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Press Release on Northern Region Economic Conditions in July 2006

In July 2006, overall northern region's economy continued to expand with the growth rate on par with that of the previous month. For the demand side, private consumption, export and import decelerated from last month, while private investment declined but to a lesser extent than the previous month. For the supply side, farm income dropped as production of major crops decreased, particularly longan. Meanwhile, services sector seasonally improved slightly from the previous month, whereas manufacturing production of export-oriented industries grew at a slower pace. Headline inflation registered second straight month of decline. As for banking, growth rates of deposit and credit of commercial banks accelerated slightly.

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

1. Agriculture. Farm income fell by 4.7 percent as agricultural production declined. Major crops production dropped by 20 percent, mainly as a result of a 37.6 percent decline in longan production. This was due to farmers' fading enthusiasm in improving longan yield following last year's unfavorable prices. In addition, early rainy season and promotion of off-season production led to lower longan production this month. Production of second crop rice and shallot, on the other hand, increased by 7.7 percent and 0.5 percent, respectively. The price of major crops grew by 15.3 percent, accelerating from the previous month and from the same month last year, with the price of longan rising by 30.4 percent due to better management in product distribution. In addition, the price of shallot increased by 9.1 percent, slowing down from last month, whereas the price of second rice price unchanged from a year earlier.

2. Manufacturing. Manufacturing production expanded at a slower pace from the previous month. Export-oriented manufacturing production slowed down as seen by export value by Northern Region Industrial Estate (NRIE) at Lamphun Customs House that increased by 11.7 percent, decelerating from 29 percent last month. The expansion of export-oriented production was due mainly to increases in production of integrated circuits, hard disk drives, and optical appliances and instruments. Production of construction-related materials, by contrast continued to decline, posting a fall of 19.7 percent, due to weakened construction activity.

3. Services. Services sector slightly improved from the previous month, seasonally. The development of key services indicators was as follows. The average hotel occupancy rate was at 44.8 percent, improving 38.4 percent last month. The number of air passenger grew by 1 percent, and the hotel average room rate increased by 0.3 percent to 813.1 Baht per room night. In addition, tourists appeared to change their traveling behavior and traveling time in light of rising oil prices and higher costs of living.

4. Private Consumption. Private consumption expanded with the pace of growth slowing down from the previous month as consumers remained cautious about spending. Indicators for vehicle purchase indicated weaker conditions: the number of registered motorcycle and registered cars dropped by 4.4 percent and 11 percent, respectively.

5. Private Investment. Private investment continued to weaken, albeit with slight improvement from the previous month. The development of key private investment indicators was as follows. As for construction investment, sales of construction-related materials and land registration fees declined by 13.6 percent and 0.4 percent, respectively, compared with a fall of 20.1 percent, and a decrease of 21.3 percent last month, respectively. Nonetheless, construction areas permitted in municipal zone, a sign for construction activity, grew by 24.5 percent, with both residential and commercial space rising. As for

capital investment, import value of machinery and parts, which reflected capital investment activity, increased by 27.6 percent as a result of investment by NRIE.

6. Foreign Trade. Export value registering at customs houses in the northern region grew by 2.6 percent to 208.2 million US dollars, slowing down from the previous month. *Export value recording at Lamphun Customs House* increased by 11.7 percent to 161.1 million US dollars as export of the following items rose: integrated circuits increased by 4 percent, hard disk drives – by 24.9 percent, and optical appliances and instruments – by 9 percent. Nonetheless, *export value recording at Chiang Mai Airport Customs House* dropped by 47.4 percent to 10.9 million US dollars because export of carburetors and jewellery declined, and some exporters switched to do customs procedures at customs houses in Bangkok. In addition, *border-trade export value* fell by 4.9 percent to 36.2 million US dollars, albeit with a gain in export to southern China, as export to Myanmar and Lao PDR decreased.

Import value registering at customs houses in northern region rose by 3.3 percent to 140.2 million US dollars, decelerating from the previous month. *Import value recording at Lamphun Customs House* slightly increased by 0.9 percent to 130.6 million US dollars as import of electronic parts and chemicals reported growth rates of 7.4 percent and 1.7 percent, respectively. *Import value recording at Chiang Mai Airport Customs House* rose by 26.9 percent to 2.5 million US dollars, decelerating from last month. Of these, main import items posting significant gains included motorcycle's engine parts, which grew by 92.8 percent, and jewellery and silver bar, which increased markedly by more than three folds. In addition, *border-trade import value* rose by 69.8 percent to 7 million US dollars, accelerating from 2 percent last month, as import from every neighboring country increased, particularly from Myanmar. The trade balance registered a surplus of 68 million US dollars, improving from a surplus of 67.3 million US dollars in July 2005 but declining from a surplus of 81.6 million US dollars in June 2006.

7. Prices. The Headline Consumer Price Index increased by 4.5 percent, decelerating from 6.1 percent last month, as both food prices and non-food prices indicated a slowdown and posted growth rates of 5.2 percent and 4.2 percent, respectively. The Core Consumer Price Index also grew at a slower pace and registered a growth rate of 2 percent.

8. Labor. In June 2006, northern region's labor force totaled 6.53 million according to June 2006 Labor Force Survey by National Statistical Office. Of these, 6.43 million were employed and accounted for 98.5 percent of the labor force, improving from 98.2 percent in June 2005. Agricultural employment expanded by 5 percent to 3.36 million, as well agriculture-suited weather led to more demand for agricultural labor. However, non-agricultural employment declined by 7.5 percent to 3.07 million as hiring by sectors of construction, hotels and restaurants, and manufacturing, dropped. Unemployed person totaled 0.09 million or 1.3 percent of the labor force, on par with that of June 2005. In July 2006, the number of insured persons totaled 0.58 million, increasing by 4.3 percent from July 2005 and by 0.6 percent from June 2006.

9. Banking. At end-June 2006, the deposit outstanding of commercial banks expanded by 7.5 percent to 327,545 million Baht. Most of the deposit increase was attributable to deposits by government agencies, car dealers, and leasing companies, particularly in provinces of Chiang Mai, Chiang Rai, Nakhon Sawan, and Phetchabun. At end-June 2006, the credit outstanding of commercial banks increased by 13.8 percent to 258,638 million Baht. The upper north provinces that posted significant gain in credit was Chiang Mai, contributed mainly by credits extended to hotels and leasing companies. As for the lower northern region, strong gain in credit, particularly credits to businesses of rice mills and car leasing, was reported in provinces of Phitsanulok and Nakhon Sawan. As a result, the ratio of credits to deposits was at 78.96 percent, improving from 74.57 percent in June 2005.

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