

HRI

Monthly Economic Review

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[Annex] Domestic and Global Economic Indices

□ Recent Global & Domestic Economic Trends

Major Economies

The US economy shows a sign of economic recovery, while Europe's economic difficulty persists. China's export volume recovers after three months of negative growth.

The US industrial production increased by 0.4% in September after a negative growth in August, and retail sales also rose by 1.1%, showing a continuing upward trend. The third quantitative easing(QE3) by the Fed contributed to a slow economic recovery with rising expectation for the improvement of employment and housing market.

Europe's retail sales turned to positive growth of 0.7% in August, but the unemployment rate reached 11.6%, the highest since the Eurozone was born in 1999. Spain recorded the highest unemployment rate of 25.8%, followed by Greece of 25.1%.

The retail sales of Japan showed a marginal increase of 0.4% in September, but the industrial production fell by 4.1%, delaying the economic recovery.

China's industrial production and retail sales rose in September by 9.2% and 14.2% respectively, and export also increased in September by 9.9%, showing a recovery for the first time in three months.

Global Financial Market

The US stock market fell in October due to the deteriorating performance of major global companies.

The worsening performance of major multinational companies, the possibility of prolonged European financial crisis and growing concern over Spain's economic difficulty are to blame for the falling of the US stock market in October, and European stock market shows no signs of recovery. On the contrary, despite a trade deficit for three consecutive months, Japan's NIKKEI Index rose by a small margin in October thanks to the weakening yen and expectation for business-stimulating policies. China's SSE Composite Index showed a modest rise despite concerns over the possibility of economic recession thanks to the expansionary policies and recovering export business.

The JPY/USD exchange rate depreciated in October by a small margin due to the quantitative easing by Japanese government, while the EUR/USD appreciated due to the quantitative easing policies including the ECB's plan to purchase government bonds. The CHY/USD exchange rate also appreciated compared with the figures of the previous months.

< Economic indices of major countries >

(unit : %)

(unit : p, yen, euro, yuan)

| Economic Sectors | | 2011 | 2012 | | | | Economic Sectors | | 2011 | 2012 | | | |
|------------------|-----------------------|--------|------|------|------|-------------|------------------|---------|--------|--------|--------|---------------|---------------|
| | | Annual | Jun | Jul | Aug | Sep | | | Annual | Aug | Sep | Oct | Nov |
| US | Industrial Production | 4.1 | 0.1 | 0.5 | -1.4 | 0.4 | US | DJIA | 12,218 | 13,091 | 13,437 | 13,096 | 13,234 |
| | Retail Sales | 8.0 | -0.7 | 0.6 | 1.2 | 1.1 | EU | DAX | 5,898 | 6,971 | 7,216 | 7,261 | 7,336 |
| EU | Industrial Production | 3.5 | -0.6 | 0.6 | 0.6 | - | | EUR/USD | 0.772 | 0.799 | 0.775 | 0.771 | 0.772 |
| | Retail Sales | -0.6 | 0.1 | -0.2 | 0.1 | - | Japan | NIKEI | 8,455 | 8,840 | 8,870 | 8,928 | 8,947 |
| Japan | Industrial Production | -3.5 | 0.4 | -1.0 | -1.6 | -4.1 | | YEN/USD | 77.66 | 78.58 | 77.62 | 79.03 | 80.00 |
| | Retail Sales | -1.2 | 0.2 | -0.7 | 1.7 | 0.4 | China | SSE | 2,199 | 2,048 | 2,056 | 2,069 | 2,104 |
| China | Industrial Production | 13.9 | 9.5 | 9.2 | 8.9 | 9.2 | | CNY/USD | 6.3190 | 6.3498 | 6.3023 | 6.2647 | 6.2392 |
| | Retail Sales | 17.1 | 13.7 | 13.1 | 13.2 | 14.2 | | | | | | | |

Sources: US department of Commerce; Eurostat;
The People's Bank of China;

Sources: Bloomberg
note: SSE denotes SSE Composite Index

Korean Economy

Real economy improves with the economic indices of September showing positive signs and concerns over the possible domestic economic recession lessening. Export also recovers in October.

Retails sale of semi-durable goods such as clothing fell, but sales of durable goods including computer and communication equipment increased in September by 2.5% after showing a negative growth of 0.4% in August. Facility investment in September fell by 8.2% compared with the figures of the same month of 2011 with the falling investment in general machinery, electrical, and electronic equipment, although the reduction rate shrank compared with that of August. The construction business showed a negative growth of -6.6% in September, a reduced negative growth compared with August.

Export volume increased in October by 1.2%, the first upturn in four months. The trade balance of October recorded US\$3.8 billion in the black, an increase of 24.6% compared with the figure of the same month of 2011, showing a continuous surplus for the last nine months: the first export amount increase compared with the same month of 2011 since June. Import volume recorded an upturn: the first increase in eight months since February, which means that the trade balance came out of ‘the trade surplus in recession’ – a surplus as a result of import decreasing more than export. The unemployment rate recorded a low rate of 2.9% thanks to more people employed in manufacturing and service industries compared with the previous month. The consumer price inflation was up in October to 2.1%, well below 3%, the maximum base rate set by the Bank of Korea.

The Business Survey Index rose from 80.1 in August to 97.5 in September, and to 97.8 in October before it fell to 89.7 in November, continuing to stay below the base point 100.

The composite leading index, cycle variation value fell by 0.7p to 99.4, a downturn for two months.

Financial market fell due to the poor performances of major businesses in October and concerns over strong won currency. The corporate bond yield rates remained same for September and October.

KOSPI dropped in October due to the poor business results of major companies and concerns over strong won currency. The corporate bond yield rates(BBB-) remained same for September and October. The KRW/USD exchange rate appreciated due to the straight purchase by foreigners, quantitative easing policies adopted by leading countries, and the continuing surplus in the current account.

< Korea Major Economic Indices >

(unit : p, %)

| Economic Sectors | | 2011 | | | 2012 | | | | | | |
|-----------------------|---------------------------|--------------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|
| | | Annual | 3/4 | 4/4 | 1/4 | 2/4 | 3/4 | Aug | Sep | Oct | Nov |
| Domestic Market | Retail Sales | 4.3 | 4.7 | 1.9 | 2.0 | 1.0 | 1.6 | -0.4 | 2.5 | - | - |
| | Facility Investment Index | 0.7 | -3.1 | -4.7 | 10.2 | -0.2 | -7.0 | -14.2 | -8.2 | - | - |
| | Construction | -6.7 | -8.4 | -0.5 | -3.7 | -10.8 | -4.8 | -7.9 | -6.6 | - | - |
| Foreign Trade | Export Growth Rate | 19.0 | 21.4 | 9.0 | 3.0 | -1.7 | -5.6 | -6.2 | -2.0 | 1.2 | - |
| Employment/ Prices | Unemployment Rate | 3.4 | 3.1 | 2.9 | 3.8 | 3.3 | 3.0 | 3.0 | 2.9 | - | - |
| | Consumer Price | 4.0 | 4.3 | 4.0 | 3.0 | 2.4 | 1.6 | 1.2 | 2.0 | 2.1 | - |
| Finance | KOSPI | - | 1,770 | 1,826 | 2,014 | 1,854 | 1,996 | 1,905 | 1,996 | 1,912 | 1,898 |
| | KRW/USD | - | 1,178 | 1,152 | 1,133 | 1,145 | 1,111 | 1,135 | 1,111 | 1,091 | 1,092 |
| | Corporate Bond (BBB-) | 10.38 | 10.31 | 10.12 | 10.05 | 9.69 | 8.69 | 8.79 | 8.67 | 8.67 | 8.66 |

Sources: Bank of Korea, National Office of Statistics, Foreign Trade Association

□ Deteriorating trade environment and its countermeasures

Amid prolonged global economic recession, countries around the world are raising walls of protectionism, affecting import of our products. Trade environment is worsening with patent-related litigations increasing among global enterprises such as Samsung.

The backgrounds for the deteriorating trade environment are: ① The slowing down of global trade due to the continuing economic recession as a result of the European financial crisis. Countries are making a move to strengthen protectionism as the growth rate of trade suffered a sharp fall due to the decreasing demand for which the global economic recession of 2012 is responsible. ② Korea is being held in check by many competing countries. The number of items Korea has the largest global market share in increased from 49 items in 2002 to 131 in 2010. Particularly, as Korea's flagship corporations such as Samsung, LG, and Hyundai expanded their global market share, which resulted in growing diversionary moves from competing countries. ③ Foreign governments are raising non-tariff barriers by applying stricter anti-dumping investigations and customs clearance procedures to protect their domestic industries which are vulnerable to the rapidly expanding trend of Free Trade Agreements. ④ As the competition for international patent application is increasingly fierce, enterprises of major countries in direct competition with Korea tend to file more patent-related conflicts and disputes against Korean companies.

Export is set to shrink due to the deteriorating trade environment, and the profitability of export businesses is to fall with many foreign governments tightening protectionism, which could delay Korea's economic recovery and therefore bring down the economic growth rate.

With the gloomy prospect of the global economic recovery, protectionism appears to prevail for the time being. With high dependency on export, Korean economy will suffer for the following reasons: ① Export business is feared to shrink as the trading climate is set to continue to worsen. Increasing trade restriction measures by foreign governments has already caused reduction of export amount by US\$ 3 billion, and legal fees for patent-related litigations will cost Korean exporters US\$1.91 billion, totaling to US\$4.91 billion. ② Korean exporters' profitability is set to drop, as foreign governments are practicing protectionism even more tightly against Korean exporters. With intellectual property right and patent-related litigations increasing, Korean exporters' profit margin have dropped, seriously affecting the employment and investment sentiment of businesses. ③ If export slows down and the profitability of Korean export businesses deteriorates, the recovery of the Korean economy is bound to be delayed and to bring down the growth rate of the Korean economy.

To overcome growing protectionism, Korean government is required to set up strategic countermeasures to cope with different types of protective policies taken or to be taken by foreign governments and upgrade the monitoring system on export items that might be subject to regulation, while strengthening international collaboration to fight protectionism by establishing a regional arbitration organization to deal with trade-related disputes. Meanwhile, businesses should set up tailor-made strategy to counter each protective action taken by foreign governments, and recruit more experts on trade issues, while sharing information with export-related organizations.

□ We cannot afford to delay the reunion of the separated families

The reunion of separated families is a humanitarian issue which should be dealt with regardless of the conflict of ideology. The reunion of separated families is a factor that could unite two Koreas into one, and will act as a catalyst in facilitating interactions between two Koreas, creating a good foundation for the unification of Korea in the long run. The total number of the separated families who applied for reunion since 1988 amounts to 128,747 people, out of whom 52,744(41.0%) have died, and 76,003(59.0%) are surviving. A total number of 6,125 reunions were held involving 25,272 separated family members over the period of 1985 to 2011, out of which 4,386 reunions involving 21,891 people were arranged by government authorities, and 1,739 reunions involving 3,381 people by civilian organizations.

The reunions of separated families should be resumed with no further delay for the following three reasons:

① Vast majority of the members of separated families are the elderly. Looking at the demography of the separated family members, great majority of members are old people, and they are aging fast. All of the applicants for the reunion are over the age of 50, and 79.3% are in their 70s or over. Compared with the figures of 2003, people in their 80s increased by 21%.

② Significant difference between the rate of applicants dying in waiting and the rate of successful reunion: Since 2003, the average annual death rate of applicants in waiting is 2.9%, while the rate of successful reunion is only 1.4%, which means the number of applicants dying in waiting per annum amounts to 3,800, whereas only 1,800 people are lucky enough to have successful reunion. In other words, 2,000 applicants are dying per annum without achieving reunion. The situation is getting worse; during the five year

period from 2008 to 2012, the rate of successful reunion increased only by 1.2%, while the death rate of applicants in waiting rose by 14.7%.

③ The applicants in senior age group have no more than 10 years to live. All of the applicants in waiting are likely to pass away in 20 to 24 years of time, and in the case of the age group of 70 and over, they are likely to pass away in 12 years based on the average life expectancy. If the surviving applicants are all to have a successful reunion in their life time with their separated family members, at least 7,000 applicants should be able to meet their lost family members per annum. In the case of the age group of 70 or over, in particular, 6,400 applicants should be able to have a reunion within the next ten years.

Policy suggestions for expanding reunion of separated families.

With the limitation of time for waiting, the issue of arranging reunion of separated families should be dealt with without any further delay considering the following three points:

- ① The government should resume the discontinued family reunion around the coming lunar New Year day, the most celebrated national holiday for both Koreas.
- ② Reunion should be made available for the maximum number of people considering the fact that many applicants are dying in waiting and that surviving applicants are aging fast.
- ③ Other means of reunion including confirmation of survival of family members, exchanging of letters, and video messages should be made available for the separated family members in addition to the more traditional form of family reunions.

[Annex] Domestic and Global Economic Indices

Domestic/Global Growth Rate

| Category | 2010 | | | | | 2011 | | | | | 2012 |
|-------------|--------|------|------|------|------|--------|------|------|-----|------|-----------|
| | Annual | 1/4 | 2/4 | 3/4 | 4/4 | Annual | 1/4 | 2/4 | 3/4 | 4/4 | Annual(E) |
| US | 3.0 | 3.9 | 3.7 | 2.5 | 2.3 | 1.7 | 0.4 | 1.3 | 1.8 | 3.0 | 2.2 |
| Euro Region | 1.9 | 0.4 | 1.0 | 0.4 | 0.3 | 1.4 | 0.8 | 0.2 | 0.1 | -0.3 | -0.4 |
| Japan | 4.4 | 6.1 | 5.2 | 2.3 | -0.6 | -0.9 | -6.8 | -1.5 | 7.0 | -2.3 | 2.2 |
| China | 10.3 | 11.9 | 11.1 | 10.6 | 9.8 | 9.2 | 9.7 | 9.5 | 9.1 | 8.9 | 7.8 |
| Korea | 6.3 | 8.7 | 7.6 | 4.5 | 4.9 | 3.6 | 4.2 | 3.5 | 3.6 | 3.3 | 2.5 |

Note: 1) IMF figures of October 2012 for 2012 global projections, and HRI figures for Korea projection.

2) Annual rates were compared with those of previous term for the US and Japan, with the rates of the previous term for Euro region, and with the same term in the previous year for China and Korea.

International Finance Index

| Category | | End of 2010 | 2011 | | 2012 | | Compared with previous day |
|----------|---|-------------|-------------|------------|---------|---------|----------------------------|
| | | | End of June | End of Dec | Nov 12 | Nov 13 | |
| Overseas | Ten-year Treasury Bond Interest(%) | 3.30 | 3.16 | 1.88 | 1.61 | 1.60 | -0.01 %p |
| | JPY/USD | 81.19 | 80.66 | 77.66 | 79.55 | 79.44 | -0.11 ¥ |
| | USD/EURO | 1.3350 | 1.4492 | 1.2955 | 1.2709 | 1.2706 | -0.0003 \$ |
| | DJIA(p) | 11,578 | 12,414 | 12,218 | 12,815 | 12,756 | -59 p |
| | Nikkei(p) | 10,229 | 9,817 | 8,455 | 8,676 | 8,675 | -1 p |
| Domestic | Three-year Government Bond Interest Rate(%) | 3.38 | 3.76 | 3.34 | 2.79 | 2.78 | -0.01 %p |
| | KRW/USD(KRW) | 1,134.8 | 1,067.7 | 1,151.8 | 1,088.6 | 1,089.9 | 1.3 KRW |
| | KOSPI(p) | 2,051.0 | 2,100.7 | 1,825.7 | 1,900.9 | 1,889.7 | -11.2 p |

International Raw Materials Price Index

| Category | | End of 2010 | 2011 | | 2012 | | Compared with previous day |
|--------------------------|-------|-------------|-------------|------------|--------|--------|----------------------------|
| | | | End of June | End of Dec | Nov 12 | Nov 13 | |
| International Oil Prices | WTI | 91.40 | 95.18 | 99.22 | 85.63 | 85.35 | -0.28 \$ |
| | Dubai | 88.80 | 106.75 | 104.89 | 106.43 | - | - |
| CRB Future Indices | | 332.80 | 338.05 | 305.30 | 292.15 | 292.16 | 0.01 p |

Note: The CRB index is calculated by giving the same weight to the prices of a total of 19 major commodities including grains, crude oil, industrial raw materials, and precious metals. The index is widely acknowledged as an international standard for the price of raw materials.



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