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 domestic demand slowdown, the Korean economy shows signs of mitigating the downturn through sustained export recovery.

● High interest rates persistently weaken the overall economy, causing ongoing weaknesses in private consumption and investment, yet export recovery, driven by the rebound in semiconductors, is alleviating the economic slowdown.

- The weakening of domestic demand, evidenced by decreases in goods consumption and construction completed, as well as a deceleration in service consumption growth, is contributing to the ongoing slowdown in inflation.
- Conversely, the semiconductor industry is exhibiting a strong recovery, evidenced by substantial increases in exports and production and a decrease in inventory levels. This is contributing to a gradual increase in all-industry production.

● Divergence between domestic and export performance is also reflected in the production sector; services and construction decelerate, whereas manufacturing recovers.

- The BSI future tendency of the non-manufacturing industry has declined, whereas that of the manufacturing industry indicates a mild improvement trend.

● Meanwhile, conflicts in the Middle East could emerge as significant risk factors, such as oil price hikes and transportation disruptions.

*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 a slump in domestic demand, the contraction in economic activity is easing as the recovery in exports persists.

● In December, all-industry production saw a gradual expansion, driven by a rebound in the mining and manufacturing sectors, though industries closely tied to domestic demand, such as construction and services, exhibited sluggish performance.

- The service industry experienced a modest increase of 0.2%, primarily affected by declines in wholesale and retail trade (-3.7%) and finance and insurance services (-3.0%). In addition, the construction industry (-1.2%) turned to a decrease, largely due to a weakening real estate market.
- Despite fewer working days (-2 days), industrial production maintained a high growth rate of 6.2%, up from the previous month's 5.5%, bolstered by a 53.3% surge in semiconductor production.

* Excluding semiconductors, the manufacturing industry (-3.9%) continued its downward trend, following a decrease of -2.5% in the previous month.

● The manufacturing industry continued on its recovery path, marked by accelerated production and shipments, especially in semiconductors, along with a decrease in inventory levels.

- Despite fewer working days, production (5.6% → 6.7%) and shipments (5.9% → 6.8%) both registered significant gains. The inventory-to-shipment ratio (107.7%) continued its decline from the previous month.
- The growth in export shipments (15.5% → 22.1%), in stark contrast to the ongoing decline in shipments for domestic demand (-0.5% → -3.9%), highlighting the growing disparity between exports and domestic demand within the manufacturing industry.

● The slowdown in domestic demand caused by high interest rates has weakened numerous industries. However, the recovery in exports, particularly in semiconductors, has contributed to mitigating the economic slump.

- The GDP data for Q4 2023 reveals that although domestic demand such as private consumption (1.0%), construction investment (-1.6%), and equipment investment (-3.8%) remained sluggish, exports saw a robust increase of 9.8%.
- The revival in the global semiconductor market has spurred an increase in demand for Korean exports, which seems to be playing a key role in easing the economic downturn.
- The gap between domestic and export performance is reflected in the production sector as well. While the service and construction industries are decelerating, the manufacturing industry is exhibiting a significant uptick in production, leading to intensified disparities among industries.
- The BSI future tendency of the non-manufacturing industry has declined, whereas that of the manufacturing industry indicates a mild improvement trend.

■ **Consumption:** The weakness in consumption continues, evidenced by a decrease in goods consumption and a slower increase in service consumption.

● The decrease in goods consumption persisted amid persistent high interest rates.

- In December, retail sales (-2.2%) showed a broad sluggishness in goods consumption, reporting decreases across several categories, including domestic passenger cars (-9.7%), apparel (-6.7%), and food and beverages (-5.2%).

● Service consumption saw slight growth, as transportation businesses, closely linked to overseas travel, sustained high growth, while other businesses remained subdued.

- Transportation and storage (9.7%) continued significant gro wth, buoyed by a substantial rise in outbound tourists (73.4%).
- Services production saw only a marginal increase of 0.2%, influenced by decreases in wholesale and retail trade (-3.7%), finance and insurance services (-3.0%), and accommodation and food services (-2.2%).

● The CCSI (101.6) in January maintained a level similar to the previous month, hovering around the baseline of 100.

■ **Equipment Investment:** Equipment investment continues to exhibit overall weakness amid prolonged periods of high interest rates.

● Equipment investment (-11.9% → -5.9%) continued its rapid decrease in December, though the sluggishness in semiconductor-related investments eased somewhat.

- Owing to improvements in semiconductor production and shipments and a significant reduction in inventory levels (month-on-month, -20.9%), the decline in semiconductor-related special industrial machinery partially softened from -25.2% to -11.2%.
- However, the decline in transport equipment (-2.2%) persisted,

led by the contraction in automobiles (-10.3%) following the expiration of the excise tax reduction, while machinery (-7.1%) remained weak.

- Despite the overall investment conditions being constrained by persistent high interest rates, leading indicators related to semiconductor investment have slightly improved, offering some positive signals for future equipment investment.
  - January saw ongoing deceleration in machinery imports (-5.3%), similar to the previous month, centered around transport equipment (-17.4%), but the contraction in semiconductor manufacturing equipment investment eased from -24.4% to 0.0%.
  - Domestic machinery orders received (12.0%) have been on the rise since October, especially in special industrial machinery (13.8%) and medical and precision measurement control equipment (23.5%), which are closely linked to AI-related semiconductor investments.

■ **Construction Investment:** Construction investment is showing signs of a slowdown, primarily in the residential building construction sector.

- In December, the value of construction completed (constant) recorded a growth rate of –1.2%, down from the previous month's 2.2%, reflecting the lagging impact of the previous contraction in housing starts.
  - Housing starts have seen a significant reduction for two consecutive years. As its effects become more pronounced, the building construction sector (-2.2%) shifted downward, and the civil engineering sector (1.1%) saw only a small increase.
  - On a seasonally adjusted month-to-month basis, the value of construction completed declined by 2.7%, centered around the building construction sector (-5.6%).

- Construction orders received, which serve as a leading indicator, saw improvements in the public and civil engineering sectors where volatility is high. However, given the ongoing decline in the private sector, the downward trend in construction investment is likely to persist.
  - Construction orders received saw an increase of 34.9%, with the public sector orders surging by 138.3% and civil engineering by 127.9%. By contrast, the private sector (-16.4%), which holds a greater share, continued a decrease.
  - Meanwhile, housing starts experienced a substantial rise of 54.0% due to the base effect, yet they remain at only half the level of the average December figures from the past ten years.

■ **Prices:** Consumer prices saw a markedly reduced rate of increase amid ongoing weak domestic demand, coupled with the base effect.

- January's headline inflation fell to 2.8% from the previous month's 3.2%, driven by smaller price increases in most items.
  - The growth in prices for both industrial products (2.1% → 1.8%) and services (2.8% → 2.6%) was tempered by weak domestic demand.
  - Electricity, water, and gas prices (9.7% → 5.0%: Contribution 0.36%p → 0.19%p) experienced a significant deceleration in their rate of increase due to the base effect, which partially contributed to the overall slowdown in headline inflation.
  - However, there exists a risk that rising oil prices under the influence of geopolitical factors will likely exert upward pressure on inflation in the future.

  * Dubai oil price ($/barrel): (Nov. '23) 83.6 → (Dec.) 77.3 → (Jan. '24) 78.9

- The increase in core inflation (2.8% → 2.5%) slowed, and the expected inflation rate continues to exhibit a downward trajectory, signaling that the trend of slowing inflation is ongoing.
  - Personal service prices, noted for their high persistency, rose at a slower pace from 3.9% to 3.5%, indicating a deceleration in underlying inflation.

  * Expected inflation rate (CSI, %): (Nov. '23) 3.4 → (Dec.) 3.2 → (Jan. '24) 3.0

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