Korea: August export growth slows and risks to outlook grow

Korea's exports grew at a slower pace in August and the trade deficit widened to the largest recorded. Worse still, the manufacturing PMI deteriorated further in August, suggesting sluggish exports and manufacturing will continue for a while. We have downgraded our GDP forecasts for 2022 and 2023.

Exports in August grew 6.6% YoY (vs a revised 9.2% in July), beating the market expectation of 5.6%. By export items, petroleum (113.6%) and automobiles (35.9%) led the increase, but semiconductors, accounting for about 20% of total exports, decreased by -7.6%. By destination, exports to the US (13.7%) and EU (7.3%) increased while exports to China (-5.4%) continued to decline for a third month. We expect that China's slowdown and weak demand for mobile phones and other IT devices will continue to put pressure on semiconductor exports, but automobile
exports will pick up some of the slack.

Imports in August surged far more than expected, rising by 28.2% YoY (vs 21.8% in July) mainly due to rising energy imports (91.8%), which resulted in the trade deficit widening to a record USD -9.4 billion in August (vs USD -4.8 billion in July).

Trade deficit almost doubled in August

![Graph showing trade deficit and imports in August](image)

Source: CEIC

Manufacturing PMI worsened in August with weak underlying details

Korea's manufacturing PMI fell to 47.6 in August (vs 49.8 in July), which is the lowest reading since July 2020, and keeps it below the neutral 50 level for a second month. Output and new orders both dropped quite sharply, while new export orders also fell. The manufacturing PMI is a good forward-looking indicator for estimating GDP. The weakness in PMIs suggests that actual activity data will decline through the end of the year, and more importantly, we expect further declines as the PMIs of Korea's main trading partners such as the US, China, and other Asian countries are also weakening.

Manufacturing PMI suggests a contraction in the near future

![Graph showing manufacturing PMI over time](image)

Source: CEIC

GDP forecast revision and KRW outlook

On a separate note, the Bank of Korea released its preliminary 2Q22 GDP outcome, which was the same as the advanced estimate of 0.7% QoQ sa (2.9% YoY). Combining the trade deficit data with the weak PMI data and yesterday’s weaker-than-expected industrial production outcomes, we have decided to downgrade our
GDP forecast to 2.5% YoY (vs 2.6% previously) for 2022 and to 1.4% (vs 1.6% previously) for 2023. We think that the third quarter will post a small gain mainly led by private consumption and construction growth, but negative growth is likely in the fourth quarter when the rise in debt service costs weigh on household spending and trade conditions worsen as a result of weakening global demand. For the currency, we expect that the trade deficit will put more pressure on the KRW. Although we believe that the recent KRW weakness is mostly driven by the global dollar strength, but the trade deficit will not be supportive for the KRW in near future. Consequently, we think the KRW will depreciate further to 1,380 from the current level of 1,350.

We expect negative quarterly growth for the fourth quarter

The Bank of Korea will continue to raise rates despite growing concerns about slowing growth

We think the Bank of Korea's strong commitment to containing rising inflation will be valid through to the end of the year. But, the recent data releases - July production, August exports, and manufacturing PMI - suggest quite a rapid growth slowdown during the second half of this year. The BoK will soon have to consider the growth aspect in its policy decisions. We think that the Bank of Korea will likely end its hike cycle at 3.00% in November.

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.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 NV 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 deemed authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. The nature and extent of consumer protections may differ from those for firms based in the UK. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website. 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.