Economic Trends

Here's a look at Korea's major economic indicators that provide an overview of the country's recent economic developments.

Summary and Assessment*

■ The Korean economy is experiencing a slight easing in export contraction, yet external uncertainties, such as economic instability in China, are intensifying.

- The slowdown in manufacturing production is gradually easing, largely fueled by the semiconductor sector, while services production continues on a modest growth path.
  - The decrease in semiconductor exports is decelerating, and other categories are also exhibiting signs of better export performance.
  - Simultaneously, the expansion in services production has marginally slowed, attributable to temporary factors like the base effect and deteriorating weather conditions; nonetheless, a modest growth trend persists.
- Domestic and international economic uncertainties are escalating, underscored by heightened concerns over China's economic instability and increasing inflationary pressures due to rising international oil prices.
  - The Chinese economy faces growing downside risks, such as financial instability in real estate firms and sluggish real estate investment.
  - Furthermore, the increase in consumer prices, driven by rising international oil prices, could partially hinder the alleviation of economic downturns.

* All growth figures are on a year-on-year basis unless otherwise noted. This document is an English translation of the original Korean version; the Korean version takes precedence in case of any ambiguities or discrepancies.

■ **Economic Activity:** The decline in manufacturing production is gradually easing, fueled by the semiconductor sector, although uncertainty is escalating due to the instability of China's economy.

● In July, the all-industry production growth rate registered at -1.4%, a decline from the previous month's 0.7%. This was influenced by technical factors such as the base effect and fewer workdays, as well as temporary elements like worsening weather conditions.

- Industrial production (-5.9% → -8.0%) fell by a large margin, driven by a slowdown in automobile growth (10.8% → 6.2%) and declines in electronic parts (-11.6% → -19.8%), machinery equipment (-8.0% → -14.5%), and semiconductors (-15.8% → -14.8%).

- However, this contraction was partly due to temporary factors such as fewer workdays (+1 day → 0 day). Given the less severe drop in exports for August (-16.4% → -8.4%), the downtrend in industrial production is showing signs of moderation.

- Services production (3.0% → 1.9%) grew at a slower rate, largely influenced by the base effect and adverse weather conditions. This slowdown was most evident in arts, sports, and recreation-related services (9.1% → -8.4%) and accommodation and food services (-4.7% → -7.2%). Conversely, it experienced a MoM growth of 0.4%, maintaining a slight uptick.

● Meanwhile, the inventory-to-shipment ratio (112.3% → 123.9%) rose by a relatively large margin, but this is mainly
attributed to the seasonality of semiconductor shipments, rather than economic factors.

● The contraction in semiconductor exports is gradually moderating, yet economic uncertainty is rising, as evidenced by rising international oil prices and declining business sentiment driven by concerns about the Chinese economy.

* Semiconductor production (%): (May) -18.7 → (Jun.) -15.8 → (Jul.) -14.8

* Semiconductor average daily exports (%): (Jun.) -31.1 → (Jul.) -33.6 → (Aug.) -20.6

- Amid increasing worries over China's economic situation, the BSI on future tendency in various sectors, particularly in manufacturing, is declining, pointing to a heightening of economic uncertainty.

* China Growth Forecasts for 2023 (Bloomberg, end-month, %): (Jun.) 5.5 → (Jul.) 5.2 → (Aug.) 5.1

* Manufacturing BSI on future tendency (SA): (Jun.) 70 → (Jul.) 69 → (Aug.) 71 → (Sept.) 67

* Non-manufacturing BSI on future tendency (SA): (Jun.) 75 → (Jul.) 78 → (Aug.) 77 → (Sept.) 76.

■ **Consumption:** Service consumption has sustained a gradual increase, although a growing decline in goods consumption indicates persistent weakness in consumption.

● Retail sales (1.5% → -1.7%) in July shifted to a decrease, largely due to the expiration of an excise tax cut and high inflation. Its MoM growth decreased by 3.2%, indicating ongoing contraction.

- Sales of durable goods (8.3% → 1.5%) slowed as domestic car sales (11.6% → -3.6%) turned to a decrease and imported car sales (38.1% → 15.7%) decelerated due to the expiration of an excise tax cut.

- Excluding durable goods, retail sales saw an accelerated decline, particularly in apparel (-2.4% → -6.1%) and food and beverages (-0.7% → -2.6%), both of which experienced relatively quicker price increases.

● Services production (3.0% → 1.9%) registered slower growth, yet maintained a modest upward trend, considering base effects and temporary factors such as adverse weather conditions.

- Face-to-face business sectors, such as accommodation and food services (-4.7% → -7.2%) and arts, sports, and recreation-related services (9.1% → -8.4%), experienced huge losses due to base effects and deteriorating weather conditions. Conversely, non-face-to-face sectors, such as financial and insurance services (7.1% → 7.7%) and transportation and storage (7.9% → 7.3%), maintained strong growth. In contrast, its MoM growth remained modest at 0.4%.

● The CCSI remained high at 103.1, similar to the previous month's 103.2, signifying that consumer sentiment persists in a positive trajectory, unlike business sentiment.

■ **Equipment Investment:** The contraction in both machinery and transport equipment investment has intensified, and leading indicators point to a sustained slowdown in overall equipment investment.

● In July, equipment investment recorded a –11.0% growth, down from the previous month's –2.4%, due to decreases in both machinery and transport equipment.

- Machinery (-7.0% → -11.5%) persisted in its decline in most categories, led by electrical and electronic equipment (-11.3% → -7.4%) and special industrial machinery (-11.9% → -20.5%).
- Transport equipment (11.6% → -9.2%) plummeted as automobiles (21.0% → -14.9%) contracted after the end of excise tax cut.

● The average capacity utilization rate in the manufacturing industry (71.8% → 70.2%) stayed at a low level, indicating that corporate demand for equipment is not high. Leading indicators for equipment investment continue to be lackluster.

- The Bank of Korea's BSI on future tendency for equipment investment plunged to 86 in September from 90 in the previous month.
- Among leading indicators, domestic machinery orders rose by 3.4% in July, but August witnessed steep drops in imports of both machinery (-20.4%) and semiconductor manufacturing equipment (-32.1%), suggesting that the contraction in equipment investment is likely to continue.

■ **Construction Investment**: While construction investment is currently experiencing robust growth, primarily driven by the building construction sector, lackluster leading indicators suggest that this growth may slow down in the future.

● In July, the value of completed construction (constant) increased by 10.8%, following the previous month's trend (9.1%).

- The building construction sector (14.2% → 13.9%) remained strong, particularly in the residential buildings segment. Meanwhile, the decline in the civil engineering sector (-4.3% → -0.8%) eased somewhat.

* Residential building (current, %): (May) 12.1 → (Jun.) 12.7 → (Jul.) 19.8

- On a SA MoM basis, the value of completed construction rose by 0.8%, as the building construction sector (-0.1% → 2.0%) shifted to an increase.

● Conversely, construction orders received (current, -55.3%), a leading indicator, along with housing starts (-71.7%), continued their steep declines. This suggests that the rapid expansion in construction investment may be subject to future adjustments.

- Construction orders received showed a sharp contraction, led by residential buildings (-61.3%), and housing starts have been on a downward trend for 11 consecutive months.
- The actual BSI for the construction industry dropped from 68 to 65, and its future tendency for September also declined from 70 to 65, compared to the previous month.
- Although construction investment has recently demonstrated strong performance, its future growth is likely to be limited due to the lagging impact of the sustained decline in housing starts.

■ **Prices:** While consumer prices have accelerated due to a surge in international oil prices, the underlying trend of slowing inflation endures.

● August's headline inflation stood at 3.4%, up from the previous month's 2.3%, primarily influenced by volatile petroleum and agricultural products.

- The decrease in petroleum product prices (-25.9% → -11.0%) eased significantly, as a result of rising international oil prices. Unfavorable weather conditions contributed to a substantial increase in agricultural commodity prices (0.3% → 5.4%).
- Considering that the expanded increase in consumer prices (2.26% → 3.42%: +1.16%p) can be explained solely by the changing contributions of volatile petroleum (+0.92%p) and agricultural products (+0.24%p), it is difficult to posit this as a change in the overall inflationary trend.
- Conversely, there is a potential for inflationary pressure to mildly escalate owing to the upward trajectory in international oil prices.

* Dubai oil price ($/barrel): (Jun.) 75.0 → (Jul.) 80.5 → (Aug.) 86.5

● However, the core inflation rate (excl. food and energy) held steady at 3.3% from the previous month. The trend of decelerating inflation persists, as evidenced by a reduced rate of growth in service prices.

- The increase in public service prices (1.2% → 1.7%) expanded, primarily led by regulated fares such as urban bus fares and taxi rates. Conversely, the growth in private service prices (4.7% → 4.3%) receded, reflecting a decline in demand.

Source: Korea Development Institute, "Monthly Economic Trends" (www.kdi.re.kr)