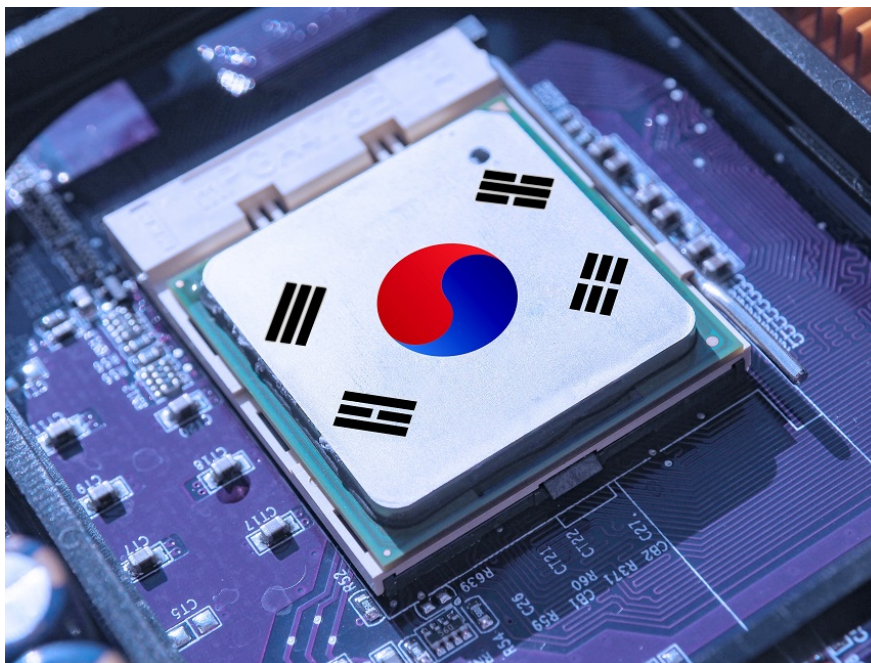


South Korea: Production fell in June due to sluggish construction and public administration activity

Today's monthly activity data was quite mixed. Strong manufacturing growth and a rebound in equipment spending were expected thanks to semiconductor strength, but sluggish service consumption and construction remain major concerns for near-term growth



Source: Shutterstock

0.5%

Industrial Production

%MoM, sa

Lower than expected

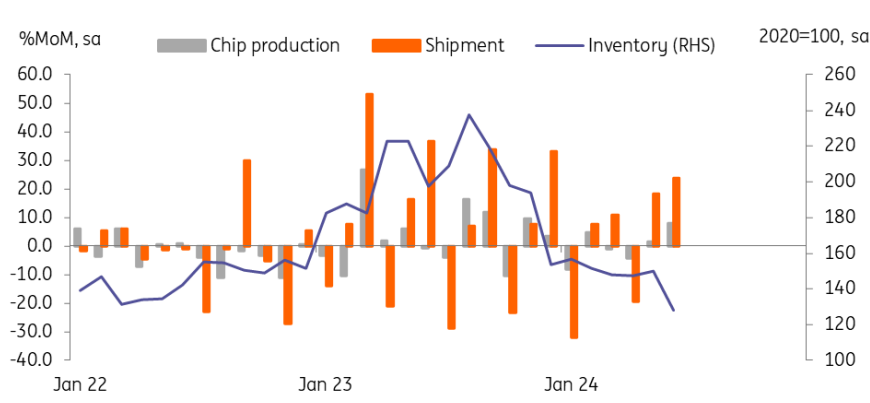
Industrial production missed market consensus, but strong semiconductor activity provides positive outlook for manufacturing

Industrial production rose a weaker-than-expected 0.5% MoM sa in June (vs revised -0.6%, 0.8% market consensus), but semiconductor-related data was outstanding. Semiconductor output rose 8.1% while its shipments were up an even stronger 23.7%.

Robust global demand for memory chips is expected to continue while inventories remain tight, so we see the production cycle of semiconductors remaining positive for some time. Meanwhile, car production fell for a second month while inventories continued to rise, pointing to a moderation in car production in the short term. We have seen strong growth in hybrid models, but export growth in combustion engine models has recently slowed. This is likely to be due to weaker demand from the US and other developed markets.

Shipments overall rebounded 2.3%, mostly due to strong outbound shipments. Domestic shipments declined for a second month and we see this as a signal for weaker near-term domestic demand.

Semiconductors will lead overall growth



Source: CEIC

Service sector output rose 0.2% MoM sa in June but with discouraging details

Real estate activity rose 2.4% while services related to leisure, sports, and recreation dropped -5.0%. The recent rebound in house prices is leading the recovery in real estate services. We don't see this as a good sign as both the government and the Bank of Korea have warned about a rapid rebound in house prices which could complicate policy decisions.

Sales of cars and parts services dropped -2.8% although car sales within the retail sales total rose quite sharply (6.9%). Car sales only measure new car sales, so used car sales must have contracted quite sharply. Thus, we believe total car sales should be weaker than the retail car sales figures show.

Retail sales rose 1.0% sa in June after two months' decline. Durable goods sales rose solidly (5.2%)

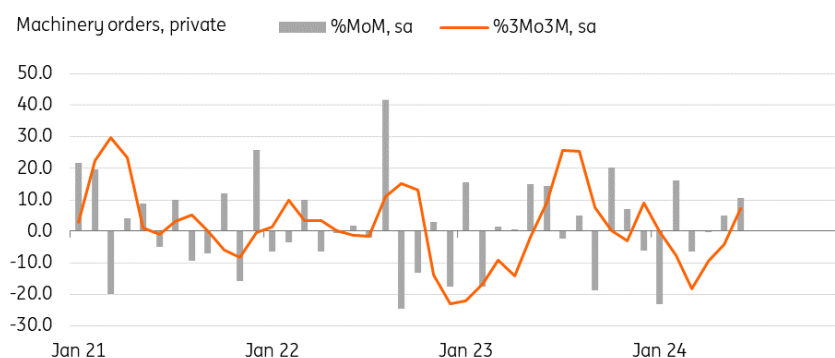
on the back of strong car sales (6.9%) as new model launches have boosted car sales over recent months.

Investment is a mixed bag

Equipment investment rose 4.3% MoM sa in June. Transportation equipment dropped -2.8%, but was more than offset by strong growth in special machinery (6.5%) including semiconductor manufacturing equipment. Facility investment was weak in 2Q24 GDP but we think chip makers' investment will resume in 2H24. Transportation investment was still weak in June, but this was likely related to a delay in importing aircraft and we think this will pick up in 2H24. More importantly, machinery orders for the private sector continued to rise on a three-month comparison, and we believe facility investment will recover from 3Q24.

Construction contracted for a second month. Construction orders rose but mainly for engineering projects and warehouses, not residential construction, suggesting that sluggish construction will continue to drag on overall growth in 2H24.

Facility investment is expected to recover in 2H24



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.