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 strong export growth, the Korean economy is showing signs of constrained improvement, as elevated interest rates are delaying the recovery of domestic demand.

- The manufacturing sector persists in its recovery trajectory, driven by sustained high growth in exports, particularly in the ICT industry
  - Although manufacturing-related indicators observed some adjustments due to disruptions in automobile production, the overall recovery trend in manufacturing remains intact, with semiconductor production maintaining high levels.

- Despite strong export momentum, consumption and investment remain sluggish, indicating that domestic demand recovery has yet to materialize.
  - Retail sales remained subdued amid the persistent high interest rate environment.
  - Construction investment and related employment may remain suppressed for the time being, given the prolonged decline in its leading indicators, potentially constraining the recovery of domestic demand.
  - Furthermore, the delinquency rate among individual business owners continues to rise, indicating an escalating debt repayment burden.

*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 robust export growth, the Korean economy is experiencing a somewhat delayed recovery as domestic demand remains weak.

- In July, the growth in all-industry production (0.5% → 2.7%) expanded, primarily due to the base effect. However, on a seasonally adjusted month-on-month basis, it decreased by 0.4%, influenced by persistent weakness in construction and some adjustments in manufacturing.
  - Industrial (mining and manufacturing) production growth (3.8% → 5.5%) expanded due to the base effect. Nevertheless, on a seasonally adjusted month-on-month basis, it fell by 3.6%, as automobile production (-14.4%) was disrupted by facility maintenance and wage negotiations.
  - Services production (0.5% → 2.2%) registered moderate growth, despite the high growth rates in transportation and storage (9.0%) and information and communication (5.0%). The overall growth was tempered by continued declines in sectors closely tied to domestic demand, such as wholesale and retail trade (-0.6%) and accommodation and food services (-3.0%).
  - Construction production (-5.3%) continued to decline sharply, as in the previous month (-5.3%), indicating ongoing sluggishness.

- The inventory-to-shipment ratio (107.1% → 112.7%) increased, and the average capacity utilization rate (73.8% → 71.4%) declined, indicating some adjustments in the recovery of the manufacturing industry.
  - On a seasonally adjusted month-on-month basis, export shipments declined significantly (-10.3%), while domestic shipments continued to decline (-2.5%).

- Exports maintained a steady recovery, led by ICT products, but consumption and investment remained weak, keeping domestic demand subdued.
  - Although manufacturing-related indicators exhibited some adjustments due to disruptions in automobile output, semiconductor exports and production maintained high levels, driving the recovery in manufacturing.
  - However, with continued declines in retail sales and the value of construction completed, services production posted only modest growth, indicating sustained weakness in consumption and investment.
  - Consequently, the outlook for the BSI on business conditions among domestic demand-oriented firms remained low, and the delinquency rate among individual business owners continued to rise.

■ Consumption: The prolonged slump in goods consumption, coupled with the modest growth in service consumption, underscores persistent weakness in overall consumption.

- In July, goods consumption remained weak, particularly in offline transactions.
  - Retail sales (-3.6% → -2.1%), a key indicator of goods consumption, continued to contract across most product categories, except for communication devices and computers (-0.5% → 13.1%), which surged due to new product launches.
  - Offline transactions saw significant declines in large retailers (-8.8%), supermarkets and variety stores (-8.3%), and department stores (-7.6%), while non-store retail sales (4.2% → 3.2%), reflecting online goods transactions, maintained growth, highlighting a divergence between retail formats.

- Service consumption also remained weak, primarily led by accommodation and food services.
  - Service consumption showed weakness, as production growth in information and communication services (2.9% → 5.0%) expanded, but production in accommodation and food services (-1.0% → -3.0%) and arts, sports, and recreation-related services (1.2% → -0.7%) declined.
  - Concurrently, online service transactions (10.9%

→ 1.7%) contracted, driven by e-coupon services, following the crises at TMON and WeMakePrice.

■ **Equipment Investment: Equipment investment surged temporarily while the recovery was constrained by the high interest rate environment.**

- In July, equipment investment (-3.3% → 18.5%) surged due to a spike in transport equipment, base effects, and additional working days.
  - Transport equipment (-11.2% → 64.9%) surged, led by other transport equipment, such as like aircraft (14.7% → 159.8%), driving the overall rise in equipment investment.
  - The base effect from last July's contraction (-11.3%) following the end of the excise tax cut on automobiles and the increase in working days (+1.5 days), also contributed to the growth.

- The leading index for equipment investment suggests that July's high growth is likely to be corrected in the future.
  - Domestic machinery orders received (-13.1% → 14.5%) surged in July, but the growth in transport equipment imports (82.5% → 5.3%) sharply decelerated in August.

■ **Construction Investment: Construction investment exhibited persistent weakness, with the building construction sector continuing its downward trajectory.**

- In July, the value of construction completed (constant) maintained a -5.3% growth rate, mirroring the previous month's decline, primarily driven by the building construction sector.
  - The building construction sector (-7.5%) sustained its contraction, predominantly in residential construction, due to accumulated order deficits.
  * Residential construction (current, %): (May) -3.7 → (Jun.) -5.0 → (Jul.) -9.4
  - Conversely, the civil engineering sector, bolstered by relatively stable public sector demand, registered a 4.1% increase

- Leading indicators remain subdued, suggesting prolonged sluggishness in construction investment.
  - Construction orders received (current, 28.4%) show signs of emerging from severe contraction, yet seasonally adjusted figures of 14.4 trillion won fall short of the previous year's monthly average (14.6 trillion won).
  - Moreover, shipments of ready-mixed concrete (-20.5%), a key material employed in the early to mid-stages of construction, diminished, and the Bank of Korea's construction BSI outlook for September (49) lingers substantially below the long-term average (68, since Jan. 2015).

■ **Prices: Consumer price increase is nearing the target, as supply-side inflationary pressures ease while demand-side pressures remain subdued.**

- Headline inflation decreased to 2.0% in August, down from 2.6% in the previous month, primarily driven by a notable deceleration in goods prices (2.9% → 1.7%).
  - The decline in consumer price inflation can be largely explained by the reduced price increases in petroleum (8.4% → 0.1%) and agricultural products (9.0% → 3.6%)
  - The recent drop in Dubai crude oil prices is likely to contribute to further easing of inflationary pressures.
  *Dubai crude oil price ($/barrel): (Jun.) 82.6 → (Jul.) 83.8 → (Aug.) 77.6

- Core inflation (2.2% → 2.1%), which represents the underlying trend in price growth, also edged down.
  - Amid persistent high interest rates, the continued deceleration in inflation was particularly evident in interest rate-sensitive goods, such as durable goods (1.6% → 0.9%).

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