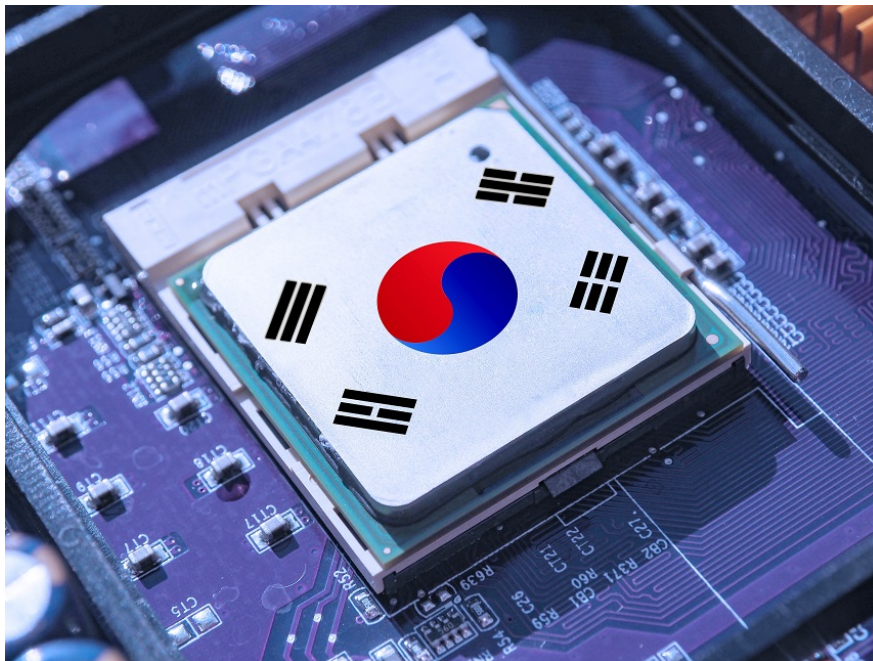


## South Korea: Monthly activity data contracted in May, pointing to a slowdown in current quarter GDP

Manufacturing, services, construction, equipment investment, and consumption activity all declined in May, supporting our view that GDP will likely decelerate meaningfully this quarter. However, we don't think this will trigger an immediate BoK rate cut



Source: Shutterstock

# -1.2%

## Industrial Production

%MoM, sa

Lower than expected

## Industrial production has been volatile recently but the underlying trend has been weakening

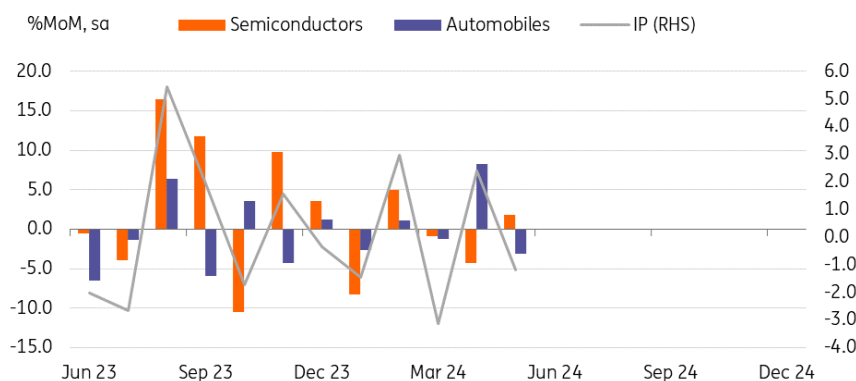
Industrial production (IP) unexpectedly fell by 1.2% MoM sa in May (vs revised 2.4% in April, 0.2% market consensus). Monthly growth has been volatile recently, due to fluctuations in automobile and semiconductor production.

As expected, semiconductor production (1.8%) rebounded after two months of decline thanks to strong global demand for AI chips. Shipments also bounced back quite smartly (18.8%) but inventories edged up this month (1.4%). We think the inventory level itself is not a concern for now as chipmakers have cut their inventories by almost 40% over the past ten months. Strong semiconductor production should lead to an overall gain in IP this year.

Meanwhile, automobile output (-3.1%) dropped as industry data suggested. We expect auto production to moderate in the coming months, as global demand is likely to lose momentum and inventories have been on an upward trend since early 2023.

Service activity declined by 0.5% in May (vs +0.7% in April). Retail/wholesale (1.9%) rose but deeper falls in financial (-2.5%) and communications (-1.6%) caused overall activity to decline.

### IP data has been choppy



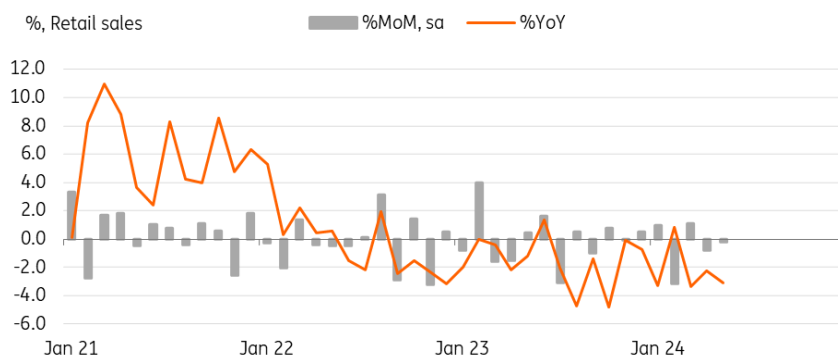
Source: CEIC

### Retail sales dropped for a second month in May

Retail sales fell 0.2% MoM sa in May (vs -0.8% in April). By product, durable goods sales (0.1%), especially automobile sales (3.0%) rebounded. Consumer goods also rose in the last three months, as food and pharmaceutical sales rose firmly. However, this was more than offset by the decline of semidurable goods (-2.9%) such as apparel, and entertainment goods.

Monthly data showed that retail sales have been quite weak since the middle of 2022. In year-on-year terms, retail sales stayed in negative territory most of the time. However, in terms of GDP, private consumption has always been stronger than the monthly data, so we suspect that residents' spending abroad and on services must have been stronger than their goods consumption. However, weak consumption should be a drag on overall growth over the next few quarters.

## Retail sales remained weak in May



Source: CEIC

## Investment contracted in May

Equipment investment dropped -4.1% MoM sa in May, declining in four out of the past five months. The falls in the last two months were mainly due to a sharp drop in the volatile "other transportation equipment" segment (such as vessels and aircraft). IN addition, the strong performance in semiconductors has not translated into strong equipment investment. The forward-looking machinery orders data declined -1.4%, and so the near-term outlook for equipment investment is quite cloudy.

Construction also declined -4.6% MoM sa in May (vs 3.1% in April). We believe that the last quarter's rebound in construction was temporary as some major projects were completed and government-led infrastructure projects were implemented. We believe that the construction cycle has bottomed out as orders have picked up for a few months. But the recovery is likely to be limited given the sluggish real estate market and high inventories.

## GDP and BoK outlook

Domestic activity softened in May, but we don't think this will trigger an immediate BoK rate cut. Recently, the government and policymakers have been openly urging the BoK to ease monetary conditions as inflation gradually moderates. But we think the inflation path ahead is the most important factor for the BoK. However, we also acknowledge that given today's weak data, the likelihood of a rate cut in 3Q24 and the emergence of votes for cuts is increasing. We expect consumer prices to decelerate gradually in 3Q24, but upside risks are still quite substantial, consequently, we expect the BoK to deliver its first rate cut in October.

For the GDP outlook, we maintain our current forecast of 0.2% QoQ sa in 2Q24, down from 1.3% in 1Q24. Net exports will remain a driver for GDP, but private consumption and investment will both drag on growth.

## 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>.