

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 showing some improvement in economic activity driven by high export growth, but domestic demand has yet to recover.
 - Exports continue to show a favorable recovery trend, led by semiconductors.
 - As the global economy sustains modest growth, external conditions are somewhat improving.
 - Accordingly, semiconductor exports continue a robust recovery, and exports of other items are also showing a mild upward trend.
 - However, as the high interest rate environment persists, the recovery in domestic demand remains elusive.
 - The high interest rate environment, including continued hikes in delinquency rates on household and individual business loans, serves as a major factor weighing on domestic demand.
 - The decline in retail sales and equipment investment continues, while construction investment shows only a slight increase.
 - Consequently, inflation is slowing, and employment growth in the service industry is also narrowing.
 - As domestic demand remains sluggish while exports recover, the trade surplus trend is being maintained.
 - Imports turned to a decrease as consumer goods imports contracted due to weak consumption.

*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:** The Korean economy is showing signs of relief from the economic downturn as export recovery continues, gradually emerging from the temporary production slowdown experienced in March.
- In April, all-industry production (0.1% → 3.1%) saw an expanded increase, as the sluggishness in most industries eased compared to the previous month.
 - Industrial (mining and manufacturing) production (1.0% → 6.1%) increased further as the number of working days (-1.5 days → +0.5 days) rose, automobiles (-9.2% → 3.4%) rebounded, and semiconductors (22.3%) maintained strong growth.
 - Services production (0.9% → 2.0%) also sustained a modest growth trend.
- The manufacturing industry saw a slight increase in shipments (3.8%), mainly in semiconductors (18.6%) and electronic parts (13.0%), and the average capacity utilization rate (71.4% → 73.5%) rose, indicating an easing of the temporary slump experienced in the previous month.
 - Manufacturing domestic shipments (-7.4% → 0.9%) remained at a low growth rate, while export shipments (1.2% → 7.9%) saw a significant increase compared to the previous month, primarily driven by semiconductors and automobiles.
- Despite the slowdown in domestic demand, the economic downturn is alleviating as high export growth continues.
 - The recovery in domestic demand remains elusive, with retail sales and equipment investment continuing to decline due to high interest rates and the value of construction completed showing only a slight increase.
 - However, semiconductor production remains favorable due to strong exports, leading the easing of the economic slowdown.
- **Consumption:** Consumption continues to decline across most items due to weakened spending capacity from sustained high interest rates, exhibiting signs of prolonged sluggishness.
- Retail sales (-3.4% → -2.6%), which are closely related to goods consumption, continued to decline, and also decreased by 1.2% on a seasonally adjusted month-on-month basis, indicating a lack of momentum.
 - Despite high growth posted by non-store retail (9.0%), which reflects online sales, most offline sales, such as department stores (-9.9%), specialty retail stores (-6.4%), and large retailers (-6.0%), remained weak.
- Service consumption also continued its slowing trend, following the previous month.
 - Production in accommodation and food services (-2.4%) and education services (-1.1%), which are closely related to service consumption, continued to slide.
 - However, production in transportation and storage surged by 13.1% due to the expansion of travel demand.
- Meanwhile, the Composite Consumer Sentiment Index (98.4) in May fell below the baseline (100).
- **Equipment Investment:** Equipment investment continues its sluggish trend, mainly in machinery, due to factors such as high interest rates.
- In April, equipment investment (-4.5% → -2.3%) continued a downward trend, following the previous month.
 - Transport equipment (4.4% → 3.9%) saw an increase, following the previous month's trend, but machinery (-7.3% → -4.3%) continued to decrease by a large margin, led by special industrial machinery (-12.8% → -12.0%).

- Furthermore, leading indicators remain lackluster, as evidenced by the continued decline in machinery imports.
 - In May, machinery imports (-7.3% → -17.5%) decreased significantly, mainly in transport equipment (0.0% → -26.1%), while semiconductor manufacturing equipment (-36.0% → -27.9%) also remained sluggish since March.
- **Construction Investment:** Construction investment continues to decelerate, and leading indicators exhibit sluggishness.
- In April, the value of construction completed 9constant) recorded a low growth rate of 0.8%, showing a lack of momentum.
 - Both the building construction sector (-4.6% → 0.4%) and the civil engineering sector (-0.1% → 1.9%) showed only modest increases.
 - This slowing trend in construction investment is regarded as a consequence of the accumulated sluggishness in construction orders received since the end of 2022.
- The sluggishness in leading indicators, such as housing permits and construction orders received remaining at low levels, suggests that the slowing trend in construction investment may continue for the time being.
 - Housing permits (28,000 units) maintain a declining trend, remaining at 69% of the recent 3-year average (41,000 units).
 - Conversely, construction orders received (41.9%) recorded high growth due to the base effect, but on a seasonally adjusted basis (14.1 trillion won), they only slightly exceeded the average of the past year (13.9 trillion won).
- **Prices:** Amidst persistently high interest rates, demand-side inflationary pressures remain very low, while supply-side pressures are also easing, maintaining the trend of inflation slowdown.
- In May, headline inflation rose by 2.7% down from the previous month (2.9%), as the increase in goods prices (3.8% → 3.2%) slowed significantly.
 - Prices of agricultural, livestock, and fisheries products (10.6% → 8.7%) saw a slight moderation in their upward trend as supply stabilized, and the price increase in electricity, gas, and water (4.9% → 2.7%) also narrowed due to the base effect.
- Core inflation (2.3% → 2.2%) also decelerated, reflecting the impact of weakened demand due to persistently high interest rates.
 - The increase in core inflation is narrowing, particularly in interest rate-sensitive items such as durable goods (2.4% → 2.1%).
 - As the slowdown in demand continues, the core inflation rate is approaching the target (2%).