South Korean activity rebounded in February, but outlook remains uncertain

South Korean output, consumption and investment rebounded in February thanks to solid IT activity and government support. But it's unclear whether the recovery can be sustained as recent survey data point to a softening of growth in the months ahead

Source: Shutterstock

1.0%

Industrial Production

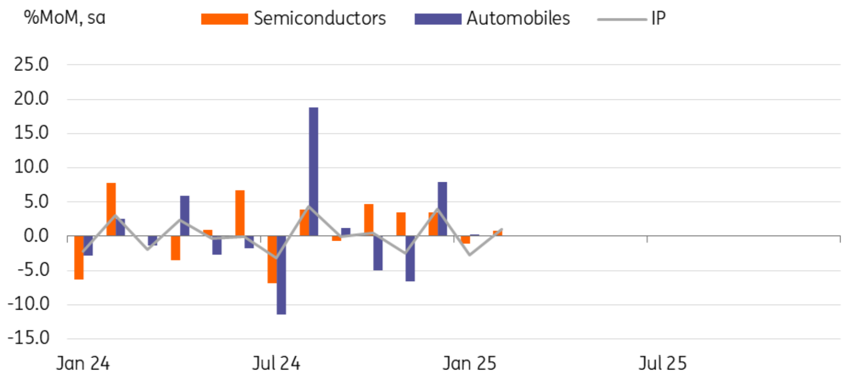
%MoM sa

Higher than expected

Manufacturing and mining output rose more than expected in February, but January revised down

Industrial production rebounded modestly by 1.0% month on month, seasonally-adjusted, in February (vs 0.8% market consensus). But the gain only partially offset the sharp decline in January (a revised -2.8%). Electronics and electrical devices rose the most -- by 9.1% and 6.0%, respectively. Manufacturers likely accelerated shipments ahead of the imposition of tariffs in April. Thus, shipments rose 4.7%, faster than production, reducing the inventory ratio by 1.2%.

Semiconductors rose while auto output stagnated in February

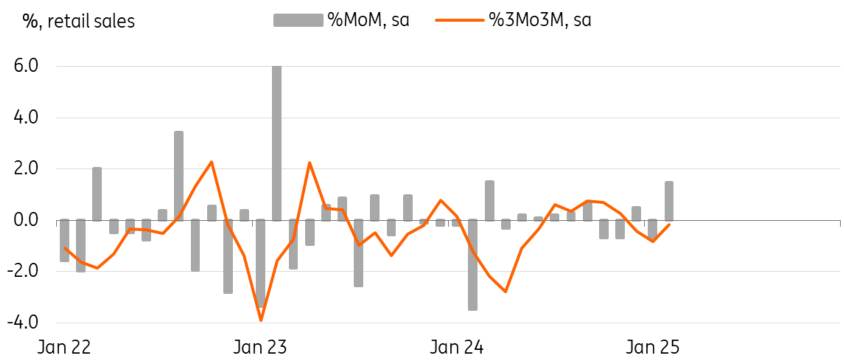


Source: CEIC

Retail sales rose a solid 1.5% in February (vs -0.7% in January)

Non-durable goods (-2.5%) and semi-durable goods (-1.7%) sales declined. This was more than offset, though, by the rise in sales of durable goods (13.2%) such as mobile phones, computers, and cars. The government cut the individual consumption tax on cars by 30% for a limited period in the first half of the year. This should have a positive impact on car sales. In addition, the launch of new mobile phone models should boost the sales of IT products. High-frequency data such as online payment and Google search trends suggest a renewed slowdown. Thus, we expect retail sales to weaken in the coming months.

Retail sales rebounded thanks to consumption tax incentives



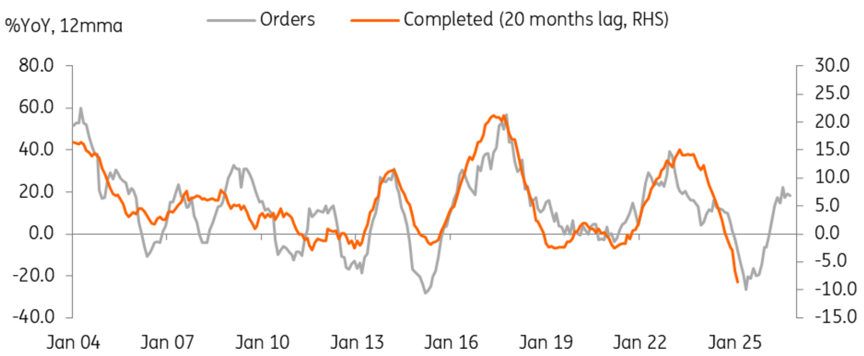
Source: CEIC

Investment rose solidly despite growing uncertainty

Construction investment rebounded 1.5% MoM, seasonally-adjusted, in February, the first gain in seven months. Building construction fell 2.2%, but civil engineering construction (including plant construction) rose a solid 13.1%. The investment rebound was aided by the government stepping up early fiscal disbursement efforts -- targetting 67% of disbursements in the first half of 2025. It is also fast-tracking public-sector investments. Forward-looking construction orders also rebounded, more than offsetting the previous two months' declines. We don't expect residential construction to recover anytime soon. But civil engineering, particularly public projects, will continue to grow in the near term.

Meanwhile, investments in equipment rose by 18.7% (vs. -15.7% in January). Machinery including chip-making machines and transport equipment posted solid gains of 23.3% and 7.4%, respectively. Despite rising uncertainties in the semiconductor and auto industries, companies continued to increase investment. Forward-looking machinery orders gained modestly compared to the previous quarter's drop. We are cautiously maintaining our expectations for a modest gain in equipment investment this quarter.

Construction investment is likely to bottom out in 2H25



Source: CEIC

We revised down our GDP forecast

Recent soft and hard data point to weaker-than-expected activity. In addition, the recent wildfires in the southern part of the country weighed on sentiment and activity in the first quarter. As a result, we have lowered our first quarter 2025 GDP forecast from 0.2% quarter on quarter, seasonally adjusted, to 0.1%. We now expect GDP to grow by 1.1% year on year in 2025 (vs 1.2% previous). We expect a supplementary budget in the second quarter, while the Bank of Korea continues to cut interest rates to ease monetary conditions. However, the policy impact should not be felt until the second half of 2025, if at all, if they act promptly.

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