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*

■ Despite a slowdown in domestic demand, the Korean economy is exhibiting signs of a gradual easing of economic sluggishness, largely driven by exports.

- High interest rates continue to put a drag on consumption and equipment investment, while the pace of inflation is gradually stabilizing.
  - Goods consumption is sluggish, and the growth in service consumption has also decelerated.
  - The prolonged period of elevated interest rates is deteriorating investment conditions, and with semiconductor inventory staying at high levels, equipment investment has shown a decline.
  - Inflation has likewise slowed, mirroring the weakness in domestic demand.

- However, exports, mainly fueled by semiconductors, are showing signs of a gradual recovery, helping to mitigate the economic sluggishness.
  - A rise in demand for the latest smartphone models and AI server products has led to a rebound in semiconductor exports.
  - Additionally, the business sentiment indices among exporting companies are showing gradual improvement.

*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:** Despite elevated interest rates dampening domestic demand, the contraction in economic activities continues to ease, led by semiconductors.

● While sectors heavily reliant on domestic demand experienced a slowdown, all-industry production in October saw a modest growth of 1.0%, despite a reduction in workdays (-0.5 day). This growth is attributed to the sustained high growth in the semiconductor industry.
- Industrial (mining and manufacturing) production (1.1%) has faced a more notable downturn in equipment-related industries, due to diminished investment demand. However, escalating demand for semiconductors (14.7%) and automobiles (2.8%) is serving to mitigate the production downturn.
- Services production (0.8%) decelerated, led by accommodation and food services and wholesale and retail trade, as a result of reduced consumer spending triggered by elevated interest rates.

● In October, the manufacturing industry experienced a rise in the inventory to shipment Services production (2.1% → 0.8%) saw minimal growth, led by accommodation and food services (-1.3% → -5.2%).
- The three-month moving average, which removes quarterly seasonality, indicates a marginal decrease in the inventory-to-shipment ratio (120.3% → 119.8%) and a stable average capacity utilization rate (72.0% → 72.1%).

● The contraction in exports has been mitigated by advancements in the IT industry, while domestic demand is experiencing a slowdown, particularly in sectors that are sensitive to interest rates.
- The gradual improvement in exports is mainly attributed to (i) the robust growth in semiconductor export volume, with prices now showing an upward trend, and (ii) the consistent demand from the US.
- In contrast, on the domestic demand side, persistently high interest rates are leading to a continued decline in goods consumption and equipment investments, with the service industry also exhibiting signs of deceleration.
- This disparity in economic activity across different sectors is reflected in business sentiment; the BSI for future tendency among export companies is gradual improvement, whereas it continues to deteriorate for firms reliant on domestic demand.

■ **Consumption:** Consumption is experiencing stagnation, demonstrating a decrease in goods consumption and a deceleration in service consumption growth.

● In October, retail sales (-2.0% → -4.4%) exhibited a more pronounced decline, with continued high growth in consumer goods inventory, pointing to a contraction in goods consumption.
- Most consumer goods, including automobiles (-0.9% → -5.3%), home appliances (-9.7% → -12.5%), apparel (-9.8% → -6.7%), and food products and beverages (3.5% → -6.1%), reported declines.
- With decreases across all metrics — production (-0.3%), shipments (-1.1%), and imports (-6.0%) of consumer goods, the persistently high inventory growth (7.6%) indicates a sluggishness in goods consumption.
- Furthermore, production in wholesale and retail trade (-3.7%), closely associated with goods consumption, continued to decline.

● Service consumption, which had previously showed moderate growth, exhibited slower growth.
- Services production (2.1% → 0.8%) saw minimal growth, led by accommodation and food services (-1.3% → -5.2%).

● The CCSI (98.1 → 97.2) in November continued to decrease, suggesting a persistent weakness in consumption that is likely to endure.

■ **Equipment Investment:** Equipment investment appears to be stagnating, largely due to prolonged high interest rates and the significant accumulation of semiconductor inventory.

● In October, equipment investment (-5.6% → -9.7%) continued to decrease from the previous month, primarily in semiconductor-related investments.
- Despite a rebound in the semiconductor market, persistently high inventory levels have curtailed the demand for related equipment investments.
- Accordingly, special industrial machinery, closely associated with semiconductor investment, experienced a steeper decline from -11.7% to -20.4%, and other machinery also remained subdued due to high interest rates.
- Transport equipment (-1.5% → -4.3%) saw an expanded

decline, with automobiles (-11.3% → -15.1%) contracting notably amid weak demand.

● Most leading indicators continue to decelerate, suggesting that investment conditions remain tight.
- November's machinery imports (-20.9%) continued to decelerate significantly, with a focus on imports of semiconductor manufacturing equipment (-28.2%).
- Although orders received for special industrial machinery (14.7%), known for its high volatility, increased in October, the three-month moving average exhibited a decrease of 30.0%, indicating that semiconductor investment may continue to contract for the time being.

■ **Construction Investment:** While the robust growth of construction investment is somewhat slowing down, leading indicators persist in stagnation.

● In October, the value of completed construction (constant) posted a relatively high growth rate of 4.1%, though it showed a gradual deceleration in pace.
- The value of completed construction has been witnessing a modest slowdown in growth since March, primarily centered around the building sector (9.2% → 2.0%).
- In contrast, the civil engineering sector (11.2%) continued to exhibit high growth from the previous month's 18.2%.

● Leading indicators remained lackluster, suggesting a potential deceleration in construction investment in the future.
- Construction orders received, which turned positive at 26.6% mainly due to the base effect, still remained low at 13.5 trillion won. This is below the recent 5-year monthly average (15.2 trillion won) on a seasonally adjusted basis.
- Building permit area (-40.7%) and building start area (-19.4%) continued their steep decline, likely posing a downward pressure on future construction investment.

■ **Prices:** While domestic demand remains subdued, inflation has continued to decelerate due to the decline in international oil prices.

● In November, headline inflation registered a lower increase of 3.3% down from the previous month's 3.8%, centered on petroleum products.
- Headline inflation contracted, primarily due to declining international oil prices, with a focus on petroleum products (-1.3% → -5.1%).
- Despite geopolitical risks in the Israel-Hamas situation, oil prices have continued to slide on concerns over global demand slowdown.
* Dubai oil price ($/barrel): (Sept.) 93.3 → (Oct.) 89.8 → (Nov.) 83.6

● Core inflation (excl. food and energy) also persistently declined from 3.2% to 3.0%, indicating a reduction in underlying inflationary pressures.
- The prolonged trend of high interest rates is contributing to a deceleration in the prices of durable goods, notably auto mobiles and furniture.

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