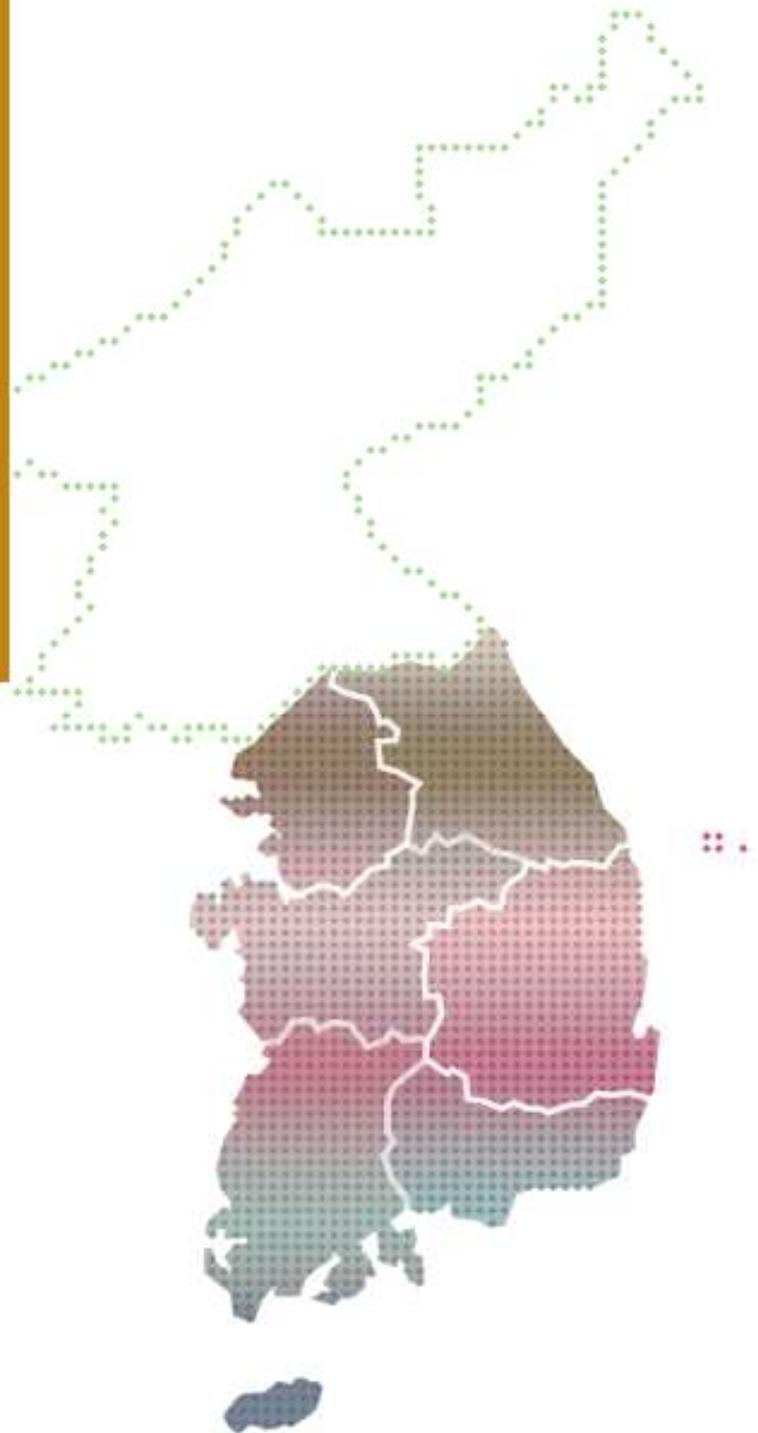


BOK Regional Economic Report

(Executive Summary)

First Issue
Summer 2013



THE BANK OF KOREA

This report, a condensed English version of BOK Regional Economic Report published in Korean, is compiled based on information gathered by the sixteen regional branches of the Bank of Korea from companies and other organizations within their regions between late July and mid-August. It provides basic information for assessing current regional economic conditions. The contents of this report may not necessarily coincide with the official statistics to be released later by the Bank of Korea.

Executive Summary

◇ **Overview** : Information collected by the sixteen regional branches of the Bank of Korea from companies and other organizations within their regions between late July and mid-August indicated that national economic activity increased slightly during July and August compared to the previous quarter, sustaining its trend of moderate recovery evident since the fourth quarter of last year. By region, the economies of the Seoul metropolitan, Chungcheong, Gangwon and Jeju regions were found to show moderate growth, while those of the Dongnam, Daegyeong and Honam regions either showed only a weak recovery or remained sluggish.

◇ **Production** : Manufacturing production during July and August was found to have risen slightly compared to the second quarter, centering around the Seoul metropolitan and Chungcheong regions where the IT industry has a relatively high weight. Services production, however, showed either a weak or sluggish recovery in most regions except for Jeju and Gangwon regions.

◇ **Demand** : During July and August, exports were seen to have grown at a faster pace and facilities investment also increased slightly compared to the second quarter. Private consumption, however, remained at the level recorded in the second quarter, and the trend of improvement in construction investment since the fourth quarter of last year faltered in most regions due mainly to a decline in orders from the public sector following the front-loading of budget expenditures in the first half of this year.

◇ **Employment** : As for the employment situations, it presented a favorable picture in July with the number of persons employed maintaining robust growth in most regions except for the Daegyeong and Gangwon regions. The results of monitoring showed that, although the number of persons employed is likely to increase steadily going forward, bolstered by the government's job creation schemes, the pace of increase is expected to be limited as manufacturers are reluctant to hire new employees due to the persistent uncertainties at home and abroad.

◇ **Consumer Prices and Housing Prices** : Consumer prices showed an increase of around or a little below 1½% in July in most regions except for the Jeju region where eating-out expenses rose. Housing prices either flattened out or showed a decline in most regions.

◇ **Financial Conditions** : Corporate financial conditions improved somewhat compared to the second quarter and financial institutions showed more accommodative lending attitudes in all regions, influenced largely both by the expansion of financial support for SMEs by the Bank of Korea and the government, and by financial institutions' efforts to build up their market share.

A Summary of Potential Risk Factors

◇ Slowdown in China's Economic Growth

Most companies reported that the slowdown in China's economic growth would have a negative impact on Korea's exports. Industries particularly likely to be affected by a slowdown in Chinese economic growth are those whose weight of China-bound exports is high such as the petrochemical industry and iron & steel industry. As a result, a slowdown in the growth momentum of the Chinese economy was found to have a possible negative impact on the regional economy in the Daegyeong, Chungcheong and Honam regions.

◇ The Likelihood of Quantitative Easing (QE) Tapering by the US Federal Reserve

The recovery in the U.S. economy was found to be having a positive influence on exports mainly from the Seoul metropolitan region, centering around the IT industry. However, as concerns were raised over the likelihood of QE tapering by the US Federal Reserve, external uncertainties were found to have a negative impact on corporations' plans for facilities investment.

◇ The Japanese Yen Weakening

The negative impact of the weakening of the yen on regional economies have so far been limited to only some industries such as tourism and fishing. The Seoul metropolitan and Dongnam regions have been relatively severely affected by the weakening yen due to a decrease in the number of Japanese tourists, and the Jeju region has been hit by sluggish exports of fisheries products.

◇ Power Shortage

Due to shortage of electricity generating capacity, some iron & steel producers changed the facilities maintenance period to August when the volume of electricity consumption nationwide is very high. And some hotels and other accommodation facilities had difficulties owing to government restrictions on minimum indoor temperatures. Nevertheless, overall, the negative impacts on regional economy have been limited.

A Summary of Major Industry Trends

◇ Information Technology (IT) Industry

The IT industry remained favorable centering around semiconductors, mobile phones and lighting-emitting diode (LED) lighting in the Seoul metropolitan region, and on semiconductors and small- and medium-sized display panels in the Chungcheong region.

◇ Automobile Industry

The automobile industry showed a recovery in the Seoul metropolitan and Dongnam regions, boosted by production's return to normal following the agreement reached between the labor and the management on additional weekend work, the launch of new models and increasing exports, but the industry was sluggish in the Honam region due to strikes resulting from labor-management disputes. Automobile manufacturers are concerned that additional disputes could lead to a strike in the coming months.

◇ Petrochemical Industry

The petrochemical industry was somewhat sluggish in the Seoul metropolitan, Dongnam and Chungcheong regions, affected by the slowdown in growth of the Chinese economy.

◇ Iron & Steel Industry

The iron & steel industry was subdued in most regions including the Daegyeong, Chungcheong and Honam regions, due mainly to global overcapacity resulting from China's expansion of output.

◇ Shipbuilding Industry

The shipbuilding industry showed a recovery in the Dongnam region centering around higher value-added vessels such as large container ships and liquefied natural gas (LNG) carriers, but remained sluggish in the Honam region, where small- and medium-sized shipbuilders are in the majority, due mainly to the decreased amount of work following the shortening of order books for merchant ships. Some shipbuilders, however, expected their business to improve gradually, driven by increasing demand from buyers looking for bargain hunting opportunities ahead of the gradual easing of the euro zone recession.

Overall Summary

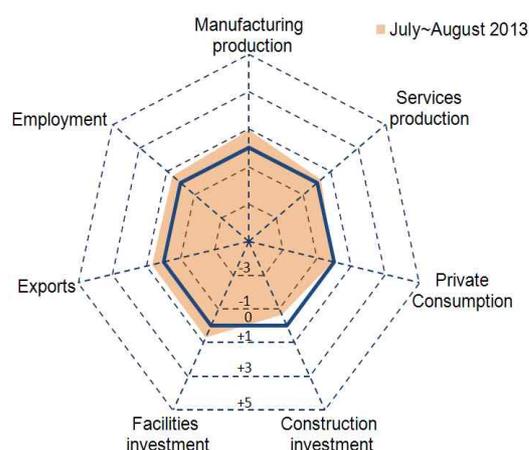
Overview

According to information gathered by the sixteen regional branches of the Bank of Korea from companies and other organizations, the Korean economy grew slightly during July and August compared to the previous quarter, and has continued moderate economic growth since the fourth quarter of last year.

By region, the Seoul metropolitan, Chungcheong, Gangwon and Jeju regions exhibited a moderate economic growth, while the Dongnam, Daegyeong and Honam regions showed only a weak recovery or remained sluggish. In terms of production, manufacturing production increased slightly, but services production showed only a weak recovery. In terms of demand, export growth accelerated from the second quarter and facilities investment also grew slightly. Private consumption, however, remained at the level recorded in the second quarter, and the improving trends in construction investment since the fourth quarter of last year showed signs of faltering.

As for the employment situations, it showed favorable movements, with the number of persons employed exhibiting robust growth, and the consumer price inflation stood at around the 1½ percent level, slightly higher than in the second quarter (1.1%). Housing prices declined in the Seoul metropolitan region and remained flat elsewhere apart from the Daegyeong and Chungcheong regions. Corporate financial conditions improved somewhat compared to the second quarter, and financial institutions' lending attitude eased in most regions.

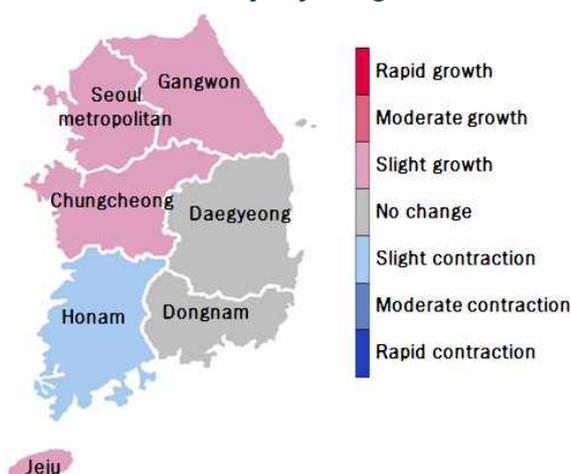
Economic Conditions Radar Chart¹⁾



Note : 1) Scores representing a change in the level of each sector during July and August compared with the previous quarter 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, 0 denotes an unchanged level, and a score of +3 represents the average rate of growth over previous years.

Source : Bank of Korea

Economic Activity by Region



Cities and Provinces Included in Each Region

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

Production

Manufacturing production increased slightly from the second quarter during July and August. Production of IT products, including mobile phones, small-and medium-sized panels, semiconductor and LEDs was favorable despite a slowdown in growth of the Chinese economy. The shipbuilding industry grew centering around higher value-added vessels. Meanwhile, production in iron & steel industry was subdued since businesses voluntarily chose to carry out facilities maintenance in response to a shortage of electricity generating capacity, which came on top of continued global overcapacity. The automobile industry also experienced setbacks to production due to strikes triggered by labor-management disputes. By region, manufacturing production showed a modest recovery in the Seoul metropolitan and Chungcheong regions with their higher shares of IT industry, while declining in the Dongnam, Daegyeong, Honam and Gangwon regions.

Manufacturing Production¹⁾²⁾



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

2) An arrow indicates the direction of the changes in the level of manufacturing production during July and August compared to the second quarter, and it is based on information obtained from companies and other organizations.

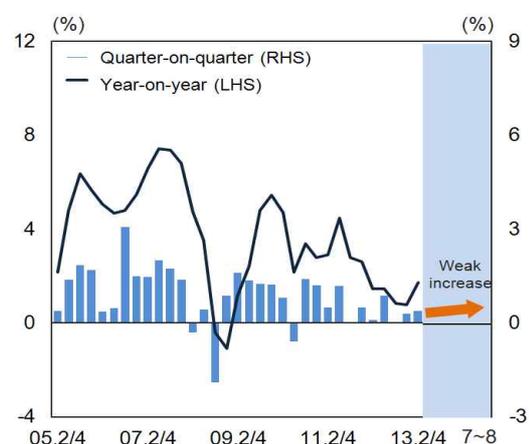
Sources: Bank of Korea, Statistics Korea

The monitoring results suggested manufacturing production is expected to increase gradually centering around the IT sector, boosted by the the recovery of the U.S. and Japanese economies.

However, a number of businesses were concerned about the possible slowdown in Chinese economic growth; petrochemical and iron & steel companies, in particular, expected that they would be relatively hard hit by a slowdown in China's economic growth.

Services production during July and August only slightly exceeded the level of the second quarter. It continued to improve in Jeju region led by the gradual increase in local and Chinese tourists, but showed a weak recovery in the Seoul metropolitan, Chungcheong and Daegyeong regions and was sluggish in the Dongnam and Honam regions.

Services Production¹⁾²⁾



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

2) An arrow indicates the direction of the changes in the level of services production during July and August compared to the second quarter, and it is based on information obtained from companies and other organizations.

Sources: Bank of Korea, Statistics Korea

In terms of major sectors, leisure-related service sectors such as tourism and accommodations picked up, boosted mainly by the increased demand for leisure activities from Chinese tourists and local residents, which acted to offset a decrease in the number of Japanese tourists due to the weakening of the yen. However, the degree of improvement was not substantial due to the longer-than-usual rainy season. Professional, scientific and technology service sectors were also favorable owing largely to the increased construction and landscaping, resulting mainly from the relocation of public agencies and the implementation of

regional projects. However, the wholesale and retail sector and the real estate and rental sector were lackluster, affected respectively by consumption and a drop in housing transactions in line with the ending of exemption from acquisition tax. The transportation sector also showed a sharp drop in the number of persons using public transportation in most regions excluding the Seoul metropolitan region due to the prolonged rainy season.

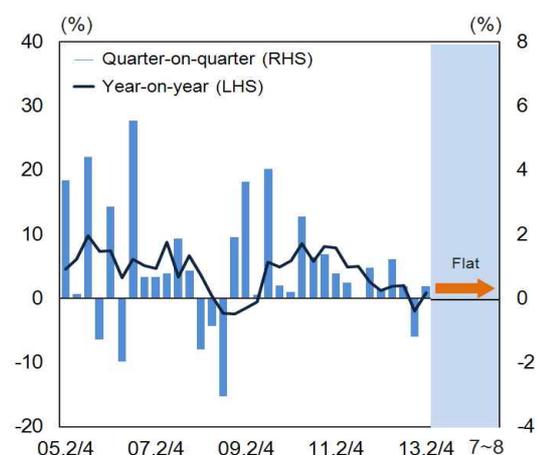
Most companies did not expect their business to improve rapidly in the coming months due to factors restricting household consumption such as the household debt overhang and rising household leasehold deposit prices. Moreover, those engaged in leisure services such as resorts were concerned that production might be limited largely by government restrictions on indoor temperatures due to power shortages. However, business performance in the Jeju region was thought likely to pick up with the number of tourists increasing, those from China in particular.

Demand

As for private consumption, sales at both large retail stores and small-scale retail shops during July and August remained at the level of the second quarter. Sales were buoyant for home appliances for summer use such as air conditioners and dehumidifiers and for seasonal items such as goods for vacation related products and picnic items, while sales of other products were sluggish. By region, sales improved somewhat in the Dongnam and Chungcheong, Daegyong, Gangwon and Jeju regions, while decreasing slightly in the Seoul metropolitan and Honam regions.

Meanwhile, the CSI of future consumption expenditures fell below the level of the second quarter in a considerable number of regions, suggesting that there is unlikely to be a return to the trend of improvement in private consumption for the time being.

Retail Sales¹⁾²⁾



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

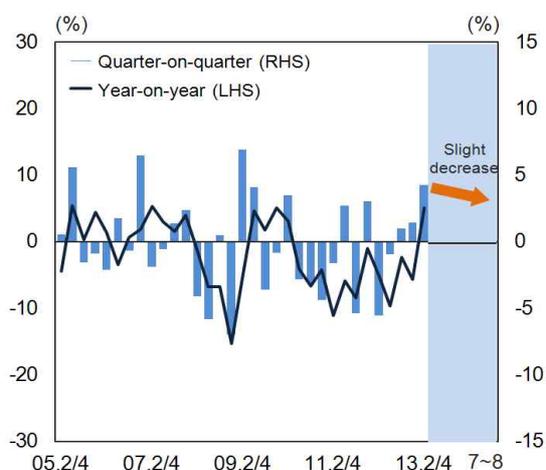
2) An arrow indicates the direction of the changes in the level of private consumption during July and August compared to the second quarter, and it is based on information obtained from companies and other organizations.

Sources: Bank of Korea, Statistics Korea

Construction investment during July and August declined slightly compared to the second quarter. Amid lackluster demand for housing transactions, most companies managed to keep business ticking over based on project orders previously received, with orders from the public sector declining due to the front loading of budget spending in the first half of this year.

There is unlikely to be a shift to a trend of improvement in construction investment, as the housing construction market remains mired in the doldrums due mainly to the delayed recovery of demand for housing purchases even as orders from the public sector continue to decline. However, with large-scale regional projects such as a national industrial complex and an innovative city underway, there are strong expectations of a gradual improvement in the construction market in the Daegyong region.

Value of Construction Completed at Constant Prices¹⁾²⁾



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

2) An arrow indicates the direction of the changes in the level of construction investment during July and August compared to the second quarter, and it is based on information obtained from companies and other organizations.

Source : the Bank of Korea, Statistics Korea

Facilities investment during July and August was found to have increased slightly centering around the IT industry, compared to the second quarter. Large-scale facilities investment by semiconductor, display and petrochemical producers was underway in the Seoul metropolitan region, and facilities investment by some large-size resort companies increased in the Gangwon region.

The results of interviews showed that semiconductor firms were planning to increase new investment in the second half of this year due to sustained favorable business conditions and some shipbuilders and petrochemical companies were planning on new investment for business diversification. A considerable number of companies, however, were found to carry out investment merely for facilities maintenance and to still take a passive attitude toward new investment due to the sustained external uncertainties including the likelihood of QE tapering by the US Federal Reserve.

Facilities Investment¹⁾²⁾



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

2) An arrow indicates the direction of the changes in the level of facilities investment during July and August compared to the second quarter, and it is based on information obtained from companies and other organizations.

Source : the Bank of Korea, Statistics Korea

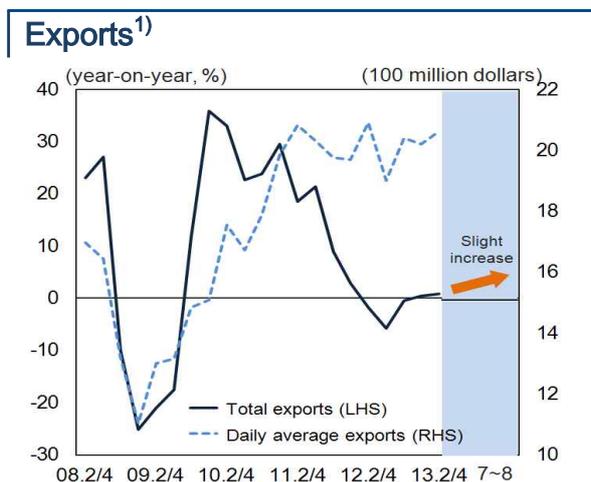
Exports were found to have sustained an improving trend during July and August, as in the second quarter, despite the weakness of the Japanese yen and the deceleration of economic growth in China. Exports of IT products including mobile phones and semiconductors showed a favorable performance, helped by the launch of new smart-phone products and increased demand for mobile semiconductors. The recovery of those of iron & steel, machinery equipment and textiles were found to be held back due mainly to fiercer competition with China. Meanwhile, the influence of the weakening of the yen on exports was not found to be great. However, exports of food & beverages and fisheries products, whose weight of exports to Japan is high, declined in the Gangwon and Jeju regions due to the yen's weakness.

The results of interviews showed that exports of IT products and automobiles, two major export items, are predicted to show favorable performance due mainly to economic recovery in the U.S. and Japan. Ship exports are also expected to improve gradually with increasing

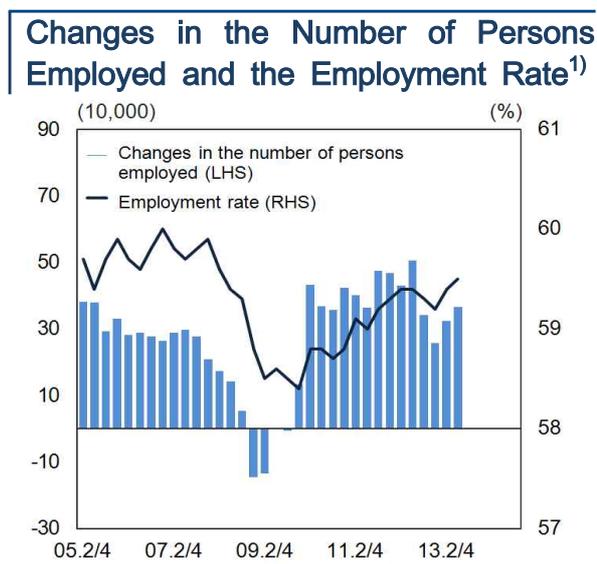
demand to take advantage of current low prices of ship building orders at a time when the economic slowdown in the euro area is easing. Iron & steel exports, however, are likely to show lackluster performance for the time being owing primarily to the weakening of the yen and to the Chinese low price offensive. In addition, most companies answered that it was slower growth in China, rather than the weakness of the yen, that would have a greater influence on exports.

employment rate (S.A.) stood at 59.5% in July, up slightly from the second quarter.

The number of persons employed is expected to increase steadily going forward, helped for instance by government job creation schemes. The results of monitoring, however, showed that the pace of increase in the number of persons employed would be limited since the lingering uncertainties at home and abroad acts as a factor discouraging the hiring of new employees in the manufacturing sector.



Note: 1) An arrow indicates the direction of the changes in the level of exports during July and August compared to the second quarter, and it is based on information obtained from companies and other organizations.
 Source : the Bank of Korea, the Korea International Trade Association



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

Employment

The number of persons employed in July showed an increase of 370,000 persons year-on-year, growing faster than in the second quarter. By sector, the number increased particularly in the service sector such as health care and social welfare services. By region, while that in the Seoul metropolitan region grew at a much faster pace, those in the Dongnam, Chungcheong, Honam and Jeju regions increased as well. Meanwhile, the number of persons employed in the Gangwon region in July remained at the level of the same month of the previous year, while that in the Daegyeong region declined by 30,000 persons, centering on manual jobs. The nationwide

Consumer Prices and Housing Prices

Consumer prices rose 1.4% year-on-year in July and their pace of increase accelerated slightly compared to the second quarter. This is mainly attributable to the fact that the prices of agricultural products and petroleum products turned upward, affected by the deterioration in weather conditions and the rebound of international oil prices. By region, consumer prices in the Jeju region showed a relatively sharp increase of 1.9%, while those in the Gangwon region marked a low rate of increase of below 1%. Consumer prices rose at rates ranging between 1% and 1½% elsewhere.

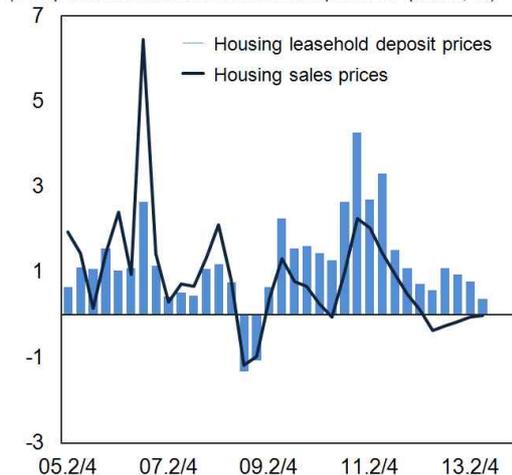
Housing sales prices remained flat overall in July, but they differed across regions. Housing sales prices in the Seoul metropolitan region continued to decline, while those in the Dongnam, Honam, Gangwon and Jeju regions remained generally steady. Those in the Daegyeong region continued to rise due to an increase in demand for housing units arising from the relocation of public organizations and industrial estates, and those in the Chungcheong region also maintained an upward trend particularly in Sejong City.

corporations in the Seoul metropolitan region, however, were found to be generally similar to those in the second quarter.

Lending attitudes of financial institutions, centering around small-and medium-sized enterprises (SMEs), eased in all regions. In the future, financial institutions are expected to maintain their accommodative lending attitudes overall as well, backed by the government's effort to expand financial support for SMEs.

Housing Sales Prices and Housing Leasehold Deposit Prices

(Compared with the last month of the previous quarter, %)



Source : Kookmin Bank

Housing leasehold deposit prices rose at a faster pace particularly in the Seoul metropolitan region. While housing leasehold deposit prices in the Daegyeong and Chungcheong regions sustained their relatively high rise, those in other regions apart from the Gangwon region also rose slightly.

Financial Conditions

Corporate financial conditions during July and August seem to have improved somewhat compared to the second quarter. Corporate financial conditions were found to have improved in most regions. Financial conditions of

BSI on Financial Situation¹⁾



Note: 1) An arrow indicates the direction of the changes in the level of corporate financial conditions during July and August compared to the second quarter, and it is based on information obtained from companies and other organizations.

Source: the Bank of Korea

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