

Regional Economic Report

(Executive Summary)

November 2015



THE BANK OF KOREA

This report, a condensed English version of the 'Regional Economic Report' published in Korean, summarizes recent regional economic conditions based on information gathered by the 16 regional branches of the Bank of Korea, from companies and other organizations within their regions between late October and mid-November. 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 Bank of Korea's 16 branches from companies and other organizations within their regions indicates that the domestic economy has shown its trend of modest improvement in October and November 2015. By region, production in the Daegyeong region changed little as in the third quarter, but production in the rest of the regions increased modestly.

Production, by region¹⁾



Note : 1) Production is assessed by the overall monitoring score, which is an average of the manufacturing and service sector monitoring scores weighted by these sectors' shares in gross regional domestic product (GRDP).

The results of monitoring suggest that, despite sluggish exports, the Korean economy is likely to recover modestly led by domestic demand activities. However, slowing growth in China and other emerging economies, and the possibility of international financial market unrest stemming from the Fed's interest rate hike are likely to act as downside risks.

Cities and provinces included in different regions

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

[Production]

During October and November 2015, manufacturing production showed little change, while services production increased slightly. Manufacturing production grew slightly in the Honam region led by automobiles, but was similar to the level of the previous quarter in the Seoul Metropolitan, Dongnam, Chungcheong and Gangwon regions, and decreased slightly in the Daegyeong region due to sluggish production of display panels and steel. Services production increased in all regions, led by the wholesale and retail industries, food and accommodation industries, and tourism and leisure-related services industries thanks to increases in the number of domestic and foreign tourists, and by strong performance in the real estate, rental and leasing industries stemming from increases in housing transactions.

Production by Region in October and November

	Manufacturing production	Services Production
Seoul Metropolitan region	◇	▲
Dongnam region	◇	▲▲
Chungcheong region	◇	▲
Honam region	▲	▲
Daegyeong region	▼	▲
Gangwon region	◇	▲
Jeju region	▲	▲▲

Note : Marks indicate the direction of change compared to the third quarter of 2015. ▲▲ represents an increase, ▲ a slight increase, ◇ no change, and ▼ a slight decrease.

Going forward, it is predicted that manufacturing production will remain sluggish. While automobile production is expected to show a favorable performance thanks to roll-outs of new models, the recovery in production of iron and steel, and of IT goods including display panels is anticipated to be slow due to global oversupply. Services production is foreseen increasing, driven mainly by food and accommodation industries, and tourism and leisure-related industries.

[Demand]

While private consumption and construction investment edged up slightly, facilities investment showed little change and exports contracted year-on-year. Private consumption expanded in all regions, thanks to improvements in consumer sentiment and to the launch of Korean Black Friday. In terms of construction investment, construction of residential buildings expanded in most regions on the back of increases in new apartment construction, and that of non-residential buildings also increased led mainly by the construction of industrial complexes and by SOC investment in railways and roads. Facilities investment showed little change overall as most companies focused on maintenance of their existing facilities, while some new facilities investments were made in the IT and automobile industries. Exports declined in most regions with the exception of the Jeju region, centering around semiconductors, display panels, oil-refining and petrochemical products.

Demand by Region in October and November

	Private consumption	Facilities Investment	Construction Investment	Exports
Seoul Metropolitan region	▲▲	◇	▲▲	▼
Dongnam region	▲	▲	▲▲	▼▼
Chungcheong region	▲	▲	▲	▼
Honam region	▲	◇	▲	▼
Daegyeong region	▲	◇	▲	▼
Gangwon region	▲	◇	▲	▼
Jeju region	▲▲	▲	▲	▲

Note : Marks indicate the direction of change in the level of private consumption, facilities investment and construction investment, compared to third quarter of 2015, but for exports, the mark indicates the direction of the changes compared to October-November 2014, ▲▲ represents an increase, ▲ a slight increase, ◇ no change, ▼ a slight decrease, ▼▼ a decrease.

Going forward, it is reported that private consumption and construction investment are expected to maintain their upward trends, while facilities investment is forecast to remain generally flat. Exports are, meanwhile, expected to continue their decline. Private consumption is projected to show a modest recovery, thanks to improvements in consumer sentiment and to increased numbers of foreign visitors. Construction investment is foreseen sustaining its pace of increase, driven by residential building construction and SOC investment. Facilities investment is expected to remain flat, owing mainly to the economic uncertainties at home and abroad and to increases in production at overseas plants. Exports are forecast to continue their trend of decrease, due to weaker demand stemming from the economic slowdown in China, and to fiercer price competition with late starters in China and other countries.

[Employment]

The number of persons employed showed an increase of 350,000 year-on-year in October 2015. The extent of increase was wider than in the third quarter of 2015 (monthly average +310,000 persons). While the extent of the increase narrowed in the Honam and Gangwon regions, it widened in the Dongnam and Chungcheong regions.

[Consumer Prices and Housing Prices]

In October 2015, consumer prices rose at a slightly faster pace, while housing sales and leasehold deposit prices edged up at a slightly slower pace. Consumer prices rose by around 1% in the Seoul Metropolitan region, and by the mid- to upper-0% range in the Dongnam, Daegyeong, and Jeju regions, and by the lower 0% range in the Chungcheong, Honam, and Gangwon regions.

[Lending Attitudes of Financial Institutions]

The lending attitudes of financial institutions were reported to have tightened somewhat compared to the third quarter, centering around their lending to the household sector. Although lending attitudes toward corporations remained accommodative, those toward households tightened somewhat owing to financial institutions' strengthened risk management in line with the government's measures regarding household debt management.

The results of monitoring suggest that the lending attitudes of financial institutions are expected to become more tightened in the household sector. Meanwhile, their lending attitudes toward corporations will remain accommodative, but their stance toward corporations with low credit ratings is expected to be tightened.

[Summary of Major Industry Trends]

Sector		Trends
IT industry	Semiconductors	(Decrease) Despite the robust production of system semi-conductors, that of memory semiconductor decreased centering around the Seoul Metropolitan and Chungcheong regions, due to declines in its prices amid sluggish PC sales.
	Display panels	(Decrease) Production of display panels decreased, affected by weaker demand for large-sized display panels, including LCD panels, and by intensified competition in overseas markets.
	Mobile phones	(Increase) Production of mobile phones increased thanks to robust exports in line with roll-outs of new smart phone models.
Automobile industry		(Increase) Production of automobiles increased, owing to the recovery in domestic sales in line with the cut in the individual consumption tax and the roll-outs of new models, as well as to growing exports to China.
Petrochemical & Oil refining industry	Petrochemical	(Decrease) Production in the Dongnam and Chungcheong regions declined, affected by regular facilities maintenance and a strike. However, production in the Honam region increased, with the construction of some manufacturers' production facilities completed.
	Oil refining	(Decrease) Oil-refining production decreased due to facilities maintenance in some manufacturers and to lackluster exports to China and Europe.
Iron and steel industry		(Decrease) While production of rebar increased due to buoyant housing market, most other items, including steel plates, decreased owing to sluggishness in shipbuilding and other downstream industries, and to restructuring of some firms.
Shipbuilding industry		(Decrease) Shipbuilding decreased due to tepid offshore plant orders, delays in ship construction processes, and delays in ship owners' taking possession of ships.
Machinery equipment industry		(Decrease) Production of machinery equipment declined, as orders from overseas contracted due to weaker demand from China and to fiercer competition with Japanese companies.

Results of Survey on Major Economic Issues

- Recent Housing Market Situation and Outlook -

(Housing Sales Market)

- ✓ According to survey results, the recent rise in housing sales prices was attributable largely to “shifts in demand from leasing to purchases”, to “a drop in funding costs”, and to “a perception of housing as an alternative investment”.
- ✓ Most respondents in the Seoul Metropolitan region answered that housing sales prices would rise by around 5 percent in 2016. In the Daegyeong and Chungcheong regions, however, the prevailing forecast is that housing sales prices will decline.
- ✓ A majority of respondents answered that they agree overall that adjustments of housing sales prices are possible after two to three years in line chiefly with a recent rise in the supply of housing and a decrease in the working-age population.

(Leasing market)

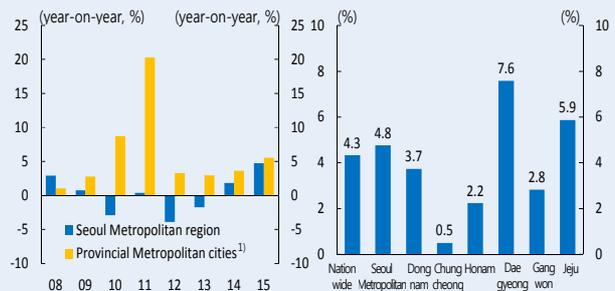
- ✓ “Landlords’ preference for monthly rents”, “concerns about declines in housing sales prices” and “strengthened borrowing capacities” were pointed to as major factors causing leasehold deposit prices to rise.
- ✓ In most regions, more than half of respondents answered that leasehold deposit prices would rise by 5 percent or more. (In the Daegyeong region, however, 48 percent of respondents expected the prices to fall.)
- ✓ In the Seoul Metropolitan region, 70 percent of respondents answered that the trend of growth in leasehold deposit prices would continue for two years or longer.

Housing Sales Market

Movements of apartment sales prices had differed from region to region following the global financial crisis, but prices started to rise nationwide from 2014. The pace of their growth has accelerated since the beginning of this year. Between January and October 2015, nationwide apartment sales prices climbed by 4.3 percent, the fastest pace of growth since 2011 (9.6 percent). By region, apartment sales prices gained 7.6 percent and 5.9 percent in the Daegyeong and Jeju regions, respectively, the two highest growth rates among the seven regions. In the Seoul Metropolitan region, prices emerged from long-term sluggishness to rise by 4.8 percent.

Apartment Sales Price Trend

Growth rate during 2008~15 Growth rate by region
(Jan~Oct 2015)



Note : 1) Five provincial metropolitan cities excluding Incheon (Busan, Daegu, Gwangju, Daejeon and Ulsan)

According to the Bank of Korea’s survey of real estate experts and agencies¹⁾, the largest number of respondents in the Seoul Metropolitan region answered that the recent rise in housing sales prices was driven by a shift in demand from leasing to purchases (49.0 percent of experts and 47.7 percent of real estate agencies). In the provincial regions, the

1) The Bank of Korea surveyed 25 market experts in Korea Housing Institute, Construction & Economy Research Institute of Korea, Korea Appraisal Board, KB Kookmin Bank, etc. and 307 real estate agencies nationwide from October 23 to November 12, 2015.

largest number of respondents (45.8 percent of experts and 32.7 percent of real estate agencies) considered “a fall in funding costs” to be responsible for the recent rise in housing sales prices, and quite a number of respondents (20.8 percent of experts and 25.9 percent of real estate agencies) answered that it was attributable to “a perception of housing as an alternative investment”.

Factors Causing Recent Rise in Housing Sales Prices¹⁾

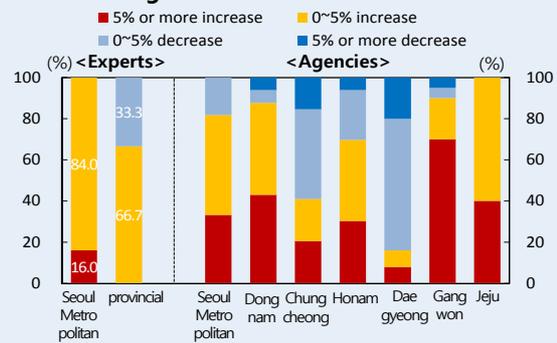
(Unit : %)

	Shift in demand from leasing to purchases	Fall in funding costs	Perception of housing as an alternative investment
<Seoul Metropolitan>			
▪ Experts	49.0	36.0	1.0
▪ Agencies	47.7	39.5	6.7
<Provincial>			
▪ Experts	29.2	45.8	20.8
▪ Agencies	18.9	32.7	25.9

Note : 1) (first answers + second answers)/2

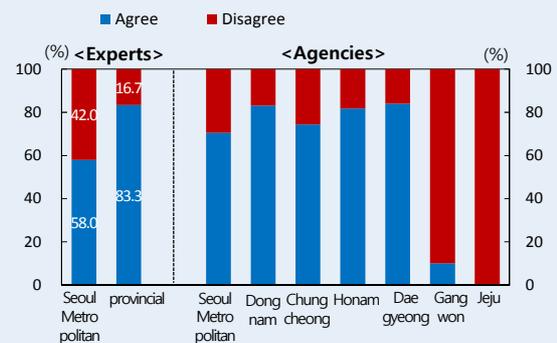
For the housing sales price outlook for 2016, all of market experts expected prices to remain on the rise in the Seoul Metropolitan region (16 percent forecast an increase of 5 percent or more), while 33.3 percent answered that prices might decline in the provincial regions. According to the results of the survey of real estate agencies by region, a majority of respondents in the Seoul Metropolitan, Dongnam, Gangwon and Jeju regions forecast a price rise, and around 40 percent (70 percent in the Gangwon region) expected prices to increase by 5 percent or more. Meanwhile, those expecting a price fall exceeded 50 percent in the Chungcheong region, where the housing supply had been abundant, and in the Daegyeong region, which had experienced sharp rises in housing prices.

Housing Sales Price Outlook for 2016



With respect to whether adjustments in housing sales prices are possible in the next two to three years due largely to a recent rise in the supply of housing and a decrease in the working-age population, the number of respondents who agreed far exceeded that of those who disagreed. Market experts forecast that the likelihood of price adjustments would be greater in the provincial regions than in the Seoul Metropolitan region. Around 80 percent of real estate agencies in most regions excluding those in the Gangwon and Jeju regions²⁾, agreed that housing price adjustments were possible.

Possibility of Housing Sales Price Adjustments



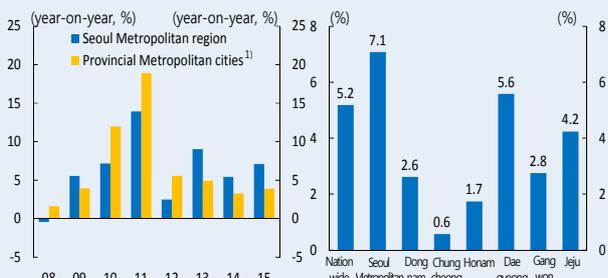
Leasing Market

Nationwide apartment leasehold deposit prices rose by 5.2 percent between January and October 2015, a faster pace of growth than in the previous year (4.4 percent). In the Seoul

2) A majority of respondents in the Jeju and Gangwon regions answered that they did not agree that housing sales price adjustments are possible. This seemed attributable largely to the continued influx of population and the increased investment by non-residents in the Jeju region, and to the promotion of regional development projects related to the Winter Olympics in the Gangwon region.

Metropolitan region, prices increased by 7.1 percent, recording growth of more than 5 percent for three consecutive years. The Chungcheong and Honam regions saw relatively slower growth.

Apartment Leasehold Deposit Prices Trend
Growth rates during 2008~15 **Growth rates by region**
 (Jan~Oct 2015)

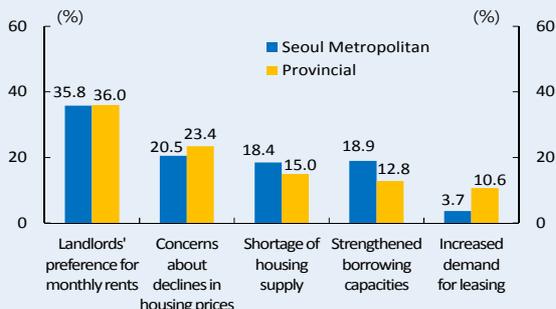


Note : 1) Five provincial metropolitan cities excluding Incheon (Busan, Daegu, Gwangju, Daejeon and Ulsan)

The largest share of respondents pointed to “landlords’ preference for monthly rents”³⁾ as one of the major factors causing leasehold deposit prices to rise. Other answers include “concerns about declines in housing sales prices”, “a shortage of housing supply”⁴⁾ and “strengthened borrowing capacities”.

Factors Causing Recent Rise in Leasehold Deposit Prices¹⁾

(Results of survey of real estate agencies)

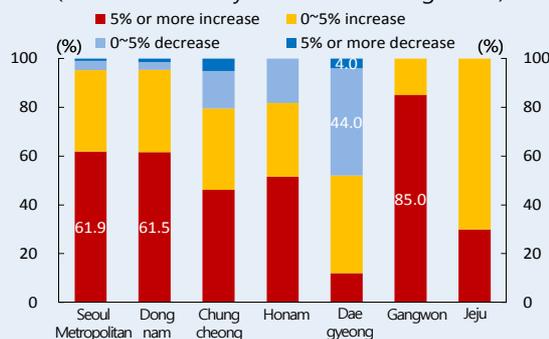


Note : 1) (1st answers + 2nd answers)/2; excluding other answers

According to the results of a survey of real estate agencies on the leasehold deposit price

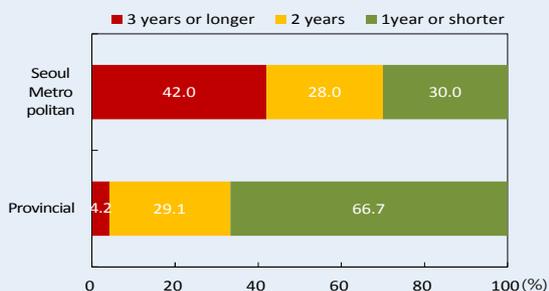
outlook for 2016, more than 60 percent of respondents in the Seoul Metropolitan⁵⁾, Dongnam and Gangwon regions expected prices to rise by 5 percent or more, suggesting a continuous upward trend. In the Chungcheong, Honam and Daegyong regions, meanwhile, a substantial number of respondents forecast a decline in leasehold deposit prices. In particular, 48 percent of respondents in the Daegyong region forecast a decrease.

Leasehold Deposit Price Outlook for 2016
 (Results of survey of real estate agencies)



Meanwhile, according to the results of a survey on the duration of the recent upward trend of leasehold deposit prices, 70 percent of market experts answered that the trend would last for two years or longer in the Seoul Metropolitan region. On the other hand, 66.7 percent of respondents expected this upward trend to slow down in the provincial regions after a year or so.

Duration of Upward Trend of Leasehold Deposit Prices
 (Results of survey of real estate agencies)



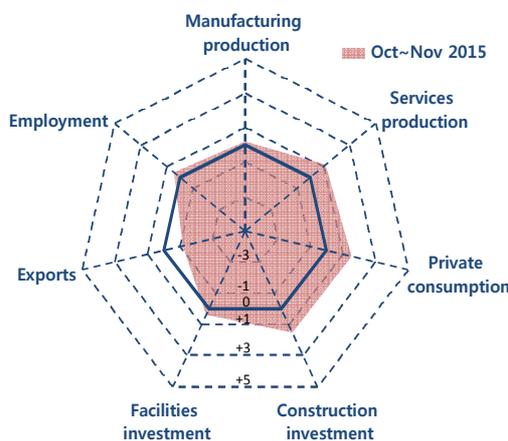
- 3) Market experts also pointed to “landlords’ preference for monthly rents” as the most important factor causing leasehold deposit prices to rise (43.0 percent of respondents).
- 4) Large proportion of respondents in the Gangwon and Jeju regions pointed out “a shortage of housing supply” as a factor causing leasehold deposit prices to rise, accounting for 39.5 percent and 42.5 percent, respectively.
- 5) 74 percent of market experts forecast that leasehold deposit prices would rise by 5 percent or more in the Seoul Metropolitan region in 2016.

Current Regional Economic Conditions

Overview

Information collected by the Bank of Korea's 16 branches from companies and other organizations within their regions indicates that the domestic economy has shown its trend of modest improvement during October and November 2015. By region, production in the Daegyeong region changed little as in the third quarter, but production in the rest of the regions increased modestly.

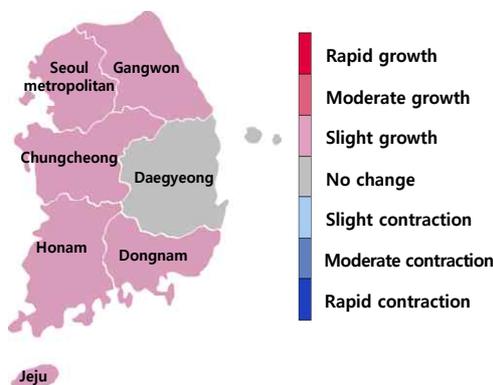
Economic conditions radar chart¹⁾



Note : 1) The scores representing changes in the levels of the different sectors, 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, while 0 denotes an unchanged level.

Source : Bank of Korea

Production, by region¹⁾(Oct~Nov 2015)



Note : 1) Production is assessed by the overall monitoring score, which is an average of the manufacturing and services sector monitoring scores weighted by those sectors' shares in gross regional domestic product (GRDP).

Cities and provinces included in different regions

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

In terms of production, while manufacturing production remained unchanged, services production was reported to have grown slightly during October and November 2015. Manufacturing production was similar to that of the previous quarter, as production of semiconductors, display panels, petrochemicals, oil refining products, and steel was sluggish, while that of mobile phones and automobiles increased. By region, it rose slightly in the Honam and Jeju regions, and remained unchanged in the Seoul Metropolitan, Dongnam, Chungcheong, and Gangwon regions, while it decreased slightly in the Daegyeong region. Services production increased in all regions, centering around the wholesale and retail industries, food and accommodation industries, and tourism and leisure-related services industries as the number of domestic and foreign tourists increased. Performance in the real estate, rental and leasing sectors was also strong stemming from increases in housing transactions.

In terms of demand, private consumption and construction investment were found to have increased slightly, and facilities investment remained unchanged, while exports decreased slightly year-on-year. Private consumption edged up in all regions, thanks to improvements in consumer sentiment and to Korea Black Friday events. Facilities investment was unchanged from the previous quarter, as most companies focused

on maintenance and repair of their existing facilities, despite some investments made by the IT and automobile industries. Construction of residential buildings increased in most regions, with construction of apartments on the rise. The construction of non-residential buildings also increased, centering around SOC investments, such as construction of industrial complexes, railways and roads. Exports decreased in all regions except for the Jeju region, led by the sluggishness in semiconductors, displays, petrochemicals and refined oil.

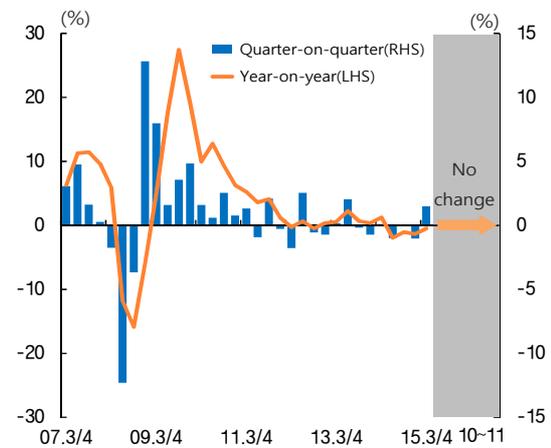
The number of persons employed showed an increase of 350,000 year-on-year in October 2015, and the extent of the increase was wider than that of the third quarter of 2015 (monthly average +310,000 persons). By region, the extent of increase in the number of persons employed expanded in the Dongnam and Chungcheong regions, while narrowing in the Honam and Gangwon regions. Consumer prices rose 0.9 percent year-on-year in October 2015 at a slightly faster pace than the third quarter (monthly average of +0.7 percent). The lending attitudes of financial institutions tightened somewhat compared to the third quarter, especially toward households.

Production

(No Change in Manufacturing Production)

Manufacturing production remained unchanged overall during October and November 2015 compared to the previous quarter. Manufacturing production grew slightly in the Honam and Jeju regions, and was similar to that of the previous quarter in the Seoul Metropolitan, Dongnam, Chungcheong and Gangwon regions, while it decreased slightly in the Daegyeong region. By sector, production expanded in the mobile phone and automobile industries, but contracted in the semiconductor, display panels, petrochemical, oil refining, iron and steel, and shipbuilding industries.

Manufacturing production¹⁾²⁾



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

2) The arrow indicates the direction of the changes in the level of manufacturing production during October and November 2015 compared to the third quarter of 2015, based on information obtained from companies and other organizations.

Sources : Bank of Korea, Statistics Korea

Manufacturing production in October and November, by region¹⁾

Seoul Metropolitan	Dong nam	Chung cheong	Honam	Daegyeong	Gang won	Jeju
◇	◇	◇	▲	▼	◇	▲

Note : 1) Marks indicate the directions of the changes in the levels of manufacturing production compared to the third quarter of 2015. ▲ refers to a slight increase, ◇, no change, ▼, a slight decrease.

Production of mobile phones increased in the Seoul Metropolitan and Chungcheong regions, affected by favorable performance in exports in line with the roll-outs of new smart phone models. The production of automobiles increased in the Seoul Metropolitan, Dongnam, Chungcheong and Honam regions as exports to China and other countries increased and domestic sales recovered due to the reduction of the individual consumption tax¹⁾ and to the launch of new models. The production of auto parts also increased as demand rose for finished vehicles.

On the other hand, production of semiconductors declined, centering around the Seoul Metropolitan and Chungcheong regions, as memory semiconductor prices declined amid

1) The Korean government temporarily reduced the individual consumption tax on automobiles and other consumer goods from 5% to 3.5%, from Aug. 27, 2015 to the end of 2015.

sluggish PC sales despite favorable performance in the production of system semiconductors. Display panel production decreased, centering around the Seoul Metropolitan, Chungcheong and Daegyeong regions, due to slowing demand for large-sized display panels such as LCDs, and intensified competition in overseas markets.

Production of oil-refining products declined overall due to maintenance and repair of facilities by some firms, and to weaker demand in China and Europe, while it increased in the Seoul Metropolitan region. Production of petrochemical products dropped in the Dongnam and Chungcheong regions, affected by strikes and regular maintenance and repair of facilities²⁾. However, it increased in the Honam region, with some manufacturers completing their production facilities³⁾. Production of iron and steel declined overall in the Dongnam, Chungcheong and Daegyeong regions, as the production of steel plates fell due to sluggishness in shipbuilding and other downstream industries, and restructuring of some firms, while the production of rebar increased stemming from a buoyant housing market.

In the shipbuilding industry, production fell, centering around the Dongnam region, due to declines in offshore plant orders, delays in ship construction processes, and shipowners' delays in taking possession of ships. Production of machinery equipment increased in the Seoul Metropolitan region. But it decreased in the Dongnam and Daegyeong regions as orders from overseas contracted due to weaker demand from China and to fiercer competition with Japanese companies.

Going forward, it is reported that manufacturing production is expected to remain sluggish, centering around display panels and other IT products, and iron and steel. The production of display

panels is seen to be sluggish due to global oversupply of panels caused by Chinese companies' facility expansion. The production of semiconductors is projected to decline due to slowing demand for memory semiconductors, and production of mobile phones is forecast to decrease due to slowing demand for premium smart phones and the fading effects of rolling out new models. The production of iron and steel is also expected to be sluggish as demand decreases amid a supply glut.

However, production of automobiles is forecast to increase as demand grows with the roll-out of new models, and auto parts production is also expected to continue its trend of improvement.

(Slight Increase in Services Production)

Services production during October and November 2015 is reported to have risen slightly compared to the third quarter.

By region, it increased in all regions, while it increased relatively more in the Dongnam and Jeju regions. In the Dongnam region, production in transport expanded due to a rise in the number of domestic and foreign tourists visiting the Busan Film Festival, and to increased shipping volumes at the Masan and Busan Ports. In the Daegyeong and Chungcheong regions, services production in food and accommodation services and the business support services expanded due to the holdings of large-scale international events including the World Culture Expo, the International Military Sports Council, the World Korean Business Convention and the World Science and Technology Forum. Services production in the Gangwon region rose in consequence of the hosting of the National Sports Festival and of an increased number of field trips. In the Jeju region, it grew led mainly by tourism and

2) In October and November, Lotte Chemical renovated its facilities, and Hanwha Total Petrochemical workers went on strike.

3) LG Chem completed the construction of its acrylic acid line 5 factory, and its fourth SAP (high absorbable resin) factory, which went into operation in September.

leisure-related services such as the food and accommodation, rental cars and chartered bus businesses, thanks to a recovery in the number of tourists from its decline following the MERS outbreak.

Production in the wholesale and retail trade sector increased centering around department stores and large discount stores, affected by the promotion of Korean Black Friday⁴⁾. The food and accommodation industries saw expanded production, as the number of foreign tourists climbed in line with the National Day of the People’s Republic of China and the resumption of events that had been postponed because of MERS. Tourism and leisure-related production grew as the number of tourists to major tourist attractions increased owing to government policies for domestic tourism promotion such as the prolongation of tourism week⁵⁾, as well as to the holding of local festivals⁶⁾.

**Services production
in October and November, by region¹⁾**

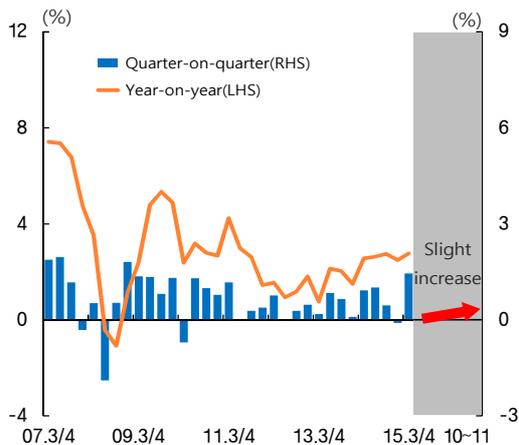
Seoul Metropolitan	Dong nam	Chung cheong	Honam	Dae gyeong	Gang won	Jeju
▲	▲▲	▲	▲	▲	▲	▲▲

Note : 1) The marks indicate the directions of the changes in the levels of services production compared to the third quarter of 2015. ▲▲ refers to an increase, ▲, a slight increase.

In the business services sector, sales of security-related firms are reported to have expanded, most notably in the Seoul Metropolitan region, in line with a new rule mandating the installation of CCTVs at daycare centers from September 19. The real estate activities and rental and leasing sectors saw increases in production as well, thanks to the rising numbers of housing transactions in most regions. Production in the health care and social services industry also expanded on the resumption of corporate health check-ups which had been delayed following the MERS outbreak.

Going forward, services production is expected to show an upward trend, led by food and accommodation, and tourism and leisure services thanks to the rising number of domestic and foreign tourists. The real estate activities and rental and leasing sectors are anticipated to see improved business conditions as well, due to the continuous increases in housing transactions. However, the recovery in services production is forecast to be moderate; some companies plan to reduce their promotion activities so as to improve profitability, while improvements in household income conditions are expected to be delayed.

Services production¹⁾²⁾



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

2) The arrow indicates the direction of the changes in the level of services production during October and November 2015 compared to the third quarter of 2015, based on information obtained from companies and other organizations.

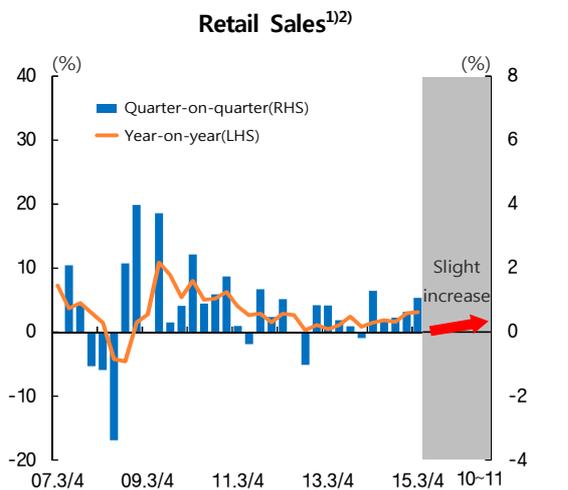
Sources : Bank of Korea, Statistics Korea

- 4) Korean Black Friday, initiated this year, was held for two weeks from October 1 to 14, with 92 companies (approximately 34,000 stores) including department stores, large discount stores and online stores, as well as about 200 traditional markets, participating.
- 5) The government lengthened the period of autumn tourism week to a total of 14 days between October 19 and November 1, longer than in 2014 (11 days).
- 6) Various local festivals were held - including the Gwangju Design Biennale and the Suncheon Bay Reeds Festival in the Honam region, and the Boeun Jujube Festival in the Chungcheong region.

Demand

(Slight Increase in Private Consumption)

Private consumption was reported to expand slightly during October and November 2015. It rose in all regions, thanks to improvements in consumer sentiment and to the initiation of Korean Black Friday, with a relatively large increase in the Seoul Metropolitan and Jeju regions.



Private consumption in October and November, by region¹⁾

Seoul Metropolitan	Dong nam	Chung cheong	Honam	Dae gyeong	Gang won	Jeju
▲▲	▲	▲	▲	▲	▲	▲▲

Note : 1) Marks indicate the direction of the changes in the level of private consumption compared to the third quarter of 2015. ▲▲ refers to an increase, ▲, a slight increase.

Sales of food, beverages and cosmetics increased due to the recovery in the number of foreign tourist arrivals⁷⁾ to back above its pre-MERS level. Clothing and travel goods sales

also expanded centering around in the department stores, thanks to Korean Black Friday. Sales of home appliances and furniture grew as well, on the rise in number of people moving into apartments. Automobile sales also increased, centering around SUVs and medium- and large-size sedans, driven by the cut in the individual consumption tax and by roll-outs of new models⁸⁾.

By region, private consumption expanded in the Seoul Metropolitan region led by rising sales of home appliances and furniture, with moving into the Dongtan 2 and Wirye new cities. In the Jeju region, sales grew at major shopping districts including large discount stores, duty-free shops and Baozen Street, thanks to continuing population inflows to the province and to a rise in the number of tourists after it had plummeted on the impacts of the MERS outbreak.

Going forward, private consumption is expected to recover modestly - on the back of improved consumer sentiments and an increasing number of foreign tourists. However, the build-up of living expense burdens triggered by the rise in housing leasehold deposit prices and the acceleration in shifts to monthly rentals is expected to constrain private consumption. By region, the Chungcheong and Jeju regions are expected to continue to see improvements, owing to population inflows, while the Dongnam region is foreseen experiencing weak growth due to delays in recovery of major manufacturers' business conditions in the region.

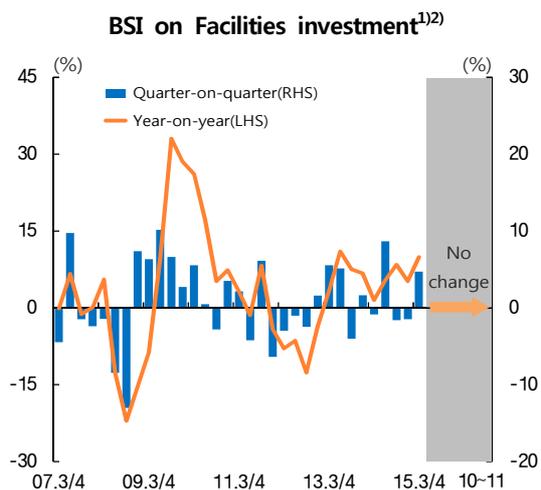
(No Change in Facilities Investment)

Facilities investment is found to have shown little change in October and November 2015 compared to the previous quarter. Although

7) There were 630,000 foreign arrivals recorded in July (-53.5%, year-on-year), 1,069,000 in August (-26.5%), 1,207,000 in September (-3.1%), and 1,384,000 in October (+5.0%), with the October figures recovered to the May pre-MERS level (1,334,000 arrivals).

8) Automobiles including the New Avante (September 9th) and the Sportage (September 15th) were released in the second half of 2015.

some new facilities investments were made in the IT and automobile industries, the majority of companies limited themselves to repairing existing facilities. By region, while facilities investment expanded slightly in the Dongnam, Chungcheong and Jeju regions, it maintained levels similar to those in the third quarter in the Seoul Metropolitan, Honam, Daegyeong and Gangwon regions.



Notes : 1) The arrow indicates the direction of the changes in the level of facilities investment during October and November 2015 compared to the third quarter of 2015, based on information obtained from companies and other organizations.
 2) Seoul metropolitan city is excluded.

Sources : Bank of Korea

Facilities investment in October and November, by region¹⁾

Seoul Metropolitan	Dong nam	Chung cheong	Honam	Dae gyeong	Gang won	Jeju
◇	▲	▲	◇	◇	◇	▲

Note : 1) Marks indicate the direction of changes in the level of facilities investment compared to the third quarter of 2015. ▲ refers to a slight increase, ◇, no change.

Facilities investment was found to have remained unchanged in the Seoul Metropolitan region, as investment was made only for facilities maintenance and repair in major industries such as semiconductors, automobiles,

mobile phones and display panels. Most manufacturers in the Honam and Daegyeong regions were also found to have made investment for facilities maintenance and repair alone, rather than for undertaking new investment due to the uncertain economic environment. Businesses in the Gangwon region were found to be showing passive attitudes toward facilities investment, owing to restructuring of the cement industry⁹⁾. Facilities investment, meanwhile, grew slightly in the Dongnam region, as some oil-refining companies made investments to improve productivity and increase facilities. In the Chungcheong region, it also rose slightly driven by IT companies' building of new semiconductor production lines, by the trend of intensified OLED facilities investment, and by investment for automation and production of new products by makers of automobiles and their parts and components¹⁰⁾. Facilities investment grew slightly in the Jeju region as well, as car rental companies purchased more rental cars.

Surveys show that businesses are expected to continue to take passive attitudes toward new investment, owing mainly to the economic uncertainties at home and abroad and to increased production at overseas plants. However, facilities investment in the Chungcheong region is anticipated to show growth, as large corporations continue their investments in semiconductors and display panels. Facilities investment in the Jeju region is also projected to show a trend of expansion, owing primarily to the installation of production facilities for a beverage maker¹¹⁾ and to purchases of new rental cars by car rental companies.

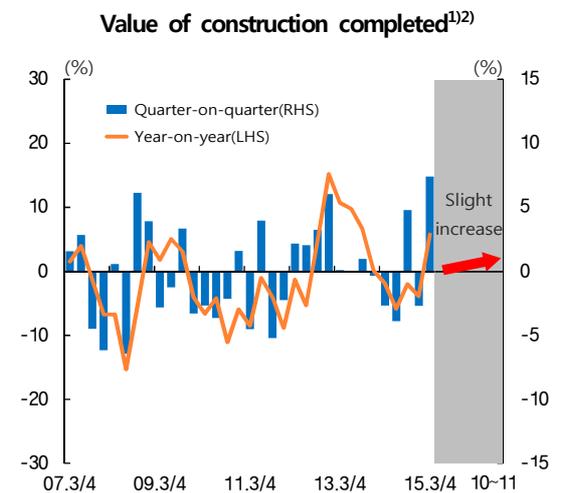
9) The process of selling of Ssangyong Cement Industrial Co., Ltd (with production plants in Donghae and Yeongwol), which accounts for the largest market share in Korea (22%), is currently underway.

10) Hyundai Mobis is investing a total of 1.5 trillion won in the second half of 2015 to build and enlarge its plant in Chungju.

11) In order to start production of sparkling water from April or May 2016, the Jeju Special Self-governing Province Development Corporation, together with CJ Cheiljedang, plans to install production facilities at the First tangerine processing plant, located in Hannam-ri, Namwon-eup, Seogwipo-si, in early 2016.

(Slight Increase in Construction Investment)

Construction investment increased slightly during October and November 2015 compared to the third quarter. Construction of residential buildings expanded in most regions, on the back of increases in new apartment construction. And construction investment in non-residential buildings was also found to have grown, thanks to the construction of industrial complexes and to SOC investment in railways and roads.



Notes : 1) The quarter-on-quarter indicator is based on a seasonally adjusted series.
 2) The arrow indicates the direction of the changes in the level of construction investment during October and November 2015 compared to the third quarter of 2015, based on information obtained from companies and other organizations.
 Sources : Bank of Korea, Statistics Korea

Construction Investment in October and November, by region¹⁾

Seoul Metropolitan	Dongnam	Chungcheong	Honam	Daegyong	Gangwon	Jeju
▲▲	▲▲	▲	▲	▲	▲	▲

Note : 1) Marks indicate the direction of the changes compared to the third quarter 2015. ▲▲ refers to an increase, ▲, a slight increase.

By region, in the Seoul Metropolitan region, new housing construction starts continued on a rise in the planned number of new apartment sales¹²⁾, and the number of construction orders

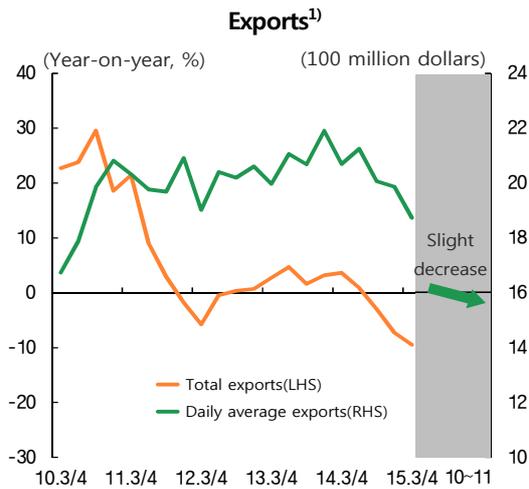
in the public sector also increased - driven by construction of railways and public housing. In the Dongnam region, residential building construction investment also expanded, thanks to the rise in housing prices and to buoyancy in sales of new apartments, and non-residential building construction continued a trend of improvement as well, driven by the construction of industrial complexes within the region. In the Honam and Daegyong regions, construction investment increased due mainly to the construction of new apartments in innovative cities and their surrounding areas. In the Gangwon region, housing construction was found to have been robust in areas for reconstruction and redevelopment, near the venue for Winter Olympic games, and in innovative cities and enterprise cities and in cities surrounding them. Construction investment also continued to increase in the Jeju region, as construction of accommodations in the private sector sustained to grow steadily, but public sector projects were somewhat lackluster due to snags in the supply of and demand for ready-mixed concrete and other construction materials.

Going forward, construction investment is expected to maintain its trend of increase, led by an expansion on residential building construction and on SOC investment in industrial complexes, railways and roads. Private sector housing construction is predicted to be robust in most regions including the Seoul Metropolitan, Dongnam, Honam and Daegyong regions. In the Dongnam and Daegyong regions, public sector construction investment is seen as poised for increases, in line with the construction of industrial complexes¹³⁾.

12) The number of new apartment sales in the Seoul Metropolitan region hit a record high of 60,439 units in October 2015.
 13) In the Dongnam region, regionally specialized industrial complexes (the Aviation Complexes in Jinju and Sacheon, the Nano Convergence Complex in Miryang, and the Offshore Plant Complex in Geoje) are scheduled to be built in Gyeongsangnam-do. In the Daegyong region, construction of the Daegu National Industrial Park is underway.

(Slight Decrease in Exports)

Exports declined slightly year-on-year in October and November 2015. By region, exports decreased in all regions except for the Jeju region.



Notes : 1) The arrow indicates the direction of the changes in the level of exports year-on-year during October and November 2015, based on information obtained from companies and other organizations.

Source : Korea International Trade Association

Exports During October and November, by Region¹)

Seoul Metropolitan	Dong nam	Chung cheong	Honam	Dae gyeong	Gang won	Jeju
▼	▼▼	▼	▼	▼	▼	▲

Note : 1) Marks indicate the directions of the year-on-year changes (during October and November 2015). ▲ refers to a slight increase, ▼, a slight decrease, ▼▼, a decrease.

Exports of mobile phones increased in the Seoul Metropolitan, Chungcheong and Daegyeong regions, thanks to strong sales of new smart phones such as the Galaxy Note 5 and the V10. Exports of parts and components for mobile phones also rose, due to an expansion in the share of overseas production carried out by Korea’s major mobile phone manufacturers. Exports of automobiles to China and other countries expanded in volume terms, particularly in the Seoul Metropolitan and Dongnam regions, but the extent of increase in dollar terms was slight, due mainly to a fall in export unit prices in line with the growing share of small and medium-sized cars in total automobile exports.

Meanwhile, exports of most items declined, except for mobile phones and their parts and components, and for automobiles. Exports of semiconductors fell particularly in the Seoul Metropolitan and Chungcheong regions, owing to a decline in prices of memory chips in line with fiercer global competition. Exports of display panels decreased in the Seoul Metropolitan, Chungcheong and Daegyeong regions, influenced by intense competition arising from expanded supply on the part of Chinese manufacturers, and by sluggish demand for LCDs.

Exports of oil-refining and petrochemical products showed sluggishness in the Dongnam, Chungcheong, Honam and Seoul Metropolitan regions, owing primarily to drops in their unit prices in line with the continuing low oil price, and to contractions in their production volumes stemming from facilities maintenance and repair carried out at some manufacturers. Steel exports fell particularly in the Daegyeong and Honam regions, due mainly to the continuing global oversupply and to fiercer competition with lower-priced Chinese products. Machinery equipment exports decreased centering around the Dongnam and Daegyeong regions, affected by sluggish demand in China and other EMEs, and by intensified competition with Japanese exporters. Shipbuilding exports declined in the Dongnam region mainly due to fall in the volume of hand-overs caused by delays in offshore plant construction processes.

Going forward exports are expected to continue their trend of decline, owing primarily to the reduced demand in line with the slowdown in the Chinese economy, as well as to intense competition with late-starters in China and other countries.

By item, exports of semiconductors are foreseen declining, on the effects of the continued drops in prices of memory chips and of mounting uncertainties in the system

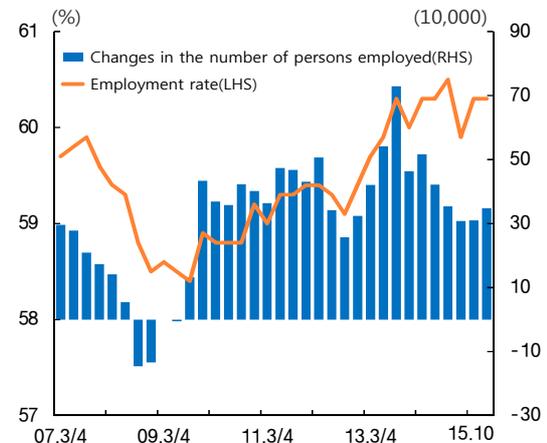
semiconductor market. Exports of steel products are expected to exhibit sluggishness due to continuing global oversupply. Shipbuilding exports are likely to continue their sluggishness, due to delays in the recovery in exports of offshore plants. Meanwhile, exports of automobiles and their parts and components are forecast to grow somewhat, boosted by the launch of new models, and by growing demand for parts and components among overseas automobile manufacturers.

Employment: Faster Growth in the Number of Persons Employed

The number of persons employed showed an increase of 350,000 year-on-year in October 2015. The extent of increase widened compared to the third quarter of 2015 (monthly average of +310,000 persons). By sector, the extent of the increase in the number of persons employed in the manufacturing sector expanded compared to the previous quarter. The extent of increase in the services industry witnessed a large expansion, thanks to large increases in business, individual, public, and other services, while the number employed in wholesale and retail, and food and accommodation services turned to decline.

By region, the extent of increase in the number of persons employed in the Honam and Gangwon regions narrowed, but that of the Dongnam and Chungcheong regions expanded. The employment rate (seasonally adjusted) stood at 60.3% in October 2015, which was the same level as in the third quarter, and the unemployment rate fell to 3.4% compared to the previous quarter (3.6%).

Changes in number of persons employed and employment rate¹⁾



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

Sources : Bank of Korea, Statistics Korea

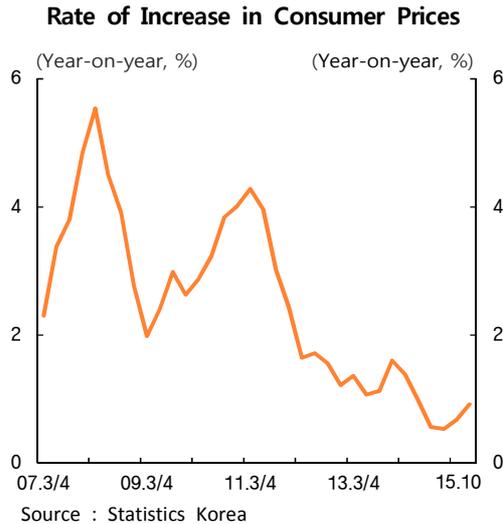
Employment conditions going forward are expected to improve modestly thanks to the government’s job creation policies. By sector, although the extent of increase in the number of employed in the manufacturing sector is forecast to slow down slightly, the number in the services industry is expected to move up, mostly in the food and accommodation, and health and welfare services. By region, the numbers of persons employed are projected to rise in the Chungcheong region thanks to the booming venture start-up industry¹⁴⁾, and in the Jeju region driven by tourism-related services and the construction sector.

Consumer Prices and Housing Prices (Slightly Faster Rise in Consumer Prices)

In October 2015, consumer prices rose 0.9% year-on-year, slightly up from the third quarter (monthly average of +0.7%). This is attributable largely to the increase in public and individual services charges. By region, consumer prices rose up by around 1% in the Seoul

14) The number of venture companies in the Chungcheong region increased from 2,857 at end-2014 to 3,045 in October 2015 (+6.6% compared to the end of 2014).

Metropolitan region, by the mid- to upper-0% range in the Dongnam, Daegyeong, and Jeju regions, and by the lower 0% range in the Chungcheong, Honam, and Gangwon regions.



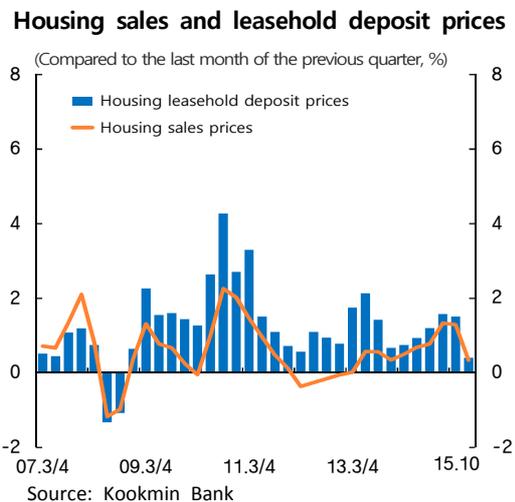
Consumer prices going forward are expected to remain low, affected by low oil prices. However, their upward trend could expand, due to the continuing increase in agricultural product prices in line with the reduction in the areas under cultivation¹⁵⁾, to the hikes in rents and public utilities charges, and to the gradual expiration of the effects of low oil prices that decrease consumer prices.

(Slight Decrease in the Upward Trend of Housing Sales and Housing Leasehold Deposit Prices)

In October 2015, housing sales prices and housing leasehold deposit prices rose by 0.3% and 0.4%, respectively, showing a modest slowdown in the upward trend compared to the third quarter (monthly average growth of 0.4% and 0.5%).

The upward trend of sales prices in the Seoul Metropolitan region slowed down slightly, due to the weaker purchasing sentiment in line with the

surge in housing supplies. Housing leasehold deposit prices have, however, continued to climb, caused by shortages in the supply of this type of housing owing to landlords’ preference for monthly rents. In the Daegyeong region, the upward trend of both housing sales and leasehold deposit prices decelerated compared to the previous quarter, due to the rise in the supply of housing. In the Dongnam, Gangwon and Jeju regions, housing sales prices as well as leasehold deposit prices rose because of the lack of housing for leasehold deposits and the shift from leasehold-deposit tenancies toward outright purchases.



Going forward, housing sales prices are expected to be differentiated region by region. In the Daegyeong region, where the rate of increase in prices was high and the supply was abundant, the pace of increase was found to be decelerating or declining. Meanwhile, the upward trend is expected to continue in the Jeju and Gangwon regions for the time being, as these areas continue to see population inflows and a great demand for regional development. Housing leasehold prices will likely remain high in most regions, due to shortages in the supply of housing for leasehold deposits.

15) The sizes of the areas under vegetable cultivation in 2015 declined compared to the last year, including fall cabbages (-16.5%), garlic (-17.7%) and onions (-24.6%).

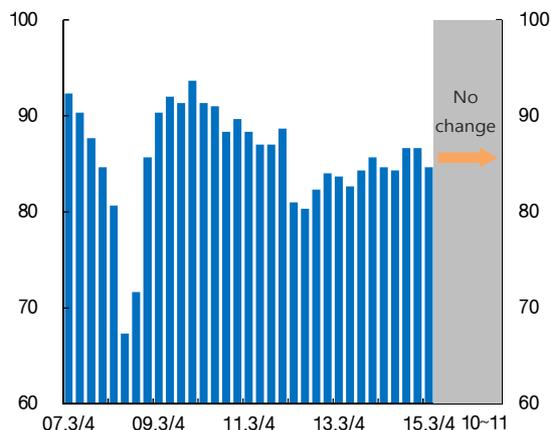
Financial Conditions: Lending Attitudes of Financial Institutions Slightly Tightened

During October and November 2015, financial institutions in most regions, except for the Chungcheong and Honam regions, were found to have somewhat tightened their lending to households. Their lending attitudes toward corporations largely remained accommodative, but their lending attitudes toward households tightened somewhat reflecting the government's measures regarding household debt management amid the increased credit risks of household borrowers. Major banks have recently tightened the ceiling on household mortgage loans, while expanding the share of loans with installment repayment and strengthening their screening of repayment capacities.

Going forward, the lending attitudes of financial institutions are expected to become more tightened in the household sector. Their lending attitudes toward corporations will likely remain accommodative, but their stance toward corporations with low credit ratings is expected to be tightened.

Meanwhile, corporate funding conditions during October and November were found to have remained the same as in the previous quarter. The conditions in the Seoul Metropolitan, Gangwon and Jeju regions improved slightly, while those in the Dongnam, Chungcheong and Daegyeong regions worsened modestly.

BSI on financial situation¹⁾



Note : 1) The arrow indicates the direction of the changes (based on the results of monitoring) in the level of corporate funding conditions during October and November 2015, based on information obtained from companies and other organizations.

Source : Bank of Korea

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