

# 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 showing a gradual easing of the slowdown, although external uncertainties linger.
  
- The contraction in exports is lessening across a majority of items, coupled with a partial rebound in semiconductor production, leading to a milder slump in the manufacturing sector.
  - The manufacturing industry is witnessing a marked deceleration in production decline and an increase in the average capacity utilization rate, indicating emerging signs of moderating sluggishness.
  - Moreover, the value of construction completed continued high growth, led by escalating construction costs and the resumption of halted projects.
  
- However, external uncertainties persists, evidenced by the consistent monetary tightening stance in the US and growing inflationary pressure driven by rising oil prices.
  - With the growing anticipation of an extended phase of monetary tightening in the US, domestic market interest rates also ascended, imposing a strain on the economy.
  - Influenced by climbing oil prices, headline inflation has intensified, potentially curtailing consumer spending power.

\*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 downturn in economic activity is easing, centered around semiconductors, although external uncertainties continue to persist.

- In August, the all-industry production grew by 1.5%, reversing the previous month's decline (-1.5%)

- Industrial production (-8.1% → -0.5%) narrowed its decline, as semiconductors (-15.0% → 8.3%) turned to an increase due to heightened demand for high-performance semiconductors, including those used in AI servers. On a MoM basis, there was a 5.5% increase, with semiconductors (13.4%) and automobiles (5.7%) showing significant growth.

- Services production (1.7%) saw faster increases in financial and insurance services (5.7%) and transportation and storage (8.1%) on the back of expanded financial transactions and increasing overseas travel, respectively, and a narrower decline in accommodation and food services (-7.3% → -4.6%) thanks to a rise in foreign tourists.

\*Departure/Arrival (persons in 10,000s): (Jun.) 555 → (Jul.) 632 → (Aug.) 659

- The average capacity utilization rate in the manufacturing industry (70.0% → 73.4%) rose sharply from the previous month, pointing to a moderating slowdown.

- The capacity utilization rate (MoM) saw a significant increase, centered around semiconductors (13.5%) and automobiles (7.9%).

- Semiconductor export volume and production saw significant growth, but business sentiment seems to be contracting due to increasing external uncertainties such as the prolonged tightening of the US monetary policy and escalating oil prices.

- With semiconductor exports maintaining a strong growth trajectory, production also turned to an increase.

\*Semiconductor average daily export volume (%): (Jun.) 16.3 → (Jul.) 4.0 → (Aug.) 22.4

\*Semiconductor production (%): (Jun.) -15.8 → (Jul.) -15.0 → (Aug.) 8.3

- With major countries likely to sustain high-interest rates and the rise in oil prices, the global economy is experiencing increased downward pressures.

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

(Sept.) 93.3

- The non-manufacturing BSI on future tendency remains at its long-run average of 77, while the manufacturing BSI on future tendency lingers at a lower level.

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

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

■ **Consumption:** Despite a modest increase in service consumption, the contraction in goods consumption persists due to ongoing reduction in real income.

- In August, retail sales (-1.7% → -4.8%) saw an expanded decline influenced by high prices and interest rates, continuing the sluggish trend in goods consumption.

- Real income has been on a decline since the first quarter of the previous year, leading to diminished consumer spending capacity.

- With a significantly reduced growth of imported passenger cars (15.7% → 0.9%), communication devices and computers (8.4% → -2.1%) and food and beverages (-2.8% → -8.5%) also performed poorly.

- Reflecting the contraction in goods consumption, production in wholesale and retail trade (-1.9% → -3.5%) intensified its decline.

- Service consumption continued its modest growth, fueled by the growth in financial transactions and heightened travel demand.

- Financial and insurance services (6.9% → 5.7%) and transportation and storage (7.3% → 8.1%) sustained their high growth.

\*Overseas card approval for Residents (%): (Jun.) 27.8 → (Jul.) 34.0 → (Aug.) 21.6

- Services production, seasonally adjusted, sustained a moderate growth of 0.3% MoM, attributed to the eased contraction in accommodation and food services (-1.3% → 3.0%).

■ **Equipment Investment:** The extended period of high-interest rates and growing external uncertainties persistently dampen the investment climate, lea-

ding to continued slump in equipment investment.

- In August, equipment investment (-14.9%) continued a significant decline, trailing the previous month's -11.2%.

- Investor demand was constrained by increasing funding costs due to high-interest rates and weakened external demand.

- By category, machinery (-11.8% → -17.3%) intensified its decline, centered around special industrial machinery (-20.5% → -32.0%) plunging, and transport equipment also continued its descent (-9.3% → -7.3%), due to the persistent contraction in automobiles (-15.0% → -22.7%) following the expiration of an excise tax cut.

- Conversely, some leading indicators that were previously languid have shown a rebound.

- August's manufacturing average capacity utilization rate (70.0% → 73.4%) exhibited a surge, centered around semiconductors.

- In September, machinery imports (17.7%) rose significantly, and the decline in semiconductor manufacturing equipment imports (-32.1% → -2.1%) narrowed.

■ **Construction Investment:** Construction investment indicators exhibit strong growth, but housing-related leading indicators remain sluggish.

- In August, the value of construction completed (constant) saw a 12.3% increase, surpassing the previous month's 10.5%.

- This improvement is attributed to rising construction costs and the resumption of previously deferred projects.

- By type, building construction (13.3% → 14.9%) sustained its recent high growth, and civil engineering (0.3% → 3.8%) rose by a large margin.

- However, the persistent huge decline in three leading indicators, construction orders received and housing permits and starts, could potentially hamper future construction investment growth.

- With a general downturn in most types, the contraction in construction orders received (current, -59.0%) intensified.

- Housing permits (-89.4%) plunged, and housing starts (-69.6%) are also notably sluggish, led by apartments.

■ **Prices:** Headline inflation accelerated, influenced by volatile items, while the trajectory of underlying price inflation remains tepid.

- Headline inflation rose to 3.7% in September, up from the previous month (3.4%), driven by volatile prices of oil and agricultural products.

- The decline in petroleum product prices (-11.0% → -4.9%) narrowed sharply, attributed to soaring oil prices, while the increase in agricultural product prices (5.4% → 7.2%) widened, contributing to an uptick in headline inflation.

- The ongoing steep rise in oil prices through September is expected to reduce the decline in import prices, exerting upward pressures on inflation.

\*Dubai oil price (\$/barrel): (Jul.) 80.5 → (Aug.) 86.5 → (Sept.) 93.3

- However, given that core inflation (excl. food and energy) remained steady at 3.3%, unchanged from the previous month, it can be inferred that underlying price inflation has not expanded.

- The rise in personal services prices continues to decelerate, reflecting weakened demand.

\*Personal service prices (%): (Jul.) 4.7 → (Aug.) 4.3 → (Sept.) 4.2