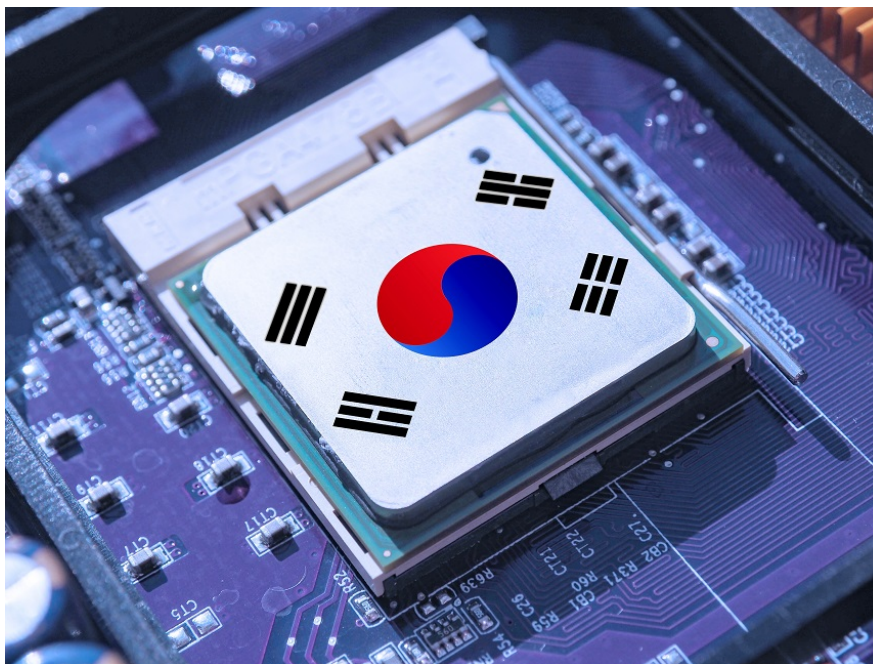


## Korea: Industrial production decelerated mildly in December but with encouraging details

Semiconductors and vehicle output gained solidly while consumption and construction investment contracted. We expect manufacturing and exports to continue to take the driver seat but sluggish private consumption and construction will drag down overall growth in the current quarter



Source: Shutterstock

# 0.6%

Higher than expected

Industrial production

MoM% sa

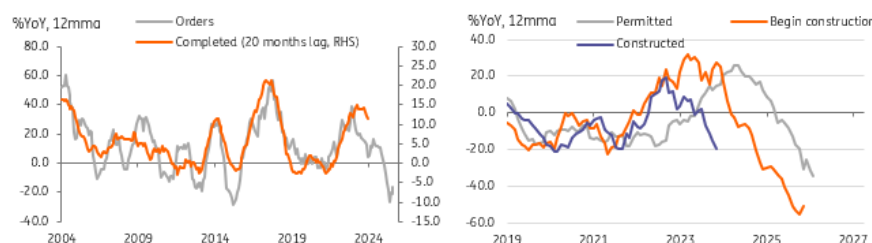
## All industry output gained (0.3% MoM sa in December) the second month of increase

Overall production activity remained solid with manufacturing & mining (0.6%), services (0.3%), and public administration (1.0%) gaining while construction (-2.7%) declined. Manufacturing production growth slowed a bit, but robust gains in semiconductors and vehicles continued. Also, strong shipments and a rapid decline in inventories suggest healthy output for both will remain in the coming months. For semiconductors, output gained 8.5% while shipments jumped 33.6%, resulting in a sharp decline in inventories (-20.9%). With a strong gain in chip-making machinery investment, we believe that the upturn of semiconductors will support manufacturing activity and exports. For vehicles, we are concerned about the slowdown of final demand, but tight inventory conditions and solid demand in EV cars and batteries should work in favour of Korean auto makers, at least for a couple of more quarters.

## Construction will be the main drag for the economy for a considerable time

Construction output declined for a second month (-2.7% in December and -3.3% in November) and construction orders, a leading indicator, have been declining for 8 months on a 12-month moving average. With housing permits and starts data also declining for an extended period, we believe that construction, especially residential - will remain in contraction for a considerable time and will be the main drag on overall growth.

## Construction will drag down overall growth



KOSTAT and MOLIT

## Retail sales fell -0.8% MoM sa in December

After the earlier extension of temporary tax benefits for the purchase of EVs lifted sales of eco-friendly vehicles in November (+10.2%), vehicle sales dropped -1.6% in December. Worse news is that the decline in retail sales spanned almost every area. Durable goods (-1.2%), semi-durable goods (-0.3%), and non-durable goods (-0.7%) all declined. Although the earlier 4Q23 GDP for household consumption expanded, it could be misleading to assess the domestic consumption conditions as GDP includes overseas spending as well. As a result, we believe monthly data is a better indicator of the consumption of goods in the domestic market. Despite government efforts to boost private consumption, we expect sluggish consumption to continue in the current quarter.

## GDP and BoK outlook

The solid output of semiconductors and vehicles suggests some upside to 1Q24 GDP, but at the same time, the decline of residential construction will hit more meaningfully from now on and

sluggish consumption can also provide some drag. We expect 1Q24 GDP to decelerate mildly to 0.4% QoQ sa from 0.6% in 4Q23 given heavier weights of exports than domestic demand in GDP. But the risk is skewed to the downside as the real estate market struggles under tight liquidity conditions combined with weak demand. This will eventually hurt business and consumer sentiment and activity.

With export-led growth continuing, the Bank of Korea will have more breathing room to focus on inflation. We believe that inflation will cool down to the 2% range in January, which will be released on Friday, but the BoK will remain cautious with the recent pick up in global oil prices and accumulation of cost-capping, and it will firmly stand by its hawkish tone at its February's meeting.

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