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Press Release on Northern Region Economic Conditions in December 2006 and in the Year 2006

In December 2006, overall northern region economy expanded slightly, noting expansion in the services sector during the seasonal high and the event of the International Horticultural Exposition for His Majesty the King (the Royal Flora Ratchaphruek 2006). **For the supply side**, farm income increased, driven by the price factor. Manufacturing production decelerated, but the service sector accelerated benefiting from the Royal Flora Ratchaphruek 2006. **For the demand side**, private consumption expanded, boosted by tourist spending, while private investment remained weak, but improved over last month. On the external front, exports grew at a slower pace due to softened electronics and electrical appliance export, and some exporters' switching to export through customs houses outside the northern region. Raw material imports expanded. The inflation rate slowed down. Credits and deposits of commercial banks grew at decelerated rate from last year.

In 2006, northern region economy expanded from the previous year. **For the supply side**, farm income increased, primarily as a result of a rise in major crop price. Manufacturing production expanded well, both production for domestic consumption and exports, noting increases in production of electronics, and sugar industries. Meanwhile, the services sector expanded on the strength of the Royal Flora Ratchaphruek 2006. **For the demand side**, overall private consumption slowed down, but improved at year-end along with the services sector. Exports and imports expanded at a slower pace, but private investment activity declined. The Headline Consumer Price Index increased at the rate near last year's. Commercial bank deposit and credit expanded, though the pace of growth was slower than a year earlier.

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

1. Agriculture. In December 2006, farm income expanded by 9.7 percent due to a rise in major crop price. The major crop price index grew by 11.9 percent, contributed mainly by a hefty increase in the sticky rice price by 60.8 percent responding to greater foreign demand, especially from China. Added to the major crop price increase was an increase in the maize price by 28.6 percent, spurred by increased domestic and export demand. Nonetheless, prices for major rice, and cassava, were down by 5.8 percent, and 19.5 percent, respectively. As main planting areas were stricken by floods, overall crop production was down, with the major crop production index decreasing by 2.2 percent, led by a decline in major rice of 3.9 percent. Added to the production decline was a reduction in maize production of 4.6 percent, resulting from maize farmers' switching to plant other crops – cassava, for instance. Production of the industrial sugar cane, by contrast, was up by 20.4 percent as its attractive price encouraged more sugar-cane planting/planting areas.

In 2006, farm income grew by 11.6 percent, improving from 10 percent last year, driven by gains in major crops prices. The major crop price index increased at an accelerated rate of 13.1 percent, highlighting gains in prices for sticky rice, industrial sugar cane, maize, and longan. The sticky rice price was up by 29.3 percent due to strong demand in China market. Following the raising of sugar cane final price, the price of industrial sugar cane adjusted upward by 26.7 percent. The maize price moved up as its world market price improved, posting an increase of 8.7 percent. Meanwhile, a combination of lessened supplies and improved management of product distribution, led to an increase in the longan price by 28.8 percent. Prices for cassava, and industrial pineapple, on the contrary, were down by 15.3 percent and 29.9 percent, respectively, in light of greater supplies. The major crop production index declined slightly from a year earlier by 1.5 percent. The production decrease was attributed to lower production of major rice, maize, longan, and garlic. Major rice production was down by 3.9 percent as its planting areas were stricken by floods. Maize production dropped by 4.6 percent as maize farmers changed to plant other crops, such as cassava. Prompted by government policy to reduce garlic planting areas, garlic production thus posted a decline of 23 percent. In addition, longan production was down by as much as 37.6 percent following its unattractive price last year and unexpectedly early rainy season that lowered its production. Second rice, and cassava production, by contrast, rose by 15.9 percent and 23.6 percent, respectively, encouraged by last year's high prices.

2. Manufacturing. In December 2006, overall manufacturing production decelerated, noting a slowdown in export-oriented production in particular. The slowdown in the production for exports was indicated by a softer growth rate of export value of Northern Region Industrial Estate (NRIE) at Lamphun Customs House, from 16.3 percent last month to 0.9 percent. Primarily, this was due to a slowing manufacturing of electronics and electrical appliances, with its export value growth of only 0.4 percent compared with 24.3 percent in the previous month, noting a decline in production of glass magnetic disk. In light of the early beginning of the sugar-cane crushing season and strong increase of sugar cane supply, sugar production nearly tripled (a near 200 percent increase), totaling 272.2 metric tons. In addition, production of construction materials was up by 20.7 percent.

In 2006, manufacturing production expanded at an accelerated rate from last year, contributed by increased production both for domestic consumption and exports. The expansion of export-oriented production was indicated by greater export activity in Northern Region Industrial Estate (NRIE) at Lamphun Customs House, which generated total export value of 1,951.9 million US dollars, or a 14 percent gain over last year. This was driven primarily by world demand for electronics, particularly for glass magnetic disks. Also contributing to the manufacturing expansion was a 28.7 percent increase in sugar production to 1,593.1 thousand metric ton, up from last year's drought-damaged production. Nonetheless, production of construction-related materials declined in light of continued weakness in construction investment, both private and public, which, in turn, caused by major floods the second and third quarters.

3. Services. In December 2006, the services sector marked the second straight month of acceleration during the high season of tourism. This was boosted by the event of the Royal Flora Ratchaphruek 2006 that attracted as many as 1,446,183 tourists this month, leading to busy activity in hotel, and tourism-related businesses in Chiang Mai and nearby provinces. All key services indicators, therefore, posted an expansion. The number of air passengers increased by 16.5 percent, reaching 500,366 persons as there was a significant gain in the air passengers at Chiang Mai International Airport, which, in turn, prompted by increased domestic and international flights by 28.7 percent, and 26.5 percent, respectively. The Value Added Tax (VAT) collected from hotel and restaurant business was up by 19.7 percent, with marked rise reporting in main tourism provinces of Chiang Mai, Chiang Rai, and Mae Hong Son. The hotel average occupancy rate was at 87.6 percent, improving from its November 2006 and December 2005 levels. The hotel average room rate was up moderately by 4.4 percent to 1,164.6 Baht per room night. As visitors to the Royal Flora Ratchaphruek 2006 were mostly Thai tourists, mid-range hotel rooms were in high demand and had fewer rooms to offer to foreign tourists with high spending power such as the Japanese and the Korean.

In 2006, even though the sector was affected by unsupportive factors – Thailand's political uncertainties and higher costs of living in the second quarter, together with changes in political landscape, and flood-stricken problems in the third quarter – the services sector overall expanded. Mainly, the expansion was attributable to greater tourism activity in the seasonal high fourth quarter, during which the three-month Royal Flora Ratchaphruek 2006 took place in the northern province of Chiang Mai. Moreover, the first quarter also saw satisfactory performance of tourism activity. As a result all key service indicators posted an expansion. The VAT collected from hotel and restaurant business increased by 11.6 percent. The number of air passengers grew at 4.9 percent, the same as its 2005 rate. The hotel average occupancy rate was up by 2 percent, and the hotel average room rate increased by 2.5 percent to 942.8 Baht per room night.

4. Private Consumption. In December 2006, overall private consumption continued to expand, benefiting from tourists' spending, and sales promotion, mostly in the form of price reduction offered by sellers of electrical appliances, in particular. Development of key private consumption indicators are as follows. The VAT collected from all types of businesses increased by 22.9 percent. By contrast, spending for purchasing vehicles was rather muted in general, indicated by a 37.2 percent decline in the number of registered cars, and a 20.5 percent drop in the number of registered motorcycle.

In 2006, overall private consumption expanded at a slower pace due in part to rising oil prices and high interest rates. However, the fourth quarter had seen improvement in overall consumer spending, spurred by the event of the Royal Flora Ratchaphruek 2006. Spending for vehicle purchases, by contrast, remained soft throughout the year. Development of key private consumption indicators are as follows. The VAT collected from all types of businesses grew by 21.4 percent, slowing down from 29.5 percent last year. The number of registered cars dropped by 6.3 percent, while the number of registered motorcycle declined by 4.8 percent.

5. Private Investment. December 2006 had seen a slight improvement of private investment over the previous month, but the sector generally remained in weakness. Development of key private investment indicators are as follows. Sales of construction related materials increased by 9.5 percent, improving from a fall of 1.4 percent last month, prompted by demand in continuing construction projects. However, construction areas permitted in municipal zones, a sign of construction investment, was down by 24.3 percent, since areas permitted to construct services and transportation building, and commercial building, dropped significantly. Areas permitted to construct residential building, on the contrary, expanded by 19.6 percent. As for capital investment, the investment value of BOI's approved projects, a sign for capital investment, quintupled from December 2005 (an approximate 400 percent increase).

In 2006, private investment was rather subdued in light of higher oil prices and interest rates together with weakened business confidence, resulting in delayed investment activity as reflected in development of key private investment indicators. Sales of construction related materials declined by 5.7 percent, drifting downward from a 17.8 percent increase in 2005. Construction areas permitted in municipal zones dropped by 16.8 percent following an increase of 2.9 percent last year. The amount of land transaction fees was also down, decreasing by 7.4 percent compared with an increase of 1.6 percent a year earlier. The investment value of BOI's approved projects declined by 39.4 percent, following a decrease of 26.3 percent in 2005.

6. Foreign Trade. In December 2006, value of export goods passed through customs houses in the northern region declined by 3 percent to 210.6 million US dollars, following an increase of 8.9 percent last month. Details of exports classified by customs houses are as follows. *Lamphun Customs House* reported a slowing export value growth of 0.9 percent, with export value totaling 154.9 million US dollars, because exports to Singapore and Japan, major trading partners, dropped by 10.4 percent and 0.3 percent, respectively, offsetting an increase in exports to China, which rose by 10.1 percent. *Chiang Mai Airport Customs House* reported the seventh straight month of decline in export value, posting a fall in export value of 18.4 percent to 8.8 million US dollars. This was due to the fact that tobacco products, previously being exported at northern region customs houses, were exported at customs houses outside the northern region instead. Added to the decline was a 15.4 percent decrease in export of ceramic products. *Border customs houses* reported dropped by 11.4 percent to 47 million US dollars, as exports to Myanmar and Lao PDR decreased.

In December 2006, value of import goods passed through customs houses in the northern region was up by 3.5 percent to 146.4 million US dollars, improving from a decline of 8.9 percent last month. Details of imports classified by customs houses are as follows. *Lamphun Customs House* reported a consecutive month decline with export value dropping by 2.1 percent to 128.6 million US dollars, following a fall of 12.2 percent last month. Machinery and parts for manufacturing production, and chemical and plastic products, imported through this customs house, decreased by 44.6 percent and 31.1 percent, respectively, while import of raw materials for manufacturing electronics was up by 2.7 percent. Imports passed through *Chiang Mai Airport Customs House* nearly tripled from December 2005 with import value totaling of 7.2 million US dollars, noting increases in import of laboratory glassware, and components of automobile engine. *Border customs houses* reported an increase in import value by 39.2 percent to 10.6 million US dollars, accelerating from the previous month as border trade imports from Myanmar and Lao PDR rose markedly. The trade balance posted a surplus of 64.2 million US dollars, declining from surpluses of 75.8 million US dollars and 91 million US dollars in December 2005 and November 2006, respectively.

In 2006, value of export goods passed through customs houses in the northern region grew at a slower pace compared to last year, from 14.2 percent to 7.2 percent, with export value totaling 2,648.6 million US dollars. This was due to the fact that some exporters chose to export through other customs houses outside the northern region instead. Tightening border-trade import restriction by Myanmar also added to the slowdown in exports of the northern region. Details of exports classified by customs houses are as follows. *Lamphun Customs House* reported an increase in export value by 14 percent, improving from 8.5 percent last year, to total 1,951.9 million US dollars, highlighting rises in exports of glass magnetic disks – by 10 percent, and semiconductors – by 7.1 percent. Exports passed through this customs house to China, Singapore, and Japan, expanded, with increases in export value of 24.6 percent, 3.6 percent, and 0.4 percent, respectively. *Chiang Mai Airport Customs House* reported a fall in export value by 17.5 percent to 161 million US dollars, with a significant decline seen in the second half as some tobacco and processed food exporters preferred to export at other customs houses outside the northern region. Main products exported through of this customs house included electric wires and cables, frozen vegetable, ceramic products, and jewellery. *Border customs houses* reported export value of 535.7 million US dollars, a 4.7 percent decline from a year earlier, as border trade exports to Myanmar and Lao PDR dropped.

In 2006, value of import goods passed through customs houses in the northern region expanded by 11.8 percent to 1,715.9 million US dollars, slowing down from 13.4 percent last year. Details of imports classified by customs houses are as follows. *Lamphun Customs House* reported an import value of 1,543.6 million US dollars, a 7.8 percent increase, but still a slowdown from 14.4 percent last year. This was due primarily to decreases in imports of raw materials for producing electronics, and integrated circuit parts, which declined by 5.2 percent and 15.7 percent, respectively. Import of integrated circuits, and precious stones and silver bars, through this customs house, however, continued to rise, posting increases of 21.7 percent, and 36.5 percent, respectively. *Chiang Mai Airport Customs House* reported a near 200 percent increase in import, with the import value totaling 70.1 million US dollars, due to increases in import of electric wires and cables, and raw materials for automobile engines. *Border customs houses* reported a rise in import value by 31.8 percent to 102.2 million US dollars as import from every neighboring country expanded. The trade balance posted a surplus of 932.7 million US dollars, slightly lower than last year's surplus of 935.4 million US dollars.

7. Prices. In December 2006, the Headline Consumer Price Index (CPI) increased by 3.7 percent, slightly slowing down from 3.8 percent last month. The food price index posted a consecutive increase, though at a slower rate compared to last month, from 7.8 percent to 7.3 percent. Rising prices for vegetable and fruits, and sticky rice, were main factors contributed to the increase in the food price. The non-food price index, on the other hand, grew by 1.5 percent, accelerating from 1.3 percent last month, as prices for public transportation, and fuel, were up by 10.1 percent, and 2.8 percent, respectively. The Core Consumer Price Index (Core CPI) excluding food and energy increased slightly by 0.8 percent, slowing down from 1.2 percent last month.

In 2006, the CPI increased by 4.7 percent, about the same increase reported for 2005. The first half of 2006 saw a marked rise in the CPI as the domestic oil price has been allowed to reflect and move with its world market prices since late second quarter of 2005. When the oil price softened in the second half, the CPI then slowed down. Annually, the domestic oil price grew at a slower pace compared to the previous year, from 25.8 percent to 17.2 percent. The non-food price index, therefore, slowed down slightly from last year, posting an increase of 3.9 percent. Tobacco and alcoholic beverages, one category of non-food, was reported a price increase of 7.1 percent, following the raise of excise tax rates. The food price index increased at an accelerated rate compared to last year, from 5.4 percent to 6 percent. Primarily, this was contributed by increases in prices of vegetable and fruits – by 19.2 percent, and rice – by 5.4 percent. The Core CPI was up by 1.9 percent, accelerating from 1.3 percent in 2005.

8. Labor. According to the November 2006 Labor Force Survey by National Statistical Office, northern region's labor force totaled 6.73 million. The employment rate was relatively high and virtually unchanged from its November 2005 rate at 98.1 percent, representing 6.6 millions of employed persons. Agricultural employment increased by 2.1 percent to 3.27 million, whereas employment by non agricultural sectors remained unchanged from its November 2005 level, totaling 3.36 million. For non agricultural sectors, the wholesale and retail trade sector reported an increase in hiring by 6.2 percent, whereas hiring by sectors of manufacturing, and construction, were down by 7 percent and 8.7 percent, respectively. Meanwhile, the unemployment was also near its November 2005 rate at 1.5 percent, with the number of unemployed persons totaling 0.10 million. Aside from this, the number of insured persons in December 2006 increased by 3.3 percent to 0.59 million.

9. Banking. At end-November 2006, the deposit outstanding of commercial banks was 335,616 million Baht, expanding by 9.9 percent. Much of the deposit expansion was contributed primarily by deposits made by savings cooperatives, government agencies, and firms located at NRIE, particularly in provinces of Chiang Mai, Chiang Rai, Lamphun, and Nan. As for commercial bank lending, the credit outstanding at end-November 2006 increased by 9.6 percent to 271,449 million Baht, growing at a slower pace compared to October 2006. Increases in demands for credits were seen in rice mill businesses, crop traders, swine farmers, on-campus dormitories, and savings cooperatives, particularly in provinces of Chiang Mai, Chiang Rai, Tak, Nakhon Sawan, and Phetchabun. The ratio of credit to deposit was at 80.9 percent, slightly declining from 81.1 percent in November 2005.

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