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 maintains favorable export momentum, led by ICT products, yet domestic demand recovery is constrained by sluggish construction investment.

- The manufacturing industry maintains its recovery trend as ICT exports continued their growth momentum.
  - Although export growth moderated due to base effects, the overall momentum remained favorable, led by ICT products.
  - Consequently, the inventory-to-shipment ratio decreased, particularly in semiconductors, and the average capacity utilization rate remained elevated.

- However, despite the upward trend in equipment investment, the sustained weakness in goods consumption and construction investment continues to constrain domestic demand recovery.
  - The substantial increase in semiconductor equipment investment suggests that the effects of strong export performance may gradually spill over into domestic economic conditions.
  - By contrast, goods consumption continued its downward trajectory, while service consumption maintained modest growth.
  - Some leading indicators related to construction improved, yet the construction market remains contracted, as indicated by the value of construction completed continuing to post declines.
  - Accordingly, the inflation rate continues to decelerate.

*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 shows limited improvement, as the construction industry continues to contract amid export growth adjusting downward from high levels due to base effects.**

- In September, all-industry production fell by 1.1%, reflecting persistent weakness in construction alongside a decrease in working days (-1 day).
  - Construction production (-9.2% → -12.1%) continued its sharp decline, showing ongoing weakness.
  - Services production (1.1% → -0.2%) remained lackluster, as information and communications (1.1% → -0.7%) turned negative and transportation and storage (8.1% → 3.9%) slowed from previous high growth rates.
  - Industrial (mining and manufacturing) production (3.8% → -1.3%) declined, primarily led by semiconductors (-3.0%) and automobiles (-0.5%). This was partly influenced by a base effect from the significant increase in semiconductor (33.5%) a year ago, with only a slight decrease (-0.2%) on a seasonally adjusted month-on-month basis.

- The manufacturing industry sustained its recovery momentum, reflected in a lower inventory-to-shipment ratio and favorable capacity utilization rates
  - Seasonally adjusted month-on-month, shipments rose by 1.3% while inventory decreased by 2.0%, reducing the inventory-to-shipment ratio (110.3% → 106.8%).
  - Despite a slight decrease in the average capacity utilization rate (74.3% →73.5%), it remains above the 2024 annual average (73.1%).

- Exports, while showing moderated growth, exhibited a gradual increase, whereas domestic demand weakened, driven primarily by a contraction in construction investment.
  - Semiconductor export volumes have decelerated due to base effects, yet export prices remain high, underscoring robust external demand.
  - Led by ICT products, exports recorded solid growth rates while the positive export momentum partly influenced domestic business conditions, as seen in increased semiconductor equipment investment.
  - Nevertheless, domestic demand recovery remains delayed, with goods consumption staying weak and construction investment showing substantial decline.

■ **Consumption: Consumption remains subdued, with persistent weakness in goods consumption.**

- Goods consumption continued its downward trend, with declines persisting across most categories.
  - September retail sales (-1.3% → -2.2%) continued to decline. Despite a rebound in automobiles (-4.4% → 2.1%) due to eased production disruptions, most categories—including food and beverages (-6.1%), clothing (-2.3%), and cosmetics (-10.2%) remained weak.
  - Seasonally adjusted month-on-month growth fell by 0.4%, indicating sluggish goods consumption.

- Service consumption sustains gradual growth
  - Overall services production saw a slight decline (1.1% → -0.2%), with most consumer-oriented services experiencing slower growth, including accommodation and food services (0.2% → -3.0%), arts, sports, and recreation services (3.4% →2.5%), and education (0.0% → -1.0%).

■ **Equipment Investment: Equipment investment continues to show gradual improvement, driven by semiconductor-related investments.**

- September equipment investment (7.5% → 6.1%) continued robust growth from the previous month, supported by a surge in semiconductor-related investment, despite a decline in transport equipment.

- Leading indicators related to the more volatile transport equipment remained weak, whereas those for machinery continued a positive trend.

■ **Construction investment remains contracted, especially in building construction, though some leading indicators show improvement.**

- In September, the value of construction completed (constant, -9.2% →-12.1%) continued to decline sharply.

- Although a few leading indicators are gradually improving, their delayed impact on construction investment suggests that sluggish conditions may persist for the time being.

■ **Prices: The slowdown in price increases continued as demand-side price pressures remained low and price increases narrowed across multiple items, while petroleum prices plunged.**

- October consumer prices rose by 1.3%, lower than the previous month (1.6%), as goods prices (0.9% → 0.3%) showed significant deceleration.
  - Agricultural, livestock, and fishery product prices (2.3% → 1.2%) showed slower growth as supply-side price pressures weakened.
  - Petroleum product prices (-7.6% → -10.9%) declined further as oil price decreases were reflected with a lag; downward pressure may ease partially in November following fuel tax reduction adjustments.

  *Dubai crude oil prices ($/barrel): (Jul.) 83.8 → (Aug.) 77.6 → (Sept.) 73.5 →(Oct.) 74.9

- Core inflation (2.0% → 1.8%), which shows low volatility, also moderated to slightly below the target (2%).
  - With high interest rates persisting, price increases moderated, particularly for interest rate-sensitive durable goods (1.2% → -0.2%).

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