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Press Release on Northern Region Economic Conditions in June 2006 and in the First Half of 2006

In June 2006, northern region's economy grew at a slightly slower pace from the previous month. For the demand side, private consumption picked up slightly, whereas private investment continued to weaken. Export and import remained sound, albeit with slower growth from last month. For the supply side, farm income posted a slower growth, while services sector seasonally moderated. Manufacturing production expanded further, driven mainly by export-oriented manufacturing. Headline Consumer Price Index, though slightly weakened, remained high as a result of rising oil prices. As for banking, growth rate of commercial bank deposit was flat, while commercial bank credit reported a slower growth.

In the first half of 2006, northern region's economy grew at a slower pace. For the demand side, private investment grew weaker, especially construction investment which indicated weaker signs since the end of the first quarter. Private consumption expanded at a decelerated rate from the same period last year, but remained sound in general. Export and import expanded, with export, in particular, accelerated from the same period last year. For the supply side, agricultural sector performed well, while export-oriented manufacturing boosted overall manufacturing production. Services sector grew at a slower pace as foreign tourists delayed traveling in light of Thailand's political uncertainty in late first quarter, and Thai tourists were more cautious about spending.

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

1. Agriculture. **In June 2006**, farm income from major crops expanded by 5.4 percent as the price of major crops grew by 6.2 percent in light of increases in prices of certain crops: lychee price increased by 7.1 percent, shallot price – by 26.4 percent, garlic price – by 49.5 percent, and maize price – by 19 percent. The price of second rice, however, unchanged from a year earlier. As for agricultural production, major crops production declined slightly: lychee dropped by 7.1 percent as its production was damaged by early-and-heavy rainfall, while production of garlic and maize fell by 23 percent and 0.8 percent, respectively. By contrast, production of second rice and shallot expanded, increasing by 7.7 percent and 0.5 percent, respectively.

In the first half of 2006, farm income from major crops grew by 13.8 percent. The price of major crops rose by 12.1 percent as many crops posted favorable gains in prices: industrial sugarcane price expanded by 19.8 percent driven by world-market sugar price, major rice price grew by 11.4 percent due to the government's rice pledging scheme, and garlic and shallot prices increased by 24.2 percent and 104.6 percent, respectively. As for agricultural production, major crops production grew by 1.7 percent, with production of second rice, industrial sugarcane, and major rice, increasing by 7.7 percent, 1.5 percent, and 4.1 percent, respectively. Nonetheless, production of garlic, mungbeans, lychee, maize, onion, declined by 23 percent, 16.2 percent, 7.1 percent, 0.8 percent, and 33.8 percent, respectively.

2. Manufacturing. **In June 2006**, manufacturing production expanded, with export-oriented production increasing as reflected by a 29 percent rise in export value by Northern Region Industrial Estate (NRIE) at Lamphun Customs House. Most of the export-oriented production was electronic products manufacturing including apparatus for making and breaking electrical circuit, hard disk drives, and optical lens, with each posting increase in export value by 13.2 percent, 29.9 percent, and 24.3 percent, respectively. Production of construction-related materials, by contrast, continued to fall, declining by 11.5 percent in light of weakened construction activity.

In the first half of 2006, manufacturing production expanded, driven mainly by export-oriented production as seen by a 17.8 percent increase in export value by Northern Region Industrial Estate (NRIE) at Lamphun Customs House. Key export items were electronic products, particularly hard disk drive which posted an increase in export value by 20.2 percent. Other export products expanding well included apparatus for making and breaking electrical circuit, optical appliance and instruments, transformers and motors, and jewelry. In addition, the Value Added Tax (VAT) collected from manufacturing businesses increased by 19.3 percent to 1,249.1 million Baht. Nonetheless, production of construction-related materials, continuing to fall since the beginning of the year, declined further by 5.8 percent as private and public construction grew weaker.

3. Services. In June 2006, services sector seasonally grew at a slower pace. The deceleration was also led by Thai tourists' cautious spending in the face of persistent rises in oil prices and higher cost of living. The development of key services indicators was as follows. The average hotel occupancy rate was at 38.7 percent, decreasing from 40.1 percent last month, while the average hotel room rate indicated a slower growth, increasing by only 1.1 percent to 843.4 Baht per room night. Furthermore, the VAT collected from hotels and restaurants posted the first 10-month decline, falling by 7.3 percent as the VAT collected from hotels and restaurants in Chiang Mai province dropped. However, the number of air passengers grew by 6.2 percent following low-cost airlines' increasing flights to northern destinations, particularly to Chiang Mai.

In the first half of 2006, overall services sector grew at a slower pace. Although the sector expanded well in the first two months, it was later affected by Thailand political uncertainty and higher cost of living. These resulted in delayed traveling by foreign and Thai tourists, and cancelled or postponed meeting and seminar arrangements. The number of air passengers slowed down, posting a small growth rate of 3.4 percent. The average hotel occupancy rate was at 53 percent, virtually unchanged from the first half of 2005, while the average hotel room rate increased slightly by 1.8 percent. Nonetheless, the VAT collected from hotels and restaurants continued to expand, increasing by 12.7 percent.

4. Private Consumption. In June 2006, private consumption improved slightly from the previous month. The development of key private consumption indicators was as follows. The Value Added Tax (VAT) collected from all types of businesses increased by 23 percent, accelerating from 19.2 percent last month, with the VAT collected from manufacturing business expanding significantly and the VAT collected from wholesale and retail business slowing down from last month. As for vehicle spending, the number of registered motorcycles continued to expand, increasing by 14.1 percent, due to consumer demand for motorcycles during the beginning of academic semester and introduction of several new motorcycle models. However, the number of registered cars fell by 2.4 percent, slowing down from an 8.4 percent increase a month earlier.

In the first half of 2006, private consumption grew at a decelerated rate but continued to remain sound as mirrored by a 22.2 percent growth of the VAT collected from all types of businesses; even it was lower than 33.2 percent in the first quarter 2005. Persistent rises in oil prices, and increases in interest rates led consumers to become more cautious about spending, thus holding down private consumption activity. The development of other key private consumption indicators was as follows. The number of registered cars grew slightly by 0.7 percent as more new cars were delivered to car buyers while the number of registered motorcycles increased by 1.5 percent following introduction of several new motorcycle models.

5. Private Investment. In June 2006, private investment continued to weaken from the previous month as construction declined further. As a result, key private investment indicators dropped: construction areas permitted in municipal zone fell by 19 percent, with both commercial and services space decreasing, following active construction investment in earlier period, and the amount of land registration fees declining by 57.3 percent.

In the first half of 2006, private investment activity cooled, with weak signs developing since late first quarter. Construction continued to decline due in part to rising oil prices, slowing down domestic economy, and political uncertainty, leading to private sector's delaying investment. Most of private investment indicators grew weaker: construction areas permitted in municipal zone dropped by 16.1 percent following active construction investment in earlier period, the amount of land registration fees declined by 19.3 percent, and import value of machinery and parts, which reflected capital investment, decreased by 23

percent. However, investment value of BOI's approved projects grew by 44.2 percent, but most of it represented investment signs for business expansion rather than new investment. In addition, export-oriented manufacturing and hotel businesses continued to carry on their investment as planned.

6. Foreign Trade. In June 2006, export value registering at customs houses in the northern region increased by 15.4 percent to 230.1 million US dollars, decelerating from the previous month. *Export value recording at Lamphun Customs House* expanded by 29 percent to 178.2 million US dollars. Of this, export items expanding well were apparatus for making and breaking electrical circuit, hard disk drives, optical appliance and instruments, and jewelry, with growth rates of 13.2 percent, 29.9 percent, 24.3 percent, and 108 percent, respectively. Nonetheless, *export value recording at Chiang Mai Airport Customs House* fell by 44.2 percent to 11.5 million US dollars as some exporters switched to do customs procedures at customs houses in Bangkok. Albeit significant increases in export to southern China and Lao PDR, *border-trade export value* declined by 0.7 as export to Myanmar declined.

Import value registering at customs houses in northern region rose from by 12.6 percent to 148.6 million US dollars. *Import value recording at Lamphun Customs House* grew by 11.8 percent to 136.8 million US dollars as import of raw materials increased: integrated circuits grew by 33 percent, and jewelry and silver bar rose markedly by 66.1 percent. *Import value recording at Chiang Mai Airport Customs House* increased by 87.5 percent to 4.2 million US dollars, decelerating from an increase of more than two folds last month. *Border-trade import value* grew by only 2 percent to 7.5 million US dollars as most of increases in imports from Myanmar and Lao PDR were offset by a decline in import from southern China. The trade balance posted a surplus of 81.6 million US dollars, improving from a surplus of 67.5 million US dollars in June 2005 but declining from a surplus of 88.4 million US dollars in May 2006.

In the first half of 2006, trade value registering at customs houses in northern region grew by 13.6 percent to 2,176.2 million US dollars. Export value registering at customs houses in the northern region increased by 12.3 percent to 1,333.5 million US dollars. *Export value recording at Lamphun Customs House* rose by 17.8 percent to 959.4 million US dollars, with key export products being apparatus for making and breaking electrical circuit, hard disk drives, transformers and motors, optical lens, and jewelry. *Export value recording at Chiang Mai Airport Customs House* increased by 18.8 percent to 99.8 million US dollars, with export of electric wires and cables being the strongest sellers during the beginning of the year and major export markets being Japan and the US. Nonetheless, *border-trade export value* fell by 5.2 percent to 274.4 million US dollars as a result of declines in export to Myanmar and southern China.

Import value registering at customs houses in northern region expanded by 15.7 percent to 842.7 million US dollars. *Import value recording at Lamphun Customs House* grew by 11.9 percent to 758.9 million US dollars as a result of a rise in import of raw materials: import of electronic parts increased by 29.2 percent and import of metal products – by 39.1 percent. *Import value recording at Chiang Mai Airport Customs House* increased by more than two folds to 35.9 million US dollars, due to significant import of electric wire during February – May 2006. *Border-trade import value* rose by 23.7 percent to 47.9 million US dollars, with import from Myanmar and Lao PDR increasing but import from southern China declining. The trade balance registered a surplus of 490.8 million US dollars, improving from a surplus of 459.5 million US dollars in the first half of 2005.

7. Prices. In June 2006, the Headline Consumer Price Index increased by 6.1 percent, decelerating slightly from 6.2 percent last month as food prices grew at a slower pace of 6.3 percent, compared with 6.8 percent last month. The slowdown in food prices was due in part to declines in prices of meat, fresh vegetable and fruits, as there were greater supplies in the market. Non-food prices rose by 5.9 percent, accelerating from 5.7 percent last month, due to a 29.4 percent rise in oil prices following continued increase in world-market oil prices. This led to increases in prices for public transportation, air tickets, and the Automatic Tariff Adjustment Mechanism (Ft) – the rate of electricity charge, which was raised by 9.6 Satang per unit (1 Baht = 100 Satang). The Core Consumer Price Index grew by 2.5 percent, compared with 2.4 percent last month.

In the first half of 2006, the Headline Consumer Price Index rose by 6.1 percent and slightly increasing from 5.9 percent in the second half of 2005. Food prices grew by 6.4 percent, while non-

food prices rose by 5.8 percent largely as a result of rising oil prices. The Core Consumer Price Index increased by 2.5 percent, compared with 0.8 percent in the first half of 2005.

8. Labor. In May 2006, northern region's labor force totaled 6.64 million according to May 2006 Labor Force Survey by National Statistical Office. Of these 6.52 were employed and accounted for 98.2 percent of the labor force, improving from 96.2 percent in May 2005. Agricultural employment amounted to 2.95 million, increasing by 10.6 percent from the same month last year that agricultural sector was affected by drought. Non-agricultural employment totaled 3.58 million, declining by 2.5 percent as hiring by construction sector, manufacturing sector, and hotel and restaurant sector, dropped. Unemployed person totaled 0.08 million and unemployment rate was at 1.2 percent of the labor force, improving from unemployment rates of 2.9 percent, and 1.9 percent in May 2005, and April 2006, respectively. **In June 2006**, the number of insured persons totaled 0.58 million, increasing by 4.6 percent from June 2005, and by 0.3 percent from May 2006.

9. Banking. At end-May 2006, the deposit outstanding of commercial banks amounted to 324,991 million Baht, expanding by 7.1 percent and posting the same growth rate as that of April 2006. However, the deposit outstanding was lower than that of April 2006 as more depositors withdrew funds from deposit accounts to invest in other financial instruments offered by financial institutions. At end-May 2006, the credit outstanding of commercial banks totaled 256,590 million Baht, expanding by 12.2 percent. The credit growth rate was lower than that of April 2006 largely because crop merchants paid up their loans. Some types of credits continued to expand including hire purchase credits, and credits to savings cooperatives, hotels, and real estate businesses. The ratio of credits to deposits was at 78.95 percent, improving from 75.33 percent in May 2005. Excluding deposits and credits by newly established commercial banks, the commercial bank deposits and credits would be 319,535 million Baht and 240,683 million Baht, respectively, each expanding by 5.3 percent from May 2005.

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