

Growth disappoints below 3.0%

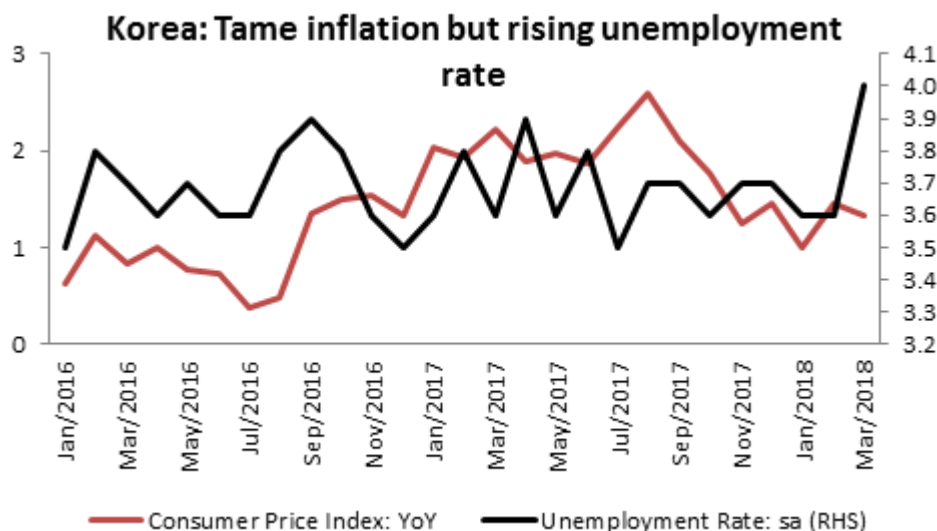
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Highlights

- **Korea's 1Q18 GDP advance growth disappointed at 2.8% y/y** (vs market estimate of 2.9%), though q/q growth rebounded to 1.1%, up from -0.2% in 4Q17. Note that growth remains below BOK and government growth outlook of 3.0%. BOK kept their policy rate at 1.50% in their last monetary policy meeting in early April.
- **Growth remains specific in selected industries, suggesting that the recovery is not broad-based.** Across industries, the manufacturing sector rebounded by 1.9% q/q (up from -1.7%) led by the increased production of machinery and equipment, while construction activities encouragingly picked up by 3.3% q/q buttressed by the increased construction in both residential and non-residential projects. Still, growth in the services sector remains lacklustre at a mere 0.9% q/q, with cultural/other services (+4.0%) & finance/insurance activities (+2.8%) shouldering the bulk of it while the rest of the services sector only saw moderate sub 2.0% q/q growth. In the expenditure-approach, we observed that exports rebounded 4.4% q/q, up from -5.3% in the previous quarter suggesting that growth in Asia's fourth largest economy remains underpinned by the uptick in global trade activities. Still, lacklustre private consumption growth over the same period were seen as well, suggesting that the uptick in exports and manufacturing activities have not been fully translated into Korea's labour market and spending power.
- **With BOK and the government's growth target at 3.0% this year, 2Q18 growth data into the coming quarter will be key to see if growth will pick up substantially to meet this forecast.** We note that recent growth-related data were somewhat disappointing, including employment (which rose worryingly to 4.0%, up from 3.6% in Feb) and manufacturing PMI (which declined below its expansionary mark of 50.0 to 49.1 in March), in addition to the moderating export growth at 8.3% in the first 20-days of April (down from 9.3% over the same period last month). Elsewhere, inflation still remained contained to-date, with CPI growth disappointing at 1.3% in March (vs market est of 1.4%). In a nutshell, the sub-3.0% economic growth and tame inflationary pressures would be prints to watch for in the year to come, and policy-makers would likely be reluctant to move rates higher into the year should consumption data remain weak amid tame domestic prices. As such, we look for BOK to remain static at 1.50% for the year, given the current growth and inflation pace.

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