



BANK OF THAILAND

**BOT Press Release**

Northern Region Office  
Tel. 0-5393-1216 Fax. 0-5322-4171 www.bot.or.th

No. 10/2016

Press Release on Northern Region's Economic Conditions in the Second Quarter of 2016

**Northern region economy maintained steady pace of expansion in the second quarter of 2016.** Government spending, cross-border exports to Myanmar and tourism continued to be main economic drivers as in the previous quarter. However, decreasing agricultural and manufacturing production weighed down on the economy. Private consumption maintained steady pace of expansion, contributed by spending on durable goods stimulated by new car launch promotion. Spending for everyday items, however, was tepid, as households' purchasing power suffered from weak farm income. Private investment remained subdued, as construction investment declined, whereas signs for capital investment was unclear.

Overall economic stability was sound. The headline inflation turned to positive territory from an increase in raw food price. Unemployment rate stayed at low level, with hiring in services and construction sector expanded. Firms' adopting the Section 75 of the Labor Protection Act eased off, mitigating the possibility of permanent job cuts. Firms were observed to have gradually begun using machines and reduced workforce. But this was expected to have insignificant impact on unemployment. Commercial banks deposits increased, while credits continued to grow at a slower rate.

Details of the economic conditions are as follows:

Government spending continued to support the economy. **Government disbursement** rose by 14.7 percent. The government accelerated the disbursement of funds for projects under planned capital investment projects. These included projects for construction and maintenance of highways and roads, projects for development of agricultural water resource, and projects for construction academic buildings and hospitals. In addition, disbursement of funds for subsidy also increased. Disbursement of funds for projects for improvement of village potential was expected in the future.

**Tourism sector** expanded well. The sector was driven mainly by foreign tourist arrivals, particularly Chinese tourists who visited destinations in major upper northern provinces, despite the problem of air pollution haze in the beginning of the second quarter. Thai tourist arrivals also increased, boosted by seminars, events and activities organized by public and private sectors. Most tourism indicators increased, including the numbers of

foreign tourists, air passengers and inbound direct flights; the value of value added tax (VAT) collected from hotels and restaurants; averages of hotel occupancy rate and price.

**Private consumption index (PCI)** grew by 5 percent, as consumer spending in the category of automobile picked up, stimulated by promotion on new car launches. In addition, spending in the category of fuel oil and electricity increased in light of hot weather conditions. Spending for everyday items, in contrast, continued to fall as consumer confidence declined and households' purchasing power weakened in light of lackluster performance of agricultural and manufacturing sectors.

**Export value** dropped slightly by 0.6 percent, as exports of electronic components to China and Hong Kong decreased on the back of inflamed competition and slowdown of trading partners' economies. However, exports of consumer goods to Myanmar continued to expand. **Import value** increased by 18.8 percent, attributed largely to electricity imports from the Lao PDR. Imports of raw materials and intermediate goods for exports, however, continued to fall.

Declining agricultural and manufacturing sectors weighed down on the economy. In agricultural sector, **major crop production** fell by 21.2 percent, pulled down by sharp falls in production of rice, lychee and cassava, as a result of drought. However, production of livestock, including swine, broilers and chicken eggs increased in response to demands, domestic and export. **Major crop price** continued to improve, increasing by 1.9 percent, as production dropped. Price increases were observed in rice, lychee, swine and chicken eggs. As the decrease in major crop production outweighed the increase in major crop price, farm income fell markedly by 22.6 percent.

**Manufacturing production index (MPI)** declined by 15.5 percent, due mostly to intense competition in export prices and export market share loss. Key export-oriented production dropped, including hard disk drive components, most of electronic components, particularly electronic circuit boards. In electronic component industry, it was observed that manufacturers adjusted production lines to updated changes in technology and demand for mobile phones and automobile equipment. Apart from this, production of textiles, processed agricultural products, and rice mill decreased as a result of drought.

**Private investment index (PII)** continued to stay at low level. The PII decreased by 8.8 percent attributed by a decline in construction investment, following sluggish real estates and construction sector. Most indicators for construction investment showed declines in quantity, for example, area permitted for construction in municipal zone, and sales of construction materials. However, condition for capital investment was unclear, as signs for capital investment were mixed: import value of machineries and equipment rose, whereas the number registered commercial cars fell

Overall **economic stability** was sound. The **headline inflation** turned to positive territory, as price for raw foods increased, though price for retail gasoline continued to decrease. **Unemployment rate** stay at low level of 0.9 percent, noting increases in employment in services and construction sectors. Firms' adopting the Section 75 of the Labor Protection Act eased off, mitigating the possibility of permanent job cuts. Firms were observed to have gradually begun using machines and reduced workforce. But this was expected to have insignificant impact on unemployment.

In the **banking sector**, at the end of the second quarter of 2016, **commercial banks' deposits outstanding** rose by 5.1 percent to 639,888 million baht. The rise was mainly attributed to an increase in saving deposits of government agencies. Meanwhile, **commercial banks' credits outstanding** slowed down, growing by 2.4 percent to 581,120 million baht. The slowdown was due in part to businesses' repaying debts and managing credit lines to fit the amount of their financial transactions. As a result, credits extended to various sectors slowed down, including wholesale and retail, manufacturing, construction, and agricultural sectors, and hotels. In addition, personal loans declines and credits to real estates continued to fall. Loan to deposits ratio was at 91.3 percent, closed to that of the previous quarter.

Bank of Thailand, Northern Region Office

August 2, 2016

Contact person: Regional Economy Division

Tel: +66 (0) 5393 1164

E-mail: Kusolc@bot.or.th