Korea Economy and Industry Overview

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1. Overview of the Korea Economy
1. Overview of the Korea Economy

GDP Growth Trend ~ Annual GDP growth continued to rise, while recent quarterly growth further slowed down

- Korea economy continued to grow and maintain moderate rising trend since 2012.
- Real GDP growth rose further by 3.3% YoY in 2014 from 3.0% YoY in 2013.
- This annual GDP expansion was supported by continuous growth in manufacturing and steady growth in export. In addition, plant and equipment investment turned positive.

Quarterly GDP growth in year-on-year posted another slowdown since 1Q14. Despite still growing, it decelerated to 2.7% in 4Q14.

On year on year basis, although positive growths in manufacturing and export were still the underpin for quarterly GDP to expand, the rising paces of both sectors considerably slowed down.

Such slower growths of major drivers along with sluggish construction investment decelerated economic growth.

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**Annual GDP Trend ~ Continued to rise at a moderate pace**

**Quarterly GDP Trend ~ Further slowed down in 4Q14 despite still growing**

<table>
<thead>
<tr>
<th></th>
<th>4Q12</th>
<th>1Q13</th>
<th>2Q13</th>
<th>3Q13</th>
<th>4Q13</th>
<th>1Q14</th>
<th>2Q14</th>
<th>3Q14</th>
<th>4Q14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth (YoY, %)</td>
<td>2.1</td>
<td>2.1</td>
<td>2.7</td>
<td>3.4</td>
<td>3.7</td>
<td>3.9</td>
<td>3.5</td>
<td>3.2</td>
<td>2.7</td>
</tr>
</tbody>
</table>

(Note) 1. Preliminary data was used from 1Q13~3Q14 and advanced estimate data was used for 4Q14
2. Due to the change of System of National Accounts, restated GDP figures were used
(Source) BOK
1. Overview of the Korea Economy

Contribution to Real GDP Growth by Production Activity ~ Recent GDP growth decelerated due to decline in construction and slowdown in manufacturing

- Regarding production activity, manufacturing accounted for 28.6% of total real GDP followed by retail and food hospitality (10.5%) in 4Q14. Besides, finance & insurance and construction accounted for 5.7% and 4.4% respectively.
- In 4Q14, deceleration of quarterly GDP growth in YoY was largely due to decline in construction as well as slowdown in manufacturing and retail and food hospitality.

(Note) 1. Preliminary data was used from 1Q13~3Q14 and advanced estimate data was used for 4Q14
2. Others include real estates & leasing, public admin & defense, information and telecommunication, educational service, business service and etc
3. Due to the change of System of National Accounts, restated GDP figures were used

(Source) BOK
Regarding expenditure, private consumption accounted for 47.0% of total real GDP in 4Q14 followed by construction investment (14.4%), government consumption (14.1%) and plant & equipment investment (9.2%). Besides, net export shared 8.1% of total real GDP as export accounted for 55.9%, while import accounted for 47.8%.

In 4Q14, slowdown in quarterly GDP in YoY was largely due to decline in construction investment and slowdown in export. Private consumption remained tepid and was yet to see significant improvement.

**Contribution to Real GDP Growth by Expenditure Activity**

(Note) 1. Preliminary data was used from 1Q13~3Q14 and advanced estimate data was used for 4Q14  
2. Others include intangible fixed asset investment, other gross capital formation and statistical discrepancy  
3. Due to the change of System of National Accounts, restated GDP figures were used  
(Source) BOK
2. Korean Economic Indicator and Outlook
Export Condition ~ Continued to rise moderately supported by significant demand improvement from US and EU despite headwind by strong KRW

- Korea's total export grew moderately by 2.4% YoY to USD 573,091 million in 2014.
  - By product, semiconductor accounted for 10.9% of total export followed by petroleum (8.9%), automobile (8.5%), general machinery (8.5%) and petrochemical (8.4%).
  - By area, export to China accounted for 25.4% of total export followed by US (12.3%), ASEAN-5 (10.3%), EU (9.0%) and Japan (5.6%).
- In 2014, under the further strong KRW environment, export maintained to grow moderately supported by significant demand improvement from US and EU. Export to the largest market China registered a marginal decline affected by slowdown in China economy and it restrained total export growth.

**Total Export and Growth Rate**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Export (USD million)</th>
<th>YoY (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>12.0</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>14.4</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>14.1</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>13.6</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>13.9</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>28.3</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>19.0</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>2.1</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>2.4</td>
<td></td>
</tr>
</tbody>
</table>

**Export Growth by Area**

<table>
<thead>
<tr>
<th>Year</th>
<th>China (YoY, %)</th>
<th>US (YoY, %)</th>
<th>ASEAN-5 (YoY, %)</th>
<th>EU (YoY, %)</th>
<th>Japan (YoY, %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>24.4</td>
<td>▲3.5</td>
<td>9.1</td>
<td>15.4</td>
<td>10.7</td>
</tr>
<tr>
<td>2006</td>
<td>12.2</td>
<td>4.5</td>
<td>12.8</td>
<td>11.0</td>
<td>10.4</td>
</tr>
<tr>
<td>2007</td>
<td>18.0</td>
<td>6.0</td>
<td>17.7</td>
<td>13.4</td>
<td>▲0.6</td>
</tr>
<tr>
<td>2008</td>
<td>11.5</td>
<td>1.3</td>
<td>23.7</td>
<td>6.3</td>
<td>▲7.1</td>
</tr>
<tr>
<td>2009</td>
<td>▲5.1</td>
<td>▲18.8</td>
<td>▲17.8</td>
<td>▲20.2</td>
<td>▲22.9</td>
</tr>
<tr>
<td>2010</td>
<td>34.8</td>
<td>32.3</td>
<td>39.1</td>
<td>14.8</td>
<td>29.4</td>
</tr>
<tr>
<td>2011</td>
<td>14.8</td>
<td>12.8</td>
<td>32.8</td>
<td>4.1</td>
<td>40.8</td>
</tr>
<tr>
<td>2012</td>
<td>0.1</td>
<td>4.1</td>
<td>10.1</td>
<td>▲11.4</td>
<td>▲2.2</td>
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<tr>
<td>2013</td>
<td>8.6</td>
<td>6.0</td>
<td>7.5</td>
<td>▲1.0</td>
<td>▲10.7</td>
</tr>
<tr>
<td>2014</td>
<td>▲0.4</td>
<td>13.3</td>
<td>1.5</td>
<td>5.8</td>
<td>▲7.0</td>
</tr>
</tbody>
</table>

(Note) ASEAN-5: Indonesia, Malaysia, Philippines, Thailand, and Vietnam
(Source) CEIC
Unemployment Rate and CPI ~ Unemployment rate stayed low and CPI inflation rate further decelerated

- Overall unemployment stayed at a low level during 4Q14. However, youth unemployment rate stayed high albeit the average rate during the period has been lowered.
- As Korean economy is forecast to grow modestly, overall unemployment rate may remain low. Employment in manufacturing and health & social welfare sectors may show some improvement.
- CPI inflation continued to decelerate during 4Q14 largely due to sharp drop in oil price and still lackluster private spending.
- CPI inflation is unlikely to see significant uptrend in the near term. Increase in cigarette price and possible mild improvement in private spending may support the rate to increase to a certain extent. However, the rise would be limited as oil price is projected to remain low. Persistent very low level of inflation needs to be monitored.

(Note) Core CPI excludes oil and agricultural products
(Source) Korean Statistical Information Service ("KOSIS")
KOSPI Index ~ Market was bearish due to negative sentiments affected by rising uncertainties on global economy and lack of catalyst in domestic

- The total market capitalization posted KRW 1,192 trillion as of end Dec 2014 from KRW 431 trillion in early-2005. KOSPI index hovered below 2000 level during 4Q14.

- Bearish market was due to negative sentiments affected by rising uncertainties on global economy along with concerns over interest rate increase and movement of foreign currency exchange rate. Also, lack of strong catalysts in domestic and underperformed results by some major companies discouraged investment confidence.
Sentiment and Economic Composite Indices ~ Leading indices maintained to moved upward implying moderate growth on Korean economy

- Business Sentiment Index ("BSI") stayed at a low level during in 4Q14. Consumer Sentiment Index ("CSI") maintained above 100 under the declining trend.
- BSI was low affected by further slowing economy since 2Q14. Business sentiments were pressured by tardy improvement of domestic demand, uncertain economic condition and slow export growth.
- Regarding leading indicators, LCI and CLI maintained upside directions. It implies economic condition may improve moderately in the near future.

**Sentiment Index**

![BSI and CSI graph](image)

- BSI ~ Business Sentiment Index; CSI ~ Consumer Sentiment Index
- BSI (Manufacturing)
- BSI (Industry total)
- CSI

**Economic Composite Index**

![CCI, LCI, CLI graph](image)

- CCI (Coincident Composite Index)
- LCI (Leading Composite Index)
- CLI (Composite Leading Index)

- LCI, CCI indices: Average 2010=100
- CLI (RHS) Index: above 100 and increasing ~ expansion; above 100 and decreasing ~ downturn; below 100 and decreasing ~ slowdown; below 100 and increasing ~ recovery

(Source) BOK, KOSIS, OECD
Outlook of Korea Economy ~ Korea GDP is projected to grow modestly with support from improvement in domestic and steady export

- Korea economy is projected to expand at moderate paces.
- Forecast on Korea economy has been adjusted down affected by rather soft domestic demand and slowdown in export over the recent past quarters. However, it may still maintain to rise further in 2015-2016.
- Domestic demand is likely to improve modestly. Suppressed private spending may get better marginally backed by stable job market and low oil price. Investment activities would improve affected by government’s stimulus plan and recent recovery signs in construction (i.e. Increase in new ordering and housing price).
- Export might see steady growth in line with global economic expansion. However, complicated uncertainties that could affect global economic growth should be monitored (i.e. impact of interest rate increase by US Fed, QE by ECB, foreign currency exchange rate, China’s more moderate transition etc.)

### GDP Growth Forecast

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>BOK (as of Jan-15)</th>
<th>IMF (as of Jan-15)</th>
<th>OECD (as of Nov-14)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>3.3</td>
<td>3.5</td>
<td>3.8</td>
<td>3.5</td>
</tr>
<tr>
<td>Korea</td>
<td>3.3</td>
<td>3.4</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>China</td>
<td>7.4</td>
<td>7.1</td>
<td>6.9</td>
<td>6.8</td>
</tr>
<tr>
<td>US</td>
<td>2.4</td>
<td>3.2</td>
<td>3.0</td>
<td>3.6</td>
</tr>
<tr>
<td>Euro area</td>
<td>0.8</td>
<td>1.0</td>
<td>1.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Japan</td>
<td>0.1</td>
<td>1.1</td>
<td>1.3</td>
<td>0.6</td>
</tr>
</tbody>
</table>

(Note) Euro area: BOK and IMF ~ Eurozone 17 countries; OECD ~ Euro area 15 countries
(Source) BOK, IMF, OECD
3. Trends of Major Industry in Korea
Electronics ~ Industry is expected to grow modestly with continuous support from semiconductor

- Electronics industry growth slowed down from its high base and posted modest rise. Production and export slightly improved by 1.7% and 3.5% YoY respectively in 2014.

- In 2014, demand was sustained from the major markets, except Japan, and exports to those major areas maintained positive growths albeit slower paces.

- By product, export of semiconductor grew by 9.6% YoY and drove total export growth. It was attributed to high demand from mobile memory as well as some replacement demand from end of Windows XP. Also, DRAM price remained still higher than year earlier. While flat panel display was yet to recover. Export of handset maintained to grow but at a slower pace.

- Looking forward, electronics industry is forecast to grow modestly. Handset would be slightly under pressure due to continuous severe competition and soft growth in premium segment. While semiconductor is expected to grow further with support from stable demand, and it may continue to be a major engine for the industry.

**Electronics Industry Production**

**Export by Major Area**

**Export Major Products**

**DRAM and NAND Price Trend**
Automobile ~ Production may grow modestly due to positive domestic demand and turnaround of export supported by FTA and global demand growth

Automobile production in Korea remained largely flat with marginal growth of 0.1% YoY to 4.52 million units in 2014.

Domestic sales grew supported by series of new models and healthy demand for SUV and mini van.

Export volume slightly declined amid strong KRW and increase in overseas production. Also, lingering effect by withdrawal of Chevrolet sale by GM Korea affected marginal drop in export volume. Meantime, export value maintained to rise due to demand increase for high-end cars.

Looking forward, domestic production may maintain to grow marginally.

- Domestic sales would register positive growth supported by continuous upcoming new models amid economic growth and low oil price. However, growing competition with affordable imported cars and high household debt may restrain the industry growth.

- Export growth is likely to recover supported by FTA and global demand growth. However, large overseas production capacity, economic uncertainty in some developing countries and anticipated weak JPY may result in marginal export growth.

### Domestic Production by Vehicle Type

![Graph showing domestic production by vehicle type](image)

#### Production and Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Production (10,000 units)</th>
<th>Domestic Sales (10,000 units)</th>
<th>Export Sales (10,000 units)</th>
<th>Overseas Production (10,000 units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>370</td>
<td>114</td>
<td>259</td>
<td>74</td>
</tr>
<tr>
<td>2006</td>
<td>384</td>
<td>116</td>
<td>265</td>
<td>101</td>
</tr>
<tr>
<td>2007</td>
<td>409</td>
<td>122</td>
<td>285</td>
<td>116</td>
</tr>
<tr>
<td>2008</td>
<td>383 ▲ 6.4</td>
<td>115 ▲ 5.3</td>
<td>268 ▲ 5.7</td>
<td>146 ▲ 25.4</td>
</tr>
<tr>
<td>2009</td>
<td>351 ▲ 8.2</td>
<td>139 ▲ 20.7</td>
<td>215 ▲ 19.9</td>
<td>190 ▲ 30.5</td>
</tr>
<tr>
<td>2010</td>
<td>427</td>
<td>147</td>
<td>277</td>
<td>260</td>
</tr>
<tr>
<td>2011</td>
<td>466</td>
<td>147</td>
<td>315</td>
<td>314</td>
</tr>
<tr>
<td>2012</td>
<td>456 ▲ 2.0</td>
<td>141 ▲ 4.3</td>
<td>317</td>
<td>364 ▲ 15.8</td>
</tr>
<tr>
<td>2013</td>
<td>452 ▲ 0.9</td>
<td>138 ▲ 1.9</td>
<td>309 ▲ 2.6</td>
<td>411 ▲ 13.0</td>
</tr>
<tr>
<td>2014</td>
<td>452</td>
<td>146</td>
<td>306 ▲ 0.8</td>
<td>441 ▲ 7.4</td>
</tr>
</tbody>
</table>

(Note) Domestic sales ~ Units sold by Korean car makers
(Source) KAMA

### Export by Area

![Graph showing export by area](image)

### Global Sales by Hyundai-Kia

![Graph showing global sales by Hyundai-Kia](image)

(Note) Sales units were based on the shipment
(Source) Hyundai Motor, Kia Motors, News articles
Ethylene production remained flat to 8.29 million tons in 2014. Production of major petrochem sectors grew slowly by 1.3% YoY in 2014. Such slow growth was due to soft demand and production adjustment for the oversupplied products.

Domestic demand was tepid due to rather marginal growths in major down stream industries.

Amid relatively weak domestic demand, significant production increase in some of intermediaries (i.e. PX and SM) supported total export volume to maintain steady growth. However, export value edged down due to sharp price drop in major products.

Looking forward, the industry would improve marginally at best and less likely to see significant improvement. Domestic market would be supported by steady growths in automobile and electronics as well as recovering construction. Export may also grow marginally. Decline in naphtha price could slightly improve price competitiveness of naphtha basis products by Korea against coal or ethane basis products. However, performance may diverge by product.

- Globally oversupplied products (i.e. PX, PTA, PVC etc.) would be under continuous pressure.
- While products expecting better demand with relatively lower self-sufficiency by China (i.e. PE, PP and ABS etc.) may show some growths.
Steel ~ Slower growth is expected as domestic demand and export may improve slowly

- Steel industry showed some sign of recovery in 2014 from its low base. Production of steel products was estimated to rise by 7.5% YoY in 2014 along with the growths in consumption (7.5% YoY) and export (9.9% YoY).
- Consumption was supported by steady demand from automobile and increase in plant & equipment investment. Export was largely driven by demand from US as well as material export to overseas production lines.
- Low raw material price relieved cost pressure and improved industry profitability to a certain extent.
- Looking forward, steel industry in Korea is expected to grow slowly as domestic demand and export may slow down. Despite possible easing down trend, positive growth in domestic demand would be backed by recovering construction industry and stable growth in automobile. Export growth may decelerate under the influence of anticipated slower demand growth in major overseas markets especially China and developed economies.

Crude Steel Production

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (10,000 tons)</th>
<th>YoY Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>7,104</td>
<td>7.5</td>
</tr>
</tbody>
</table>

(Source) CEIC

Production and Consumption of Steel Products

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (10,000 tons)</th>
<th>Consumption (10,000 tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>7,104</td>
<td>6,900</td>
</tr>
</tbody>
</table>

(YoY %)

(Source) KOSA

Raw Material & Steel Price Index Trend

Steel price (World)

Iron ore (RHS)

(Source) Bloomberg

Export of Steel Products by Area

Total export

Japan (RHS)

China (RHS)

US (RHS)

ASEAN-10 (RHS)

EU-27 (RHS)

(Source) KOSA
Shipbuilding ~ Industry may remain subdued, despite possible temporary growth in deliveries, under the influence of weak shipping industry

- New ship completion dropped by ▲5.6% YoY to 10.39 million tons in 2014. It declined three years in a row. For major sectors of Korean shipbuilding industry, container fell by ▲15.0% YoY, while LPG/LNG carrier maintained to grow at 25.4%. Those major two sectors accounted for more than 90% of total completion in 2014.

- In 2014, orderbook by Korea turned negative due to subsided recovery on new contracts. In fact, new contracts declined by ▲36.4% YoY from the short-lived recovery in 2013. Despite overall sluggish global contracting, demand for LNG carriers attracted large interest and posted positive growth. It supported some Korean shipbuilders with high competitiveness in high-value-added sectors.

- Looking forward, current very low level of new ship completion may see temporary increase derived from orderbook growths in previous terms. Amid global new orders are expected to stay low, competition may intensify as Japanese shipbuilders may further enhance its market presence supported by weak JPY. Also, demand for promising LNG carrier and offshore sectors could be restrained by drop in oil price. Overall, the industry may remain subdued as shipping industry is unlikely to see meaningful recovery in the near term.
Retail ~ Mild improvement is expected in a mature and domestic driven industry which may highly move along with improvement in private spending.

- Retail sales grew 1.7% YoY to KRW 360 trillion in 2014. Mild growth trend was owing to slower-than-expected private spending growth.

- For sales by major sector, large discount store rose modestly in 2014. Not-in-store and convenience store continued to see stable growths. While, department store was under pressure by cautious spending on relatively expensive goods.

- Looking forward, retail sales is expected to improve softly in a mature and domestic driven industry. Industry growth would be limited as private spending may improve modestly under the slowly growing economy with relatively high level of household debt.

  ✓ Large discount store may maintain to grow moderately. Not-in-store and convenience store are likely to remain stable with support from convenience, high accessibility and continuously increasing 1-2 person household.

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**Retail Sales and Growth Trend**

(Source) CEIC

**Regulation on the large discount store**

(Source) Various information

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**Growth Rate by Major Sector**

(Source) CEIC
4. Conclusion
Outlook of Korea Economy and Major Industry

- Korea economy is expected to grow modestly although forecast has been adjusted down by factoring in rising global uncertainty and slower-than-expected improvement in domestic. Nevertheless, GDP growth would be sustained due to stable export and still modest improvement in domestic demand.

- Export may grow steadily in line with projection on global economic expansion and trade volume growth. Although the largest export market China’s transition is to be more moderate, still sustainable growth is expected. Also, demand from developed economies may continue as US economy is on the improving track and ECB started QE to boost tepid euro economy. However, for export performance, there is a need to monitor global uncertainties such as movement of foreign currency exchange rate and the impact of interest rate increase by US Fed.

- Domestic demand is expected to improve slightly. Private spending may see modest improvement supported by stable job market and low oil price. However, the growth would be limited due to slowly growing economy and high household debt. Plant and equipment investment may register steady growth and construction investment would improve due to recent recovery signs in construction backed by continuous stimulus plans. Meantime, persistent low level of inflation should be monitored.

- Regarding major industry, most major industries are likely to improve at modest paces, while shipbuilding sector may remain subdued amid delay of recovery in global shipping industry. Electronics industry growth would be led by semiconductor, while handset may under pressure. Automobile might see marginal growth due to positive domestic demand stimulated by new models and recovery on export. Overall petrochem industry would improve marginally at best amid performance by product may continue to diverge. Steel industry may grow modestly at a slower pace in line with slow growths in domestic demand and export. Retail sales are expected to see a limited growth in a mature and domestic driven industry amid anticipated modest growth in private spending.
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