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 experiencing a continued contraction in domestic demand, yet exports are rebounding, thereby mitigating the economic slowdown.

● The value of construction completed exhibited a temporary uptick, yet both consumption and equipment investment continue to stagnate under the strain of sustained high interest rates.

- The marked rise in construction production was primarily driven by temporary factors such as the momentum from construction projects approaching completion. Given the sluggishness observed in leading indicators, this high growth is expected to face adjustments moving forward.
- In contrast, retail sales persist in their decline, while services production also remains lackluster, particularly in accommodation and food services.
- Furthermore, the diminished spending capacity due to ongoing high interest rates, combined with higher inflation on certain items due to worsening supply conditions, may pose adverse impacts on consumption.

● However, the economic slowdown continues to abate, bolstered by a recovery in exports driven by favorable conditions in the semiconductor market.

- With reduced concerns over a global economic slowdown, the downturn in global trade is easing, acting as a supportive factor for exports.
- Moreover, the manufacturing industry reported increases in production and shipments, a decrease in inventories, and a sustained uptrend in sentiment indices, all signaling an ongoing recovery in manufacturing.

*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:** Domestic demand remains sluggish, yet exports are rapidly growing, thereby easing the contraction in economic activity.

- January saw significant growth in all-industry production, driven by recovery in the mining and manufacturing industry and temporary factors, although the service industry continued to be weak.
  - Services production recorded an increase in growth from 0.9% to 4.4% due to temporary factors such as base effects and additional working days, yet it only showed only a modest growth rate of 0.1% on a seasonally adjusted month-on-month basis, indicating sluggishness.
  - Conversely, industrial (mining and manufacturing) production (6.1% → 12.9%) exhibited a sharp increase in growth rate, amid continuous high growth in semiconductors (44.1%) and automobiles (13.2%), along with the influence of additional working days (+2.5 days).
  *Even when adjusted for seasonality to remove the effect of the number of working days, industrial production still recorded a high year-on-year growth rate of 5.8%.
  - Meanwhile, the marked rise in construction production (-2.2% → 17.6%) was primarily ascribed to the momentum from construction projects nearing completion. Considering the sluggishness observed in leading indicators, this high growth is expected to face adjustments moving forward.

- The manufacturing industry experienced sustained high growth in production and shipments along with a reduction in inventories, continuing its recovery trajectory on the back of semiconductors.
  - Led by semiconductors, production expanded from 6.6% to 13.7%, maintaining a high growth rate in shipments from 4.2% to 9.6%.
  - Inventories (-2.1% → -6.1%) experienced significant decreases, particularly in semiconductors (-16.6%) and electronic parts (-16.0%).

- Despite a contraction in domestic demand, the resurgence of exports, driven by the semiconductor industry, is contributing to mitigating the economic downturn.

- Meanwhile, domestic demand risks linger; delinquency rates on household and personal business loans stay high, and certain items such as agricultural products are experiencing an increasing inflationary trend due to deteriorating supply-side factors.

■ **Consumption:** Consumption remains weak, with goods consumption contracting and service consumption showing only a slight increase.

- Goods consumption is stagnating, particularly in items sensitive to interest rates.
  - The shift of the Lunar New Year holiday from January last year to February this year had a positive impact on January's consumption due to additional working days, but also had a negative effect as holiday-related consumption was deferred, leading to reduced spending.
  - As a result, domestic passenger car sales, which are closely tied to the number of working days, surged by 10.0%, whereas beverages and food products, closely associated with the holiday, plummeted by 18.5%, leading to a sharper decline in overall retail sales (-0.6% → -3.4%).
  - On a seasonally adjusted month-on-month basis, which removes the Lunar New Year holiday effect, goods consumption exhibited sluggishness, especially in interest-sensitive items such as passenger cars (-16.2%), indicating that persistent high interest rates are curbing goods consumption.

- Services consumption growth remains tepid, particularly in businesses that require face-to-face interaction.
  - Services production (4.4%) saw a temporary increase in growth due to additional working days, but its seasonally adjusted month-on-month growth was a mere 0.1%.
  - On a seasonally adjusted month-on-month basis, accommodation and food services (-0.2%) saw a decrease for the fourth consecutive month, pointing to stagnant service consumption, especially in the face-to-face service industry.

- Meanwhile, the Composite Consumer Sentiment Index (CCSI) for February stood at 101.9, similar to the previous month’s 101.6.

■ **Equipment Investment:** Equipment investment continued to stall, influenced by persistently high interest rates.

● January saw an increase in equipment investment (-5.8% → 4.1%) due to temporary factors such as base effects and an increase in working days, though the month-on-month growth declined, signaling an ongoing slowdown.

● Furthermore, leading indicators have shown signs of weakness, as evidenced by decreases in domestic machinery orders received and machinery imports.

● However, there are some positive signals that investment in semiconductor-related equipment may be on the path to recovery.

- Semiconductor-related special industrial machinery (-11.3% → 12.7%) reported a significant turnaround, supported by the recovery of the semiconductor market.
- Among leading indicators, special industrial machinery orders received (14.5% → 32.0%) sustained high growth and February's imports of semiconductor manufacturing equipment (0.0% → 12.7%) reported higher growth, all indicative of positive trends for semiconductor-related equipment investment.

■ **Construction Investment:** The value of construction completed experienced substantial gains, yet the slowdown in construction investment seems set to persist, given that leading indicators remain subdued.

● In January, the value of construction completed (constant) recorded a notable short-term growth of 17.6%, driven by an increase in the number of working days and a rise in projects nearing completion.

● Conversely, construction investment is expected to continue its deceleration, given that the surge in the value of completed construction is largely driven by temporary factors, and construction orders received—a leading indicator— have decreased by a large margin.

■ **Prices:** Consumer prices experienced an accelerated rate of increase as supply-side inflationary pressures intensified, although underlying inflation continued to decelerate.

● In February, headline inflation rose to 3.1% from the previous month's 2.8%, primarily driven by volatile items such as agricultural and petroleum products.

- The surge in agricultural product prices (15.4% → 20.9%) driven by adverse weather conditions played a crucial role in the overall rise in headline inflation (contribution 0.59%p → 0.80%p: +0.21%p).
- Additionally, geopolitical risks have contributed to rising oil prices, consequently slowing the decrease in petroleum product prices (-5.0% → -1.5%), and factors such as the extension of production cuts by OPEC+ may impede future deceleration in inflation.

*Dubai oil prices ($/barrel): (Dec. '23) 77.3 → (Jan. '24) 78.9 → (Feb.) 80.9

● However, core inflation remained at 2.5%, similar to the previous month's trend, alongside the slowed increase in prices for services (2.6% → 2.5%), which are less volatile, indicating a continued slowdown in inflation.

- Influenced by high interest rates leading to weaker domestic demand, prices of multiple items, including personal services (3.5% → 3.4%), demonstrated a gradual, modest increase.

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