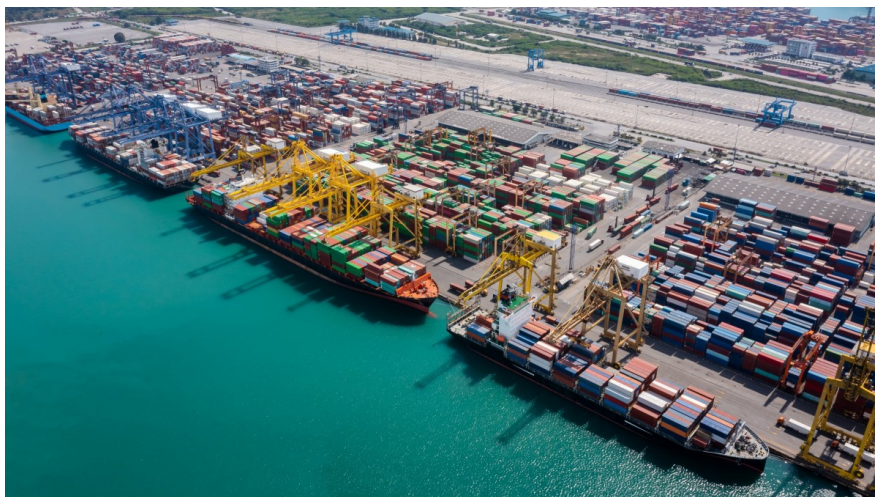


Korean manufacturing output rose in February, but survey suggests cloudy outlook

February industrial production gained 0.6% MoM (sa), but the business survey for manufacturers slid sharply



Source: shutterstock.com

0.6% Industrial Production

Higher than expected

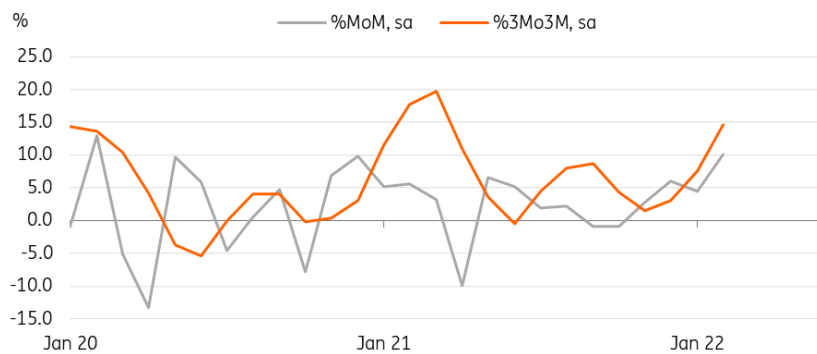
All-industry production fell as services and construction activities declined, partially offset by the gain in manufacturing output

All-industry production (IP) fell 0.2%MoM (sa) in February (vs -0.2% in January), its second monthly drop. Manufacturing output rose 0.5%MoM, mostly driven by IT-related production such as semiconductors (10.1%) and electronic components (5.6%), while machinery & equipment went

down sharply (-9.3%).

The output of services fell by 0.3%, its third consecutive decline. The surge in Omicron cases appeared to have both negative and positive impacts on service sector activity as declines in Hotels/restaurants (-4.0%) and leisure (-7.3%) were partially offset by health/social welfare (1.2%) gain.

Semiconductor output rose sharply in February



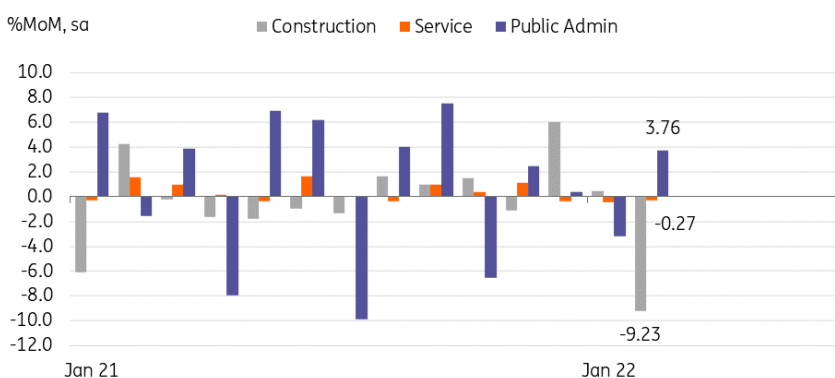
Source: CEIC

Retail sales improved marginally, but investment turned negative

Retail sales edged up 0.1% MoM (sa) in February (vs -2.1% in January) with encouraging details. Durable goods sales were particularly strong with auto sales up sharply (9.4%). Some new product lines came on stream and sales for imported cars and e-cars also improved. But sales of non-durable goods (-4.4%) including food and semi-durable goods (-0.6%) declined.

Investment also fell by 5.7% in February (vs a rise of 2.1% in January) and was the first drop in four months. The main reason for the sharp drop came from the vessels, which tend to be very volatile (lumpy). Thus we think that the underlying investment trend remained solid. However, weakness in construction worsened with an 8.5% decline in February (vs -0.4% in January).

Service and construction activities were weak

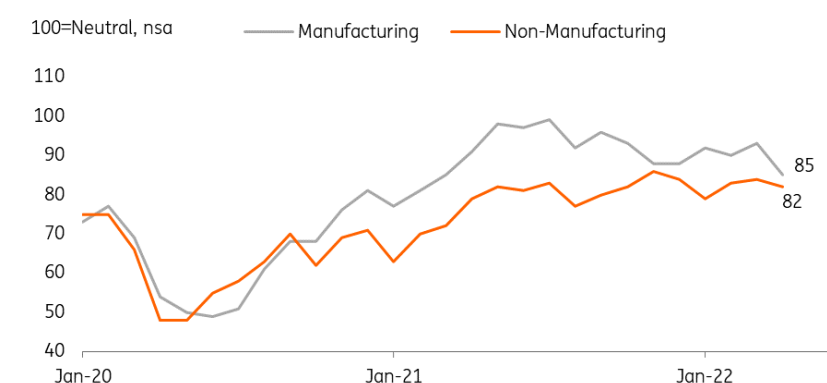


Source: CEIC

Business sentiment index suggests cloudy outlook for manufacturing sector in near future

The Business Sentiment Index (BSI) for manufacturers declined sharply by 8 pts to 85 (vs 93 in March) The current situation is hurting sentiment overall, but more for exporters (-14 pts) than in domestic-focused firms (-5 pts). The BSI for services was down as well by 2 pts to 82 (vs 84 in March), but the sales outlook inched up for April. The concerns of the service sector appear to be less severe than for manufacturers, as relaxation in mobility rules and fiscal policy stimulus are expected to turn more favourable.

Business sentiment deteriorated



Source: CEIC

Future growth dynamics should shift from exports and manufacturing to domestic demand and services.

The latest data releases suggest that Korea's overall growth in 1Q22 is likely to stay in positive territory, with solid export performance and manufacturing activity but a slight deceleration from the previous quarter due to weakening domestic and service activity.

Entering the next quarter, the growth engine is expected to shift from exports to domestic demand as external conditions deteriorate further. The ongoing war in Ukraine will have a negative impact on manufacturers and exporters due to supply chain disruptions, but domestic demand will be relatively healthy despite high inflation and interest rate hikes, mostly thanks to government fiscal support and the slowdown in daily Omicron cases.

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