

Korea: exports rise firmly in March, but trade balance turns to deficit

Korean exports in March appear to have absorbed shocks from the ongoing Ukraine war and partial lockdowns in China. But manufacturing PMI suggests a sharp deterioration in the coming months



Exports of IT products such as semiconductors grew rapidly on the back of strong global demand

18.2%

 Exports

Lower than expected

March export growth decelerated to 18.2% year-on-year (vs 20.6% in February)

Korea's exports continued to grow solidly, albeit at a slower pace, despite worsening global supply chain disruptions. By item, the gain was broadly based with 13 out of 15 major export items advanced, except for motor vehicles (-9.7%) and vessels (-35.9%). IT products such as semiconductors (+38.0%), wireless devices (+44.5%), and displays (+48.3%) grew rapidly on the back of strong global demand and new product launches. In addition, exports of intermediate

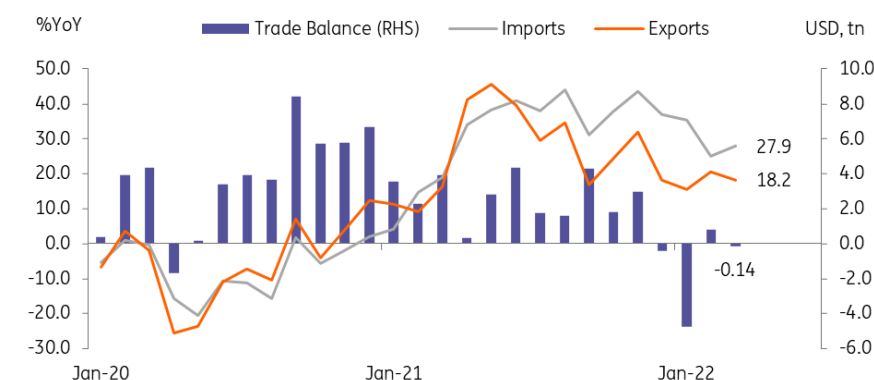
goods such as petroleum (+90%), petrochemicals (+14.8%) and steel (+26.9%) were strong mostly due to improved demand, together with favourable price effects.

Weak car exports were caused by ongoing chip shortages, lockdowns in China, and the earthquake-induced factory shutdown in Japan, which worsened the supply disruptions. Also, the Russia/Ukraine war has played a role as cars are one of the main export items to CIS countries.

By destination, exports to major countries such as China (+16.6%), the US (+19.9%), ASEAN (44.4%), and the Middle East (17.4%) increased, while exports to the EU and CIS dropped by -2.0% and -37.7%, respectively.

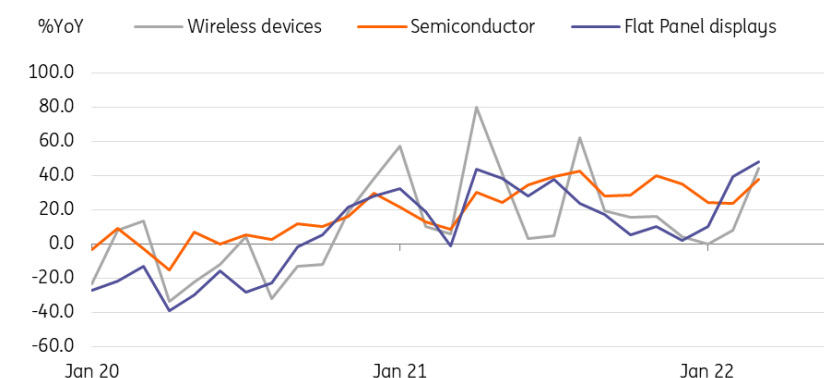
March imports increased by 27.9% year-on-year (vs 25.2% in February) mainly driven by higher energy prices, along with gains in crude oil (+38.0%), gas (+35.6%), and coal (+10.0%). Intermediate goods such as steel and memory chips for processed exports also rose strongly. Rising prices in intermediate goods will put further upward pressure on global inflation with a time lag.

Korea trade balance turned to a deficit



Source: CEIC

IT exports improved on the back of better global demand



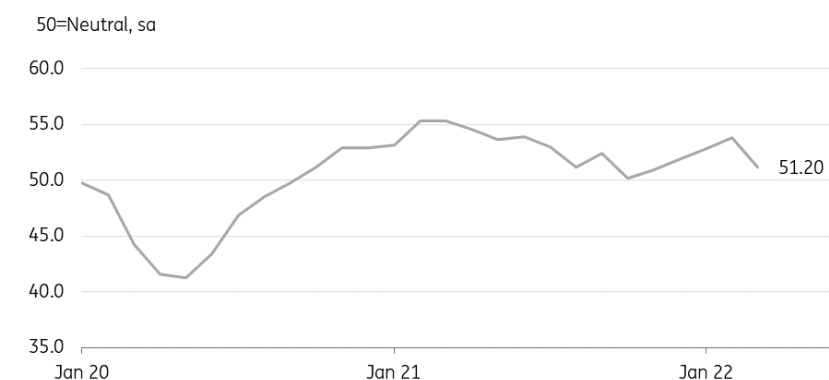
Source: CEIC

The Russia/Ukraine war impact became visible in March

Due to various sanctions, exports to Russia dipped by 40% (between 1-25 March) with auto

(-82.7%), auto parts (-72.3%) and general machinery (-44.7%) falling sharply. Exports to Ukraine almost stopped altogether with a -95% decline. In terms of imports, coal (+143.7%), liquefied natural gas (+201.2%) and naphtha (150.4%) from Russia, and agri-products (+609.4%) and rare gas (150.5%) from Ukraine surged, demonstrating the efforts of Korean manufacturers to stock up inventories before the supply situation gets worse.

Manufacturing PMI fell sharply in March



Source: CEIC

Korea manufacturing PMI slid to 51.2 in March (vs 53.8 in February)

Although steady growth in exports underpinned the recovery in the last quarter, the export outlook is bleak as manufacturing PMI declined to 51.2 in March, the lowest in four months. It remained in the expansionary territory, yet output contracted to 49.1 (vs 52.6 in February) while new export orders fell sharply.

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central

Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.