

Sluggish growth to prompt Bank of Korea's first rate cut in October

All industry production rebounded in South Korea for the first time in four months, but the revival was sluggish. We expect third-quarter GDP to recover only modestly from a contraction in the second quarter, while the Bank of Korea's policy focus should shift to support growth from inflation stabilisation



4.1%

Industrial production

%MoM sa

Higher than expected

Industrial production rebounded thanks to strong chip and car production in August

Monthly activity data for August was mixed but relatively positive. All industry production

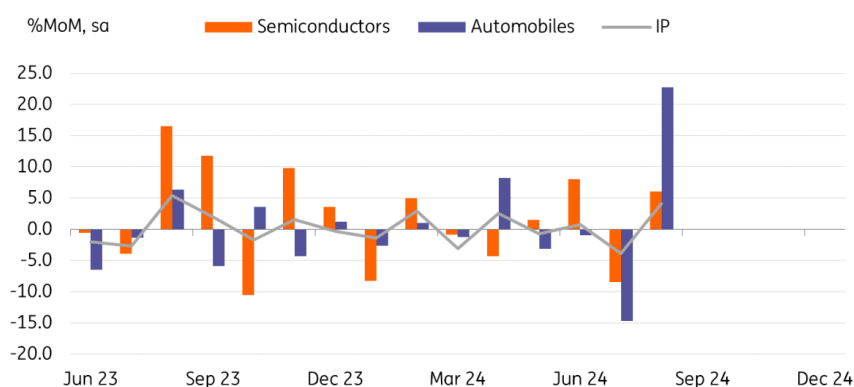
rebounded 1.2% month-on-month seasonally adjusted in August, the first rise seen in four months. Manufacturing and services activity also rose and retail sales increased moderately, but investment fell, which continued to be the main drag on domestic growth.

Industrial production rebounded 4.1% MoM sa in August (vs revised -3.9% in July, 2.8% market consensus), mainly led by semiconductors (6.0%) and auto production (22.7%) increases. Auto production rose more than the past two months' decline as production maintenance was completed and labour strikes were solved. Services rose by 0.2%, the third monthly increase for this component, with growth seen in wholesale/retail trade (3.0%) and hotels and restaurants (4.4%). Meanwhile, construction fell for the fourth consecutive month. Civil engineering improved (2.4%) but was more than offset by the fall in building construction (-2.4%).

On the consumption front, retail sales rose 1.7% MoM sa in August (vs in July) with non-durable and durable goods up 2.7% and 1.2% respectively.

For equipment investment, transportation equipment fell the furthest (-15.4%) due to volatile aircraft equipment. Chip-making equipment also saw a decline (-1.0%).

Auto production has been choppy over the few months



Source: CEIC

BoK watch

Today's data support our view that third-quarter GDP for 2024 is likely to record a small gain after a contraction in the second quarter. Manufacturing activity is boosted by strong global demand in IT and cars, but investment is likely to remain a main drag. With inflation stabilising at the 2% level, sluggish domestic growth will give the Bank of Korea a reason to pivot its monetary policy toward easing. We expect the BoK to deliver its first rate cut at its October meeting.

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