

Regional Economic Report

(Executive Summary)

February 2016



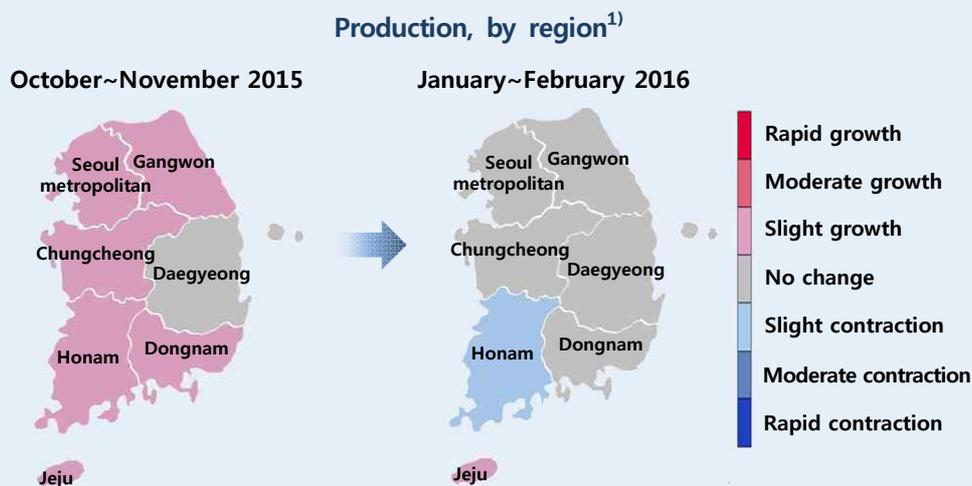
THE BANK OF KOREA

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 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 Bank of Korea's 16 branches, from companies and other organizations within their regions, indicates that the trend of improvement in the domestic economy showed signs of faltering in January and February 2016, due mainly to slumps in exports amid a weakening of recovery of domestic demand. By region, production changed little compared to the fourth quarter of 2015 in most regions, while it decreased slightly in the Honam region. However, production in the Jeju region remained robust thanks to increases in the number of domestic and foreign tourists.



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 show that the Korean economy is likely to recover modestly led by domestic demand. However, increases in economic uncertainties at home and abroad, including the slowdowns in growth in China and other emerging market economies (EMEs), the increased volatilities in the domestic and international financial markets and emergences of geopolitical risk, could work as downside risks to the Korean economy.

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
Daegyong	Daegu, Gyeongsangbuk-do
Gangwon	Gangwon-do
Jeju	Jeju-do

[Production]

Manufacturing production was found to decline slightly during January and February 2016, while services production remained steady. Manufacturing production decreased slightly overall, as it showed sluggishness in the Seoul Metropolitan, Dongnam, Honam and Daegyeong regions owing to decreases in the production of display panels, mobile phones and automobiles, although it remained similar to its fourth quarter 2015 levels in the Chungcheong and Gangwon regions. Services production stayed almost the same with the previous quarter in most regions, as production in the tourism-related services expanded thanks to rises in the number of domestic and foreign tourists, while that in the real estate, rental and leasing industries contracted due to a reduction in the number of housing transactions.

Production by Region in January and February

	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 fourth quarter of 2015. ▲▲ represents an increase, ▲ a slight increase, ◇ no change, and ▼ a slight decrease.

Going forward, it is expected that manufacturing production will remain sluggish for the time being, owing to the economic slowdowns in China and other EMEs and to the global oversupply. Production of display panels and petrochemical products is expected to decline due to the ongoing oversupply, and that of iron and steel will decrease due to sluggishness in related industries such as shipbuilding. Services production is likely to show an upward trend, driven especially by the tourism-related services including travel businesses and food & accommodation sectors thanks to increases in the number of tourists from both home and abroad.

[Demand]

While facilities and construction investments changed little, private consumption and exports were reported to decrease. Facilities investment showed levels similar to those in the previous quarter, while a considerable number of companies put off undertaking new investment due to the sluggish exports. Construction investment changed little compared to the previous quarter in most regions, as the construction of residential and non-residential buildings which was started previously was carried out steadily, while civil engineering construction contracted somewhat due to decreased orders from the public sector. Private consumption declined slightly due to sluggishness in automobile sales following the expiration of the individual consumption tax cuts, while sales of food, beverages and winter clothing rose. With regard to exports, those of all major items including semiconductors, automobiles, and petrochemical and oil-refining products fell.

Demand by Region in January and February

	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 fourth quarter of 2015, but for exports, the mark indicates the direction of the changes compared to January-February 2015, ▲▲ 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 increase, while regarding facilities investment, most companies will remain cautious about expanding their facilities. Exports are projected to sustain their trend of decline for the time being, owing to weakened demand affected by economic slowdowns in major export destination countries. Private consumption is likely to show a modest recovery, thanks to the government's private consumption boosting measures including lengthening of the period of the individual consumption tax cuts on automobile purchases¹⁾, amid improvements in income conditions. Construction investment is expected to grow, centering around residential and non-residential building construction despite a reduction in the government's SOC budget. Facilities investment is projected to remain unchanged overall, while new facilities investments will be made in the Seoul Metropolitan and Chungcheong regions, led by the IT sector. Exports are expected to continue to decline for the time being, in the face of diminishing demand in major export destinations such as China as well as intensified global competition.

[Employment]

The number of persons employed showed an increase of 340,000 year-on-year in January 2016. The extent of increase was narrower than that in the fourth quarter of 2015 (monthly average +380,000). While the extent of increase widened in the Seoul Metropolitan, Daegyeong and Gangwon regions, it narrowed in the Dongnam, Chungcheong and Honam regions.

[Consumer Prices and Housing Prices]

Consumer prices rose by 0.8% year-on-year in January 2016, a slower pace of increase than that in the fourth quarter of 2015 (monthly average +1.1%). The rates of increase in housing sales and leasehold deposit prices slowed. Consumer prices rose by the lower-1% range in the Seoul Metropolitan region, while other regions saw lower growth rates of below 1%.

1) On February 3, 2016 the government announced that it would lower the individual consumption tax on automobile (5% → 3.5%) once again to the end of June 2016, which had expired at the end of December 2015.

[Lending Attitudes of Financial Institutions]

Lending attitudes of financial institutions toward both household and corporations were reported to have tightened somewhat compared to the fourth quarter of 2015. Lending attitudes toward households tightened slightly in accord with the government's 'Guidelines on Banks' Mortgage Loan Screening²⁾'. Lending attitudes toward corporations also tightened in most regions, owing to banks' tighter management of credit risks in the face of increased uncertainties regarding future economic conditions.

The results of monitoring suggest that lending attitudes of financial institutions toward the household sector are expected to become tighter. Their lending attitudes toward corporations will remain cautious as well, as they strengthen their risk management.

2) The guidelines are designed to encourage banks to strengthen their screening of borrowers' repayment capacities, and borrowers to pay back installments from the beginning. They will take effect beginning from February 2016 in the Seoul Metropolitan region, and from May in other regions.

[Summary of Major Industry Trends]

Sector		Trends
IT industry	Semiconductors	(No change) Despite the operation of new lines at the SK Hynix Icheon plant, semiconductor production remained flat, reflecting the sluggish demand for DRAMs for PCs and smart phones.
	Display panels	(Decrease) Despite robustness in the production of OLED panels, display panel production declined due to an oversupply of LCD panels, to diminishing demand from smartphone manufacturers, and to a slump in demand for large-scale LCD panels.
	Mobile phones	(Decrease) Production of mobile phones decreased, owing to weak global demand from countries such as China and to an increase in offshore production for the purpose of cost-saving.
Automobile industry		(Decrease) Automobile production decreased as domestic sales slumped owing to expiry of the individual consumption tax cuts (December 2015) and exports were also sluggish due to lackluster demand from EMEs.
Petrochemical & Oil refining industry	Petrochemical	(No change) Despite the construction of new and enlarged facilities by some corporations, production showed little change, under the impacts of the slowdown in growth and the increase in the self-sufficiency in petrochemical products in China.
	Oil refining	(Increase) Oil-refining production grew slightly, thanks to favorable refining margin levels and to the completions of facilities maintenance and repairs.
Iron and steel industry		(Decrease) Production of iron and steel declined, affected by sluggishness in related industries such as shipbuilding, by fiercer competition due to continuing oversupplies, and by weakened global demand.
Shipbuilding industry		(No change) Production in the Honam region expanded, due to an expanded volume of ships deliveries. Meanwhile, it remained the same overall as the previous quarter, as orders for offshore plants were replaced by oil tankers in the Dongnam region.
Machinery equipment industry		(No change) Production of machinery equipments changed little, as demand for elevator maintenance and repair equipments and for display panels manufacturing equipments rose, despite lackluster demand from China and other EMEs as well as intensified competition with Japanese companies.

Results of Survey on Major Economic Issues

- Business Outlook and its Risk Factors for the Manufacturing Sector in 2016 -

(Business Outlook)

√ A total of 336 manufacturing companies nationwide were surveyed for the business outlook in 2016. The survey found that manufacturers expected their sales and profitability to improve compared to 2015, although the extent of improvement was unlikely to be great.

√ By sector, business conditions for the automobile sector were expected to improve, while improvements in the shipbuilding, petrochemical and oil-refining sectors were reported as likely to be slow.

√ By region, expectations of the business condition improvements were higher for companies in the Seoul Metropolitan region than for those in other regions.

(Risk Factors)

√ The 'weak domestic recovery', 'sustained export sluggishness' and 'increased volatility of financial price variables including foreign exchange rates and interest rates due to international financial market unrest', were pointed to as factors causing business risk in 2016.

√ A large share of respondents cited 'slowdowns in major export markets including China' and 'continuation of global oversupply' as their export risk factors.

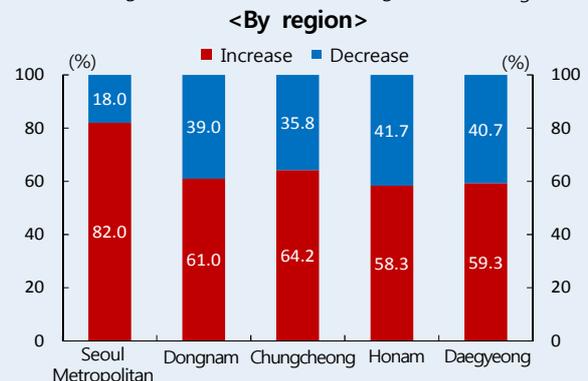
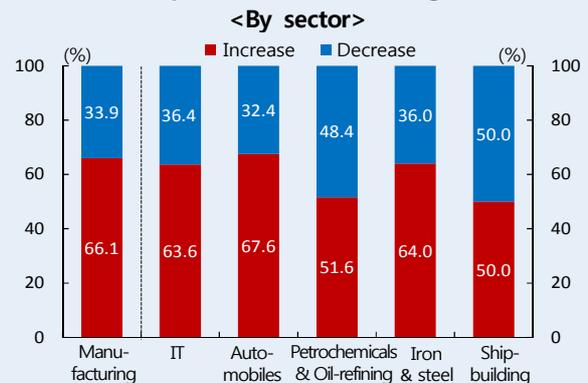
Business Outlook for the Manufacturing Sector in 2016

According to a survey of 336 manufacturers³⁾ across the country, on the business outlook in 2016, sales and profitability were considered

likely to improve in 2016 compared to 2015, although the extent of improvement was not expected to be large.

(Sales projection) 66.1% of survey respondents expected their sales in 2016 to increase compared to those in 2015, while 33.9% predicted decreases. Half (48.2%) of the companies expecting rises in sales, responded that the sales would increase by 0~5%, implying that the extent of increase would unlikely to be large. By sector, automobile manufacturers responded with more positive forecasts than companies in the shipbuilding, petrochemical and oil-refining sectors. By region, the share of respondents who expected an increase in sales was larger in the Seoul Metropolitan region than that in the Honam and Daegyeong regions.

Sales Prospects for Manufacturing in 2016

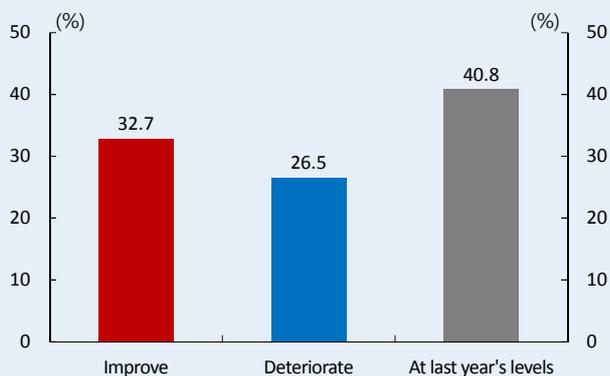


3) Between January 18 and February 12 2016, the Bank of Korea conducted a survey of 336 manufacturers nationwide, for its 「Business Outlook and its Risk Factors for the Manufacturing Sector in 2016」.

Looking at the prospects for profitability in 2016, 80.3% of respondents expected surpluses and 17.0% deficits⁴.

Regarding the direction of changes in profitability⁵, 32.7% of those surveyed responded that their profitabilities would improve, 26.5% said that they would deteriorate, and 40.8% reported that they would stay at last year's levels, implying that the extent of improvement in profitability in 2016 will not be large.

Direction of Changes in Manufacturing Sector Profitability in 2016



Risk Factors in 2016

(Management risks) As the major management risks for manufacturers in 2016, most respondents pointed to ‘the weak domestic recovery (33.3%)’, ‘the sustained sluggishness in exports (20.0%)’, and ‘the increased volatility of financial price variables such as foreign exchange rates and interest rates due to international financial market unrest (18.1%)’.

Major Management Risks for Manufacturers



(Export risks) As the risks to exports, 36.1 percent of the respondents mentioned ‘the slowdowns in major export markets including China’. Other answers were ‘the continuation of the global oversupply (18.6%)’ and ‘the depreciations of currencies of rival exporting countries including the yen and the yuan (15.3%)’.

Major Export Risks for Manufacturers

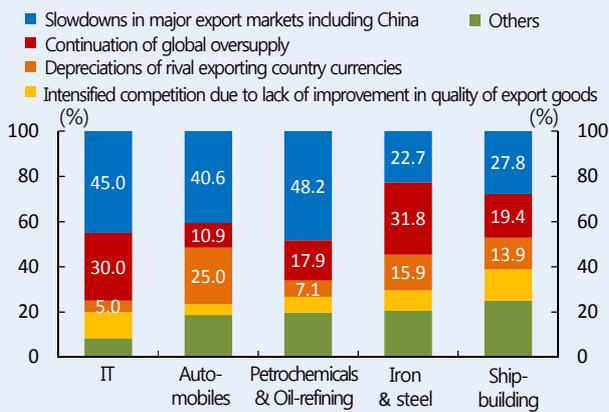


By sector, respondents from major export sectors including the petrochemical, oil-refining, information technology (IT) and automobile industries, all considered ‘the slowdowns in major export markets including China’ to be the largest risk. A substantial share of respondents from iron and steel sectors expressed concerns about ‘global oversupply’.

4) 80.1% of manufacturing companies subject to outside auditing (10,333 firms), recorded surpluses (operating profits) in 2014 (KIS-Value).
 5) An improvement in profitability refers to an increase in or a shift to an surplus, or a decrease in an deficit. A deterioration of profitability on the other hand means a decrease in a surplus, or a shift to or a worsening of a deficit.

Meanwhile, the answer most chosen by respondents from the automobile sectors, which faces intensified international price competition due mainly to the weakening of the Japanese yen, was ‘the depreciations of currencies of rival exporting countries (25.0%)’.

Major Export Risks, by Sector



By region, about one-half (52.0%) of respondents in the Seoul Metropolitan region pointed to ‘the slowdowns in major export markets including China. Respondents in the Daegyong and Honam regions, whose major industries include iron and steel, and petrochemicals, expressed concerns about ‘global oversupply’.

Major Export Risks, by Region



(Response measures) With regard to companies’ strategies in response to their exports risks, large proportions of respondents indicated intentions to cope with their export

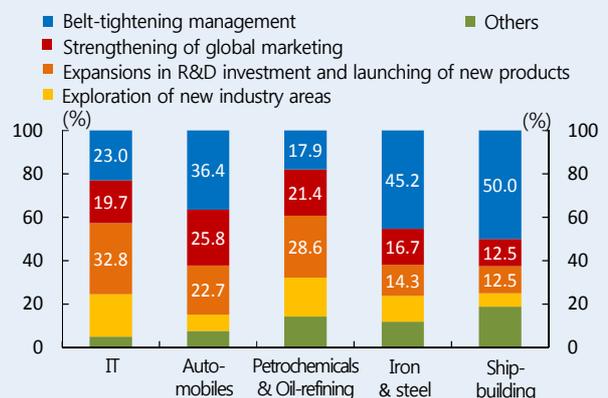
risks through ‘the belt-tightening management such as cost reductions and restructuring (29.1%)’, ‘the strengthening of global marketing (24.5%)’, and ‘the expansions in R&D investment and launching of new products (24.0%)’.

Manufacturers’ Measures in Response to Export Risks



By sector, a large share of respondents in sectors such as shipbuilding, and iron and steel, whose businesses have worsened, answered that they would counter their export risks through ‘the belt-tightening management such as cost reductions and restructuring’. In the IT sector, the most chosen answer was ‘the expansions in R&D investment and launching of new products (32.8%)’. In the automobile sector, the second most chosen answer after the belt-tightening management was ‘the strengthening of global marketing (25.8%)’.

Measures in Response to Export Risks, by Sector

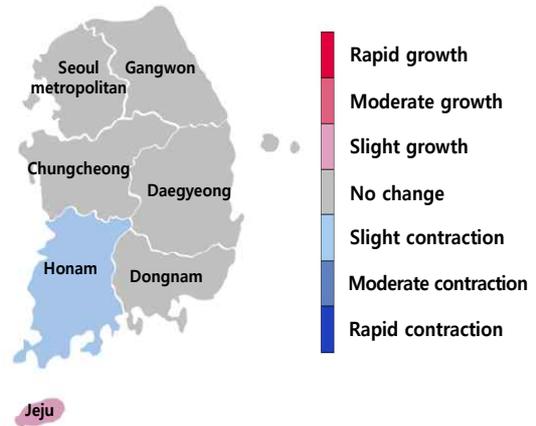


Current Regional Economic Conditions

Overview

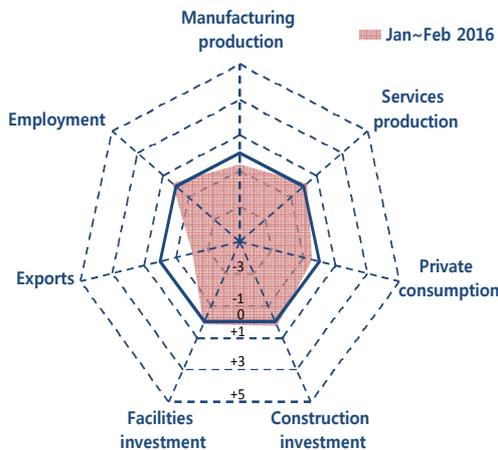
Information collected by the Bank of Korea’s 16 branches, from companies and other organizations within their regions, indicates that the trend of improvement in the domestic economy showed signs of faltering in January and February 2016, due mainly to slumps in exports amid a weakening of recovery of domestic demand. By region, production changed little compared to the fourth quarter of 2015 in most regions, while it decreased slightly in the Honam region. However, production in the Jeju region remained robust thanks to increases in the number of domestic and foreign tourists.

Production, by region¹⁾(Jan~Feb 2016)



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).

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

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, manufacturing production contracted slightly during January and February 2016 compared to the previous quarter, owing to sluggishness in the production of display panels, mobile phones, and iron and steel sectors, while that of semiconductor, petrochemical, and shipbuilding sectors remained unchanged. By region, production increased in the Jeju region and remained unchanged in the Chungcheong and Gangwon regions, while declining slightly in the Seoul Metropolitan, Dongnam, Honam and Daegyeong regions. Services production remained at the same levels seen in the fourth quarter of 2015 in most regions, as production in the tourism-related services expanded due to rises in the number of Korean and foreign tourists, while that in the real estate, rental and leasing industries contracted owing to a reduction in the number of housing transactions.

In terms of demand, facilities and construction investment were found to have remained unchanged, while both private consumption and exports decreased. Facilities investment changed little as most companies focused on the maintenance and repair of existing facilities.

Construction investment remained at a level similar to that during the previous quarter, with progress in the construction of residential and non-residential buildings, offsetting sluggishness in civil engineering due to decreased orders from the public sector. Private consumption declined slightly, as automobile sales decreased under the influence chiefly of the expiry of the individual consumption tax cuts, while sales of food and beverages and winter clothing increased. Exports declined in all regions except the Jeju region, centering around decreases in those of major items such as IT products and automobiles.

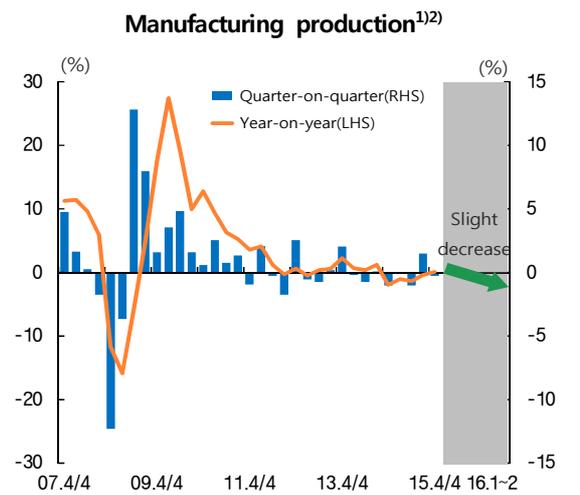
The number of persons employed showed growth of 340,000 year-on-year in January 2016, and the extent of increase was narrower than that in the fourth quarter of 2015 (monthly average +380,000 persons). By region, the extent of increase in employment expanded in the Seoul Metropolitan, Daegyeong and Gangwon regions, while narrowing in the Dongnam, Chungcheong and Honam regions. Consumer prices rose by 0.8 percent year-on-year in January 2016 at a slower pace than the fourth quarter of 2015 (a monthly average +1.1 percent). The rates of increase in housing sales and leasehold deposit prices also slowed. The lending attitudes of financial institutions, toward both households and corporations, tightened somewhat compared to the fourth quarter of 2015.

Production

(Slight Decrease in Manufacturing Production)

Manufacturing production was found to have decreased slightly during January and February 2016 compared to the fourth quarter of 2015. By region, it grew in the Jeju region and changed little in the Chungcheong and Gangwon

regions, while falling slightly in the Seoul Metropolitan, Dongnam, Honam and Daegyeong regions. By sector, production was sluggish in the display panels, mobile phones, automobile, and iron and steel sectors, while remaining unchanged in the semiconductor, petrochemical, and shipbuilding sectors.



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 January and February 2016 compared to the fourth quarter of 2015, based on information obtained from companies and other organizations.

Sources : Bank of Korea, Statistics Korea

Manufacturing production in January and February, by region¹⁾

Seoul Metropolitan	Dongnam	Chungcheong	Honam	Daegyeong	Gangwon	Jeju
▼	▼	◇	▼	▼	◇	▲▲

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

Production of display panels decreased mainly in the Seoul Metropolitan, Daegyeong and Chungcheong regions, on the effects of LCD oversupply, of decreased demand from smartphone manufacturers¹⁾ and of a slowdown in demand for large LCDs, all of which offset a robust performance in OLED production. Mobile phone production in the Seoul Metropolitan and

1) According to the market research firm “FactSet”, the number of iPhones to be sold during January through March 2016 is estimated at 54,600,000, down by 11 percent from the same period of last year (61,170,000) and by 27 percent compared to Q4 2015 (74,780,000).

Daegyeong regions also shrank, owing mainly to sluggish demand in overseas markets including China and to increased offshore production for the purpose of cost-saving. Production of automobiles in the Seoul Metropolitan, Dongnam, Chungcheong and Honam regions decreased, influenced largely by lackluster domestic sales with the expiry of the individual consumption tax cuts (in December 2015) and by sluggishness in exports stemming from slumps in demand in EMEs. Iron and steel production decreased centering around the Dongnam and Daegyeong regions, due largely to sluggishness in related industries including shipbuilding, to intensified competition resulting from the ongoing oversupplies, and to slumps in global demand.

Meanwhile, production of semi-conductors remained at its previous quarter's level, particularly in the Seoul Metropolitan region, with the sluggish demand for DRAMs for PCs and smartphones, offsetting the effect of the operation of new lines at the SK Hynix Icheon plant. Production of petrochemical products in the Seoul Metropolitan, Dongnam and Honam regions remained unchanged, influenced chiefly by the slowdown in growth and expansion in self-sufficiency in petrochemical production in China,²⁾ which offset the effects of launches and expansions of new facilities by some firms.³⁾ Production of oil-refining products meanwhile rose slightly, centering around the Dongnam region thanks to favorable refining margin levels and to the completions of facilities maintenance and repairs.

In the shipbuilding industry, although production in the Honam region increased driven by an expanded volume of ship deliveries, the production remained at its previous quarter's level overall as orders for offshore plants were

replaced by oil tankers in the Dongnam region. Production of machinery equipment remained unchanged, as demand for elevator maintenance and repair equipments and for display panel manufacturing equipments rose in the Seoul Metropolitan and Daegyeong regions, despite the reduced demand from China and other EMEs and the intensified competition with Japanese exporters.

Going forward manufacturing production is expected to exhibit a downward trend for the time being, owing primarily to the economic slowdowns in China and other EMEs and to global oversupply. Production of display panels and petrochemical products is likely to decline due to continuing oversupplies, and that of iron and steel will decline on the effects of sluggishness in the related industries. Shipbuilding orders are unlikely to increase significantly, owing mainly to the low oil prices and to reduced incentives to pursue orders given their low profitability.

Mobile phone production is expected to increase, however, driven chiefly by the launches of new models (Galaxy S7 and G5). Production of automobiles is also foreseen improving thanks largely to the effects of roll-outs of new models and extension of the period of the individual consumption tax cuts.

(No Change in Services Production)

Services production during January and February 2016 is reported to have remained similar to that in the fourth quarter of 2015.

By region, services production increased in the Chungcheong and Jeju regions, but contracted slightly in the Honam region. It remained generally steady in the Seoul Metropolitan, Dongnam and Daegyeong regions. In the Chungcheong region, demand for services

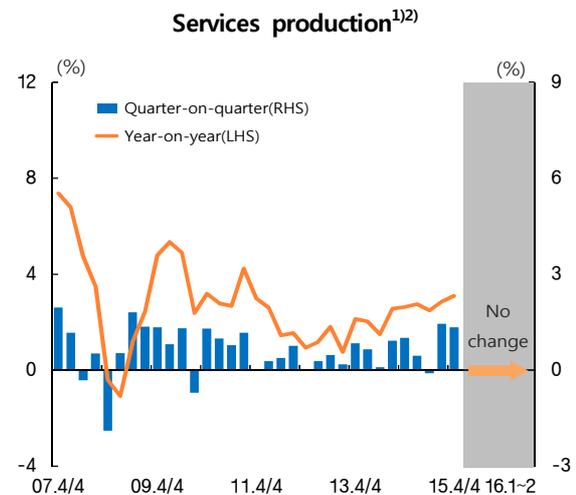
2) China's ethylene self-sufficiency is forecast to rise from 79.1 percent in 2014 to 83.1 percent in 2017 (National Bureau of Statistics of China).

3) Hyosung's first polyketone manufacturing plant was completed in July 2015, and SK Global Chemical's Nexlene plant in October 2015.

showed an increase, due to continued population inflows to new cities and industrial complexes and the areas surrounding them⁴⁾. In the Jeju region, services production increased owing to a rise in the number of domestic and foreign tourists. It meanwhile remained at the levels of the previous quarter in the Seoul Metropolitan, Dongnam and Daegyeong regions even despite increases in travel-related demand, owing primarily to slowdowns in housing market activities, to reduced number of corporate events, and to decreases in outdoor activities caused by a cold spell. In the Gangwon region, advance events related to the PyeongChang 2018 Winter Olympics were held actively, but there was no clear growth in services production, with the number of domestic tourists visiting ski resorts declining for example.

By sector, production in the wholesale and retail trade sector increased, centering around department stores and large discount stores, influenced by growth in sales of outdoor clothes and by active promotion events by retailers. Although sales to locals were sluggish, production in the food and accommodation industries remained steady overall, due to an increase in the number of foreign tourists. In the transport sector, production in passenger transport expanded, while that in cargo transport decreased due to a drop in volume in line with the sluggishness of exports. Production in real estate and leasing services declined, on reduced transactions⁵⁾ due to a slowdown in the upward trend in housing prices and to a contraction in home buying sentiment. The financial and insurance production also decreased owing to slower growth in lending to the household and corporate sectors. Leisure-related services production slumped, as outdoor activities

decreased in line with a severe winter cold spell.



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 January and February 2016 compared to the fourth quarter of 2015, based on information obtained from companies and other organizations.
 Sources : Bank of Korea, Statistics Korea

Services production in January and February, 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 fourth quarter of 2015. ▲▲ refers to an increase, ▲, a slight increase, ◇, no change, ▼, a slight decrease.

Going forward services production is expected to show an upward trend, led by the tourism-related services including travel businesses and food & accommodation sectors, thanks mainly to rising numbers of domestic and foreign tourists and to active provincial governments' implementations of policies to revitalize tourism⁶⁾. Transportation production is anticipated to increase, thanks to continuing demand for overseas travel. However, the real

4) The inflows of population to Sejong City, Naepo New Town (where the Chungnam Provincial Government Office is being relocated), and the Asan National Industrial Complex (in Dangjin in Chungnam Province) are continuing.
 5) Housing sales transactions declined by 21.4% year-on-year in January 2016 (62,365 cases).
 6) The Daegu City Government and the Gyeongsangbuk-do Provincial Government have designated 2016 as "Visit Daegu and Gyeongsangbuk-do Year for Chinese Tourists," and have set a target of attracting 380,000 tourists from Greater China.

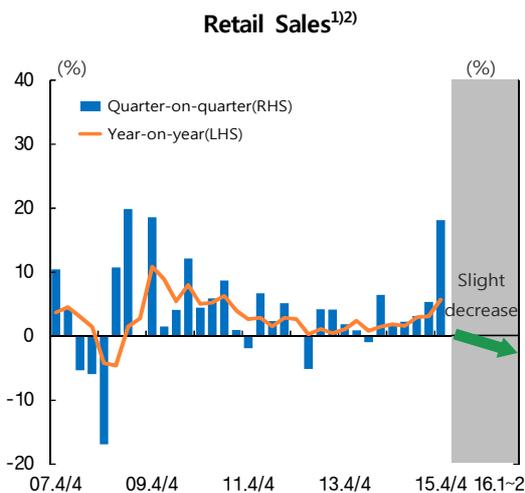
estate and rental and leasing sectors are expected to see delays in their recoveries for the time being, due to a decrease in housing transactions in line with the contraction of home buying sentiment. Going forward, the delay in recovery of business conditions in manufacturing sector is expected to work as a factor limiting growth in services production.

Demand

(Slight Decrease in Private Consumption)

Private consumption is reported to have decreased slightly during January and February 2016 compared to that in the fourth quarter of 2015.

By region, private consumption fell slightly in the Seoul Metropolitan and Honam regions, and remained unchanged in the Dongnam and Gangwon regions, while expanding in the Chungcheong, Daegyeong and Jeju regions.



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 private consumption during January and February 2016 compared to the fourth quarter of 2015, based on information obtained from companies and other organizations.

Sources : Bank of Korea, Statistics Korea

Private consumption in January and February, 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 fourth quarter of 2015. ▲▲ refers to an increase, ▲, a slight increase, ◇, no change, ▼, a slight decrease.

Automobile sales contracted sharply, due mainly to the expiration of the individual consumption tax cuts. Sales of furniture and home appliances declined, on a decrease in the availability of new apartments⁷⁾. Clothing sales, meanwhile, increased, led by outdoor clothes, influenced by the severe cold spell and by active promotion events of retailers. Sales of food and beverages also increased, led by sales of health-related gift sets and by faster growth in special New Year holiday demand than had been seen in the past few years.

Going forward, private consumption is expected to show a moderate trend of recovery, on the back of improvements in income conditions and of government measures to promote private consumption, as exemplified by the lengthening of the period of individual consumption tax cuts. By region, more positive views of the private consumption outlooks were shown in the Chungcheong and Jeju regions compared to those in other regions, due mainly to inflows of population and to rising numbers of tourists. The build-up of living expense burdens, triggered by the rise in housing leasehold deposit prices and by the acceleration in shifts to monthly rentals, is however expected to constrain private consumption.

(No Change in Facilities Investment)

Facilities investment showed little change during January and February 2016. Although some new facilities investments were made in the semiconductor, display panels and automobile

7) There were a monthly average of 23,000 new apartments available during January and February 2016, down from the 29,000 apartment monthly average in Q4 2015 (Q4 2015 : +27.5% yoy → Jan~Feb 2016 : +19.2% yoy).

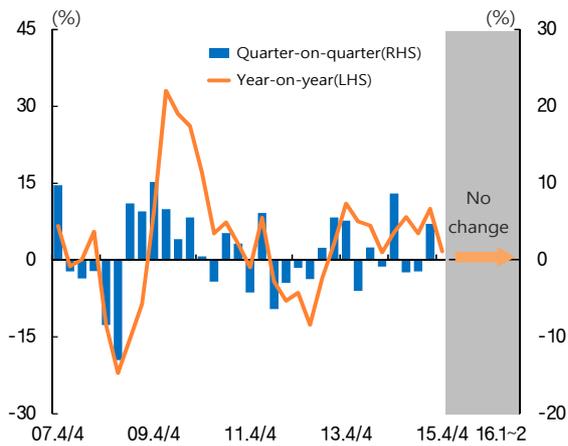
industries, the majority of companies focused on the maintenance and repair of existing facilities. By region, while facilities investment expanded slightly in the Seoul Metropolitan and Jeju regions, it decreased slightly in the Chungcheong region, while maintaining levels similar to that in the fourth quarter of 2015 in the Dongnam, Honam, Daegyeong and Gangwon regions.

Jeju region, as automobile purchases by car rental companies increased. Meanwhile, facilities investment fell slightly in the Chungcheong region, with adjustments of production lines and construction of large-scale new production lines having been completed in 2015, particularly in the iron and steel, automobile and petrochemical industries. Facilities investment remained at the same level as that in the previous quarter in the Dongnam region, as investment sentiment in the shipbuilding and machinery industries did not recover. It also showed little change overall in the Honam and Daegyeong regions: although some facilities investment for production of new models⁹⁾ were made in the automobile industry, in the majority of industries, only regular investments for repair of existing facilities were made.

Going forward, most companies are expected to take reserved approaches toward increasing their facilities investments, in line with the mounting economic uncertainties at home and abroad.

By sector, facilities investment is expected to be sluggish in shipbuilding and iron & steel industries, due to continuing global oversupplies. Facilities investment in the IT industry is projected to show a slight improvement, however, as new investments will be made in the Seoul Metropolitan and Chungcheong regions¹⁰⁾.

Facilities investment¹⁾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 facilities investment during January and February 2016 compared to the fourth quarter of 2015, based on information obtained from companies and other organizations.
 Sources : Bank of Korea

Facilities investment in January and February, 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 fourth quarter of 2015. ▲ refers to a slight increase, ◇, no change, ▼, a slight decrease.

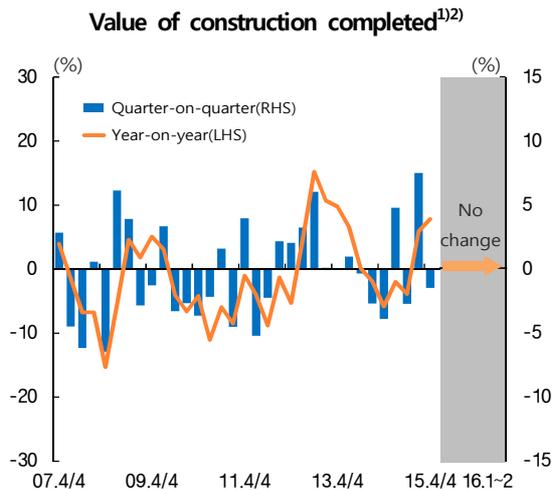
Facilities investment increased slightly in the Seoul Metropolitan region, as companies in semiconductor and display panels sectors constructed new plants or production lines⁸⁾. Facilities investment also grew slightly in the

(No Change in Construction Investment)

Construction investment in January and February 2016 remained at a level similar to that in the fourth quarter of 2015. Construction of residential buildings expanded in most regions, driven by the on-going construction of

8) Samsung Electronics is investing 15.6 trillion won in Pyeongtaek, Gyeonggi Province, for building a semiconductor plant, while LG Display is investing 800 billion won in Paju, Gyeonggi Province, for setting up additional production lines for the 8th generation TV OLED (E4).
 9) GM Korea's Gunsan Plant built lines for production of New Cruze in February 2016.
 10) SK Hynix plans to invest 6 trillion won in migrating its DRAM and 3D NAND processes, while LG Display and Samsung Display are expected to increase their investments in next-generation displays.

new apartments, which increased sharply in 2015. Meanwhile, construction investment in the civil engineering sector subsided somewhat, due to decreased orders from the public sector in line with SOC budget cuts.



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 January and February 2016 compared to the fourth quarter of 2015, based on information obtained from companies and other organizations.
 Sources : Bank of Korea, Statistics Korea

construction of small-scale housing complexes including row houses. In the Seoul Metropolitan region, construction investment maintained its level of the previous quarter, as the construction continued related to the increased numbers seen in 2015 of new orders and of the apartments whose construction was begun. Construction investment in the Chungcheong region remained unchanged as well, as orders for non-residential buildings declined, despite robustness in residential building construction, due to factors such as a rise in the stock of new apartments available for sale last year and launches of construction of pre-sold new apartments. Construction investment in the Daeyeong region was also unchanged, due to the base-period effect from the greatly increased investment last year, despite on-going progress in the development of national industrial complexes, and reconstruction and redevelopment projects. In the Honam region, meanwhile, construction investment decreased slightly, as public sector construction declined with the conclusion of SOC budget disbursement concentrated at the end of 2015, and private sector construction also faltered slightly due to concerns about oversupply.

Construction Investment in January and February, by region¹⁾

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

Note : 1) Marks indicate the direction of the changes compared to the fourth quarter 2015. ▲ refers to a slight increase, ◇, no change, ▼, a slight decrease.

By region, in the Dongnam region, construction investment in residential buildings increased due to buoyant sales of new apartments, and that in non-residential buildings also continued to improve thanks to construction of provincial government buildings and of industrial complexes within the region¹¹⁾. In the Jeju region, construction increased despite a slump in the public sector, driven by the private sector thanks to increased

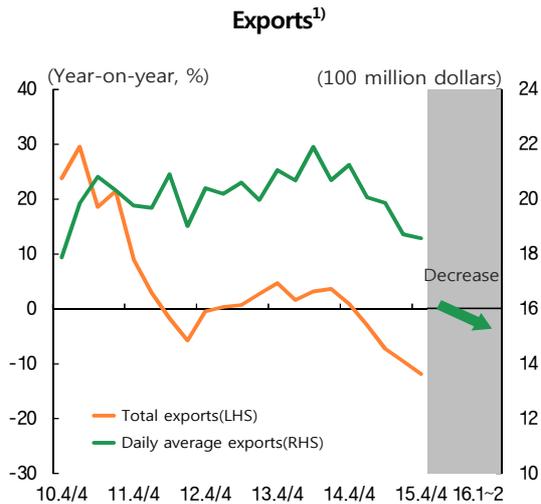
Construction investment is projected to increase going forward, led by residential and non-residential buildings, despite the government’s reduction of its SOC budget¹²⁾. Housing construction is expected to sustain its upward trend, centering around the Seoul Metropolitan and Daeyeong regions. However, concerns about oversupply and a weakening of housing investment sentiment in line with stronger household debt management may work as investment constraints.

11) Investments are currently being made in the new Ulju County Government building, the Techno General Industrial Complex (in Ulsan), and the Aviation Complexes (in Jinju and Sacheon).

12) The government’s SOC budget for this year was trimmed to 23.7 trillion won, from 26.1 trillion won in 2015.

(Decrease in Exports)

Exports declined year-on-year in January and February 2016. By region, exports decreased in all regions excepting the Jeju region.



Notes : 1) The arrow indicates the direction of the changes in the level of exports year-on-year during January and February 2016, based on information obtained from companies and other organizations.

Source : Korea International Trade Association

Exports During January and February, 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 January and February 2016). ▲ refers to a slight increase, ▼, a slight decrease, ▼▼, a decrease.

Exports of Korea’s main export items all declined. Those of semiconductors fell due to declines in prices of DRAM and other memory chips, centering around the Seoul Metropolitan and Chungcheong regions. Exports of display panels in the Seoul Metropolitan, Chungcheong and Daegyeong regions also dropped, affected by fiercer competition in line with increased production by Chinese exporters and the falling prices of LCD panels. Exports of mobile phones in the Seoul Metropolitan and Daegyeong regions showed sluggishness, influenced by intensified competition with Chinese smartphone makers and by a slowdown in demand for mobile phone replacement in

advanced economies.

Exports of automobiles in the Dongnam, Chungcheong and Honam regions decreased due to contractions in demand in EMEs (Middle East and Latin America) and to fiercer competition with global car makers. Auto parts exports in the Daegyeong and Gangwon regions also fell. Exports of oil-refining and petrochemical products in the Dongnam and Honam regions decreased, affected by drops in unit prices in line with the falling international oil prices, and by slumps in demand overseas including China. Iron and steel exports exhibited sluggishness, centering around the Honam and Daegyeong regions, due to slowdowns in overseas demand and to expansions in low-priced product exports from China. Exports of machinery equipment in the Dongnam and Daegyeong regions decreased on the slumps in demand in China and other EMEs and weakened price competitiveness following the depreciation of the Japanese yen. Although exports of shipbuilding expanded in the Honam region on the back of an increased volume of hand-overs, those of shipbuilding decreased overall as those in the Dongnam region declined due to a drop in the volume of hand-overs of high value-added vessels such as offshore plants.

Going forward exports are expected to continue their trend of decline for some time, owing primarily to reduced demand stemming from the slowdowns in China and other main export destination countries, as well as to fiercer global competition.

Exports of display panels are expected to decrease due to falling demand for LCD panels, and those of semiconductors are projected to drop as well owing to unit price declines. Oil-refining and petrochemical product exports are projected to shrink mainly in the Dongnam and Honam regions, as their prices continue to fall due to the low oil prices. Exports of iron

and steel are likely to decline in the Dongnam and Daegyeong regions, due to slowing global demand and to intensified price competition. The trend of recovery in shipbuilding exports is expected to be weak, affected by sluggishness in exports of offshore plants.

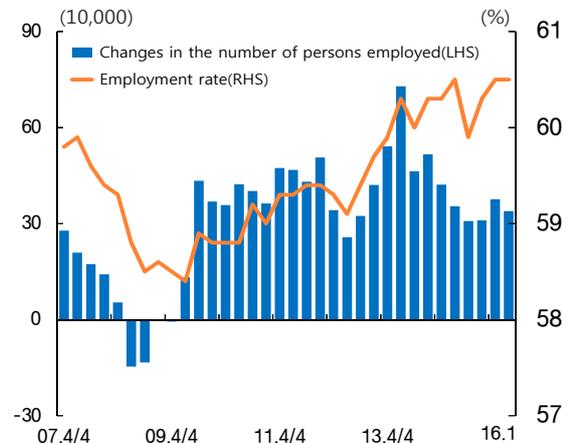
Exports of automobiles are projected to increase somewhat, however, thanks to recoveries in the European and US markets. Auto parts exports are also likely to increase, with growing supplies of parts in line with increased exports of finished vehicles and with completion of vehicle manufacturing plants overseas¹³⁾.

Employment: Smaller Growth in the Number of Persons Employed

The number of persons employed showed an increase of 340,000 year-on-year in January 2016. The extent of increase narrowed compared to the fourth quarter of 2015 (monthly average +380,000 persons). The extent of increase in manufacturing sector employment narrowed relative to the previous quarter (+180,000 → +150,000 persons), as did that employment in the services industry (+300,000 → +260,000 persons), centering around the business, individual and public services, the wholesale and retail, and the food and accommodation services.

By region, the extent of increase in the numbers of persons employed in the Seoul Metropolitan, Daegyeong and Gangwon regions expanded, while that in the Dongnam, Chungcheong and Honam regions narrowed. The employment and unemployment rates (seasonally adjusted) stood at 60.5% and 3.5% respectively, levels similar to those in the fourth quarter of 2015.

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 are expected to gradually improve going forward, thanks to the government’s job creation policies and to the trend of modest economic recovery, although companies will likely be somewhat inactive in recruiting new employees due to the growing uncertainties as to future economic conditions. By sector, the growth of the number of persons employed in the manufacturing sector is forecast to slow slightly, owing to reduced employment creation capacities in shipbuilding and other sluggish industries, while service sector employment is expected to rise thanks to a gradual recovery of domestic demand.

By region, service businesses including retail and venture companies in the Chungcheong region¹⁴⁾ were found to be planning employment expansions. The number of persons employed in the Jeju region is also expected to rise, centering around the construction and the tourism-related services sectors.

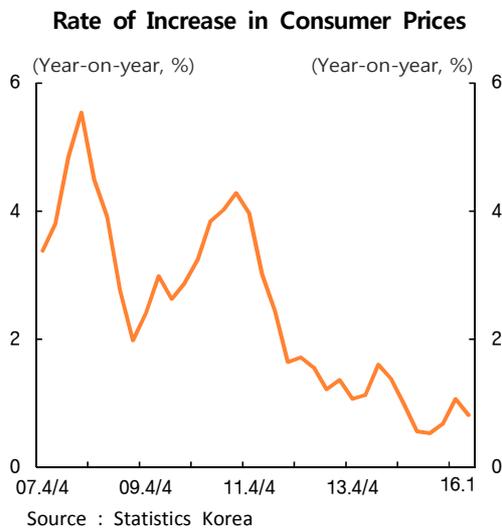
13) Hyundai-Kia Motor Group plans to begin operating its new plant in Mexico (Nuevo Leon) from May 2016, and that in China (Changzhou) in the second half of 2016.

14) In the Chungcheong region, the number of venture companies rose from 2,857 at the end of 2014 to 3,045 in October 2015.

Consumer Prices and Housing Prices

(Slower Rise in Consumer Prices)

Consumer prices rose 0.8% year-on-year in January 2016, slightly down from that in the fourth quarter of 2015 (monthly average +1.1%). This is attributable largely to the disappearance of the effects of the cigarette price hike in 2015¹⁵⁾, as well as to declines in petroleum product prices and in public utility charges. By region, consumer prices rose by the lower-1% range in the Seoul Metropolitan region, while other regions saw lower growth rates of below 1%.



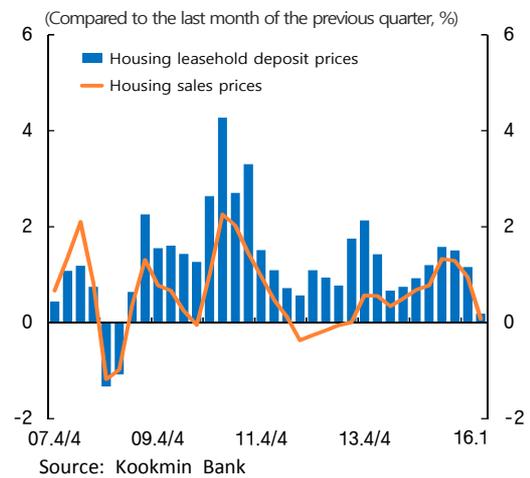
Going forward, consumer price inflation is expected to remain low, affected by the fall in international oil prices. However, there are two factors that are expected to push future consumer prices up: hikes in water and sewage rates and transportation fees by some local governments¹⁶⁾, and increases in the prices of agricultural and livestock products resulting

from reductions in areas under cultivation and in numbers of livestock raised on farms.

(Slowing Paces of Rise in Housing Sales and Housing Leasehold Deposit Prices)

Housing sales and leasehold deposit prices rose by 0.1% and 0.2% month-on-month respectively in January 2016, showing a slowdown in their uptrends compared to the fourth quarter of 2015 (monthly average 0.3% and 0.4% rates of rise).

Housing sales and leasehold deposit prices



The trends of housing sales price increase slowed in most regions, due to a weakening of purchase sentiment. In the Daegyeong region, housing sales prices fell for the first time since July 2010, on rising housing supply¹⁷⁾ and counter-reactions after the considerable jump in housing sales prices to this time. In the Jeju region, housing sales prices sustained their upward trend as demand for investment purposes continued.¹⁸⁾ Meanwhile, shortages in the supply of housing for leasehold deposit rental persisted, in line with landlords'

15) The extent of rise in consumer prices narrowed as the effect of the cigarette price hike (2,000 won), implemented from January 2015, disappeared.

16) Daejeon Metropolitan City raised its water and sewage rates by 8.6% and 9.8% respectively from January 2016. Local governments in the Gyeongbuk region are expected to hike their city bus and express city bus fares by 100 won and 200 won respectively, in 2016.

17) In the Daegu region, it is estimated that 9,000 new apartments were sold in 2014 and 15,000 in 2015, with sales expected to total 26,000 units in 2016.

18) Purchases of housing by non-residents grew by 54.2% (year-on-year) in 2015, and by 3.9% in January 2016 as well.

preferences for monthly rentals and with demand from tenants migrating from housing being reconstructed.

Going forward, the upward trend in housing sales prices is projected to be slow, due to implementation of the government’s ‘Guidelines on Banks’ Mortgage Loan Screening’ and to an increase in the housing supply.¹⁹⁾ Housing leasehold deposit prices are forecast to maintain their upward trend, centering around the Seoul Metropolitan region, owing to landlords’ continued preference for monthly rentals and to demand related to migration from housing being rebuilt. The extent of increase could be narrow, however, owing to increases in housing supply and to shifts from demand for house lease holdings to that for housing ownership. Housing sales and leasehold deposit prices in the Jeju region are foreseen to continue their upward trends, in line with the persistence of excess housing demand.²⁰⁾

Financial Conditions: Lending Attitudes of Financial Institutions Slightly Tightened

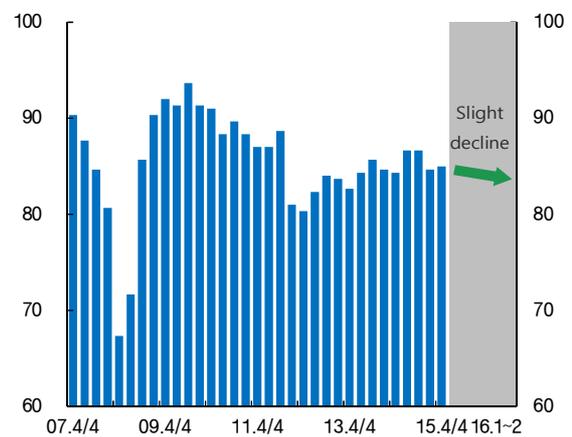
During January and February 2016, financial institutions in most regions were found to have tightened their lending attitudes somewhat, especially to households. Financial institutions tightened their lending attitudes toward households, through strengthening their screening of borrowers’ repayment capacities and requiring borrowers to pay back installments. Lending attitudes toward corporations were also tightened in most regions, as financial institutions strengthened their credit risk management amid the growing uncertainties surrounding economic conditions.

With implementation of the government’s

‘Guidelines on Banks’ Mortgage Loan Screening’, lending attitudes toward households are expected to be tightened further. Financial institutions are also anticipated to take more cautious approaches in their corporate lending with strengthening their risk management.

Corporate funding conditions were meanwhile found to have worsened slightly in most regions in January and February 2016, amid slumps in manufacturing sector production and exports and somewhat tighter lending attitudes of financial institutions.

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 January and February 2016, based on information obtained from companies and other organizations.

Source : Bank of Korea

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19) The housing supply is expected to show an upward trend : 266,000 in 2015 → 269,000 in 2016 → 338,000 in 2017.

20) In January 2015, the housing sales, supply and demand trends index in the Jeju region recorded an all-time high of 152.4 (compared to the 99.8 figure nationwide) (Korea Appraisal Board).