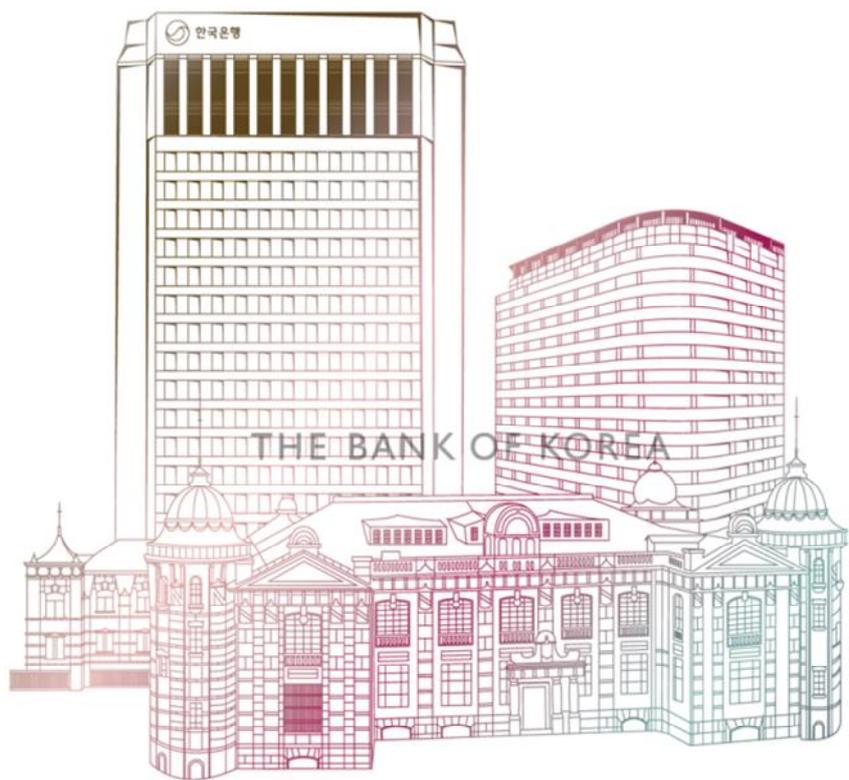


Regional Economic Report

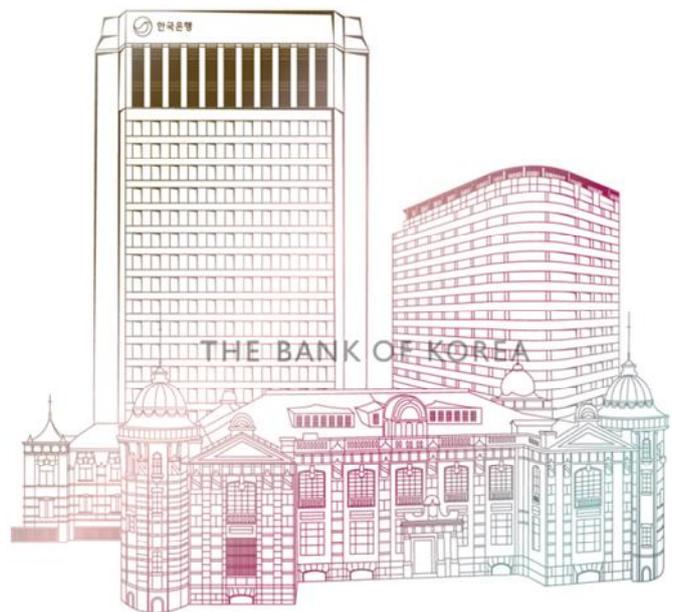
June 2017



THE BANK OF KOREA

Regional Economic Report

June 2017

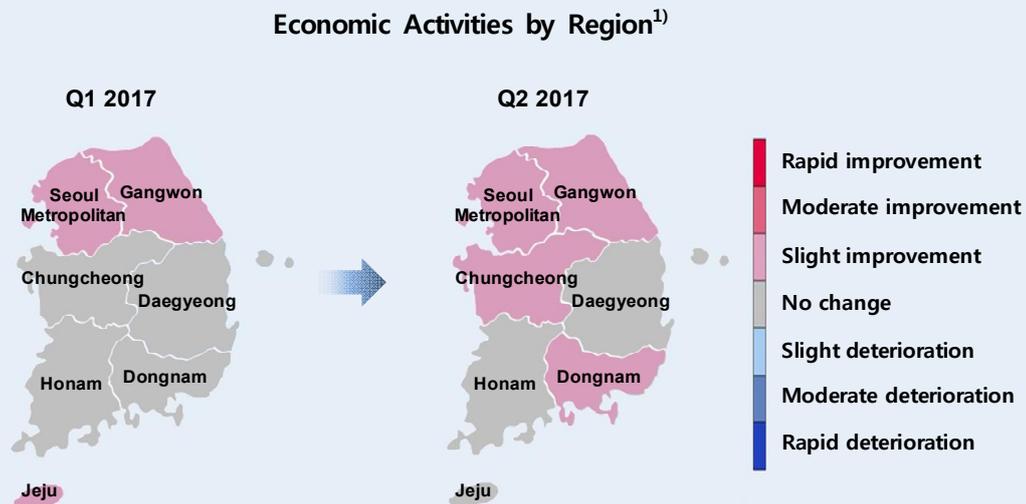


This report, a condensed English version of the Regional Economic Report published in Korean, summarizes recent regional economic conditions based on information gathered by the 15 regional branches of the Bank of Korea from businesses and other sources within their regions between late May and mid-June 2017. The contents of this report may not necessarily agree with the official statistics to be released later by the Bank of Korea and Statistics Korea.

Executive Summary

Overview

Survey information on regional economic conditions collected by the 15 branches of the Bank of Korea from businesses and other sources within their regions indicates that in the second quarter of 2017, economic activities maintained their pace of improvement in the Seoul Metropolitan and Gangwon regions, showed improvement in the Chungcheong and Dongnam regions, and remained unchanged in the Daegyeong, Honam, and Jeju regions.



Note: 1) Assessed based on regional information regarding manufacturing and services production, employment, and financial conditions gathered by monitoring regional businesses and other sources

Going forward, economic conditions in the Seoul Metropolitan, Chungcheong, and Dongnam regions in particular are expected to maintain the pace of improvement, driven by exports and private consumption.

Production

The results of monitoring show that manufacturing production did not change from the previous quarter in all regions except the Dongnam and Jeju regions, while services production increased, particularly in the Seoul Metropolitan, Chungcheong, and Gangwon regions. Manufacturing production increased in the Dongnam region, led by machinery & equipment and automobiles, and also in the

Jeju region, boosted by ready-mixed concrete and beverages. Manufacturing production generally remained unchanged in the rest of the regions, with their core industries showing offsetting performances. **Services production** increased in the Seoul Metropolitan region in wholesale & retail trade and transportation, and also grew in the Chungcheong and Gangwon regions in wholesale & retail trade and tourism & accommodation services.

Production in Q2 2017 by Region¹⁾

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

Note: 1) Markers indicate the direction of the change in the levels of manufacturing and services production compared to the previous quarter. ▲ represents an increase and ◇ no change.

Going forward, manufacturing and services production is likely to increase overall. Manufacturing production is expected to grow particularly in the Seoul Metropolitan, Chungcheong, and Dongnam regions, driven by semiconductors, display panels, and petrochemical & oil refining, while generally staying flat in the other regions. **Services production** is expected to increase in wholesale & retail trade and transportation, led by the increased number of tourists and increased import and export freight.

Demand

Construction and facilities investment remained robust, and private consumption and exports were found to have increased compared to the previous quarter. In terms of **private consumption**, sales of home appliances such as air conditioners and air purifiers increased in the Seoul Metropolitan and Chungcheong regions, and sales of local specialties and apparel expanded in the Gangwon region. In the Honam and Daegyeong regions, sales of some home appliances increased, while sales of automobiles declined. **Facilities investment** generally remained buoyant as in the previous quarter. Its robust pace was sustained in the Seoul Metropolitan and Chungcheong regions, thanks to the setup of additional production lines by

semiconductor and display panel producers, and also in the Dongnam and Honam regions, boosted by investment made by petrochemical & oil refining companies to expand their production capacities. **Construction investment** grew in the Dongnam, Chungcheong, and Gangwon regions, centering around residential buildings, while remaining unchanged in the rest of the regions. **Exports** increased in all regions except for the Gangwon region, driven by exports of semiconductors, display panels, and petrochemical products.

Demand in Q2 2017 by Region¹⁾

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

Note: 1) Markers indicate the direction of the change in the levels of private consumption, facilities investment, and construction investment compared to the previous quarter, but for exports compared to Q2 2016. ▲ represents an increase, ◇ no change, and ▼ a decrease.

Going forward, construction and facilities investment will maintain its robust pace, and exports and private consumption will continue to improve. Private consumption is likely to increase gradually, boosted by improved consumer confidence, despite some negative factors such as the heightened household indebtedness. **Facilities investment** is likely to remain solid, particularly in the IT industry, including semiconductors and display panels, and in the petrochemical & oil refining industry. **Construction investment** is likely to slow somewhat in the Honam and Gangwon regions, while remaining robust as in the previous quarter in the other regions, with the continued construction of pre-sold apartments. Exports will rise in most regions, particularly in the IT and petrochemical & oil refining industries.

Employment

The number of persons employed in April and May 2017 rose by 400,000 per month year-on-year, on average, which is a faster pace of increase than that in the first quarter of 2017 (+360,000 monthly average). By sector, the service sector exhibited slower employment growth, particularly in wholesale & retail trade and food & accommodation services, while employment in the manufacturing sector declined more slowly and that in the construction sector grew faster. By region, the extent of employment growth widened in the Seoul Metropolitan, Dongnam, Chungcheong, and Gangwon regions, narrowed in the Daegyeong region, and reversed to a decline in the Honam region.

Consumer Prices and Housing Prices

Consumer prices rose by 1.9% year-on-year, on average, in April and May 2017, a decelerated pace compared to the first quarter of 2017 (+2.1% monthly average). Consumer price inflation decelerated in most regions including the Dongnam, Daegyeong, and Jeju regions, with prices of agricultural and petroleum products exhibiting slower growth.

Housing sales prices rose by 0.12% per month, on average, from the last month of the preceding quarter in April and May 2017, a faster increase compared to the first quarter of the year (+0.03% monthly average). By region, the pace of increase in housing sales prices in the Seoul Metropolitan, Honam and Gangwon regions accelerated, while prices in the Daegyeong region continued to decrease and those in the Chungcheong and Jeju regions generally remained unchanged.

Corporate Financial Conditions

Corporate financial conditions were found to have improved somewhat in the second quarter of 2017. In particular, the financial conditions of the firms in some manufacturing industries, including the semiconductor, display panel, and petrochemical & oil refining industries, have improved, thanks to their continued strong business performances.

Summary of Current State of Activity in Major Industries

Industry		Current State of Activity
IT	Semiconductor	Semiconductor production increased due mainly to smartphones becoming more high-end and to the rise in demand from emerging high-tech areas, including artificial intelligence.
	Display Panel	Display panel production increased, driven by major companies' expansion of OLED production facilities and by increasing demand for large LCD panels.
	Mobile Phone	Mobile phone production decreased despite the launch of new products, owing primarily to the fact that more phones were produced overseas.
Automobile		Automobile production decreased largely due to facilities conversion and to more holidays in the second quarter.
Petrochemical & Oil Refining	Petrochemical	Petrochemical production decreased largely due to routine maintenance work by major companies.
	Oil Refining	Oil refining production remained flat due to the offsetting effects of some companies' facilities expansions on the one hand and major companies' repair and maintenance work on the other.
Iron & Steel		Iron & steel production remained unchanged, as an increase in the production of steel plates for automobiles following facilities expansions made by some companies was offset by a decline in the production of thick plates due to the sluggishness of the shipbuilding industry.
Shipbuilding		Shipbuilding production decreased mainly due to the suspended operation of some docks with backlogs rapidly going down.
Machinery & Equipment		Machinery & equipment production increased driven by heightened demand for manufacturing equipment for display panels and semiconductors, and for construction equipment.

Results of Survey on Topical Issues:¹⁾

Housing-Market Business Cycle Assessment in H1 2017²⁾

1 Assessment of Housing-Market Business Cycle in H1 2017

✓ The survey results showed that house sales markets in H1 2017 have continued to be divergent across regions.

- The markets are in expansionary phases in the Seoul Metropolitan and Gangwon regions, while those in the Daegyeong, Dongnam, Chungcheong, and Jeju regions in contractionary phases.

✓ In most regions, the new house sales market is more active than the existing house sales market.

2 Factors behind Changes in Housing Sales Prices in H1 2017

✓ In the Seoul Metropolitan region, city redevelopment projects are cited as a main factor behind price increases.

✓ In the rest of the country, increases in new housing, policies such as the "Household Debt Management Measure," and rising lending rates are the main factors behind weak prices.

3 Policies Needed for Stabilizing Housing Markets

✓ According to experts, regions with rapidly rising housing prices require micro measures to prevent overheating.

- Experts also suggested an increase of public rental housing for low-income families and the youth.

✓ As for some regions with housing inventory overhang, experts suggested that more efforts should be made to deal with the problem by construction companies, and that collective and voluntary adjustments of the housing supply would be necessary within the industry.

Assessment of Housing-Market Business Cycle in H1 2017

Market overview

In the first half of 2017, the conditions of house sales markets have continued to differ across regions following last year. From January to May 2017, housing sales prices rose by 0.3% nationwide compared to the last month of 2016, and the rate of increase in the Seoul Metropolitan region (0.5%) exceeded that of other regions (0.2%). In particular, apartment prices in Seoul have shown a prominent increase since 2015.

Rate of Increase in Housing Sales Prices¹⁾

(Compared to the last month of the previous year, %)

	2013	2014	2015	2016	May 2017
Nationwide	0.3 (0.8)	1.7 (2.7)	3.5 (4.9)	0.7 (0.8)	0.3 (0.2)
Seoul Metropolitan Region	-1.1 (-0.8)	1.5 (2.5)	4.4 (6.2)	1.3 (1.9)	0.5 (0.5)
(Seoul)	-1.4 (-1.3)	1.1 (2.0)	4.6 (6.7)	2.1 (3.2)	0.8 (1.0)
Rest of the Country	1.7 (2.4)	1.9 (2.9)	2.7 (3.6)	0.2 (-0.3)	0.2 (-0.1)

Note: 1) Figures in the parentheses refer to rates of increase in apartment sales prices

Source: Korea Appraisal Board

1) Between May 19 and June 6, 2017, the 15 regional branches of the Bank of Korea (excluding the Gangnam branch) carried out a survey on the regional housing markets. 96 housing market experts responded to the survey.

2) This is based on qualitative assessments of housing market experts in each region on housing-market business cycles, considering the sentiments of housing market participants, housing prices and the volume of transactions.

Assessment of Regional Housing-Market Business Cycle

According to a survey of 96 experts on regional housing markets, in the first half of 2017 the house sales market in the Seoul Metropolitan region was evaluated as having been in an expansionary phase, while that of the rest of the country was in a contractionary one. In the Seoul Metropolitan region, the housing transaction volume remained unchanged compared to the second half of last year, while housing prices continued to rise and housing market sentiment remained buoyant.

On the other hand, in local areas, housing transaction volumes contracted somewhat, while housing prices and housing market sentiment remained unchanged.

Assessment of Regional Housing-Market Business Cycle in H1 2017

	Seoul Metropolitan Region	(Seoul)	Rest of the Country
Overall Assessment	Expansion	Expansion	Contraction ¹⁾
■ Transaction Volume	No change	No change	Modest decrease
■ Prices	Slight increase	Increase	No change
■ Sentiment	Slight improvement	Improvement	No change

Note: 1) This is based on a weighted sum of scores given to each region according to its housing-market conditions. The scores are given as follows: When the mode of the experts' assessments indicates an expansion, +1 (recovery phase) or +3 (boom phase) is given, while when it indicates a contraction, -1 (receding phase) or -3 (recession phase) is assigned. The weights are based on the number of housing units by region.

By region, the house sales markets in the Dongnam, Chungcheong, Daegyeong,

and Jeju regions were evaluated as being in contractionary phases, while those in the Seoul Metropolitan and Gangwon regions were in expansionary phases. By major metropolitan city or province, the prominent view was that the house sales market in the Seoul area was in an expansionary phase, while those in the Gyeongbuk, Daejeon, Chungbuk, and Gyeongnam regions were in contractionary phases.

Assessment of Regional Housing-Market Business Cycle by Region¹⁾

By Region	
Expansion	Seoul Metropolitan and Gangwon
Contraction	Dongnam, Chungcheong, Daegyeong, and Jeju

By Major Metropolitan City or Province	
Expansion	Seoul and Gangwon
Contraction	Gyeongbuk, Daejeon, Chungbuk, Gyeongnam, and Jeju

Note: 1) Based on the mode of experts' assessments of the current housing-market conditions by region and by metropolitan city or province

In most regions, the new house sales market is more active than the existing house sales market.

Assessment of Regional Housing-Market Business Cycle by Region and by Market¹⁾



Note: 1) Based on the simple average of experts' assessments of existing house sales or new house sales markets in each region

Factors behind Changes in Housing Sales Prices in H1 2017

As for factors driving up housing sales prices in H1 2017, city redevelopment projects were the largest factor, followed by an improvement in economic conditions and housing shortages in Gangnam and other preferred residential areas (Seoul). On the other hand, as for factors pushing down housing prices, policy factors such as Household Debt Management Measure led the way, followed by increases in new housing (in the provinces) and increases in lending rates.

For the second half of 2017, city redevelopment projects and economic conditions were cited as the main factors driving up housing prices, while policy factors and increases in new housing were stated as factors pushing down housing prices.

Factors behind Changes in Housing Sales Prices in 2017¹⁾

	H1 2017		H2 2017	
	Push Factors	Pull Factors	Push Factors	Pull Factors
Interest Rate Changes	12.5	21.4	8.4	22.5
Policy Factors ²⁾	8.7	32.1	11.6	33.7
Supply Condition for New houses	17.3	26.4	14.7	27.8
Economic Conditions	18.3	14.5	24.2	11.2
City Redevelopment Projects ³⁾	29.8	1.3	29.5	0.0
Population Changes ⁴⁾	7.7	4.4	7.4	3.6
Others	5.8	0.0	4.2	1.2

Notes: 1) Multiple responses allowed

2) Household Debt Management Measures, Measures for Housing Market Stabilization, etc.

3) Reconstruction included

4) Including inflows into and outflows from each region

In the case of the Seoul and Gangwon regions, where the housing sales markets are evaluated as having been in expansionary phases in H1 2017, the factors pushing up housing prices differ. In Seoul, city redevelopment projects were cited as the most important, while in the Gangwon region, an improvement in local economic conditions, including the infrastructure construction for the 2018 Pyeongchang Winter Olympics, was stated as the most influential.³⁾

In the meantime, in the Gyeongbuk, Chungbuk, and Gyeongnam regions, where the housing sales markets were evaluated as being in contractionary phases, increases in new housing was cited as the most important reason

3) Heightened expectations for regional development stemming from the hosting of the Winter Olympics is assessed as one of the factors behind the housing sales market boom in the Gangwon region.

behind declines in housing sales prices. However, in the case of Daejeon, a relatively large proportion of the respondents cited population factors such as population outflows to Sejong City as one of the main driving forces behind the decline in housing sales prices.

Policies Needed for Stabilizing the Housing Markets

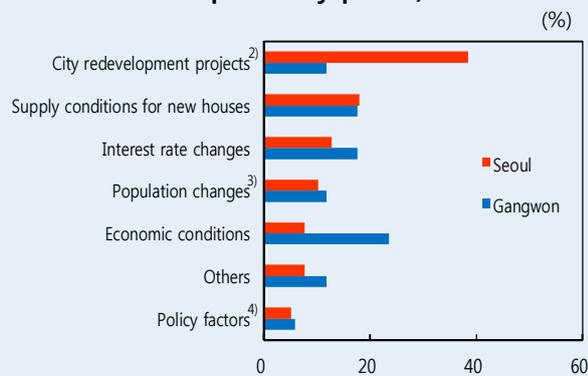
Housing market experts are paying attention to the continued divergence between the housing market in the Seoul Metropolitan region and those in the provinces. Many experts suggested that policy measures should be tailored to the market conditions of each region.

Many experts said that for regions where housing sales prices are rising rapidly, micro measures need to be strengthened to prevent overheating in the market. Some experts suggested that an expansion of public rental housing for low-income families and the youth is required in these regions for the stability of their residential conditions.

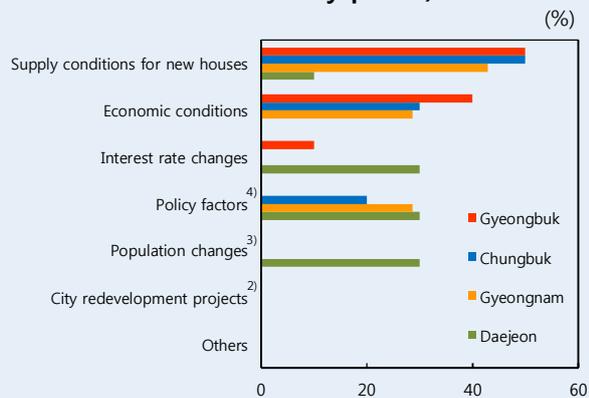
On the other hand, for those regions where housing supplies have increased greatly with subdued housing sales markets, many experts suggested that efforts by construction companies to reduce unsold apartments, voluntary adjustments of housing supplies within the industry, and city revitalization projects are necessary.

Factors behind Changes in Housing Sales Prices by City and Province in H1 2017¹⁾

(Factors pushing up prices in regions in expansionary phases)



(Factors pushing down prices in regions in contractionary phases)



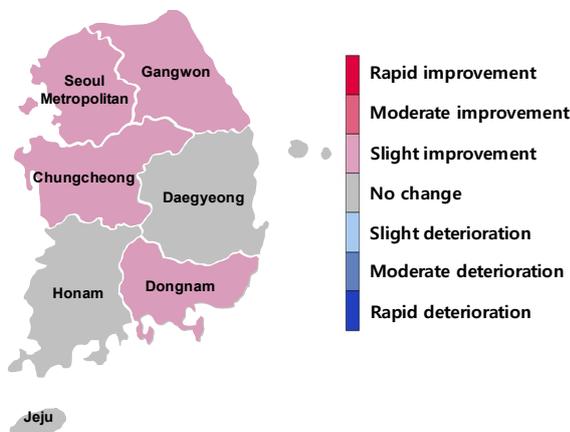
- Notes: 1) Multiple responses allowed
 2) Household Debt Management Measures, Measures for Housing Market Stabilization, etc.
 3) Reconstruction included
 4) Including inflows into and outflows from each region

Current Regional Economic Conditions

Overview

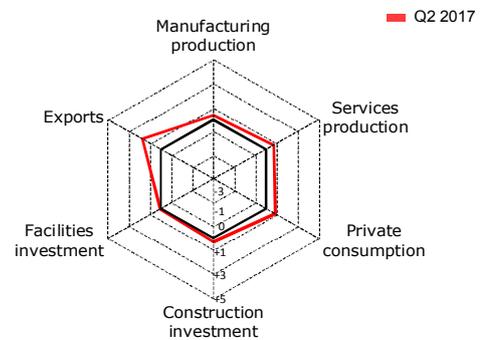
Survey information on regional economic conditions collected by the 15 branches of the Bank of Korea from businesses and other sources within their regions indicates that in the second quarter of 2017, economic activities continued their pace of improvement in the Seoul Metropolitan and Gangwon regions, improved in the Chungcheong and Dongnam regions, and remained unchanged in the Daegyeong, Honam, and Jeju regions.

Economic Activities in Q2 2017 by Region¹⁾



Note: 1) Assessed based on regional information regarding manufacturing and services production, employment, and financial conditions gathered by monitoring regional businesses and other sources

Radar Chart¹⁾ on Economic Activities



Note: 1) Six areas of economic activities are monitored and given scores (ranging between -5 and +5) that represent the direction of the change compared to the previous quarter (for exports, compared to a year earlier). Scores of below -0.5, -0.5~+0.5, and over +0.5 indicate deterioration (decrease), an unchanged level, and improvement (increase), respectively.

Source: Bank of Korea

Looking at production in the second quarter of 2017, manufacturing production was found to remain unchanged from the previous quarter. By sector, production of semiconductors, display panels, and machinery & equipment increased, while production in the shipbuilding, petrochemicals & oil refining, mobile phone, and automobile & auto parts sectors declined and that of iron & steel showed no change. By region, manufacturing production increased in the Dongnam and Jeju regions and stayed flat in the other regions. Services production rose from the previous quarter. By region, production in the Seoul Metropolitan, Chungcheong, and Gangwon regions picked up, while that in the Dongnam, Honam, Daegyeong, and Jeju regions showed no change.

Turning to the demand side, private

consumption grew from the previous quarter. By region, it climbed in the Seoul Metropolitan, Dongnam, Chungcheong, and Gangwon regions, and remained unchanged in the Honam, Daegyeong, and Jeju regions. Facilities investment in semiconductors, display panels, and petrochemicals & oil refining was robust at the level seen in the previous quarter. By region, facilities investment in the Daegyeong region rose, while declining in the Gangwon region and showing no change in the other regions. Construction investment in the Chungcheong, Dongnam, and Gangwon regions increased driven by residential buildings, but that in the other regions stayed flat. Exports were found to have increased in all regions except the Gangwon region, largely due to semiconductors, display panels, and petrochemicals.

Going forward, regional economic conditions in the Seoul Metropolitan, Chungcheong, and Dongnam regions are expected to continue their pace of improvement, led by exports and consumption. In terms of production, manufacturing production is likely to increase in the Seoul Metropolitan, Chungcheong, and Dongnam regions, centering around semiconductors, display panels, and petrochemicals & oil refining. As for services production, wholesale & retail trade and food & accommodation services are projected to improve thanks to the better consumer sentiment and the rise in the number of tourists. Production in transportation services is also likely to climb with the increase in import and export cargoes.

On the demand side, consumption is expected to grow due to the improvement in consumer sentiment and the positive expectations for the new government's policies. However, the build up in household debt and the sluggish increase in income will act as constraints. Facilities investment is forecast to remain robust in the Seoul Metropolitan and Chungcheong regions led by semiconductors and display panels, and in the Dongnam and Honam regions driven by petrochemicals & oil refining. Although new construction is expected to decline, construction investment will maintain at its current level due to the continuing construction of pre-sold apartments. Exports are projected to go up, led by IT, petrochemicals & oil refining, and machinery.

The number of persons employed increased by 400,000 per month year-on-year, on average, from April to May 2017, at a faster pace than the first quarter (360,000 monthly average). By sector, the extent of increase narrowed in the service sector centering around wholesale & retail trade and food & accommodation services, but the extent of decrease narrowed in the manufacturing sector and the extent of growth widened in the construction sector. By region, the extent of growth narrowed in the Daegyeong region and switched to a decline in the Honam region. However, the extent of increase expanded in the other regions.

From April to May 2017, consumer prices rose by 1.9% year-on-year, on average, lower than the 2.1% increase in the first quarter. With the price rises of agricultural and oil

products slowing down, the pace of increase in consumer prices decelerated in most regions.

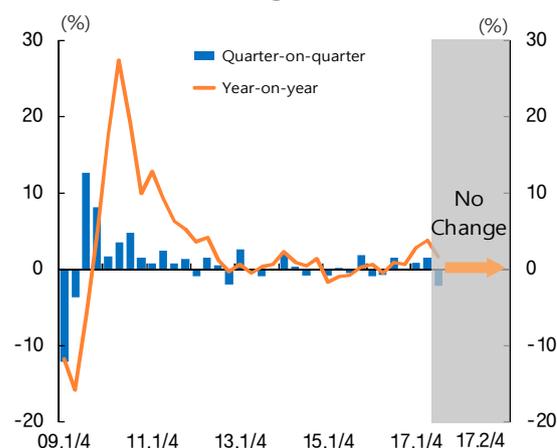
Housing sales prices from April to May 2017 climbed 0.12% per month, on average, from the last month of the previous quarter, showing a faster pace of growth compared to the first quarter (+0.03% monthly average). By region, the extent of rise in housing sales prices expanded in the Seoul Metropolitan, Honam, and Gangwon regions. Meanwhile, housing sales prices in the Daegyeong region continued to fall due to an increase in the housing supply and market participants' wait-and-see attitude, but those in the Chungcheong and Jeju regions stayed flat in general.

Production

(No Change in Manufacturing Production)

Manufacturing production in the second quarter of 2017 was found to remain unchanged, showing a level similar to the first quarter. By region, it increased in the Dongnam and Jeju regions but stayed flat in the Seoul Metropolitan and the other regions. By sector, production in semiconductors, display panels, and machinery & equipment rose, while that in shipbuilding, petrochemicals & oil refining, mobile phones, and automobile & auto parts declined. Meanwhile, production in iron & steel was found to have shown little change.

Manufacturing Production¹⁾²⁾



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

2) The arrow indicates the direction of the change in the level of manufacturing production during the second quarter of 2017 compared to the previous quarter, based on the monitoring results.

Sources: Bank of Korea; Statistics Korea

Manufacturing Production in Q2 2017 by Region¹⁾

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

Note: 1) Markers indicate the direction of the change in the level of manufacturing production compared to the previous quarter. ▲ represents an increase and ◇ no change.

Semiconductor production continued to increase thanks to the introduction of more advanced smartphones. Display panel production increased on the back of expansion in OLED production by major firms and solid overseas demand. Production in machinery & equipment increased centering around construction machinery and manufacturing equipment for semiconductors and display panels. Despite the launch of a new model (Galaxy S8), mobile phone production declined with overseas production increasing. Shipbuilding production fell on the suspended operation of some docks in line with the reduction in order backlogs. Petrochemical & oil refining

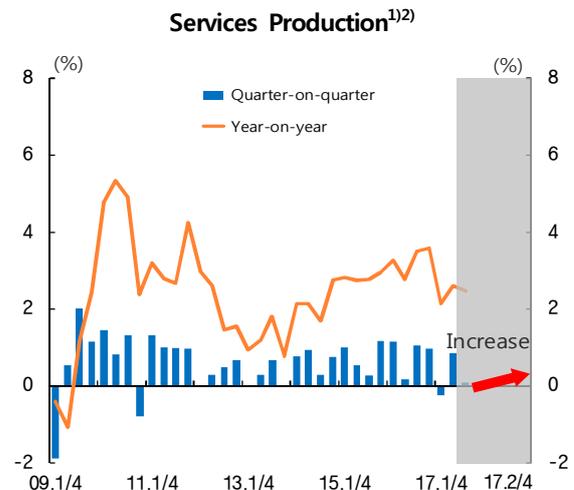
production declined as major producers began facility repairs.¹⁾ Production in the automobile & auto parts industry decreased due to the reduction in working days with more holidays in the second quarter and facilities readjustment for model change. Iron & steel production showed little change as the shipbuilding sector was sluggish despite the increased demand and the new operation of a steel plate factory for automobiles.²⁾

Going forward, manufacturing production is expected to grow, led by semiconductors, display panels, and petrochemicals & oil refining in the Chungcheong, Seoul Metropolitan, and Dongnam regions. Semiconductor and display panel production is projected to continue its robust pace of growth, on the back of the rise in global demand and expansion of production facilities.³⁾ Petrochemical & oil refining production is likely to increase due to rising demand from China and the completion of major firms' facility repairs. However, mobile phone production will remain unchanged given the recent trend of overseas production expansion.

(Increase in Services Production)

Services production in the second quarter of 2017 is reported to have risen from the first quarter. By region, services production increased in the Seoul Metropolitan, Chungcheong and Gangwon regions, and

stayed flat in the Dongnam, Honam, 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 change in the level of services production during the second quarter of 2017 compared to the previous quarter, based on the monitoring results.

Sources: Bank of Korea; Statistics Korea

Services Production in Q2 2017 by Region¹⁾

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

Note: 1) Markers indicate the direction of the change in the level of services production compared to the previous quarter. ▲ represents an increase and ◇ no change.

In the Seoul Metropolitan region, wholesale & retail trade and transportation services were robust with a pickup in department store sales and a growing number of overseas trips by locals. In the Chungcheong region, wholesale & retail trade and tourism & accommodation services production climbed on the hosting of local festivals. In the Gangwon region,

1) In the second quarter of 2017, SK Energy, S-OIL, Keumho Petrochemical, and Hanwha Chemical repaired their major facilities.
2) In April 2017, POSCO (located in Gwangyang in the Jeonnam region) completed an automobile steel plate factory that produces 500,000 tonnes per year.
3) In the third quarter of 2017, LG Display (located in Gumi in the Gyeongbuk region) will operate the 6th generation OLED factory.

production was robust in wholesale & retail trade and transportation services thanks to the extension of Spring tour week. Accommodation services production also increased in the region, supported by the rising number of visitors to beaches, sporting events and festivals. In the Dongnam region, sales at large-scale retail stores went up, but those at department stores and duty-free shops were weak owing to the falling number of Chinese tourists. In the Honam region, the hosting of local festivals and international sporting events⁴⁾ led to an increase in production in tourism & accommodation services, while that in wholesale & retail trade was sluggish. Overall services production in the Daeyeong region remained unchanged, with the rise in sales at department stores on the back of the opening of the Daegu Shinsegae Department Store, offset by the decrease in sales at large-scale retail stores. In the Jeju region, production in accommodation services was stagnant due to the fall in the number of foreign tourists, while that in transportation services, including car rental & chartered bus services, increased thanks to the growing number of domestic tourists.

Going forward, services production is expected to increase modestly in most regions. By sector, services production in wholesale & retail trade and food & accommodation services is projected to climb thanks to the improvement in consumer sentiment and the rise in the number of tourists. In terms of transportation services,

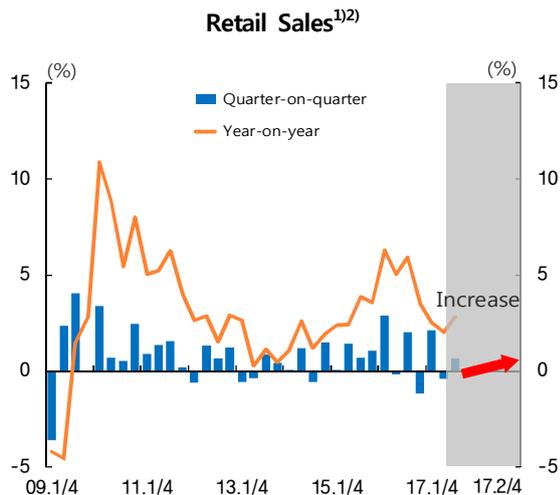
freight transportation is forecast to stay robust owing to the increase in import and export freight, but passenger transportation could be constrained by the delayed recovery in growth of the number of Chinese tourists.

Demand

(Increase in Private Consumption)

Private consumption in the second quarter of 2017 was found to increase from the first quarter. By region, it expanded in the Seoul Metropolitan, Dongnam, Chungcheong and Gangwon regions, and stayed flat in the Honam, Daeyeong and Jeju regions. In the Seoul Metropolitan and Chungcheong regions, sales of home appliances such as air conditioners and air purifiers went up, affected by high temperatures and high levels of fine dust. In the Dongnam region, mobile phone sales picked up due to the launch of new products, while local specialty and clothing sales increased in the Gangwon region. In the Honam and Daeyeong regions, sales of some household appliances expanded, but automobile sales declined.

4) In the second quarter of 2017, the World Taekwondo Championships (2017.6.24~30) and the FIFA U-20 World Cup (2017.5.20~6.11) were held along with local festivals such as the Jeonju International Film Festival.



Notes: 1) The quarter-on-quarter indicator is based on a seasonally adjusted series.
 2) The arrow indicates the direction of the change in the level of private consumption during the second quarter of 2017 compared to the previous quarter, based on the monitoring results.

Sources: Bank of Korea; Statistics Korea

Private Consumption in Q2 2017 by Region¹⁾

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

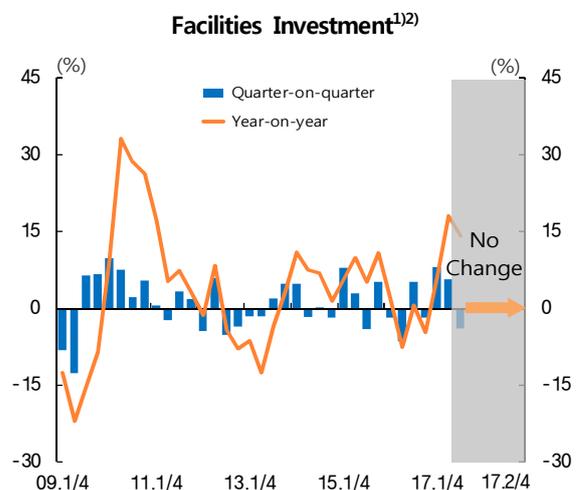
Note: 1) Markers indicate the direction of the change in the level of private consumption compared to the previous quarter. ▲ represents an increase and ◇ no change.

Going forward, private consumption is expected to increase due to the improved consumer sentiment and the favorable expectations for the new government's economic policies, including a plan to create more jobs. However, the burden of debt repayments with the heightened level of household debt and the tepid increase in household income will likely work as constraints on private consumption.

(No Change in Facilities Investment)

Facilities investment during the second quarter of 2017 is reported to have

remained at the level seen in the first quarter. By region, facilities investment increased in the Daegyeong region and decreased in the Gangwon region, while remaining unchanged in the other regions. In the Seoul Metropolitan and Chungcheong regions, facilities investment remained robust as seen in the first quarter, as semiconductor and display panel companies increased their production lines. In the Dongnam and Honam regions, facilities investment remained unchanged with the increase in the petrochemical & oil refining industry offset by a decrease in other major industries. In the Daegyeong region, facilities investment increased, as display panel manufacturers introduced new facilities for new products and major steel producers made investments to improve existing facilities.⁵⁾



Notes: 1) The quarter-on-quarter indicator is based on a seasonally adjusted series.
 2) The arrow indicates the direction of the change in the level of facilities investment during the second quarter of 2017 compared to the previous quarter, based on the monitoring results.

Sources: Bank of Korea; Statistics Korea

5) POSCO replaced obsolete control systems at thick plate and hot rolling plants with new systems in the second quarter of 2017.

Facilities Investment in Q2 2017 by Region¹⁾

Seoul Metropolitan	Dongnam	Chungcheong	Honam	Dae-gyeong	Gangwon	Jeju
◇	◇	◇	◇	▲	▼	◇

Note: 1) Markers indicate the direction of the change in the level of facilities investment compared to the previous quarter. ▲ represents an increase, ◇ no change, and ▼ a decrease.

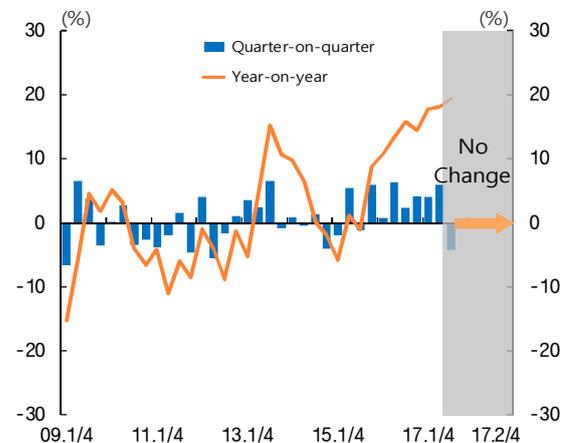
Going forward, facilities investment is projected to remain solid, led by the IT sector, including the semiconductor and display panel industries, and the petrochemical & oil refining industries. Companies in other industries are expected to take a conservative attitude to facilities investment, due mainly to political and economic uncertainties at home and abroad.

(No Change in Construction Investment)

Construction investment in the second quarter of 2017 is reported to have remained unchanged from the level seen in the first quarter. Construction investment in the public sector decreased due to the reduced SOC budget, while that in the private sector maintained a solid pace as in the previous quarter, driven by residential building construction. By region, construction investment rose in the Chungcheong, Gangwon, and Dongnam regions while remaining unchanged in the other regions. In the Chungcheong region, construction investment in residential buildings was robust, thanks mainly to increased construction orders and smooth progress of the construction of pre-sold apartments, and that in non-residential buildings also increased, due mainly to the building of additional plants by major

corporations.⁶⁾ In the Gangwon and Dongnam regions, construction investment increased, with construction of residential buildings in some areas maintaining its solid momentum. In other regions, construction investment remained unchanged overall, due mainly to the slower SOC budget execution, although construction of residential buildings in the private sector continued its robust pace.

Value of Construction Completed¹⁾²⁾



Notes: 1) The quarter-on-quarter indicator is based on a seasonally adjusted series.
2) The arrow indicates the direction of the change in the level of construction investment during the second quarter of 2017 compared to the previous quarter, based on the monitoring results.

Sources: Bank of Korea; Statistics Korea

Construction Investment in Q2 2017 by Region¹⁾

Seoul Metropolitan	Dongnam	Chungcheong	Honam	Dae-gyeong	Gangwon	Jeju
◇	▲	▲	◇	◇	▲	◇

Note: 1) Markers indicate the direction of the change in the level of construction investment compared to the previous quarter. ▲ represents an increase and ◇ no change.

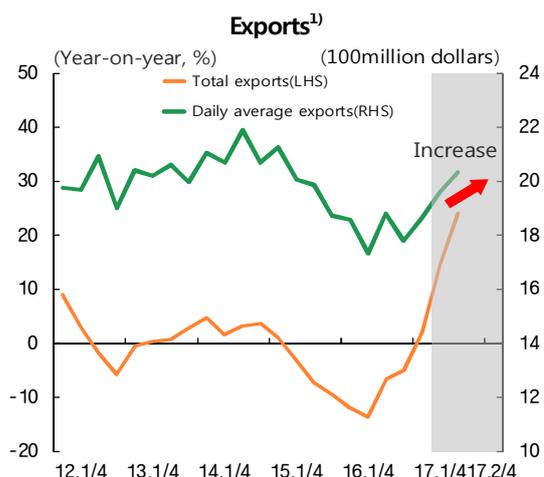
Going forward, construction investment is forecast to keep its solid pace, as in the second quarter. Construction in the private sector is forecast to continue to show robustness, led by the building of pre-sold

6) SK hynix began the construction of NAND flash factories and a cleanroom in May 2017.

apartments, although construction starts are likely to slow down gradually. Construction investment in the public sector is projected to slow down somewhat, due mainly to the reduced SOC budget.

(Increase in Exports)

Exports increased year-on-year during the second quarter of 2017. By region, exports grew in all regions except the Gangwon region. By item, exports of semiconductors sustained a trend of substantial increase thanks primarily to the introduction of more advanced smartphones and an increase in demand for semiconductors for SSDs (solid-state drives). Exports of display panels increased due mainly to an expansion of manufacturing facilities and rising unit sales prices. Exports of petrochemical and oil refining products grew due mainly to rising unit sales prices. As for machinery, exports of construction equipment increased due to heightened demand from China in particular, and exports of automated machines increased owing primarily to an expansion of overseas facilities by domestic companies. Exports of vessels, however, declined due to a decrease in the number of ships handed over, and exports of smartphones also declined despite the rollout of new models as overseas production increased steadily. Exports of automobiles and auto parts also declined, owing primarily to sluggish overseas demand for domestically manufactured cars.



Note: 1) The arrow indicates the direction of the change in the level of exports year-on-year during the second quarter of 2017, based on the monitoring results.

Source: Korea International Trade Association

Exports in Q2 2017 by Region¹)



Note: 1) Markers indicate the direction of year-on-year changes in exports. ▲ represents an increase and ◇ no change.

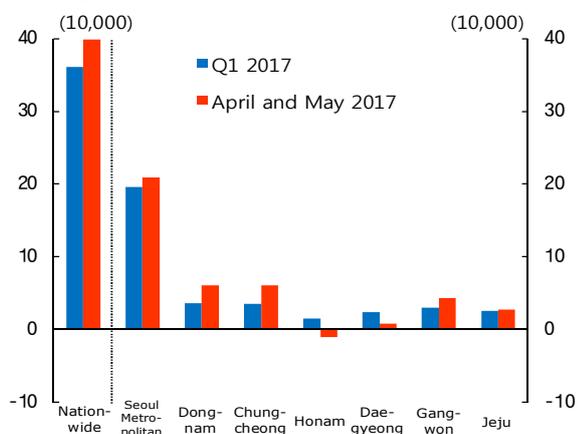
Going forward, exports are expected to rise as well. Exports of semiconductors are likely to increase owing to the expansion in global demand for semiconductors as the amount of memory used for IT devices increases. Display panel exports are expected to grow due mainly to an increase in devices equipped with OLED panels. Meanwhile, mobile phone exports are projected to remain unchanged as factors with a downward effect on exports, such as expanded overseas production of flagship products, combine with those with an upward effect on exports, including increased demand for mobile phone parts for new models. Vessel exports are expected to decrease due to a decline in the number of ships handed over. Exports of automobiles and auto parts are projected to remain unchanged, as sales in major

export destinations will likely continue to be sluggish, although demand will grow in EMEs and Europe.

Employment: Expanded Increase in the Number of Persons Employed

The number of persons employed during April and May 2017 rose by 400,000 per month year-on-year, on average, showing a wider extent of increase than that in the first quarter 2017 (+360,000 monthly average). By sector, the extent of increase in the number of persons employed in the service sector narrowed, led by wholesale & retail trade and food & accommodation services. However, the extent of decrease in the manufacturing sector narrowed, and the extent of increase in the construction sector widened. By region, the extent of increase narrowed in the Daegyeong region and fell into negative territory in the Honam region, but the extent of increase in the Seoul Metropolitan, Dongnam, Chungcheong and Gangwon regions widened.

Changes in the Number of Persons Employed¹⁾



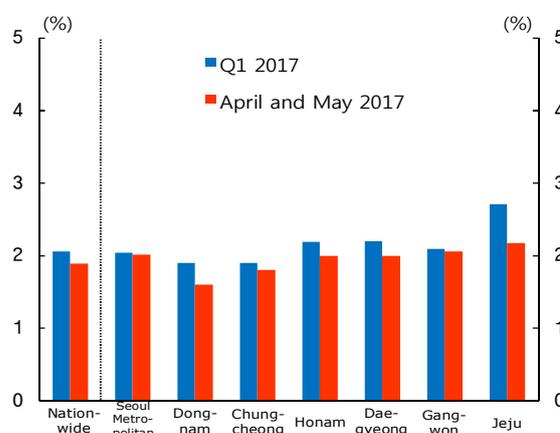
Note: 1) Based on monthly averages of year-on-year changes

Source: Statistics Korea

Consumer Prices and Housing Prices (Decelerating Consumer Price Inflation)

Consumer prices rose 1.9% year-on-year, on average, during April and May 2017, a smaller increase compared to the first quarter of 2017 (+2.1% monthly average). With the prices of agricultural and petroleum products rising at slower paces, consumer price inflation decelerated in most regions.

Rate of Increase in Consumer Prices¹⁾



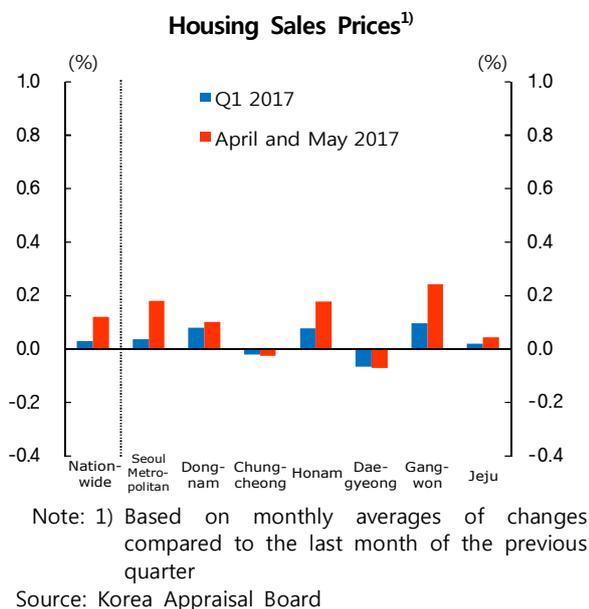
Note: 1) Based on monthly averages of year-on-year changes

Source: Statistics Korea

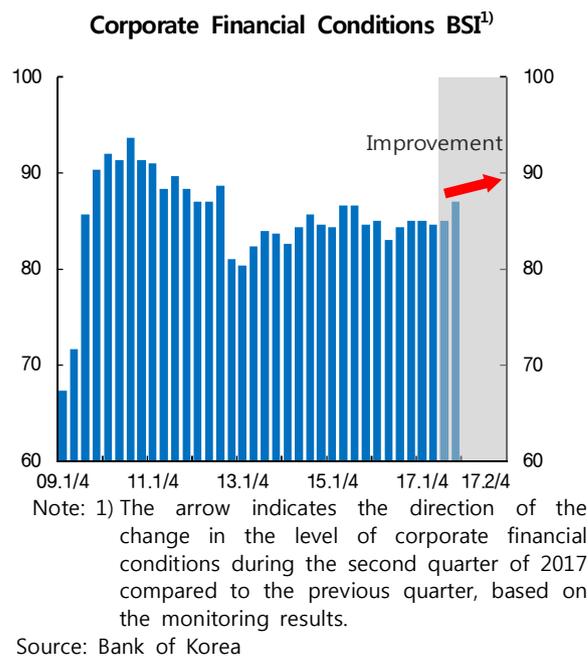
(Faster Pace of Increase in Housing Sales Prices)

During April and May 2017, housing sales prices rose 0.12% per month, on average, compared to the last month of the previous quarter, showing acceleration from the first quarter (+0.03% monthly average). By region, the extent of rise in housing sales prices widened in the Seoul Metropolitan, Honam and Gangwon regions. Meanwhile, in the Daegyeong region, housing sales prices continued to fall, due mainly to an increase in the housing supply and market participants'

wait-and-see attitude. In the Chungcheong and Jeju regions, housing sales prices remained unchanged overall.



to the hosting of local festivals and international events, but those of construction companies deteriorated. In the Daegyeong region, the financial conditions of auto parts companies and wholesale & retail traders are reported to have deteriorated.



Corporate Financial Conditions: Improved

Corporate financial conditions in the second quarter of 2017 are reported to have improved somewhat overall. By region, in the Seoul Metropolitan region, better financial conditions were seen in semiconductor and display panel manufacturers. In the Dongnam region, the financial conditions of petrochemical and oil refining companies improved, while in the Gangwon and Jeju regions, those of tourism-related service providers had been boosted. In the Chungcheong region, the financial conditions of IT-related firms improved, while those of companies in other industries deteriorated. In the Honam region, the financial conditions of service-sector companies improved thanks