



## Press Release on Northern Region Economic Conditions in June 2004 and the First Half of 2004

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**In June 2004, northern region economy continued to expand.** Private consumption activity increased at a slower pace, while government spending rose, accelerating from last month. Exports accelerated benefiting from encouraging external demand, with exports value registered at all customs houses in northern region accelerating markedly from last month both in international trade and border trade. However, farm income from major crops slightly declined due primarily to a fall in Lychee price. Meanwhile, manufacturing production accelerated from last month, particularly in the area of export-oriented industry, and services sector expanded attributable to meeting/seminar activities. Consumer Price Index accelerated in light of increases in prices of fuel, meats, and fresh vegetable.

**In the first half of 2004, the economy expanded well,** contributed primarily by private consumption and exports performances. Government spending also facilitated the economic growth. However, private investment decelerated in the first quarter after having been accelerated at end-2003, especially construction investment in light of high rebar steel price. Meanwhile, private consumption activity began to slow down in the second quarter. On the production front, manufacturing production increased favorably in line with exports, while services sector, not being disturbed by the news of the SARS outbreak as in last year, expanded benefiting from tourism promotion, such as rare giant panda exhibition, low fare airlines, and meeting/seminar activity. Meanwhile, farm income declined as major crop price fell in light of rising crop production and competition from imported products. After the containment of the avian flu in the first quarter, prices of chicken and egg increased as supplies of poultry products dropped, consumption of chicken returned nearly to an ordinary level in the end of the second quarter. Consumer Price Index rose by 2.3 percent year-on-year, compared with 2.1 percent in the same period last year.

Details of economic conditions in June 2004 and the first half of 2004 are as follows:

**1. Agricultural Production.** In June 2004, average major crop production increased by 3.8 percent year-on-year as Lychee output rose in light of last year's favorable weather conditions, while shallot, pineapple, and maize outputs increased, responding to last year's high prices. Such increases in production, in turns, led to a 4.6 percent year-on-year fall of major crop price. Farm income thereby slightly declined by 0.8 percent year-on-year.

**In the first half of 2004,** major crop production grew by 3.0 percent year-on-year due to a rise in sugarcane production spurred by support of sugar refineries, increases in maize, and shallot production given encouraging prices, and an increase in cassava production attributed by favorable weather conditions. However, production of second crop rice declined, disrupted by delayed cultivation and insufficient water supply. Major crop price fell by 7.6 percent year-on-year in line with a drop in sugarcane price, while prices of garlic and shallot decreased as supplies rose and competition from Chinese imported products intensified. Cassava price also declined as supply increased. With the fall of major crop production outpaced the rise in price, farm income, thus, fell by 4.6 year-on-year.

As for the recent effect of the avian flu outbreak, chicken consumption at end-June 2004 was about 90-95 percent of a usual level as consumer confidence toward chicken consumption improved. Prices of chicken and egg increased from the same period last year by 41.4 percent and 63.9 percent, respectively.

**2. Manufacturing Production.** Manufacturing output expanded as captured by production and export activities of manufacturers located at Northern Region Industrial Estate (NRIE) in Lumphun province. In June 2004, NRIE export value increased significantly by 35.0 percent year-on-year, accelerating from last month, particularly in the area of electronic parts. Zinc production grew by 8.3 percent year-on-year, while VAT collected from manufacturing businesses in May 2004 grew by 4.5 percent year-on-year.

**In the first half of 2004,** manufacturing production expanded well, especially export-oriented production. NRIE export value rose from the same period last year by 35.6 percent, responding to foreign demand for electronic parts that were in demand in the event of the Euro 2004, Athens 2004 Olympic Games, and the US presidential election. Sugar production increased by 1.7 percent year-on-year in line with a rise in sugarcane production and improved sugarcane quality, while zinc production expanded by 5.7 percent year-on-year.

**3. Services.** In June 2004, services activity expanded, though at a decelerating rate. Tourism activity increased, benefiting from meeting/seminar activities of private and public entities, tourism promotion, an exhibition of rare giant panda showcase, and budget airlines. Services indicators improved from June 2003. Air passenger increased by 46.8 percent year-on-year, with inbound and outbound flows concentrating in Chiang Mai and Chiang Rai. Average hotel occupancy rate and average hotel room rate were at 42.4 percent and 820.72 Baht per room night, increasing from 36.3 percent and 722.42 Baht per room night in June 2003.

**In the first half of 2004,** services sector expanded from the same period last year as tourism activity, not being affected by the news of the SARS outbreak as in 2003, benefited from the exhibition of rare giant panda showcase, Songkran tourism promotion, meeting/seminar activities, health-and-spa tourism, and low fare airlines. All services indicators improved from H1 2003 and H1 2002. Air passenger rose by 33.8 percent year-on-year, with significant increases in Chiang Mai and Chiang Rai. Average hotel occupancy rate and average hotel average room rate stood at 54.7 percent and 906.76 Baht per room night, rising from 49.4 percent and 816.17 Baht per room night in the same period last year.

**4. Private Consumption.** In June 2004, private consumption expanded, though at a slower pace. Parts of consumer spending activity decelerated noticeably such as spending on motor vehicles. Registered car increased by 7.6 percent year-on-year, decelerating from last month in line with the upper north, nonetheless, the lower north's registered car expanded satisfactorily benefiting from the lower north's improved farm income. Registered motorcycle grew by 19.7 percent year-on-year, slowing down from last month as registered passenger car and registered commercial car decelerated.

**In the first half of 2004,** private consumption decelerated from the previous half, though remained at satisfactory level, due in part to weakening consumer confidence, rising benzene gasoline price, and falling farm income particularly in the upper north. Private consumption activity expanded well. In January-May 2004, VAT collected from wholesale/retail businesses increased by 26.1 percent year-on-year, while household electric usage grew by 9.6 percent year-on-year. Registered car posted an impressive increase of 36.2 percent year-on-year, accelerating in line with passenger car and commercial car both in the upper north and the lower north, while registered motorcycle grew by 5.9 percent year-on-year, slowing down as the upper north's spending on motorcycles weakened.

**5. Private Investment.** In June 2004, construction investment activity decelerated from the previous month particularly in suburban districts of the upper north. Leading indicators of construction investment, land transaction fee and construction areas permitted in municipal zone, slowed down. Capital investment indicator also decelerated but the outlook was encouraging: preliminary figure of investment value of newly registered factories increased from the same period

last year, representing investment in jewellery, and agricultural-related industries, while investment value of BOI's approved projects increased considerably by more than one fold from the same period last year, reflecting investment interest in the areas in manufacturing electrical appliances, and plastic products.

**In the first half of 2004**, construction investment slowed down, after having accelerated in the previous half to take advantage of expiring incentives on land ownership transferring fees, in light of rising steel bar price. Both construction areas permitted in municipal zone and land transaction fee slowed down, but the latter remained at a relatively high level. Indicators of capital investment, on the other hand, were strong: import value of non-electrical machinery and parts in January-May 2004 grew robustly by 73.1 percent year-on-year, while investment value of newly registered factories was at a satisfactory level, with investment focusing on industries of agricultural-related, transportation, repair of motor vehicle, construction-related, plastic product, and furniture. Meanwhile, investment value of BOI's approved projects rose considerably by 88.3 percent year-on-year, reflecting investment interest in producing electronics and electrical appliances; metal products, machinery and equipments; agricultural products, public utility services; and plastic products.

**6. Fiscal Positions.** Government budgetary expenditures registering at northern provincial treasuries and district treasuries expanded by 8.6 percent year-on-year to 12,159 million Baht as central funds item and salary item increased, particularly in provinces of Chiang Mai and Phitsanulok. As for government income, revenue rose by 9.6 percent year-on-year to 3,108 million Baht owing to increasing collection from specific business tax, corporate income tax, especially in Chiang Mai, and personal income tax. As a result, budgetary balance was in deficit of 9,052 million Baht, compared with a deficit of 7,110 million Baht in June 2003.

**In the first nine month of 2004 fiscal year (October 2003-June 2004)**, government spending grew by 6.6 percent year-on-year to 86,158 million Baht as a result of increases both in current expenditure and capital expenditure. Meanwhile, government revenue rosed by 14.7 percent year-on-year to 12,332 million Baht as specific business tax, corporate income tax, and value added tax, increased concurrently. As a result, deficit budgetary balance was at 73,827 million Baht, compared with a deficit of 70,073 million Baht in the same period last year.

**7. Foreign Trade.** Export value continued to expand markedly by 41.7 percent year-on-year to 190 million US dollars, accelerating from last month. **Export value of industries located at NRIE in Lumphun province** soared by 35.0 percent year-on-year in response to foreign demand. Major items, including television equipments, electrical apparatus for making and breaking electrical, electrical appliances, optical appliance and instruments, precious stones, and transformer generator and motors, were exported to key markets such as Hong Kong, Singapore, China, Japan, and Israel. **Export value registered at Chiang Mai Airport Custom House** grew moderately, while **border-trade export value** increased by more than one fold in line with exports to Myanmar with major items being vegetable oil, seasonings, industrial products, textile products, and electrical appliances. Meanwhile, border-trade exports to Southern China expanded by nearly one fold, with major export items being rubber products, and vegetable oil. Import value increased by 15.0 percent year-on-year to 108 million US dollars, decelerating from last month. **Import value of industries located at NRIE in Lumphun province** expanded, but raw material import declined after having been imported earlier. **Border-trade import value** nearly doubled as fresh seafood imports from Myanmar, and wooden products and garlic imports from China grew nearly three folds. Trade balance posted a surplus of 82.2 million US dollars, improved from a surplus of 40.3 million US dollars in June 2003.

**In the first half of 2004**, export value amounted to 1,059 million US dollars, increasing by 38.3 percent year-on-year as **export value of industries located at NRIE in Lumphun province** expanded in response to foreign demand during the Euro 2004 and the Athens 2004 Olympic Games.

Goods being exported to Japan, Hong Kong, Singapore, and the US, included electrical apparatus for making and breaking electrical, transformer generator and motors, optical appliance and instruments, games and toys, and sporting goods. **Export value registered at Chiang Mai Airport Custom House** slightly increased, while **border-trade import value** rose considerably in tandem with exports to Myanmar. Import value increased by 32.4 percent year-on-year to 680 million US dollars as **import value of industries located at NRIE in Lumphun province** expanded from demand for raw materials and capital goods. **Import value registered at Chiang Mai airport custom House** grew moderately, while **border-trade import value** soared by more than one fold as imports from every neighboring countries rose. Trade balance was in surplus of 379 million US dollars, compared with a surplus of 252 million US dollars in the same period last year.

**8. Prices.** In June 2004, Consumer Price Index (CPI) increased by 2.8 percent year-on-year, accelerating from the previous month. Food prices grew by 4.8 percent year-on-year due mainly to an increase in fresh vegetable price as its supplies rose, and an increase in meats price due to consumer demand. Non-food prices grew by 1.9 percent year-on-year, accelerating from last month owing largely to increases in prices of retail benzene gasoline, retail cooking gas, and electricity price per unit. Core Consumer Price Index (Core CPI) remained low and declined from June 2003 by 0.1 percent.

**In the first half of 2004**, CPI rose by 2.3 percent, accelerating from the previous half. Food prices increased by 5.5 percent year-on-year due mainly to an increase in pork price since March as more consumers shifted to pork after the avian flu outbreak. In addition, price of Thai Jasmine rice rose, particularly in the first quarter, as a result of favorable foreign demand, while price of fresh vegetable increased in light of diminished supplies, especially in the second quarter. Non-food prices grew moderately by 0.5 percent year-on-year on account of increases in electricity price per unit, retail benzene gasoline, and retail cooking gas. Core CPI was low and fell from the same period last year by 0.2 percent as housing rents continued to decline.

**9. Labor.** From May 2004 Labor Force Survey by National Statistical Office, northern region labor force stood at 6.6 million, of this, 6.3 million were employed and 0.2 million were unemployed. Employment rate stood at 95.6 percent, lower than that of 96.0 percent in May 2003, as agricultural sector absorbed less employment. Non-agricultural sector employment, on the other hand, expanded by 12.8 percent year-on-year, particularly in the areas of construction, manufacturing, and wholesale and retail trade. Unemployment rate was up to 3.2 percent, compared with 2.9 percent in May 2003, as more new graduates entered the market.

**10. Banking.** At end-June 2004, commercial bank deposit outstanding increased from the same period last year by about 3.4 percent, owing in part to deposits arising from income from selling agricultural products and parked funds for investment purpose. Commercial bank credit outstanding increased by about 10.0 percent year-on-year, as a result of credit extension to agricultural related industries, services businesses, wholesale and retail businesses, academic institutions, and residential owners.

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