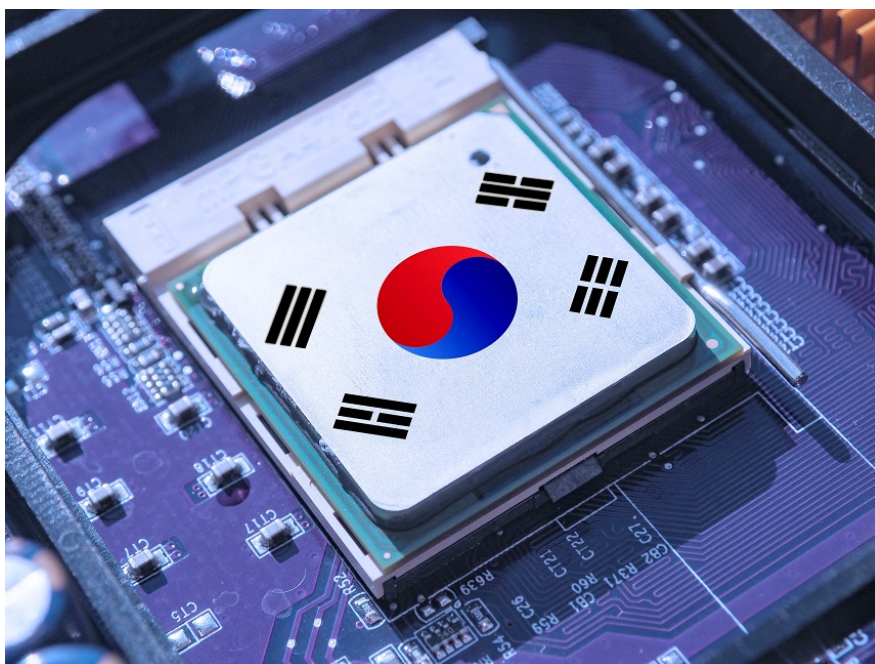


South Korea: stronger-than-expected activity data indicates recovery continues this quarter

In May, all industry industrial production rose 1.3% MoM sa, with rising manufacturing production, retail sales, and investment. 2Q23 GDP should therefore accelerate modestly from the previous quarter. However, weak forward-looking data and the recent decline in service activity could suggest softer investment and consumption in 2H23



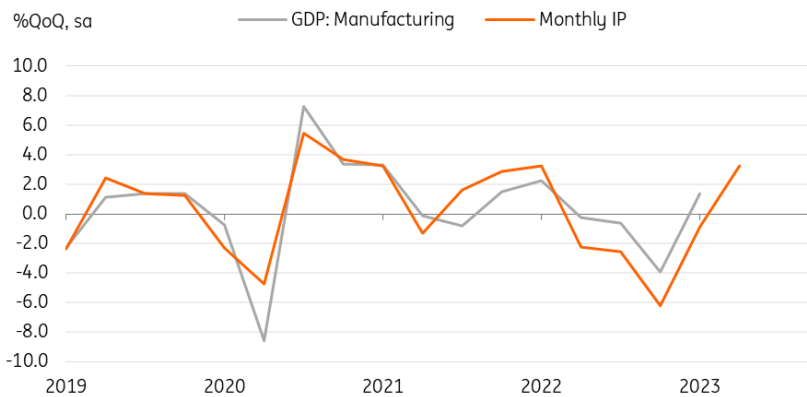
Source: Shutterstock

Semiconductor output cuts plan yet to materialize in May

Manufacturing industrial production unexpectedly rose 3.2% MoM sa in May (vs -0.9% market consensus) while April's production was revised up to -0.6% (vs -1.2%). By product item, vehicle production (8.7%) gained again, reflecting strong demand from abroad. The upside surprise mainly came from the output gain in semiconductors (4.4%). NAND flash and system-chip production led the overall growth, but DRAM output also rose. It usually takes 6 months to reduce production,

thus the planned production cuts are not evident in the May outcome. Also, the recent strong demand for AI chips may also have had some positive impact. Production gains in semiconductors also contributed to the rise in inventories (0.6%).

Manufacturing production suggests a GDP recovery in 2Q23



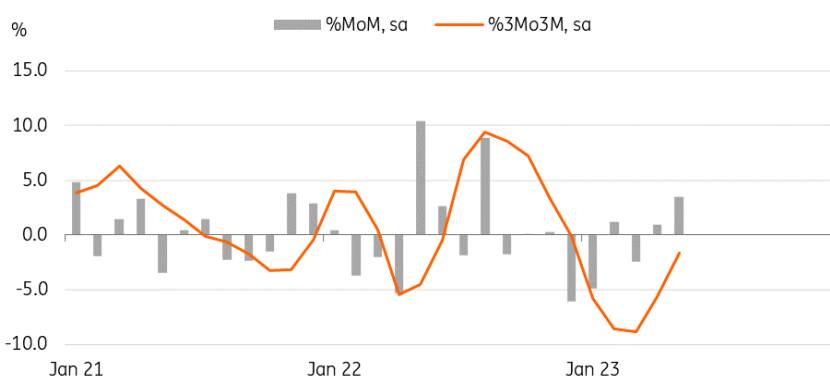
Source: CEIC, ING estimates

Consumption and investment activity rose in May

Although retail sales rebounded 0.4% MoM sa, this only partially reversed the previous month's 2.6% decline, and the underlying trend of retail sales appears to be weakening. In May, sales of home appliances were boosted by idiosyncratic factors such as the unseasonally warm weather compared to average and the sharp rise in moves to newly developed apartment complexes. However, in our view, this positive impact will reverse in the coming months. Also, with car sales declining for three months in a row, we believe that this quarter's consumption growth will be smaller than the previous quarter.

Meanwhile, both equipment and construction investment rose. Transportation-related equipment investment continued to rise solidly. Strong vehicle demand and aircraft investment due to increased travel are the main reasons.

Investment stayed in the contraction zone, but is bottoming out



Source: CEIC

Service activity continued to decline for three months in a row

In contrast to solid manufacturing and investment activity, service outcomes declined by 0.1% in May. Professional, science, and technology activity (3.2%) gained but were more than offset by the decline in financial (-4.1%), accommodation & restaurant activity (-4.5%). Along with the softening of retail sales, this is in line with our view that the support to growth from re-opening is running out of steam.

Growth outlook

We believe Korea's 2Q23 GDP will recover a bit more than we had expected. But, forward-looking orders, signs of softening retail sales and service activity, and an unfavourable inventory cycle will likely weigh on manufacturing, consumption, and investment in 2H23. Thus, we will revise our GDP outlook after checking the June export data released tomorrow.

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

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