



No. 6/2007

Press Release on Northern Region Economic Conditions in March 2007 and in the First Quarter of 2007

In March 2007, the northern region economy continued to decelerate. **On the supply side**, farm income increased but at a slower pace, with the major crop production declining. Meanwhile, manufacturing production expanded due mainly to increased export manufacturing of electronic products. On the other hand, the service sector declined during the off-tourism season, affected by thick haze covering upper northern region areas. **On the demand side**, private consumption decelerated as consumers were more cautious about spending, while private investment declined, especially for construction investment. On the external front, exports and imports decreased. As the economy slowed down, the Headline Consumer Price Index decelerated. At end-February 2007, the deposit and credit outstanding of commercial banks continued to expand.

In the first quarter of 2007, northern region economy expanded at a decelerated rate. **On the supply side**, farm income accelerated slightly largely as a result of increased production, while agricultural price declined. Export manufacturing production slowed down as export manufacturing of electronic products decelerated. The service sector grew more slowly, affected by the heavy haze in March. **On the demand side**, private consumption decelerated owing to consumers' cautious spending, while private investment slowed down, noting weakened construction investment, but capital investment continued to expand. On the external front, export and import declined, mainly because traders' shifting to do customs procedures outside the northern region, as well as decreased imports of electronic components. As for price level, the Headline Consumer Price Index slowed down. At end-February 2007, the commercial bank deposit and credit outstanding continued to increase.

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

1. Agriculture. In March 2007, farm income grew at a decelerated rate of 8.6 percent. As for agricultural price, the major crop price index rose by 10.3 percent, primarily due to higher industrial sugar cane price. Improved sweetness, as measured by increased average Commercial Cane Sugar (CCS), helped boosting the price of cane up by 2.3 percent. In addition, prices for garlic and maize increased by 31.6 percent and 52.3 percent, respectively, in light of significant lessening in supplies. In contrast, prices for shallot, cassava, and onion, declined by 67.8 percent, 12.6 percent, and 44.4 percent, respectively. As for agricultural production, the major crop production index dropped slightly by 1.7 percent, as output of second rice declined, falling by 7 percent, because 2006 year end's second rice planting was delayed due to floods and was being planted in the beginning of 2007. Furthermore, garlic, and maize outputs decreased by 8.7 percent and 2.6 percent, respectively, due to a reduction in planting areas. Output of sugarcane, in contrast, increased by 20 percent, as last year's high price encouraged farmers to increase in the production.

In the first quarter of 2007, farm income increased by 12.3 percent, improving from the last quarter but decelerating from the same quarter last year. The major crop price index grew at a decelerated rate of 8 percent. Major crops posting prices increases were industrial sugar cane, increasing by 2.3 percent as a result of finer cane quality and higher CCS; glutinous rice, up by 68.5 percent responding to demand from China; and garlic, and maize, rising by 47.3 percent, and 46.1 percent, respectively. Prices for major rice, cassava, shallot, and onion, in contrast, were down by 1.5 percent, 17.2 percent, 36.4 percent, and 12.3 percent, respectively. The major crop production index grew by 4.3 percent, improving from a negative growth rate in the last quarter. Outputs of industrial sugar cane, and shallot rose by 20 percent, and 1 percent, respectively, as last year's high prices encouraged more production; while cassava output was up by 18.1 percent as some farmers increased planting cassava to replace maize. Outputs of second rice, garlic, and major rice, however, decreased by 7 percent, 8.7 percent, and 3.9 percent, respectively.

2. Manufacturing. In March 2007, overall manufacturing production expanded. Preliminary data indicated that export-oriented production accelerated, as output and export value of firms located at Northern Region Industrial Estate (NRIE) in Lamphun province posted an accelerated growth of 7.5 percent to 189.6 million US dollars. Of this, export of electronic components of hearing aids expanded the most responding to increased demand, but export of glass magnetic disks dropped by 14.3 percent. Activity in manufacturing for domestic consumption generally expanded, except construction-related production. Sugar production grew at an accelerated rate of 56.5 percent to 498.6 thousand metric ton as supply of sugar cane available for sugar manufacturing was above year-ago level, reaching 4.2 million metric ton. Meanwhile, beverage production grew at a slower rate of 4.3 percent since there had already been acceleration in production last month. Production of construction-related materials, nonetheless, continued to decline, posting a negative growth rate of 1.9 percent, compared with a decline of 10.4 percent last month.

In the first quarter of 2007, manufacturing production expanded at a decelerated rate. Preliminary, production of export firms located at NRIE in Lamphun provinces increased at a slower pace of 4.2 percent to 479.7 million US dollars, due mostly to a decline in production and exports of glass magnetic disks. Nonetheless, production of certain products continued to increase, including electronic components for hearing aids, boosted by increased demand; camera lens and cut diamonds, which grew by 4.9 percent and 0.4 percent, respectively. Sugar production rose by 25.2 percent to 1,645.7 thousand metric ton in light of greater available sugar cane supply, while beverage production increased at an accelerated rate of 32.2 percent. Production of construction-related materials, in contrast, declined by 9 percent in relation to weakened construction investment.

3. Services. In March 2007, activity in the service sector declined due to softened activity in the off-tourism season. In addition, main northern tourism provinces, including Chiang Mai, Chiang Rai, and Mae Hong Son, were shrouded by the heavy haze, causing flight delays or cancellations, particularly flights into Mae Hong Son. Some advance room reservations were also cancelled by Thai and foreign tourists. As a result, most of key service indicators weakened. The number of air passengers dropped by 9.6 percent, and the average occupancy rate of hotels was down from 49.4 percent a year earlier to 50.9 percent. Still, the average room rate of hotels was up slightly by 2.7 percent to 954 Baht per room night, and the Value Added Tax (VAT) collected from hotel and restaurant business grew at a decelerated rate of 19.5 percent.

In the first quarter of 2007, the service sector grew at a slower pace, with the growth rate near that of last year's first quarter. In January 2007, the sector expanded well, benefited from the event of the International Horticultural Exposition for His Majesty the King (the Royal Flora Ratchaphruek 2006), then slowed down in February and eventually declined in a typical low tourism month of March, in which there was the problem of heavy haze. Thus, most of key service indicators grew weaker. The average occupancy rate of hotels was at 66.6 percent, decreasing from the previous quarter but improving from 64.7 percent in the first quarter of 2006. The average room rate of hotels increased by 2.5 percent to 1,042.1 Baht per room night, while the number of air passenger grew at a slower rate of 1.9 percent. However, the VAT collected from hotel and restaurant business continued to expand, increasing by 32.3 percent.

4. Private Consumption. In March 2007, private consumption activity increased more slowly than last month as consumer became more cautious about spending. The VAT collected from all types of businesses grew at a decelerated rate of 3 percent, pulled down by an 8.5 percent decline in the VAT collected from wholesale and retail business. Vehicle sales remained soft. The number of registered cars decreased by 17.6 percent, compared with a fall of 13 percent last month, as both registered passenger car, and registered commercial car dropped by 22.4 percent and 14.2 percent, respectively. Meanwhile, the number of registered motorcycles continued to contract, decreasing by 32.8 percent following a fall of 26.6 percent in the previous month.

In the first quarter of 2007, activity in private consumption slowed down, indicated by slowing trends of key private consumption indicators. The VAT collected from all types of businesses increased more slowly than the previous period, with growth rate of 8.5 percent this quarter compared to 13.2 percent in the fourth quarter of 2006, as activity in wholesale and retail businesses softened. The number of registered cars, and motorcycle, posted negative growth rates of 6.8 percent, and 20.2 percent, respectively.

5. Private Investment. In March 2007, private investment declined, reflected by decreases in all key private investment indicators. Construction-related material sales dropped by 1.2 percent. Following two months of consecutive expansion, the number of square meterage of construction areas permitted in municipal zone, a sign of construction investment, declined by 40.6 percent, noting

decreases in all types of construction areas except residential one that still expanded by 8.8 percent. Provinces with increased residential construction area included Chiang Mai, Chiang Rai, Lamphun, Kamphaeng Phet, Phetchabun, and Sukhothai. Aside from this, the amount of land transaction fees; and the investment value of BOI's approved projects, a sign of capital investment, also declined, falling by 5.5 percent and 20.8 percent, respectively.

In the first quarter of 2007, private investment slowed down, particularly construction investment. Construction-related material sales decreased by 5.2 percent, while the amount of land transaction fees declined by 5.1 percent. However, interests in constructing buildings for residential and commercial purposes in the first two month of the year boosted the number of square meterage of the construction up by 20 percent. However, there appeared to be a sign for improvement in capital investment as the investment value of BOI's approved projects more than doubled the first quarter last year. Most of the projects were related to manufacturing of agricultural products, and electronic products, and in light industry.

6. Foreign Trade. In March 2007, exports passed through all customs houses in the northern region decreased by 3.3 percent to 242.8 million USD, as certain export products, i.e., cable wires and electrical wire sets, previously being exported through *Chiang Mai Airport Customs House*, were entered export procedures at customs houses outside the northern region instead, thus reducing export value of this customs house by 40.7 percent to 13.2 million US dollars. In addition, *border customs houses* reported a fall in export value of 3.6 percent to 50.5 million US dollars, since border exports to every neighboring country declined, particularly exports of crop products. Despite the on-going migration of some exports towards a centralized on-line paperless customs environment, export value filed at *Lamphun Customs House* still increased, though slightly, by 1.6 percent to 179.1 million US dollars boosted by exports of electronic components for hearing aids, and camera lens.

Imports passed through all customs houses in the northern region declined by 14.5 percent to 137.7 million US dollars, pulled down by a fall in export at Lamphun Customs House, which in turn caused by decreased imports of raw materials for producing electronic components, as well as last year's high base effect resulting from significant imports of capital goods – mainly computer components. Import value at *Lamphun Customs House*, thereby, dropped by 14.6 percent to 122.9 million US dollars. *Chiang Mai Airport Customs House* also reported a fall in import value by 37.8 percent to 5.5 million US dollars due to exporter's migration to paperless customs environment, especially exporters of cable wires and electrical wire sets. In contrast, *border trade* import value grew by 12.8 percent to 9.3 million US dollars, compared with last month's decline, as imports from every neighboring country increased. The trade balance was in surplus of 105.1 million US dollars, improving from a surplus of 89.9 million US dollars in March 2006 and a surplus of 85.4 million US dollars February 2007.

In the first quarter of 2007, exports passed through all customs houses in the northern region decreased by 2.8 percent to 645.3 million US dollars, compared with an expansion in the last quarter. The exports slowed down in January, then declined afterwards due to decreased exports of glass magnetic disks and changes that resulted in lower-than-actual export activity of the northern region. Such changes were exporters' shifting to do export procedures at customs houses outside the northern region, particularly for exports of cable wires and electrical wire sets; and exporters' migrating towards the on-line paperless customs environment. Added to the export decline were decreases in border exports of Para rubber products to southern China, and textile products to Myanmar. As a result, export value at *Chiang Mai Airport Customs House* was down by 27.3 percent to 36 million US dollars, while export value at *Lamphun Customs House* slightly increased by 0.3 percent to 461.5 million US dollars. Despite an increase in border export to Lao PDR by 7.3 percent, *border customs houses* reported a negative export growth of 4 percent, with export value totaling 147.8 million US dollars, as border exports to Myanmar, and southern China dropped by 4.2 percent, and 6.9 percent, respectively.

Imports passed through all customs houses in the northern region declined by 7 percent to 386.3 million US dollars, compared with a positive growth in the last quarter. This was due mainly to a decrease in imports of raw materials for producing electronic components, and last year's exceptionally high level of imports of computer components. Import value at *Lamphun Customs House* reported a continued decrease, dropping by 8.5 percent to 343 million US dollars. *Chiang Mai Airport Customs House*, with import value totaling 17.8 million US dollars, reported a decline in import value by 2.3 percent, as some importers chose to enter import procedures at customs houses outside the northern region instead, particularly importers of cable wires and electrical wire sets. Nonetheless, import value at *border customs houses* grew by 15.2 percent to 25.6 million US dollars, as border imports from every neighboring country rose, Myanmar –

by 23.1 percent, Lao PDR – by 6.5 percent, and southern China – by 4.5 percent. The trade balance recorded a surplus of 259 million US dollars, improving from a surplus of 248.3 million US dollars in the first quarter of 2006, and a surplus of 224.7 million US dollars in the last quarter of 2006.

7. Prices. In March 2007, the Headline Consumer Price Index (Headline CPI) continued to slowdown, posting an increase of 1.6 percent, slowing from 2.1 percent last month. This was due mostly to deceleration in the food price index, which grew at a slowing rate of 3.4 percent, resulting from declines in prices for meat, vegetables, and fruits. The non food price index was up slightly by 0.5 percent owing to the price increase for the category of vehicle, transportation, and communication. The Core Consumer Price Index (Core CPI), excluding food and energy, grew by 0.8 percent.

In the first quarter of 2007, the Headline CPI grew at a decelerated rate of 2.2 percent owing to deceleration in both the food and non-food prices. The food price index grew at a decelerated rate of 5.4 percent primarily because of a decline in the price for meat, while prices for vegetables, fruits, and rice, rose. The non food price index increased at a slower pace of 0.4 percent since there were reductions in fuel prices in the beginning of the first quarter. The Core CPI also slowed down, increasing by 0.8 percent compared to 1.1 percent a quarter earlier.

8. Labor. At-end February 2007, northern region's labor force totaled 6.52 million. Of these, 6.39 million were employed and accounted for 98 percent of the labor force, improving slightly from 97.9 percent in the same period last year. Agricultural employment expanded by 5.1 percent to 2.91 million because non-agricultural labor returned to agriculture as the economy slowed down. Non agricultural employment, thus, dropped by 4.7 percent, as hiring by sectors of construction and manufacturing contracted. The unemployment rate was steady at 1.5 percent, with unemployed persons totaling 0.10 million. In March 2007, the number of insured persons stood at 0.59 million, increasing from March 2006, and February 2007 by 2.9 percent, and 0.4 percent, respectively.

9. Banking. At end-February 2007, the commercial bank deposit outstanding expanded by 7.3 percent to 342,523 million Baht, noting deposit increases in every northern provinces, particularly provinces of Chiang Mai, Chiang Rai, Phitsanulok, and Lampang. Contributing mostly to the deposit increase were deposits, mostly budgetary expenditures, made by the government agencies, waiting to be withdrawn. As for lending, the credit outstanding of commercial banks grew at a decelerated rate of 8.4 percent to 272,915 million Baht because increased lending in provinces of Chiang Mai, Phitsanulok, and Tak, was partly offset by decreased lending in provinces of Kamphaeng Phet, and Chiang Rai, as a result of loan paid-up. The ratio of credit to deposit was at 79.7 percent, slightly improving from 78.9 percent at end-February 2006.

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May 4, 2007

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