

Korea: Industrial production fell for a second month

Service and construction activity increased but couldn't stop the decline in the all-industry production index as manufacturing activity fell in August. Solid consumption and facility investment should lead the current quarter's growth, but we then expect a sharp deceleration. We expect only a 0.1%QoQ GDP gain in 3Q22 (vs 0.7% in 2Q22)



Source: Shutterstock

-1.8% Industrial Production
%MoM, sa

Lower than expected

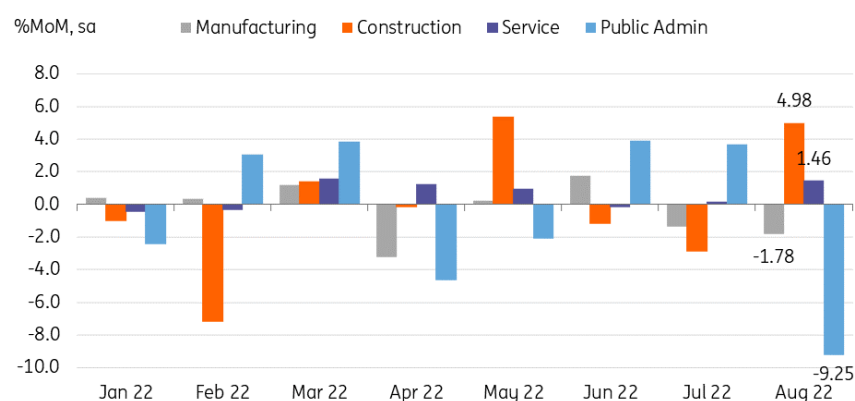
All industry production fell for a second month due to weak manufacturing activity

Industrial production dropped by 1.8% MoM (sa) in August, which was a bigger fall than had been expected (-1.3% in July and -0.8% market consensus), recording its second monthly decline. By industry, automobile production continued to gain solidly (8.8%) with improving global supply

conditions helping suppliers to fill gaps in existing orders. But other major export items such as semiconductors (-14.2%) and petrochemicals (-5.0%) fell, suggesting that overall global demand conditions worsened.

Semiconductor production dropped for a second month and was also accompanied by a worrying accumulation of inventories. Usually, this leads to a downward cycle for semiconductors. We expect a weak semiconductor performance in the coming quarters. Meanwhile, economic reopening appears to have supported activity in services. Social/welfare services declined (-1.3%) as the Covid situation improved, but wholesale/retail sales (3.7%) and leisure services grew solidly.

Manufacturing IP fell for a second month in August



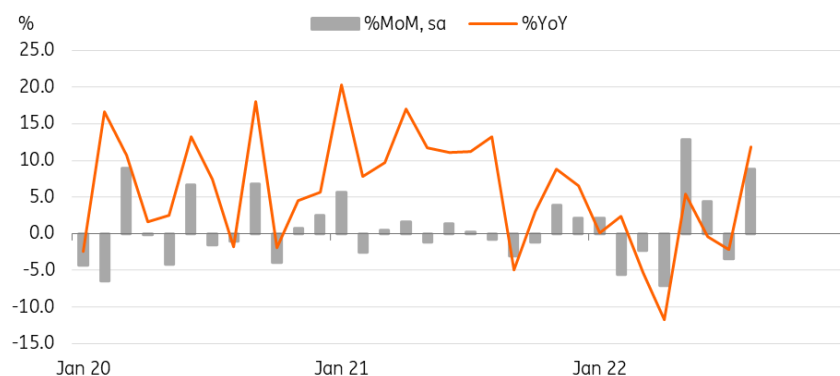
Source: CEIC

Equipment investment and construction rebounded in August

There was a positive message in the investment component of this data. Equipment investment rebounded 8.8% in August. In addition, the forward-looking machinery orders series also showed gains, mainly driven by the IT sector. It seems as if despite the downturn in the semiconductor cycle, manufacturers continue to expand their investment in advanced technologies.

For construction investment, both engineering and residential construction rose for the first time in three months while construction orders fell sharply reflecting the sluggish real-estate market in Korea.

Investment rebounded in August



Source: CEIC

The growth outlook and the Bank of Korea policy reaction

Based on today's weaker-than-expected industrial production data, we expect 0.1% QoQ growth in 3Q22 (vs 0.7% in 2Q) and have downgraded our annual GDP forecast for 2022 to 2.5%YoY. In addition, with downbeat forward-looking data, we believe the probability of recession is growing rapidly. Yesterday's business survey outcomes were weak, with manufacturing sentiment deteriorating to its lowest level since October 2020. Also, we expect a sluggish housing market in the coming quarters as a result of tightened liquidity conditions backed by today's weak construction order data. Thus, we think growth for the next two quarters will likely contract with both weak domestic and external demand.

Despite the recent poor performances in activity data, we believe that the Bank of Korea (BoK) will still put its policy priority on price stabilization. And we expect a 50bp hike at the BoK's October meeting. But the weak growth conditions will eventually slow the BoK's tightening actions. And growing concern about recession, together with slowing inflation, should stop the BoK's rate hike cycle by early next year.

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.