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 remains at a similarly subdued level as in the previous month, due to continued weakness in the construction sector and worsening external conditions.

● Construction remains depressed, while manufacturing is experiencing a downturn, dampening production growth.

- Semiconductor exports and production continued to underpin favorable trend, while investment in related equipment sustained high growth.
- However, exports to the U.S. weakened, particularly in categories such as motor vehicles affected by steep tariff hikes, resulting in slower growth in manufacturing production.
- All industry production turned to a decrease as construction output contracted and services posted only modest growth.

● While consumer sentiment is on the mend, pointing to a possible improvement in domestic demand conditions, trade-related uncertainty remains elevated with the expiry of the mutual tariff suspension approaching.

*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 construction stalling and U.S. tariff pressures consistently weighing on the economy, production growth has broadly decelerated, leaving overall economic activity subdued.

● All industry production declined 0.8% in May, as amid continued weakness in construction, industrial (mining and manufacturing) production adjusted from its previous gains.

- Construction production (-21.1% → -20.8%) remained in deep contraction
- Industrial production (5.1% → 0.2%) saw its growth narrow, as declines in motor vehicles (-3.2%), metal processing (-4.9%), and pharmaceuticals (-10.7%) offset robust gains in semiconductors (18.1%).
- Services production (0.9% → 1.0%) recorded only modest growth, as increases in financial and insurance services (3.6%) and human health and social work activities (7.1%) were offset by declines in retail and wholesale (-1.6%) and business facility management (-3.0%).

● The inventory-to-shipment ratio in the manufacturing sector rose (102.4% → 104.4%), while the average capacity utilization rate declined (73.8% → 71.7%).

- Shipments declined by 1.6% on a seasonally adjusted month-on-month basis led by a 4.0% contraction in domestic demand.

● Domestic demand weakened mainly in sluggish construction investment, while exports registered only modest growth amid continued pressure from U.S. tariff hikes, with trade uncertainty remaining elevated.

- Exports to the U.S. underperformed, particularly in motor vehicles affected by steep tariffs.
- Trade uncertainty remained elevated as negotiations stalled ahead of the expiration of the mutual tariff suspension, weighing on exporter sentiment as a result.
- Nevertheless, some positive signals are evident, as reflected in the continued resilience of semiconductor exports and the recovery of consumer sentiment.

■ Consumption: Consumption remained subdued, while consumer sentiment showed signs of a swift recovery.

● Retail sales (-0.2%) continued to edge down, despite strong growth in passenger car sales, reflecting weakness in other categories.

- In May, passenger car sales maintained strong growth (13.4%), supported by excise tax cuts, and are expected to sustain favorable growth as the tax reduction has been extended through the end of the year.
- In contrast, retail sales excluding passenger cars remained weak (-1.6%), led by declines in furniture (-10.8%), cosmetics (-8.5%), and household electrical appliances (-6.1%).

● Service consumption also registered only moderate growth, led by accommodation and food services.

- Production in major consumption-related service industries continued to decline, including accommodation and food services (-1.0%) and educational services (-0.9%).

● By contrast, the Composite Consumer Sentiment Index (108.7) for June rose sharply from the previous month (101.8), indicating a recovery in consumer sentiment.

- As high interest rates gradually ease and the second supplementary budget has been finalized, these factors are expected to support the recovery of consumption going forward.

■ Equipment investment: Equipment investment continued to post strong growth, supported by steady momentum in semiconductors and a sharp expansion in volatile transport equipment, while other sectors remained weak.

● In May, equipment investment (8.4% → 7.5%) maintained solid growth, supported by semiconductor-related and transport equipment investment.

- Semiconductor-related investment remained firm, with gains in semiconductor manufacturing equipment (15.9% → 12.9%) and precision instruments (14.5% → 9.0%)
- Transport equipment investment (19.1% → 26.1%) saw sustained high growth in motor vehicles (16.9% → 13.9%) alongside a sharp rise in the more volatile other transport equipment (18.8% → 49.8%).
- Machinery imports increased in June (13.6% → 8.4%), driven by growth in semiconductor manufacturing equipment (26.1% → 38.8%), suggesting that robust momentum in semiconductor investment may be sustained.

● However, machinery investment outside semiconductors remained weak amid elevated external uncertainty.

- Overall machinery investment (0.6%) recorded only modest growth, reflecting declines in general industrial machinery (-5.9% → -3.3%) and other equipment (-4.0% → -13.8%).
- Given the heightened trade uncertainty and deteriorating business sentiment, the sluggishness in machinery investment excluding semiconductors is likely to persist for the time being.

■ Construction investment: Construction investment remained sluggish for a prolonged period, although improvements in leading indicators persisted.

● The value of construction completed in May (-20.8%) remained significantly down, following the sharp decline seen in the previous month (-21.1%).

● The contraction in construction investment is expected to ease gradually with a time lag, as reflected in sustained improvement in a number of leading indicators.

■ Prices: Inflation remained stable as domestic demand stayed weak.

● In June, consumer prices rose by 2.2%, up from 1.9% in the previous month, mainly reflecting base effects.

- Consumer price inflation edged up slightly, largely due to base effects from the stability of agricultural and petroleum product prices in Junes last year, which resulted in a smaller decline in agricultural product prices (-4.7% → - 1.8%) and a modest increase in petroleum product prices (-2.3% → 0.3%).

● However, core inflation held steady at 2.0%, unchanged from the previous month, indicating that overall inflationary pressures remained contained.

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