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## **Press Release on Northern Region Economic Conditions in May 2007**

Overall northern region economy in May 2007 expanded. **On the supply side**, farm income increased from the same month last year but decelerated from the previous month as both agricultural price and production slowed down. Manufacturing production declined as production of electronic products decreased due to transition to production of new products, and highly competitive world market, whereas beverage and sugar production accelerated. The service sector declined during the low tourism season. **On the demand side**, private consumption increased at a slower pace as consumers were more cautious spending, while private investment still decreased though showed an improving trend. Meanwhile, exports and imports declined. As for price level, the Headline Consumer Price accelerated from the previous month. At end-April 2007, the deposit and credit of commercial banks increased at a decelerated rate.

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

**1. Agriculture.** Farm income increased at a decelerated rate of 13.9 percent, compared with 13.7 percent in the same month last year. The major crop production index expanded by 12.2 percent, with production of second rice rising significantly, resulting from expanded plant areas, encouraged by favorable price of second rice, as well as ample water supply. In addition, the expansion of cassava's plant areas led to an increase in cassava production by 19.2 percent. Production of lychee, soybeans, and pineapple, in contrast, dropped by 1.4 percent, 0.7 percent, and 5.8 percent, respectively. As for agricultural price, the major crop price index increased by 1.7 percent, with the price for lychee rising by five percent, resulting from a combination of lessened supply, better management of product distribution, and promotional activities. The price for cassava was up by 8.7 percent, boosted by continued demand and cassava-pledging scheme – one of the government's price support measures. In addition, the price for pineapple increased by 1.6 folds due to lessened supply, whereas the price for second rice dropped by 5.1 percent because of its high moistures caused by rainfalls during harvesting. Farmers' rushing the sale also added to the fall of second rice price.

**2. Manufacturing.** Export-oriented production by firms located at Northern Region Industrial Estate (NRIE) in Lamphun province continued to decline from the previous month as indicated by a drop in its export value of 7.8 percent to 162.6 million US dollars. This was due to a decline in production of electronic products, resulting from some manufacturers' transition to production of new products that better responded to evolving technology, as well as higher competition in the world market. Therefore, production of certain export products declined: hard disks decreased by 36.2 percent, and integrated circuits attached to Liquid Crystal Display (LCD) was down by nearly one fold. Nonetheless, production of medical-related electronic products increased by more than one fold due to increased market share, while that of camera lens expanded well as a result of increased demand in the world market. As for production for domestic consumption, beverage production increased by 41.6 percent as last year's production was at low level because production machinery was down for maintenance. In addition, sugar production in May, the last month for sugarcane crushing season, totaled 14.4 thousand ton. Sugar production in the production year 2006/2007 was up by 46.5 percent from the production year 2005/2006. Production of construction-related materials, in contrast, continued to decline, falling by 14 percent, in light of lessened construction projects, particularly, public projects.

**3. Services.** The service sector activity decreased from a year earlier and declined from the previous month as a result of a typical May low season, and lacking of major events to attract visitors to the northern region. Development of key services indicators are as follows. The number of air passengers decreased by 1.1 percent, compared with a decline of 4.3 percent last month. The average of hotel occupancy rate was at 38.6 percent, declining slightly by 0.1 percent from last year's May, while the average

of hotel room rate fell by 0.6 percent to 895 Baht per room night. The Value Added Tax (VAT) collected from hotel and restaurant business continued to expand but at a slower pace of 19.7 percent.

**4. Private Consumption.** Private consumption slowed down from the previous month, as reflected by deceleration in all key private consumption indicators. The VAT collected from all types of businesses increased by merely 0.1 percent, compared with a rise of 19.4 percent last month, noting significant slowdown in the VAT collected from wholesale and retail business. Consumer spending for durable goods such as automobiles also weakened. The number of registered cars dropped by 13.6 percent, compared with a decline of seven percent last month, with passenger car and commercial car falling by 15.5 percent and 12.4 percent, respectively, compared with negative growth rates of 11.7 percent and 3.4 percent last month, respectively. Also, the number of registered motorcycle was down by 30 percent, compared with a fall of 5.5 percent last month, reflecting weakened consumer confidence, despite the introduction of new motorcycle models and increased motorcycle demand, boosted by new college students entering a new academic year.

**5. Private Investment.** Private investment continued to decline but noted improved interest in construction investment. Development of key private investment indicators are as follows. The number of square meterage of construction areas permitted in municipal zone, a sign for construction investment, continued to expand and increased by 46.8 percent, improving from 18.4 percent in the previous month. Contributed to the increase was a more than double residential area, most of which representing apartment, flat building of the National Housing Agency in Chiang Mai province. Meanwhile, the amount of land transaction fees declined by seven percent, compared with a decrease of 6.4 percent last month. As for capital investment, the investment value of BOI's approved projects, a sign for capital investment, grew by 93.6 percent, representing investment interests in software development in Chiang Mai province, and leather products manufacturing in Lamphun province.

**6. Foreign Trade.** Exports passed through all customs houses in the northern region continued to decline, falling by 7.6 percent to 220.7 million US dollars owing primarily to changing port of entry made by exporters of cable wire and electrical wire sets – from ports or customs houses in the northern region to ports outside the north, as well as exporters' migrating towards paperless customs that resulted in centralized export data. Added to the export decline was a fall in exports of certain electronic products, which caused exports at Chiang Mai Airport Customs House and Lamphun Customs House to drop by 20.2 percent, and 15.6 percent, respectively, to 17.1 million US dollars, and 147.7 million US dollars, respectively. Major export item this month were camera lens, glass magnetic disks, and integrated circuits. As for border trade, border exports increased by 32.1 percent to 55.9 million US dollars, accelerating from 22.8 percent last month. Border exports to Myanmar expanded by 22.8 percent to 39 million US dollars, while export to southern China more than doubled, boosted by exports of palm oil, rubber, and monosodium glutamate. Border exports to Lao PDR, however, dropped by 17.8 percent

Imports passed through all customs houses in the northern region continued to decrease from the previous month, falling by 21.3 percent to 118.3 million US dollars due to changing port of entry made by importers of cable wire and electrical wire sets, as well as a drop in imports of certain electronic products. Imports passed through Chiang Mai Airport Customs House and Lamphun Customs Houses, declined by 15 percent, and 21.3 percent, respectively, to six million US dollars, and 103.6 million US dollars, respectively, noting a decrease in imports of integrated circuits by 28.4 percent and a decline in components of electronic products by 4.6 percent. As for border trade, border imports fell by 25 percent to 8.7 million US dollars, compared with a decline of 9.9 percent last month, with imports from Myanmar falling by 62.7 percent to three million US dollars. Meanwhile imports from Lao PDR, and southern China grew by 10.9 percent, and by more than one fold, respectively. The trade balance posted a surplus of 102.4 million US dollars, compared with a surplus of 88.4 million US dollars in May 2006, and a surplus of 65.6 million US dollars in April 2007.

**7. Prices.** The Headline Consumer Price Index (Headline CPI) increased by 1.8 percent, accelerating from 1.4 percent in the previous month. The food price index expanded at an accelerated rate of 3.8 percent, compared with 2.5 percent last month, as price for rice and food starch product category rose by 19.1 percent. Within this category, the glutinous rice price, and the vegetables and fruits price, increased by 47.6 percent and 10 percent, respectively, driven primarily by higher transportation costs. The non-food price index increased slightly by 0.6 percent, nearly the same as that of last month, noting rises in prices for public transportation, and electricity, by 5.2 percent and 2.8 percent, respectively. The Core Consumer Price Index

(Core CPI), excluding food and energy, increased by 0.5 percent, slowing down from 0.7 percent in the previous month.

**8. Labor.** At-end April 2007, northern region's labor force reached 6.62 million. Of these, 6.42 were employed and accounted for 97 percent of the labor force, compared with 97.2 percent in April 2006. Non agricultural employment was up by 3.7 percent, boosted by increases in hiring by sectors of manufacturing by 13.9 percent, and hotel and restaurant by 14.8 percent. In contrast, agricultural employment dropped by 1.9 percent. The number of unemployed persons was 0.14 million or 2.2 percent of the labor force, compared with 1.9 percent in April 2006, and 1.4 percent in March 2007. In May 2007, the number of insured persons increased by 2.2 percent to 0.59 million, equaling that of the previous month.

**9. Banking.** At end-April 2007, the commercial bank deposit outstanding increased by 4.4 percent to 340,497 million Baht, slowing down from six percent in March 2007. Deposit withdrawals by export-oriented industry led to a decline in deposits of Lamphun province. Meanwhile, provinces of Nakhon Sawan, Sukhothai, and Lampang, in contrast, posted significant increases in deposits, with the majority being deposits made by government agencies, and local administrative organizations. As for lending, the commercial bank credit outstanding increased by 8.1 percent to 277,083 million Baht, decelerating from 8.5 percent in March 2007. Provinces of Chiang Mai and Pichit recorded credit increases, with the credits being extended to business of wholesale and retail trade, services, and rice mill. Nonetheless, loan repayments by crop traders and rice mills led to decreases in credit outstanding in provinces of Chiang Rai, Phetchabun, and Kamphaeng Phet. The ratio of credit to deposit was at 81.4 percent, up from 78.6 percent at end-April 2006.

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