



BANK OF THAILAND

BOT Press Release

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No. 6/2017

[Press Release on Northern Region's Economic Conditions in the First Quarter of 2017](#)

In the first quarter of 2017, economic conditions of the northern region improved from the previous quarter. Tourism sector resumed from inbound Chinese foreign tourists after last quarter's slowdown. Farm income grew as abundant, continuous rainfall boosted major crop production, including second rice and sugarcane, by more than expected. As a result, production of food manufacturing expanded, including sugar and milled rice. In addition, production of export-oriented electronic components to Asian markets increased, lifting overall exports. Private investment stayed flat, as construction investment remained weak due to depressed real estate sector, while capital investment was up but not broad-based. Although farm income rose, private consumption remained weak, with both consumption of everyday items and durable goods declining, pulled down by household debt burden. As for government spending, disbursement of investment budget declined slightly, but was expected to increase gradually along with disbursement of provincial cluster budget.

On the stability front, unemployment rate was at a low level. Headline inflation increased as prices for fuel oil rose. In banking sector, commercial banks' deposits outstanding grew at the same rate as last quarter, whereas credits outstanding dropped in most provinces.

Details of the economic conditions are as follows:

Tourism sector resumed mainly as a result of larger inflows of foreign tourists, particularly from China during the Lunar New Year 2017, as well as from the US and Malaysia. This was due in part to temporary visa fee exemption and visa on arrival fee reduction for tourists. Most of key tourism indicators increased, including the number of foreign tourists passing through Chiang Mai International Airport, air passenger number, occupancy rate, hotel and restaurant VAT and hotel and restaurant loan.

Major crop production increased more than expected by 27.8 percent, contributed largely by significant increases in sugarcane and second-crop rice output due to abundant growing-season rainfall. In addition, livestock, such as swine and broilers, increased. Meanwhile, **major crop price** contracted slightly by 1.7 percent, as prices of rice, cassava, and maize declined as their supplies rose. In addition, price of swine dropped in light of excess supply, but price of sugarcane increased along with increased world sugar price. As a result, **farm income** expanded by 25.5 percent.

The increases in agricultural raw materials above helped boosting **manufacturing production** by 1.4 percent. In particular, food manufacturing production expanded, including sugar, milled rice, and agricultural processing products. Export-oriented production also expanded, driven by trading partners' economic recovery, leading to rising exports of electronic components, including integrated circuits, capacitors, and interior auto parts. In contrast, production of beverages declined over the quarter, but production of alcoholic beverages picked up in March 2017 in anticipation of Songkran festival. In addition, production of ceramics, textile and garment dropped following an acceleration in export production the fourth quarter of 2016.

Export value increased by 1.1 percent, contributed by a rise in export of electronic components to Japan, Malaysia, China and Germany, and an increase in export of machinery and equipment to the US. However, cross border export declined, with exports of rice, fuel oil, livestock products and frozen meat to Lao PDR falling, as China, the final destination of these export goods, strengthened import restriction, blocking many imports from Lao PDR. Meanwhile, cross border export of consumer goods to Myanmar and southern China continued to expand. **Import value** grew by 8.0 percent, mainly from import of electricity from Lao PDR and import of raw materials and intermediate goods for export-orient manufacturing production.

Private investment index (PII) remained flat, with subdued construction investment on account of subdued real estate sector. Real estate loan also declined. However, sign for construction investment improved marginally, reflected by a slight increase in construction areas permitted to construct commercial buildings and industrial plants. Meanwhile, capital investment began to increase, but was not broad-based, concentrating only in export-oriented electronic component industry.

Disbursement of investment budget declined slightly by 0.3 percent. Disbursement of local subsidies dropped markedly, whereas disbursement for construction projects and maintenance, such as road network, campus buildings and provincial construction projects, and small investment projects, increased. Disbursement of provincial group budget was expected to rise.

Private consumption did not recover, as indicated by a 0.2 percent fall in private consumption index (PCI). Spending for everyday items and purchases of vehicles dropped. Consumption of fuel oil declined as retail gasoline prices increased. Better farm income and consumers' confidence had yet improved purchasing power. In addition, commercial banks applied tight credit approval on consumer loan applications.

Economic stability of the northern region remained sound. **Unemployment rate** stayed at a low level of 1.01 percent, closed to that of the previous quarter. **Headline**

inflation rate increased to 1.24 percent, as retail gasoline prices rose, whereas price of raw food and non-alcohol beverages grew at slower pace.

In banking sector, at the end of the first quarter 2017, **commercial banks' deposits outstanding** was 654,909 million baht, increasing by 2.6 percent as a rise in savings deposits more than offset a fall in fixed deposits. Concurrently, **commercial banks' loan outstanding** was 579,375 million baht, declining by 1.1 percent, contributing to a negative loan growth in most provinces. In particular, loans growth also declined for real estate developers, transportation business, financial businesses, manufacturing industry firms and agricultural sector. Meanwhile, loans for wholesalers and retailers, construction business and household consumption increased at the same rate as the previous quarter. Hotel and restaurant loans expanded well along with tourism sector. Loan to deposit ratio was at 88.5 percent, declining from the previous quarter.

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May 3, 2017

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