Korea: manufacturing production rose firmly in June

June monthly activity data showed that manufacturing improved despite growing global recession risks, but services and retail sales weakened. Meanwhile, forward-looking data indicate better investment prospects this quarter.

Source: Shutterstock

1.9%

Manufacturing Production

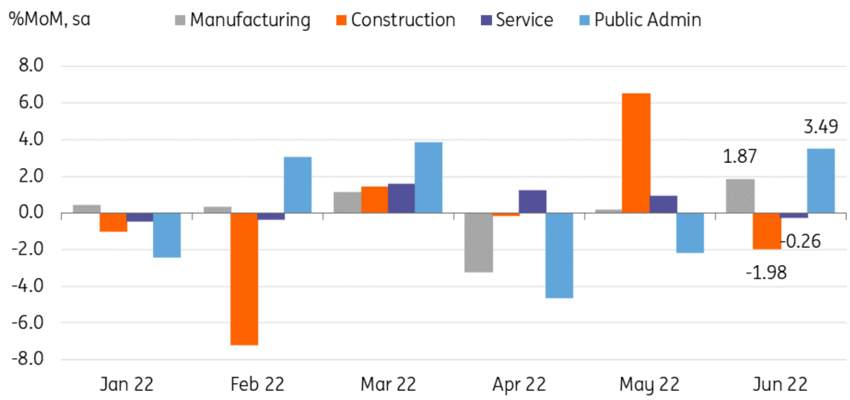
%MoM

Higher than expected

All industry production rose 0.6% MoM in June (vs 0.8% in May)

Manufacturing production recorded a 1.9%MoM sa gain in June (0.2% in May) beating the market consensus expectation of -0.8%. Semiconductors and automobiles grew the fastest, rising 4.2% and 7.5% respectively. But inventories increased 5.6% (vs-2.1% in May), which may limit further production acceleration in the near term. Meanwhile, the trucker's strike appeared to have had a negative impact on wholesale/retail services including construction materials and car dealers as service activity declined -0.3%, the first decline in four months.

All industry production rose - led by manufacturing and public administration



Source: CEIC

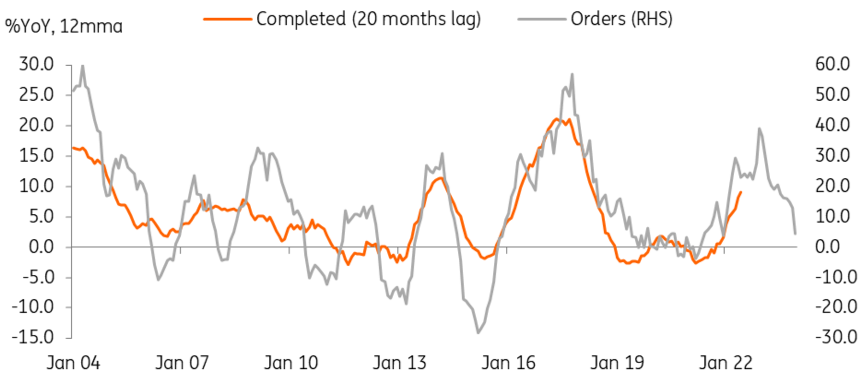
Retail sales continued to fall while investment increased

Retail sales dropped -0.9% in June for the fifth month but mainly due to supply-side disruption issues. As a result, we expect a rebound in the coming months. Meanwhile, facility investment rose 4.1% (vs 12.8% in May) for the second month as chipmakers expanded their production facilities.

Forward looking orders data were positive

Domestic machinery orders jumped 9.0% in June (vs -0.1% in May) mostly led by private sector orders (9.8%). As capital goods imports increased in June and major semiconductor producers have been increasing their facility investment, we expect facility investment spending to rebound in the current quarter. Also, construction orders recorded a solid gain of 7.0% (7.8% in May) and housing units under construction remained on the rise, so construction spending should increase in the coming quarters.

Construction should rise



Source: CEIC

Outlook for the third quarter

Today's monthly activity data suggest that manufacturing activity improved as global supply bottlenecks and China's lockdown measures eased. Although the trucker's strike interrupted domestic production activity to some extent, we think the effect will be only temporary and should normalize from July. Also, the positive readings from the orders data support our view that investment spending will likely rebound this quarter, partially offsetting the softening of private consumption.

We believe the Bank of Korea will raise policy rates by just 25bp in August even as July inflation will probably accelerate to 6.3% YoY (vs 6.0 in June). Growth conditions have remained relatively healthy, but consumer and business sentiment have deteriorated significantly. This suggests that the BoK will not take another "big step" in August.

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