.7 percent in the same period last year. At end-March 2009, the number of insured persons amounted to 716,851 persons, increasing by 0.7 percent from the previous month and 6.4 percent from the same

period last year. Of this, the number of insured persons, under the Section 33 and 39, were 615,505 persons and 101,346 persons, with an increase of 4.1 percent and 23.4 percent, respectively.

11. Banking. At end-February 2010, the commercial bank deposit outstanding totaled 397,406 million baht, rising by 3.4 percent from the same period last year and 2.6 percent from the previous month. The increased deposit amount of 5,861 million baht from the previous month was largely due to an expansion in current and saving deposit of authorities, local government organizations. Significant increase was seen in provinces of Chiang Mai, Chiang Rai, Phitsanulok and Lampang. As for lending, the commercial bank credit outstanding amounted to 308,652 million baht, further increased by 2.9 percent from the same period last year and 2.0 percent from the previous month. The increased lending amount of 1,585 million baht from the previous month resulted from an increase in credit extended to various types of business including saving cooperatives, leasing, transportation, construction, and consumer loan, in particular, provinces of Chiang Mai, Phitsanulok and Chiang Rai. The ratio of credit to deposit was at 77.7 percent, slightly declined from 78.0 percent at end-February 2009.

At end-March 2010 (preliminary), the commercial bank deposit outstanding amounted to 398,901 million baht, expanding by 4.5 percent from the same period a year earlier and 3.4 percent from the preceding month. The commercial bank credit outstanding, amounting to 316,630 million baht, also increased by 5.1 percent from the same period last year and 2.9 percent from the previous month. The ratio of credit to deposit was at 79.4 percent, close to 79.0 percent at end-March 2009.

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