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, despite weak construction investment, is showing some easing of overall sluggishness, led by consumption.

- Construction investment remains sluggish, while equipment investment growth is moderating, with manufacturing capacity utilization still at low levels.
- However, the weakness in consumption is slightly easing as market interest rates continue to decline and government consumption support policies are implemented.
- Downward pressures on exports remain elevated, reflecting persistently high U.S. tariffs and heightened global trade uncertainty.
  - Exports continue gradual growth led by semiconductors, but with tariff hike effects starting to emerge, including declining shipments to the U.S., earlier front-loading may unwind, potentially slowing export growth.
  - Uncertainty also lingers over the possibility of tariffs on semiconductors and the timing of tariff reductions on motor vehicles.

*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: Production growth remained modest, led by services, although manufacturing capacity utilization stayed low amid sluggish construction.

● All-industry production in July (1.0%→1.9%) expanded as services maintained solid growth and base effects also played a role.

- Services production (2.1%→2.1%) maintained solid growth as wholesale and retail trade (2.6%→5.8%) expanded and weakness in accommodation and food services (-2.7%→1.6%) eased.
- Industrial (mining and manufacturing) production (1.6%→5.0%) expanded as semiconductors (20.5%) sustained strong growth, while motor vehicles (1.7%→ 6.4%) and electronic parts (-21.4%→5.3%) also improved.

* However, much of the expansion reflected base effects from last July, when motor vehicle production was weak due to facility maintenance and wage negotiations, with seasonally adjusted month-on-month growth limited to 0.3%.

- By contrast, construction production (-12.1%→ -14.2%) remained in a prolonged downturn.

● The manufacturing inventory-to-shipment ratio (102.4%→101.7%) declined, while the average capacity utilization rate (72.5%→72.4%) stayed stagnant at low levels below the 2024 annual average (72.7%).

- On a seasonally adjusted month-on-month basis, shipments declined 1.1% as both domestic demand (-0.4%) and exports (-1.7%) were sluggish, while business sentiment continued to stay at low levels.

■ Consumption: Consumption weakness is somewhat easing, supported by declining market interest rates and government consumption support policies.

● Retail sales, closely tied to goods consumption, are expanding, while weakness in service consumption is also easing, led by key sectors such as accommodation and food services.

- Retail sales in July (0.3%→2.4%) expanded further as passenger cars (12.9%) maintained strong growth on the back of excise tax reductions, while retail sales excluding passenger cars also rebounded (-1.3%→1.3%).
- Production in consumption-related service sectors such as accommodation and food services (-2.7%→1.6%) and arts, sports and recreation-related services (-2.1%→5.5%) also shifted to growth.

● Consumption conditions are gradually improving, supported by continued declines in market interest rates and stronger gross national income growth in Q2 (-0.1%→1.5%). In addition, government support measures implemented in July, including consumption recovery vouchers and home appliance rebate programs, further bolstered the easing of consumption weakness.

- Higher travel receipts (33.1%), driven by increased inflows of foreign tourists (25.5%), provided further support to domestic consumption.

● The CCSI in August (111.4) remained at a high level, reflecting improved consumption conditions, and the consumption recovery is likely to persist as government support measures continue.

■ Equipment investment: Equipment investment growth is undergoing adjustment as machinery remains on a weak trajectory.

● Equipment investment in July (1.4%→-5.4%) declined, as transport equipment fell sharply due to base effects, while semiconductor-related investment growth narrowed.

- Transport equipment (10.1%→-16.5%) decreased, reflecting base effects from the surge in other transport equipment, mainly aircraft, in July last year.
- Machinery (-1.8%→1.5%) exhibited somewhat

reduced weakness in electrical and electronic equipment (-8.6%→4.2%) and general industrial machinery (-12.3%→0.8%), but overall growth stayed subdued as semiconductor-related investment decelerated in semiconductor manufacturing equipment (14.2%→ 8.5%) and precision instruments (12.7%→4.4%).

● Leading indicators suggest continued adjustment in equipment investment.

- Imports of semiconductor manufacturing equipment in August (27.7%→9.5%) registered slower growth, while imports of aircraft and parts (-56.1%→-43.8%) continued to decline.

■ Construction investment: Construction investment stayed weak, marked by a sharp decline.

● The value of construction completed in July (-12.1%→-14.2%) fell sharply following the previous month, led by the building construction sector.

- The building construction sector (-10.4%→ -16.4%) contracted further as both residential and non-residential construction weakened, while the civil engineering sector (-16.3%→-6.4%) also continued to decline.
- Adverse weather conditions, including heat waves, further weighed on the value of construction completed.

* Number of heatwave days in July (daily maximum temperature ≥33℃): (2024) 4.3 days → (2025) 14.5 days

● Leading indicators continue to show improvement, but their reflection into actual construction investment may be somewhat delayed.

- The recovery in construction orders received and the floor area of construction starts (floor area commenced) is expected to be reflected in investment with some lag.
- However, funding conditions have tightened due to stricter screening of real estate project financing loans, and regional real estate markets have weakened. As a result, the recovery of construction investment may be delayed.

■ Prices: Consumer price inflation slowed due to temporary factors, but overall inflation trends stayed stable.

● In August, consumer prices rose 1.7%, sharply lower than 2.1% in the previous month, mainly due to temporary reductions in mobile phone fees.

- Increases in prices of agricultural, livestock, and fisheries products (2.1%→4.8%) accelerated due to adverse weather conditions.
- However, mobile phone fees (0.0%→-21.0%) fell sharply, serving as the main factor behind the slowdown in headline inflation (contribution: -0.6%p).
- Core inflation also slowed to 1.3%, down from 2.0% in the previous month.

● Underlying price trends, excluding temporary factors, have remained stable close to 2%

- Core inflation excluding mobile phone fees has held steady with little variation, while inflation expectations have also remained on a stable path.

* Core inflation excluding mobile phone fees (%): (Jun.) 2.1 → (Jul.) 2.1 → (Aug.) 2.1

- Looking ahead, policy-driven improvements in consumption may lessen demand-side downward pressure on prices.

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