

## South Korea: Consumers losing confidence as political uncertainty intensifies

Consumer confidence fell in March, after two months of gains, as political uncertainty hits economic sentiment. The Bank of Korea is still on track to cut rates, though the timing is turmoil-dependent



Seoul, South Korea

# 93.4

Consumer confidence

vs 95.2 in February

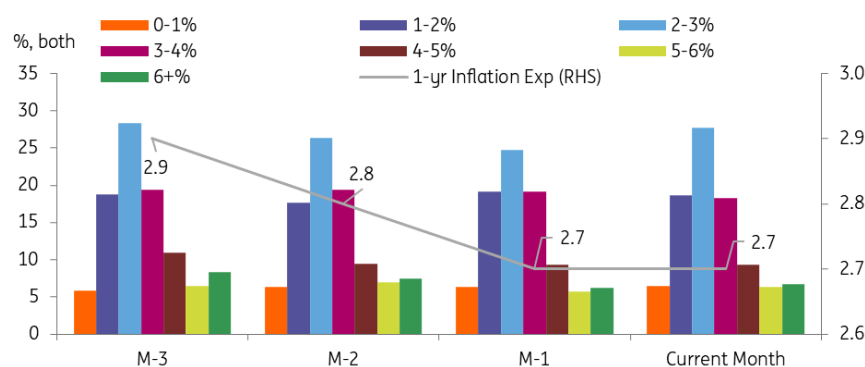
**The composite consumer confidence index dropped to 93.4 in March (vs 95.2 in February)**

South Korean consumer sentiment weakened anew in March as political divisions intensified, falling to 93.4 from 95.2 in February. This follows two months in which confidence improved after a sharp drop in December to 88.2 from 100.7 in November.

Of the six sub-indices, all four outlook components declined, with spending plans falling the most. One interesting finding is that consumers expected property prices to rise in the future, which may reflect the survey being conducted before a move to re-designate Seoul's land transaction permit zone. In response to the surge in property prices, the capital city set zones for land permits more widely than before. Korean real estate tends to be more sensitive to macroprudential regulations than interest rates. Such a drastic policy change is typically negative for consumer sentiment.

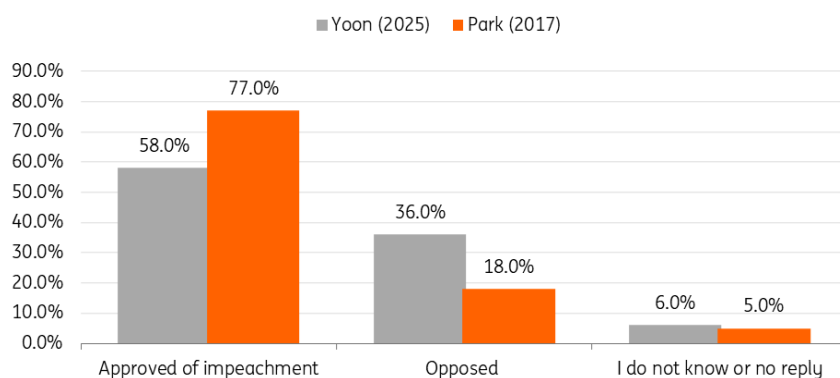
Meanwhile, inflation expectations stayed at 2.7% for a second month, down from a recent high of 2.9% in December. While inflation is relatively well anchored, today's data suggest a gloomy outlook for private spending. With the Constitutional Court's decision on the fate of President Yoon's impeachment taking longer than expected, consumers are experiencing considerable stress amid the political noise. Even after the Court's decision, a deepening political divide is likely to weigh on consumer sentiment for the foreseeable future.

## Inflation expectations seem like stabilizing towards 2%



Source: CEIC

## Deepening political division is likely to dampen consumer sentiment



Source: Gallup Korea

## BoK watch

This would support additional Bank of Korea easing. But the BoK is in a difficult position. Domestic growth is slowing, but political uncertainty has pushed the USDKRW higher again recently, in

contrast to global USD weakness. Though the USDKRW is not as high as in December, domestic political uncertainty is putting downward pressure on the currency.

Our base case scenario is for BoK policy to pause in April and resume its rate cut cycle in May. But we expect the timing of rate cuts to change as the political situation in Korea evolves.

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