

## Korean 4Q17 GDP dips

A surprisingly soft 4Q17 GDP figure for Korea should be viewed as a dip, little more. But it will help keep the Bank of Korea (BoK) on the sidelines for this quarter at least



Korean won

### A dip was expected - this is not all bad, on the plus side...

The first thing to note about the 0.2%QoQ contraction of 4Q17 Korean GDP is that it was not that far from expectations. The consensus view was a 0.1%QoQ rise, but then forecasters are bound by psychological resistance to making shocking pronouncements, so a few of them probably thought a negative figure likely. In fact, of the 13 Bloomberg economists forecast, 4 actually did have negative forecasts.

Moreover, within the total, there were a few glimmers of good news.

1. Firstly, private household consumer spending rose 1.1% on the quarter, that is the fastest quarter of growth since 4Q2015, and suggests that policy measures to support wages growth and boost benefits are having some positive effect at this level of the economy.
2. Government spending was also supportive, with a 0.5%QoQ rise.

After that, the news is less good...

## ...on the negative side

On the downside:

1. Gross fixed capital formation was down 2.0% on the previous quarter with construction and facilities investment both sliding sharply.
2. But it is the 5.5% decline in exports of goods and 4.6% decline in exports of services that did the most damage. Some of this blow was lessened by a 4.1% decline in imports.

Against this background, the recent tariffs imposed by the US government are particularly poorly timed, with the production measures of GDP showing that it was manufacturing declines that did most of the damage to the figures when GDP is viewed from a production, not the usual expenditure perspective.

## Fiscal stimulus to remain expansionary, BoK to return to inactivity

We don't expect this export collapse to be anything more than a transitory blip. And in the light of this data, some of the criticism that has been leveled at the Moon administration's tax and spend type approach to economic management seems less robust. Such data weakness certainly supports maintaining, if not extending economic support through benefits, minimum wages increases and the like if there is no rapid improvement.

It also puts the Bank of Korea (BoK) back in their box for at least the rest of this quarter, and possibly longer. Their November 2017 rate hike might now be looking a little rash in hindsight. And the ensuing and unwanted Korean Won (KRW) strength rather predictable. With the USD slumping, BoK rhetoric is likely to be very dovish to stem the likelihood of KRW strength by default.

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