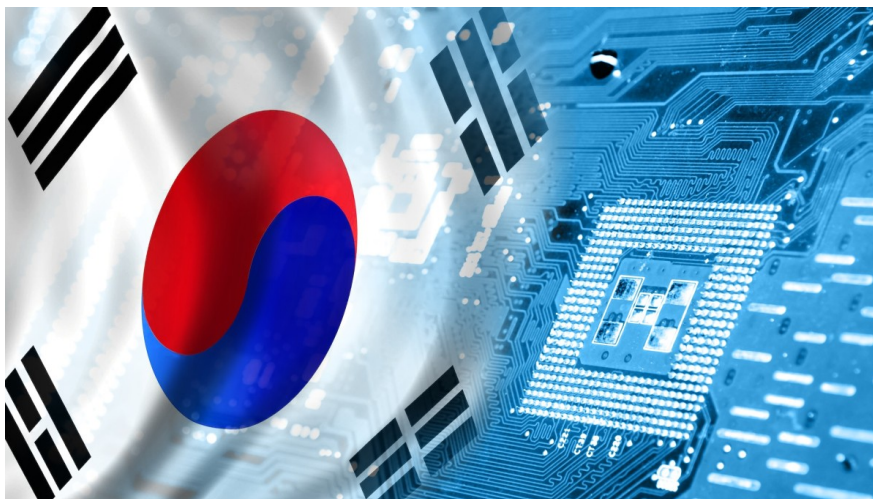


Korea: Industrial production rebounded while construction and retail sales weakened in February

Thanks to strong global demand for semiconductors, IP rose more than expected. But, domestic demand appears to have weakened further, which is likely to weigh on overall GDP growth in the current quarter



3.1%

Industrial Production

%MoM, sa

Higher than expected

All industry output accelerated its growth on the back of strong chip sector performance

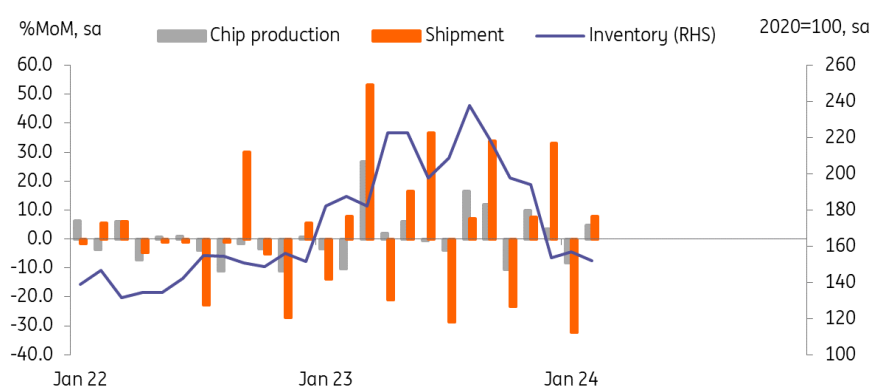
All industry production rose 1.3% month-on-month sa in February (vs 0.4% in January). Manufacturing and service activity advanced, partially offset by the decline in construction. Together with the latest survey and other hard data, we expect manufacturing to lead the growth,

while construction and consumption will weaken further in the near future. Overall GDP growth for the current quarter is expected to moderate slightly to 0.5% quarter-on-quarter sa from 0.6% in the fourth quarter of 2023. Our main concern is that the growth driver is quite narrowly focused on semiconductors only. And excluding AI demand, overall global demand is cooling, especially as we see signs of a slowdown in car production, which was a backbone of growth last year.

Semiconductor output grew strongly in February

Industrial production increased 3.1% MoM sa in February, more than offsetting the previous two months' declines, and it was stronger than the market consensus of a 0.5% gain. Semiconductors (4.8%) and related equipment (10.3%) rose the most while telecommunication (-10.2%) and video/audio equipment (-7.6%) declined. Another strong point was that inventory for semiconductors continued to fall, suggesting that semiconductor production is likely to remain firm with a favourable inventory restocking cycle.

Semiconductors rose firmly in February



Source: CEIC

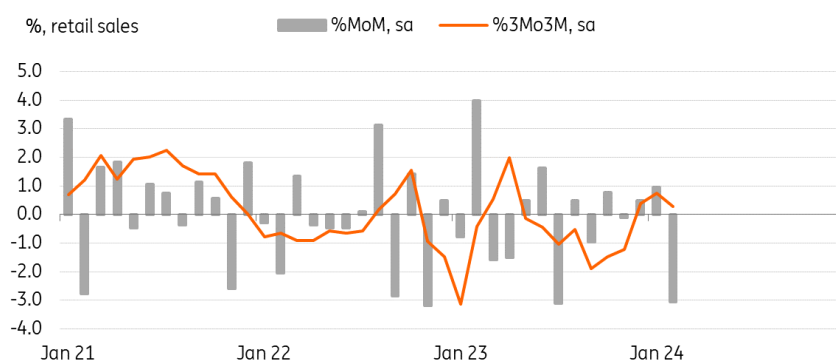
Service activity also rebounded with a 0.7% MoM gain February (vs -0.2% in January). We believe that the Lunar New Year holiday may have boosted accommodation/restaurant (5.0%) and transportation services (1.6%).

Retail sales and investment weakened in February

Retail sales plunged -3.1% MoM sa in February (vs 1.0% in January). As we have long argued that high inflation and debt servicing burdens would hurt household consumption, we believe that sluggish consumption will continue. In addition, several consumption stimulus packages expired at the end of last year, which should also contribute to weak retail sales this year.

As for investment, it was a bit mixed. Facility investment jumped 10.3% MoM sa in February as chip-making equipment investment (6.0%) rose firmly, but monthly volatile vessels investment (23.8%) boosted the headline figure. Thus, we think the underlying trend of facility investment should have been more modest than the headline suggested. The biggest concern for investment was construction. Given the sluggish real-estate market and ongoing project financing issues, construction completion declined -1.9% MoM sa. With forward-looking orders data remaining in a contraction zone, we don't expect construction to rebound anytime soon.

Retail sales declined in February



Source: CEIC

Bank of Korea watch

In our view, today's data was fairly neutral to the BoK's policy decision. Manufacturing activity was stronger than expected but retail sales and construction showed domestic growth continued to slow. Given that overall growth is determined by exports rather than domestic demand, the Bank of Korea's concerns shouldn't deviate too much from its current projection. However, we found that there are more clear signs of a slowdown in consumption and investment, and thus the Bank of Korea will shift its policy focus to domestic growth conditions later this 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>.