

South Korea: Disappointing GDP could accelerate Bank of Korea rate cut

South Korea's GDP rebounded in the third quarter but missed the market consensus. We expect growth to remain positive in the fourth quarter, but lower annual GDP growth forecasts for 2024 and 2025. If the Bank of Korea's communication turns dovish at the November meeting, the next rate cut is likely to be brought forward as early as January



Bank of Korea Governor
Rhee Chang-yong

0.1%

3Q24 South Korean GDP

% QoQ, sa

Lower than expected

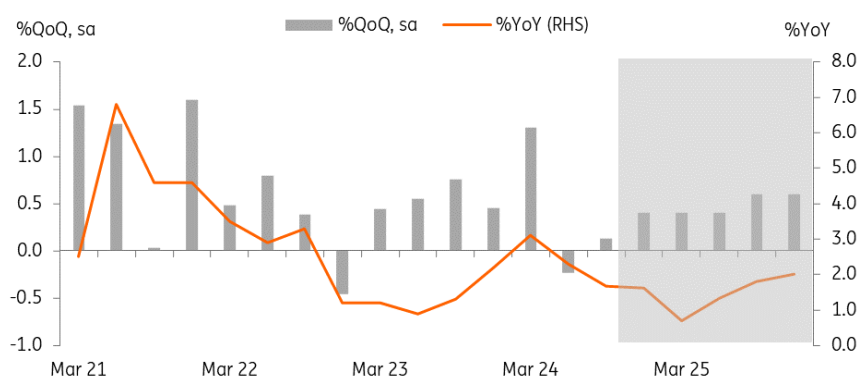
South Korea's economy narrowly avoided a technical recession

The economy expanded by 0.1% quarter-on-quarter seasonally adjusted in the third quarter of the year, recovering from a contraction of -0.2% in the second quarter but missing the market consensus of 0.4% growth.

Details showed that private consumption (0.5% vs -0.2% in the second quarter) and facility investment (6.9% vs -1.2%) rebounded while construction deepened its contraction (-2.8% vs -1.7%).

Government spending continued to rise 0.6%, with increased expenditures on healthcare benefits. The downside surprise mainly came from exports, which contracted by -0.4% (vs 1.2% in the second quarter). IT exports continued to rise but at a slower pace, and vehicle and petrochemical exports declined. Meanwhile, imports grew 1.5% (vs 1.6%), so net exports made a negative contribution (-0.8pp) to overall growth.

Growth is expected to continue but at a sub-potential level



Source: CEIC, ING estimates

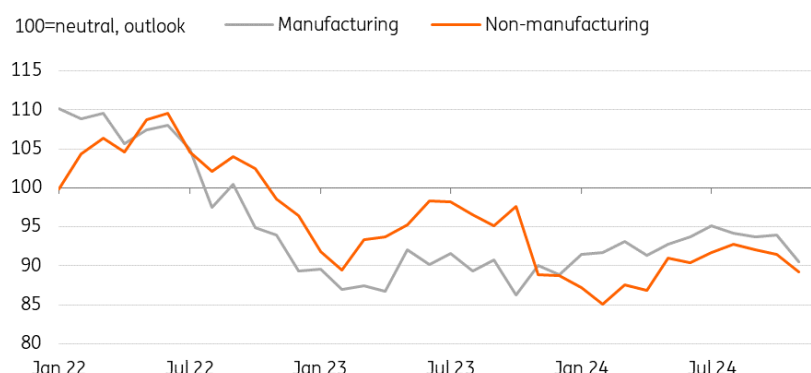
GDP outlook

The Bank of Korea (BoK) has mentioned that uncertainties have grown over economic growth for 2024 and 2025, which signals that the central bank is likely to revise its GDP forecasts in the November quarterly outlook report. In a separate report, the composite business sentiment index dropped significantly, which gives a cloudy outlook for the coming quarter's growth.

Based on today's result, we lower our annual GDP forecasts for 2024 and 2025 from 2.3%YoY to 2.2% and from 1.6% to 1.5%, respectively. For the current quarter's GDP, we expect a modest growth of 0.4%.

Car exports were down in the previous quarter mainly due to production line maintenance and longer-than-expected labour strikes, thus are likely to rebound while solid IT exports are likely to continue. Imports have grown for the past two quarters, and import growth in the previous quarter tends to boost investment for the next quarter, so facility investment is likely to remain positive.

Business sentiment deteriorated further in October, clouding future growth



Source: CEIC

BoK watch

The BoK delivered a hawkish cut at its October meeting but was very cautious about signalling any further rate cuts in the near future. But, with weaker-than-expected GDP, the BoK's concerns about slowing growth should grow. We don't expect the BoK to cut rates in November, but the tone of its communications should become more dovish. As inflation is expected to stay below 2% for a while, the BoK's policy focus should shift to support growth.

As for the timing of the next rate action, we currently see an April cut as the base case, but the probability of a January cut increases if there are clearer signs of stabilisation in the housing market. However, we believe that the BoK has limited room to cut rates compared to the US Federal Reserve, so it is difficult for the market to suggest the possibility of further aggressive rate cuts.

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