

## May industrial activities: Economic woes continue

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- **May economic indicators such as industrial output, consumption and investment continued to slow across the board**
- **US' QE exit strategy is a matter of time and fundamental problem still exists despite market's relief**
- **Structure where US economic recovery linked to global rebound is no longer available**

### Mining/manufacturing output shrank against market expectations

May industrial activities indicate the economy is still slowing. Of note, mining/manufacturing output that was pegged to go up 1.0% MoM on a comparison base instead fell 0.4% MoM showed that the economy could not keep up with the market's anticipation. The sole positive aspect was the leading economic index's upturn. Considering global economic conditions, a recovery seems hard to achieve.

**Table 1. YoY industrial activities**

(%)	Nov-2012	Dec	Jan-2013	Feb	Mar	Apr	May
Overall production	1.4	-0.2	3.2	-1.9	-0.8	3.6	1.1
Mining/manufacturing	2.1	-0.4	7.7	-9.5	-2.9	1.6	-1.4
Services	1.4	0.7	1.3	0.3	0.7	2.5	1.6
Construction	1.5	-8.3	8.8	3.6	3.7	19.6	12.5
Public sector	-1.2	3.1	-6.7	16.9	-5.8	11.6	1.9
Retail sales	4.0	2.0	-2.7	1.6	1.8	2.1	0.5
Facility investment	-10.8	-6.3	-15.7	-22.5	-7.9	-12.1	-11.6
Construction orders	-20.0	-43.0	-52.7	-47.0	-20.7	-18.6	-19.1

Source: Statistics Korea

**Table 2. MoM industrial activities**

(%)	Nov-2012	Dec	Jan-2013	Feb	Mar	Apr	May
Overall production	1.1	1.0	-0.9	1.1	-2.0	1.7	-0.7
Mining/manufacturing	2.1	1.6	-1.2	-1.0	-2.4	0.6	-0.4
Services	0.5	0.5	-1.1	1.9	-1.0	0.4	0.2
Construction	1.3	2.1	-0.3	5.5	-2.5	9.8	-4.3
Public sector	0.4	0.8	0.7	3.2	-6.9	11.5	-5.0
Retail sales	1.2	0.4	-1.9	-0.8	1.7	-0.7	-0.2
Facility investment	0.1	6.3	-8.8	1.0	-0.2	-3.8	1.2
Construction orders	4.4	-10.8	-23.7	57.7	-13.5	-3.2	5.1
Leading economic index	99.6	100.0	99.8	99.6	99.5	99.6	99.9
Leading coincident index	99.1	99.2	99.2	99.3	98.9	99.0	98.8

Source: Statistics Korea

### Materialization of US exit strategy is an additional con

Since US' FOMC statement that it could taper quantitative easing (QE3) eroded global investor sentiment, fears are being eased by the FRB's effort to soothe financial markets. However, higher interest rates will weigh on emerging countries that took advantage of ultra-low rates during QE. Despite the US' recovery, their exports are still depressed. For emerging markets, the chance to expand exports has been stymied by the US' growth strategy centered on boosting manufacturing. And they will suffer under higher interest rates after the US implements its QE exit. These circumstances cannot be resolved although the US will not start the exit for six months or a year. As such, the likelihood that an economic rebound will be pushed back again will rile the financial market's anxiety.

### **Still too early to declare probable economic upswing**

Recently, the Korean government revised its 2013 GDP growth from 2.3% to 2.7% considering the effects of stimulating the economy with supplementary budget spending and cutting interest rates. Despite the supplementary budget lifting GDP by 0.4%p, we should not expect the economy to recover any time soon as the global economy is still apprehensive.