

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 has sustained strong export growth, primarily fueled by the semiconductor sector. However, domestic demand remains subdued, constraining overall economic improvement.
- Semiconductor-related production indicators maintained positive momentum, with exports continuing to ascend, particularly in ICT items.
 - Increased semiconductor production and shipments, coupled with reduced inventory, are driving the recovery in the manufacturing sector.
 - Exports sustain their upward trajectory amid modest global economic expansion and robust semiconductor market conditions.
- However, services production growth remained tepid, and construction investment continued its descent, indicating that the recovery phase of domestic demand has not yet materialized
 - Services production exhibited tepid growth, primarily driven by wholesale and retail trade and accommodation and food services.
 - Amid persistent declines in retail sales and rising loan delinquency rates, the accumulated slump in construction orders received led to a contraction in construction investment, suggesting employment conditions are gradually adjusting.
- Meanwhile, external uncertainties have slightly increased on the recent escalation of geopolitical risks in the Middle East and concerns over a U.S. recession.

*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 exhibits a sustained recovery in manufacturing production and exports, particularly in the semiconductor industry. However, subdued domestic demand is constraining overall economic improvement.

- In June, all-industry production growth (2.3% → 0.5%) moderated, primarily due to contraction in the construction industry.

- Industrial (mining and manufacturing) production (4.3% → 3.8%) exhibited a favorable growth trend, driven by a substantial increase in semiconductors (26.9%), despite a downturn in other sectors (-1.6%), notably automobiles (-4.1%) and electrical equipment (-18.7%).

- Services production (2.1% → 0.5%) showed decelerating growth as wholesale and retail trade (-3.7%) and accommodation and food services (-1.2%) declined.

- Construction production (-3% → -4.6%) continued its significant decline, following the previous month's trend, indicating ongoing contraction.

- The inventory-to-shipment ratio saw a decline (110.5% → 104.7%), while the average capacity utilization rate witnessed an uptick (73.0% → 73.9%), signaling a sustained recovery trend in the manufacturing industry, led by semiconductors. However, shipments (0.4% → -3%) turned to a decrease, reflecting lackluster domestic demand.

- Export shipments (1.4%) maintained positive momentum, driven by semiconductors (14.1%), while domestic shipments (-6.4%) saw an expanded decline.

- The semiconductor market is driving growth in production and exports, yet production outside the semiconductor industry has somewhat stagnated, and domestic demand shows weakness, as evidenced by declines in retail sales and investment.

- Manufacturing production sustained its recovery

trajectory, with ascending production and shipments and diminishing inventory levels, bolstered by favorable semiconductor market conditions, while exports also ascended.

- **Consumption:** Consumption exhibits weakness in goods consumption, while service consumption is gradually decelerating.

- Goods consumption continues to be lackluster with major items maintaining declining trajectories.

- In June, retail sales (-2.9% → -3.6%) continued their downward trends, with a sharp drop in passenger cars (-9.2% → -21.4%, year-on-year: 22.8%) mainly due to the base effect and decreases in apparel (-5.3% → -4.6%) and food and beverages (-3.7% → -2.8%).

- Domestic shipments of consumer goods (-6.1%) also decreased significantly, indicative of sluggish goods consumption.

- Service consumption exhibits a decelerating trend, centered on accommodation and food services.

- Services production recorded a low growth rate of 0.5%, influenced by downturns in wholesale and retail trade (-3.7%) and accommodation and food services (-1.2%).

- However, sectors closely related to overseas travel and consumption maintain high growth rates.

- Duty-free retail sales (10.3%) continued high growth, while online direct overseas purchases (nominal basis) in the second quarter also recorded a high growth of 25.6%, predominantly from China (64.8%).

- The Composite Consumer Sentiment Index (CCSI) for July recorded 103.6, marginally up from the previous month (100.9).

- **Equipment Investment:** Equipment investment remains lackluster, though some positive indicators are emerging in the semiconductor industry.

- In June, equipment investment exhibited an expanded decline (-1.5% → -2.7%) due to base effects and other factors.
 - The decline in highly volatile transport equipment (2.9% → -11.5%) expanded, while machinery (-2.9% → 1.0%) recorded modest growth.
 - Transport equipment decreased significantly due to the base effect of the surge in automobiles (Jun. '23: 23.7%) preceding the expiration of excise tax cuts in the same month last year.
 - Leading indicators also continued their sluggish trend, as evidenced by the decrease in domestic machinery orders received (5.7% → -3.8%).
- However, certain indicators suggest an attenuation of sluggishness in semiconductor-related equipment investment.
 - Semiconductor manufacturing machinery receded by 8.1%, exhibiting some moderation from the severe decline of the previous month (-28.8%).
 - The combined orders received (3.9%) for special industrial machinery and medical and precise process control equipment, closely related to semiconductor investments, sustained a growth trajectory.
- **Construction Investment:** Construction investment continues its sluggish trend, as evidenced by an expanded decline led by the building construction sector.
 - In June, the value of construction completed (constant) saw an expanded decline (-3% → -4.6%), centered on the building construction sector (-9.7%).
 - The building construction sector exhibited persistent weakness, with residential construction (-3.9%, nominal) continuing its descent due to sluggish order intake, while non-residential construction (-14.8%, nominal) also underperformed due to delays in major semiconductor production facility projects.
 - In contrast, the civil engineering sector, which experienced relatively favorable order intake centered on the public sector, increased by 11.1%.
 - The sustained decline in leading indicators suggests that the stagnation in construction investment is likely to persist.
 - The building construction permit area (-23.2%) continued to decrease significantly, following the previous month's trend, as business conditions remained challenging.
 - The shipment volume of ready-mixed concrete (-24.3%), used in early to mid-stage processes, including frame construction, decreased significantly, portending a potential reduction in future construction volume.
- **Prices:** Consumer prices experienced a slight uptick due to a surge in petroleum product prices, yet the underlying inflation trend remains close to the target.
 - Headline inflation was recorded at 2.6% in July, up from 2.4% in the previous month, propelled by industrial products.
 - Petroleum product prices (4.3% → 8.4%, contribution: 0.16%p → 0.32%p) rose sharply due to reduced fuel tax cuts and ascending international oil prices, contributing significantly to the overall increase in consumer prices.
 - Concurrently, agricultural product prices (13.3% → 9.0%) continued to decelerate due to supply stabilization.
 - Core inflation held steady at 2.2%, aligning with the target, while inflation expectations exhibited a downward trend.
 - Due to subdued domestic demand resulting from persistent high interest rates, the underlying inflation trend is converging with the target.
 - Furthermore, inflation expectations are gradually subsiding (Bank of Korea's survey: 3.0% → 2.9%, government bond market: 2.5% → 2.3%).