Outlook for 12 Leading Industries

Korea’s leading sectors are expected to see modest export growth and low production growth this year as they cope with changes in the industrial environment and competition.

In 2015, the exports of Korea’s 12 leading industries are expected to post 3.4 percent growth – a little higher than in 2014 – considering the global economic recovery and demand for parts, particularly in industrialized countries like the United States. On the other hand, domestic production and demand will see a slowdown in growth.

Exports: For this year the forecast include record-high growth in the information technology (IT)-related manufacturing sector (4.5 percent), and more growth here than in the non-IT-related manufacturing sector (2.3 percent). The second half of the year is predicted to bring higher economic growth than the first half. By sector, exports in all sectors except oil refinery are expected to see growth. In particular, shipbuilding and semiconductor, whose export volume is large, will continue to do well in exports, with about 7 percent growth.

Shipbuilding: The sector is forecast to record about 7 percent growth with the delivery of high-priced offshore plants, whose exports were partly put off in the past year, and the portion of orders covered by the increase in ship prices in 2013.

Semiconductor: This industry will post about 6.1 percent growth following the market expansion for business servers and in demand in new application sectors like wearable devices, solid state drive (SSD), automobile production and medical equipment – this, despite the saturation in the world’s PC and smartphone market.

Home appliance and display: Having recorded negative export growth in the past year, these sectors are expected to post positive growth. In particular, the display sector is forecast to turn around and record a growth rate that started in 2012 and see both supply and demand enter a recovery phase, with the following factors acting in its favor: stabilization of panel prices, increase in demand for larger TV panels and increase in demand for UHD and OLED panels.

Automobile: Automotive production is expected to see growth of about 2.8 percent due to the weak Japanese yen and sluggish demand from emerging countries, despite a rise in export unit prices and an increase in parts exports by domestic businesses to their production bases in foreign countries.

General machinery: This industry is expected to post 3.1 percent growth following the economic recovery of industrialized countries and increase in demand for air-handling devices and pollution-removing goods amid a greater interest in the environment.

Material industry: Growth here is expected to slow compared to the past year. The entire material industry will record 1.6 percent growth. By sector, pharmaceuticals will post 3.6 percent growth. The iron & steel sector will record weak growth of 2.3 percent due to a slowdown in demand from the Chinese market and fierce competition with Chinese and Japanese businesses. Textiles will post 1.9 percent growth due to a slowdown in demand from China despite the economic recovery of industrialized countries and Southeast Asia. Oil refinery will post negative growth.

IT-related manufacturing: Exports of home appliances are forecast to turn around and record 2.8 percent growth following an increase in demand for TV sets and lighting fixtures. Information/communications devices are predicted to record 3 percent growth based on an increase in the exports of SSDs, smartphones and parts, despite unfavorable factors like the fall in export unit prices of smartphones and fierce competition with Chinese-made goods.

PRODUCTION

In 2015, production for the 12 leading industries is forecast to record low growth due to a modest increase in exports. A slowdown in growth in domestic consumption and an increase in overseas production in major sectors like IT-related manufacturing and automobile manufacturing.

By sector, production in the petrochemicals and textiles industries is expected to fall compared to the past year, whereas other sectors such as shipbuilding and semiconductor will post a 1 - 3 percent increase. Production in IT-related manufacturing sectors will record modest 3 percent growth considering the lower-than-expected growth trend and increase in the overseas production of smartphones, displays and semiconductors.

The display sector is expected to turn around and post 3 percent growth following the recovery in exports. Home appliances will turn around and record growth, but the growth rate will remain at 1.9 percent due to an increase in the overseas production of premium home appliances. The semiconductor and information/communications equipment sectors will post growth close to 3 percent amid an increase in production of DRAM and AP, an increase in demand for cell phone parts and the slowdown in growth owing to an increase in overseas production.

Looking at production in non-IT-related manufacturing sectors, they will record low growth in general. By sector, petrochemicals and textiles will post a decrease due to factors like sluggish domestic consumption, a drop in product unit prices and an increase in the import of high-priced goods. Auto manufacturing and shipbuilding will turn around to post modest growth.

Production in shipbuilding will turn around to record 0.8 percent growth with the increase in shipbuilding tonnage through the delivery of orders received in 2013, despite sluggish overall maritime operations. Auto manufacturing will also turn around to post modest growth thanks to improved domestic production conditions despite an increase in demand for imported cars and overseas production. As for food & beverages, the sector is forecast to record 1.6 percent growth based on decelerating consumption trends despite the market expansion for health foods, organic foods and premium foods.

Nowadays, small, late-starter business sectors are doing well in exports, making up for a drop in exports of the 12 leading industries. The share of the seven major late-starter sectors (heavy electric equipment, plastic goods, secondary battery, semiconductor/display-making equipment, alarm signal device parts, cosmetics and electronic medical equipment) in Korea’s entire exports increased from 4.9 percent in 2010 to 6.6 percent in 2013. The seven sectors that are doing better than the others posted an average growth rate of 17.2 percent vs. about 10 percent in entire exports between 1998 and 2013. Their share of the country’s total exports is forecast to grow in 2015.

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In 2015, the growth of Korea’s leading industries is likely to be affected by factors such as a weak Japanese yen, fierce competition with Chinese and Japanese businesses in leading sectors, an increase in overseas production and the effectuation of the South Korea-China free trade agreement.

A persistently weak Japanese yen in 2015 will have a serious negative impact on the country’s exports of oil refinery and auto manufacturing, where domestic businesses are in competition with their Japanese counterparts.

Korea is in fierce competition with Japan in high added value items like gasoline, diesel and aviation fuel. Thus, the continued weakness of the yen will negatively impact the country’s oil refinery exports. Sectores like textiles, household appliances, shipbuilding and food/beverage, where competition with Japan is not fierce, are expected to see reduced profitability and a decrease in exports. As for sectors such as iron & steel, general machinery, semiconductor, in which competition from China is not fierce or in which Korea enjoys a superior position to Japan, exports will hardly be affected by a persistent weak yen.

Korea’s leading industries need to cope closely with changes in the industrial environment and competition with rival countries and take a preemptive step toward enhancing their innovative capability for sustained growth.

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