PMI™

by S&P Global

Week Ahead Economic Preview

US, China inflation and GDP readings across the regions

4 August 2023

A busy economic calendar in the week ahead is filled with inflation figures, most notably from both US and mainland China, as well as second quarter GDP data from the UK, Singapore, Indonesia, Philippines and Hong Kong SAR.

Risk sentiment improved of late, owing to broadly better than expected US earnings performance thus far. To a large extent, this was also with conviction that a soft landing may be the base case scenario despite the ongoing series of interest rate hikes by the US Federal Reserve. With that said, the likelihood of further rate rises is nevertheless expected to be data-driven and the upcoming US July CPI data will be closely watched next week for hopes of a further easing inflation trend at the start of the third quarter. At the time of writing, the consensus expectation is for core inflation to cool from 4.8% to 4.7%, with both headline and core prices rising 0.2% on the month.

Across the pacific, however, mainland China has a vastly different issue to deal with, which is namely the lack of inflation and thereby pressure on margins for businesses. This had been further shown in the latest July Caixin PMI figures. Official comparisons via July's CPI and PPI data will thus be of interest to confirm the extent to which inflation is lacking, especially for a market closely watching the disappointing recovery in mainland China.

Meanwhile, a series of GDP updates from the UK and several key APAC economies will shed light on growth conditions over the second quarter. The global expansion continued into Q2, powered mainly by service sectors, but the pace of growth appears to have eased by the end of the quarter. With growth likely having peaked in the second quarter, greater uncertainties have arisen surrounding the resilience of the global economy in the second half of 2023. Any surprises on the downside against consensus for these figures may still garner concerns over the full-year growth picture. *Read more about our recent forecasts:* *Persistent headwinds hinder global growth prospects.*

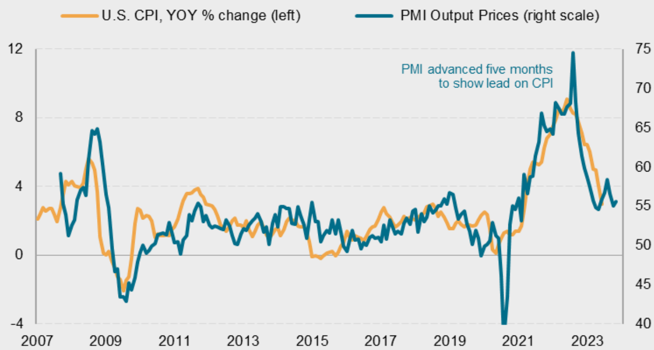
Additionally, insights into money managers' views on the US equity market will be drawn with the August update of the S&P Global IMI survey while the GEP Global Supply Chain Volatility Index will shed light on another keenly watched subject.

US soft landing scenario to be tested by CPI data

The markets are increasingly pricing in the likelihood of a soft landing for the US economy, believing that the Fed can tame inflation while simultaneously avoiding recession. That scenario will be tested in the coming week as the US releases new inflation numbers.

June's better-than-expected CPI data brought a rally from the market, with core inflation in particular showing an encouraging easing. But the survey data for July are signaling a stubbornness of price trends, notably in consumer-facing service sectors, which leaves inflation holding close to the 3% level. The final leg of the FOMC's inflation fight down to the 2% target therefore still looks like it could be problematic.

US inflation and the PMI output prices index



Data compiled July 24, 2023 using flash PMI data for July.
PMI covers manufacturing only prior to 2009 but manufacturing & services thereafter.
Source: S&P Global PMI, BEA via S&P Global Market Intelligence.
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Besides taming inflation, the soft-landing scenario also needs resilient economic growth to persist. In that respect, the latest survey data brought encouraging news on manufacturing growth, but the service sector has seen a waning of momentum, suggestive of overall economic growth slowing to a 1.5% annualized rate at the start of the third quarter. The widely watched Atlanta Fed GDPNow estimate is more encouraging, pointing to third quarter GDP growth of 3.5% at the time of writing, but the survey data hint that it's too early to take a sustained expansion for the rest of 2024 as a given, especially if rates rise further.

Key diary events

Monday 7 Aug
Canada Market Holiday
Japan BOJ Summary of Opinions (Jul)
Indonesia GDP (Q2)
Thailand Inflation (Jul)
Germany Industrial Production (Jun)
United Kingdom Halifax House Price Index* (Jul)
S&P Global Metal Users and Electronics PMI* (Jul)

Tuesday 8 Aug
South Korea Current Account (Jun)
Japan Household Spending (Jun)
Philippines Trade and Industrial Production (Jun)
Australia Building Permits (Jun, final)
China (Mainland) Trade (Jul)
Indonesia Consumer Confidence (Jul)
Malaysia Industrial Production (Jun)
Germany Inflation (Jul)
France Trade (Jun)
Taiwan Trade (Jul)
Canada Trade (Jun)
United States Trade and Wholesale Inventories (Jun)
S&P Global Investment Manager Index* (Aug)

Wednesday 9 Aug
Singapore Market Holiday
South Korea Unemployment Rate (Jul)
Philippines Unemployment Rate (Jun)
China (Mainland) CPI, PPI (Jul)
Malaysia Retail Sales (Jun)
Japan Machine Tool Orders (Jul)
United States MBA Mortgage Rate
Canada Building Permits (Jun)

Thursday 10 Aug
Japan PPI (Jul)
Philippines GDP (Q2)
Malaysia Unemployment Rate (Jun)
India RBI Interest Rate Decision
Norway Inflation (Jul)
United States CPI (Jul)
United States Initial Jobless Claims
GEP Global Supply Chain Volatility Index* (Jul)

Friday 11 Aug
Japan Market Holiday
China (Mainland) M2, New Yuan Loans, Loan Growth (Jul)
Singapore GDP (Q2, final)
Malaysia GDP (Q2)
Hong Kong SAR GDP (Q2, final)
United Kingdom monthly GDP, incl. Manufacturing, Services and Construction Output (Jun)
United Kingdom GDP (Q2)
United States PPI (Jul)
United States UoM Sentiment (Aug, prelim)

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

What to watch

Americas: US CPI, PPI, trade data

The key release from the US next week will be CPI and PPI data for July. Consensus expectations point to further easing of price pressures in July, albeit still elevated above the 2% target by the Fed. This is in line with S&P Global US PMI data indications, which revealed that inflation pressures remain consistent with CPI readings of around 3%. The focus will be on the stickiness of inflation in the service sector, which is now the main driver of higher prices.

Europe: UK GDP, Germany inflation, industrial production data

Second quarter GDP, alongside detailed sector output figures for June, will be released for the United Kingdom. Latest UK PMI figures indicated that recent interest rate hikes have taken a toll on growth into the end of the second quarter and into July, though the economy remained in expansion with above-50.0 prints through the March to June period. That said, this was primarily services driven, with manufacturing output in contraction. Industrial production data for Germany will meanwhile be eagerly assessed after a slew of worryingly weak survey data from the PMI and IFO.

Asia-Pacific: China trade and inflation data, Indonesia, Singapore, Philippines, Hong Kong SAR GDP

In APAC, trade and inflation data from mainland China will be closely watched with the Caixin PMI data having revealed export weakness in July. Meanwhile price pressures remained subdued with further deflation on the output prices end, which continues to affect confidence among private sector firms.

S&P Global IMI survey and GEP Supply Chain Index

The S&P Global Investment Manager Survey, which collects data from approximately 300 participants employed by firms that collectively represent around $3,500bn assets under management, will be updated for August in the coming week, offering insights into the US equity market including regarding risk sentiment and expected returns.

The latest GEP Global Supply Chain Volatility Index for July will also shed light on worldwide supply chain conditions at the start of the second half of 2023. This followed indications of global supply shortages having fallen to their lowest since January 2020 earlier in June, though conditions varied by region.

Special reports:

Factories Report Deeper Global Production Downturn in July as World Trade Slumps | Chris Williamson | **page 4**

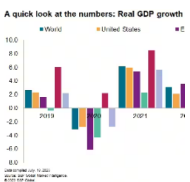
South Korea's GDP Growth Improves in Mid-2023 | Rajiv Biswas | **page 7**

Recent PMI and economic analysis from S&P Global

Global	Worldwide producer prices deflation slows in July amid rising wage pressures	2-Aug	Chris Williamson
	Factories report deeper global production downturn in July as world trade slumps	2-Aug	Chris Williamson
	Flash PMI signal further cooling of developed world economic growth in July	25-Jul	Chris Williamson
Europe	United Kingdom flash PMI data point to cooler inflation as economy stalls	24-Jul	Chris Williamson
	Eurozone flash PMI signals cooling inflation amid rising recession risks	24-Jul	Chris Williamson
US	Flash US PMI signals growth slowdown but stubborn price pressures at start of third quarter	24-Jul	Chris Williamson
Asia-Pacific	Weak start to third quarter for China as PMI signals divergent sector growth and inflation trends	3-Aug	Chris Williamson
	APAC merchandise exports remain weak in first half of 2023	28-Jul	Rajiv Biswas
Commodities	Weekly Pricing Pulse: Commodity markets calm as traders await Fed's next move	28-Jul	Michael Dall

S&P Global Economics & Country Risk highlights

Persistent headwinds hinder global growth prospects



While S&P Global Market Intelligence's global real GDP growth forecast for 2023 is unchanged at 2.4%, this masks regional divergence. Growth forecasts for 2023 have been revised markedly upward in North America, primarily reflecting the recent resilience of economic activity. In contrast, the forecasts for mainland China and parts of Europe have been revised down.

Click here to read our research and analysis

PMI Insights: Divergent trends in goods and services

Our Purchasing Managers' Index team compiles data for more than 40 economies around the world. In this episode, the economists explore the divergence in the performance of the manufacturing and services sectors in countries including Australia and Greece. They zero in on how this is showing up in labour markets, looking at employment growth and wages.

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

Factories Report Deeper Global Production Downturn in July as World Trade Slumps

The JPMorgan Global Manufacturing Purchasing Managers' Index™ (PMI™) compiled by S&P Global, held steady at 48.7 in July. However, by remaining below 50, the indices signaled an eleventh successive deterioration in the health of the goods-producing sector. Moreover, the headline index masked worsening downturns in both production and new orders, the latter linked to a steepening slide in global trade flows and an ongoing focus on inventory reduction.

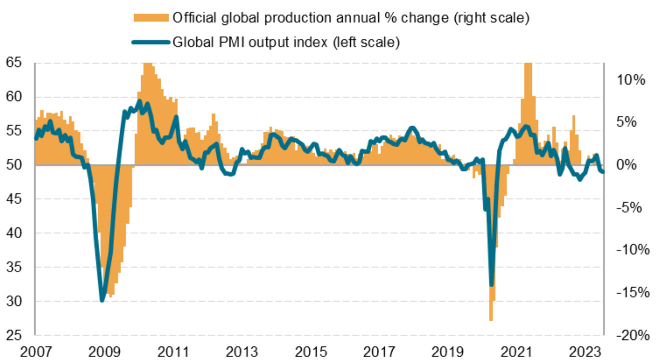
The eurozone continued to report the steepest decline, though output notably also fell in mainland China, Taiwan, South Korea, Malaysia, the UK, Brazil and Japan, while only a marginal gain was recorded in the US.

Business expectations in the year ahead meanwhile remained subdued by historical standards, reflecting concerns over the various headwinds facing goods producers around the world.

Global factories cut output at sharper rate

Global manufacturing output fell for a second successive month in July, according to the latest PMI surveys compiled by S&P Global and sponsored by JP Morgan. At 49.0, down from 49.3 in June, the output index from the Global Manufacturing PMI – our preferred measure of current factory production – fell to its lowest since January.

Global manufacturing output



Data compiled August 2023 using PMI data updated to July 2023.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month.
Source: S&P Global PMI with J.P. Morgan, S&P Global Market Intelligence.
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Although the rate of decline signaled remains only modest, any contraction of global production is a rare occurrence. Besides the pandemic years, there has only been one other spell of falling global output since the eurozone debt crisis of 2012, which was a modest decline seen in 2019 in response to the US trade wars under President Donald Trump.

Leading the weakness of global production was an intensification of the recent downturn in global goods trade. New export orders for manufactured goods fell in July at the fastest rate recorded so far this year, dropping for a seventeenth straight month. This represents the worst prolonged period of global trade decline since the global financial crisis.

Global goods exports

Data compiled August 2023, PMI data updated to July 2023.
PMI (Purchasing Managers' Index) 50 = no change on prior month.
Sources: S&P Global PMI with J. P. Morgan, CPB trade data via S&P Global Market Intelligence.
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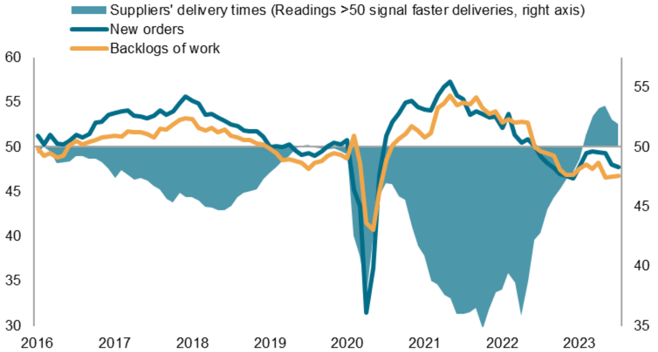
Depletion of backlogs of work

The downturn in global goods exports contributed to a further decline in new order inflows at manufacturers worldwide, which fell in July for a thirteenth successive month. The rate of decline accelerated to the joint-steepest since December 2022.

This prolonged spell of falling inflows of new orders has meant producers have had to rely on back orders to sustain even reduced production levels. These backlogs of work had risen sharply during the pandemic due to supply shortages. However, supply chains have improved continually since February, helping producers fulfil these existing orders.

The concern is that, with backlogs of work being depleted amid a dearth of new orders, production losses could accelerate in the coming months. Note that backlogs of work have now fallen for 13 successive months – dropping in recent months at a rate not seen since the global financial crisis barring only the initial pandemic lockdowns.

Global manufacturing order books and supply chain delays



Data compiled August 2023 including PMI data to July 2023.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month
Source: S&P Global PMI with J.P. Morgan, S&P Global Market Intelligence.
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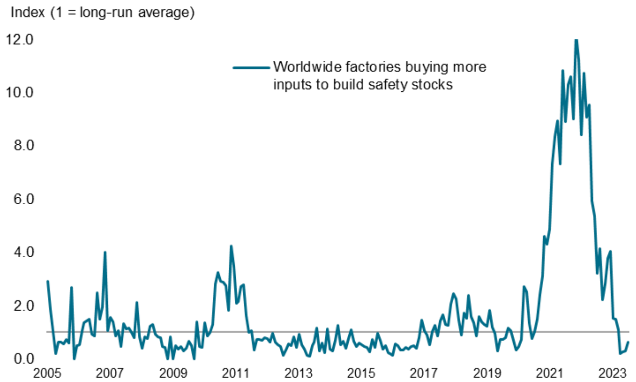
Worldwide safety stock building



Source: S&P Global Market Intelligence, S&P Global PMI surveys
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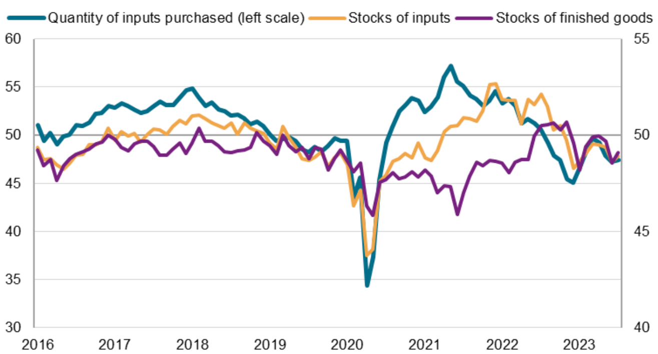
Inventory unwind in full flow still

Adding to the current manufacturing malaise is a further trend towards inventory reduction.

Input buying by manufacturers fell in July at the fastest rate since January, dropping for a twelfth consecutive month. Inventory holdings of raw materials, or stocks of inputs, consequently fell for a ninth successive month. Stocks of finished goods were meanwhile also allowed to fall, dropping for the seventh time in the past eight months in July.

Global manufacturing PMI input buying and inventories



Data compiled August 2023 including PMI data to July 2023.
PMI (Purchasing Managers' Index) 50 = no change on prior month.
Source: S&P Global PMI with J.P. Morgan, S&P Global Market Intelligence.
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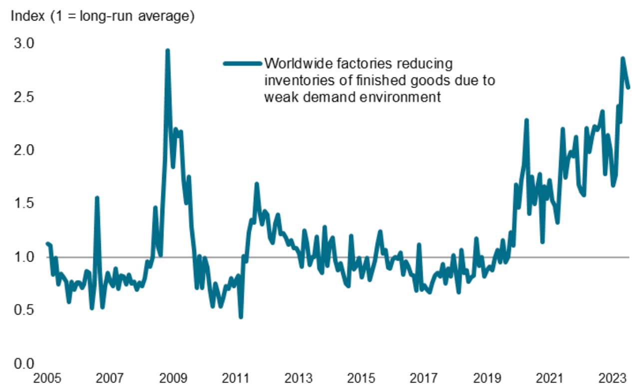
Looking at the reasons given by survey contributors for falling inventories, the downturn in stocks of inputs has been fueled by cost-cutting as well as a reduced need to hold safety stocks, which had risen to an unprecedented degree during the pandemic amid supply fears. The amount of input buying by factories for safety stock considerations is now running well below the survey's long-run trend.

Meanwhile weak demand was the main factor behind the recent desire to reduce inventories of finished goods. The incidence of factories deliberately unwinding their stock holdings of finished goods due to the weak demand environment has been running at its highest since the global financial crisis in recent months.

Worldwide inventory draw-down



Source: S&P Global Market Intelligence, S&P Global PMI surveys
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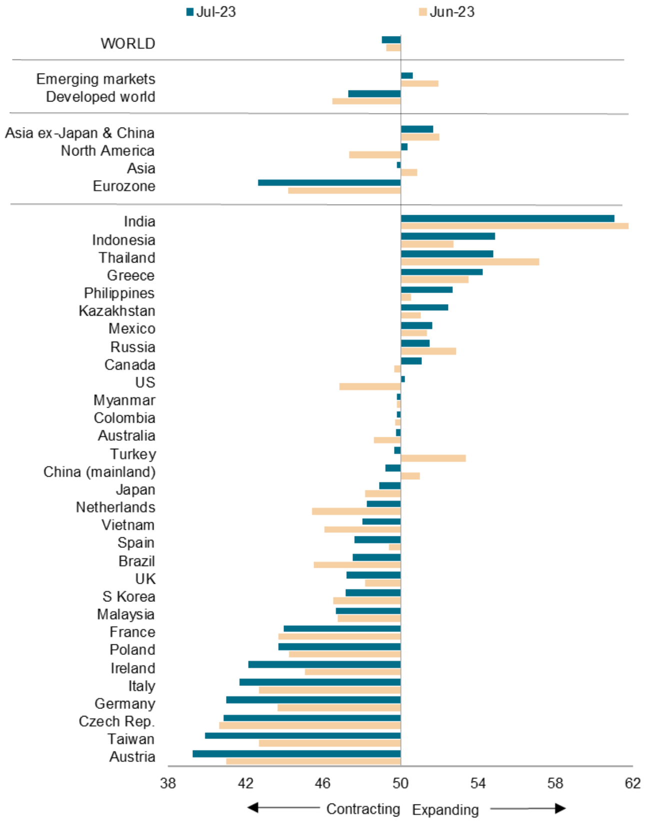
India leads global production rankings

Of the 31 economies for which manufacturing PMI data from S&P Global are available for July, only ten reported higher output (unchanged on June). The largest increase was again recorded in India, followed by Indonesia. Thailand, Greece, the Philippines, Kazakhstan and, to lesser degrees, Mexico, Russia and Canada also reported noteworthy production gains. Only a marginal gain was meanwhile recorded in the US.

At the other end of the scale, seven of the eight worst ranking economies were also found in Europe, meaning the eurozone was again the worst performing region. Austria recording the steepest decline of the 31 manufacturing PMI surveys. Tawain saw the second-steepest fall. Outside of the eurozone and neighbouring eastern Europe, notable declines were also seen in South Korea, Malaysia, the UK and Brazil, with more modest but still disappointing declines registered in Vietnam, Japan and mainland China.

Manufacturing PMI output index



Data compiled August 2023.
PMI index 50 = no change on prior month.
Source: S&P Global PMI, S&P Global Market Intelligence, CBA, ISO, CIPS, HCOB, au Jibun Bank, NEVI, BME, Bank Austria, AIB, AERCE, Caixin, HPI, Istanbul Chamber of Industry, Tengri Partners, JPMorgan.
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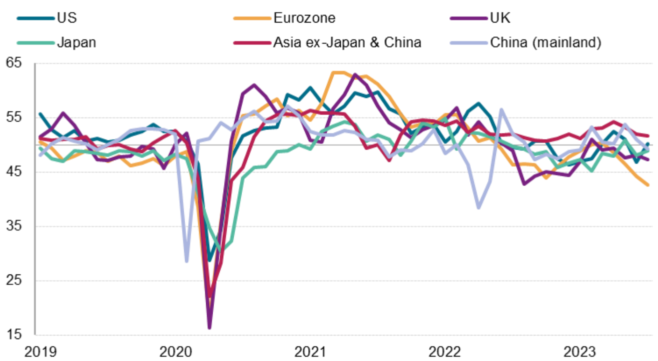
Manufacturing PMI output index



Data compiled August 2023 including PMI data to July 2023.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month
Source: S&P Global PMI with HCOB, CIPS, Caixin, au Jibun Bank, S&P Global Market Intelligence.
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Outlook

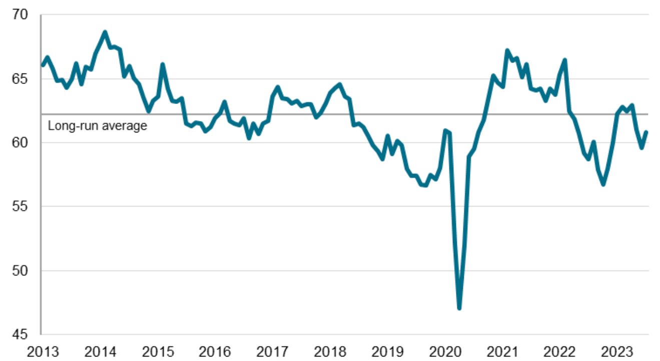
The July surveys therefore underscored how the worldwide manufacturing economy continues to be hit by headwinds from higher interest rates, the rising cost of living, inventory reduction policies and the post-pandemic shift of spending from goods toward services.

One area of support to look out for in the coming months will be the reduced drag from the inventory unwind, once stock levels have been reduced to desired levels. There are also signs that the peaking of inflation and interest rates will help to revive spending.

However, price levels remain high, and interest rates at their highest since the lead up to the global financial crisis, with policymakers keen to manage expectations that rates will not be lowered too quickly in order to continue nudging inflation lower.

In this environment, the outlook remains one where the balance of risks appear tilted towards ongoing decline or very modest growth at best. While manufacturers themselves reported a slight brightening in their average outlook for the coming 12 months in July, it should be noted that the level of business confidence remains well below the survey's long run average, reflecting broad-based concerns about persistent headwinds to growth in the months ahead.

Global manufacturing PMI future output expectations



Data compiled August 2023 including PMI data to July 2023.
PMI (Purchasing Managers' Index) 50 = no expected change in output over next 12 months
Source: S&P Global PMI with J.P. Morgan, S&P Global Market Intelligence.
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Special Focus

South Korea's GDP Growth Improves in Mid-2023

South Korea's real GDP grew by 0.6% quarter-on-quarter (q/q) in the second quarter of 2023, improving on the 0.3% q/q growth rate recorded in the first quarter of 2023. However, South Korea is still facing continuing economic headwinds in the near-term, due to the impact of weak exports and the cumulative transmission effects of monetary policy tightening by the Bank of Korea since 2021.

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 growth improves in the second quarter of 2023

South Korea's real GDP grew by 0.6% q/q in the second quarter of 2023, improving on the 0.3% q/q growth rate recorded in the first quarter of 2023 and the GDP contraction of 0.3% quarter over quarter in the fourth quarter of 2022.

However, beneath the top line growth number, the second-quarter GDP data showed considerable underlying weaknesses in the South Korean economy. Notably, final consumption expenditure contracted by 0.6% q/q in the second quarter, after rising by 0.6% q/q in the first quarter. Private consumption showed a slight contraction of 0.1% q/q in the second quarter, after rising by 0.6% q/q in the first quarter. Reflecting this slowdown, private consumption expenditure rose by just 1.5% year-on-year (y/y) in the second quarter, after growing at a pace of 4.6% y/y in the first quarter.

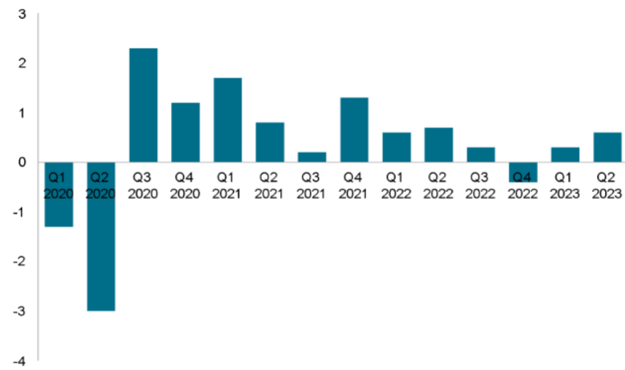
Exports of goods and services also contracted, declining by 1.8% q/q in the second quarter, after posting positive growth of 4.5% q/q in the first quarter.

On an industry sector basis, manufacturing output rose by 2.8% q/q in the second quarter of 2023, improving on the 1.3% q/q growth rate recorded in the first quarter of 2023 and a significant turnaround from the 3.9% q/q contraction in the fourth quarter of 2023. Nevertheless, manufacturing output recorded a marginal decline of 0.5% y/y.

Construction output contracted by 3.4% q/q in the second quarter of 2023, after three consecutive quarters of positive q/q growth. However, construction output was still up 4.6% y/y in the second quarter of 2023.

The services sector showed marginal positive growth of 0.2% q/q in the second quarter of 2023, although still improving on the zero q/q growth rate in the first quarter. Services output rose by 1.9% y/y in the second quarter of 2023, moderating from the 3.4% y/y growth rate recorded in the first quarter.

South Korea real GDP growth (% change, QOQ)



Data compiled July 26, 2023.
Source: Bank of Korea.
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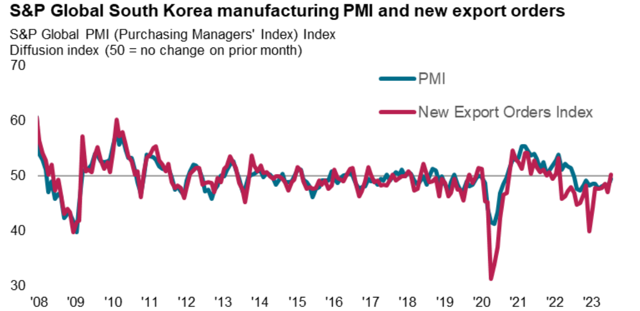
Monthly industrial production statistics for June showed continued weakness in South Korean manufacturing output, which fell by 5.8% y/y, albeit the contraction was less sharp than the 10.0% y/y decline recorded in the first quarter of 2023.

S&P Global South Korea manufacturing PMI and new export orders



Source: S&P Global Market Intelligence, S&P Global PMI surveys
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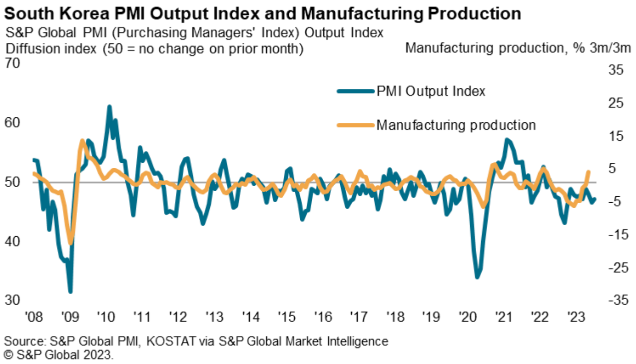
The seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI) rose from 47.8 in June to 49.4 in July to signal a softer contraction in South Korea's manufacturing sector. The rate of decline in the sector was marginal, just below the neutral mark of 50.0.

South Korea's export sector, which accounts for an estimated 38% of GDP, has faced continuing headwinds during the first half of 2023 owing to weak economic growth momentum in the US and EU and the slowdown in the global electronics cycle.



According to latest trade data from South Korea's Ministry of Trade, Industry and Energy, South Korea's merchandise exports showed a contraction of 6% y/y in June 2023. For the first half of 2023, South Korean exports fell by 12.3% y/y. However, auto exports were buoyant, rising by 58% y/y in June.

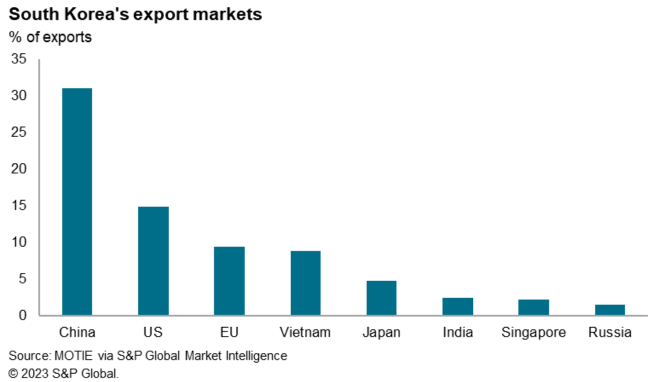
As the US and EU are among South Korea's largest export markets, weak economic growth in these markets since mid-2022 have been a negative factor for South Korea's manufacturing export sector, notably as the Eurozone recorded GDP contraction in both the fourth quarter of 2022 and in the first quarter of 2023.

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 the moderate pace of recovery continuing to constrain domestic demand in mainland China, total South Korean merchandise exports to that key market fell by 19% year over year in June.

South Korean exports to Association of Southeast Asian Nations (ASEAN) also fell sharply, declining by 13.9% y/y in June, hit by impact of the slump in Vietnam's electronics exports on South Korean manufacturing supply chains. 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.

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 863,000 in May 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.

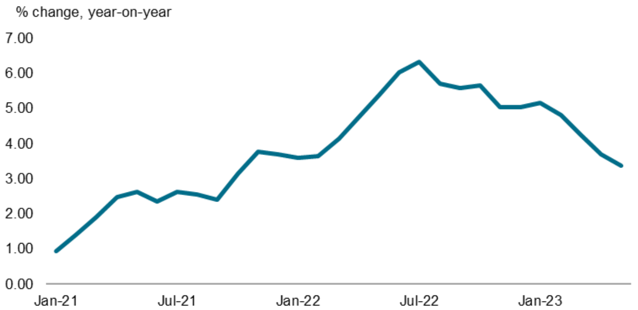


South Korean CPI inflation had risen significantly during 2022, largely reflecting the impact of the Russia-Ukraine war on global commodity prices, particularly for oil and gas. The annual average CPI inflation rate of 5.1% for 2022 compared with an average CPI inflation rate of 2.5 percent in 2021. 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 the first half of 2023, there have been signs of easing inflation pressures. South Korea's headline CPI inflation rate moderated to 2.7% y/y in June 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, May and July meetings to leave the Base Rate unchanged at 3.50%. In its July Monetary Policy Decision, the Monetary Policy Board assessed that consumer price inflation for 2023 is expected to be consistent with their May forecast of 3.5%.

South Korea CPI inflation rate



Source: S&P Global Market Intelligence, S&P Global PMI surveys
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In terms of prices, both input costs and output charges reportedly fell in the latest survey period. The reduction in the former was the first since June 2020, and though marginal, was the sharpest recorded for six years. Survey members often attributed the reduction to a widespread reduction in raw material prices, which also allowed firms to reduce prices charged at the fastest pace since August 2020.

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 1,280 by the end of July 2023.

Electronics sector downturn hits South Korean exports

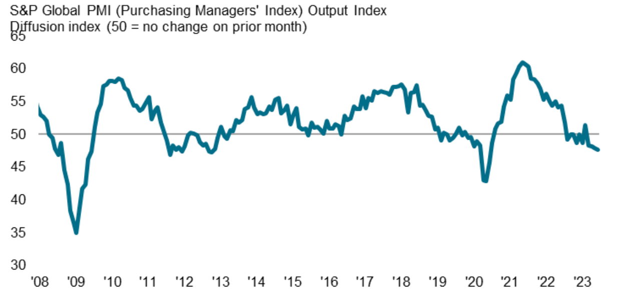
The electronics manufacturing industry is an important part of the manufacturing export sector for South Korea which is one of the world's leading exporters of electronics products to key markets such as the US, China and EU. As Vietnam is an important production hub for South Korean electronics multinationals 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 the first half of 2023. South Korea's Ministry of Trade, Industry and Energy trade data showed that exports of ICT goods in the first half of 2023 were USD 85 billion, down 30.6 per cent y/y. In the month of June, ICT exports fell by 22% y/y, with exports of semiconductors declining by 27.9% y/y while display exports fell by 11.1% y/y. Mobile phone exports also fell sharply, down 18.8% y/y.

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 posted 47.6 in June, down slightly from 47.9 in May to signal a continued contraction in the global electronics sector. The rate at which global new orders fell was sharp, and the steepest recorded since the start of the year. Lower orders were reflected weaker underlying demand conditions across the US, Europe and China, according to panellists.

S&P Global Electronics PMI



Source: S&P Global Market Intelligence, S&P Global PMI surveys
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Near-term economic outlook

South Korean GDP growth is forecast to moderate from 2.6% in 2022 to 1.3% in 2023, according to the latest forecast by S&P Global Market Intelligence. In May, the Bank of Korea 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. However, there may be some gradual improvement in electronics exports during H2 2023, as the rollout of new smartphone models and a seasonal upturn in new orders ahead of the Christmas shopping season in North America and Western Europe helps to boost demand.

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.

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