

Korea's third-quarter GDP expands more than expected

Korea's economy grew 0.6% in the third quarter, as private spending and exports rebounded. Soft survey data suggests a cloudy near-term outlook though while the Bank of Korea is set to remain hawkish



Personal spending contributed positively to Korea's GDP in the third quarter

0.6%

Real GDP

Quarter on quarter, seasonally adjusted

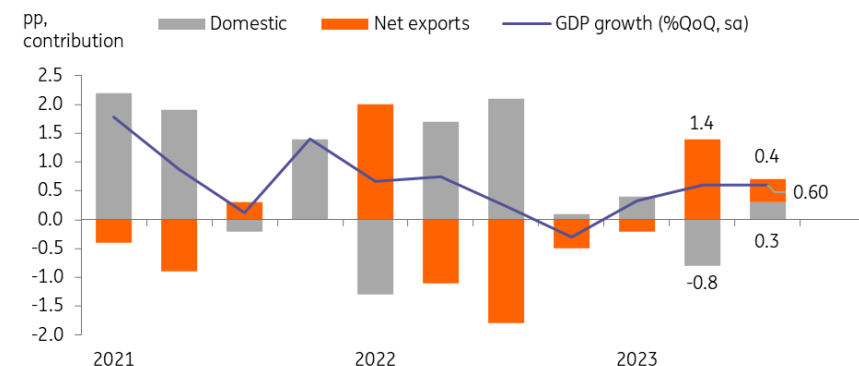
Higher than expected

GDP rose 0.6% QoQ sa in 3Q23 with improved details

In terms of domestic growth components, private consumption (0.3%) and construction investment (2.2%) rebounded while the contraction in facility investment (-2.7%) deepened further. Services consumption including leisure, accommodation, and eating out were the main drivers of the rebound but goods consumption was soft as wholesale/retail sales activity contracted. A longer-than-usual Chuseok holiday might have boosted private consumption. Also, as monthly activity data indicated, construction investment recovered on the back of increased government spending on civil engineering and improved supply bottlenecks for construction materials. The positive contribution of net exports narrowed to 0.4ppt compared to the previous

quarter's 1.4ppt, but both exports (3.5%) and imports (2.6%) rose. We believe the high-end chip market has led the recent recovery in chip exports.

Exports and consumption led the growth in 3Q23

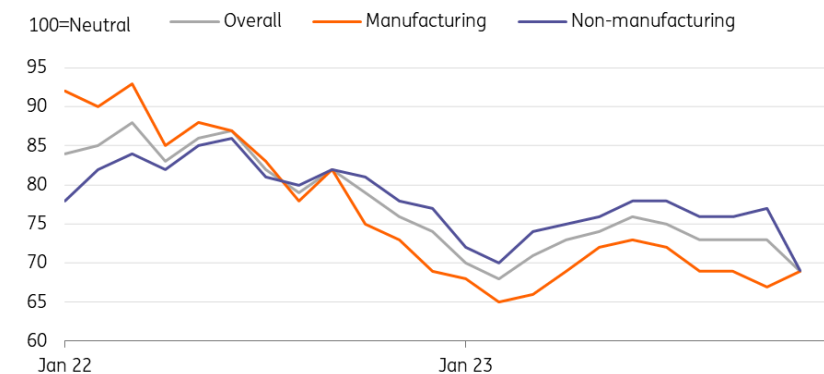


Source: CEIC

Survey results suggest cloudy growth ahead

Consumer confidence deteriorated further in October (98.1 in October vs 99.7 in September) due to high inflation, high borrowing costs, and high fuel prices. The business survey outcome was also quite gloomy with overall business conditions dropping to the lowest level in eight months. Manufacturing edged up 2pts but was offset by a sharp decline (-8pts) in non-manufacturing. Service activity has been the main driver of growth so far, but there are more clear signs of a slowdown while we expect a gradual manufacturing recovery led by high-end chip markets.

Business survey suggests a weakening service industry



Source: CEIC

GDP outlook

We expect GDP growth to slow in the current quarter. Private consumption is expected to decelerate on the back of an increased debt service burden and weaker asset market performance. However, various government subsidy programmes, including extending the electric vehicle purchase credit until year-end, will likely provide some stimulus.

We believe the rebound in construction last quarter was temporary, and it is likely to fall back into contraction this quarter as almost all forward-looking construction data suggests a decline.

Meanwhile, weak facility investment is expected to continue for at least a couple of quarters. The IT investment cycle will likely rebound next year, but increased funding costs and increased global growth uncertainty will weigh on business investment in the near future.

Exports will contribute positively to growth, especially with the gradual recovery of semiconductors. Yet rising oil prices will push up imports faster, making the positive contribution of net exports smaller or even turning negative depending on oil prices. Putting it all together, GDP will likely expand in the fourth quarter, but at a slower pace than the previous quarter at 0.2% QoQ sa, with downside risks growing. With a better-than-expected third-quarter GDP outcome, we have revised up 2023 GDP from 1.1% year-on-year to 1.2% and 2024 GDP from 1.7% to 1.8%.

BoK watch

Supported by solid growth results, the Bank of Korea will continue to focus on curbing inflation and containing rising household debt in the coming months. The BoK commented that it could consider raising policy rates if household debt continues to increase excessively, but we still believe another rate hike is highly unlikely, especially at a time when the growth outlook has become grimmer than in the past due to growing geopolitical risks. The government has also tightened conditions on policy mortgages, and we will likely see some stabilisation of household debt growth from the end of this year. Depending on inflation and debt conditions, there is a growing possibility that the first rate cut could be delayed by a quarter or so to the third quarter, but for now, we keep our first rate cut call in the second quarter of next year as it is.

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.