

EXPORT REBOUND AMID CONTINUED ECONOMIC DOWNTURN

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Industrial Activity

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The overall business cycle downturn that began in the third quarter of 2000 has continued into 2001. While semiconductor production showed a moderate increase, production in most other industries such as autos decreased due to the Lunar New Year holiday. The result was a 0.1% increase from the previous year.

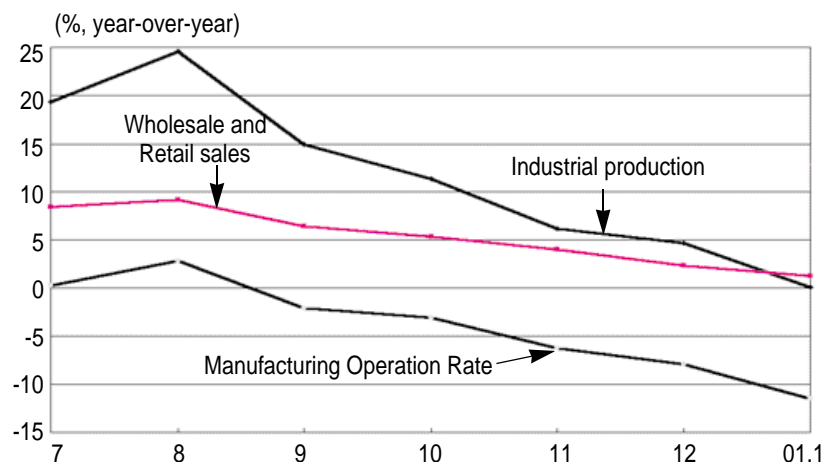
The year-over-year growth of wholesale and retail sales slowed to 1.2%. Although retail sales generally were boosted by the New Year's holiday in January, wholesale and auto sales remained stagnant.

Investment orders for machinery decreased by 20.5% year-over-year due to sagging orders for telecom equipment, and construction orders declined by 32.1%.

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Despite this slowdown in the real economy, there are some signs that give hope for an economic recovery. First, the declining trend in semiconductor production that started in 2000 has begun to reverse itself. Second, business confidence indicators of groups such as the Federation of Korean Industries have recovered to levels above 100, which indicates optimism by domestic businesses about future economic conditions.

Figure 1. Recent Trends in the Real Economy



External Transactions

In February, exports continued to increase, and the growth rate of imports decreased from January to result in a trade surplus of 0.77 billion dollars.

Exports in February grew 6.6%, showing a possible rebound from the stagnant export performance that began late last year. The strong demand in traditional heavy-chemical industries such as ships, plants, machinery, and textile products was the reason for the thriving exports in the midst of unfavorable conditions.

Meanwhile, the growth rate of imports was limited to 6.0% due to contracted domestic demand and declining oil prices. The main reason for the import slowdown was the fall in world oil prices, which led to a lower growth of oil imports. In the midst of the economic downturn, import growth of raw materials, capital goods, and consumer products tapered off, with machinery imports in particular showing a slowdown.

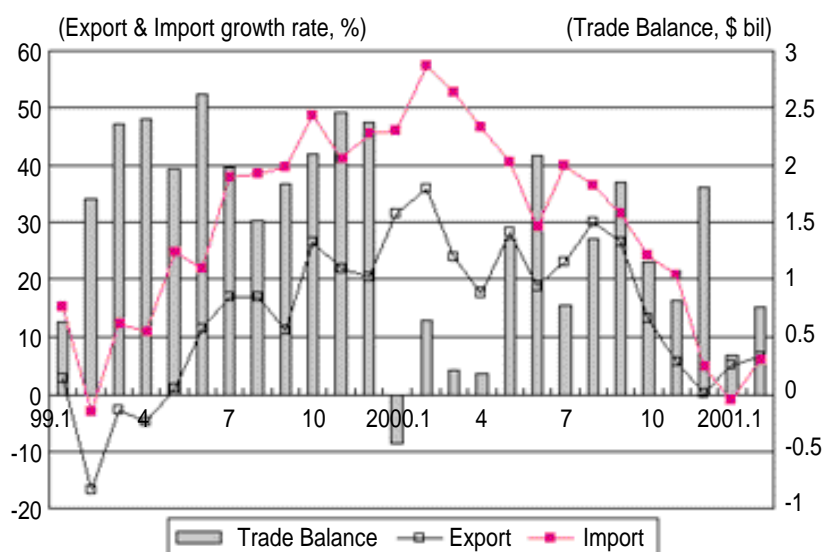
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Price Level

In February, consumer prices increased 0.2% from the previous month. The price rise in agricultural products, a key inflationary factor in January, was limited to 0.03%. However, steep rises in service fees and prices of industrial goods caused consumer prices to rise 0.12% and 0.10% respectively.

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Figure 2. Export, Import and Trade Balance



* customs basis

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Inflation for 2001 is not expected to exceed 4% as the seasonal supply crunches have been surmounted and consumption is not expected to be an inflationary factor. Raw material and intermediate goods prices, which are leading indicators for inflation, have ended their year and a half increase to decline by 0.7% from the previous month, an event that bodes well for price stability.

Implications

Measures should be taken to revive domestic demand in order to help weakened consumption and investment sentiment to recover.

Overall, the Korean economy is in a downturn, which is bringing a contraction in domestic demand. With the economy's high level of external dependence, export trends are a key factor in economic recovery. However, the prospects for leading economies such as the US or Japan are currently uncertain. Therefore, measures should be taken to revive domestic demand in order to help weakened consumption and investment sentiment to recover, and to boost the economy.

If appropriate support and restructuring resolves the lingering economic uncertainty, the private sector will be revitalized. Therefore the government should continue restructuring on the one hand, while also examining the most effective means of supporting the economy and promptly implementing such a plan. **VIP**

Figure 3. Price Trends (1995=100)

