

Korea Macro Flash

Continued Weak IP Readings Bode Ill for 4Q14 Growth

- **Nov IP hints 4Q14 growth to remain weak** — Nov industrial production (IP) in mining and manufacturing continued to contract on a year-on-year basis (-3.4%YoY vs. Oct: -3.2%YoY) despite a month-on-month gain (+1.3%MoM sa vs. Oct: -1.7%MoM sa). With this, IP during the first two months in 4Q14 contracted sequentially by 0.2%MoM on average, the same speed as those in the previous quarter. On YoY terms, IP growth during Oct-Nov fell to -3.3%YoY on average, far below the +1.1%YoY growth in 3Q14.
- **Major industries retreated on YoY terms while auto kept MoM recovery** — Production of major industries including auto (-3.4%YoY), semiconductor (-5.6%YoY), basic metal (-3.8%YoY) and chemical product (-5.7%YoY) declined from a year ago in Nov. On a MoM basis, however, production of auto continued to expand by +9.0% (vs. Oct: +5.5%), and semiconductor production shifted to grow by +2.9% after sharp contractions in Oct-Sep. Meanwhile, the ratio of inventory-to-shipment in manufacturing reversed to fall sharply to 119.8% (vs. Oct: 125.1%) on the back of a hefty increase in shipment for exports, particularly auto (+11.3%MoM sa) and semiconductor and parts (+4.6%). Average manufacturing utilization ratio inched up by 1.0%p to 74.4% from a month ago but was 1.8%p lower than a year ago (76.2%).
- **Recovery of service sector moderated while retail sales rebounded** — Service activities continued YoY expansion by growing +2.1%YoY (vs. Oct: 2.7%) but MoM growth shifted to fall (-0.3% vs. Oct: +0.8%). The YoY growth was mainly led by continued upswings in the financial & insurance and human health & social work sectors while the MoM contraction was mostly due to sluggish activities in the hotel & food and professional & scientific & technical sectors. Retail sales rebounded by +1.0%YoY and +1.9%MoM sa from the weakness a month ago (-0.2%YoY and -0.1%MoM sa) as strong sales of passenger cars (+19.7%YoY and +9.3%MoM sa) led an increase in durable goods sales.
- **Equipment investment turned to improve while construction investment fell** — Equipment investment reversed to expand due to increases in general machinery and other transportation equipment. Domestic machinery orders received (excluding shipbuilding) also turned to increase with hefty orders from the public sector. Meanwhile, construction investment turned to contraction, along with decreases in construction completed in building and civil engineering.
- **Weak growth momentum calls for a rate cut in Jan 2015** — IP readings in Oct and Nov hint the recovery pace in 4Q14 could be weaker than the previous period. Furthermore, the decline of cyclical components of leading indicator in Nov suggests the weakness could continue in the coming months. We reiterate our call for a 25bps rate cut by the BoK at the first MPC meeting on Jan 15, 2015.

Jaechul Chang

+82-2-2077-4160

jaechul.chang@citi.com

Jin-Wook Kim

jinwook.kim@citi.com

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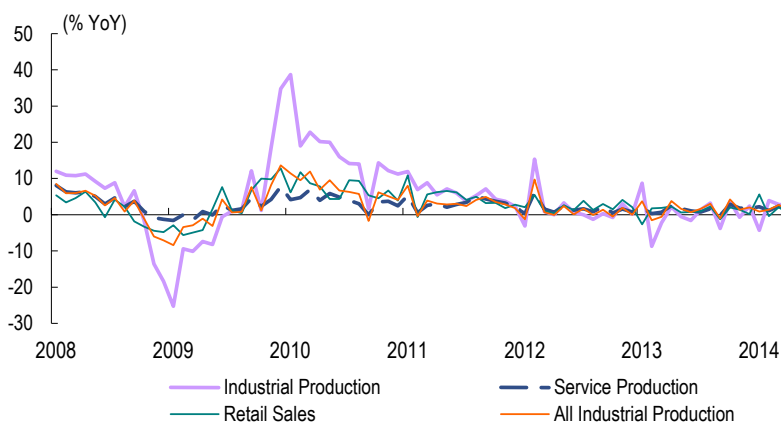
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Figure 1. Nov Industrial Activities

	Actual	Citi Forecast	Consensus Forecast	Previous (Revised From)
Industrial Production (%YoY)	-3.4	-2.7	-2.3	-3.2 (-3.2)
(%MoM sa)	1.3	0.7	0.9	-1.7 (-1.6)
Service Industry Production (%YoY)	2.1	—	—	2.7 (2.6)
Retail Sales (%YoY)	1.0	—	—	-0.2 (-0.3)

Source: Statistics Korea, Bloomberg, Citi Research Estimates

Figure 2. Key Activity Indicators



Source: Statistics Korea, CEIC, Citi Research

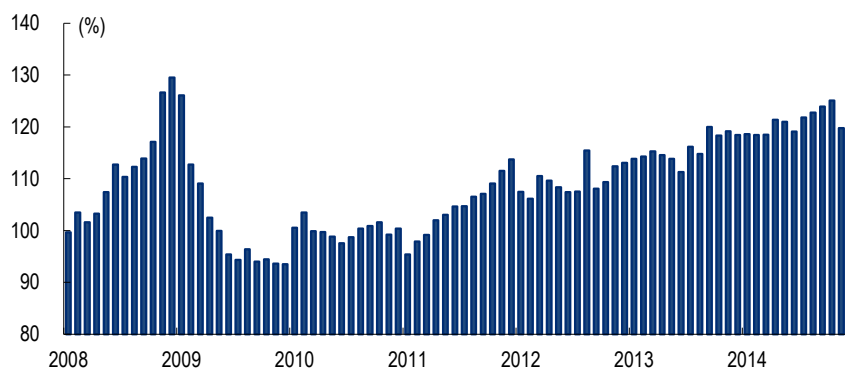
Figure 3. Production-Related Data

(% YoY)	2012	2013	Sep-14	Oct-14	Nov-14
Industrial Production	1.3	0.3	1.9 (0.1)	-3.2 (-1.7)	-3.4 (1.3)
Manufacturing	1.4	0.3	2.0 (-0.1)	-3.4 (-1.8)	-3.5 (1.4)
Shipments	1.4	0.4	1.9 (-0.1)	-3.2 (-1.6)	-2.1 (3.1)
Producers' Inventory	4.3	5.0	3.5 (0.8)	2.5 (-0.7)	0.3 (-1.3)
Inventory/Shipment Ratio (%)	—	—	123.9	125.1	119.8
Avg. Operation Ratio (%)	78.5	76.2	75.1	73.4	74.4
Production Capacity	2.1	1.7	1.6	1.6	1.3
Service Industry Production	1.6	1.4	3.1 (0.3)	2.7 (0.8)	2.1 (-0.3)

Source: Statistics Korea, Citi Research

Note: Numbers in parenthesis are seasonally adjusted MoM growth

Figure 4. Inventory/Shipment Ratio of the Manufacturing Sector



Source: Statistics Korea, CEIC, Citi Research

Figure 5. Consumption-Related Data

(% YoY)	2012	2013	Sep-14	Oct-14	Nov-14
Consumer Goods Sales	2.4	0.8	1.4(-3.4)	-0.2(-0.1)	1.0(1.9)
(By Product Types)					
Durables	5.3	0.3	12.7 (1.7)	-1.3 (-6.3)	7.1 (7.8)
Semi-durables	-0.4	2.0	1.2 (-4.1)	1.5 (-2.4)	-2.5 (-1.0)
Non-durables	2.0	0.6	-3.7 (-5.9)	-0.5 (4.5)	-0.6 (0.3)
(By Store Types)					
Department Stores	1.6	0.0	-9.4 (-11.3)	-7.3 (-0.6)	-11.1 (0.9)
Large Scale Marts	2.0	0.3	-7.6 (-10.0)	3.2 (11.3)	1.7 (-3.3)
Convenient Stores	14.5	7.3	7.7 (5.7)	5.9 (-1.3)	9.3 (1.0)

Source: Statistics Korea, CEIC, Citi Research

Note: Numbers in parenthesis are seasonally adjusted MoM growth

Figure 6. Investment-Related Data

(% YoY)	2012	2013	Sep-14	Oct-14	Nov-14
Facilities Investment Estimated	-2.8	-1.3	13.0	-8.5	10.6
(% MoM)			(13.5)	(-4.5)	(13.1)
Domestic Machinery Shipments	-4.7	-9.4	5.3	-1.2	2.2
Domestic Machinery Orders excl. ships	-13.9	6.7	15.3	-25.4	11.3
Value of Construction Completed (Constant Prices)	-5.0	10.1	-4.0	-5.7	-9.6
Value of Construction Completed (Current Prices)	-3.3	10.4	-2.9	-4.5	-8.6
Construction Orders (Current Prices)	-6.2	-15.3	38.0	2.3	-22.5

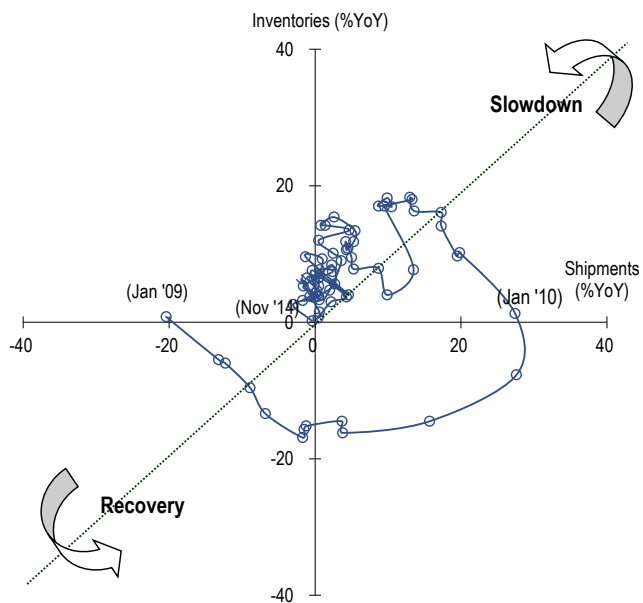
Source: Statistics Korea, CEIC, Citi Research

Figure 7. Composite Economic Indexes

	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
Coincident Index	119.4	120.3	120.5	120.5	120.7
(% MoM)	0.4	0.8	0.2	0.0	0.2
Coincident Index, Cyclical Component	100.2	100.5	100.3	100.0	99.8
(point, MoM)	0.1	0.3	-0.2	-0.3	-0.2
Leading Index	120.3	121.7	123.0	123.8	124.1
(% MoM)	0.4	1.2	1.1	0.7	0.2
Leading Index, Cyclical Component	101.6	102.4	103.1	103.3	103.2
(point, MoM)	0.0	0.8	0.7	0.2	-0.1

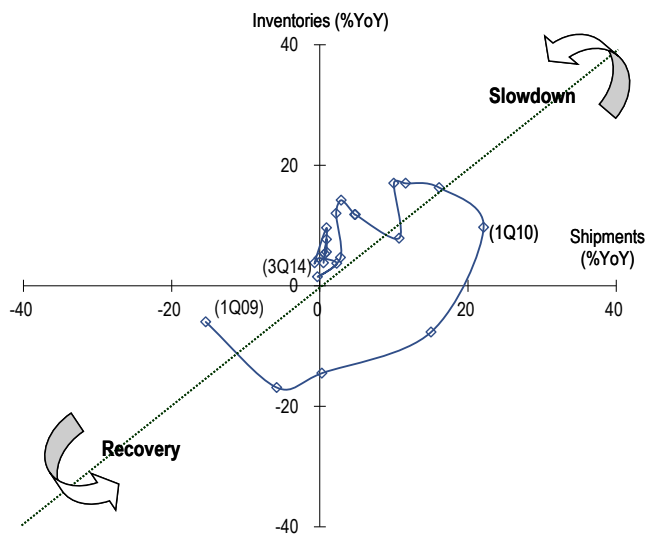
Source: Statistics Korea, CEIC, Citi Research

Figure 8. Monthly Cycle of Mfg. Inventory and Shipments



Source: Statistics Korea, Citi Research

Figure 9. Quarterly Cycle of Mfg. Inventory and Shipments



Source: Statistics Korea, Citi Research

Appendix A-1

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