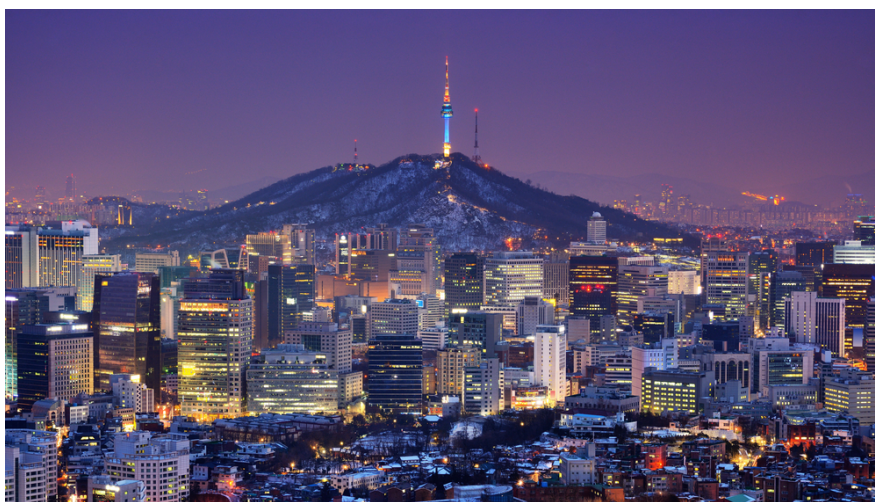


Korea: manufacturing production rose firmly in June

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

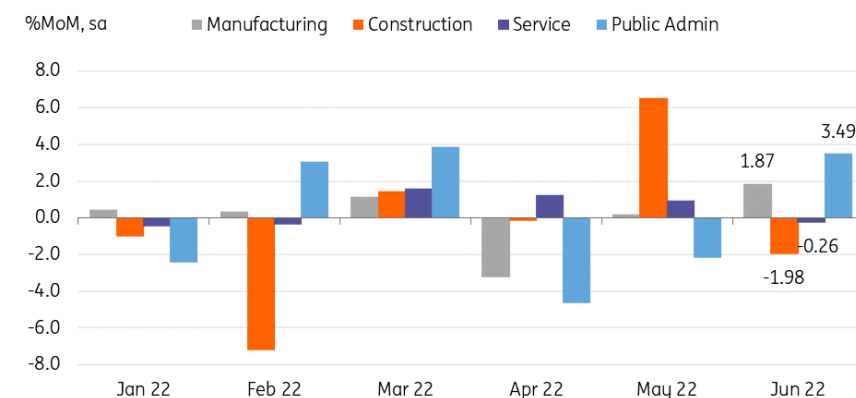
1.9% Manufacturing Production
%MoM
Higher than expected

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

Manufacturing production recorded a 1.9%MoM 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

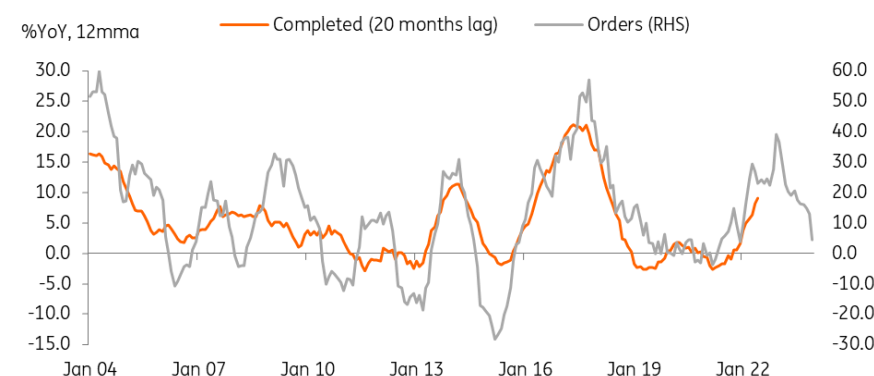
Retail sales continued to fall while investment increased

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.

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>.