

South Korea: Growth Surprises on the Upside

South Korea's GDP growth came in above expectation at s/adj +2.9%q/q or +0.6%y/y in 3Q09 (mkt: +2.1%q/q, -0.2%y/y). This was the first positive y/y expansion in 4 quarters. Growth momentum has continued to accelerate after it hit -5.1%q/q in 4Q08, and has strengthened further from 2.6%q/q in 2Q09. The latest GDP data from South Korea confirmed that the recovery in the Asian economies is under way, following robust 3Q performance in Singapore and China which were released earlier.

Private consumption y/y growth rebounded into positive territory after three straight quarters of contraction while slowing government consumption meant that the impact from government stimulus spending will continue to wane in the coming quarter. The sharp improvement in capital investment was encouraging with y/y contraction down to single-digit from double-digit fall in the three preceding quarters as businesses become more optimistic. The pick-up in external environment was also evident in the rebound in exports which grew 0.9%y/y in the quarter following three preceding quarters of contraction. However, inventory continued to be depleted and this was the main drag to the headline y/y growth in 3Q (-4.3ppt). Nonetheless, the positive momentum in capital investment suggests that re-stocking could start to contribute to headline growth by 4Q09.

Overall, the Korean economy contracted by 1.9%y/y in the first three quarters of the year. The BoK expects 4Q y/y growth to be higher than 5% if the current growth momentum continues and sees full-year GDP to be better than -1.0%. Indeed, as long as 4Q growth momentum remains positive, the GDP growth rate would be more than 5%y/y, largely due to a low base. The government is now looking at the possibility of a positive GDP growth for the full-year. This can be achieved if the growth momentum is at least 1.0%q/q in 4Q. Given the robust numbers in 3Q09, we expect 2009 GDP growth rate to be better than our original forecast of -1.0%, probably coming in between 0% to -0.5%.

Implication on Monetary Policy

Despite the stronger-than-expected growth in 3Q, we are retaining our forecast for the BoK to start normalising interest rates next year. If the positive momentum gets carried over to 4Q, the BoK will probably have more reasons to start hiking interest rates in 1Q10. We are maintaining our forecast for the rate hikes to begin in early 2Q10 for now.

On the currency front, the KRW has surged around 33% against USD from its low of 1,570/USD in March this year. The BoK will likely check further KRW appreciation from here to prevent stalling the nascent recovery in exports. With the current account surpluses likely to remain supportive, USD/KRW will probably end the year at around 1,180. We see some modest appreciation in KRW in 1Q10 although a sooner interest rate normalisation in South Korea will likely have further upward pressure on the KRW.

3Q09 GDP: Rebounding into Positive Territory							
	2008	3Q08	4Q08	1Q09	2Q09	3Q09	3Q09
	y/y% change						ppt cont
Real GDP	2.2	3.1	-3.4	-4.2	-2.2	0.6	0.6
Final Consumption	1.6	2.0	-1.9	-2.0	0.9	1.6	1.0
Private Consumption	0.9	1.4	-3.7	-4.4	-0.8	0.6	0.3
Government Consumption	4.2	4.5	4.7	7.3	7.1	4.9	0.7
GFCF	-1.7	1.8	-7.3	-8.1	-2.7	-1.4	-0.4
Construction	-2.1	0.2	-5.6	1.6	3.7	2.5	0.4
Facilities Investment	-2.0	4.3	-14.0	-23.5	-15.9	-8.7	-0.8
Change in Stocks (% of GDP)	1.5	2.1	-1.3	-1.4	-4.0	-2.2	-4.3
Net Exports	30.6	12.2	33.6	104.5	93.1	96.6	4.1
Exports of G&S	5.7	9.3	-6.9	-10.6	-3.9	0.9	0.4
Imports of G&S	3.7	9.0	-11.2	-18.2	-13.7	-8.7	-3.7
Source: CEIC, UOB							

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