PMI™ by S&P Global

Week Ahead Economic Preview

Worldwide PMIs, US payrolls, Fed minutes and RBA meeting

30 June 2023

The opening week for the second half of 2023 packs a multitude of economic data highlights including worldwide PMI figures plus US ISM data and monthly jobs report. On the central bank front, Fed minutes from the June meeting will be released and monetary policy meetings will be held in Australia and Malaysia. A series of inflation updates across the world will also be due while Japan's Tankan survey will be scrutinised for second quarter business conditions.

Concerns have surrounded a loss of growth momentum post the June flash PMI data from major developed economies, though some of these jitters have been calmed by improved consumer confidence and goods orders indicators for the US. This nevertheless reflects the challenges that the US Federal Reserve continues to face, balancing still-elevated cost pressures with resilient consumer confidence and service sector growth, as seen via the S&P Global Flash US Composite PMI. As such, one is expected to continue reading the tea leaves through June's Fed minutes in next week's release. Additionally, labour market data for June will also be due Friday. Any stronger-than-expected jobs and wage growth may well set the market on their heels.

Beyond the US, insights into global economic conditions will be drawn from the latest set of June PMI data. Sector PMI data will be especially important to watch for signs that consumer services growth appears to have peaked, signalling the slowdown of this key growth engine in the first half of 2023. Whether the goods producing sector may be able to pick up the slack or has further deteriorated will also be examined, with early signals anticipated from basic materials producers.

On central bank front, the Reserve Bank of Australia and Bank Negara Malaysia will be two central banks convening in the first week of July. Slowing inflation in Australia offered some hopes for the RBA to pause its rate hikes, though the meeting remains a 'live' one with chances of another rise. Further rate hikes in the second half have also not been ruled out by the market.

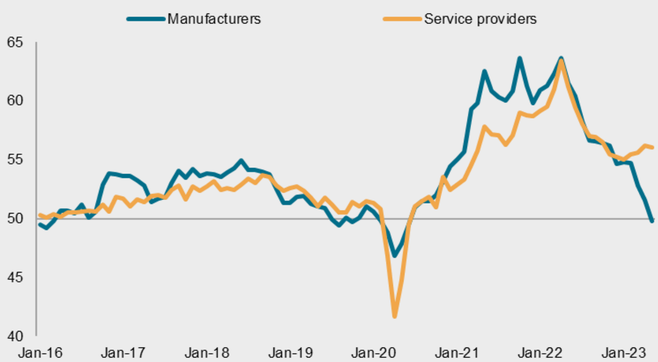
For now, a series of official inflation data for Indonesia, South Korea, Philippines, Thailand, Eurozone and Switzerland will keep the market informed on the latest price developments as we enter H2 2023.

Services PMIs to be main focus of inflation fight

All too often we see models based on manufacturing data which try to predict the path of economic growth or inflation. And, all too often, these models send misleading signals. In recent months, the problem has been using the recent collapse in manufacturing prices as a proxy for broader consumer price inflation. As we have been signalling for some time, but only recently coming to the fore in many discussions, in 2023 it is the service sector which has been playing the key role in sustaining elevated inflation rates.

The benefit of manufacturing data such as monthly production and producer price statistics is typically its broad availability and it long-time history, often spanning many decades. Comparable data for the service sector to use in models, on the other hand, are harder to find. A notable exception is the PMI surveys, for which output, demand, input cost and selling prices data are available for all major developed and emerging economies.

Global PMI selling prices



Data compiled Jun. 06, 2023.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month.
Source: S&P Global PMI, JPMorgan, S&P Global Market Intelligence
© 2023 S&P Global.

Our in-depth analysis of recent service sector price trends have indicated that wage costs have been the principal driver of higher prices. But we are also seeing signs that demand for services is starting to weaken, which will reduce pricing power (see special report).

These service sector surveys will be updated for June in the coming week and will play a major role in steering policy guidance on the stickiness of inflation.

Key diary events

Monday 3 Jul
US (partial), Canada Market Holiday
Worldwide Manufacturing PMIs, incl. global PMI* (Jun)
Japan Tankan Index (Q2)
Australia Building Permits (May, prelim)
Indonesia Inflation (Jun)
Switzerland Inflation (Jun)
Hong Kong SAR Retail Sales (May)
Singapore SIPMM Manufacturing PMI (Jun)
United States ISM Manufacturing PMI (Jun)

Tuesday 4 Jul
US Market Holiday
South Korea Inflation (Jun)
Australia RBA Interest Rate Decision
Germany Trade (May)
Canada S&P Global Manufacturing PMI* (Jun)

Wednesday 5 Jul
Worldwide Services, Composite PMIs, inc. global PMI* (Released across 5-6 July for June)
Philippines Inflation (Jun)
Australia Retail Sales (May, final)
Thailand Inflation (Jun)
Singapore Retail Sales (May)
Eurozone PPI (May)
United States Factory Orders (May)
United States Fed FOMC Minutes (Jun)

Thursday 6 Jul
Australia Trade (May)
Germany Factory Orders (May)
Malaysia BNM Interest Rate Decision
Taiwan Inflation (Jun)
Eurozone Retail Sales (May)
United States ADP Employment Change (Jun)
United States Trade (May)
United States ISM Services PMI (Jun)
United States JOLTs Job Openings (May)
Canada Trade (May)

Friday 7 Jul
South Korea Current Account (May)
Japan Household Spending (May)
Philippines Unemployment and Industrial Production (May)
Thailand Consumer Confidence (Jun)
Germany Industrial Production (May)
United Kingdom Halifax House Price Index* (Jun)
France Trade (May)
Taiwan Trade (Jun)
Canada Unemployment Rate (Jun)
United States Non-farm Payrolls, Average Earnings and Unemployment Rate (Jun)
S&P Global Sector PMI* (Jun)

* Press releases of indices produced by S&P Global and relevant sponsors can be found **here**.

What to watch

Worldwide manufacturing and services PMI for June
Following the release of June flash PMI for major developed economies, worldwide manufacturing and services PMI data will be unveiled at the start of July.

Flash PMI data at the mid-year indicated cooling inflationary pressures across the four largest developed world economies (the "G4"). While this represented a move in the desired direction of central bankers, it came at the cost of growth as business activity also expanded at a slower rate across the G4. Notably, alongside a broad manufacturing malaise, G4 service sector activity rose at the weakest pace since February with the eurozone seeing leading the slowdown in growth. It will be of interest to study if this trend is mirrored across emerging countries and the wider global economy. Global Sector PMI will also follow on Friday, July 7 for greater details on a sector level including across regions such as Asia, US and Europe.

Americas: US labour market report, Fed FOMC minutes
The US finds a busy economic calendar in the week ahead with June US labour market data and Fed minutes being highlights. Consensus expectations point to a still-solid expansion of around 200k for non-farm payrolls while the unemployment rate is expected to stay low at 3.7%. This is in line with indications from June S&P Global Flash US Composite PMI data. Further details from the June Fed meeting will also be scrutinised with the minutes to be released on Wednesday.

Europe: Germany trade and industrial production, eurozone PPI and retail sales
In addition to the detailed sector PMI data releases, a series of tier-2 data from the eurozone and Germany will be tracked in the coming week with a particular focus on eurozone's latest factory gate inflation figures. Also watch out for the UK Hallifax house price index for the latest news on residential property prices amid higher interest rates.

Asia-Pacific: RBA, BNM meetings, Japan Tankan survey, Indonesia inflation
In APAC, the Reserve Bank of Australia will convene on Tuesday with the possibility of another hike not ruled out. Japan's Tankan survey will meanwhile offer an update on business' views for Q2 after the latest June au Jibun Bank Flash Japan Composite PMI signalled continued expansion of Japan's private sector, albeit at a slower rate.

Special reports:

Global pricing power sinks to 2½ year low as higher interest rates take their toll | Chris Williamson | **page 4**

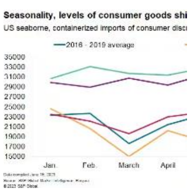
South Korea continues to face headwinds from weak exports | Rajiv Biswas | **page 6**

Recent PMI and economic analysis from S&P Global

Global	Flash PMI data for June signal cooler global price trends amid mounting growth risks	23-Jun	Chris Williamson
	Global pricing power sinks to two-and-a-half year low as higher interest rates take their toll	22-Jun	Chris Williamson
	Nigerian business activity recovers as cash crisis eases	19-Jun	Andrew Harker
	Uneven impact of high interest rates: manufacturing struggles while service thrives	19-Jun	Pollyanna De Lima
	Monthly PMI Bulletin: June 2023	9-Jun	Jingyi Pan
Europe	UK Flash PMI surveys signal growth slowdown in June as rate hikes take their toll	23-Jun	Chris Williamson
	Eurozone flash PMI shows inflation pressures cooling in June as economic upturn fades	23-Jun	Chris Williamson
Asia-Pacific	APAC tourism surges in first half of 2023	25-Jun	Rajiv Biswas
	Japan June flash PMI data signal solid expansion at end of Q2 despite moderation in growth momentum	23-Jun	Jingyi Pan
Commodities	Weekly Pricing Pulse: Commodity prices up as natural gas supply concerns reemerge	22-Jun	Michael Dall

S&P Global Economics & Country Risk highlights

Right place, right time: Supply chain outlook for third quarter 2023



Supply chains are almost back to normal in terms of activity, inventories and seasonality. Yet, there are plenty of uncertainties in both the government policy and physical risk heading into the second half of 2023 as firms start to implement long-term supply chain restructuring plans.

Click here to read our research and analysis

PMI Insights: Evolving trends in sub-Saharan Africa

Our Purchasing Managers' Index team compiles data for more than 40 economies around the world. In this episode, the economists unpack recent events in sub-Saharan Africa and discuss how the PMI data illuminate economic trends across the region.in for the latest trends seen in our Purchasing Managers Index data.

Click here to listen to this podcast by S&P Global Market Intelligence

For further information:

For more information on our products, including economic forecasting and industry research, please visit **https://www.spglobal.com/**. For more information on our PMI business surveys, please visit **here**.

Special Focus

Global Pricing Power Sinks to Two-and-a-half Year Low as Higher Interest Rates Take Their Toll

Tracking the impact of higher interest rates on inflation is made easier by survey data that reveal the extent to which prices are changing due to demand conditions.

Derived from PMI survey responses, data showing the degree to which pricing power is being affected by demand indicates that higher interest rates are having a material dampening effect on underlying inflationary pressures. Measured globally, demand-led pricing power is now at its weakest for two and a half years, which should feed through to lower inflation in the months ahead barring any external influences on prices.

The biggest effect of the demand squeeze is being seen in manufacturing, but service sector pricing power has also fallen markedly.

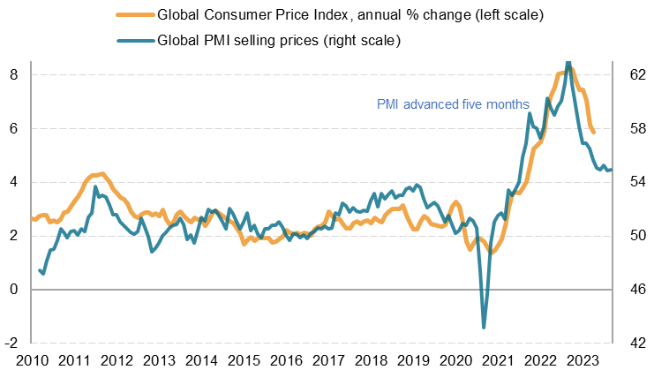
Inflation cools, but rate of descent slows

Inflation has come down sharply from the peak seen last year, and should fall further. The latest official data indicate that global consumer prices rose at an annual rate of 5.8% in April, down from a peak of 8.3% in September of last year. A provisional estimate for May, based on early CPI prints in the major economies, puts the annual rate at 5.3%.

This cooling in the rate of global inflation was widely expected, not least because of base effects from steep price rises in 2022, notably for energy, but also because it was signaled in advance by the business surveys. The Global PMI – compiled by S&P Global across over 40 economies and sponsored by JPMorgan – tracks both input costs paid by companies as well as their selling prices. These cover both goods and services, and these gauges have been falling. Global input cost growth rose at near record rates in early 2022 and growth of selling prices likewise peaked in April 2022. The latter has, however, hinted at some "stickiness" of inflation. Although the index slipped to a 27-month low in May, it has lost just 0.6 points so far this year. That compares to an 8.4 point drop in the final eight months of last year.

In other words, the rate at which global inflation is falling has almost stalled.

Global consumer price inflation and PMI selling prices

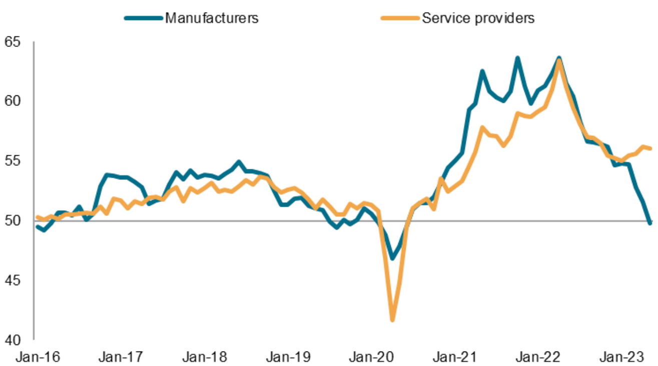


Data compiled Jun. 06, 2023.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month.
Source: S&P Global PMI, JPMorgan.
© 2023 S&P Global.

Price stickiness led by service sector

A breakdown of the PMI selling price data shows how this price stickiness is being led by the service sector. While prices charged for goods fell on average in May for the first time in nearly three years, prices levied for services rose at a rate far in excess of anything recorded by the PMI surveys prior to the pandemic, the rate of increase running higher than earlier this year (albeit down sharply from last year's peak).

Global PMI selling prices



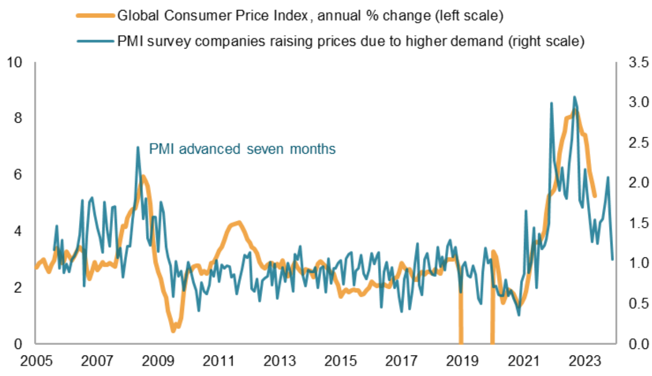
Data compiled Jun. 06, 2023.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month.
Source: S&P Global PMI, JPMorgan, S&P Global Market Intelligence
© 2023 S&P Global.

Reduced pricing power

There is some good news, however, hinting that we could see some of this upward pressure on prices moderate in the months ahead.

In addition to tracking whether input prices and selling prices changed at each company during the month, the PMI survey also asks respondents to report any factors that contributed to this change. These responses can be analysed over time to reveal the extent to which different forces are acting on inflation. Our chart below, for example, graphs the degree to which companies have been able to raise selling prices due to high demand.

Global consumer price inflation and demand-led pricing power

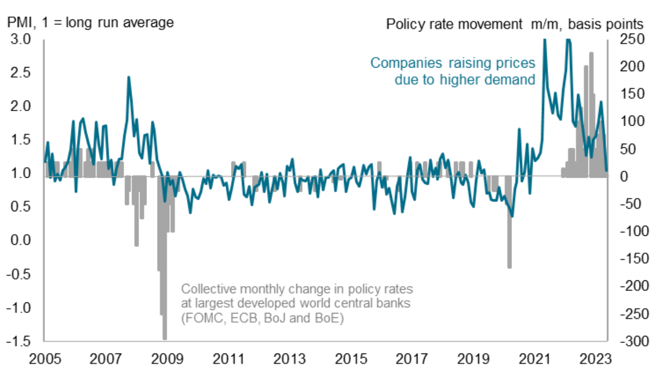


Data compiled Jun. 06, 2023.
PMI (Purchasing Managers' Index) Comment Tracker value 1 = long-run average. .
Source: S&P Global PMI, S&P Global Market Intelligence.
© 2023 S&P Global.

Having hit unprecedented highs during the pandemic, the inflationary pressure from demand has cooled sharply in recent months, dropping in May to its lowest since November 2020. Charting this "PMI Comment Tracker" gauge of demand-led pricing power against global consumer prices suggests CPI could fall sharply in the months ahead. Note that the gauge is charted with a seven-month lead against CPI in this chart.

This weakening of demand-led pricing power can be linked to higher interest rates as the world's major central banks have tightened monetary policy aggressively over the past year (see chart). In fact, this measure of demand-led pricing power demonstrates the main conduit of monetary policy for taming inflation.

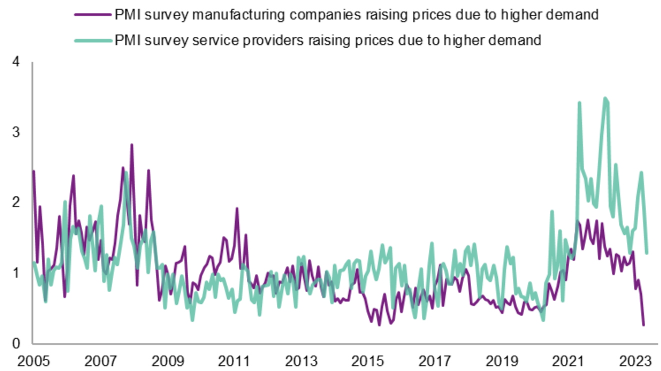
Global PMI demand-led pricing power vs. monetary policy



Data compiled Jun. 06, 2023.
PMI covers manufacturing and services.
Source: S&P Global PMI, S&P Global Market Intelligence, JPMorgan.
© 2023 S&P Global.

The survey data can also be broken down into manufacturing and services. Here we can observe how the greatest impact of weakened demand on pricing power is evident in manufacturing, though an impact is also visible in services. However, while demand-led pricing power in manufacturing is now down to the lowest seen since comparable data were available in 2005, pricing power due to high demand remains somewhat elevated by historical standards in services.

Global demand-led pricing power



Data compiled Jun. 06, 2023.
PMI (Purchasing Managers' Index) Comment Tracker value 1 = long-run average. .
Source: S&P Global PMI, S&P Global Market Intelligence.
© 2023 S&P Global.

Monthly monitoring

The monthly monitoring of the changing influences on inflation will be essential in determining the likely future path of inflation and therefore policy rates. As well as the demand-led pricing power metrics, PMI responses also reveal the degrees to which other factors such as labour costs, energy costs, raw material prices and shipping costs are affecting inflation around the world.

Email us at economics@spglobal.com and ask for more inflation regarding our PMI Comment Trackers.

Chris Williamson
Chief Business Economist
S&P Global Market Intelligence
London
T: +44 779 5555 061
chris.williamson@spglobal.com

Special Focus

South Korea Continues to Face Headwinds from Weak Exports

South Korea has faced continuing economic headwinds during the first half of 2023, due to the impact of weak exports and the cumulative transmission effects of monetary policy tightening by the Bank of Korea during 2022.

Weak economic growth in the US and the European Union (EU) remain a key downside risk for South Korea's manufacturing export sector in the second half of 2023 and into 2024. Despite improving economic growth in mainland China during the first half of 2023, South Korean exports to this key market have remained weak due to declining exports of semiconductors and mobile phones. However South Korea's tourism sector is expected to show improving momentum during the second half of 2023 and in 2024, with the recent lifting of COVID-19 related restrictions for tourism arrivals.

GDP resumes positive growth in first quarter of 2023

South Korea's real GDP grew at a pace of 0.3% quarter-on-quarter (q/q) in the first quarter of 2023, showing a return to moderate positive growth after contracting by 0.4% q/q in the fourth quarter of 2022. On a year-over-year (y/y) basis, real GDP growth slowed to an increase of 0.8% year over year in the first quarter of 2023, compared with 1.4% y/y in the fourth quarter of 2022.

South Korea real GDP growth (% change, QOQ)

Data compiled April 26, 2023.
Source: Bank of Korea.
© 2023 S&P Global.

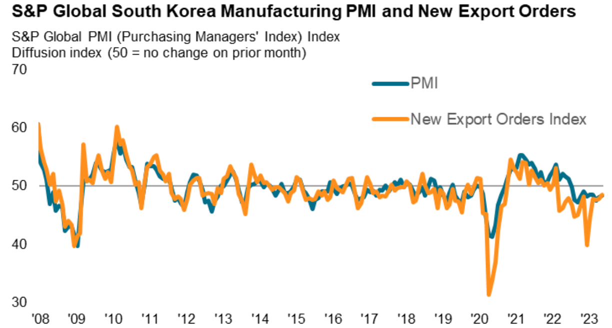
The resumption of positive growth was helped by a rebound in private consumption, which grew by 0.5% q/q, after having declined by 0.6% q/q in the fourth quarter of 2022. Private consumption was up 4.5% y/y in the first quarter of 2023, while government consumption rose by 3.9% y/y.

Monthly industrial production statistics for April showed continued weakness in South Korean manufacturing output, which fell by 9.0% y/y, similar to the 10.0% y/y decline recorded in the first quarter of 2023.

The seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI) ticked up from 48.1 in April to 48.4 in May but remained below the 50.0 neutral mark. This indicated the eleventh consecutive monthly contraction in the South Korean manufacturing sector, albeit still showing a moderate pace of decline overall.

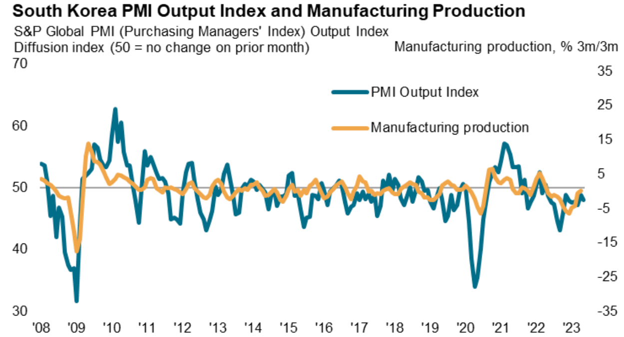
The strongest downward contribution to the headline PMI came from a further sharp reduction in new orders, which was reflective of weak demand conditions in both domestic and external markets.

S&P Global South Korea Manufacturing PMI and New Export Orders



Source: S&P Global Market Intelligence, S&P Global PMI surveys
© S&P Global 2023.

South Korea PMI Output Index and Manufacturing Production



Source: S&P Global PMI, KOSTAT via S&P Global Market Intelligence
© S&P Global 2023.

South Korea's merchandise exports have remained weak in the first half of 2023, declining by 15.2% y/y in May 2023, mainly as a result of continued contraction in exports of semiconductors and displays.

However, the value of automobile exports hit a new historic high of USD 6.2 billion in May, helped by strong growth in exports of eco-friendly cars. Exports of electric vehicles and fuel cell electric vehicles rose by 98.5% to USD 1.2 billion in May. Exports of hybrid electric vehicles grew by 44.5% to USD 0.7 billion.

As the US and EU are among South Korea's largest export markets, weak economic growth in the US and EU since mid-2022 have been a negative factor for South Korea's manufacturing export sector, notably as the Eurozone has entered a technical recession in the first quarter of 2023. In May, South Korean exports to the US were down 1.5% y/y, while exports to the EU were down by 3.0% y/y.

During the second half of 2022, moderating economic growth in mainland China due to the impact of pandemic-related restrictive measures on domestic demand had been an important factor contributing to weaker external demand for South Korean exports, since mainland China is South Korea's largest export market. In calendar year 2022, South Korean exports to mainland China fell by 4.4% y/y, having deteriorated considerably in late 2022 and early 2023.

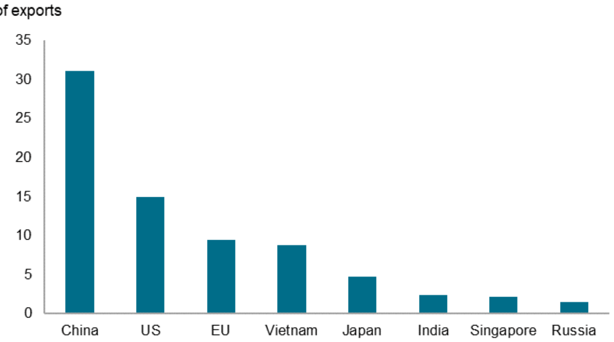
South Korean exports to mainland China have remained weak in the first half of 2023, with May trade data showing a 20.8% y/y decline in exports to mainland China due to falling demand for semiconductors and mobile phones.

Due to the importance of Vietnam as a hub for South Korean manufacturing, total South Korean exports to Vietnam reached USD 61 billion in 2022. However, with the downturn in Vietnam's manufacturing exports during the first half of 2023, South Korean exports to Vietnam have also been declining. Reflecting the downturn in exports to Vietnam, total South Korean exports to ASEAN fell by 21.2% y/y in May.

However, an important factor that will help to mitigate the impact of weak goods exports will be the upturn in international tourism during 2023-24. International tourist arrivals reached 884,000 in April 2023 and visitor arrivals are expected to be further boosted due to the recent removal of COVID-19 related restrictions for foreign tourist arrivals. Prior to the COVID-19 pandemic, tourism accounted for around 4.7% of South Korea's GDP, with mainland China and Japan being key tourism source markets. Total international tourist visitor arrivals reached a record high of 17.5 million in 2019, averaging around 1.46 million arrivals per month.

South Korea's export markets

% of exports



Source: MOTIE via S&P Global Market Intelligence.
© 2023 S&P Global.

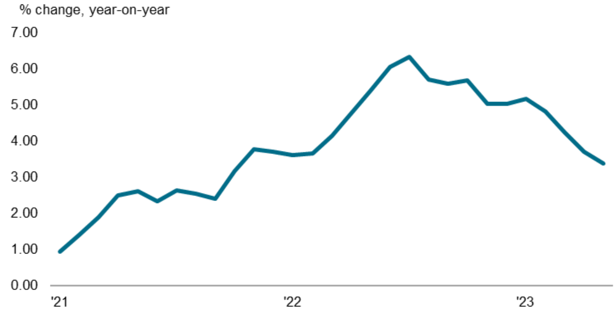
South Korean CPI inflation had risen significantly during 2022, largely reflecting the impact of the Russia-Ukraine war on global commodity prices, particularly for oil and gas. The annual average CPI inflation rate of 5.1% for 2022 compared with an average CPI inflation rate of 2.5% in 2021. The 2022 average CPI inflation rate was the highest annual average since 2011.

Due to the upturn in inflation pressures during 2022, the Bank of Korea (BOK), South Korea's central bank, tightened monetary policy seven times in 2022, lifting the Base Rate to 3.25%. At its January meeting, the Monetary Policy Board of the BOK decided to raise the Base Rate by a further 25 basis points (bps), raising the Base Rate to 3.50%. This has brought total cumulative tightening to 300 bps since August 2021. This has impacted domestic demand, with household lending having continued to decrease owing to rising interest rates and falling prices in the residential property market.

In the first half of 2023, there have been signs of easing inflation pressures. South Korea's headline CPI inflation rate moderated to 3.3% y/y in May 2023, compared with 3.7% y/y in April and a recent peak of 6.3% y/y in July 2022. The Monetary Policy Board of the BOK decided at its April and May meetings to leave the Base Rate unchanged at 3.50%. In its May Monetary Policy Decision, the Monetary Policy Board assessed that consumer price inflation for 2023 is expected to be consistent with their February forecast of 3.5%. Core inflation for 2023 is projected to be 3.3%.

South Korea CPI inflation rate

% change, year-on-year



Source: S&P Global Market Intelligence
© S&P Global 2023.

Reflecting weak demand conditions and lower global backlogs of manufacturing new orders, the May South Korea Manufacturing PMI survey signalled a further improvement in supply chains that was the strongest in just over seven years. Price pressures also eased in May, as panel members surveyed signalled the slowest rise in average cost burdens since September 2020. As a result, output charges were lowered for the first time in 32 months as firms looked to stimulate sales.

The recent rebound of the Korean won against the USD has also helped to somewhat mitigate the upside risks to inflation. The KRW had depreciated from 1,189 against the USD on 1st January 2022 to 1,428 by 12th October 2022, but has since appreciated to 1,310 by 28th June 2023.

Electronics sector downturn hits South Korean exports

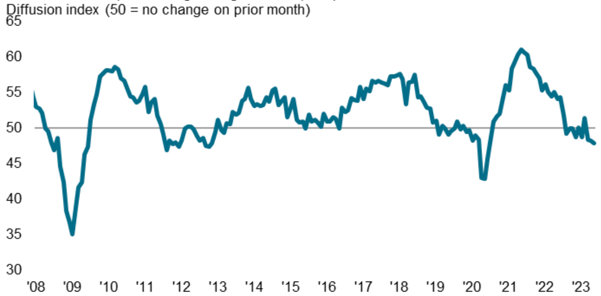
The electronics manufacturing industry is an important part of the manufacturing export sector for South Korea which is one of the world's leading exporters of electronics products to key markets such as the US, China and EU. As Vietnam is an important production hub for South Korean electronics multinationals such as Samsung and LG for a wide range of electronics products such as mobile phones, Vietnam is also a key export market for South Korean electronics components.

Exports of South Korea's information and communications technology (ICT) goods for calendar year 2022 amounted to USD 233 billion, up 2.5% y/y and accounting for 34.1% of South Korea's total merchandise exports. However, deteriorating global economic conditions through the course of 2022 resulted in weaker ICT exports in late 2022, with ICT exports in December 2022 down 23.6% y/y.

South Korea's ICT exports have remained weak in the first half of 2023. South Korea's Ministry of Trade, Industry and Energy trade data showed that South Korea's exports of ICT goods in May 2023 were USD 14.5 billion, down 28.5 per cent y/y. Semiconductors exports fell by 35.7 % y/y to USD 7.5 billion, with exports of system chips down 4.9% y/y to USD 3.6 billion and memory chip exports down 53.1% y/y to USD 3.4 billion.

S&P Global Electronics PMI

S&P Global PMI (Purchasing Managers' Index) Output Index
Diffusion index (50 = no change on prior month)



Source: S&P Global Market Intelligence, S&P Global PMI surveys
© S&P Global 2023.

The downturn in South Korea's ICT exports reflects the slowdown in the global electronics industry since mid-2022. The headline seasonally adjusted PMI posted 47.9 in May, down from 48.2 in April, to signal a third consecutive deterioration in operating conditions across the global electronics manufacturing sector. According to survey respondents, lower production was signalled across the wider Asia-Pacific region, Europe and the US. However manufacturers signalled rising output in mainland China to fulfil existing orders.

According to panellists, weak global economic conditions and subdued confidence led to the paring back of new orders. Lower new orders and the easing of supply constraints allowed firms to work through unfinished business, according to panellists.

Near-term economic outlook

South Korean GDP growth is forecast to moderate from 2.6% in 2022 to 1.4% in 2023, according to the latest forecast by S&P Global Market Intelligence. In May, the BOK also revised down its GDP forecast for 2023 to 1.4%.

South Korea's export sector, which accounts for an estimated 38% of GDP, has faced continuing headwinds during the first half of 2023 due weak economic growth momentum in the US and EU and the slowdown in the global electronics cycle. The near-term outlook for South Korean goods exports remains constrained by weak demand conditions in the US and EU, as well as the relatively moderate pace of economic recovery in mainland China.

Due to the upturn in inflation pressures since late 2021, the Bank of Korea has tightened monetary policy by 300 bps since August 2021, which has lifted the Base Rate to 3.50%. Higher policy rates have also resulted in a cooling property market, with South Korean apartment prices estimated to have declined by 4.7% y/y in 2022 according to the Real Estate Board. For the eleven months to April 2023, South Korean housing prices declined by 8.5% y/y.

Medium-term outlook and key risks

Over the medium-term outlook, South Korean exports are expected to resume growing at a rapid pace, helped by the sustained strong growth of intra-regional trade within APAC, as China, India and ASEAN continue to be among the world's fastest-growing emerging markets. South Korea's strong competitive advantage in exporting key electronics products, notably semiconductors and displays, as well as autos and auto parts, are expected to be an important positive factor underpinning export growth.

The rapid growth of South Korean exports is also expected to be strengthened by the APAC regional trade liberalization architecture. This includes the large recent RCEP multilateral trade agreement and major bilateral FTAs. The RCEP trade deal, which South Korea has ratified, entered into effect from 1st January 2022 for the first ten ratifying members, and from 1st February 2022 for South Korea.

An important macroeconomic risk to the South Korean economy over the medium to long-term outlook continues to be from the high level of household debt as a share of GDP.

This has risen to 104.5% by mid-2022, according to BOK data. A key factor driving this debt ratio higher has been large mortgage lending flows for residential property purchases. Such a high household debt ratio creates macroeconomic vulnerability to significant monetary policy tightening, with Bank of Korea rate hikes during 2021-23 having increased financial pressures on highly leveraged households.

Managing the energy transition towards renewable energy is also a key policy priority for South Korea. South Korea has already been at the forefront globally in planning initiatives to develop hydrogen as a key future fuel source for domestic power generation.

Among South Korea’s greatest economic challenges will be long-term demographic ageing, which will have severe implications for South Korea’s economy and society. The number of seniors aged 65 or over has already reached 16.5% of the population and by 2025 is projected to rise to 20% of the population. Meanwhile the working age population (aged 15 to 64) is declining as a share of the total population, from 71.4% in 2021 to a projected 55.7% by 2041.

Demographic ageing has already contributed to the moderation of South Korea’s potential GDP growth rate from around 7% per year in the mid-1990s to around 2.5% per year by 2021. South Korea’s potential growth rate could drop to a range of around 1% to 1.5% per year by 2050 due to demographic ageing.

Consequently, structural reforms to increase the potential growth rate will be a key policy priority over the medium term. These reforms would include policy changes to lift the labour force participation rate, improve services sector productivity, accelerate digitalization and further boost the adoption of industrial automation.

Rajiv Biswas
Asia-Pacific Chief Economist
S&P Global Market Intelligence
Singapore

rajiv.biswas@spglobal.com

Links to more resources

- **Sign up to receive updated commentary in your inbox here.**
- **Calendar of upcoming PMI releases**
- **Running commentary on the PMI survey findings**
- **PMI Frequently Asked Questions**
- **Background to the PMIs (video)**
- **Understanding the headline PMI and its various subindices**
- **PMI data use-case illustrations**, from nowcasting to investment strategy
- **PMI podcasts**
- **How to subscribe** to PMI data

CONTACT US

Chris Williamson
Chief Business Economist
S&P Global Market Intelligence
London

T: +44 779 5555 061
chris.williamson@spglobal.com

Jingyi Pan
Economics Associate Director
S&P Global Market Intelligence
Singapore

T : +65 6439 6022
jingyi.pan@spglobal.com

The Americas
+1-877-863-1306

EMEA
+44-20-7176-1234

Asia-Pacific
+852-2533-3565

spglobal.com/marketintelligence/en/mi/products/pmi.html