

SYMPTOMS OF SLOWDOWN APPEAR

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The Korean economy seems to have entered an expansion period in the business cycle. Consumer spending and industrial production have been rising and the average capacity utilization rate in the manufacturing sector reached its highest point since April 1997.

Industrial production has been rising since November 1998 on a year-to-year basis and grew 28.1% in January 2000. The production of autos and machinery continued to increase because domestic demand and exports improved, while semiconductor production also increased to secure inventories. Along with this, the average capacity utilization rate has continued at over 80% since December 1999. Wholesale and retail sales rose by 16.6% on account of increased household spending for durable goods such as vehicles and personal computers. The growth rate of facility investment slowed from the 1999 level, but construction investment made a 105.3% jump from 8.9% in the previous month.

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First, the technical rebound effect has nearly vanished, but nevertheless

Table 1. Trend of Major Economic Indicators

		(year-on-year, %)				
		1998	1999		2000	
		year	year	4th quarter	Dec.	Jan.
Production	Production	-7.3	24.2	28.9	24.6	28.1
	Average utilization rate	68.1	76.5	79.8	80.6	80.6
Consumption	Wholesale and retail sale	-12.7	13.0	15.7	14.9	16.6
Investment	Facility	-30.5	22.6	13.8	14.2	17.8
	Construction	-42.5	0.8	18.0	8.9	105.3

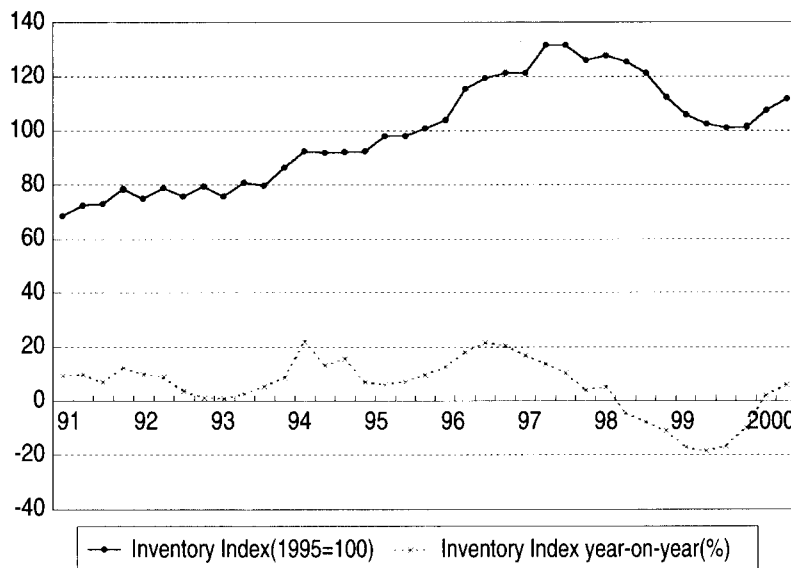
Source : National Statistical Office

production has continued to increase at a high rate. This is mainly due to the boom of certain industries, such as semiconductors, autos and machinery. Other industries showed relatively lower growth rates, while the clothing and the transport equipment industries recorded negative growth. Surprisingly, in the fourth quarter of 1999, the production of main industries including electronics & communication, autos, and machinery, rose by 84.2% from the pre-crisis level in 1997. On the other hand, the production of other industries grew by only 1.6% during the same period. But, an overall increasing trend of over 20% shows that production has increased compared to the pre-crisis level.

Second, as inventory continued to increase in December 1999, inventory adjustment has been completed. Inventory in January 2000 rose by 6.0% on a year-to-year basis and grew 2.4% in the previous month. The return to increasing investment reflects the improving outlook of companies on the future economic situation.

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Figure 1. Trend of the Inventory Index



Third, the growth pace of the business cycle indexes have weakened. The increasing rate of industrial production slowed down to 20% level from 30.8% in October 1999. The cyclical change of the integrated coincident index, which indicates current economic activities, recorded 99.1 on the basis of 100 in 1995, but rose 0.6% from the previous month. The integrated leading index foretelling economic activities in the coming few months dropped 2.1% from the previous month. This trend shows that the economy is in natural adjustment.

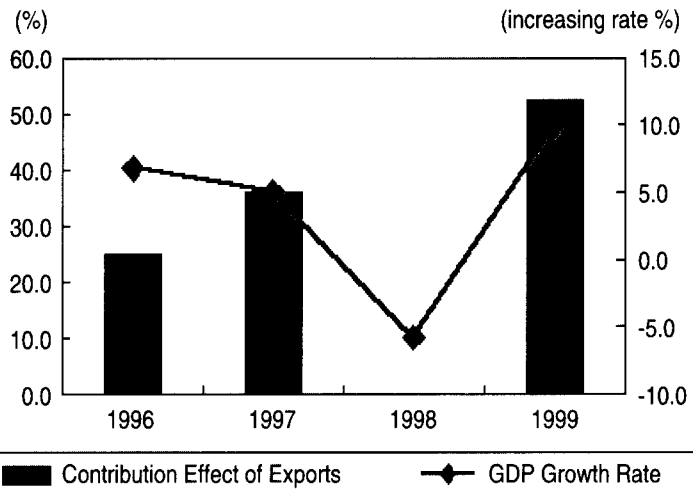
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Taking these economic indicators into account, it is difficult to judge that the economy is overheated. If we set October 1997 levels as 100, the index of production is currently 128 and the index of consumer spending is 105. This level barely managed to regain the pre-crisis level. Meanwhile, the construction investment index is only 60, far below the pre-crisis level. The current state of high crude oil prices amidst uneasiness of the financial market including the stock market, therefore, brings the possibility of a rapid economic cooldown.

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Figure 2. The Contribution Effect of Exports to GDP



Source : Korea International Trade Association

1) In 1998, the contribution effect could not be obtained because the GDP growth rate was negative.