CHANGING CONSUMPTION PATTERNS IN KOREA

In-Suk Hwang
(hwangis@hri.co.kr)

Consumption Patterns in the IMF Era (until early 1999)

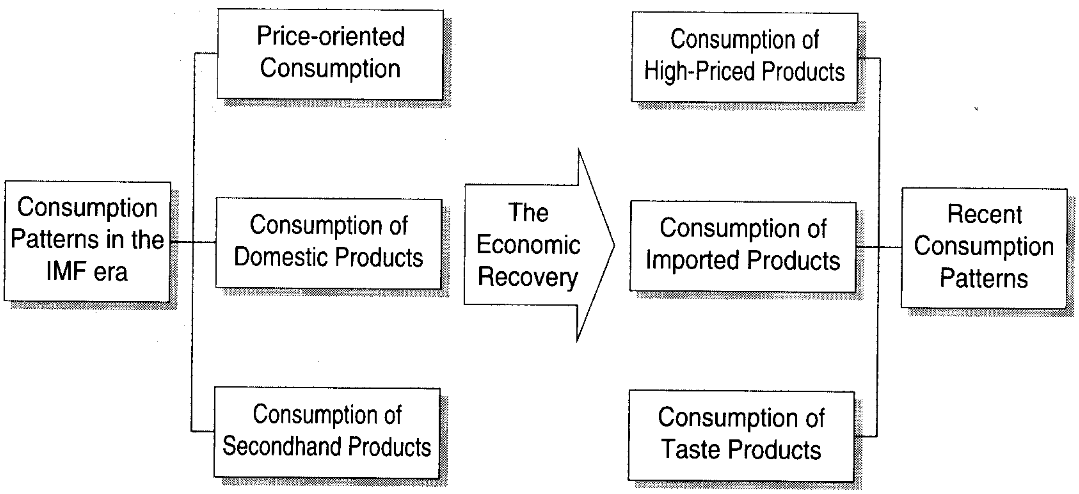
Consumption itself contracted during this period because of the severe economic crisis. According to a report from the Bank of Korea, overall consumption decreased by more than 10% and private consumption shrank by 50.3% of GDP in 1998. Amidst restrained consumption, three distinct characteristics appeared during this period.

First, price-oriented consumption was a prevalent pattern. This means that the most important factor in purchasing then was price. The mini car boom in 1998 well explains this consumption pattern. In accordance with this consumer psychology, most companies tried competitively to lower their product price. The price-discount competition among large discount stores such as E-Mart, Wal-Mart and Carrefour can be an example. In turn, this competition spurred consumers to orient their purchases in terms of price.

Second, a consensus was formed among Koreans to purchase domestic products more. This behavior originated from a sense of crisis and patriotism to overcome the crisis as soon as possible. Thereby, the consumption of imported products, in relative terms, showed a drastic drop. For example, sales of imported whisky in 1998 fell by 28% compared to the sales in 1997. Because of such trend, the import of foreign-made products reduced, too.

Third, consumption of secondhand products showed a striking increase. The boom in secondhand-product market and the appearance of various secondhand-product

Figure 1. Consumption Patterns During & After the IMF Era



brands illustrate this point. However, the popularity of secondhand products can be understood as a kind of price-oriented consumption pattern.

Changing Consumption Patterns

As the Korean economy stepped into the recovery stage, many changes occurred in consumption patterns. Especially, changes of consumption emerged in areas which were hit hardest by the stagnation. Typically, sales of high-priced products visibly regained strength. For example, mid- or large-size sedans gained popularity in the market. Recreational vehicles (RV) under brand names such as Carnival and Carens also enjoyed a remarkable growth of sales. In the case of RVs, tax favors and low fuel price of diesel and LPG spurred on purchases. In the category of electronic home appliances, refrigerators and large-screen televisions, were highly successful during the first half of this year.

Second, the sharp increase in sales of imported products was distinct. For example, sales of imported wine from January through the end of last September showed an 86.5% increase from the corresponding period of last year. Sales of domestic wine, in comparison, grew at a slower pace, posting a moderate growth of 8.1%. Also, sales of imported whisky jumped by 58% until last September from a year earlier.

The most important factor driving these two consumption patterns was the Korean economy's stronger-than-expected recovery. The stabilization of exchange rate also contributed to the prevalence of those trends, especially the consumption of imported products. In addition, the increase in consumption by the upper income class was another reason for those patterns. In the IMF era, the consumption activities of the upper income class were moderate; they refrained from conspicuous consumption of luxury products or imported products, which were inviting severe criticism from the general public and the media. However, as the social tension loosened, they resumed their delayed shopping.

Third, the increase in the consumption of taste products was also a characteristic of recent consumption patterns. The recent consumption trend reaffirmed the fact that taste products are sensitive to changes in economic condition, while daily necessaries remain almost indifferent.

Perspectives of Consumption Patterns in 2000

Although the overall consumption is not expected to increase, the consumption of following products will show remarkable growth. First, sales of products which target consumers in their mid- or late twenties are expected to increase. That particular age group could not find adequate jobs during the IMF era because companies deferred employment of college graduates. However, as the economy is picking up at a rate faster than expected, there are more job opportunities for them. This means that their purchasing power will visibly grow; they are thus expected to show active consumption next year.

Second, the consumption of home appliances is expected to pick up sharply. This prediction comes from the government's decision to abolish the special consumption tax on those products. This policy is expected to have a tremendous impact on consumption.

Third, although the overall consumption is not going to increase, the consumption for products related with recreation (ex: traveling, cultural activities, entertainment and alcoholic beverages) is forecast to surge in 2000. As the economic recovery eased psychological tension, people are beginning to feel more need for relaxation. The increase in the consumption of this kind has already become visible since the third quarter, particularly regarding the upper income class. VIP