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 signs of a moderated economic deceleration, led by the semiconductor industry, although external uncertainties persist.

● Service productions is maintaining a steady increase, and the slowdown in manufacturing production and export is beginning to ease, driven by the semiconductor industry.

- Bolstered by the expansion of travel demand, related service industries are seeing sustained growth in production. The construction sector is maintaining robust growth, and employment figures in related industries have rebounded.
- Exports have displayed moderate sluggishness across most items, including semiconductors.
- High-interest rates have kept goods consumption and equipment investment subdued.

● However, rising interest rates in the US and escalating tensions in the Middle East are contributing to lingering external uncertainties.

- The rise in US market interest rates is likely to influence domestic market rates, potentially hampering domestic demand.
- Furthermore, intensifying geopolitical tensions are driving up the volatility of global oil prices.

*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 economic slowdown begins to ease, led by the semiconductor industry, while external uncertainties persist, as indicated by high interest rates and Middle East instability.

● September's all-industry production increased by 2.8%, surpassing the previous month's 1.3%.

- Industrial production (3.0%) contracted less, supported by a significant leap in semiconductor production (8.4% → 23.7%) due to renewed IT demand, and a rebound in primary metals (-1.8% → 12.5%), which can be attributed to a base effect from last year's drop in steel production.

*On a SA MoM basis, industrial production climbed by 1.8%, sustaining the previous month's 5.2%, despite a decline in automobiles (6.2% → -7.5%), largely due to partial strikes.

- Services production (2.2%) shows a slowdown in growth on a YoY basis due to the base effect from the previous year. However, on a MoM basis (SA), there is continued favorable growth of 0.4%, led by accommodations and food services (2.4%) and transportation and storage (2.2%), driven by expanding travel demand.

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

- Additionally, construction production (10.8% → 14.5%) sustained high growth.

● The average capacity utilization rate in the manufacturing (73.2%) remained elevated consistent with the previous month, and the inventory-to-shipment ratio (124.3% → 113.9%) plunged, signaling a gradual recovery.

● The contraction in the manufacturing industry has eased, accompanied by modest growth in services. However, there remain downward risks such as the rising market interest rates and ongoing geopolitical conflicts in the Middle East.

- The spillover effect of heightened US market interest rates is driving up domestic market interest rates, exerting downward pressure on the economy.

*Government bond yield (3yr, end-month, %): (Aug.) 3.71 → (Sept.) 3.88 → (Oct.) 4.09

- Furthermore, the intensifying conflicts in the Middle East are adding to inflationary pressures on commodity prices, increasing economic uncertainty amid worsening external conditions (refer to Figure).
- Thus, the BSI on future tendency in the manufacturing industry continues to hover at a low level despite a reduction in export decline, and the non-manufacturing industry's BSI has seen a sharp downturn.

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

*Non-manufacturing BSI on future tendency (SA): (Aug.) 77 → (Sept.) 76 → (Oct.) 77 → (Nov.) 69

■ **Consumption:** Service consumption continues to exhibit modest growth, while the contraction in goods consumption persists due to high interest rates and deteriorating consumer confidence.

● Service consumption saw a gradual increase, supported by the gradual recovery of travel demand.

- On a MoM basis, services production (0.4%) continued modest growth in September, driven by accommodation and food services (2.4%) and transportation and storage (2.2%), which are closely linked to travel.
- Sales at duty-free shops have been strong since August, marking a turnaround from previous declines.

*Duty-free shop sales (MoM, %): (Jun.) -2.6 → (Jul.) -5.9 → (Aug.) 2.4 → (Sept.) 4.8.

● In contrast, goods consumption has been dampened by persistently high interest rates.

- The decline in retail sales (-4.7% → -1.9%) softened, owing to a base effect, and saw a slight MoM increase (SA) of 0.2%.
- The end of an excise tax reduction has had lingering effects, with passenger car sales turning negative (1.1% → -0.9%), as purchases of electric vehicles are postponed in anticipation of increased subsidies.

● Additionally, the rise in market interest rates has lowered the CCSI (99.7 → 98.1), hinting at potential deterioration in consumer spending.

■ **Equipment Investment:** Equipment investment continues to falter amid persisting high interest rates.

● In September, equipment investment (-14.6% → -5.7%) sustained its contraction from the previous month.

- Despite a slower decrease in semiconductor production, high semiconductor inventory levels suggest that demand for new investment remains at a low level.

- This contributed to a marked decrease in special industrial machinery (-31.1% → -11.9%), and a continued decline in other machinery due to ongoing high interest rates.
- Transport equipment investment (-6.5% → -2.0%) also remained weak, with the downturn in automobiles (-21.4% → -11.6%) post the excise tax cut expiry.

● The contraction in leading indicators, such as domestic machinery orders received and imports related to semiconductor investment, point to ongoing constraints in investment conditions.
- In September, domestic machinery orders (-24.0% → -20.4%) extended their sharp declines, led by special industrial machinery (-45.4% → -41.7%).
- October saw a further decline in imports of semiconductor manufacturing equipment (-2.1% → -18.4%), compared to the previous month.

■ **Construction Investment:** Construction investment continues its overall positive growth trajectory, yet persistent contraction in leading indicators signals a possible slowdown, led by housing construction.

● In September, the value of completed construction (constant) surged by 14.5%, extending the preceding month's 10.8% growth.
- The building construction sector's growth (14.0% → 11.3%) remained strong, while the civil engineering sector (0.3% → 25.3%) saw a marked increase, primarily in general civil engineering works.
- On a SA MoM basis, the growth rate held steady at 2.5%, aligning with the recent positive trend.

● However, leading indicators, such as construction orders received and housing starts, exhibited a marked downtrend, pointing to a potential limited growth in future construction investment.
- The construction orders received (current, SA) totaled 13.1 trillion won, which is -13.6% below the recent five-year monthly average of 15.1 trillion won, indicating sluggishness.
- Housing starts (-63.6%) continued to record significant declines, driven by reduced profitability among construction firms and a sluggish real estate market.

■ **Prices:** Headline inflation remains high, albeit with a continued slight slowdown.

● October's headline inflation marginally accelerated to 3.8%, up from September's 3.7%, driven by fluctuations in petroleum and agricultural products.
- Petroleum product prices (-4.9% → -1.3%) moderated their decline, reflecting a rebound in global oil prices, while agricultural product prices (7.2% → 13.5%) jumped amid adverse weather, maintaining headline inflation at a high level.
- The repercussions of the Israel-Hamas conflict in October on global oil prices are yet to be realized, but oil price volatility related to geopolitical risks seems to have escalated.

*Dubai oil price ($/barrel): (Aug.) 86.5 → (Sept.) 93.3 → (Oct.) 89.8

● Core inflation (excl. food and energy) ticked down from 3.3% to 3.2%, suggesting a slight relaxation in the underlying inflation trend.
- Administered prices, such as urban transport fares for railways and buses, have risen markedly, whereas personal services prices, indicative of private demand, are showing a deceleration in growth.

*Personal service prices (%): (Aug.) 4.3 → (Sept.) 4.2 → (Oct.) 4.1

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