

FROM FINANCIAL INSTABILITY TO REAL INSTABILITY

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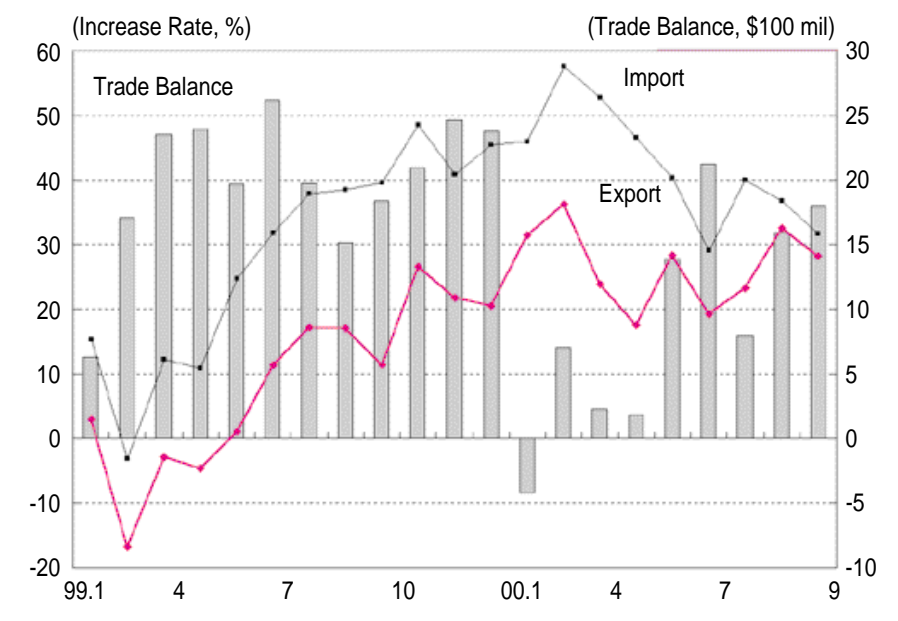
September's domestic sales also recorded a rather low figure of 6.1%, reflecting contracted consumer sentiment, partly affected by the plummeting stock prices. Domestic demand also shrank significantly. The domestic demand for consumer goods decreased 8.4% in September. Demand for mobile telephones and automobiles significantly decreased by 53.7% and 38.4% respectively.

Table 1. Major Business Activity Indexes

(year-on-year, %)

	1999		2000			
	Year	September	First half	Third Quarter	August	September
Industrial Production	24.2	20.3	20.7	19.6	24.6	15.1
Manufacturing	25.0	21.0	21.0	20.2	25.4	15.7
Average Operation Ratio	76.6	79.4	79.5	80.4	82.0	78.1
Wholesale & Retail Sale	13.0	14.6	13.4	7.6	8.2	6.1
Import of Machinery	33.5	48.3	57.0	52.6	71.2	35.1
Facility Investment	43.5	42.9	44.8	29.0	38.1	18.9
Machinery Orders Received	22.6	10.6	12.8	17.1	14.8	9.5
Construction Orders Received	0.83	6.54	0.2	8.5	45.2	-18.4
Area Permitted for Construction	42.3	81.6	56.3	32.1	55.0	9.6

Figure 1. Exports, Imports, and Trade Balance



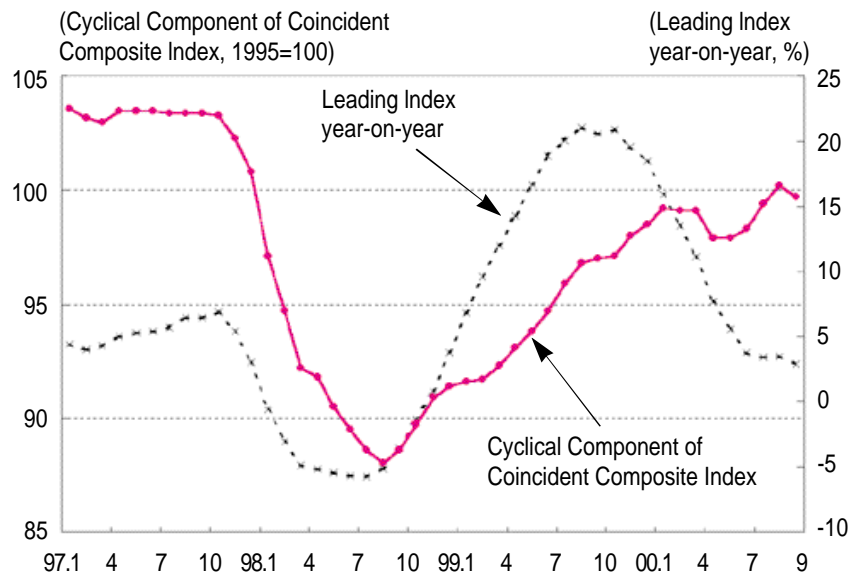
On the investment side, facility investment and construction orders received in September recorded increase rates of 18.9% and -18.4% respectively, a steep decline from 38.1% and 45.2% in August. The increase of domestic orders for machinery also shrank to 9.5% in September, the first time the figure fell to one-digit levels this year.

In September, exports reached \$15.3 billion with an increase rate of 28.1% over the previous year and imports recorded \$13.3 billion at rate of 31.6% for the same period. As a result, September's trade surplus reached \$2.0 billion.

All in all, a continued uptrend in the economy was helped by exports and capital investment which remained throughout the year. But domestic demand has apparently been slowing down. It seems the economy is still on the upswing but the peak is near with the downturn in sight. When considering the business cycle, the economy is expected to peak at the end of this year or early 2001. The cyclical component of the coincident composite index, which shows current business conditions, posted a 0.5% decrease. And the leading composite index, which portends future business conditions, recorded a 2.9% increase, down 0.6% from August.

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Figure 2. Business Cycle Trend



With the exit of ailing firms on November 3 and the credit crunch following the recent financial sector restructuring, the next few months will probably see further contraction of corporate investment, with a decline of consumer spending due to overall jitters about the economy.

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To prevent an excessively hard-landing of the economy, the government should try to resolve the anxiety permeating the market. Corporate and financial restructuring should be completed by the end of the year as planned to prepare for a soft-landing. Unlike during the 1997 crisis, the present restructuring is expected to bring active resistance from labor unions. To ensure an effective and socially viable restructuring, the government will have to improve the tripartite councils of labor, corporations and the government. One important measure would be improving the social safety net. This winter will be a crossroads for the entire Korean economy. **VIP**