

Snap | 29 November 2024

# 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

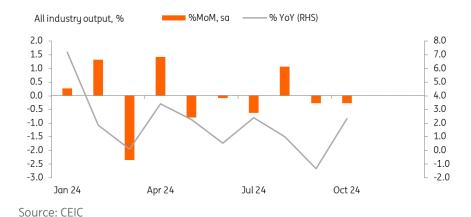
## All industry output dropped -0.3% MoM sa in October for a second month

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.

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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.

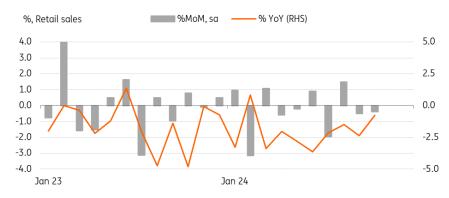
# Overall production activity has been on the weak side throughout 2024



### 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

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### 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.

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