



BANK OF THAILAND

BOT Press Release

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Press Release on Northern Region's Economic Conditions in June 2015

In June 2015, economic conditions in the northern region continued to slowdown from the previous month. Although tourism, government capital expenditure and cross-border exports contributed to drive the northern region economy, private consumption and investment remained weak. Production of second crop rice dropped as a consequence of drought. In addition, manufacturing production decreased on account of falling beverage production after having accelerated in the previous periods, and declining export-oriented electronics production led by weakened electronics exports. Overall economic stability remained sound. Headline inflation rate picked up slightly due to higher prices for fuel and raw food. Unemployment rate was at low level as falling agricultural employment was offset by rising employment in wholesale and retail trade, and construction industry. At end-May 2015, commercial bank credits and deposits increased moderately from those of the previous month.

Details of the economic conditions are as follows:

Tourism sector expanded well and continued to be a key driver of the northern region economy. Tourism indicators increased, including the number of air passengers, average hotel occupancy rate, average hotel room rate and the amount of value added tax (VAT) collected from hotels and restaurants. In addition, sales of necessity goods was boosted by various factors which included foreign tourist spending, particularly the Chinese, the number of Thais traveling to attend meetings and seminars, and events organized by private and public sectors, encouraged by the government's economic stimulus measures.

Government capital expenditure continued to expand, increasing significantly by 35.5 percent. Much of the increase was in transportation infrastructure maintenance projects, irrigation projects, and educational institutions and hospitals' construction projects.

Export value declined slightly by 0.2 percent, attributed by a fall in exports of electronic components due to sluggish economic recovery of major trading partners, and declines in export market shares. However, cross-border exports of consumer products continued to expand, albeit at a slower pace after having accelerated in the previous month. **Import value** grew by 3.3 percent, mainly from imports of raw materials and intermediate goods for export-oriented manufacturing industries.

Private consumption and investment remained subdued. **Private Consumption Index** dropped by 1.0 percent on account of falling consumer durable goods including passenger cars and motorcycles, dampened consumer confidence and financial institutions' cautious hire-purchase financing. However, consumption of necessity goods increased, boosted partly by tourists spending, while fuel consumption continued to rise.

Private Investment Index continued to decline, falling by 8.6 percent, largely driven down by weak construction investment as a result of sluggish demand for real estates. This was reflected by falling private investment indicators, including the square meters of construction areas permitted in municipal zones, volume of construction materials sold, imports of machinery and equipment, and the number of registered commercial cars. However, an increase in investment value of BOI's approved projects may contribute to support new private investment.

Manufacturing and agricultural production decreased. **Manufacturing Production Index** fell significantly by 16.8 percent due to declines in both domestic-oriented and export-oriented production. For the domestic domestic-oriented production, alcoholic beverage production dropped after having accelerated in previous periods, at the same time, milled rice production fell as rice seeds supply was affected by drought. For export-oriented production, production of electronics components, ceramics and wooden furniture declined since manufacturers either lost export market shares to competitors or responded slowly to market demand. Export-oriented production of processed vegetables and frozen fruits, however, continued to rise.

Farm income fell by 17.0 percent as both major crop production and price dropped. **Major crop production index** decreased markedly by 16.7 percent, whereas **major crops price index** declined only marginally by 0.4 percent. Such marginal decline was supported by gains in prices for second crop rice, pineapples and lychee after their production decreased as a consequence of drought. Meanwhile, prices for swine, broiler chickens and chicken eggs were driven down by rising productions.

Overall economic stability of the northern region remained sound. **Headline inflation rate** improved slightly from the previous month, as prices for fuel, raw foods including meat, chicken eggs, fresh vegetable, fish and marine animals increased. **Unemployment rate** was at low level of 0.8 percent, as a decline in agricultural employment was largely offset by rises in employment in wholesale and retail trade and construction industry.

Commercial banks' deposits outstanding amounted to 612,726 million baht at end-May 2015, growing by 4.3 percent. However, the deposits outstanding dropped on a month-on-month basis as depositors switched to invest in higher yield debt instruments and authorities withdrew deposit funds to use on public projects. **Credits outstanding** amounted to 602,913 million baht at end-May 2015, growing by 5.3 percent as housing loans and loans for cooperatives rose. Most businesses did not take out loans for new investment, awaiting for clear signs of economic recovery. Loan to deposits ratio was 98.4 percent at end-May 2015, standing very close to that of the previous month.

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