



BANK OF THAILAND

BOT Press Release

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Press Release on Northern Region's Economic Conditions in the Second Quarter of the Year 2015

In the second quarter of 2015, general economic conditions in the northern region moderated from previous quarter owing mainly to weakened private consumption and investment, particularly in new real estate projects. Farm income and consumer confidence continued deteriorating. Likewise, concern over economic slowdown in business sector was observed. In the meantime, output of second crop rice dropped as an adverse effect of drought and intermitted rainfall. Also, manufacturing production decreased, specifically in beverages and electronics production. However, tourism and government capital expenditure were the northern economy's positive driving factors, in line with the country. Overall regional exports expanded in response to robust cross-border exports. Overall economic stability remained sound. Headline inflation rate slowed down on the back of falling fuel prices and unemployment rate remained low. At end-May 2015, commercial bank credits and deposits continued increasing at same pace of previous quarter.

Details of the economic conditions are as follows:

Private Consumption Index dropped by 1.0 percent on account of falling consumer durable goods including passenger cars and motorcycles in line with flagging demand as observed in lessened income of both farming and non-farming sector as well as subdued consumer confidence. In tandem, demand was dampened continuously by a concern over household's high debt burden and tightened hire-purchase financing by financial institutions. However, tourist spending in necessity goods and service related, consumption related to government constructions and also fuel consumption kept increasing.

Private Investment Index continued contracting by 6.7 percent as a result of sluggish real estate sector and a decline in manufacturing production which have led to a deferment of new investment and capacity expansion. This was also reflected in a fall of key private investment indicators including the square meters of construction areas permitted in municipal zones, sales of construction materials, the number of registered commercial cars and imports of machinery and equipment. However, an increase in investment value of BOI's approved projects was observed in electronics and light industrial categories.

Farm income was on the wane and registered a decrease of 19.5 percent. **Major crop production index** fell markedly by 19.3 percent, resulting from a remarked decline in output, notably of second crop rice, pineapples and lychee, as an adverse effect of drought and intermitted rainfall. **Major crops price index** dropped marginally by 0.3 percent as buoyant supplies of livestock, namely swine, broiler chickens and chicken eggs, drove down prices.

Manufacturing Production Indexes fell by 5.6 percent due primarily to a decline in alcoholic beverage production after having accelerated in previous periods and a temporarily halt for machinery maintenances. In addition, milled rice production dropped following lessened rice supplied causing by drought. For export-oriented production, production of electronics components, wooden furniture and leather products declined owing to intense competition. Nonetheless, production of processed vegetables and frozen fruits, sugar and textiles continued to rise.

Tourism sector expanded well in line with the country as 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. Foreign tourists, particularly the Chinese, were significantly contributed to the growth. As observed, Chinese tourists traveled more conveniently to the northern region destinations via cars, chartered flights and direct flights from major cities in China, many of which has recently been of services. Concurrently, number of Thais traveling to attend meetings and seminars, and events organized by private and public sectors was also increased.

Government capital expenditure grew by 33.4 percent, albeit moderated from acceleration in previous quarter. Notably, disbursements were of the transportation maintenance projects, irrigation projects, and educational institutions and hospitals' construction projects.

Export value increased slightly by 0.5 percent, attributed largely by a growth in cross-border exports of consumer products and exports of frozen vegetables and fruits. However, export of electronics components, specifically for mobile phones, dropped upon losing market shares to cheaper items from South Korea and China. Meanwhile, **import value** fell by 3.4 percent, mainly from imports of raw materials and intermediate goods for export-oriented manufacturing, primarily in integrated circuits and electronic components production.

Overall economic stability of the northern region remained sound. **Headline inflation rate** continued easing by 1.7 percent contributed from falling prices of domestic fuel, FT electricity surcharge and raw foods including meat, chicken and eggs in response to

abundant supplies. **Unemployment rate** remained at low level of 0.8 percent following a decline in agricultural employment due to subdued agriculture production. In the meantime, the rise in employment in wholesale and retail trade as well as construction industry was also observed.

At the second quarter of 2015, **commercial banks' deposits** outstanding amounted to 608,634 million baht, growing by 3.6 percent, mainly in saving account deposits. **Credits outstanding** amounted to 609,650 million baht, rising by 6.6 percent following demand on consumer loans, particularly for housing. In addition, corporate loans increased in broadly sectors including wholesales and retails, finance, construction, transportation, hotel and manufacturing. Loan to deposits ratio was somewhat balanced at 100.2 percent in this quarter.

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