

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 high growth in exports, Korea's domestic demand has yet to exhibit signs of a recovery trend, resulting in a somewhat tepid improvement in overall economic conditions.
- Exports maintain a favorable trend centered on ICT products.
 - As the global trade downturn eases, the semiconductor market remains strong.
 - Accordingly, semiconductor exports and production are showing high growth.
- However, as the high interest rate environment persists, domestic demand has not shown signs of recovery.
 - Loan delinquency rates are rising, while retail sales, equipment investment, and construction investment are all on the decline.
 - Consequently, inflation is nearing the target, and employment conditions are adjusting, particularly in the service and construction industries.
- Meanwhile, external risk factors, such as heightened geopolitical tensions, continue to persist.

*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.

.91

59.34

- **Economic Activity:** The Korean economy continues to exhibit some recovery in exports, but the overall economic improvement remains somewhat modest.
 - In May, all-industry production (3.3% → 2.2%) showed a gradual adjustment from the high growth observed earlier in the year.
 - Industrial (mining and manufacturing) production (3.5%) saw a deceleration in growth despite the robust performance in semiconductors (18.1%), due to expanded declines in automobiles (-1.9%) and electrical equipment (-18%).
 - Services production (2.3%) also displayed a decelerating trend as sluggishness persisted in wholesale and retail trade (-1.4%) and accommodation and food services (-0.9%), while construction production (-3.8%) decreased significantly.
 - On a seasonally adjusted month-on-month basis, production declined across mining and manufacturing (-1.2%), services (-0.5%), and construction (-4.6%).
 - Manufacturing shipments (3.7% → 0.2%) were weak, mainly in automobiles (-4%) and electrical equipment (-20.6%), while the inventory-to-shipment ratio (110.2% → 110.9%) rose slightly, indicating a tempered recovery in the manufacturing industry.
 - Export shipments (7.4% → 1.3%) showed a slowdown in growth, while domestic demand shipments (1.0% → -0.9%) turned negative, reflecting weak domestic demand.
 - Export recovery remains robust, but domestic demand continues to be sluggish amid persistent high interest rates.
 - Exports and production of semiconductors continue to perform strongly due to favorable trends in the semiconductor market.
 - However, retail sales, equipment investment, and construction investment all decreased, exhibiting no signs of recovery in domestic demand.
- This disparity between exports and domestic demand is reflected in business sentiment, with the future tendency for exporting companies gradually improving, while that for domestic companies remains stagnant at low levels.
- **Consumption:** Consumption continues to be sluggish across most sectors, except for some service industries, while overseas consumption maintains strong growth.
 - Goods consumption shows some contraction with expanded declines across most items.
 - In May, retail sales (-2.2% → -3.1%) saw a deeper decline, mainly in passenger vehicles (-7.5% → -9.2%), apparel (-5.3% → -6.8%), and food and beverages (-3.3% → -3.6%). On a seasonally adjusted month-on-month basis (-0.8% → -0.2%), the decline continued.
 - Meanwhile, on a nominal basis, online shopping transactions within retail sales (-0.4%) increased by 6.7%, but offline transactions, which account for a larger share, decreased by 2.8%.
 - Service consumption continues its slowing trend, mainly in accommodation and food services.
 - Within services production, wholesale and retail trade (-1.4%) and accommodation and food services (-0.9%), which are closely related to consumption, continued to decline, suggesting weak domestic consumption.
 - Conversely, overseas consumption showed a favorable trend, evidenced by a 34.8% increase in the number of outbound travelers and a substantial 7.8% growth in overseas travel payments (in won terms).
 - Transportation and storage (9.8%) also maintained high growth due to increases in overseas travel and online shopping.
 - The CCSI recorded 100.9 in June, remaining near the long-term average (100).

■ **Equipment Investment:** Equipment investment remains sluggish mainly due to factors such as high interest rates.

- In May, equipment investment (-2.2% → -5.1%) saw an expanded decline, primarily driven by transport equipment.
 - The decline in machinery (-4.2% → -4.7%) slightly expanded, while transport equipment (3.7% → -6.3%) turned to a decrease, led by a drop in other transport equipment (23.3% → -3.5%), which is highly volatile.
 - On a seasonally adjusted month-on-month basis, both machinery (-1.0%) and transport equipment (-12.3%) decreased.
- The strong performance in the semiconductor market is not translating into related investments, resulting in continued sluggishness in equipment investment.
 - Special industrial machinery (-12.1% → -10.5%), closely tied to semiconductors, continued to decline significantly.
 - Furthermore, leading indicators such as orders received for special industrial machinery (13% → -9.5%) and imports of semiconductor manufacturing equipment in June (-27.9% → -24.1%) also showed weakness.

■ **Construction Investment:** Construction investment remains sluggish, with an expanded decline primarily in the building construction sector.

- In May, the value of construction completed (constant) recorded a lower growth rate of -3.8% compared to the previous month (-0.1%), mainly due to a contraction in the building construction sector.
 - The building construction sector (-0.8% → -5.9%) continued its downward trend, reflecting the decline in the building starts area since 2022, and decreased by 5.7% on a seasonally adjusted month-on-month basis.

- Furthermore, leading indicators continue to show weakness due to high construction costs and other factors, suggesting that construction investment is unlikely to recover in the short term.

- The building permit area (-27.3%) continued to decline due to deteriorating business feasibility from high construction and financing costs.
- Additionally, construction orders received (-35.4%) decreased significantly, and on a seasonally adjusted basis (KRW 10.5 trillion), remained well below the average of the past year (KRW 14.3 trillion).

■ **Prices:** As agricultural supply conditions improve and domestic demand remains sluggish, the rate of price increases is approaching the target.

- In June, headline inflation rose by 2.4%, lower than the previous month (2.7%), as the increase in goods prices (3.2% → 2.7%) slowed significantly.
 - The price increase in agricultural products (19.0% → 13.3%) narrowed significantly, while that in electricity, water, and gas (3.2% → 0.9%) also slowed due to the base effect.
 - Prices of petroleum products (3.1% → 4.3%) increased due to the base effect, and the reduction in fuel tax cuts starting from July and the recent rise in international oil prices are likely to put upward pressure on petroleum product prices in the future.

*International oil prices (\$/barrel, Dubai): (May) 84.0 → (Jun.) 82.6 → (Jul. 1-4) 86.5

- Due to weak domestic demand resulting from persistent high interest rates, core inflation (2.2%) approached near the target, and high inflation eased in most items except for agricultural and petroleum products.

- The proportion of items with price increase rates exceeding 3% (31.7%) decreased to a level similar to that of mid-2021, just before the onset of high inflation, indicating overall price stabilization.