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 showing signs of a slowdown, as external conditions have sharply deteriorated.

- A weakened construction sector is weighing on the recovery of domestic demand, while deteriorating trade conditions are slowing exports.
  - Manufacturing production remains of a favorable trajectory, led by semiconductors, accompanied by a significant increase in related investment.
  - However, the protracted downturn in construction is keeping overall production and domestic demand growth at low levels.
  - Average daily exports declined, led by exports to the U.S., amid worsening trade conditions stemming from recent U.S tariff hikes.

- The global economic slowdown, driven by worsening trade conditions, is expected to exert mounting downward pressure on economic activity, particularly in exports.
  - Global growth forecasts, especially for the U.S and China, have been significantly downgraded, while elevated volatility in global financial markets is dampening economic sentiment both domestically and globally.

*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 improvements in industrial production, overall growth remains subdued, mainly due to weakness in construction. As trade conditions, deteriorate, indicators suggesting an economic slowdown are gradually increasing.

● All-industry production recorded low growth in March (1.2% → 1.3%), comparable to the previous month, as weakness in construction persisted.

- Industrial production maintained a favorable growth trajectory (7.1% → 5.3%), driven by a sharp acceleration in semiconductors (12.3% → 26.8%) and electronic parts (0.3% → 8.5%).
- However, all-industry production growth remained subdued as construction production (-20.2% → -14.7%) continued to contract, while growth in services production (1.2% → 0.7%) also moderated, reflecting slower gains in information and communications (1.7% → 0.2%) and financial and insurance services (3.2% → 1.0%).

● Amid the expansion in manufacturing production, the average capacity utilization rate rose (73.2% → 74.9%), and the inventory-to-shipment ratio declined (107.4% → 103.9%) at the same time.

- On a seasonally adjusted month-on-month basis, domestic demand shipments decreased by 0.4%, while manufacturing shipments rose by 0.9% on the back of a 2.6% increase in export shipments.

● With the recovery in domestic demand delayed and export conditions deteriorating, concerns over an economic slowdown are intensifying.

■ Consumption: The weakness in goods consumption has shown partial signs of easing: however, consumer sentiment remains subdued, indicating a delayed recovery in consumption.

● Retail sales increased, driven by sustained high growth in passenger cars supported by excise tax reductions, suggesting a partial alleviation in the sluggishness in goods consumption.

- Retail sales rose by 1.5% largely due to passenger cars, which recorded robust growth of 10.0% in March following 10.1% in January-February, after a 7.3% contraction in the previous year.
- In contrast, retail sales, excluding passenger cars, grew by only 0.5%, and declined by 1.0% in the first quarter.
- Given that retail sales fell by 3.3% in March of last year, base effects also appear to have contributed in part to the increase.

● Service consumption, however, remains weak across major sectors including accommodation and food services.

- Production in key service industries closely tied to consumption continued to decline, including accommodation and food services (-3.7%), educational services (-1.3%), and arts, sports, and recreation-related services (-0.7%).

● Meanwhile, the Composite Consumer Sentiment Index (CCSI) rose slightly to 93.8 in April form 93.4 in the previous month, yet remained below the baseline (100).

■ Equipment investment: Semiconductor-related investment remains on a favorable trajectory, but downside risks to equipment investment persist amid heightened external uncertainty.

● Equipment investment recorded strong growth in March (8.0% → 14.1%), supported by sustained semiconductor-related investment and base effects from a decline in the same month last year (-4.9%).

● However, with uncertainty surrounding global trade remaining elevated, it could potentially limit further improvement in equipment investing.

■ Construction investment: Construction investment remains sluggish, with the value of construction posting a sharp decline.

● The value of construction completed continued to decline sharply in March (-20.2% → -14.7%), remaining weak with a seasonally adjusted month-on-month decrease of 2.7%.

● However, positive signals for future construction investment are also being observed, as construction orders received, which serve as a leading indicator, have shown improvement since late 2023.

■ Prices: Despite subdued demand-side pressures, the inflation rate continues to fluctuate around 2%, primarily reflecting factors such as a rising exchange rate.

● Consumer prices rose by 2.1% in April, unchanged from the previous month.

- Amid falling global oil prices, petroleum product prices (2.8% → -1.7%) declined, exerting downward pressure on overall inflation.

  * Dubai crude oil ($/barrel): (Feb.) 77.9 → (Mar.) 72.5 → (Apr.) 67.7

- However, processed food prices accelerated (3.6% → 4.1%), driven by higher import prices stemming from the exchange rate increase. Personal services prices increased at a faster pace (3.1% → 3.3%), mainly attributable to policy-driven* increases in insurance service fees.

  * The acceleration in insurance service fees (15.1% → 16.3%) was primarily attributable to premium increases following new guidelines issued by financial authorities.

● As a result, core inflation rose slightly to 2.1%, from 1.9% in the previous month.

- While core inflation edged higher due to exchange rate and policy effects, demand-side price pressures remain muted amid weak domestic demand.

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