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 has shown a slight slowdown in domestic demand, yet there is a gradual softening in the downturn, led by the semiconductor industry.

● Consumption and investment are both decelerating, largely influenced by persistent high interest rates.

- Goods consumption continues its downward trend, while service consumption maintains a low growth trend.
- With high inventory levels, equipment investment demand is sluggish, while the com pounded decrease in construction orders received is also slowing the growth in construction investment
- The slowdown in domestic demand is also leading to a deceleration in both employment growth and inflation.
- Inflation has likewise slowed, mirroring the weakness in domestic demand.

● However, exports are exhibiting a recovery, serving a pivotal function in mitigating the economic slowdown.

- Boosted by the growing demand for AI servers, semiconductor exports significantly increased, and automobile exports also showed a positive trend.
- Additionally, the declines in manufacturing, excluding semiconductors and automobiles, is gradually easing.

*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 the dampening of domestic demand due to persist high interest rates, the economic slowdown shows signs of easing, primarily in the semiconductor industry.

● In November, all-industry production increased by 2.5%, with a notable surge in semiconductor production.

- Industrial production (5.3%) sustained its recovery, driven by a 42.4% surge in semiconductors, spurred by both base effects and a rising demand for AI server-related semiconductors.

* Although automobiles (2.5% → 2.0%), which had seen high growth, experienced a lessened contraction, suggesting a general easing across diverse industries.

- Conversely, services production (1.9%), which is closely tied to domestic demand, has remained at a low growth rate, led by accommodation and food services (-3.3%) and wholesale and retail trade (-.1.5%). Moreover, on a seasonally adjusted month-on-month basis, there was a slight deceleration with decreases observed in both October (-0.9%) and November (-0.1%).

● The average capacity utilization rate in the manufacturing industry saw a slight increase of 71.9%, while the inventory-to-shipment ratio fell to 114.3% from the previous month's 123.2%, indicating a recovery.

- In terms of the three-month moving average, which excludes the effect of quarterly seasonality, the inventory-to-shipment ratio (120,1% → 117.0%) also showed a modest decline.

- Export shipments (17.2%) surged, while domestic shipments (0.0%) stagnated, implying that the manufacturing industry's recovery is export-driven, rather than fueled by domestic demand.

● Industries tied to domestic demand show signs of some stagnation, while exports are maintaining a recovery trend led by the semiconductor industry.

- Industries such as services that are closely linked to domestic demand continued slow growth, influenced by high interest rates.

-Semiconductor exports (21.8%) rebounded propelled by rising demand for AI server-related semiconductors. Automobile exports (17.9%) also saw a significant increase, driven by eco-friendly vehicles, bolstering export recovery.

* However, as automobile supply was achieved more through inventory depletion than production expansion, the growth in automobile production has somewhat decelerated.

- Reflecting the divergence between domestic demand and export conditions, the business sentiment on future tendency for domestic manufacturing firms showed a declining trend, whereas that for export-oriented firms continued a mild upward trajectory.

■ **Consumption:** The decline in goods consumption moderated largely due to temporary factors, but persistent high interest rates continue to dampen consumer spending.

● In November, the contraction in goods consumption was temporarily lessened, mainly due to the base effect and discount events.

- Sales in department stores (-2.2% → 8.2%) and large retail stores (0.2% → 6.5%) saw substantial increases sue to the base effect from the dampened consumer confidence following the Itaewon tragedy in 2022.

- Passenger car sales (-5.3% → 4.8%) rose, spurred by promotional discounts and new model releases, resulting in a corresponding shift in consumer goods inventory (7.6% → 0.2%) towards a decrease.

- Due to these temporary factors, the decline in retail sales (-4.5% → -0.3%) lessened; however, with sustained high interest rates, the downturn in goods consumption persists.

● Service consumption exhibited a gradual deceleration in growth.

- Services production recorded a low growth rate of 1.9%, led by accommodation and food services (-3.3%) and wholesale and retail trade (-1.5%)

- Its seasonally adjusted month-on-month growth rate fell by 0.1%, indicating a slowdown in service consumption.

● Meanwhile, the CCSI (97.2 → 99.5), slightly increased in December, influenced by factors such as falling market interest rates.

■ **Equipment Investment:** Equipment investment remains subdued overall due to high semiconductor inventories and persistent high interest rates.

● In November, equipment investment (-9.9% → -11.9%) continued a huge decrease, primarily in semiconductor-related investments.

- Despite improvements in semiconductor production and shipments, the sustained high level of semiconductor inventories led to an expanded decrease in special industrial machinery (-21.0% → -23.9%), which is heavily tied to semiconductor investments.

- Following the termination of the excise tax reduction, automobiles (-15.1% → -18.0%) exhibited a huge drop, continuing the slump in transport equipment (-4.4% → -3.6%).

● Leading indicators, such as import value, are decreasing, signaling that investment conditions remain constrained.

- Orders received for special industrial machinery shifted from growth (14.3%) to a sharp decline (-23.1%). December saw a continued decrease in machinery imports (-10.3%) from the previous month, centered on semiconductor manufacturing equipment (-24.5%), pointing to a potential ongoing slump in equipment investment.
- Meanwhile, there are some positive signs for future equipment investment: domestic machinery orders received (16.6% → 17.0%) exhibited an increase led by medical and precision measurement control equipment (188.0% → 249.5%), which is heavily linked to AI-related semiconductors.

■ **Construction Investment:** Construction investment growth is decelerating, with a continued sluggishness in related leading indicators.

● November saw a reduced growth of 1.4% in the value of construction completed (constant) from the previous month's 3.5%, a decline attributable to weak construction orders received since 2023.

- The consecutive decreases in construction orders received (four quarters) and housing starts (seven quarters) were manifested as a deceleration in the growth trend of the value of construction completed.
- Residential construction, which had been showing a favorable trend, experienced a reduced growth due to the sequential completion of projects and the downturn in the volume of new starts.
- Furthermore, as the civil engineering sector (-2.6%) shifted towards a decline, construction investment showed an overall contraction.

● The weakness in leading indicators suggests a likely continuation of the slowing growth of construction investment.

- Construction orders received (-29.5%) plummeted, reflecting worsening business conditions due to rising costs.

* Even when seasonally adjusted (10.3 trillion won), it substantially falls short of the last five years' monthly average (15.2 trillion won).

- The area if building permits (-13.3%) continued to decline, while that of building starts (6.5%) increased for the first time in 15 months. However, the three-month moving average still reflects a significant drop (-20.2%).

■ **Prices:** Inflation is gradually decelerating amid ongoing domestic demand weakness.

● December's headline inflation rate slowed to 3.2%, lower than the previous month's 3.3%, with an easing of price increases across various categories.

- The slowdown in demand, influenced by high interest rates, led to reduced inflation rates in major industries, such as services (2.8%), and industrial products (2.1%), with the exception of agricultural products (15.7%).
- Concerns over the slowdown in global crude oil demand and increased US oil supply contributed to a drop in international oil prices, exerting downward pressure on overall price levels.

* Dubai oil price ($/barrel): (Oct.) 89.8 → (Nov.) 83.6 → (Dec.) 77.3

● Furthermore, core inflation (excl. food and energy) also saw a slight decrease (2.9% → 2.8%), indicating a gradual slowdown in the underlying inflation trend.

- Concurrently, the expected inflation rate, as reflected in financial market asset prices, is gradually increasing.

* Expected inflation rate (10-year government bond yield, %): (Oct.) 2.9 → (Nov.) 2.7 → (Dec.) 2.5

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