

## Korea: Weak industrial production in July threatens 3Q22 GDP growth

July data for industrial production was significantly worse than expected with industry-wide declines and weak orders. We don't expect growth to contract in the current quarter, but the likelihood of a negative quarter is growing.



Source: Pexels

**-1.3%** Industrial production  
%MoM, sa

Worse than expected

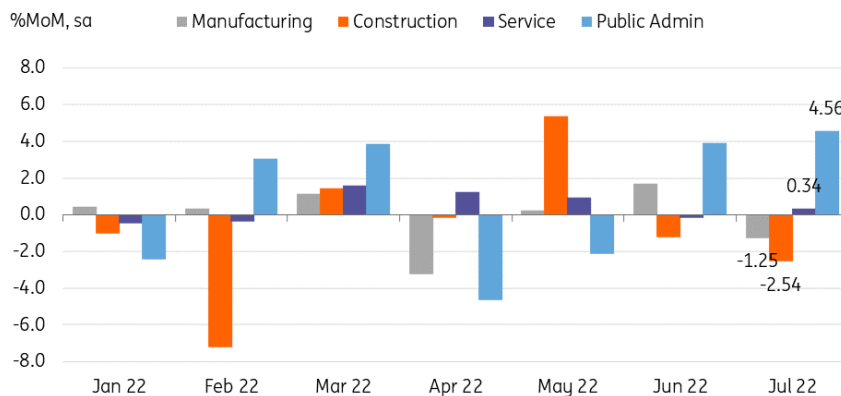
**All-industry industrial production index dropped -0.1% MoM sa in July (vs 0.8% in June)**

Manufacturing production fell -1.3% MoM in July while June data was revised down to 1.7% (vs preliminary 1.9%). Automotive production rose (1.1%) for the second month but was more than

offset by declines in semiconductors (-3.4%) and related equipment (-3.4%). For semiconductors, inventory accumulation was quite large as shipments were worse than production, thus the near-term production cycle looks quite negative. Combined with weak semiconductor equipment orders, the downturn of semiconductors could be longer than expected. On the other hand, the automotive sector is expected to catch up with production gaps for a while as global supply chain problems fade.

Services rose 0.3% in July (vs -0.2% in June) and almost all major service sub-sectors gained. Hotels/restaurants, leisure, and transportation were all strong as reopening effects on consumer services remained supportive. But real estate services fell for a second month, reflecting the recent weakness in that market.

## All industry production fell due to weak manufacturing and construction

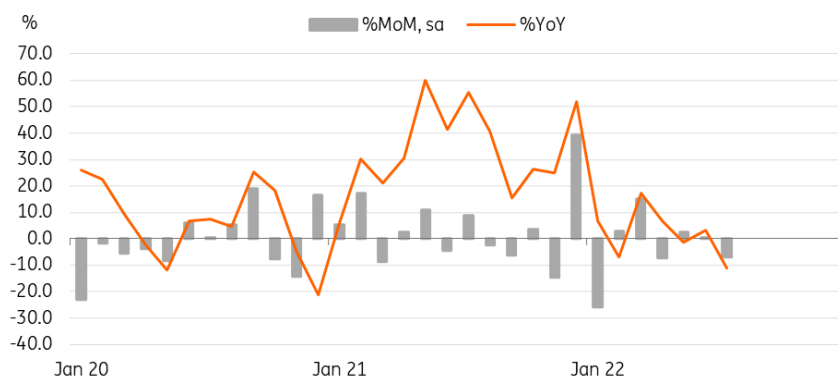


Source: CEIC

## Retail sales and investment dropped in July

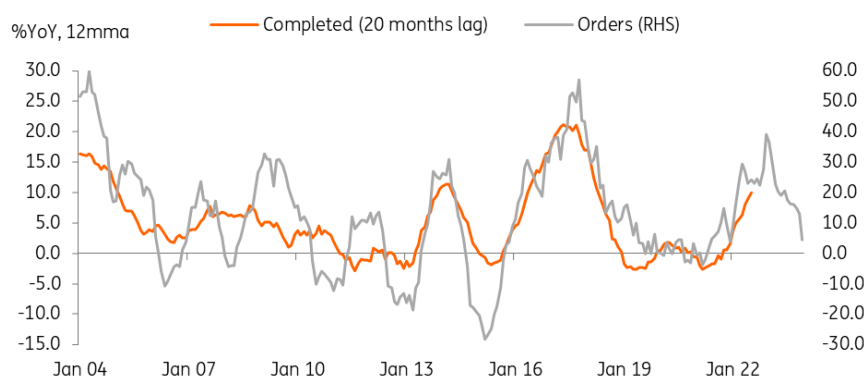
Retail sales fell -0.3% MoM, for the fifth straight month of decline as high inflation strained goods consumption. For investment, domestic machinery orders were down, posing downside risks for the investment outlook for the second half of the year. Construction completions declined in July, but orders data remained positive, suggesting that the underlying recovery story for construction remains valid.

## The decline of machinery orders paints a cloudy picture for investment



Source: CEIC

## Construction should remain solid until the year-end



Source: CEIC

## Outlook for third-quarter GDP and BoK policy

The weak start to the third quarter poses downside risks to GDP. We expect GDP to slow to 0.2% QoQ this quarter (vs 0.7% in 2Q22), but the likelihood of a negative quarter is growing. If GDP does contract this quarter, it will complicate the BoK's policy actions towards the year-end. After hearing from the Bank of Korea last week, we think that they will raise policy rates three more times, in October, November and next February as CPI inflation will likely remain above 5% until early next year. But with hard activity data giving a gloomy outlook for the rest of the year, the BoK's strong commitment to curb inflation may be toned down in the coming months.

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