

## South Korea: Industrial production contracts more than expected in February

Monthly activity data for February show that manufacturing output slid quite sharply, but services, investment, and retail sales unexpectedly improved. We have revised up our first quarter GDP forecast to -0.1% quarter-on-quarter from -0.2% and annual GDP growth to 0.7% year-on-year from 0.6%



# -3.2%

## Industrial Production

month-on-month, seasonally-adjusted

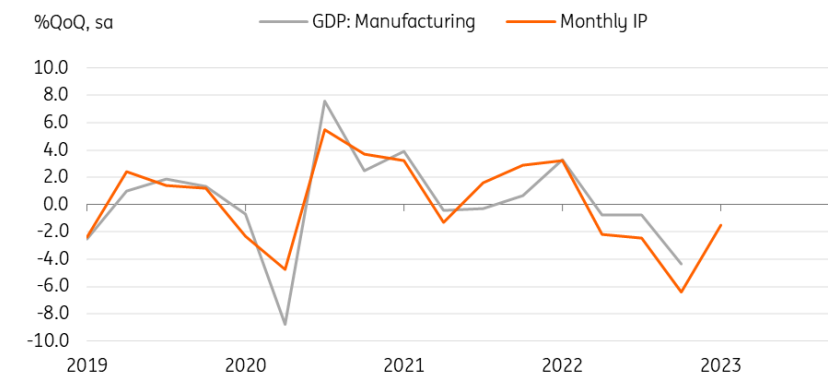
Lower than expected

### Sluggish manufacturing delays economic recovery

Industrial production declined -3.2% month-on-month seasonally-adjusted in February, which was more than expected (the market consensus was -0.6%), while January's figure was revised down to 2.4% (vs 2.9% previously). In a three-month sequential comparison, industrial production

contracted -4.1% three-month-over-three-month in February (vs -6.43% in December), meaning manufacturing GDP in the current quarter will fall again, but the decline will be smaller.

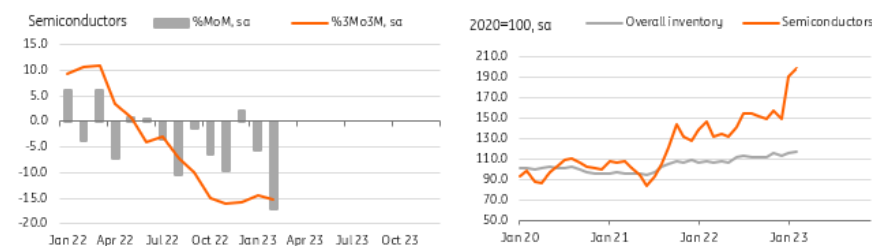
## Manufacturing is expected to drag down GDP



Source: CEIC

By industry, semiconductors (-17%) and motors (-4.5%) declined while partially offset by an improvement in basic metals (5.1%) and chemicals (3.3%). The decline in semiconductors has been sluggish for more than half a year, recording a decline in seven of the past eight months, and there is no sign of improvement yet. The monthly decline of 17% is the largest since December 2008. Meanwhile, inventories continued to pile up (0.9%), thus our expectations remain the same that the rebound in semiconductor and manufacturing will be delayed to the second half of the year despite China's reopening.

## Semiconductors will stay weak in coming months



Source: CEIC

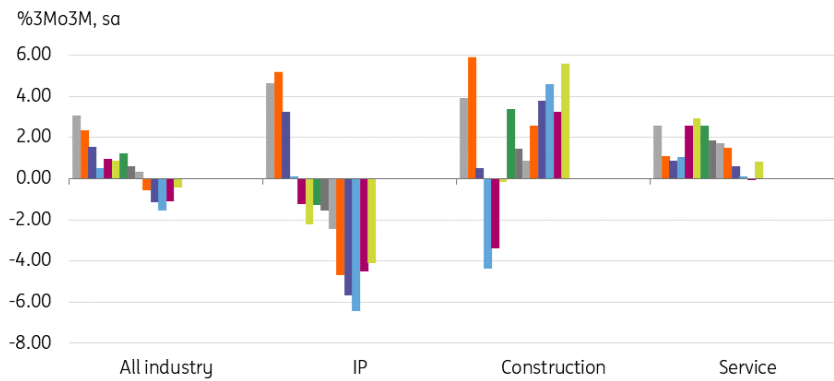
## Services, investment, and retail sales improved in February

While IP was worse than expected, services (0.7%), construction (6.1%) and retail sales (5.3%) all showed improvements compared to the previous month. We still believe that some idiosyncratic factors have worked in favour of domestic demand and that consumption and investment will likely turn weak again.

Retail sales rebounded for the first time in four months, mainly due to special sales promotions and the resumption of electric vehicle subsidies. We are not sure if such a big improvement will continue in the coming months, but at least consumer spending has held up well despite high inflation and a weak housing market. Services also improved as weather conditions turned better after the severe cold snap in January.

Construction continued to rise for the second consecutive month, but this is believed to be somewhat misleading to the current construction cycle. Although the housing market has been rapidly deteriorating, monthly construction performance seems to have improved as construction projects that began in previous years have been completed. But, construction orders remain weak, giving a more accurate picture of the current downturn of the construction cycle.

## Domestic demand held up well in February



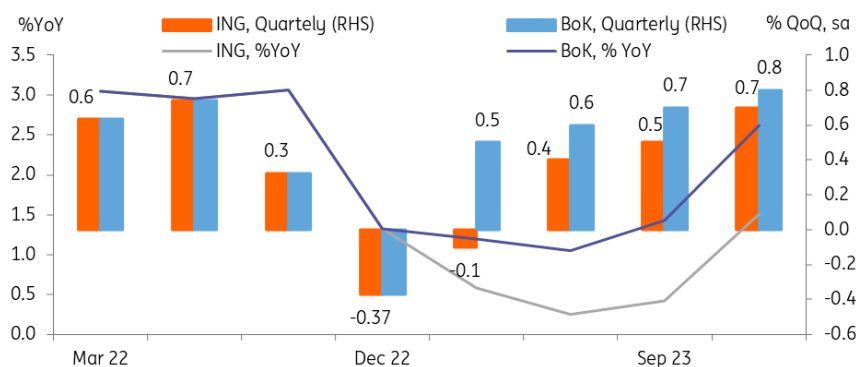
Source: CEIC

### GDP outlook

Based on February's monthly activity data, we have revised up our first quarter GDP forecast from -0.2% quarter-on-quarter seasonally adjusted to -0.1%, and annual GDP growth from 0.6% year-on-year to 0.7%. We still expect GDP to contract in the first quarter mainly due to weak exports and manufacturing, but consumers and businesses seem to have endured better than expected despite high inflation and high borrowing costs.

Construction investment is expected to rise as the pre-ordered projects come to an end, but the recent sharp drop in construction orders will be reflected in GDP meaningfully from the second half of 2023. In addition, a rapid accumulation of inventory will likely contribute positively to the current quarter's GDP growth.

## GDP is expected to contract in 1Q23



Source: BoK, ING estimates

BoK releases bi0annual % YoY forecasts only. ING estimates quarterly growth based on the BoK's bi-annual numbers

## The Bank of Korea

We expect the Bank of Korea (BoK) to stand pat at its April meeting. Today's data show that domestic demand has not deteriorated significantly compared to the previous quarter, which is expected to repeat the BoK's hawkish comments. But, sluggish manufacturing, especially the semiconductor sector, is deeper than expected and this will likely continue for a couple of quarters. Investment activity is also expected to turn soft in the coming quarter, thus the BoK's hike in this cycle is done in our view.

Local newswires reported that the electricity bill rise is expected to be less than 10%, which will be lower than the current quarter's fee increase. If so, then the impact on the CPI should be limited and does not meaningfully change the course of deceleration. If the headline CPI slows to the 3% level in the second quarter as we expect, the BoK could deliver a 25bp cut in the fourth quarter of the year.

### 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 <http://www.ing.com>.