

**No. 10/2015****[Press Release on Northern Region's Economic Conditions in May 2015](#)****In May 2015, economic conditions in the northern region slowed down from previous month.**

Domestic demand remained weak as private investment declined and private consumption was tepid, largely due to falling farm income and fragile consumer confidence. Agricultural and manufacturing production decreased, notably food and beverages production. Tourism sector and government capital expenditure continued to play a key role in driving the northern economy. In addition, cross-border exports to main trading partners expanded well. Economic stability remained sound. Headline inflation was negative for the fifth consecutive months, as prices of fresh food and energy dropped. Unemployment rate stayed low, since employment in construction sector rose, offsetting a fall in agricultural employment. As for banking sector, deposits increased slightly while loans slowed down from the previous month.

Details of the economic conditions are as follows:

On the demand side of the economy, private consumption remained tepid, with **Private Consumption Index (PCI)** showing virtually no year-on-year growth. On a month-on-month basis, the PCI edged up slightly, driven by tourist spending on basic necessities and government construction spending. Fuel consumption rose, encouraged by low oil prices, but durable good consumption fell as domestic demand was dampened by falling farm income and weakened consumer confidence. Meanwhile, commercial banks remained cautious on credit extension to private sector amid economic slowdown.

Private investment index continued to decline, dropping by 7.1 percent on a year-on-year basis. The monetary policy interest rate cut was partially passed on to borrowers by commercial banks. This somewhat helped to reduce interest burden for businesses, but was insufficient to stimulate new investment, especially in real estate businesses where supplies had accumulated. Overall, private investment weakened, as reflected by weak performance of indicators for construction and machinery investment. These included the square meters of construction area permitted in municipalities, the number of registered commercial cars, and import value of machinery and parts. Nonetheless, some indicators for construction investment performed well, including sales of construction materials, particularly for government construction projects, and investment value of BOI's approved projects.

Government capital expenditure increased significantly by 33.2 percent. Much of the increase was in road repair and maintenance projects under the Department of Highways and the Department of Rural Roads, as well as in irrigation system development projects under the Royal Irrigation Department. Government large-scale projects, most were in initial stages of implementation, were expected to drive economic growth of the northern region in the future.

Export growth turned positive, increasing by 7.3 percent. The increase was attributable largely to cross-border exports to Myanmar. Such cross-border exports, which were expected to be short-lived, included exports of machinery, agricultural equipment, and motorcycle. At the same time, exports of consumer goods to Laos and Southern China edged up, but exports to other countries declined, especially exports of electronics components. **Imports** fell by 3.1 percent as a result of declining imports of raw materials and intermediate goods for export-oriented manufacturing production, as well as decreasing imports of furniture, wooden products and agricultural products.

On the supply side of the economy, production of agricultural and manufacturing goods declined. **Major crop production index** fell markedly by 25.1 percent while **major crop price index** increased slightly by 0.6 percent. The fall in major crop output was due to severe drought and extreme hot weather that drove down production of second crop rice, pineapple and lychee. This, in turn, lifted its respective price up. Production of livestock increased while prices dropped. Given the marked fall in major crop production, **farm income** fell by 24.6 percent.

Manufacturing Production Index declined by 1.4 percent, as production of food products decreased, especially rice milling where its main raw material was affected by the severe drought. Meanwhile, output of beverages decreased, but this was taken to be temporary, as the production was halted temporarily to allow for repair of machinery. On the positive note, production seen rising in vehicle electronic components and processed fruit and vegetable.

Tourism sector, a key driver of the northern region economy, expanded well, although at a slower pace than in April. The sector benefited from international inbound tourists. Most of the tourists came from China, with Chiang Mai being their popular destination. The sector also gained from active private and public sectors' MICE groups visiting major cities in the northern region. This sound tourism condition was reflected by well-performed indicators for tourism, including the number of air passengers and hotel occupancy rate.

Economic stability of northern Thailand remained satisfactory. **Headline inflation rate** was negative for the fifth consecutive month, reflecting low retail fuel prices and decreasing fresh food prices in light of increased supply. **Unemployment rate** stayed low at 0.7 percent as employment in construction sector increased.

As for banking sector, **commercial banks' deposits** as of April 2015 grew by 4.0 percent to 615,719 million baht, due to increasing business savings deposits and last year's low base coinciding with increased political tensions. Concurrently, **commercial banks' lending** grew at a slightly slower rate of 5.2 percent to 601,896 million baht, as there was business demand for working capital and housing loans. Meanwhile, some businesses repaid loans to reduce their operating costs. Loan-to-deposit ratio dropped slightly from previous month.

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