



Press Release on Northern Region Economic Conditions in March 2004 and the First quarter of 2004

Issued by Economic Research Division, Northern Region Office, Bank of Thailand

Northern region economy continued to expand in March 2004. Manufacturing production rose favorably, benefiting from foreign demand, while services sector, not being affected by the news of SARS outbreak as in last year, showed satisfactory growth. However, farm income declined as price of major crops fell. Chicken and egg consumption resumed gradually, but remained sensitive to developing news of avian flu. Private consumption expanded well while foreign trade posted a continuous strong performance. Consumer Price Index accelerated. Banking conditions improved with credits rising in response to commercial conditions and investment in agricultural industry.

In the first quarter of 2004, the economy expanded well, driven primarily by private consumption. Manufacturing output increased, lifted by external demand. Services continued the upward trend following the previous quarter, as supportive tourism supply and tourism promotion encouraged revival of tourist arrivals. Nonetheless, farm income from major crops and poultry farming dropped. Following the soaring construction activity in the previous quarter, private investment slowed down on account of rising rebar steel price.

Details of economic conditions in March 2004 and the first quarter of 2004 are as follows:

1. Agricultural Production. In March 2004, major crop production was up by 5.7 percent year-on-year owing mainly to a 2.7 percent increase in sugarcane production spurred by financial funds and raw materials support of sugar refineries. Increase in major crop output was also contributed by an 11.8 percent rise of cassava production, given encouraging prices and favorable weather conditions. Major crop prices declined by 14.6 percent year-on-year as a result of sugarcane price decline of 4.6 percent, coupled with other major crop price decreases including garlic (-13.3 percent), shallot (-27.9 percent), and onion (-77.8 percent) because of rising domestic quantity as well as increasing imported quantity from China. With the fall of major crop price outpaced the rise in production, farm income, thereby declined by 8.9 percent year-on-year.

In the first quarter of 2004, major crop production increased by 5.5 percent year-on-year owing to growth of 2.7 percent in sugarcane, and 11.8 percent in cassava. Major crop prices dropped by 11.4 percent year-on-year, on account of decreases in key crop prices including sugarcane (-4.6 percent), garlic (-38. percent), shallot (-34.6 percent), and onion (-71.6 percent) Farm income thus declined by 5.9 percent year-on-year. The adverse effect of the spread of avian flu on the economy appeared to taper off, with present egg consumption and chicken consumption returning to about 50-60 percent and 30-50 percent of usual levels. In light of effort to contain the avian flu, poultry supply declined, thereby, leading to the recent increase in egg prices.

2. Manufacturing Production. In March 2004, manufacturing output expanded favorably, lifted by export demand as reflected in increasing activity of export-oriented manufactures located in Northern Region Industrial Estate Customs House (NRIE) in Lumphun province. NRIE export value rose by 40.5 percent year-on-year, following a two consecutive months of solid growth, owing to improving foreign demand for latest technology goods. Sugar production increased by 6.8 percent year-on-year in light of increase in sugarcane cultivation area and increase in Commercial Cane Sugar (CCS). Zinc production, however, dropped by 37.4 percent year-on-year due to a decline in domestic zinc ore, coupled with the ongoing issue regarding environmental concern.

In the first quarter of 2004, manufacturing production grew markedly, driven primarily by continuation of strong external demand, particularly for electronics goods as seen by the expansion of 39.1 percent year-on-year in NRIE export value. Sugar production rose by 17.5 percent in light of increasing cultivation area and improving CCS. Nonetheless, zinc production, declining

continuously from the beginning of the year as a result of a decrease in key raw materials and the present environmental issue, dropped from the same period last year by 13.0 percent.

3. Services. In March 2004, services activity expanded from the same period last year in which tourism was affected by concern over the news of SARS outbreak. A rare giant panda showcase continued to boost incoming Thai tourists, accompanied by additional channel of air transportation provided by low fare airlines. Air passenger grew by 17.1 percent year-on-year owing to increases in Chiang Mai (25.9 percent), and Chiang Rai (12.4 percent). Hotel occupancy rate averaged at 52.8 percent, up from 51.2 percent in the same period last year. Hotel average room rate was at 835 baht per room night, up from 758.4 Baht in March 2003.

In the first quarter of 2004, services activity expanded, supported by government tourism promotion and encouraging tourism supply namely low fare airlines and the rare giant panda showcase, leading to increase in air passenger of 20.6 percent year-on-year. Hotel occupancy rate and average room rate were at 63.9 percent and 934 baht per room night, up from 61.1 percent and 838.3 baht per room night in the first quarter of 2003, respectively.

4. Private Consumption. In March 2004, private consumption slightly decelerated from the previous month but remained strong especially spending on vehicles that benefited from low interest rates, favorable credit repayment conditions, and introduction of new vehicle models in the earlier period. Vehicle spending indicators (preliminary). Registered motorcycle recorded an eight-month high due largely to prior introduction of new motorcycle models, which resulted in a 7.6 percent increase year-on-year, slightly slowing down from 9.0 percent last month. Registered car was at a satisfactory level, with a 20.4 percent rise year-on-year, as both passenger car and commercial car expanded in most of northern provinces. Non-vehicle spending indicators (preliminary) also recorded sound levels, with February's VAT collected from wholesale/retail businesses and residential electricity usage increased by 9.8 percent and 10.0 percent year-on-year respectively.

In the first quarter of 2004, private consumption grew satisfactorily, albeit at a slightly slower pace than in the previous quarter, supported primarily by encouraging financial environments including low interest rates and availability of non-bank financial resources; and business promotion particularly favorable credit repayment plans and the introduction of new motor vehicle models. Preliminary data showed solid spending on motor vehicles: registered car reached a quarterly historically high, with relatively broad-based expansion of 32.6 percent year-on-year, while registered motorcycle was at good level. The January-February preliminary data also pointed to strong non-motor vehicle spending, supported by improving northern economic conditions.

5. Private Investment. In spite of a firm capital investment, private investment in March 2004 decelerated as construction investment activity slowed down on the back of continuous rising rebar steel price. There were, however, sound signs of construction activity in Chiang Mai – major province of the north, which was expected to underpin construction activity in the province in the future. Construction investment indicators (preliminary). Land transaction fee was up by a massive 95.6 percent year-on-year, but this was largely due to temporary factors including coincidentally sizeable transactions. Construction areas permitted in municipal zone recorded at a usual level, though increased by 18.7 percent year-on-year as a result of high-base effect. Capital investment indicators (preliminary) posted a good performance. Value of non-electrical machinery and parts capital import grew markedly by 92.8 percent year-on-year, with imports from Japan taking up more than one half, followed by the US, and Malaysia. This was driven mainly by a continuous export demand. In addition, investment value of newly registered factories was above par, representing investment interest in the areas of agricultural and construction related industries, as well as plastic product industry.

In the first quarter of 2004, the pace of private investment slowed down along with construction investment, which was adversely affected by rising steel bars price apparently seen in a slightly 2.8 percent year-on-year fall in construction areas (preliminary data). Land transaction fee

returned to a normal level after peaking in the previous quarter, given the unusual temporary hike in March 2004, suggesting an improving trend of construction investment. Meanwhile, capital investment was bolstered by the ongoing export demand that led to a surge in value of non-electrical machinery and parts capital import that recorded a hefty 90.2 percent year-on-year growth. Investment of newly registered factories was at an ordinary level, with investment interest focusing on industries of agricultural related, transportation, construction related, and plastic products.

6. Fiscal Positions. Government budgetary expenditure registered at northern provincial treasuries and district treasuries grew by 3.8 percent year-on-year, decelerating from the previous month, though current expenditure increased by 12.3 percent, due mainly to a decrease in capital expenditure of 8.6 percent. Government revenue rose by 8.8 percent year-on-year as revenues from specific business tax grew by more almost three folds while corporate income tax, and VAT increased by 18.4 percent and 2.4 percent, respectively. As the expenditure growth outpaced the revenue increase, budgetary balance was in deficit of 9,481.1 million baht, widening from a deficit of 9,191.4 million baht in the same period last year.

In the first quarter of 2004, government budgetary expenditure registered at northern provincial treasuries and district treasuries grew by 9.8 percent year-on-year, as capital expenditure soared by 19.2 percent and current expenditure rose modestly by 5.7 percent. Government revenue increased by 17.8 percent year-on-year since revenues from specific business tax surged almost two folds while corporate income tax, and VAT grew by 25.2 percent and 12.6 percent, respectively. Therefore, the budgetary deficit gap in the first quarter widened to 25,505 million baht, compared with a deficit of 23,462.8 million baht in the same period last year.

7. Foreign Trade. Foreign trade activity was captured by export value and import value collected from all customs houses in northern region including (1) Northern Region Industrial Estate Customs House in Lumphun province (2) Chiang Mai Airport Customs House (3) Border trade customs houses/checkpoints.

In March 2004, export value recorded a hefty increase of 43.0 percent year-on-year, following the series of strong expansion since the beginning of the year, with exports of Northern Region Industrial Estate Customs House in Lumphun province increasing by 40.5 percent in response to foreign demand for latest technology goods such as color screen mobile phones and digital cameras. Export value registered at Chiang Mai Airport Customs House, however, showed a slight increase, growing by only 0.8 percent year-on-year. Border-trade export value soared by 83.4 percent year-on-year, as exports to Myanmar increased by more than one fold on account of Myanmar's relaxed import guideline. Exports to Lao PDR grew modestly by 4.9 percent year-on-year while exports to Southern China declined by 49.7 percent.

Import value rose significantly by 41.7 percent year-on-year, owing mainly to a 40.7 percent increase in imports of Northern Region Industrial Estate Customs House in Lumphun province, most being machinery and raw materials. Border-trade import value grew from the same period last year by more than one fold in tandem with significant increases in imports from Myanmar, Southern China, and Lao PDR. Imports from Myanmar rose from the same period last year by more than two folds due mainly to demand for cattle, horticultural products, and fishery product. Imports from Southern China increased by 68.2 percent year-on-year, consisting of fruit mostly. Imports from Lao PDR grew from the same period last year by more than one fold, with key items being lignite and wood products.

Trade balance was in surplus at 58.3 million US dollars, improving from a surplus of 32.2 million US dollars in the same period last year.

In the first quarter of 2004, trade balance reached a whopping 174.7 million US dollars, up from a surplus of 108.9 million US dollars in the same period last year, driven mainly by a surge in export demand. Export value expanded by 40.3 percent year-on-year, outpacing a rise in import value, with exports of Northern Region Industrial Estate Customs House in Lumphun province growing significantly by 39.1 percent and border-trade export value soaring by 65.3 percent in light

of Myanmar's relaxed import guideline. Import value grew by 31.8 percent year-on-year in line with a 30.6 percent increase in imports of Northern Region Industrial Estate Customs House in Lumphun province, most of which being electrical apparatus for making and breaking electrical, mechanical appliance, precious stones, and plastic raisin and product. Meanwhile, border trade import value soared by 90.1 percent year-on-year as imports from Myanmar, Southern China, and Lao PDR all rose favorably.

8. Prices. In March 2004, the Headline Consumer Price Index (CPI) grew by 2.5 percent year-on-year, up from 1.9 percent in the previous month. Food prices rose by 6.8 percent year-on-year due to higher prices of vegetable and fruit and Thai Jasmine rice responding to diminishing quantity, and increased demand for non-poultry produce. Chicken price began to pick up as consumption of chicken products resumed as a result of campaigning for safety of fully cooked chicken consumption by the government as well as businesses. Non-food prices remained low, increasing by just 0.1 percent year-on-year owing to an increase in electricity price per unit. Core CPI fell by 0.2 percent year-on-year as housing rents continued to decline.

In the first quarter of 2004, Headline CPI rose by 2.0 percent year-on-year, accelerating from the previous quarter. Food prices rose strongly, up by 5.5 percent year-on-year, due to higher rice price because of strong export demand, higher fruit and vegetable prices as quantity diminished, and higher non-poultry produce prices prompted by demand for meat, fish, and seafood. Prices of chicken products subsequently pick up after the containment of the avian flu and the campaigns aimed to revive chicken consumption. Non-food price increased modestly by 0.1 percent year-on-year as electricity price per unit rose, effective from February to May 2004. Core CPI (which excludes raw food and energy), however, dropped by 0.2 percent year-on-year, as housing rents continued to decline as low interest rates encouraged house purchase rather than renting.

9. Labor. From February 2004 Labor Force Survey by National Statistical Office, northern region labor force stood at 6.5 million, of this, 6.3 million were employed and 0.2 million were unemployed. As for employment condition, employment rate was at 96.2 percent in February 2004, slightly lower than that of 96.8 percent in the same period last year as agricultural sector absorbed less employment. However, a strong employment expansion was seen in non-agricultural areas including construction, hotels and restaurants, and education, leading to a rise in non-agricultural employment of 9.3 percent year-on-year. On the other hand, unemployment rate in February 2004 stood at 2.5 percent, higher than 1.9 percent in the same period last year, due to mismatching between employers' requirement and applicants' offered qualification.

10. Banking. At end-March 2004, commercial bank deposits increased slightly by 2.0 percent year-on-year to 286,020 million baht partly due to funds transferred by government entities. Commercial bank credits expanded well by 9.5 percent year-on-year to 204,868 million baht, accelerating from the previous month, as a result of credit extension to rice mills in lower northern region and an increase in housing loans.

Northern Region Office, Bank of Thailand
May 4, 2004

Contact person: Rawisprapa Ruckphaopunt Tel: +66 (0) 5393-1156
e-mail: rawispr@bot.or.th