



## No. 14/2006

### Press Release on Northern Region Economic Conditions in September 2006 and in Nine Months of 2006

**In September 2006**, northern region economy expanded at a decelerated rate from the previous month. For the supply side, export-oriented manufacturing expanded well. In addition, farm income grew as the price of major crops increased, but the service sector seasonally adjusted downwards. For the demand side, exports and imports accelerated from the previous month, but private consumption slightly declined while private investment decreased. The headline inflation continued to decelerate from the previous month. As for banking, deposit and credit of commercial banks increased virtually at the same rate as those of the previous month.

**In nine months of 2006**, northern region economy grew at a slower pace. For the supply side, export-oriented manufacturing expanded favorably, particularly for electronic products. Farm income rose as the major crops price increased, whereas the service sector grew at a decelerated rate. For the demand side, private consumption decelerated as prices of consumer goods and oil prices rose, while private investment declined. On the external front, exports decelerated but imports accelerated. In addition, deposit and credit of commercial banks expanded.

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

**1. Agriculture. In September 2006**, farm income rebounded and expanded by 7.5 percent following the two-consecutive month decline, due primarily to an increase in agricultural price. The rise in major crops price, by 13.7 percent, was due to increases in prices of maize and sticky rice, by 7.4 percent and 42.7 percent, respectively. An increase in shallot price by 26.9 percent, in light of greater demand, also added to the agricultural price rise. As for agricultural output, production of major crops declined by 6.2 percent. This was due to a fall in maize production that dropped by 3.8 percent as farmers switched to plant other crops such as cassava. Meanwhile, longan production fell by 37.6 percent following damaging early rainy season and last year's unfavorable price.

**In nine months of 2006**, farm income increased by 10.7 percent, driven mainly by price factor. The price of major crops rose by 12.7 percent, accelerating from the same period last month, as prices of industrial sugarcane, second rice, major rice, sticky rice, and maize, grew by 19.8 percent, 0.6 percent, 11.4 percent, 21.3 percent, and 5.5 percent, respectively, in line with world market prices. Rises in longan price and garlic price in light of lesser supply, by 28.8 percent, and 40.9 percent, respectively, also added to the agricultural price increase. In addition, shallot price posted a 52.1 percent increase, responding to greater demand. As for agricultural output, production of major crops fell by 2 percent when production of maize, longan, lychee, garlic, onion, and soybean, dropped by 3.8 percent, 37.6 percent, 7.1 percent, 23 percent, 33.8 percent, and 1.2 percent, respectively.

**2. Manufacturing. In September 2006**, overall manufacturing conditions generally expanded, with export-oriented production increasing. The expansion of export-oriented production was indicated by a rise in export value of Northern Region Industrial Estate (NRIE) at Lamphun Customs House that grew by 16.6 percent to 173.6 million US dollars, accelerating from 8.9 percent last month due to increases in production of electronic parts, electrical equipment, computer parts, mounted piezo-electric crystals, and jewellery. Meanwhile, the Value Added Tax (VAT) collected from manufacturing firms reported an increase of 35.9 percent to 155.1 million Baht, whereas production of construction-related material, in contrast, dropped by 4.7 percent, noting softness in construction activity.

**In nine months of 2006**, overall manufacturing production rose. Export-oriented production expanded, with export value of Northern Region Industrial Estate (NRIE) at Lamphun Customs House rising by 15.9 percent to 1,459.2 million US dollars, compared with 5.3 percent in the same period last year. The export-oriented production was described as rising well since the beginning of 2006, mainly because of world market demand for electronic products and electrical equipment. As a result, production of glass magnetic disk, and parts of electrical transformers, accelerated and expanded by 12.7 percent and 26.7 percent, respectively. Furthermore, the VAT collected from manufacturing businesses expanded by 28.2 percent to 1,839 million Baht, whereas production of construction-related materials, by contrast, declined by 5.5 percent, noting weakened construction activity.

**3. Services. In September 2006**, the service sector generally declined due to seasonal factor and foreign tourist's canceling trips to the country because of concern over the country's political situation. Most of the service indicators, therefore, softened. The VAT collected from hotels and restaurants fell by 31 percent, the hotel average occupancy rate declined by 0.3 to 40.6 percent, and the number of air passengers was virtually flat, increasing slightly by 0.3 percent.

**In nine months of 2006**, the service sector expanded well in the first quarter, but was later affected by higher oil prices and Thailand's political uncertainty in the second quarter, as well as foreign tourist's concern over changing political situation and floods that struck many northern areas in late third quarter. As a result, most of key service indicators posted a slowdown. The VAT collected from hotels and restaurants grew by only 6.6 percent, the number of air passengers was up slightly by 2.6 percent, the hotel average room rate rose by merely 1.7 percent, and the hotel average occupancy rate declined by 0.2 percent.

**4. Private Consumption. In September 2006**, private consumption declined as trade condition was dampened by higher-than-normal rainfalls during the month. As a result, most of key private consumption indicators posted a decline. Vehicle sales weakened, with the number of registered cars falling by 11.7 percent and the number of registered motorcycle declining by 10.1 percent. In addition, the VAT collected from all types of businesses decreased by 2.9 percent, compared with an increase of 20.7 percent in the previous month, as the VAT collected from wholesale and retail trade dropped, and businesses in flood-stricken provinces were given an extension period for VAT payment.

**In nine months of 2006**, private consumption slowed down, though remained at satisfactory level, as consumers became more cautious about spending as prices of consumer goods increased. The VAT collected from all types of businesses increased by 20.3 percent, slowing down from 33 percent in the same period last year. Vehicle sales also softened, with the number of registered cars declining by 2.9 percent, and the number of registered motorcycle dropping by 1.3 percent.

**5. Private Investment. In September 2006**, private investment declined. Construction areas permitted in municipal zones, a sign for construction investment, dropped by 9.7 percent, compared with a fall of 7.7 percent last month, of these, residential construction area, however, remained expanding and increased by 40.7 percent. Meanwhile, sales of construction-related materials grew at a decelerated rate, posting a growth rate of 4.7 percent, slowing down from 13.9 percent in the previous month. Aside from this, land transaction fees also dropped by 10.9 percent, following last month's increase of 7.6 percent. Investor's interest in capital investing, by contrast, continued to expand as indicated by rising investment amount of BOI's approved projects that increased by 55.7 percent, compared with 54.7 percent last month.

**In nine months of 2006**, private investment declined, largely because investment activity was delayed by several uncertain situations, including rising oil prices. Nonetheless, investor's interest in construction investment edged up fairly in early third quarter. Private investment, therefore, fell, particularly in the area of construction investment. As a result, most of key private investment indicators softened. Sales of construction-related materials dropped by 17.5 percent, while construction areas permitted in municipal zone declined by 12.8 percent, with residential area, and service and transportation area, reporting significant decreases. In addition, land transaction fees declined by 8.3 percent. However, interest in capital investment continued to expand, as reflected by a 10.9 percent increase in investment amount of BOI's approved projects, totaling 4,759.8 million Baht. Most of the investment interest focused on investing in services and public utilities for new residential projects, and in expansion of existing manufactures that produced metal products, machinery and transport equipment.

**6. Foreign Trade. In September 2006,** export value registering at customs houses in the northern region grew by 8.9 percent, accelerating from last month, to 227.7 million US dollars. *Export value recording at Lamphun Customs House* increased by 16.6 percent to 173.6 million US dollars as exports of electronic products rose, responding to world market demand. By contrast, *export value recording at Chiang Mai Airport Customs House* decreased by 46.4 percent to 9.4 million US dollars, posting the third consecutive month decline, as some exporters chose to do customs procedure in Bangkok, particularly exporters of tobacco leaves, and prepared or preserved vegetable. In addition, exports of wooden products, furniture, and ceramics products also declined. Meanwhile, *border-trade export value* increased by 4.6 percent to 44.8 million US dollars because of increases in exports to Myanmar and Lao PDR.

Import value registering at customs houses in northern region accelerated from the previous month and increased by 24.7 percent to 154.7 million US dollars. *Import value recording at Lamphun Customs House* grew by 17.5 million US dollars to 135.5 million US dollars, with the majority of import being raw materials by manufactures of electronic products and electrical equipment. Aside from this, *import value recording at Chiang Mai Airport Customs House* increased by more than three folds to 10 million US dollars, as a result of significant imports of plastic materials, and non-electrical machinery and parts. In addition, *border-trade import value* increased by 40.4 percent to 9.2 million US dollars, accelerating from the previous month, as imports from every neighboring country increased.

The trade balance posted a surplus of 73.1 million US dollars, declining from surpluses of 76 million US dollars, and 85.1 million US dollars in August 2006, and in September 2005, respectively.

**In nine months of 2006,** export value registering at customs houses in the northern region increased by 8.9 percent to 1,990.4 million US dollars. *Export value recording at Lamphun Customs House* grew by 15.9 percent, accelerating from the same period last year, to 1,459.2 million US dollars, with export or electronic parts expanding markedly. However, *export value recording at Chiang Mai Airport Customs House* fell by 14.5 percent to 133 million US dollars, largely as a result of exporter's shifting to do customs procedure in Bangkok since June 2006, particularly exporters of tobacco leaves, and preserved vegetables. In addition, *border-trade export value* declined by 3.4 percent to 398.2 million US dollars, as exports to Myanmar, having declined since the beginning of 2006, reported a fall of 5.6 percent and totaled 297.8 million US dollars.

Import value registering at customs houses in northern region increased by 15.3 percent to 1,282.5 million US dollars. *Import value recording at Lamphun Customs House* grew by 11.6 percent to 1,161 million US dollars, accelerating as a result of raw materials imports by manufactures of electronic products and electrical equipment. Meanwhile, *import value recording at Chiang Mai Airport Customs House* nearly doubled and totaled 50.4 million US dollars, due to imports of raw materials for producing electronic parts, and motorcycle's carburetors. In addition, *border-trade import value* grew by 29.3 percent to 71.1 million US dollars, as imports from every neighboring country rose.

The trade balance reported a surplus of 707.9 million US dollars, declining from a surplus of 714.5 million US dollars in the same period last year.

**7. Prices. In September 2006,** the Headline Consumer Price Index increased by 2.5 percent, decelerating from 3.7 percent in the previous month. Food prices grew by 3.8 percent, while non-food prices increased by only 1.7 percent, as energy price declined in light of decreases in fuel prices. The Core Consumer Price Index increased by 1.5 percent, decelerating from 1.7 percent last month.

**In nine months of 2006,** the Headline Consumer Price Index rose by 5.2 percent, accelerating from 4.2 percent in the same period last year. Food prices increased by 5.6 percent, while non-food prices grew by 4.9 percent. In the third quarter, however, the Headline Consumer Price Index slowed down significantly, posting an increase of only 3.6 percent, largely because of high base effect from the floating of diesel oil price in late second quarter of 2005, and declines in energy prices. The Core Consumer Price Index increased by 2.2 percent, compared with 1.2 percent in the same period last year.

**8. Labor.** In August 2006, according to the August 2006 Labor Force Survey by National Statistical Office, northern region's labor force totaled 6.78 million. Of these, 6.69 million were employed and

accounted for 98.7 of the labor force, equaling that of August 2005. Agricultural employment decreased by 5 percent to 3.36 million, whereas non-agricultural employment rose by 6.2 percent to 3.37 million because of increases in hiring by sectors of manufacturing, wholesale and retail trade, and education. In addition, unemployment rate was at 1.1 percent. In September 2006, the number of insured persons totaled 0.59 million, increasing by 0.1 percent from August 2006, and by 3.6 percent from September 2005, respectively.

**9. Banking.** At end-August 2006, the deposit outstanding of commercial banks amounted to 330,052 million Baht, expanding by 8.1 percent, compared with 8.7 percent in July 2006. The increase in deposit outstanding was due primarily to deposit related to land sales, and deposit mobilization by newly established banks, particularly in provinces of Chiang Mai, and Lamphun. At-end August 2006, credit outstanding of commercial banks totaled 261,583 million Baht, expanding by 11.2 percent, compared with 11.5 percent in July 2006. Credit extension was reported as rising in the lower north provinces of Nakhon Sawan, Phitsanulok, and Kam Phaeng Phet, especially to rice mill business and for hire purchase purpose. In the upper north region, increases in credits were seen in provinces of Chiang Mai and Chiang Rai, in response to credit demand from export-oriented agricultural and agro industry. As a result, the ratio of credits to deposits was at 79.26 percent, improving from 77.06 percent in August 2005.

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November 3, 2006

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