

Korea's weaker than expected industrial production signals bumpy road ahead

After the 3Q GDP result last week, we expected IP to be somewhat weak in September. But the details were much weaker than anticipated with forward-looking components pointing to a cloudy outlook. While the recent crowd tragedy will temporarily negatively impact private consumption, the Bank of Korea is unlikely to take action as a result



Source: Pexels

-1.8%

Industrial production

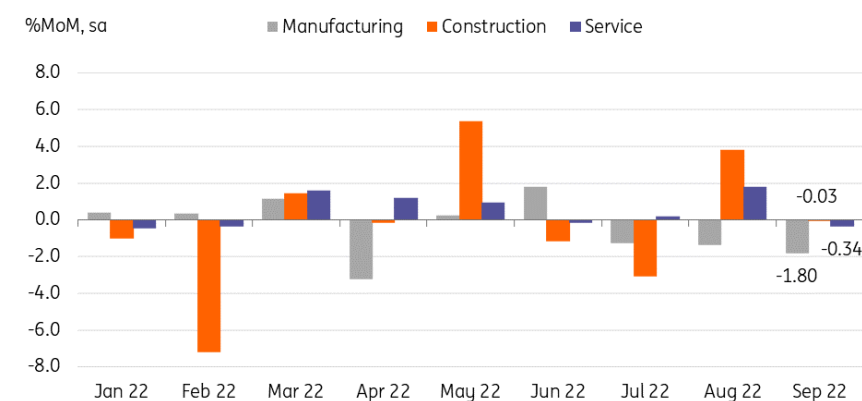
% MoM sa

Lower than expected

Industrial production, retail sales, and investment all slid in September

All-industry industrial production dropped 0.6% month-on-month (seasonally adjusted) in September, the third consecutive month of decline. Manufacturing activity also declined for a third straight month while services, a growth engine after reopening, turned weaker.

All-industry has declined for three months in a row



Source: CEIC

Manufacturing IP contracted 1.8% MoM in September

Manufacturing production was worse than in August (-1.4% revised) and below the market consensus (-0.8%). The weakness in September was mainly driven by semiconductors (-4.5%) and basic metals (-15.7%). One temporary factor exaggerating the weakness was the decision by POSCO to shut down some facilities due to a typhoon in September. The steel company expects a gradual recovery within a few months. However, continued weakness in semiconductor production and stockpiling mean that the future production outlook is worrying. Meanwhile, service output declined 0.3% in September (vs 1.8% in August) with retail/wholesale and health/social welfare down 2.1% and 1.0%, respectively.

Forward looking data is mixed, but biased towards the soft side

Machinery orders declined -16.5% MoM (sa) in September (vs 30.4% in August) with private orders down quite sharply while construction orders rebounded solidly by 20.4% in September (vs -24.9% in August) mainly led by non-residential segments such as factories, warehouses, and civil engineering.

We expect residential construction to turn weak due to a sharp increase in unsold housing units and adjustments in housing prices. Although the outlook for facility investment is expected to be better than that of construction in the short-term, facility investment is expected to shrink next year due to the recent tightening in the credit market.

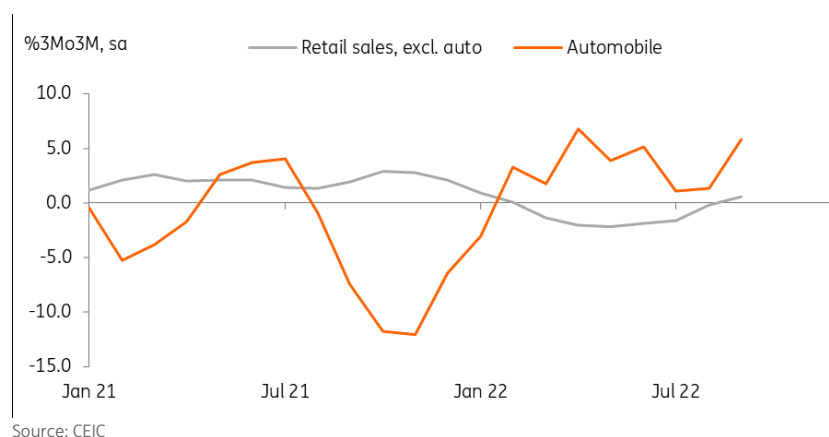
Near-term consumption outlook is gloomy

Retail sales dropped 1.8% MoM (sa) in September (vs 4.4% in August). Automobile sales rose sharply by 9.4%, recording three monthly increases as production lines normalise globally, but

overall sales dropped with weak consumer and semi-durable goods sales.

The Halloween disaster is expected to have some negative impact on private consumption. Early November is the peak shopping season in Korea, and several shopping- and entertainment-related events had been scheduled. However, as the government has declared a one-week national mourning period through 5 November to honour the victims, all festivals and entertainment events have been cancelled or postponed. However, the magnitude of the negative impact on the economy is expected to be small compared to the sinking of the Sewol Ferry in 2014. Thus, we don't expect any macro policy changes due to this accident.

Retail sales excluding automobiles are weak



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