



Korea's Changing Consumer Patterns

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Following a recent research trip to Korea, I was able to spend some time there with my family. Three consecutive weeks away afforded me the opportunity to observe changes in spending patterns among Korean consumers as well as the improving competitiveness of the country's service industries.

One key change I noticed is that Korean consumers have been spending more of their disposable income on leisure experiences rather than on physical goods. The fact that it was so evident to me during this visit verified what the data has been telling us. While major department stores and big box retailers are not seeing meaningful growth in sales, businesses such as cinemas and tourist venues are seeing strong growth. Concurrently, consumption of products from vice industries such as alcohol and tobacco has been on the decline.

As incomes rise, people tend to spend more on services that enrich their lives, and are more conscious of health and wellness. This trend may just be a reflection of increasing affluence. Still, there appears to be a virtuous cycle taking place that should not be overlooked. Higher demand creates more value, leading to new entrants and further competition. That, in turn, theoretically improves the quality of service that, over time, attracts more consumption.

The rise of Korea's film industry illustrates this changing demand. Last year, the average Korean went to the movies four times, outpacing the rate of the average American in 2012. Merely a decade ago, Korean celebrities were lobbying for "screen quotas," to protect the domestic film industry against the inundation of Hollywood blockbusters. Such quotas are no longer needed. In 2013, 183 films were domestically produced; almost triple the number from a decade ago. Last year, 60% of movies shown were domestic productions. Today, Korean films have become more popular and more profitable. In aggregate, Korean films returned 15.2% to investors last year.

Similarly, tourism has been picking up in Korea, and many municipalities have been working hard to improve tourism infrastructure. When I visited Korea's Jeju Island with my family recently, I noticed an obvious improvement in the infrastructure since my last visit, seven years ago. Jeju's local government has teamed with the private sector to create more than 200 miles of hiking trails and walking paths. Visitors can now enjoy the landscape while minimizing the potential environmental impact. Getting to and from Jeju has become more affordable too, thanks in part to increased competition among low-cost airlines, which has made the route from Jeju to Seoul's Gimpo International Airport among the busiest in the world (with nearly 10 million passengers a year). Tourism receipts on Jeju have tripled in the past decade. In addition, foreign tourists to Jeju have grown more than five times in 10 years, accounting for more than 20% of the island's overall visitors.

To me, the evolution in Korean leisure industries is a promising phenomenon. Service industries tend to contribute more to overall employment than manufacturing does. Also, a healthy service industry is better for the country's balance of payments when consumers prefer to spend money domestically. Such sound consumption should help improve overall productivity for Korea and may also expand the choices in Korea's investment universe.

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