



BANK OF THAILAND NEWS

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Northern Region Economy in February 2008

In February 2008, northern region economy expanded. **On the demand side**, private consumption accelerated due mainly to aggressive sales promotions, while private investment improved, particularly in major provinces. **On the supply side**, farm income grew at a decelerated rate, as agricultural production increase but was partially offset by a decline in the agricultural price. Meanwhile, manufacturing production remained in expansion, and the service sector expanded though at a slower pace due to seasonality. Inflation, as measured by the Headline Consumer Price Index, continued to accelerate, mainly because of persistent increases in food and energy prices. At end-January 2008, the commercial bank deposits and credits continued to expand.

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

1. Agriculture. Farm income grew at a slower rate of 2.5 percent. On the production side, the major crop production index was up by 8.3 percent as last year's higher prices encouraged farmers to produce more of sugar cane, cassava, and garlic production, thereby, resulting in production growth rates of 8.3 percent, 5 percent, and 13.9 percent, respectively. Rises in production of shallot and onion – by 2.1 percent and 5.5 percent, respectively, added to the increase in the agricultural production as well. As for agricultural price, the major crop price index decreased by 5.8 percent owing mainly to a 4.6 percent decline in industrial sugar cane price, which in turn stemmed from lower initial price of cane. Moreover, greater supply of garlic and onion drove their prices down by 43.7 percent and 73.7 percent, respectively. Nonetheless, cassava price rose by a significant 96 percent driven by greater demand – both domestic and foreign, and the price of major rice paddy remained in expansion with a growth rate of 21 percent, boosted by export demand.

2. Manufacturing. Manufacturing Production Index (MPI) accelerated to 10.7 percent, compared with 7.2 percent in the previous month as production of most industries increased, except those of beverages, and textile industries. Production of processed agricultural products grew by 30 percent, resulting from increased canned sweet corn products, and increased fresh frozen fruits and vegetables products which were driven by Japanese market demand. Meanwhile, lessen supply of crushed sugar cane and lower cane quality as measured by the CCS caused production of sugar to decline by 7.5 percent, whereas European markets demand drove production of ceramic products up, especially tableware products. In addition, production of electronics industry grew at a slightly slower rate of 1.9 percent, due mainly to a slowdown in electrical appliances and integrated circuits, and a continued decline in hard disk drive components, while production of diodes expanded well boosted by demand from China and Korea.

3. Service. The services sector slowed down seasonally from the previous month, but declined slightly from last year's February which the sector remained benefiting from the event of the International Horticultural Exposition for His Majesty the King (the Royal Flora Ratchaphruek 2006). Development of key services sector is as follows. The number of air passengers accelerated to 18.8 percent, as budget airlines increased flights, and a new airline – Siam General Aviation Company Limited: SGA Airlines – began operation. However, the amount of VAT collecting from hotels and restaurants decreased by 4.3 percent, the average of hotel room rate declined by 1.4 percent, and the average of hotel occupancy rate dropped slightly from 68.95 percent in the same month last year to 68 percent. Since February 2008, some premium hotels have changed management chain and adopted new marketing strategies.

4. Private Consumption. Private consumption grew at an accelerated pace, with every key indicators improving. The number of registered cars increased by 23.3 percent and the number of registered motorcycles increased by 18.9 percent, improving from last month's declines of 6.2 percent and 18.8 percent, respectively. This was due to dealers' aggressive marketing strategies. In addition, the amount of VAT collecting from all types of businesses rose by 4.1 percent, while household electrical usage increased by 9.1 percent.

5. Private Investment. Private investment showed signs of continued improvement. This was primarily reflected in improvement in two key indicators. First, the number of square meters of construction areas permitted in municipal zones which increased by 38.6 percent, improving from 14.9 percent in the previous month. And second, the amount of land transaction fees which rose by 60.4 percent, improving from 24.3 percent last month, with significant gains being seen in provinces of Chiang Mai, Chiang Rai, Phitsanulok, and Lampang. Meanwhile, sales of construction-related materials also improved from last month, though remained in the negative territory. In addition, the value of BOI's approved projects, a sign for capital investment, totaled 477.7 million Baht, declining from year and year earlier and a month earlier.

6. Government Spending. Budgetary disbursement through provincial treasury offices in the northern region amounted to 11,175.8 million Baht, declining by 48.3 percent from last year's February in which the disbursement accelerated just after the delayed Expenditure Budget Act was promulgated in January 9, 2007. The disbursement on the current year budget decreased by 48.9 percent as disbursement made by local administrative organizations declined. Meanwhile, disbursement of carry-over from the previous years budget declined by 38.9 percent, as land and building expenses and equipments expenses dropped by 61.8 percent and 27 percent, respectively. The declines in disbursements this month, both from the current year and previous years budget, was due mainly to exceptional high levels of the disbursements in February 2007, prompted by the delayed promulgation of the Expenditure Budget Act and thus the delayed budget procedure.

7. Foreign Trade. Foreign trade amount through customs houses in the northern region accelerated. Export value grew by 17.9 percent to 232.2 million US dollars, accelerating from 2.3 percent in the previous month, as manufacturing goods exports increased by 5 percent, of which exports of apparatus for making and breaking electrical circuits to Hong Kong, Singapore, and China, expanded markedly. Exports of jewelry to Israel and United Arab Emirates also expanded well. Meanwhile, exports to bordered countries totaled 66.2 million US dollars, rising by 49 percent as exports of rubber smoked sheets continued to increase and exports of petroleum products more than doubled. Border exports to Myanmar, Lao PDR, and southern China increased by 54.5 percent, 60.9 percent, and 0.2 percent, respectively.

Import value increased by 15.7 percent to 129 million US dollars, compared with a decline of 6.3 percent last month, as raw materials imports grew markedly by 30 percent due primarily to increased imports of unworked or simply sawn, cleaved, or bruted diamonds. Capital goods imports, however, dropped by 21.1 percent as imports of electrical machinery and parts decreased, and imports of computer parts used in electronics industry declined. Imports from bordered countries, totaling 7.4 million US dollars, rose by 26.3 percent as imports from Lao PDR more than doubled and imports from southern China increased by 3.6 percent, whereas imports from Myanmar declined by 12.6 percent. The trade balance showed a surplus of 101.1 million US dollars, compared with a surplus of 85.4 million US dollars in February 2007, and a surplus of 81.9 million US dollars in January 2008.

8. Prices. The Headline Consumer Price Index (Headline CPI) continued to accelerate, posting a growth rate of 5.9 percent. The food price index was up 8.6 percent as prices of every food category rose, particularly the price of meat, which increased by as much as 24 percent due primarily to higher pork price. The non food price index increased by 4.3 percent, matching the growth rate in January, due to persistent rises in oil prices and an increased price of tobacco, and alcoholic beverages, caused by increased excise tax rate. The Core Consumer Price Index (Core CPI) slightly accelerated to one percent from 0.9 percent in the previous month.

9. Labor. According to the Labor Force Survey by the National Statistical Office, northern labor force totaled 6.58 million at end-January 2008. Of these 6.44 million were employed and accounted for 97.8 percent of the labor force, improving from 97.1 percent at end-January 2007. This resulted from a 3.3 percent increase in non agricultural employment as hiring by hotels and restaurants, construction, and wholesale and retail trade, rose by 28.4 percent, 9.6 percent, and 5.1 percent, respectively. On the contrary, agricultural employment dropped by 3.7 percent. The unemployment rate was at 1.6 percent of the labor force, improving from 1.8 percent at end-January 2007. In February 2008, the number of insured persons increased from February 2007 by 1.5 percent to 0.6 million.

10. Banking. At end-January 2008, the commercial bank deposit outstanding was 347,001 million Baht. The deposit growth accelerated to 5.1 percent from 3.4 percent at end-December 2007, as deposits of public authorities, and open-ended mutual funds, rose, particularly in provinces of Chiang Mai, Chiang Rai, Lampang, Kamphaeng Phet, Phitsanulok, and Nakhon Sawan. As for lending, the commercial bank credit outstanding was 288,727 million Baht, with the credit growth slightly slowing to 5.6 percent, from 5.8 percent at end-December 2007. Most of the credits were working capital loans for sugar cane farming in

Kamphaeng Phet province, and personal loans to borrowers in provinces of Phitsanulok, Nakhon Sawan, and Chiang Mai. However, provinces of Chiang Rai, Nakhon Sawan, Phichit, and Lampang, reported significant declines in overall credit outstanding as bills – one type of credits – were redeemed by various businesses including rice mills, automobile dealers, savings cooperatives, and agricultural processed manufacturers. The ratio of credit to deposit was at 83.2 percent, improving slightly from 82.8 percent at-end January 2007.

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