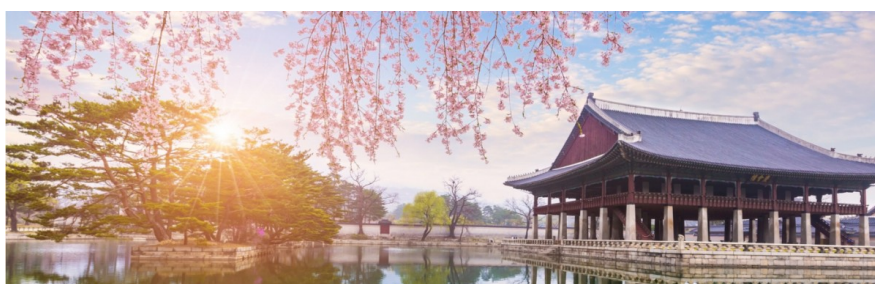


## South Korean economy dodges recession

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

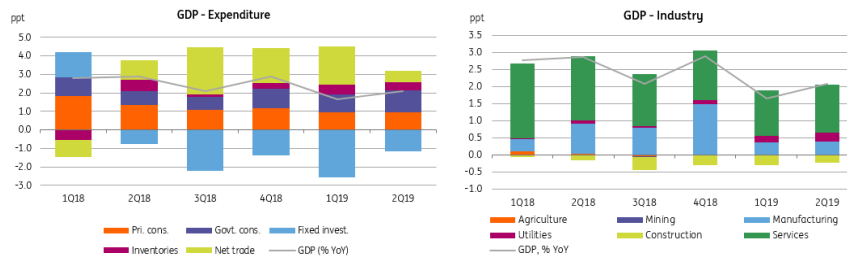
Better than expected

### 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.

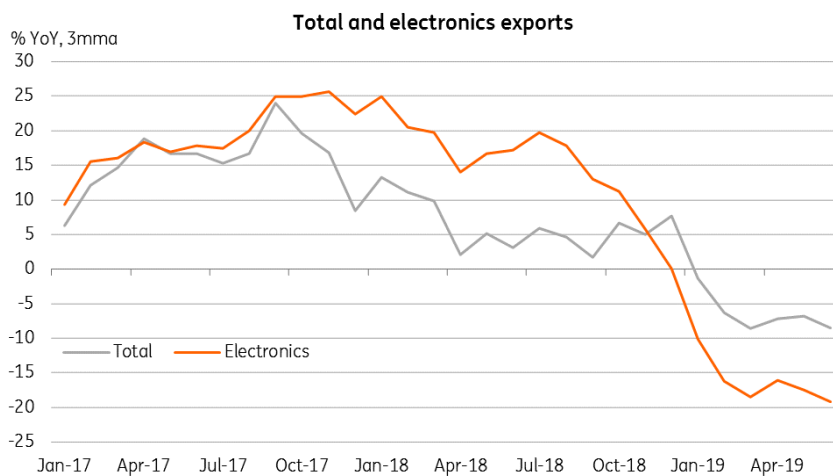
## Economy dodges a recession

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](#)