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)

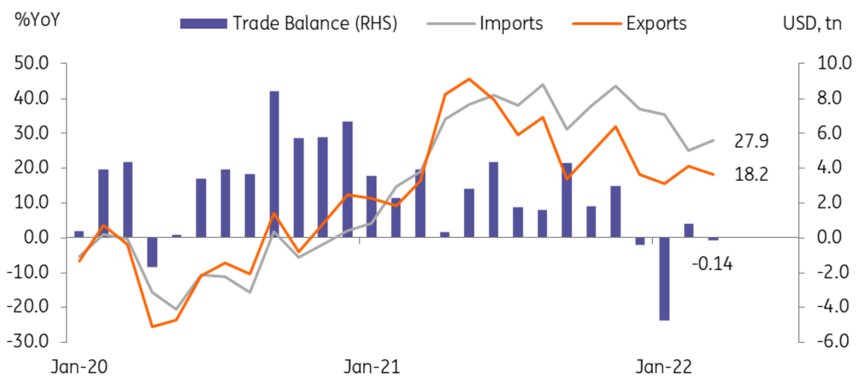
Korea's exports continued to grow solidly, albeit at a slower pace, despite worsening global supply chain disruptions. By item, the gain was broadly based with 13 out of 15 major export items advanced, except for motor vehicles (-9.7%) and vessels (-35.9%). IT products such as semiconductors (+38.0%), 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.

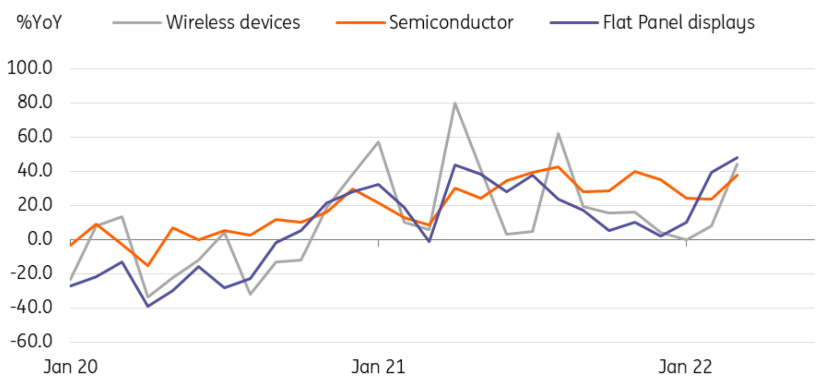
March imports increased by 27.9% year-on-year (vs 25.2% in February) mainly driven by higher energy prices, along with gains in crude oil (+38.0%), gas (+35.6%), and coal (+10.0%). Intermediate goods such as steel and memory chips for processed exports also rose strongly. Rising prices in intermediate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



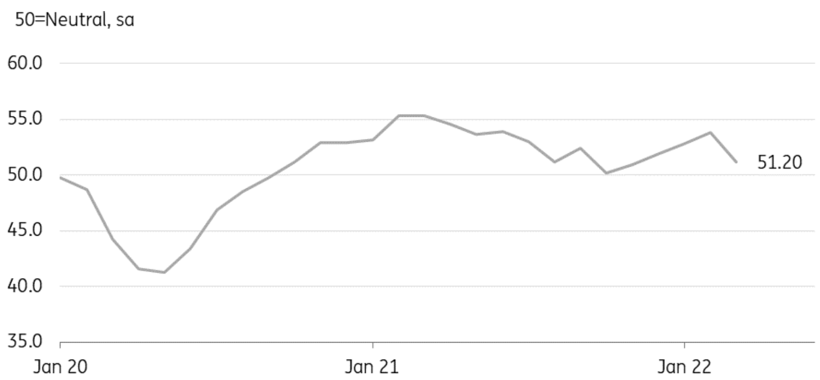
Source: CEIC

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.

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