

## South Korean industrial production drops as US tariffs hit

South Korea's monthly activity data is proving discouraging. In contrast to the recent improvement in sentiment, production, consumption, and investment all declined in April. Tariff pain hit automobile output the hardest, while ongoing construction restructuring dampened investment



Seoul, South Korea

# -0.9%

Industrial production (%MoM, sa)

4.9% YoY

Lower than expected

**All industry output declined in April with manufacturing output, services, investment disappointing**

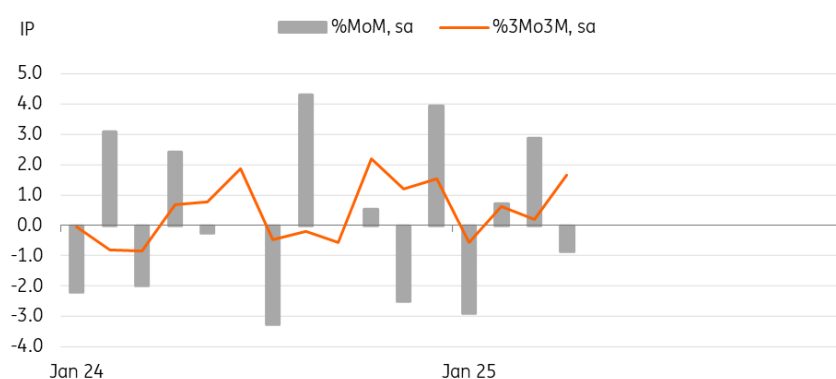
As we argued earlier, hard data is weakening despite recent improvements in sentiment.

Therefore, today's drop in industrial production was broadly in line with our expectations (-0.5% ING, 0.5% market consensus). We believe that a more stable domestic political situation will be the dominant factor in improving sentiment and growth, albeit with a time lag. However, US tariffs have begun to dampen manufacturing and exports, most notably in the automotive sector.

Manufacturing and mining IP dropped -0.9% month-on-month, seasonally adjusted, in April, with both semiconductors (-2.9%) and cars (-4.2%) output down. As tariff front-loading effects fade, output turned negative for autos. We expect upcoming manufacturing activity to soften further in the auto sector. Semiconductor output, by contrast, is likely to remain positive. Service activity also slipped -0.1% thanks to weak financial and professional services. Construction showed another month of contraction (-0.8%), which is a major drag for overall domestic growth. Forward-looking orders data declined for a second month, which also clouds the outlook for construction.

Yesterday, Bank of Korea Governor Rhee highlighted the weakness of construction. We believe that ongoing construction restructuring will come to an end in the second half of the year. When the next government comes in -- following the 3 June election -- there will be policy help to ensure orderly restructuring, but the revival of construction will be limited. We don't think the new government is going to stimulate the construction sector to boost the domestic economy. Thus, the recovery is expected to be quite gradual. There might be targeted easing for unsold units in non-Seoul areas, rather than a nationwide easing of real-estate policy measures.

## IP dropped in April as US tariffs began to dampen outputs



Source: CEIC

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