



No. 5/2007

Press Release on Northern Region Economic Conditions in February 2007

In February 2007, northern region economy decelerated from the previous month. **On the supply side**, export-oriented manufacturing production slightly expanded, while the service sector slowed down following the end of the International Horticultural Exposition for His Majesty the King (the Royal Flora Ratchaphruek 2006). Farm income continued to increase as the major crop price rose. **On the demand side**, private consumption slowed down, and private investment decelerated given sluggish construction activity. Both export and import value declined. The headline inflation decelerated consecutively. Commercial bank deposits grew at the rate near December 2006's, while credits slowed down.

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

1. Agriculture. Farm income grew at an accelerated rate of 15.1 percent owing mainly to a rise in major crop production. The major crop production index increased by 7.8 percent as production of industrial sugar cane expanded by 20.4 percent, encouraged by last year's attractive price. Cassava production also rose, posting a growth of 18.1 percent, since some farmers' planting cassava to replace maize. However, production of shallot, garlic, and second rice, were down by 7.4 percent, 8.7 percent, and 7 percent, respectively. The major crop price index expanded at an accelerated rate of 7.3 percent, contributed by a 2.2 percent rise in the price for industrial sugar cane due to improved sweetness as measured by increased average Commercial Cane Sugar (CCS), and a 10.7 percent rise in the price for garlic in light of lesser supply. Prices for shallot, and cassava, however, were down by 51.4 percent and 15.9 percent, respectively.

2. Manufacturing. Manufacturing production continued to expand, though slightly. Preliminary data indicated that export-oriented production improved, reflected by a 2.4 percent growth of export value of firms located at Northern Region Industrial Estate (NRIE) in Lamphun province, with the export value totaling 147.6 million US dollars. Glass magnetic disks, camera lens, and integrated circuits, were main export items driven the export growth. Meanwhile, production of beverage grew at a accelerated rate, but sugar production increased at a slowing rate of 14.4 percent to 565 thousand metric ton. Production of construction-related materials remained weak, posting a negative growth rate of 10.4 percent following a fall of 15 percent in the previous month, given a decline in public and private sectors construction projects.

3. Services. February 2007 saw a slowing activity in the service sector following the end of the Royal Flora Ratchaphruek 2006. Hotel business benefited from resumption of inflows of foreign tourists who had postponed their trips to the north as hotel rooms had been fully occupied during the Royal Flora Ratchaphruek 2006. Continued tourism events and Chinese Lunar New Year festival also helped boosting northern tourism activity. As a result, most of key service indicators expanded at decelerated rates. Value Added Tax (VAT) collected from hotel and restaurant business was up by 27 percent, decelerating from 50.2 percent last month, with provinces of Chiang Mai and Chiang Rai posting significant gains. The average occupancy rate of hotels was at 71.3 percent, up from 70.3 percent a year earlier, while the average room rate of hotels was up by 0.5 percent to 1,019.80 Baht per room night. The number of air passengers, however, dropped by 5.2 percent.

4. Private Consumption. Private consumption activity slowed down. Development of key private consumption indicators are as follows. VAT collected from all types of business recorded an increase of 9.9 percent, decelerating from 11.4 percent last month mainly as a result of a slowdown in VAT collected from wholesale and retail business. Spending to purchase vehicles weakened. The number of registered cars, and motorcycles were down by 12.6 percent and 25.1 percent, respectively, compared with increases of 7 percent and 1.4 percent, respectively, in a month earlier.

5. Private Investment. Private investment decelerated from the previous month as construction investment slowed down despite recent sign of improvement last month. Development of key private investment indicators are as follows. Construction areas permitted in municipal zones, a sign of construction investment, increased slightly by 1.3 percent, slowing down significantly from a rise of 61.1 percent last month. Mainly, the increase was due to rises in areas permitted to construct residential and commercial buildings. Meanwhile, sales of construction related materials declined by 14.5 percent, compared with a fall of 0.4 percent last month. Land transaction fees also dropped by 12.4 percent, compared with an increase of 3.8 percent last month. In addition, the investment value of BOI's approved projects, a sign of capital investment, decreased by 50.9 percent. Mostly, the approved projects were investment plans to produce agriculture and agricultural products.

6. Foreign Trade. Exports passed through all customs houses in the northern region declined by 9.5 percent to 196.9 million US dollars, compared with an increase of 5.3 percent last month. Details of exports classified by customs houses are as follows. *Lamphun Customs House* reported a decrease in export value of 2.9 percent to 139.9 million US dollars because some exporters move towards paperless customs that allow on-line customs procedures. As a result, such export data, previously recorded at Lamphun Customs House, were move to paperless customs data accordingly. Export value reported at *Chiang Mai Airport Customs House* was also down, declining by 28.1 percent to 12.6 million US dollars, as cable wires, and electrical wire sets, previously being exported through this customs house, were exported through other customs houses outside northern region instead. In addition, export value at *border customs houses* decreased by 20.4 percent to 44.4 million US dollars, as exports to Myanmar were hindered by import restraints, while exports to southern China and Lao PDR declined because river shipment was curtailed due to Mekong River's low water level.

Imports passed through all customs houses in the northern region decreased by 13.2 percent to 111.5 million US dollars, compared with an increase of 8.9 percent last month. *Lamphun Customs House* reported a decline of import value by 10.1 percent to 102 million US dollars, compared with a slight increase of 0.4 percent last month, largely as a result of decreased raw material imports, including printed circuit assemblies, electronic integrated circuits, and rough diamonds or diamonds that were unworked or simply sawn. Imports at *Chiang Mai Airport Customs House* dropped by 47.5 percent to 3.6 million US dollars, as electronic parts, plastic products, and electrical machinery, previously being imported through this customs house, were imported through other customs houses outside northern region instead. In addition, *border customs houses* reported a decline in import value of 26.7 percent to 5.9 million US dollars as imports from Myanmar dropped from last year's high base, and import shipment from southern China and Lao PDR were limited by low water level of Mekong River. The trade balance remained in a surplus of 85.4 million, declining from a surplus of 89 million US dollar in February 2006 but improving from a surplus of 68.5 million US dollars in January 2007.

7. Prices. The Headline Consumer Price Index increased by 2.1 percent, slowing down from 2.9 percent last month. The food price index rose at a decelerated rate of 5.6 percent, compared with 7.2 percent last month, due to continued significant rises in prices of vegetables, fruits, and rice. The price for meat, meanwhile, was down in light of greater supply. The non-food price index was up slightly by 0.2 percent, slowing from 0.5 percent last month. Most of the increase was attributed to rises in prices for electricity, and public transportation, posting increases of 9.5 percent and 2.8 percent, respectively. The price for fuel, however, declined by 3.9 percent. The Core Consumer Price Index (Core CPI), excluding food and energy, grew by 0.8 percent, close to last month's increase of 0.9 percent.

8. Labor. In January 2007, northern region's labor force totaled 6.63 million. Of these, 6.44 million were employed, accounting for 97.1 percent of the labor force, which was improved from 96.7 percent in January 2006. Employment by non-agricultural sectors increased by 1.9 percent to 3.42 million, noting expansion in hiring by sectors of manufacturing, construction, wholesale and retail trade. Hiring by hotel and restaurant sector, however, dropped by as much as 22.2 percent. Agricultural employment declined by 2.7 percent to 3.02 million, after some planting areas were hit by drought. Unemployed persons totaled 0.12 million, or 1.8 percent of the labor force, improving from 2.8 percent in January 2006. In February 2007, the number of insured persons was 0.59 million, increasing from February 2006 and from January 2007 by 2.9 percent and 0.8 percent, respectively.

9. Banking. At end-January 2007, the deposit outstanding of commercial banks amounted to 330,278 million Baht, rising by 5.2 percent – the same rate as a month earlier. Primarily, the rise was contributed by deposits made by government agencies and sugar mill businesses, particularly in provinces of Chiang Mai, Chiang Rai, and Kam Phaeng Phet. As for commercial bank lending, the credit outstanding increased by 9.2 percent to 273,446 million Baht, decelerating slightly from a month earlier. Most of the increase was due to loans extended to sugar mill businesses, especially in provinces of Kam Phaeng Phet, and Phitsanulok. However, provinces of Phichit, and Chiang Rai, reported a fall in credit outstanding largely as a result of repayment of bills made by rice mill businesses and savings cooperatives. The ratio of credit to deposit was at 82.8 percent, improving from 79.7 percent in January 2006.

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April 4, 2007

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