



BANK OF THAILAND, NORTHERN REGION OFFICE

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Press Release on Northern Region Economic Conditions in August 2006

In August 2006, northern region economic condition improved slightly from the previous month. For the supply side, manufacturing production expanded, driven by foreign-market demand. Services sector reported continued improvement from the previous month, but farm income decreased slightly as production of major crops declined. For the demand side, private consumption continued to expand at a decelerated rate, while private investment, though remained declining, indicated improvement. On the external front, imports accelerated but exports fell. The headline inflation slowed down significantly. As for banking, deposit and credit of commercial banks continued to expand.

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

1. Agriculture. Farm income reported a continued decline, posting a fall of 1.6 percent, but was less softening than a fall of 6.5 percent last month. The decline was due to decreasing production of major crops, including longan and maize, which dropped by 37.6 percent and 3.8 percent, respectively. Meanwhile, the price of major crops increased by 15.2 percent, accelerating from a month earlier and a year earlier, as a result of a 27.1 percent rise in logan price, prompted by greater output and better product distribution, as well as a 9.3 percent increase in maize price and a 65.9 percent rise as a result of greater demand.

2. Manufacturing. Overall manufacturing production continued to expand at a slower pace. Export-oriented production indicated deceleration as seen by slowing in export value's growth of Northern Region Industrial Estate (NRIE) at Lamphun Customs House, which grew by 8.9 percent to 165.1 million US dollars, compared with 11.7 percent last month, due to some softening in export demand for hard disk drives. In addition, production of electrical apparatus for electrical circuit, camera lens, transformer and motor, also posted declines. Cut precious stone and jewelry, by contrast, reported acceleration in production. Following the three-consecutive-month decline, production of construction-related materials picked up with a growth rate of 12.5 percent because of a build-up of construction materials inventories in anticipation of the fourth-quarter high-season of construction activity. In addition, the Value Added Tax (VAT) collected from manufacturing business was favorable, posting a growth rate of 26.7 percent.

3. Services. The service sector reported continued slightly improved growth, with most of key service indicators described slow activity. The VAT collected from hotels and restaurants rose by 6.6 percent, and the number of air passengers grew by only 0.9 percent as some foreign tourists delayed trips to Thailand or shifted destinations toward neighboring countries following Thailand's recent political uncertainty. In addition, the hotel average room rate grew modestly by 2.4 percent to 831 Baht per room night and the average hotel occupancy rate was at 49.1 percent, improving from 44.8 percent last month.

4. Private Consumption. Consumer spending increased slowly, with the VAT collected from all types of businesses increasing by 18 percent, slowing down from 31.6 percent in the previous month. Sales of vehicles remained sluggish as indicated by a 2.2 percent decline in the number of registered motorcycle and an 11.1 percent fall in the number of registered cars.

5. Private Investment. Private investment continued to decline, but showed sign of improvement as activity in construction investment picked up. Following last month's fall of 13.6 percent, sales of construction related-materials reported a pickup and grew by 13.9 percent. Land registration fees also improved slightly, increasing by 2.3 percent, compared with 1.8 percent last month. Nonetheless, construction area permitted in municipal zone, a sign for construction activity, remained soft and grew by 7.7 percent, slowing from 22.7 percent in the previous month. Aside from this, investment interest increased, as

seen by investment amount of BOI's approved projects which rose by 30.3 percent. Most of it represented investment in existing projects rather than in new ones.

6. Foreign Trade. Export value registering at customs houses in the northern region declined by 2.8 percent to 221 million US dollars, mainly because *export value recording at Chiang Mai Airport Customs House* dropped significantly by 61.1 percent to 13 million US dollars. This was due to the fact that some exporters preferred to do customs procedure in Bangkok, as well as a fall in exports of glass and glassware, and carburetor. In addition, *export value recording at Lamphun Customs House* grew decelerated, expanding by 8.9 percent to 165.1 million US dollars, owing to a slowdown in exports of hard disk drive parts. Exports of cut precious stone and jewelry, however, continued to rise. Despite a rise in exports to southern China, *border-trade export value* increased slightly by 1.5 percent to 42.9 million US dollars, as exports to Myanmar and Lao PDR declined.

Import value registering at customs houses in northern region increased by 16.4 percent to 144.9 million US dollars, accelerating slightly from the previous month. *Import value recording at Lamphun Customs House* posted acceleration, expanding by 16.1 percent to 136.1 million US dollars, as imports of intermediate goods and raw materials rose, including integrated circuit, precious stone, and metal and metal products. However, *import value recording at Chiang Mai Airport Customs House* decelerated from the previous month, growing by 7.3 percent to 1.9 million US dollars, due to a slowdown of imports of industrial parts and electrical appliances. Aside from this, *border-trade import value* also slowed, increasing by 25.2 percent to 6.9 million US dollars, compared with 69.8 percent last month, due to declines in imports from Lao PDR. Imports from southern China and Myanmar, nonetheless, continued to expand. The trade balance posted a surplus of 76 million US dollars, falling from a surplus of 102.7 million US dollars in August 2005 but rising from a surplus of 68 million US dollars in July 2006.

7. Prices. The Headline Consumer Price Index increased by 3.7 percent, slowing down from 4.5 percent last month. The increase was due to rises in both food prices and non-food prices by 3.6 percent and 3.8 percent, respectively. The Core Consumer Price Index also indicated deceleration, increasing by 1.7 percent, compared with 2 percent in the previous month.

8. Labor. In July 2006, according to July 2006 Labor Force Survey by National Statistical Office, northern region's labor force totaled 6.77 million. Agricultural employment grew by 10.7 percent because of labor demand during planting season, while non-agricultural employment fell by 11 percent as hiring by some sectors declined including construction, hotels and restaurants, and wholesale and retail trade. As a result, the unemployment rate was at a low level, accounting for 0.9 percent of the labor force, compared with 1.3 percent in June 2006.

9. Banking. At end-July 2006, the deposit outstanding of commercial banks expanded by 8.7 percent to 328,288 million Baht. This was due to increases in deposits by savings cooperatives and academic institutions, as well as deposit mobilization by newly established commercial banks. Provinces posting deposit gains included Chiang Mai, Phitsanulok, and Uthai Thani. At end-July 2006, the credit outstanding of commercial banks grew by 11.5 percent to 259,183 million Baht, decelerating from June 2006. Credit extension was reported as rising in the upper north provinces of Chiang Mai and Chiang Rai, especially to businesses of golf courses, commercial construction, dormitories, and savings cooperatives. In the lower northern region, increases in credits were seen in provinces of Phitsanulok and Nakhon Sawan, responding to credit demand from businesses of dormitories and export-oriented textile. As a result, the ratio of credits to deposits was at 78.95 percent, equaling that of June 2006 but improving from 76.95 percent in July 2005.

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