PMI™ by S&P Global

Week Ahead Economic Preview

RBA meeting, UK GDP, China inflation and trade data in focus

3 November 2023

The upcoming week continues to pack a multitude of data releases including global services PMI release and more detailed sector PMI data. The Reserve Bank of Australia also convenes for their penultimate meeting of the year, though the focus may be with inflation and trade figures from mainland China in APAC. Meanwhile UK Q3 GDP will be a key highlight while further US economic data releases including trade figures will be watched post-FOMC. For further insights into US investors' thoughts, the S&P Global Investment Manager Index will be due Tuesday.

The latest Fed meeting helped offset some of the earnings-related gloom with a further pause in rate hikes and acknowledgment of tightening financial conditions by Fed chair Powell. Whether this leads to a paring-back of concerns over central bank policy will be closely watched with the upcoming November update of the S&P Global Investment Manager Index (IMI). Sector preferences among US money managers will also be updated in the IMI survey and gauged against actual performance, as measured by detailed sector PMI numbers, also due in the coming week.

In the UK, GDP figures will be updated with a 0.2% rise in September needed to prevent the economy from having slipped into contraction in the third quarter. As far as the PMI figures are concerned, the weakness in UK economic growth is indicated to have further extended into the fourth quarter, encouraging the Bank of England to hold rates for a second successive month at its early-November meeting.

In APAC, the Reserve Bank of Australia meeting will be in focus, though no changes in rates are expected according to consensus. The attention may therefore instead focus on key economic release from mainland China. After the Caixin China Manufacturing PMI revealed a renewed deterioration in overall manufacturing conditions in October, expectations are for October's trade data to soften in mainland China while the PPI may rise, in line with indications of rising price pressures from the manufacturing PMI price indices, potentially allaying concerns over deflation. China's CPI release will of course also be eagerly awaited in that respect.

Also watch out for third quarter GDP updates from Hong Kong SAR, the Philippines, Indonesia and Malaysia.

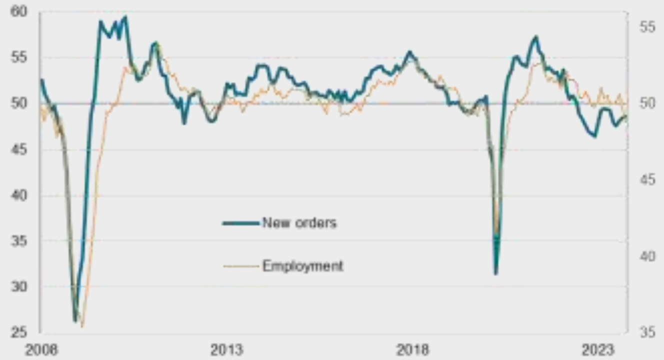
Factory job cull gathers pace amid weak demand

The labour market is widely viewed as a lagging indicator, but recent signals of falling global factory employment add a new layer of concern to the economic outlook.

The lagged response of employment to leading indicators such as new orders is illustrated in the following chart, which uses global PMI data for manufacturing compiled by S&P Global. However, this relationship has broken down since mid-2022. although the global PMI's new orders index has averaged 48.2 since mid-2022, reflecting 16 months of continual decline of incoming new business over this period, the employment index has averaged 50.2, signalling modest growth. This is because manufacturers have been able to justify workforce numbers due to the need to work through backlogs of orders, many of which had been accumulated as a result of the supply shortages of the pandemic.

Things seemed to have changed in recent months, however, with employment falling sharply in October, dropping at a rate not seen since 2009 barring the initial pandemic lockdown months, despite the survey's new orders index pointing to a reduced rate of falling demand.

Global manufacturing PMI new orders and employment



Data compiled November 2023 using PMI data updated to October 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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A tipping point has perhaps been reached. With backlogs of work having now fallen for 16 straight months, producers are becoming concerned over staffing levels in the face of these depleted order books. Note that business optimism about future output fell sharply during the month.

If sustained, the downturn in employment bodes ill for the manufacturing outlook, suggesting factories are bracing themselves for further production losses ahead. However, any signs of a weakening labour market are also a concern as heightened job insecurity poses downside risks to consumer spending, which has been an important driver of economic growth in many countries, notably the US. It will be important to watch these employment numbers in the coming months, and especially to monitor any feed-through to the service sector.

Key diary events

Monday 6 Nov
Worldwide Services, Composite PMIs, inc. global PMI* (3-6 Oct)
Japan BOJ Meeting Minutes (Sep 21-22)
Indonesia GDP (Q3)
Thailand Inflation (Oct)

Tuesday 7 Nov
Japan Household Spending (Sep)
Philippines Inflation (Oct)
China (Mainland) Trade (Oct)
Australia RBA Interest Rate Decision
Malaysia Industrial Production (Sep)
Taiwan Inflation and Trade (Oct)
Germany Industrial Production (Sep)
United Kingdom Halifax House Price Index* (Oct)
Eurozone Construction PMI* (Oct)
Eurozone PPI (Sep)
Canada Trade (Sep)
United States Trade (Sep)
S&P Global Sector PMI* (Oct)
S&P Global Investment Manager Index* (Oct)

Wednesday 8 Nov
Australia Building Permits (Sep, final)
Germany Inflation (Oct, final)
France Trade (Sep)
Taiwan Trade (Oct)
Eurozone Retail Sales (Sep)
Canada BOC Summary of Delibrations
United States Wholesale Inventories (Sep)
S&P Global Metal Users and Electronics PMI* (Oct)

Thursday 9 Nov
South Korea, Taiwan Market Holiday
Japan BOJ Summary of Opinions (Oct 30-31)
Japan Current Account (Sep)
Philippines Industrial Production (Sep)
China (Mainland) CPI, PPI (Oct)
Philippines GDP (Q3)
United States Jobless Claims

Friday 10 Nov
Taiwan Market Holiday
Australia RBA Statement on Monetary Policy
Malaysia GDP (Q3)
Norway Inflation (Oct)
Turkey Industrial Production (Sep)
United Kingdom monthly GDP, incl. Manufacturing, Services and Construction Output (Sep)
United Kingdom GDP (Q3, prelim)
United Kingdom Goods Trade (Sep)
Hong Kong SAR GDP (Q3, final)
Brazil Inflation (Oct)
India Industrial Production (Sep)
United States UoM Sentiment (Nov, prelim)

* Access press releases of indices produced by S&P Global and relevant sponsors here.

What to watch

Worldwide services and sector PMI, US IMI

Remaining services PMI data, including the JPMorgan Global Services PMI – compiled by S&P Global – will be due at the start of next week. This comes after manufacturing PMI data revealed that globally, factories have started the final quarter of 2023 on a weak footing. Worldwide detailed sector PMI data follow on Tuesday for deeper insights into economic conditions for individual markets, including bread-outs for detailed metal users and electronics PMIs.

Separately, amid the earnings-related sell-off observed in the US, the S&P Global Investment Manager Index (IMI) will be updated for insights into risk sentiment, market drivers and sector preferences among money managers.

Americas: US trade, UoM sentiment, Canada trade data

Data including US trade and University of Michigan consumer sentiment readings will be released for additional guidance on US economic health, the latter providing a glimpse into whether consumer spending can help sustain economic resilience heading into the fourth quarter.

Canada's trade data will also be due for September with manufacturing PMI data having shown gathering weakness linked in part to sluggish international demand. Greater insights into Canada's service sector can meanwhile be sought with the help of the newly launched S&P Global Canada Services PMI.

EMEA: UK GDP, Germany industrial production, inflation and eurozone retail sales

Third quarter GDP will be due from the United Kingdom amidst indications of persistent weakness in both the manufacturing and service sectors in September having spread into October. Concurrently, a series official economic data are expected, including German industrial production and inflation, eurozone retail sales and PPI, alongside services, composite and construction PMIs for the eurozone and UK house prices from Halifax.

APAC: RBA meeting, China inflation, trade data

The RBA convenes for the penultimate monetary policy meeting of 2023 with no changes expected. The highlights of the week will meanwhile include China's inflation and trade data. Consensus expectations point to weaker trade performance in October while inflation may stay rather steady, in line with early indications from the Caixin PMI.

Special reports:

Global Factories Remain in the Doldrums, Job Losses Mount, as Demand Continues to Weaken | Chris Williamson | **page 4**

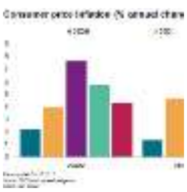
South Korea's Exports Rebound in October 2023 | Rajiv Biswas | **page 7**

Recent PMI and economic analysis from S&P Global

Global	Worldwide factory prices rise again in October, but wage pressures cool	2-Nov	Chris Williamson
	Subdued picture from flash PMIs masks widening growth divergences	31-Oct	Chris Williamson
	Emerging markets PMI signal growth momentum slowing at end of third quarter	12-Oct	Jingyi Pan
	Monthly PMI Bulletin: October 2023	9-Oct	Jingyi Pan
	Renewed fall in global demand fuelled by rising impact of higher interest rates	9-Oct	Chris Williamson
	Trade conditions continue to deteriorate at end of third quarter	9-Oct	Jingyi Pan
	Global PMI signals near-term downturn risks amid falling backlogs of work	5-Oct	Chris Williamson
EMEA	Flash PMI points to UK economic downturn extending into fourth quarter	24-Oct	Chris Williamson
	Rising recession risks as eurozone flash PMI falls in October, price pressures ease further	24-Oct	Chris Williamson
US	US soft landing hopes boosted as flash PMI lifts higher and price pressures abate	25-Oct	Chris Williamson
Asia-Pacific	Australian economic growth moderates due to tighter monetary policy	27-Oct	Jingyi Pan
	Japan's flash PMI points to stalling private sector economy at start of fourth quarter	24-Oct	Jingyi Pan

S&P Global Market Intelligence highlights

Rising uncertainty, rising risks



The Israel-Gaza war adds to already elevated uncertainty. A major escalation in the conflict would make a material difference to economic prospects and our forecasts. Impacts are already apparent via various channels, including higher energy prices.

Click here to read our research and analysis

PMI Insights: Extreme weather impact

2023 has delivered some extreme weather, from extreme heat in Southern Europe to a dry spell that affected crop yields in Southeast Asia and Australia, often with tragic human consequences. Extreme weather events like droughts and floods also present risks to economies and supply chains.

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

For further information:

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

Special Focus

Global Factories Remain in the Doldrums, Job Losses Mount, as Demand Continues to Weaken

Global manufacturing remained in the doldrums in October, according to the latest [JPMorgan Global Manufacturing Purchasing Managers' Index™ (PMI™)](#) compiled by S&P Global. The headline PMI registered 48.8, down from 49.2 in September to indicate a deterioration in business conditions for a fourteenth successive month.

Production continued to edge lower, led by a further deterioration in order books. A lack of demand from customers pushed businesses into gloomier moods, in turn causing firms to cut back further on their purchasing of materials and on their payroll counts. The latter fell globally at the steepest rate since 2009 barring only the initial pandemic lockdown months.

Europe continued to see the steepest downturn, with output also falling in Japan and mainland China. The worsening production picture was by no means universal however, as the US notably bucked the downturn trend, and India continued to report the best performance by some margin as business continued to boom.

Global factory output slips lower again in October

Global manufacturing output fell for a fifth consecutive month in October, according to the latest PMI surveys compiled by S&P Global and sponsored by JP Morgan. At 48.9, down from 49.8 in September, the output index from the Global Manufacturing PMI – our key measure of current factory production – signalled a slight acceleration in the rate of contraction. Although the overall pace of decline remained only modest, it is unusual for worldwide manufacturing output to decline at all.

Official data, compiled from various national statistical agencies, is starting to show a similar deterioration in manufacturing performance to that presented by the PMI data. Global output was 1.0% below that of a year ago in August (the latest month for which official data are available for the major economies) based on our calculations. That's the steepest rate of decline for three years.

Global manufacturing output

Data compiled November 2023 using PMI data updated to October 2023 and official data to August.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month, advanced three months.
Source: S&P Global PMI with J.P. Morgan, S&P Global Market Intelligence.
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The rate of global production decline would have been even steeper in recent months had factories not been able to rely on backlogs of orders to sustain activity levels. However, these backlogs – accumulated in many instances during the pandemic – have now been depleted globally in each of the past 16 months, meaning companies are becoming increasingly concerned about overall order book levels.

Global manufacturing PMI output and order books

Data compiled November 2023 using PMI data updated to October 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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Demand downturn extends into sixteenth month

Worryingly, new order inflows are not helping to replenish order books. In contrast, new orders have now also fallen worldwide continually over the past 16 months, in part reflecting a sustained decline in global trade volumes. Globally, new export orders for goods have now fallen for 20 straight months, with the rate of decline remaining marked by historical standards into October.

Global goods exports

Data compiled November 2023, PMI data updated to October 2023, CPB trade data to August 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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Job culls mount amid gloomier outlook

With order books becoming increasingly depleted, companies' expectations of future output have sunk lower. Optimism about output in the year ahead sank sharply in October to its lowest for 11 months.

Global manufacturing PMI orders-inventory ratio and future expectations

Data compiled November 2023 using PMI data updated to October 2023.
PMI (Purchasing Managers' Index) 50 = no change on prior month. Inventory ratio uses stocks of finished goods.
Source: S&P Global PMI with J.P. Morgan.
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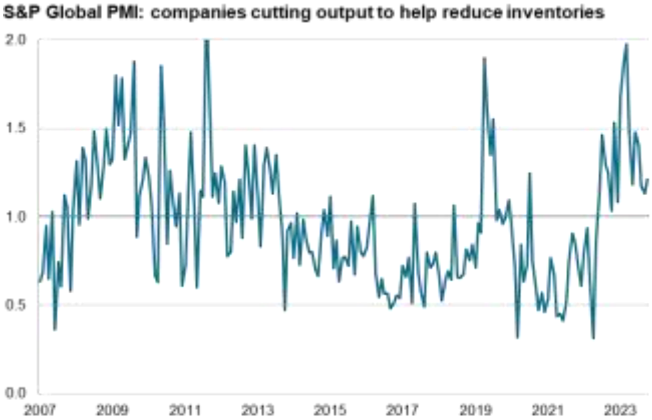
October also saw an elevated incidence of output being cut as firms sought to reduce inventory levels, in turn often reflecting the anticipation of weak sales in the months ahead.

S&P Global PMI: companies cutting output to help reduce inventories



Data compiled October 2023. Axis scale 1 = long term average.
Source: S&P Global PMI.
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The growing gloom about business prospects caused producers to cut capacity. Factory employment fell worldwide for a second successive month at the start of the fourth quarter, dropping at a rate not seen since August 2020. Barring the early pandemic months, the drop in headcounts was the steepest since September 2009.

Companies also cut back on their purchasing of inputs, reflecting perceived lower production requirements in the coming months. Input buying has now been scaled back continually over the past 15 months.

Global manufacturing PMI purchasing activity and employment

Data compiled November 2023 including PMI data to October 2023.
PMI (Purchasing Managers' Index) 50 = no change on prior month.
Source: S&P Global PMI with J.P. Morgan.
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Europe reports steepest production losses

Drilling down geographically, the global factory downturn continued to be led by Europe in October. In fact, the eight fastest-contracting manufacturing economies were all found in Europe, led by Germany.

Overall eurozone output fell for a seventh successive month and UK production fell for an eighth consecutive month. In both cases, the latest declines were among the steepest recorded since the global financial crisis, barring the initial COVID-19 lockdown months.

Production also continued to fall in Japan, down for the fifteenth time in the past 16 months, and in mainland China, where production slipped back into contraction after two months of modest growth.

In the rest of Asia, output rose for a twenty-sixth straight month, though the rate of increase waned to the slowest since January.

In contrast, output grew at a slightly increased rate in the US where, although only modest, the latest rise was the steepest since April. However, the strongest output gain continued to be recorded in India, where an ongoing production boom far outpaced all other economies covered by the S&P Global PMI surveys.

Manufacturing PMI output index

Data compiled November 2023 using PMI data updated to October 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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Manufacturing PMI output index

Data compiled November 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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Access the global manufacturing PMI press release here.

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Special Focus

South Korea’s Exports Rebound in October 2023

South Korea’s exports grew by 5.1% year-over-year (y/y) in October 2023, the first positive expansion recorded since September 2022. The rebound in exports was helped by strong growth in exports of autos and petroleum products.

Anaemic economic growth in the European Union (EU) and sluggish domestic demand in mainland China during 2024 remain a key downside risk for South Korea’s manufacturing export sector. South Korea’s exports to mainland China have remained weak during 2023, recording a decline of 9.5% y/y in October. However South Korea’s tourism sector has been strengthening during 2023 and is expected to show further improvement during 2024, as international tourist travel in the Asia-Pacific region continues to recover.

GDP growth improves in the second quarter of 2023

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

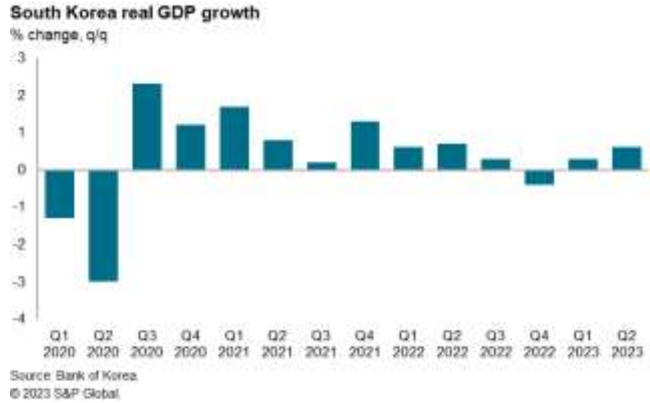
However, beneath the topline growth number, the second-quarter GDP data showed considerable underlying weaknesses in the South Korean economy. Notably, final consumption expenditure contracted by 0.6% q/q in the second quarter, after rising by 0.6% q/q in the first quarter. Private consumption showed 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% 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.

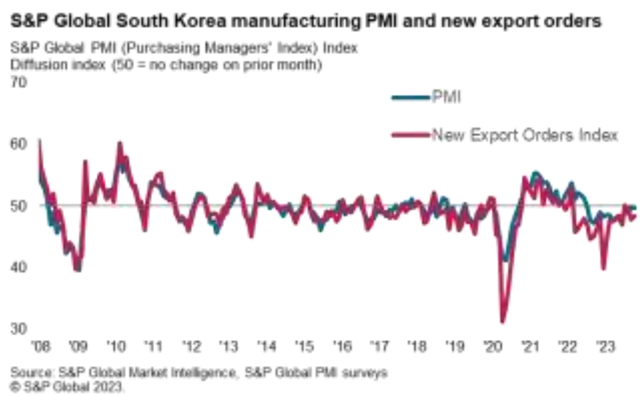
Construction output contracted by 3.4% q/q in the second quarter of 2023, after three consecutive quarters of positive q/q growth. However, construction output was still up 4.6% y/y in the second quarter of 2023.

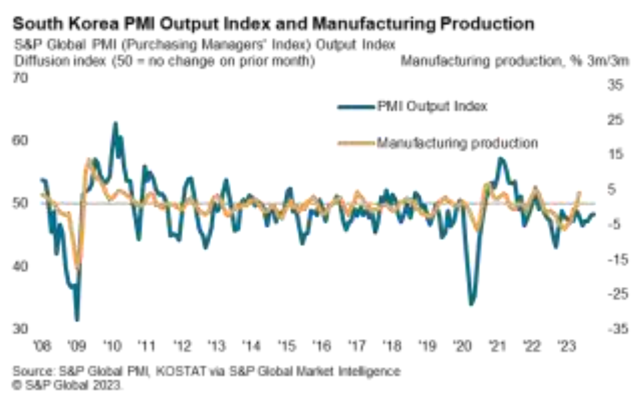
The services sector showed marginal positive growth of 0.2% quarter over quarter in the second quarter of 2023, although still improving on the zero quarter-over-quarter growth rate in the first quarter. Services output rose by 1.9% y/y in the second quarter of 2023, moderating from the 3.4% y/y growth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



Monthly industrial production statistics for August showed a rebound in South Korean manufacturing output, which rose by 5.5% y/y, after a 2% y/y decline in July.

The seasonally adjusted South Korea Manufacturing Purchasing Managers’ Index (PMI) has shown a gradual improvement since the beginning of 2023, although the reading for October edged down to 49.8 in October from 49.9 in September, rate of decline in the sector was marginal and 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 2023 owing to weak economic growth momentum in the US and EU and the slowdown in the global electronics cycle.

However, there are some signs of a turnaround. According to latest trade data from South Korea's Ministry of Trade, Industry and Energy, South Korea's merchandise exports showed grew by 5.1% y/y in October 2023. Auto exports were buoyant, rising by 19.8% y/y in October, while exports of petroleum products rose by 18% y/y. The pace of decline of semiconductors exports also moderated in October, albeit still showing a year-over-year contraction.

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. The latest export data painted a mixed picture for these two key markets, with exports to the US rising by 17.3% y/y in October, while exports to the EU declined by 10.7% y/y.

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

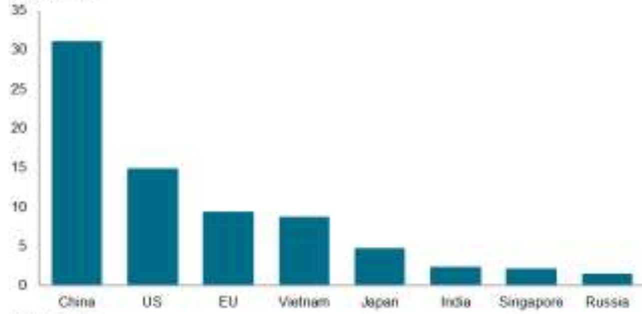
South Korean exports to mainland China have remained weak in 2023. With the moderate pace of recovery continuing to constrain domestic demand in mainland China, total South Korean merchandise exports to that key market fell by 9% y/y in October, albeit significantly improved on the 19% y/y decline in 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 rose above 1 million visitors in July 2023, the first time that visitor numbers exceeded the 1 million mark since the start of the COVID-19 pandemic. Prior to the COVID-19 pandemic, tourism accounted for around 4.7% of South Korea's GDP, with mainland China and Japan being key tourism source markets. Total international tourist visitor arrivals reached a record high of 17.5 million in 2019, averaging around 1.46 million arrivals per month.

South Korea's export markets

% of exports



Source: MOTIE.
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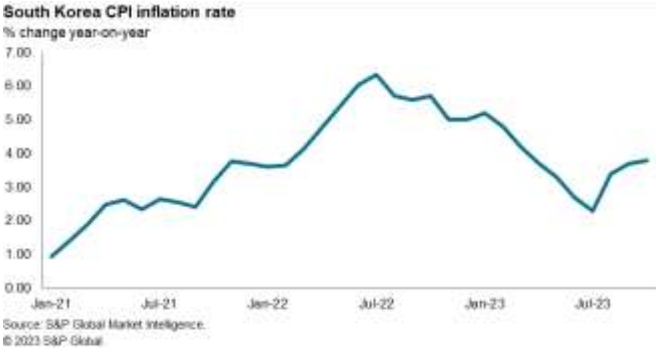
South Korean CPI inflation had risen significantly during 2022, largely reflecting the impact of the Russia-Ukraine war on global commodity prices, particularly for oil and gas. The annual average CPI inflation rate of 5.1% for 2022 compared with an average CPI inflation rate of 2.5 percent in 2021. 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 25 basis points (bps), raising the Base Rate to 3.50%. This has brought total cumulative tightening to 300bps 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, inflation pressures had eased. 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. However, with world oil prices and some food prices having rebounded since July 2023, South Korea's CPI inflation rate has risen again to reach a pace of 3.8% y/y in October 2023. The Monetary Policy Board of the BOK decided at its April, May, July, August and October meetings to leave the Base Rate unchanged at 3.50%. In its October 2023 Monetary Policy Decision, the Monetary Policy Board assessed that consumer price inflation will fall to the lower 3% range by the end of 2023.



According to the October PMI survey, input cost inflation strengthened for the second successive month at the start of the fourth quarter. Input price inflation accelerated to the strongest since December 2022 and was often attributed to higher raw material prices and currency weakness. Concurrently, factory gate charges were raised for the second month in a row.

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 slightly to 1,353 by the end of October 2023.

Electronics sector downturn hits South Korean exports

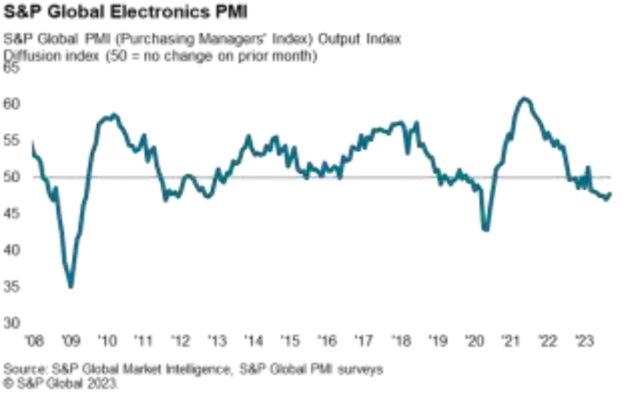
The electronics manufacturing industry is an important part of the manufacturing export sector for South Korea which is one of the world's leading exporters of electronics products to key markets such as the US, China and EU. As Vietnam is an important production hub for South Korean electronics multinationals 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 third quarter of 2023. South Korea's Ministry of Trade, Industry and Energy trade data showed that exports of ICT goods in September 2023 were USD 18.1 billion, down 13.4 per cent y/y.

However, there were early signs of improvement for semiconductors exports in October 2023, with the pace of contraction in export values moderating to a decline of 3.1% y/y, compared with a contraction of 14.4% y/y in September.

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 47.7 in September, up slightly from 47.0 in August but still signalling a continued contraction in the global electronics sector. Incoming new orders placed with electronic manufacturers fell on the back of softening economic conditions, elevated prices and inventory destocking efforts at clients, according to survey respondents. The rate of decline remained strong, though easing from August. New orders in the Consumer segment fell at the most pronounced pace, followed by Computing and Industrial. All four monitored segments recorded a softer rate of contraction, however.



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 revised down its GDP forecast for 2023 to 1.4% and has maintained its GDP forecast at 1.4% in its October Monetary Policy Statement.

South Korea's export sector, which accounts for an estimated 38% of GDP, faced continuing headwinds during the first nine months of 2023 due weak economic growth momentum in mainland China and EU and the slowdown in the global electronics cycle. However, there was a significant improvement in semiconductors exports in October. The near-term outlook for South Korean goods exports remains constrained by weak demand conditions in the EU, as well as the relatively moderate pace of economic recovery in mainland China. However, there may be some further gradual improvement in electronics exports during H1 2024. One area of strength has been auto exports, which rose by 9.5% y/y in September and were up 35.8% y/y in the first nine months of 2023. This reflected strong exports of electric vehicles, with the number of electric vehicles exported in September rising by 33.5% y/y while exports of plug-in hybrid electric vehicles rose by 93.4% y/y.

Due to the upturn in inflation pressures since late 2021, the Bank of Korea has tightened monetary policy by 300bps 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. However, housing price data for July and August showed marginal rises, signalling that the downturn in housing prices may have bottomed out.

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 104.9% by mid-2023, 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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