

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

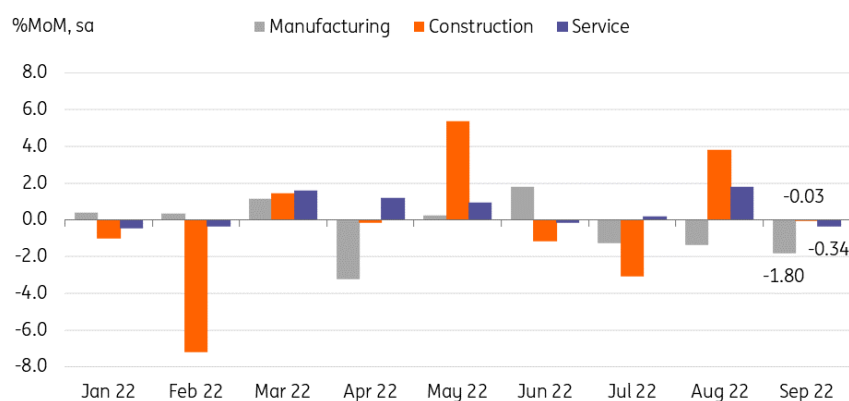
% MoM sa

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.

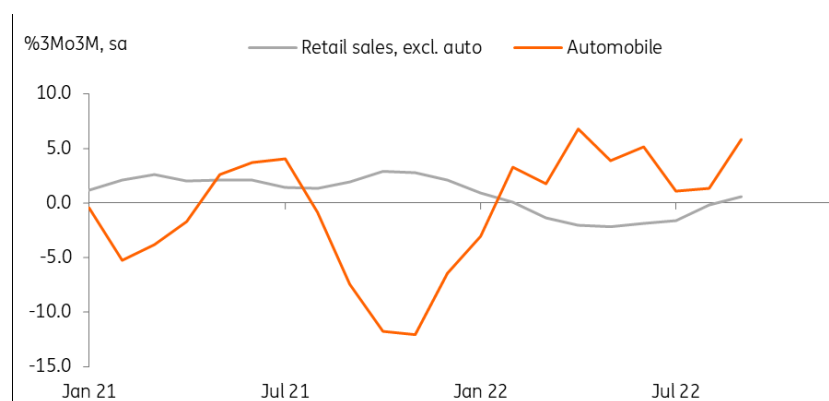
Near-term consumption outlook is gloomy

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



Source: CEIC

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security

discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.