17 December 2021

Week Ahead Economic Preview

The countdown to Christmas with a busy economic calendar

A holiday-shortened week **finds US and Japan inflation data** alongside **US and UK updates to Q3 GDP**. **US and eurozone consumer confidence** data are also due.

The latest FOMC meeting saw the Fed pivot towards ending additional monetary stimulus. In line with our updated forecast, the Fed also signalled multiple rate hikes in 2022. The market had responded positively to the news with a 'sell the news' reaction, seeing the S&P 500 and tech-heavy Nasdaq Composite up 1.6% and 2.1% respectively on Wednesday, albeit following an earlier sell-off caused by a record jump in US producer prices. Next week's core PCE data and inflation numbers into the new year will therefore be closely watched for alignment with the Fed's forecasts for any potential deviation from the current telegraphed rate path. The latest IHS Markit Flash US Composite PMI for December revealed that price pressures persisted into the year end, with service sector inflation at a record, though supply chain pressures eased, hinting at lower goods inflation in coming months (see box).

Meanwhile G4 economies saw diverging trends with business confidence in the latest set of flash PMI data, detailed in our special report. The US notably saw optimism improve on the back of beliefs that the economic impact from the Omicron variant will be less severe than previous waves. Corresponding consumer confidence levels will be tracked with both US and eurozone releasing their data in the coming week. Meanwhile, we send all of our readers our very best wishes for the holiday season and for 2022.

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Central banks and future inflation

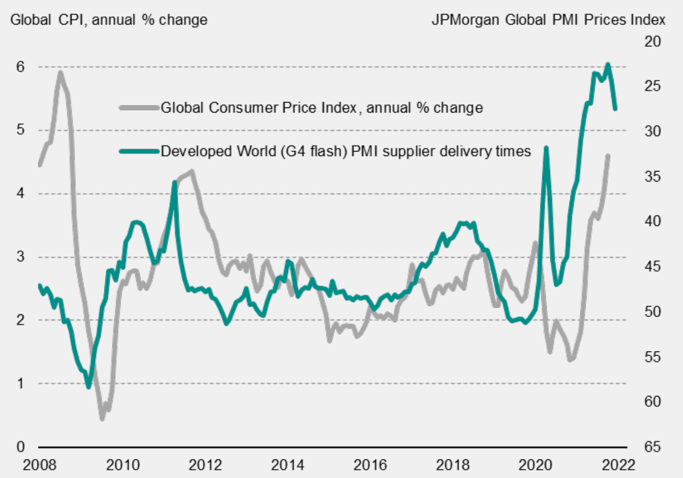
The past week saw the Bank of England hike interest rates for the first time since 2018, the FOMC announce a more aggressive rate hike path for 2022 and the ECB re-state its plans to scale back its pandemic stimulus. The hawkish stances seem well justified given headline consumer price inflation gauges have hit multi-year highs, in some cases multi-decade highs.

But interest rates act only with a lag, hence it's the job of central banks to assess what inflation is likely to be in the future, not react to current rates. And one of the best gauges of anticipating where inflation is heading is to look at measures of capacity utilisation, or the 'output gap'. When capacity is stretched and demand exceeds supply, prices will eventually rise, and vice versa.

Unfortunately, capacity and output gaps are notoriously difficult to estimate. A useful proxy, however, is the time taken for suppliers to deliver goods and services, as delivery delays meant sellers have more pricing power. This can be seen in action via the PMI survey's Suppliers' Delivery Times Index, compiled below the major developed world economies and tracked against global consumer price inflation. Changes in supplier delivery times tend to lead inflation.

The data showed that supply constraints appear to have peaked in October and are now at the lowest since March, albeit still high by historical standards. Supplier performance will therefore be a key indicator to watch in 2022 to assess whether the central banks will retain their hawkish stances. Any further amelioration of supply delays could lead to a steep drop in price pressures. Conversely, any further disruption of supply chains – caused, for example, by the Omicron wave – might cause delays to become more widespread, and prices to rise accordingly again.

Global inflation and supply constraints



Source: IHS Markit, JPMorgan

Key diary events

Monday 20 Dec

New Zealand Trade Balance (Nov)
Taiwan Export Orders (Nov)

Tuesday 21 Dec

Australia RBA Meeting Minutes (Dec)
Germany GfK Consumer Sentiment (Jan)
United Kingdom Retail Sales (Nov)
United States Current Account (Q3)
Canada Retail Sales (Oct)
Eurozone Consumer Confidence (Dec, flash)

Wednesday 22 Dec

Japan BoJ Meeting Minutes (Oct)
United Kingdom GDP (Q3)
United Kingdom Business Investment (Q3)
Thailand 1-Day Repo Rate (22 Dec)
Taiwan Jobless Rate (Nov)
United Kingdom Current Account (Q3)
United States GDP Final (Q3)
United States Consumer Confidence (Dec)
United States Existing Home Sales (Nov)

Thursday 23 Dec

Thailand Custom-Based Exports (Nov)
Singapore Consumer Price Index (Nov)
Germany Import Prices (Nov)
Taiwan Industrial Output YY (Nov)
United Kingdom GfK Consumer Confidence (Dec)
United States Personal Income (Nov)
United States Personal Consumption (Nov)
United States Core PCE Price Index (Nov)
United States Durable Goods (Nov)
United States Initial Jobless Claims
Canada GDP (Oct)
United States UoM Sentiment (Dec, final)
United States New Home Sales (Nov)

Friday 24 Dec

US, UK, Germany, Switzerland, Norway, Indonesia Market Holiday
Canada, Australia, New Zealand, Singapore, Hong Kong Market Holiday (Partial)
Japan CPI, Core Nationwide (Nov)
Japan Housing Starts (Nov)
Singapore Manufacturing Output (Nov)

* *Press releases of indices produced by IHS Markit and relevant sponsors can be found here.*

What to watch

- **North America: US Q3 GDP, core PCE, consumer confidence, personal income and consumption**

  The holiday-shortened week next week finds a third reading of the US Q3 GDP expected to show an upward revision to 2.1%. The focus is likely to be with the US core PCE reading for November, however. This update for the Fed's preferred inflation gauge follows November's CPI release at 6.8% while core CPI was seen at a steep 4.9%. The Fed, in their latest December Fed FOMC meeting, updated their inflation forecast to 2.6% for 2022 while projecting three rate hikes of 25 basis points for the year. Given this scenario, the inflation data will remain in focus in the coming months for their alignment with the Fed's forecasts. As far as the December IHS Markit Investment Manager Index revealed, most US equity investors expect ongoing supply chain issues to ease only in H2 2022.

- **Europe: UK retail sales, Q3 GDP, eurozone consumer confidence**

  The UK updates Q3 GDP next week while November's retail sales figures will also be watched for the consumption picture ahead of the COVID-19 Omicron variant's disruption to the UK economy, with containment measures stepped up in December. Consensus estimates currently points to a slight uptick in month-on-month growth for retail sales.

  Meanwhile the eurozone releases December flash consumer confidence data, which will be eyed for fresh COVID-19 worries hitting sentiment. December's IHS Markit Flash Eurozone PMI showed that eurozone growth had slumped to a nine-month low though optimism about the year ahead was broadly resilient.

- **Asia-Pacific: Japan CPI, Bank of Thailand meeting, Singapore CPI and industrial production**

  A light week is seen ahead for APAC economies with only one central bank meeting in Thailand though we are not expecting any changes to the monetary policy setting. Japan and Singapore update November CPI with IHS Markit PMI data having signalled continued price pressures seen for both economies in November. November manufacturing output will also be due from Singapore on Friday.

Special reports:

Recent PMI and economic analysis from IHS Markit

Global	Global economic conditions turn unfavourable for emerging markets	14-Dec	Joseph Hayes
	A Tale of Two Currencies: Turkish lira and Zambian kwacha	13-Dec	Andrew Harker
	Brazil in recession, outlook clouded by interest rate hikes and mounting inflationary pressures	9-Dec	Pollyanna De Lima
	Monthly PMI Bulletin: December 2021	7-Dec	Chris Williamson, Jingyi Pan
US	US consumer goods producers report highest capacity constraints	7-Dec	Jingyi Pan
Europe	UK Flash PMI signals economic slowdown as Omicron hits service sector, inflation peak in sight as price pressures cool	16-Dec	Chris Williamson
	Eurozone growth at nine-month low in December as fourth COVID-19 wave hits, price pressures and supply constraints ease	16-Dec	Chris Williamson
Commodities	Weekly Pricing Pulse: Commodity prices rebound amid market volatility	14-Dec	Michael Dall

IHS Markit Economics & Country Risk highlights

Supply Chain Crisis: What's Ahead for 2022 [On-Demand]

The Great Supply Chain Disruption will continue into 2022, with the potential for new, unexpected shortages that will hit companies and add to inflation. In the spring of 2021, IHS Markit went into the face of conventional wisdom and warned that the disruptions would get worse. Now, drawing on IHS Markit's proprietary knowledge and databases, our experts will lay out the challenges in 2022 for shipping and transportation, manufacturing, autos, computer chips, energy, agribusiness, metals, input costs, labor availability, geopolitics, ESG, and economic impacts - and how they all interact.

Click here to watch this webinar now

Top-10 Economic Predictions for 2022: Multiple Transitions

The global economy made the transition from recovery to expansion in 2021 amid ongoing turbulence from the COVID-19 pandemic. An uneven economic expansion generated supply/demand imbalances, leading to major supply chain disruptions and rising inflation. In 2022, businesses will navigate multiple transitions in the global economy. For IHS Markit Connect subscribers only, non-subscribers can contact CustomerCare@ihsmarkit.com.

Click here to read our strategic report

A staff member talks to people waiting to be tested at a COVID-19 testing station during the first day of a national lockdown on 18 August 2021 in Wellington, New Zealand.
Hagen Hopkins/Getty Images

Get Your Money's Worth: Using PMI Data to Assess Currency Valuation

Our PMI data have long been used to accurately nowcast by relying on its early release -- well in advance of comparable official data -- and its standardized methodology. Our analysts are now using these same attributes to explore how PMI data could help establish whether a currency is over, under, or valued just right.

Click here to listen to this podcast by IHS Markit Economics & Country Risk team

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Special Focus

Flash PMIs Signal Slowing Economic Growth Momentum in December, Supply Constraints Broadly Ease

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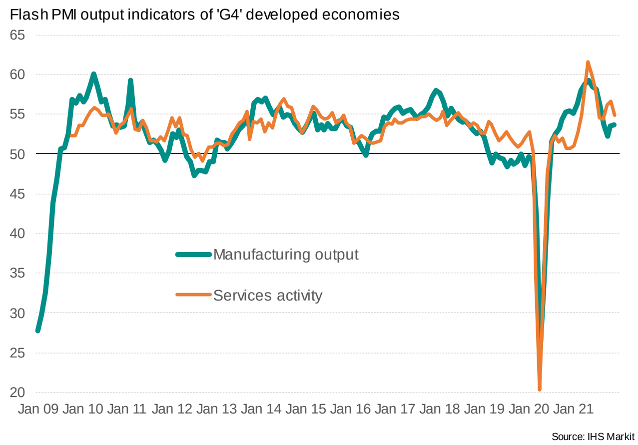
December's preliminary PMI numbers provided a more solemn note to end the year, with growth momentum across the world's largest developed economies revealed to have eased in the final month of the year. That said, overall manufacturing output rose, supported by an easing of supply constraints across Western economies, which also suggested that we may be seeing prices peaking in these regions.

Service sector growth meanwhile came under pressure as the growing COVID-19 wave struck the US, UK and eurozone, while Japan saw service sector activity growth slow post the initial reopening boost. The latest COVID-19 Omicron variant developments add further downside risks to the year-ahead outlook.

Developed world growth slows

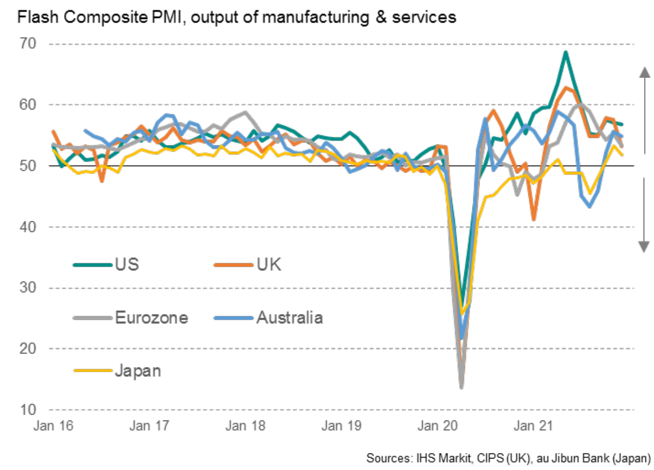
G4 manufacturing and services output



Flash PMI surveys for December signalled a slowdown in the pace of economic growth in all four of the world's largest developed economies – the US, eurozone, Japan and the UK. While still solid, the weighted average PMI output index for the four countries stood at 54.7 compared to 55.9 in November, signalling the slowest growth recorded since September. Economic growth was weighed down primarily by slower service sector activity growth, though manufacturing growth also remained subdued relative to the strong gains seen earlier in the year.

A renewal of COVID-19 case growth in Western economies into the closing months of 2021 has affected service sector activity in December, with the European economies in particular finding their latest flash composite PMIs sliding further from their summer peaks, as the economies opened up from pandemic-related restrictions.

Output growth



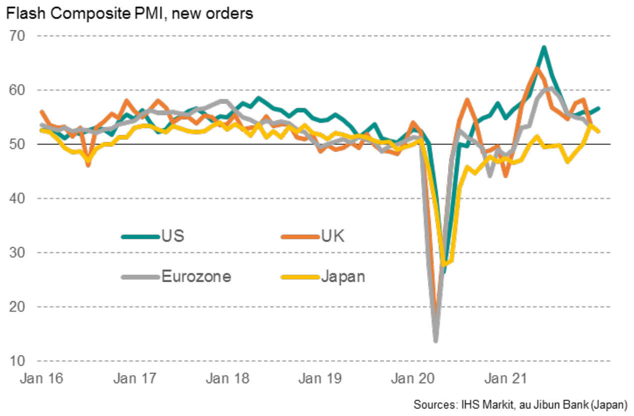
Eurozone growth notably fell to a nine-month low in December with the German economy stalling for the first time in a year and a half (See: "Eurozone growth at nine-month low in December as fourth COVID-19 wave hits, price pressures and supply constraints ease"). UK growth likewise slumped to the slowest since the lockdowns at the start of the year.

While the surge in cases remain a Delta-variant-driven phenomenon, the spread of the Omicron variant has induced additional caution and poses an increased threat to the growth outlook. The December surveys showed demand growth across the UK and eurozone easing to the slowest recorded since February and March respectively, which was when COVID-19 disruptions first started easing towards the start of this year, with weakness led by renewed falls in activity in consumer-facing sectors, such as recreation and tourism.

A more modest easing in output growth was seen in the US, which even recorded a faster rate of new orders growth in December, largely reflecting lower virus containment measures than seen in Europe. The rate of expansion nonetheless slipped in the US to the weakest for three months.

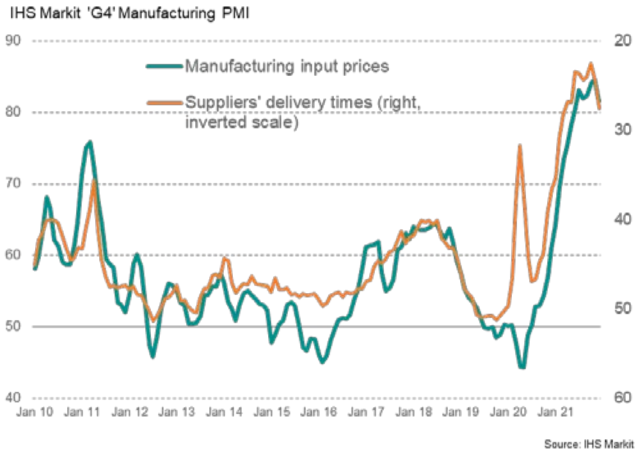
Meanwhile, APAC economies including Japan and Australia had similarly seen private sector output growth slow from November. The difference to note, however, had been the fact that both countries only recently saw their output growth revive as the Delta wave eased and the economies reopened. This suggests that we may be seeing a recent peak in output growth following the latest reopening boost, while the supply-demand mismatch continues to pose challenges for the supply chain and price inflation in the near to medium term.

New orders growth



Supply constraints ease but overall price pressures remain broadly elevated

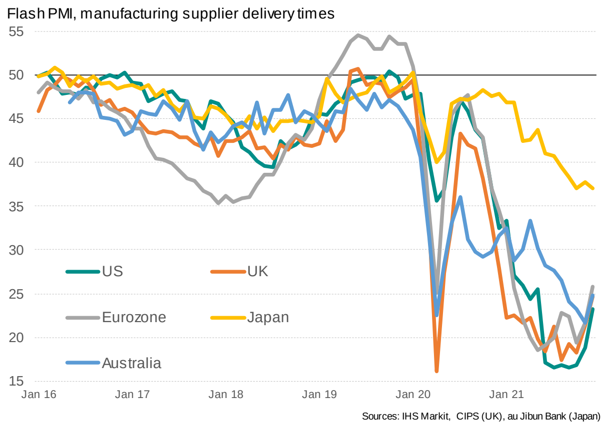
G4 manufacturing supplier delays and input prices



Taking a big picture view across the G4 economies, supply constraints eased in December. Although supply shortages are still widespread, the improvement had likewise helped to see manufacturing input cost inflation moderate.

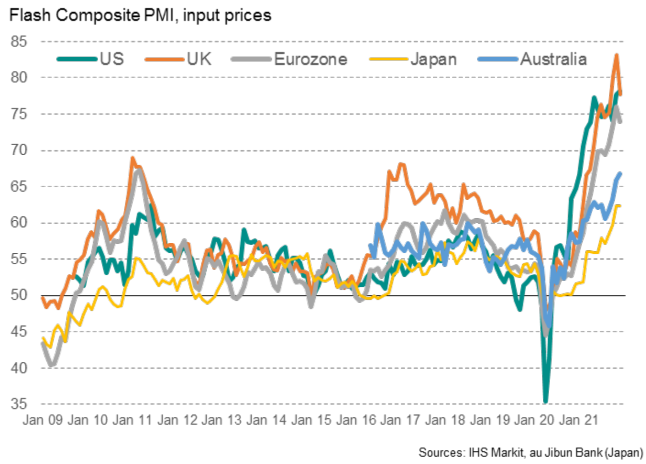
Suppliers' delivery times continued to lengthen at a severe rate in December but eased off the November record to the lowest since August, suggesting that we be seeing a turnaround in the situation. The dip had been underpinned by a slower increase in supplier lead times across all but Japan within the G4 economies. The US, UK and eurozone all saw sharp easings in the rate at which lead times lengthened, with UK delivery times extending at the slowest pace since December 2020 and the eurozone reporting the fewest delays since January. US lead times meanwhile lengthened to the least extent since May.

Suppliers' delivery times



An easing of previously reported COVID-19 related production issues in Asia is likely to have ameliorated the global supply situation, although the COVID-19 Omicron variant's reach into APAC economies continue to cloud the outlook going forward.

Input costs (manufacturing and services)



Meanwhile, G4 economies' manufacturing input price inflation eased off the November record to the lowest since June but remained steep, outlining the persistent price pressures faced by firms. This translated to a lower G4 manufacturing output price inflation to an eight-month low in December, though the same may not be said of services, where selling price inflation held at November's record pace.

Looking at the details, however, the UK and eurozone saw slower overall rates of input cost increase amid the decline in supplier delays, hinting at the easing of inflationary pressures ahead.

Conversely, the US and Japan continued to experience higher price pressures, with the US service sector facing unprecedented cost inflation in December. This is expected to continue garnering the Fed's attention following its December Federal Open Market Committee (FOMC) update, with three rate hikes now forecast for 2022.

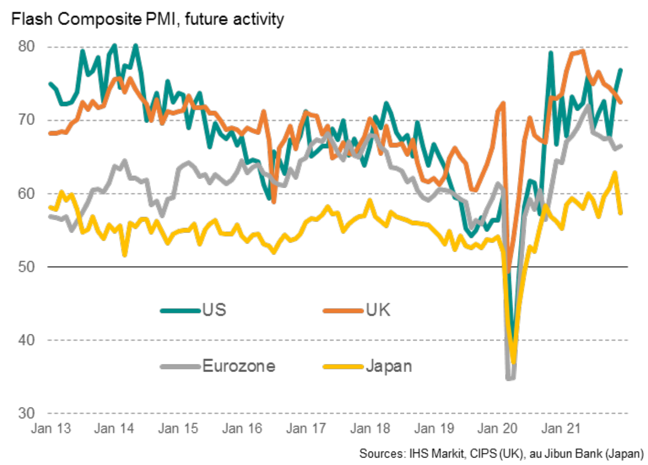
In Japan and Australia's cases, higher costs were recorded while growth momentum eased, though this was largely consistent with the reopening trends witnessed in other episodes where COVID-19 waves receded and may not garner as much concern yet.

Flash PMIs implications and outlook

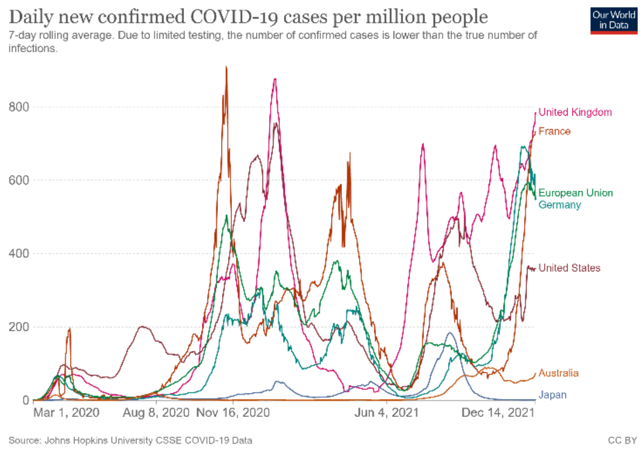
The latest set of G4 flash PMI data for December outlined the easing of growth momentum across the board. To a large extent, lingering COVID-19 disruptions can be held accountable for the slower rise in private sector activity in the final month of the year. That said, an easing of supply constraints in the Western economies has been a promising sign as the global economy journey on in the adjustment of COVID-19 from pandemic to endemic status, and we will be tracking this trend of easing supply constraints closely to observe for continuity.

Business confidence diverged in December, however, with expectations for future output sliding in the UK and Japan while the US and eurozone saw better optimism for the year ahead. Renewed COVID-19 concerns amid the Omicron variant's threat to the UK economy and further worries of supply chain issues in Japan weighed on business confidence.

PMI business expectations



On the other hand, US firms held a more upbeat view, with beliefs that the Omicron variant may be less severe than prior waves. This had been largely congruent with the virus case counts across the various countries. Further clarity on the Omicron variant's impact and corresponding vaccine responses by authorities are nevertheless expected to play their parts in guiding expectations going forward.



Special Focus

South Korea Hit by Rising COVID-19 Wave

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In South Korea, daily new COVID-19 cases have escalated sharply since mid-November, reaching 7,850 daily new cases on 14th December. This has resulted in tightening of restrictive measures during December. The detection of an increasing number of local cases of the highly transmissible Omicron variant during mid-December has added to fears about an escalating COVID-19 wave extending into early 2022. Consequently, despite the high share of the South Korean population who are fully vaccinated, the COVID-19 pandemic continues to be a key risk to the economic growth outlook for 2022.

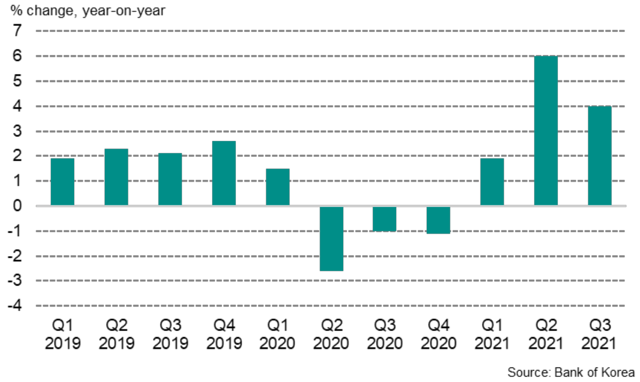
GDP expansion continues in Q3

While continuing to show positive expansion, South Korea's GDP growth rate moderated to a pace of 0.3% quarter-on-quarter (q/q) in the third quarter of 2021, according to the preliminary estimate of GDP. This was consistent with the advance estimate and followed growth of 0.8% q/q in the second quarter of 2021. Third quarter GDP was up 4.0% y/y, moderating from the 6.0% pace in the second quarter.

A key factor that contributed to the slowdown in economic growth was the 0.2% q/q contraction in private consumption in the third quarter, compared to a buoyant 3.6% q/q rise in the second quarter. This reflected the impact of the upturn in the COVID-19 Delta wave on consumption expenditure amidst tighter restrictive measures. The downturn in private consumption was mitigated by a 1.3% q/q rise in government consumption. Overall, final consumption expenditure rose by 0.2% q/q in the third quarter, slowing from the 3.7% q/q growth rate in the second quarter.

Compared to a year ago, final consumption expenditure rose by 4.1% year-on-year (y/y) in the third quarter, the same rate as the 4.1% y/y pace recorded in the second quarter. In 2020, final consumption had been in a protracted slump, having recorded four consecutive quarters of negative year-on-year growth.

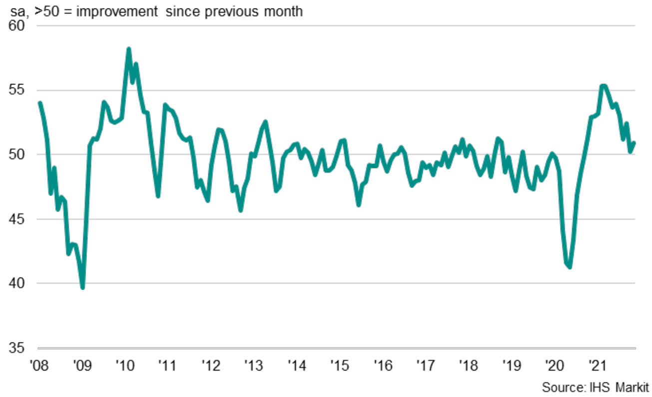
South Korea GDP Growth

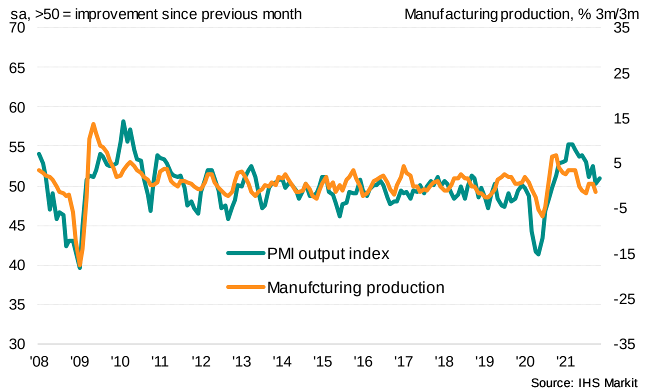


Manufacturing sector faces supply chain disruptions

Manufacturing output grew by 5.7% y/y in the third quarter of 2021, moderating from the 13.5% y/y pace in the second quarter of 2021, which reflected severe pandemic-related base year effects.

South Korea Manufacturing PMI





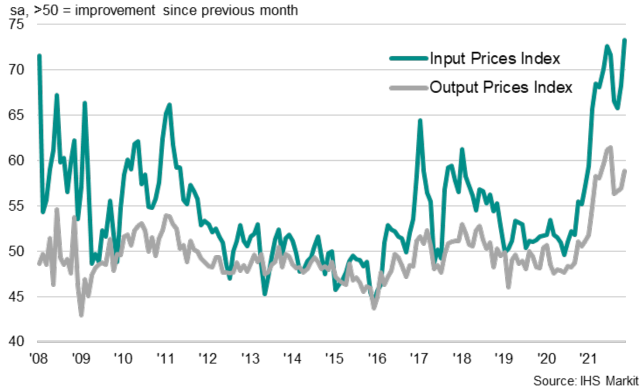
A key driver for the expansion in manufacturing output during the first three quarters of 2021 has been the rebound in exports. Stronger economic growth in major economies, such as the US, China, EU and the UK, linked to the rollout of vaccination programs during 2021, helped to boost South Korean new export orders from its key export markets. In the third quarter, exports of goods and services rose by 7.2% y/y, moderating considerably on the 22.4% y/y growth rate in the second quarter.

Shortages of semiconductors contributed to the slower pace of industrial expansion in the third quarter. South Korean auto production in September fell 33.1% y/y, as some factories faced temporary shutdowns of assembly lines due to automotive chip shortages.

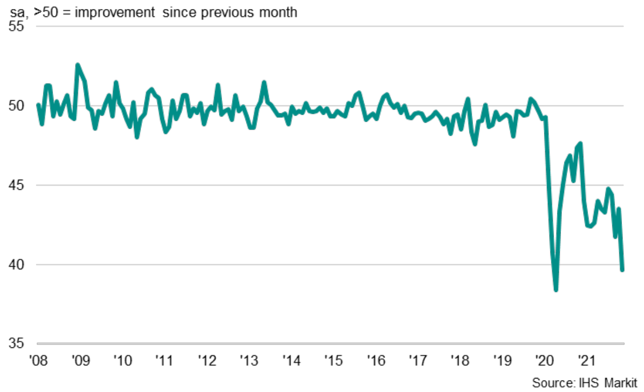
Manufacturing output growth continued to moderate in the fourth quarter of 2021 due to the impact of global supply chain disruptions and new COVID-19 waves in South Korea. Automobile production in November continued to decline, falling by 6.6% y/y in volume terms.

At 50.9 in November, the seasonally adjusted IHS Markit South Korea Manufacturing Purchasing Managers' Index (PMI) showed modest expansion, after a marginal positive reading of 50.2 in October. However, the pace of expansion as measured by the survey has slowed compared with 52.4 in September.

South Korea Manufacturing PMI Input and Output Prices



South Korea Manufacturing PMI Supplier Delivery Times



The November survey data pointed to a further rise in input prices faced by South Korean manufacturers. This extended the current sequence of inflation to 17 months, with costs rising at the fastest pace in the survey's history. Businesses widely reported sharp rises in the cost of raw materials amid shortages. Concurrently, output prices increased at the sharpest pace since July's survey record as firms sought to pass higher costs on to clients.

Firms commented that additional purchases of inputs were partly reflective of efforts to mitigate supply shortages and price rises, though delivery delays meant that existing inventories were utilized to fulfil orders. In fact, supplier delivery times lengthened to the greatest extent since April 2020 in November.

Confronted with rising inflation pressures, The Monetary Policy Board of the Bank of Korea (BOK) decided at its November monetary policy meeting to raise the Base Rate by 25 basis points (bp), from 0.75% to 1.00%. This followed a 25bp rate hike at its August Monetary Policy Meeting.

Consumer price inflation rose to 3.2% y/y in October and then increased to 3.7% y/y in November, reflecting the impact of sharply higher world oil prices.

Consumer price inflation has remained high at the mid-2% level due to rising oil prices, as well as higher prices for agricultural products and services. Core inflation has remained contained, at around the 1% level.

Looking ahead, the BOK forecast that consumer price inflation will run considerably above 2%, exceeding the path projected at their August monetary policy meeting, and then decline gradually, running at around 2% for 2022 as a whole.

The BOK rate hikes in the second half of 2021 also reflected the central bank's concerns about potential risks to financial stability due to the rapidly rising level of household debt as a share of GDP. Property prices have been rising rapidly in recent years, notably in Seoul and nearby areas, fuelled by very low interest rates. As household loan growth has increased, South Korea's household debt-to-GDP ratio is estimated to have reached 103.8% of GDP by the end of 2021.

Electronics sector boosts South Korean exports

The electronics manufacturing industry is an important part of the manufacturing export sector for South Korea which is a major global exporter 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 including mobile phones, Vietnam is a key export market for South Korean electronics components.

The strong rebound in world consumer markets, notably in the US, China and Western Europe, are continuing to drive growth in demand for electronics. This is resulting in buoyant growth in household spending on electronics products as well as products that are intensive users of electronics, notably autos.

The headline seasonally adjusted IHS Markit Global Electronics PMI increased to 58.6 in September, up from 58.1 in August, signalling a faster pace of expansion in the global electronics sector. Stronger increases were seen in the electronics PMI series for output and new orders, although rates of growth were weaker than those seen earlier in the year as severely delayed supplier delivery times restricted production schedules.

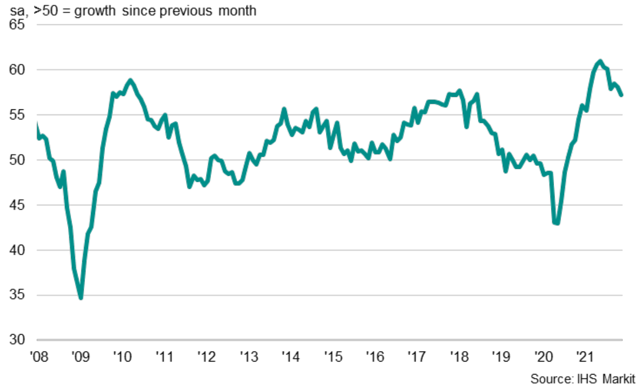
In November 2021, export shipments of South Korea's information and communications technology (ICT) products reached an all-time high value of USD 21.5 billion, up 30.0% from the same period last year. This was the highest monthly value since the Ministry started compiling data in 1996.

Exports of semiconductors reached USD 12.1 billion, up 40% y/y. Memory chips rose by 47% to USD 7.6 billion, while exports of system chips rose by 31% to USD 3.9 billion.

Shipments of mobile phones totalled USD 1.5 billion, up 17.0% compared to the same period last year.

Display exports gained 11.3% to USD 2.4 billion, helped by increased demand in the television and premium smartphone markets.

IHS Markit Global Electronics PMI



The strength of South Korean ICT exports has been boosted by rapid growth in exports to the world's largest consumer markets. ICT exports to China rose by 30.4% y/y in November to USD 10.1 billion, helped by strong shipments of semiconductors, displays and mobile phones. Exports to the US also rose strongly, rising by 34.7% y/y to USD 2.5 billion.

South Korean ICT exports to Vietnam totalled USD 3.5 billion in November, up 24.7% from the same period last year. This reflected the recovery of Vietnam's industrial production after a severe COVID-19 wave caused disruption of manufacturing output during the third quarter.

South Korean economic outlook

According to IHS Markit forecasts, South Korean GDP growth is estimated at 4.0% y/y in 2021, with continued firm expansion at a pace of 3.0% in 2022. The economic recovery in the first three quarters of 2021 has been driven by consumption growth and merchandise exports. At its November meeting, the Bank of Korea has forecast GDP growth in 2021 at around 4% in 2021 and 3% in 2022, unchanged from its August forecast. The South Korean Ministry of Economy and Finance raised its GDP growth forecast for 2021 from 3.2% y/y to 4.2% y/y in June 2021.

Despite the rebound of consumption during the first half of 2021, the escalating COVID-19 wave during the third quarter of 2021 dampened domestic demand.

South Korea commenced its COVID-19 vaccination program in late February, with the government aiming to have 25% of the population vaccinated by June 2021. The vaccination program ramped up considerably during the second half of 2021. By 12th December 2021, around 81% of the population had received two doses. Despite the very rapid pace of vaccinations in recent months, the COVID-19 pandemic remains a key risk to the near-term outlook, with rising global concerns about the rapid spread of the Omicron variant. With initial indications from UK government medical data signalling that booster dose is needed to lift vaccine efficacy against the new Omicron variant, South Korea still has a low booster rollout of only 12.4% of its population by 12th December. With South Korea already suffering an escalating wave of daily new COVID-19 cases during November and December, the Omicron variant creates new uncertainties about the near-term outlook. If tighter restrictive measures are imposed for a protracted period, this would dampen domestic demand in early 2022.

An additional challenge is that the recovery of South Korean trade in services is expected to be delayed and protracted, as international travel restrictions in the Asia-Pacific region continuing to constrain any early recovery in exports of tourism and commercial aviation, which are an important component of total services exports.

Over the medium-term to long-term outlook, South Korean exports are expected to grow 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, 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 regional trade liberalization architecture. This includes the large recent Regional Comprehensive Economic Partnership (RCEP) multilateral trade agreement and major bilateral FTAs. South Korea also plans to apply to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) trade agreement and is preparing to submit its formal membership application. A decision on whether to formally submit its application to join CPTPP is expected before the end of 2021. South Korean Finance Minister Hong Nam-ki said on 13th December that the South Korean government intends to submit its application join the CPTPP in early 2022, after consultations with the South Korean parliament.

A key economic strategy over the long-term will be South Korea's ambitious energy transition roadmap. On 10th December, the country announced the 'Carbon Neutrality Vision and Strategy for Industry and Energy', its comprehensive strategy to achieve carbon neutrality in the industry and energy sectors. The government plans to phase out coal power generation by 2050 and achieve a carbon-free energy mix with renewables and hydrogen.

However, South Korea also faces considerable economic challenges over the next decade due to the impact of demographic ageing. Long-term demographic ageing has 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 is projected to rise rapidly to 20% of the population by 2025. 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.

The implications of South Korea's demographic ageing are that the potential GDP growth rate has moderated from around 7% per year in the mid-1990's to around 2.5% per year by 2021, and could drop to a range of around 1% to 1.5% per year by 2050.

Therefore, a key policy priority for South Korea will be to undertake structural reforms to lift the potential growth rate. This includes reforms such as policy changes to lift the labour force participation rate, improve services sector productivity and accelerate digitalization and adoption of industrial automation.