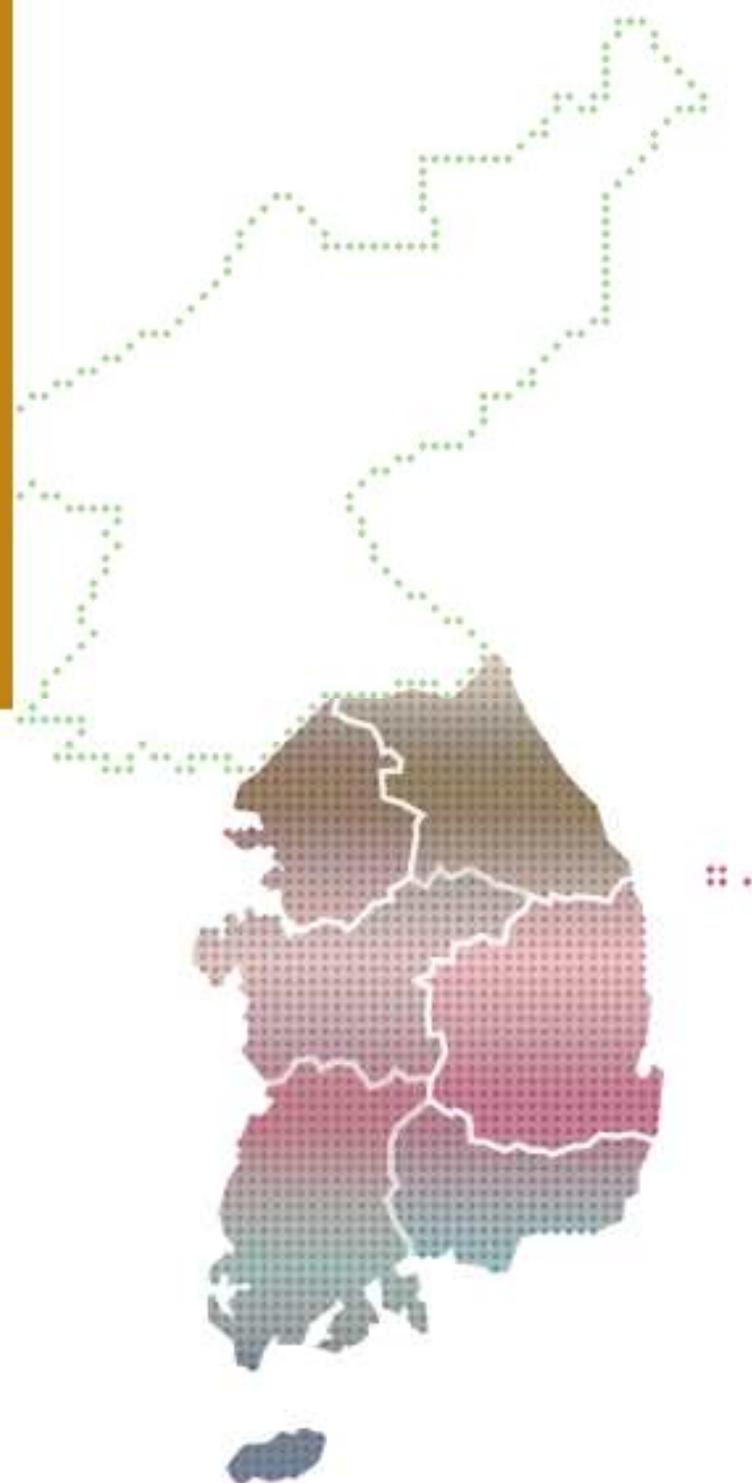


BOK Regional Economic Report

(Executive Summary)

Fall 2013



THE BANK OF KOREA

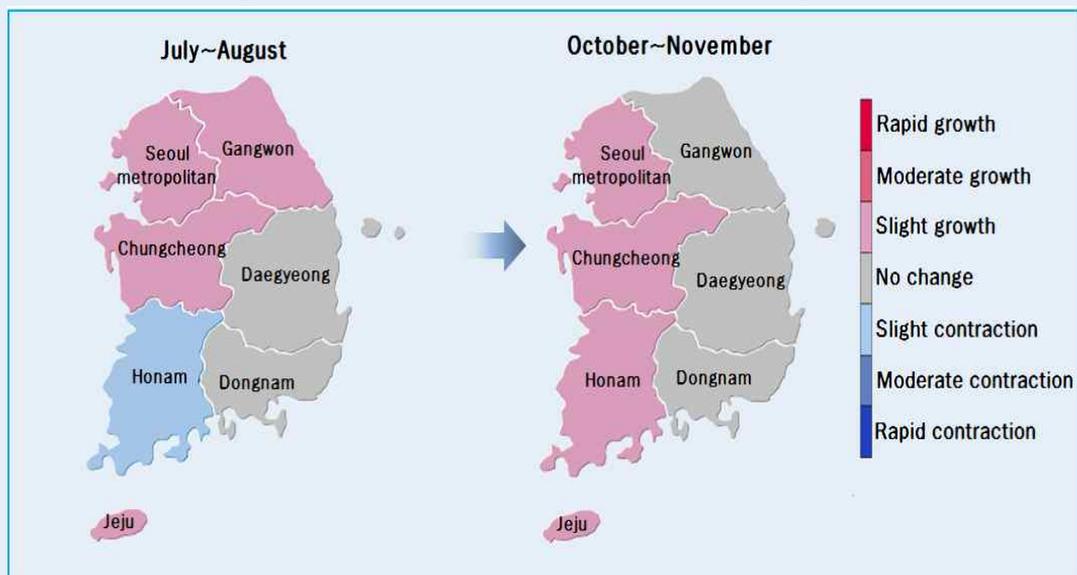
This report, a condensed English version of 'BOK Regional Economic Report' published in Korean, is compiled based on information gathered by the sixteen regional branches of the Bank of Korea from companies and other organizations within their regions between late October and mid-November. It provides 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 indicated that national economic activity increased slightly during October and November compared to the third quarter, sustaining its trend of recovery evident since the fourth quarter of last year.

By region, the economies of the Seoul Metropolitan, Chungcheong, Honam and Jeju regions were found to show slight growth, while the economic recovery of the Gangwon region slowed and the economies of Dongnam and Daegyeong regions remained sluggish.

< Regional Economic Conditions Snapshot >



◇ **Production** : Manufacturing production during October and November was found to have risen slightly compared to the third quarter, centering around the information technology (IT), automobile and shipbuilding industries. By region, manufacturing production in all regions exceeded the levels seen in the third quarter. The increase was on a much larger scale, relatively, in the Seoul Metropolitan and Chungcheong regions where the IT industry has a high weight. Services production also picked up slightly, led by the Seoul Metropolitan, Chungcheong and Jeju regions.

◇ **Demand** : Exports were found to have improved during October and November in all regions except for the Gangwon and Jeju regions.¹⁾ Private consumption during October and November also improved slightly in most regions other than the Dongnam and Daegyeong regions. Facilities investment was somewhat higher than its level of the third quarter, backed by IT and automobile sector investments in the Seoul Metropolitan and Chungcheong regions. However, construction investment declined in most regions except for the Daegyeong and Chungcheong regions.

◇ **Employment** : The number of persons employed sustained its robust growth in October, supported by the government's job creation policy. By region, it continued to increase in most regions, particularly in the Seoul Metropolitan and Chungcheong regions. However, the number of persons employed in October remained at the same level with a year earlier in the Daegyeong region, while it declined for the second straight month in the Gangwon region. Going forward, the number of persons employed is expected to increase steadily, mainly in the public sector, but its growth in manufacturing and construction will be limited in some regions.

◇ **Consumer Prices and Housing Prices** : Consumer price inflation fell below 1% in October, owing to the decline in agricultural, livestock and marine products prices and the stability of international oil prices. House sales prices rose slightly, affected by the government's August measure²⁾ to stabilize the housing leasehold deposit and monthly rental markets. While housing leasehold deposit prices maintained a rapid upward trend in the Seoul Metropolitan area, other regions, mainly the Chungcheong and Daegyeong regions, also saw greater price increases.

◇ **Financial Conditions** : Corporate financial conditions during October and November were found to have improved somewhat compared to the third quarter in most regions. Lending attitudes of financial institutions were found to remain accommodative in most regions with a focus on small and medium-sized enterprises (SMEs) lending, backed by the Bank of Korea and government policies of financial support for SMEs.

1) Exports of medical devices and marine products declined sharply in the Gangwon and Jeju regions, respectively.

2) The Korean government introduced a package of measures to stabilize the housing leasehold deposits and monthly rental markets to ease housing cost burden for the less well-off (August 28, 2013). Key contents of the measures include encouraging a shift of demand for housing leasehold to that for housing purchases and increasing the supply of rental housing.

A Summary of Major Economic Issues

- ◇ **Slowdown in the economic growth of China and Southeast Asia** : The slowdown of growth in China, Southeast Asia and other emerging countries was found to have had a negative impact on the production of the petrochemical (Dongnam and Honam regions), petroleum-refining (Seoul Metropolitan and Dongnam regions), and textile (Daegyeong region) products. Export manufacturers in most regions were worried about the possibility of a slowdown in the growth momentum of emerging countries going forward.
- ◇ **Strong Korean Won** : In view of the strong tone of the Korean won even as competition with Japanese firms intensified due to the weakening of the yen, there were concerns about the decline in the price competitiveness and aggravation of profitability of exporters in the Honam, Daegyeong and Gangwon regions. Companies in the Chungcheong region reported, however, that their exports were not very much affected by the won strengthening.
- ◇ **Insolvencies of Some Large Corporations** : Despite the recent insolvencies of some large corporations, financial institutions' lending attitudes were found to remain accommodative. In the Seoul Metropolitan, Chungcheong and Honam regions, however, they were more cautious in their lending to large corporations and construction firms.
- ◇ **The Government's Measures Related to Housing Leasehold Deposits and Monthly Rents** : After the government's measures to stabilize housing leasehold deposit and monthly rental markets on August 28th, housing prices turned upward as part of the demand for housing leasehold shifted to that for housing purchases, but the housing leasehold deposit prices were found to have continued to rise.
- ◇ **Decline in the Number of Chinese Tourists** : At a time when the number of Japanese tourists shrank due to the Japanese yen weakening, the number of Chinese tourists also dropped in the Seoul Metropolitan, Dongnam, Daegyeong and Jeju regions upon the entry into the force of China's 'National Tourism Act'³⁾ in early October, having a negative impact on the tourism industries in these regions.

3) Since October this year, the Chinese government has implemented the 'National Tourism Act' (entry into force in April 2013) preventing forced shopping trips and extra tour fees for overseas tour groups in order to protect their rights and establish orderly tourism markets. As a result, the prices in China for overseas tour packages went up, leading to a sharp fall in the number of Chinese tourists in Korea.

A Summary of Major Industry Trends

◇ **IT Industry** : The IT industry remained favorable as the production of mobile phones rose in the Seoul Metropolitan and Chungcheong regions, due to the rollout of new models, and the that of semiconductors also increased, driven largely by wireless communication semiconductors. Meanwhile, the production of display panels and especially of large-size panels, declined owing to the lackluster demand of TVs.

◇ **Automobile Industry** : The production of the automobile industry surged in the Seoul Metropolitan, Dongnam, Chungcheong and Honam regions, thanks to production's return to normal following the end of strike action⁴⁾ in connection with wage negotiations and the resumption of the additional weekend working, as well as the launch of new models and buoyant exports.

◇ **Petrochemical Industry** : The petrochemical industry was somewhat sluggish in most regions, affected by the rise in the Chinese self-sufficiency ratio in petrochemical products and declining demand from Southeast Asia.

◇ **Iron & Steel Industry** : Iron & steel production expanded on the back of the entry into operation of large-scale new facilities of several companies in the Chungcheong and Honam regions and the repair of fire-ravaged production facilities.⁵⁾ In the Daegyeong region, however, companies reported lackluster production due to the expansion in imports of low-priced steel materials from China.

◇ **Shipbuilding Industry** : Conditions for the shipbuilding industry were improving as the favorable trend was sustained, boosted mostly by high value-added ships in the Dongnam region and to the increases in the orders booked for bulker and container ships in the Honam region, where businesses had been deeply subdued for some time.

4) Production returned to normal, after wage negotiations of Hyundai and Kia Motors were concluded on September 12 and 14, respectively.

5) Hyundai Steel operated its third blast furnace with an annual capacity of 400 million tons on September 13, and normal operation was restored in October after the repair of fire-damaged production facilities at POSCO Gwangyang steel mill.

Overall Summary

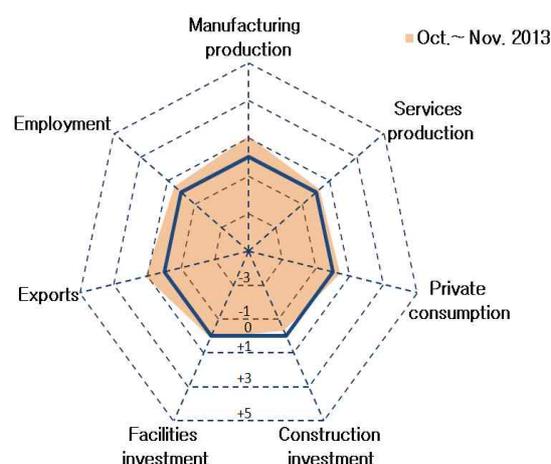
Overview

According to information gathered by the sixteen regional branches of the Bank of Korea from companies and other organizations, the Korean economy⁸⁾ grew slightly during October and November compared to the third quarter, sustaining its trend of recovery evident since the fourth quarter of last year. By region, the economies of the Seoul Metropolitan, Chungcheong, Honam and Jeju regions were found to show slight growth, while the economic recovery of the Gangwon region slowed and the economies of Dongnam and Daegyeong regions remained sluggish. On the production side, manufacturing production showed improvement, and services production increased slightly. In terms of demand, exports continued to grow, while private consumption and facilities investment increased to a modest extent. However, construction investment contracted. As for the employment situation, it showed a favorable trend of increase, with the number of persons employed in October exceeding the long-term trend, on the back of the government's job creation schemes. Going forward, the number of persons employed is expected to grow at a steady pace, led by the public sector. Consumer price inflation was running below the 1 percent level, slightly lower than in the third quarter, with the help of the drop in agricultural, livestock and marine products prices and the stability of international oil prices.

Housing sales prices went up slightly due to the government measure to stabilize the housing leasehold deposit and monthly rental markets. Housing leasehold deposit prices continued their upward trend in the Seoul Metropolitan region, while those in the rest of the country increased substantially led by the Chungcheong and Daegyeong regions.

8) Economic conditions in this report are assessed in terms of 'how much economic activity (manufacturing production, services production and private consumption, etc.) has changed within the region.' Therefore, it should be noted that the economic conditions in this report may differ from the business survey index (BSI), which indicates the simple average of the business conditions perceived by individual companies.

Economic Conditions Radar Chart¹⁾



Note : 1) Scores representing a change in the level of each sector during October and November compared with the third 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



Corporate financial conditions remained the same as in the third quarter or improved modestly in most regions. Financial institutions' lending attitude remained accommodative in most regions, thanks to the expansion of financial support for SMEs by the Bank of Korea and the government.

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 during October and November was found to have risen compared to the third quarter. Production of IT products such as semiconductors and mobile phones except display panels continued to be robust, owing to the rise in the demand for mobile products and the launch of new products. Automobile production increased, as result of the resumption of additional weekend working after the end of strike action. The business conditions of the shipbuilding industry improved, as the orders for liquefied petroleum gas (LPG) carriers and container ships increased. However, display panel production decreased due to the weak demand for large-size panels for TVs. Machinery production was sluggish due to the decrease in new investment in the related industries (i.e. construction) and to fiercer competition with Japanese firms because of the weakening yen. Production in the iron & steel industry increased modestly as production returned to normal at some companies in line with the resolution of power shortages, but the profitability of the industry was not improving sufficiently due to the continued global overcapacity. The petroleum refining and petrochemical industry was found to have remained steady, affected by the rise in the Chinese self-sufficiency ratio in petrochemicals and declining demand from Southeast Asia.

By region, manufacturing production in all regions exceeded the level of the third quarter, while continuing to expand on a relatively large

scale in the Seoul Metropolitan and Chungcheong regions with the high weight of their IT industry. According to the results of information gathering, manufacturing production is expected to increase gradually centering around IT products and automobiles, bolstered by the recovery of the US and Europe and other major advanced economies. However, a number of businesses were concerned about a possible slowdown in Chinese growth momentum and worsening profitability due to the appreciation of the won.

Manufacturing Production¹⁾²⁾



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

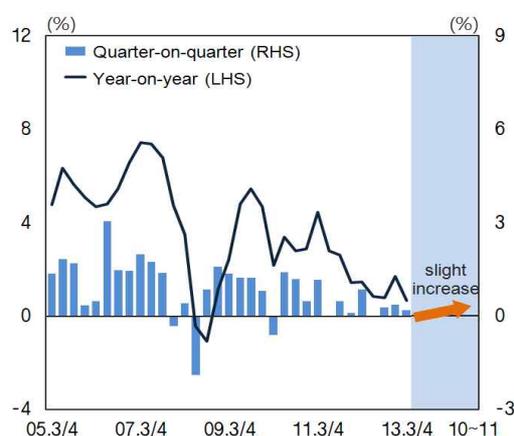
2) An arrow indicates the direction of the changes in the level of manufacturing production during October and November compared to the third quarter, and it is based on information obtained from companies and other organizations.

Sources: Bank of Korea, Statistics Korea

Services production also increased slightly during October and November, mostly in the Seoul Metropolitan, Chungcheong and Jeju regions. In the Honam region, it remained at the level of the third quarter, while it declined to some extent in the Dongnam, Daegyeong and Gangwon regions. In terms of major sectors, sales of the wholesale and retail sector went up, led by low-and medium priced products, and the transportation industry improved thanks to the expansion in the quantity of exports transported. Business facilities management and professional services were favorable owing to the relocation of public institutions and the development of industrial complexes and innovation cities. However, the improvement of the tourism-related service sectors including

leisure and accommodation faltered upon a fall in the number of Chinese and Japanese tourists because of the persistent depreciation of the yen and China's implementation of the provisions of the 'National Tourism Act.' Most companies did not expect their businesses to further deteriorate going forward. But they also thought that it would be difficult to recover rapidly due to factors holding back household consumption such as rising housing leasehold deposit prices.

Services Production¹⁾²⁾



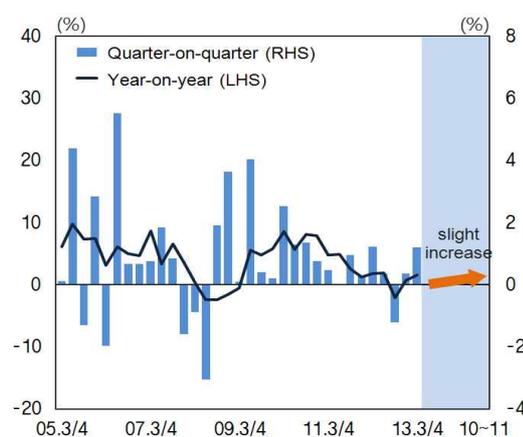
Notes: 1) Quarter-on-quarter indicator is based on a seasonally adjusted series.
2) An arrow indicates the direction of the changes in the level of services production during October and November compared to the third quarter, and it is based on information obtained from companies and other organizations.

Sources: Bank of Korea, Statistics Korea

Demand

Private consumption during October and November improved slightly, with sales at large retail stores increasing compared to the third quarter. Sales were sluggish for clothing and other fashion items, while sales of home appliances including TVs and refrigerators and leisure and sports products were buoyant. By region, although sales were weak in the Dongnam and Daegyeong regions, where sales of seasonal items were sluggish due to higher-than-average temperatures since October, they improved in most regions including the Seoul Metropolitan region.

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 October and November compared to the third quarter, and it is based on information obtained from companies and other organizations.

Sources: Bank of Korea, Statistics Korea

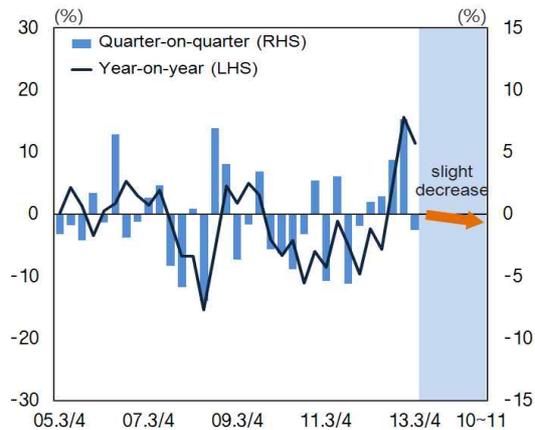
Meanwhile, the consumer survey index (CSI) on prospective household spending⁹⁾ hovered somewhat above the level of the third quarter in a considerable number of regions, suggesting that private consumption is forecast to be on a modest, continuing its trend of improvement going forward. However, given rising housing leasehold prices and the greater burden of household debt repayment.

Construction investment during October and November shrank slightly. Most companies were suffering from declining orders from the public sector, with unsold housing units still remaining. By region, construction investment decreased moderately in most regions including the Seoul Metropolitan region. However, it rose modestly in the Daegyeong region with large-scale regional projects including national industrial complexes and innovative cities underway, while the Chungcheong region showed a weak improving trend owing to sustained development demand in Sejong City and the Jincheon and Eumseong innovative cities. Most companies

9) The consumer survey is carried out for use in the analysis and forecasting of the economic situation by processing information collected through surveys of consumer sentiment regarding economic conditions and prospective spending. A consumer survey index is produced for each question by average weighting of all responses to that question.

predicted that the construction investment will continue to be sluggish going forward, citing the weakening in the private housing market, a reduction in orders in the social overhead capital (SOC) sector, and a decline in the additional supply of public housing.

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 October and November compared to the third quarter, and it is based on information obtained from companies and other organizations.
 Source : the Bank of Korea, Statistics Korea

Facilities investment in October and November was found to have increased slightly, compared to the third quarter. New facilities investments by large corporations in the semiconductor, display, automobile and petro-chemical industries were being undertaken in the Seoul Metropolitan and Chungcheong regions. In the Honam region, there was an increase in new investment by food, machinery and home appliances producers for the development of new products and the diversification of their businesses. However, most SMEs were less active in their facilities investment than their earlier plans, amid the lingering uncertainties at home and abroad.

The results of interviews showed that most firms were planning new investment only for facilities maintenance and factory renovation. In the semiconductor, display and automobile sectors, where equipment upgrading and new product development are needed, however, new

investment is likely to continue mainly in large corporations, leading to a moderate increase in overall facilities investment.

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 October and November compared to the third quarter, and it is based on information obtained from companies and other organizations.
 Source : the Bank of Korea, Statistics Korea

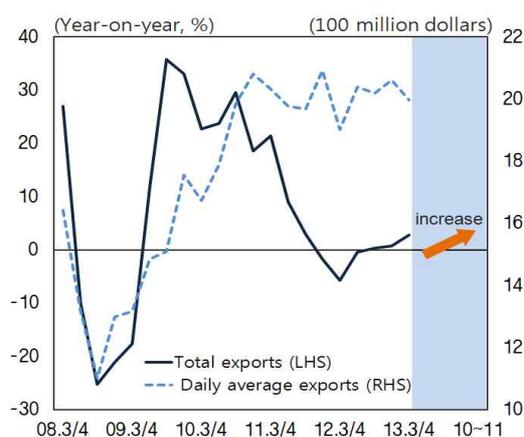
Exports were found to have sustained an improving trend during October and November. Exports of IT products including mobile phones and semiconductors showed a strong performance, driven by the launch of new smart phone models. Exports of automobiles increased as supply problems were resolved by expanded weekend overtime shifts, and those of shipbuilding seemed to pick up, centering on high value-added ships. Exports of machinery, however, dropped as a result of reduced demand in China, the U.S., and the Middle East, while iron & steel exports were found to remain weak with excess supply by China continuing. Textile exports declined due to the fall in demand in the Middle East and Southeast Asian countries.

By region, exports increased in most regions except the Gangwon and Jeju regions. The weak performances in these two regions were attributable to the decline in exports of medical devices and marine products, which are their respective main export items.

Exporters forecasted that exports would continue to be strong mainly in the mobile phones,

semiconductors and automobile industries, chiefly driven by economic recovery in the U.S. and Europe and other major advanced economies and the launch of new products. Most of them, however, were concerned about the possible slowing in demand in China, the Southeast Asian countries and other emerging countries.

Exports¹⁾



Note: 1) An arrow indicates the direction of the changes in the level of exports during October and November compared to the third quarter, and it is based on information obtained from companies and other organizations.

Source : the Bank of Korea, the Korea International Trade Association

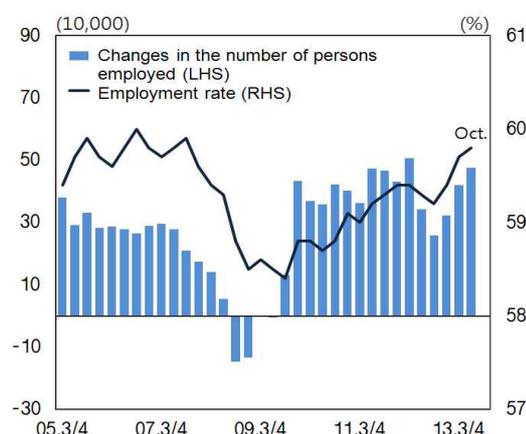
Employment

In October the number of persons employed increased by 480,000 persons year-on-year, growing at a slightly faster pace than in the third quarter. Notably, the rate of growth exceeded the long-term trend, with the number in employment increasing by over 400,000 persons for the three consecutive months since August. By sector, the number increased particularly in service sectors such as health care and social welfare services, while by age, those in their fifties and sixties led the expansion. By region, the number increased in most regions, but above all in the Seoul Metropolitan and Chungcheong regions. Although the number employed in the Daegyeong region remained at the level of the same month of the previous year, there were some signs of a moderation of subdued state of the labor market compared to the third quarter. In the Gangwon region, the number of persons

employed declined for the second straight month. The nationwide employment rate (s.a.) stood at 59.8% in October, up slightly from the third quarter, while the unemployment rate (s.a.) dropped to 3.0%.

Going forward, the number of persons employed is expected to increase steadily, mainly in the public sector, on the back of government's job creation schemes. The results of monitoring, however, find that the upward trend in the number of persons employed in the manufacturing and construction will be limited for the time being in some regions.

Changes in the Number of Persons Employed and the Employment Rate¹⁾



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

Consumer Prices and Housing Prices

Consumer prices rose at a rate of 0.7% year-on-year in October, with their increase remaining below 1%, as in the previous month. This was mainly attributable to the decline in supply-side inflation pressures, with the drop in agricultural, livestock and marine products prices and the stability of petroleum product prices. By region, most regions marked a low rate of increase of below 1%. Notably, consumer prices in the Gangwon region even fell slightly year-on-year. The results of monitoring show that consumer prices are predicted to continue on a modest uptrend going forward, with international oil prices stable. In some regions, however, increases in public service charges and the price of milk

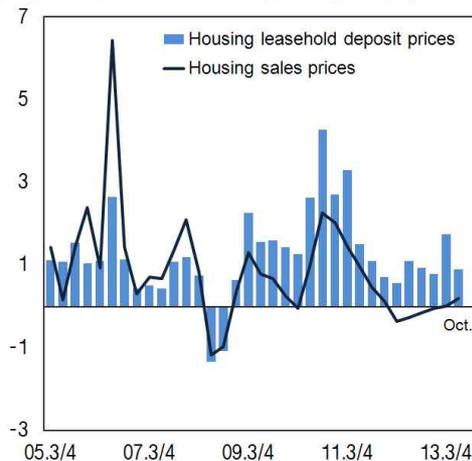
will likely act as a factor driving the rise in consumer prices.

Housing sales prices rose modestly in October and November. Those in the Seoul Metropolitan and Honam regions shifted to an uptrend, as buyer sentiment picked up as a result of the government measure in August to stabilize the housing leasehold deposits and monthly rental markets. In the Daegyeong, Honam and Chungcheong regions, prices increased at a slightly faster pace. In contrast, prices remained at the level of the third quarter in the Jeju region.

Housing leasehold deposit prices rose faster than in the third quarter. In the Seoul Metropolitan area, prices remained high, as demand continued to outstrip supply. Other regions, notably the Chungcheong and Daegyeong regions, also saw larger price increases. Monitoring results show that this trend is likely to continue for the time being.

Housing Sales Prices and Housing Leasehold Deposit Prices

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



Source : Kookmin Bank

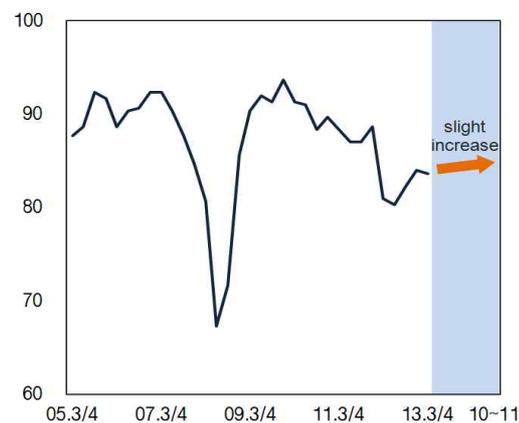
Financial Conditions

Corporate financial conditions during October and November seemed to have improved somewhat compared to the third quarter. By region, conditions in the Seoul Metropolitan, Chungcheong, Daegyeong and Gangwon regions improved slightly, while they remained at levels similar to those in the third quarter in the

Dongnam and Honam regions.

Lending attitudes of financial institutions were found to remain accommodative, backed by the Bank of Korea and government policies of financial support for SMEs. In some regions including the Chungcheong region, however, financial institutions showed wariness in their approach to lending to large corporations and households. Monitoring results show that financial institutions are expected to maintain their basically accommodative lending attitudes going forward.

BSI on Financial Situation¹⁾



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

Source: the Bank of Korea

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