

Week Ahead Economic Preview

FOMC and ECB meetings accompanied by PMIs and payrolls

28 April 2023

The start of May sees a truncated week for some amid public holidays, but it's nevertheless a busy diary which includes worldwide PMI data, US nonfarm payrolls and rate setting meetings in the US, Eurozone, Norway, Brazil and Australia.

The big event of the week is the FOMC meeting on Wednesday, which is preceded by manufacturing PMI data to help take the temperature of goods-producing economies in the US and worldwide (see box). The narrative has taken a hawkish turn among US policymakers in the lead up to the FOMC gathering, at which a 25 basis point hike is widely anticipated to take the Fed Funds Rate to 5.00-5.25%. However, the presser will be eagerly anticipated to assess whether this represents a peak, as a further hike in June is by no means off the table according to futures markets.

The health of the banking sector will play a key role in the FOMC's decision making process, but so will the state of the labor market, bringing Friday's employment report firmly under the spotlight. Current expectations are for the jobless rate to tick higher and payroll growth to slow, but to remain robust at around 180k. Anything other than an upside surprise will fuel speculation that May's hike will be the last in the current cycle. [Services PMIs from S&P Global](#) and ISM will add to the data flow in the lead up to the May decision.

Interest rates are also expected to be lifted higher by the ECB on Thursday, with a 50 bp hike taking the deposit rate to 3.5%. As with the FOMC, the May ECB hike is firmly priced in, but markets are more convinced of the need for a further 25bp hike by the ECB than the FOMC in June. The rhetoric from the press conference will be important to monitor, as will the preliminary inflation data for April and the final PMIs for the region. Although the [flash Eurozone PMIs were surprisingly robust](#), price trends cooled.

In Australia, the RBA will be mulling the appropriateness of its decision to hold rates at its last meeting. Inflation has since shown signs of peaking, but [business activity growth has accelerated](#), setting the scene for a lively meeting.

Also watch out for inflation data from mainland China, UK mortgage lending, Canada's jobs report and GDP data from both Hong Kong SAR and Indonesia, to list just a few of the other economic data releases scheduled for the week.

US manufacturing, on the rebound?

The final April PMI data will be closely watched in the coming week for signs that reviving demand for services is driving a geographically-broad global economic upturn, as [had been signalled by the preliminary flash numbers](#).

However, we are also keen to monitor the health of the manufacturing sector. Goods producers have suffered from major headwinds in recent months, most notably the cost of living crisis, a shift in post-pandemic spending from goods to services and a concomitant unwinding of inventories. The latter is linked to easing supply shortages as well as concerns that inventories have risen too high for many goods relative to expected future demand. Hence manufacturing globally reported a ninth successive monthly fall in new orders in March.

The rate of decline of manufacturing has nevertheless eased compared to the steep downturn seen late last year. Besides a boost from the reopening of the mainland Chinese economy, the US has seen as particularly encouraging uplift in the S&P Global PMI, which gathered momentum in April, according to the flash PMI data.

The various regional Fed surveys have already started confirming this manufacturing turnaround from the dark days of late 2022, and we await ISM data to likely follow suit. It's not yet clear what's driving this production improvement in the US, but a lower incidence of inventory reduction policies is playing a role. This suggests that the inventory correction could be playing out, and could soon be replicated in Europe and Asia, potentially providing a much-needed boost to worldwide production. But a key question is also whether prices will start to rise again in this scenario.

US manufacturing production indicators



Sources: S&P Global, ISM, Dallas Fed, Kansas City Fed, Richmond Fed, New York Fed, Philadelphia Fed, Federal Reserve.
© S&P Global 2023.

Key diary events

Monday 1 May

Germany, Italy, France, Portugal, Spain, Singapore, China, South Korea, Ireland, South Africa & United Kingdom Market Holiday

S&P Manufacturing PMI (Apr)
South Korea Exports & Imports (Apr)
Australia Commodity Prices (YoY)
Brazil Trade Balance (Apr)

Tuesday 2 May

China Labour Day
South Korea CPI (Apr)
Australia RBA Interest Rate Decision (May)
United Kingdom Nationwide HPI (Apr)
Germany Retail Sales (Mar)
Hong Kong GSP (YoY)
Italy CPI (Apr)
Eurozone CPI (Apr)
Brazil Trade Balance

Wednesday 3 May

China Labour Day
S&P Services PMI
New Zealand Employment Change (QoQ)
New Zealand Labour Cost Index (QoQ)
New Zealand Participation & Unemployment Rate (QoQ)
Australia Retail Sales
France Government Budget Balance (Apr)
Italy Unemployment Rate (Mar)
Greece Unemployment Rate (Mar)
United States Mortgage Market Index
United States Fed Interest Rate Decision
Brazil Interest Rate Decision

Thursday 4 May

Japan Market Holiday
S&P Global Composite PMI
Australia Trade Balance (Mar)
Germany Trade Balance (Mar)
Spain Unemployment Change
United Kingdom Mortgage Approvals & Lending (Mar)
Hong Kong Retail Sales (Mar)
Europe ECB Interest Rate Decision (May)
United States Trade Balance (Mar)
Canada Trade Balance (Mar)

Friday 5 May

Japan & South Korea Market Holiday
S&P Global Construction PMI
Singapore Retail Sales (Mar)
France Industrial Production (Mar)
Europe Retail Sales (Mar)
United States Unemployment Rate (Apr)
Canada Unemployment Rate (Apr)

* Press releases of indices produced by S&P Global and relevant sponsors can be found [here](#).

What to watch

Worldwide manufacturing and services PMI data

Worldwide manufacturing and services PMI data are due in the coming week, providing deeper insights into global economic conditions at the start of the second quarter. The release follows the flash PMIs, which had shown strong improvement across the developed markets in April. Inflationary pressures continued to build, albeit well off last year's highs, while recessionary risks remain at bay as the service sector drove the latest upturn.

Mainland China PMI data will be especially eagerly awaited to see whether the recent relaxation of COVID-19 containment measures will continue to drive growth after the growth spurt seen in February and March.

Americas: FOMC rate decision, PMIs, and employment report. Brazil rate decision. Canada jobs report.

The US Federal Open Market Committee is set to meet with its decision due on Wednesday. The Fed has been pushing rates higher, with recent predictions pointing to a further tightening in May to help bring down inflation to target, despite GDP growth slowing in the first quarter. More data from the US includes nonfarm payrolls, wages, and unemployment figures, as well as trade, construction spending and factory orders data.

In Brazil, the central bank will also be deciding their interest rates mid-week while Canada also updates its monthly labour market statistics.

Europe: ECB meet, eurozone CPI and UK mortgage data

Following PMI releases for eurozone and European countries, the ECB will convene to decide on interest rates. While the bank will also be reviewing the inflation data (CPI figures to be released on Tuesday) to form a decision.

In the UK, other than the PMI data, the housing market will come under scrutiny via the updating of mortgage lending and approvals data.

Asia-Pacific: South Korea CPI and trade data, retail sales for Singapore and Hong Kong and RBA meeting

Data to look out for across Asia will be trade and CPI figures for South Korea and retail sales for both Singapore and Hong Kong SAR. Also look out for GDP for Indonesia and Hong Kong SAR plus consumer confidence in Japan.

Additionally, the Australian central bank meeting will unfold this coming week.

Special reports:

Electronics sector reports greatest improvement in supply chains since 2001 | Chris Williamson | [page 4](#)

South Korea Resumes Positive GDP Growth in Early 2023 | Rajiv Biswas | [page 7](#)

Recent PMI and economic analysis from S&P Global

Global	Flash PMI data signal fastest developed world growth for 11 months, price pressures rise further	24-Apr	Chris Williamson Usamah Bhatti
	Previewing the April PMI surveys after global growth accelerated in March	18-Apr	Chris Williamson
	Consumer services drive global economic expansion in March amid travel surge	14-Apr	Chris Williamson Usamah Bhatti
	GDP flatlines in February, but private sector activity revives - albeit with uncertain outlook	12-Apr	Chris Williamson
Americas	US flash PMI signals further acceleration of economic growth in April, but resurgent demand also brings higher price pressures	21-Apr	Chris Williamson
Europe	Eurozone flash PMI signals strong start to second quarter thanks to resurgent service sector	21-Apr	Chris Williamson
	UK economic growth hits highest for a year according to April flash PMI surveys	21-Apr	Chris Williamson
Asia-Pacific	Philippines on Track to Become One Trillion Dollar Economy by 2033	24-Apr	Rajiv Biswas
	Japan's economy buoyed by record surge in demand for services in April, but factories remain in decline	21-Apr	Chris Williamson
Africa	Malaise of Egyptian non-oil economy continues in March as inflation soars	14-Apr	David Owen
Commodities	Weekly Pricing Pulse: Commodities down amid market turmoil	23-Mar	Michael Dall

S&P Global Economics & Country Risk highlights

US Weekly Economic Commentary: Soft data paint mixed picture amid slowing economy



In a week light on "hard" data, we left our estimate of first-quarter real GDP growth unrevised at 1.9%. Housing starts in March were somewhat above our expectations. Given the lag between starts and construction put-in-place, we raised our estimate of second-quarter growth, by 0.2 percentage point, from a contraction of 0.2% to no change (0.0%).

[Click here to read our research and analysis](#)

PMI Insights: Inflation trends, China re-opening, top 10 indicators



Tune in for the latest trends seen in our Purchasing Managers Index data. Economists on our Purchasing Managers' Index team use the prism of our PMI datasets to look at some of the most important themes in the global economy at the start of 2023. These include inflation, the recent reopening of China's economy, and supply chain risks.

[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](#).

The intellectual property rights to the data provided herein are owned by or licensed to S&P Global and/or its affiliates. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without S&P Global's prior consent. S&P Global shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall S&P Global be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index™ and PMI™ are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited and/or its affiliates.

Special Focus

Electronics sector reports greatest improvement in supply chains since 2001

Improving supply chains are helping global electronics companies fulfil backlogs of orders and stabilise production after substantial output losses incurred late last year. The supply of semiconductors, for example, is now almost back to normal.

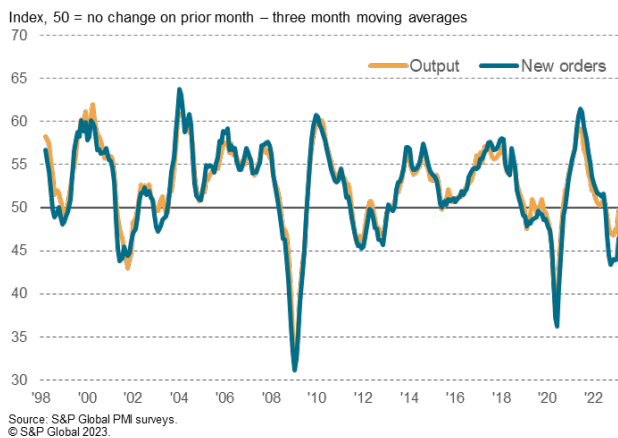
Price pressures in the electronics sector are also coming down, notably for consumer electronics, amid the combination of reduced supply chain cost pressures and still-weak demand, which should help further moderate the broader global inflation trend in the months ahead.

Electronics industry stabilising

S&P Global's Electronics PMI™ signalled a stabilisation of production among electronics firms around the world in the first quarter of 2023. Albeit showing some monthly volatility, specifically with March seeing some payback after a steep rise in February, the average factory output trend in the first quarter was flat, representing a marked improvement on the steep declines seen throughout the second half of last year.

The Electronics PMI is compiled by S&P Global from responses to questionnaires sent to purchasing managers in electronics manufacturers worldwide. The sample of around 750 firms, of varying sizes, is selected from S&P Global's PMI survey panels which notably include mainland China, the US, the eurozone, Japan, South Korea, Singapore and Taiwan. All firms are electronics manufacturers and provide goods to consumer, industrial, computing and communications markets.

S&P Global Electronics PMI (global): output and orders



Depleting backlogs of work

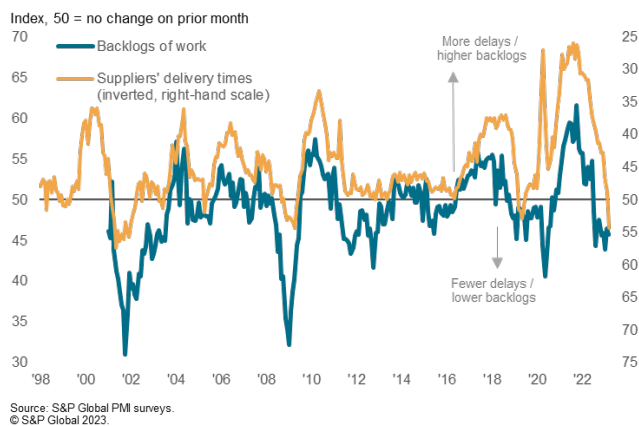
Part of the improved production trend can be traced to a moderation in the rate of loss of new orders at electronics manufacturers. Although new orders fell globally across the sector over the first quarter, the rate of decline has eased sharply compared to that seen in late 2022. However, new orders nevertheless continue to fall at a steeper rate than production, a gap which is explained by producers relying on orders placed in prior months to help sustain the relatively stronger production trend in the face of the disappointing inflows of new business.

Backlogs of orders accumulated in the electronics sector from late-2020 through to mid-2022 largely due to widespread shortages of components, in turn linked to issues with supply chains combined with surging demand for computers, communications equipment and consumer goods, created by the COVID-19 lockdowns and containment measures. Since mid-2022, these backlogs have fallen continually, linked to a reversal of these factors: the reopening of economies has meant demand for electronics goods has been falling (in part due to consumer spend shifting to services) and supply has been improving.

Supply improves to greatest extent since 2001

Average supplier delivery times for inputs to electronics firms improved worldwide in March for the first time since June 2019, with leadtimes shortening to an extent not seen since the bursting of the dot-com bubble in 2001.

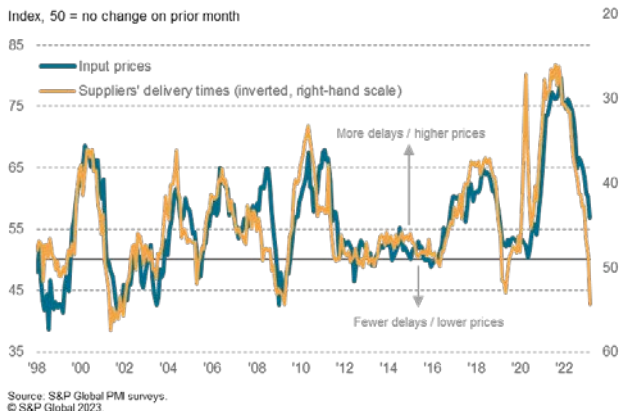
S&P Global Electronics PMI (global): backlogs and supply



Cooling price pressures

This improvement in supply has been accompanied by a cooling of price pressures, as suppliers have been less able to pass through higher prices in recent months (in effect reflecting a shifting of buying power from the seller to the buyer). Average input prices paid by electronics manufacturers rose globally in March, but at the slowest rate since October 2020. The resulting rise was only modestly higher than the average increase seen in the decade leading up to the pandemic.

S&P Global Electronics PMI (global): prices and supply

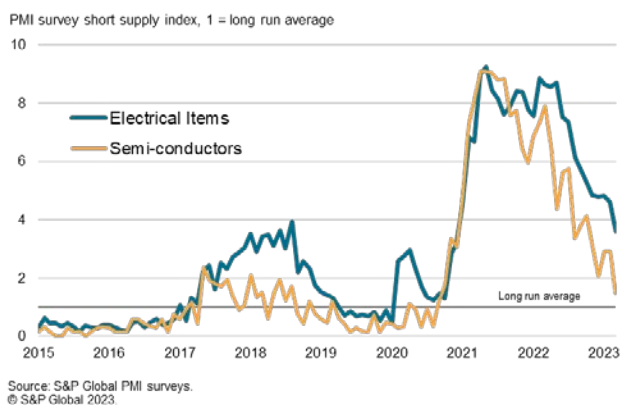


Tracking price and supply conditions

The surveys allow further insights into supply and demand conditions for individual inputs by analyzing the reporting of items that have risen or fallen in price, or which have become in short supply. S&P Global builds time series data for these changing price and supply pressures, which are presented relative to their long run averages. Any values in excess of 1.0 therefore represent higher than normal price pressures or supply shortages and vice versa.

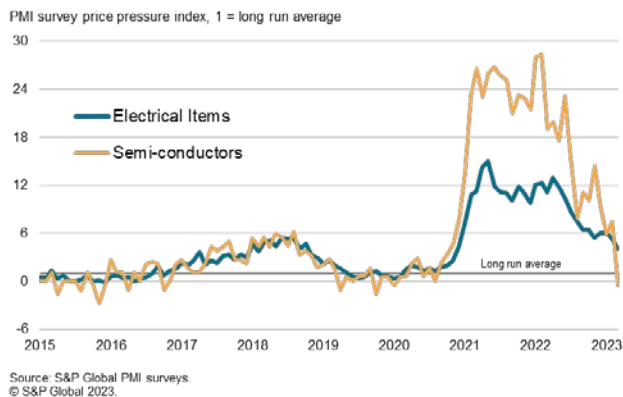
These data reveal how shortages of semiconductors are currently running at just 1.5 times normal, down from over nine-times normal levels at the height of the pandemic. While a broader group of all electrical items is now shown to be seeing supply constraints at four-times the long run average, that's also down from a peak of over nine-times normal levels seen at the height of the pandemic two years ago.

Global component shortages



The data also indicates how price pressures for semiconductors fell below their long run average in March for the first time since June 2020. Price pressures for all electrical items have meanwhile cooled to a 28-month low.

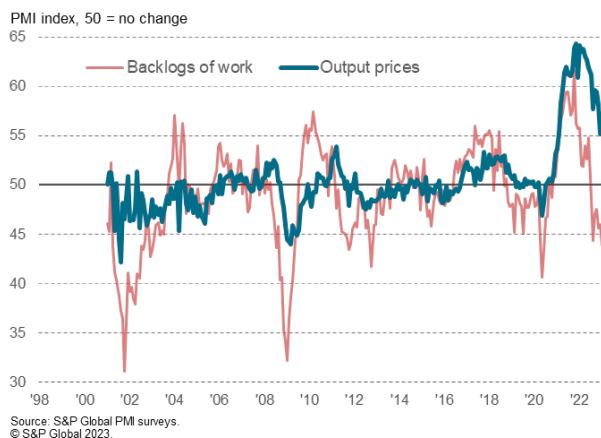
Global component prices



Selling price inflation at 26-month low

With input costs pressures easing amid improving supply chains and falling demand, selling price inflation has moderated from the unprecedented rates seen during the height of the pandemic. A steep downward trend in the rate of inflation of selling prices for electronics goods has been evident over the course of the past year, resulting in March's data signalling the smallest monthly increase since January 2021.

S&P Global Electronics PMI (global): selling prices

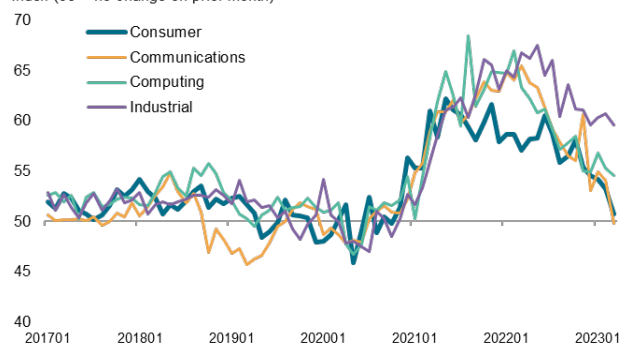


Most pronounced has been a reduction of selling price inflation for consumer goods and communications equipment. The former saw only a marginal rise in prices on average worldwide in March to register the smallest increase for nearly two-and-a-half years. The latter saw selling prices fall in March for the first time since June 2020.

While rates of selling price inflation for computing equipment and industrial electronics kit remains stickier, these sectors have likewise reported lower rates of selling price inflation in recent months.

S&P Global Electronics PMI selling price indices

Index (50 = no change on prior month)



Source: S&P Global PMI surveys
© S&P Global 2023.

Chris Williamson

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

Special Focus

South Korea Resumes Positive GDP Growth in Early 2023

The South Korean economy returned to positive economic growth in the first quarter of 2023, albeit at a modest pace of 0.3% quarter-on-quarter. This followed a contraction in GDP of 0.4% quarter-on-quarter (q/q) in the fourth quarter of 2022. South Korea is expected to face continuing economic headwinds during 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 2023. However, this is expected to be mitigated by improving exports to Mainland China, as economic growth strengthens during 2023 due to the easing of COVID-19 restrictions.

GDP resumes positive growth in first quarter of 2023

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

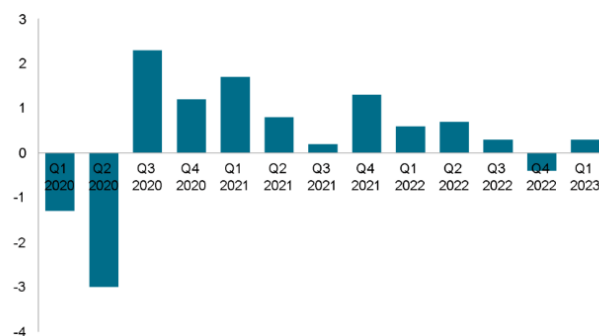
The resumption of positive growth was helped by a rebound in private consumption, which grew by 0.5% quarter over quarter, after having declined by 0.6% quarter over quarter in the fourth quarter of 2022. Private consumption was up 4.5% year over year in the first quarter of 2023, while government consumption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

Exports of goods and services also improved, growing by 3.8% quarter on quarter, after having declined by 4.6% quarter over quarter in the fourth quarter of 2022. Imports also grew in the first quarter of 2023, rising by 3.5% quarter over quarter, after having fallen by 3.7% quarter over quarter in the fourth quarter of 2022.

On an industry sector basis, manufacturing output rose by 2.6% quarter over quarter in the first quarter of 2023, after three consecutive quarters of quarter over quarter declines in manufacturing output. The construction sector also posted positive growth of 1.8% quarter over quarter in the first quarter of 2023. However, the services sector recorded a small contraction of 0.2% quarter over quarter in the first quarter of 2023.

Compared with a year ago, manufacturing output fell by 3.3% year over year in the first quarter of 2023, while services output rose by 3.2% year over year and construction output rose by 5.1% year over year.

South Korea real GDP growth (% change, QOQ)



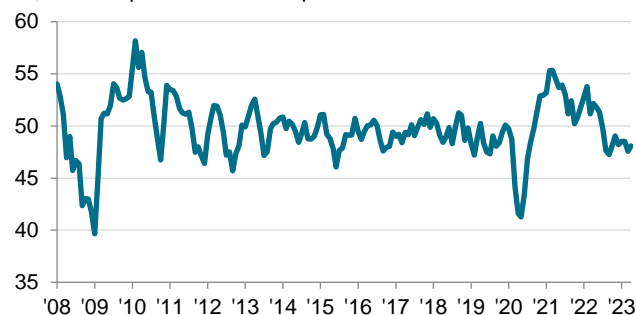
Data compiled April 26, 2023.
Source: Bank of Korea.
© 2023 S&P Global.

The seasonally adjusted S&P Global South Korea Manufacturing Purchasing Managers' Index (PMI®) dipped from 48.5 in February to 47.6 in March, remaining well below the 50.0 no-change mark, to signal continued contractionary conditions in South Korea's manufacturing sector. The March PMI data indicated an eleventh consecutive monthly decrease in output at South Korean manufacturers. Panel members largely attributed the decline to muted domestic and external demand conditions.

At the same time, manufacturing companies registered a quicker reduction in new orders that was the fastest for three months. A number of firms mentioned that sustained economic weakness and weak client confidence had placed downward pressure on sales.

S&P Global South Korea Manufacturing PMI

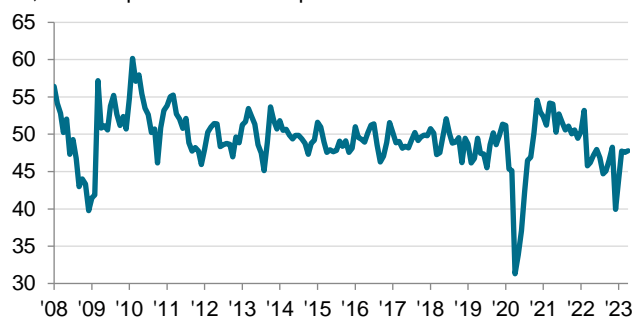
sa, >50 = improvement since previous month



Source: S&P Global.
Data were collected 10-23 March 2023

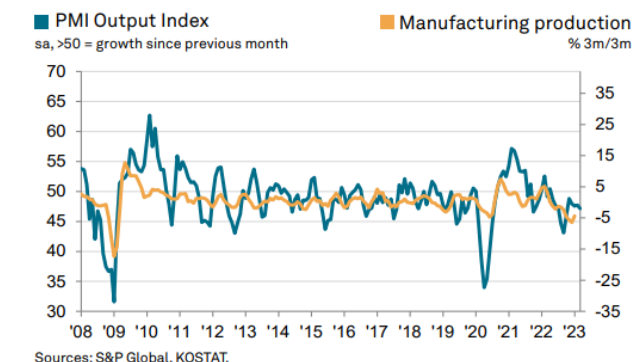
S&P Global South Korea New Export Orders Index

sa,>50 = improvement since previous month



Source: S&P Global.

Data were collected 10-23 March 2023



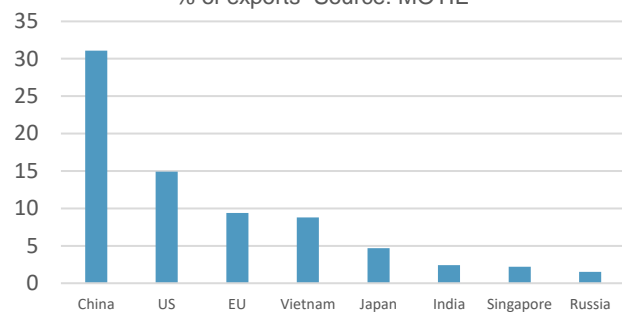
Sources: S&P Global, KOSTAT.

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. Merchandise exports have remained weak in early 2023, declining by 13.6% y/y in March 2023, mainly as a result of continued contraction in exports of semiconductors and displays.

As the US and EU are also among South Korea's largest export markets, weakening economic growth in the US and EU since mid-2022 has also become a negative factor for South Korea's manufacturing export sector. However, easing of COVID-19 restrictions is expected to result in strengthening domestic demand in mainland China as 2023 progresses, which should help to support a rebound in South Korean exports to that key market.

South Korea's Export Markets

% of exports Source: MOTIE



Receding supply chain pressures fed through to moderating input costs in the latest survey period, with operating expenses rising at the weakest pace since December 2020. According to firms surveyed, falling international oil prices helped to alleviate some pressure on costs.

In terms of prices, both input cost and output price inflation accelerated and remained historically sharp according to the latest PMI survey. Inflation across a range of inputs was mentioned by survey members, with specific mentions of rising raw material prices and weakness in the won. As such, firms continued to partially pass increased input costs to their clients in the form of higher selling prices, which rose at a moderate pace.

South Korean CPI inflation rose 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 compares with an average CPI inflation rate of 2.5 percent 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 25bps, raising the Base Rate to 3.50%. This has brought total cumulative tightening to 300 basis points (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 early 2023, there have been signs of easing inflation pressures. South Korea's headline CPI inflation rate moderated to 4.2% year-on-year (y/y) in March 2023, compared with 4.8% y/y in February. The Monetary Policy Board of the Bank of Korea decided at its 11th April meeting to leave the Base Rate unchanged at 3.50%. In its April Monetary Policy Decision, the Monetary Policy Board assessed that consumer price inflation will continue to moderate and decline to the 3% range from the second quarter of 2023,

reflecting base year effects from the sharp rises in global oil prices in 2022 as well as weakening pressures from the demand side.

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 1,337 by 26th April 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 percent 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 early 2023. South Korea's Ministry of Trade, Industry and Energy trade data showed that South Korea's exports of ICT goods in March 2023 were USD 15.8 billion, down 32.2 percent year-on-year. Semiconductors exports fell by 33.9 % y/y to USD 8.7 billion, with exports of system chips down 18.4% y/y to USD 3.6 billion and memory chip exports down 44.3% y/y to USD 4.6 billion.

The downturn in South Korea's ICT exports reflects the slowdown in the global electronics industry since mid-2022. The headline seasonally adjusted S&P Global Electronics PMI fell from 51.4 in February to 48.4 in March to signal a renewed deterioration in operating conditions across the global electronics manufacturing sector. A solid decline in order book volumes drove the latest downturn and contributed to the eighth fall in output in the past nine months.

New orders placed with global electronics producers fell for the eighth time in nine months during March. The reduction was solid overall and often attributed to weak demand conditions in the US, Europe and China. As a result of weak demand, average supplier delivery times shortened to the greatest extent since December 2001, as subdued input demand reduced pressure on suppliers and logistics capacity.

Near-term economic outlook

South Korean GDP growth is forecast to moderate from 2.6% in 2022 to 1.6% in 2023, according to the latest forecast by S&P Global Market Intelligence.

South Korea's export sector, which accounts for an estimated 38% of GDP, is expected to face continuing headwinds during 2023 due to weak growth in the US and EU and the slowdown in the global electronics cycle.

Due to the upturn in inflation pressures since late 2021, the Bank of Korea has tightened monetary policy by 300 bps since August 2021, including a 25bp 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.

Inflationary pressures remain an important risk to the near-term outlook. This reflects a number of factors, including higher input prices and supply chain disruptions, which have contributed to rising input price inflation pressures.

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.

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 disposable income. This has risen to 206% by 2021, 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. 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

Maryam Baluch

Economist
S&P Global Market Intelligence
London

T : +44 134 432 7213
maryam.baluch@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