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Press Release on Northern Region Economic Conditions in June 2007 and in the First Half of 2007

In June 2007, northern region economy improved from the previous month, driven in part by accelerated budgetary disbursement. **On the demand side**, private investment continued to improve from the previous month, while private consumption still slowed down due to cautious consumer spending. On the external front, exports and imports declined. **On the supply side**, farm income expanded, with both agricultural production and price increasing. Meanwhile, manufacturing production decreased as production for exports and for domestic consumption softened, whereas the service sector seasonally declined as June was a typical seasonal low month of tourism. As for the price level, the Headline Consumer Price Index accelerated from the previous month. At end-May 2007, the commercial bank deposit posted an accelerated growth rate, while the credit expanded at the rate near that of April 2007.

In the first half of 2007, northern region economy expanded at a decelerated rate, but showed an improving trend in the second quarter due to acceleration in budgetary disbursement. **On the demand side**, private investment improved following expansion in construction investment in the second quarter, while private consumption continued to decelerate, and exports and imports declined. **On the supply side**, farm income accelerated, contributed mainly by increased agricultural production, but manufacturing production decreased as a result of a slowdown in production for domestic consumption and for exports, while the service sector remained flat compared with the same period last year. As for the price level, the Headline Consumer Price Index decelerated.

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

1. Agriculture. In June 2007, farm income grew by 16.7 percent, nearly the same as last month's, largely as a result of an increase in agricultural production. The major crop production index rose by 13.9 percent, with production of second rice and maize increasing. Second rice production rose markedly due primarily to increased plant areas, while maize production grew slightly by 0.6 percent. In contrast, lychee production declined slightly by 1.4 in light of unfavorable weather conditions, while last year's unattractive prices led to a drop in pineapple production by 5.8 percent. As for agricultural price, the major crop price index was up by 2.8 percent, improving from the previous month. The price for lychee increased by five percent as a result of lessened supply, improved distribution of product, as well as promotion activities. The price for maize rose by 15.7 percent, responding to increased demand from animal farming industry, while the price for industrial pineapple grew by more than 3.3 folds as its supply lessened. The price for second rice, in contrast, was down by 4.3 percent because of farmers' rushing the product to market, and second rice's high moisture.

In the first half of 2007, farm income expanded at an accelerated rate of 22.9 percent, compared with 17.3 percent in the same period last year, contributed primarily by an increase in agricultural production such as second rice, industrial sugarcane, and cassava. The major crop production index increased at an accelerated rate of 17.7 percent as second rice production rose in light of increased planting areas. In addition, production of industrial sugar cane was up by 39.3 percent due to favorable weather condition, and planters' expanding plant areas responding to last year's higher price. Meanwhile, production of cassava was up by 19.2 percent as a result of farmers' switching to plant cassava instead of maize. On the contrary, production of garlic dropped by 8.7 percent following the government's measure to reduce garlic planting areas, while production of major rice decreased by four percent as major planting areas were hit by floods. As for agricultural price, the major crop price index increased by 5.2 percent, largely as a result of an increase in sugarcane price of 2.2 percent boosted by finer sugar quality as measured by higher average Commercial Cane Sugar (CCS). In addition, prices for glutinous rice, garlic, and soybeans, also rose by 58.6

percent, 37.1 percent, and 1.6 percent, respectively, responding to increased demand and lessened supply. The price for second rice, however, dropped by 4.9 percent.

2. Manufacturing. In June 2007, overall manufacturing production decreased. Export-oriented production declined, indicating by the negative growth rate of export value by firms located at Northern Region Industrial Estate (NRIE) in Lamphun province that dropped by 11.2 percent to 158.3 million US dollars. Of these, hard disk drive components, and camera lens, recorded declines in export value – by 34.3 percent, and 13.7 percent, respectively. In contrast, production of construction related materials increased for the first month after five consecutive months of decline, driven mainly by demand from previously-approved public construction projects, particularly in Chiang Mai province. In addition, Value Added Tax (VAT) collected from manufacturing firms declined by 17.6 percent to 178.5 million Baht.

In the first half of 2007, manufacturing production overall declined due to a fall in production for exports. The export value by firms located at NRIE in Lamphun province was down by 2.4 percent to 936.4 million US dollars, particularly in the second quarter of 2007. This was due mainly to a decline in production of electronic products, i.e., hard disk components, resulting from some manufacturers' transition to production of new products that better responded to evolving technology; and integrated circuits attached to Liquid Crystal Display (LCD), responding to softened world market demand. As for manufacturing production for domestic consumption, production of construction-related materials declined due to weakened construction activity – both public and private, but improved at the end of the second quarter due to increased demand from both domestic market and border export market. Meanwhile, beverage production expanded by 19 percent, and sugar production rose by 36.9 percent to 1,808.8 thousand metric ton in light of increased sugar cane production. In addition, the VAT collected from manufacturing firms increased by 14.7 percent to 1,433.1 million Baht.

3. Services. In June 2007, the service sector seasonally declined as there were less Thai tourist group in light of consumer cautious spending, and fewer meeting/seminar groups during rainy season. Development of key services indicators are as follows. The number of air passenger was up by 2.3 percent, compared with a decrease of 1.1 percent last month, despite softened tourism activity, as domestic carriers carried out sales promotions by cutting airfare rates, prompting some travelers to switch to air travel. The average of hotel occupancy rate was at 38.3 percent, nearly the same as June 2006's but higher than 37.5 percent in May 2007. Meanwhile, the average of hotel room rate declined by 0.8 percent to 841.6 Baht per room night, while the VAT collected from hotel and restaurant business expanded at a slower pace rate of 19.2 percent.

In the first half of 2007, overall service sector activity was flat compared with the same period last year. In the beginning of the year tourism activity was upbeat, boosted by the event of the International Horticultural Exposition for His Majesty the King (the Royal Flora Ratchaphruek 2006), which attracted greater number of Thais to visit the northern region. This, on the other hand, led to some foreign tourists' delaying or canceling trips to the northern region as it was difficult to reserve both air tickets and hotel rooms. In the second quarter, which was a typical low tourism season, the service sector slowed down as it was adversely affected by a thick haze that set in northern Thailand at the beginning of the quarter, as well as a saturation of tourism for Thai tourists who had rushed in to visit the northern region during the Royal Floral Ratchaphruek 2006. Nonetheless, key services indicators remained at sound levels. The amount of VAT collected from hotel and restaurant business was up by 27.3 percent, while the average of hotel occupancy rate was at 53.1 percent, the average room rate of hotels increasing slightly by 1.9 percent to 984.7 Baht per room night, and the number of air passenger was up slightly by 0.5 percent.

4. Private Consumption. In June 2007, private consumption decelerated from the previous month, resulting in a slowdown in most of key private consumption indicators. The VAT collected from all types of businesses dropped by 4.9 percent, compared with a modest increase of 0.5 percent last month, noting decline in the VAT collected from businesses of manufacturing, and wholesale and retail trade. Overall consumer spending for durable goods remained weak, but picked-up in spending was seen in the area of passenger car purchasing as a result of sales promotions. As a result, the number of registered passenger car, an indicator for passenger car sales, increased by 9.3 percent, compared with a fall of 15.4 percent in the previous month. However, the number of registered cars (passenger car and commercial car) was down by 9.9 percent, compared with a decline of 13.5 percent last month, as the number of registered commercial car declined by 21.7 percent, compared with a fall of 12.2 percent last month. In addition, the number of registered motorcycle dropped by 24.2 percent compared with a decline of 29.9 percent in the previous month.

In the first half of 2007, private consumption activity slowed down as a result of softened consumer spending led by weaker consumer confidence. The VAT collected from all types of businesses increased by 7.1 percent, compared with an increase of 22.4 percent in the same period last year. Spending for durable goods, such as automobiles, softened, with the number of registered vehicle remained in negative area: the number of registered cars was down by 8.5 percent, compared with an increase of one percent in the first half of 2006; while the number of registered motorcycle declined by 21.1 percent, compared with a 0.7 percent increase in the same period last year.

5. Private Investment. In June 2007, private investment continued to improve from the previous month as reflected by development of key private investment indicators. The number of square meterage of construction areas permitted in municipal zone, a sign for construction investment, continued to expand and posted a rise of 5.5 percent, compared with 28.1 percent last month, noting increases in construction of residential buildings and dormitories. In addition, the amount of land transaction fees increased by 5.6 percent, compared with a drop of 4.6 percent in the previous month, as a result of land purchased for investment purpose by major retail trader. As for capital investment, the investment value of BOI's approved projects, a sign for capital investment, expanded by 57.4 percent, most of which indicated investment interest in industry of agriculture and agricultural products, services and public infrastructure, and paper products and plastics.

In the first half of 2007, private investment improved, particularly in the second quarter. Niche market oriented entrepreneurs, and entrepreneurs with existing product distribution channels, began to invest in large projects, especially real estate projects such as residential buildings, apartments, and detached houses. Development of key private investment indicators are as follows. The number of square meterage of construction areas permitted in municipal zone rose by 5.3 percent, compared with a decline of 18.9 percent in the first half of 2006. Of this, residential construction area, and commercial construction area, grew by 33.5 percent, and 8.5 percent, respectively. Significant gains in the number of square meterage of construction areas were observed in major northern provinces including Chiang Mai, and Phitsanulok. Meanwhile, the amount of land transaction fees declined by 3.2 percent, compared with a decrease of 12.2 percent in the same period last year. As for capital investment, the investment value of BOI's approved projects was up by 61.9 percent, compared with 48 percent in the first half last year, with investment interests focusing on agriculture and agricultural products industry, light industry, and industry of services and public infrastructure, mostly in provinces of Lamphun, Chiang Mai, and Phitsanulok.

6. Foreign Trade. In June 2007, exports passed through all customs houses in the northern region continued to fall, declining by 17.9 percent to 188.9 million US dollars, compared with a drop of 7.6 percent in the previous month. This decline was due to a combination of exporters' migration towards paperless customs environment that resulted in centralized export data, and a decline in exports of certain electronic products. Details of exports classified by customs houses are as follows. *Lamphun Customs House* reported a 28 percent decline in export value to 128.4 million US dollars, noting decreases in exports of hard disk drive components, and camera lens. Export value reported at *Chiang Mai Airport Customs House*, on the contrary, was up by 20.7 percent to 13.8 million US dollars, contributed mainly by exports of glasses and glass products. In addition, export value at *border customs houses* increased by 15.4 percent to 46.7 million US dollars as exports to Myanmar rose by 38.8 percent to 38.3 million US dollars. Border exports to southern China, and Lao PDR, nonetheless, dropped by 26.5 percent, and 54 percent, respectively.

Imports passed through all customs houses in the northern region declined by 18.2 percent to 121.5 million US dollars, compared with a fall of 21.3 percent in the previous month, largely as a result of softened import reported at *Lamphun Customs House* that dropped by 22.9 percent to 121.5 million US dollars. Contributed to the drop of imports at this customs house were decreases in import of electrical appliances, and integrated circuits, which declined by 11.1 percent, and 29.2 percent, respectively. *Chiang Mai Airport Customs House*, in contrast, rose by 41.2 percent to 5.9 million US dollars, compared with a fall of 15 percent last month. Main items imported through this customs house were glasses, electrical appliances, and machinery. Besides, import value at *border customs houses* reported a 34.3 percent rise, with the import value totaling 10.1 million US dollars, as imports from Myanmar, and southern China grew by 64.5 percent, and 1.8 percent, respectively. Border import to Lao PDR, however, was down by four percent. The trade balance recorded a surplus of 67.4 million US dollars, declining from a surplus of 81.6 million US dollars in June 2006 and a surplus of 102.4 million US dollars in May 2007.

In the first half of 2007, foreign trade value passed through all customs houses in the northern region declined by 9.2 percent to 1,976.2 million US dollars, with the trade balance posting a surplus of 494.4 million US dollars, improving from a surplus of 490.8 million US dollars in the first half of 2006. Exports declined by 7.4 percent to 1,235.3 million US dollars due to exporters' shifting to do customs process at customs houses outside the northern region, and exporters' on-going migration towards paperless customs environment, as well as declined exports of certain electronic products. As a result, export value at *Lamphun Customs* dropped by 10.7 percent to 856.8 million US dollars, and export value at *Chiang Mai Airport Customs House* declined by 18 percent to 81.8 million US dollars, noting decreases in exports of apparatus for making and breaking electrical circuits, hard disk drive components, electricity transformers and motors. Export value at border customs house, on the contrary, rose by 8.1 percent to 296.7 million US dollars, as border exports to Myanmar, and southern China increased by eight percent, and 16.4 percent, respectively, while export to Lao PDR fell by 8.6 percent.

Imports passed through all customs houses in the northern region dropped by 12.1 percent to 740.9 million US dollars, due primarily to importers' switching to do import procedures at customs houses outside the northern region, a decline in raw materials imports by electronics industry, and last year's exceptionally high level of import of raw materials, and machinery, for production expansion by some firms located at NRIE in Lamphun province. As a result, import value at *Lamphun Customs House* was down by 13.6 percent to 655.6 million US dollars, and import value at *Chiang Mai Airport Customs House* declined by 2.5 percent to 35.1 million US dollars. As for border trade, import value at border customs houses posted an rise of five percent to 50.3 million US dollars, as border imports from Lao PDR, and southern China grew by 10.4 percent, and 19.8 percent, respectively, while border import from Myanmar dropped by 1.9 percent to 27.3 million US dollars.

7. Government spending. **In June 2007**, budgetary disbursement increased by 30.9 percent to 14,084.3 million Baht, compared with 70.7 percent in the previous month, with significant budgetary disbursement seen in provinces of Chiang Mai, Chiang Rai, and Phitsanulok. Of the budgetary disbursement, 8,305.5 million Baht was disbursement of current expenditure which reported growth rate of 5.2 percent, compared with one percent in the previous month. Meanwhile, disbursement of investment expenditure grew by more than 100 percent, reaching 5,778.8 million Baht, but still slowed down compared with an increase of more than 200 percent last month.

In the first half of 2007, budgetary disbursement expanded at an accelerated rate of 25 percent to 84,661.1 million Baht. Disbursement of current expenditure increased by 10.9 percent to 49,955 million Baht, while disbursement of investment expenditure rose by 53.5 percent to 34,706.1 million Baht, with the investment disbursement in the second quarter reporting an accelerated growth rate of 74.5 percent, compared with 35.6 percent in the first quarter of 2007.

8. Prices. **In June 2007**, The Headline Consumer Price Index (Headline CPI) grew at an accelerated rate of 2.2 percent, compared with 1.8 percent last month as a result of an increase in the price of food and beverages. The food price index grew by 6.1 percent due primarily to increases in prices of rice, vegetables and fruits, and glutinous rice that rose by 51.2 percent. The non-food price index, on the other hand, decreased by 0.2 percent as prices of fuel, and electricity, declined. The Core Consumer Price Index (Core CPI), excluding prices of food and energy, was up by 0.4 percent.

In the first half of 2007, The Headline Consumer Price Index (Headline CPI) grew at a slowing rate of two percent, compared with six percent in the same period last year, as a result of a deceleration in the non-food price. The non-food price index increased by only 0.4 percent due to a fall of fuel price of 1.9 percent compared with an increase of 31.6 percent in the same period last year. The food price index increased by 4.7 percent owing to rises in prices of vegetables, fruits, and glutinous rice. The Core Consumer Price Index (Core CPI), excluding prices of food and energy, grew by 0.7 percent, compared with an increase of 2.4 percent in the first half of 2006.

9. Labor. **At-end May 2007**, northern region's labor force totaled 6.55 millions. Of these, the number of employed persons was 6.37 millions, decreasing by 2.4 percent, compared with an increase of 1.1 percent in April 2007, owing to a 5.2 percent decline in non agricultural employment. Contributed to the decline in non agricultural employment were decreases in hiring by sectors of construction, wholesale and retail trade, and manufacturing, which dropped by 21.4 percent, 5.6 percent, and 4.1 percent, respectively. Agricultural employment, on the contrary, increased by one percent. The unemployment rate was at 1.9

percent, compared with 1.2 percent in May 2006 and 2.2 percent in April 2007. **In June 2007**, the number of insured persons was 0.6 million, rising from the same month last year by 2.6 percent and from the previous month by 0.7 percent.

10. Banking. At end-May 2007, the commercial bank deposit outstanding grew by 6.1 percent to 344,956 million Baht, accelerating from 4.4 percent in April 2007. Contributed mostly to the deposit increase was deposits made by government agencies, particularly in provinces of Chiang Rai, Lampang, Phitsanulok, and Nakhon Sawan. As for lending, the commercial bank credit outstanding increased by 8.1 percent, equaling that of April 2007, to 277,295 million Baht, driven by credit demand from electrical appliances retailers, hotels, wooden furniture businesses, rice mill businesses, and teachers' savings cooperatives, especially in provinces of Chiang Mai, Chiang Rai, and Phetchabun. However, provinces of Kam Phaeng Phet, and Pichit, posted marked declines in credit outstanding as a result of loan repayments made by crops traders and teachers' savings cooperatives. In addition, loan refinancing made by rice mill businesses was seen in Nakhon Sawan province. The ratio of credit to deposit was at 80.4 percent, up from 79 percent at end-May 2006.

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