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 continued to show weak growth in overall production, weighed by contraction in the construction sector, while weakness in consumption appears to be easing.

- The prolonged downturn in the construction sector continues to weigh on all-industry production growth, while employment also slowed, particularly in that sector.

- However, manufacturing indicators improved, as continued high growth in passenger car retail sales is driving a surge in motor vehicle output.
  -Other retail sales also showed a gradual easing of weakness, supported by declining market interest rates and government consumption support measures.

- Meanwhile, downside risks to economic activity persist, as indicated by deteriorating global trade conditions.
  - High tariffs on Korean motor vehicle exports to the U.S. remained in place, while trade uncertainty has increased, as indicated by renewed tensions between the U.S. and China.

*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: Manufacturing production improved, led by motor vehicles, yet overall production growth remained subdued amid a prolonged downturn in construction.

● All-industry production in August (1.9%→–0.3%) edged lower as the slump in construction deepened despite gains in mining and manufacturing, while growth in services also moderated.

- Industrial (mining and manufacturing) production (5.0%→0.9%) expanded at a slower pace than in the previous month, when base effects had driven a relatively sharp increase. On a seasonally adjusted month-on-month basis, it rose by 2.4%, driven by a surge in motor vehicle production (21.2%).
- However, construction production (–14.0%→–17.9%) declined further; even after seasonal adjustment, it contracted by 6.1% month-on-month, underscoring a deepening downturn in the sector.
- Services production (2.1%→1.0%) grew at a slower pace as wholesale and retail trade (5.6%→2.0%) decelerated and real estate activities (–2.8%→–3.3%) remained weak, falling by 0.7% on a seasonally adjusted month-on-month basis.

● Amid a sharp rise in motor vehicle production and shipments, the manufacturing inventory-to-shipment ratio declined (101.8%→100.7%), while the average capacity utilization rate increased (72.5%→74.7%).

- On a seasonally adjusted month-on-month basis, manufacturing shipments rose by 1.7%, reflecting gains in both domestic demand (2.5%) and exports (0.8%).
- Despite the improvement in manufacturing activity, business sentiment remained subdued amid persistently high external uncertainty.

■ Consumption: Consumption growth, bolstered by policy measures, is undergoing partial adjustment, yet the pace of moderation in consumption weakness appears to have stabilized.

● After a sharp rise in the previous month, retail sales adjusted somewhat, but the improving trend in consumption persisted.

- Retail sales in August (2.5%→–0.5%) declined, led by sales excluding passenger cars (1.5%→–2.0%), although passenger car sales (12.9%→13.6%) continued strong growth, supported by the excise tax cut.
- The adjustment in August partly reflected the disbursement of livelihood recovery coupons in July and the launch of new mobile phones, yet the modest improvement in seasonally adjusted retail sales appears to have been maintained.

*Retail sales (seasonally adjusted, month-on-month, %): (May) 0.0 → (Jun.) 0.6 → (Jul.–Aug.) 1.5

- Production in accommodation and food services, closely linked to consumption, also rose by 1.1% month-on-month on a seasonally adjusted basis, extending the previous month's gain (1.9%) and signaling a gradual easing in weakness.

● The CCSI (110.1) remained elevated in September, while market interest rates continued their downward trajectory, indicating an improvement in consumption conditions.

- Moreover, with the rollout of the second round of livelihood recovery coupons and the win-win payback program from September, the easing in consumption weakness is expected to persist for the time being.

■ **Equipment investment: Equipment investment stayed subdued, as weakness across most sectors offset solid gains in semiconductor investment.**

● Equipment investment in August (–5.7%→–0.4%) contracted by a smaller margin, led by transport equipment, while machinery posted only modest growth.

● Amid persistent demand for AI-related semiconductors, robust semiconductor investment is likely to be maintained for the time being.

■ **Construction investment: Construction investment remained sluggish, with the value of construction completed declining sharply across sectors.**

● The value of construction completed in August (–14.0%→–17.9%) continued to decrease rapidly, falling by 6.1% month-on-month on a seasonally adjusted basis.

● Meanwhile, the ongoing improvement in construction orders received has not yet translated into higher housing starts, thereby prolonging the weakness in construction investment.

■ **Prices: Consumer prices remained stable within the target range of around 2%.**

● Although headline inflation (Aug.: 1.7%→Sep: 2.1%) fluctuated on temporary cuts in mobile phone charges in the previous month, the rate matched the July level (2.1%).

● Core inflation also held at 2%, suggesting that underlying price trends remained broadly stable.

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