17 February 2022

Week Ahead Economic Preview

February flash PMIs, RBNZ, BoK meetings, GDP readings

IHS Markit flash PMIs for February, released across major developed economies, will be in focus in the coming week. Central bank meetings in New Zealand and South Korea will also unfold, while a series of GDP updates for the US, Germany, Taiwan and Thailand are anticipated. Consumer confidence across the US and eurozone will also be updated.

The global market had been caught between the crosswinds of geopolitics risks and inflation concerns in the past week, with the latter accompanied by increasingly hawkish central bank expectations. Flash PMIs will be unveiled for February in the coming week across major developed economies for a check on the Omicron variant's disruptions towards economic conditions and, more crucially, the supply chain and inflation situation. This comes amid reinforcements of an anticipated March FOMC rate hike based on recent Fed comments, though uncertainty continues to surround the likelihood of a more aggressive 50 basis points hike at the next meeting.

Meanwhile after the Bank of England hiked interest rates to tackle inflation and amid tight labour market conditions, across the globe in New Zealand, the RBNZ is expected to raise interest rates again after the labour market continued its record trend into Q4. The Bank of Korea is, however, expected to stay put.

Separately, February consumer confidence data across the US and eurozone will also closely watched for any indications of a turnaround after consumer services activity led the global economic slowdown in January.

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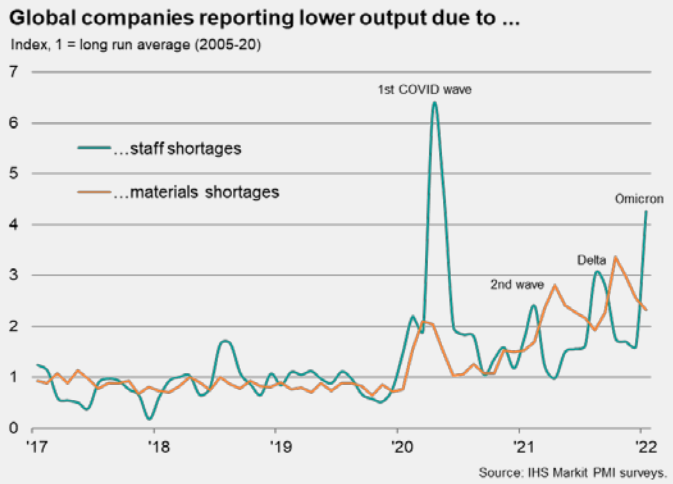
Flash PMIs and Omicron impact

Flash PMI surveys for February will provide key insights into economic trends in the first quarter for the US, Eurozone, Japan, Australia and the UK. The data follow January's surveys showing global economic growth slowing to the weakest for one and a half years amid disruptions form the Omicron wave, with consumer services especially hard hit.

While tighter virus containment measures contributed to the weaker PMI growth picture in January, companies also reported output to have been constrained by staff shortages to an extent exceeded only by that seen during the first wave of the pandemic in early-2020. Labour shortages were exacerbated in January by staff illness and absenteeism due to self-isolation rules.

More encouragingly, the incidence of output being constrained by materials shortages continued to fall from a pandemic-peak recorded last October. However, the concern – illustrated by our chart below – is that output constraints due to staff shortages have been followed by periods of worsening materials shortages, reflecting the lagged impact from the lost production of inputs and other raw materials arising from the labour shortages.



Some of the important trends to watch in the flash PMI numbers will therefore be the extent to which both manufacturing output and supplier delivery times have been affected by the Omicron wave, and the extent to which this has fed through to producer input and output prices. However, the data will also be watched for signs that the worst of the Omicron impact on consumer services may be over, at least in the US and Europe, which should help offset any supply chain damage to growth. That said, any combination of recovering demand and supply constraints bodes ill for inflation. Meanwhile also keep an eye on the future output expectations indices, as this is where any geopolitical concerns emanating from Ukraine will be most visible.

Key diary events

Monday 21 Feb

US, Canada Market Holiday
Australia IHS Markit Flash PMI, Manufacturing & Services*
Japan au Jibun Bank Flash Manufacturing PMI*
UK CIPS/IHS Markit Flash PMI, Manufacturing & Services*
Germany IHS Markit Flash PMI, Manufacturing & Services*
France IHS Markit Flash PMI, Manufacturing & Services*
Eurozone IHS Markit Flash PMI, Manufacturing & Services*
New Zealand Trade Balance (Jan)
Thailand GDP Growth (Q4)
Philippines Core CPI (Jan)
Germany Producer Prices (Jan)
Taiwan Export Orders (Jan)

Tuesday 22 Feb

US IHS Markit Flash PMI, Manufacturing & Services*
Germany Ifo Business Climate New (Feb)
United States Consumer Confidence (Feb)

Wednesday 23 Feb

Japan Market Holiday
Australia Wage Price Index (Q4)
New Zealand Cash Rate (23 Feb)
Thailand Customs-Based Trade Data (Jan)
Thailand Manufacturing Production (Jan)
Singapore Consumer Price Index (Jan)
Germany GfK Consumer Sentiment (Mar)
Taiwan Industrial Output (Jan)
Eurozone HICP (Jan, final)

Thursday 24 Feb

South Korea Bank of Korea Base Rate (Feb)
Taiwan GDP (Q4, revised)
United States GDP (Q4, 2nd estimate)
United States Initial Jobless Claims
United States New Home Sales (Jan)

Friday 25 Feb

Philippines Market Holiday
New Zealand Retail Sales (Q4)
United Kingdom GfK Consumer Confidence (Feb)
Singapore Manufacturing Output (Jan)
Germany GDP Detailed (Q4)
Germany Import Prices (Jan)
Eurozone Business Climate (Feb)
Eurozone Consumer Confidence (Feb, final)
United States Personal Income and Consumption (Jan)
United States Core PCE Price Index (Jan)
United States Durable Goods (Jan)
United States UoM Sentiment (Feb, final)

* *Press releases of indices produced by IHS Markit and relevant sponsors can be found here.*

What to watch

- **February IHS Markit flash PMIs**

  February's flash PMIs will be released across the US, UK, eurozone and APAC economies including Japan and Australia. January's figures told of slowing growth and persistent price pressures for the global economy. Amid the varying trajectory of the COVID-19 Omicron variant's spread across the different developed countries, February's PMI readings will keenly watched. Specifically, consumer services' performance will be observed after having been hard hit by the deterioration in COVID-19 conditions brought about by the spread of the more infectious variant. The trends with price pressures attributed to disruptions towards materials and staff will also be in focus, particularly given the focus on monetary policy tightening.

  Recap January's PMI developments with our Monthly PMI Bulletin or refer to our release calendar for a full schedule of upcoming PMI updates.

- **North America: US Q4 GDP (2nd estimate), consumer confidence, core PCE readings**

  A holiday-shortened week ahead for the US finds the release of the second Q4 GDP estimate, January core PCE and February consumer confidence data. While a slight upward revision for Q4 GDP is expected, the attention may well be on the January core PCE reading following a 40-year high CPI update. February consumer confidence is meanwhile expected to soften, according to consensus. Also watch out for US durable goods orders and new homes sales.

- **Europe: Eurozone HICP, consumer confidence, German Q4 GDP, Ifo business climate**

  Final January HICP is expected out of the eurozone alongside February consumer confidence data. Meanwhile Germany releases detailed Q4 GDP data, producer price numbers and February's Ifo business climate readings.

- **Asia-Pacific: RBNZ, BoK meeting, Taiwan and Thailand Q4 GDP**

  The Reserve Bank of New Zealand and Bank of Korea meet in the coming week with the RBNZ expected to hike another 25 basis points amid a tightening labour market situation.

Special reports:

Recent PMI and economic analysis from IHS Markit

Global	UK wages rise amid tightest labour market for decades, but surveys hint at pay pressures peaking soon	16-Feb	Chris Williamson
	Using PMI sub-indices to forecast the headline manufacturing PMI	11-Feb	Jingyi Pan
	Monthly PMI Bulletin: February 2022	8-Feb	Chris Williamson, Jingyi Pan
	Global food price inflation reaches all-time high amid record supply shortages	7-Feb	Chris Williamson
	Global economy sees inflation pressures persist as growth slows	7-Feb	Chris Williamson
	Omicron wave pushes global economic growth to 1½ year low in January	7-Feb	Chris Williamson
APAC	China manufacturing sector falls into decline amid Omicron wave, job losses accelerate	31-Jan	Chris Williamson
Commodities	Weekly Pricing Pulse: Commodity prices increase for fifth week in a row	10-Feb	Michael Dall

IHS Markit Economics & Country Risk highlights

Supply chains disruptions in Latin America

As new cases of the Omicron variant of the coronavirus disease (COVID-19) virus continues to climb worldwide, causing staff shortages in all sectors, there is a threat of renewed mobility restrictions and further disruption to global supply chains.

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US regional economic expectations for 2022: Employment, housing, and inflation

Regional US economies made strides in their post-pandemic recoveries over the course of 2021, but the unpredictable evolution of the virus threw a wrench in many states' rebounds. Here is a look at our headline expectations for 2022.

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Get Your Money's Worth: Using PMI Data to Assess Currency Valuation

Our PMI data have long been used to accurately nowcast by relying on its early release -- well in advance of comparable official data -- and its standardized methodology. Our analysts are now using these same attributes to explore how PMI data could help establish whether a currency is over, under, or valued just right.

Click here to listen to this podcast by IHS Markit Economics & Country Risk team

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PMI™ By IHS Markit

Special Focus

UK Wages Rise Amid Tightest Labour Market for Decades, but Surveys Hint at Pay Pressures Peaking Soon

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Record high job vacancies and low unemployment have led to the tightest labour market in at least two decades, in turn driving wage growth at a level rarely seen since 2008. This solid wage growth is likely to persist in coming months, but there are signs that the rate of increase may soon peak, with survey data registering not only a moderation in the rate at which staff availability is deteriorating, but also a cooling in growth of demand for staff.

Recent signals will inevitably have been blurred by the disruptions both to economic activity and labour markets caused by the Omicron wave, meaning the data flow in the next 2-3 months as the wave recedes could prove crucial in understanding the underlying trend in wages and the labour market.

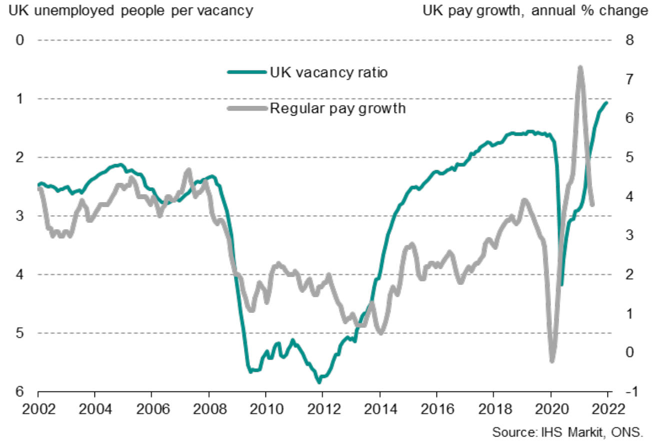
Wages rise amid tight jobs market

Annual UK employee pay growth excluding bonuses slowed to 3.7% in the three months to December, according to the latest official data, down from 3.8% in the three months to November. Private sector pay growth slowed from 4.1% to 3.9%, while public sector pay growth continued to lag despite ticking up slightly from 2.6% to 2.7%.

It is important to bear in mind that the pay data have been volatile since the pandemic. Most notably, a fall in pay was recorded in the lockdowns of early-2020, which led to a commensurate rebound in the annual rate of change in 2021. Although easing from this rebound, pay growth is still running at levels rarely seen since the lead up to the 2008 global financial crisis.

The pay growth data are important as they are seen as a key mechanism by which inflation, currently running at a three-decade high of 5.4%, could become more persistent, as rising wages and prices feed off each other in a wage-price spiral. Such a scenario traditionally requires a tight labour market, which gives workers greater pay bargaining power.

The vacancy ratio is at an all-time high, pointing to higher pay growth



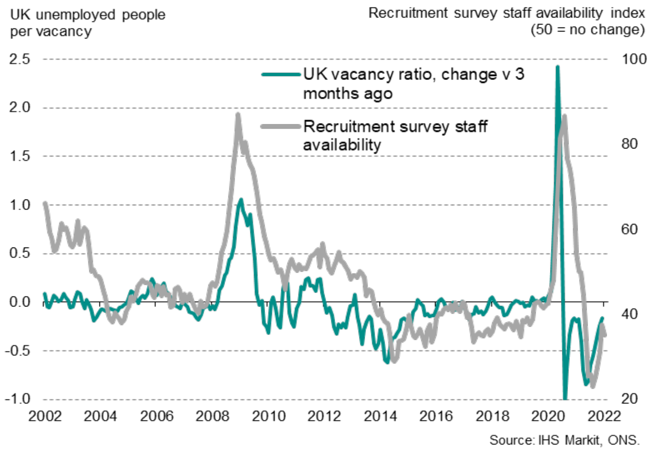
Source: IHS Markit, ONS.

Worryingly, the labour market has tightened to its highest since comparable data were available over two decades ago. The number of unfilled vacancies rose to an all-time high of 1.298 million in December (data were first available in 2001). The number of unemployed people aged over 16 meanwhile fell to 1.374 million. The resulting ratio of unemployed per vacancy fell to the lowest on record.

Widespread labour shortages

Such a tightening of the labour market is in line with the signals from the recruitment industry survey conducted by IHS Markit on behalf of REC and KPMG. The survey has shown strongly deteriorating availability of staff to fill positions in recent months, with widespread shortages persisting into January. This hints at the vacancy ratio continuing to run at a record level, and possibly falling slightly further, to thereby maintain the upward pressure on pay.

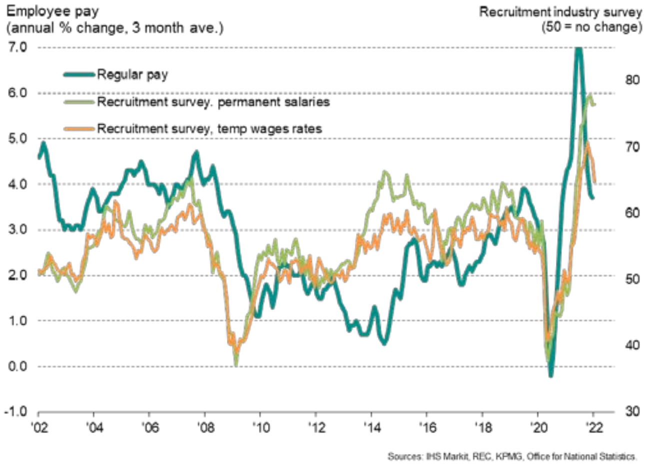
Recruitment industry staff availability has continued to deteriorate into January



Source: IHS Markit, ONS.

However, there are encouraging signs that we are seeing pay growth peak. Although the official data tracking the annual rate of pay growth may yet rise further in the near term due to the lag compared to survey data, an easing in recruitment industry pay gauges – both for permanent and temporary staff – suggests that pay growth stopped accelerating on a month-on-month basis in January (though it should nevertheless be noted that the pay growth indicators form the recruitment survey remain higher than at any time ever recorded prior to the pandemic).

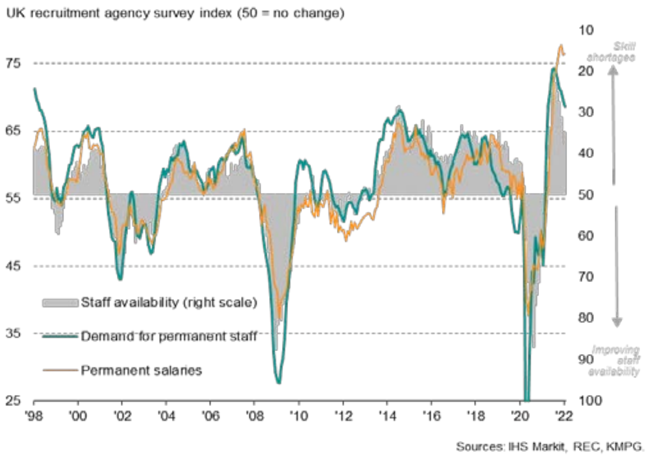
Survey data hint at a peaking of pay growth



There appear to be two forces driving pay growth lower in the recruitment industry survey.

First, although staff availability continues to deteriorate, the rate of deterioration has eased compared to the peaks seen last year, albeit ticking up slightly in January as the Omicron wave led to a renewed drop in the supply of labour.

Demand for staff is growing at a slower rate, helping take the pressure of pay growth

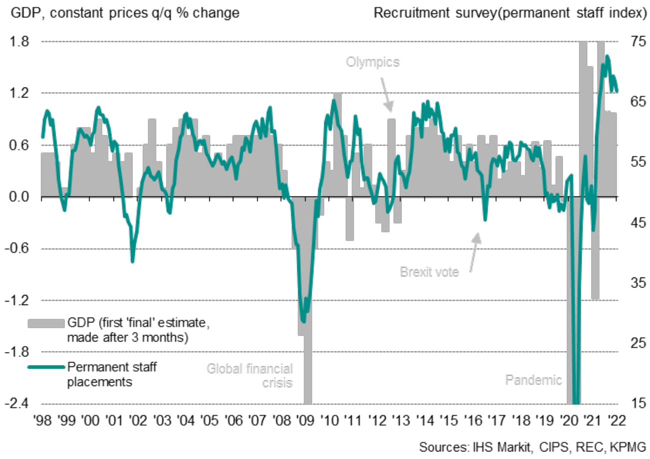


Second, growth in the demand for staff from employers has also started to cool. Having hit the highest for over two decades last year, the rate of demand growth peaked back in August 2021 and has since been on a moderating trend. In January, it was rising at the slowest rate since last April, albeit still running at a pace exceeding anything seen prior to the pandemic.

Outlook

The slowing in growth of demand for staff largely reflects the peaking in the pace of economic growth around the middle of last year. While economic growth has exhibited encouraging resilience amid the Omicron wave, the rate of expansion has slowed compared to peaks in 2021, causing a reduction in growth of employers' need for additional staff. Historical comparisons also indicate that recruitment is running at a faster pace than one would normally anticipate, given the pace of GDP growth, further suggesting that hiring could moderate further in coming months.

Hiring is outpacing economic growth

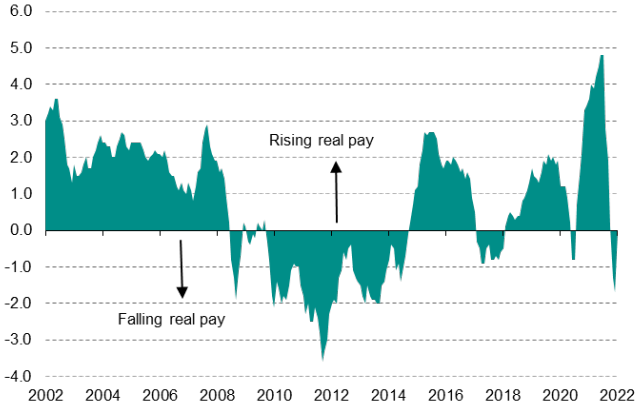


Meanwhile the fading Omicron wave should help improve the supply of labour available to fill vacancies, albeit with concerns persisting of a permanent (or long term) reduction in the labour force, in part linked to declining participation among the older population.

How these forces play out will be key to policymaking and interest rates, but will also be important in assessing the degree to which incomes are being squeezed. With pay growth lagging inflation, real underlying pay growth is now falling at the fastest rate since 2013. Such a squeeze threatens to dampen economic growth.

UK real pay growth

UK employee regular earnings minus inflation, annual % change



Sources: IHS Markit, Office for National Statistics.

Key indicators to watch in relation to the pace of economic growth, hiring, staff availability, prices and wages can be found in the PMI and recruitment industry survey data, next updated for February on 21st February and 10th March respectively.

Special Focus

South Korean Economy Boosted by Strong Exports

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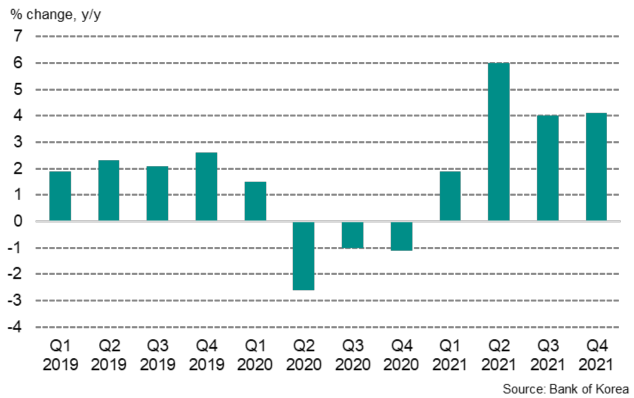
The South Korean economy closed the 2021 year on a strong note, with GDP up 4.1% year-on-year (y/y) in the fourth quarter of 2021. For calendar year 2021, the South Korean economy grew at 4.0%, helped by strong consumption expenditure combined with surging exports. Merchandise exports reached a record high of USD 645 billion in 2021, rising by 25.8% y/y.

In 2022, sustained economic expansion is expected to continue, at a pace of around 3%. However, the COVID-19 pandemic remains a key risk to the near-term economic outlook. The high level of two-dose COVID-19 vaccination rates and rapid booster rollout in recent months are expected to help containment of the pandemic in 2022.

GDP growth strengthens in Q4 2021

The South Korean economy closed 2021 on a strong note. In Q4 2021, South Korea's GDP growth rate rebounded to a pace of 1.1% quarter-on-quarter (q/q), after growth of 0.3% q/q in Q3 2021.

South Korea GDP growth



A key factor that contributed to the rapid pace of growth in the fourth quarter was consumption expenditure, which grew by 1.5% q/q, with private consumption expenditure up by 1.7% q/q. Construction also showed rapid growth of 2.9% q/q in the fourth quarter.

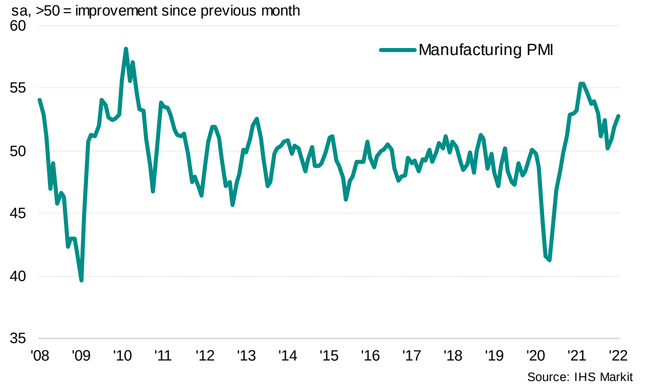
Compared to a year ago, final consumption expenditure rose by 6.8% y/y in the fourth quarter, improving on the 4.1% y/y pace recorded in the second and third quarters. For the 2021 calendar year, final consumption grew by 4.1% y/y, after contracting by 2.4% y/y in 2020.

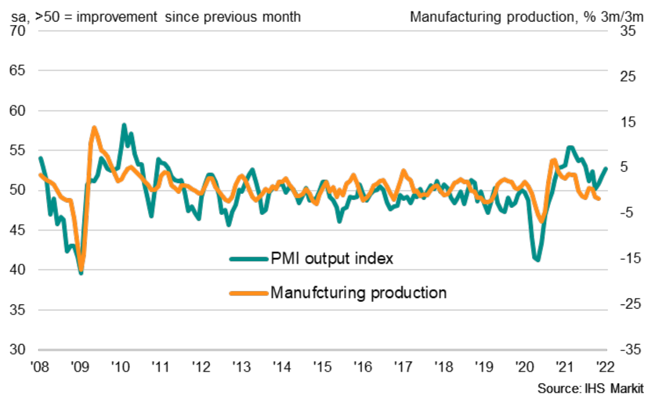
Manufacturing output grew by 1.1% q/q and 3.6% y/y in the fourth quarter of 2021. For calendar 2021, manufacturing output showed a strong rebound, growing at a pace of 6.6% y/y.

A key driver for the expansion in manufacturing output during 2021 has been the rebound in manufacturing exports. Stronger economic growth in major economies such as the US, China, EU and UK linked to the rollout of vaccination programs during 2021 helped to boost South Korean new export orders from its key export markets. In the fourth quarter, exports of goods and services rose by 6.1% y/y.

South Korean exports reached a record high of USD 645 billion in 2021, rising by 26% y/y. Exports to China rose by 23% y/y, with exports to the US rising by 29% y/y and exports to the EU up 34% y/y. Exports to ASEAN also surged, rising by 22% y/y. Exports of semiconductors rose by 29% y/y, while exports of petrochemicals rose by 55% y/y. South Korea's auto exports rose by 24% in value terms in 2021, reaching USD 46.5 billion.

South Korea Manufacturing PMI





At 52.8 in January 2022, the seasonally adjusted IHS Markit South Korea Manufacturing Purchasing Managers' Index (PMI®) rose from 51.9 in December, signalling a stronger improvement in the health of the manufacturing sector. The stronger reading for the January Manufacturing PMI came as firms reported a renewed rise in output and the sharpest improvement in new order inflows since July.

However, supply chain disruption continued to hold back a stronger recovery in activity and demand in the manufacturing sector. Material shortages and rising input costs were exacerbated by delays in sourcing and receiving inputs, though there were indications that these pressures were starting to ease.

Latest data pointed to a further robust rise in input costs faced by South Korean manufacturers amid sharp rises in raw material prices. Despite this, the increase in cost burdens was the most moderate recorded since September 2021. At the same time, output prices rose further in January, as firms continued to pass higher costs onto clients, albeit at a slower pace.

Confronted with rising inflation pressures, the Bank of Korea (BOK) again hiked its policy rate by 25bp to a level of 1.25% at its January Monetary Policy Meeting. This was the third 25bp rate hike since August 2021. Bank of Korea Governor Lee Ju-yeol has signalled that further rate hikes may be needed as the real economy continues to show expansion amidst higher inflation pressures. He also indicated that the pace of US Fed monetary policy tightening would also be a key factor in the BOK's monetary policy stance.

South Korea's CPI inflation rate has risen to 3.6% y/y in January 2022, after averaging 2.5% in 2021, which was the highest annual average for a decade. Core CPI inflation excluding energy and food rose to 2.6% y/y in January, the fastest pace since December 2015.

The Monetary Policy Board of the BOK assessed at its January meeting that consumer price inflation will continue to run in the 3% range for a considerable time, exceeding the previous path projected in November. In its Monetary Policy Decision statement in January, the BOK expected headline CPI inflation to remain above the mid-2% level for the 2022 year overall, with core CPI inflation forecast to run considerably above 2% this year.

The decision to tighten monetary policy also reflected BOK concerns about potential risks to financial stability due to the rapidly rising level of household debt as a share of GDP. Property prices have been rising rapidly, notably in Seoul and nearby areas, while household loan growth has accelerated. South Korea's household debt-to-GDP ratio is estimated to have reached 103.8% of GDP by the end of 2021.

Electronics sector boosts South Korean exports

The electronics manufacturing industry is an important part of the manufacturing export sector for South Korea which is a major global exporter 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.

The strong rebound in world consumer markets, notably in the US, China and Western Europe, are continuing to drive growth in demand for electronics. This is resulting in buoyant growth in household spending on electronics products as well as products that are intensive users of electronics, notably autos.

The South Korean Ministry of Trade, Industry and Energy (MOTIE) released trade data for 2021 showing that shipments of Korea's information and communications technology (ICT) products in 2021 hit an all-time high of USD 228 billion, up 24% from 2020. This is the highest level of annual ICT exports recorded since the ICT trade data started to be collected in 1996.

Exports of semiconductors reached USD 129 billion, up 28% y/y, with exports of memory chips rising by 29% to reach USD 82 billion.

The headline seasonally adjusted IHS Markit Global Electronics PMI edged up slightly to 56.6 in January 2022, from 56.0 in December 2021, signalling continued strong expansionary conditions for global electronics producers. Latest survey data indicated a further increase in output at global electronics manufacturers at the start of 2022, albeit at a more moderate pace than the 2021 average. Ongoing supply issues for raw materials and other inputs and the recent Delta and Omicron COVID-19 waves have continued to impact on global electronics production.

MOTIE has released statistics showing that monthly ICT exports reached a record high of USD 19.7 billion in January 2022, up 20.7% y/y.

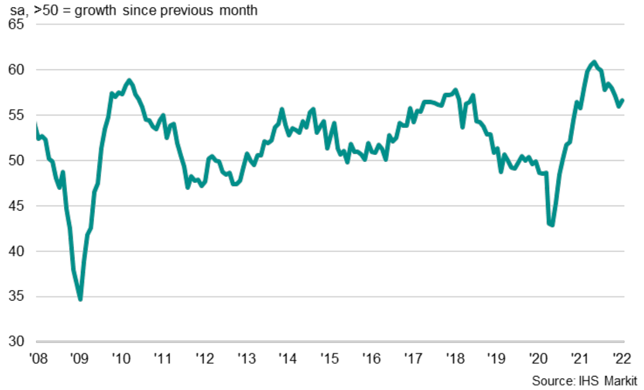
Semiconductors exports rose by 24% to USD 10.9 billion. Exports of memory chips were up 22% y/y, reaching USD 6.5 billion, while exports of system chips rose by 33% to USD 3.9 billion.

Exports of displays rose by 13% to USD 2.4 billion in January. Exports of Liquid-crystal display (LCD) panels rose by 2% to USD 0.5 billion, while exports of organic light-emitting diode (OLED) panels rose 14% to USD 1.4 billion.

Exports of computers and peripheral devices surged by 54.3% to USD 1.5 billion, helped by strong growth in exports of auxiliary memory devices, which rose by 72% to USD 1.2 billion, and peripheral devices, which grew by 73% y/y.

However, exports of mobile phones fell by 13% to USD 1.0 billion, as demand of existing models of mobile phones was reduced due to anticipated releases of new premium phones.

IHS Markit Global Electronics PMI



The strength of South Korean ICT exports has been boosted by rapid growth in exports to the world's largest consumer markets. ICT exports to China reached USD 9.2 billion in January 2022, up 24% from the same period last year. Exports to China were driven by strong demand for semiconductors, which rose by 24% y/y, displays which rose 20% y/y and mobile phones, which rose by 55% y/y.

ICT exports to Vietnam in January 2022 rose by 12% y/y, to USD 3.3 billion. This reflected strong growth in exports of semiconductors, which rose by 30% y/y, and peripheral devices, which rose by 183% y/y. However mobile phone exports declined by 61% y/y.

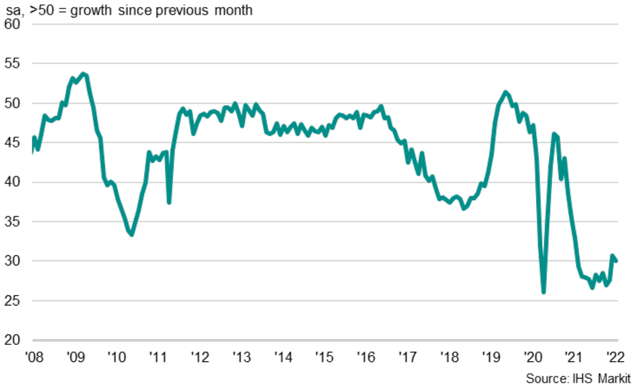
ICT exports to the United States grew by 9% y/y, reaching USD 2.1 billion. This was driven by computers and peripherals, which rose by 91% y/y.

Korean ICT exports to the European Union (EU) showed buoyant growth, rising by 16% y/y to reach USD 1.1 billion. Exports of semiconductors rose by 9% y/y, while exports of computers and peripherals were up 84%.

The outlook for the global electronics industry in 2022 continues to be impacted by lengthy suppliers' delivery times, notably for supply of semiconductors. The seasonally adjusted IHS Markit Global Electronics PMI Suppliers' Delivery Times Index recorded below the neutral 50.0 mark by a substantial margin once again in January, signalling a sharp deterioration in vendor performance. Low stock levels at suppliers, excessively high demand for inputs and logistics issues were mentioned as causes of prolonged delivery times.

The seasonally adjusted IHS Markit Global Electronics PMI Backlogs of Work Index posted above the 50.0 no-change mark once again in January, indicating stretched capacities at global electronics producers. According to anecdotal evidence, production capabilities were constrained by shortages of staff and materials, as well as rising new orders.

IHS Markit Global Electronics PMI: Suppliers' Delivery Times Index



IHS Markit Global Electronics PMI: Backlogs of Work Index

Near-term economic outlook

South Korean GDP growth was 4% y/y in 2021, with continued firm expansion at a pace of around 3% forecast for 2022 by IHS Markit. The economic recovery in 2021 was driven by consumption growth and merchandise exports. The Bank of Korea has forecast GDP growth in 2022 at around 3%, while the South Korean Ministry of Economy and Finance has projected GDP growth of 3.1% in its forecast for 2022.

South Korea has made very rapid progress with its COVID-19 vaccination program during the second half of 2021 and early 2022. By mid-February 2022, around 86% of the total population had received two doses. South Korea is also a global leader is booster rollouts, with 57% of the population having received booster shots. Despite the very rapid pace of vaccinations in recent months, downside risks from new COVID-19 waves hitting South Korea or its key global markets such as the US or China remain a key risk to the near-term outlook.

Inflationary pressures also remain an important risk to the outlook for 2022. This reflects a number of factors, including higher input prices, supply chain disruptions and high shipping freight rate costs, which have contributed to rising input price inflation pressures. Consequently, the Bank of Korea has signalled that some further tightening of monetary policy is likely in 2022. Higher policy rates are also expected to help curb risks of a property sector bubble.

An additional challenge is that the recovery of South Korean trade in services is expected to be delayed and protracted, as international travel restrictions in the Asia-Pacific region continuing to constrain any early recovery in exports of tourism and commercial aviation, which are an important component of total services exports.

Medium-term outlook and key risks

Over the medium-term outlook, South Korean exports are expected to grow 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.

South Korea is also actively evaluating the possibility of applying to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) trade agreement and has begun unofficial bilateral talks with the CPTPP member nations to prepare for its potential formal membership application. South Korean Finance Minister Hong Nam-ki indicated in December 2021 that South Korea plans to submit its official application to join the CPTPP by April 2022, before the upcoming Presidential election.

A key 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 disposable income. This has risen to 200% by 2020, the fifth highest amongst all OECD countries. A key factor driving this debt ratio higher has been large mortgage lending flows for residential property purchases. This has fuelled rising property prices and has led to fears of a speculative property bubble. Such a high household debt ratio creates macroeconomic vulnerability to further significant monetary policy tightening in a high inflation scenario.

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.