

## Starting the year on a strong note

Thursday, April 27, 2017

### Highlights

- **Korea's economy started the year on a strong note, a remarkable feat no doubt given the recent political scandal amid shake-ups in Korea's chaebol enterprises.** Empirically, GDP grew at a faster-than-expected clip of 2.7% (+0.9% qoqsa), up from market's (and OCBC's) call of 2.6% yoy. This marks the fastest qoq growth clip since June last year before widespread coverage of the Korean political scandal emerged into 2H16.
- **Importantly, Korea's growth was underpinned by its strong manufacturing sector, which grew at its fastest pace since June 2014 at 4.4%.** This is especially encouraging given that the manufacturing sector accounts for a sizable portion of GDP (specifically 28.4% in 2016), and suggests that the nation is recovering from the manufacturing fallout from last year's shake-up in Korea's Samsung Enterprise and Hanjin Shipping. Other sectors including Gross Fixed Capital Formation (GFCF) saw a double-digit print of 10.9% yoy, led by private investment (+10.6%) while exports accelerated at its fastest pace since June 2013 at 3.7% yoy. Elsewhere, consumer confidence tuned higher into April, suggesting that the nation is moving on from Park's political scandal and may reflect an improvement in domestic spending into the year ahead.
- **Still, other issues surrounding Korea's economic growth into the year remain on the table.** Chief on our list is the high levels of household debt that may cushion some upside surprises in domestic consumption, while the ban on Chinese tourists entering Korea's shores may continue to drag Korea's tourism industry. In fact, growth drags from slower tourist arrivals have already reflected itself in the rather disappointing Wholesale & Retail Sales (which includes hotels and restaurants) at a flattish 0.6% yoy clip in 1Q17 (slowest print since GFC). Moreover, continued geopolitical tensions between the US and North Korea may affect the South may also weigh on growth given the close proximity.
- **We remain encouraged by the rosy external environment, while the recovery in Korea's manufacturing sector should underpin growth into the year.** Still, we remain concerned over the high household debt levels, which may keep policy-makers from cutting rates further should economic fundamentals unexpectedly turn south. Meanwhile, the potential for global rates to tune higher given US policy normalisation may also increase debt-servicing burden, which in turn further limits domestic consumption and overall growth. In view of these uncertainties, we maintain our GDP growth outlook at 2.5% while keeping our inflation outlook at 2.0% in 2017.

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	Headline GDP	GDP QOQ%	Private Consumption Expenditure	Govt Consumption	Gross Fixed Capital Formation	GFCF: Private	GFCF: Govt	Exports of Goods and Services	Imports of Goods and Services
Mar-17	2.70%	0.90%	2.00%	2.70%	9.50%	10.60%	1.20%	3.70%	9.40%
Jun-17F	2.10%	0.30%	0.80%	4.10%	9.30%	8.90%	10.60%	4.20%	8.40%
Sep-17F	2.50%	0.30%	1.60%	3.20%	7.40%	6.90%	9.30%	4.10%	6.30%
Dec-17F	3.10%	1.10%	2.20%	4.00%	7.30%	6.10%	12.90%	5.50%	7.50%
<b>2017</b>	<b>2.50%</b>	-	<b>1.60%</b>	<b>3.50%</b>	<b>8.40%</b>	<b>8.10%</b>	<b>8.50%</b>	<b>4.40%</b>	<b>7.90%</b>

Source: Bloomberg, OCBC Bank

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