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Northern Region Economic Conditions in September and in the third quarter of 2010

In September 2010, the Northern region economy continued to expand though in a slower pace compared with previous month. Farm income remained in a favorable level with support by high major crops prices. Meanwhile, trade and consumption activities noted a slight slowdown while private investment showed improvements. Government budget disbursement, including Strong Thailand Project for 2010 fiscal year, was higher than the same period last year. Export growth decelerated while import growth contracted slightly. Manufacturing production remained in negative territory but showed improvement sign following an increase in agricultural processing industry for exports and construction-related materials production. Tourism activities slowed down. Unemployment rate remained low while inflation decelerated from the previous month. For banking sector, credit outstanding accelerated while deposit expanded.

Details of the economic conditions are as follows:

With respect to supply side, manufacturing and agricultural sector remained in contraction, but improved from the previous month. **Manufacturing Production Index (MPI)** fell by 3.1 percent, a marginal contraction compared with a decline by 21.3 percent last month. This owed to a pick-up in production of processed vegetable and fruit, jewelry and construction-related materials. However, electronic components production continued to decelerate. **Major Crops Production Index** dropped by 5.6 percent compared with 11.0 percent decrease in the previous month. This is due to the decline in outputs of maize, major rice, longan and shallot caused by drought condition. However, farm income remained favorable on the back of rising major crops prices due to falling output. **Tourism activities** slowed down from the preceding month as reflected by the decline in several key indicators such as domestic and foreign tourists visiting the Northern region, the amount of VAT collected from hotels and restaurants, the arrival of air passengers as well as hotel occupancy rate. Meanwhile, **trade index** also moderated by 14.3 percent from the previous month, due to the retail trade particularly durable goods (electrical appliances), sales of department stores and vehicles whereas wholesale trade increased further.

Domestic demand expanded at a slower rate from the previous month. **Private Consumption Index (PCI)** rose by 2.6 percent, decelerated from 4.5 percent in August due to the slowdown in VAT collection, notably from wholesale and retail trade sector in lower Northern region. Nonetheless, the number of registered passenger cars and motorcycles as well as consumers' confidence remained favorable benefitting from longer term of payment and low interest rate environment driven by rising market competition. **Private Investment Index (PII)** showed sign of improvement reflected by an increase of 2.3 percent following an expansion in residential construction activities as well as increased imports of machinery for capacity expansion and productivity improvement. As for government spending, budget disbursement including Strong Thailand Projects as a stimulus for the economy improved with a rate of 14.8 percent.

All percentage figures represent percentage change from the same period last year

(% change year-on-year), unless stated otherwise.

As for the external front, **export value** rose moderately by 13.4 percent compared with 20.6 percent in the previous month. The slowdown was observed in high-tech products such as electronic components, vehicles and parts. Nonetheless, exports of camera lens, furniture, decoration and agricultural products such as maize and tobacco improved. As for border trade, exports grew comparable with the previous month following a substantial increase in exports to Lao PDR and the southern China while exports to Myanmar were affected by the Maesod-Myawadee border closure. **Import value** fell by 2.4 percent following a sharp decline in imports of vegetables and fruits, fishery products, raw materials and capital goods. In addition, imports from bordering countries also slowed down.

Headline inflation in the Northern region rose by 3.5 percent, lower from 3.7 percent in the previous month in tandem with a decline in fuel, pork and eggs prices due to rising output. However, prices of fresh fruits and vegetables remained high. **Core inflation** increased by 1.0 percent.

With regard to **employment condition** in August 2010, demand for labor increased mainly in construction sectors. The unemployment rate stood at low level with a rate of 1.1 percent.

For banking sector, at end-September 2010, commercial bank **deposit outstanding** rose by 3.9 percent, up from 1.6 percent in the preceding month on account of accelerated budget allocation by the central government as the fiscal year-end approaches as well as the disbursement from Strong Thailand Project made by public authorities and local administrative organizations. As for lending, **credit outstanding** increased further by 12.5 percent following increased borrowing demand across businesses such as personal loans, financial intermediaries, wholesale and retail businesses.

In the third quarter of 2010, the economic condition for the Northern Region continued to expand at a slower pace from the previous quarter. Exports slowed down, particularly electronic components, due to weakened external demand. The expansion in private investment slowed down following the decline in investment in construction due to last year's base effect. Nonetheless, sales of commercial cars expanded satisfactory. In addition, favorable farm income supported by high major crops prices as well as a remarkable rise in employment positively contributed to a continued expansion in private consumption. On the contrary, manufacturing production declined partly due to a reduction of agricultural raw materials supplying to factories and production of electronic components slowed down. However, MPI showed an improving sign at the end of quarter. Tourism activities partly benefited from the government promotional activities while the number of foreign tourists continued to decline. Inflation remained low. For banking sector, deposit and credit outstanding continued to expand.

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