



Press Release on Northern Region Economic Conditions in September and in nine months of 2004

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In September 2004, northern region economy continued to expand, with consumption expanding though at a slower pace. Exports accelerated from last month in response to foreign demand, leading to a satisfactory increase in export-oriented manufacturing production and capacity expansion in certain industries. Farm income from major crops grew by 11.6 percent year-on-year as both major crop production and price rose. Services sector continued to benefit from tourism activity promotions, seminars, as well as budget airlines' route expansion and competition. Headline inflation accelerated due to price of higher retail benzene. Commercial bank credits increased by 9.0 percent year-on-year, most of which were extended to agricultural product processing industries.

In nine months of 2004, the economy expanded well, contributed mainly by private consumption, private investment especially construction investment, as well as exports. Government spending also supported the expansion of the economy. However, private consumption and private investment grew at a slower pace in the third quarter in light of domestic and external risks to the economy such as rising oil prices, and weakening consumer and business confidence. As for the supply side, average farm income from major crops increased by 3.4 percent year-on-year, while manufacturing production expanded, lifted by exports, leading to an increase in capital investment. Services expanded well since the beginning of the year, boosted by favorable activities such as seminars and workshops held by private and public sectors, and low cost airlines; moreover, the sector was not affected by concern over the news of SARS outbreak as in last year. Headline inflation accelerated.

Details of economic conditions in September and the first nine months of 2004 are as follows:

1. Agricultural Production. In September 2004, major crop production grew by 8.6 percent year-on-year as outputs of maize, shallot, sticky rice, soybean, and longan increased in light of expansion of cultivating areas, encouraged by last year's high prices, and favorable weather conditions. Major crop price increased by 11.6 percent year-on-year contributed by higher prices of sticky rice, soybean, and longan. Farm income from major crops thereby grew significantly by 20.2 percent year-on-year.

In nine months of 2004, major crop production grew by 5.8 percent year-on-year as outputs of sugar cane, maize, shallot, longan, and rice, increased due to expansion of cultivating areas prompted by last year's high prices, and favorable weather conditions. However, major crop price decreased by 2.3 percent year-on-year, thereby, farm income increased moderately by 3.4 percent year-on-year.

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 September 2004, NRIE export value grew significantly by 24.5 percent year-on-year as production improved in light of machinery replacement and capacity expansion, lifted by foreign demand for apparatus for making and breaking electrical circuit, base metal products, electrical appliances, and electric wire and cable. Nonetheless, production and export of jewellery declined.

In nine months of 2004, manufacturing output expanded continuously, especially in the area of export-oriented production. NRIE export value increased considerably by 34.0 percent year-on-year due to favorable foreign demand during events of the Euro 2004 and Athens 2004 Olympic Games in the first half of the year, which slowed down in August-September 2004. This resulted in

increases in productions and exports of apparatus for making and breaking electrical circuit, electrical appliances, and optical appliance and instruments.

3. Services. In September 2004, services activity expanded satisfactorily, benefiting from business promotions, seminars and workshops held by public and private sectors, and route expansion and competition of budget airlines. As a result, hotel average occupancy rate and average room rate were at 45.5 percent and 765.17 Baht per room night, up from 42.4 percent and 743.05 Baht per room night in September 2003. Meanwhile, air passenger increased markedly by 44.1 percent year-on-year. The higher oil prices, however, partly affected flows of Thai tourists.

In nine months of 2004, services activity expanded well, compared with last year's depressed level setting off by the news of the SARS outbreak, owing to off-season business promotion, seminar and workshop activity, as well as a rare giant panda showcase. As a result, hotel occupancy rate and hotel average room rate were at 53.5 percent and 863.33 Baht per room night, up from 48.3 percent and 791.40 Baht per room night in January-September 2003. Meanwhile, air passenger increased by 38.5 percent year-on-year in light of low cost airline competition, as well as domestic and international new routes and additional flights offered.

4. Private Consumption. In September 2004, private consumption activity expanded at a slower pace from last month. Registered car increased by 7.2 percent year-on-year, decelerating from last month as consumers' motor vehicle purchasing decision was affected and delayed by higher oil prices and the upcoming new car models. Meanwhile, registered motorcycle increased by 6.7 percent year-on-year, compared with a lower growth rate of 4.4 percent last month because the upper north's demand for motorcycle improved. In August 2004, household electricity consumption grew by 3.0 percent year-on-year, decelerating from last month as household demand for electricity slowed down in every province.

In nine months of 2004, private consumption activity expanded at a decelerated rate. Private consumption activity in the first half was satisfactory, encouraged by low interest rates, sales promotion, attractive down payments, and the lower north's favorable farm income, but began to slow down in the third quarter as oil prices increased and automobile purchasing decision was delayed as consumers expected to reap the benefit from a new excise tax framework for automobile, as well as the upcoming new car models. As a result, registered car increased by 26.9 percent year-on-year, decelerating from the same period last year, while registered motorcycle grew by 5.2 percent, compared with 39.0 percent in January-September 2003. Household electricity consumption grew by 7.2, accelerating from the same period last year because household electricity demand increased; nonetheless, growth rates began to slowdown in the second and the third quarters.

5. Private Investment. In September 2004, capital investment expanded well, but investment interest in construction slowed down. Construction areas permitted in municipal zone fell by 47.0 percent year-on-year as signs of commercial, and hotel construction were not as strong as those in September 2003 while residential construction area declined in many of northern provinces. However, land transaction fee rose by 15.3 percent year-on-year, reflecting increasing transactions in both the upper north and the lower north. As for capital investment activity, import value of non-electrical machinery and parts grew significantly by 52.8 percent year-on-year, as capital investment of firms located at NRIE in Lumphun province rose. Moreover, investment value of newly registered factories increased by more than one fold, with majority of the investment focusing in industries of agricultural and agricultural-related, and ceramic; while investment value of BOI's approved projects rose by more than two folds, underlying investment interest in producing agricultural products.

In nine months of 2004, capital investment accelerated, while investment interest in construction decelerated. Construction areas permitted in municipal zone declined from the same period last year by 2.3 percent due to a decline in commercial construction area in the upper north, and

slowdowns in residential and commercial construction areas. Land transaction fee, however, increased markedly by 34.7 percent year-on-year, owing primarily to concurrent high value transactions in the province of Chiang Mai during the first quarter of the year. Meanwhile, capital investment activity expanded well as seen by a 70.0 percent growth of import value of non-electrical machinery and parts, resulted from expansion of capital investment of firms located at NRIE in Lumphun province. Investment value of newly registered factories increased by 44.4 percent year-on-year, mostly representing investment in industries of water treatment, agricultural and agricultural related, transportation, and food. In addition, investment value of BOI's approved projects rose by 73.4 percent year-on-year to a four-year high, reflecting investment interest mainly in producing electronic products, agricultural products, and automobile parts.

6. Fiscal Positions. Government budgetary expenditures registering at northern provincial treasuries and district treasuries rose by 4.3 percent year-on-year to 12,582 million Baht, decelerating slightly as current expenditures declined by 12.7 percent owing to changing of reimbursement procedures, while capital expenditure continued to increase. Provinces registering a decline in budgetary expenditures included Chiang Mai, Phetchabun, and Phichit. As for government income, revenue grew considerably by 30.8 percent year-on-year to 1,788 million Baht, recording a six-year peak due in part to delayed corporate tax income. In addition, specific business tax nearly doubled, while VAT and income tax rose by 20.8 percent and 17.3 percent, respectively, contributed by increases in provinces of Chiang Mai, Lumphun, and Phitsanulok. As a result, budgetary deficit was at 10,794 million Baht, compared with 9,999 million Baht last month and 10,697 million Baht in September 2003.

In nine months of 2004, budgetary expenditures increased by 9.8 percent year-on-year, compared with a 6.6 percent decline in the same period last year, to 96,733 million Baht, with current expenditure rising by 7.3 percent and capital expenditure increasing by 15.5 percent. Government revenue grew by 15.1 percent year-on-year to 13,041 million Baht, with specific business tax increasing by more than one fold while corporate tax and VAT rising by 24.4 percent and 13.8 percent, respectively. Budgetary balance was in deficit of 83,693 million Baht, compared with a deficit of 76,748 million Baht in the same period last year.

7. Foreign Trade. Export value registering at custom houses in northern region grew by 25.8 percent year-on-year to 183 million US dollars, as *export value of industries located at NRIE in Lumphun province* increased due to capacity expansion of export-led manufacturing. Major export items included apparatus for making and breaking electrical circuit, base metal products, electrical appliances, and electric wire and cable, with key export markets being Japan, the U.S., Singapore, and Hong Kong. *Export value registering at Chiang Mai Airport Custom House* fell moderately while *border-trade export value* increased notably in line with exports to Myanmar and Lao PDR. Border-trade export to Southern China, however, declined as other export channels were employed. Import value registering at custom houses in northern region was up by 23.4 percent year-on-year to 120 million US dollars, due to favorable demand for raw materials. Meanwhile, *border-trade import value* expanded well as imports from Myanmar rose considerably. Trade balance registered a surplus of 63 million US dollars, up from a surplus of 48 million US dollars in September 2003.

In the first nine month of 2004, export value registering at custom houses in northern region increased by 36.0 percent year-on-year to 1,629 million US dollars, as *export value of industries located at NRIE in Lumphun province* rose in response to foreign demand during the Euro 2004 and Athens 2004 Olympic Games in the first half of the year before slowing down in August-September. Exports of apparatus for making and breaking electrical circuit grew by 58.0 percent, electrical appliances by 63.6 percent, and optical appliance and instruments by 46.0 percent; while export of wooden products and horticultural products declined by 28.1 percent and 17.8 percent, respectively. Key export markets included Japan, Singapore, and Hong Kong. *Export value*

registering at Chiang Mai Airport Custom House dropped slightly while *border-trade export value* increased significantly as exports to Myanmar and Lao PDR rose. Import value registering at custom houses in northern region increased by 29.6 percent year-on-year to 1,023 million US dollars, as *import value of industries located at NRIE in Lumphun province* grew in light of raw material import. *Border-trade import value* rose markedly as imports from every neighboring countries increased. Trade balance recorded a surplus of 607 million US dollars, improving from a surplus of 409 million US dollars in the January-September 2003.

8. Prices. In September 2004, Consumer Price Index (CPI) rose by 3.5 percent year-on-year, accelerated from last month, largely reflected higher prices of retail benzene, motor vehicle maintenance, and electricity. As a result, non-food prices grew by 3.2 percent year-on-year. Food prices grew by 4.2 percent year-on-year as prices of meat, fish, and seafood were at high level. Consumer Price Index (Core CPI) increased slightly by 0.5 percent year-on-year owing primarily to a price increase in motor vehicle maintenance.

In nine months of 2004, CPI grew by 2.6 percent year-on-year, accelerating from 2.0 percent In nine months of 2004, due mainly to the outbreaks of the avian flu that prompted increases in prices of meat, fish and seafood since the beginning of the year as consumers switched to non-poultry. This led to an increase in food prices of 5.2 percent year-on-year, compared with 3.8 percent increase in January-September 2003. Although prices of retail benzene price and electricity were up, non-food prices grew by only 1.1 percent year-on-year because housing rent continued to decline. Core CPI thereby fell by 0.1 percent year-on-year.

9. Labor. From August 2004 Labor Force Survey by National Statistical Office, northern region labor force stood at 6.9 million, of this, 6.8 million were employed. Employment rate registered at 98.5 percent, decreasing slightly from 98.8 percent in August 2003, as agricultural sector employment dropped. Non-agricultural sector employment, on the other hand, increased by 15.5 percent year-on-year, with employment in businesses of hotels and restaurants, construction, education, wholesale and retail, and manufacturing expanding well. Unemployment rate was at 1.5 percent, slightly higher than 1.2 percent in August 2003.

10. Banking. At end-August 2004, commercial bank deposit outstanding expanded by 4.5 percent year-on-year to 292,795 million Baht. However, the deposit in provinces of Nakhon Sawan, Lampang, and Chiang Rai fell from the previous month, as there were deposit withdrawals to purchase government bonds issued in August 2004. Meanwhile, commercial bank deposit of Lumphun province increased significantly owing mainly to payment transfers to export-oriented manufacturers located at NRIE. Commercial bank credit outstanding grew by 9.0 percent year-on-year to 208,937 million Baht, decelerating from 9.6 percent at end-August 2003. Credit extension in the lower north expanded, especially to manufacturing sector such as rice mills and export-led food processing industries in provinces of Nakhon Swan, Phitsanulok, Phetchabun, and Kamphaeng Phet. Meanwhile, credit extension in the upper north increased to promote export-led industries, fruits and vegetable processing SMEs, and business expansion. A ratio of credits to deposits was 71.4 percent, higher than 68.4 percent in August 2003.

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