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 sustaining a trend of alleviating economic slowdown, supported by a strong export recovery.

- Although production experienced some adjustments in March, it maintained the moderate growth trajectory propelled by semiconductors in terms of the first quarter trend.
  - Services production maintains low growth, and construction production, which had rebounded due to a temporary concentration of construction projects, has also shifted to a decline.
  - Concurrently, manufacturing production is also undergoing some adjustments, as evidenced by the rising inventory-to-shipment ratio and the declining average capacity utilization rate.
  - Nonetheless, semiconductor production and exports continue to display robust growth, leading the trend of mitigating economic downturn.

- Meanwhile, amid decelerating inflation, employment conditions appear to be relatively favorable.
  - Core inflation, which represents the underlying inflation trend, is gradually decelerating, edging closer to the inflation target (2%).
  - The growth in the number of employed persons is adjusting, yet the unemployment rate remains at a low level.

*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:** Production growth in March has recently slowed overall, yet amid the ongoing recovery in exports, the contraction in economic activity continues to alleviate.

- In March, all-industry production growth (1.7% → 0.2%) narrowed as industrial (mining and manufacturing) and services production saw only slight increases, whereas construction production decreased.
  - Mining and manufacturing production growth (4.6% → 0.7%) significantly decreased, although semiconductors remained robust (65.4% → 30.3%). However, major industries such as automobiles (-9.0%), metal processing (-10.0%), and electrical equipment (-22.6%) experienced substantial declines.
  - Services production continued its mild growth at 1.0%, as accommodation and food services (-3.7%) and in wholesale and retail trade (-5.9%) retreated.
  - Construction production (-2.1%), previously buoyed by a concentration of deferred projects, shifted to a decrease.
  - Even on a seasonally adjusted month-on-month basis, all-industry production decreased by 2.1% as mining and manufacturing (-3.2%), services (-0.8%), and construction (-8.7%) all receded.

- Manufacturing shipments (-3.8%) fell, the inventory-to-shipment ratio increased, and the average capacity utilization rate (74.5% → 71.3%) dropped, indicating slight adjustments in the manufacturing industry.

- Production growth has slowed amid continued sluggishness in domestic demand, the contraction in economic activity continues to moderate, primarily driven by exports.
  - As the overall slowdown in production growth impacts business sentiment, the BSI future tendency for both manufacturing and non-manufacturing industries recorded low levels.
  - However, as exports, particularly in semiconductors, continue to show strong growth, it is difficult to conclude that there has been a significant shift in the economic trend.
  - While all-industry production experienced some adjustments in March, it maintained the moderate growth trend of the previous quarter when considering the first quarter as a whole.

■ **Consumption:** Consumption remains subdued, with goods consumption continuing to slide and service consumption exhibiting modest growth.

- Goods consumption persisted at tepid levels across various categories, notably in passenger cars and footwear and bags, affected by elevated interest rates and fewer working days.
  - Services production (0.9% → 1.0%) saw a marginal increase, mainly in accommodation and food services (-3.7%) and industries closely linked to private consumption, such as wholesale and retail trade (-5.9%).

- In April, the CCSI registered 100.7, maintaining a level similar to the baseline (100).

■ **Equipment Investment:** Equipment investment is gradually emerging from its sluggishness, yet remains subdued due to factors such as persistently high interest rates.

- In March, equipment investment further contracted from -0.9% to -4.8%.
  - By category, highly volatile transport equipment (-3.0% → 4.2%) rebounded, while machinery (-0.1% → -7.6%), especially special industrial machinery (6.7% → -12.6%), retreated.
  - Even on a seasonally adjusted monthly basis, equipment investment fell sharply from 9.6% to -6.6%.
  - However, the seasonally adjusted equipment investment index for March (117.8) was slightly higher than that of January (115.1). Given the high volatility of equipment investment, drawing conclusions about an acceleration in sluggishness remains challenging.

- Leading indicators also weakened amid declines in domestic machinery orders received and imports.
  - Domestic machinery orders received (21.6% → -10.0%) decreased, particularly in special industrial machinery (0.3% → -31.1%). Over the January-March period, its growth was a mere 0.7%.
  - In April, machinery imports (-9.4% → -8.4%) continued their decline, continuing significant losses.

■ **Construction Investment:** The slowdown in construction investment persisted as the decline in the value of construction completed (constant) widened and related leading indicators remained sluggish.

- In March, the value of construction completed (constant) recorded a -2.1% growth, lower than the previous month (0.4%), adjusting from the temporary spike earlier in the year.
  - On a seasonally adjusted monthly basis, the value of construction completed, which had surged in January due to a concentration of projects approaching completion, appears to be adjusting rapidly, beginning in March.

    * SA MoM basis (%): (Jan.) 12.7 → (Feb.) -1.0 → (Mar.) -8.7
  - The building construction sector (-2.0% → -3.1%) experienced a deeper contraction driven by sluggishness in non-residential buildings, while growth in the civil engineering sector (9.8% → 0.6%) also narrowed.

    * Non-residential (current, %): (Jan.) 23.1 → (Feb.) 1.1 → (Mar.) -6.5

- Leading indicators (construction orders received and building permit area) remain contracted, suggesting that the slowdown in construction investment is likely to persist.
  - Construction orders received (0.3%) remained at a low growth rate, driven by the private sector (-14.0%). On a seasonally adjusted basis, they fell to 11.2 trillion won, substantially below the recent three-year monthly average (16.3 trillion won).
  - The area for building permits decreased by 13.0%, marking a decline for 13 consecutive months.

■ **Prices:** The trend of decelerating inflation persists on weak demand due to high interest rates.

- In April, headline inflation decreased slightly from 3.1% to 2.9%, still at a high level due to sharp price rises in volatile items such as agricultural products, while core inflation slowed, particularly in service prices.
  - Prices of agricultural products (20.5% → 20.3%) continue to show high growth, temporarily constraining the slowdown in consumer price growth.
  - Conversely, prices of personal services continued to decelerate, reflecting a contraction in demand.

    * Personal service (%): (Feb.) 3.4 → (Mar.) 3.1 → (Apr.) 2.8
  - Core inflation (2.4% → 2.3%), which represents the underlying inflation trend, also slowed, edging closer to the inflation target (2.0%).

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

- Meanwhile, rising oil prices driven by geopolitical instability may potentially exert some pressure on consumer prices.

  * Dubai oil price (%): (Feb.) -1.5 → (Mar.) 7.2 → (Apr.) 6.9

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