

## Korea: Weaker-than-expected activity in January could weigh on GDP in the first quarter of 2024

The unexpected decline in January industrial production (IP), together with a downward revision to the previous two months' figures, points to a moderation in GDP in the first quarter. Meanwhile, retail sales rose for a second month, boosted by the return of Chinese tourists



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

Lower than expected

### Production of semiconductors and automobiles fell, but this is expected to be a temporary pause

Manufacturing and mining industrial production (IP) fell by -1.3% MoM sa in January (vs revised -0.5% in December, 0.9% market consensus) led by declines of semiconductors (-8.6%), machinery (-11.2%) and automobiles (-3.2%). We view this as a temporary pause after the strong production

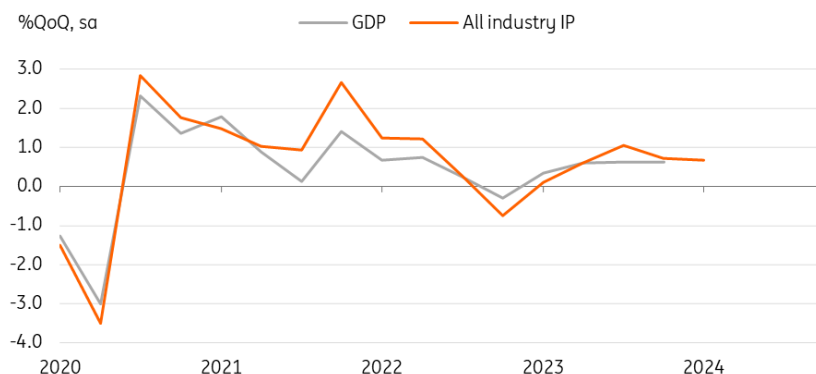
over the past two to three months, as other indicators, such as exports, capacity utilization ratio, and surveys, are still strong. Meanwhile, a new mobile phone model launch has pushed up the output of telecommunication tools (46.8%). Inventory levels edged up 0.4% MoM sa in January, but this is the first rise in five months.

## All industry IP rose by 0.4% MoM sa in January

Apart from manufacturing, services (0.1%) and construction (12.4%) activity grew, while public administration fell (0.7%). Software development (4.9%) and real estate services (2.6%) rose while whole/retail sales (-1.0%), leisure (-8.9%), and hotels & restaurants (-0.2%) declined. We believe that service activity related to household spending has deteriorated, so household consumption is likely to weaken, while IT services have recovered along with the upturn in AI chip manufacturing.

On a three-month comparison, all industry IP growth has slowed to 0.4% (3Mo3M) sa in January from 0.7% in December, suggesting that 1Q24GDP will be slower than in the previous quarter. Moreover, a downward revision of December IP (-0.5% vs flash 0.6%) suggests that the revised 4Q23 GDP (to be released tomorrow) may be revised down from the initial estimate of 0.6% QoQ sa.

## Monthly IP suggest a slight moderation of GDP in 1Q24



Source: CEIC

## Retail sales rose for a second month as Chinese tourists returned

Retail sales rose 0.8% MoM sa in January but the details were mixed. Durable goods fell for a second month. Most notably, automobile sales plunged -16.24% as the government's tax incentive programme expired in December. Meanwhile, the launch of new mobile phone models boosted sales of telecommunications equipment and computers (28.2%). Semi-durable goods also declined -1.4%. Non-durable goods rose 2.3% with Chinese tourists' spending on cosmetics increasing meaningfully. We believe domestic consumption weakened in January excluding the Chinese tourist impact.

## Facility investment dropped while construction rebounded

Equipment investment dropped 5.6% MoM sa in January as chip-making equipment imports declined. Forward-looking machinery orders also fell for a second month giving a

cloudy investment outlook in the near-future. Construction completions jumped 12.5%, both for major residential construction and civil engineering projects completed in January. However, construction orders dropped again, suggesting sluggish construction activity will continue for a considerable time.

## In addition, manufacturing PMI points a moderation of GDP in current quarter

Not only did manufacturing activity growth slow, but retail sales of residents and investment activity also softened. In a separate report, the manufacturing PMI edged down to 50.7 in February from 51.2 in January, suggesting a potential slowdown in manufacturing as well. However, the PMI remained above the neutral level for a second month, thus indicating continued growth. Today's dataset supports our view that 1Q24 GDP will decelerate modestly to 0.5% QoQ with growing downside risks to the current forecast.

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