South Korea: IP unexpectedly dropped in September, yet not prompting a BoK rate cut

The monthly activity results were much weaker than the official GDP figures. However, this won't prompt the Bank of Korea to ease policy further in the near future

Source: Shutterstock

-0.2%

Industrial production

%MoM sa (vs Consensus 1.2%)

Lower than expected

All industry output fell -0.3% MoM sa in September, after a temporary gain of 1.3% in August

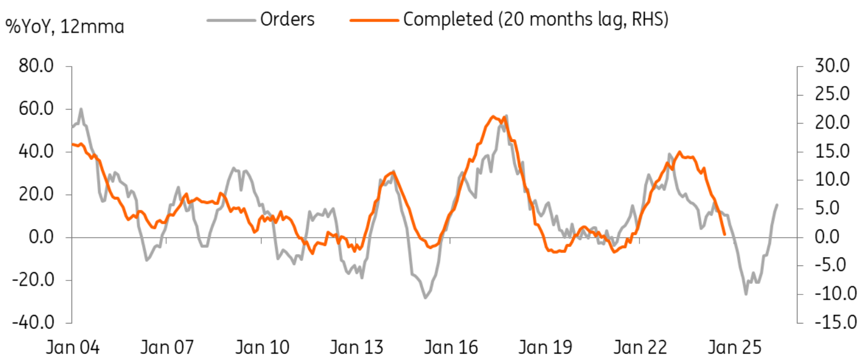
Production appears to have slowed across almost all industries in September. Mining & manufacturing (-0.2%), construction (-0.1%), service (-0.7%) all saw output decline, with only public administration (2.6%) showing signs of recovery.

Manufacturing activity details were quite weak. The output dropped -0.1% and shipment also declined -3.2%. The capacity utilisation rate also dropped to 73.5 from 74.3 in August. By industry, production increased in machinery and equipment (6.4%), but decreased in semiconductors (-2.6%) and non-metallic minerals (-9.6%), resulting in a 0.1% drop. In semiconductors, inventories continued to fall and equipment investment rose solidly, so we believe this month's decline was temporary. However, we see that the growth momentum has slowed compared to the first half of the year, which is worrying for the export outlook in the coming quarters.

Construction is clearly the main drag on the economy

Construction has fallen in 7 out of 9 months this year and recorded its fifth monthly decline in September. Unsold units remained at a high level, mostly outside the Seoul metropolitan area, and will take a long time to recover. Construction orders have been bottoming out since the beginning of the year, but there is a lag in completion, so construction will remain the main drag on the economy for some time to come.

Construction recovery will take a while

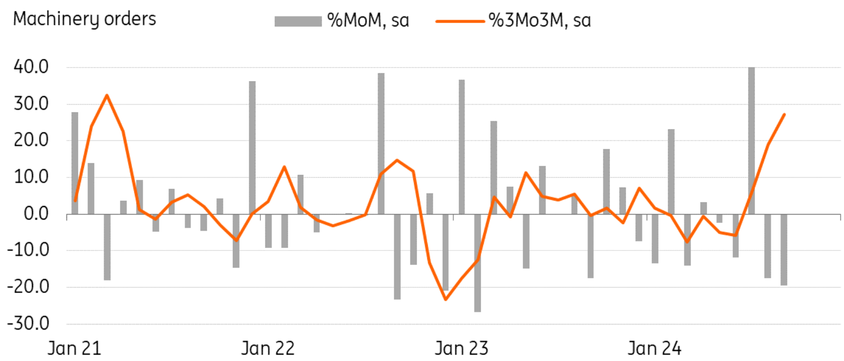


Source: CEIC

Equipment investment rose sharply, yet the momentum is likely to soften in the coming months

Equipment investment rebounded sharply in September, up 8.4% month-on-month sa (vs -5.14% in August) with a notable gain in chip-making equipment (64.1%). Although semiconductor production contracted in September, the increase in equipment investment suggests a possible recovery in production in the coming months. We still expect equipment investment to lead overall growth, but with machinery orders falling for a second month, growth momentum may slow towards year-end.

Semiconductor-led investment is likely to continue

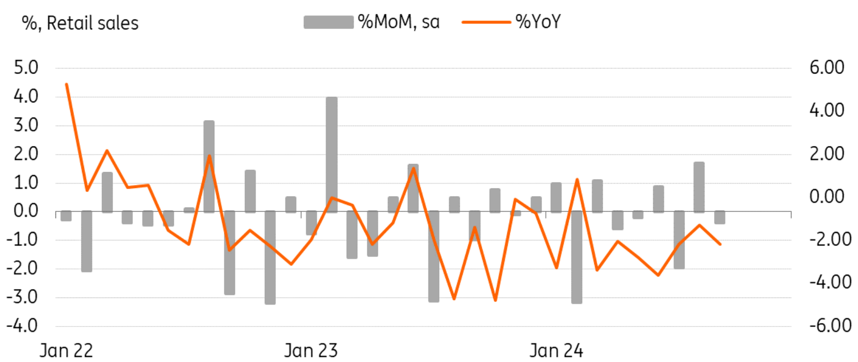


Source: CEIC

Retail sales dropped -0.4% MoM sa in September

Although private consumption in GDP rebounded in the last quarter, this is likely to have been driven by services consumption and consumption abroad rather than domestic goods consumption. Durable goods consumption was strong in September, with sales of cars (8.8%), household appliances (2.1%) and mobile phones (7.9%) all rising. However, sales of semi-durable and non-durable consumer goods fell by -3.2% and -2.5% respectively. The consumer sentiment index has remained above the neutral 100 mark and the easing of monetary policy may support retail sales going forward, but we believe that tighter macroprudential measures and credit conditions are likely to limit the recovery in private consumption going forward.

Retails sales remained subdued in September



Source: CEIC

The BoK watch

Given the weaker-than-expected monthly economic output, the Bank of Korea's GDP forecast is likely to be revised downwards in its November report. We expect GDP to grow 2.2% year-on-year on 2024 and 1.5% in 2025. With growth momentum slowing, the Bank of Korea's policy will likely shift to support weak domestic growth, but the BoK will take a cautious step towards further easing. We expect the next BoK rate cut to come in April rather than in the first quarter of 2025. Recent movements in the FX market may add to inflation risks, and growing uncertainty about the Fed's policy outlook may also keep the BoK in hibernation longer than the market expects.

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