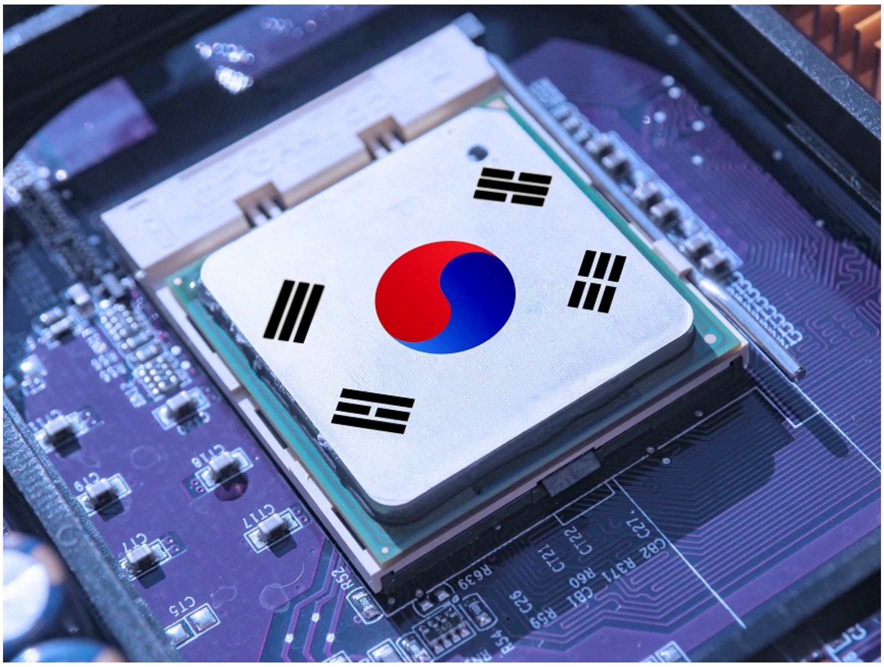
Korea: December Industrial production rebounded despite the political uncertainty

The declaration of martial law led to a sharp deterioration in business and consumer sentiment in December, but the impact on actual economic activity seems to have been rather limited. The negative impact on consumption seems to have been more pronounced than on production and investment



Source: Shutterstock

4.6%

Industrial production

%MoM sa

Higher than expected

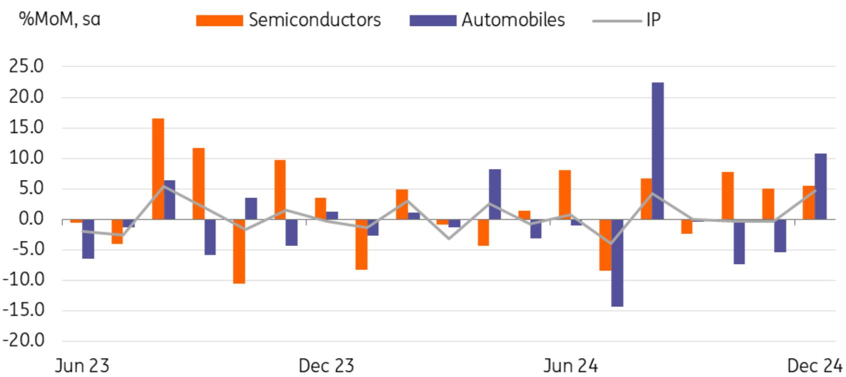
All industry output rebounded 2.3% MoM sa for the first time in four months

Mining and manufacturing Industrial production, services, and construction all rebounded while public administration output contracted for a third month.

Industrial production rebounded by a stronger than expected 4.6% month-on-month seasonally adjusted in December (vs a revised -0.3% in November, market consensus 0.3%), mostly led by strong gains in semiconductors (5.6%) and automobiles (10.7%). Inventories dropped -3.6%, while the average operating ratio rose to 73.5% from 71.6% in November. We believe that the end of labour strikes in the auto sector and normalisation of car production were probably the main reasons for the improvement. Car production has been sluggish over the past three months for a number of idiosyncratic reasons, so we believe the strong rebound in car production should be seen as a technical adjustment rather than an improvement in demand. Meanwhile, semiconductors have risen steadily for three months in a row, while inventories dropped significantly (-28.4%), and thus we continue to see them as a key driver of growth in the current quarter.

The negative impact of the political uncertainty appeared to have a negative impact on services and consumption. Service activity rose 1.7% in December (-0.2% in November). Financial services (5.3%) and whole/retail sales (2.8%) rose but accommodation/restaurant dropped (-3.1%). Meanwhile, retail sales remained weak, dropping by -0.6% in December (vs 0.0% in November). Durable goods (-4.1%) such as cars and home appliances sales dropped the most.

Semiconductors and cars led the strong rebound of IP in December



Source: CEIC

Investment rebounded but partly due to a temporary boost

Equipment investment jumped 9.9% MoM sa in December (vs 0.0% in November) mostly due to other transportation equipment (ships and aircraft, 39.1%) and precision equipment (1.9%). Forward-looking machinery orders rose for a second month, with steady growth in the manufacturing sector, but the contraction in the non-manufacturing sector deepened. We believe that semiconductor-led investment is likely to continue despite the uncertainty surrounding global trade conditions, while domestic demand is likely to stay weak for a considerable time.

Construction investment rose only modestly by 1.3% in December, for the first time since April 2024. Construction orders recently bottomed out, but we expect a meaningful recovery should come in the latter half of this year given the ongoing restructuring in the construction sector (mostly in the non-Seoul area).

-10.3% Exports

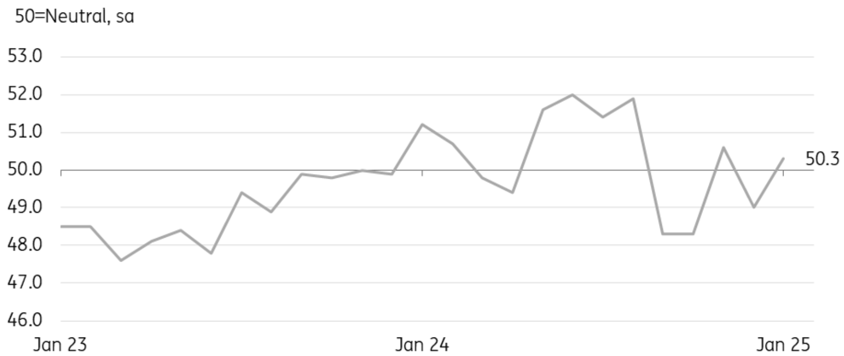
YoY

Higher than expected

Exports plunged in January but due to the lunar new year, PMIs suggest a recovery in the coming months

Korean exports dropped -10.3% YoY in January (vs 6.6% in December, -14.0% market consensus) but mostly due to unfavourable calendar day effects. The lunar new year holiday, combined with a special holiday announced by the government, resulted in 4 less business days than the previous year. Working day adjusted, average daily exports rose 7.7%, and thus we believe that the underlying solid export growth trend continues. The main concern is still that the gain was quite narrowly focused in semiconductors. With heightening tariff wars, this may have a negative impact on Korean exports as well, but so far we haven't seen the direct negative impact to Korean products yet. It is clearly a risk factor, but we continue to believe that exports remain as a main growth driver. Also, manufacturing PMI gained to 50.3 with output and new orders rising, which gives a positive outlook in the near term.

Manufacturing PMI rebounded in January



Source: CEIC

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