

## Korea 3Q20 GDP 1.9%QoQ

Following the 3.2% decline in 2Q20, the latest activity reading was a little stronger than expected and shows about two-thirds of the 2Q drop was clawed back in 3Q. That said, with 1Q20 also declining, almost half of the hit to GDP from the Covid-19 pandemic has yet to be recovered.



Source: Shutterstock

1.9%

3Q GDP QoQ

Still some way to go

Better than expected

### It gets slower from here

We will focus on the quarterly growth figures as the year-on-year numbers are still totally dominated by the declines in activity that we have seen following the Covid-19 pandemic. But for the sake of completeness, 3Q20 GDP was still -1.3%YoY despite the 1.9%QoQ gain.

As for the breakdown of expenditure by component, the Bank of Korea figures show that consumer spending made no further QoQ gains in 3Q after the big bounce in 2Q20, actually sliding back a tenth of a percentage point. And gross fixed capital formation slid at a faster rate of -1.9%QoQ, after falling by -0.4% in 2Q20. This fall was unevenly split, with a sharp contraction in construction (-7.8%) offsetting a reasonable expansion in facilities (6.7%) and intellectual property (0.7%).

Given the weakness in overseas demand, the strength of exports was perhaps the most intriguing part of the data release. Exports of goods more than reversed their 15.9% decline in 2Q20 with an 18.2% increase in 3Q20. Imports of goods also recovered, but with a much smaller swing from -4.8% to +6.0%, enabling net goods exports to provide a boost to the headline growth numbers.

## The easy gains have been made

Looking forward to 4Q20, the going is likely to get tougher. Firstly, the bounce in facilities investment is probably not going to be repeated, while demand for construction might well continue to struggle in a world of "work from home".

Moreover, the big export gains of 3Q20 will be hard to repeat as the world ex-Asia heads back into lockdowns as the pandemic goes into overdrive again in the US and Europe.

So today's figures are encouraging, but certainly not any reason to get too excited. We will take a look at our current full-year 2020 forecast for growth of -1.4% with a view to giving it an upward nudge, but only if we feel the current 0.9%QoQ forecast for 4Q20 is not too high, and it may well need to be trimmed given the global picture.

Certainly, our 4Q20 forecast for USDKRW of 1150 set last month has been overtaken by recent dramatic currency movements and will need revising stronger, but we will wait for the US election result before taking the appropriate remedial action there.

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