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 moderate downturn, buoyed by rapid growth in exports, particularly from the IT sector, even as domestic demand recovery lags.

- The strong rebound in global semiconductor activities has led to a significant increase in exports, which in turn is helping to mitigate the contraction in economic activity.
  - As the slowdown in global trade gradually dissipates, export conditions are demonstrating overall improvement.
  - The continued recovery in semiconductor activity has resulted in a substantial increase in related exports and production, positively influencing some financial indicators, including stock prices.

- However, consumption remains weak, particularly in goods consumption, as financing conditions are not improving due to persistent high interest rates.
  - Consequently, employment conditions are undergoing partial adjustments, and the underlying trend of price increases is gradually slowing.
  - Although equipment investment exhibited some positive signs, particularly in the semiconductor industry, construction investment, which had previously surged due to a rise in projects nearing completion, is now experiencing a slight moderation.

- Meanwhile, external risk factors persist, such as the escalating international oil prices and transportation disruptions precipitated by geopolitical tensions.

*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 deceleration in domestic demand, the slowdown in economic activity is easing, led by the manufacturing industry as exports persist in their recovery trend.

- In February, all industry production saw reduced sluggishness owing to sustained high growth in industrial production, although services production growth decelerated.
  - Services production (4.5%→1.2%) was sluggish as accommodation and food services (-4.5%) and wholesale and retail trade (-3.7%) retreated.
  - Industrial production (mining and manufacturing) (12.9% → 4.8%), propelled by semiconductors (65.3%), recorded relatively high growth, partially attributable to the base effect, notwithstanding fewer working
  - 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 sustained favorable conditions, as indicated by continued recovery in production and shipments, alongside an increase in the capacity utilization rate.
  - On a seasonally adjusted month-on-month basis, manufacturing production and shipments increased by 3.4% and 2.6% respectively, and the inventory-to-shipment ratio fell from 111.5% in the previous month to 110.1%.
  - Additionally, the manufacturing industry's average capacity utilization rate (72.1%→74.6%) rose to a relatively high level.

- Domestic demand continues to demonstrate weakness; however, the deceleration in economic activities is showing signs of abatement, buoyed by a notable increase in semiconductor production.
  - Services production and retail sales registered only slight upticks, with investment activities persisting in their lackluster performance.
  - Nevertheless, amid a resurgence in global semiconductor activities, semiconductor exports and production have witnessed significant growth, contributing to a cautious yet discernable trend towards economic recuperation, predominantly led by the manufacturing industry.
  - In light of these economic conditions, the BSI future tendency in the manufacturing industry sustained a modest upward trajectory. In contrast, the equivalent index for the non-manufacturing industry displayed a declining trend.

■ **Consumption:** Consumption continued the sluggishness of the previous month, as indicated by persistent stagnation in goods consumption alongside modest growth in service consumption.

- Goods consumption remained lackluster, experiencing declines across most categories, with the exception of food and beverage consumption which witnessed a notable, albeit temporary, expansion attributed to the Lunar New year holiday.
  - In February, amid persistent negative impacts from high interest rates, retail sales (0.9%) saw substantial decreases in passenger cars (-17.8%) and communication devices and computers (-10.1%) due to production facility construction and fewer working days, contrasting with a significant uptick in food and beverages (16.7%).
  - The average retail sales for January to February, adjusted to negate the effects of the Lunar New Year holiday, fell by 1.3%, indicative of weak goods consumption.

- Growth in service consumption remained tepid.
  - Services production recorded a slight increase of 1.2%, primarily due to declines in sectors closely tied to service consumption: accommodation and food services contracted (-4.5%), arts, sports, and recreation-related services (-1.1%), and education services (-1.3%).
  - The CCSI stood at 100.7 in March, reflecting a decrease from the previous month's 101.9.

■ **Equipment Investment:** Equipment investment remains subdued, yet some indictors display encouraging signs, supported by the resurgence in the semiconductor sector.

- In February, equipment investment (3.8%→-0.3%) showed persistent low growth, demonstrating sluggishness.

- Leading indicators remained in a slump, led by machinery.

- However, semiconductor-related equipment investment experienced a partial improvement as semiconductor activity rebounds.

■ **Construction Investment:** Construction investment continues to slow down, with related leading indicators persisting in a slump.

- The value of construction completed (constant) in February recorded slow growth (18.2% → 0.5%), affected by the base effect combined with a slight moderation in the factors that contributed to the previous month's surge.

- Construction orders received and building permit area, two leading indicators, continue to slide by a large margin, suggesting a potential continuation of the slowdown in construction investment going forward.

■ **Prices:** Headline inflation remained unchanged from the previous month while underlying inflation persists in its deceleration, reflecting sluggish consumption.

- In March, despite weak demand, headline inflation was recorded at 3.1%, the same as the previous month due to growing supply-side inflationary pressures.

  *Dubai oil prices (%): (Jan. '24) -2.0 → (Feb.) -1.5 → (Mar.) 7.2

- Meanwhile, as service prices (2.5%→2.3%) reported a reduced increase due to weak consumer spending amid elevated interest rates, core inflation (2.5%→2.4%) continues to decelerate.

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