

Exports and fiscal spending to lead growth higher

Friday, July 28, 2017

Highlights

- **The South Korea economy grew 2.7% yoy (+0.6% qoqsa) in the second quarter this year.** Accounting for its stellar 1Q17 growth, Korea's economic growth printed 2.8% yoy in the first half of this year. Note that this marks a slowdown from the previous quarter growth of 1.1% qoqsa, though the slowdown should not be seen as a bearish signal, given the high base seen in the last quarter. Note that 1Q GDP growth marked Korea's fastest qoq growth print since 2015.
- **Delving into the details, higher facilities investment and household consumption were offset by the drag seen in construction investment and exports.** On a qoq basis, the biggest drag came from a contraction in the Agriculture, Forestry & Fishing sector (-2.5%), while construction investment declined 0.3%, snapping the many quarters of gains seen in previous years. However, key sectors including Finance & Insurance (+2.0%), Business Activities (+1.2%) and Wholesale & Retail (+0.3%) pointed higher.
- **We upgrade Korea's growth outlook to 3.0% in 2017.** Much of our optimism is underpinned by the stellar 1H17 economic prints. Of note, Korea's export growth prints have been in double-digit territories since the start of this year, and averaging 16.0% in 1H17 (fastest since 1H11). Moreover, consumer confidence remained above its critical 100 mark (prints above 100 suggests that the optimists outnumber the pessimists), and is the highest since Jan 2011. Finally, coupled with the added fiscal stimulus from President Moon Jae-in's extra KRW11.0trillion supplementary budget, Korea's economic growth will likely print well above our initial 2.5% growth outlook.

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