

## South Korean sentiment jumps amid optimism about next government

A significant increase in South Korean consumer sentiment index suggests the economy is recovering this quarter. Domestic activity is likely to improve, even as exports slide. The Bank of Korea is expected to resume cutting interest rates this week to support growth



Source: Shutterstock

# 101.3

The composite consumer sentiment index  
(vs 93.3 in April)

### Outlook components advanced the most

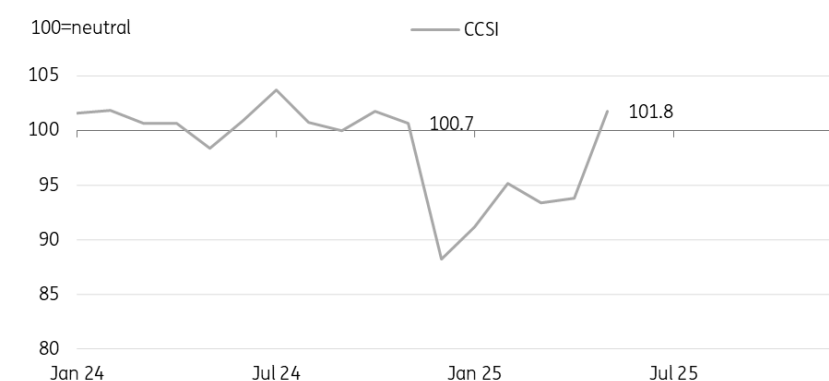
South Korean consumer confidence jumped 8 points in May to 101.3, a sign of improving sentiment despite global trade headwinds. All six sub-components increased, with the outlook for the domestic economic situation seeing the most notable increase, rising by 18 points. The overall sentiment gain is largely due to expectations of stabilised prices and increased support from the

new government to be named after the 3 June election. Lower interest rates are also seen easing the burden of servicing the debt for consumers.

Spending plans have improved, with an expected increase in consumption on overseas travel, dining out, and leisure activities. There are early indications of a recovery in retail sales and service activity.

Inflation expectations fell to 2.6% from the previous 2.8%. Thus, the Bank of Korea is likely to welcome inflation's gradual approach to the 2% target.

## Consumer sentiment rose notably in May



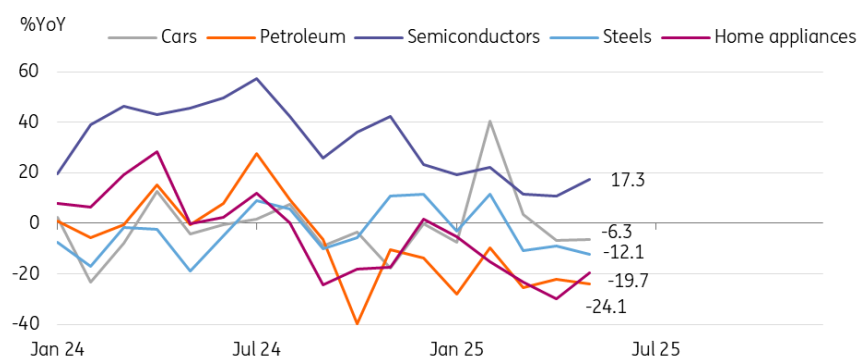
Source: CEIC

## However, upcoming IP and exports data suggest weak growth in manufacturing and exports

Today's positive outcome from consumer sentiment suggests the recovery of domestic growth. Upcoming industrial production and export data will show the negative impacts of the US tariffs. Based on early May trade data, exports are expected to contract by -4% year-on-year in May. Semiconductor exports should continue to rise partly due to exemptions from tariffs so far, and ongoing solid investment in artificial intelligence. But cars and other consumer goods exports are likely to weaken amid US tariffs. We see domestic steel and petrochemical producers suffering the most from trade tensions.

We believe that GDP is likely to rebound gradually in the second quarter. This will mostly be driven by domestic demand, improving consumption, services activities, and equipment investments. But exports are likely to weigh on overall growth.

## US tariffs are expected to hit Korean exports



Source: CEIC

## BoK watch

The Bank of Korea meets on Thursday. The market widely expects a 25 bp cut. Therefore, the focus will be on how much the BoK changes its GDP and consumer price index outlooks. This could provide insight into the future direction of monetary policy. Given that US tariffs turned out to be higher than the BoK had assumed in the first quarter, we expect the BoK to lower its GDP outlook to around 0.8% for 2025. Weaker-than-expected first quarter GDP should have the BoK announcing a significant downward revision of the forecast.

However, the BoK will highlight the uncertainty of the underlying preconditions, such as US tariffs and the next government's fiscal policy. It might play down the sub-1% growth outlook. Regarding the inflation outlook, inflation in the first quarter was stronger than expected as firms transferred input cost pressures. So, the forecast is likely to be revised from 1.9% to 2.1%.

Given the weak growth and inflation anchored at around 2%, we believe that the BoK will continue to cut its rate, bringing it down to 2.0% by the end of 2025. Also, depending on the new government's fiscal policy, the BoK may adjust the pace of rate cuts.

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