



Press Release on Northern Region Economic Conditions in March 2006 and the First Quarter of 2006

Issued by Economic Research Division, Bank of Thailand, Northern Region Office (<http://www.bot.or.th>)

In March 2006, northern region's economy continued to expand at a decelerated rate from the previous month. For the demand side, private consumption slowed down, while overall private investment decelerated but investment in machinery and parts expanded in response to foreign market demand. Meanwhile, export and import value expanded at a decelerated rate from the previous month. For the supply side, farm income from major crops increased, contributed by the price factor. Export-oriented manufacturing expanded, while services sector continued to decelerate from the previous month. The Headline Consumer Price Index accelerated. Deposits and credits of commercial banks increased.

In the first quarter of 2006, northern region's economy expanded. Private consumption decelerated from the previous quarter but remained at a sound level. Overall private investment slowed down, but capital investment continued to expand responding to foreign demand. Export and import value continued to increase from the previous quarter. For the supply side, farm income from major crops increased primarily as a result of the price factor, while production of major crops grew slightly. Manufacturing production expanded particularly export-oriented production of electronic products. Having improved in the beginning of the year, services sector was affected by Thailand's recent political cloud, leading to delayed or cancelled visits by the meeting-and-seminar group as well as Asian tourists in March 2006. The Headline Consumer Price Index, slightly accelerating in the end of the first quarter, equaled that of the previous quarter. Commercial bank deposits and credits expanded.

The development of the economic conditions in detail is as follows:

1. Agriculture. In March 2006, farm income from major crops expanded from a year earlier by 16.5 percent, accelerating from a month earlier and a year earlier, driven primarily by the price factor. As for the agricultural output, major crops production grew from a year earlier by 1.7 percent, with second rice production growing by 7.7 percent in light of ample water resources, farmers' confidence on the market, and favorable prices. In addition, cassava production increased from a year earlier by 8.4 percent in response to domestic and foreign demands, whereas industrial sugarcane and garlic production declined. As for the agricultural price, major crops price rose from a year earlier by 14.8 percent, owing to rises in prices of second crop rice, industrial sugarcane, garlic, and shallot, which grew by 6 percent, 19.8 percent, 18.7 percent, and 97.3 percent, respectively.

In the first quarter of 2006, farm income from major crops increased from a year earlier by 15.3 percent, accelerating from a year earlier, driven mainly by a 15.1 percent rise in major crops price. The price of industrial sugarcane rose from a year earlier by 19.8 percent as the initial price of cane increased in line with world market sugar price, while prices of major rice and second crop rice grew by 11.4 percent and 6 percent, respectively, benefiting from the government's rice pledging scheme. In addition, the price of garlic increased from a year earlier by 6.2 percent in light of lessened supply prompted by the government's policy to reduce garlic planting areas. Meanwhile, the price of shallot rose markedly by 81 percent, responding to domestic and foreign demands. As for agricultural output, major crop production increased from a year earlier by 0.2 percent, with production of second rice, cassava, shallot, and major rice, growing by 7.7 percent, 8.4 percent, 0.5 percent, and 2.7 percent, respectively, whereas production of the industrial sugarcane fell as a result of drought during planting season and farmers' switching to plant other crops for better returns.

2. Manufacturing. In March 2006, manufacturing production expanded, with production of export-oriented manufacturing rising as reflected by an increase in export value of Northern Region Industrial Estate (NRIE) at Lamphun Customs House that grew from a year earlier by 19.8 percent to 176.3 million US dollars, accelerating from 3.5 percent in March 2005. In addition, production of sugar was nearly twice that of March 2005, amounting to 318.5 thousand metric tons as sugarcane supply for the crushing season increased, however, at-end March 2006; the production of sugar in 2005/2006 production year fell by 1.4 percent. Meanwhile, the production of

construction-related materials dropped from a year earlier by 11.3 percent in light of a slowdown in construction investment by both public and private sectors.

In the first quarter of 2006, manufacturing production expanded mainly as a result of export-oriented production by NRIE, with export value of NRIE at Lamphun province increasing from a year earlier by 19.3 percent to 460.3 million US dollars, compared with 18.8 percent in the previous quarter. This was due largely to increases in production and exports of electronic products such as computer components, in response to continued expansion of foreign demand. Moreover, sugar production grew from a year earlier by 15.6 percent to 1,315 thousand metric tons as sugarcane supply for the crushing season rose. However, the production of construction-related materials declined from a year earlier by 6.7 percent due to a reduction in public and private sectors' construction activity.

3. Services. In March 2006, services sector continued to decelerate from the previous month because of Thai tourists' delayed traveling due to of higher living costs, and Thailand's recent political climate. As a result, public authorities' meetings and seminars were either postponed or cancelled, and foreign tourists' trips to Thailand were delayed or called off, particularly by Asian tourists. The development of key services indicators was as follows. The Value Added Tax (VAT) collected from hotels and restaurants decelerated and grew from a year ago by 16.3 percent, the number of air passenger increased by 1.2 percent, decelerating from a month earlier. Meanwhile, the average hotel occupancy rate declined from 69.4 percent a month earlier to 52.1 percent, and the average hotel room rate was at 994 Baht per room night, improving slightly from a year earlier.

In the first quarter of 2006, services sector expanded from the same quarter of 2005, with performance improving in the beginning of the year but weakening in March 2006 as Thailand's recent political conditions prompted postponement or cancellation of public authorities' meeting and seminar activity, and delay or cancellation of foreign tourists' trips to Thailand, especially by Asian tourists. The development of key services indicators in the first quarter of 2006 was as follows. The VAT collected from hotels and restaurants, and the number of air passengers grew from a year earlier by 18.5 percent and 3.3 percent, respectively. In addition, the average hotel occupancy was at 64.3 percent, decreasing from 65.4 percent in the previous quarter, while the hotel room rate was at 1,015.8 Baht per room night, increasing from the first quarter of 2005 by 2.4 percent.

4. Private Consumption. In March 2006, private consumption continued to expand at a decelerated rate. The development of key private consumption indicators was as follows. The Value Added Tax (VAT) collected from all types of businesses increased from a year earlier by 24.7 percent, decelerating from 31.6 percent in March 2005. In addition, household electricity consumption rose from a year earlier by 10.9 percent. Nonetheless, the number of registered cars dropped by 0.7 percent from a year earlier, as the number of registered passenger cars lessened. Meanwhile, the number of registered motorcycle fell by 3.3 percent from a year earlier, as the market began to saturate and customers delayed purchases, given the on-going change in appearance of motorcycles.

In the first quarter of 2006, private consumption expanded at a decelerated rate. The development of key private consumption indicators in the first quarter was as follows. The VAT collected from all types of businesses increased from a year earlier by 23.9 percent, the household electricity consumption grew by 5.4 percent, and the number of registered cars rose by 4.3 percent, whereas the number of registered motorcycle dropped by 3.5 percent. Notably, consumers were more cautious about spending, concerning over economic performance that grew at a slower pace, and persistent rises in oil prices.

5. Private Investment. In March 2006, private investment expanded at a decelerated rate, with capital investment increasing as reflected by a rise in import value of non-electrical machinery and parts which increased from a year earlier by 32.6 percent to 11 million US dollars. Construction investment, however, declined, with sales of construction-related materials, and construction areas permitted in municipal zone, a sign of investment in construction; fell from a year ago by 12.7 percent and 15.2 percent, respectively. The latter was due largely to decreases in residential, commercial, and services construction areas, as there had already been active

construction investment in the period earlier. In addition, investment value of BOI's approved projects declined from a year earlier by 23.9 percent to 411 million Baht.

In the first quarter of 2006, private investment expanded at a decelerated rate, with capital investment expanding as import value of non-electrical machinery and parts grew from a year earlier by 5.5 percent to 23.5 million US dollars in order to increase capacity utilization of manufactures located at NRIE in Lamphun province. Meanwhile, investment value of BOI's approved projects expanded from a year earlier by 56.2 percent to 1,667.5 million Baht, representing investment interest in agriculture and agricultural products, services and public utility, and light industry. However, construction investment activity continued to decline, due in part to persistent rises in oil prices, economic slowdown, and Thailand's political climate, which led to delayed investment by the private sector. The sales of construction-related materials posted a decline of 15.6 percent, and the construction areas permitted in municipal zone recorded a decrease of 21.8 percent, as there was active construction activity in prior period.

6. Foreign Trade. In March 2006, export value registering at customs houses in the northern region grew at a slower pace from the previous month and expanded by 12.6 percent to 251 million US dollars. *Export value recording at Lamphun Customs House* rose by 19.8 percent to 176.3 million US dollars. Meanwhile, *export value recording at Chiang Mai Airport Customs House* rose significantly from a year earlier by 62 percent to 22.3 million US dollars, but most of the increase merely represented export customs procedure of electrical wire products that were filed at Chiang Mai Airport Customs House but were actually shipped out at customs house outside the northern region. Nonetheless, *border-trade export value* fell from a year earlier by 15.4 percent to 52.4 million US dollars as exports to every neighboring country decreased.

In March 2006, import value registering at customs houses in northern region grew at a decelerated rate and expanded by 14.9 percent to 161 million US dollars. *Import value recording at Lamphun Customs House* rose from a year ago by 9.9 percent to 144 million US dollars, with main import items being electrical machinery and parts, and apparatus for making and breaking electrical circuit. In addition, *import value recording at Chiang Mai Airport Customs House* increased markedly from a year ago by more than three folds to 8.8 million US dollars, but most of the increase again denoted filing for import customs procedure of electric wire products that took place at Chiang Mai Airport Customs House rather than actual imports to the northern region. *Border-trade import value* increased by 14.9 percent from a year ago to 8.2 million US dollars, albeit a decline in imports from southern China, as imports from Myanmar and Lao PDR expanded. The trade balance posted a surplus of 90 million US dollars, improving from a surplus of 82.7 million US dollars in March 2005.

In the first quarter of 2006, export value registering at customs houses in the northern region increased at a decelerated rate from a year earlier by 14.7 percent to 663.7 million US dollars, accelerating from the previous quarter and the same quarter of 2005. *Export value recording at Lamphun Customs House* grew by 19.3 percent to 460.3 million US dollars, as exports of electronic products, such as hard disk drive, expanded. *Export value recording at Chiang Mai Airport Customs House* rose by 53.4 percent to 49.6 million US dollars, primarily because electric wire products and cable wire products that were shipped out at customs houses outside the northern region were filed for export procedure at Chiang Mai Airport Customs House. However, *border-trade export value* fell from a year earlier by 4.4 percent to 153.9 million US dollars, even though exports to Lao PDR increased, as exports to Myanmar and southern China declined.

In the first quarter of 2006, import value registering at customs houses in northern region grew from a year earlier by 22.2 percent to 415.4 million US dollars, but declined from the previous quarter. *Import value recording at Lamphun Customs House* increased by 19.1 percent from a year ago to 375.1 million US dollars. *Import value recording at Chiang Mai Airport Customs House* rose by more than two folds to 18.2 million US dollars, with February and March reporting significant expansion, due mainly to imports of electrical appliances and cable wire products that were filed for import procedure at Chiang Mai Airport Customs but were actually not import to the northern region. *Border-trade import value* increased by 12.3 percent from a year ago to 22.2 million US dollars, as imports from every neighboring country increased. The trade balance posted a surplus of 248.3 million US dollars, improving from a surplus of 239 million US dollars in the first quarter of 2005.

7. Prices. In March 2006, the Headline Consumer Price Index rose from a year earlier by 5.8 percent due to acceleration in food prices that grew by 6.5 percent as a result of increases in prices of vegetable and fruits. Meanwhile, non-food prices decelerated from the previous month, increasing by 5.4 percent from a year earlier. In addition, the Core Consumer Price Index grew from a year earlier by 2.4 percent, equaling that of last month but accelerating from 0.7 percent in March 2005.

In the first quarter 2006, the Headline Consumer Price Index grew from a year earlier by 5.9 percent as food prices increased by 5.9 percent due to higher prices of vegetable and fruits, and non-food prices rose by 5.9 percent owing mainly to rises in fuel prices. The Core Consumer Price Index rose from a year earlier by 2.3 percent, accelerating from 0.7 percent in the first quarter of 2005.

8. Labor. According to February 2006 Labor Force Survey by National Statistical Office, northern region's labor force totaled 6.6 million. Of these, 6.4 million were employed and accounted for 97.9 of the labor force, 0.6 percentages higher than that of February 2005. The number of employed person by agricultural sector was 2.8 million, increasing by 0.7 percent from a year earlier in which the agriculture was affected by drought. Meanwhile, decreases in hiring in wholesale and retail trade sectors led to a fall of non-agricultural employment by 1.2 percent. The unemployment rate was at 1.5 percent, 0.4 percentages lower than that of February 2005. In March 2006, the number of insured persons was 0.6 million persons, increasing from a month earlier by 0.4 percent and from a year earlier by 4.9 percent.

9. Banking. At-end February 2006, deposit outstanding of commercial banks amounted to 319,171 million Baht, increasing from a year ago by 5.4 percent compared with 3.9 percent in the previous month. Most of the deposit rises were seen in provinces of Chiang Mai, Chiang Rai, Nakhon Sawan, and Kam Phaeng Phet. At-end February 2006, credit outstanding of commercial banks amounted to 251,801 million Baht and increased from a year ago by 13.2 percent, decelerating from the previous month. Provinces reporting the strong gain in credits were Nakhon Sawan and Phitsanulok. Excluding deposits and credits by newly established commercial banks (Tisco Bank, Thanachart Bank, and Kiatnakin Bank), the commercial bank deposits and credits would expand from a year earlier by 4.3 percent and 6.9 percent, respectively.

Bank of Thailand, Northern Region Office
May 4, 2006

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