



Press Release on Northern Region Economic Conditions in the First Half of 2005

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In June 2005, northern region's economy decelerated from the previous month.

On the demand side, private consumption and investment as well as exports decelerated from last month, while imports expanded at an accelerated rate. On the supply side, farm income from major crops continued to decline in light of a slight increase of major crop price and a significant fall of major crop production as a result of drought. Manufacturing production decreased particularly those of export-oriented. Meanwhile, service improved from the previous month. Consumer Price Index accelerated in light of persistent rises in oil prices. Commercial bank deposits decelerated while credits continued to expand well.

In the first half of 2005, the economy expanded at a decelerated rate due to the adverse effects of persistent rises in oil prices, drought, the Andaman tsunami, unrest in the southernmost provinces, and a slowdown in world economy. As a result, private consumption and investment as well as exports decelerated. Meanwhile, pressure on economic stability became more evident as Consumer Price Index in the first half of 2005 accelerated from the end of 2004, with headline inflation averaged at 3.3 percent year-on-year largely as a result of increases in retail benzene prices.

Details of economic conditions in June 2005 and in the first half of 2005 are as follows:

1. Agricultural Production. In June 2005, major crop production declined by 12.7 percent year-on-year as production of second crop rice and lychee dropped due to drought conditions, while shallot output decreased in light of last year's unfavorable price, prompting farmers to grow other crops instead. Major crop price increased moderately by 6.1 percent year-on-year, with the price of second crop rice continued to rise, while lychee price grew owing to a decline in lychee production and well-planned product distribution. As a result, farm income from major crops continued to fall, declining by 6.6 percent year-on-year.

In the first half of 2005, major crop production fell considerably owing to drought, decreasing by 12.7 percent year-on-year. Major crops that reported significant declines in output included rice, sugar cane, and cassava. Nonetheless, average major crop price increased by 15.2 percent year-on-year as a result of a rise in the price of second crop rice due to high world market price and supportive government's measures, an increase in the price of industrial sugar cane because of a drop in its production and unfavorable sugar prices in world market, and a nearly-one-fold rise in price of cassava in response to export demand. Farm income from major crops, thereby, grew by 2.5 percent year-on-year.

2. Manufacturing Production. In June 2005, manufacturing production declined from the same month last year and from the previous month. Production and export value by export-oriented industries located at Northern Region Industrial Estate (NRIE) in Lumphun province, consisting mainly of electronic products and electrical appliances, dropped by 3.2 percent year-on-year due to technology changes of electronic products that led to reduction in production of certain products such as electrode tubes used for non-flat-screen televisions. Zinc production decreased by 18.1 percent year-on-year, while output of construction materials rose satisfactorily by 30.4 percent year-on-year.

In the first half of 2005, manufacturing production decelerated from the same period last year. Production and export value of electronics and electrical appliances by firms located at NRIE in Lumphun province increased slightly by 4.6 year-on-year, compared with 35.6 percent year-

on-year in the first half of 2004, because of a slowdown in trading partners' economies in the first quarter of 2005 and changes in technology of electronic products, leading to changes in production process that resulted in decreases in production of some products such as apparatus for making and breaking electrical circuit, transformers, generator, and motors, and optical appliances; and increases in output of certain products such as electrical appliances. Meanwhile, sugar production dropped by 27.7 percent year-on-year in line with a fall in industrial sugar cane. In addition, zinc output in January-May 2005 decreased by 8.7 percent year-on-year, corresponding to quantity to be delivered according to forward contracts.

3. Services. In June 2005, service activity decelerated as Thai tourists, being more cautious about spending in light of rising oil prices, cut down their trips, while seminars and meeting held in northern region declined from the same period last year. Some of foreign tourists, on the other hand, were adversely affected by news on earthquakes and unrest in the southernmost provinces. As a result, service activity slowed down. Hotel occupancy rate declined by 4.0 percent year-on-year to an average of 38.4 percent, while hotel room rate was closed to that of June 2004, averaging at 830.6 Baht per room night. However, air passenger and VAT collected from hotel and restaurant businesses increased by 5.5 percent and 14.5 percent year-on-year, respectively.

In the first half of 2005, tourism conditions decelerated compared with the same period last year, despite benefiting from destination shifting from the south of Thailand to the north. Some of foreign tourists remained concern over last year's tsunami disaster, news on earthquakes, unrest and explosions in southernmost provinces of Thailand, while Thai tourists reduced their trips in light of increasing oil prices. In addition, seminars and meeting held in the north declined as well. As a result, average hotel occupancy rate fell by 5.1 percent year-on-year to 51.9 percent, while average hotel room rate increased by 6.3 percent to 964 Baht per room night reflecting room renovation costs in the earlier period. Value added tax collected from hotels and restaurants was closed to that of the first half of 2004. Nonetheless, air passenger grew by 11.4 percent year-on-year as air traveling gained more popularity in the wake of competitive prices offered by budget airlines.

4. Private Consumption. In June 2005, private consumption continued to decelerate as consumers were cautious about spending. Key indicators of private consumption activity expanded at a slower pace or even declined. Registered cars grew at 3.7 percent year-on-year as both passenger car and commercial car decelerated, compared with a rise of 13.7 percent in the previous month and an increase of 19.7 percent in the same month last year. Meanwhile, registered motorcycle fell by 4.6 percent year-on-year, with a significant drop in the lower north. Value added tax collected from wholesale and retail businesses declined by 9.5 percent year-on-year.

In the first half of 2005, private consumption decelerated from the second half of 2004 due primarily to weakened consumer confidence in light of rising oil prices. As a result, major indicators of private consumption activity grew at a slower pace. Value added tax collected from wholesale and retail businesses expanded by 11.2 percent year-on-year, slowing down from 23.9 percent in the same period last year. Registered car and registered motorcycle increased by 14.1 percent and 2.0 percent year-on-year, decelerating from the first half of 2004.

5. Private Investment. In June 2005, construction investment continued to expanded, eventhough construction areas permitted in municipal zone fell slightly by 0.2 percent year-on-year as construction of commercial buildings, dormitories, and hotels decelerated. Sign for capital investment improved from a month earlier, reflected by a 97.7 percent growth of investment value of four BOI approved projects totaling 1,087.6 million Baht, with majority of it focusing mainly on producing electronic parts.

In the fist half of 2005, investment activity expanded as construction investment, particularly outside municipal areas, accelerated in the first quarter, following expectations of higher

costs prompted by rising oil prices. Construction areas permitted in municipal zone grew by 4.4 percent year-on-year, while real estate sector expanded at a decelerated rate. Investment interest in the area of capital investment declined, with import value of non-electrical machinery and parts falling by 9.7 percent year-on-year and investment value of BOI approved projects dropping by 52.5 percent year-on-year.

6. Foreign Trade. In June 2005, export value registering at customs houses in northern region increased by 4.8 percent year-on-year to 199.5 million US dollars, decelerating from the previous month. *Export value posting at Chiang Mai Airport Customs House* grew significantly as exports of precious stones and jewellery, and machinery and mechanical appliances increased. *Border-trade export value* also rose, with exports to every neighboring countries expanded. Nonetheless, *Export value by industries located at NRIE in Lumphun province* declined due mainly to decreases in exports of apparatus for making and breaking electrical circuit, transformers, generator, and motors, and optical appliances.

Import value registering at customs houses in northern region rose by 22.1 percent year-on-year to 132 million US dollars, contributed primarily by an increase in *import value by industries located at NRIE in Lumphun province*, with majority items being apparatus for making and breaking electrical circuit, machinery and mechanical appliances, basic metal products, and other manufacturing products. *Import value posting at Chiang Mai Airport Customs House* rose considerably. *Border-trade import value* increased moderately owing to a rise in imports from Lao PDR, and southern China, while imports from Myanmar declined. Trade balance recorded a surplus of 67.5 million US dollars, declining from a surplus in June 2004 by 17.9 million US dollars.

In the first half of 2005, export value registering at customs houses in northern region rose by 13.3 percent year-on-year to 1,199.4 million US dollars, decelerated from the second half of 2004. *Export value by industries located at NRIE in Lumphun province* increased moderately in light of a rise in exports of electrical appliances such as recording media, while *import value posting at Chiang Mai Airport Customs House* also expanded. *Border-trade export value* grew satisfactorily as exports to three neighboring countries increased.

Import value registering at customs houses in northern region grew by 7.2 percent year-on-year to 728.1 million US dollars largely as a result of an increase in *import value by industries located at NRIE in Lumphun province*, with major import items including machinery and mechanical appliances, plastic raisin and products. *Import value posting at Chiang Mai Airport Customs House* grew owing to imports of apparatus for making and breaking electrical circuit, and basic metal products, while *border-trade import value* expanded as imports from Myanmar, Lao PDR, and southern China rose. Trade balance registered a surplus of 471.2 million US dollars, compared with a surplus of 379.1 million US dollars in the first half of 2004.

7. Prices. In June 2005, Consumer Price Index increased by 3.8 percent year-on-year, accelerating from 3.7 percent in the previous month and 2.8 percent in the same month in 2004. This was due to an acceleration of non-food prices that grew by 4.2 percent year-on-year mainly as a result of higher oil prices. Meanwhile, food prices expanded by 3.3 percent year-on-year. Core Consumer Price Index rose by 1.0 percent year-on-year, accelerating from a fall of 0.1 percent in the same month last year.

In the first half of 2005, Consumer Price Index grew by 3.3 percent year-on-year, accelerating from 2.3 percent in the same period last year, with Consumer Price Index in the first quarter increasing as prices of meats, fish and seafood, and eggs rose as consumer confidence towards food safety improved, while prices of fresh vegetables increased in light of a decline in its supply. As a result food prices grew by 3.6 percent year-on-year. Persisten rises in oil prices put pressure on prices further and led to an increase of 3.3 percent year-on-year of non-food prices.

8. Labor. According to May 2005 Labor Force Survey by National Statistical Office; northern region's labor force stood at 6.6 million. Of this, 6.5 million were employed and accounted for 99.2 percent of labor force, improved from 98.8 percent in May 2004. Agricultural employment decreased by 4.0 percent year-on-year in light of drought conditions. Nonetheless, non-agricultural employment grew from the same period last year by 4.2 percent year-on-year, with employment in hotel and restaurant sector, and manufacturing sector rising by 19.8 percent and 3.1 percent, respectively. Unemployment rate stood at 2.9 percent of labor force, improved from 3.2 percent in the same month last year.

Insured persons in June 2005 totaled 555,357 persons, increasing from the same period last year by 1.8 percent, and the previous month by 1.2 percent.

9. Banking. At-end May 2005, deposit outstanding of commercial bank branches amounted to 303,506 million Baht, rising by 4.2 percent year-on-year, compared with 3.1 percent in the same period last year. Most of the deposits resulted from fund transfers by public authorities, and fund transfers for land transaction and operation purposes by firms located at Northern Region Industrial Estate. Credit outstanding of commercial bank branches totaled 228,618 million Baht, increasing by 11.3 percent year-on-year and accelerating from 9.3 percent in the same period last year due to transfers of loan accounts from non-commercial banks to commercial banks as a result of mergers, as well as loan demand from saving co-operatives. A ratio of credits to deposits was at 75.3 percent, improving from 70.5 percent in May 2004.

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