

## South Korea: Economic activity contracted in April

China's lockdown and global supply chain disruptions dragged down Korean manufacturing production and investment while local re-opening supported services, construction, and consumption activity. We expect GDP to slow further in 2Q22 but to rebound in 2H22.



Source: Shutterstock

**-3.3%** Industrial Production  
MoM%

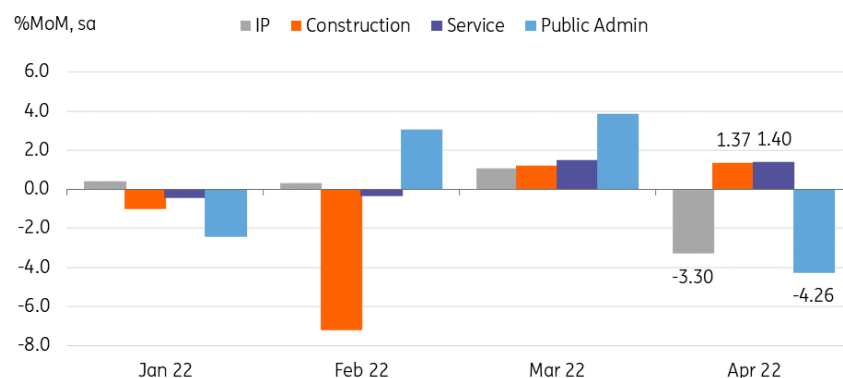
Lower than expected

### All industry production fell 0.7%MoM (sa) in April

All-industry industrial production (IP) in April was weak due to sharp declines in manufacturing and public administration activity. Manufacturing production in April fell 3.3% MoM (seasonally adjusted rate) versus consensus expectations for a fall of only 1.3%. This was the first drop in seven

months. Food production has been weak since the beginning of the year as soaring input costs have squeezed food processing, while semiconductor production, particularly memory chips, declined for the second straight month - probably related to China's lockdowns. Public administration fell 4.3% after rising over the past two months as Covid-19 subsided. Meanwhile, services and construction continued to improve, benefitting from local re-opening. Hotels & restaurants and personal services increased by 11.5% and 8.7%, respectively.

## Manufacturing and public administration dragged down April activity

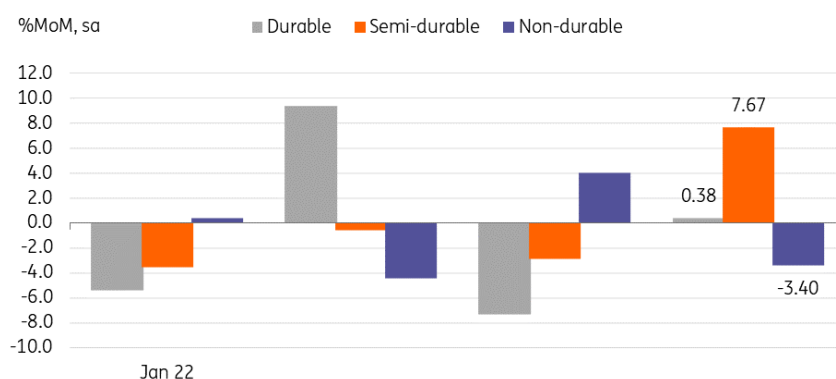


Source: CEIC

## Retail sales slid in April, but the details were encouraging

April retail sales declined 0.2% MoM, mainly driven by a sharp decline in pharmaceutical consumption (-12.5%) as the number of new Covid-19 cases decreased. Other than the consumption of medicines, durable and semi-durable consumption rebounded. Outdoor activity has increased with social distancing easing, and automobile, apparel, and entertainment goods spending grew firmly. Looking ahead, the initial pent-up demand-driven consumption should slow down, but the government's consumption-boosting measures such as tax cuts and voucher programs will continue to support a steady consumption recovery in 2H.

## Durable and semi-durable consumption boosted by re-opening effect

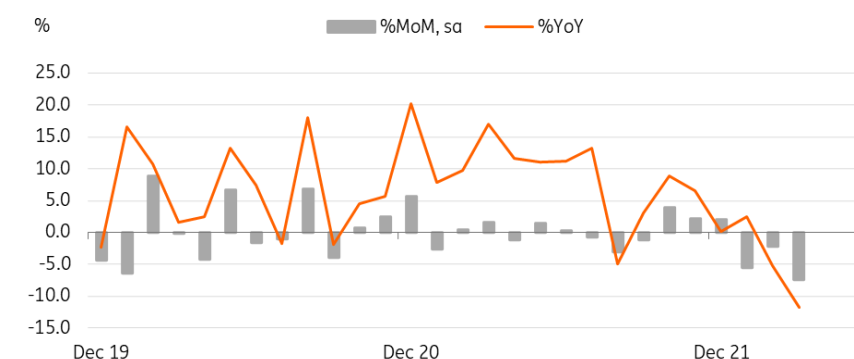


Source: CEIC

## Weak facility investment was the most worrisome aspect of the April data

Machinery and equipment investment deepened its contraction in April, dropping 9.0% MoM, the fourth contraction in a row, with electrical equipment (including semiconductor production equipment) down significantly. Machinery orders, a leading indicator for investment, also declined by 6.8% in April, with private orders down by 7.6%.

## Investment has contracted for three months in a row



Source: CEIC

## 2Q GDP growth to decelerate further, but we expect a recovery in 2H22

Today's data indicate that weak production and investment will be the main obstacles to growth in 2Q22, but are partially offset by a solid recovery in services and consumption. We expect quarterly growth to bottom out in 2H. Globally, China's lockdowns seem likely to be softened further, helping to normalize some of the disruptions to supply chains. On the domestic front, the largest supplementary budget (KRW62 tr) has been passed by the National Assembly. Cash disbursements to small business owners will begin in early June while consumption stimulus measures, such as consumption tax cuts and shopping voucher programs will support the recovery of consumption in the second half of the year. Large IT companies have also announced mid-term investment plans, which we expect to be implemented in earnest from the second half of this year on a significant scale. Consequently, we expect investment to be supportive in 2H22.

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