

## 2Q21 Korean GDP softens

No big surprises from the Korean GDP result for 2Q21, though it was fractionally softer than expected. High year-on-year figures owe mainly to a weak base, and the quarter-on-quarter growth was driven by the household sector but offset by surging imports.



Korean won

0.7%QoQ

2Q21 GDP

5.9%YoY

Lower than expected

### No need for forecast revisions on the back of this release

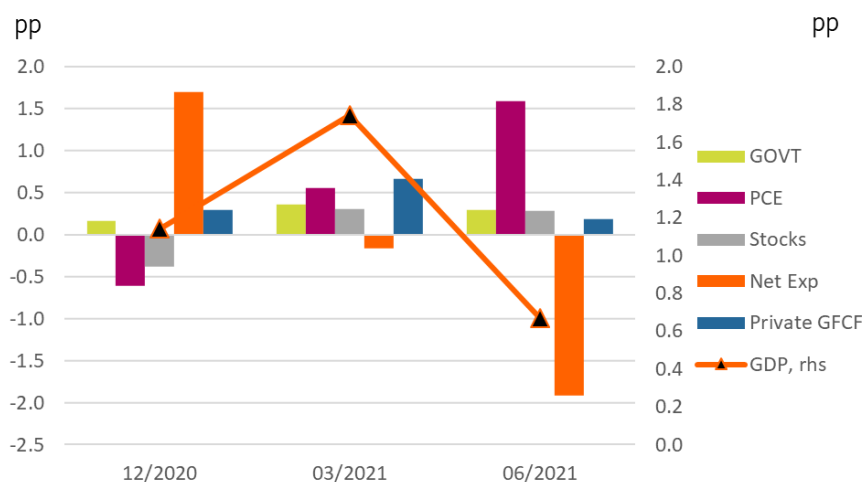
The 0.7% QoQ reading for 2Q21 GDP in Korea was slightly down from expectations (0.8%) but not significantly. We had been looking for a slightly lower figure still of 0.6%QoQ. Consequently, it will not be because of this release that we will make any downward revision to our current full-year forecast for growth of 4.3%. But more on that later.

Feeding the data through our spreadsheets, the figures show that household demand recovered strongly in the second quarter, but that this also led to a surge in imports, which dragged on GDP

and left the net growth figure much weaker than implied by domestic demand alone. This is perfectly normal and to be expected. And this is probably why the consensus was as close to the actual figure as it was.

Both the household spending surge and the associated import spike will ease back next quarter as the economy normalises, and as slightly tighter Covid mobility restrictions weigh on activity, especially spending on services. Service sector spending was very strong according to the output based measures of GDP released alongside the expenditure data. A softer third quarter will probably leave full-year growth closer to 4.0% for 2021, though these are preliminary thoughts only at this stage, not hard forecasts as yet.

## Contributions to QoQ GDP growth (pp)



Source: CEIC, ING

## This does not derail BoK rate hike expectations

The Bank of Korea (BoK) indicated last month that they view the beginning of rate normalisation as likely this year. Today's GDP result does nothing to change our expectation that they will follow through on this guidance. Our best guess, and that of the market, is for an October 25bp rate hike. And it is probably the absence of anything in today's data to upset this expectation that has led the KRW to rally following the data release. That said, the won remains much weaker than we had imagined would be the case at this time, and our 1130 KRW forecast for end 3Q21 looks considerably too strong at this stage with the current rate closer to 1150. We will be revising this higher shortly.

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