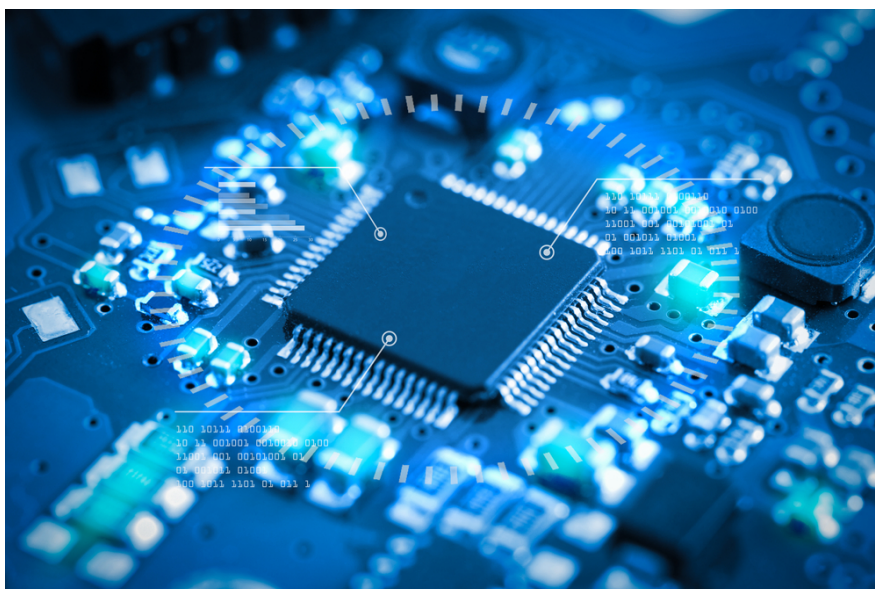


Korean production makes small gains in July

Better than expected production data for July, but the main story remains that electronics are hitting bottlenecks so year-on-year growth will struggle from here



0.4

Industrial production

July MoM%

Better than expected

Focus on the month-on-month figures

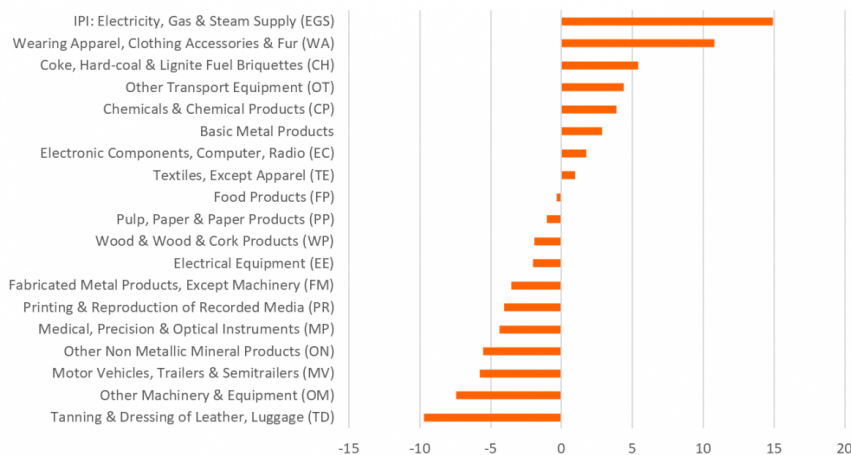
Korean industrial production rose 7.9% in July from the same month a year ago, though it makes sense to resist looking at year-on-year figures in the current environment, as they tell you next to nothing about what is going on today. The year-on-year figures are further distorted by historical revisions, and last month's 11.9% gains were revised lower to 11.5%YoY.

A 0.4% MoM increase in industrial production was an improvement on the anticipated 0.5% MoM

decline, though again, with revisions, it's not clear how much of an improvement this really is relative to expectations. The market reaction should be muted as a result.

Perhaps the most helpful thing we can say from this mangled set of figures is that industrial production appears to be growing still, but that the pace of growth is pedestrian.

Industrial production by component (MoM%)



Source: CEIC, ING

What, no electronics?

The thing that jumps out of the chart above, which shows month-on-month growth in production by component, is that electronics (semiconductors mainly, plus integrated circuits and other such items), barely managed even 2% MoM growth. At least it is still growing, but it highlights that capacity constraints are still weighing on this industry.

This is reflected lower down in the chart, with motor vehicle production, which is heavily reliant on semiconductor supply, contracting in July. Other electrical equipment (will almost all require semiconductor inputs) is also going backwards. It will be no surprise to see the manufacture of luggage struggling at the bottom of the chart.

Economy split

The recent increase in the 7-day repo rate by the Bank of Korea (BoK) will not help the manufacturing sector, though it has come against a backdrop of considerable KRW weakness, so overall, we don't think it will have much bearing on the manufacturing sector in the months ahead.

That path will be dominated by supply constraints in the electronics sector, and the spillover effects this has on other industries which are heavy users. The knock-on effects of logistics disruption stemming from the partial closure of some of China's port facilities in August will not have helped and it may take some weeks as congestion clears for the situation to ease.

In short, we expect Korean production growth to remain very modest over the coming months.

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