

## South Korea: Industrial production and exports lose momentum

Recent data suggest the South Korean economy is losing steam. Monthly activity contracted in January, with output, consumption and investment all falling. Soft exports and manufacturing PMI add to concerns about the outlook



Seoul, South Korea

# -2.3%

Industrial production (%MoM, sa)

-4.1% YoY

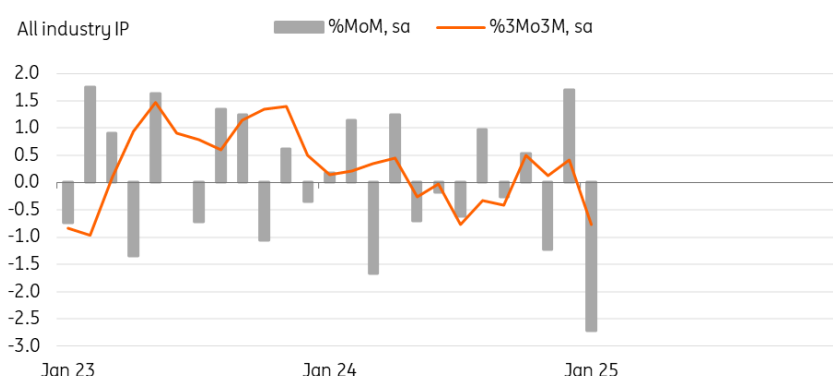
Higher than expected

**All industry output fell 2.7% month on month after rising 1.7% in December.**

Output in South Korea's manufacturing and mining (-2.3%), services (-0.8%) and construction (-4.3%) sectors all fell in January year on year. The exception was the public administration sector (2.2%), which benefited from a jump in government spending. Though the longer-than-usual Lunar

New Year holidays may have negatively affected industrial production (IP), the trend toward weak domestic demand continues. Semiconductors rose for a fourth month, but at a slower pace (0.1% in January). The other transportation equipment category rose 2.8%. Apart from these two, almost all other major manufacturing categories contracted. Services output also shrank, with whole/retail sales (-4.0%) and transportation (-3.8%) leading the declines. Hotel/restaurant activity rebounded 1.4%. Even so, the long holidays didn't do much to boost overall services and consumer activity, as hoped.

## All industry output dropped in January, suggesting a weak GDP in 1Q25



Source: CEIC

## Retail sales dropped 0.6% in January after a temporary gain in December

Durable goods sales rose 1.1% after three straight months of decline. The launch of new mobile phones was a major driver, while car sales dropped. Semi-durable and non-durable goods sales declined 2.6% and 0.5%, respectively.

## Investment is a key drag

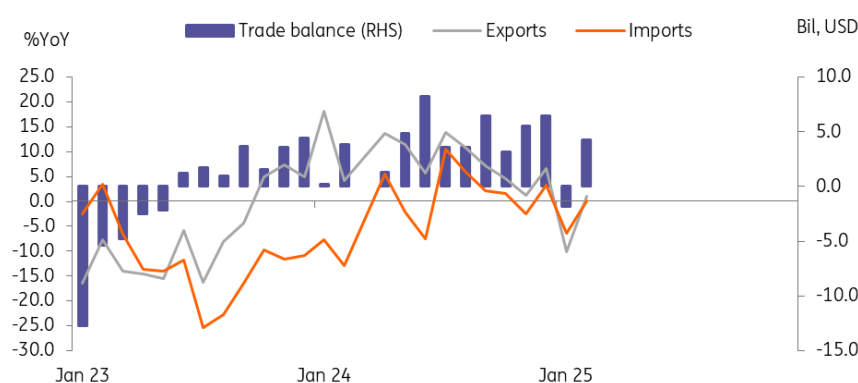
Along with construction, equipment investment (-14.2%) contracted in January. Machinery including semiconductors (-12.6%) and transportation (-17.5%) dropped. We believe this is a temporary decline, as capital goods imports have been on the rise and machinery orders rose a solid 35.9%. But weak equipment investment adds to downside risks for GDP in the current quarter. It's concerning that construction fell by 4.3%, the sixth consecutive month of contraction. Construction orders fell for a second month. This remains the top drag of domestic growth in the first half of 2025. Going forward, several small non-Seoul-based construction firms are likely to file for bankruptcy or seek financial assistance. Although the government will take some measures to prevent local builders from going under, the construction downturn marches on.

## Exports rebounded in February but weaker than expected

Over the weekend, data showed that exports rose 1.0% year on year in February (vs -10.2% in January, 3.7% market consensus), while imports rose 0.2% (vs -6.4% in January, 2.6% market consensus). While the timing of the Lunar New Year holiday adds volatility to the data, underlying

momentum weakened in February. Adjusted according to working days, average daily exports dropped sharply by -10.5%. Semiconductor exports fell -3.0% for the first time since October 2023, as NAND prices slid sharply. Last year's high base (66.6%) may provide some explanation for the weak reading. On the other hand, car exports rebounded strongly by 17.7% after falling in the previous three months. We believe that carmakers are likely to push their products out as early as possible before the reciprocal tariffs come into effect. We expect exports to remain a growth driver for the economy in the first quarter of 2025. Despite the moderation in exports, a sharper decline in imports should boost the positive contribution from net exports in 1Q25.

## Exports growth was weaker than expected, but trade surplus widened in February



Source: CEIC

## Meanwhile, the manufacturing PMI fell back into contraction territory

The purchasing managers' index fell to 49.9 in February from 50.3 in January, with output and new orders rising. From this, we conclude that exports are likely to continue rising, while the domestic economy is weighing on overall growth. As suggested by the local business survey, business confidence remained weak amid political instability in Korea and uncertainty surrounding global trade. We expect the domestic political situation to become clearer in two weeks following the Constitutional Court ruling on the impeachment of President Yoon. But US trade policy is likely to remain a headwind for businesses.

## GDP outlook remains uncertain

Given recent data, we revised our quarterly GDP forecast for 1Q25 from 0.3% quarter on quarter, seasonally adjusted, to 0.2%. The supplementary budget is coming out slower than expected, while its scale is less than we expected. Thus, the first quarter GDP is likely to rise a mere 0.2% thanks largely to net exports. Even with the revision, the annual GDP growth outlook remains the same at 1.3% YoY.

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