

# Regional Economic Report

(Executive Summary)

February 2015



THE BANK OF KOREA

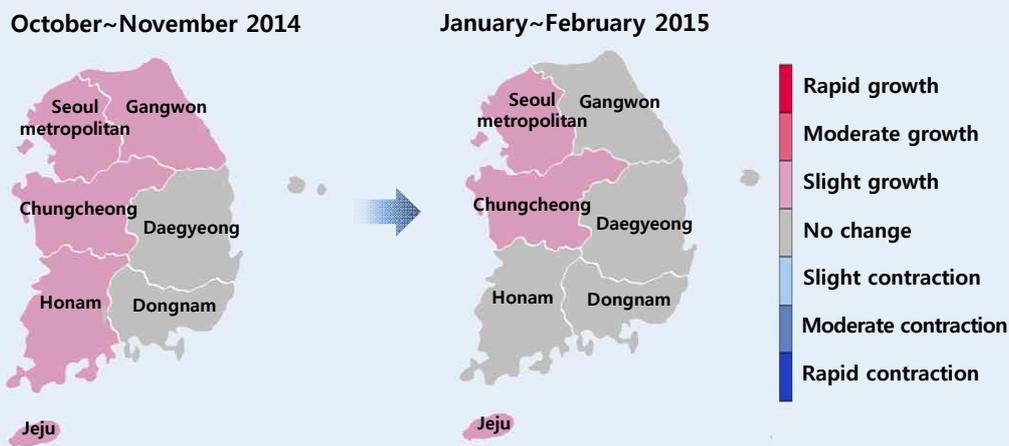
This report, a condensed English version of 'Regional Economic Report' published in Korean, provides recent regional economic conditions, based on information gathered by the sixteen regional branches of the Bank of Korea from companies and other organizations within their regions between late January and mid-February. The contents of this report may not necessarily coincide with the official statistics to be released later by the Bank of Korea and Statistics Korea.

## Executive Summary

### [ Overview ]

Information collected by the 16 regional branches of the Bank of Korea from companies and other organizations within their regions, indicates that the trend of recovery in domestic economic activities appeared weak during January and February 2015. By region, the economies of the Seoul Metropolitan, Chungcheong and Jeju regions were found to have shown upward trends, while the economies of the Dongnam, Honam, Daegyeong and Gangwon regions showed little change.

#### Economic activity by region<sup>1)</sup>



Note : 1) Economic conditions are assessed by the overall monitoring score, which is an average of the manufacturing and services monitoring scores weighted by the shares of gross regional domestic product (GRDP).

#### Cities and provinces included in each region

| Region             | Cities and provinces                                  |
|--------------------|-------------------------------------------------------|
| Seoul Metropolitan | Seoul, Incheon, Gyeonggi-do                           |
| Dongnam            | Busan, Ulsan, Gyeongsangnam-do                        |
| Chungcheong        | Daejeon, Chungcheongbuk-do, Chungcheongnam-do, Sejong |
| Honam              | Gwangju, Jeollabuk-do, Jeollanam-do                   |
| Daegyeong          | Daegu, Gyeongsangbuk-do                               |
| Gangwon            | Gangwon-do                                            |
| Jeju               | Jeju-do                                               |

The results of monitoring show that the Korean economy is expected to post modest improvement in the next quarter. It is anticipated that the Seoul Metropolitan and Chungcheong regions will show favorable movements overall, owing to the buoyancy of the IT industry. The recovery of the Daegyeong region is however expected to be constrained by the sluggishness of business activities related to iron and steel, and to mobile phones.

## [ Production ]

Manufacturing production was found to have grown slightly, but services production showed a level similar to that of the previous quarter. Manufacturing production grew slightly in the Seoul Metropolitan and Chungcheong regions, led by semiconductors and display panels, but decreased slightly in the Daegyeong and Honam regions. Services production marked a level similar to that of the previous quarter overall, as wholesale and retail sector sales were lackluster in most regions, although it showed an increase, centering around transportation, tourism, and leisure-related services, in the Jeju, Chungcheong, and Honam regions.

Going forward, it is reported that manufacturing production is expected to grow modestly, led by IT products such as semiconductors in the Seoul Metropolitan and Chungcheong regions, and services production is also anticipated to grow at a modest pace, centering around tourism and leisure-related services in the Seoul Metropolitan and Honam regions.

## [ Demand ]

While facilities and construction investment increased slightly, private consumption and exports were found to have generally remained unchanged. Facilities investment expanded led by semiconductors and displays in the Seoul Metropolitan and Chungcheong regions. Construction investment showed a slight increase, mostly in the Seoul Metropolitan and Dongnam regions, owing to increases in residential building construction. The recovery of private consumption was held back by delays in the improvement of consumer sentiment, except in the Daegyeong and Jeju regions. Despite the favorable performance of semiconductors, exports remained at generally similar levels year-on-year, due to the sluggishness of automobile and mobile phone exports from the Honam and Daegyeong regions.

Going forward, facilities and construction investment are expected to continue to rise and exports to increase slightly, but the pace of recovery in private consumption seems likely to be weak. Facilities investment is forecast to increase, led by large IT conglomerates in the Seoul Metropolitan and Chungcheong regions, while construction investment is widely expected to grow, mainly around private sector housing construction in the Seoul Metropolitan, Dongnam and Daegyeong regions.

## [ Employment ]

The number of persons employed showed an increase of 350,000 year-on-year in January 2015, but this was less than that in the fourth quarter of 2014 (monthly average +420,000 persons). By region, the extents of increase in the numbers of persons employed expanded in the Honam and Jeju regions, while narrowing in the Daegyeong and Gangwon regions. The number of persons employed in the Dongnam region reversed to a decline year-on-year.

## **[ Consumer Prices and Housing Prices ]**

Consumer prices rose at a slower pace in January 2015, while housing sales and leasehold deposit prices also maintained their trends of increase although their paces slowed. Consumer prices showed growth in the upper-0% range in the Seoul Metropolitan, Dongnam and Daegyeong regions, while being in the lower-0% range in the Chungcheong and Gangwon regions.

## **[ Lending Attitudes of Financial Institutions ]**

The lending attitudes of financial institutions were reported to have remained accommodative. That toward households remained accommodative in most regions as well as that toward firms in general; although in some regions, that toward non-prime companies tightened.

Financial institutions are expected to maintain their accommodative lending stance to households, with an emphasis on home mortgage loans and corporate lending, particularly to prime small- and medium-sized enterprises (SMEs).

## [ Production and Demand by Region]

|                           | Manufacturing production | Services production  |
|---------------------------|--------------------------|----------------------|
| Seoul Metropolitan region | Slight increase<br>▲     | No change<br>◇       |
| Dongnam region            | No change<br>◇           | No change<br>◇       |
| Chungcheong region        | Slight increase<br>▲     | Slight increase<br>▲ |
| Honam region              | Slight decrease<br>▼     | Slight increase<br>▲ |
| Daegyeong region          | Slight decrease<br>▼     | No change<br>◇       |
| Gangwon region            | Slight increase<br>▲     | No change<br>◇       |
| Jeju region               | Slight increase<br>▲     | Slight increase<br>▲ |

|                           | Private consumption     | Facilities investment | Construction investment | Exports              |
|---------------------------|-------------------------|-----------------------|-------------------------|----------------------|
| Seoul Metropolitan region | No change<br>◇          | Slight increase<br>▲  | Slight increase<br>▲    | No change<br>◇       |
| Dongnam region            | Slight decrease<br>▼    | No change<br>◇        | Slight increase<br>▲    | Slight increase<br>▲ |
| Chungcheong region        | No change<br>◇          | Slight increase<br>▲  | Slight increase<br>▲    | Slight increase<br>▲ |
| Honam region              | Slight decrease<br>▼    | No change<br>◇        | Slight increase<br>▲    | Slight decrease<br>▼ |
| Daegyeong region          | Slight increase<br>▲    | No change<br>◇        | Slight increase<br>▲    | Slight decrease<br>▼ |
| Gangwon region            | No change<br>◇          | Slight increase<br>▲  | Slight increase<br>▲    | Slight increase<br>▲ |
| Jeju region               | Moderate increase<br>▲▲ | No change<br>◇        | Moderate increase<br>▲▲ | Slight increase<br>▲ |

## [ A Summary of Major Industry Trends ]

| Sector                                |                                         | Trends                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------------------------------------|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IT industry                           | Semiconductor                           | <b>(Increase)</b> In the Seoul Metropolitan and Chungcheong regions, production of semiconductors was found to have increased centering around PCs, server memories, and mobile NAND flash memories.                                                                                                                                                                                                                                                |
|                                       | Display panel                           | <b>(Increase)</b> Display panel production was reported to have grown in the Metropolitan and Chungcheong regions, due to the effects of the rollout of new mobile phone models and to on-going demand for large and flat panel TVs.                                                                                                                                                                                                                |
|                                       | Mobile phones                           | <b>(No change)</b> Increase in the production of mobile phones was limited due mainly to the enlarged market share of rivals in overseas markets, and increased offshore production in line with a preference for low- and medium-priced products.                                                                                                                                                                                                  |
| Automobile industry                   | Fully assembled vehicles                | <b>(Decrease)</b> Production of fully-assembled vehicles declined in most regions due to shortening of working days with vacations at the beginning of the year, sluggish exports affected by the Russian financial crisis, and advance customs clearance of exports at the end of last year.                                                                                                                                                       |
|                                       | Parts and components for motor vehicles | <b>(No change)</b> Production of parts and components for motor vehicles was sluggish in the Daegyeong and Chungcheong regions due to declining price competitiveness brought about by the yen's weakness.                                                                                                                                                                                                                                          |
| Petrochemical • oil refining industry | Petrochemical                           | <b>(Decrease)</b> Production of petrochemical goods fell in the Seoul Metropolitan and Honam regions amid the deterioration of profitability in line with the fall in oil prices.                                                                                                                                                                                                                                                                   |
|                                       | Oil refining                            | <b>(Decrease)</b> Production in oil refining declined in the Honam region due to the narrowing of refining margins, to China's rising degree of self-sufficiency, and to global oversupply.                                                                                                                                                                                                                                                         |
| Iron and steel industry               |                                         | <b>(Decrease)</b> Production of iron and steel declined mostly in the Dongnam and Chungcheong regions due to sluggish downstream industries such as shipbuilding, to increased imports of low-priced Chinese goods, and to the suspension of operation by some companies. However, production increased slightly in Daegyeong region owing to increased demand for high value-added products including such as advanced high strength steel sheets. |
| Shipbuilding industry                 |                                         | <b>(Decrease)</b> Production of shipbuilding increased in the Honam region in line with new orders, but it continued to decline in the Dongnam region due to sluggish demand for offshore plants and special ships.                                                                                                                                                                                                                                 |
| Machinery equipment industry          |                                         | <b>(Increase)</b> Production of machinery equipment increased in the Seoul Metropolitan region, mainly led by production equipment related to the expansion of facilities investment for semiconductors and by construction equipment as a result of increased construction investment. In the Dongnam and Daegyeong regions, its expansion was led by moulds and machine tools.                                                                    |

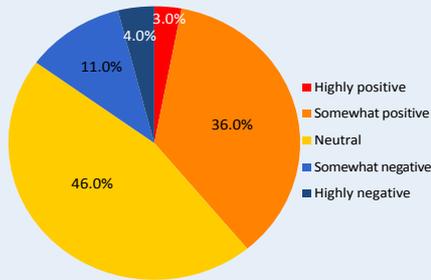
# Results of Surveys on Major Economic Issues

**[Issue I]**

**Effects of the Recent Low Oil Prices, Yen Weakness and the U.S. Dollar Strength on Manufacturers' Profitability**

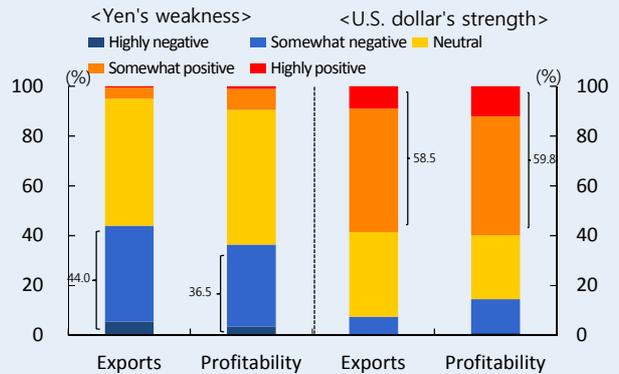
A survey of a sample of 200 manufacturers<sup>1)</sup> finds that the recent low oil prices have had positive effects on profitability, with 39.0% of respondents answering that they had been positive for profitability compared to only 15% citing negative effects. The respondents indicating negative effects from the low oil prices were concentrated mostly in a few industries such as petrochemicals and petroleum refining.

**Effects of low oil prices on manufacturers' profitability**



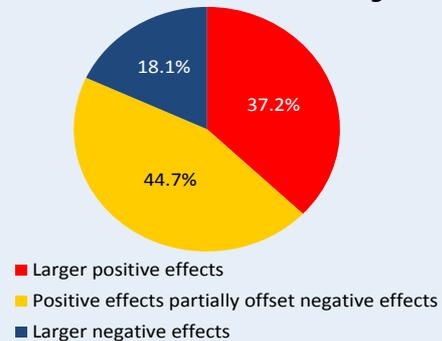
The weakening yen was found to have had negative impacts on exports and profitability, and the U.S. dollar's strength to have had positive impacts on them. About 40% of respondents answered that the yen's weakness had negatively affected their exports and profitability, far exceeding the percentage of those mentioning its positive effects (5.0% for exports, 9.5% for profitability). In contrast, almost 60% of respondents cited the stronger U.S. dollar as having had positive effects, well above the share of those noting its negative impacts (7.5% for exports, 14.6% for profitability).

**Effects of yen's weakness and U.S. dollar's strength**



When the three factors of low oil prices, yen depreciation and U.S. dollar appreciation were considered altogether<sup>2)</sup>, their positive effects were found to have been larger than their negative ones. 37.2% of respondents answered that the positive effects had been larger, while 44.7% said that the negative effects had been offset by the positive ones. There were, however, 18.1% of respondents who mentioned predominantly negative impacts, particularly at companies for example in the petrochemical and petroleum refining industries, heavily affected by the low oil prices, and at automobile manufacturers competing with Japanese firms in the global market.

**Comprehensive evaluation of low oil prices, yen weakness and U.S. dollar strength**



1) The Bank of Korea's regional branches conducted their survey on this issue between January 16 and February 6, 2015.  
 2) Among the three factors, the U.S. dollar's strength was found to have had the largest effect (59.0%), followed by those of the fall in international oil prices (27.5%) and of the yen's weakness (13.5%). This is considered to be because, for Korean firms, their international trade payments are made mainly in U.S. dollars.

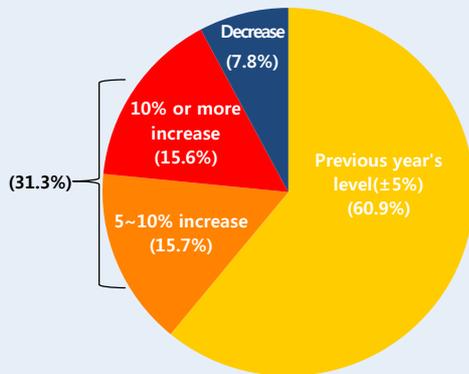
**[Issue II]**

**Manufacturers' Facilities Investment Plans for 2015**

In a survey of manufacturing companies on their facilities investment plans for 2015<sup>1)</sup>, companies were found to be planning to expand their facilities investment slightly, led by firms in the IT and automobile industries.

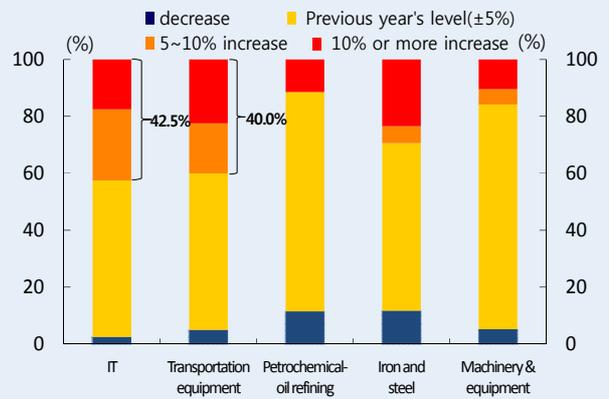
While 60.9% of companies said that they would maintain their facilities investment at levels similar to those in 2014, 31.3% answered that they would expand it. The share of responses indicating planned reductions in facilities investment was significantly lower (at 7.8%).

**Facilities investment plans for 2015**



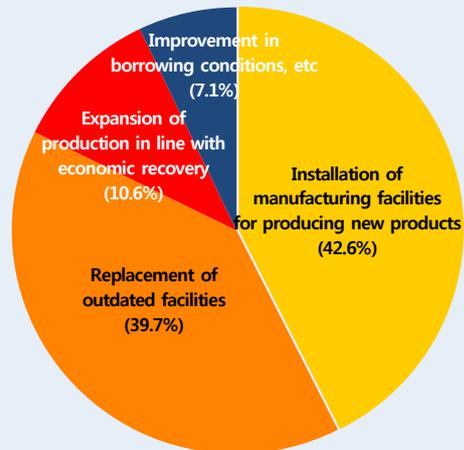
By industry, 42.5% of IT companies and 40.0% of transportation equipment manufacturers answered that they would expand their facilities investment—figures relatively higher than in other industries. Most companies in the machinery equipment and petrochemical industries were on the other hand found to be planning facilities investment at levels similar to those last year.

**Facilities investment plans, by industry**



Regarding the factors underlying their expansions in facilities investment, 42.6% of respondents pointed to the installations of manufacturing facilities for production of new products, and 39.7% mentioned replacements of outdated facilities.

**Factors behind facilities investment expansions**



1) The Bank of Korea's regional branches conducted a survey of 192 manufacturing companies on this issue between January 16 and February 6, 2015.

**[Issue III]**

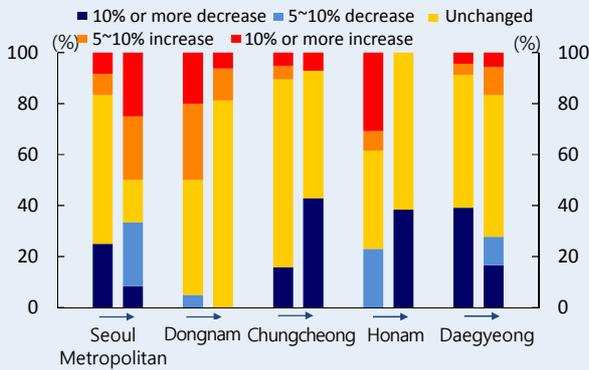
**Recent Trends in Housing Transactions**

A Bank of Korea regional branch survey of realtors concerning housing transactions, conducted in January and February 2015<sup>1)</sup>, shows the housing market moods in the Seoul Metropolitan and Dongnam regions to have grown more active, due to improved housing purchase sentiment driven by the government’s housing market stimulation policies. The moods were in contrast found to be cooling somewhat in the Honam and Chungcheong regions.

Chungcheong and Honam regions, meanwhile, the shares of respondents answering that the numbers of inquires had declined (42.9% and 38.5%, respectively) exceeded those of respondents answering that they had increased.

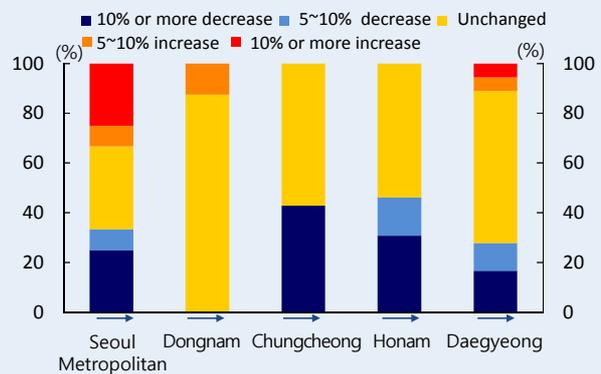
Next, concerning housing transactions, in the Seoul Metropolitan region 33.3% of respondents answered that transactions had expanded compared to the fourth quarter of 2014, despite seasonal sluggishness<sup>2)</sup>. In the Chungcheong and Honam regions, however, the portions of respondents answering that transactions had decreased were 42.9% and 46.2% respectively<sup>3)</sup>.

**Numbers of inquiries concerning housing purchases, by region<sup>1)</sup>**



Note : 1) Proportions of respondents answering questions about changes in numbers of inquiries concerning housing purchases. The first bar indicates the responses in the November 2014 survey, and the second those in the February 2015 survey.

**Numbers of housing transactions, by region<sup>1)</sup>**



Note : 1) Proportions of respondents answering questions about changes in the numbers of housing transactions.

First, regarding the number of inquiries concerning housing purchases, the proportions of respondents in the Seoul Metropolitan region answering that the number had increased (50.0%) exceeded that of those answering that it had fallen (33.3%). In the Dongnam region, all respondents answered that the numbers of inquiries were either at levels similar to the previous quarter or had risen. In the

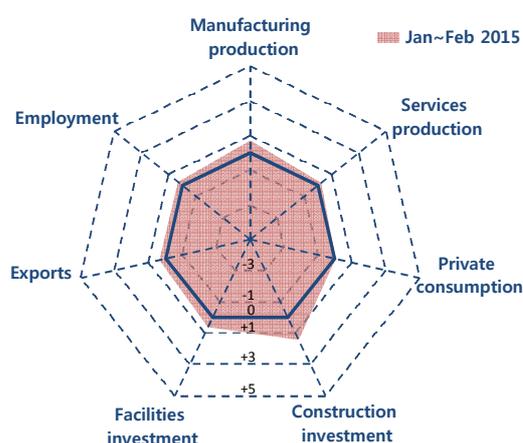
1) The Bank of Korea’s regional branches in five regions (the Seoul Metropolitan, Dongnam, Chungcheong, Honam and Daegyong regions) conducted a survey of 74 regional realtors on this issue, between January 16 and February 6, 2015.  
 2) According to the data on housing purchase transaction volumes (Ministry of Land, Infrastructure and Transport), in the nine years from 2006 to 2014 those during January and February (monthly average basis) were on average 37.0% lower than those in the fourth quarters of the previous years.  
 3) No respondents in the Chungcheong and Honam regions answered that housing transactions had increased.

## Overall Summary

### Overview

According to information collected by the 16 regional branches of the Bank of Korea from companies and other organizations, the trend of recovery in domestic economic activities appeared weak during January and February 2015.

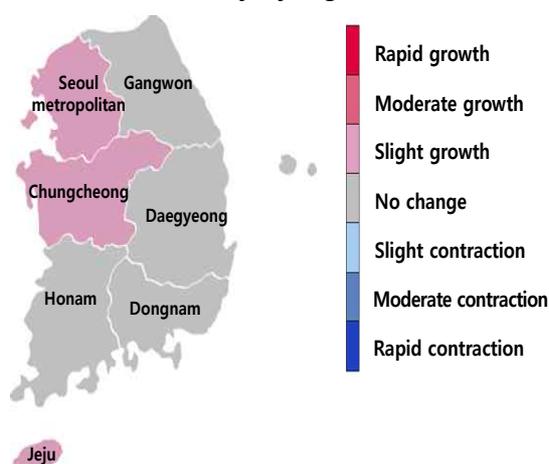
Economic conditions radar chart<sup>1)</sup>



Note : 1) Scores representing a change in the level of each sector are computed based on information gathered in meetings with local companies and other organizations. A score closer to +5(-5) indicates a rapid rising (falling) level, and 0 denotes an unchanged level.

Source : Bank of Korea

Economic activity by region<sup>1)</sup>(Jan~Feb 2015)



Note : 1) Economic conditions are assessed by the overall monitoring score, which is an average of the manufacturing and services monitoring scores weighted by the shares of gross regional domestic product (GRDP).

### Cities and provinces included in each region

| Region             | Cities and provinces                                  |
|--------------------|-------------------------------------------------------|
| Seoul Metropolitan | Seoul, Incheon, Gyeonggi-do                           |
| Dongnam            | Busan, Ulsan, Gyeongsangnam-do                        |
| Chungcheong        | Daejeon, Chungcheongbuk-do, Chungcheongnam-do, Sejong |
| Honam              | Gwangju, Jeollabuk-do, Jeollanam-do                   |
| Daeyeong           | Daegu, Gyeongsangbuk-do                               |
| Gangwon            | Gangwon-do                                            |
| Jeju               | Jeju-do                                               |

By region, the economies of the Seoul Metropolitan, Chungcheong and Jeju regions were found to have shown an upward trend, while the economies of the Dongnam, Honam, Daeyeong and Gangwon regions showed little change.

Manufacturing production was reported to grow slightly, led by IT products, such as semiconductors and display panels, and by machinery equipment. By region, manufacturing production in the Seoul Metropolitan, Chungcheong, Gangwon and Jeju regions increased slightly, but it decreased in the Daeyeong region, and showed little change in the Dongnam region. Services production was found to show similar levels to the previous quarter, as wholesale and retail sales were sluggish, although transportation, tourism and leisure-related services sectors were found to have improved. By region, services production in the Jeju region continued to grow, and it increased slightly in the Chungcheong and Honam regions, while remaining steady in the Seoul Metropolitan and Dongnam regions.

In terms of demand, it is reported that the recovery trend in consumption showed signs of faltering. Retail sales were sluggish in the Dongnam and Honam regions, while the lackluster growth in household incomes and reduction in income tax refunds from year-end tax adjustment were found to have affected

consumption in most regions. Construction investment was found to have increased in most regions including the Seoul Metropolitan, Dongnam and Chungcheong regions, led by the construction of residential buildings, while the construction investment in civil engineering sector increased. Exports showed a level similar to that of the same two-month period in 2014, due to the slackening of exports in automobiles and mobile phones, which offset strong exports in semiconductors and shipbuilding.

The number of persons employed showed an increase of 350,000 year-on-year in January 2015, but this was less than that in the fourth quarter of 2014 (monthly average +420,000 persons).

Consumer prices rose in January 2015 at a rate of 0.8% (year-on-year), less than the 1.0% increase in the fourth quarter 2014. Housing sales prices and leasehold deposit prices continued to rise in January 2015, but at a slower pace. The lending attitudes of financial institutions toward households and firms, meanwhile, remained accommodative during January and February 2015.

## Production

### (Slight Increase in Manufacturing Production)

Manufacturing production was found to have increased slightly in January and February 2015, led mainly by IT products, such as semiconductors and display panels, and machinery equipment. Production of semiconductors had increased centering on PCs, server memories, and mobile NAND flash memories in the Seoul Metropolitan and Chungcheong regions. Display panel production was reported to have grown in the Seoul Metropolitan and Chungcheong regions, due to the effect of the rollout of new models and to the on-going demand for large flat panel TVs. Increase in the production of mobile phones

was limited due mainly to the enlarged market share of rivals in overseas markets, and increased offshore production in line with a preference for low- and medium-priced products; nevertheless the shrinking of demand for them arising from the entry into effect of the Terminal Distribution Structure Improvement Act (October 2015) did ease.

Production of automobiles decreased in most regions, affected mostly by a decrease in the number of days worked owing to the various holidays early in the year, by sluggish exports stemming from economic difficulties in Russia, and by advance customs clearance of export volumes before year-end. However, their production was found to have increased slightly in the Dongnam region, influenced by some companies' launch of new models. Production of parts and components for motor vehicles showed sluggishness, notably in the Daegyeong and Chungcheong regions, due to the decrease in their price competitiveness in line with the weakening of the yen.

The production of petrochemical products was found to have decreased in the Seoul Metropolitan and Honam regions, with their profitability weakening due to the decline in oil prices. The production of oil-refining products declined in the Honam region, affected by a reduction in refining margins stemming from lower oil prices and by global oversupply resulting largely from the rising degree of Chinese self-sufficiency in supply capacity. The production of petrochemical products showed a similar level to the previous quarter in the Dongnam region, with the declining capacity utilization ratio of obsolescent equipment.

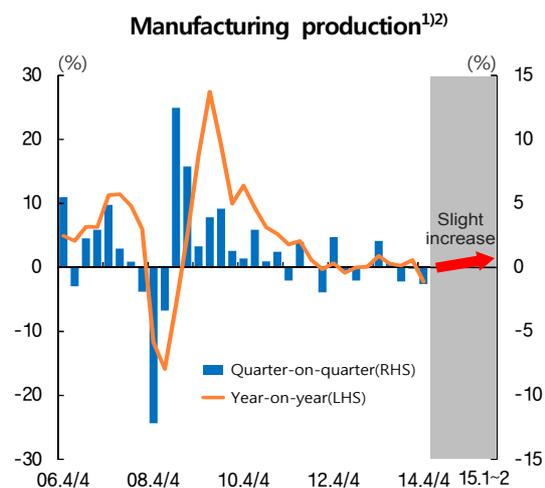
The production of iron and steel was found to have decreased, notably in the Dongnam and Chungcheong regions, due mainly to anemic demand in downstream industries such as shipbuilding, to more widespread imports of lower-priced Chinese substitutes and to the

suspension of operations at some plants.<sup>1)</sup> However, the production of iron and steel was found to have increased slightly, notably in the Daegyeong and Honam regions, due to increased demand for high value-added products including advanced high strength steel sheets for use in automobiles.

In the shipbuilding industry, production was found to have increased, due to an increase in the volume of shipbuilding in the Honam region, resulting from the receipt of new orders.<sup>2)</sup> However, the decline in production was found to have continued in the Dongnam region, due to sluggish demand for offshore plant and special ships in line with lower oil prices. In terms of machinery equipment production, that related to semiconductors and display panels was found to have increased, notably in the Seoul Metropolitan region, due mainly to the expansion of facilities investment for semiconductors and display panels, and the recovery in the construction market. In the Dongnam region, production was found to have increased, led by moulds and machine tools.

By region, manufacturing production increased slightly in the Seoul Metropolitan, Chungcheong, Gangwon and Jeju regions. The increases in the Seoul Metropolitan and Chungcheong regions were led by semiconductors and display panels, that in the Gangwon region by food and medical appliances, and that in the Jeju region by beverages. Production in the Dongnam region remained unchanged due to sluggish shipbuilding and petrochemical product production. Meanwhile, manufacturing production in the Daegyeong region decreased slightly, led downward by mobile phones and

by parts and components for motor vehicles, and that in the Honam region also declined slightly, in a movement centering around petrochemical products and automobiles.



Notes : 1) The quarter-on-quarter indicator is based on a seasonally adjusted series.

2) An arrow indicates the direction of the changes in the level of manufacturing production during January and February 2015 compared to the fourth quarter of 2014, and it is based on information obtained from companies and other organizations.

Sources : Bank of Korea, Statistics Korea

Manufacturing production is expected to show a modest increase over the coming months, led by IT products, such as semiconductors and display panels, in the Seoul Metropolitan and Chungcheong regions. Demand for semiconductors is expected to continue, led by memory chips, and production of display panels and mobile phones are likely to pick up, on the back of the proliferation of OLED TVs and the launching of new smart phones, respectively. However, automobile production in the Seoul Metropolitan and Dongnam regions is projected to be constrained, due to the sluggishness of sales to Russia and the Middle East and to GM Korea's withdrawal from the European market<sup>3)</sup>, despite the effects of the

1) Dongbu Steel suspended the operations of its electric furnaces and hot rolling mills from December 9, 2014.

2) Gunsan Shipyard of Hyundai Heavy Industries received orders to build six high value-added LPG carriers and it plans to complete between December 2014 and 2016.

3) GM Korea announced in December 2013 that the Chevrolet brand was being withdrawn from the European market in an effort to strengthen GM's overall competitiveness. It was found that the number of passenger cars manufactured at GM Korea's Gunsan plant declined by about 40% year-on-year in the fourth quarter 2014, and by 35% during January

rolling out of new automobile lines. Surveys also found that the production of oil refining and petrochemical products in the Dongnam and Honam regions would be stagnant for the time being, because of the low oil prices.

### (Little Change in Service Production)

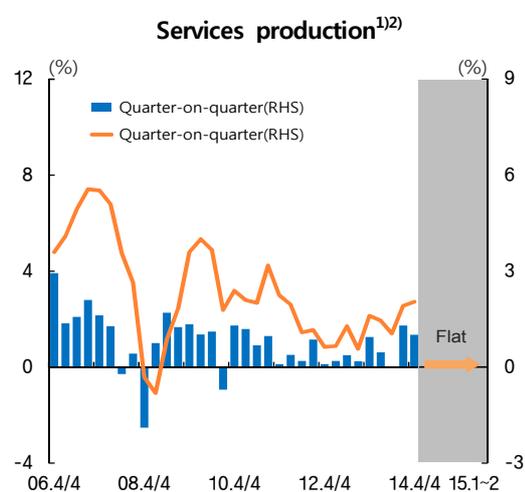
Services production between January and February 2015 was similar to that in the previous quarter. Business conditions in the transportation, tourism and leisure-related sectors improved, but sales in the wholesale and retail sectors were weak due to the delayed recoveries of consumer sentiment.

Transportation production increased in most regions, because of the growth in demand for travel in line with the long Lunar New Year's holidays. The tourism and leisure-related service sectors saw slight increases in production or continued improvements in the Chungcheong, Honam and Jeju regions, thanks to declines in aviation fuel taxes and increased numbers of foreign visitors. In the business service sector, sales in security firms expanded, especially in the Seoul Metropolitan region, due to the new rule mandating installation of CCTVs at daycare centers. The real estate and rental businesses saw improvements in their business conditions in most regions, thanks to rise in housing leasehold deposit prices and to the robust apartment sales market. Medical services improved as well, owing to increased medical tours of foreigners.

In the food and accommodation industries, there were differences seen across regions. However, production was found to even out overall, as local demand for dining-out decreased while inflows of foreign tourists increased. Production in the wholesale and retail industries was similar to that in the

previous quarter, remaining in the doldrums in most regions due to the growth in direct overseas purchases and the delayed recovery of consumer sentiment stemming from reductions in year-end tax adjustment refunds.

By region, the trend of increase in the Jeju region continued, as the numbers of domestic and foreign tourists expanded. Production in the Chungcheong and Honam regions showed slight increases, led by their tourism-related service sectors. The pace of recovery in the Daegyeong region slowed, while positive and negative factors were mixed in the Daegyeong region, with increased inflows of foreign tourists together with a contraction in consumer sentiment.



Notes : 1) The quarter-on-quarter indicator is based on a seasonally adjusted series.

2) An arrow indicates the direction of the changes in the level of services production during January and February 2015 compared to the fourth quarter of 2014, and it is based on information obtained from companies and other organizations.

Sources : Bank of Korea, Statistics Korea

Going forward, services production is expected to show trends of recovery, mainly in the transportation, tourism and leisure-related sectors<sup>4)</sup>, in most regions except for the Dongnam region. It is reported, however, that

and February 2015.

4) Services production is expected to grow in the Honam and Daegyeong regions, owing to the opening of the Honam Express Railway (April 2015) and the designation of Suncheon Garden as national garden in the former, and to the hosting of the World Water Forum (2015. 4.12~17) and the Tour Expo (in April this year) in the latter.

intensified competition among distributors will have adverse impacts on the sales and profitability of small-sized business owners.

## Demand

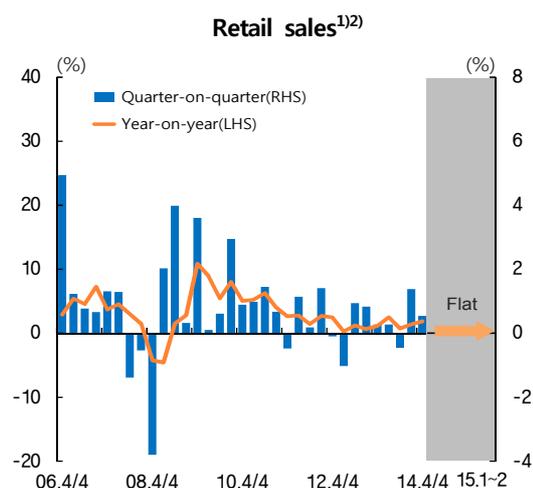
### (Delayed Recovery in Private Consumption)

The results of monitoring show that the trend of recovery in private consumption was stagnant in January and February 2015. Private consumption was relatively good compared to the previous quarter in the Daegyeong and Jeju regions, while decreasing in the Dongnam and Honam regions and showing little change in the Seoul Metropolitan and other remaining regions.

Private consumption seems to have expanded in the Daegyeong region due to increases in sales mostly at large retail stores and in traditional markets, and it also increased in the Jeju region, driven mostly by a rise in the number of tourists. The recovery in private consumption in the Seoul Metropolitan region was delayed, due to weaker sales of automobiles as the related promotions concluded at the year-end and to declines in profits of convenience stores affected by the cigarette price hike. It was found that private consumption in the Chungcheong and Gangwon regions remained at levels similar to those in the previous quarter, owing to the sluggishness of winter goods sales due to the unseasonably high temperatures. Sluggishness of the mainstay industries led to contractions in consumer sentiment in the Dongnam and Honam regions, brought about slight reductions in private consumption at large-scale retail stores.

Private consumption is expected to show a slight increase in the Jeju and Gangwon regions going forward, due to rises in inflows of tourists, while it is expected to show modest recoveries in the Chungcheong and Daegyeong regions on the back of growth in

purchasing power owing to the low oil prices. However, with the rise in household incomes being weak, the reduction in year-end tax adjustment refunds and the increase (January 2015) in health care premiums will act as constraints on consumption recoveries in the Seoul Metropolitan, Dongnam and Honam regions.



Notes : 1) The quarter-on-quarter indicator is based on a seasonally adjusted series.

2) An arrow indicates the direction of the changes in the level of private consumption during January and February 2015 compared to the fourth quarter of 2014, and it is based on information obtained from companies and other organizations.

Sources : Bank of Korea, Statistics Korea

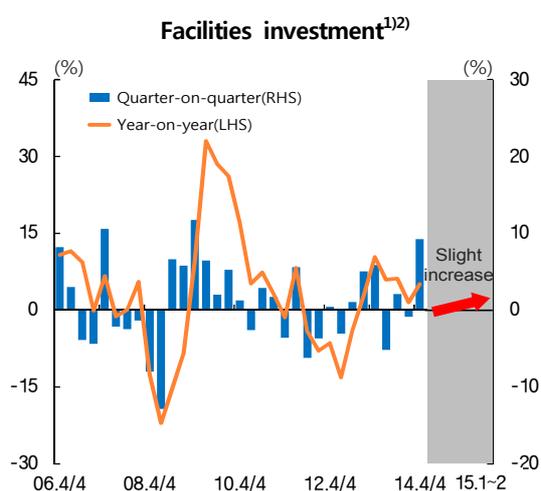
### (Slight Increase in Facilities Investment)

Facilities investment were found to rise slightly in January and February 2015 compared to the fourth quarter of 2014, driven by semiconductors and display panels.

Petrochemical industry investment in the Seoul Metropolitan region was weak owing to the low oil prices, but there were slight increases in semiconductor and semiconductor equipment investment, driven mainly by the introduction of new production facilities, factory construction, and the establishment of R&D centers. In the Chungcheong region, facilities investment expanded to some degree due to the development of new automobile engines and to the full-fledged building of additional steel factories. Expansions of leisure facilities by

resort companies led to a rise in facilities investment in the Gangwon region.

Companies in the Dongnam region were reluctant to invest actively in facilities investment, due to uncertainties regarding their main manufacturing industries including petrochemicals and machinery equipment. In the Honam and Daegyeong regions, companies were also found to make only minor commitments to maintenance and repair for outdated facilities.



Notes : 1) The quarter-on-quarter indicator is based on a seasonally adjusted series.

2) An arrow indicates the direction of the changes in the level of facilities investment during January and February 2015 compared to the fourth quarter of 2014, and it is based on information obtained from companies and other organizations.

Sources : Bank of Korea, Statistics Korea

Surveys show that future facilities investment is expected to continue, led by large firms in the Seoul Metropolitan and Chungcheong regions, including display<sup>5)</sup> and semiconductor<sup>6)</sup> companies. Until the economic recovery materializes, however, the shipbuilding, machinery, and steel companies concentrated in

the Dongnam, Daegyeong and Honam regions are expected to show reserved attitudes toward investment.

### (Slight Increase in Construction Investment)

Construction investment during January and February 2015 increased slightly from the fourth quarter of the previous year in most regions including the Seoul Metropolitan, Dongnam and Chungcheong regions as construction of residential buildings expanded with the revision of real-estate related legislation and the reorganization of the housing subscription system, while the construction investment in civil engineering sector increased.

In the Seoul Metropolitan region, construction investment was improved led by private-sector housing construction despite sluggishness in the civil engineering sector. Construction investment grew in the Dongnam region due to the jump-start of reconstruction and redevelopment projects and to the ongoing construction of a new regional industrial complex.<sup>7)</sup>

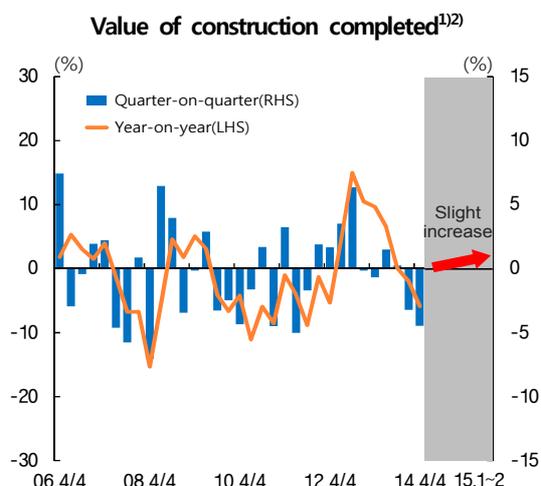
Construction investment grew in the Chungcheong, Honam and Daegyeong regions, boosted mainly by the construction of residential buildings and the promotion of mega projects such as the construction of a national industrial complex and innovative cities. In the Gangwon region, construction investment increased slightly, as construction of stadiums, roads and railways related to the Pyeongchang Winter Olympic Games got into its stride. The Jeju region also witnessed an increase in construction investment thanks to the launch of the construction of not only housing but also integrated resorts (construction of the Jeju

5) In the Chungcheong region, Samsung Display has invested in establishing flexible OLED assembly lines, and in the Seoul Metropolitan region, LG Display plans to set up additional assembly lines for large-sized OLED TV panels, in Paju factories in the second half of 2015.

6) Samsung Electronics plans to invest 15.6 trillion won in constructing advanced semiconductor assembly lines in Godeok Industrial Complex located in Pyeongtaek from 2015.

7) The first phase of construction will begin this year for the High Tech Valley Industrial Complex (2.06 million m<sup>2</sup>) in Ulju-gun, Ulsan. Gyeongnam Province is also planning to construct 34 industrial complexes (8.67 million m<sup>2</sup>) in the course of this year.

Myths and History Theme Park began on February 12).



- Notes : 1) The quarter-on-quarter indicator is based on a seasonally adjusted series.  
 2) An arrow indicates the direction of the changes in the level of construction investment during January and February 2015 compared to the fourth quarter of 2014, and it is based on information obtained from companies and other organizations.

Sources : Bank of Korea, Statistics Korea

Going forward, construction investment is expected to grow, due mainly to an increase in residential building construction, and to an increase in the SOC budget line and its early implementation. The private-sector housing construction is anticipated to be buoyant in most regions including the Seoul Metropolitan and Daegyeong regions, while public sector construction investment is found to be poised for an increase in the Chungcheong, Daegyeong and Gangwon regions.

### (Little Change in Exports)

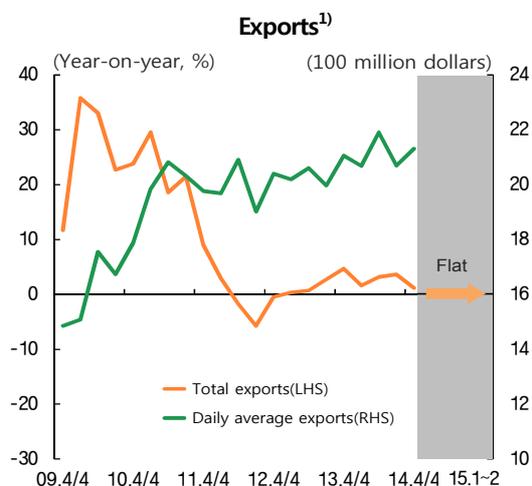
Exports in January and February 2015 were found to have remained at a level similar to that of the previous quarter: strong exports of semiconductors and shipbuilding were offset by the sluggishness of those of automobiles and mobile phones. Semiconductors showed buoyancy in the Seoul Metropolitan and Chungcheong regions, boosted chiefly by the increased demand for memory chips for mobile phones and PCs. Shipbuilding exports increased

notably from the Dongnam region, due mainly to the rising number of handovers of high value-added vessels such as LNG tankers.

Iron and steel exports increased mainly in Daegyeong and Honam regions owing to the continued demand for automotive steel sheets in the euro area. Exports of machinery equipment were also found to have risen due to Japan's increased imports of machinery. Exports of display panels were reported to have increased overall, particularly in the Chungcheong and the Seoul Metropolitan regions, thanks to the rise in demand for premium display panels such as large LCD panels and OLEDs, and to the launch of new products by TV producers for the global market. Nevertheless, they were found to have declined in the Daegyeong region, led downward by those to China.

Meanwhile, exports of automobiles were sluggish mainly in the Seoul Metropolitan, Chungcheong and Honam regions due to strengthened marketing promotion by Japanese competitors and to reduced demand owing to Russia's economic difficulties. In addition, mobile phone exports mainly from the Seoul Metropolitan and Daegyeong regions decreased, influenced by Apple's launch of new products and fiercer competition with Chinese companies. Exports of petrochemical products from most regions were sluggish, led downward by a fall in unit prices owing to the sharp drop in oil prices and to excess supply capacity in the global market.

By region, exports grew slightly from the previous quarter in the Chungcheong, Dongnam, Gangwon and Jeju regions, but from the Seoul Metropolitan region they remained unchanged, while those from the Honam and Daegyeong regions declined slightly.



Note : 1) An arrow indicates the direction of the year-on-year changes in exports during January and February 2015, and it is based on information obtained from companies and other organizations.

Source : Korea International Trade Association

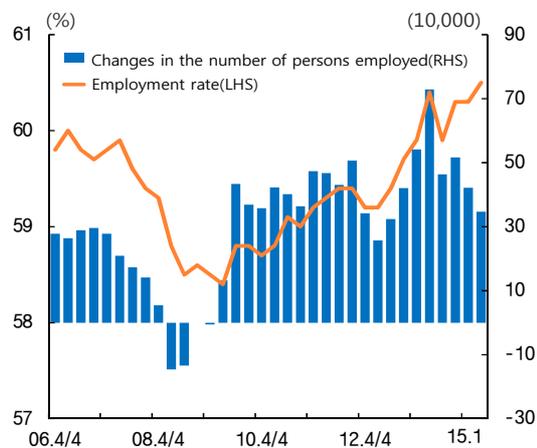
Looking ahead, exports of electronic parts are expected to rise mainly in the Seoul Metropolitan and Daegyeong regions, thanks to the launch of new mobile phones and to buoyant sales of smart watches. Shipbuilding exports are also to increase from the Dongnam region, due mainly to the rise in the number of high value-added vessels handed over. Meanwhile, the automobile industry was found to be concerned about its weakened price competitiveness arising from the continued weakness of the Japanese yen, while the petrochemical and steel sectors were worried about decreased demand owing to the deceleration of Chinese growth.

## Employment : Narrower Increase in Number of Persons Employed

The number of persons employed showed an increase of 350,000 year-on-year in January 2015, but this was less than that of the fourth quarter of 2014 (monthly average +420,000 persons). By sector, while the extent of

increase in the number of persons employed year-on-year expanded slightly in the manufacturing sector, that in the service sector including wholesale and retail trade narrowed rapidly. By region, the extents of increase in the numbers of persons employed expanded in the Honam and Jeju regions, while narrowing in the Daegyeong and Gangwon regions. The number of persons employed in the Dongnam region reversed to a decline year-on-year. The nationwide employment rate (s.a.)<sup>8)</sup> stood at 60.5% in January, up slightly from the fourth quarter of 2014, and the unemployment rate (s.a.) was 3.4%, having declined slightly from the quarter before.

## Changes in the number of persons employed and the employment rate<sup>1)</sup>



Note : 1) Changes in the number of persons employed represent year-on-year changes, and the employment rate is a seasonally adjusted series.

Source : Statistics Korea

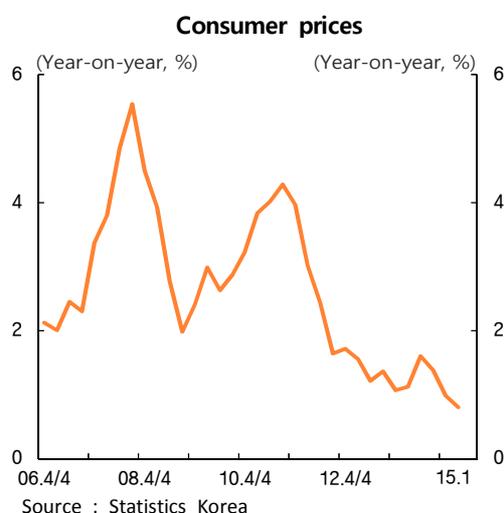
According to the monitoring results, some companies in the semiconductor and display sectors in the Chungcheong regions will expand employment. Meanwhile, many local companies in the Daegyeong region are refraining from new recruitment, due mainly to worsening uncertainty concerning business conditions and to cost-cutting efforts.

8) The employment rate is calculated as the ratio of total persons employed to the population aged 15 years and above. On an OECD basis (ratio of number of persons employed to population aged 15 to 64 years), meanwhile, the January 2015 employment rate (s.a.) was 66.0%.

## Consumer Prices and Housing Prices

### (Slower Rise in Consumer Price)

Consumer price rose in January 2015 at a rate of 0.8% year-on-year, posting a slower pace of increase than in the fourth quarter of 2014 (1.0%). This was mainly attributable to the decline in petroleum and gas prices brought about by the low oil price, which offset the effect of higher cigarette prices. Prices rose more slowly than in the fourth quarter in all region. Consumer prices showed growth in the upper-0% range in the Seoul Metropolitan, Dongnam and Daegyeong regions, while being in the lower-0% range in the Chungcheong and Gangwon regions.



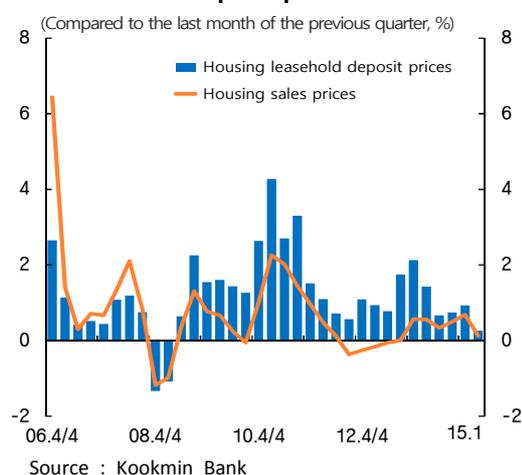
According to the results of monitoring, consumer price inflation is expected to remain low. However, hikes in public utility charges in some regions<sup>9)</sup>, and supply-and-demand imbalances for livestock products arising from the spread of foot-and-mouth disease and avian influenza will act to push up prices.

### (Slower Rise in Housing Sales and Housing Leasehold Deposit Prices)

The rise in housing sales prices slowed in January 2015. In the Seoul Metropolitan region,

housing sale prices continued to rise modestly, centering around apartment blocks planned for reconstruction, in line with the passage of real estate-related bills in the National Assembly. In other regions, housing prices maintained their upward trend, but the extent of the increase narrowed. Housing leasehold deposit prices albeit on a narrower scale continued to move higher in most regions, except for the Honam region, due to the lack of deposit-based tenancies.

### Housing sales prices and housing leasehold deposit prices



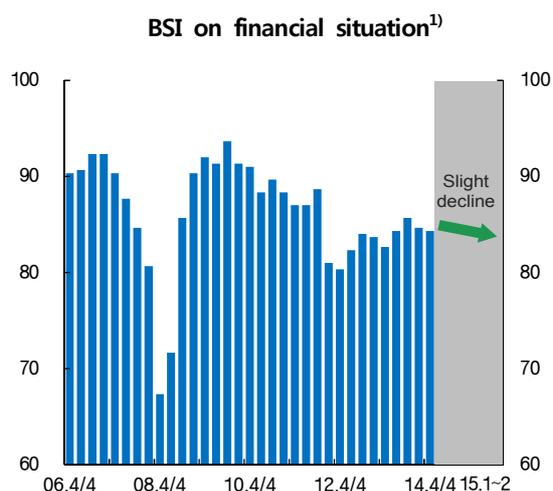
The results of monitoring found that housing sales prices are expected to rise, led by regions slated for improvements in traffic conditions or development projects. Housing leasehold deposit prices were expected to maintain their upward trend due to a shortage of available deposit-based tenancies, as monthly payment-based rental contract increased and relocation demand rose due to the beginning of reconstruction projects in the Seoul Metropolitan region. But in the Honam and Chungcheong regions, housing sales and leasehold deposit prices were forecast to remain stable due to increased housing supply.

9) Yangsan in Gyeongnam Province and Ulsan raised sewage fees from January 2015. Hanam county plans to raise water utility bills from March 2015, and Jeju-do is expected to raise water and sewage fees from May 2015.

## Financial Conditions: Lending Attitudes of Financial Institutions Remained Accommodative

During January and February of 2015, the lending attitude of financial institutions toward households was found to have remained accommodative in most regions other than the Dongnam region, with a focus on home mortgage loans and credit loans extended to prime borrowers. Lending attitudes to corporations remained accommodative overall in most regions except for the Honam and Daegyong regions where financial institutions tightened their lending attitude toward non-prime corporations.

The lending attitude of financial institutions is expected to remain accommodative in the household sector toward home mortgage loans and in the corporate sector toward prime SMEs. Corporate funding conditions during January and February 2015 were reported to have worsened somewhat compared to the fourth quarter of 2014, due to the sluggishness of business activities.



Note : 1) An arrow indicates the direction of the changes in the level of corporate financial conditions during January and February 2015 based on information obtained from companies and other organizations.

Source : Bank of Korea

### Inquires:

Regional Economies Team,

Office of Branch Affairs

Tel: +82-2-759-4104

E-mail: bokregco@bok.or.kr