

South Korea: weak monthly activity suggests a cloudy outlook for 4Q24 GDP

Production, sales, and investment contracted in October, signalling that the GDP recovery may be weaker than expected. Weak domestic demand is likely to prompt another rate cut by the BoK in February



Source: Shutterstock

0.0%

Industrial production

%MoM, sa

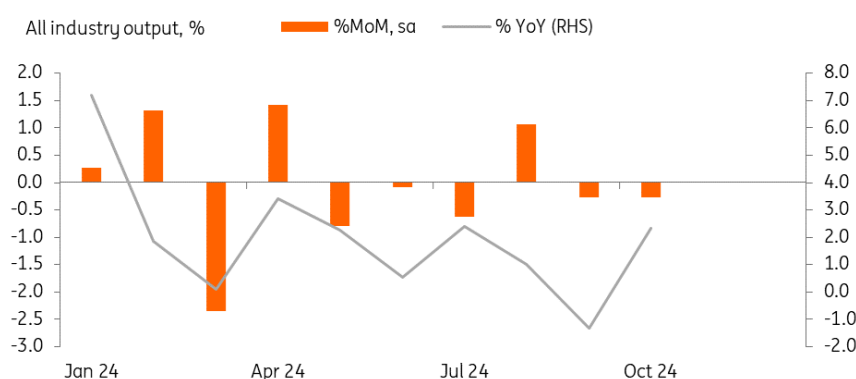
Lower than expected

All industry output dropped -0.3% MoM sa in October for a second month

Manufacturing and mining output stayed flat in October after a 0.1% MoM sa contraction in September. Semiconductors (8.4%) rebounded strongly after a fall of -2.4% in September. However, shipments fell sharply (-16.7%), leading to a slight rise in inventories. Overall inventory levels are now quite low, so we don't think this will lead to production cuts in the near future.

Meanwhile, the contraction of car production deepened in October, falling -6.4% in October after a 0.75% fall in September. But with rising inventories, this adds some concerns about weak auto production in the coming months. Services activity rebounded 0.3% in October but did not fully offset the 0.8% decline in September. Financials (3.1%) and welfare/social services (1.8%) increased while whole/retail sales, which are more closely related to consumption, dropped -1.4%. Production fell in both the construction (-4.0%) and the public administration (-3.8%) sectors in October. For construction, this was the sixth consecutive monthly decline, indicating that the restructuring of the construction sector has continued throughout 2024.

Overall production activity has been on the weak side throughout 2024

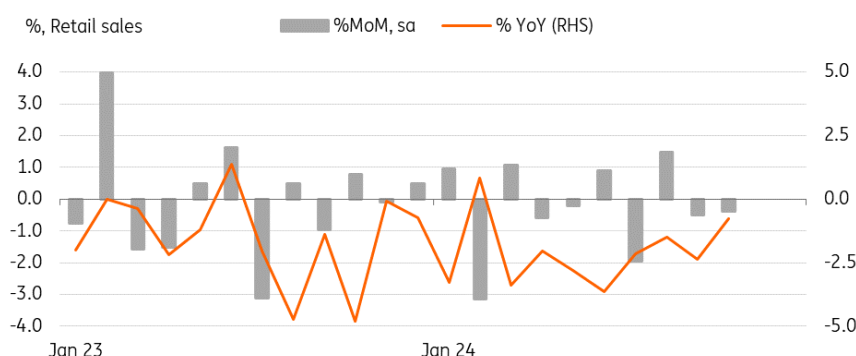


Source: CEIC

Retail sales dropped for a second month

Retail sales fell 0.4% MoM sa in October (vs -0.5% in September). Durable goods sales were particularly weak (-5.8%) with automobile (-3.4%), household appliances (-9.4%), and telecom equipment (-10.0%) declining. However, semidurable goods and nondurable goods rose 4.2% and 0.6%. We believe that big sales promotions such as "Sale Festa November" are likely to boost retail sales in November, at least temporarily. We will also see how the BoK's rate cuts have supported consumption activity in a couple of months.

Retail sales declined for a second month



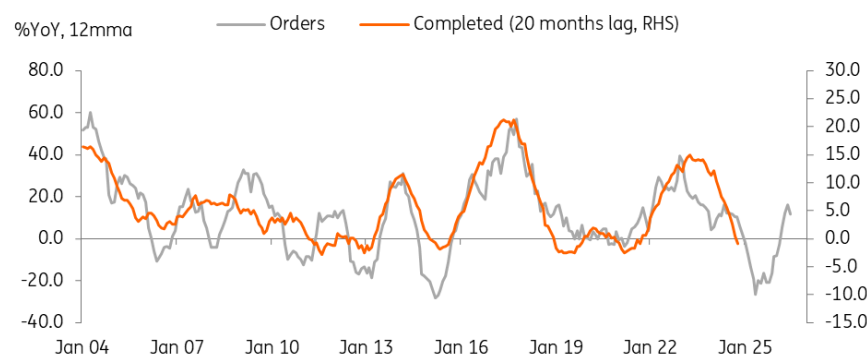
Source: CEIC

Investment is a key drag

Manufacturing production and retail sales were weak, but we believe that weak investment is the key drag on the economy. As mentioned earlier, ongoing restructuring in the construction sector hasn't shown a sign of recovery yet even after the sixth monthly decline. Construction orders have rebounded but it will take time for overall construction to recover.

Meanwhile, equipment investment dropped -5.8% in October. General machinery investment dropped but electrical & electronic equipment rose again. We believe IT equipment investment is likely to stay on the rise, but other investment is likely to decline. Furthermore, machinery orders have now dropped for three months in a row, signalling weak growth in the coming quarters.

Construction hasn't bottomed out yet



Source: CEIC, ING estimates

GDP and BoK outlook

A weak start to the quarter tends to weigh more heavily on quarterly results. Thus, today's weaker-than-expected IP suggests a cloudy outlook for 4Q24 GDP. We expect 4Q24 GDP growth to reaccelerate to 0.6% QoQ sa from 0.1% in 3Q24. An improved net export contribution should be the main reason for the recovery. We believe exports will rebound in 4Q24 while imports will decline, leading to a wider trade surplus, and supporting GDP. November exports results will be released on Sunday, and we expect moderate growth of 4.4% YoY.

We will also carefully watch to see how the recent 50bp of policy rate cuts by the Bank of Korea boost domestic demand. As we noted in our note about [the BoK policy review](#), we believe that the BoK will continue its rate cuts throughout next year. We expect another 25bp cut in February.

Author

Min Joo Kang

Senior Economist, South Korea and Japan

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 www.ing.com.