

# Monthly Economic Review

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## **I. Recent Global & Domestic Economic Trends**

### **Major Economies**

*The US and Japan's economy shows a slow recovery, China still maintains good growth, though not as good as before, while EU remains in economic recession*

The US shows a healthy state of economy with its ISM manufacturing index rising from 52.4(Feb. 2012) to 53.4(Mar. 2012), staying above the critical line 50. The unemployment rate which once soared to 10.0% since the global financial crisis has now fallen to 8.3% as of March 2012. However, the continuing slump of the real estate market, which is the main sector of capital income, and an increasing number of people giving up seeking employment present an optical illusion of unemployment rate.

EU's financial uncertainty has been eased to some extent with the provisional approval of the second bailout for Greece and second supply of long-term liquidity by the ECB. However, the absence of a fundamental solution for the financial crisis, the lack of confidence in Greece practicing its austerity budget, and a deteriorating Spanish financial environment still present several causes for concern.

Japan's economy, despite its export slump, shows sign of slow recovery thanks to the continuing upward tendency of industrial production and the expanding growth rate of retail sales.

China's PMI increased from 51.0(Feb. 2012) to 53.1(Mar. 2012), recording three consecutive months of upturn, enabling industrial production and retail sales to continue to grow.

### **Global Financial Market**

*Fluctuations of global share price and currency exchange rate grew bigger due to the concern over the possibility of EU financial crisis deteriorating further.*

The DJIA rose in March by 2.0% from the February figure thanks to the approval of the 2<sup>nd</sup> bailout for Greece coupled with the improvement of economic indices, whereas the concern over the European financial crisis led to a decrease in April by 2.2% from March close. The DAX index was up by 1.4% in March due to the improvement of German economic indices, but fell by 4.6% in April. Nikkei index also increased in March by 3.7% due to the weakening yen, but decreased in April by 6.1%. The contraction of investment sentiment led to the fall of the SSE composite index by 6.8 in March, but went up by 4.2% in April with the introduction of the expanded ceiling of foreigners' investment in stock.

The JPY/USD exchange rate depreciated in March by 2.4% from the February close rate due to the deficit in the current account and expectation for the additional quantitative easing by

the Bank of Japan, but appreciated in April by 2.5% compared with the previous month's close, while EUR/USD exchange rate depreciated by 1.2% in March due to the concerns over the possible economic recession in the Euro zone and further depreciated by 1.3% in April owing to Spain's deteriorating fiscal health compared with the previous month's closing rate. The continuing recession of the property market and anticipation for economic setback depreciated the CNY/USD exchange by 0.1% in March, and again concerns over business slump did the same by 0.2% in April.

### Economic indices of major countries

(Unit : %)

(Unit : p, yen, euro, yuan)

Economic Sectors		2011		2012	
		Annual	Dec	Jan	Feb
US	Industrial Production	4.1	0.9	0.4	0.0
	Retail Sales	7.7	0.3	0.6	1.1
EU	Industrial Production	3.5	-0.9	0.0	0.5
	Retail Sales	-0.6	-1.2	1.1	-0.1
Japan	Industrial Production	-3.5	3.8	1.9	-1.2
	Retail Sales	-1.2	2.5	1.8	3.5
China	Industrial Production	13.7	12.8	-	11.4
	Retail Sales	17.1	18.1	-	14.7

  

Economic Sectors		2011	2012			
		Annual	Jan	Feb	Mar	Apr
US	DJIA	12,218	12,633	12,952	13,212	12,921
	DAX	5,898	6,459	6,856	6,947	6,625
EU	EUR/USD	0.772	0.761	0.743	0.752	0.761
	NIKEI	8,455	8,803	9,723	10,084	9,471
Japan	YEN/USD	77.66	76.37	80.51	82.41	80.39
	SSE Composite Index	2,199	2,293	2,428	2,263	2,357
China	CHY/USD	6.3190	6.3337	6.2991	6.3058	6.3157

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

### Korean Economy

*Korea appears to be on the way to gradual economic recovery in the midst of recovering domestic demands and continuing trade surplus.*

The growth rates of retail sales and facility investment index expanded in a large scale, and construction turned into the black with improvements in building and engineering sectors.

The trade balance continued to remain in surplus although export decreased by 1.4% in March, 2012, as the amount of import also declined by 1.4% in the same month, recording surplus for two months in a row. The unemployment rate fell in March, 2012 by 3.7% thanks to the rising number of people in their 20s and 50s being employed and increasing number of people employed in service industry. The consumer price fell three consecutive months due to the stabilized prices for services.

BSI rose to 85 in April compared with 84 in March, showing upturn for three consecutive months. Composite leading index and cycle variation value also increased in February by 0.5% compared with the previous month's figures, making it close to the critical line 100.

*Share prices fell and exchange rates depreciated in March due to concerns over the possibility of China's economic recession. Interest on corporate debentures showed upward trend.*

KOSPI decreased by 0.8% in March due to negative factors including concerns over the possibility of economic recession in Euro zone and China, and fell again in April by 1.1% mainly because of stock sales by foreigners

The KRW/USD exchange rate depreciated by 1.3% in March with the US employment index improving and with the weakening anticipation for the additional quantitative easing, and depreciated again by 0.5% in April. The corporate bond yield rates (BBB-) rose by 0.05%p in March with expectation for a recovery of the domestic stock market, but fell by 0.10%p in April as the domestic stock market stayed weak.

### Korea's major economic indices

(Unit: p, %)

Economic Sectors		2011					2012			
		Annual	1/4	2/4	3/4	4/4	Jan	Feb	Mar	Apr
Domestic market	Retail Sales	4.3	5.4	5.7	4.7	1.9	0.6	5.3	-	-
	Facility investment Index	0.7	5.4	5.7	-3.1	-4.7	4.9	22.0	-	-
Foreign Trade	Construction	-6.7	-12.6	-6.6	-8.4	-0.5	-9.5	14.5	-	-
	Export Growth Rate	19.0	29.6	18.6	21.4	9.0	-7.3	20.6	-1.4	-
Employment/Prices	Unemployment Rate	3.4	4.2	3.4	3.1	2.9	3.5	4.2	3.7	-
	Consumer Prices	4.0	3.8	4.0	4.3	4.0	3.4	3.1	2.6	-
Finance	KOSPI	-	2,107	2,101	1,770	1,826	1,956	2,030	2,014	1,993
	KRW/USD	-	1,097	1,068	1,178	1,152	1,123	1,119	1,133	1,139
	Corporate Bond (BBB-)	-	10.58	10.38	10.24	10.01	10.02	10.01	10.06	9.96

## **II. Economic issues facing Korea**

### **□ Sharp Increase of Schwabe Index**

#### **Definition and Recent Trend of Schwabe Index**

Schwabe index denotes the weight of housing expenses as part of the total living cost, and the higher the family income, the lower the Schwabe index. In a strict sense, Schwabe index covers only housing-related expenses including rent, running water, lighting, and heating & air-conditioning, while it can be expanded, if interpreted in a broader sense, to expenses for furniture and utensils for living.

Looking at the recent trend of Schwabe index in a strict sense, Engel's coefficient temporarily soared in 2011, while it has steadily risen since 2007. The Schwabe index gap between different income groups rapidly widened compared with Engel's coefficient. Schwabe index showed a sustained increase from 9.71% in 2007 to 10.15% in 2011: the highest figure since the statistics began in 2003. On the other hand, Engel's coefficient recorded around 13% plus in 2009 and 2010, but rose to 14.18 in 2011. The Engel's coefficient level for 2011 is lower than those for 2003~2005.

#### **Reasons for the rise of Schwabe index**

First, the growth rate of real income slowed down, while the expansion of purchasing power was insufficient, as the portion of non-living expenditure went up. Second, the portion of households' non-essential spending was curtailed due to the standstill or reduction of real income. Household economy tends to cut down expenditure on leisure activities first such as eating-out and other less important affairs when family income stands still or shrinks. Third, the key money/monthly rent index shows a rapid rise since 2009. House rent index has steadily shown upward tendency: 1.6% in 2009, 1.9% in 2010, and 4% in 2011. Lastly, radical fuel cost rise due to the sudden upturn of imported energy raw materials is one of the reasons for the rise of Schwabe index. The prices for imported raw materials for energy recorded high growth rate, 15.8% in 2010, 27.7% in 2011 although it fell by 21.5% in 2009.

## Proposal

Efforts should be focused on expanding households' purchasing power by stabilizing employment market. The burden of paying for the key money / monthly rent should be eased by expanding the supply of residential houses and revitalizing the rental-house market. Government allowance and tax favors for the lower-income group, whose burden for housing expenses are relatively heavier than others should be expanded to ease ever-increasing housing expenses.

### Shift of Engel's Coefficient & Schwabe Index

(%)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Schwabe Index	9.89	9.69	9.81	9.92	9.71	9.72	9.81	10.07	10.15
Engel's Coefficient	15.00	15.06	14.61	14.17	13.78	14.11	13.85	13.86	14.18

Source: Self-calculated by HRI based on Household Economy Trends Survey by the National Office of Statistics.

Note: 1) Engel's Coefficient = expenses for food and non-alcoholic beverage / total household expenses.

2) Schwabe Index(household furniture and utensils not included) = expenses for housing, running water, lighting & heating(air-conditioning) / total household expenses

## III. The North Korean Issues

### □ 2011 North Korea GDP Per Capita: 720 USD

#### *The HRI North Korea GDP Estimation Model*

In August 2011, the Hyundai Research Institute was able to estimate North Korea's GDP per capita using its self-developed HRI North Korea GDP Estimation Model that utilizes infant mortality rates, one of the indicators of health. This report utilizes an improved version of the existing model that incorporates yearly grain output to produce more detailed results.

#### *2011 North Korea GDP Per Capita Estimation*

According to calculations using the improved estimation model, North Korea's GDP per capita increased from 688 USD in 2010 to 720 USD in 2011, a difference of 32 USD.

In 2011, North Korea's GDP per capita was 3% of South Korea's (23,749 USD). Economically, North Korea trails behind other Communist countries (China: 5,194 USD,

Laos: 1,204 USD, Vietnam: 1,362 USD). The countries showing similar income levels as North Korea are Bangladesh (690 USD), Nepal (644 USD), and Zimbabwe (735 USD).

*2011 General State of North Korea's Economic Growth for Domestic and Overseas*

North Korea's economy in 2011 showed some growth as a result of improvements in crop harvesting and the concentrated short-term efforts of the government to build a "strong and prosperous state." The Food and Agriculture Organization (FAO) reports that in 2011, North Korea produced 4,740,000 tons of grain, an increase of 7.2% compared to 4,420,000 tons produced in 2010. In addition, as 2012 was the year of "strong and prosperous" growth in North Korea, concentrated state effort was invested into securing increased provisions for families, constructing 100,000 residences, and resolving the issues of power shortages.

In terms of international relations, North Korea increased its trade with China, progressed its maintenance of the Kaesong Industrial Complex, and continued to receive international aid. China-North Korea trade reached a turnover of 5.63 billion USD, a steep increase of 62.4% compared to 3.47 billion USD recorded in 2010. Trade at the Kaesong Industrial Complex reached 1.7 billion USD, a 17.7% increase compared to 1.44 billion USD in 2010. International aid totaled 97.71 million USD, the highest amount recorded since 2007, showing over a three-fold increase in aid provision compared to 21.78 million USD provided in 2010.

**[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	1.8
Euro Area	1.9	0.4	1.0	0.4	0.3	1.4	0.8	0.2	0.1	-0.3	-0.5
Japan	4.4	6.1	5.2	2.3	-0.6	-0.9	-6.8	-1.5	7.0	-2.3	1.7
China	10.3	11.9	11.1	10.6	9.8	9.2	9.7	9.5	9.1	8.9	8.2
Korea	6.3	8.7	7.6	4.5	4.9	3.6	4.2	3.5	3.6	3.3	4.0

Note: 1) IMF figures of January 2012 for 2012 global projections; Hyundai Research Institute figures for Korean projections.

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

### International Finance Index

Category		2010 close	2011		2012		Previous week-end change
			End of Jun	End of Dec	April 13	April 16	
Overseas	Ten-year Treasury Bond Interest Rates(%)	3.30	3.16	1.88	1.98	1.98	0.00%p
	JPY/USD	81.19	80.66	77.66	80.93	80.41	-0.52 円
	USD/EUR	1.3350	1.4492	1.2955	1.3078	1.3142	0.0064\$
	DJIA(p)	11,578	12,414	12,218	12,850	12,921	71p
	Nikkei(p)	10,229	9,817	8,455	9,638	9,471	-167p
Domestic	Three-year Government Bond Interest Rate	3.38	3.76	3.34	3.49	3.47	-0.02%p
	KRW/USD KRW)	1,134.8	1,067.7	1,151.8	1134.8	1138.5	3.7 원
	KOSPI(p)	2,051.0	2,100.7	1,825.7	2,008.9	1,992.6	-16.3p

### International Raw Materials Price Index

Category		2010 Close	2011		2012		Previous week-end Change
			Jun. Close	Dec. Close	Apr. 13	Apr. 16	
International Oil Prices	WTI	91.40	95.18	99.22	102.85	103.07	0.22\$
	Dubai	88.80	106.75	104.89	118.38	116.23	-2.15\$
CRB Future Indices		332.80	338.05	305.30	302.85	300.76	-2.09p

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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