

## 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

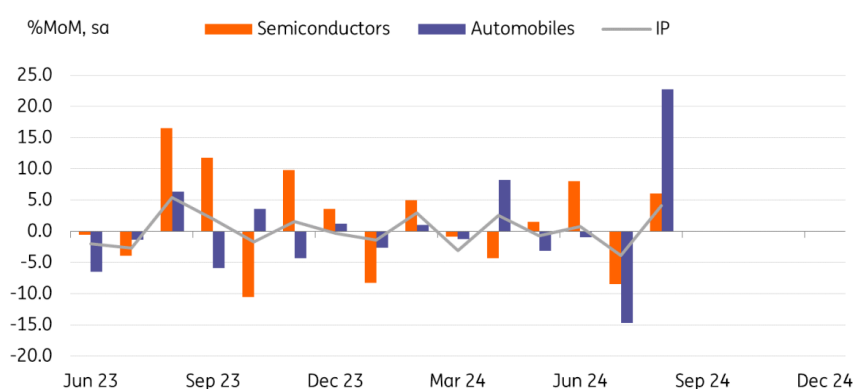
rebounded 1.2% month-on-month seasonally adjusted in August, the first rise seen in four months. Manufacturing and services activity also rose and retail sales increased moderately, but investment fell, which continued to be the main drag on domestic growth.

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.

### Author

**Min Joo Kang**

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.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](http://www.ing.com).