Korean GDP expands at only a 2.0% YoY rate in 3Q18

We are revising down our 2018 GDP forecast for Korea to 2.5% from 2.6%, and also cut the 2019 forecast to 2%. We stick with our "no change" central bank (BoK) policy call for the November meeting

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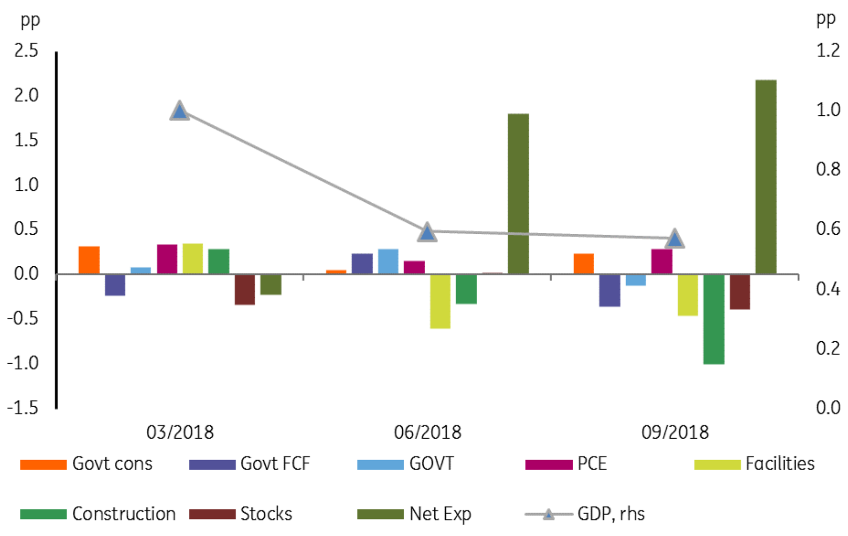
2.0% GDP growth - not wholly surprising

Korea has felt a bit like a 2% economy for a while, along with some others in the region. And while the 2.0% YoY 3Q18 GDP growth out-turn was on the lower side of expectations (consensus was 2.3%, ING f = 2.1%) it was not wholly surprising.

Indicators of capacity have been indicating an excess for some time, and a further negative gross fixed capital formation (investment) result had been on the cards. The scale of it, at -4.5%QoQ was, however, unexpectedly large, and alone stripped 0.4pp from the 0.6% QoQ growth total. Within that gross fixed capital total, construction spending was also extremely weak, falling 6.4%QoQ, and the only positives in this segment of GDP were intellectual property (IP) products. Some years ago, research and development and other components of IP were not even part of GDP. If we had been compiling the figures on the old basis, the year on year growth rate would have been below 2.0%.

As usual, personal consumer spending was one of the stronger elements of the release, providing 0.3%pp to the total QoQ growth And net exports provided their usual safety net, offsetting the falls in fixed capital. Without the net export boost, GDP growth would have been closer to 1.0%.

Contribution to QoQ GDP growth - Korea (pp)



Downward revision to GDP - implications for BoK

We are revising down our 2018 GDP forecast for Korea to 2.5% from 2.6%. The Bank Of Korea (BoK's) recent Economic Outlook revised the 2018 forecast to 2.7% from 2.8%. This would now need 0.8%QoQ in 4Q18, which we don't see happening. We are also revising down our 2019 forecast to 2.0%.

In the light of this weakness, the recent excitement over a possible November rate hike seems entirely misplaced. Absent an upside shock to the October CPI figures released on 1 November, we will stick with our "no change" call for the November meeting.

We ought to keep an eye out across the region given this weakness. Taiwan and Singapore share some, though not all, of Korea's economic characteristics. The only bright spot in this outlook is net trade. Given the current circumstances, feels rather worrying.

Author

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com

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