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Press Release on Northern Region's Economic Conditions in May 2016

In May 2016, economic activity in the northern region improved slightly from previous month, driven by government spending, tourism activities and cross-border exports to Myanmar. Overall private consumption improved marginally, as consumption of durable goods increased, of which too early to indicate further momentum. Consumption of consumer goods decreased due to weak farm and non-farm income. Production, both manufacturing and agricultural decreased, while private investment continued to decline. Overall economic stability remained sound, with unemployment rate staying at a low level and the headline inflation rising slightly from increased price of raw foods. In terms of regional employment, it was observed some signs of lower employment reflecting from firms' cut back of overtime hours, and the condition that employees being not required to work for a certain period of time following businesses invoking the provision of Section 75 of the Labor Protection Act B.E. 2541. At end-April 2016, commercial bank deposits increased, while commercial bank loans continued to slow down.

Details of the economic conditions are as follows:

Government disbursement expanded by 9.9 percent, due mainly to an increase in government investment spending on projects to improve well-being of the districts, infrastructure projects, including highway and road construction and maintenance, and projects to build public hospitals.

Tourism sector showed benign momentum from continuing inflows of Chinese tourists reflected by more direct flights to northern destinations. Key tourism indicators were supportive such as increasing number of air passengers, hotel occupancy rate and the value added tax (VAT) collected from hotels and restaurants.

Private consumption index rose by 5.3 percent, with spending in motor vehicle category increased consistent with an increase in new model car sales. In addition, spending in fuel and electricity increased in light of low fuel price and hotter than usual weather. In contrast, spending in consumption goods declined, resulting from weak purchasing power in agricultural and manufacturing sectors, as well as low consumers' confidence.

Export value fell by 6.6 percent, attributed to declines in export of electronic components to China and Singapore which faced economic slowdowns. Cross-border export of consumer goods to Lao PDR decreased from last year's exceptional high level. Nonetheless,

cross-border export to Myanmar continued to expand. **Import value** rose by 7.3 percent from increased imports of electricity from Lao PDR.

Production in agricultural and manufacturing sectors dropped but to a lesser extent than the previous month. **Major crop production** fell by 20.0 percent, as major crops, including rice, lychee and cassava, were adversely affected by drought. Adverse drought effect was expected to moderate towards the rainy season. However, production of livestock, including swine, chicken and eggs, expanded from domestic and external demand. **Major crop price** declined by 2.2 percent, as prices of cassava, maize and pineapples fell in response to dampened demand and inferior quality. However, the price of rice increased slightly, while the price of lychee rose significantly as their production decreased. As a result, **farm income** dropped by 21.8 percent.

Manufacturing production fell by 13.1 percent, with export-oriented production, particularly optical lenses and hard disk drive, being driven down by major trading partners' economic slowdowns, price competition and losing market share to competitors. However, export production of processed agricultural products increased, following the resumption of raw materials supply. In addition, production of alcoholic beverages increased.

Private investment remained sluggish, decreasing by 11.0 percent. Both construction and capital investment dampened, given excess supply in real estate and excess capacity in production, respectively. Demand from Chinese investing in real estate was insufficient to absorb excess supply in real estate. Most private investment indicators declined, including sales of construction materials and import value of machinery and equipment. However, the number of registered commercial cars and permitted construction area in municipal zones increased but signs for construction investment was not clear.

Economic stability of the northern region remained sound. **Headline inflation rate** rose slightly by 0.5 percent following risen prices of raw food. **Unemployment rate** stayed at low level, declining marginally from last month by 0.9 percent. However, it was observed some signs of lower employment reflecting from firms' cut back of overtime hours, and employees being not required to work for a certain period of time as businesses invoked the provision of Section 75 of the Labor Protection Act B.E. 2541. A rational was reflecting more enterprises to gradual move towards more machine and automation in replace of labor employment.

At end-April 2016, **commercial banks' deposits outstanding** rose by 4.6 percent to 644,146 million baht, owing to increases in business savings and government agency savings. **Credits outstanding** grew at a slower pace by 3.9 percent to 581,527 million baht. Housing loan demand rose, driven by the government measures to stimulate the economy. Loans to deposits ratio was at 90.3 percent, declining from the previous month.

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