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 facing mounting downward pressure as external conditions deteriorate rapidly.

- Weakened growth in domestic and external demand is weighing on production.
  - While equipment investment remains on a solid trajectory, continued sluggishness in construction investment and weak consumption growth are limiting the pace of domestic demand recovery.
  - Exports have partially rebounded from their early-year lows; however, the overall pace of growth continues to moderate.
  - As a result, construction production continued to decline sharply, while growth in industrial and service production remained modest.

- U.S. tariff hikes have exacerbated global trade conditions, intensifying downward pressure on exports.
  - With trade tensions rising, global growth projections have been revised downward, and business sentiment is weakening among export-oriented companies.
  - Export conditions further worsened as the impact of U.S tariff hikes began to weigh on trade in April.

*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: With production growth slowing, the deterioration in external conditions is intensifying downward pressure.

● All-industry production in February (-3.7% → 1.2%) increased, mainly due to the rise in working days (-4.0 → +1.5 days), with the slowdown in production growth persisting.

- Industrial production (-4.7% → 7.0%) rebounded, driven by sustained strength in semiconductors (11.6%) and the recovery of motor vehicles (14.6%) and electrical equipment (3.9%), which had posted temporary drops in the previous month.
- Services production (-0.9% → 0.8%) posted a modest gain, led by wholesale and retail trade (1.2%) and financial and insurance activities (2.6%).
- Construction production (-27.4% → -21.0%) continued its sharp decline.
- On a seasonally and working-day-adjusted basis, construction production (-21.7%) remained deeply negative, while industrial (1.0%) and services (0.1%) production posted only slight gains, pointing to an overall slowdown in production.

● The average capacity utilization rate fell (73.5% → 73.1%), indicating a moderation in manufacturing production.

- On a seasonally adjusted month-on-month basis, manufacturing shipments rose by 1.3%, while inventories declined by 1.2%, bringing down the inventory-to-shipment ratio (110.6% → 107.8%).

● Deteriorating external conditions, such as changes in U.S tariff policy, have dampened business sentiment, especially among export-oriented firms.

- Growth in semiconductor exports has slowed, and worsening global trade conditions have also weighed on other export items.
- Sentiment among export-firms has weakened, while confidence among domestic-oriented firms remains low.

■ Consumption: Consumption remains sluggish, with consumer sentiment appearing subdued.

● Passenger car sales rebounded due to excise tax cuts, yet overall retail sales continued to fall, reflecting persistent weakness in goods consumption.

- In February, durable goods sales rose sharply (-8.9% → 13.7%) due to the timing shift of the Lunar New Year holiday (Feb. 2024 → Jan. 2025), while semi-durable (-1.3% → -6.8%) and non-durable goods (4.3% → -7.5%) posted declines.
- Even after adjusting for the holiday effect by averaging January and February, durable goods posted a rebound (2.0%), driven by passenger car sales (10.4%), while overall retail sales continued to decline (-1.1%) amid contractions in semi-durables (-4.0%) and non-durables (-1.4%).

● Service consumption also remained subdued, particularly in major businesses such as accommodation and food services.

- Based on January-February averages, accommodation and food services (-3.7%), arts, sports, and recreation-related services (-5.6%), and education services (-1.8%), which are closely related to consumption, all posted declines.

● Meanwhile, the Composite Consumer Sentiment Index (CCSI) rose to 93.4 in March, recovering from the sharp downturn in December, though it remains below the baseline (100).

■ Equipment investment: Equipment investment maintained its recovery momentum led by the semiconductor sector, though downside risks have continued to build.

● Equipment investment (-5.1% → 7.7%) increased

in February, supported by more working days and robust semiconductor-related investment.

- Growth in transport equipment slowed (13.1% → 4.3%) as other transport equipment – a volatile category – declined (44.5% → -4.5%), while motor vehicles improved (-0.9% → 9.2%) following the excise tax cut.
- Machinery investment (-10.1% → 8.8%) rose, driven by gains in semiconductor manufacturing equipment (-6.7% → 11.4%) and precision instrument (-8.5% → 21.1%).
  * On a Jan.-Feb. average basis, semiconductor manufacturing equipment (2.4%) and precision instruments (5.4%) continued to post gains.
- Imports of semiconductor manufacturing equipment—a leading indicator—increased sharply (33.5% → 85.1%) in March, suggesting that strength in semiconductor-related investment may continue.

● However, deteriorating export conditions, including the U.S tariff hikes, could weigh on future equipment investment.

■ Construction investment: Construction investment remains sluggish, as evidenced by continued steep contractions in the value of construction completed.

● The value of construction completed in February (-27.4% → -21.0%) remained on a steep downward trajectory, extending the decline seen in the previous month.

● Meanwhile, as the positive momentum in leading indicators gradually materializes, conditions in construction investment may improve modestly.

■ Prices: While demand-side pressures remain subdued, inflation held steady from the previous month due to rising public service prices.

● Consumer prices increased by 2.1% in March, similar to the previous month (2.0%).

- Public service prices rose by 1.4%, up from 0.8% in the previous month, mainly due to higher university tuition fees.
- In contrast, the pace of increase in petroleum product prices slowed (6.3% → 2.8%) amid falling oil prices and base effects.
  * Dubai crude oil price ($/barrel): (Jan.) 80.4 → (Feb.) 77.9 → (Mar.) 72.5
- The continued sharp depreciation of the won may place upward pressure on consumer prices going forward.
  * KRW/USD exchange rate (monthly average, YoY, %): (Jan.) 10.0 → (Feb.) 8.5 → (Mar.) 9.5

● Core inflation (1.8% → 1.9%) remained similar to the previous month, as subdued demand-side pressures persisted.

- Excluding the effect of higher university tuition fees (contribution: 0.01%p → 0.07%p), core inflation remained unchanged from the previous month.

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