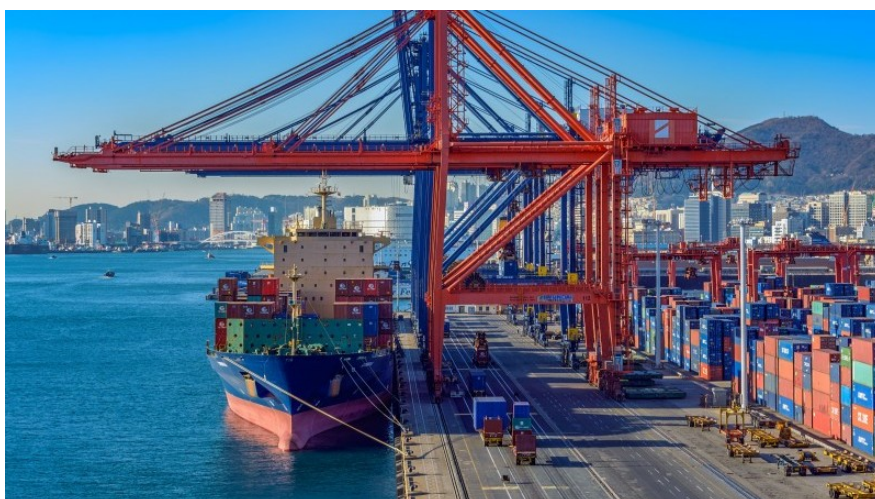


Korea: 2Q23 GDP improved but with disappointing details

South Korea's real GDP accelerated to 0.6% QoQ (sa) in 2Q23 from 0.3% in 1Q23, which was slightly higher than the market consensus of 0.5%. However, the details were quite disappointing with exports, consumption, and investment all shrinking. We expect growth to slow in 2H23



0.6% Real GDP growth
%QoQ sa

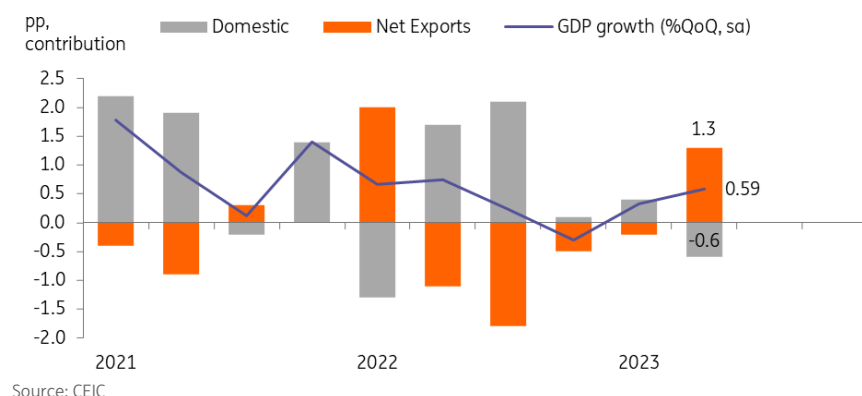
Higher than expected

Net exports contributed positively to overall growth

The upside surprise mainly came from a positive contribution from net exports (+1.3pt). However, we do not interpret this in a positive light, because it was not driven by an improvement in exports, but rather by a contraction of imports (-4.2%), which was deeper than that of exports (-1.8%). By major item, exports of vehicles and semiconductors rose as global supply conditions improved and global demand remained solid. But, exports of petroleum/chemicals and shipping services declined

further with unfavourable price effects weighing. Falling commodity prices have had a positive impact on Korea's overall terms of trade, having a greater impact on imports, but "processed" exports such as petroleum/chemicals and shipping took more of a hit.

Net exports led growth but due to sharper decline of imports than exports



Meanwhile, domestic demand dragged down overall growth by -0.6pt

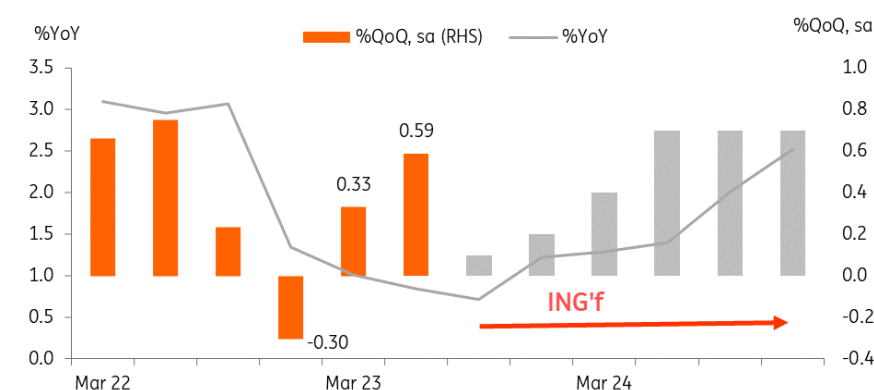
As monthly activity and sentiment data already suggested, private consumption was down -0.1% with declining service consumption, while investment – both construction (-0.3%) and facilities (-0.2%) – contracted. Also, government expenditure dropped quite sharply (-1.9%) as spending on social security declined. We believe that the reopening boost effects on consumption have finally faded away, while tight credit conditions have also dampened investment. R&D investment (0.4%) was an exception, rising for the second consecutive quarter on the back of continued investment in new technologies.

GDP in 2H23 will likely decelerate again

Forward-looking data on domestic demand indicates a further deterioration in domestic growth. Construction orders, permits, and starts have been declining for several months, while capital goods imports and machinery orders have also trended down recently. With continued market noise surrounding project financing and growing uncertainty over global demand conditions, business sentiment for new investment is very weak. This year's fiscal spending will also not support the economy meaningfully, considering the tax revenue deficit and normalization of covid related spending.

However, we think trade will take the lead in a modest recovery. We believe that exports will rebound by the end of the third quarter with support from improved vehicle demand, semiconductors, and machinery (despite the global headwinds). Please see our 2H23 outlook details [here](#).

Korea's GDP is expected to slow down in 2H23



Source: CEIC, ING estimates

Although 2Q23 GDP was higher than expected, the details suggest a weaker-than-expected recovery in 2H23, together with weak forward-looking data, thus we keep our current annual GDP forecast for 2023 unchanged at 0.9% YoY.

The Bank of Korea watch

We think today's data should be a concern for the Bank of Korea (BoK). The BoK forecast growth to accelerate in 2H23 on the back of better exports. We agree that export conditions will improve, but we don't think they will be strong enough to dominate weak domestic growth, and today's data also suggests that growth will slow down in the near future.

Thus, the BoK's policy focus will probably gradually shift from inflation to growth in 4Q23. In 3Q23, we believe that the BoK will continue to keep its hawkish stance while keeping a close eye on other major central banks' monetary policies. Also, inflation may fluctuate a bit over the Summer season due to soaring fresh food prices amid continued severe weather conditions. However, if inflation stays in the 2% range for most of 2H23, then the BoK's tone should shift to neutral and eventually revert to an easing cycle.

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