

South Korean economy dodges recession

The Bank of Korea's policy interest rate cut a week ago is a step in the right direction as the central bank's 2.2% GDP growth forecast for the year remains subject to asymmetric downside risk



2.1% 2Q19 GDP growth

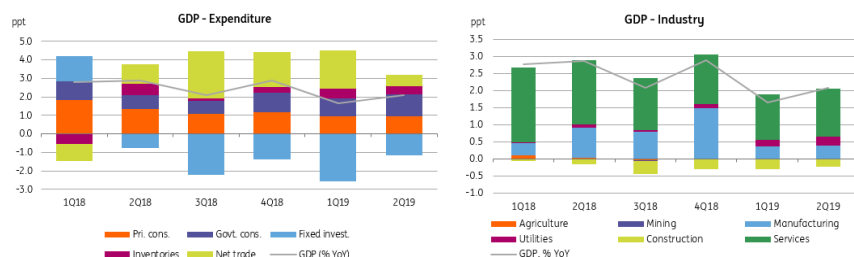
Better than expected

Growth picks up in 2Q19

South Korea's second quarter GDP grew by 2.1% from a year ago and by 1.1% (seasonally adjusted) from the preceding quarter. Growth was not only firmer than the Bloomberg consensus estimates of 1.9% year-on-year and 0.9% quarter-on-quarter, but also marked an acceleration from the 1.7% YoY and -0.4% QoQ SA rates recorded in 1Q19. More importantly, the economy avoided a recession with QoQ growth back in positive territory.

Private and public consumption persisted as the key expenditure-side drivers of GDP growth. The contribution of private consumption to GDP growth rose to 1.0 percentage point (ppt) from 0.9ppt in 1Q and that of government consumption was up to 1.2ppt from 1.0ppt. Investments remained a drag albeit smaller than in 1Q (-1.2ppt vs. -2.6ppt in 1Q). And all this more than offset a significant narrowing in the net trade contribution. On the industry-side, services retained their spot as the main driver of GDP growth, while an improvement in manufacturing and utilities also helped.

What's behind firmer GDP growth in the last quarter?



Source: Bloomberg, CEIC, ING

Note: Bars may not stack up to total GDP growth due to statistical discrepancy.

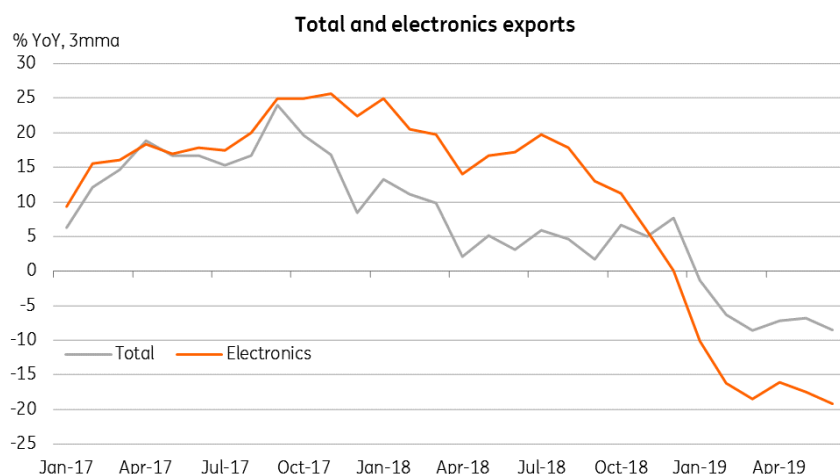
Economy dodges a recession

While YoY growth of 2.1% matched our forecast exactly, we overestimated the QoQ weakness in forecasting no growth for the period. With a 0.4% QoQ 1Q19 contraction and further weakness displayed by activity data in 2Q19, we feared the economy could have fallen into a technical recession. Even the tiniest negative reading (rounding up to our forecast of zero growth) would have resulted in a technical recession defined as two straight quarters of negative QoQ growth.

This would not have been too surprising given that the economy is heavily reliant on exports, which have been beaten up by the US-China trade and tech wars as well as a global tech slump. Electronics exports, a bellwether for the economy which account for a third of total exports, have suffered from a contraction of as much as 20% YoY in recent months, and within that, semiconductors have fared even worse, with a more than 30% fall.

Could it be that the wonky seasonal adjustment for QoQ growth helped the economy to avert a recession?

Electronics dampening export performance



Source: Bloomberg, CEIC, ING

Outlook isn't promising though

Even if the economy has averted a recession for now, the outlook for the rest of the year remains clouded by a worsening external environment, including an ongoing trade spat with Japan.

Just a week ago, the Bank of Korea (BoK) scaled back its growth forecast for 2019 to 2.2% from 2.5%. Average 1.9% GDP growth in the first half of the year precisely matched the BoK's revised forecast for the period. But its 2.4% growth view for the second half of the year appears optimistic. Aside from some favourable base effects (growth slowed sharply in 3Q18), there's no reason for year-on-year growth to recover in the second half. That, too, assumes that things don't become any worse than they currently are, which is a risky proposition absent any let-up in the export slump.

More easier policy is the order of the day

Better late than never, the BoK's 25 basis point policy interest rate cut no more than a week ago was a step in the right direction. However, [as we argued at the time](#), this was a mere reversal of the tightening late last year, not a stimulus in any real sense.

The key questions that today's data pose are whether the BoK will be complacent after an acceleration in GDP growth and stay on hold for the rest of the year, or, will it see through the GDP figure that's masking underlying weakness in the trade and electronics sectors, and ease policy further with more rate cuts?

Judging from the shift in global central bank policies, increased policy support for growth is the order of the day. We expect the BoK to go with the flow and ease again by 25bp in the final quarter of the year as its 2.2% full year GDP forecast looks increasingly unattainable. ING's forecast for Korea's full-year 2019 GDP growth is 1.4% (consensus 2.0%).

[Korea: Central bank starts easing cycle with 25bp rate cut](#)

Author

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klof

Senior Economist, Netherlands

marcel.klof@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801
martin.van.vliet@ing.com

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

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com