1Q20 GDP in Korea falls 1.4%

The fall effectively wipes out 4Q19 growth, but Korea is still doing better than most in Asia

Source: Shutterstock

-1.4% QoQ

4Q20 GDP

As expected

Where does most of the damage lie?

This preliminary GDP estimate is based on output measures, not the expenditure measures that final GDP is based on, but it still provides strong clues as to what is going on.

The 1.4%QoQ decline looks bad, but it is considerably better than China's recent -9.8%QoQ (-6.8YoY) first quarter, though the timing of the coronavirus may explain some of that. The drop in 1Q20 still leaves Korea's GDP up by 1.3%YoY.

Not surprisingly, transport and storage saw the biggest hit, with a 12.6%QoQ decline followed by cultural services (-6.2%), and there were also declines in business activities, education, and oddly, health and social work (down 5.2%). In other words, a heavy concentration of declines in the consumer and business services parts of GDP. This should show up as declines in consumer spending and business investment in the expenditure version (due 2 June). Manufacturing also declined by 1.8%.

There were not many offsets to this weakness. Utilities provided one of the biggest with a 5.7% gain - which might point to greater proportions of people working from home. Information/communication also put in a solid performance, which also tallies with that same idea. Public administration and defence also picked up, as the government ramped up its activities against the virus outbreak.

No need to revise GDP yet, but more chance of an upgrade

The 1.4% decline in GDP was almost the same as the 1.5% decline we had pencilled into our spreadsheets and was also in line with market expectations. We anticipate a further, though smaller, decline in GDP in 2Q20 - Korea was in control of its Covid-19 outbreak much earlier than anywhere else apart from China, so most of the weakness in 2Q20 will relate to the global backdrop rather than domestic weakness.

There could yet be reasons for us to re-look at our -0.3% GDP forecast for the full year 2020. This would include indications that 2Q was shaping up to be stronger, as well as a 3rd additional budget, which is now being talked about. Given comments that this will require bond financing, it suggests that it may contain a bit more substance and a bit less fluff than some packages - the recent election victory for President Moon's party might have given them more scope for expansion than previously.

If so, we could end up moving to a small positive forecast for GDP in 2020, which would be one of only a few in Asia.

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