

Korea Watch

4Q23 GDP: Export-led recovery well on track amid lukewarm domestic demand

Growth momentum sustained in 4Q, 1.4% growth for FY23

Korea's economic growth stayed steady through 4Q23 on the back of a strong external sector. The headline GDP growth came in at 2.2% yoy in 4Q23 from 1.4% in 3Q23, largely in line with the consensus. On sequential basis, it maintained a stabilized growth of +0.6% qoq seasonally adjusted, same as 3Q and 2Q. The yearly GDP growth came in at 1.4% in 2023, in line with our expectation.

By sector breakdown, net export contributed to the most of the GDP growth in 4Q (2.8ppt), and consumption also contributed by 0.3ppt. On the other hand, gross capital formation dragged growth by 0.8ppt, largely on weak construction investment.

Lukewarm domestic consumption and weak investment...

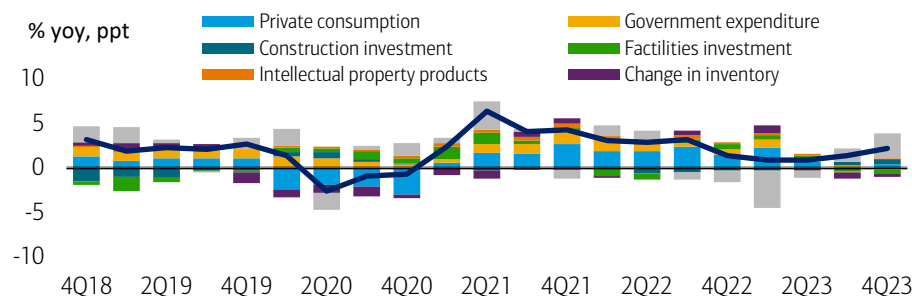
Consumption maintained at a lukewarm level amid a high rate environment. It stayed at 0.5% yoy and 0.3% qoq s.a., same as last quarter. Private consumption growth accelerated to 1.0% yoy (0.2% qoq) from 0.2% yoy (0.3% qoq) on favorable base effect. Meanwhile, fixed investment decelerated. Fixed investment (excluding inventory) contracted by 1.6% yoy (-1.4% qoq) in 4Q23 from +0.4% yoy (+0.5% qoq) in 3Q. Construction investment weakened by the most, falling by 1.6% yoy (-4.2% qoq) from +3.8% yoy (+2.1% qoq), consistent with the falling construction permits in the early quarters. Meanwhile, facility investment showed narrower contraction of -3.8% yoy from -4.2% yoy, as it accelerated 3.0% qoq on a better export cycle.

...while external sector may face further tailwinds

On the other hand, export sector did the heavy lifting in 4Q. Real exports accelerated to 9.8% yoy (2.6% qoq) from 3.1% yoy (3.4% qoq) previously, the highest yoy number since 2Q21, driven by both goods and services exports (10.1% and 8.3% yoy respectively). Going forward, we expect the export-led recovery to sustain and bringing positive impulse to domestic consumption and facility investment. We continue to see the GDP growth to improve to 2.3% yoy this year, and financial risks are largely contained amid eased financial conditions in the coming quarters. *(More on second page)*

Exhibit 2: PP contribution for yoy GDP growth by expenditure

Headline GDP growth picked up to 2.2% yoy in 4Q, drove by strong external sector



Source: Bank of Korea, BofA Global Research

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25 January 2024

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Exhibit 1: Actual vs Forecast

4Q23 growth in line with consensus

Announced	4Q23	4Q23
Real GDP	% sa qoq	% yoy
Actual:	0.6%	2.2%
Previous:	0.6%	1.4%
Consensus:	0.6%	2.1%
BofA:	-	2.3%

Source: Bloomberg, BofA Global Research estimates
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Abbreviations:

DM: Developed markets

Sa: seasonal adjusted

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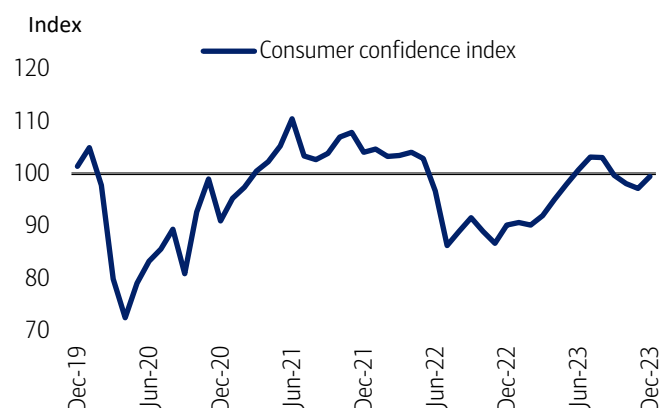
Private consumption growth remained lukewarm

By expenditure, consumption maintained at a moderate level amid the current high rate environment with a relatively neutral consumer confidence in 4Q (Exhibit 3). In 4Q23, consumption stayed at 0.5% yoy and 0.3% qoq s.a., same as last quarter (Exhibit 5), contributing to only 0.3ppt to headline growth. Private consumption growth accelerated to 1.0% yoy (0.2% qoq) from 0.2% (0.3% qoq) on favorable base effects, while government expenditure showed the first yoy drop since 2000, although it accelerated sequentially to 0.4% qoq (Exhibit 6).

By industry, output growth in service industries came in at 1.1% yoy (0.6% qoq) from 1.7% yoy (0.3% qoq) in 3Q. Notably, output growth in wholesale & retail sector continued to contract (to -4.2% from -4.9% previously). Finance sector also showed a notable dip to -3.7% yoy from 1.8% last quarter. Meanwhile, ICT sector saw a rebound to 0.3% yoy after two quarters of contraction, while activities in culture and services also accelerated to 4.5% yoy. Growth in real estate sector remained at 1.1% yoy amid a stabilizing property market, although nationwide home price has inched down again in Dec (Exhibit 4).

Exhibit 3: Consumer confidence index

Consumer confidence was relatively neutral in 4Q

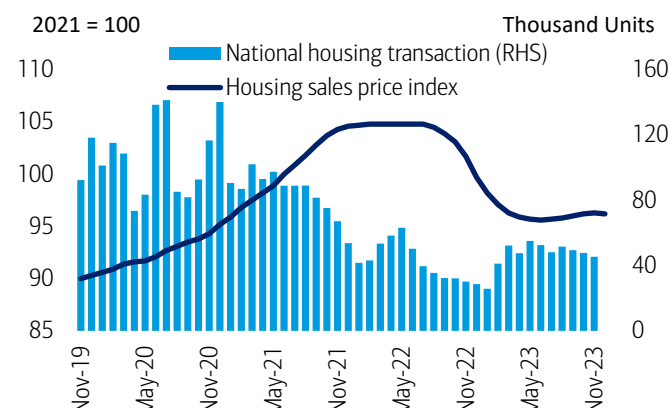


Source: Haver, BofA Global Research

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Exhibit 4: Nationwide housing price and transaction

Recent stabilization in housing market supported real estate service growth

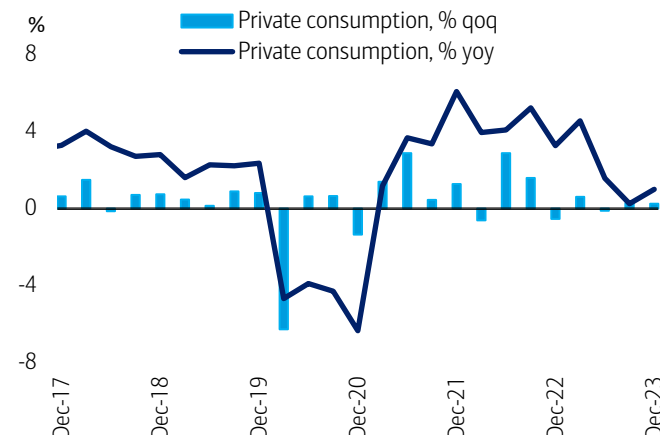


Source: Haver, BofA Global Research

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Exhibit 5: Private consumption trend

Private consumption rebounded to 1.0% yoy on favorable base effect

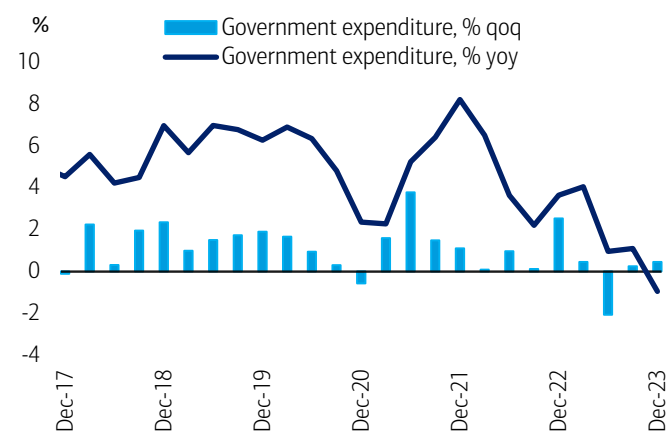


Source: Bank of Korea, BofA Global Research

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Exhibit 6: Government expenditure trend

Government expenditure showed the first yoy drop in more than 20 years



Source: Bank of Korea, BofA Global Research

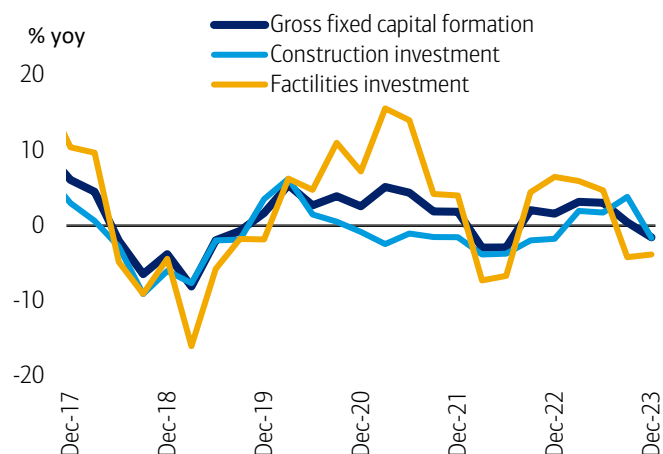
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Improving facility investment offset by weak construction

Meanwhile, fixed investment decelerated on both yoy and qoq basis. Fixed investment (excluding inventory) contracted by 1.6% yoy (-1.4% qoq) in 4Q23 from +0.4% yoy (+0.5% qoq) in 3Q, dragging headline growth by 0.5ppt. Among major categories, construction investment weakened by the most, falling by 1.6% yoy (-4.2% qoq) from +3.8% yoy (+2.1% qoq), consistent with the falling construction permits in the earlier quarters despite stabilizing property market sentiment. On the other hand, facility investment showed narrower contraction of -3.8% yoy from -4.2% yoy, as it accelerated 3.0% qoq on the tech cycle upturns. R&D investment also rebounded to 1.4% yoy (from -0.9%).

Exhibit 7: Domestic investments by sector/activities

Construction investment contracted while facility investment narrowed its contraction



Source: Bank of Korea, BofA Global Research

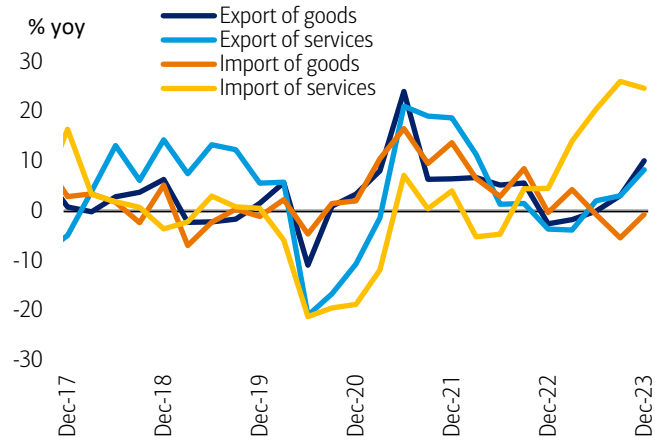
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Net export contributed to almost all of headline growth

Against the backdrop of lukewarm domestic demand, external sector did the heavy lifting in 4Q. Real exports accelerated to 9.8% yoy (2.6% qoq) from 3.1% yoy (3.4% qoq) previously, the highest number since 2Q21 (Exhibit 8). This is driven by both goods and services exports, which rose 10.1% yoy (2.4% qoq) and 8.3% yoy (3.4% qoq) respectively. On the other hand, real imports showed a positive yoy growth of 3.6%, but sequentially it moderated to 1.0% qoq (from 2.3% previously). Notably, service imports moderated to 1.4% qoq (from 9.0%) despite still on double-digit yoy growth, consistent with the trend in resident's departure which has almost full normalized since Oct (Exhibit 9). Taken together, net exports contributed to almost all of headline growth, driving 2.8ppt to headline growth compared with the 1.5ppt in 3Q23.

Exhibit 8: Real export and import growth trend

Both exports of goods and services accelerated

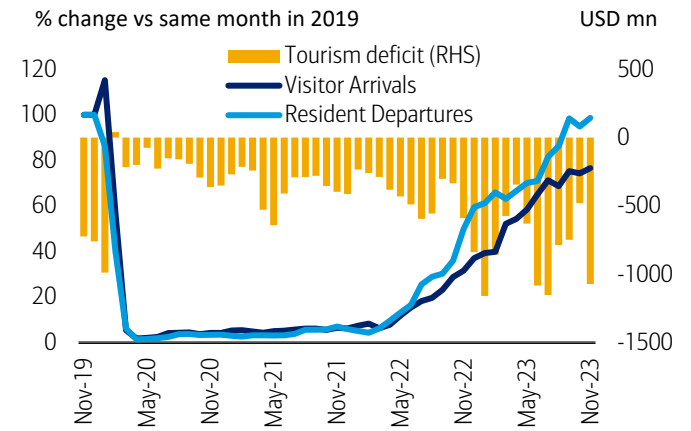


Source: Bank of Korea, BofA Global Research

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Exhibit 9: Resident's departure and tourist's arrival

Resident's departure has almost fully normalized since Oct 23



Source: CEIC, BofA Global Research

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